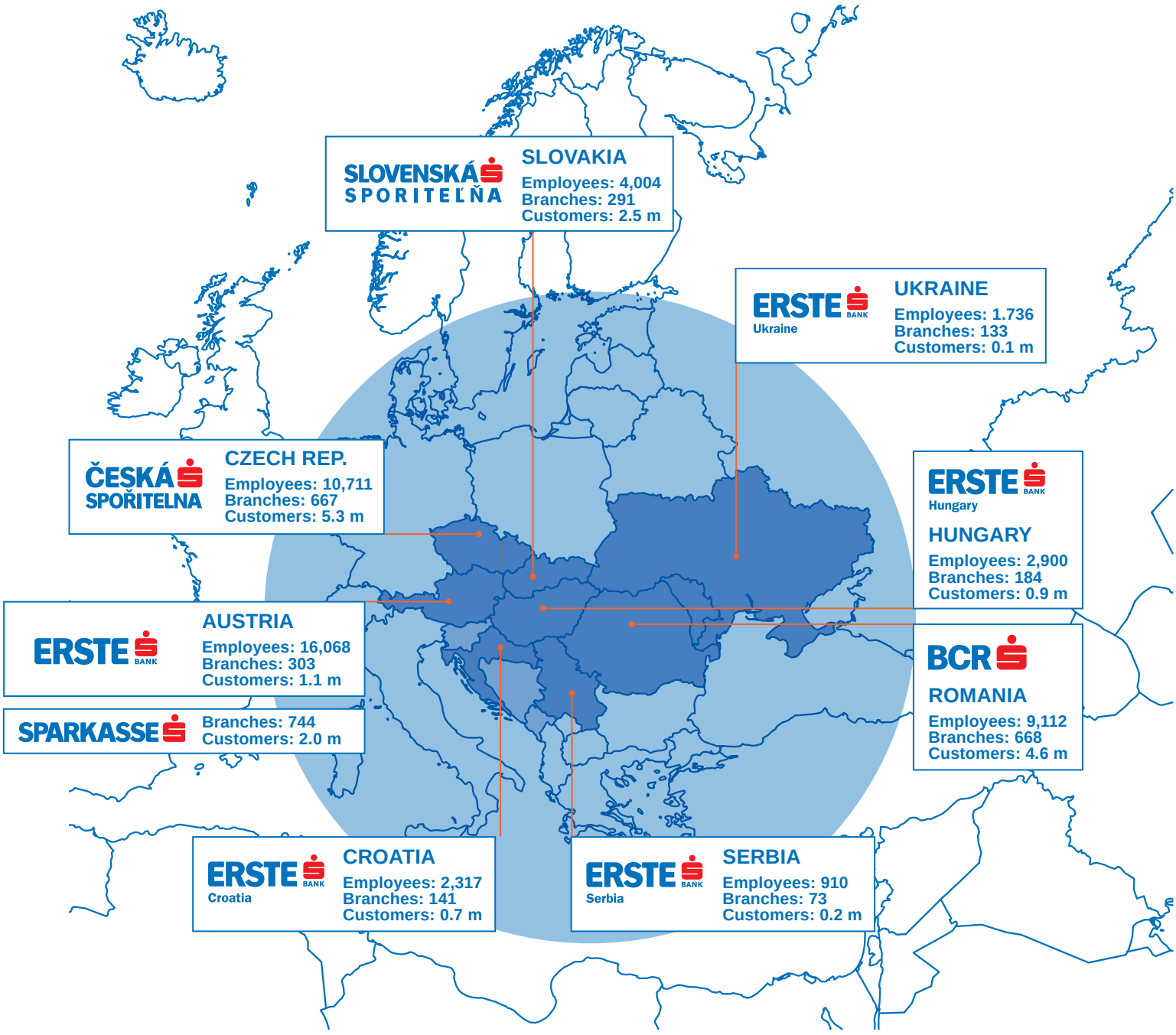
ERSTE GROUP

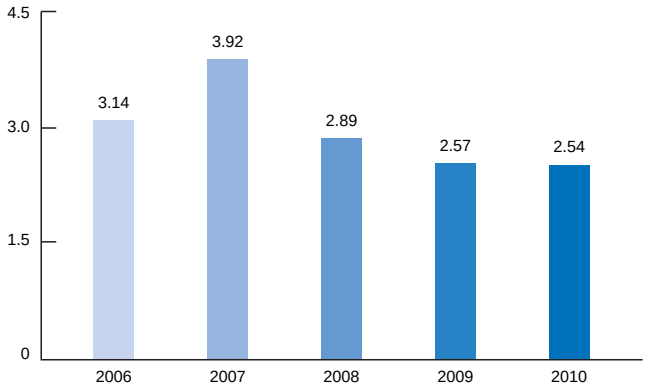
Annual Report 2010

2010

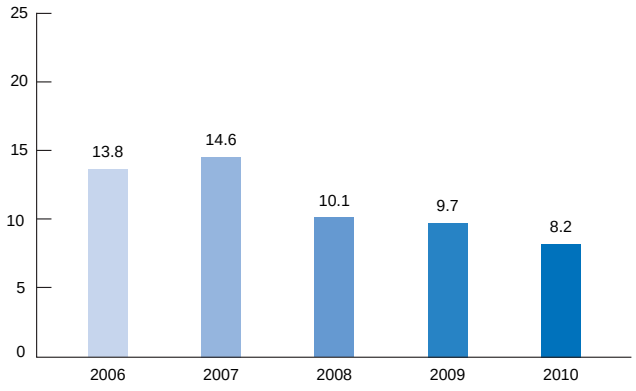
Extensive presence in Central and Eastern Europe



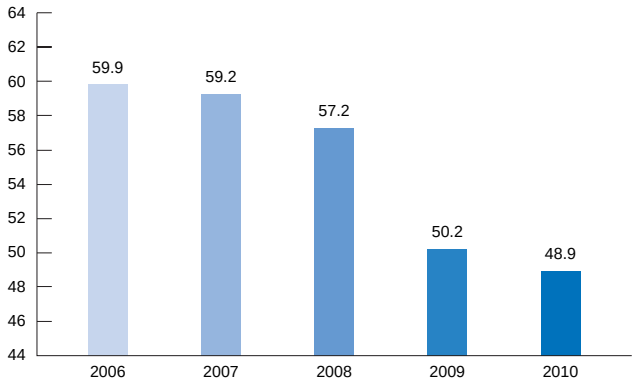
Cash earnings per share in EUR



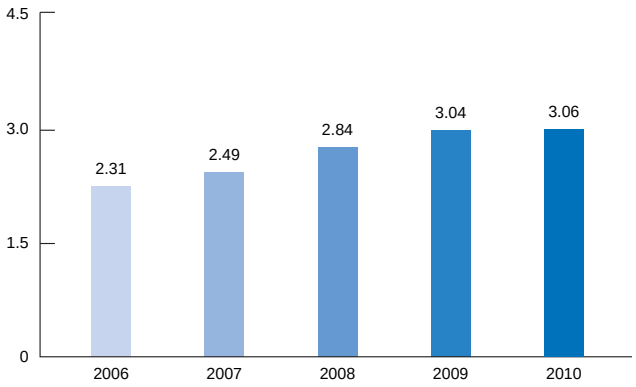
Cash return on equity (in %)



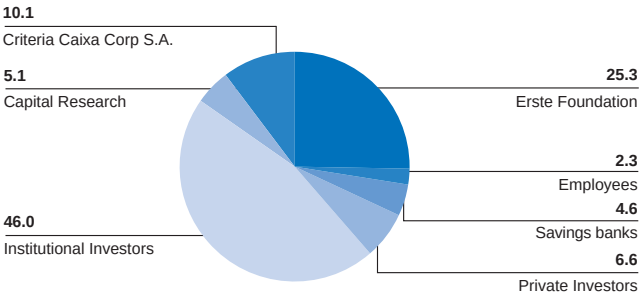
Cost/income ratio (in %)



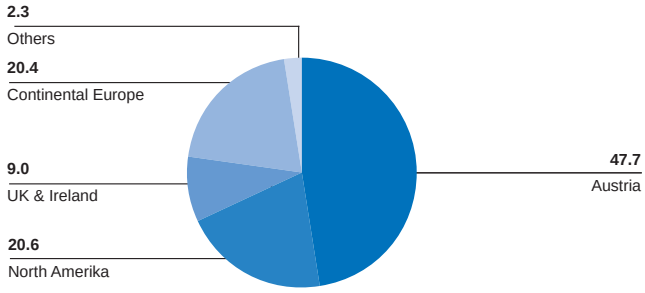
Net interest margin (in %)



Shareholder structure as at 31 December 2010 By investors (in %)



Shareholder structure as at 31 December 2010 By regions (in %)



Ratings as at 31 December 2010

Fitch	
Long-term	A
Short-term	F1
Outlook	Stable
Moody's Investors Service	
Long-term	Aa3
Short-term	P-1
Outlook	Negative
Standard & Poor's	
Long-term	A
Short-term	A-1
Outlook	Negative

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Key Financial and Operating Data *

EUR million (unless otherwise stated)	2006	2007	2008	2009	2010
Balance sheet					
Total assets	**181,703**	**200,519**	**201,441**	**201,710**	**205,938**
Loans and advances to credit institutions	16,616	14,937	14,344	13,140	12,496
Loans and advances to customers	97,107	113,956	126,185	129,134	132,729
Risk provisions for loans and advances	-3,133	-3,296	-3,783	-4,954	-6,119
Securities, other financial assets	41,009	42,404	39,238	40,298	39,957
Other assets	30,104	32,518	25,457	24,092	26,875
Total liabilities and equity	**181,703**	**200,519**	**201,441**	**201,710**	**205,938**
Deposits by banks	37,688	35,165	34,672	26,295	20,154
Customer accounts	90,849	100,116	109,305	112,042	117,016
Debts securities in issue, subordinated capital	27,024	36,667	36,530	35,760	37,136
Other liabilities, provisions	15,238	17,168	9,839	11,490	14,503
Equity attributable to non-controlling interests	2,925	2,951	3,016	3,414	3,544
Equity attributable to owners of the parent	7,979	8,452	8,079	12,709	13,585
Changes in total qualifying capital					
Risk-weighted assets pursuant to section 22 Austrian Banking Act	94,129	95,091	103,663	106,383	103,950
Qualifying consolidated capital pursuant to sections 23 & 34 Austrian Banking Act	10,111	11,114	11,758	15,772	16,220
Core capital (Tier 1)	6,185	6,674	7,448	11,450	12,219
Hybrid capital	1,250	1,248	1,256	1,174	1,200
Solvency ratio pursuant to section 22 Austrian Banking Act	10.2%	10.1%	9.8%	12.7%	13.5%
Tier 1 ratio (credit risk)	6.6%	7.0%	7.2%	10.8%	11.8%
Income statement					
Net interest income	3,189.3	3,945.8	4,913.1	5,220.9	5,412.5
Risk provisions for loans and advances	-439.1	-454.7	-1,071.4	-2,056.6	-2,031.2
Net commission income	1,445.9	1,857.9	1,971.1	1,772.8	1,936.0
Net trading result	277.9	351.1	114.7	585.1	456.2
General administrative expenses	-2,945.3	-3,642.1	-4,001.9	-3,807.4	-3,816.8
Operating result	1,967.8	2,512.7	2,997.0	3,771.4	3,987.9
Pre-tax profit	1,486.4	1,892.6	576.2	1,261.3	1,515.1
Net profit after minorities	932.2	1,174.7	859.6	903.4	1,015.4
Operating data					
Number of employees	50,164	52,442	52,648	50,488	50,272
Number of branches	2,721	2,908	3,147	3,205	3,204
Number of customers (million)	15.9	16.4	17.2	17.5	17.4
Share price and key ratios					
High (EUR)	59.00	61.50	49.20	31.15	35.59
Low (EUR)	40.40	44.00	13.25	7.00	25.10
Closing price (EUR)	58.10	48.50	16.20	26.06	35.14
Price/earnings ratio	19.7	13.1	6.0	10.9	13.1
Dividend per share (EUR)	0.65	0.75	0.65	0.65	0.70
Payout ratio	22.0%	20.2%	24.0%	27.2%	26.1%
Dividend yield	1.1%	1.5%	4.0%	2.5%	2.0%
Book value per share (EUR)	25.6	27.0	25.8	28.9	31.2
Price/book ratio	2.3	1.8	0.6	0.9	1.1
Total shareholder return (TSR)	24.7%	-15.4%	-65.1%	64.9%	37.3%
Number of shares					
Number of shares outstanding	315,296,185	316,288,945	317,012,763	377,925,086	378,176,721
Average number of shares outstanding	300,272,502	312,039,861	313,218,568	322,206,516	374,695,868
Market capitalisation (EUR billion)	18.3	15.3	5.1	9.8	13.3
Trading volume (EUR billion)	16.8	23.1	29.4	13.3	15.3

*) The term “net profit after minorities” corresponds to the term “net profit attributable to owners of the parent”.
Due to reclassifications, the positions trading assets/liabilities, derivative financial instruments and other assets/liabilities deviate from amounts published in the financial statements for the year 2009 (see chapter C on accounting policies).
Dividend quoted for 2010 is proposal to annual general meeting.
Shares outstanding include Erste Group shares held by savings banks that are members of the Haftungsverbund (cross-guarantee system).
Trading volume as reported by Vienna Stock Exchange.

Highlights

Continued revenue growth
_ Stable margins underpin solid net interest income
_ Fast rising fee income

Excellent cost performance
_ Operating expenses stable year-on-year
_ Cost/income ratio at best ever level of 48.9%

Trend reversal in risk provisions
_ First year-on-year decline since 2004
_ Excellent development in Austria

NPL growth decelerates significantly
_ NPL ratio rises to 7.6% at year-end 2010
_ NPL coverage improves to 60.0% in 2010

Improved funding and liquidity position
_ Strong deposit base is key competitive advantage
_ Successful covered bond issuance

Further improvement in capital ratios
_ Core tier 1 ratio at record 9.2% at year-end
_ Strong earnings generation, while RWAs decline

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Letter from the CEO

Dear shareholders,

in 2010, Erste Group increased net profit by 12.4% to EUR 1,015.4 million – the second best net profit in our history and the highest since 2007 – thanks to a strong operating result and lower risk costs. This achievement was supported by the gradual economic recovery on the one hand and by strong improvements in operating efficiency on the other. While a better operating environment underpinned the stabilisation in risk costs as well as the rise in operating income, cost containment also played a key role in pushing the cost/income ratio to its lowest ever level at 48.9%. Overall, accelerating internal capital generation led to significantly enhanced capital ratios, with the core tier 1 ratio reaching 9.2% in 2010. At the same time, our funding profile improved further: short-term funding needs declined, while long-term, covered bond issuance rose. In short, Erste Group improved all aspects of its business, becoming a stronger banking group as a result. In line with this solid performance, the management of Erste Group will propose an increased dividend of EUR 0.70 (2009: EUR 0,65) to the annual general meeting.

CEE benefits from positive differentiation

Sentiment towards Central and Eastern Europe improved significantly in 2010. This was not only driven by the economic recovery, but also by the realisation that most CEE countries have substantially better growth prospects and much more sustainable public finances than their peers in the eurozone periphery. It became increasingly evident that they benefit from lower levels of public and private debt, they are more competitive due to their strong industrial base and export orientation and offer a more favourable investment climate in terms of taxation and proximity to West European consumer markets. As a result, funding costs as well as credit default spreads for many countries in the region declined to an extent where they could issue debt at cheaper levels than better-rated euro zone member states.

Nevertheless, the economic development was far from balanced in the region. Austria, the Czech Republic, Slovakia and Hungary benefited from strongly increased export demand and all posted real economic growth in 2010. Given their lower degree of openness, Croatia and Romania lagged this development, but also saw a marked slowdown in the economic decline. In all countries, with the exception of Austria, private consumption remained weak in the past year. This and generally low levels of inflation across the region enabled central banks to reduce interest rates to historic lows. While expansive monetary policies provided support for the still fragile recovery, they did not kick-start the banking market. Demand for loans remained muted and was mostly focused on secured business rather than consumer loans. The most unpleasant development in relation to our markets was the introduction of banking taxes in Hungary and Austria, in the former as of 2010 and in the latter as of 2011. This move was all the more unfortunate as it neither sought to discourage risk taking nor to create a backstop for future crises, but was simply aimed at supplementing the budget by generating additional revenues.

Operating efficiency improves while risk costs fall

While new taxes, not earmarked for any specific use, were among the negatives for 2010, continued operating excellence, the first year-on-year decline in risk costs since 2004 and a strong performance in Slovakia were among the positives. The remarkable improvement in operating efficiency was reflected in the fact that risk costs more than quadrupled since 2007, while net profit declined only marginally over the same time.

The solid operating performance resulted from continued revenue growth on the one hand and stable operating expenses on the other. Revenues were driven primarily by a rise in net interest income on the back of stable margins and a small increase in customer loans, and strongly growing fee income, while the net trading result fell back from the record level of 2009, as expected. On the cost side, slight increases in personnel and depreciation expenses were almost fully offset by a decline in other administrative expenses.

Within our core markets, the Slovak retail and SME business showed the most promising performance: operating as well as net profit grew significantly on the back of the restructuring measures implemented in 2009. The decline in risk costs was mainly due to the economic recovery. Similarly, the Austrian and Czech retail and SME business posted growing operating and net profit. While in Hungary operating profit also grew, this positive development was more than offset by the introduction of the banking tax, which was the main reason behind the negative bottom line result. The Romanian retail and SME business continued to suffer from a very weak operating environment, as unemployment rose, private consumption declined and public sector wages were cut. Nevertheless, some green shoots became visible in the fourth quarter of 2010, when real GDP posted marginal growth compared to the previous quarter.

In line with the improving economic environment, credit quality stabilised in the past year. While the NPL ratio based on customer loans continued to rise – albeit at a slowing pace – to 7.6%, risk costs declined to 155 basis points in relation to average customer loans. At the same time, NPL coverage by risk provisions increased to 60.0%. Austria performed the best, with all customer segments posting an absolute decline in non-performing loans; this went hand in hand with falling risk costs and rising NPL coverage. In Central and Eastern Europe, the picture was mixed: while all countries reported a rise in non-performing loans, trend reversals were seen in all countries apart from Romania and Hungary in the second half of 2010. This improvement was also confirmed by the reopening of secondary markets for defaulted loans. Across Central and Eastern Europe the retail segment performed significantly better than the SME and local corporate segment. This was particularly true for Romania, where small and medium enterprises suffered due to continued weakness of the economy. In contrast, the group-wide large corporate business continued to do well, with a marginal increase in non-performing loans year-on-year and a sequential improvement in the fourth quarter of 2010.

Funding & capital strength

2010 brought increasing, if not full clarity on bank capital requirements under the new Basel III regime: a common equity capital ratio of 4.5% and a capital conservation buffer of 2.5% effective from 2019 were set. Two of the open issues in early 2011 remained the size of any capital surcharge for systemically important banks and the asymmetric treatment of minority capital. The latter is mostly an issue in relation to our consolidation of the Austrian savings banks but will be addressed by seeking an exemption, which recognises the economic logic behind this cooperation. Should such an exemption not be granted, we will seek a new form of cooperation with the savings banks. The systemic surcharge – if introduced by the home supervising regulator – will be addressed through internal capital generation. Irrespective of Basel III, our capital base continued to widen in 2010. At a core tier 1 ratio of 9.2% (excluding state- and privately-owned participation capital: 7.7%), we feel that our capitalisation was more than commensurate with the requirements of our real economy-driven business model.

Erste Group's access to reasonably priced long-term funding and the rapidly declining reliance on the interbank market remained a key competitive advantage in 2010. On the long end we leveraged our AAA-rated Austrian mortgage pool by issuing long-dated covered bonds. In doing so, we extended the maturity profile of our debt and substituted long- for short-term funding. On the short-end, our interbank debt decreased significantly and was more than fully covered by central bank eligible collateral, thereby providing full protection against a breakdown of the interbank markets.

Positioned for growth

Our successful performance in 2010 was in no small part the achievement of our employees, who continued to work hard to improve client service, increase efficiency and maintain sustainable business practices. For this I would like to express my gratitude. Looking into 2011 our assessment of the business environment remains positive. This view is based on the expected improvement in the CEE region's economic fundamentals, which are set to be complemented by declining risk costs and a solid operating performance, which will more than offset the increased taxation of banks in Austria and Hungary. Our leading market shares and extensive branch network will also support this trend, allowing us to capture growth in our markets, as it arises.

Andreas Treichl mp

Management Board

from left to right:
Juranek, Spalt, Treichl, Wimmer, Škopek, Hochstrasser, Mittendorfer

ANDREAS TREICHL

Appointed until June 2012

Born in 1952

He studied economics in Vienna. He started his career with Chase Manhattan Bank in New York in 1977. He first joined Erste Group in 1983 for three years; rejoined the bank in 1994, when he was appointed member of the management board. Chairman of the Management Board since July 1997.

Responsibilities: Chairman's Office, Group Audit, Group Communications, Group Human Resources, Group Investor Relations, Group Marketing, Group Identity, Group Secretariat, good.bee – banking for the unbanked, Health Center

FRANZ HOCHSTRASSER

Appointed until June 2012

Born in 1963

He studied business administration in Graz. In 1992, he joined GiroCredit Bank AG and after the merger with Erste Group in 1997 became member of the management board of the combined entity in 1999. Appointed Deputy Chairman of the Management Board in September 2008.

Responsibilities: Group Research, Group Balance Sheet Management, Group Capital Markets

GERNOT MITTENDORFER

Appointed until June 2012

Born in 1964

He studied law in Linz and started his career with Erste Group in 1990. After various positions as member of the management board among others at Sparkasse Mühlviertel West Bank AG he was appointed CEO of Salzburger Sparkasse Bank AG. In 2007 he joined Česká spořitelna as CEO. Member of the Management Board at Erste Group Bank AG since January 2011.

Responsibilities: Group Real Estate & Leasing, Group Investment Banking, Group Large Corporates Banking, Local Corporate Banking, Corporate Support and Operations, GCIB Portfolio Management

MANFRED WIMMER

Appointed until June 2012

Born in 1956

He studied law in Innsbruck. He started his career with Creditanstalt-Bankverein, Vienna in 1982. He joined Erste Group in 1998. After various senior management positions he was appointed interim CEO of Banca Comercială Română. Member of the management board as Chief Financial Officer and Chief Performance Officer since September 2008.

Responsibilities: Group Accounting, Group Performance Management, Management of Subsidiaries and Investments

BERNHARD SPALT

Appointed until June 2012

Born in 1968

He studied law in Vienna. He joined Erste Group in 1991 and after various management positions in Austria and the Czech Republic was appointed member of the management board in November 2006 as Chief Risk Officer.

Responsibilities: Group Strategic Risk Management, Group Corporate Risk Management, Group Retail Risk Management, Group Legal, Group Corporate Workout, Group Compliance, Group Security Management

HERBERT JURANEK

Appointed until June 2012

Born in 1966

He joined Erste Group in 1999 after working for GiroCredit Bank AG and Reuters Ges.m.b.H. Austria. Member of the management board since July 2007.

Responsibilities: Group Organisation/IT, Group Operations/ Processing, Group Property Management

MARTIN ŠKOPEK

Appointed until June 2012

Born in 1967

A graduate of the University of Economics in Prague. Prior to joining Erste Group in 1999, he worked at Komerční banka. From 1999 to 2006 Retail Executive Vice-president at Česká spořitelna. In 2010 he was appointed Executive Vice-president for Retail and Private Banking at Banca Comercială Română. Member of the Management Board at Erste Group Bank AG since July 2010.

Responsibilities: Group Retail Business Development, Wealth Creation, Group Card Management

Supervisory Board Report

Dear shareholders,

We were informed promptly and comprehensively throughout the financial year 2010 of the development of business and of the company by the management board in written as well as oral reports at regular meetings. This enabled us to comply with obligations imposed on us by law, the articles of association and the Corporate Governance Code, and ascertain the proper conduct of business.

Financial statements, management report, proposal for the appropriation of the profit, corporate governance report

The financial statements (consisting of the balance sheet, income statement and notes) and the management report as well as the consolidated financial statements and the group management report for 2010 were audited by Sparkassen-Prüfungsverband as the statutory auditor and also by the additionally appointed auditor Ernst & Young Wirtschaftsprüfungsgesellschaft m.b.H., which awarded the financial statements an unqualified audit opinion. Ernst & Young Wirtschaftsprüfungsgesellschaft m.b.H. was also appointed voluntary auditor for the Corporate Governance Report 2010. The audit did not give rise to any objections. Representatives of the two auditors participated in the meeting of the supervisory board on the financial statements and presented their comments on the audits conducted.

Based on our own review, we hereby agree with the results of these audits and with the management board's proposal for the appropriation of the profit. We approved the financial statements prepared by the management board, thereby adopting these pursuant to Article 96 par. 4 Austrian Stock Corporation Act. The management report, consolidated financial statements, group management report and corporate governance report have been acknowledged and accepted.

Changes in board memberships

In March 2010, the supervisory board appointed Martin Škopek, effective as of 1 July 2010 through 30 June 2012, as a member of the management board of Erste Group Bank AG. Martin Škopek heads the Division Group Retail Banking. Prior to his new role, he had served as a member of the management board of Česká spořitelna and afterwards of Banca Comercială Română; at both banks he was also responsible for retail banking.

On behalf of the supervisory board, I would like to express our deep sorrow over the sudden and unexpected death of management board member Johannes Leobacher on 14 October 2010. Johannes Leobacher had been appointed to the management board of Erste Group Bank AG as of 1 April 2009 and contributed significantly to the performance of the bank during his tenure, as he had already done in his previous function as Head of Group Capital Markets. Johannes Leobacher was a highly regarded colleague who has made a difference. He never forgot that banking is a business for people by people.

The supervisory board appointed Gernot Mittendorfer as new management board member of Erste Group Bank AG effective as of 1 January 2011 through 30 June 2012. Gernot Mittendorfer acts as Head of the Division Group Corporate & Investment Banking. Prior to his new role, he was Chairman of the Board of Česká spořitelna.
For the supervisory board:

Heinz Kessler mp
President of the Supervisory Board

Vienna, March 2011

Corporate Governance

Corporate Governance Report

of Erste Group Bank AG pursuant to Section 243b Austrian Commercial Code and rules 60 et seq of the Austrian Code of Corporate Governance as of 31 December 2010.

CODE OF CORPORATE GOVERNANCE

In Austria, the Code of Corporate Governance (CCG) prepared by the Working Group for Corporate Governance under the leadership of the Special Government Representative for the Capital Market has been widely recognized since 1 October 2002. The code is based on voluntary self-imposed obligations and its requirements are more stringent than the legal requirements for stock corporations. The aim is to establish responsible corporate management and accounting focused on long-term growth that regulates all rights and obligations of all stakeholders – management, supervisory board, customers, staff, shareholders and the public – as well as their relations to each other. The Austrian CCG has the objective of guaranteeing a high degree of transparency for all stakeholders. The rules of the Code are grouped into L rules, which contain the mandatory legal requirements, and C rules, which permit a deviation but need to be explained, as well as R rules, which permit a deviation without requiring an explanation.

The current version of the Austrian CCG is available on the website of the Working Group at www.corporate-governance.at. This website also includes an English translation of the Austrian Code of Corporate Governance and the interpretations of the Working Group.

COMMITMENT TO COMPLY WITH THE RULES OF THE AUSTRIAN CCG

In February 2003, Erste Group Bank AG declared its commitment to comply with the rules of the Austrian Code of Corporate Governance with the objective of ensuring responsible and transparent corporate governance.

In financial year 2010, Erste Group Bank AG complied with all L rules (legal requirement) and R rules (recommendation). The deviation from a “Comply or Explain” rule (C rules) is presented and explained below.

QUALIFICATION AND COMPOSITION OF THE SUPERVISORY BOARD 52 (C)

When appointing the supervisory board, the general meeting shall take due care to ensure a balanced composition of the supervisory board with respect to the structure and the business of the company as well as the expertise and the personal qualifications of the supervisory board members. The number of members on the supervisory board (excluding employees’ representatives) shall be ten at most.

Due to the size of the company, the supervisory board of Erste Group Bank AG (excluding employees’ representatives) consists of 12 members.

INFORMATION ON THE MANAGEMENT BOARD PURSUANT TO SECTION 243B PAR. 2 AUSTRIAN COMMERCIAL CODE

Name, year of birth and date of initial appointment and end of current period of office of each member of the management board

Andreas Treichl (Chairman)
Born 1952
Member of the management board since 1 October 1994
End of the current period of office: 30 June 2012

Franz Hochstrasser (Vice Chairman)
Born 1963
Member of the management board since 1 January 1999
End of the current period of office: 30 June 2012

Herbert Juranek
Born 1966
Member of the management board since 1 July 2007
End of the current period of office: 30 June 2012

Johannes Leobacher †
1964 - 2010
Member of the management board from 1 April 2009
to 14 October 2010

Martin Škopek
Born 1967
Member of the management board since 1 July 2010
End of the current period of office: 30 June 2012

Bernhard Spalt
Born 1968
Member of the management board since 1 November 2006
End of the current period of office: 30 June 2012

Manfred Wimmer
Born 1956
Member of the management board since 1 September 2008
End of the current period of office: 30 June 2012

Gernot Mittendorfer
Born 1964
Member of the management board since 1 January 2011
End of the current period of office: 30 June 2012

Mandates on supervisory boards or similar functions in other domestic or foreign companies not included in the consolidated financial statements for each member of the management board (C rule 16 Austrian CCG)

Andreas Treichl
DONAU Versicherung AG Vienna Insurance Group (Vice Chairman)
MAK – Österreichisches Museum für angewandte Kunst (Chairman)
Österreichische Galerie Belvedere
Sparkassen Versicherung AG Vienna Insurance Group (Chairman)

Franz Hochstrasser
CEESEG Aktiengesellschaft
Oesterreichische Kontrollbank Aktiengesellschaft (Vice Chairman)
Wiener Börse AG

Herbert Juranek
None

Johannes Leobacher †
None

Martin Škopek
None

Bernhard Spalt
Österreichische Clearingbank AG (Vice Chairman)

Manfred Wimmer
None

Gernot Mittendorfer (since 1 January 2011)
None

INFORMATION ON THE SUPERVISORY BOARD PURSUANT TO SECTION 243B PAR. 2 AUSTRIAN COMMERCIAL CODE

Name, year of birth and date of initial appointment and end of current period of office of each member of the supervisory board

Heinz Kessler
General Director, ret.
Born 1938
Supervisory board member since 26 May 1998
End of the current period of office: AGM 2012

Georg Winckler
Born 1943
Rector of the University of Vienna
Professor of economic sciences at the University of Vienna
Supervisory board member since 27 April 1993
End of the current period of office: AGM 2015

Theresa Jordis
Born 1949
Attorney at law
Supervisory board member since 26 May 1998
End of the current period of office: AGM 2013

Bettina Breiteneder
Born 1970
Entrepreneur
Supervisory board member since 4 May 2004
End of the current period of office: AGM 2014

Elisabeth Gürtler
Born 1950
Entrepreneur
Supervisory board member since 26 May 1998
End of the current period of office: AGM 2015

Jan Homan
Born 1947
Chairman
Supervisory board member since 4 May 2004
End of the current period of office: AGM 2014

Brian D. O'Neill
Born 1953
Vice Chairman
Supervisory board member since 31 May 2007
End of the current period of office: AGM 2012

Juan Maria Nin Génova
Born 1953
President and CEO
Supervisory board member since 12 May 2009
End of the current period of office: AGM 2014

Wilhelm Rasinger
Born 1948
Consultant
Supervisory board member since 11 May 2005
End of the current period of office: AGM 2015

Friedrich Rödler
Born 1950
Auditor and tax advisor
Supervisory board member since 4 May 2004
End of the current period of office: AGM 2014

John James Stack
Born 1946
President and CEO, ret.
Supervisory board member since 31 May 2007
End of the current period of office: AGM 2012

Werner Tessmar-Pfohl
Born 1942
Entrepreneur, ret.
Supervisory board member since 6 May 2008
End of the current period of office: AGM 2013

Delegated by the employees council

Markus Haag
Born 1980
Supervisory board member from 16 June to 17 Sept. 2010

Christian Havelka
Born 1966
Supervisory board member since 31 October 2001
End of the current period of office: until withdrawn

Andreas Lachs
Born 1964
Supervisory board member since 9 August 2008
End of the current period of office: until withdrawn

Friedrich Lackner
Born 1952
Supervisory board member since 24 April 2007
End of the current period of office: until withdrawn

Bertram Mach
Born 1951
Supervisory board member until 16 June and as of 17 Sept.2010
End of the current period of office: until withdrawn

Barbara Smrcka
Born 1969
Supervisory board member since 9 August 2008
End of the current period of office: until withdrawn

Karin Zeisel
Born 1961
Supervisory board member since 9 August 2008
End of the current period of office: until withdrawn

Chairman and Vice Chairpersons of the supervisory board

Heinz Kessler	President
Georg Winckler	1st Chairman
Theresa Jordis	2nd Chairwoman

Membership in the committees of the supervisory board, stating the function as chairperson (C rule 39 Austrian CCG)

Listed by member

Heinz Kessler
Committee for Management Board Matters (Chair)
Construction Committee
Audit Committee (Chair)
Risk Management Committee
Strategy Committee (Chair)

Georg Winckler
Committee for Management Board Matters
Audit Committee
Risk Management Committee
Strategy Committee

Theresa Jordis
Committee for Management Board Matters
Audit Committee
Risk Management Committee
Strategy Committee

Bettina Breiteneder
Construction Committee (Chair)
Audit Committee (Substitute)
Risk Management Committee

Elisabeth Gürtler
Risk Management Committee (Substitute)

Jan Homan
Audit Committee
Risk Management Committee (Substitute)
Strategy Committee

Juan Maria Nin Génova
Strategy Committee

Wilhelm Rasinger
Audit Committee
Risk Management Committee
Strategy Committee (Substitute)

Friedrich Rödler
Audit Committee
Construction Committee
Risk Management Committee (Chair)
Strategy Committee

Werner Tessmar-Pfohl
Construction Committee

Delegated by the employees council

Markus Haag (from 16 June to 17 Sept. 2010)
Risk Management Committee
Strategy Committee

Christian Havelka
Audit Committee
Risk Management Committee (Substitute)
Strategy Committee

Andreas Lachs
Audit Committee (Substitute)
Risk Management Committee
Strategy Committee (Substitute)

Friedrich Lackner
Audit Committee
Construction Committee
Strategy Committee

Bertram Mach (until 16 June and as of 17 Sept. 2010)
Risk Management Committee
Strategy Committee

Barbara Smrcka
Audit Committee
Construction Committee

Karin Zeisel
Risk Management Committee

Listed by committee

Committee for Management Board Matters
Heinz Kessler (Chair)
Georg Winckler
Theresa Jordis

Construction Committee
Bettina Breiteneder (Chair)
Heinz Kessler
Friedrich Rödler
Werner Tessmar-Pfohl
Friedrich Lackner
Barbara Smrcka

Audit Committee
Heinz Kessler (Chair)
Georg Winckler
Theresa Jordis
Jan Homan
Wilhelm Rasinger
Friedrich Rödler
Bettina Breiteneder (Substitute)
Friedrich Lackner
Barbara Smrcka
Christian Havelka
Andreas Lachs (Substitute)

Risk Management Committee
Friedrich Rödler (Chair)
Heinz Kessler
Georg Winckler
Theresa Jordis
Bettina Breiteneder
Wilhelm Rasinger
Elisabeth Gürtler (Substitute)
Jan Homan (Substitute)
Andreas Lachs
Bertram Mach (until 16 June and as of 17 Sept. 2010)
Markus Haag (from 16 June to 17 Sept. 2010)
Karin Zeisel
Christian Havelka (Substitute)

Strategy Committee
Heinz Kessler (Chair)
Georg Winckler
Theresa Jordis
Jan Homan
Juan Maria Nin Génova
Friedrich Rödler
Wilhelm Rasinger (Substitute)
Friedrich Lackner
Christian Havelka
Bertram Mach (until 16 June and as of 17 Sept. 2010)
Markus Haag (from 16 June to 17 Sept. 2010)
Andreas Lachs (Substitute)

Mandates in supervisory boards or similar functions in other foreign and domestic companies for each supervisory board member (listed companies are marked with "*")

Heinz Kessler
Austria Versicherungsverein auf Gegenseitigkeit Privatstiftung (Vice Chair)
Česká spořitelna, a.s. (Vice Chair)
DIE ERSTE österreichische Spar-Casse Privatstiftung
Erste Bank der oesterreichischen Sparkassen AG (Vice Chair)
Nettingsdorfer Papierfabrik Management AG (Chair)
Rath Aktiengesellschaft* (Chair)
Reform-Werke Bauer & Co. Gesellschaft m.b.H. (Chair)

Georg Winckler
Austria Versicherungsverein auf Gegenseitigkeit Privatstiftung (Chair)
DIE ERSTE österreichische Spar-Casse Privatstiftung (Vice Chair)
Innovationszentrum Universität Wien GmbH
Steiermärkische Bank und Sparkassen Aktiengesellschaft
UNIQA Versicherungen AG* (Vice Chair)

Theresa Jordis
Miba Aktiengesellschaft* (Chair)
Mitterbauer Beteiligungs - Aktiengesellschaft (Chair)
Prinzhorn Holding GmbH (Chair)
Wolford Aktiengesellschaft* (Chair)
Austrian Airlines AG*

Bettina Breiteneder
ZS Einkaufszentren Errichtungs- und Vermietungs-Aktiengesellschaft

Elisabeth Gürtler
ATP Planungs- und Beteiligungs-Aktiengesellschaft (Vice Chair)
Chokoladefabriken Lindt & Sprüngli AG
Oesterreichische Nationalbank (General Council)
Österreich Werbung
Österreichische Hoteliervereinigung (Board of Directors)
Wiener Kongresszentrum Hofburg Betriebs GmbH

Jan Homan
Allianz Elementar Versicherungs-Aktiengesellschaft
Alucommerz AG
Constantia Colmar Inc.

Brian D. O'Neill
Emigrant Bank (Dir.)
CorpBanca (Dir.)

Juan Maria Nin Génova
Academic Board, APD
Banco BPI, S.A.* (Portugal) (BoD)
Circulo Ecuestre (BoD)
Criteria Caixacorp, S.A.* (Deputy Chairman)
Gas Natural* (BoD)
Grupo Vidacaixa Grup, S.A. (Insurances)
Deusto University (BoD)
Deusto Business School (BoD)
Economic Group, Spain-China Forum
Esade Business School Foundation (Trustee)
Federació Catalana de Caixes d'Estalvis (Secretary)
Federico Garcia Lorca Foundation (Trustee)
Repsol YPF* (BoD)
Grupo Financiero Inbursa, S.A.B. DE C.V.* (BoD)
"la Caixa" Foundation (Deputy Chairman)
Spain-India Council Foundation (Deputy Chairman)
Spain-United States Council Foundation

Wilhelm Rasinger
CEE Immobilien Development AG
Sparkassen Immobilien AG*
Wienerberger AG*

Friedrich Rödler
Erste Bank der oesterreichischen Sparkassen AG

John James Stack
Ally Financial Inc.*
ShoreBank International
Mutual of America*

Werner Tessmar-Pfohl
Sattler AG (Chair)
Steiermärkische Bank und Sparkassen Aktiengesellschaft (Chair)
Teufelberger Holding Aktiengesellschaft (Vice Chair)

Delegated by the employees council

Friedrich Lackner
DIE ERSTE österreichische Spar-Casse Privatstiftung

Markus Haag
None

Christian Havelka
None

Andreas Lachs
None

Bertram Mach
None

Barbara Smrcka
None

Karin Zeisel
None

INDEPENDENCE CRITERIA DEFINED BY THE SUPERVISORY BOARD (C RULE 53 OF THE AUSTRIAN CCG)

The supervisory board of Erste Group Bank AG defined the guidelines set out in Annex 1 of the Austrian Code of Corporate Governance as independence criteria at its meeting of 15 March 2006.

Guidelines for Independence

A member of the supervisory board is deemed to be independent if such person does not have any business or personal relations with the company or its management board and these relations would constitute a conflict of interest, and therefore, would be suited to influence the behaviour of a member.

- **The supervisory board member is not permitted to have been a member of the management board or a managing employee of the company or a subsidiary of the company in the past five years.**
- **The supervisory board member should not have any business relations with the company or a subsidiary of the company to an extent of significance for the supervisory board member or in the past year. This shall also apply to business relations with companies in which the supervisory board member has a material economic interest, but not for carrying out functions on the bodies of the Group. The approval of individual transactions by the supervisory board pursuant to L rule 48 does not automatically qualify the respective supervisory board member as not being independent.**
- **The supervisory board member should not have served as auditor for the company or have been involved in an audit or worked as an employee of the auditing firm in the past three years.**
- **The supervisory board member should not be a management board member at another company in which a member of the management board of the company is a supervisory board member.**
- **The supervisory board member should not have been a member of the supervisory board for more than 15 years. This does not apply to members of the supervisory board that are shareholders with stakes in the company or that represent the interests of such shareholders.**
- **The supervisory board member should not be a close family relation (children, spouse, life partner, parent, uncle, aunt, sibling, niece, nephew) of a member of the management board or of persons that are in one of the aforementioned positions.**

Presentation of the members deemed independent (C rule 53 of the Austrian CCG)

Based on the above mentioned criteria, all members of the supervisory board have declared their independence with the exception of one. John James Stack declared that he is not independent pursuant to the criteria defined due to his position as chairman of the board of Česká spořitelna until May 2007.

Presentation of the members of the supervisory board which meet the criteria of C rule 54 of the Austrian CCG

Four members of the supervisory board hold a function on a body of a company that owns over 10% of the shares in Erste Group Bank AG (Kessler, Winckler, Lackner, Nin); additionally, in 2010, one member (Rasinger) represented, above all, the interests of retail shareholders.

Note if a member of the supervisory board failed to personally attend more than half of the meetings of the supervisory board in the reporting year (C rule 58 Austrian CCG)

With the exception of one member, all members personally attended at least half of the meetings.

Object and remuneration of contracts subject to approval pursuant to Section 95 par. 5 fig. 12 Stock Corporation Act (C rule 49 Austrian CCG)

The firm DORDA BRUGGER JORDIS Rechtsanwälte GmbH, in which Theresa Jordis is a partner, invoiced companies of Erste Group for consulting work for an amount of EUR 348,775.69 in 2010. Friedrich Rödler is Senior Partner at PricewaterhouseCoopers Austria. Companies of this group billed companies of Erste Group for consulting work in an amount of EUR 54,726.00 in 2010.

INFORMATION ON THE WORKING METHODS OF THE MANAGEMENT BOARD AND SUPERVISORY BOARD PURSUANT TO SECTION 243B PAR. 2 AUSTRIAN COMMERCIAL CODE

Management Board

The management board of Erste Group Bank AG manages the company on its own responsibility. Its purpose is to pursue the welfare of the company and the interests of the shareholders and employees. The management board develops the strategic orientation of the company and accords it with the supervisory board. It ensures an effective risk management and risk control. The management board reaches its decisions taking into account all relevant legal provisions, the rules of the articles of association and its internal rules of procedure.

Supervisory Board

The supervisory board advises the management board in its strategic planning and actions. It takes part in the decisions as stipulated by law, the articles of association and its internal rules of procedure. The supervisory board has the task of supervising the management board in the management of the company.

AREAS OF COMPETENCE ON THE MANAGEMENT BOARD AS OF 31 DECEMBER 2010 (C RULE 16 AUSTRIAN CCG)

Andreas Treichl (Chairman)

Chairman's Office, Group Audit, Group Communications, Group Human Resources, Group Investor Relations, Group Marketing, Group Identity, Group Secretariat, good.bee – banking for the unbanked, Health Center

Franz Hochstrasser (Vice Chairman)
Group Research, Group Balance Sheet Management, Group Capital Markets
On an interim basis: Group Real Estate & Leasing, Group Investment Banking, Group Large Corporates Banking, Local Corporate Banking, Corporate Support and Operations, GCIB Portfolio Management

Herbert Juranek
Group Org/IT, Group Operations/Processing, Group Property Management

Martin Škopek
Group Retail Business Development, Wealth Creation, Group Card Management

Bernhard Spalt
Group Strategic Risk Management, Group Corporate Risk Management, Group Retail Risk Management, Group Legal, Group Corporate Workout, Group Compliance, Group Security Management

Manfred Wimmer
Group Accounting, Group Performance Management, Management of Subsidiaries and Investments

AREAS OF COMPETENCE ON THE MANAGEMENT BOARD AS OF 1 JANUARY 2011

Andreas Treichl (Chairman)
Chairman's Office, Group Audit, Group Communications, Group Human Resources, Group Investor Relations, Group Marketing, Group Identity, Group Secretariat, good.bee – banking for the unbanked, Health Center

Franz Hochstrasser (Vice Chairman)
Group Research, Group Balance Sheet Management, Group Capital Markets

Herbert Juranek
Group Org/IT, Group Operations/Processing, Group Property Management

Gernot Mittendorfer
Group Real Estate & Leasing, Group Investment Banking, Group Large Corporates Banking, Local Corporate Banking, Corporate Support and Operations, GCIB Portfolio Management

Martin Škopek
Group Retail Business Development, Wealth Creation, Group Card Management

Bernhard Spalt
Group Strategic Risk Management, Group Corporate Risk Management, Group Retail Risk Management, Group Legal, Group Corporate Workout, Group Compliance, Group Security Management

Manfred Wimmer
Group Accounting, Group Performance Management, Management of Subsidiaries and Investments

NUMBER AND TYPE OF COMMITTEES OF THE SUPERVISORY BOARD AND THEIR DECISION-MAKING POWERS (C RULE 34 AUSTRIAN CCG)

The supervisory board has set up a risk management committee, a strategy committee, an audit committee, a committee for management board matters as well as a construction committee.

Risk management committee
The risk management committee is responsible for granting approval in all those cases in which loans and exposures or large exposures reach an amount exceeding the approval authority of the management board according to the approval authority regulation. It is charged with granting approval to exposures or large exposures pursuant to section 27 of the Banking Act, if such an investment in credit institutions exceeds 10% of the own funds of Erste Group Bank or if the investment amounts to at least 10% of the consolidated own funds of the banking group. Within the competence assigned to it, the committee may grant advance approvals to the extent permitted by law. In addition, it is responsible for the supervision of the risk management of Erste Group Bank AG.

Strategy committee
In connection with the strategic positioning of Erste Group Bank, the strategy committee is responsible for the preparation of and comments on all matters which are brought to the attention of the supervisory board, unless they are assigned to other committees. Furthermore, it is in charge of scrutinising the budget, acknowledging the reports of the individual business units and the reports on business performance, determining investment policy, and setting key strategic goals for the company. The supervisory board delegated to the committee the right of approval of the establishment and closing of branches; the right of approval of the granting of special statutory power of attorney (Prokura) or commercial power for the entire operation of the business; the right of approval for entering into agreements between employers and staff councils and for the determination of guidelines for staff policy and salary policy. The committee is also responsible for overseeing the company's portfolio of participations.

Audit committee
The audit committee is responsible for the supervision of the accounting process; the supervision of the effectiveness of the internal controlling system, the internal audit system and the risk management system; the supervision of the annual audit and the annual group audit; reviewing and supervising the qualification and the independence of the auditor (group auditor); reviewing and prepar-

ing the approval of annual financial statements, the proposal for the appropriation of profits, the status report and the corporate governance report and submitting a report on the results of the review to the supervisory board; reviewing the consolidated financial statements of Erste Group and the group status report; the preparation of the supervisory board's proposal for the selection and revocation of the auditor; the conclusion of the contract with the appointed auditor on the execution of the annual audit and the agreement on the auditor's remuneration; acknowledging prompt information on the focal points of the audit and the right to submit proposals for additional focal points of the audit; acknowledging the inspection plan of the Company's internal audit; acknowledging information on current matters relevant for the internal audit of the Erste Group and on the efficiency and effectiveness of the internal audit; acknowledging the internal auditors' report on the areas of inspection and important findings on the basis of inspections made and the activity report pursuant to § 20 in connection with § 21 paragraph 2 of the Austrian Securities Supervisory Act ("Wertpapieraufsichtsgesetz"); acknowledging immediate information on important findings of the auditor, the internal audit or an inspection by a regulatory authority; acknowledging immediate information on damages, which could exceed 5% of the consolidated equity or 10% of the budgeted net result; acknowledging reports of the management board on current developments in the fields of corporate governance and anti-money laundering, and the status of compliance; acknowledging the compliance activities report.

Committee for management board matters

According to rule 43 of the CGC, the compensation committee in Erste Group Bank is identical with the nomination committee and has been named "committee for management board matters". The committee for management board matters shall deal with and decide on relationships between Erste Group Bank AG and members of the management board with the exception of resolutions on appointment or revocation of appointment of management board members as well as the granting of stock options of the company.

Due to changes in legislation, the committee for management board matters will be renamed nomination and remuneration committee and its scope of functions will be enlarged in the financial year 2011.

Construction committee

The construction committee is responsible for advising the management board and for preparing resolutions to be adopted by the supervisory board with respect to "Erste Campus", the future headquarters of Erste Group.

Information on the number of meetings of the supervisory board during the reporting year and report on the focus of its activities

Six meetings of the supervisory board were held in the financial year 2010.

At each ordinary meeting of the supervisory board, the monthly developments of the balance sheet and the income statement were presented and reports were given on current market risk, risk-bearing capacity, the individual status of the banking subsidiaries in Central and Eastern Europe and on the areas audited and the material findings of these audits by the internal audit department. The chairpersons of the committees reported on the main topics dealt with by the committees since the last supervisory board meeting. A topic repeatedly discussed at supervisory board meetings was the respective status of the development of capital and liquidity regulation in Europe.

On 16 March 2010, the financial statements and management report 2009, the consolidated financial statements and management report 2009 as well as the corporate governance report 2009 were audited; the financial statements 2009 were adopted in accordance with the recommendation of the audit committee, and the proposal for the distribution of the profit 2009 approved. The approval for the construction of the new corporate headquarters in Vienna was given; the move to "Erste Campus" will be completed in 2015. The supervisory board lauded the outstanding achievements of Elisabeth Bleyleben-Koren who resigned from her position at Erste Bank Oesterreich on 30 June 2010 and expressed its appreciation for her many years of service. Martin Škopek was appointed to the management board as seventh member as of 1 July 2010 through 30 June 2012. Furthermore, proposals for resolutions to be submitted to the ordinary shareholders' meeting 2010 were approved. The findings of the internal evaluation of the supervisory board pursuant to the Code of Corporate Governance were discussed and the annual compliance report submitted.

At the constituent meeting on 12 May 2010, after the general shareholders' meeting, the resolution was passed on the appointments to the committees of the supervisory board and on the distribution key for the remuneration of the supervisory board resolved at the general shareholders' meeting.

On 23 June 2010, a report was delivered on the IT strategy of Erste Group and the report on major participations for 2009 and the first quarter 2010 were discussed. Another item on the agenda was the new distribution of responsibility for business areas: by circular resolution, after the meeting, retail banking was assigned to Martin Škopek and corporate banking to Johannes Leobacher.

On 15 September 2010, a report on the status of Basle III was delivered and the guidelines for the new remuneration policy were presented.

At the extraordinary meeting of the supervisory board on 28 October 2010, a moment of silence was held in honour of Johannes Leobacher who passed away unexpectedly on 14 October 2010. Following a swift and intensive search by the committee for management board matters, the decision was taken to propose to the supervisory board Gernot Mittendorfer for appointment as a member to the management board; Gernot Mittendorfer had served as

chairman and CEO of Česká spořitelna since May 2007. The supervisory board unanimously passed the resolution to appoint Gernot Mittendorfer to the management board as of 1 January 2011 through 30 June 2012.

On 15 December 2010, the budget and the investment plan 2011 of Erste Group Bank AG were approved and the Group projections for 2011 were presented. The annual report on large exposures was also presented and the latest update on the planned banking tax given.

Information on the number of meetings of committees during the reporting year and report on their activities

The risk management committee held 17 meetings in 2010, at which it regularly took decisions on exposures and loans exceeding the powers of the management board and was briefed on loans granted within the scope of authorization of the management board. The committee was regularly informed of current credit risk, market risk, risk bearing capacity and large exposures. Special reports were delivered on hedge fund exposure, audits by the OeNB and on the exposure to southern European eurozone countries.

The strategy committee met four times in 2010. Reports were presented on the planned changes to the holding organisation, equity participations, the competitive situation in Austria and the CEE states as well as several times on Basel III and the planned banking tax. Furthermore, the committee decided on the appointment of persons authorised to sign on behalf of the bank as well as on changes to existing management-works' council agreements.

The audit committee met four times in 2010. The auditors reported on the status of the audit of the financial statements and consolidated financial statements. Subject to the approval of the supervisory board, the decision was taken to propose Ernst & Young Wirtschaftsprüfungsgesellschaft m.b.H. to the general shareholders' meeting as additional (Group) auditor for the financial year 2011. The supervisory board approved this proposal at its next meeting. Furthermore, the audit committee conducted its final discussion. The financial statements and the management report, as well as the group financial statements and the group management report, and the corporate governance report were audited and recommended to the supervisory board for adoption, and the proposal of the management board for the distribution of the net profit for the financial year 2009 was acknowledged. The head of the internal audit department reported on the areas audited and the key findings of the audit for the year 2009 and explained the audit plan for 2010. The internal audit department presented its report pursuant to Section 42 paragraph 3 Banking Act. A report on changes to money laundering provisions was presented together with the results of the audit on compliance with money laundering provisions. At the last meeting of the year 2010, the bank auditors presented the results of the preliminary audit and the focal points of their audit. The audit committee issued the instructions to obtain a bid for the audit of the (consolidated) financial statements 2012.

The committee for management board matters met five times in 2010. The topics discussed included the new remuneration policy, the appointment of a new member to the management board responsible for the Retail Banking division and the appointment of a successor to Johannes Leobacher.

The construction committee met five times in 2010. The main topics discussed were the project plan, project organisation, budget and costs, procedure for tenders, deadlines and related developments for "Erste Campus", the new headquarters of Erste Group in Vienna.

MEASURES TO PROMOTE WOMEN ON MANAGEMENT BOARDS, SUPERVISORY BOARDS AND IN MANAGING POSITIONS PURSUANT TO SECTION 243B AUSTRIAN COMMERCIAL CODE

Generally, Erste Group complies with the principle of equal treatment as of the first contact with a potential employee, during the entire period of employment and in some countries also after the active working life. Erste Group promotes equal opportunity and diversity ("Living and Promoting Diversity"), especially as regards gender, age and ethnicity.

Above all, the promotion of women and the work-life balance have a long tradition at Erste Group. The offers are diverse and take cultural differences in the different countries of Erste Group into account. Measures include flexible working hours and part-time work schemes as well as special support for employees during and after childcare leave such as the option of extending childcare leave, childcare leave for fathers, free childcare facilities, access to the internal job market and important news during childcare leave, seminars for women returning to work, etc.

The success of the measures implemented to date is shown by the steadily increasing share of women in management positions and bodies (e.g. supervisory board) over the past few years. The participation of women in management development programmes shows that this trend will not only continue in the future, but will become even stronger.

DISCLOSURE OF INFORMATION ON THE REMUNERATION OF THE MANAGEMENT BOARD AND SUPERVISORY BOARD (C RULES 30 AND 31 AUSTRIAN CCG)

Principles applicable to the performance-linked components of the management board remuneration, criteria for the performance-linked components, and major changes versus the previous year

The total compensation of the management board is given in detail in the Notes. The compensation consists of a fixed basic salary, a performance-linked payment and other remuneration.

Performance-linked payments are limited to 200% of gross annual salary for the CEO, 300% of gross annual salary for management board members with responsibility for divisions and 100% of gross annual salary for other members of the management board. The criteria for the performance-linked component of the management board compensation in the financial year 2009 (payout 2010) were net profit and the result of a leadership appraisal. In addition, management board members with division responsibility must have met business targets set by the supervisory board.

The amounts actually paid out are presented in the table below and are based on the net profit achieved of EUR 903 million (target: EUR 1,150 million) and the division target achievement, taking into account the results of the leadership appraisal.

Since the financial year 2010, the compensation criteria for the variable salary components have been extended. Apart from net profit, the criteria for the performance-linked payments include the increase in the core tier 1 ratio in relation to total risk and adjusted for participation capital, the NPL coverage ratio, the cost/income ratio and the result of the leadership appraisal (short-term incentive). Moreover, as of 1 January 2010, a long-term incentive programme was introduced. It is based on changes in the share price of Erste Group Bank AG compared to a group of peers and the Dow Jones Euro Stoxx Banks, with payout being exclusively in shares after a vesting period.

Principles of the pension scheme for management board members

The members of the management board participate in the defined contribution pension plan of Erste Group according to the same principles as the employees of the Group. If a management board member's tenure ends before he or she reaches the age of 65 by no fault of the member, then for three of the six management board members the corresponding compensatory payments are made to the pension fund.

Principles for eligible time periods and benefit entitlements of the management board members in the case of termination of the position

Regarding benefit entitlements of management board members in the event of termination of their position, the standard legal termination benefit conditions of Section 23 of the Salaried Employees Act apply for three members of the management board. All other members of the management board are not entitled to receive any termination benefits.

Directors and officers insurance

A directors and officers insurance policy exists for the members of the management board paid for by Erste Group Bank AG.

Remuneration of the management board members

in EUR thousand	Salary for the FY 2010	Performance-linked cash compensation for the FY 2009	Other compensation for the FY 2010	Total FY 2010
Management board member				
Andreas Treichl	1,050	1.297	448	2,795
Franz Hochstrasser	570	925	144	1,638
Bernhard Spalt	570	405	60	1,035
Herbert Juranek	570	405	60	1,035
Manfred Wimmer	570	365	158	1,093
Martin Škopek	326	0	53	379
Johannes Leobacher †	466	289	98	853

Disclosure of remuneration paid to each member of the supervisory board in 2009 (C rule 51)

in EUR thousand	Meeting fees for 2010	Supervisory board compensation for 2009	Total
Supervisory board member			
Heinz Kessler	18.5	50.0	68.5
Georg Winckler	13.5	37.5	51.0
Theresa Jordis	14.0	37.5	51.5
Bettina Breiteneder	12.0	25.0	37.0
Elisabeth Gürtler	3.0	25.0	28.0
Jan Homan	4.0	25.0	29.0
Wilhelm Rasinger	13.5	25.0	38.5
Friedrich Rödler	17.5	25.0	42.5
Werner Tessmar-Pfohl	5.0	25.0	30.0
Gabriele Zuna-Kratky	0.0	8.3	8.3
Brian Deveraux O´Neill	2.0	25.0	27.0
John James Stack	2.0	25.0	27.0
Juan Maria Nin Genova	3.0	16.7	19.7
Markus Haag	3.5		3.5
Christian Havelka	6.5		6.5
Friedrich Lackner	8.5		8.5
Andreas Lachs	11.0		11.0
Bertram Mach	8.0		8.0
Barbara Smrcka	5.5		5.5
Karin Zeisel	10.5		10.5

REPORT ON THE EXTERNAL EVALUATION

In 2006, for the first time, Erste Group Bank AG conducted an external evaluation of compliance with the Code of Corporate Governance for 2005. In April 2009, a voluntary external evaluation was completed for the financial year 2008. The two evaluations arrived at the results that Erste Group Bank AG complied with all of the rules of the Code. The summaries of the reports on these evaluations are available on the website of Erste Group Bank AG.

The next external evaluation is planned for the year 2012.

SHAREHOLDERS' RIGHTS

Voting rights

Each share of Erste Group Bank AG entitles its holder to one vote at the shareholders' meeting. In general, shareholders may pass resolutions at a shareholders' meeting by a simple majority of the votes cast or, in the event that the majority of the share capital present is required to approve a measure, by a simple majority of the share capital present, unless Austrian law or the articles of association require a qualified majority vote.

The articles of association differ from the statutory majority requirements in three cases. First, the appointment of supervisory board members can be revoked before the end of their respective term by a resolution of the shareholders' meeting, which requires a majority of 75% of the votes cast and a majority of 75% of the share capital present at such a meeting. Second, the articles of association may be amended, provided that such amendment does not concern the business purpose, by a resolution of the shareholders' meeting, which requires a simple majority of the votes cast and a simple majority of the share capital present at such a meeting. Third, each provision regulating increased majority requirements can only be amended with the same increased majority.

Dividend rights

Each shareholder is entitled to receive dividends, if and to the extent the distribution of dividends is resolved by the annual shareholders' meeting.

Liquidation proceeds

In case of dissolution of Erste Group Bank AG, the assets remaining after the discharge of liabilities and supplementary capital will be distributed pro-rata to the shareholders and the holders of participation capital securities. The dissolution of Erste Group Bank requires a majority of at least 75% of the share capital present at a shareholders' meeting.

Subscription rights

In principle, holders of shares have subscription rights allowing them to subscribe to any newly issued shares to maintain their existing share in the share capital of Erste Group Bank. Such subscription rights are in proportion to the number of shares held by such shareholders prior to the issue of the new shares. The aforementioned subscription rights do not apply if the respective shareholder

does not exercise his or her subscription rights, or the subscription rights are excluded by a resolution of the shareholders' meeting or a resolution of the management board and the supervisory board in certain cases.

The Austrian Stock Corporation Act contains provisions that protect the rights of individual shareholders. In particular, all shareholders must, under equal circumstances, be treated equally, unless the affected shareholders have consented to unequal treatment. Furthermore, measures affecting shareholders' rights, such as capital increases and the exclusion of subscription rights, generally require a shareholders' resolution.

The articles of association of Erste Group Bank AG do not contain any provisions regarding a change in the share capital or the rights associated with the shares or the exercise of the shareholders' rights that differ from statutory requirements.

Stock corporations like Erste Group Bank AG must hold at least one shareholders' meeting per year (ordinary shareholders' meeting), which must be held within the first eight months of any business year and must cover at least the following issues:

- **Presentation of certain documents;**
- **Distribution of the annual profit;**
- **Approval of the actions of the management board and the supervisory board for the preceding business year.**

Vienna, 1 March 2011

Management Board

Andreas Treichl mp
Chairman

Franz Hochstrasser mp
Vice Chairman

Herbert Juranek mp
Member

Gernot Mittendorfer mp
Member

Martin Škopek mp
Member

Bernhard Spalt mp
Member

Manfred Wimmer mp
Member

ADDITIONAL CORPORATE GOVERNANCE PRINCIPLES

Compliance

The responsibility for all compliance issues at Erste Group rests with the group compliance office, a staff unit reporting directly to the chief risk officer. The compliance rules of Erste Group are based on the relevant legislation, such as the Austrian Stock Exchange Act and the Securities Supervision Act; on the Standard Compliance Code of the Austrian banking industry as well as on international practices and standards. Conflicts of interest between our customers, Erste Group and employees are covered by clear rules regarding "Chinese walls", provisions on employee transactions, research disclaimer, gift policy etc.

Directors' dealings

In accordance with the Stock Exchange Act and the Issuer Compliance Regulation of the Austrian Financial Market Authority (FMA), individual trades by members of the management board and supervisory board in Erste Group shares are published on the websites of Erste Group (www.erstegroup.com/investorrelations) and the FMA.

Transparency

Investor confidence in public companies is essential to the functioning of the global economy. Transparent operations and reporting play a crucial part in building up confidence. Accordingly, it is one of the main goals of Erste Group and its investors that the financial results fairly reflect the results of its operations. Erste Group has always been diligent in maintaining compliance with its established financial accounting policies, which are consistent with requirements of International Financial Reporting Standards (IFRS) and for reporting its results with objectivity and the highest degree of integrity.

Risk management

Erste Group's approach to risk management seeks to achieve the best balance between risks and returns for earning a sustained high return on equity. A detailed report on risk policy, risk management strategy and organisation, as well as a thorough discussion of the individual risk categories, are found in the Notes beginning on page 130. In addition, credit risk is analysed in detail in a separate section starting on page 49, in the "Segments" section of this report.

Accounting and auditors

The company financial statements, company management report, consolidated financial statements and group management report of Erste Group Bank AG for the financial year 2010 were audited by Sparkassen-Prüfungsverband as the legally mandated auditor and by Ernst & Young Wirtschaftsprüfungsgesellschaft m.b.H., appointed by the annual general meeting as the supplementary auditor.

FINANCIAL CALENDAR

Date	Event
28 April 2011	Q1 2011 results
12 May 2011	Annual general meeting
16 May 2011	Dividend record date
17 May 2011	Ex-dividend day
19 May 2011	Dividend payment day
26 May 2011	Dividend payment day – Participation Capital
29 July 2011	H1 2011 results
28 October 2011	Q3 2011 results

As the financial calendar is subject to change, please check Erste Group's website for the most up-to-date version (www.erstegroup.com/investorrelations).

Corporate Social Responsibility

INTRODUCTION

As one of the leading banks in Central and Eastern Europe, Erste Group is confronted with the concerns and expectations of its diverse stakeholders. Customers, suppliers, investors, employees, regulatory authorities and local communities are all affected by Erste Group's business operations.

Corporate social responsibility (CSR) is about evaluating and considering external views when reaching decisions. This process is a key element of responsible corporate conduct and helps Erste Group to deliver sustainable financial results.

The bank's efforts and achievements in this field are recognised in external sustainability and CSR ratings. Erste Group has been included in VÖNIX, the sustainability index of Vienna Stock Exchange, since its inception in 2008. In 2010, Erste Group shares were added to the ASPI Eurozone® index, which consists of the 120 best-rated companies in the euro zone selected by VIGEO, a CSR ratings agency.

CUSTOMERS

Erste Group strives to build up and to maintain long-term relationships with its customers. Customer satisfaction is of key importance to Erste Group. The bank is constantly working to improve its service quality and to tailor its product portfolio to the demands of customers. To provide better financial services to retail customers and small and medium-sized businesses – which are both core customer groups of the bank – is an important element of our customer relationship approach.

Retail customers

The goal of Erste Bank Oesterreich and the Austrian savings banks is to achieve quality leadership in Austria. Regular market surveys and direct communication with customers are proven means to this end. Therefore, the bank conducted the survey "Quality Check", which was designed to enable the bank to react swiftly to changes in customer satisfaction, in 2010 as well. The outcome was encouraging. Customers gave excellent grades to the quality of information and showed greater satisfaction with Erste Bank Oesterreich than with its industry peers.

Besides market surveys, Erste Bank Oesterreich also conducted extensive mystery shopping in 2010. The purpose was to gain an insight into customers' experience at the bank's branches such as attention towards individual needs and the competence of account managers.

In 2010, Erste Bank Oesterreich enlarged its scope of services for customers from specific ethnic groups. Information on its most popular retail products and services are now available in various languages. An increasing number of branches are starting to offer the bank's services in the respective native languages of customers from former Yugoslavia and Turkey. These two groups jointly account for almost 50% of all immigrants in Vienna. Erste Bank Oesterreich's multilingual approach is a major contribution to integration.

Erste Bank Oesterreich established a new social banking unit to coordinate all activities relating to social issues and businesses. The bank offers a variety of services, ranging from assistance for setting up new social enterprises, obtaining financing for educational and training measures to cooperation in social initiatives of public organizations and NGOs. Erste Bank Oesterreich also supports the activities of good.bee and Zweite Sparkasse in Austria.

Erste Bank Hungary continued its work to make its branches accessible to disabled people. An increasing number of sites were modified to create easy access and unblocked routes for wheelchairs. In 2010, the bank increased the number of branches equipped to serve deaf or hearing-impaired customers.

Erste Bank Serbia supported a government-initiated scheme to promote local currency cash loans. Borrowers benefit from interest rates subsidized by the government. The bank also introduced a scholarship loan designed to meet the specific financing requirements of students, with repayments starting after completion of studies.

Supporting customers in financial difficulties

In line with its goal to be a reliable long-term financial partner Erste Group continued to support its customers throughout the economic challenges of 2010. The programme "Helping Hands", which was initiated in 2009, was prolonged. In all of Erste Group's countries, measures to assist customers in coping with unemployment or deterioration in their personal financial situation were extended. This

included not only continued access to financial services but also the offer of individual assistance, where required.

One of the measures offered was the initiative of Erste Bank Oesterreich and Caritas Oesterreich to improve the chances of unemployed persons on the labour market. The initiative comprises training schemes to acquire additional professional qualifications. In addition, the bank waived fees on current accounts and made individual financial coaching and debt counselling available.

As one of the first banks in the Hungarian market, Erste Bank Hungary relaxed payment terms for customers in financial distress. The bank offered tailor-made solutions to clients who encountered financial problems through no fault of their own. If economically feasible, loan terms were extended or a temporary suspension of loan repayments was granted.

Erste Group's Romanian subsidiary BCR identified customers affected by the severe floods and proactively offered to amend terms of existing loans. BCR agreed to temporarily decrease loan repayments and in exceptional cases granted a six month grace period for borrowers. In addition, BCR implemented a direct debit facility allowing customers to donate to house rebuilding initiatives through BCR ATMs and alternative channels.

Slovenská sporiteľňa, Erste Group's unit in Slovakia, waived fees, such as early repayment penalties, or lowered loan repayments for flood victims. Furthermore, customers were not charged for early withdrawal of deposits if this was done to cover flood-related damage.

Small and medium-sized companies (SME)

Small and medium sized companies are one of the core customer groups of Erste Group. These clients frequently focus on domestic markets, but at the same time are often highly competitive in a regional or even international context.

In 2010, SME customers continued to profit from an agreement of Erste Group with the European Investment Bank (EIB). The EIB provided financing totalling EUR 440 million to SMEs in Central and Eastern Europe via four subsidiaries of Erste Group – Česká spořitelna, Erste Bank Oesterreich, Erste Bank Hungary and Immorent. Facilitating access to medium and long-term financing at advantageous financial terms helped to cushion the impact of the recent global downturn.

99.6% of all registered companies in Austria are categorised as small and medium sized companies. Due to their capacity for innovation and flexibility, SMEs have consistently proved to be an important economic factor. Erste Bank Oesterreich supported SME customers by keeping credit lines open in economically challenging times and thus ensuring liquidity and capacity to invest if required.

Special schemes targeting established SMEs as well as start-ups were put in place. Within the framework of *s Oesterreich Initiative* Erste Bank Oesterreich client representatives advised SMEs together with external specialists from various subsidizing agencies. EUR 3 billion of loans were provided to SME customers in 2010 – the majority thereof investment loans. The *GO! GründerCenter* registered more than 1,000 consultations with people making the switch to self-employment, frequently resulting in the granting of a start-up loan.

For the second year in a row, Erste Bank Serbia in cooperation with European Union and national political institutions was involved in marketing the European Week of Small and Medium Sized Enterprises. The main focus of the SME week was on providing education and information as well as on boosting entrepreneurship. In addition, Erste Bank Serbia also took part in a government programme which, through the disbursement of subsidised loans, supported the revival of the overall economy.

Ethical investing

Sustainable investment is one of the core competences of Erste Sparinvest KAG, Erste Group's Austrian fund management arm. An increasing number of customers are prepared to consider sustainability as an additional investment criterion, resulting in rising ethical investment volumes. Assets under management reached EUR 1.3 billion in 2010, an increase of 15% compared to 2009.

In 2010, Sparinvest's sustainability specialists managed nine investment funds plus several externally mandated portfolios. The managed mutual funds comprised two bond funds, four regional stock funds as well as a micro-finance fund of funds and two theme funds for climate protection and the environment (the latter two funds are managed in cooperation with WWF Austria).

Espa Vinis Stock Global, which was short-listed as one of the best global sustainability funds in Austria, Germany and Switzerland by the German consultant Feri remained the flagship product. In addition, Espa Vinis Microfinance, a new fund supporting global microcredit lending mostly to single debtors in emerging markets was launched in 2010.

Erste Sparinvest was also the first major Austrian investment fund company to adopt the Principles of Responsible Investment (PRI). This once again underscored the commitment of the company to sustainable investment.

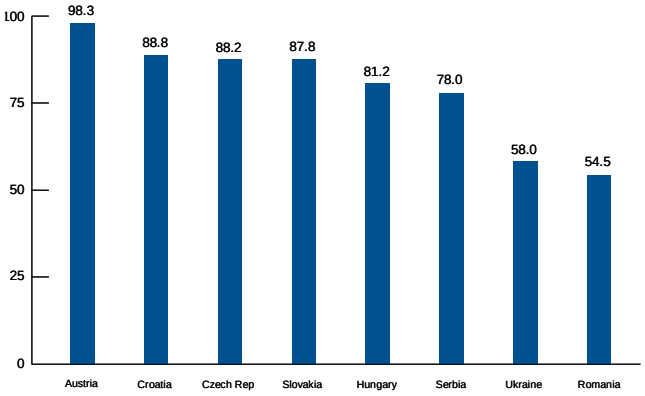
Financial inclusion

One of the main reasons behind the foundation of Erste Group in 1819 was to make simple banking services available to the unbanked part of the population. For a variety of reasons some sections of the population still do not have access to financial services by commercial banks. Financial inclusion of socially and economically disadvantaged people therefore continues to play an important role in social integration and in supporting economic development.

good.bee Holding (good.bee), the community development venture of Erste Group Bank AG (60%) and Erste Foundation (40%), was launched to address the financial exclusion issue in Central- and Eastern Europe. More than 35 million people in Erste Group's markets still have no banking relationship.

In 2010, good.bee intensified its efforts to supply suitable financial solutions to people without any prior access to banking services. But good.bee's activities are not limited to microbanking. It also finances social enterprise, i.e, catering for the financial needs of the social sector.

Persons (15+ years) with bank account (2010) in %



Source: GfK FMDS 2010, Erste Group

Good.bee activities

Romania, a country where according to statistics more than 8 million people are still unbanked, remained firmly on good.bee's agenda in 2010.

good.bee Credit, the entity responsible for microfinance activities, in partnership with the Center for Economic Development Foundation, a well regarded local microfinance organisation, provided microloans in the rural regions of Romania. In most cases borrowers are small farmers and other agricultural microbusinesses. At year-end 2010, the total credit portfolio of good.bee Credit was EUR 5 million compared to EUR 1 million at the end of 2009. Good.bee Credit's activities were not limited to financing only. In parallel, basic financial education schemes were implemented.

good.bee Mobile Transactions is good.bee's micropayments operation. Customers can open current accounts and receive debit cards (both issued by BCR), distributed through an independent sales network. In addition, customers can send and receive payments via mobile phone technology, with no need to visit a branch.

Social enterprise finance

The social sector tends to be underbanked. While a wide variety of products and financing options are available for commercial companies, specific requirements of social businesses are often ignored in product development. Through Erste Group's CEE banking subsidiaries, good.bee is involved in structuring tailor-made products often with the support of the respective local banks in order to enable entrepreneurs to create and operate social businesses and to build a cross-border social enterprise network.

In 2010, good.bee, in cooperation with local support networks, offered training for social entrepreneurs, helping them to acquire the knowledge and skills to become successful in their ventures. As a result of this, the first social enterprises were financed in Austria.

Furthermore, good.bee joined forces with complementary private and public sector partners in order to promote the idea of social entrepreneurship and social business. One example was The Social Business Tour 2010. Participants in six cities in Central and Eastern Europe (Vienna, Bratislava, Budapest, Prague, Belgrade, and Bucharest) discussed ideas and strategies to help solve social problems endemic in the region.

In parallel, a Social Business Idea contest was organized to search for the best social business ideas. The winning project in 2010 was "Overknit your Pension". This particular social business idea targeted women pensioners with knitting skills and aimed at fighting poverty and social exclusion amongst elderly women in Slovakia.

CIVIL SOCIETY

Erste Group has a long history of making contributions to society through donations of both time and money. Erste Group's commitment is not limited to financial donations, donations in-kind or matched-giving but also involves volunteering. Employees are encouraged to engage in and for local communities. Through its sponsoring activities Erste Group aims to pass on part of the profits derived from doing business in Central and Eastern Europe to the people of this region. The Added Value sponsoring programme consolidates all these activities across the group and aims to underline the bank's commitment to social responsibility.

Social activities

One of Erste Group's long-term partners is Caritas. In 2010, among other projects, the bank supported the annual Eastern Europe campaign on behalf of children in Europe's poorest countries, the National Help Campaign to combat poverty in Austria, and the 2010 relief action for the earthquake victims in Haiti.

Erste Group regularly backs special projects of Caritas Vienna and Caritas Austria like youngCaritas.at. This particular project allows 15 to 24 year old volunteers to experience the work of Caritas for a defined time and to assist in its social work e.g. with homeless or elderly people and migrants in Vienna.

Since 2003, *Oesterreichisches Hilfswerk*, a large Austrian service provider focusing on individuals in need, primarily children and retirees, has been a major partner of several Erste Group companies. s Bausparkasse, Erste Bank Oesterreich and the saving banks all supported the annual Hilfswerk initiative *Kinder fördern. Eltern helfen (Support children. Help parents.)* giving advice in child care, child benefits and child security.

BCR Hopes – a long-term project developed with *Save the Children Romania* and *Romani CRISS* (a non-governmental organisation combating Roma discrimination) – aims to promote talented children that face financial hardship. In 2010, ten children received financial support and started musical training with well-known Romanian musicians.

In addition, BCR initiated a flood support campaign engaging employees, customers and partners. Financial donations were distributed to flood victims through well-known NGOs like the Red Cross, Save the Children and Habitat for Humanity.

Nadácia Slovenskej sporiteľne (Slovenská sporiteľňa's foundation) also focused its activities on supporting flood victims. It made funds available to municipalities, which were earmarked for the restoration of public property. Additional donations were channelled to families most heavily affected by floods through the People in Peril association.

Česká spořitelna initiated "Catch your dream", a project for young people aged 11-21 years. Interested teams registered their dreams at the dedicated www.dreamcatcher.cz portal. Winning teams – as selected by public vote and a DreamTeam comprised of known cultural, sports, and social personalities – have to work in the non-profit sector to earn their dream. The project encourages interested young people to present their projects, and guides them towards team cooperation, responsibility and, last but not least, charitable work.

In 2010, Erste Bank Croatia joined the humanitarian campaign *Step into Life*, launched by a Rotary Club in Zagreb. The programme provides scholarships to young people raised in children's homes and foster families who want to obtain a university education. The bank has awarded a total of three scholarships, guaranteeing monthly payments for a period of 5 years, i.e. supporting the students during their entire studies.

Arts and culture

Since 1989, Erste Group has annually commissioned original compositions through an award granted to a young Austrian composer. A partnership with *Klangforum Wien* and *Wien Modern* guarantees at least three public performances of the chosen work. Further public attention for the prize-winning composer is ensured by releasing a CD. Joanna Wozny won this prize in 2010.

Secession, the oldest independent exhibition venue worldwide dedicated exclusively to contemporary art, and Erste Group have been cooperating for many years. "To Every Time its Art, to Art its Freedom" – the programmatic ideal of the founders of Secession is also an obligation for Erste Group´s engagement in the arts. Accordingly, an art mediation and presentation programme open to employees and customers was set up together with Secession, while special guided tours, pre-openings, visits of ateliers, architectural tours and more are offered on a regular basis.

Erste Group has been the main sponsor of *Viennafair*, an International Contemporary Art Fair with a focus on Central and Eastern Europe since 2005. Erste Group has been subsidising the participation of East European art galleries. 120 galleries from 20 different countries exhibited in 2010, almost a quarter thereof received support from Erste Group.

Within a long standing partnership, Erste Group continued to support the *Atelier Top 22* programme of the *Unabhängiges Literaturhaus Niederösterreich*. The project gives authors from Central and Eastern Europe an opportunity to spend two months in Krems. For every writer a evening with reading and discussion is staged – in December 2010 *Atelier Top 22* welcomed the 100th guest.

Erste Bank Oesterreich has acted as a main sponsor for *Viennale* for the seventh time in 2010. The *Viennale* is Austria's most important international film event, as well as one of the oldest and best-known festivals in the German-speaking world. Customers of Erste Bank Oesterreich benefited directly via reduced ticket prices.

Slovenská sporiteľňa not only continued its patronage of regional theatres but also cooperated with socially inclusive performance

groups. The long-term cooperation with theatres in Nitra, Martin and Prešov, as well as with *Radošinské naivné divadlo (Radošina Naive Theatre)* contributed to the development of culture outside of the Slovak capital Bratislava. In addition, Nadácia Slovenskej sporiteľne supported the only Slovak theatre working with handicapped people and *Divadlo z Pasáže*, a community theatre.

Erste Bank Hungary organised for the first time the Erste-AMADEUS creative scholarship programme in collaboration with the art faculty of a Hungarian university. In 2010, young artists submitted nearly 120 works of art; 12 young artists subsequently received awards. Erste Bank Hungary remained strategic sponsor of *Művészetek Palotája (Palace of Arts)*, a centre for arts recognised and acclaimed both in Hungary and internationally.

Over the past year, Erste Bank Serbia endeavoured to support more than 50 projects and initiatives, usually realised with a series of local partners. Examples are cultural projects within *Centrifuga* including a competition for young talents.

Education

Erste Group has continued to work closely with universities and other educational institutions. The intention is to reach out to high-performing students during their education with a view to potential future recruitment.

In 2010, Erste Group sponsored the high potential network *Students4Excellence* which offers internships, mentoring and events with top management to selected students. It is planned to implement the programme in four CEE countries in 2011.

For the fourth time in a row Erste Group, together with Erste Foundation, exclusively supported the Balkan Case Challenge (BCC), an annual international case study competition and recruitment event focusing on South-Eastern Europe.

In its 10th year, almost 60 students from eight countries (Austria, Croatia, Romania, Serbia, Slovakia, Czech Republic, Hungary and Ukraine) participated in last year's Erste Group Summer University Danubia which was organised together with Vienna University of Economics and Business. Students with advanced know-how in personnel management or finance attended lectures and workshops of the Summer University programme in five CEE countries.

Support of educational activities is by no means limited to higher education. Safe Internet, a project of Česká spořitelna in cooperation with Microsoft and Seznam.cz (the leading internet search engine in the Czech Republic), supported by the Czech Police's bezpecny-internet.cz website was developed with the intention of reducing internet crime. The website informs internet users about the most common risks such as virus attacks, phishing e-mails or fraudulent offers and explains how to avoid becoming a victim of internet crime. The portal will be regularly updated with the latest internet security advice.

Financial Literacy

In economically challenging times it becomes more and more evident how important financial literacy of individuals is to the long-term wellbeing of communities.

Initiatives to increase the understanding of finances are well aligned with Erste Group's savings bank tradition. In general, the underlying concept of all measures is to empower individuals to make informed decisions about the management of their money.

Financial education starts at an early age. Erste Bank Oesterreich, as a patron of ZOOM children's museum in Vienna, sponsored an exhibition named "Cash, Dosh, Dough" which explained the basics of money and finance to 6-12 year olds. Going forward the exhibition will also be shown in Styria and in CEE.

According to statistics a high percentage of people requiring financial counselling due to excessive indebtedness finished school with minimum qualifications. To tackle the issue of overspending, apprentices are targeted by a newly started programme of Zweite Sparkasse together with Viennese debt counselling institutions. The idea is to educate first-time earners to prevent excessive indebtedness at an early stage.

Česká spořitelna established *Moneymanie.cz*, a new educational portal for students, teachers and parents that provides information about finance and banking products.

Activities of Nadácia Slovenskej sporiteľne concentrated on the gradual improvement of secondary school pupils' financial literacy. Almost 6,000 students from 140 schools have successfully completed the educational project *Know your money*.

Erste Bank Hungary set up a special homepage and blog where branch managers held presentations on basic financial matters for elementary and high schools.

Personal Finance is a financial literacy programme developed in partnership with Junior Achievement Romania. 5,102 high school students participated in the award winning programme, with 300 BCR volunteers lecturing on financial education.

To increase financial literacy in the country, Erste Bank Ukraine introduced several projects targeting existing customers, media as well as young Ukrainians.

Sport

Erste Group views sport sponsorship as an opportunity to connect with customers and colleagues in the communities rather than as an investment to sustain or grow its business. For many years, Erste Group has worked in partnership with athletes, sports clubs and sport event organizers.

Erste Bank Oesterreich has a special focus on developing youth, health, local and regional communities and providing added value

for its customers. Together with the Austrian saving banks, Erste Bank Oesterreich continued to support football and volleyball student leagues in 2010. It is the longest running partnership of its kind in Austria – more than 1,000 schools have been participating in the programme in its 30-year plus history.

Erste Bank Oesterreich has a longstanding commitment to sponsor running events. The biggest running initiative of Austria, Erste Bank Sparkasse Running covered over 200 events throughout the country in 2010. Erste Bank Oesterreich again supported the Vienna City Marathon 2010, the largest running event in Austria with more than 30,000 participants. In addition, the bank sponsored the Erste Bank Vienna Night Run, a charity run, for the third time. In line with the overall idea to promote youth, the kidsrun4kids series, in which more than 20,000 elementary school pupils took part in ten runs, was also supported.

Since 2003, Erste Bank Oesterreich has been the main sponsor and partner of *Erste Bank Eishockey Liga*, the highest-level ice hockey league in Austria, and of the Austrian Ice Hockey National Team. Public interest in the sport has increased: more than 1 million viewers attended ice hockey games in Austria in the 2009/10 season, an increase of about 10% on the previous year.

Corporate volunteering

Volunteering programmes are a key element within Erste Group's concept of corporate social responsibility. Employees are encouraged and empowered to provide voluntary services to local communities in all countries of operation.

After the floods in the summer of 2010, a team of BCR volunteers built houses for flood victims on one of Habitat for Humanity's construction sites. In just three days, the volunteers managed to build four houses.

Česká spořitelna extended its Grant Programme in 2010. Employees could nominate a non-profit organisation within defined strategic areas, such as helping people in need like the elderly, the underprivileged or drug addicts, or fostering sustainable environmental development. CS staff voted for six projects to receive a one-off grant. Furthermore, employees participating in voluntary projects are entitled to two charity days, in which they continue to be paid by the bank but provide volunteering services to the community.

"72 hodin bez kompromisu/72 hours without a compromise" is an international project, which was organised by a group of young people in Slovakia for the first time in 2010. Almost 4,500 young people volunteered to work for free in social, environmental or community projects. Slovenská sporiteľňa supported the pilot and is planning to continue to do so in the future.

STAFF

Erste Group strives towards being the employer of choice in Central- and Eastern Europe. The bank aims to attract employees committed to a long-term career with Erste Group by offering career development opportunities within a strong organisation that is governed by sound values.

To support this as well as to safe-guard high quality customer service and appropriate risk management, Erste Group takes a structured approach to business training and education designed to grow business competences as well as to develop leadership skills.

The roll-out of a common career model (expert and management career paths) for Erste Group was continued. Know-how, personal and social requirements for each career step were defined, corresponding standardised training was made available.

As part of its positioning as an attractive employer, a group-wide cross-border internal job market was established in October 2010 to encourage and facilitate mobility within the group. Since then employees can track career opportunities in the internal job market and get support in their personal development. The process guarantees fairness and transparency in the advancement of individual employees. Erste Group's mobility policy aims at setting up common standards for issues such as salary and benefits.

Since 2007, Erste Group has been running a group-wide Talent Career Management (TCM) process to identify, develop and retain employees who demonstrate both high performance and high potential for further career growth. Participants are offered special international development programmes and career support. The Group Leadership Development Program (GLDP), as one example of the TCM development programmes supports improved identification of leadership talent and its further development in line with Erste Group's leadership competency model. In 2010, the second GLDP class went through the development modules and started the international job rotation phase.

An improved systematic process to identify, develop and retain potential successors for strategic key positions across Erste Group was launched in 2010 and will be executed in 2011. The theme behind these changes is "A leading bank needs leading people".

The popular and highly successful Erste Group Junior Trainee Programme started with the third group of trainees. The programme is designed to teach fundamental knowledge in risk management, corporate banking, treasury, investment banking and real estate. After one year of intensive on-the-job-training as well as classroom education, the programme ends with an exam, a project presentation and a final hearing. So far, 66 trainees from all Erste Group countries have successfully finished the trainee programme. The current 25 trainees also benefit from a co-operation with University of Vienna, which features a reduction in time and fees for further academic studies, for those successfully passing the trainee programme.

In close co-operation with the respective business lines, specific colleges focusing on risk management, trading, investment banking,

corporate and private banking as well as controlling were offered. The purpose of the business colleges is to provide expert knowledge and a homogeneous understanding of standards and processes within Erste Group at fundamental, advanced, and excellence levels.

An additional important tool underpinning Erste Group's HR programme is performance management which aligns individual targets for employees with the bank's goals in order to improve overall performance. The concept unites business performance and competency performance criteria; each individual employee's behaviour is measured against certain competency criteria. The regular Employee Appraisal Dialogue (EAD) is one of the central performance management tools available to managers and employees.

The 360° leadership feedback was further enhanced in 2010. To support group-wide leadership development, Erste Group implemented a multi-source feedback project. Each evaluee received structured input from their working environment superior(s), peers, and subordinates.

One of the main HR goals in 2010 was to develop the new group-wide compensation policy for Erste Group's senior management. It respects FSB (Financial Stability Board) principles which were in place at that time and anticipates the Capital Requirements Directive which came into force in Austria early December 2010. The major elements of the compensation policy are the following: a minimum profitability of Erste Group, which is defined as the ability to pay dividends as well as interest on participation capital, is a precondition for any bonus payout. Variable compensation is subject to fulfilment of group and individual targets, and balancing key performance indicators (KPIs) which take the risk profile as well as the capital requirement into consideration. Parameters are both quantitative as well as qualitative. The major part of variable compensation (2/3) is deferred. Any malus awarded for losses at group or divisional level, for personal misconduct, for breaches of risk rules and for missing performance targets in the following years might wipe out the deferred portion completely. The model will be fine-tuned in 2011 as soon as all regulations in Erste Group's EU countries are implemented.

Health care remained a key concern for Erste Group employees in 2010. In the last quarter, the bank's central health centre started an evaluation of health measures and initiatives in all countries. To improve the overall service and intensify the cooperation of all health care personnel a common group wide strategy will be implemented. Local needs and national differences in health care will be considered.

Erste School of Banking and Finance aligns the group wide training and education activities. Its mission is to increase the potential of every individual employee at every level, and to advance the bank as a whole by enhancing skills, by encouraging the sharing of ideas and by providing opportunities for personal development.

"Learn. Reflect. Exchange. Network" is the motto of a series of lectures open to all interested employees that is organised by Erste School of Banking and Finance in co-operation various business lines. In 2010, 19 summer lectures were organised; speakers included board members as well as renowned external experts. More than 1,000 attendees were discussing topics of broad interest from banking and beyond. The success of these lectures has lead to a monthly series in Vienna and to further lectures in all Erste Group countries over the year.

Key staff indicators – (Austria, ex savings banks)

	2010	2009	2008
Employee turnover	4.8%	4.4%	5.1%
Sick days per year	7.8	7.6	6.8
Training days per year	2.5	2.9	3.2
Women in management positions	26.7%	25.4%	24.4%
Share of part-time staff	25.3%	23.6%	21.6%
Share of female part-time staff	79.8%	83.4%	84.9%

Whereas the financial sector worldwide widely used redundancies as a common crisis management tool since 2007, Erste Group implemented a group-wide programme with a view to avoid employee layoffs for economic reasons. The bank developed efficiency measures, optimised processes and systems and increased productivity. But the combination of modest growth forecasts and expected fiercer competition among banks finally made changes in staff count necessary to remain competitive.

In 2010, Erste Bank Hungary announced plans to lay off 250 employees as part of a collective redundancy. Due to intensified cost-efficiency efforts, eventually 193 employees were made redundant. Česká spořitelna reduced the number of board members from seven to five, in the first quarter 2011 a headcount reduction will follow. The bank announced 550 redundancies, both in headquarters and branches, which represents a 5% reduction of staff. An outplacement programme and a fair compensation model will be set-up for the affected employees.

In Austria, 239 employees participated in 2010 in voluntary cost saving measures such as sabbaticals, sliding scale pensions or part time jobs.

Activities by Erste Group's subsidiaries

Erste Group Oesterreich continued to prioritise training and education of financial advisors and account managers to maintain and enhance the quality of customer service. The focus for newly recruited staff and existing employees was on training hands-on specialist banking knowledge and individual development.

Regular employee surveys continued to check employee engagement and satisfaction. Over the years, positive leadership remained the most powerful factor influencing motivation. Erste Bank Oesterreich incorporated this principle in its training programmes

under the assumption that employees, who enjoy their work are more efficient and generate better results.

1,200 employees of Erste Bank Oesterreich and Erste Group Bank AG (the holding entity) participated in the preventive health check with special emphasis on early recognition of risk factors for cardiovascular diseases. Extensive lifestyle consultation and balanced diet counselling complemented the health check. In addition, special screenings and check-ups such as early recognition of smokers' lung or melanoma screening were offered.

Erste Group's health centre is not only addressing potential physical health problems ranging from accidental injury to cardiovascular disease but also mental health problems. An increasing number of managers and employees took up the offer for work psychology counselling which was first introduced 3 years ago.

Stress management and burn-out prevention remained on the agenda. Training for management and employees aiming at early recognition and relaxation techniques were made available.

While according to official statistics 10% of all sick days in Austria were related to mental health problems (e.g. psychological distress, burnout, and depression), the corresponding figure for Holding employees was 5%, for Erste Bank Oesterreich 6%.

At Romanian subsidiary BCR, an external consultancy company organised the second run of the employee opinion survey, with almost three quarters of the employee base participating. The results of the 2010 survey indicated that the employees' overall satisfaction improved compared to the first study and again is clearly above the Romanian average. According to the survey, BCR employees showed a high level of loyalty. BCR was perceived as one of the best companies in the banking industry and as promoting high standards in business conduct.

Within the framework of the BCR Star Awards employee recognition scheme, prizes were awarded for the first time in 2010. BCR employees were invited to nominate colleagues who made meaningful contributions to the respective team or the business in general and inspired others. 45 final award winners were selected from 500 nominees.

Furthermore BCR encouraged employees to contribute to the ongoing improvement of customer service. In May 2010, BCR Progress – a permanent idea scheme that is open to all employees – was launched; in the first months of its existence, 530 ideas were registered. Ten percent of those ideas were selected, discussed with the process owners and approved for implementation.

In line with Erste Group's policy, Erste Bank Croatia invested into education, improvement of working conditions and employee health. For example, every employee had access to a systematic health check-up and a number of other preventive measures such as vaccination against the seasonal flu.

To improve the organisational culture, Erste Bank Serbia continued the promotion of corporate values. In 2010, the bank nominated value ambassadors – employees who best represent values in their work attitude, communication style, and cooperation with colleagues. Employee education, in line with the overall strategy of Erste Group was continued. More than 700 employees took part in courses aiming at increasing productivity and at enhancing the overall service quality.

At Slovenská sporiteľňa employees had access to training to improve their professional skills but also to grow on a personal level. As in other countries, special health care benefits were introduced. In addition, a Children´s Day was introduced in 2010. Children of head office employees were invited to spend half a day at the work place of their parents and to learn more about their profession.

ENVIRONMENT

Erste Group intensified and streamlined its environmental efforts in 2010 by setting up an environmental policy and corresponding guidelines. Special emphasis was put on efforts to continuously reduce the environmental impact of direct and indirect activities of the bank and to assume social responsibility both internally and externally. To make a noticeable difference, raising awareness for environmental topics with employees, customers and investors alike is crucial.

Environmental issues and sustainable environmental protection will be integrated more effectively into Erste Group's core business operations. As a first step, a group-wide strategy was developed by the environmental management team with the supported of employees of various divisions and sponsored by the Board. The team's function is to ensure that staff are actively included in environmental initiatives by providing information, engaging in communication and actively encouraging to integrate environmental considerations into the day-to-day business.

Erste Group's environmental policy defined a core objective and two organisational measures as the main pillars:

a) Reducing carbon emissions by 15% in 3 years in cooperation with the WWF Climate Group
b) Appointment of an Environmental Manager
c) Implementation of Environment Management System ISO 14001, the international environmental management standard.

Medium-term priorities in terms of policy implementation will focus on the following areas:

_ **Climate change & energy: improvement of energy efficiency in all business locations and branches, alignment of vehicle fleet management with environmental protection and ecological principles, reduction of business trips, increased use of renewable energy.**

- **Ecological construction: integration of sustainability standards in existing and newly built offices and business sites.**
- **Sustainable supply chain: updated purchase guidelines incorporating social and ecological criteria and minimum requirements for suppliers.**
- **Green IT: introduction of an efficiency measuring system for energy management, energy and resource efficient software solutions, implementation of internal standards for sustainable hardware purchases, resource efficient re-design of the data centre, continuous optimisation of IT processes.**
- **Resource & waste management: establishment of electronic document management, optimisation of the internal waste separation system, waste management information and training of employees.**
- **Sustainable business practices: draft sustainable financing and investment criteria, policies for lending to socially and environmentally sensitive sectors, participation in international treaties.**
- **Product development: focus on sustainability.**
- **Environmental sponsoring: selection of projects related to Erste Group's core business and regional focus.**

In line with the overall group policy various projects were carried out in all Erste Group markets.

The effects of banking operations on the natural environment in Austria were quantified according to the GRI standards (Global Reporting Initiative) and the Greenhouse Gas Protocol of the World Business Council for Sustainable Development (WBCSD).

The environmental data for 2010 (energy, water and waste, mobility data and paper consumption) referred to the business sites of Erste Bank Oesterreich, Erste Group Bank and to individual subsidiaries and comprised 4,450 employees.

Key environmental indicators *

	2010	2009	2008
Flight distance (km per employee)	1,857	2,174	2,803
CO_2-emmissions (tonnes per employee)	1.8	1.9	2.2
Water consumption (m^3 per employee)	10.0	6.0	*
Copy paper consumption per employee	48.8	41.4	42.6
Recycling ratio (%)	72.6	70.5	*
Electricity consumption (kWh per employee)	3.871	4,322	5,133
Heat energy consumption (kWh per employee)	88.7	79.7	87.9
Waste (kg per employee)	273	206	*

*) Due to the reorganisation of data collection, no figures of comparison are available for 2008.
General note on this table: in case of availability of more accurate data, historic data was adjusted.
Data on water consumption 2009 is based on 1,304 employees.

CO_2 emissions per employee were reduced year-on-year by 8.33% to 1.76t/employee (calculated for Erste Bank Oesterreich and Holding). Considerable savings were achieved in electricity consumption. The success was attributable to internal activities to raise awareness among employees and to innovative IT features. However, the savings in electricity consumption (-13.4%) were nearly fully eroded by the higher heating costs due to the weather conditions. As the results for paper consumption and general waste output did not improve, these areas will be environmental key issues in 2011.

Key issues in 2010

New standards in mobility management: An upper limit of 130g CO_2 per kilometre for new acquisitions for the vehicle fleet was defined in the general procurement rules of the bank.

Smart Shut-down & Switch-on: The installation of new software programs to automate the turning on and shutting down of computers helped to substantially cut electricity consumption.

Participation in the resolution "Green Savings Bank Sector" of the European Association of Savings Banks (ESBG): Within the scope of the project, Sparkassen Objekt Management GmbH (sOM) coordinated for the first time the collection of environmental data for the entire savings bank sector in Austria.

In 2010, BCR's environmental activities continued to focus on the more efficient use of electricity, fuel and water, and on increasing awareness towards environmental issues e.g. through an environmental and social risk analysis course.

To reduce energy consumption, BCR started equipping 650 branches with LED signs instead of neon signs. BCR has been continuously expanding the range of paper-free solutions and ser-

vices. The bank introduced a modern paper recycling system in all buildings of the Bucharest headquarters.

Erste Bank Croatia developed special environmental loan models (eco loans) for the retail and corporate segment. Examples for consumer eco loans are the funding of energy saving renovations or the usage of renewable energy for housing.

On the commercial side, special emphasis was put on the financing of wind farms, solar power and hydro-electric power plants. It is planned to develop new products and structured credit lines for the financing of investments in renewable energy sources and energy efficiency.

Practical measures of the bank included the usage of energy saving light bulbs in its facilities, LED-lit advertisements that significantly save energy and ozone-friendly air-conditioning units. Through regular maintenance the safe and efficient working condition of all devices was safeguarded, which contributed to their longevity and indirectly lowered environmental pollution.

During 2010, Erste Bank Serbia granted loans of EUR 5 million to renewable energy projects, such as two mini hydroelectric power plants with the total capacity of 4.6 MW in one of the most underdeveloped municipalities in Serbia. The bank ran numerous internal environmental initiatives: recycling office paper and toner cartridges, promotion of eco bags instead of plastic bags, printing of publications on paper certified by FSC (an independent, non-governmental, not-for-profit organization established to promote the responsible management of the world's forests) and use of energy-saving light bulbs at all bank facilities.

Erste Bank Hungary laid strong emphasis on increasing energy efficiency both in its headquarter and in the branch network. The bank's headquarters is now equipped with motion sensor lighting. The operation and optimum positioning of the elevators is programmed for energy efficiency. Heating and air conditioning systems work at night and weekends in energy-efficiency mode. In order to reduce paper consumption, the bank also implemented the option of cash withdrawal without printed receipts at its own ATMs and it is one of the objectives of the bank to switch to recyclable and environmentally friendly paper.

Erste Campus, the new group headquarters in Vienna on the site of the now defunct Südbahnhof railway station, will be a milestone for the environmental policy implementation. Sustainability, energy efficiency and economic viability were core criteria of the project; construction start is scheduled for the second half of 2011.

Erste Campus will accommodate all divisions and subsidiaries in Vienna on one site for the first time, thus significantly reducing travelling.

Environmental focus 2011

The new organisational unit Group Environmental Management will continue its efforts to integrate activities for environmental and ecological sustainability into the business practices of the entire Erste Group.

Key requirements for achieving the environmental targets include a more detailed collection of environmental data from the organisational units in Austria and in CEE.

The specific CO_2 footprint per employee will be again reduced substantially in 2011 by the switch to hydropower.

Increase energy efficiency: Optimisation in cooling, heating, and ventilation as well as the consistent avoidance of stand-by mode for technical equipment.

Raising internal awareness: One of the most effective measures will be information and training for employees. Special emphasis will be put on paper consumption and waste separation.

Erste Group Share

The shares of Erste Group Bank AG performed excellently in 2010, rising 34.8% despite continued high global stock market volatility. This performance was achieved on the back of the solid development of the Group's business as well as the general recovery in stock markets last year and despite the follow-on effects of the financial crisis such as the weakness of the euro.

DEVELOPMENT OF STOCK INDICES

Uncertainty fuels market volatility

In 2010, international stock markets were influenced by the aftermath of the US housing crisis that started in Q3 2007. Market participants focused their attention on government and central bank measures in addition to closely monitoring global economic trends, government debt and the weakening euro – which altogether led to increased volatility. Despite the solid performance in the fourth quarter, only a few of the major stock indices managed to close the year in positive territory.

The US Dow Jones Industrials Index rose 11% to 11,577.51 points in 2010. The broader Standard & Poor's 500 Index advanced 12.8% to 1,257.64 points. Portfolio switching from bonds to equities resulted in double-digit growth rates for the major US stock indices. In Europe, the performance was mixed due to the diverging investor sentiment. At a gain of 16.4%, Austria's ATX (Austrian Traded Index) beat the German DAX, which profited from positive economic indicators, by a narrow margin (+16.1%). The London Stock Exchange rose 9%. Some stock markets in the euro zone declined though: the Athens stock market lost 35%, Madrid 17%, Dublin 3% and Lisbon 4%.

Focus on government debt

The billions spent on bailout and economic stimulus packages by governments and central banks to keep the financial system from collapsing and to boost the economy caused deficits and overall debt levels to rise steeply in many of the countries where these were excessively high even before the crisis. The deterioration of the situation in Greece and the credit rating downgrades at a number of countries (Portugal, Ireland, and Spain) accelerated the decline of the euro versus the USD and other currencies. To fend off speculation against the euro and to safeguard the common currency, the EU member states agreed on the European Financial Stability Facility (EFSF) – a rescue package worth EUR 440 billion. In addition, governments announced fiscal tightening measures in order to consolidate budgets and restore public finances. The euro hit its year low in June when it dropped below 1.20 vs. the USD following a year high of 1.45 in mid-January. The single currency closed the year at 1.3272 vs. the USD in European trade. The euro's decline and the insecurity among investors drove the price of gold to a new record high of USD 1.424/troy ounce at the beginning of December.

Central banks continue expansive monetary policy

Investors closely monitored international austerity schemes and the effects of planned consolidation and debt-reducing measures on economic growth. Uncertainties over the pace of economic recovery and mixed economic indicators heightened concerns among investors and led to increased volatility on financial markets.

The information available for the US economy at year end still pointed to muted growth. In contrast business indicators and macroeconomic data in Europe, especially in Germany, indicated a steadily progressing economic recovery. The US Federal Reserve confirmed that it would likely keep key lending rates at exceptionally low levels for an extended period and that it would continue its policy of "quantitative easing" (purchasing US government bonds). The ECB (European Central Bank) revised its forecasts for economic growth for 2010 and 2011 slightly upwards, but nonetheless stood by its expansive monetary policy with unchanged low interest rates.

Banking stocks declined as a result of the Greek sovereign debt crisis, concerns over liquidity and European banks' access to funding. After the Stoxx Bank Index dropped by more than 20% in the first half of 2010, banking stocks recovered briefly in the third quarter when the ECB announced it was prolonging its policy of unlimited liquidity for the European banking sector until April 2011. Anxiety over the potential sovereign default of several euro zone member countries triggered another double-digit decline in the banking index in the fourth quarter. Additionally, sluggish earnings weighed on European banks. The Stoxx Bank Index, which tracks leading European banking stocks, was down 25.5% to 161.90 points last year.

ATX - best-performing European stock index

The Austrian stock market largely followed global markets last year. In the second quarter, the ATX slipped 13.5% along with the double-

digit decline of international stock markets. Due to their heavy weighting in the index bank stocks were the primary contributors to this trend. However, rising stock prices in the third quarter – bolstered by the global stock market recovery and positive sentiment created by the reporting season in Austria – more than offset the previous decline of the ATX and the negative impact from a number of capital measures. In the fourth quarter, Austria's lead index surpassed all other major indices, gaining 14.3%, partly driven by elevated local buying interest ahead of the introduction of the new capital gains tax in Austria. This tax of 25% on investment gains will apply to all purchases as of 1 January 2011. The ATX (Austrian Traded Index) closed 2010 at the year high of 2,904.47 points, up 16.4%, substantially outperforming other European indices.

DEVELOPMENT OF THE ERSTE GROUP SHARE

Erste Group share outperforms European banking index and ATX in 2010

The Erste Group share was exposed to substantial volatility in 2010. Positive analysts' recommendations more than offset negative international effects in the first quarter. Nevertheless in the following quarter, the Erste Group share also declined significantly. The stock hit its year low on 7 June at EUR 25.10 following the general sell-off in banking stocks caused by the Greek sovereign debt crisis.

The decline nearly fully eroded the positive performance of the first quarter of 2010, but in the second half of the year, the Erste Group share rebounded. On the penultimate trading day of 2010, the stock climbed to its year high of EUR 35.59, an increase of 40.0% compared to the year-low.

Solid operating performance despite the harsh environment for banks as well as the upbeat sentiment spread by analysts after the Capital Market Day organized by Erste Group were decisive factors for this achievement. Based on the extensive information provided on the development of business of Erste Group, credit growth, the expected trend in risk costs and non-performing loans as well as on the effects of Basel III on the capital base and repayment of participation capital, most analysts confirmed their positive view of the Erste Group stock.

At year-end 2010, the Erste Group share stood at EUR 35.14, up 34.8% on the previous year-end, outperforming both the ATX (+16.4%) and the Stoxx Bank Index (-26.5%).

Turnover and market capitalisation

The number of outstanding shares rose from 377,925,086 by 251,635 to 378,176,721 at year-end 2010 due to the employee share ownership programme. As a result of an increased stock price, the market capitalisation of Erste Group improved in 2010 to EUR 13.3 billion versus EUR 9.8 billion at year-end 2009.

In 2010, turnover in Erste Group stocks went up along with the higher average turnover on the Vienna Stock Exchange. On average, daily turnover was EUR 60.8 million in 2010 versus EUR 53.5 million for 2009 or a rise of 14%. Daily turnover value on the Prague Stock Exchange (PSE) on which the Erste Group stock has been listed since October 2002 reached EUR 8.1 million. On the Bucharest Stock Exchange (BVB) on which the shares of Erste Group have been traded since 14 February 2008, average daily turnover value was EUR 168 thousand compared to EUR 185 thousand in the previous year.

Performance of the Erste Group share*

	Erste Group Share	ATX	DJ Euro Stoxx Bank Index
Since IPO (Dec 1997)	217.1%	122.6%	–
Since SPO (Sept 2000)	199.1%	148.6%	-54.1%
Since SPO (July 2002)	101.7%	138,1%	-35.7%
Since SPO (Jan 2006)	-21.9%	-25.5%	-57.4%
Since SPO (Nov 2009)	21.2%	11.5%	-29.1%
2010	34.8%	16.4%	-26.5%

*) IPO ... Initial Public Offering, SPO ... Secondary Public Offering.

DIVIDEND POLICY

Erste Group's dividend policy is to distribute between 20% and 25% of annual net profit as dividend to our shareholders. The management board will propose an increased dividend of EUR 0.70 per share to the general shareholders' meeting on 12 May 2011. This dividend policy permits Erste Group to reinvest most of the net profit, thereby strengthening the bank's equity base and allowing shareholders to participate in the future growth of the business.

Erste Group will retain its policy of paying a dividend contingent on the bank's profitability, growth prospects and its capital requirements.

INVESTOR RELATIONS

In 2010, Erste Group's management and the investor relations team met with investors at numerous one-on-one and group meetings. Erste Group presented its strategy in the context of the current operating environment at a series of road shows in Europe and the US, and at its quarterly earnings conference calls as well as international banking and investor conferences organised by UniCredit, Nomura, Cheuvreux, Wood, Morgan Stanley, ING, KBW, UBS, Deutsche Bank, Bank of America Merrill Lynch, Goldman Sachs, HSBC and Citigroup.

On 12 April, an internet chat with Erste Group's CEO was held for the tenth time. The chat was a chance for many retail investors and the broad public to communicate directly with the chairman of the management board, Andreas Treichl.

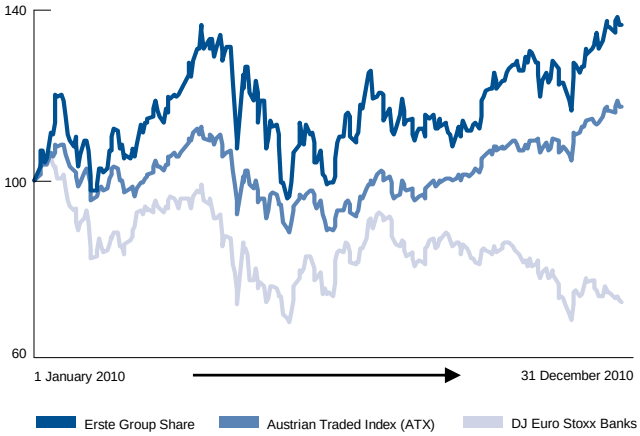
On 18 June, 251,635 new shares issued by Erste Group under the employee stock ownership programme (ESOP) started trading on the stock exchanges of Vienna, Prague, and Bucharest. This issue raised the number of Erste Group shares from 377,925,086 to 378,176,721.

On 4 October 2010, Erste Group held its 7th capital markets day in Dubrovnik, Croatia. The management board of Erste Group presented an overview of current developments in the various business areas in Austria and in Central and Eastern Europe. The presentations covered macroeconomic developments in the region and their impact on local banks. In addition, Erste Group's management gave an overview of the effects of the changed regulatory framework on business and balance sheet strategy.

In total, management board members and the investor relations team of Erste Group conducted 491 one-on-one or group meetings with international and Austrian investors in 2010 (2009: 544 meetings).

The strong interest in Erste Group was reflected by the numerous research reports that were published about the company. A total of 28 investment firms covered Erste Group, four of which initiated coverage in 2010.

Performance of the Erste Group Share and major indices (indexed)



Research reports on Erste Group

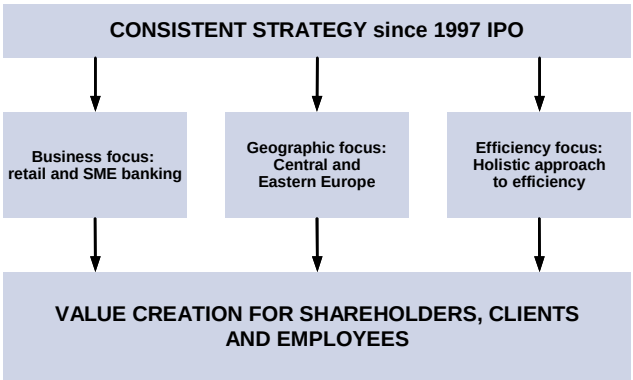
Atlantik Ft, Autonomous, Cheuvreux, Citigroup, Concorde, Credit Suisse, Cyrrus, Deutsche Bank, Evolution, Goldman Sachs, HSBC, ING, JP Morgan, KBC, KBW, Kepler, Macquarie, Mediobanca, Merrill Lynch, Morgan Stanley, Nomura, RCB, Standard & Poor's, Silkroute, SocGen, UBS, UniCredit, Wood

Strategy

Consistent strategy underpins our solid performance

We have consistently followed a real economy-focused business model since going public in 1997. This strategy has performed remarkably well through the financial and economic crisis of 2008 and 2009, which exposed the weaknesses of business models that strayed away from the traditional banking model. Bank strategies that were not built on lending responsibly (in terms of loan-to-value and debt service ratios) or that did not strike a reasonable balance between customer segments and geographies had to be adjusted; however, we significantly improved our operating performance and were thus able to comfortably absorb increasing default rates and higher risk costs. At the same time, we enhanced our capital position and improved our funding mix.

Erste Group's strategy rests on 3 pillars



The key elements of our strategy have been in place since the initial public offering in 1997. The fact that even during difficult economic times no material changes were required is testament to its quality in terms of sustainability and balance, and a key competitive advantage. Overall, our strategy continues to rest on three pillars: the business focus pillar identifies the development of our retail and SME banking operations as our key activity; the geographic focus pillar defines Central and Eastern Europe as our home market and the efficiency focus pillar links these two, by setting out the vision of operating as efficiently as possible. The efficiency pillar covers all aspects of the business, rather than being confined to organisational efficiency or cost management; in 2010 the main topics in this respect continued to be the efficient management of capital and liquidity resources in light of the discussion about the future direction of banking regulation and the management of the operating cost base in response to the slowly recovering operating environment.

Business focus – retail & SME banking

A clearly defined business focus lies at the core of our operations: we directly serve 17.4 million customers in eight core markets and operate some 3,200 branches, as well as state-of-the-art alternative distribution channels, such as internet and phone banking. Hence, while we do have substantial operations outside retail and SME banking, retail and SME banking is our core competence. This core competence in retail and SME banking is a direct result of the bank's history and accordingly woven into Erste Group's genetic fabric. In 1819, wealthy Viennese citizens donated funds in order to establish Erste Group's predecessor, a savings bank. They aimed to bring affordable banking services to wide sections of the population. This goal is just as valid today as it was some 190 years ago, especially against the backdrop of operating in Central and Eastern Europe.

In today's context, retail and SME banking is attractive to us for a number of reasons: it offers a compelling business case that is built on market leadership, a favourable risk-reward profile and the principle of self-funding; comprehensive scope in terms of product offering, covering simple and understandable products with substantial cross-selling potential; and, the opportunity to operate in well diversified markets both geographically and in terms of market maturity. In short, our retail and SME banking model allows for sustainable, deposit-funded and profitable growth even in economically more challenging times.

The business case is characterised by a number of favourable parameters: market leadership in all key countries gives us a competitive edge in terms of pricing power, makes it easier to attract deposits, especially in tougher economic times, and offers a more diversified revenue base. The business case also benefits from a favourable risk reward profile resulting in a lower level of revenue and risk cost volatility than experienced in corporate or investment banking. Consequently, our earnings growth has historically been strong and stable, our provisioning levels only changed gradually over time and as a result our capital requirements are lower.

While in a slow growing economic environment short-term earnings growth can be insignificant, risk costs may decline only gradually and capital requirements will rise as a result of new regulation, we strongly believe that due to the continued underpenetration of most of our markets the retail and SME business will remain profitable throughout the entire business cycle.

Our retail and SME banking activities are not focused on a niche, but cover a comprehensive range of standard banking products that are simple, easy to understand and serve actual customer needs. The depth of the product range, comprising current accounts, debit and credit cards, deposits and investment products, as well as mortgages and consumer loans, also translates into meaningful cross-selling potential within the existing customer base. The wide product mix also adds to customer and geographic diversification and means that we can draw on our broad product knowledge in mature markets and selectively apply those retail and SME banking products that are most suited to our clients' needs in less developed markets.

Another positive factor is the diversification across customer segments and countries, which is a result of operating in a portfolio of markets that are at different stages of economic development: Austria is a mature and stable banking market, the Czech Republic, Romania, Slovakia, Hungary and Croatia are developing transformation economies, while Serbia and the Ukraine are emerging banking markets. In terms of customers, we mainly service private individuals in the mass and mass affluent market segments, the self-employed, and micro as well as small and medium-sized enterprises.

Geographic focus – Central and Eastern Europe

In the late 1990s, we came to the conclusion that our long-term future as an independent bank was very much contingent on finding new markets outside Austria. At that time growth opportunities were limited, leaving only repeated cost cutting exercises as a way to improve the bottom line. As a result, we decided to make a long-term commitment to the markets on our doorstep that had a realistic prospect of EU membership, essentially our neighbouring countries in Central Europe – the Czech Republic, Slovakia, Hungary, Croatia and Slovenia. We defined an extended home market of 40 million people with the clear intention to enter these markets by making selected acquisitions. In Austria, we pursued a policy of seeking closer integration with the savings banks sector in order to increase scale, offer our clients better value and work more efficiently.

Since then we have far surpassed our initial goals. Our home market now covers a contiguous region of 120 million inhabitants, we service 17.4 million customers (of whom 16.1 million are residents of the European Union), we have successfully integrated more than ten acquisitions in Central and Eastern Europe, and in Austria we have made a quantum leap forward in our efforts to work more closely with the savings banks through the establishment of a new cross-guarantee system. This agreement forms the basis for a wide-ranging cooperation between Erste Group and the savings banks covering such areas as common back office structures, common marketing and common product development.

Creating a favourable risk-reward profile was always at the forefront of our expansion into Central and Eastern Europe. We achieved this by committing large investments to lower-risk EU member countries, such as the Czech Republic or Slovakia, while limiting exposure to high potential but high risk, non-EU member countries, such as the Ukraine or Serbia. This has yielded great benefits: shareholders have enjoyed sustainable earnings growth, customers can access our comprehensive range of services in more countries than ever before, and our employees have more development opportunities than at any time in the company's history. Consequently, we will continue on this proven path, maintaining and developing our footprint in Central and Eastern Europe.

Efficiency focus – a holistic approach to efficiency

Our aim to work more efficiently across the group is a direct result of our rapid expansion. It also reflects the realisation that a number of tasks are more efficiently carried out on a group-wide, standardised basis, while sales efforts are best handled locally. In other words, we aim to transform a successful group of banks into an even more successful banking group. To this effect, we established a group governance model in 2008 that clearly sets out the responsibilities of the holding company and the local subsidiaries.

The holding company – Erste Holding – executes classic steering functions and is also home to the two operating divisions Group Markets (GM) and Group Corporate and Investment Banking (GCIB). These divisions consolidate debt capital markets and treasury activities on the one hand and equity capital markets, corporate banking, real estate and international wholesale banking activities on the other. This facilitates better group-wide coordination, improved market presence and regional as well as industry-specific customer service. The local subsidiaries run the local retail and SME businesses. They are supported by group-wide platforms for regional business topics (e.g. retail cross-selling initiatives) that aim to ensure the adoption of best practices and exchange of experience across the group.

The efficient management of the cost base is a key priority for us. While we do not believe in blanket cost-cutting programmes, we continuously and carefully re-examine all operating cost items. Through this bottom-up approach we uncovered various opportunities to achieve savings in 2010, most notably in the area of non-staff costs: we improved our group-wide sourcing capabilities, e.g. in the IT area and we scaled back our expenses for third party consultants. Overall, we managed to keep costs stable in 2010. This excellent performance, which we view as sustainable, helped to push the cost/income ratio down to 48.9%.

The efficient management of capital resources remained a key focal point in 2010, particularly as the Basel Committee published new proposals on banking regulation, covering primarily changed capital and liquidity requirements. While we believe that any new banking regulation should reflect the political will for banks to return to their core business, i.e. collecting deposits and transforming them into credit for the real economy, we continued to raise our capital ratios

to levels unprecedented in our history: the tier 1 ratio in relation to total risk rose to 10.2%, the core tier 1 ratio in relation to total risk reached 9.2%, up from 8.3% a year earlier. This was a result of rising internal capital generation and a decline in risk-weighted assets.

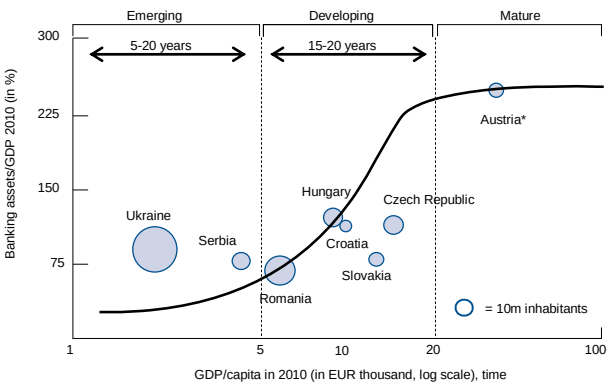
LONG-TERM DEVELOPMENT DRIVERS

While business growth in the immediate future will likely be less significant than prior to the financial and economic crises, we will still briefly present the long-term development patterns in our markets, as well as the three most important determinants of our long-term growth: the retail and SME business, wealth management and the continued business development within our existing CEE markets.

Development patterns

Our business model benefits from a long-term growth profile that extends over the next 15 to 20 years and is tied to the economic catch-up process of Central and Eastern Europe. While this process is characterised by phases of faster growth as well as retrenchment periods, the underlying trend is clearly pointing towards a long-term, sustainable growth path. Our business model derives its strength from the fact that our markets are at different stages of development. For this purpose, we have classified our markets into three clusters: emerging, developing and mature markets.

Banking development stages in transformation economies



*) Domestic assets only.

Source: Local central banks, Erste Group.

Emerging markets are characterised by a GDP/capita level of below EUR 5,000 and a banking asset penetration of some 60% or less; for classification purposes, we use only GDP/capita as financial intermediation measures can temporarily be misleading as a result of unsustainable growth bursts or a decline in GDP, which outstrips the pullback in the banking market. Depending on the economic position at the start of transformation, we estimate this period to take between 5 to 20 years. Within our business portfolio, Erste Bank Serbia and Erste Bank Ukraine, our Serbian and Ukrainian subsidiaries respectively, operate in such markets. At this stage of development growth is mostly derived from plain-vanilla banking products, such as savings and payments transfers as well as current accounts and debit cards. While household loans usually play an insignificant role at these levels of income, an increase in the banked population is typically a major source of growth.

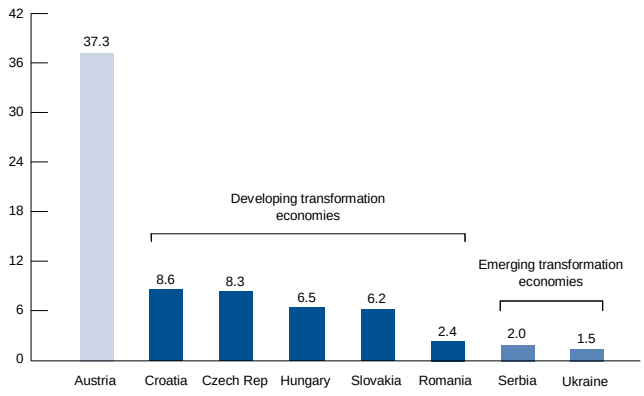
Developing markets feature a GDP/capita between EUR 5,000 and EUR 20,000 and a banking asset penetration ratio of anywhere between 60% and 140%. We estimate that this stage lasts at least 15 to 20 years. In this period, retail lending comes of age and transformation countries reach a level of wealth that facilitates the introduction of more sophisticated banking products, such as mortgages, credit cards and consumer loans as well as wealth management products. Our central European businesses in the Czech Republic, Slovakia, Hungary, Croatia and Romania fall into this bracket.

Mature markets are defined by a GDP/capita in excess of EUR 20,000 and banking asset penetration north of 150%. These tend to offer only selected growth opportunities and typically only grow in line with GDP. We find it useful to operate in such markets to the extent that we can draw on experience and transfer knowledge to less developed markets. Depending on the factors that influence market structure, the most significant of which is shareholder orientation or the lack thereof, these markets can either be very profitable such as in the UK, or less so, such as in Austria or Germany.

Retail and SME business growth

In many of the countries in which we operate, modern retail banking services except for deposits were non-existent just a couple of years ago. On the lending side, this was firstly because nominal and real interest rates were high, secondly because disposable incomes did not support household credit growth, and thirdly, because of the lack of a healthy competitive environment due to high levels of state ownership. All this has changed over the past few years: in developing transformation economies interest rates are in the process of convergence or have already converged, disposable incomes have risen strongly on the back of overall GDP growth, and most state banks have been sold to foreign strategic investors so fostering product innovation and competition. Even in the face of the recent economic slowdown and temporary negative effects for the banking systems in Central and Eastern Europe, this powerful combination will be the driver of future development.

Customer loans/capita in CEE (2010) in EUR thousand



Source: Local central banks, Erste Group.

The comparison of per capita indebtedness in Central and Eastern Europe with that of mature economies reveals an enormous gap that exists even today. Countries such as Hungary and the Czech Republic, but also Croatia and Slovakia, are many years away from reaching Austrian, let alone West European levels of loans per capita; even on a relative basis these countries are far off Western levels. This picture is even more conspicuous in emerging economies: levels of private sector and especially household indebtedness in Serbia or Ukraine barely register on the radar screen in the context of developed economies. While the recent global economic decline will likely lead to a new assessment as to the sustainable level of debt, and to a gradual recovery in lending activity in Central and Eastern Europe at least in the short-term, we continue to believe that credit expansion accompanied by long-term economic growth will prove to be a secular growth trend, rather than a process that has already surpassed its peak.

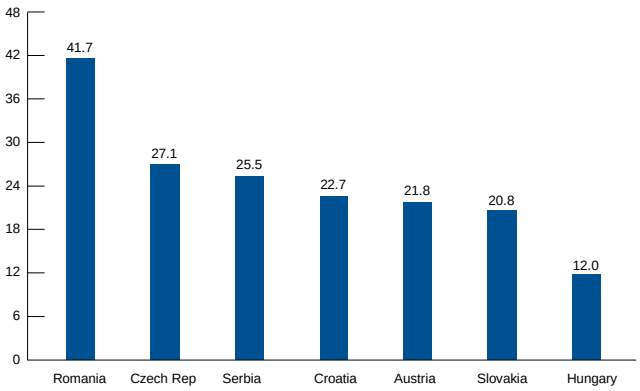
Within the overall loan growth trend, we will particularly benefit from our focus on retail customers. In almost all of our markets, retail lending, particularly in the form of residential mortgages, has only just started. A case in point is mortgage penetration: it equals about 15% to 20% of GDP in our most developed markets, while it is still substantially lower in Romania, Serbia or the Ukraine. Even in Austria this measure only stands at about 25%, leaving room for growth, while in the European Union it reached an estimated 50% in 2010.

Wealth management

As customers become more prosperous, another source of long-term growth will be wealth management, which covers our affluent banking and fund management activities. Irrespective of when this business actually becomes meaningful, we are already uniquely positioned to benefit from any such development: we dominate the fund management markets in our existing central and east European universe with a market share of nearly 20%. In addition, we can draw on our experience in Austria, where we lead the market with a share of 21.8%. While we also used to be active in the life insurance business and established substantial footholds in all key CEE markets, we have sold off these operations to Vienna Insurance Group in 2008 and entered into a long-term distribution agreement with them. This way, we will continue to benefit from the expected rise in demand for insurance products over the long term.

The growth dynamics in fund management differ fundamentally from those experienced in standard banking products, in so far as meaningful growth typically kicks in at a later stage of economic development. Based on historic trends in countries such as Spain or Austria, we estimate that growth in fund management reaches critical mass when nominal GDP/capita substantially and sustainably surpasses the EUR 10,000 mark. Almost all developing transformation economies, such as the Czech Republic, Slovakia, Hungary and Croatia have either surpassed or are closing in on this level. It is at this level that we believe basic consumption needs are satisfied and attention starts to shift towards providing for the future. A slowly recovering economy is, of course, not conducive to substantial growth in wealth management activities in the short term, as clients focus on safety first and put any new money into deposit products, rather than committing it to mutual or pension funds.

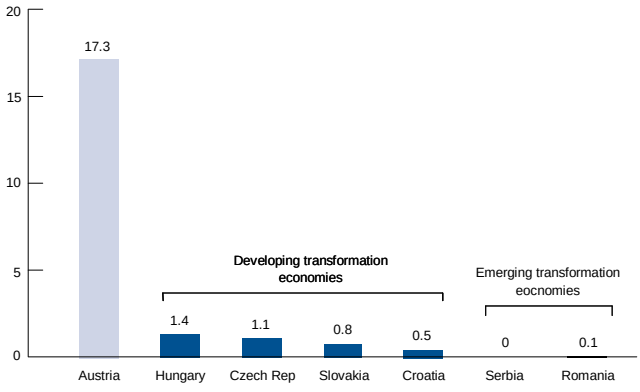
Fund management market shares (2010) in %



Source: Erste Asset Management.

Nevertheless, the divide in fund management between mature and developing markets on the one hand, and between developing and emerging transformation economies, on the other, is even more pronounced than that experienced in the area of loans. Funds under management per capita in Austria equalled EUR 17,300 at the end of 2010, while the same figure stood at about EUR 1,100 and EUR 1,400 in the Czech Republic and Hungary, respectively. In Romania, the fund management market is in the very early stages of development, with funds under management standing at EUR 60 per capita. The same is true for Serbia, where total funds under management amounted to only EUR 2 per capita at the end of 2010.

Funds/capita in CEE (2010) in EUR thousand



Source: Local fund management associations, Erste Group.

The wealth management opportunity is best illustrated by a striking comparison. At the end of 2010, we managed assets of EUR 32 billion in Austria, a market of 8.4 million people. In our developed central and east European markets, covering the Czech Republic, Slovakia, Hungary and Croatia, which have a combined population of just over 30 million, the same figure stood at only EUR 6.4 billion. While growth patterns were severely disrupted in 2008 and 2009, the long-term trend still points towards faster growth in Central and Eastern Europe. Based on the long-term catch-up trend, developing CEE funds under management could reach 50% of the Austrian levels within ten years.

Developing existing CEE markets

While we expect to be one of the major beneficiaries of the macro trends in retail and SME banking and wealth management in Central and Eastern Europe, regional expansion through large-scale acquisitions will no longer be the preferred way to grow the business, at least not in the short or medium term, particularly considering that we are already operating in a well-diversified and underpenetrated market of 120 million people. The existing market therefore offers ample opportunities for business growth, even without adding further markets to the portfolio.

The quality of our existing franchise is a reflection of our measured acquisition policy in the past that struck a sensible balance between risk and return. In markets where political and economic risks were higher, typically in countries that had no immediate hope of joining the European Union, we limited our investments to levels that minimised our downside, while at the same time allowing us to capture growth opportunities. Cases in point are our operations in Ukraine and Serbia. In the former we effectively entered the market through a greenfield operation, while in the latter we initially only established a regional, instead of a country-wide presence, reflecting our assessment of the market at the time. To countries that had a realistic prospect of speedy European integration, such as those in Central Europe, we committed substantial resources.

Irrespective of the actual market entry strategy, we always adhered to a defined set of guiding principles in our expansion. Firstly, within the EU we always bought a bank with a leading market position or when this was not feasible, an operation that we felt had a chance of reaching a market share of 15% to 20% in terms of clients and/or retail products, either through bolt-on acquisitions or organic growth. Outside the EU, our operations had to offer a solid base to achieve such a market share if we saw fit. Secondly, any new bank had to fit the existing network and be beneficial to our clients. Thirdly, we only acquired majority stakes in order to exert full management control.

As a result of our successful acquisitions, we now occupy market leadership positions in key CEE countries such as the Czech Republic, Slovakia and Romania. We are also among the top five banks in Hungary and Croatia, and hold small market shares in Ukraine and Serbia. In markets where we already have a strong presence, our goal is to maintain our market position; in other markets we will carefully assess the business environment in light of the evolving economic situation and distinguish between short-term tactical positioning and long-term growth. Even though, in the short-term this might lead to the scaling back of operations in fringe markets, such as Ukraine, we are firmly committed to all of our markets in the long term, and hence, aim to expand our market share especially in those countries of the eastern part of the European Union in which we are currently underrepresented.

Management Report

ECONOMIC ENVIRONMENT IN 2010

The global economy grew by 4.8% in 2010, continuing the recovery that started in the second half of 2009. This growth was mainly driven by Asia where foreign trade and industrial output already surpassed pre-crisis levels. By contrast, the recovery in the US and in Europe remained subdued and was not sufficient to reverse the trend of rising government debt and unemployment, which was a direct result of the financial and economic crisis. Within Europe, the economic development varied. In export-based countries such as Germany, the economy has expanded robustly, accompanied by declining unemployment and relatively low budget deficits. In the countries of the EU periphery, which struggled not only with the effects of the global recession but also with their own home-grown problems such as insufficient competitiveness and decreasing real estate prices, their economies either stagnated or contracted. Unemployment rose and budget deficits remained high despite the implementation of very restrictive fiscal policies.

The Greek debt crisis escalated in April and triggered a decline in international financial markets as well as a depreciation of the euro versus all major currencies. Only the joint decision of the EU and the IMF to extend financial help to Greece, and the ECB's resolution to buy government bonds of selected euro member states in the secondary market, helped to stabilise the situation. While the US Dow Jones Industrial Index – just like the DAX and the ATX – posted gains in 2010, equity markets in the peripheral countries declined. The diverging global recovery trends were also reflected in differing inflation rates, and in part, in contrasting monetary policies. While, for example, the Chinese central bank raised the key lending rate twice in 2010, the US Fed responded to the threat of a relapse into economic recession by making further purchases of government bonds. National bank base rates in nearly all developed economies remained at historically low levels.

Boosted by strong export demand, economic growth recovered in Austria too. In 2010 real GDP rose by 2.0%. Consumer demand benefited from increased employment which recovered not only in the service sector but also in industry. The unemployment rate continued to improve throughout the year to 4.5% at the year-end, remaining substantially below the EU average of 10.1%. The rise in consumer prices continued at a moderate pace, resulting in an inflation rate of 1.8% for the 12 months to December 2010. In order to contain public debt, the government adopted an austerity package in the second half of the year.

The economic recovery in Central and Eastern Europe was driven mainly by the export sector. Open economies such as the Czech Republic and Slovakia profited from robust economic growth in Germany. Real GDP growth rose in most of Erste Group's CEE core markets, ranging from 4.3% in the Ukraine to 1.2% in Hungary. Only Croatia and Romania suffered further GDP declines: 1.4% and 2.1%, respectively. Nevertheless, with unemployment in the region remaining at high levels, domestic demand has continued to be subdued with consumer prices seeing little growth. One indirect benefit of this low domestic demand however, is that higher global energy and commodity prices, particularly from the second half of the year, have not translated into higher inflation.

PERFORMANCE IN 2010

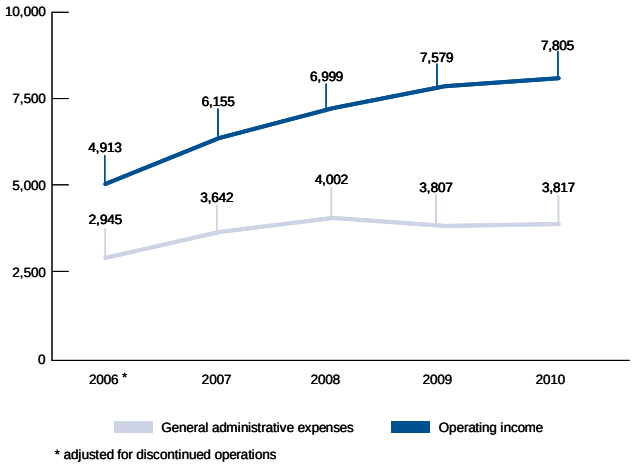
In 2010, Erste Group did not undertake any significant acquisitions or disposals that might distort the underlying rates of changes outlined below.

Overview

In 2010, the **operating result** increased by 5.7%, from EUR 3,771.4 million to EUR 3,987.9 million. An increase in net commission income and net interest income as well as rigorous cost control contributed to the best operating performance in Erste Group's history.

Overall, **operating income** went up by 3.0% to EUR 7,804.7 million, compared to EUR 7,578.8 million in 2009. This was mainly attributable to higher net commission income (+9.2% to EUR 1,936.0 million) and increased net interest income (+3.7% to EUR 5,412.5 million). By contrast, the net trading result decreased by 22.0% to EUR 456.2 million. As **general administrative expenses** remained stable (+0.2% to EUR 3,816.8 million), the **cost/income ratio** improved to 48.9% (2009: 50.2%).

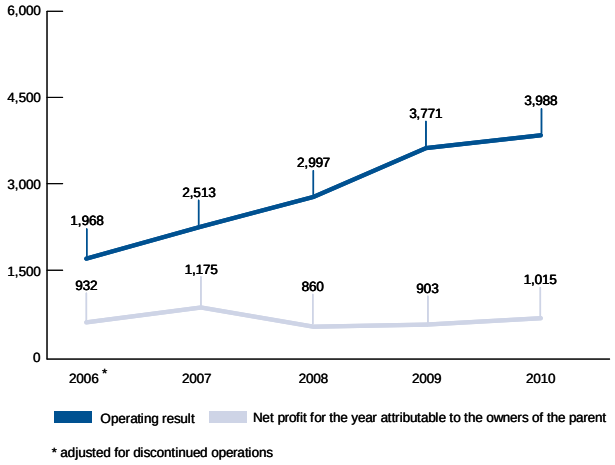
Operating income and operating expenses in EUR million



Net profit for the year attributable to the owners of the company rose by 12.4%, from EUR 903.4 million to EUR 1,015.4 million.

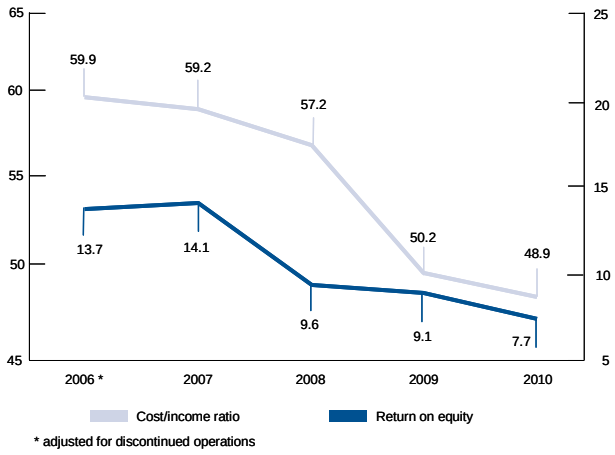
Cash return on equity, i.e. return on equity adjusted for non-cash expenses such as goodwill impairments or straight-line amortisation for customer relationships, declined from 9.7% (reported value: 9.1%) in 2009 to 8.2% (reported value: 7.7%) in 2010. This was largely due to an equity base that widened by 30% to an average of EUR 13.3 billion in 2010 (2009: EUR 10.0 billion).

Operating result and net profit for the year attributable to the owners of the company in EUR million



Cash earnings per share in 2010 amounted to EUR 2.54 (reported value: 2.33) compared to EUR 2.57 (reported value: 2.37) in 2009. This measure was also affected by the broader equity base.

Key profitability ratios in %



Total assets increased by 2.1% to EUR 205.9 billion since year-end 2009. This rise was attributable to the switch to gross accounting of derivative financial instruments, as well as to higher customer deposit and customer loan volumes. The growth in customer business was partly due to currency movements in Central and Eastern Europe (EUR/CZK, CHF/HUF, CHF/EUR). In contrast, the significance of interbank business continued to decrease.

As risk-weighted assets declined, the **solvency ratio** improved from 12.7% at year-end 2009 to 13.5% as of 31 December 2010. It therefore remained well above the statutory minimum requirement of 8.0%. The **tier 1 ratio** in relation to total risk equalled 10.2% as at 31 December 2010, compared to 9.2% at year-end 2009.

Dividend

At the annual general shareholders' meeting, the management board will propose a dividend payout of EUR 0.70 per share (2009: EUR 0.65).

Outlook

All of Erste Group's markets in Central and Eastern Europe are expected to record moderate economic growth in 2011. The Czech Republic and Slovakia are set to build on the solid performance of 2010, while Romania should successfully emerge from recession in 2011, albeit with meaningful growth not expected before the second half of the year. Hungary should benefit from an accelerating economic growth rate, although admittedly from a very low base. Nevertheless, in both countries, risk costs are expected to remain elevated throughout 2011.

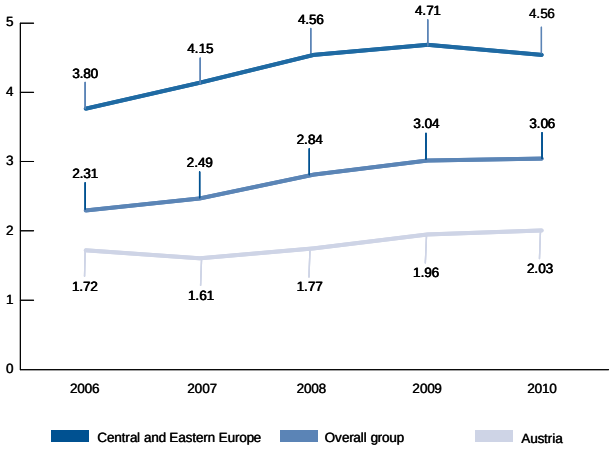
At group level, the macroeconomic improvement should result in gradually declining risk costs and higher profitability. The latter is expected to be supported by a solid operating performance as a result of mid-single digit loan growth, resilient margins and strict cost management. Rising fee income on the back of increased demand for asset management products, insurance products as well as debt capital market transactions should have an additional positive impact on the operating result. However, net profit will be adversely affected by extraordinary items such as the banking tax in Austria (c. EUR 100 million post-tax in 2011) and Hungary (c. EUR 35 million post-tax in 2011). Overall, Erste Group's improved ability to generate retained earnings enables it to redeem participation capital with no need to raise equity.

ANALYSIS OF PERFORMANCE

Net interest income

Net interest income rose from EUR 5,220.9 million in 2009 by 3.7% to EUR 5,412.5 million. The net interest margin (net interest income as a percentage of average interest-bearing assets) remained stable in Austria and Central and Eastern Europe, resulting in a group-wide net interest margin of just above 3.0% in 2010. With the exception of Slovakia, demand for new loans remained subdued.

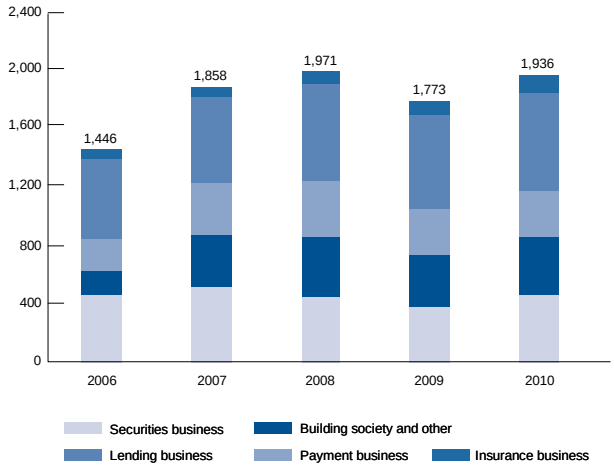
Net interest margin in %



Net fee and commission income

Net fee and commission income increased by 9.2% year-on-year in 2010, from EUR 1,772.8 million to EUR 1,936.0 million. This development was mostly driven by growth in the securities business at the Austrian subsidiaries and the cross-guarantee savings banks as well as by fees from payment transfers at the CEE subsidiaries. As in previous years, the insurance brokerage business continued to perform well. Net fee income from the investment banking business rose substantially, as Erste Group increased its market share in CEE debt capital markets.

Net fee and commission income, structure and trend in EUR million



Net trading result

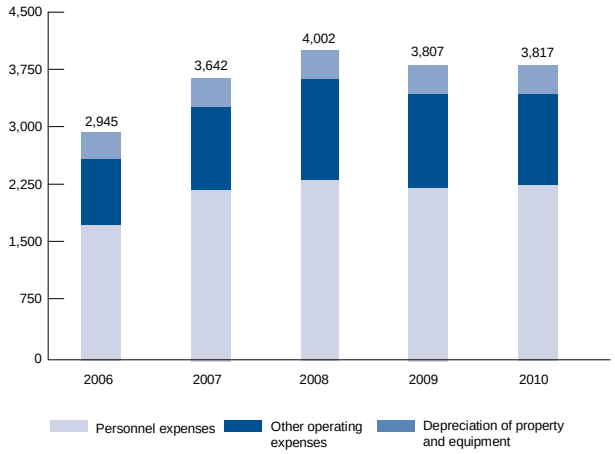
The higher income from derivatives trading (up 38.9% to EUR 68.2 million) did not offset the decline in income from securities trading (-33.2% to EUR 170.0 million) and from foreign exchange trading (-22.5% to EUR 218.0 million). Consequently, the net trading result

of EUR 456.2 million remained below the exceptional level of 2009 (EUR 585.1 million).

General administrative expenses

General administrative expenses remained stable at EUR 3,816.8 million (+0.2% vs. EUR 3,807.4 million in 2009; currency-adjusted: -0.8%).

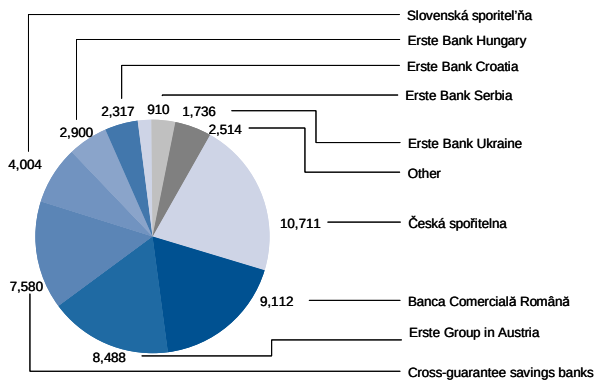
General administrative expenses, structure and trend, in EUR million



Personnel expenses increased by 1.6% (currency-adjusted: +0.9%), from EUR 2,227.5 million to EUR 2,263.8 million, despite the positive effects of efficiency improvements implemented in 2009 that resulted in lower headcounts at the savings banks and in Central and Eastern Europe (mainly in Slovakia and Hungary).

As at December 2010 Erste Group employed a total of 50,272 people (31 December 2009: 50,488).

Headcount at 31 December 2010



Other administrative expenses declined by 3.0% (currency-adjusted: -4.4%), from EUR 1,202.3 million to EUR 1,165.9 million in 2010. Savings were achieved mainly in IT costs.

Depreciation and amortisation rose by 2.5% (currency-adjusted: +1.1%), from EUR 377.6 million to EUR 387.1 million in 2010.

Operating result

As the 3.0% rise in operating income, from EUR 7,578.8 million to EUR 7,804.7 million, exceeded the increase in general administrative expenses (+0.2% from EUR 3,807.4 million to EUR 3,816.8 million), the operating result improved by 5.7%, from EUR 3,771.4 million to EUR 3,987.9 million for 2010.

Risk provisions

Risk provisions (i.e. the balance of the allocation/release of provisions for the lending business, costs of direct loan write-offs and of income from the recovery of loans already written off) decreased by 1.2% year-on-year, from EUR 2,056.6 million to EUR 2,031.2 million. **Risk costs** in relation to average customer loans amounted to 155 basis points (2009: 161 basis points).

Other operating result

The other operating result deteriorated from EUR -355.8 million to EUR -439.3 million in 2010. This was mainly attributable to other taxes, which rose from EUR 24.8 million to EUR 71.9 million, principally due to the introduction of the Hungarian banking tax, and to higher goodwill impairments related to smaller participations (up from EUR 28.0 million to EUR 51.9 million, EUR 21.3 million of which was attributable to cross-guarantee system savings banks). Generally, this item included the straight-line amortisation of intangible assets (customer relationships) of EUR 69.5 million (2009: EUR 67.2 million) and deposit insurance contributions of EUR 66.2 million (2009: EUR 55.9 million). Furthermore, write-downs for IT projects, Czech and Slovak real estate and the leasing portfolio of BCR, as well as provisions for litigation in a total amount of EUR 91.5 million were booked in 2010.

Result from financial assets

The overall result from all categories of financial assets developed well compared to 2009. Although still slightly negative at EUR -2.3 million, it improved strongly from a loss of EUR 97.7 million recorded in the previous year. In 2010, significantly lower impairments and gains on sales of structured products and equity-linked products in the AfS portfolio offset the year-on-year decline in revaluation gains of securities in the fair value portfolio. By contrast, impairments for securities in the HtM portfolio decreased only slightly.

The market value of the **ABS/CDO portfolio** of Erste Group (including the savings banks) remained unchanged at EUR 1.9 billion as at 31 December 2010. In 2010, a revaluation gain of EUR 34.3 million in the fair value portfolio was recognised in income (2009: EUR 56.5 million). Impairments were recognised in the AfS portfolio (EUR 14.0 million vs. EUR 42.1 million in 2009), as well as in

the HtM portfolio (EUR 8.4 million). Furthermore, realised losses of EUR 2.0 million were recognised in the AfS portfolio, following a loss of EUR 33.2 million in 2009. In 2010, the overall positive effect on pre-tax profit equalled EUR 9.9 million (vs. a negative effect of EUR 18.8 million in 2009). In the available-for-sale portfolio, the mark-to-market valuation in 2010 resulted in a gain of EUR 65.4 million (2009: EUR 281.8 million), booked against equity.

Pre-tax profit from continuing operations and net profit for the year attributable to owners of the parent

Pre-tax profit from continuing operations improved year-on-year by 20.1%, from EUR 1,261.3 million to EUR 1,515.1 million.

Net profit for the year attributable to owners of the parent increased by 12.4%, from EUR 903.4 million to EUR 1,015.4 million in 2010.

Tax situation

In accordance with current group taxation regulations, the majority of the key domestic subsidiaries (especially Erste Bank der oesterreichischen Sparkassen AG, s Bausparkasse, Immorent, Erste Asset Management GmbH und Salzburger Sparkasse) constitute a group of companies with Erste Group Bank AG for tax purposes under section 9 of the Austrian Corporation Tax Act and are thus subject to taxation as a single entity.

For 2010, this profit pool incurred no current tax expense for Austrian corporate income tax. This was mainly attributable to high non-taxable dividend income. The amounts reported under taxes on income thus relate primarily to foreign income-based taxes, deferred tax assets and liabilities recognised under IFRS, as well as tax payable by smaller Austrian subsidiaries and various Haftungsverbund savings banks.

In 2010, the reported total income tax expense amounted to EUR 328.7 million (2009: EUR 284.7 million).

The tax rate decreased from 22.6% in 2009 to 21.7% in 2010.

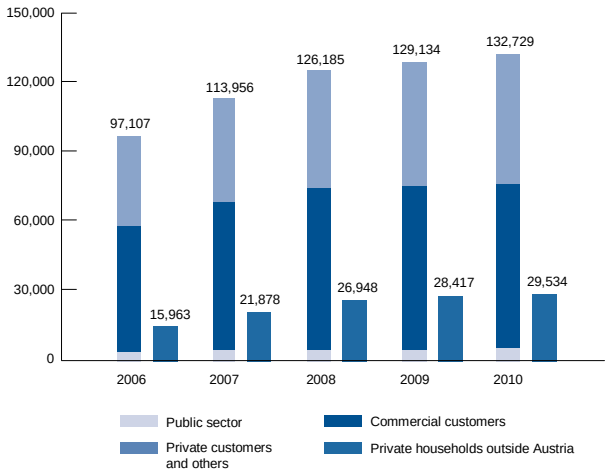
Balance sheet development

Total assets increased by 2.1% to EUR 205.9 billion since year-end 2009. This rise was attributable to the switch to gross accounting of derivative financial instruments, as well as to higher customer deposit and customer loan volumes. The growth in customer business was partly due to currency movements in Central and Eastern Europe (EUR/CZK, CHF/HUF, CHF/EUR). In contrast, the significance of interbank business continued to decrease.

Loans and advances to credit institutions decreased by 4.9%, from EUR 13.1 billion at year-end 2009 to EUR 12.5 billion as at 31 December 2010. This overall decline in foreign interbank transactions offset the increased repo transactions with the Czech central bank (EUR +1.7 billion).

Loans and advances to customers rose by 2.8%, from EUR 129.1 billion to EUR 132.7 billion, mainly due to higher lending to retail customers by the savings banks and the CEE subsidiaries, and to some extent also due to currency fluctuations.

Loans and advances to customers, structure and trend, in EUR million



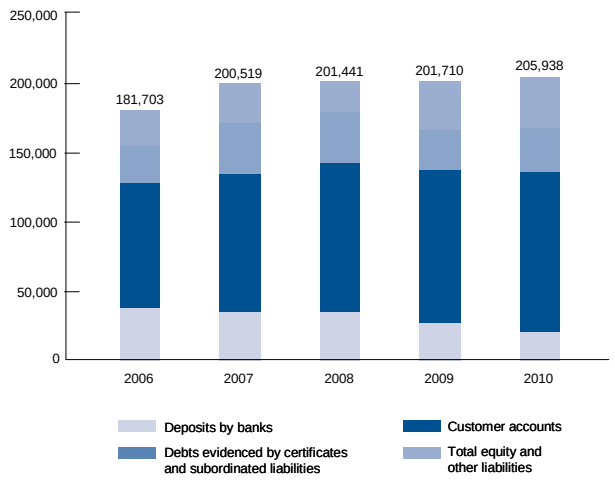
Risk provisions rose from EUR 5.0 billion to EUR 6.1 billion as a result of additional allocations due to adverse economic conditions. The NPL ratio (based on customer loans) grew from 6.6% at year-end 2009 to 7.6% as of 31 December 2010. At the same time, the NPL coverage ratio improved further during the year, from 57.2% at year-end 2009 to 60.0%.

Investment securities in the various categories of financial assets remained nearly unchanged compared to year-end 2009 at EUR 34.4 billion. The decline of 18.8% in the FV portfolio to EUR 2.4 billion and of 4.5% in the HtM portfolio to EUR 14.2 billion was offset by the increase of 8.3% in the AfS portfolio to EUR 17.8 billion.

Customer deposits grew by 4.4%, from EUR 112.0 billion to EUR 117.0 billion, and therefore at a much faster pace than loans and advances to customers. This development was mainly attributable to growth in the Czech Republic – especially in savings and corporate deposits, but to some extent also to currency appreciation – as well as growth in Slovakia and Austria. Accordingly, the loan-to-deposit ratio improved from 115.3% to 113.4% as of 31 December 2010.

New issues (including covered bonds) led to in an increase in **debt securities in issue** from EUR 29.6 billion by 5.7% to EUR 31.3 billion. The marked decline in deposits by banks by 23.4% to EUR 20.2 billion reflected the decreasing reliance on short-term interbank deposits, while covered bonds gained in importance for long-term funding.

Balance sheet structure/liabilities and total equity in EUR million

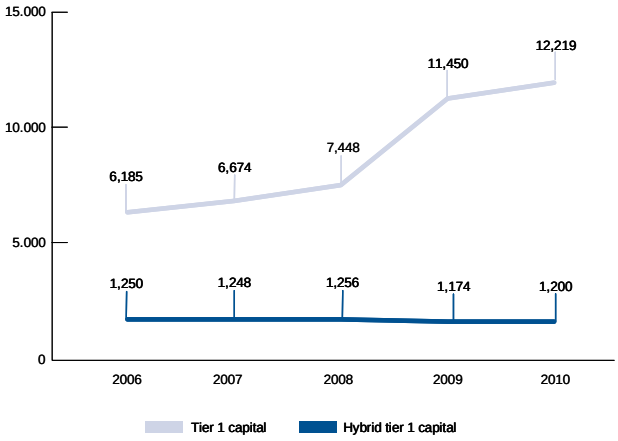


Total risk-weighted assets (RWA) declined to EUR 119.8 billion as at 31 December 2010 (31 December 2009: EUR 123.9 billion) as a result of a higher share of secured lending and the planned decline in international business volumes.

Total eligible qualifying capital of the Erste Group credit institution according to the Austrian Banking Act rose from EUR 15.8 billion at year-end 2009 to EUR 16.2 billion as at 31 December 2010. The cover ratio in relation to the statutory minimum requirement as of the reporting date (EUR 9.6 billion) amounted to 169% (year-end 2009: 159%).

The **Tier 1 capital** after the deductions as defined in the Austrian Banking Act equalled EUR 12.2 billion (year-end 2009: EUR 11.5 billion).

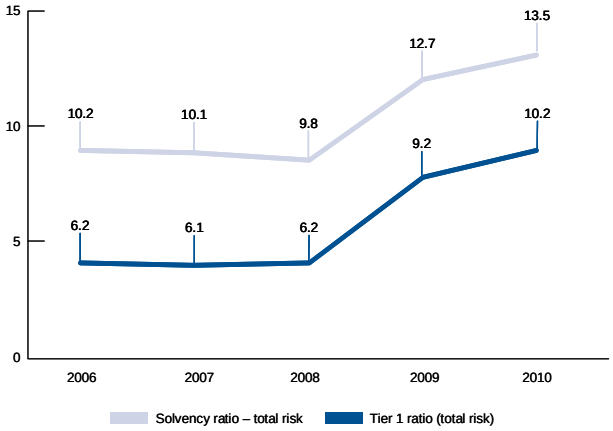
Tier 1 capital under ABA and hybrid tier 1 capital in EUR million



Tier 1 ratio including the capital requirements for market and operational risk (total risk) increased to 10.2% (year-end 2009: 9.2%); the core tier 1 ratio improved to 9.2% as of 31 December 2010 (year-end 2009: 8.3%).

Solvency ratio in relation to total risk (total eligible qualifying capital as a percentage of the assessment base for total risk pursuant to § 22 par.1 of the Austrian Banking Act) amounted to 13.5% as at 31 December 2010 (year-end 2009: 12.7%), well above the statutory minimum requirement of 8.0%.

Solvency ratio and tier 1 ratio (total risk) in %



POST-BALANCE SHEET EVENTS

There were no significant balance sheet events after the year end.

RISK MANAGEMENT

With respect to the explanations of financial risks at Erste Group as well as the goals and methods of risk management, we would like to draw the reader's attention to the information in the Notes to the consolidated financial statements.

RESEARCH AND DEVELOPMENT

Erste Group does not have any activities in research and development. In order to provide customers with improvements in the retail business and ongoing services, innovation and research is promoted and fostered throughout the bank's business operations.

CORPORATE SOCIAL RESPONSIBILITY

Corporate social responsibility (CSR), as a key element of responsible corporate conduct, guarantees that concerns and expectations of customers, suppliers, investors, employees, regulatory authorities and local communities are considered when reaching decisions. External sustainability and CSR ratings recognize the bank's achievements in this field. In 2010, Erste Group shares were included in the ASPI Eurozone® index.

Customers

Erste Group is committed to customer satisfaction and is constantly enhancing its overall service quality. In 2010, the bank continued to improve the financial services delivered to retail customers and small and medium-sized businesses.

Retail Customers

In 2010, Erste Bank Oesterreich extended its range of multilingual services for customers from specific ethnic groups. The bank established a social banking team to coordinate all activities relating to social issues and businesses and supported the activities of good.bee and Zweite Sparkasse in Austria. As in previous years, it also carried out its customer satisfaction survey *Quality Check*. Erste Bank Hungary continued to make its branches accessible to the disabled (for example, providing easy access for wheelchairs) and installed special equipment for hearing impaired customers. Erste Bank Serbia's customers benefited from interest rates subsidized by the government and the launch of a scholarship loan for students. Erste Group extended its *Helping Hands* programme that was initiated in 2009 and helps customers in all markets in coping with unemployment and deteriorating personal finances. A further initiative by Erste Bank Oesterreich and Caritas Oesterreich involved providing training schemes for unemployed persons and individual financial coaching, whilst in some cases the bank waived fees on current accounts. Erste Group's Romanian subsidiary BCR and Slovenská sporiteľňa temporarily suspended fees or lowered loan repayments for flood victims.

Small and medium-sized companies (SME)

In 2010, SME customers continued to profit from Erste Group's agreement with the European Investment Bank (EIB). The EIB provided financing, amounting to EUR 440 million, to SMEs in Central and Eastern Europe through four subsidiaries of Erste Group: Česká spořitelna, Erste Bank Oesterreich, Erste Bank Hungary and Immorent. Within the framework of *s Oesterreich Initiative*, the bank extended loans amounting to EUR 3 billion to SME customers and start-up companies in 2010. The *GO! GründerCenter* hosted more than 1,000 consultations.

Ethical Investments

Erste Sparinvest KAG, Erste Group's Austrian fund management company, continued its initiatives in 2010; the volume of assets under management in ethical investments reached EUR 1.3 billion (+15% vs. 2009). In 2010, Sparinvest's sustainability specialists managed bond funds, regional stock funds, thematic funds for climate protection and the environment as well as a micro-finance fund of funds. *Espa Vinis Stock Global* remains the flagship product. In addition, *Espa Vinis Microfinance*, a new fund supporting global micro-loans mainly to individual debtors in emerging markets was launched.

Financial inclusion

In 2010, good.bee (the community development venture of Erste Group Bank AG and ERSTE Foundation) intensified its efforts to provide suitable financial solutions to people without any prior access to banking services. In addition to providing micro-banking services, good.bee is responsible for the bank's social activities:. good.bee promoted *The Social Business Tour 2010* in six cities in Central and Eastern Europe (Vienna, Bratislava, Budapest, Prague, Belgrade, and Bucharest) and organized a Social Business Idea contest aimed at identifying the best social business ideas. Romania also remained on good.bee's agenda in 2010. Romanian customers of good.bee Mobile Transactions can now open current accounts, remit and receive payments via mobile telephony. In cooperation with local institutions, good.bee offered training to social entrepreneurs to develop business knowledge and skills.

Civil society

Erste Group aims to pass on part of the business profits earned in Central and Eastern Europe to the people of the region. The *Added Value* sponsorship programme consolidates all of these activities throughout the Group and highlights the bank's commitment to social responsibility.

Social activities

In 2010, Erste Group supported, among other projects, the annual Caritas Eastern Europe campaign on behalf of children in Europe's poorest countries, the National Help Campaign to combat poverty in Austria, and the 2010 relief action for the earthquake victims in Haiti. Erste Group regularly provides support for special projects run by Caritas Vienna and Caritas Austria.

Since 2003, Oesterreichisches Hilfswerk has been a major cooperation partner of several Erste Group companies. In 2010, s Bausparkasse, Erste Bank Oesterreich and the saving banks all supported the annual *Hilfswerk* initiative *KINDER FÖRDERN. ELTERN HELFEN* (*Support Children. Help Parents*). The Romanian subsidiary provided financial support to children through its *BCR Hopes* programme. BCR and the Slovenskej sporiteľne foundation initiated campaigns to support flood victims. Česká spořitelna launched *Catch your Dream*, a project that encourages interested young people to do charitable work. Erste Bank Croatia joined the scholarships programme *Step into Life*.

Arts and culture

Erste Group continued its extensive arts and culture sponsorship activities in 2010. The Group worked with partners such as the film festival Viennale, the art fair *VIENNAFAIR* and the exhibition venue *Secession*. Since 1989, Erste Group has annually commissioned original compositions in cooperation with *Klangforum Wien* and *Wien Modern*. In addition, Erste Group supported *Atelier Top 22*, a

programme of *Unabhängiges Literaturhaus Niederösterreich*, which gives authors from Central and Eastern Europe an opportunity to spend two months at Krems. Slovenská sporiteľňa continued its patronage of regional theatres. For the first time, Erste Bank Hungary took part in the Erste-*AMADEUS* creative scholarship programme, whilst it remained a strategic sponsor of *Művészetek Palotája (Palace of Arts)*. Over the past year, Erste Bank Serbia supported more than 50 cultural initiatives.

Education

In line with its savings bank tradition, Erste Group developed numerous initiatives group-wide to increase the general knowledge of finance in 2010. The bank remains committed to reaching out to students, sponsoring institutions such as the *Students4Excellence* network which offers career opportunities to selected students. For the fourth consecutive year Erste Group, together with Erste Foundation, supported the Balkan Case Challenge (BCC), an international case study competition and recruitment event. Almost 60 students from eight countries participated in the 10th Erste Group Summer University Danubia, which was organized together with Vienna University of Economics and Business. Erste Bank Oesterreich, as a patron of ZOOM children's museum in Vienna, sponsored an exhibition named *Cash, Dosh, Dough* for children. Česká spořitelna established *Moneymanie.cz*, a new educational portal; almost 6,000 students participated in Slovenskej sporiteľne foundation's educational project *Know your money*.

Corporate volunteering

Volunteer programmes are a key element of Erste Group's concept of corporate social responsibility. Employees are encouraged and empowered to provide voluntary services to local communities in all countries in which the bank does business. After the floods in the summer of 2010, a team of BCR volunteers built houses for flood victims. Česká spořitelna employees assisted people in need, including the elderly, the underprivileged and drug addicts, or worked on environmental projects.

Staff

In October 2010, Erste Group introduced an internal job market to encourage and facilitate mobility within the Group. The bank started to develop a compensation policy for Erste Group's senior management and continued projects to adjust salaries and benefits within the group. In 2010, the second *Group Leadership Development Programme* was held, whilst the Erste *Group Junior Trainee Programme* started with the third group of trainees. To date, 66 trainees have successfully completed the trainee programme. The current 25 trainees also benefit from a joint scheme with the University of Vienna. *Erste School of Banking and Finance* aligned group-wide training and education activities in 2010, among them *Learn. Reflect. Exchange. Network*, a series of 19 lectures. Healthcare also remained a key concern for Erste Group. The bank started an evaluation of health measures and initiatives in all countries. Special emphasis was put on stress management and burnout prevention as well as on early recognition of risk factors for cardio-vascular diseases. In Austria, 1,200 employees of Erste Bank Oesterreich and Erste Group Bank AG participated in the preventive health check-up programme. Erste Bank Oesterreich and BCR used surveys to gauge employee work commitment and satisfaction. In Romania, 45 BCR employees received awards for meaningful business contributions within the framework of the *BCR Star Awards*, an employee recognition scheme. BCR also invited employees to contribute to the ongoing improvement of customer services by participating in the permanent idea competition *BCR Progress*. Erste Bank Serbia nominated selected employees to act as "value ambassadors".

Environment

Erste Group stepped up and streamlined its environmental efforts in 2010 by defining an environmental policy. As a result, employees will be actively included in environmental initiatives going forward. Erste Group is committed to reducing carbon emissions by 15% within three years and to implementing the Environment Management System 14001. One of the medium-term priorities is to improve energy efficiency at all business locations and branches. In line with the overall group policy, various projects were carried out in all Erste Group markets. The wide variety of measures including a switch to energy saving technologies or programmes to optimise resource and waste management underlined the positive trend. Erste Bank Croatia developed special environmental loan models for the retail and corporate segment, e.g. loans for energy-saving renovations and the usage of renewable energy. The completion of Erste Campus (scheduled for 2014) will be a milestone for the implementation of this environmental policy. Besides economic viability, core criteria of the project included social and ecological sustainability.

CAPITAL, SHARE, VOTING AND CONTROL RIGHTS

Disclosures pursuant to section 243a (1) Austrian Commercial Code

At the end of 2010, DIE ERSTE oesterreichische Spar-Casse Privatstiftung, a foundation, held approximately 25.3% of the shares of Erste Group Bank AG, making the foundation the largest shareholder.

Art. 15.4 concerning the appointment and dismissal of members of the management board and the supervisory board is not directly prescribed by statutory law: a three-quarter majority of valid votes cast and a three-quarter majority of the subscribed capital represented at the meeting considering the proposal are required to pass a motion for dismissal of supervisory board members.

The articles of association contain no restrictions in respect of voting rights or the transfer of shares. A holding period of one year applies to the employee share ownership programmes (MSOP and ESOP).

Art. 19.10 of the Articles of Association concerning amendments to the Articles of Association contains a provision that is not pre-

scribed directly by statutory law: amendments to the Articles of Association, in so far as they do not alter the business purpose, may be passed by a simple majority of votes cast and simple majority of the subscribed capital represented at the meeting considering the amendment. Where higher majority votes are required in individual provisions of the Articles of Association, these provisions can only be amended with the same higher majority vote. Moreover, amendments to Art. 19.10 require a three-quarter majority of the votes cast and a three-quarter majority of the subscribed capital represented at the meeting considering the proposal.

The following paragraph lists important agreements which the company is party to, and which become effective, are amended or are rendered ineffective when there is a change in the control of the company as a result of a takeover bid, as well as their effects:

The share option plan of Erste Group Bank AG includes the following special provisions (Art. 17 of the share option plan) in the event of a takeover bid:

(1) Should a takeover offer for the shares of Erste Group Bank AG be announced to the public, all options that have been granted to the management board members and eligible managers at the time but have not yet vested will immediately vest for those management board members and eligible managers who fulfil the personal participation requirements.

(2) In such cases, the management board of Erste Group Bank AG will determine the vesting date, the end of the exercise window and the value date. These dates should be set in such a way that it is possible to exercise the options and sell the shares during the takeover procedure.

(3) In such cases, no key employees will be chosen from among the employees and/or they will not be granted any options.

(4) All allocated and delivered options may be exercised by eligible recipients one day following delivery; the provisions of Art. 11 (1) no. 2 (minimum holding period for options) and Art. 12 (1) no. 1 (exercise window) do not apply. The shares obtained may be offered for sale during the takeover procedure; Art. 16 (holding period) does not apply.

(5) The holding period of shares previously obtained (Art. 16) ends with the announcement of the takeover bid.

(6) If the takeover bid is withdrawn without a competitor having issued a takeover bid, options allocated pursuant to Art. 1 but not yet exercised become subject to a holding period of one year as of the day the withdrawal of the takeover bid becomes known. This corresponds to the holding period under Art. 1, which applies to the shares obtained on the basis of allocated options. The holding period(s) terminated under sub-sec. 5 are not re-applied.

Erste Stiftung (Foundation) and Criteria Caixa Corp SA (Criteria) have concluded a Preferred Partnership Agreement (PPA), which gives Criteria the status of a friendly investor and preferred partner for participation. Under this agreement, PPA Criteria is authorised to nominate a person for appointment to the supervisory board of Erste Group Bank AG. In return, Criteria has undertaken not to participate in a hostile takeover bid for Erste Group Bank AG's shares and to give Erste Foundation the right of pre-emption and an option right to the Erste Group Bank AG shares owned by Criteria. Under the PPA, Erste Foundation undertakes not to grant any rights to third parties that are more favourable than those granted to Criteria, except in certain circumstances. Erste Foundation's and Criteria's voting rights at Erste Group Bank AG remain unaffected by the PPA. The PPA has been approved by the Austrian Takeover Commission.

The agreement in principle of the Haftungsverbund provides for the possibility of early cancellation for material reasons. A material reason allowing the respective other contracting parties to cancel the agreement is deemed to exist if the ownership structure of a party to the contract changes in such a way – particularly by transfer or capital increase – that one or more third parties from outside the savings bank sector directly and/or indirectly gain a majority of the equity capital or voting rights in the contracting party.

The Haftungsverbund's agreement in principle and supplementary agreement expire if and as soon as any entity that is not a member of the savings bank sector association acquires more than 25% of the voting power or equity capital of Erste Group Bank AG in any manner whatsoever and a member savings bank notifies the Haftungsverbund's steering company and Erste Group Bank AG by registered letter within twelve weeks from the change of control that it intends to withdraw from the Haftungsverbund.

Directors and Officers Insurance

Changes in controlling interests

(1) In the event that any of the following transactions or processes occur during the term of the insurance policy (each constituting a "change of control") in respect of the insured:

a) the insured ceases to exist as a result of merger or consolidation, unless the merger or consolidation occurs between two insured parties, or
b) another company, person or group of companies or persons acting in concert who are not insured parties, acquire more than 50% of the insured's outstanding equity or more than 50% of its voting power (giving rise to the right to control the voting power represented by the shares, and the right to appoint the management board members of the insured), then the insurance cover under this policy remains in full force and effect for claims relating to unlawful acts committed or alleged to have been committed before this change in control took effect. However, no insurance cover is provided for claims relating to unlawful acts committed

or allegedly committed after that time (unless the insured and insurer agree otherwise). The premium for this insurance cover is deemed to be completely earned.

(2) In the event that a subsidiary ceases to be a subsidiary during the insurance period, the insurance cover under this policy shall remain in full force and effect for that entity for the remainder of the insurance period or (if applicable) until the end of the extended discovery period, but only in respect of claims brought against an insured in relation to unlawful acts committed or alleged to have been committed by the insured during the existence of this entity as a subsidiary. No insurance cover is provided for claims brought against an insured in relation to unlawful acts committed or allegedly committed after this entity ceased to exist.

Pursuant to the following provisions, members of the management board have the right to repurchase shares, where such a right is not prescribed by statutory law:

As per the decision of the Annual General Meeting of 12 May 2010:

(1) the company is entitled to purchase treasury shares under Section 65 (1) no. 7 of the Austrian Stock Corporation Act ("Aktiengesetz", AktG) for trading purposes. However, the trading portfolio of these shares may not exceed five percent of the subscribed capital at the end of any calendar day. The market price for the shares to be purchased must not be lower than 50% of the closing price at the Vienna Stock Exchange on the last trading day prior to the purchase and must not exceed 200% of the closing price at the Vienna Stock Exchange on the last trading day prior to the purchase. This authorisation is valid for 30 months, i.e. until 11 November 2012.

(2) The management board is entitled, subject to approval by the supervisory board, to purchase treasury shares pursuant to Section 65 (1) no. 8 of the Austrian Stock Corporation Act (AktG). However, the shares purchased under this authorisation and under Section 65 (1) nos. 1, 4 and 7 AktG may not exceed ten percent of the subscribed capital. The market price of each of the shares to be purchased may not be below EUR 2.00 or above EUR 100.00. The company is obliged to publish the relevant management board resolution and the details of the repurchase programme, as well as its duration. The purchased shares can be sold, upon approval by the supervisory board, in the form of an issue of shares as consideration and financing for the acquisition of companies, businesses, business units or shares in one or more domestic or foreign companies. Such an offering would be conducted outside the stock markets and would not constitute a public offering. Furthermore, the management board is entitled to draw shares without resolution at the Annual General Meeting. This authorisation is valid for 30 months, i.e. until 11 November 2012.

All sales and purchases were carried out as authorised at the Annual General Meeting.

INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM IN REGARD TO THE GROUP ACCOUNTING PROCESS

Disclosures pursuant to section 243a (2) Austrian Commercial Code

Erste Group Bank AG has a complex internal control system with mechanisms that include, in particular, the 4-eye principle, IT-supported controls and decision-making powers geared toward risk exposure and surveillance instruments. The reporting scheme for accounting procedures has been summarised in the IFRS Accounting Manual of Erste Group. It is mandatory for the relevant units to comply with the accounting and measurement methods applicable for capturing, posting and accounting transactions.

In organisational terms, the areas Group Accounting and Group Performance Management are assigned to the CFO of Erste Group Bank AG. Monthly and quarterly reports to the management board and the supervisory board ensure regular financial reporting and surveillance of the internal control system.

Reporting is all but fully automated using input systems and automatic interfaces, and guarantees that the data for controlling, segment and earnings accounting as well as other evaluations are up to date. The information used by the accounting department is based on the same database and is reconciled monthly for reporting. Close collaboration between the accounting department and controlling ensures a constant comparison of target with actual data. This guarantees mutual supervision and coordination between departments.

External reporting involves the publication of consolidated quarterly financial statements of Erste Group Bank AG as well as the ongoing regulatory reporting obligations.

The quality of the internal control system is assessed by Internal Audit on an ongoing basis. Internal Audit works closely together with the responsible management board members and managing directors and reports regularly to the Audit Committee of the supervisory board. Moreover, they are focused on maintaining quality standards, especially in the event of organisational changes.

Vienna, 1 March 2011

The Management Board

Andreas Treichl mp
Chairman

Franz Hochstrasser mp
Vice Chairman

Herbert Juranek mp
Member

Gernot Mittendorfer mp
Member

Martin Škopek mp
Member

Bernhard Spalt mp
Member

Manfred Wimmer
Member

Segments

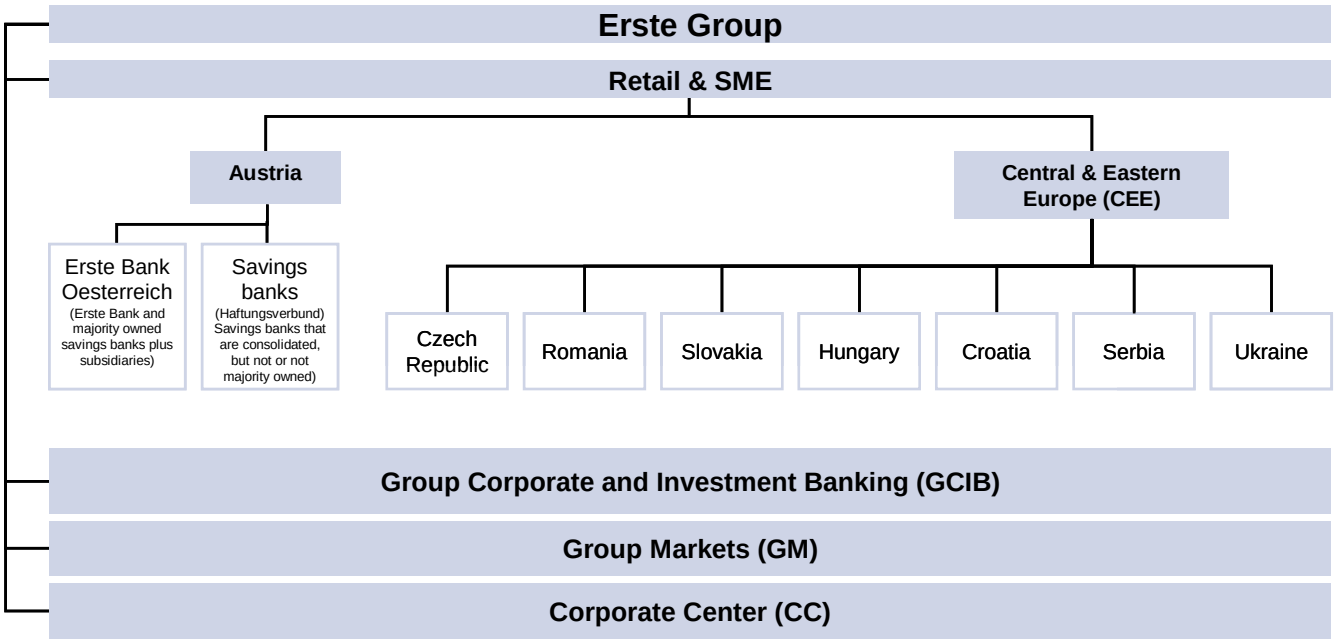
INTRODUCTION

The segment report of Erste Group complies with IFRS presentation and measurement requirements. There are four main segments: Retail & SME, Group Corporate & Investment Banking, Group Markets and Corporate Center. The Retail & SME segment is subdivided into the individual regional businesses focusing on Erste Group's local customer business. To improve transparency and to be consistent with current reporting, the Austrian segment is split into Erste Bank Oesterreich (including local subsidiaries) and the savings banks consolidated under the cross-guarantee system. In Central and Eastern Europe, all the subsidiaries continue to be reported individually.

The Group Corporate and Investment Banking (GCIB) segment includes Erste Group's fully divisionalised large corporate, investment banking, real estate and international business lines. The Group Markets segment includes divisionalised business lines, such as Group Treasury and Debt Capital Markets. The Corporate Center segment contains Group services such as marketing, organisation and information technology, as well as other departments supporting the execution of group strategy. In addition, consolidation items and selected non-operating items are allocated to this segment. Group Balance Sheet Management is allocated to the Corporate Center. The result of local asset/liability management units remains part of the respective local segments.

In the current reporting structure, the segments are aligned with Erste Group's organisational setup. This leads to a somewhat lower group contribution from the CEE subsidiaries as part of their local results are now allocated to the two holding business divisions, GCIB and GM. At the same time, this structure ensures transparency as the subsidiaries' results fully reflect their core business activities and thus allow a better comparison between the regions.

Segment reporting structure at Erste Group



Retail & SME

The Retail & SME segment includes business with private individuals and small and medium-sized enterprises in Austria and Central and Eastern Europe. These regions are further subdivided into the savings banks and Erste Bank Oesterreich in Austria and the activities in the transformation economies of the Czech Republic, Romania, Slovakia, Hungary, Croatia, Serbia and Ukraine.

AUSTRIA

Economic review

The Austrian economy benefited from its very strong fundamentals during 2010 and was again one of the European economies least impacted by the economic downturn. Real GDP growth in 2010 was fuelled primarily by exports which grew by 12%, although private consumption also contributed to the rebound. Germany's economic recovery played a key role in boosting Austria's export performance, as Germany remained the country's single most important trading partner. Industrial production expanded strongly on the rebound in trade. Importantly, services continued to perform well in 2010, with the tourism sector once again a strong growth contributor. The Austrian economy also benefited from the government's fiscal policy measures introduced at the end of 2008. These measures included an economic stimulus package, income tax reductions, labour market packages and a car scrapping scheme. Overall, Austria's real GDP grew by 2.0% in 2010 while GDP per capita stood at EUR 33,800.

One of the strong points of the Austrian economy was the resilience of its labour market, with conditions remaining favourable throughout 2010. In fact, contrary to all of the Central and East European economies, Austria's unemployment rate decreased in 2010; at 4.5% at the end of 2010, the rate was among the lowest in the eurozone. Rather than reducing their employee count, domestic businesses made an effort to cut working hours and encouraged staff to take accrued vacation leave. This approach was also supported by labour market measures such as state-subsidised reduced working hour schemes.

The Austrian current account remained in surplus in 2010 at 3.7% of GDP and was driven by higher growth in exports compared to imports. The government deficit, on the other hand, rose further in 2010 and reached 4.1% of GDP. This increase was driven largely by discretionary measures introduced by the government already in 2009 and the aforementioned income tax cuts. Most importantly, however, in the last quarter of 2010 the government agreed on measures to reduce the budget deficit. The biggest item of this consolidation package on the revenue side was a bank levy in an amount of 0.2% of Austria's GDP, while other measures included tax increases on fuel, cigarettes, and airline tickets as well as the introduction of a capital gains tax. There was, however, still some uncertainty as to the measures the government would introduce on the expenditure side.

In 2010, inflation remained well under control. Average consumer prices rose by only 1.8% in 2010 driven mainly by higher energy prices. Wage growth in 2010 was slower than in the previous year and had a dampening effect on inflation. In addition, real estate prices in Austria remained stable reflecting the low home ownership level. The European Central Bank maintained its low interest rate policy, keeping the base rate at 1.00% throughout 2010.

Key economic indicators – Austria	2007	2008	2009	2010e
Population (ave, million)	8.3	8.3	8.4	8.4
GDP (nominal, EUR billion)	272.0	283.1	274.3	283.2
GDP/capita (in EUR thousand)	32.8	34.0	32.8	33.8
Real GDP growth	3.7	2.2	-3.9	2.0
Private consumption growth	0.7	0.5	1.3	1.1
Exports (share of GDP)	41.7	40.1	33.7	36.6
Imports (share of GDP)	41.0	39.1	34.2	36.0
Unemployment (Eurostat definition)	4.4	3.8	4.8	4.5
Consumer price inflation (ave)	2.2	3.2	0.5	1.8
Short term interest rate (3 months eop)	4.7	2.9	0.7	1.0
EUR FX rate (ave)	1.0	1.0	1.0	1.0
EUR FX rate (eop)	1.0	1.0	1.0	1.0
Current account balance (share of GDP)	3.5	4.9	2.9	3.7
General government balance (share of GDP)	-0.4	-0.5	-3.5	-4.1

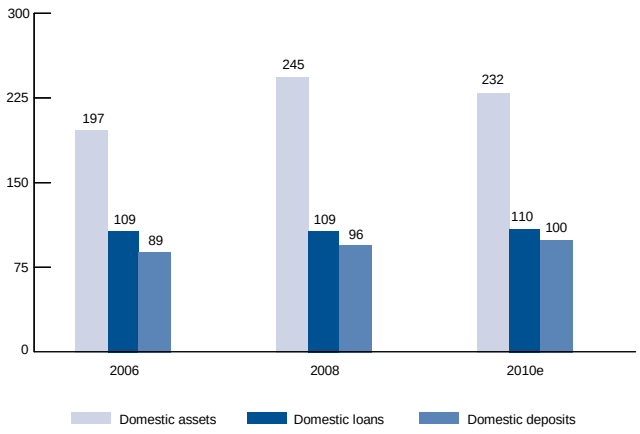
Source: Erste Group.

Market review

In the well developed Austrian domestic banking market penetration rates remained at sustainable levels, with the ratio of total assets to GDP equalling 232% at the end of 2010. The market remained very competitive due to the large number of non-listed banks. As a result, the market was characterised by much lower margins as well as lower risk costs than in Central Eastern Europe. Customer loans

grew by 3% mainly driven by the retail segment. The deposit market benefited from the moderate increase in wages. All in all, customer deposits grew in line with loans in 2010 at a rate of 3%. The banking system's loan-to-deposit ratio stood at 110% at the end of the year. Importantly, the government announced in 2010 that it would introduce a special banking tax as of 2011totalling EUR 500 million as part of the measures to tackle the country's budget deficit. This banking tax will only be applicable to larger credit institutions.

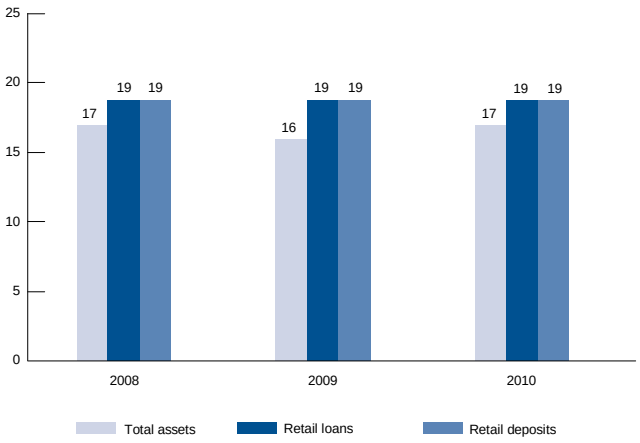
Financial intermediation – Austria (in % of GDP)



Source: Oesterreichische Nationalbank, Erste Group.

In this environment Erste Bank Oesterreich and the savings banks maintained their very strong market position in the Austrian market. Their combined total asset market share increased to 16.7% at the end of 2010. In the retail segment, Erste Bank Oesterreich and the savings banks slightly increased their share to about 19%, while in the corporate segment market shares ranged between 16-18% depending on customer product.

Market shares – Austria (in %)



Source: Oesterreichische Nationalbank, Erste Group.

SAVINGS BANKS

Business profile. The savings bank segment encompasses 47 Austrian savings banks with 760 branch offices in Austria that were consolidated as a result of their membership in the Haftungsverbund (cross-guarantee system). In these savings banks, Erste Bank Oesterreich held no or only minor shareholdings. Savings banks that are majority-owned by Erste Bank Oesterreich such as Salzburger Sparkasse, Tiroler Sparkasse, Sparkasse Hainburg-Bruck-Neusiedl and Weinviertler Sparkasse, were included in the segment Erste Bank Oesterreich.

The joint new cross-guarantee system (*Haftungsverbund Neu*) includes 53 of 54 the Austrian saving banks and the agreement also constitutes the legal basis for the collaboration with Erste Bank Oesterreich. The EU Commission described this cooperation as a reference model for all other decentralised sectors. A special cross-guarantee agreement exists between Erste Bank Oesterreich and Sparkasse Oberösterreich that was approved in Brussels by the EU in May 2010.

Business review

Strategy. The strategy of the savings banks centers around acquiring new customers with the medium-term goal of becoming market leader in Austria together with Erste Bank Oesterreich. Another important aim of the cooperation between Erste Bank Oesterreich and the saving banks is to work together in all key business areas. This comprises projects relating to legal requirements, the joint development of management information and control systems, and diverse organisational as well as IT projects. The new agreement on the cross-guarantee system (*Haftungsverbund Neu*) enables the savings banks to fully exploit the benefits of cooperating with Erste Bank Oesterreich and underpins advanced product development, improved sales and a common market presence.

Highlights in 2010

Strict cost management and leading advisory competence. Recognising and realising cost-cutting potential was a key focus in 2010. Apart from cost saving initiatives related to other administrative expenses, a personnel benchmarking system was set up. Through this, the resource allocation for tasks was analysed, compared within the saving banks, and optimisation possibilities were identified. The project's results led to higher efficiency and will enable the savings banks to intensify customer service. Additionally during the last few years, the technical potential for centralised services has been created. The project *s Finanzierungsservice* lowered the sales force administrative workload by shifting internal tasks to a central back office. The core functions of financing (advisory and decision-making) remain with the customer account managers as local services. A structured manual for advisory services, *Financial Check*, was produced to ensure the highest quality standards for advisory services. Flexible opening hours – week-days from 0700 to 1900 hours – give customers access to the savings banks in line with their needs.

Improved evaluation of customer satisfaction. Market leadership will only be achieved through superior advisory and service quality. Therefore, a survey of customer satisfaction with banks and branch offices was conducted by telephone interviews over a period of one year. Interviews were conducted with retail as well as SME customers and professionals. Additionally, a comparison of retail customer satisfaction with competitors was carried out. Reports produced throughout the year at several levels enabled the savings banks to quickly derive concrete measures to improve customer satisfaction. The importance of service quality for the savings banks was also highlighted by including it as a factor in the sales award covering all savings banks.

Cooperation supports market presence. The cooperation with OMV Österreich was another tool to help achieve market leadership. As of the first half of 2010, Erste Bank Oesterreich and the savings banks offered their products and services at 170 OMV gas stations with *VIVA shops*. This improved services for existing customers and opened the way to joint marketing activities aimed at acquiring new customers. Since mid-2010, Erste Bank Oesterreich and the savings banks have also issued their own credit card, the *s Kreditkarte*. The joint development of products will enable a faster and more flexible response to customer needs.

Enhanced private banking capabilities. Together with the private banking team of Erste Bank Oesterreich, the savings banks aim to strengthen their private banking competence and increase market visibility vis-a-vis their clients. To ensure collaboration within the savings bank sector and to raise customer awareness, a new cooperation model was agreed on with 26 saving banks in 2010. The cooperation agreement includes joint advertising, the creation of a joint private banking logo for Erste Bank Oesterreich and the savings banks, closer collaboration with employees at branch offices, and standardised career training.

Expansion of market share in municipal business. The goal of the campaign targeting municipalities *(s Kommunaloffensive)* started in 2010 is to increase market share in the municipal business by establishing long-term customer relationships. A central component of the campaign is an interest burden management tool for municipalities. This instrument includes extensive consulting for municipalities regarding their debt portfolios and interest expenses. Municipalities receive a detailed analysis of their debts, a sensitivity analysis in relation varying interest rates, and a comparison with other municipalities. The municipalities welcomed these services and expressed strong interest.

Standardised controlling instrument. As of the beginning of 2010, a standardised controlling and steering instrument – the Group Performance Model – has become available at all savings banks. The led to a standardisation of calculation methods across Erste Group and enabled the comparison between business areas. Based on this data, joint reports and indicators for benchmarking were defined, analysed and used as a starting point for additional measures. A central team of specialists has been deployed to support the savings banks with their routine data processing tasks. This will steadily improve data quality and enable the efficient production of business reports.

Financial review

in EUR million	2010	2009
Pre-tax profit	131.6	-6.6
Net profit after minority interests	-5.2	-3.7
Operating result	459.3	488.0
Cost/income ratio	67.0%	65.2%
Return on equity	n.a.	n.a.
Customer loans	37,268	35,853
Customer deposits	33,099	32,502

Net interest income declined by EUR 15.7 million, or 1.6%, from EUR 957.1 million in 2009 to EUR 941.4 million. Net commission income rose by EUR 28.0 million or 7.1%, from EUR 393.6 million to EUR 421.6 million in 2010. This improvement was mainly a result of higher income from the securities and insurance business. The net trading result declined by EUR 23.1 million or 45.8% from EUR 50.3 million in the previous year to EUR 27.2 million, primarily because income earned from interest rate derivatives in the previous year did not recur in 2010. In conjunction with the rise in operating expenses by EUR 17.8 million or 2.0% to EUR 930.9 million, the operating result decreased by EUR 28.7 million or 5.9%, from EUR 488.0 million to EUR 459.3 million. The cost/income ratio deteriorated from 65.2% to 67.0% in the current year.

Risk provisions improved by EUR 28.0 million or 8.5%, from EUR 331.3 million in 2009 to EUR 303.3 million in 2010. The other result improved significantly by EUR 138.9 million from EUR -163.3 million in 2009 to EUR -24.4 million mainly due to write-downs on securities not held in the trading portfolio in 2009. Net profit after minorities declined by EUR 1.5 million, from EUR -3.7 million to EUR -5.2 million.

Credit risk

Total exposure in the savings banks segment increased in 2010 by 5.8%, from EUR 49.2 billion to EUR 52.0 billion. Customer loans grew at a slightly slower pace of 3.9% to EUR 37.3 billion. The high share of loans – almost one-fifth – extended to professionals, self-employed persons and small businesses is a feature of the business of the Austrian savings banks, and reflects the structure of Austria's economy, which in international comparison has a very high share of small and medium-sized businesses. The increase in the share of foreign currency loans by one percentage point to 23% was due exclusively to the near 20% appreciation of the Swiss franc versus the euro.

In line with the development of the economy in Austria, the quality of the credit portfolio improved slightly during 2010. The NPL ratio based on customer loans decreased by 0.4 percentage points to 7.1% and performing loans migrated significantly to better risk classes. A breakdown by customer segment showed that it was mainly loans to

retail customers and SMEs that drove the positive trend, while loans to corporates deteriorated slightly. NPL coverage by risk provisions improved considerably in 2010 and was 58.5% at year-end 2010.

ERSTE BANK OESTERREICH

Business profile. In addition to Erste Bank Oesterreich, the segment Erste Bank Oesterreich also includes the four savings banks in which Erste Bank Oesterreich holds majority stakes: *Salzburger Sparkasse, Tiroler Sparkasse, Sparkasse Hainburg-Bruck-Neusiedl* and *Weinviertler Sparkasse*. This segment also comprises the activities of Erste Group in the Austrian real estate and mortgage business. This covers private mortgages, financing for subsidised and non-subsidised housing projects as well as facility management and real estate brokerage. *s Bausparkasse*, the Austrian market leader in providing financing for both retail customers as well as non-profit and commercial developers, is among the most important operational entities in this respect. Furthermore, since 2005, *s Bausparkasse* is responsible for the mortgage bond transactions of Erste Bank Oesterreich. The real estate broker *s REAL* with its 84 offices in Austria, and *s Wohnbaubank*, a bank specialising in housing loans also play a key role.

Business review

Strategy. Erste Bank Oesterreich, together with its own four savings banks, aims to provide its customers with a one-stop-shop-solution for all financing and investment needs. Its strategic focus is on strengthening its market position and achieving market leadership jointly with the savings banks. The bank aims to grow by acquiring new customers and intensifying customer relationships, especially in the affluent private individuals segment, among the self-employed and SME customers. It seeks to be the first choice for small and medium-sized enterprises needing advice on financial matters and hopes to establish long-term relationships based on the spirit of partnership. In the area of private banking and asset management, the focus is on offering customers competitive products and services through a team of highly-trained advisors, and to constantly improve these jointly with product specialists and portfolio managers.

Highlights in 2010

New management structure at branch offices. Branch office operations were streamlined as of 1 October 2010 to ensure an improvement in services, higher advisory quality and a greater ability to adjust to local markets and customer needs. State directorates were reduced from 6 to 4 and branch directorates from 42 to 25; this means that there is one director responsible for all branch offices of a municipal district. The heads of branch offices were strengthened and now have more decision-making powers. Administrative tasks were reduced and communication routes shortened: The branch offices now work more closely with customers and respond directly to their needs. The constant scrutiny of all workflows, the permanent efforts to consolidate and simplify processes in order to concentrate on customer service, all serve this goal.

***s Versicherung* offers attractive private retirement schemes *s Privat-Pension*.** The financial crisis and the resulting insecurity have placed the topic of individual retirement saving at centre stage. The *s Privat-Pension* with an additional bonus was launched in 2003 and sold over 170,000 policies, thus becoming a highly sought-after retirement product. After the changes to the legal framework for state-subsidised retirement schemes, *s Versicherung* adjusted its product accordingly and, inter alia, introduced a life cycle model with a reduced equity share depending on age. Erste Bank Oesterreich responded to the rising demands of its customers and acquired not only many new customers for private retirement products, but also offered customers with existing *s Privat-Pension* policies the option to switch to the new product. Almost 80% of these customers accepted the offer.

Retail asset management for the general public. Erste Bank is a pioneer in the area of asset management for retail customers. The product *Premium PLUS* introduced in 2006 was opened to all customers of Erste Group who can now benefit from the innovative value preservation concept of the *Premium PLUS* product. Depending on the investment horizon of the customer, the goal is to achieve positive returns even in a negative market environment. The assets are managed in cooperation with LGT Capital Management, the bank of Liechtenstein's royal family. In 2010, assets under management rose to around EUR 380 million, from EUR 290 million in 2009.

New, innovative sales channels. A strategic goal of Erste Bank Oesterreich is growth through new customer acquisition. Following the successful collaboration with Tchibo in the previous years, joint projects were carried out in the period under review with the telecommunication company Orange, baby food producer HIPP, McDonalds and Ferrero. Moreover, in April 2010, a new strategic partnership was formed by Erste Bank Oesterreich and OMV Österreich. The objective of this partnership is to expand the range of services offered, acquire new customers and enlarge the network for Erste Bank Oesterreich customers. 170 OMV gas stations now sell simple, self-explanatory and attractive products of Erste Bank Oesterreich. This opened up a completely new distribution channel. At the start, 10,000 *Gute-Fahrt-Boxen* ('*Have a safe trip'*-boxes) were sold at these banking outlets which included a voucher for opening an *s Kapital*-savings account at very attractive terms. With this and additional offers, Erste Bank Oesterreich attracted about 1,500 new customers within a very short time.

Best private banking in Austria. The British financial magazine Euromoney named Erste Bank Oesterreich the best financial institution for private banking in Austria in 2010. The fact that this award is based on a survey conducted within the industry is especially noteworthy. Private banking of Erste Bank and Sparkassen reported assets under management of around EUR 30 billion in 2010, which corresponds to a market share of 25%. This made Erste Bank Oesterreich the market leader in this segment at year-end 2010.

Financial review

in EUR million	2010	2009
Pre-tax profit	220.2	180.0
Net profit after minority interests	166.9	129.1
Operating result	394.3	328.3
Cost/income ratio	60.6%	65.4%
Return on equity	14.6%	11.4%
Customer loans	27,438	26,137
Customer deposits	27,796	26,841

The operating result rose by 20.1%, or EUR 66.0 million, to EUR 394.3 million in 2010. This was largely due to the significant rise in net commission income by EUR 42.4 million, or 14.0%, from EUR 302.8 million in the previous year to EUR 345.2 million, which in turn was mainly driven by the excellent securities business. Net interest income rose from EUR 637.5 million by EUR 6.8 million, or 1.1%, to EUR 644.3 million in 2010. The net trading result improved by EUR 2.1 million (+22.6%), from EUR 9.4 million in 2009 to EUR 11.5 million. As a result of ongoing cost-cutting measures general administrative expenses declined by EUR 14.6 million or 2.4%, from EUR 621.4 million in the previous year to EUR 606.8 million. The solid operating result led to a significant improvement in the cost/income ratio from 65.4% in 2009 to 60.6%.

Risk provisions decreased by EUR 3.1 million, or 2.0%, from EUR 151.4 million to EUR 148.3 million. The EUR 28.9 million decline in the item other result, from EUR 3.2 million in the previous year to EUR -25.7 million, was mainly attributable to write-downs on securities not held in the trading portfolio. Net profit after minorities rose by EUR 37.8 million, or 29.3%, from EUR 129.1 million to EUR 166.9 million; return on equity rose to 14.6% from 11.4% in the previous year.

Credit risk

Total exposure of the Erste Bank Oesterreich segment increased in 2010 by 6.6% to EUR 37.5 billion, while customer loans grew by 5.0% from EUR 26.1 billion to EUR 27.4 billion. The share of Erste Bank Oesterreich in the total loan portfolio of Erste Group was 20.7% at year-end 2010, up 0.5 percentage points on 2009. A breakdown by customer group revealed an increase in lending to the public sector at the expense of loans to corporate customers. Compared to the savings banks, Erste Bank Oesterreich's share of loans to professionals, self-employed and micro businesses at 9.7% was much lower.

Although the bank stopped granting foreign currency loans to retail customers in the autumn of 2008, the share of foreign currency loans widened due to the depreciation of the euro vs. the Swiss franc in 2010, and at the end of December, stood at 18.0%. The ratio of secured-to-unsecured-loans remained unchanged at 2:1.

Unlike the credit portfolios in Central and Eastern Europe, the credit portfolio of Erste Bank Oesterreich improved in 2010. The NPL ratio based on customer loans decreased from 4.7% to 4.1%; furthermore, a shift to better risk classes was observed among performing loans. Improvements in credit quality were seen in all customer segments but were especially strong among corporates. The resilience shown by Austria's small and medium-sized businesses in withstanding the effects of the global economic crisis was remarkable.

CZECH REPUBLIC

Business profile. The Czech Republic segment includes the retail and SME business of Česká spořitelna and its subsidiary operations. Česká spořitelna is the leading retail bank in the country and the largest among Erste Group's operations in CEE. It serves some 5.3 million retail, SME and large corporate clients; it operates a network of 667 branches and 1,312 ATMs. Česká spořitelna has issued more than 3.2 million bank cards, including almost half a million credit cards. The bank's building society, pension fund and factoring subsidiaries also occupy leading positions in their respective fields.

Economic review

The Czech economy emerged from recession in 2010 driven mainly by the export-based manufacturing sector. The open Czech economy clearly benefited from the industry-driven recovery in Germany, the country's main trading partner. The car and manufacturing industries continued to play a crucial role within exports. Growth became more balanced towards the second half of the year, with household consumption picking up as well. Economic growth was also boosted by two stimulus packages introduced in 2009 and valued at 2% of the country's GDP. Overall, real GDP increased by 2.3% in 2010, while GDP per capita stood at EUR 14,000. After large scale redundancies in 2009, labour market conditions improved during 2010, but by year-end, the unemployment rate had increased by 0.4 percentage points to 9.0%.

Due to the low level of public debt compared to the EU-15, the Czech government did not implement any substantial fiscal consolidation measures in 2010. As a result, the budget deficit remained at a relatively high 5.3% of GDP. As of 2011, the government is expected to introduce cuts in public sector non-capital spending including a 10% reduction in the public wage bill and cuts in social spending. This is set to be complemented by a slight increase in taxes. Thanks to the solid export performance, the trade balance closed 2010 with a surplus.

Inflation bottomed out in the last quarter of 2009 and increased slightly during 2010. In the first half of the year, rising oil prices, the January VAT increase and the tobacco excise tax rise played a role in the development of prices, while in the second half, higher food prices contributed to rising inflation. As a result, average consumer prices in 2010 increased by 1.5%. The Czech koruna was volatile in the first half of the year driven mainly by external factors such as the sovereign debt crisis that engulfed southern Europe, but strengthened against the euro. The second half of the year brought a much more stable exchange rate environment. The Czech National Bank cut the benchmark interest rate only once in 2010 when it surprisingly decided to reduce the rate in May by 25 basis points to a historic low level of 0.75%.

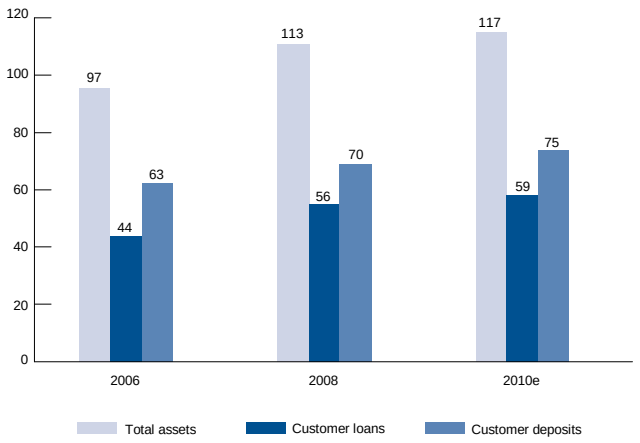
Key economic indicators – Czech Republic	2007	2008	2009	2010e
Population (ave, million)	10.3	10.4	10.5	10.5
GDP (nominal, EUR billion)	127.5	147.7	137.2	146.4
GDP/capita (in EUR thousand)	12.4	14.2	13.1	13.9
Real GDP growth	6.1	2.3	-4.0	2.3
Private consumption growth	4.9	3.5	-0.2	0.9
Exports (share of GDP)	70.2	66.8	58.0	63.7
Imports (share of GDP)	66.8	64.1	53.5	59.6
Unemployment (Eurostat definition)	6.6	5.4	8.6	9.0
Consumer price inflation (ave)	2.8	6.4	1.1	1.5
Short term interest rate (3 months eop)	4.1	3.6	1.5	1.2
EUR FX rate (ave)	27.8	25.0	26.4	25.3
EUR FX rate (eop)	26.5	26.9	26.4	24.8
Current account balance (share of GDP)	-3.2	-0.6	-1.0	-2.4
General government balance (share of GDP)	-0.7	-2.7	-5.8	-5.3

Source: Erste Group.

Market review

In 2010, the Czech banking market remained one of the most liquid and well capitalised markets in the CEE region. A system-wide loan to deposit ratio of 78% at year-end 2010 is a case in point. Due to the solid fundamentals of the Czech banking market, the government did not have to provide any financial support to the sector over the past years. Growth of the banking market, however, was significantly influenced by the macroeconomic developments resulting in constant customer loans and deposits. Foreign exchange-based lending remained insignificant compared to some other CEE countries with higher interest rates. The NPL ratio for the sector increased to 6.6% but was lower than in other parts of the CEE region. Customer deposits as a percentage of GDP remained among the highest in CEE at 75%, driven by the highly developed savings culture in the Czech Republic.

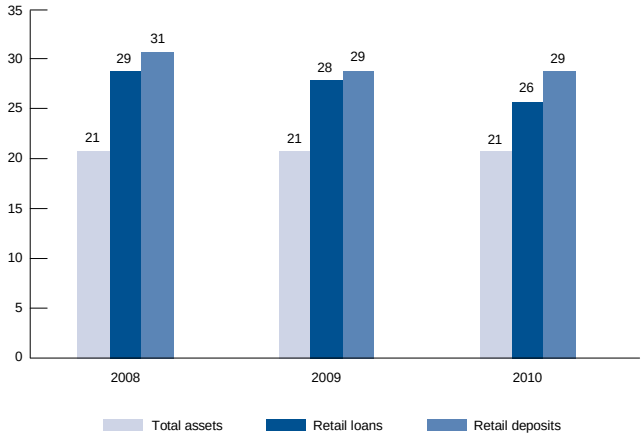
Financial intermediation – Czech Republic (in % of GDP)



Source: Czech National Bank, Erste Group.

Česká spořitelna maintained its position as the largest retail bank in 2010. The bank's retail market shares ranged between 25% and 30% while its share in the corporate segment remained lower at around 20%. Overall, total asset market share increased slightly to 21.3%. Česká spořitelna also kept its No. 1 position in the payment card market with a market share of 36%.

Market shares – Czech Republic (in %)



Source: Czech National Bank, Erste Group.

Business review

Strategy. Česká spořitelna's strategy is focused on growing with the evolving needs of a retail customer base that is quickly becoming wealthier. At the same time, the bank caters for the mass market and offers a broad range of services to corporate and public sector customers. In line with this balanced and real economy-focused business model, Česká spořitelna aims to retain its leading market positions in all key product segments while not losing sight of further improving client satisfaction.

Highlights in 2010

Česká spořitelna enjoys strong deposit inflows. At 3.5%, customer deposit growth accelerated markedly after a flat performance in 2009. This development was driven by rising inflows from municipalities and retail customers. In light of limited demand for loans, Česká spořitelna responded to this trend by fine-tuning its offering of savings products. The products garnering the highest interest continued to be the *Golden Deposit*, a savings product with a guaranteed yield, and the *Perfect Deposit*, which pays out the first half of the life-time yield at inception. The *Structured Premium Deposits* and the *Clever Savings Plan* enabled customers to deposit cash regularly and take advantage of value added services whilst having immediate access to their funds.

Marginal decline in loan volumes. Despite the slowly recovering economy, customer loan volumes declined slightly in 2010. This was mainly due to the fact that while export-driven industries thrived, domestic demand remained weak. Within the retail loan book there was a small increase in consumer loans while housing loans declined due to decreased activity in the real estate market. Despite these factors, Česká spořitelna maintained its leading position in the mortgage market. In line with the still fragile economy, the sale of loan insurance policies, i.e. policies that cover repayment in case of unemployment, rose significantly. Overall, the bank's loan-to-deposit ratio improved to below 70%.

Focus on the affluent segment. In 2010 Česká spořitelna's customers continued to become wealthier and more sophisticated. It was therefore a key goal of the bank to retain existing and attract new customers, while still providing affordable services for mass-market clients. Accordingly, Česká spořitelna strengthened its presence in the premier banking market segment by establishing its own brand *ČS Premier* and acquiring three Prague- and Brno-based branches from HSBC. *ČS Premier* is operated separately from the existing branch network and has its own product and service portfolio. In line with its strong overall market position, Česká spořitelna remained the largest player in this segment. At the end of 2010 there were three *ČS Premier* outlets with plans to open another 20 branches within 5 years.

Further success of flexible products. Product choice and flexibility remained the key elements in ensuring customer satisfaction at Česká spořitelna in 2010. Building on the success of the *Personal Account*, a product introduced in 2007 that enables clients to freely choose the services they need, Česká spořitelna launched *Personal Account Student* for full-time students aged 15 to 30 and *Personal Account Junior* for children between the ages of 8 and 15. By the end of 2010 the number of *Personal Account* users has reached 2 million or about 20% of the Czech population. Via a new *Benefits Programme*, Česká spořitelna continued to reward active users of the *Personal Account* and other bank services. ČS also introduced the new ČS *Business Account* that offers small businesses and corporate clients the ability to freely select services based on their requirements. In this way, clients only pay for the services they actually use. In addition to businessmen and companies, the *Business Account* is also offered to self-employed persons, housing co-operatives, apartment unit owner associations and tradesmen.

Leadership in electronic banking. Česká spořitelna maintained its leadership position in the area of electronic banking: the number of active private individual users of its direct banking (via internet or phone) offering *SERVIS 24* exceeded one million clients, comfortably making ČS the largest player in the market. Together with *BUSINESS 24's* corporate clients the total number of users reached 1.3 million while the number of transactions grew by 5% in 2010.

International and local recognition. As in previous years, Česká spořitelna received a number of local and international awards in 2010. In the local Fincentrum Bank of the Year survey, Česká spořitelna defended the title of "The Most Trustworthy Bank in the Czech Republic" for the seventh consecutive time and was named "The Bank of the Year 2010". Among international awards, Česká spořitelna won "The Safest Bank 2010 in Central and Eastern Europe" as judged by the Global Finance magazine. The bank's client call centre was recognised for providing the best customer service in an international competition of contact centres in the EMEA region organised by ContactCenterWorld.com, while telephone banker Jaroslav Flek was named the best customer service agent.

Financial review

in EUR million	2010	2009
Pre-tax profit	467.4	457.8
Net profit after minority interests	378.9	345.7
Operating result	916.6	853.1
Cost/income ratio	43.6%	44.9%
Return on equity	37.0%	36.5%
Customer loans	17,486	16,721
Customer deposits	24,576	22,415

In 2010, the operating result of the Czech retail and SME business improved by EUR 63.5 million or 7.4% (currency-adjusted: +2.7%), from EUR 853.1 million to EUR 916.6 million. This was mainly attributable to higher net commission income on the back of higher earnings in the retail segment and from insurance brokerage, and an improved net trading result. Overall, net commission income rose from EUR 429.5 million in the previous year by EUR 47.3 million or 11.0% (currency-adjusted: +6.1%) to EUR 476.8 million. The net trading result benefited from favourable exchange rate movements and rose by EUR 23.9 million or 61.9% (currency-adjusted: 54.8%), from EUR 38.6 million to EUR 62.5 million. Net interest income grew by EUR 6.4 million or 0.6% to EUR 1,087.2 million (2009: EUR 1,080.8 million). The currency-adjusted decline of 3.8% was caused by lower market interest rates and lower loan growth.

Compared to the previous year, operating expenses rose by EUR 14.0 million, or 2.0%, to EUR 709.8 million. However, currency-adjusted, operating expenses declined by 2.5% as a result of rigorous cost-cutting. The significant increase in risk costs by EUR 77.7

million or 27.0%, (currency-adjusted: +21.4%), from EUR 288.1 million in 2009 to EUR 365.8 million, reflected rising provisioning requirements in all business segments due to the economic environment. The item other result was up by EUR 24.0 million or 22.3% (currency-adjusted: +25.7%), from EUR -107.3 million in the previous year to EUR -83.3 million. At EUR 32.6 million, revaluations required for real estate investments were much lower in 2010 than in the previous year.

Net profit after minorities rose by EUR 33.2 million or 9.6% (currency-adjusted: +4.8%), from EUR 345.7 million to EUR 378.9 million. The cost/income ratio was 43.6% (2009: 44.9%); return on equity was 37.0% (2009: 36.5%).

Credit risk

Total exposure in the Czech Republic segment amounted to EUR 27.6 billion at year-end 2010, up almost EUR 700 million year-on-year. Loans to customers increased during the reporting period by 4.6% to EUR 17.5 billion. While loans to households increased from EUR 9.4 billion to EUR 9.9 billion year-on-year, loans to corporates went up from EUR 6.7 billion to EUR 6.9 billion; loans to the public sector remained stable at EUR 0.7 billion. The segment Czech Republic accounted for more than 13% of consolidated customer loans at year-end 2010. In terms of loan volume, the Czech Republic is the most important market for Erste Group after Austria.

In the Czech Republic, loans are granted almost exclusively in local currency. The share of foreign currency loans at year-end 2010 was only 4.1% and foreign currency loans were only extended to corporate customers. The tighter lending criteria introduced in 2009 – especially for commercial real estate financing and new working capital facilities to small and medium-sized businesses – were kept unchanged.

Compared to other countries in Central and Eastern Europe, the negative effects of the global financial and economic crisis were relatively minor in the Czech Republic. This development and effective risk management contained the deterioration of the credit portfolio. This was particularly true for private consumer and mortgage loans. A trend reversal in corporate loan quality occurred in the last quarter of the year, ending the negative development that had prevailed for a considerable time. The NPL ratio based on customer loans rose by 1.4 percentage points to 6.0% in 2010. The NPL coverage ratio rose significantly from 66.2% at year-end 2009 to 70.0%.

ROMANIA

Business profile. The Romania segment includes the retail and SME business of Banca Comercială Română (BCR) and its subsidiaries. BCR offers a complete set of retail and corporate banking services through a network of 668 branches and 48 commercial centres as well as internet and phone banking. In addition, it operates the largest national network of ATMs and POSs – more than 2,200 and approximately 17,800 units, respectively. With total assets of EUR 17.3 billion and 4.6 million customers as at year-end 2010 BCR is the leader in the Romanian banking market. BCR is also top-ranked in leasing and well-positioned in the pension fund and brokerage business.

Economic review

After the deep recession in 2009, the Romanian economy continued to struggle in 2010. However, many economic indicators clearly improved in 2010. As one of the least open economies in the region, with exports accounting for only one fourth of the country's GDP, Romania benefited less than other CEE countries from the economic recovery in Western Europe. The biggest contributor to the Romanian economy, domestic consumption remained subdued throughout 2010. In addition, the economy was negatively impacted by the austerity package implemented by the government in July. The package, a pre-requisite for receiving further IMF/EU loans, included a 25% cut in public wages, a five percentage point hike in VAT to 24% and the reduction of some social benefits and subsidies. One of the mitigating factors was the favourable performance in the agricultural sector which accounted for 8% of the country's GDP, much higher than in other CEE countries. All in all, Romania's real GDP fell by 2.1% in 2010 with GDP per capita equalling EUR 6,000 in 2010. Employment showed some improvement with the number of registered unemployed persons declining by 80,000 in 2010. The unemployment rate stood at 7.3% at the end of the year.

The current account deficit widened marginally in 2010 mainly due to the decrease in remittances from Romanians working abroad and lower inflows of EU funds. A share of 40% of the current account deficit was covered by foreign direct investments (FDI), which targeted sectors with high growth potential such as energy, information technology and agriculture. Overall, FDIs remained weak mainly due to the wait-and-see stance taken by investors as a result of the political uncertainty and the generally sluggish economy. Due to the harsh austerity measures, the budget deficit was contained at 6.8% of GDP in 2010, as agreed with the IMF.

Inflation was in line with expectations in the first half of the year, while prices rose in the second half of the year due to the VAT increase. However, this effect was partly offset by the decline of household purchasing power and the good agricultural harvest. Overall, consumer price inflation averaged 6.1% in 2010. In line with this development, the Romanian National Bank cut the base rate to a historic low of 6.25% in the first half of the year, but left it unchanged thereafter. The EUR/RON exchange remained volatile during the year and hit a new low at 4.40 in June, as companies and households converted their RON-denominated deposits into FX deposits. The disbursement of the fifth IMF tranche, though, helped to stabilise the currency in the range of 4.2 to 4.3 in the second half of the year.

Key economic indicators – Romania	2007	2008	2009	2010e
Population (ave, million)	21.6	21.6	21.5	21.5
GDP (nominal, EUR billion)	124.8	139.8	115.9	121.4
GDP/capita (in EUR thousand)	5.8	6.5	5.4	5.7
Real GDP growth	6.3	7.3	-7.1	-2.1
Private consumption growth	10.3	9.4	-9.2	-3.6
Exports (share of GDP)	23.7	24.1	25.1	30.7
Imports (share of GDP)	41.2	40.8	33.5	38.5
Unemployment (Eurostat definition)	6.4	5.8	6.9	7.3
Consumer price inflation (ave)	4.8	7.9	5.6	6.1
Short term interest rate (3 months eop)	8.4	15.5	10.7	6.2
EUR FX rate (ave)	3.3	3.7	4.2	4.2
EUR FX rate (eop)	3.6	4.0	4.2	4.3
Current account balance (share of GDP)	-13.4	-11.6	-4.2	-4.7
General government balance (share of GDP)	-2.5	-5.4	-8.6	-7.0

Source: Erste Group.

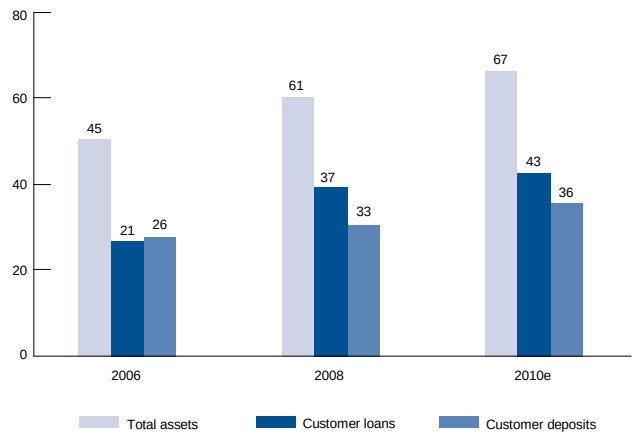
Market review

In 2010 the Romanian banking market was negatively impacted by the economic development of the country. Profitability of the banking sector declined as a result of higher loan losses and lower new business volumes. Accordingly, a number of smaller banks became unprofitable in 2010. Importantly, however, the Romanian banking market remained liquid and well capitalised in 2010. Customer loans grew only by 4.4% due to very low demand and the cautious lending policies applied by banks. The only loan growth driver was "Prima Casa", a government-guaranteed euro-based mortgage programme introduced in 2009. As the programme proved to be very successful, the government decided to launch a second tranche in February 2010 totalling EUR 700 million. Under the new scheme the state guarantee was raised to a maximum of EUR 75,000 for new family homes in order to support the country's real estate market.

At a growth rate of 6.9%, retail deposits continued to drive the Romanian deposit market, while corporate deposits rose by only 2.5% as businesses shifted towards buying government securities. FX-based deposits accounted for 36% of total customer deposits and remained a significant funding source for FX loans. These euro-based deposits were supported by remittances from Romanians working abroad. Customer deposits were up by 5.0% in 2010, marginally outgrowing loans and resulting in an improvement in the loan-to-deposit ratio to 120% at the end of 2010.

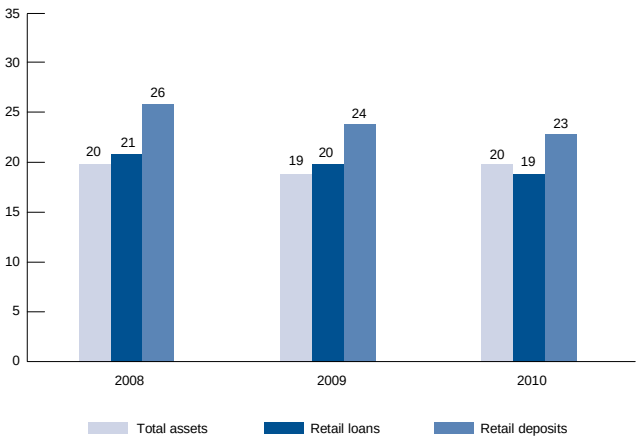
In a difficult market environment BCR maintained its leadership position in all product segments. With a market share of 40%, the bank also maintained its No. 1 position in the "Prima Casa" mortgage segment, the only growth driver in the lending market in 2010. This was complemented by an increasing market share in municipality financing.

Financial intermediation – Romania (in % of GDP)



Source: National Bank of Romania, Erste Group.

Market shares – Romania (in %)



Source: National Bank of Romania, Erste Group.

Business review

Strategy. BCR's main strategic objective is to maintain its leading market position by further improving its sales channels as well as back office processes, and by continuing to put customer needs at the forefront of all activities. The main goal is to further increase customer loyalty and hence long-term profitability, while at the same time adhering to strict lending standards and offering high quality savings and investment products.

Highlights in 2010

Further improvement in customer satisfaction. BCR continued to focus on improving customer service and increasing customer satisfaction in 2010. Aiming to standardise the sales process and enhance the service, BCR launched a branch network-wide programme called *Sales Force Effectiveness (SFE)* for its retail and SME customers. This programme provides branch managers and sales people with an appropriate tool to better identify and serve customer needs. Moreover, BCR introduced a new sales force and customer care approach at branch network level, implementing a single point of contact concept for mass affluent retail customers. Similarly, a project that aims to optimise the service for SME clients was launched.

Operating in a low growth environment. As part of BCR's lending strategy in a low growth environment certain segments of the retail and corporate business activities were prioritised: large corporate lending on the one hand and secured retail lending on the other. The main focus was to originate new loans with a favourable risk-reward profile. In the retail segment, the driver of loan growth was the state-guaranteed, euro-based 'Prima Casa' mortgage scheme in which BCR achieved a 40% market share in 2010. Another focal point was the deposit business, in which the bank also successfully managed to maintain its market position. Overall, BCR's loan-to-deposit ratio improved further in 2010 to 138%.

Continued focus on risk management. In 2010 BCR implemented a scoring system based on customer behaviour and started development work on a new risk-adjusted pricing model for lending products. Going forward these measures should have a positive effect on asset quality. The past year also saw a continuation of special rescheduling and restructuring procedures for both retail and corporate customers, helping them to cope with the difficult economic environment.

Advice on, and participation in EU-funded projects. Building on its strength in pre-accession funding and in lobbying for an improved structural funds mechanism, BCR continued to play an important role in advising on and co-financing EU-funded projects. In fact, BCR advised on 41% of all projects approved for EU financing in 2010. In addition to providing consultancy services on the best and most cost-effective funding mix as well as fostering investment activity in the overall economy, the bank also helped clients to improve their business models.

Financial review

in EUR million	2010	2009
Pre-tax profit	24.8	129.4
Net profit after minority interests	8.5	73.5
Operating result	581.7	644.9
Cost/income ratio	39.2%	37.3%
Return on equity	1.6%	13.4%
Customer loans	11,248	11,190
Customer deposits	7,793	7,297

Net interest income in the Romanian retail and SME business decreased in 2010 by EUR 38.2 million or 4.6% (currency-adjusted: -5.2%), from EUR 836.8 million to EUR 798.6 million, due to the changing loan book mix – new retail loans were mainly related to state-guaranteed mortgages, while consumer loans declined in importance – as well as the sale of non-performing loans and the introduction of more stringent consumer protection legislation. The latter also impacted net commission income, which decreased by 30.4 million or 18.4% (currency-adjusted: -19.0%), from EUR 164.8 million to EUR 134.4 million. The net trading result declined by EUR 2.6 million or 10.1% (currency-adjusted: -10.7%), from EUR 26.6 million in 2009 to EUR 24.0 million. Operating expenses declined by 2.1% (currency-adjusted: -2.8%), from EUR 383.3 million in 2009 to EUR 375.2 million. The cost/income ratio equalled 39.2% against 37.3% in 2009.

The operating result decreased from EUR 644.9 million to EUR 581.7 million, a reduction of EUR 63.2 million or 9.8% (currency-adjusted: -10.4%). Risk provisions of EUR 506.7 million in 2010 were EUR 25.7 million or 4.8% (currency-adjusted: -5.5%) lower than in 2009.

The deterioration in the item other result by EUR 67.2 million, from EUR 17.0 million to EUR -50.2 million, was caused mainly by positive one-time effects in 2009, but also by write-downs – primarily in the leasing business – in the current year. Net profit after minorities decreased by EUR 65.0 million (-88.5% or currency-adjusted: -88.6%), from EUR 73.5 million to EUR 8.5 million. Return on equity was 1.6% compared to 13.4% in the previous year.

Credit risk

Total exposure in the Romania segment was almost EUR 15.3 billion at year-end 2010 (year-end 2009: EUR 14.3 billion). Customer loans increased by 0.5% to EUR 11.2 billion and accounted for 8.5% (year-end 2009: 8.7%) of Erste Group's total customer loans. The subdued loan growth was primarily attributable to the overall economic environment with drastic austerity measures in the public sector and the continued decline in gross domestic product. The decrease in consumer loans was offset by higher lending to the public sector.

The share of foreign currency loans in the credit portfolio increased from 58.7% to 62.1% and consisted almost entirely of euro loans. With the support of new scoring models, credit standards were tightened over the past years. Furthermore, efforts to avoid credit

defaults were intensified, with a special focus on restructuring loans of private and corporate customers to adjust to the deteriorated economic situation. Minor parts of the non-performing loan portfolio were sold on the secondary market.

The sustained recession caused a further deterioration of credit quality, although the negative dynamic slowed considerably versus 2009. The share of the top two risk categories decreased from 71.5% to 65.8% of total customer loans; while the NPL ratio based on customer loans increased from 13.1% to 18.0%. At year-end, corporate loans continued to be of slightly better quality than retail loans despite a faster deterioration in asset quality during the year. The development was particularly negative in the subsegment of the self-employed and small businesses, with the share of this subsegment decreasing and being only of minor significance at less than 7% of the total credit portfolio. As risk provisions were significantly increased by a net allocation of EUR 267 million, reserves were adequate for covering any credit losses. The NPL coverage ratio at year-end was 54.4%.

SLOVAKIA

Business profile. The Slovakia segment encompasses the retail & SME business of Slovenská sporiteľna (SLSP) and its subsidiaries. Slovenská sporiteľna, the formerly state owned savings bank, is the long standing retail market leader and is one of the top players in the corporate segment. Slovenská sporiteľňa also occupies leadership positions in asset management, leasing and factoring. It serves some 2.5 million clients, or about half of the Slovak population, through a network of 291 branches and more than 705 ATMs.

Economic review

Slovakia, one of the most open economies in the CEE region, was among the main beneficiaries of the recovery in Western Europe in 2010. Economic growth, which due to the base effect was even stronger in the first half of 2010 than in the second, was clearly driven by external demand while domestic consumption remained subdued throughout the year. Exports rose by 22% in 2010 and were supported by rising industrial production. Newly-built production facilities, such as new factories commissioned by Volkswagen, computer equipment maker AU Optronics as well as the KIA engine plant contributed significantly to this development. Overall, real GDP in Slovakia rose by 4.1% in 2010, while GDP per capita advanced to EUR 12,100. The unemployment rate, one of the main problems in the country, increased to 14.4% in 2010.

The current account deficit in Slovakia deteriorated to 4.3% of GDP mainly due to a weaker trade balance, while the budget deficit remained at an elevated level because of lower tax revenues, higher social spending and initiatives to fight the crisis. As a result, the government adopted fiscal measures aimed at curbing the budget deficit, including a temporary hike of VAT to 20%, increased excise taxes on tobacco and alcohol, and lowered public sector expenditure.

Inflation remained low throughout 2010 with some acceleration taking place in the second half of the year mainly due to higher food prices. These were offset by weak demand, though. In 2010 Slovakia continued to benefit from low euro zone interest rates, following euro adoption in 2009.

Key economic indicators – Slovakia	2007	2008	2009	2010e
Population (ave, million)	5.4	5.4	5.4	5.4
GDP (nominal, EUR billion)	54.9	64.5	63.1	65.9
GDP/capita (in EUR thousand)	10.2	11.9	11.6	12.1
Real GDP growth	10.5	5.8	-4.8	4.1
Private consumption growth	6.9	6.1	0.2	-0.3
Exports (share of GDP)	76.9	73.9	63.0	73.8
Imports (share of GDP)	78.1	75.0	61.5	73.5
Unemployment (Eurostat definition)	11.0	9.6	12.1	14.4
Consumer price inflation (ave)	2.8	4.6	1.6	1.0
Short term interest rate (3 months eop)	4.3	3.0	0.7	1.0
EUR FX rate (ave)	1.1	1.0	1.0	1.0
EUR FX rate (eop)	1.1	1.0	1.0	1.0
Current account balance (share of GDP)	-5.3	-6.6	-3.6	-4.3
General government balance (share of GDP)	-1.8	-2.1	-7.9	-7.5

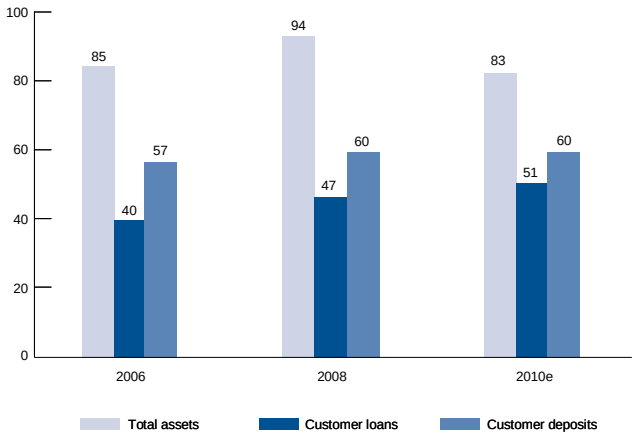
Source: Erste Group.

Market review

The positive macroeconomic environment had a favourable impact on Slovakia's banking market. Customer loans grew by 5.2% in 2010 with the retail segment leading the way on the back of improved consumer confidence. Corporate loan volumes stayed flat year-on-year. Foreign currency lending remained insignificant. Following substantial deposit outflows in 2009, the first half of 2010 brought strong deposit inflows, resulting in an annual growth rate of 6.8%. Overall, the Slovak market remained one of the most

liquid and well balanced banking sectors in the region with a loan-to-deposit ratio of 85%.

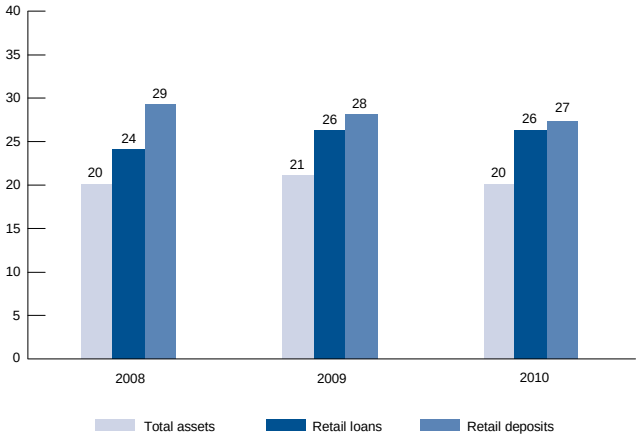
Financial intermediation – Slovakia (in % of GDP)



Source: National Bank of Slovakia, Erste Group.

In the improved banking market environment Slovenska spořitelna successfully maintained its leading market positions. The bank's total asset market share was above 20%, while it also continued to lead the market in customer loans and deposits. Slovenska spořitelna posted the largest market share gain in the housing loan segment, where its stake increased to a multi-year high of 25.8%.

Market shares – Slovakia (in %)



Source: National Bank of Slovakia, Erste Group.

Business review

Strategy. The strategic focus of Slovenská sporiteľňa remains on maintaining its leading market position in retail and SME banking, by building on its unique strength in retail funding, on its trustworthiness and on its distribution network. In addition, SLSP aims to strengthen its position in corporate banking. It is also committed to enhance the customer experience by improving accessibility and raise its operating performance by increasing efficiency.

Highlights in 2010

Broader market presence. In 2010 Slovenska spořitelna expanded its branch network by 12 units to 291 outlets. This move was complemented by employing additional relationship managers with a view to establish new and maintain existing client relationships. The bank also expanded its self-service activities: it installed an additional 45 ATMs across the country, bringing their total number to 705. In line with this development, the number of debit cards also rose from 1.2 million to 1.3 million in 2010. The number of credit cards remained insignificant.

Solid retail loan growth, continued deposit leadership. An excellent funding base and increasing demand enabled Slovenska spořitelna to grow retail loans by 12.9% in 2010. This growth was materially driven by housing loans, which accounted for more than two thirds of the retail portfolio at the end of 2010. Consumer loans also grew ahead of the market, but at a slower speed than in the previous year. While the retail business performed well, corporate loan volumes fell by 17.8%, mainly due to slowing demand from large corporate customers. The definition of a new corporate customer strategy, which should result in a much stronger presence in this segment going forward, also contributed to the reduction. Overall, customer loans declined slightly year-on-year. Despite the decrease in customer deposits in both the retail and corporate segments, Slovenska spořitelna remained the deposit market leader by a wide margin.

Focus on cost management. Following the organisational streamlining in 2009, Slovenska spořitelna continued to focus on cost management in 2010. To this effect the bank introduced efficiency measures in all key corporate centre functions, including personnel, IT and property management. Together with the strong topline performance this resulted in a further significant improvement in the cost/income ratio.

Financial review

in EUR million	2010	2009
Pre-tax profit	171.6	42.4
Net profit after minority interests	136.5	27.6
Operating result	315.2	249.1
Cost/income ratio	41.3%	50.0%
Return on equity	31.6%	6.0%
Customer loans	5,716	5,670
Customer deposits	7,144	7,145

The operating result in the Slovak retail and SME business rose by EUR 66.1 million or 26.5%, from EUR 249.1 million in 2009 to EUR 315.2 million. This positive development was driven by increased net interest income and lower operating expenses.

A consistent pricing policy together with solid volume growth in the retail segment contributed to the increase in net interest income, which rose by EUR 40.9 million, or 10.6%, from EUR 385.9 million in the previous year to EUR 426.8 million. Net commission income increased by 1.9% to EUR 106.6 million (2009: EUR 104.6 million). The net trading result decreased by EUR 4.3 million, from EUR 8.3 million to EUR 4.0 million in 2010. The reduction in operating expenses by EUR 27.4 million or 11.0%, from EUR 249.6 million to EUR 222.2 million, resulted largely from efficiency measures initiated in 2009. Accordingly, the cost/income ratio improved significantly from 50.0% to 41.3%. Risk provisions – which were negatively influenced by the economic environment especially in the second half of 2009 – improved by EUR 33.3 million or 21.2%, from EUR 156.5 million in the previous year to EUR 123.2 million. The item other result improved by EUR 29.8 million or 59.3% to EUR -20.5 million (compared to EUR -50.3 million in 2009) mostly because of the release of provisions no longer required.

Net profit after minorities rose fivefold by EUR 108.9 million, from EUR 27.6 million in the previous year to EUR 136.5 million. Return on equity of 31.6% was significantly better than the 2009 level of 6.0%.

Credit risk

Total exposure in the Slovakia segment amounted to EUR 9.4 billion at year-end 2010, 6.7% or almost EUR 0.7 billion lower than at year-end 2009. However, customer loans increased by 0.8% to EUR 5.7 billion at year-end 2010, accounting for 4.3% of Erste Group's total customer loan volume. There was a significant shift in the portfolio from corporate loans to retail loans.

The loan portfolio consisted almost entirely of local currency loans; there were still no foreign currency loans to private individuals. Collateral coverage increased significantly in the past few years. In light of the deterioration in asset quality due to the economic downturn, new lending to certain industries, such as for commercial real estate, was cut back.

In contrast, the dynamic economic development in 2010 – compared with the EU average – had a positive impact on asset quality. The NPL ratio based on customer loans decreased in the fourth quarter; although it increased by half a percentage point to 8.0% year-on-year with diverging developments being seen in the individual customer segments. While defaults on corporate loans increased from 8.4% to 11.5%, defaults on retail loans dropped from 7.0% to 6.8%. As in many countries of Central and Eastern Europe, asset quality in the SME subsegment worsened in 2010. Another sign of the gradual improvement in the economic situation of borrowers was the migration to better risk classes within the various categories of performing loans. Non-performing loan coverage by risk provisions amounted to 81.9% at year-end.

HUNGARY

Business profile. The Hungary segment comprises the retail and SME business of Erste Bank Hungary and its subsidiaries. Erste Bank Hungary is a considerable player in the Hungarian banking market: it operates a network of 184 branches, more than 400 ATMs, 27 commercial centres for SME customers and uses nearly 350 post offices as an additional, variable cost sales channel. In addition, Erste Bank Hungary serves 900,000 clients and has market shares between 7-14%, depending on the product category. It also has significant market positions in the brokerage business and in leasing.

Economic review

After the deep recession of 2009, Hungary's economy slowly returned to growth in 2010. As one of the most open economies in the CEE region, Hungary benefited materially from the economic recovery in Western Europe, especially in Germany. The rebound of Hungary's economy in 2010 was clearly driven by exports, as demand for country's main export items - cars and electronic equipment - increased significantly. In contrast, import volumes lagged behind those of exports which translated into a considerable trade surplus. Household consumption remained sluggish throughout the year, falling by 2% due mainly to a higher unemployment rate and very slow loan growth. Overall, Hungary's real GDP grew by 1.2%, a growth rate near pre-crisis levels, while GDP per capita advanced to EUR 9,900. Unemployment, which started to increase in 2008, deteriorated to 11.1% during the course of the year. In addition, the labour market participation rate in Hungary was among the lowest in Europe at 55.5%.

One of the most important events impacting Hungary's economic development in 2010 was the general election in April. After eight years of socialist-led governments, the conservative party Fidesz won a landslide victory in April 2010. The new government announced that it would comply with the 3.8% budget deficit target for 2010 agreed with the International Monetary Fund. However, unlike former austerity packages, the government's programme was focused on increasing revenues by introducing punitive taxes on corporate sectors such as financial services, retail, energy and telecommunications. In addition, the government introduced spending cuts in the public sector and suspended transfers to private pension funds. As part of its longer-term economic plan, the government also cut corporate as well as personal income taxes.

Consumer price inflation was impacted by global energy prices, but remained under control throughout the year, averaging 4.9% in 2010. The Hungarian forint was volatile in the first half of the year and hit new trading lows versus the euro and Swiss franc in July driven by macroeconomic and political uncertainties. In the second half of the year, the forint recovered and traded in a much tighter range against both currencies. The central bank cut the benchmark interest rate four times in the first four months of the year to an all-time low of 5.25%, while two 25 basis points rate hikes came in November and in December resulting in a base rate of 5.75% by year end.

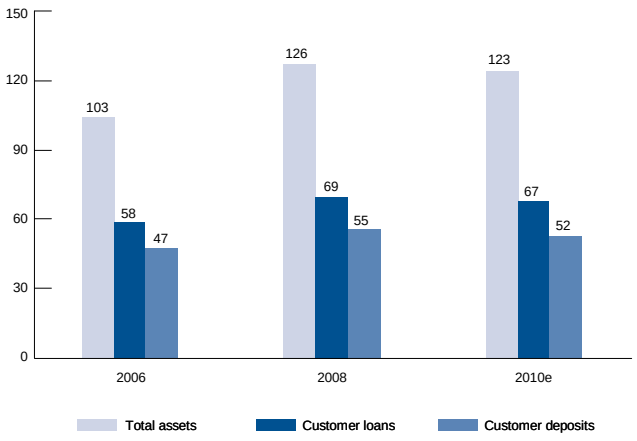
Key economic indicators – Hungary	2007	2008	2009	2010e
Population (ave, million)	10.1	10.0	10.0	10.0
GDP (nominal, EUR billion)	101.1	105.6	92.9	99.2
GDP/capita (in EUR thousand)	10.0	10.5	9.3	9.9
Real GDP growth	0.8	0.8	-6.7	1.2
Private consumption growth	-1.6	-0.6	-6.7	-2.0
Exports (share of GDP)	68.3	69.5	63.6	72.2
Imports (share of GDP)	68.4	69.7	59.6	66.6
Unemployment (Eurostat definition)	7.4	7.8	10.0	11.1
Consumer price inflation (ave)	8.0	6.1	4.2	4.9
Short term interest rate (3 months eop)	7.5	10.0	6.2	5.9
EUR FX rate (ave)	251.3	251.3	280.6	275.4
EUR FX rate (eop)	253.4	264.8	270.8	278.8
Current account balance (share of GDP)	-6.9	-7.4	-0.5	1.9
General government balance (share of GDP)	-5.0	-3.8	-4.4	-3.8

Source: Erste Group.

Market review

For Hungary's banking market 2010 was a difficult year. One of the most important changes was the sharp shift from Swiss franc-based lending to Hungarian forint-based loans. This shift became evident ahead of the ban on entering foreign currency-based mortgages into the land register in July. This regulatory change and clients' limited willingness to take out local currency loans led to a significant slowdown in lending. As a result, customer loans grew only by 4.3% in nominal terms in 2010; adjusted for the appreciation of the Swiss franc, customer loans actually declined. The deposit market was also influenced by macroeconomic conditions and hence remained flat in 2010.

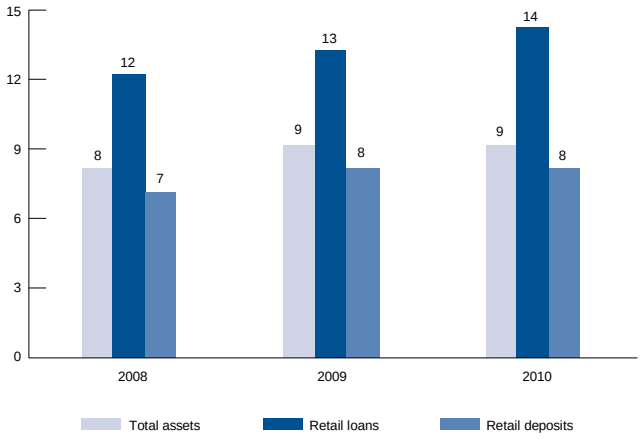
Financial intermediation – Hungary (in % of GDP)



Source: National Bank of Hungary, Erste Group.

The sector's profitability was also significantly impacted by another regulatory change. The newly elected Hungarian government introduced a banking tax totalling EUR 770 million in 2010 to comply with the budget deficit targets agreed with the International Monetary Fund. According to the law, this additional banking tax amounted to 0.53% of the banks' adjusted total balance sheet in 2010. As a result of limited growth and this additional expense, more than half of the banks became unprofitable in 2010.

Market shares – Hungary (in %)



Source: National Bank of Hungary, Erste Group.

In this difficult market environment Erste Bank Hungary was able to increase its lending market share, but lost marginal deposit market share. In the retail loan segment the bank's market share increased further to 14% while in the corporate segment it remained stable at 9%. This development was all the more satisfactory as margins improved at the same time. Deposit market shares declined slightly to the range of 7-8% depending on customer segment.

Business review

Strategy. The main strategic goal of Erste Bank Hungary is to be one of the most efficient banks in the market. At the same time the bank aims to further strengthen its deposit funding base in order to improve its loan-to-deposit ratio. In addition, Erste Bank Hungary aims to grow market shares in the key retail and SME segment in a sustainable manner.

Highlights in 2010

Resilient operating performance. In the face of a slow economic recovery and a changing regulatory environment Erste Bank Hungary's operating performance was very good in 2010. Since the new government took office in spring it has passed many regulations that have had a direct impact on the banking market, including a tax on banks, a set of prudent lending criteria and an effective ban on FX lending. In this environment demand for loans remained low, asset quality suffered and the bottom line turned negative. In response, Erste Bank Hungary put a special effort into increasing its operating efficiency: it maintained the net interest margin, it ran customer activation and acquisition programmes with a view to increase fee income and it kept operating expenses under control, by closing down loss-making branches.

Local currency lending moves to the forefront. As a direct result of the effective banning of FX lending as of July 2010, the Hungarian forint took over as the sole lending currency for retail clients. This led to an immediate year-on-year decline in new retail loan volumes, which since then have stabilised, supported by the decline in local interest rates. On the corporate end, loan volumes stagnated, as investment appetite remained weak and customers often deferred investments. Accordingly, Erste Bank Hungary focused on supporting the existing client base by optimising their funding mix. The bank also dedicated significant resources to client monitoring in order to detect customers with payment difficulties and address any issues at an early stage.

Brokerage business maintains top position. Erste Investment Hungary, the brokerage subsidiary of Erste Bank Hungary, retained its leading position in the Hungarian market: in terms of cash volumes traded on the Hungarian stock exchange, the company reached a 22% market share in 2010. The number of retail customers using electronic sales channels also increased in 2010. Special efforts were made to introduce new investment products to retail customers, while in the private banking segment the focus remained on increasing the customer base through marketing investment certificates. These efforts offset the growing competition and narrowing margins.

Financial review

in EUR million	2010	2009
Pre-tax profit	-7.1	83.5
Net profit after minority interests	-21.8	57.9
Operating result	305.5	255.7
Cost/income ratio	39.9%	45.6%
Return on equity	n.a.	14.7%
Customer loans	7,763	7,301
Customer deposits	3,887	3,931

Net interest income of the Hungarian retail and SME business improved – partly due to currency developments – from EUR 353.6 million in 2009 to EUR 387.1 million (+9.5% or currency-adjusted: +7.4%). The rise in net commission income and lower operating expenses were key contributors to the solid operating result of EUR 305.5 million (+EUR 49.8 million or +19.5% (currency-adjusted: +17.3) over the previous year's figure of EUR 255.7 million). Net commission income developed positively in all categories, rising from EUR 86.2 million by EUR 11.6 million to EUR 97.8 million (+13.6% or currency-adjusted: +11.4%) in 2010. Operating expenses improved in 2010, from EUR 214.0 million by EUR 11.4 million (-5.3%, currency-adjusted: -7.1%) to EUR 202.6 million, as a result of cuts in personnel, marketing and consulting expenses. The cost/income ratio equalled 39.9% in 2010 (2009: 45.6%).

The increase in risk provisions by 43.0% (currency-adjusted: +40.4%), from EUR 170.8 million to EUR 244.3 million in 2010, reflected the economic contraction and exchange rate volatility. The item other result deteriorated in 2010 by EUR 67.0 million, from EUR -1.3 million to EUR -68.3 million, almost exclusively due to the introduction of the banking tax (EUR -49.8 million). As a consequence, net profit after minorities decreased from EUR 57.9 million in 2009 to EUR -21.8 million.

Credit risk

Total exposure of the Hungary segment declined by 11.4% to EUR 8.1 billion in 2010, while loans to customers grew by 6.3% to EUR 7.8 billion; its share in total customer loans of Erste Group was 5.8% at year-end 2010. The distribution between retail and corporate loans shifted in favour of household loans. The currency-adjusted negative growth in credit volume was a result of the − despite a positive trend − still harsh macroeconomic situation in Hungary as well as the more restrictive lending policy. The near 20% appreciation of the Swiss franc versus the euro and the forint was the sole cause of the expansion of the loan portfolio in 2010 despite the discontinuation of Swiss franc lending in 2009.

Nevertheless, the share of foreign currency loans was still 76.7% at year-end 2010. Lending criteria were adjusted to the changed economic conditions by giving the cash flows of companies and the income situation of households a higher weighting.

Asset quality continued to deteriorate, but the growth rate of non-performing loans decreased in the second half of 2010. 80.1% of customer loans were classified in the best two risk categories at

year-end (year-end 2009: 86.3%), while non-performing loans amounted to 12.0% of the total portfolio (year-end 2009: 7.6%). Defaulted consumer and housing loans increased at a faster pace than non-performing corporate loans. NPL coverage improved in 2010 from 46.2% to 50.0%; this level is considered adequate in the light of the high share of mortgage loans and the conservative valuation of real estate.

CROATIA

Business profile. The Croatia segment comprises the retail & SME business of Erste & Steiermärkische Bank (ESB), commonly referred to as Erste Bank Croatia, and Erste Bank Montenegro. It services some 851,000 clients via a network of 141 branches and well developed alternative channels, such as the internet and mobile communications as well as ATMs. Erste Bank Croatia is one of the major banking institutions in Croatia with double-digit market shares in all key product categories. In addition to banking services, Erste Bank Croatia also occupies strong market positions in a wide range of financial services, such as fund management, pension funds, brokerage and leasing.

Economic review

The Croatian economy remained fragile in 2010. As one of the least open CEE economies as measured by goods exports, Croatia failed to benefit materially from the economic rebound in Western Europe. In addition, domestic demand continued to be weak, with private consumption declining by 0.9% in 2010. The development of household consumption was also impacted by poor labour market conditions with the unemployment rate increasing to 11.9%. These negative trends were only partly offset by the favourable tourist season which is an important source of income and has been a major pillar of the country's economy. Importantly, Croatia was again among the top 20 most-visited countries in the world in 2010. All in all, the Croatian economy shrank further in 2010 with real GDP declining by 1.4% in 2010 and GDP per capita amounting to EUR 10,400.

As a reaction to the economic downturn, the government adopted a mid-term economic programme, which featured structural reforms in the public sector, most notably changes to the judiciary, healthcare and pension systems. In the short-term, however, the budget deficit widened to 5.5% of GDP in 2010 as revenues were not increased sufficiently – the government only hiked excise duties on cigarettes and gasoline – nor expenditure cut significantly. Nevertheless, EU accession by 2012-13 and the subsequent swift adoption of the euro in light of the already widespread use of the common currency remained key targets for Croatia. As a result of weak domestic demand, average consumer prices increased by only 1.2% in 2010 with price pressure being mostly related to energy and administrative prices. In order to manage inflation, the central bank continued with its policy of keeping its currency within a narrow range versus the euro.

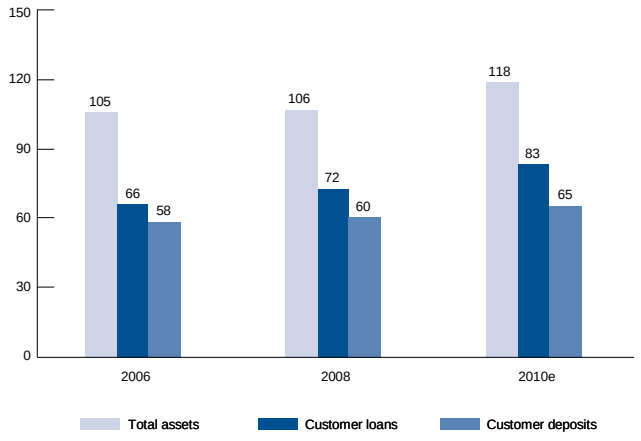
Key economic indicators – Croatia	2007	2008	2009	2010e
Population (ave, million)	4.4	4.4	4.4	4.4
GDP (nominal, EUR billion)	42.8	47.4	45.4	45.6
GDP/capita (in EUR thousand)	9.7	10.8	10.3	10.4
Real GDP growth	5.5	2.4	-5.8	-1.4
Private consumption growth	6.2	0.8	-8.5	-0.9
Exports (share of GDP)	21.5	20.7	17.0	19.5
Imports (share of GDP)	43.5	43.5	33.3	33.0
Unemployment (Eurostat definition)	9.6	8.4	9.1	11.9
Consumer price inflation (ave)	2.9	6.1	2.4	1.2
Short term interest rate (3 months eop)	6.9	8.2	3.8	2.5
EUR FX rate (ave)	7.3	7.2	7.3	7.3
EUR FX rate (eop)	7.3	7.3	7.3	7.4
Current account balance (share of GDP)	-7.6	-9.2	-5.5	-2.6
General government balance (share of GDP)	-2.0	-1.8	-4.3	-5.5

Source: Erste Group.

Market review

In 2010, the Croatian banking market remained among the most developed in the CEE region based on financial intermediation figures. Foreign parent banks have maintained their exposure to the country and hence contributed to the continued stability of the banking system. Credit activity, however, was negatively influenced by general macroeconomic weakness, prompting the Croatian National Bank to amend the law which limited loan growth. Overall, customer loans grew by 8.2% in 2010. The deposit market was supported by the strong tourist season, with euro-based deposits remaining an important savings product. Overall, customer deposits grew by 4.8% in 2010 while the banking system's loan-to-deposit ratio stood at 127% at the end of the year.

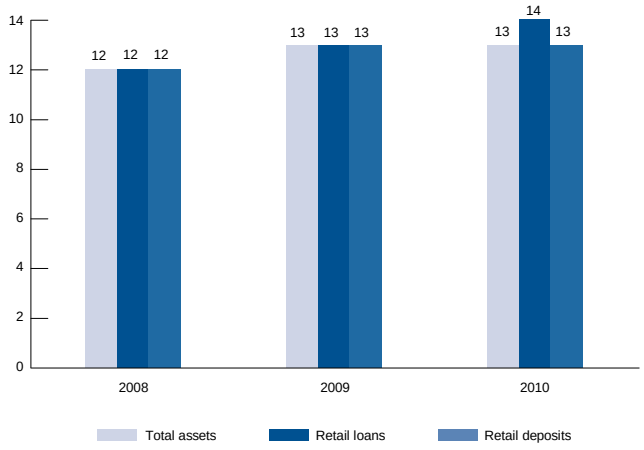
Financial intermediation – Croatia (in % of GDP)



Source: National Bank of Croatia, Erste Group.

Erste Bank Croatia remained among the top three players in the market. Loan and deposit growth of Erste Bank Croatia performed broadly in line with the market, with customer loans showing an increase while customer deposits remained flat. Customer loan and deposit market shares stood at 13% at the end of 2010. The bank's loan-to-deposit ratio was 123% at year end 2010 compared to 112% in 2009.

Market shares – Croatia (in %)



Source: National Bank of Croatia, Erste Group.

Business review

Strategy. Erste Bank Croatia's main objective is to further enhance its market positions in the medium and long term. In doing so, the bank will continue to focus on mass market and affluent retail customers and SME clients that have a favourable risk profile. It aims to provide simple and transparent products through its state-of-the-art branch network and alternative distribution channels. The continued improvement in service quality and a personalised approach to customers also represent a core part of the bank's strategy.

Highlights in 2010

Payroll account becomes anchor retail product. In 2010, Erste Bank Croatia continued to focus on low risk business growth. To this effect the bank promoted its payroll account as an anchor product for building long-term customer relationships and cross-selling activities. In addition, the bank promoted a number of products, such as housing loans for non-resident clients, an instalment payment facility on debit cards, pre-approved cash loans and revolving cash loans. The bank also paid special attention to improve existing products such as the payroll current account. Erste Bank Croatia also focused on working with clients who faced payments difficulties in order to mitigate any negative effects arising from the economic recession.

Stagnant corporate business. The lack of volume growth in the corporate segment was exclusively due to the fact that SMEs, which have been hit hardest by the economic downturn, make up two thirds of the corporate portfolio. In contrast, the large corporate business continued to do well, even though loans were mostly short-term and working capital-related. As in retail, the business development focus was also on retaining existing and attracting new customers. To this end the bank offered giro account facilities with a view to attract sight deposits, hence widening its deposit base.

New information technology platform. As a significant part of Erste Bank Croatia's information technology strategy, the bank introduced a new information technology platform with the aim to improve IT support and ensure faster and more stable process performance. This step will also enhance system maintenance, development and flexibility and make future capacity upgrades less costly.

Migration of credit card business. In 2010 Erste Bank Croatia fully completed the migration of its credit card business to Erste Card Club, a member of Erste Group responsible for managing the Diners Club, Master Card and VISA brands in the region. The main goal has been to develop a large scale credit card centre that offers competitive services in order to tie customers to the bank and attract new clients. In total 70,000 credit cards were migrated from Erste Bank Croatia to Erste Card Club.

Financial review

in EUR million	2010	2009
Pre-tax profit	81.8	100.3
Net profit after minority interests	36.7	51.3
Operating result	192.6	176.2
Cost/income ratio	41.9%	42.6%
Return on equity	16.2%	26.4%
Customer loans	5,487	4,684
Customer deposits	4,087	4,076

Net interest income in the Croatian retail and SME business rose from EUR 223.4 million in the previous year to EUR 247.9 million (+10.9% or currency-adjusted: +10.1%). The increase was due to Erste Bank Podgorica's (Montenegro) inclusion in the consolidated financial statements from March 2009. Net commission income remained stable at EUR 74.0 million (-0.5% or currency-adjusted: -1.2%). The EUR 0.7 million increase in the net trading result from EUR 9.0 million to EUR 9.7 million in 2010 was due mainly to positive contributions from Erste Card Club.

Operating expenses rose by EUR 8.4 million or 6.5% (currency-adjusted: +5.7%), from EUR 130.6 million to EUR 139.0 million. This was largely attributable to the introduction of a value added tax on entities classified as other financial services providers such as credit card companies. The operating result rose by 9.3% (currency-adjusted: +8.5%), from EUR 176.2 million to EUR 192.6 million in 2010. As a result, the cost/income ratio improved from 42.6% in 2009 to 41.9%. The EUR 31.5 million increase in risk provisions, from EUR 74.5 million to EUR 106.0 million, was due to the generally higher provisioning requirements in the corporate and real estate business. Net profit after minorities decreased by EUR 14.6 million, from EUR 51.3 million in the previous year to EUR 36.7 million (-28.4% or currency-adjusted: -28.9%). Return on equity was 16.2% (2009: 26.4%).

Credit risk

In the Croatia segment, total exposure rose from EUR 7.0 billion by 11.8% to EUR 7.8 billion in 2010. Customer loans increased by 17.2% and reached EUR 5.5 billion at year-end 2010. The steepest underlying growth was recorded in corporate loans. The expansion was mainly attributable to the inclusion of Erste Factoring d.o.o. and Erste Card Club d.d. into the Croatia segment. Loans at Erste Bank Croatia rose only slightly. The Croatia segment accounted for 4.1% of Erste Group's total customer loans, up from 3.6% a year ago.

Due to the overall economic situation – Croatia's economy was still in recession in 2010 – and increasing liquidity issues for borrowers, lending criteria were tightened. Apart from the real estate industry, this concerned mainly retail customers with lower credit ratings as well as employees in riskier sectors such as the construction industry. Most loans in Croatia were granted in foreign currency. At year-end 2010, the share of foreign currency loans was 78.8%.

The quality of customer loans deteriorated noticeably in 2010: non-performing loans rose from EUR 289 million to EUR 557 million or from 6.2% to 10.2% of the total portfolio. Within the performing loan categories, only minor shifts to worse risk categories were recorded. Migration was a distinct feature among corporate loans, while retail default rates increased only moderately. The negative trend in defaults led to a significant increase in risk provisions from EUR 228 million to EUR 332 million. Considering the existing level of collateral, NPL coverage was adequate.

SERBIA

Business profile. The Serbia segment comprises the retail and SME business of Erste Bank Serbia (EBS), which services some 257,000 clients through a network of 73 branches as well as 11 commercial centres for corporate clients. Catering to the needs of a broad retail and mid-market corporate client base, the bank is well represented in the all major business centres in Serbia. The bank's current market share is some 3% in key product segments; however, its position is considerably stronger in alternative distribution channels, with a 9% market share in electronic payments in Serbia.

Economic review

The Serbian economy resumed growth in 2010 following the recession in 2009. The economic rebound was driven mainly by industrial production and was also supported by transportation, communication and financial services. Serbia's exports, supported by stronger external demand and the weaker currency, grew by 36% in 2010. Economic growth in the second half of 2010 was more balanced with a pronounced recovery in private consumption. However, domestic demand for the full year remained in negative territory due to the weak labour market. Serbia's unemployment rate increased further to 19.2% in 2010, one of the highest levels in the CEE region. Overall, real GDP grew by 1.6% in 2010, while GDP per capita amounted to EUR 4,000 at the end of the year.

Serbia's current account deficit, 40% of which was covered by foreign direct investments, widened in 2010. On the fiscal front Serbia adhered to the budget deficit target of 4.8% as agreed with the IMF. Under pressure from Serbian trade unions and public protests, the government successfully negotiated with the IMF to end the pay and pension freeze ahead of schedule. Nevertheless, the Serbian government continued to emphasise its very strong commitment to the IMF programme, which also included a cap on public debt of 45% of GDP.

Inflation was benign in the first half of 2010 but accelerated later in the year on the back of higher food prices and a weaker Serbian dinar. The currency weakened significantly against the euro in 2010, breaching the psychologically important level of 100. Still, frozen wages and pensions put a limit on the increase in prices. Nevertheless, average consumer prices increased by 6.1% in 2010, prompting the Serbian national bank to hike the benchmark interest rate by 200 basis points to 11.5%.

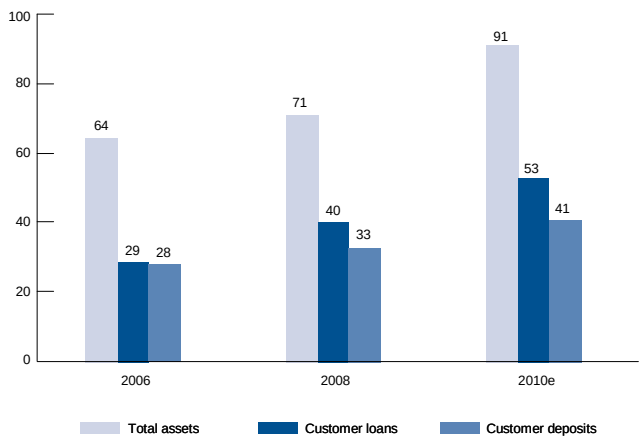
Key economic indicators – Serbia	2007	2008	2009	2010e
Population (ave, million)	7.4	7.4	7.4	7.4
GDP (nominal, EUR billion)	29.1	33.4	30.0	29.4
GDP/capita (in EUR thousand)	3.9	4.5	4.0	4.0
Real GDP growth	6.9	5.5	-3.1	1.6
Private consumption growth	na	na	na	na
Exports (share of GDP)	21.9	22.2	20.0	25.1
Imports (share of GDP)	44.7	44.8	37.0	41.4
Unemployment (Eurostat definition)	18.1	13.7	16.1	19.2
Consumer price inflation (ave)	6.5	11.7	8.4	6.1
Short term interest rate (3 months eop)	10.3	18.9	10.8	13.5
EUR FX rate (ave)	80.0	81.4	94.0	103.1
EUR FX rate (eop)	79.2	88.6	95.9	105.5
Current account balance (share of GDP)	-15.8	-18.2	-6.9	-7.0
General government balance (share of GDP)	-1.9	-2.5	-4.0	-4.8

Source: Erste Group.

Market review

In 2010, the Serbian government continued to support the country's banking market by providing subsidised local currency consumer, cash and housing loans. In addition, the regulator decided to lower the mandatory cash reserve on foreign exchange loans to 25% from 30% and to increase the maximum debt service ratio from 30% to 40% for unsecured loans and from 50% to 60% for mortgage loans. Partly due to these measures and as a result of the weaker currency, consumer loans rose by 27% in 2010. Customer deposits increased at a more moderate 14% while the banking system's loan to deposit ratio stood at 127% at the end of 2010.

Financial intermediation – Serbia (in % of GDP)



Source: National Bank of Serbia, Erste Group.

Erste Bank Serbia remained among the top fifteen banks based on total assets in 2010. At 3.3% the highest market share was achieved in retail loans while the retail deposit market share equalled 2.4% at the end of 2010. At about 2%, the corporate loan and deposit market shares were lower than in the retail business.

Business review

Strategy. Erste Bank Serbia's main objective is to build long-term customer relationships and to become the "bank of first choice" for its clients. It aims to become recognised for the quality and efficiency of its services and position itself as a long-term partner of Serbia's growing middle class. The bank also strives to continuously increase market share in the key retail and SME segments. To achieve this, the bank has developed a state-of-the-art branch network and alternative distribution channels, as well as a wide range of competitive financial products and services.

Highlights in 2010

Balanced business model. Erste Bank Serbia has one of the most balanced business models in the country with a loan to deposit ratio of 95%. In 2010, the bank was particularly successful in attracting new retail euro deposits. This development once again underscored that Erste Bank Serbia is one of the most trusted banks in the market. The growth in customer deposits provided a solid basis for loan growth: on an underlying basis, retail and corporate loans advanced significantly in 2010. At the same time the bank's net interest margins remained unchanged.

Focus on client base and brand awareness. In 2010, Erste Bank Serbia continued to focus on growing its customer base. It ran several marketing campaigns and launched special product packages. These efforts yielded positive results as Erste Bank Serbia increased its client base by almost 10% in 2010. These marketing campaigns were coupled with growing levels of customer satisfaction and increased brand awareness. In fact, Erste Bank Serbia became the second most recognised brand in the market in 2010.

Financial review

in EUR million	2010	2009
Pre-tax profit	1.5	2.5
Net profit after minority interests	1.0	1.4
Operating result	10.4	11.0
Cost/income ratio	74.9%	74.0%
Return on equity	2.4%	2.8%
Customer loans	431	518
Customer deposits	455	373

Net interest income of the Serbian retail and SME business declined by 2.0%, from EUR 28.1 million in 2009 to EUR 27.5 million. However, currency-adjusted, net interest income rose by 7.3%. Net commission income improved by 5.9% (currency-adjusted: +16.0%), from EUR 10.9 million to EUR 11.5 million in 2010. Due to declining income from foreign exchange transactions, the net trading result decreased by EUR 0.7 million or 22.2% (currency-adjusted: -14.8%) to EUR 2.4 million. Operating expenses remained stable at EUR 31.0 million (2009: EUR 31.1 million); currency-adjusted, this corresponded to an increase of 9.3% while the inflation rate stood at 10.3%.at year-end. The cost/income ratio was 74.9% against 74.0% in 2009.

The operating result decreased by EUR 0.6 million year-on-year, from EUR 11.0 million to EUR 10.4 million. Risk costs increased from EUR 7.0 million by EUR 1.2 million to EUR 8.2 million due to the adverse market conditions. The item other result improved by EUR 0.7 million, from EUR -1.5 million in the previous year to EUR -0.8 million following the release of provisions no longer required. Net profit after minorities declined from EUR 1.4 million to EUR 1.0 million.

Credit risk

Total exposure in the Serbia segment decreased from EUR 747 million in the previous year to EUR 568 million. The customer loan volume declined by EUR 87 million to EUR 431 million. This decrease was caused by a change in segment allocation. With a share of 0.3% in total customer loans, the Serbia segment was still only of minor importance for Erste Group. By customer segment, the volume reduction was limited to corporate lending, while loans to households increased from EUR 139 million to EUR 166 million over the course of the year.

A major percentage of loans was still denominated in foreign currency; however, the share of local currency loans rose from 18.8% to 27.3% within one year. The lending criteria, especially for corporate loans, were tightened, with a focus on sustainability of collateral in stress scenarios.

There were diverging asset quality trends in 2010. On the one hand, the share of the best risk categories rose noticeably, while on the other the NPL ratio based on customer loans increased to 10.2% (2009: 8.0%). A deterioration was recorded mainly among corporate loans, while the trend in retail loans was marginally positive. NPL coverage excluding collateral continued to exceed 100% at the end of 2010.

UKRAINE

Business profile. The Ukraine segment includes the business of Erste Bank Ukraine. At the end of 2010 Erste Bank Ukraine serviced some 200,000 customers through a country-wide network of 133 branches. As the bank only launched its operations in 2007, its market shares in 2010 were still small at about 1% in most product categories; in terms of total assets, Erste Bank Ukraine ranked 24th. The bank offers a wide range of standard banking services, including deposits, current accounts, treasury services and loans to its fast growing retail and corporate customer base.

Economic review

The Ukrainian economy enjoyed a strong recovery in 2010. Unlike other economies in the CEE region, however, this significant rebound was driven by both domestic and external demand. Increased political stability and the prolongation of the IMF agreement led to improving consumer and business confidence, both of which underpinned the macroeconomic development. Exports increased less than imports as demand for steel, Ukraine's main trading item, was still subdued. Overall, real GDP in the Ukraine grew by 4.3% in 2010, thereby posting the fastest growth in Erste Group's CEE universe. Despite an increase, GDP per capita was still much lower than in other CEE countries, at EUR 2,200. The labour market also showed improvements with the unemployment rate dropping to 8.2% by the end of 2010. The country retained its traditional regional breakdown of employment, with the lowest unemployment rate recorded in the industrially more developed eastern part of the country.

The stabilisation of the Ukrainian economy was supported by the prolongation of the agreement with the International Monetary Fund in July 2010. The two and a half year stand-by arrangement was worth USD 15.2 billion or 11.1% of Ukraine's GDP. The new facility replaced the old one under which Ukraine drew down USD 11 billion. In order to qualify for the new programme, the government agreed to cut its budget deficit by raising natural gas prices and start financial, energy and fiscal reforms. These austerity measures targeted a reduction in the general government deficit to 4.5% of GDP in 2010; the actual deficit came in at 5.5%.

Inflation remained benign in the first half of the year; however, it started to increase later, mainly driven by higher food prices and the improving labour market. Real household income returned to pre-crisis levels on the back of a 10.2% increase in 2010, supporting higher private consumption. Inflation was also impacted by the government's agreement with the IMF to increase domestic energy prices by 50% in August. As a result, average consumer prices for 2010 increased by 9.4%. Accordingly, the national bank cut the benchmark interest rate in the first half of the year but left it unchanged in the second, with the base rate standing at 7.75% at the end of the year. As a result of the improved sentiment there was less demand for foreign currencies, which supported the Ukrainian

hryvna's appreciation against the US dollar and the euro in 2010. These positive developments were rounded off by Ukraine's successful return to international bond markets, placing USD 4.7 billion in sovereign debt in 2010.

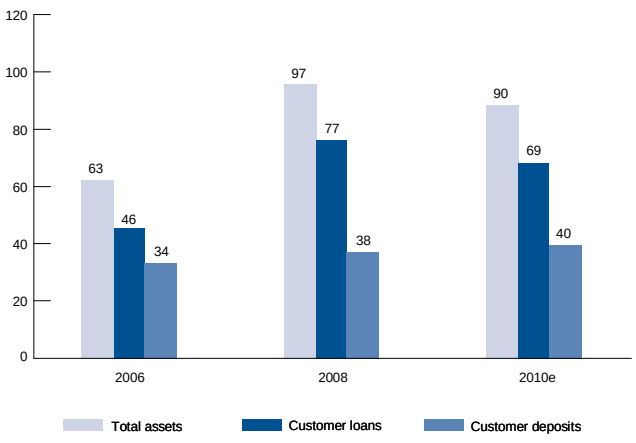
Key economic indicators – Ukraine	2007	2008	2009	2010e
Population (ave, million)	46.4	46.1	45.8	45.5
GDP (nominal, EUR billion)	103.0	123.8	80.7	99.9
GDP/capita (in EUR thousand)	2.2	2.7	1.8	2.2
Real GDP growth	7.6	2.1	-15.1	4.3
Private consumption growth	17.1	12.0	-14.2	4.0
Exports (share of GDP)	34.7	37.0	35.7	39.5
Imports (share of GDP)	42.8	47.3	40.4	46.0
Unemployment (Eurostat definition)	6.4	6.4	8.8	8.2
Consumer price inflation (ave)	12.8	25.2	16.2	9.4
Short term interest rate (3 months eop)	8.7	23.6	18.1	6.5
EUR FX rate (ave)	6.9	7.7	11.3	10.5
EUR FX rate (eop)	7.4	10.7	11.7	10.7
Current account balance (share of GDP)	-4.2	-6.7	-1.7	-1.9
General government balance (share of GDP)	-1.1	-1.2	-6.3	-5.5

Source: Erste Group.

Market review

Despite the economic recovery, the Ukrainian banking market remained in a state of hibernation in 2010. Banks only selectively engaged in new lending business and demand from clients was also limited. This was especially true for local currency-based retail loans whose interest rates were still twice as high as for dollar-based loans. Altogether, customer loans in the banking sector grew only by 1% in 2010 with a shift from US dollar-based to local currency loans. Contrary to the loan market, Ukraine's deposit market was very lively in 2010 as banks' focus turned to deposit taking activities. As a result, customer deposits grew by 29% in 2010. Despite the significant difference between loan and deposit growth rates, the banking system's loan-to-deposit ratio remained high compared to other CEE countries while the system's NPL ratio increased to around 30%. The structure of the banking market remained stable, featuring a high degree of fragmentation: the largest of the 180 banks in operation accounted for only 12% of total assets.

Financial intermediation – Ukraine (in % of GDP)



Erste Bank Ukraine' operations in 2010 reflected the overall banking environment with a pronounced focus on deposit collection and very limited and selective lending activities. Erste Bank Ukraine's retail deposit market share improved further, benefiting from its very strong brand name, new deposit products and successful marketing campaigns. Erste Bank Ukraine was among the biggest market share gainers on the deposit side while on the loan side, it maintained its market shares throughout the year. The bank's loan-to-deposit ratio also improved significantly but still remained well above 100%. Overall, Erste Bank Ukraine's total asset market share stood at 1% at the end of 2010.

Business review

Strategy. Erste Bank Ukraine's main objective is to rank among the best in terms of service quality. In addition, the bank focuses on strengthening its market position in SME and retail banking, while

at the same time increasing operating efficiency. In line with the improving economic environment, the bank aims to enhance its product offer for both retail and corporate customers. In the retail segment this includes new card products, better product information and a resumption of lending activities. In the corporate segment the bank focuses on financing energy efficiency projects, the agriculture sector, food and beverage production, as well as engineering companies.

Highlights in 2010

Strong deposit growth, selective lending approach. In 2010 Erste Bank Ukraine successfully grew its client as well as its deposit base. Both increased by more than 50%, making the bank the fastest growing financial institution in the country. As the macroeconomic situation improved, Erste Bank Ukraine selectively resumed lending activities in 2010, first to SMEs and then in the retail segment. In doing so, the bank continued to adhere to strict lending criteria and focused on cash-flow rather than asset-based lending.

Maintaining stable liquidity and capital adequacy positions. Both, the liquidity and the capital adequacy positions of the bank, remained very solid in 2010. While the former significantly exceeded the regulatory minimum in 2010, the capital adequacy ratio strengthened further to 25.6% in 2010, compared to the National Bank minimum requirement of 10%. Reflecting this strong capital position, Erste Bank Ukraine was the only bank in the country whose credit and bond rating was confirmed by well respected local rating agency Credit-Rating at uaAA+ with a stable outlook. In addition, the rating agency maintained the highest available deposit reliability rating.

Financial review

in EUR million	2010	2009
Pre-tax profit	-37.3	-86.7
Net profit after minority interests	-37.5	-83.7
Operating result	1.6	-0.3
Cost/income ratio	n.a.	n.a.
Return on equity	n.a.	n.a.
Customer loans	486	509
Customer deposits	136	84

The operating result of the Ukrainian retail and SME business improved by EUR 1.9 million, from EUR -0.3 million to EUR 1.6 million in 2010. Lower lending volumes were more than offset by higher securities-related interest income, resulting in an increase in net interest income from EUR 27.1 million to EUR 32.9 million (+EUR 5.8 million or +21.5%, currency-adjusted: +14.3%). Higher income from foreign exchange transactions improved net commission income by EUR 2.8 million to EUR 4.1 million. The net trading result rose by EUR 4.2 million, from EUR 7.5 million to EUR 11.7 million. This corresponded to a currency-adjusted increase of 47.5%, which was achieved primarily in the securities business.

Operating expenses rose by EUR 11.0 million or 30.5% (currency-adjusted: +22.7%), from EUR 36.1 million to EUR 47.1 million. Risk provisions halved compared to the previous year (EUR 38.8 million in 2010 after EUR 76.7 million in 2009, currency-adjusted: -52.4%). This significant decline was caused by the general portfolio stabilisation in 2010 after considerable write-downs in 2009. Net profit after minorities improved by EUR 46.2 million, from EUR -83.7 million in 2009 to EUR -37.5 million.

Credit risk

Total exposure in the Ukraine segment rose by 15.1% from EUR 630 million at the end of 2009 to EUR 725 million. This increase was predominantly attributable to the appreciation of the Ukrainian hryvnia and the US dollar, which is the primary trade currency. In contrast to total exposure, customer loans decreased from EUR 509 million to EUR 486 million. While corporate loans declined, retail loans in local currency remained at the level of 2009. The share in total customer loans of Erste Group was less than 0.4% at the end of 2009.

Economic conditions remained difficult despite the return to growth. Consequently, new lending was again insignificant in 2010. Efforts concentrated on credit restructuring in cooperation with the customers. The aim was to adjust debt service terms to the changed economic environment and thereby, ensure full repayment of the loans over the medium to long term.

Credit quality continued to develop negatively in the first months of 2010 before bottoming out in the second quarter. Subsequently, the NPL ratio based on customer loans ranged between 27% and 29%. The recent increase in loans in the two best risk categories was a positive sign: these loans rose from 51.2% to 56.0% of the total portfolio in the last quarter. Due to the significant increase in risk provisions over the course of the year, which exceeded non-performing loans by EUR 10 million at year-end, coverage for credit losses was adequate.

Group Corporate and Investment Banking (GCIB)

Business profile. The Group Corporate and Investment Banking (GCIB) segment includes Erste Group's fully divisionalised large corporate (Group Large Corporates), investment banking (Group Investment Banking), real estate (Group Real Estate) and international (International Business) business lines. They provide the full range of banking services to cross-national large corporate clients, institutional and public sector clients. The division employs 1,250 professionals who combine industry and product expertise with local knowledge and offer services in debt financing, equity capital markets, mergers and acquisitions, debt advisory, acquisition finance, infrastructure finance, project finance, syndication, real estate development, lending & leasing, and cash management. The division cooperates closely with capital markets, retail and SME business lines.

Business review

Strategy. Building on its strong presence in retail and SME banking, Erste Group aims to also increase its footprint in the markets for corporate & investment banking in the CEE region. The aim is to capture market opportunities which result from the redistribution of market shares and still attractive pricing levels for new business. Consequently, the GCIB division has continued to pursue a selective growth strategy which reflects the differing market conditions in each of its business lines.

Group Large Corporates has pursued growth opportunities. A special effort has been to deepen relations with core clients combining an industry sector coverage approach and a widened product offering. In light of challenging but improving market conditions Group Real Estate has focused on the existing portfolio. In order to offer a "one-stop-shop" covering the full real estate value chain for commercial, residential and municipal projects, Erste Group Immorent (EGI) has been set-up as an integrated management structure across these real estate business segments. In the International Business maturing assets have been replaced on a selective basis only – overall this led to slightly reduced total volumes in GCIB out of which nevertheless increased operating income was generated.

Highlights in 2010

Focus on existing real estate portfolio. The Group Real Estate unit had to cope with another challenging year in 2010 although the positive effects of the economic recovery were increasingly visible across the CEE region. While transaction activity was still subdued it improved compared to 2009. Prices for commercial property stabilised or appreciated slightly. The following major projects (shopping centres) were completed and successfully opened in 2010: Arena Centar (60.000 sqm) in Zagreb, Sun Plaza (82.000 sqm) in Bucharest, and Supernova (38.000 sqm) in Zadar. The continued commitment to clients and the region was recognised: BCR received the Europa Property SEE award as "Bank of the Year 2009" for its activity in the real estate market.

Despite the slight improvement in the operating environment, the main focus remained on managing the existing portfolio and on supporting weaker clients and projects. Due to the cautious and selective market approach the portfolio did not change significantly, the overall exposure decreased slightly to about EUR 17 billion, including the building society business (commercial & subsidised housing) but excluding any activities of the savings banks. The portfolio remained well diversified: the most stable economies of Erste Group's region (Austria, Czech Republic, and Slovakia) accounted for almost 70% of the portfolio and more than 80% of the total volume was related to projects in capitals or in major cities. Residential properties accounted for 37% of the portfolio (about two thirds thereof were subsidised by Austrian public institutions and therefore low-risk), offices accounted for 15%, retail for another 15% and hotel/tourism for 11%. Land plot financing remained insignificant. Overall, some developments were started as demand showed moderate growth. Erste Group is still convinced that the significant need for renewal of the real estate stock in big parts of its core market will strongly support a positive market development in the future.

IMMORENT maintains profitability. IMMORENT, Erste Group's real estate leasing subsidiary and one of the leading leasing companies in Austria and in CEE, continued to focus on managing risk and revenues and on the selective acquisition of new business. Despite a marginal reduction in the overall portfolio volume, the economic stabilisation and well established client relationships resulted in slightly increased new real estate leasing business volume in Austria. A noticeable highlight in equipment leasing was the financing of photovoltaic energy production in the Czech Republic.

The project development business segment of IMMORENT focused on several large projects in Erste Group's core markets in 2010. Erste Campus, Erste Group's future headquarters, was approved by the supervisory board of ERSTE Group. The administrative complex of "Futurama Business Park" in the Czech Republic reached an occupancy rate of 88% and phase 2 was approved. The last phase of Business Park Avenir in Prague was sold with a profit of EUR 3.5 million. In Serbia the land for realisation of an office building was purchased. In Hungary and Bulgaria IMMORENT started with the construction of projects.

Group Large Corporates enjoys increased business activity. The Group Large Corporates (GLC) business line fine-tuned its sector based approach by further integrating the locally based client executives across the region. The aim of the revised structure is to improve the service to the clients and thus to ensure balanced portfolio growth across countries and sectors while generating stable revenues from intensified client relations. While asset volumes remained stable in 2010, operating income increased and risk provisions decreased.

Combined efforts of GLC client executives and product experts in the Group Markets business line resulted in Erste Group taking lead roles in several new bond issues for leading companies in CEE, including ČEZ, a.s., Wienerberger AG, Novomatic AG or Allgemeine Baugesellschaft - A. Porr AG. In addition, GLC actively participated in "ULSG" ("Unternehmensliquiditätsstärkungsgesetz") transactions within the framework of an initiative of the Republic of Austria to strengthen corporate liquidity, thus underscoring the deepened relations with core clients.

Group Investment Banking benefits from increased demand. The Group Investment Banking business line is specialised on corporate finance transactions and investment business for private equity funds in CEE. Within this business line the Equity Capital Markets ("ECM") team advises and executes initial and secondary public offerings, private placements and accelerated book-builds, and advises on share buy-backs and delistings. The Leveraged Finance department ("CAF") is focussed on providing acquisition finance for leveraged buy-outs of private equity funds in CEE as well as financing solutions for leveraged corporates. In addition, the team advises on debt restructurings of Erste Group corporate clients.

The Mergers & Acquisitions ("M&A") group provides buy- or sell-side advisory to corporate or institutional clients who seek to buy or sell companies in CEE. Services include valuations, bidding strategies and process execution. All product groups maintain staff in the execution hubs Prague and Vienna and additional staff across Erste Group's core markets and Poland.

The general corporate finance market in CEE has enjoyed a revival during 2010, although valuation levels and transaction numbers in terms of volume and deal count have not yet reached pre-crisis levels. Group Investment Banking has been able to participate in the ongoing recovery through close co-operation with GLC in core industries and the implementation of a private equity coverage concept designed to originate business with target sponsors in all product groups. As a result, fee income generated from corporate finance mandates has increased substantially compared to previous years and contributed to a solid increase in the division's income.

Transaction highlights included two lead mandates for initial public offerings in Warsaw (joint lead mandate for Kulczyk Oil Ventures, an oil exploration company and a sole lead mandate for Berling S.A., a white goods wholesaler) plus several co-lead mandates including the capital increase and listing in Istanbul of Do&Co Restaurants and Catering AG. In addition, listing services were provided to Immofinanz in its merger with Immoeast, to Amrest in its capital increase (sponsored by Warburg Pincus) and to Sibex, the derivatives exchange in Sibiu. Other transactions included LBO financings for Innova (in the buy-out of Marmite in Poland), for TA Associates (in the buy-out of Armann Girrbach in Austria) and of corporate refinancings for Agrokor, the leading Croatian food & beverage and retail conglomerate. Furthermore, the unit performed advisory services for a global building materials group in agreeing a joint venture with a regional construction company and sell-side advisory services for a global private equity group selling a food production company in Serbia.

Diversification remains key to the International Business.
Erste Group's 'International Business' unit covers all lending and investing activities outside the group's core markets and is responsible for business development with and credit line management for banks and non-bank financial institutions. The business objective is to provide risk return diversification to complement Erste Group's performance. The business follows a regional and product split and covers the world out of the branches in New York, London and Hong Kong as well as the Viennese headquarters.

The business line continued to contribute to global portfolio diversification as well as improving to the overall credit rating composition of Erste Group. The credit quality of the International Business portfolio was predominantly investment grade. The International Business line was once more a stable income producer - on the interest as well as on the fee side. The business line succeeded in keeping credit costs low, thus posting a strong profit. The strategy to consciously forgo marginal income by focusing exclusively on risk-reward when accepting to join lending transactions - especially in "boom" times - has proven right. It helped to minimize risk costs in "bust" years, and underlined the unit's position as stable profit contributor throughout the whole credit cycle.

Financial review

in EUR million	2010	2009
Pre-tax profit	337.3	218.4
Net profit after minority interests	247.6	166.4
Operating result	556.2	556.0
Cost/income ratio	24.8%	23.9%
Return on equity	12.2%	8.0%
Customer loans	18,745	19,458
Customer deposits	6,135	6,089

The slight increase in net interest income by EUR 3.7 million or 0.6%, from EUR 570.5 million in 2009 to EUR 574.2 million, resulted from the application of a stringent pricing policy. International business volumes decreased considerably, as planned. Net commission income remained almost unchanged at EUR 160.1 million in 2010 (2009: EUR 162.7 million, down by 1.6%), despite decreasing income from real estate leasing. General administrative expenses at EUR 183.9 million were up 5.6% from EUR 174.2 million in 2009.

The operating result remained stable at EUR 556.2 million. Risk provisions decreased by 30.4% from EUR 267.9 million to EUR 186.5 million; this improvement was mainly driven by the large corporate business. Net profit after minorities rose by 48.8%, from EUR 166.4 million to EUR 247.6 million in 2010. The EUR 37.3 million improvement in the item other result, from EUR -69.7 million in the previous year by to EUR -32.4 million, was mainly due to one-off revaluations in 2009. The cost/income ratio was 24.8% (2009: 23.9%), while return on equity equalled 12.2%.

Credit risk

Total exposure in the GCIB segment declined considerably in 2010 and amounted to EUR 37.8 billion at the end of December. Customer loans decreased by 3.7% from EUR 19.5 billion to EUR 18.7 billion; the GCIB loan portfolio accounted for 14.1% of Erste Group's total loan book. The subsegments Group Real Estate and Group Large Corporates (GLC) accounted for almost 84% of total lending to GCIB customers.

The quality of the portfolio was slightly worse at the end of 2010 than one year ago: non-performing loans increased by EUR 114 million to around EUR 1 billion, while the share of the best risk category decreased from 66.7% to 65.3%. A major portion of the increase in non-performing loans was attributable to the subsegment Group Real Estate, while the subsegment GLC remained relatively stable. NPL coverage increased considerably from 42.9% at year-end 2009 to 53.8% at year-end 2010.

78.4% of the GCIB portfolio was denominated in euro, while US dollar loans decreased. In view of the subdued – and in some markets still recessionary – economic development, the focus was not

on new lending but on managing the existing portfolios and, where necessary, restructuring loans.

Group Markets (GM)

Business profile. The Group Markets segment comprises the divisionalised business units Group Treasury and Group Capital Markets. In addition to Erste Holding's own treasury activities, it also includes the treasury units of the CEE subsidiaries, the foreign branches in Hong Kong and New York, as well as results of the investment banks, in Poland, Hungary and Croatia, as well as Erste Asset Management. The business unit Group Capital Markets (GCM) includes the divisionalised customer and proprietary trading activities of Erste Group. Specifically, GCM is responsible for trading in foreign exchange and interest rate products as well as securities for all customer groups and for the development of market-oriented products.

Business review

Strategy. Group Capital Markets is the link between financial markets, customers and the bank, and perceives its role as a CEE specialist for its customers in Austria and CEE. In the current environment, it is more important than ever to have the support of a strong partner like Erste Group in Central and Eastern Europe. The range of products is developed jointly with the sales units on an ongoing basis. The success factors are the broad range of standard products, tailor-made products, competitive prices and professional advisory services. The bank responded very early to the adverse market situation and started developing easy-to-understand products – especially for the retail segment – and products with a strong focus on safe investing. In trading, Group Capital Markets continues to benefit from its market position in the region, its know-how and strong presence in the local markets.

Highlights in 2010

Expansion into new markets. The changing banking landscape in Germany has opened up attractive business opportunities with financial institutions – savings banks, banks, insurance companies, pension funds. The focus is on fixed-income (bonds, debt securities and mortgage bonds, interest rate derivatives, etc.), but also supplemented by other asset classes such as foreign exchange, credit and alternative investments. Erste Group has traditionally done very good business in this customer and product segment and has a solid customer base in Central and Eastern Europe. The team will start its first full business year for Erste Group in 2011. Until then the German market will be covered out of Vienna; in addition, offices in Stuttgart and Berlin will be established.

The newly established investment bank Erste Securities Istanbul started business operations in April 2010. It focuses on equity transactions for institutional customers. The goal is to develop long-lasting customer relationships supported by Erste Group's decades of experience and credibility. The bank's strengths such as its leading market position in Central and Eastern Europe play a key role in addressing new customers.

Expansion of customer business. After 2009 in Hungary, certificates were also introduced in the Romanian market in 2010. The introduction of certificates in additional markets of the group is currently being evaluated.

This was supported by the group-wide roll-out of the web portal for retail (www.produkte.erstegroup.com) as well as institutional and corporate customers (www.capitalmarkets.erstegroup.com) of Erste Group that was initially launched in June 2009. The portal was expanded by a number of functions to offer customers the best possible services. *My Site* is the personalised information zone for registered users of the website. The portal offers the option of defining an individual starting page, watch lists and sample portfolios and has a subscription facility for newsletters and numerous research publications. It also features information on capital market products, markets and trends as well as research, know-how and CEE competence.

Trading highlights. Since October 2010, the new IT system for derivative FX products has been in use from front to back office. With the help of the new system, it was possible to increasingly structure tailor-made products in-house thus reducing operational risk. Over the next years, the system will be upgraded to cover additional asset classes. High demand for bonds from corporates, banks and sovereigns were the highlights in 2010. Backed by the close collaboration of relationship managers, origination, sales and trading, Erste Group further expanded its leading market position.

Financial review

in EUR million	2010	2009
Pre-tax profit	327.9	480.2
Net profit after minority interests	245.1	367.8
Operating result	326.2	484.0
Cost/income ratio	41.7%	31.5%
Return on equity	75.7%	106.9%
Customer loans	331	260
Customer deposits	2,536	2,087

The operating result decreased by 32.6%, from EUR 484.0 million in 2009 to EUR 326.2 million. This was mainly attributable to weaker results from conservative money market activities and interest rate trends. Significant events such as concerns about the creditworthiness of Greece and substantial HUF volatility had a negative impact on trading results. Net interest income decreased by EUR 36.8 million, or 19.0%, to EUR 156.4 million in 2010. The net trading result failed to reach the extraordinarily high level of EUR 407.0 million in 2009 and declined by 39.5% to EUR 246.3 million. The EUR 51.0 million increase in net commission income, from EUR 106.1 million or 48.1% to EUR 157.1 million, resulted from the positive development in asset management and from the steadily improving commission business in treasury sales.

Operating expenses amounted to EUR 233.7 million, up 5.1% on EUR 222.2 million in 2009. This was due mainly to the inclusion of additional asset management companies and IT projects. Accordingly, the cost/income ratio deteriorated from 31.5% to 41.7%. Net profit after minorities decreased by EUR 122.7 million or 33.4%, from EUR 367.8 million in 2009 to EUR 245.1 million. Return on equity was 75.7% against 106.9% in 2009.

Corporate Center (CC)

Business profile. The Corporate Center segment includes the results of those companies that cannot be directly allocated to a business segment, the profit consolidation between the segments, the linear depreciation/amortisation of customer relationships especially for BCR, Erste Card Club and Ringturm KAG as well as the one-time effects that were not allocated to any business segment to preserve comparability. Furthermore, the asset/liability management of Erste Group Bank AG (Holding) is allocated to this segment. The results of the local asset/liability management units are allocated to the respective segments.

Financial review

in EUR million	2010	2009
Pre-tax profit	-204.7	-340.0
Net profit after minority interests	-141.4	-229.9
Operating result	-71.6	-274.6
Cost/income ratio	n.a.	n.a.
Return on equity	n.a.	n.a.

Net interest income increased as a result of positive contributions from asset/liability management and higher capital income (especially from participation capital issued in the first half-year 2009 and the proceeds of the capital increase in November 2009). The development of net commission income and general administrative expenses was driven mainly by the profit consolidation of banking support operations.

The other result comprised the required linear depreciation/amortisation of customer relationships of BCR, Erste Card Club and Ringturm KAG amounting to EUR 67.4 million and valuation adjustments for IT projects and other assets of EUR 42.3 million. In addition, this line item was impacted by goodwill impairments for some smaller participations in a total amount of EUR 30.6 million.

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Consolidated Financial Statements 2010 (IFRS)

I. Statement of comprehensive income of Erste Group for the year ended 31 December 2010

Income statement

in EUR thousand	Notes	2010	2009
Interest and similar income		8,794,910	10,272,166
Interest and similar expenses		(3,403,422)	(5,063,964)
Income from associates accounted for at equity		21,015	12,701
Net interest income	1	5,412,503	5,220,903
Risk provisions for loans and advances	2	(2,031,147)	(2,056,568)
Fee and commission income		2,488,386	2,320,092
Fee and commission expenses		(552,388)	(547,291)
Net fee and commission income	3	1,935,998	1,772,801
Net trading result	4	456,201	585,097
General administrative expenses	5	(3,816,782)	(3,807,396)
Other operating result	6	(439,327)	(355,807)
Result from financial assets - at fair value through profit or loss	7	(6,025)	113,153
Result from financial assets - available for sale	8	9,244	(204,114)
Result from financial assets - held to maturity	9	(5,535)	(6,789)
Pre-tax profit from continuing operations		**1,515,130**	**1,261,280**
Taxes on income	10	(328,693)	(284,651)
Post-tax profit from continuing operations		**1,186,437**	**976,629**
Profit from discontinued operations net of tax		0	0
Net profit for the year		**1,186,437**	**976,629**
attributable to			
non-controlling interests		171,018	73,239
owners of the parent	**11**	**1,015,419**	**903,390**

Earnings per share

Earnings per share constitute net profit for the year attributable to owners of the parent divided by the average number of ordinary shares outstanding. Diluted earnings per share represent the maximum potential dilution (through an increase in the average number of shares) which would occur if all subscription and conversion rights granted were exercised (also see Note 30, Total equity).

		2010	2009
Net profit for the year attributable to owners of the parent	in EUR thousand	1,015,419	903,390
Dividend participation capital		(141,100)	(141,100)
Net profit for the year attributable to owners of the parent after deduction of dividend on participation capital		874,319	762,290
Weighted average number of shares outstanding	Number	374,695,868	322,206,516
Earnings per share	**in EUR**	**2.33**	**2.37**
Weighted average number of shares taking into account the effect of dilution	Number	376,749,863	322,263,559
Diluted earnings per share	in EUR	2.32	2.37

Statement of comprehensive income

in EUR thousand	2010	2009
Net profit for the year	**1,186,437**	**976,629**
Other comprehensive income		
Available for sale-reserve (including currency translation)	127,620	1,124,057
Reclassification adjustments	(34,367)	21,941
Cash flow hedge-reserve (including currency translation)	(76,497)	8,453
Reclassification adjustments	(25,772)	4,572
Actuarial gains and losses	34,753	37,303
Currency translation	78,164	(203,407)
Deferred taxes on items recognised in other comprehensive income	(26,210)	(405,797)
Reclassification adjustments	13,456	(24,544)
Other comprehensive income - total	**137,830**	**560,609**
Total comprehensive income	**1,324,267**	**1,537,238**
attributable to		
non-controlling interests	199,581	376,096
owners of the parent	**1,124,686**	**1,161,142**

II. Balance Sheet of Erste Group at 31 December 2010

in EUR thousand	Notes	2010	2009 amended[1)]	01.01.2009 amended[1)]
ASSETS				
Cash and balances with central banks	12	5,839,384	5,996,253	7,556,245
Loans and advances to credit institutions	13	12,496,460	13,139,942	14,344,033
Loans and advances to customers	14	132,729,267	129,133,721	126,184,918
Risk provisions for loans and advances	15	(6,119,058)	(4,954,291)	(3,782,793)
Derivative financial instruments	16	8,474,100	4,712,740	3,369,321
Trading assets	17	5,535,543	6,012,564	5,002,474
Financial assets - at fair value through profit or loss	17	2,434,158	2,997,230	4,057,770
Financial assets - available for sale	17	17,751,115	16,389,828	16,033,080
Financial assets - held to maturity	17	14,234,700	14,899,067	14,145,411
Equity holdings in associates accounted for at equity	18	223,497	240,575	260,396
Intangible assets	19	4,674,578	4,866,518	4,804,486
Property and equipment	19	2,445,580	2,343,859	2,385,994
Current tax assets	20	116,474	123,784	57,948
Deferred tax assets	20	417,612	453,678	800,676
Assets held for sale	21	52,461	57,785	525,578
Other assets	20, 22	4,632,152	5,296,926	5,695,608
Total assets		**205,938,023**	**201,710,179**	**201,441,145**
LIABILITIES AND EQUITY				
Deposits by banks	23	20,153,934	26,295,125	34,671,550
Customer deposits	24	117,016,323	112,042,412	109,304,601
Debt securities in issue	25	31,298,536	29,612,066	30,483,574
Derivative financial instruments	16	7,996,053	3,749,273	2,887,314
Trading liabilities	26	215,698	720,674	230,121
Provisions	27	1,544,549	1,670,015	1,620,418
Current tax liabilities	20	68,367	30,077	110,020
Deferred tax liabilities	20	328,062	331,044	279,125
Liabilities associated with assets held for sale	28	0	0	342,855
Other liabilities	29	4,349,677	4,988,353	4,369,691
Subordinated liabilities	30	5,838,041	6,148,376	6,046,632
Total equity	31	17,128,783	16,122,764	11,095,244
attributable to				
non-controlling interests		3,543,487	3,414,234	3,016,473
owners of the parent		13,585,296	12,708,530	8,078,771
Total liabilities and equity		**205,938,023**	**201,710,179**	**201,441,145**

1) Due to reclassifications, the positions Trading assets / liabilities, Derivative financial instruments and Other assets / liabilities deviate from amounts published in the Financial Statements fort he year 2009. (see chapter C – Accounting Policies).

III. Statement of Changes in Total Equity

A) STATEMENT OF CHANGES IN TOTAL EQUITY FOR THE YEAR ENDED 31 DECEMBER 2010

in EUR million	Subscribed capital	Additional paid-in capital	Retained earnings	Cash flow hedge reserve	Available for sale reserve	Currency translation	Deferred tax[2]	Total owners of the parent	Non-controlling interests	Total equity 2010
Total equity at 31 December 2009	**2,517**	**6,171**	**4,628**	**73**	**(372)**	**(390)**	**82**	**12,709**	**3,414**	**16,123**
Changes in own shares			146					146		146
Purchase			(541)					(541)		(541)
Sale			664					664		664
Result			23					23		23
Dividends			(385)					(385)	(42)	(427)
Capital increases[1]		6						6		6
Participation capital[3]	(4)							(4)		(4)
Purchase			(37)					(37)		(37)
Sale			37					37		37
Result			0					0		0
Change in interest in subsidiaries								0	(28)	(28)
Acquisition of non-controlling interest			(11)					(11)	0	(11)
Total comprehensive income			1,032	(62)	94	78	(18)	1,124	200	1,324
Net profit for the year			1,015					1,015	171	1,186
Other comprehensive income			17	(62)	94	78	(18)	109	29	138
Total equity at 31 December 2010	**2,513**	**6,177**	**5,410**	**11**	**(278)**	**(312)**	**64**	**13,585**	**3,544**	**17,129**

1) Capital increase in connection with ESOP (Employee Share Option Plan)
2) For disclosure of tax effects relating to each component of other comprehensive income, see note 10.
3) Expenses incurred by the capital increase decreased the equity by EUR 5 m and the positive tax effect from tax deductible expenses incurred by the capital increase resulted in an increase of equity by EUR 1 m. See also note 30

For further details, see note 30 total equity.

B) STATEMENT OF CHANGES IN TOTAL EQUITY FOR THE YEAR ENDED 31 DECEMBER 2009

in EUR million	Sub-scribed capital	Addi-tional paid-in capital	Retained earnings	Cash flow hedge reserve	Avail-able for sale reserve	Cur-rency trans-lation	Deferred tax[4]	Total owners of the parent	Non-control-ling interests	Total equity 2009
Total equity at 31 December 2008	**634**	**4,583**	**3,711**	**70**	**(1,073)**	**(226)**	**380**	**8,079**	**3,016**	**11,095**
Changes in own shares			201					201		201
Purchase			(2,327)					(2,327)		(2,327)
Sale			2,503					2,503		2,503
Result			25					25		25
Dividends			(203)					(203)	(92)	(295)
Capital increases[1) 2)]	122	1,588						1,710		1,710
Participation capital[3)]	1,761							1,761		1,761
Change in interest in subsidiaries									114	114
Total comprehensive income			919	3	701	(164)	(298)	1,161	376	1,537
Net profit for the year			903					903	73	976
Other comprehensive income			16	3	701	(164)	(298)	258	303	561
Total equity at 31 December 2009	**2,517**	**6,171**	**4,628**	**73**	**(372)**	**(390)**	**82**	**12,709**	**3,414**	**16,123**

1) Capital increase in connection with ESOP (Employee Share Option Plan)

2) In November 2009, Erste Group increased equity by the public placement of ordinary shares in a total nominal amount of EUR 1.74 bn. Increase in equity net of expenses incurred by the capital increase and related tax effects totalled EUR 1.70 bn. Expenses incurred by the capital increase decreased the equity by EUR 54 m and the positive tax effect from tax-deductible expenses incurred by the capital increase resulted in an increase of equity by EUR 13 m.

3) In April 2009, Erste Group placed participation capital in a total nominal amount of EUR 1.76 bn. Of this EUR 1.22 bn was subscribed to by the Republic of Austria and EUR 540 m by private parties. Increase in equity net of expenses incurred by the capital increase and related tax effects totalled EUR 1.76 bn. Expenses incurred by the capital increase decreased the equity by EUR 4 m and the positive tax effect from tax deductible expenses incurred by the capital increase resulted in an increase of equity by EUR 1 m. See also note 30.

4) For disclosure of tax effects relating to each component of other comprehensive income, see note 10.

IV. Cash Flow Statement

in EUR million	2010	2009
Profit from continuing operations	**1,186**	**977**
Profit from discontinued operations	**0**	**0**
Net profit for the year	**1,186**	**977**
Non-cash adjustments for items in net profit for the year		
Depreciation, amortisation, impairment and reversal of impairment, revaluation of assets	676	826
Allocation to and release of provisions (including risk provisions)	2,152	2,152
Gains/(losses) from the sale of assets	(82)	(122)
Other adjustments	(24)	29
Changes in assets and liabilities from operating activities after adjustment for non-cash components		
Loans and advances to credit institutions	653	1,338
Loans and advances to customers	(3,596)	(1,957)
Trading assets	(2,957)	(1,012)
Financial assets - at fair value through profit or loss	557	1,174
Financial assets - available for sale	(1,264)	392
Other assets from operating activities	(378)	(880)
Deposits by banks	(6,141)	(8,709)
Customer deposits	4,974	1,852
Debt securities in issue	1,686	(951)
Trading liabilities	3,153	613
Other liabilities from operating activities	(275)	932
Cashflow from operating activities	**320**	**(3,346)**
thereof discontinued operations	**0**	**0**
Proceeds of disposal		
Financial assets - held to maturity and associated companies	3,790	2,109
Property and equipment, intangible assets and investment properties	252	489
Acquisition of		
Financial assets - held to maturity and associated companies	(3,225)	(3,036)
Property and equipment, intangible assets and investment properties	(622)	(940)
Acquisition of subsidiaries (net of cash and cash equivalents acquired)	(7)	(84)
Disposal of subsidiaries	3	0
Cash flow from investing activities	**191**	**(1,462)**
thereof discontinued operations	**0**	**0**
Capital increases	2	3,470
Dividends paid	(385)	(203)
Other financing activities (mainly changes of subordinated liabilities)	(310)	98
Cash flow from financing activities	**(693)**	**3,365**
thereof discontinued operations		**0**
Cash and cash equivalents[1] at beginning of period	**5,996**	**7,556**
Cashflow from operating activities	320	(3,346)
Cash flow from investing activities	191	(1,462)
Cash flow from financing activities	(693)	3,365
Effect of currency translation	25	(117)
Cash and cash equivalents[1] at end of period	**5,839**	**5,996**
Cash flows related to taxes, interest and dividends	**5,084**	**4,959**
Payments for taxes on income	(329)	(262)
Interest received	8,668	10,124
Dividends received	148	161
Interest paid	(3,403)	(5,064)

1) Cash and cash equivalents are equal to cash in hand and balances held with central banks.

V. Notes to the Financial Statements of Erste Group

A. GENERAL INFORMATION

Erste Group Bank AG is Austria's oldest savings bank and the largest wholly privately-owned Austrian credit institution listed on the Vienna Stock Exchange. It is also quoted on the Prague Stock Exchange (since October 2002) and on the Bucharest Stock Exchange (since 14 February 2008). The registered office of Erste Group Bank AG is located at Graben 21, 1010 Vienna, Austria.

Erste Group offers a complete range of banking and other financial services, such as savings accounts, asset management (including investment funds), consumer credit and mortgage lending, investment banking, securities and derivatives trading, portfolio management, project finance, foreign trade financing, corporate finance, capital market and money market services, foreign exchange trading, leasing and factoring.

The consolidated financial statements of Erste Group for the 2010 financial year and the comparable data for 2009 were prepared in compliance with applicable International Financial Reporting Standards (IFRS) and International Accounting Standards (IAS) published by the International Accounting Standards Board (IASB) and with their interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC, formerly Standing Interpretations Committee or SIC) as adopted by the European Union, thus satisfying the requirements of Section 59a Austrian Banking Act and Section 245a Austrian Commercial Code.

Except as otherwise indicated, all amounts are stated in millions of euros. The tables in this report may contain rounding differences.

It is planned for the Management (following a presentation to the Supervisory Board) to approve the consolidated financial statements on 1 March 2011 for publication.

B. ACQUISITIONS AND DISPOSALS

Acquisitions in 2010

Erste Group did not make any significant acquisitions and disposals during 2010.

Acquisitions in 2009

Erste & Steiermärkische Bank d.d Rijeka acquired a total of 100.0% (65.35% of shares directly and indirectly held by Erste Group Bank AG) of Erste Bank ad, Podgorica (former Opportunity Bank). Erste Bank ad, Podgorica was fully consolidated in the financial statements of Erste Group with effect from 31 March 2009.

The total purchase price for the acquisition of the shares of Erste Bank ad, Podgorica including transaction costs, was about EUR 13.5 million. The resulting negative goodwill amounting to HRK 65.6 million or EUR 9.0 million was recognised directly in Other operating result.

Erste Group acquired 95.0% of asset management business (Ringturm Kapitalanlagegesellschaft m.b.H) of Vienna Insurance Group (VIG), during the course of the sell of its insurance activities, with a view to cooperating more closely with the VIG. Ringturm Kapitalanlagegesellschaft m.b.H was fully consolidated in the financial statements of Erste Group with effect from 31 March 2009.

The total purchase price for the acquisition of the shares of Ringturm Kapitalanlagegesellschaft m.b.H was EUR 100 million with the resulting goodwill amounting to EUR 36.3 million.

Customer relationships were recognised separately from goodwill. Upon consolidation, customer relationships were valued at EUR 84.8 million and are being amortised on a straight line basis over the expected useful life of about 20 years.

With effect from 21 January 2009, Sparkasse Kufstein AG joined the Haftungsverbund of the Austrian savings banks. Since that date, the savings bank has been included in the consolidated financial statements of Erste Group. Erste Group holds no equity interest in this savings bank.

Shareholdings in significant companies and their representation in the consolidated financial statements are detailed in Note 46

C. ACCOUNTING POLICIES

a) BASIS OF CONSOLIDATION

Subsidiaries

All subsidiaries directly or indirectly controlled by Erste Group Bank AG are consolidated in the group financial statements, on the basis of the subsidiaries' annual accounts at and for the year ended 31 December 2010.

Subsidiaries are consolidated from the date on which control is transferred to the Bank. Control is achieved when the Bank has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the date of acquisition or up to the date of disposal. The financial statements of the Bank's subsidiaries are prepared for the same reporting year as Erste Group Bank AG, by using consistent accounting policies. All intra-group balances, transactions, income and expenses as well as unrealised gains and loss and dividends are eliminated. Non-controlling interests represent the portion of total comprehensive income and net assets, which are not attributable to the group.

Erste Group Bank AG is a member of the Haftungsverbund of the Austrian savings bank sector. At the balance sheet date almost all of Austria's savings banks, in addition to Erste Group Bank AG and Erste Bank der oesterreichischen Sparkassen AG, formed part of this Haftungsverbund.

The provisions of the agreement governing the Haftungsverbund are implemented by the steering company Haftungsverbund GmbH. Erste Group Bank AG indirectly always holds at least 51% of the subscribed capital of the steering company, through Erste Bank der oesterreichischen Sparkassen AG. Two of the four members of the steering company's management, including the CEO, who has the casting vote, are appointed by Erste Bank der oesterreichischen Sparkassen AG. The steering company is vested with the power to monitor the common risk policies of its members. If a member encounters serious financial difficulties – specific key indicators are continually monitored – the steering company has the mandate to provide support measures and/or to intervene, as required, in the business management of the affected member savings bank. As Erste Group Bank AG owns the controlling interest in the steering company, it exercises control over the members of the cross-guarantee system. In accordance with IFRS, all Haftungsverbund members are therefore fully consolidated.

Investments in associates

Investments in companies over which Erste Group Bank AG exercises a significant influence ('associates') are accounted for under the equity method. As a general rule, significant influence is presumed by an ownership interest of between 20% and 50%. Joint ventures are also included using the equity method. Under the equity method, an interest in an associate is recognised in the balance sheet at cost plus post-acquisition changes in the group's share of the net assets of the entity. The group's share of the associate's profit or loss is recognised in the income statement. Entities accounted for under the equity method are recognised largely on the basis of annual financial statements at – and for the year ended on – 31 December 2010.

b) ACCOUNTING AND MEASUREMENT METHODS

In order to improve transparency, Erste Group has enhanced the balance sheet structure by introducing an additional line item "Derivative financial instruments", both for the assets and liabilities sides of the balance sheet. This new disclosure is felt to be more appropriate and of greater relevance. The positive and negative fair values of derivative instruments previously shown under "Trading assets / liabilities" and "Other assets / liabilities" are now reported under the single line item "Derivative financial instruments". The comparative figures have been amended as follows:

in EUR million	31.12.2009	01.01.2009
ASSETS		
Trading assets	2,586	2,532
Other assets	2,127	837
Derivative financial instruments	**4,713**	**3,369**
LIABILITIES AND EQUITY		
Trading liabilities	2,436	2,290
Other liabilities	1,313	597
Derivative financial instruments	**3,749**	**2,887**

Derivatives are shown on a gross basis. The change had no impact on the consolidated statement of comprehensive income.

Foreign currency translation

The consolidated financial statements are presented in euro which is the functional currency of Erste Group Bank AG. The functional currency is the currency of the primary business environment in which an entity operates. Each entity in the group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

For foreign currency translation, exchange rates quoted by the central banks in each country are used. For group entities with the euro as functional currency, these are the ECB reference rates.

(i) Transactions and balances in foreign currency
Transactions in foreign currencies are initially recorded at the functional currency exchange rate effective at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rate of exchange at the balance sheet date. All resulting exchange differences that arise are recognised in the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

(ii) Group companies
Assets and liabilities of foreign subsidiaries are translated into Erste Group's presentation currency euro at the rate of exchange as at the balance sheet date (closing rate). Their statements of comprehensive income (including other comprehensive income) are translated at monthly average exchange rates. Goodwill and fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition (including the recognition of intangible assets such as customer relationships and brand) are treated as assets and liabilities of the foreign subsidiaries and are translated at the closing rate. Exchange differences arising on translation are recognised in other comprehensive income. On disposal of a foreign subsidiary, the cumulative amount recognised in other comprehensive income relating to that particular foreign subsidiary is recognised in the income statement.

Financial instruments – recognition and measurement

A financial instrument is a contract which automatically produces a financial asset for the one company and a financial liability or equity instrument for the other. In accordance with IAS 39, all financial assets and liabilities – which also include derivative financial instruments – have to be recognised in the balance sheet and measured in accordance with their assigned category.

Erste Group uses following measurement categories:
- financial assets or financial liabilities at fair value through profit or loss,
- available-for-sale financial assets
- held-to-maturity investments
- loans and receivables
- financial liabilities measured at amortised cost (which are defined in addition to the above mentioned measurement categories according to IAS 39)

IAS 39 measurement categories are not necessarily the line items presented in the balance sheet. Specific relationships between the balance sheet line items and measurement categories are described in the table of the point (xi).

Basically it has to be distinguished between two measurement methods:
- amortised cost
- fair value

(i) Date of recognition
Financial instruments are initially recognised when Erste Group becomes a party to the contractual provisions of the instrument. Regular way (spot) purchases and sales of financial assets are recognised at settlement date which is the date that an asset is delivered.

(ii) Initial measurement of financial instruments
The classification of financial instruments at initial recognition depends on the purpose and the management's intention for which the financial instruments were acquired and their characteristics. Financial instruments are measured initially at their fair value plus transaction costs. However in the case of financial assets and financial liabilities designated at fair value through profit or loss, transaction costs are not included.

(iii) Cash and balances with central banks
Balances with central banks include only claims (deposits) against central banks which are repayable on demand. Repayable on demand means that it may be withdrawn at any time or with a term of notice of only one business-day or 24 hours. Mandatory minimum reserves are also shown under this position.

(iv) Derivatives
Derivatives used by Erste Group include mainly interest rate swaps, futures, forward rate agreements, interest rate options, currency swaps and currency options. Derivatives are measured at fair value. Changes in fair value are recognised in the income statement except those resulting from cash flow hedges accounted in accordance with hedge accounting principles. Derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative. All kind of derivatives disregarding their internal classification are disclosed under the line item ''Derivative financial instruments" which can be found both on assets and liabilities side of the balance sheet. It means that the line item ''Derivative financial instruments" contains both derivatives held in trading book and banking book and includes also derivatives which are officially designated for hedge accounting.

(v) Financial assets and financial liabilities held-for-trading
Financial assets and financial liabilities held-for-trading are recorded at fair value in the balance sheet. Changes in fair value including interest income and expenses as well as dividend income resulting from financial instruments held-for-trading are reported in 'Net trading result'. Included in held-for-trading are debt securities, equity instruments acquired or issued principally for the purpose of selling or repurchasing in the near term. They are presented as 'Trading assets' or 'Trading liabilities' in the balance sheet.

(vi) Financial assets or financial liabilities designated at fair value through profit or loss
Financial assets or financial liabilities classified in this category are those that have been designated by management on initial recognition (Fair Value Option).

Erste Group uses the fair value through option in case of financial assets managed on fair value basis. In accordance with a documented investment strategy, the performance of the portfolio is evaluated and regularly reported to the management board. The portfolio consists largely of relatively low credit risk investments in bonds issued by EU governments and EU municipalities. They also have very low interest risk as most of them are floating rate bonds linked to EURIBOR.

Financial assets designated at fair value through profit or loss are recorded in the balance sheet at fair value in the line 'Financial assets – at fair value through profit or loss' with changes in fair value recognised in the income statement 'Result from financial assets – at fair value through profit or loss'. Interest earned on debt instruments is shown in 'Interest and similar income' Also, dividend income on equity instruments is presented in 'Interest and similar income' when the right to the payment has been established.

If financial liabilities are designated at fair value through profit or loss then they are reported under respective financial liabilities positions 'Deposits by banks', 'Customer deposits' or 'Debt securities in issue'. Changes in fair value are recognised in 'Result from financial assets – at fair value through profit or loss'. Interest incurred is shown as 'Interest and similar expenses'.

(vii) Available-for-sale financial assets
Available-for-sale assets include equity and debt securities as well as other investments in non-consolidated companies. Equity investments classified as available-for-sale are those which are neither classified as held-for-trading nor designated at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.

After initial measurement, available-for-sale financial assets are subsequently measured at fair value. Unrealised gains and losses are recognised directly in other comprehensive income and reported in the 'Available-for-sale reserve' until the financial asset is disposed of or impaired. If available-for-sale assets are disposed of or impaired, the cumulative gain or loss previously recognised directly in other comprehensive income is reclassified to profit or loss and reported under the line item 'Result from financial assets – available for sale'. In the balance sheet, available-for-sale financial assets are disclosed in the line item 'Financial assets – available for sale'.

If the fair value of investments in non-quoted equity instruments cannot be measured reliably, they are recorded at cost. There is no market for such investments. Erste Group does not have any specific plan to dispose such investments

Interest and dividend income on available-for-sale financial assets are reported in the income statement as 'Interest and similar income'.

(viii) Held-to-maturity financial investments
Held-to-maturity financial investments reported as 'Financial assets – held to maturity' in the balance sheet are non-derivative financial assets with fixed or determinable payments and fixed maturities, if Erste Group has the intention and ability to hold them until maturity. After initial recognition held-to-maturity financial investments are subsequently measured at amortised cost including impairment. Interest earned on financial assets held-to-maturity is reported in 'Interest and similar income'. Losses arising from impairment of such investments as well as realised gains or losses from selling are recognised in the income statement in the line 'Result from financial assets – held to maturity'.

(iv) Loans and advances
The balance sheet line items 'Loans and advances to credit institutions' and 'Loans and advances to customers' meet the definition of loans and receivables category. Loans and advances include non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:
- those that Erste Group intends to sell immediately or in the near term and those that Erste Group upon initial recognition designates as at fair value through profit or loss;
- those that Erste Group, upon initial recognition, designates as available for sale; or
- those for which Erste Group may not recover substantially all of its initial investment, other than because of credit deterioration.

After initial measurement, loans and advances are subsequently measured at amortised cost including impairment. Interest income earned is included in 'Interest and similar income' in the income statement. Allowance for impairment is reported in the balance sheet line 'Risk provisions for loans and advances'. Losses arising from impairment are recognised in the income statement line 'Risk provisions for loans and advances'.

(x) Deposits and other liabilities
Financial liabilities are measured at amortised cost, unless they are measured at fair value through profit or loss. Financial liabilities are reported in the lines 'Deposits by banks', 'Customer deposits' 'Debt securities in issue' or 'Subordinated liabilities' except for those which are not held for trading. Interest expenses incurred are reported in the line 'Interest and similar expenses' in the income statement.

(xi) Relationships between balance sheet positions and measurement categories and classes for risk disclosures

Balance sheet positions	Measurement value			Measurement category
	Fair Value	At amortised cost	Other	
ASSETS				
Cash and balances with central banks			Nominal value	n/a
Loans and advances to credit institutions		x		Loans and receivables
Loans and advances to customers		x		Loans and receivables
Risk provisions for loans and advances		x		Loans and receivables
Derivative financial instruments	x			Financial assets - at fair value through profit or loss
Hedging derivatives	x			n/a
Trading assets	x			Financial assets - at fair value through profit or loss
Financial assets - at fair value through profit or loss	x			Financial assets - at fair value through profit or loss
Financial assets - available for sale	x			Financial assets - available for sale
Financial assets - held to maturity		x		Financial assets - held to maturity
Other assets		x		Loans and receivables
LIABILITIES				
Deposits by banks		x		Financial liabilities
Customer deposits	x	x		Financial liabilities / Financial liabilities - at fair value through profit or loss
Debt securities in issue	x	x		Financial liabilities / Financial liabilities - at fair value through profit or loss
Derivative financial instruments	x			Financial liabilities - at fair value through profit or loss
Hedging derivatives	x			n/a
Trading liabilities	x			Financial liabilities
Other liabilities		x		Financial liabilities
Subordinated liabilities		x		Financial liabilities

For the purposes of risk disclosures under IFRS 7 Erste Group splits balance sheet positions for financial instruments into classes – disaggregated according to industries (see note 37.5).

Derecognition of financial assets and financial liabilities

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- **-the rights to receive cash flows from the asset have expired; or**
- **-as Erste Group has transferred its rights to receive cash flows from the asset or**
- **has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement;**
- **and either:**
  - **has transferred substantially all the risks and rewards connected with the ownership of the asset, or**
  - **has neither transferred nor retained substantially all the risks and rewards connected with the ownership of the asset, but has transferred control of the asset.**

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires.

Repurchase and reverse repurchase agreements,

Securities sold under agreement to repurchase at a specified future date are not derecognised from the balance sheet as Erste Group retains substantially all the risks and rewards of ownership. Such transactions are also known as 'repos' or 'sale and repurchase agreement'. The corresponding cash received is recognised in the balance sheet as an asset with a corresponding obligation to return it as a liability in the respective lines 'Deposits by banks' or 'Customer deposits' reflecting the transaction's economic substance as a loan to Erste Group. The difference between the sale and repurchase prices is treated as interest expense and recorded in the line 'Interest and similar expenses' and is accrued over the life of agreement. Financial assets transferred out by Erste Group under repurchase agreements remain on the group's balance sheet and are measured according to the rules applicable to the respective balance sheet item.

Conversely, securities purchased under agreements to resell at a specified future date are not recognised in the balance sheet. Such transactions are also known as 'reverse repos'. The consideration paid is recorded in the balance sheet in the respective lines 'Loans and advances to credit institutions' or 'Loans and advances to customers', reflecting the transaction's economic substance as a loan by Erste Group. The difference between the purchase and resale prices is treated as interest income and recorded in line 'Interest and similar income' and is accrued over the life of the agreement.

Securities lending and borrowing

In securities lending transactions, the lender transfers ownership of securities to the borrower on the condition that the borrower will retransfer, at the end of the agreed loan term, ownership of instruments of the same type, quality and quantity and will pay a fee determined by the duration of the lending. Similarly to 'reverse repos', the transfer of the securities to counterparties via securities lending does not result in derecognition unless the risks and rewards of ownership are also transferred. Securities borrowed are not recognised on the balance sheet, unless they are then sold to third parties.

Determination of fair value

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

The best indication of the fair value of financial instruments is provided by quoted market prices in an active market. Where quoted market prices in an active market are available, they are used to measure the financial instrument (level 1 of fair value hierarchy). The measurement of fair value at Erste Group is based primarily on external sources of data (stock market prices or broker quotes in highly liquid market segments). Where no market prices are available, fair value is determined on the basis of valuation models that are based on observable market information (level 2 of fair value hierarchy). In some cases, the fair value of financial instruments can be determined neither on the basis of market prices nor of valuation models that rely entirely on observable market data. In this case, individual valuation parameters not observable in the market are estimated on the basis of reasonable assumptions (level 3 of fair value hierarchy).

Erste Group employs only generally accepted, standard valuation models. Net present values are determined for linear derivatives (e.g. interest rate swaps, cross currency swaps, foreign exchange forwards and forward rate agreements) by discounting the recurring cash flows. Plain vanilla OTC options (on shares, currencies and interest rates) are valued using option pricing models of the Black-Scholes class; complex interest rate derivatives are measured using Hull-White and/or Brace Gatorek Musiela (BGM) models. Erste Group uses only valuation models which have been tested internally and for which the valuation parameters (such as interest rates, exchange rates and volatility) have been determined independently.

Impairment of financial assets

Erste Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, the probability that they will enter bankruptcy or other financial reorganisation, default or delinquency in interest or principal payments and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

(i) Financial assets carried at amortised cost
If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset`s carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral.

In case of loans and advances, any impairment is reported in the allowance account referred to as 'Risk provisions for loans and advances' in the balance sheet and the amount of the loss is recognised in the income statement line 'Risk provisions for loans and advances'. Risk provisions for loans and advances include specific risk provisions for loans and advances for which objective evidence of impairment exists. In addition, risk provisions for loans and advances include portfolio risk provisions for which no objective evidence of impairment exists in single observation. For held-to-maturity investments impairment is recognised directly by reduction of asset account and in the income statement line 'Result from financial assets – held to maturity'. Interest income for individually impaired assets continues to be accrued on the reduced carrying amount and is accrued using the interest rate used to discount the future cash flows for the purpose of measuring the impairment loss. This interest income is recorded as part of 'Interest and similar income'.

Loans together with the associated allowance are derecognised when there is no realistic prospect of future recovery and all collaterals have been realised in Erste Group.

If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account in case of loans and advances. In case of held-to-maturity investments the carrying amount is increased or decreased. Decreases of impairment losses are reported in the same line of income statement as the impairment loss itself.

(ii) Available-for-sale financial investments
In case of debt instruments classified as available-for-sale, Erste Group assesses individually whether there is objective evidence of impairment based on the same criteria as for financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement. On recognising impairment any amount of losses retained in other comprehensive income item 'Available for sale reserve' is reclassified to the income statement and shown as impairment loss in 'Result from financial assets – available for sale'. If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to credit event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed through the income statement in the line 'Result from financial assets – available for sale'. Impairment losses and their reversals are recognised directly against the assets in the balance sheet.

In case of equity investments classified as available-for-sale, objective evidence also includes a 'significant' or 'prolonged' decline in the fair value of the investment below its cost. For this purpose in Erste Group "significant" decline means a market price below 80% of the acquisition cost and "prolonged" decline refers to a market price which is permanently below acquisition cost for a period of 9 month up to the reporting date. Where there is evidence of impairment, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement is removed from'Available for sale reserve' in other comprehensive income and is reclassified and shown as impairment loss in 'Result from financial assets – available for sale'. Impairment losses on equity investments are not reversed through the income statement; increases in the fair value after impairment are recognised directly in other comprehensive income. Impairment losses and their reversals are recognised directly against the assets in the balance sheet.

(iii) Off-balance-sheet exposures
Provisions for off-balance sheet transactions (particularly warranties and guarantees as well as other credit commitments) are included in the balance sheet line 'Provisions', the related expense is reported in the income statement in line 'Risk provisions for loans and advances'.

Hedge accounting

Erste Group makes use of derivative instruments to manage exposures to interest rate risk and foreign currency risk. At inception of the hedge relationship, the Bank formally documents the relationship between the hedged item and the hedging instrument, including the nature of the risk, the objective and strategy for undertaking the hedge and the method that will be used to assess the effectiveness of the hedging relationship. Also at the inception of the hedge relationship, a formal assessment is undertaken to ensure the hedging instrument is expected to be highly effective in offsetting the designated risk in the hedged item. A hedge is expected to be highly effective if the changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated are expected to offset in a range of 80%

to 125%. Exact conditions for particular types of hedges applied by Erste Group are internally specified.

(i) Fair value hedges

Fair value hedges are employed to reduce market risk. For designated and qualifying fair value hedges, the change in the fair value of a hedging derivative is recognised in the income statement. Meanwhile, the change in the fair value of the hedged item attributable to the risk hedged is recorded as part of the carrying value of the hedged item and is also recognised in the income statement.

If the hedging instrument expires or is sold, terminated or exercised, or when the hedge no longer meets the criteria for hedge accounting, the hedge relationship is terminated. In this case the fair value adjustment of the hedged item shall be amortised to the income statement until maturity of the financial instrument.

(ii) Cash flow hedges

Cash flow hedges are used to eliminate uncertainty in the future cash flows in order to stabilise net interest income. For designated and qualifying cash flow hedges, the effective portion of the gain or loss on the hedging instrument is recognised in Other comprehensive income and reported under the 'Cash flow hedge reserve'. The ineffective portion of the gain or loss on the hedging instrument is recognised in the income statement in 'Net trading result'. When the hedged cash flow affects the income statement the gain or loss on the hedging instrument is reclassified into the corresponding income or expense line in the income statement.

When a hedging instrument expires, or is sold, terminated, exercised, or when a hedge no longer meets the criteria for hedge accounting, the hedge relationship is terminated. In this case the cumulative gain or loss on the hedging instrument that has been recognised in other comprehensive income shall remain separately in 'Cash flow hedge reserve' until the transaction occurs.

Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the balance sheet if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Leasing

Lease is an agreement whereby the lessor conveys to the lessee in return for a payment or series of payments the right to use an asset for an agreed period of time. Finance lease of Erste Group is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. Remaining lease agreements in Erste Group are classified as Operating lease.

Erste Group as a lessor

The lessor in the case of finance lease reports a receivable against the lessee amounting to present value of the contractually agreed payments taking into account any residual value. In the case of operating leases the leased asset is reported by the lessor in 'property and equipment' or in 'investment property' and is depreciated in accordance with the principles applicable to the assets involved. Lease income is recognised on a straight-line basis over the lease term.

Lease agreements in which Erste Group is the lessor almost exclusively represent finance leases.

Erste Group as a lessee

From the side of a lessee, Erste Group has not entered into any leases fulfilling conditions of finance leases. Operating lease payments are recognised as an expense in the statement of comprehensive income on a straight line basis over the lease term.

Property and equipment

Property and equipment – land and buildings, furniture and equipment is measured at cost less accumulated depreciation and accumulated impairment in value. Borrowing costs for qualifying assets are capitalised into the costs of property and equipment.

Depreciation is calculated using the straight-line method to write down the cost of property and equipment to their residual values over their estimated useful lives. Land is not depreciated. The estimated useful lives are as follows:

	Useful life in years
Buildings	20-50
Office furniture and equipment	5-20
Computer hardware	4-5

Property and equipment is derecognised on disposal or when no future economic benefits are expected from its use. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognised in 'Other operating result' in the statement of comprehensive income in the year the asset is derecognised.

Business combinations and goodwill

(i) Business combinations
Business combinations are accounted for using the purchase method of accounting. This involves recognising identifiable assets (including previously unrecognised intangible assets such as customer relationships and brand) and liabilities (including contingent liabilities and excluding future restructuring) of the acquired business at fair value. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. If the cost of acquisition is less than the fair value of the identifiable net assets acquired, the discount on acquisition is recognised in profit or loss in the line 'Other operating result' in the year of acquisition.

(ii) Goodwill and impairment testing
Goodwill is not amortised but tested for impairment annually in November with any impairment determined recognised in profit or loss. For reviewing the value of existing goodwill, an annual impairment test is carried out for each cash-generating unit (CGU) to which goodwill has been allocated. A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. For impairment testing purposes in Erste Group, all business segments distinguished in the segment reporting in the financial statements are defined as CGUs. Separate legal entities within these segments are treated as separate CGUs.

Goodwill is tested for impairment by comparing the recoverable amount of each cash-generating unit, to which goodwill has been allocated with its carrying amount. The carrying amount of a cash-generating unit is derived based on the amount of equity allocated to a cash-generating unit taking into account any goodwill and unamortised intangible assets recognised for the cash-generating unit according to the purchase prices allocation. The recoverable amount is the higher of a CGU's fair value less costs to sell and its value in use. Where available, the fair value less costs to sell is determined based on recent transactions, market quotations or appraisals. The value in use is determined using a discounted cash flow model (DCF-model), which incorporates the specifics of the banking business and its regulatory environment. In determining value in use, the present value of future earnings distributable to shareholders is calculated.

The estimation of future earnings distributable to shareholders is based on financial plans for the CGUs as agreed by the management taking into account the fulfillment of the respective regulatory capital requirements. The planning period ranges between three and five years. After estimating earnings distributable to shareholders for the planning period they are discounted to their present values. Any earnings beyond the planning period are derived on the basis of the last year of the planning period and a long-term growth rate, which is based on macroeconomic parameters for each CGU. The estimated future earnings beyond the initial planning period are captured in the terminal value.

Long-term growth rates applied to estimate future earnings beyond the planning period are as follows:

	Wachstumsraten	
in %	2010	2009
Austria	2.0 – 3.3	2.0
CEE	2.0 – 4.3	2.0
Other	2.0	2.0

The discount rates applied to calculate the present values have been determined based on the capital asset pricing model (CAPM). According to the CAPM, the discount rate comprises a risk-free interest rate together with a market risk premium that itself is multiplied by a factor that represents the systematic market risk (beta factor). Furthermore, a country-risk premium is considered too. The values used to establish the discount rates are determined using external sources of information.

Discount rates applied to determine the value in use of the CGUs in 2010 and 2009 are as follows:

	Discount rates	
in %	2010	2009
Austria	8.1 – 9.0	9.4
CEE	10.6 – 12.0	10.4 – 12.6
Other	11.6 – 15.0	15.1 – 17.3

Where the recoverable amount of a CGU is less than its carrying amount, the difference is recognised as an impairment loss in the line 'Other operating result'. The impairment loss is allocated first to writing down the CGU's goodwill. Any remaining impairment loss reduces the carrying amount of the CGU's other

assets, though not to an amount less than their fair value less costs to sell. There is no need to recognise an impairment loss if the recoverable amount of the CGU is higher than or equal to its carrying amount. Impairment losses relating to goodwill cannot be reversed in future periods.

(iii) Sensitivities
The value in use of a CGU is most sensitive to changes of the estimated future earnings distributable to shareholders, the discount rate and the long-term growth rate.

A decrease of approximately 20 % of the long-term growth rate or an increase of approximately 7 % of the discount rate applied to determine the value in use of BCR would have caused the value in use to equal the carrying amount of BCR. In doing so, it should be taken into account that changing the parameters might have compensatory impacts.

Investment properties

Investment property is property (land and building) held for the purpose of earning rental income or for capital appreciation. In case of partial own use, the property is investment property only if the owner-occupied portion is insignificant. Investment properties are measured at cost less accumulated straight-line depreciation based on useful life. Any impairment losses are recognised in the line ‘Other operating result’as required. If the reasons which led to the impairment cease to apply, the previously recognised impairment loss is reversed to no more than the asset’s carrying amount if no impairment loss had been recognised.

The useful life of investment properties is equal to those of property and equipment.

Non-current assets held for sale and liabilities associated with non-current assets held for sale

Non-current assets are classified as held for sale if they can be sold in their present condition and the sale is highly probable within 12 months of classification as held for sale. Assets classified as held for sale are reported under the balance sheet line ‘Assets held for sale’. Non-current assets that are classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell.

A disposal group is a group of assets, possibly with associated liabilities, which an entity intends to dispose of in a single transaction. The measurement basis as well as the criteria for classification as held for sale are applied to the group as a whole. Assets being part of a disposal group are reported under the balance sheet line ‘Assets held for sale’. Liabilities associated with assets held for sale, which are liabilities that form part of a disposal group, are disclosed under the balance sheet line ‘Liabilities associated with assets held for sale’.

Intangible assets

In addition to goodwill Erste Group’s other intangible assets include computer software and customer relationships, brand and other intangible assets. An intangible asset is recognised only when its cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to it will flow to the Bank.

Costs of internally generated software are capitalised if Erste Group can demonstrate technical feasibility and intention of completing the software, ability to use it, how it will generate probable economic benefits, availability of resources and ability to measure reliably the expenditures. Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. In the case of Erste Group these are brands, customer relationships and distribution networks and they are capitalised on acquisition if they can be measured with sufficient reliability.

Intangible assets with finite lives are amortised over their useful economic life. The amortisation period and the amortisation method are reviewed at least at each financial year-end and adjusted if necessary. The amortisation expense on intangible assets with finite lives is recognised in the statement of comprehensive income under 'General Administrative expenses' except for amortisation of customer relationships which is reported in 'Other operating result'.

Amortisation is calculated using the straight-line method to write down the cost of intangible assets to their residual values over their estimated useful lives as follows:

	Useful life in years
Computersoftware	4 – 6
Customer relationships	10 – 20
Distribution network	5.5

Brands are not amortised as they are assumed to have an indefinite useful life. An intangible asset has an indefinite useful life, if there are no legal, contractual, regulatory or other factors limiting the useful life. They are annually tested for impairment within cash generating units to which they belong. In the event of impairment, impairment losses are recognised in 'Other operating result'. Furthermore each period brands are reviewed whether current circumstances continue to support the conclusion about indefinite life.

Financial guarantees

In the ordinary course of business, Erste Group gives financial guarantees, consisting of some types of letters of credit and guarantees. According to IAS 39 a financial guarantee is a contract that requires the guarantor to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with original or modified terms of a debt instrument. If Erste Group is in a position of being a guarantee holder, the financial guarantee is not recorded in the balance sheet but is taken into consideration as collateral when determining impairment of the guaranteed asset.

Erste Group as a guarantor recognises financial guarantees in the financial statements. Financial guarantees are initially measured at fair value as soon as Erste Group becomes a contracting party, i.e., when the guarantee offer is accepted. Generally the initial measurement is the premium received for a guarantee. If no premium is received at contract inception the fair value of a financial guarantee for which the premium is not received at contract inception is nil, as this is the amount at which the transaction could be settled on a standalone arm's length transaction with an unrelated party. Subsequent to initial recognition the financial guarantee contract is reviewed for possible requirement for provisions under IAS 37.

The premium received is recognised in the statement of comprehensive income in 'Net fee and commission income' on a straight line basis over the life of the guarantee.

Defined employee benefit plans

Defined employee benefit plans operated by Erste Group, are for pensions, severance and jubilee benefits.

The defined benefit pension plans relate only to retired employees. The pension obligations for current employees were transferred to external pension funds in previous years. Remaining with Erste Group is a defined-benefit obligation for entitlements of former employees who were already retired as of 31 December 1998 before the pension reform took effect, and for those former employees who retired only in 1999 but remained entitled to a direct pension from Erste Group under individual agreements; and for entitlements to resulting survivor pensions.

Severance benefit obligations exist against Austrian employees who entered the group's employment before 1 January 2003. The severance benefit is a one-time remuneration to which employees are entitled when their employment relationship ends. The entitlement to this severance payment arises after three years of employment.

Defined benefit plans include also jubilee benefits to which Austrian employees are entitled. Jubilee payments (long service/loyal-service payments) are remuneration tied to the length of employees' service to an employer. The entitlement to jubilee benefits is established by collective agreement, which defines both the conditions and amount of the entitlement. In Central European subsidiaries further defined benefit plans exist.

Obligations resulting from defined employee benefit plans are determined using the projected unit credit method. Future obligations are determined based on actuarial expert opinions. The calculation takes into account not only those salaries, pensions and vested rights to future pension payments known at the balance sheet date, but also anticipated future rates of increase in salaries and pensions.

As of 31 December 2010, for all domestic subsidiaries, the most important actuarial assumptions used in the computation were adjusted to reflect the situation at year-end 2010. Thus, the actuarial calculation of pension, severance and jubilee benefit obligations is based on a discount rate (long-term capital market interest rate) of 4.25% per annum (previously: 5.0%). The statutory increase in pension benefits is assumed to be 2.0% per year (previously: 2.5%) and severance and jubilee benefits are calculated based on an expected annual increase of 3.0% per year in salaries (previously: 3.8%). Obligations were calculated in accordance with the Pagler & Pagler mortality tables titled 'AVÖ 2008 P – Rechnungsgrundlagen für die Pensionsversicherung'. The expected retirement age for each employee was individually calculated on the basis of the changes set out in the Budget Implementation Act of 2003 (Austrian Federal Law Gazette Vol. I No. 71/2003) regarding the increase in the minimum retirement age. The currently applicable legislation on the gradual raising of the retirement age for men and women to 65 was taken into consideration. For Central European subsidiaries the mandatory retirement age as well as the discount rates which range from 3.13% (previously: 4.27%) to 6.7% (previously: 7.5%) - depends on the particular country - is used.

The liability recognised from a defined-benefit plan represents the present value of the defined benefit obligation less the fair value of the plan assets available for the direct settlement of obligations. For all plans present value of the obligation exceeds the fair value of plan assets. Resulting defined benefit liability is reported in the balance sheet line 'Other provisions'. At Erste Group the plan assets consist of qualifying insurance policies purchased to back severance and jubilee benefit provisions.

Actuarial gains or losses of pension and severance benefit obligations and of plan assets available to settle these obligations are recognised directly in equity for the period in which they occur. Actuarial gains or losses of provisions for jubilee benefits are recognised in the income statement in the period during which they occur.

Based on actually realized returns of portfolios and forecasts on the development of assessment included in these portfolios, at 31 December 2010 an interest rate of 4.25% (2009: 5%) was assumed for the expected return on plan assets.

Provisions

Provisions are recognised when the group has a present obligation as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. In the balance sheet, provisions are reported under the line 'Other provisions'. They include credit risk provisions for off-balance-sheet transactions (particularly warranties and guarantees) as well as provisions for litigations and restructuring. Expenses or income from release relating to credit risk provisions for off-balance-sheet items are presented in income statement in the line 'Risk provisions for loans and advances', all other expenses or income from releases related to provisions are reported in the line 'Other operating result'.

Share-based payment transactions

Erste Group grants shares and share options to employees and managers as compensation for their services, under the employee share ownership plan (ESOP) and the management share option (MSOP) plans. Both take the form of equity-settled share-based payment transactions.

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date on which they are granted. Under ESOP, Erste Group shares are offered to employees at a discounted price; therefore, the fair value results from the discount at which employees purchase Erste Group shares. Any expense incurred from this fair value is immediately recognised in personnel expenses under the line 'General administrative expenses'. Under MSOP, Erste Group share options are granted to managers and other key personnel. For MSOP initial fair value of the options granted is determined by means of generally accepted option pricing models (Black and Scholes, Binomial model). Expense from this fair value is spread over the vesting periods (the period between the grant date and the first permitted exercise date). Expense is recognised in personnel expenses under the line 'General administrative expenses' together with a corresponding increase in equity.

Taxes

(i) Current tax

Current tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted by the balance sheet date.

(ii) Deferred tax

Deferred tax is recognised for temporary differences between the tax bases of assets and liabilities and their carrying amounts at the balance sheet date. Deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry

forward of unused tax losses can be utilised. Deferred taxes are not recognised on temporary differences arising from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted at the balance sheet date. For the subsidiaries local tax environment applies.

Deferred tax relating to items recognised in other comprehensive income is also recognised in other comprehensive income and not in the income statement.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxation authority.

Own shares and contracts on own shares

Own equity instruments of Erste Group which are acquired by it or by any of its subsidiaries (treasury shares) are deducted from equity. Consideration paid or received on the purchase, sale, issue or cancellation of Erste Group's own equity instruments is recognised directly in equity. No gain or loss is recognised in the income statement on the purchase, sale, issue or cancellation of own equity instruments.

Fiduciary assets

The group provides trust and other fiduciary services that result in the holding or investing of assets on behalf of its clients. Assets held in a fiduciary capacity are not reported in the financial statements, as they are not the assets of the group.

Dividends on ordinary shares

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by Erste Group's shareholders.

Regaring dividends on participation capital see note 30.

Recognition of income and expenses

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be reliably measured. As regards the lines reported in the income statement their description and revenue recognition criteria are following:

(i) Net interest income

Interest and similar income mainly includes interest income in the narrow sense on loans and advances to credit institutions and customers, on balances with central banks and on bonds and other interest-bearing securities. Interest and similar expenses mainly include interest paid on deposits by banks and customer deposits, deposits of central banks, debt securities in issue and subordinated debt (including hybrid issues).

For all financial instruments measured at amortised cost, interest-bearing financial assets classified as available for-sale and financial instruments designated at fair value through profit or loss, interest income or expense is recorded using the effective interest rate (EIR). The calculation includes fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR, but not future credit losses. Interest income from individually impaired loans is calculated by applying the original effective interest rate used to discount the estimated cash flows for the purpose of measuring the impairment loss.

Also reported in interest and similar income is current income from shares and other equity-related securities (especially dividends), income from other investments in companies and non-consolidated subsidiaries categorised as available-for-sale. Such dividend income is recognised when the right to receive the payment is established.

Net interest income also includes rental from investment properties. As such, rental income from rental agreements constituting operating leases is recognised on a straight-line basis over the lease term.

Income from associates recorded by applying the equity method (share of profit or loss in associates) is also included in the total of net interest income. Impairment losses, reversal of impairment losses, and realised gains and losses on investments in associates accounted for at equity are reported in 'Other operating result'.

(ii) Risk provisions for loans and advances
This item includes allocations to and releases of specific and portfolio risk provisions for loans and advances for both on-balance-sheet and off-balance-sheet transactions. Also reported in this item are direct write-offs of loans and advances as well as recoveries on loans written off.

(iii) Net fee and commission income
The Bank earns fee and commission income from a diverse range of services it provides to its customers. It includes income and expenses mainly from fees and commission payable or receivable for payment transfers, securities business and lending business, as well as from insurance brokerage, building society brokerage and foreign exchange transactions.

Fees earned for the provision of services over a period of time are accrued over that period. These fees include guarantee fees, commission income from asset management, custody and other management and advisory fees.

Fee income earned from providing transaction services, such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses, is recognised on completion of the underlying transaction.

(iv) Net trading result
Results arising from trading activities include all gains and losses from changes in fair value, dividends and interest income or expense on financial assets and financial liabilities classified as 'Held-for-trading'. It also includes any ineffective portions recorded in hedging transactions as well as foreign exchange gains and losses.

(v) General administrative expenses
General administrative expenses represent the following expenses accrued in the reporting period: personnel and other administrative expenses, as well as depreciation and amortisation. Not included is any amortisation of customer relationships nor impairment of goodwill.

Personnel expenses include wages and salaries, bonuses, statutory and voluntary social security contributions, staff-related taxes and levies. They also include expenses and income for severance payments, pension and jubilee obligations (covering service cost, interest cost, expected return on plan assets and actuarial gains and losses for jubilee obligations).

Other administrative expenses include information technology expenses, expenses for office space, office operating expenses, advertising and marketing, expenditures for legal and other consultants as well as sundry other administrative expenses.

(vi) Other operating result
Other operating result reflects all other income and expenses not attributable to Erste Group's ordinary activities. This includes especially impairment losses or any reversal of impairment losses as well as results on the sale of property and equipment, amortisation and impairment of customer relationships, any impairment losses on goodwill, and impairment losses (and any reversal of impairment losses) on other intangible assets. In addition, Other operating result encompasses the following: expenses for other taxes and for deposit insurance contributions; income from the release of and expenses for allocations to other provisions; impairment losses (and their reversal if any) on investments in associates accounted for at equity and realised gains and losses from the disposal of equity-accounted investments.

Significant accounting judgements, assumptions and estimates

The consolidated financial statements contain amounts that have been determined on the basis of judgements and by use of estimates and assumptions. The estimates and assumptions used are based on historical experience and other factors, such as planning as well as expectations and forecasts of future events that are currently deemed to be reasonable. As a consequence of the

uncertainty associated with these assumptions and estimates, actual results could in future periods lead to adjustments in the carrying amounts of the related assets or liabilities. The most significant use of judgment, assumption and estimates are as follows:

Going concern
The Erste Group's management has made an assessment of Erste Group's ability to continue as a going concern and has concluded that Erste Group has the resources to continue in business for the foreseeable future. The management is not aware of any material uncertainties that may cast significant doubt upon Erste Group's ability to continue as a going concern. Therefore, the consolidated financial statements continue to be prepared on the going concern basis.

Fair value of financial instruments
Where the fair values of financial assets and financial liabilities recorded on the balance sheet cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data is not available, judgment is required to establish fair values. Disclosures for valuation models, fair value hierarchy and fair values of financial instruments can be found in the Note 39) Fair value of financial instruments.

Impairment of financial assets
Erste Group reviews its financial assets not measured at fair value through profit or loss at each balance sheet date to assess whether an impairment loss should be recorded in the income statement. In particular, it is required to determine whether there is objective evidence of impairment as a result of loss event occurring after initial recognition and to estimate the amount and timing of future cash flows when determining the impairment loss.

Disclosures concerning impairment are in the note 37) Risk Management in the part Credit risk – Non-performing assets and risk provisions. Development of loan loss provisions is described in the note 15) Risk provisions for loans and advances.

Impairment of non-financial assets
Erste Group reviews its non-financial assets at each balance sheet date to assess whether there is an indication of impairment loss which should be recorded in the income statement. This is especially relevant for cash generating units which contain goodwill which have to be tested for impairment annually. Judgement and estimates are required to determine the value in use by estimating the timing and amount of future expected cash flows and the discount rates. Assumptions and estimates used for impairment on non-financial assets calculations are described in the part Business combination and goodwill of the accounting policies.
Deferred tax assets
Deferred tax assets are recognised in respect of tax losses and deductible temporary differences to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits, together with future tax planning strategies. Disclosures concerning deferred taxes are in the note 20) Tax assets and liabilities.

Defined benefit obligation plans
The cost of the defined benefit pension plan is determined using an actuarial valuation. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Assumption and estimates used for the defined benefit obligation calculations can be found in the part Defined benefit plans of accounting policies. Quantitative data for long-term employee provisions are in the note 27) Other provisions.

Leases
From Erste Group's perspective as a lessor, judgement is required to distinguish whether the lease is a finance or operating lease based on the transfer of substantially all the risk and rewards from the lessor to the lessee.

c) APPLICATION OF AMENDED AND NEW IFRS/IAS

The accounting policies adopted are consistent with those used in the previous financial year except that Erste Group has adopted the following standards, amendments and interpretations which became effective for financial years beginning on or after 1 January 2010.

Effective standards and interpretations

IFRS 3 (Revised 2008) Business Combinations and IAS 27 (Revised 2008) Consolidated and Separate Financial Statements
The revised standards were issued in January 2008 and became effective for financial years beginning on or after 1 July 2009. IFRS 3 reconsiders the application of acquisition accounting for business combinations and IAS 27 mainly relates to changes in the accounting for noncontrolling interests and the loss of control of a subsidiary. Under IFRS 3, the acquirer can elect to measure any non-controlling interest on a transaction-by-transaction basis, either at fair value as at the acquisition date or its proportionate interest in the fair value of the identifiable assets and liabilities of the acquiree. When an acquisition is achieved in successive share purchases (step acquisition), the identifiable assets and liabilities of the acquiree are recognized at fair value when control is obtained. A gain or loss is recognized in profit or loss for the difference between the fair value of the previously held equity interest in the acquiree and its carrying amount. IAS 27 also requires the effects of all transactions with noncontrolling interests to be recorded in equity if there is no change in control. Transactions, resulting in a loss of control result in a gain or loss being recog-

nized in profit or loss. Application of this standard does not have any significant impact on Erste Group´s financial statements

Amendment to IAS 39 Financial Instruments: Recognition and Measurement' – Eligible Hedged Items
This amendment to IAS 39 was issued in July 2008 and became effective for financial years beginning on or after 1 July 2009. The amendment clarifies how the principles of IAS 39 for establishing a hedge relationship should be applied for designation of one-sided risk and inflation risk of a hedged item. Application of this amendment does not have any significant impact on Erste Group´s financial statements.

Amendments to IAS 39 and IFRIC 9 Embedded derivative
Amendments were issued in March 2009 and are effective for financial years beginning on or after 1 July 2009. The amendments require entities to assess whether they need to separate out an embedded derivative from a hybrid financial instrument when financial assets are reclassified out of the fair value through profit or loss category. When the fair value of an embedded derivative that needs be separated cannot be measured reliably, the reclassification of the hybrid financial asset out of the fair value through profit or loss category is not permitted. Application of these amendments does not have any significant impact on Erste Group´s financial statements.

Improvements to IFRSs
In April 2009, the IASB issued a set of amendments to various standards. The particular amendments are effective for financial years beginning either on or after 1 July 2009 or on or after 1 January 2010. Application of these amendments does not have any significant impact on Erste Group´s financial statements.

IFRS 1 (revised 2008) First-time Adoption of International Financial Reporting Standards
The revised standard was issued in November 2008 and became effective for financial years beginning on or after 1 July 2009. The changes concern solely the formal structure of IFRS 1. The objective is to improve the the clarity and the applicability of the Standard. Application of this amendment does not have any significant impact on Erste Group´s financial statements as Erste Group is not the first time adopter of IFRSs.

Amendment to IFRS 2 Group Cash-settled Share-based Payment Transactions
This amendment to IFRS 2 was issued in June 2009 and is effective for financial years beginning on or after 1 January 2010. The amendment clarified the scope of IFRS 2. The entity which receives the goods or services (receiving entity) should generally account for a grant as cash-settled share-based payment transactions in accordance with the requirements of IFRS 2 unless the grant is settled with equity instruments of the receiving entity or unless the receiving entity is not obliged to settle the grant. The entity which is obliged to settle the share-based payment transaction (settling entity) accounts for the transaction depending on the nature of the settlement. If the share-based payment is settled with equity instruments, the grant is accounted for as an equity-settled share-based payment transaction. If the grant is settled in cash, it is accounted for in accordance with the IFRS 2 requirements for cash-settled share-based payment transactions.The term 'group' has the same meaning as in IAS 27, i.e. includes only parent and its subsidiaries. Application of this amendment does not have any significant impact on Erste Group´s financial statements.

Amendment to IFRS 1 Additional Exemptions for First-time Adopters
This amendment to IFRS 1 was issued in July 2009 and is effective for financial years beginning on or after 1 January 2010. The amendment provides additional exemptions from the generally mandatory full retrospective application of International Financial Reporting Standards. Application of this amendment does not have any impact on Erste Group´s financial statements.

IFRIC 17 Distributions of Non-cash Assets to Owners
IFRIC 17 was issued in November 2008 and is effective for financial years beginning on or after 1 July 2009. IFRIC 17 deals with the initial recognition and measurement of dividends payable as well as with accounting at the moment the assets are distributed. As Erste Group does not pay dividends in the form of non-cash assets application of this IFRIC does not have any impact on Erste Group´s financial statements.

IFRIC 18 Transfers of Assets from Customers
IFRIC 18 was issued in January 2009 and is effective for financial years beginning on or after 1 July 2009. This interpretation specifies the accounting for transfers of items of property, plant and equipment by entities that receive such transfers from their customers. In the scope of this interpretation are agreements in which an entity receives from a customer an item of property, plant and equipment (or cash from customers for the acquisition or construction of such items of property, plant and equipment) that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services (such as electricity, gas or water), or to do both. Erste Group is not involved in such types of transactions, and therefore, the IFRIC does not have any effect on its financial statements.

Standards and interpretations not yet effective

IAS 24 (revised 2009) Related party disclosures
The revised standard was issued in November 2009 and becomes effective for financial years beginning on or after 1 January 2011. IAS 24 provides a partial exemption from the disclosure requirements for government-related entities and clarifies the definition of a related party. The amendment is not expected to have material effect on financial statements of Erste Group. Erste Group decided not to apply the revised standard before it becomes effective.

IFRS 9: Financial Instruments
The new IFRS 9 standard was issued in November 2009 and becomes effective for financial years beginning on or after 1 January 2013. Earlier application is permitted. However, as the EU has not yet endorsed the standard, it is therefore not yet applicable for EU entities for the 2010 financial year.

An amendment concerning accounting for financial liabilities issued in October 2010 supplemented the existing requirements for classification and measurement of financial assets, which were omitted in the version of IFRS 9 Financial instruments issued in November 2009.

IFRS 9 introduces two classification criteria for financial assets: 1. An entity´s business model for managing the financial assets and 2. the contractual cash flow characteristics of the financial assets. As a result, a financial asset is measured at amortised cost only if both conditions are met: a) the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows and b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding. All other financial assets are measured at fair value with changes recognised in profit or loss.

Based on changes in the business model an entity shall reclassify all affected assets from fair value to amortised cost category or vice versa.

IFRS 9 eliminates the concept of embedded derivatives for financial assets. Application of the classification criteria results in the fact that all structured financial instruments have to be fair valued (except for narrowly defined cases e.g. for interest rate caps or floors, prepayment, put, call, prolongation options).

For investments in equity instruments which are not held for trading, an entity may make an irrevocable election at initial recognition to measure them at fair value with changes recognised in other comprehensive income. Gains and losses once recognised in other comprehensive income are never recycled into profit or loss even when the equity instruments are sold.

Investments in tranches resulting from securitisation (referred to as contractually-linked instruments) are subject to a ´look through´ approach in order to determine if they are measured at fair value or amortised cost. It means that risk and cash flow characteristics of the underlying pool of instruments and the tranches are compared according to the defined criteria. If the look-through approach is not possible, tranches have to be fair valued.

IFRS 9 requires that an entity which applies fair value option for its financial liabilities recognises the fair value changes resulting from its own credit risk in Other comprehensive income rather that in the income statement. This principle is not applied if such recognition would create or enlarge accounting mismatch in profit or loss. Such assessment has to be done upon the initial recognition of the financial liability. Recycling from other comprehensive income into profit or loss is not allowed.

This standard will have significant effect for balance sheet positions and measurement methods of financial instruments. As IFRS 9 has not been published in the final version yet quantification of its impact is not possible.

Amendment to IAS 32 – Classification of Rights Issues
This amendment to IAS 32 was issued in October 2009 and is effective for financial years beginning on or after 1 February 2010. The amendment addresses the classification of rights, options or warrants to acquire a fixed number of the entity's own equity instruments for a fixed amount of foreign currency. These rights are to be classified as equity instruments if the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class. The amendment is not expected to have material effect on financial statements of Erste Group. Erste Group has decided not to apply the amendment before it becomes effective.

Amendment to IFRS 1 Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters
This amendment was issued in January 2010 and is effective for financial years beginning on or after 1 July 2010. The amendment relieves first-time adopters of IFRSs from providing the additional disclosures introduced in March 2009 by Improving Disclosures about Financial Instruments. The standard will have no effect on the Erste Group 2011 financial statements as Erste Group is not a first time adopter of IFRSs.

Improvements to IFRSs
In May 2010, the IASB issued a set of amendments to various standards. None of the amendments are mandatory for 2010 . The particular amendments are effective for financial years beginning either on or after 1 July 2010 or on or after 1 January 2011. The amendment is not expected to have an effect on the financial statements of Erste Group.

Amendments to IFRS 7 - Disclosures—Transfers of Financial Assets
Amendment of IFRS 7 was issued in October 2010 and is effective for financial years beginning on or after 1 July 2011. The new disclosure requirements are focused on relationship between transferred assets and related financial liabilties. Moreover for derecognised financial assets the nature and especially risks of continuing involvement should be evaluated. The term continuing involvement is used with different and much wider meaning compared to IAS 39.

The aim of new disclosures is that users are able to understand relationships between transferred financial assets (which are not derecognised) and associated liabilities resulting from such transfers. The disclosure requirments also enable users to evaluate the

nature and risks retained in those transferred financial assets which are derecognised.

The amendment is not expected to have material effect on financial statements of Erste Group. It will only result in new disclosures. Erste Group decided not to apply the amendment before it becomes effective.

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments

IFRIC 19 was issued in November 2009 and is effective for financial years beginning on or after 1 July 2010. IFRIC 19 addresses the accounting when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability (debt for equity swaps). IFRIC 19 clarifies the accounting for such situations by the debtor (issuer of the equity instruments). According to that, the equity instruments issued for the purpose of extinguishing all or part of a financial liability are part of consideration paid. The equity instruments are to be measured at their fair value. If the fair value of the equity instrument cannot be reliably measured, the equity instrument is to be measured to reflect the fair value of the financial liability fully or partly extinguished. IFRIC 19 states that any difference between the carrying amount of the financial liability (or part of a financial liability) extinguished, and the initial measurement amount of the equity instruments issued, is to be recognized in profit or loss. This interpretation is not expected to have an effect on financial statements of Erste Group.

Amendment to IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The amendment to IFRIC 14 was issued in November 2009 and is effective for financial years beginning on or after 1 January 2011. IFRIC 14 specifies additional criteria regarding the amount of a defined benefit surplus that can be recognized as an asset under IAS 19. Under it, a surplus must be unconditionally available for a refund or reduction in future contributions for an entity to recognize an asset. IFRIC 14 also aims to avoid the possibility of statutory minimum funding requirements being onerous for the entity. On the other hand, additional liabilities must be recognized if an entity has a statutory obligation to cover an existing shortfall for past service on the minimum funding basis. The amendment is not expected to have effect on the financial statements of Erste Group. Erste Group has decided not to apply the interpretation before it becomes effective.

D. NOTES TO THE STATEMENT OF COMPREHENSIVE INCOME AND THE BALANCE SHEET OF ERSTE GROUP

1) Net interest income

in EUR million	2010	2009
Interest income		
Lending and money market transactions with credit institutions	1,090.9	1,691.3
Lending and money market transactions with customers	6,306.9	7,128.5
Bonds and other interest-bearing securities	1,139.3	1,139.4
Current income		
Equity-related securities	93.6	114.0
Investments		
Non-consolidated subsidiaries	8.2	8.6
Other investments	18.4	13.7
Investment properties[1)]	78.2	78.1
Other interest and similar income	10.8	16.7
Interest and similar income	**8,746.3**	**10,190.3**
Interest income from financial assets - at fair value through profit or loss	48.6	81.9
Total interest and similar income	**8,794.9**	**10,272.2**
Interest expenses		
Deposits by banks	(532.6)	(1,300.2)
Customer deposits	(1,661.7)	(2,431.4)
Debt securities in issue	(890.1)	(986.4)
Subordinated liabilities	(304.4)	(333.8)
Other	(10.1)	(6.7)
Interest and similar expenses	**(3,398.9)**	**(5,058.5)**
Interest expenses from financial assets - at fair value through profit or loss	(4.5)	(5.5)
Total interest and similar expenses	**(3,403.4)**	**(5,064.0)**
Income from associates accounted for at equity	**21.0**	**12.7**
Total	**5,412.5**	**5,220.9**

1) Rental income from investment properties which are in accordance with IAS 40 totalled EUR 85.8 m (2009 EUR 85.4 m)

2) Risk provisions for loans and advances

in EUR million	2010	2009
Allocation to risk provisions for loans and advances	(2,888.1)	(2,759.8)
Release of risk provisions for loans and advances	933.3	750.6
Direct write-offs of loans and advances	(103.8)	(81.2)
Recoveries on written-off loans and advances	27.4	33.8
Total	**(2,031.2)**	**(2,056.6)**

3) Net fee and commission income

in EUR million	2010	2009
Lending business	304.0	317.1
Payment transfers	847.3	816.4
Card business	182.1	183.8
Securities business	455.1	377.8
Investment fund transactions	215.8	169.6
Custodial fees	43.0	27.4
Brokerage	196.3	180.8
Insurance brokerage	112.0	95.5
Building society brokerage	40.1	37.7
Foreign exchange transactions	26.1	25.1
Investment banking business	25.9	15.1
Other	125.5	88.1
Total	**1,936.0**	**1,772.8**

4) Net trading result

in EUR million	2010	2009
Securities and derivatives trading	238.2	303.7
Foreign exchange transactions	218.0	281.4
Total	**456.2**	**585.1**

5) General administrative expenses

in EUR million	2010	2009
Personnel expenses	(2,263.8)	(2,227.5)
Other administrative expenses	(1,165.9)	(1,202.3)
Depreciation and amortisation	(387.1)	(377.6)
Total	**(3,816.8)**	**(3,807.4)**

Personnel expenses

in EUR million	2010	2009
Wages and salaries	(1,684.6)	(1,661.6)
Compulsory social security contributions	(456.2)	(450.6)
Long-term employee provisions	(73.0)	(71.0)
Other personnel expenses	(50.0)	(44.3)
Total	**(2,263.8)**	**(2,227.5)**

Personnel expenses include expenses of EUR 55.8 m (2009: EUR 66.9 m) for definedcontribution plans of which EUR 0.9 million (2009: EUR 0.8 million) relates to Management Board Members.

Average number of employees during the financial year (weighted according to the level of employment)

	2010	2009
Employed by Erste Group	50,386	51,799
Domestic	16,010	16,343
Haftungsverbund savings banks	7,624	7,862
Abroad	34,376	35,456
Banca Comercială Română Group	9,077	9,339
Česká spořitelna Group	10,744	10,843
Slovenská sporiteľňa Group	4,084	4,598
Erste Bank Hungary Group	3,100	3,139
Erste Bank Croatia Group	2,289	2,287
Erste Bank Serbia	943	960
Erste Bank Ukraine	1,719	1,985
Other subsidiaries and foreign branch offices	2,420	2,305

Other administrative expenses

in EUR million	2010	2009
IT expenses	(282.0)	(333.1)
Expenses for office space	(281.9)	(275.0)
Office operating expenses	(210.9)	(196.3)
Advertising/marketing	(182.7)	(177.1)
Legal and consulting costs	(86.6)	(101.3)
Sundry administrative expenses	(121.8)	(119.5)
Total	**(1,165.9)**	**(1,202.3)**

Operating expenses (incl. repair and maintenance) for investment properties held for rental income totalled EUR 4.5 million (2009: EUR 3.5 million).

Depreciation and amortisation

in EUR million	2010	2009
Software and other intangible assets	(158.4)	(161.4)
Real estate used by the Group	(86.4)	(79.6)
Office furniture and equipment and sundry property and equipment	(142.3)	(136.6)
Total	**(387.1)**	**(377.6)**

Amortisation of customer relationships is not included in the item depreciation and amortisation, but in other operating result.

6) Other operating result

in EUR million	2010	2009
Other operating income	157.4	195.4
Other operating expenses	(596.7)	(551.2)
Total	**(439.3)**	**(355.8)**
Result from real estates/moveables/properties/software	(77.9)	(86.7)
Allocation/release of other provisions/risks	(17.2)	(10.8)
Expenses for deposit insurance contributions	(66.2)	(55.9)
Amortisation of customer relationships	(69.5)	(67.2)
Other taxes	(71.9)	(24.8)
Impairment of goodwill	(51.9)	(28.0)
Result from other operating expenses/income	(84.7)	(82.4)
Total	**(439.3)**	**(355.8)**

Operating expenses (incl. repair and maintenance) for investment properties not held for rental income totalled EUR 9.8 million (2009: EUR 7.1 million).

The amount of impairment on assets held for sale recognised in the result from real estates/moveables/properties/software is EUR (17.1) million (2009: EUR (5.9) million)

7) Result from financial assets – at fair value through profit or loss

in EUR million	2010	2009
Gain / (loss) from measurement / sale of financial assets at fair value through p&l	(6.0)	113.2

8) Result from financial assets – available for sale (AfS)

in EUR million	2010	2009
Gain / (loss) from sale of financial assets available for sale	67.6	(14.1)
Impairment / reversal of impairment of financial assets available for sale	(58.4)	(190.0)
Total	**9.2**	**(204.1)**

During the reporting period the amount removed from Other comprehensive income to Result from financial assets – available for sale was EUR 34.4 million (2008: EUR 21.9 million).

The carrying amount of investments in equity instruments measured at cost which were sold during the period was EUR 0.1 million. The resulting gain on sale was EUR 2.7 million.

9) Result from financial assets – held to maturity (HtM)

in EUR million	2010	2009
Income		
Income from sale of financial assets held to maturity	6.6	3.2
Reversal of impairment loss of financial assets held to maturity	0.0	1.7
Expenses		
Loss from sale of financial assets held to maturity	0.0	(7.2)
Impairment of financial assets held to maturity	(12.1)	(4.5)
Total	**(5.5)**	**(6.8)**

10) Taxes on income

Taxes on income are made up of current taxes on income calculated in each of the group companies based on the results reported for tax purposes, corrections to taxes on income for previous years, and the change in deferred taxes.

in EUR million	2010	2009
Current tax expense / income	(318.3)	(262.5)
current period	(320.0)	(286.8)
prior period	1.7	24.3
Deferred tax expense / income	(10.4)	(22.2)
current period	(39.2)	(47.4)
prior period	28.8	25.2
Total	**(328.7)**	**(284.7)**

The following table reconciles the income taxes reported in the income statement to the pre-tax profit multiplied by the nominal Austrian tax rate.

in EUR million	2010	2009
Pre-tax profit from continuing operations	1,515.1	1,261.3
Income tax expense for the financial year at the domestic statutory tax rate (25%)	(378.8)	(315.3)
Impact of different foreign tax rates	29.5	22.3
Impact of tax-exempt earnings of investments and other tax-exempt income	130.6	152.3
Tax increases due to non-deductible expenses	(140.5)	(193.5)
Tax income not attributable to the reporting period	30.5	49.5
Total	**(328.7)**	**(284.7)**

Tax effects relating to each component of Other comprehensive income:

	2010			2009		
in EUR million	Before-tax amount	Tax benefit	Net-of-tax amount	Before-tax amount	Tax benefit	Net-of-tax amount
Available for sale-reserve (including currency translation)	127.6	(33.4)	94.2	1,124.1	(394.3)	729.8
Cash flow hedge-reserve (including currency translation)	(76.5)	14.8	(61.7)	8.4	(2.2)	6.2
Actuarial gains and losses	34.8	(7.6)	27.2	37.3	(9.3)	28.0
Currency translation	78.2	0.0	78.2	(203.4)	0.0	(203.4)
Other comprehensive income	**164.1**	**(26.2)**	**137.9**	**966.4**	**(405.8)**	**560.6**

11) Appropriation of profit

It will be proposed at the Annual General Meeting of Erste Group Bank AG that shareholders be paid a dividend of EUR 0.70 per share or EUR 264,723,704.70 in total. Shareholders of participation capital, will be paid a dividend of 8% on nominal value, this is EUR 141,099,520.00 in total. In 2010, a dividend of EUR 0.65 per share was paid for the financial year 2009, this is EUR 245,651,305.90 in total. (In 2009, a dividend of EUR 0.65 per share was paid for the financial year 2008 (EUR 206,058,295.95 in total)). The total amount of profits of Erste Group Bank AG distributable under Austrian accounting regulations amounts to EUR 405.8 million (2009: EUR 386.8 million).

12) Cash and balances with central banks

in EUR million	2010	2009
Cash in hand	2,142	2,183
Balances with central banks	3,697	3,813
Total	**5,839**	**5,996**

13) Loans and advances to credit institutions

in EUR million	2010	2009
Loans and advances to domestic credit institutions	1,356	1,337
Loans and advances to foreign credit institutions	11,140	11,803
Total	**12,496**	**13,140**

14) Loans and advances to customers

in EUR million	2010	2009
Loans and advances to domestic customers		
Public sector	2,996	2,758
Commercial customers	35,978	35,610
Private customers	24,830	23,285
Unlisted securities	250	250
Other	201	153
Total loans and advances to domestic customers	**64,255**	**62,056**
Loans and advances to foreign customers		
Public sector	3,100	2,802
Commercial customers	34,548	34,686
Private customers	29,534	28,417
Unlisted securities	971	944
Other	321	229
Total loans and advances to foreign customers	**68,474**	**67,078**
Total	**132,729**	**129,134**

15) Risk provisions for loans and advances

Risk provisions 2010

in EUR million	2009	Acquisition/ disposal of subsidiaries	Currency translation	Allocations	Use	Releases	Interest income from impaired loans	Reclassification[3]	2010
Specific provisions	3,777	(3)	27	2,405	(806)	(593)	(113)	621	5,315
Portfolio provisions	1,177	0	30	357	0	(249)	0	(511)	804
Risk provisions for loans and advances [1]	**4,954**	**(3)**	**57**	**2,762**	**(806)**	**(842)**	**(113)**	**110**	**6,119**
Other risk provisions [2]	112	0	4	13	(5)	(9)	0	1	116
Provision for guarantees	266	0	(1)	113	(11)	(82)	0	(99)	186
Total	**5,332**	**(3)**	**60**	**2,888**	**(822)**	**(933)**	**(113)**	**12**	**6,421**

1) Risk provisions for loans and advances are recognised in the balance sheet as a deduction from assets.
2) Other risk provisions mainly include provisions for legal proceedings, realisation losses, and liabilities for statements made in offering circulars.
3) Due to the groupwide implementation of Erste Group Risk Management Standards in retail business, portfolio provisions have been reclassfied to specific provisions.

Risk provisions 2009

in EUR million	2008	Acquisition/ disposal of subsidiaries	Currency translation	Allocations	Use	Releases	Interest income from impaired loans	Reclassification	2009
Specific provisions	3,002	35	(3)	1,979	(601)	(507)	(118)	(10)	3,777
Portfolio provisions	781	11	(10)	574	0	(179)	0	0	1,177
Risk provisions for loans and advances [1]	**3,783**	**46**	**(13)**	**2,553**	**(601)**	**(686)**	**(118)**	**(10)**	**4,954**
Other risk provisions [2]	107	0	1	10	(2)	(5)	0	1	112
Provision for guarantees	127	2	0	197	(10)	(59)	0	9	266
Total	**4,017**	**48**	**(12)**	**2,760**	**(613)**	**(750)**	**(118)**	**0**	**5,332**

1) Risk provisions for loans and advances are recognised in the balance sheet as a deduction from assets.
2) Other risk provisions mainly include provisions for legal proceedings, realisation losses, and liabilities for statements made in offering circulars.

16) Derivative financial instruments

in EUR million	Notional amount	2010 Fair value Positive	2010 Fair value Negative	Notional amount	2009 Fair value Positive	2009 Fair value Negative
Derivatives held for trading						
Interest rate swaps	204,496	3,951	4,079	192,766	5,118	5,206
Currency swaps	31,601	817	829	34,007	1,369	1,244
Credit default swaps	3,373	50	30	3,193	130	126
Interest forward rate agreement	106,122	24	23	82,450	52	47
Currency forward rate agreement	1,748	41	35	3,393	139	93
Interest rate futures	643	0	0	69	0	0
Currency futures	15	0	0	2	0	1
Interest rate options	101,274	1,035	1,006	116,631	1,000	1,001
Currency options	8,620	69	59	16,402	185	160
Other agreements	2,371	32	33	4,537	88	55
Total derivatives held for trading[1)]	**460,263**	**6,019**	**6,094**	**453,450**	**8,081**	**7,933**
Derivatives held in banking book						
Fair value hedges						
Interest rate contracts	18,153	1,516	627	28,850	1,491	652
Currency contracts	314	54	156	1,092	30	93
Other agreements	2	0	0	277	2	4
Total fair value hedges	**18,469**	**1,570**	**783**	**30,219**	**1,523**	**749**
Cash flow hedges						
Interest rate contracts	6,378	134	97	5,862	216	47
Currency contracts	500	1	0	643	3	24
Other agreements	0	0	0	0	0	0
Total cash flow hedges	**6,878**	**135**	**97**	**6,505**	**219**	**71**
Other derivatives						
Interest rate contracts	32,071	606	605	15,949	296	310
Currency contracts	11,593	86	350	4,861	85	177
Other agreements	399	58	66	243	5	6
Total other derivatives	**44,063**	**750**	**1,022**	**21,053**	**386**	**493**
Total derivatives in banking book	**69,410**	**2,455**	**1,902**	**57,777**	**2,128**	**1,313**
Total derivatives	**529,673**	**8,474**	**7,996**	**511,227**	**10,209**	**9,246**

17) Securities

	Loans and advances to CI and NCI		Trading assets		Financial assets: At fair value through profit or loss		Financial assets: Available for sale		Financial assets: Held to maturity		Total	
in EUR million	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
Bonds and other interest-bearing securities	**2,077**	**2,125**	**4,945**	**5,597**	**2,029**	**2,524**	**14,736**	**13,000**	**14,235**	**14,899**	**38,022**	**38,145**
Listed	0	0	4,316	5,087	1,942	2,355	12,942	10,629	13,630	12,547	32,830	30,618
Unlisted	2,077	2,125	629	510	87	169	1,794	2,371	605	2,352	5,192	7,527
Equity-related securities	**0**	**0**	**580**	**415**	**406**	**473**	**2,513**	**2,874**	**0**	**0**	**3,499**	**3,762**
Listed	0	0	182	101	406	473	529	599	0	0	1,117	1,173
Unlisted	0	0	398	314	0	0	1,984	2,275	0	0	2,382	2,589
Equity holdings	0	0	0	0	0	0	502	516	0	0	502	516
Total	**2,077**	**2,125**	**5,525**	**6,012**	**2,435**	**2,997**	**17,751**	**16,390**	**14,235**	**14,899**	**42,023**	**42,423**

Investment funds are disclosed within equity-related securities.
Held to maturity financial assets include bonds and other interest bearing securities that are quoted in an active market and are intended to be held to maturity.

The carrying amount of investments in equity instruments measured at cost is EUR 436 million.

18) Equity holdings in associates accounted for at equity

in EUR million	2010	2009
Credit institutions	106	129
Non-credit institutions	117	112
Total	**223**	**241**

The table below shows the aggregated financial information of companies accounted for at equity:

in EUR million	2010	2009
Total assets	5,142	5,471
Total liabilities	4,099	3,661
Income	567	567
Profit/loss	60	6

At 31 December 2010, the fair value of listed companies accounted for at equity was EUR 32.5 million (2009: EUR 30.8 million).

19) Movements in fixed assets schedule

Movements in fixed assets schedule 2010

in EUR million	At cost 2009	Acquisition of sub-sidiaries (+)	Disposal of subsidiaries (–)	Currency translation (+/–)	Additions (+)	Disposals (–)	At cost 2010
Intangible assets	**7,207**	**43**	**0**	**9**	**172**	**(96)**	**7,335**
Goodwill	4,326	3	0	(12)	0	0	4,317
Customer relationships	777	8	0	(3)	0	0	782
Brand	305	0	0	(2)	0	0	303
Other (primarily software)	1,799	32	0	26	172	(96)	1,933
Property and equipment	**4,594**	**132**	**0**	**59**	**405**	**(311)**	**4,879**
Land and buildings (used by the group)	2,766	0	0	41	108	(50)	2,865
Office furniture and equipment, hardware and sundry property and equipment	1,828	132	0	18	297	(261)	2,014
Investment properties and movable other property[1)]	**1,578**	**27**	**(20)**	**29**	**45**	**(40)**	**1,619**
Investment properties	1,549	27	(20)	29	42	(30)	1,597
Movable other property	29	0	0	0	3	(10)	22
Total	**13,379**	**202**	**(20)**	**97**	**622**	**(447)**	**13,833**

1) Investment properties and movable other property are reported in other assets.

The amount recorded for investment properties under operating leases includes a carrying amount of EUR 101.9 million (2009: EUR 90.0 million).

In the reporting period, borrowing costs of EUR 4.7 million (2009: EUR 16.9 million) were capitalised. The related interest rates ranged from 1.9% to 8.0%. (2009: 1.9% to 5.1%).

in EUR million	Accumulated depreciation 2010	Currency translation (+/–)	Amortisation and depreciation (–)[2)]	Impairment (+/–)[3)]	Carrying amounts 2010
Intangible assets	**(2,660)**	**(22)**	**(228)**	**(70)**	**4,675**
Goodwill	(1,058)	0	0	(52)	3,259
Customer relationships	(274)	0	(70)	0	508
Brand	0	0	0	0	303
Other (primarily software)	(1,328)	(22)	(158)	(18)	605
Property and equipment	**(2,433)**	**(31)**	**(228)**	**(4)**	**2,446**
Land and buildings (used by the group)	(955)	(15)	(86)	(3)	1,910
Office furniture and equipment, hardware and sundry property and equipment	(1,478)	(16)	(142)	(1)	536
Investment properties and movable other property[1)]	**(446)**	**(5)**	**(39)**	**(20)**	**1,173**
Investment properties	(434)	(5)	(35)	(20)	1,163
Movable other property	(12)	0	(4)	0	10
Total	**(5,539)**	**(58)**	**(495)**	**(94)**	**8,294**

1) Investment properties and movable other property are reported in other assets.
2) Including amortisation and depreciation reported by non-bank companies which is reflected in other operating result.
3) Impairment losses are included in other operating result.

Goodwill at 31 December 2010 comprised predominantly goodwill of EUR 1,809.8 million (2009: EUR 1,820.7 million) from Banca Comercială Română S.A, goodwill of EUR 543.1 million (2009: EUR 543.1 million) from Česká spořitelna a.s., goodwill of EUR 312.7 million (2009: EUR 312.7 million) from Erste Bank Hungary Nyrt., goodwill of EUR 226.3 million (2009: EUR 226.3 million) from Slovenská sporitel'ňa a.s. as well as goodwill from Erste Asset Management GmbH of EUR 36.3 million (2009: 36.3 million)

At 31 December 2010, customer relationships included the customer relationships of Banca Comercială Română at EUR 375.3 million (2009: EUR 433.4 million), the customer relationship and distribution network of Erste Card Club d.d. Croatia at EUR 24,5 million (2009: EUR 31.7 million), as well as the customer relationships of Ringturm Kapitalanlagegesellschaft m.b.H at EUR 77.2 million (2009: EUR 81.5 million). The remaining amortisation period of customer relationships in Banca Comercială Română is 6.7 years, in Erste Card Club d.d. Croatia 3.6 years and in Ringturm Kapitalanlagegesellschaft m.b.H 17.8 years.

The item brand at 31 December 2010 consisted of the brand of Banca Comercială Română, at EUR 303.00 million (2009: EUR 304.8 million).

Impairment losses recognised in 2010 for other intangible assets, shown in the movements in the fixed assets schedule, relate to the core banking systems in Slovenská sporiteľňa, a.s. and Erste Bank Ukraine. Impairment losses recognised in 2010 and 2009 for investment property come from real estate funds managed by Česká spořitelna, a.s. Impairment losses recognised for goodwill in 2010 come from Kärtner Sparkasse AG, Sparkasse Waldviertel AG, ABS Banka d.d., Bosnia-Herzegovina and Investbanka a.d. Skopje, Macedonia and in 2009 from Tiroler Sparkasse AG and ABS Banka d.d. in Bosnia-Herzegovina. All these impairments were allocated based on value in use of the assets.

Movements in fixed assets schedule 2009

in EUR million	At cost 2008	Acquisition of sub-sidiaries (+)	Disposal of subsidiaries (–)	Currency translation (+/–)	Additions (+)	Disposals (–)	At cost 2009
Intangible assets	**7,108**	**131**	**0**	**(176)**	**351**	**(207)**	**7,207**
Goodwill	4,418	40	0	(126)	0	(6)	4,326
Customer relationships	707	86	0	(33)	17	0	777
Brand	321	0	0	(16)	0	0	305
Other (primarily software)	1,662	5	0	(1)	334	(201)	1,799
Property and equipment	**4,624**	**62**	**(1)**	**(22)**	**441**	**(510)**	**4,594**
Land and buildings (used by the group)	2,722	43	0	(14)	283	(268)	2,766
Office furniture and equipment, hardware and sundry property and equipment	1,902	19	(1)	(8)	158	(242)	1,828
Investment properties and movable other property[1)]	**1,551**	**0**	**(32)**	**8**	**148**	**(97)**	**1,578**
Investment properties	1,510	0	(32)	8	145	(82)	1,549
Moveable other property	41	0	0	0	3	(15)	29
Total	**13,283**	**193**	**(33)**	**(190)**	**940**	**(814)**	**13,379**

1) Investment properties and movable other property are reported in other assets.

in EUR million	Accumulated depreciation 2009	Currency translation (+/–)	Amortisation and depreciation (–)[2)]	Impairment (+/–)[3)]	Carrying amounts 2009
Intangible assets	**(2,340)**	**36**	**(228)**	**(28)**	**4,867**
Goodwill	(1,006)	29	0	(28)	3,320
Customer relationships	(206)	7	(67)	0	571
Brand	0	0	0	0	305
Other (primarily software)	(1,128)	0	(161)	0	671
Property and equipment	**(2,250)**	**2**	**(217)**	**(11)**	**2,344**
Land and buildings (used by the group)	(897)	2	(80)	(10)	1,869
Office furniture and equipment, hardware and sundry property and equipment	(1,353)	0	(137)	(1)	475
Investment properties and movable other property[1)]	**(382)**	**2**	**(31)**	**(56)**	**1,196**
Investment properties	(368)	2	(26)	(56)	1,181
Moveable other property	(14)	0	(5)	0	15
Total	**(4,972)**	**40**	**(476)**	**(95)**	**8,407**

1) Investment properties and movable other property are reported in other assets.
2) Including amortisation and depreciation reported by non-bank companies, which is reflected in other operating result.
3) Impairment losses are included in other operating result.

20) Tax assets and liabilities

in EUR million	Tax assets 2010	Tax assets 2009	Tax liabilities 2010	Tax liabilities 2009
Deferred tax assets				
Temporary differences relate to the following items:				
Loans and advances to credit institutions and customers	6	(178)	(140)	(21)
Risk provisions for loans and advances	110	86	(83)	(64)
Financial assets - at fair value through profit or loss	3	1	(1)	0
Financial assets - available for sale	114	191	(36)	(29)
Property and equipment	18	119	84	3
Deposits by banks and customer deposits	4	(18)	(34)	(22)
Long-term employee provisions	79	94	32	19
Sundry provisions	21	35	10	3
Tax loss carry forward	66	136	46	4
Customer relationships and brand	0	0	(131)	(145)
Other	(3)	(13)	(75)	(79)
Total deferred taxes	**418**	**453**	**(328)**	**(331)**
Current taxes	**116**	**124**	**(68)**	**(30)**
Total taxes	**534**	**577**	**(396)**	**(361)**

In compliance with IAS 12.39, no deferred tax liabilities were recognised for temporary differences relating to investments in subsidiaries in the amount of EUR 356 million (31 December 2009: EUR 356 million), as they will not reverse in the foreseeable future.

No deferred taxes were recognised for tax loss carryforwards of EUR 888 million (31 December 2009: EUR 941 million), as they will not be realised in the foreseeable future.

21) Assets held for sale

in EUR million	2010	2009
Assets held for sale	52	58
Disposal group	0	0
Total	**52**	**58**

Assets held for sale include mainly cars and buildings.

22) Other assets

in EUR million	2010	2009
Accrued interest and commissions	1,370	1,307
Deferred income	213	240
Investment properties	1,163	1,181
Sundry assets	1,886	2,568
Total	**4,632**	**5,296**

Sundry assets consist mainly of clearing items from the settlement of securities and payment transactions.

The fair value of investment properties totalled EUR 1.2 billion (2009: EUR 1.2 billion).

The determination of fair values in Austria is widely conducted by internal experts: in the CEE-countries on the basis of external expert opinions. The determined market values are then cross-checked with observed market values.

The carrying amount of expenditure recognized in the line: fixed assets and investment properties during their construction is EUR 339.7 million (2009: EUR 370.0 million). The contractual commitments for purchase of investment properties are EUR 206.2 million (2009: EUR 261.4 million).

23) Deposits by banks

in EUR million	2010	2009
Deposits by banks - domestic credit institutions	5,680	9,239
Deposits by banks - foreign credit institutions	14,474	17,056
Total	**20,154**	**26,295**

24) Customer deposits

in EUR million	Domestic 2010	Domestic 2009	Abroad 2010	Abroad 2009	Total 2010	Total 2009
Savings deposits	41,347	41,590	12,974	11,778	54,321	53,368
Sundry						
Public sector	987	1,042	3,293	2,993	4,280	4,035
Commercial customers	11,118	9,635	13,072	11,881	24,190	21,516
Private customers	5,263	4,949	28,382	27,602	33,645	32,551
Sundry	279	247	301	325	580	572
Total other	**17,647**	**15,873**	**45,048**	**42,801**	**62,695**	**58,674**
Total	**58,994**	**57,463**	**58,022**	**54,579**	**117,016**	**112,042**

Customer deposits include a total of EUR 368 million (2009: EUR 155 million) of liabilities to which the fair value option was applied. The total amount repayable on these liabilities at 31 December 2009 was EUR 363 million (2009: EUR 152 million). The difference between the fair value of these liabilities and the amount repayable at 31 December 2010 totalled EUR 5 million (2009: EUR 3 million). In the reporting period 2010 the amount of fair value changes that are attributable to the changes in the credit risk is EUR (0.2) million (2009: EUR 0.9 million). Fair value changes attributable to the changes in credit risk are equal to the fair value changes which do not result from the changes in the risk-free interest rates.

25) Debt securities in issue

in EUR million	2010	2009
Bonds	19,754	20,982
Certificates of deposit	3,761	3,473
Other certificates of deposits/ name certificates	1,761	1,583
Mortgage and municipal bonds	9,090	6,540
Other	62	55
Repurchased own issues	(3,130)	(3,021)
Total	**31,298**	**29,612**

In 1998, Erste Group Bank AG launched a debt issuance programme (DIP); amounting to EUR 30 billion. The DIP is a programme for issuing debt instruments in various currencies, with a wide array of available structures and maturities.

In 2010 81 new issues with total volume of about EUR 3.2 billion were floated under the DIP in 2010.

Furthermore in July 2010, a programme to float bonds to retail customers was released. 63 new issues with total volume of about EUR 800 million were floated.

The euro commercial paper and certificates of deposit programme of August 2008 has an overall size of EUR 10 billion. In all, 257 issues amounting to EUR 29.5 billion were placed in 2010; issues totalling approximately EUR 27.5 billion were redeemed over the same period.

Outstanding debt securities included EUR 89 million (2009: EUR 74 million) in liabilities to which the fair value option was applied. The total amount repayable on these liabilities at 31 December 2010 was EUR 119 million (2009: EUR 91 million). The difference between the fair value of these liabilities and the amount repayable at 31 December 2009 was EUR (30) million (2009: EUR (17) million). In the reporting period 2010 the amount of fair value changes that are attributable to the changes in the credit risk is EUR 0.3 million (2009: EUR 1.5 million). Fair value changes attributable to the changes in credit risk are equal to the fair value changes which do not result from the changes in the risk-free interest rates.

The realised profit of own issues is EUR 5.6 million.

26) Trading liabilities

in EUR million	2010	2009
Debt instruments	64	55
Other trading liabilities	152	666
Total	**216**	**721**

27) Provisions

in EUR million	2010	2009
Long-term employee provisions	1,109	1,171
Sundry provisions	436	499
Total	**1,545**	**1,670**

a) Long-term employee provisions

in EUR million	Pensions	Severance payments	Jubilee payments	Total
Present value of long-term employees' benefit obligations 31 Dec 2006	**981**	**410**	**62**	**1,453**
Present value of long-term employees' benefit obligations 31 Dec 2007	**991**	**395**	**62**	**1,448**
Present value of long-term employees' benefit obligations 31 Dec 2008	**950**	**407**	**70**	**1,427**
Increase from acquisition of subsidiaries	7	4	1	12
Decrease from disposal of subsidiaries	0	0	0	0
Settlements	(10)	(1)	0	(11)
Curtailments	0	0	(1)	(1)
Service cost	0	16	4	20
Interest cost	50	23	4	77
Payments	(73)	(33)	(5)	(111)
Exchange rate difference	0	(1)	0	(1)
Actuarial gains/losses recognised in Other comprehensive income	(37)	(6)	0	(43)
Actuarial gains/losses recognised in income	0	0	(2)	(2)
Present value of long-term employees' benefit obligations 31 Dec 2009	**887**	**409**	**72**	**1,368**
Obligations covered by plan assets	0	190	8	198
Obligations covered by provisions	0	219	64	283
Less fair value of plan assets	**0**	**189**	**8**	**197**
Provisions as of 31 Dec 2009	**887**	**220**	**64**	**1,171**
Present value of long-term employees' benefit obligations 31 Dec 2009	**887**	**409**	**72**	**1,368**
Present value of long-term employees' benefit obligations 31 Dec 2009	0	5	0	5
Decrease from disposal of subsidiaries	0	0	0	0
Settlements	0	0	0	0
Curtailments	0	0	0	0
Service cost	0	16	5	21
Interest cost	42	21	3	66
Payments	(71)	(34)	(4)	(109)
Exchange rate difference	0	0	0	0
Actuarial gains/losses recognised in Other comprehensive income	(25)	(12)	0	(37)
Actuarial gains/losses recognised in income	0	0	(3)	(3)
Present value of long-term employees' benefit obligations 31 Dec 2010	**833**	**405**	**73**	**1,311**
Obligations covered by plan assets	0	190	12	202
Obligations covered by provisions	0	215	61	276
Less fair value of plan assets	**0**	**190**	**12**	**202**
Provisions as of 31 Dec 2010	**833**	**215**	**61**	**1,109**

The movement in plan assets during the reporting period was as follows:

in EUR million	Severance payments	Jubilee payments	Total
Fair value of plan assets as of 31 Dec 2008	**171**	**7**	**178**
Expected return on plan assets	9	0	9
Contributions by the employer	32	2	34
Benefits paid	(17)	(1)	(18)
Actuarial gains/losses recognised in Other comprehensive income	(6)	0	(6)
Actuarial gains/losses recognised in income	0	0	0
Settlements	0	0	0
Fair value of plan assets as of 31 Dec 2009	**189**	**8**	**197**
Expected return on plan assets	0	4	4
Contributions by the employer	10	1	11
Benefits paid	11	1	12
Actuarial gains/losses recognised in Other comprehensive income	(18)	(2)	(20)
Actuarial gains/losses recognised in income	(2)	0	(2)
Settlements	0	0	0
Fair value of plan assets as of 31 Dec 2010	**190**	**12**	**202**

In 2011, the expected premiums for the severance and jubilee benefit obligations will amount to EUR 11.2 million (2010: EUR 12.7 million).

The following table presents the portfolio structure of the plan assets

in EUR million	2010	2009
Debt instruments	183	186
Fixed-term deposits / cash	19	11
Total	**202**	**197**

In 2010, actual gain on plan assets amounted to EUR 8.4 million (2009: EUR 3.8 million).

b) Sundry provisions

Sundry provisions 2010

in EUR million	2009	Acquisition/ disposal of subsidiaries	Currency translation	Alloca-tions	Use	Releases	Reclassi-fication	2010
Provision for off-balance-sheet and other risks	378	0	3	126	(16)	(91)	(98)	302
Sundry other provisions[1)]	121	(1)	1	33	(11)	(9)	0	134
Total	**499**	**(1)**	**4**	**159**	**(27)**	**(100)**	**(98)**	**436**

1) Sundry other provisions consist mainly of provisions for litigation. It is considered highly likely that use will be made of sundry other provisions next year.

Sundry provisions 2009

in EUR million	2008	Acquisition/ disposal of subsidiaries	Currency translation	Alloca-tions	Use	Releases	Reclassi-fication	2009
Provision for off-balance-sheet and other risks	234	2	1	207	(12)	(64)	10	378
Sundry other provisions[1)]	137	0	1	16	(15)	(6)	(12)	121
Total	**371**	**2**	**2**	**223**	**(27)**	**(70)**	**(2)**	**499**

1) Sundry other provisions consist mainly of provisions for litigation. It is considered highly likely that use will be made of sundry other provisions next year.

28) Other liabilities

in EUR million	2010	2009
Deferred income	366	432
Accrued interest and commissions	1,191	1,247
Sundry liabilities	2,793	3,309
Total	**4,350**	**4,988**

Sundry liabilities consist mainly of clearing items from the settlement of securities and payment transactions.

29) Subordinated liabilities

in EUR million	2010	2009
Subordinated issues and deposits	2,885	3,014
Supplementary capital	1,775	1,955
Hybrid issues	1,200	1,180
Repurchased own issues	(22)	(1)
Total	**5,838**	**6,148**

30) Total equity

in EUR million	2010	2009
Subscribed capital	2,513	2,517
Share capital	756	756
Participation capital	1,757	1,761
Additional paid-in capital	6,177	6,171
Retained earnings and other reserves	4,895	4,021
Owners of the parent	**13,585**	**12,709**
Non-controlling interests	3,544	3,414
Total[1)]	**17,129**	**16,123**

1) Details on equity are provided in Section III, Consolidated Statement of Changes in Total Equity.

At 31 December 2010, subscribed capital (also known as called up and fully paid share capital – the capital paid in by shareholders) consisted of 378,176,721 (2009: 377,925,086) voting bearer shares (ordinary shares). The par value of each ordinary share was EUR 2.00. Additional paid-in capital (or share premium) represents the amount by which the issue price of the shares exceeded their accounting par value. Retained earnings and other reserves represent accumulated net profit brought forward, as well as income and expenses recognised in other comprehensive income.

In April 2009, Erste Group Bank AG issued participation capital-for subscription. Within the context of this offer, Erste Group-Bank AG placed EUR 540 million of participation capital with-private and institutional investors. In March, the Republic of Austria subscribed to EUR 1.0 billion of participation capital and in May, another EUR 224 million of participation certificates. In total, the participation capital issued during the course of the measures package amounts to a volume of EUR 1.76 billion. The notional amount of each participation capital security has is EUR 1,000.00. The Participation Capital Securities are perpetual and non-transferable. Erste Group is entitled to repay the participation capital securities only if the repayment amount would not be below 100% (resp. 150% after 1 January 2019) of the nominal amount).

Participation capital participates in losses of the Erste Group in the same manner as share capital, but the holders of participation capital do not have any voting rights. The participation capital securities do not confer any conversion right for ordinary shares of the Erste Group.

Dividend payments to holders of participation capital securities are made prior to distributions of dividends to shareholders of the Erste Group. Erste Group shall not be obliged to pay unpaid dividends.

The dividend on the participation capital is 8.0% per annum for the business years 2009 to 2013. For the business years starting from 2014, the dividend is stepped-up in the following way: 2014 8.5% p.a., 2015 9.0% p.a., 2016 9.75% and from 2017 1% increase each year. However the dividend must not ever exceed 12-Month-EURIBOR plus 10% per annum.

In November 2009, Erste Group increased equity by public placement of ordinary shares in a total nominal amount of EUR 1.74 bn. in order to increase the tier-1 ratio and to improve the quality of the capital. 60 million new shares were issued at a price of EUR 29.0 per share. The price was determined according to market conditions at the time of the issue.

Changes in number of shares and participation capital securities

in units	2010	2009
Shares outstanding at 1 January	**355,211,949**	**289,084,186**
Acquisition of own shares	(16,827,866)	(42,069,729)
Disposal of own shares	23,353,206	47,285,169
Capital increases due to ESOP and MSOP	251,635	912,323
Capital increase November 2009	0	60,000,000
Shares outstanding at 31 December	**361,988,924**	**355,211,949**
Own shares	16,187,797	22,713,137
Number of shares at 31 December	**378,176,721**	**377,925,086**
Weighted average number of shares outstanding	374,695,868	322,206,516
Dilution due to MSOP/ESOP	2,053,995	57,050
Weighted average number of shares taking into account the effect of dilution	376,749,863	322,263,567

in units	2010	2009
Participation capital securities outstanding at 1 January	**1,763,353**	**0**
Issue March until May 2009	0	1,763,744
Acquisition of own participation capital securities	(36,973)	(48,926)
Disposal of own participation capital securities	37,098	48,535
Participation capital securities outstanding at 31 December	**1,763,478**	**1,763,353**
Participation capital securities	266	391
Participation capital securities outstanding at 31 December	**1,763,744**	**1,763,744**

Employee share ownership plan and management share option plan

Under the **ESOP 2010,** between 3 and 14 May 2010, a total of 251,635 shares were subscribed for at a price of EUR 26.50. The resulting issue proceeds of EUR 6,668,327.50 plus EUR 92,931.75 (resulting from the difference between the issue price of EUR 26.50 and the quoted price of EUR 29.59 on the 27 May 2010 value date when 30,075 shares were subscribed for by employees of Erste Group Bank AG and subsequently charged to personnel expenses in the income statement) totalled EUR 6,761,259.25. Of this amount, EUR 503,270.00 was allocated to subscribed capital and EUR 6,257,989.25 to additional paid-up capital.

Personnel expenses include EUR 0.8 million (prior year: EUR 4.7 million) related to the ESOP and profit-sharing.

MSOP 2005: The MSOP comprises a maximum of 2,000,000 ordinary shares of Erste Group Bank AG, represented by 2,000,000 options. The distribution of vested options among management board members, managers and eligible other staff of the Erste Group Bank AG group is shown in the tables below.

Terms of MSOP 2005: Each of the options, which are granted free of charge, entitles the holder to receive one share; the transfer of options inter vivos is not permitted. The 2005 option grant dates were as follows: for the management board and other managers, 1 June 2005; for other key personnel, the grants occurred in three tranches, on 1 September 2005, 1 September 2006 and 31 August 2007. For all recipients the options were vested in three tranches, at which time they were credited to recipients' accounts: 1 September 2005, 1 September 2006 and 31 August 2007. The exercise price for all three tranches was set at the average market price of Erste Group Bank AG shares quoted in April 2005 plus a 10% premium, rounded down to the nearest half euro. The resulting exercise price was EUR 43.00 per share. The option term begins at the grant date and ends on the value date of the last exercise window of the fifth calendar year after the year in which the option vested. Every year, notices of intention to exercise may be submitted within 14 days from the day of publication of the quarterly results for the first, second and third quarter of each financial year (three exercise windows per year). The holding period runs for one year from the value date of the share purchase. Up to 25% of the purchased shares may be sold during this holding period.

The **MSOP 2005** options granted, vested and exercised had the following distribution among recipients:

	Outstanding / Excercisable 01.01.2010	Forfeited in 2010	Expired in 2010	Outstanding / Exercisable 31.12.2010
Management board members	34,000	0	4,000	30,000
Other management	600,890	12,000	98,890	490,000
Other staff	582,789	6,000	115,468	461,321
Total options	**1,217,679**	**18,000**	**218,358**	**981,321**

In 2010 nil options were exercised (2009: exercised nil)

Information on shares held and transactions in Erste Group Bank AG shares by members of the management board and supervisory board (in number of shares):

Management board members:

Managing board member	At 31 Dec 2009	Additions 2010	Disposals 2010	At 31 Dec 2010
Andreas Treichl	209,640	0	25,000	184,640
Franz Hochstrasser	33,260	0	8,000	25,260
Herbert Juranek	656	0	0	656
Johannes Leobacher, till 14 October 2010	2,500	0	2,500	0
Bernhard Spalt	6,376	0	0	6,376
Martin Škopek, since 1 July 2010	0	950	0	950
Manfred Wimmer	18,132	0	0	18,132

For members of the management board whose office term began or ended during the financial year 2010, their holdings in Erste Group Bank AG shares as of the date of inception or termination of the office term were considered as an addition or disposal.
The management board members held the following numbers of Erste Group Bank AG participation capital at the balance sheet date of 31 December 2010

Managing board member	Notional amount
Andreas Treichl	30,000
Herbert Juranek	30,000
Bernhard Spalt	10,000
Manfred Wimmer	30,000

Supervisory board members held the following numbers of Erste Group Bank AG shares at the balance sheet date of 31 December 2010:

Supervisory Board member	Shares held
Georg Winckler	2,500
Jan Homan	4,400
Wilhelm Rasinger	13,735
Theresa Jordis	2,900
Friedrich Rödler	1,502
John James Stack	32,761
Werner Tessmar-Pfohl	1,268
Elisabeth Gürtler	700
Christian Havelka	1,851
Andreas Lachs	52
Friedrich Lackner	500
Bertram Mach	95
Barbara Smrcka	281
Karin Zeisel	35
Markus Haag	160

At 31 December 2010, supervisory board members did not hold options in Erste Group Bank AG shares.

As far as can be determined, persons related to members of the management board or supervisory board held 6,920 shares of Erste Group Bank AG as of 31 December 2010.

Supervisory board members held the following numbers of Participation capital at the balance sheet date of 31 December 2010:

Supervisory Board member	Notional amount
Heinz Kessler	30,000
Georg Winckler	5,000
Wilhelm Rasinger	28,000
Friedrich Rödler	82,000
Elisabeth Gürtler	59,000

As of 31 December 2010 persons related to members of the management board or supervisory board held participation capital of Erste Group Bank AG in notional amount of EUR 81,000.

Authorised but unissued capital remaining at 31 December 2010, and participation capital at that date:

Clause 5 of the articles of association authorises the management board until 12 May, 2015, subject to approval by the supervisory board to increase – if necessary in several tranches – the subscribed capital of Erste Group Bank AG up to EUR 200,000,000.00 by issuing up to 100,000,000 shares as follows (type of share, issuing price, terms of issuing, and – if intended – exclusion of subscription rights are assigned by the management board with approval by the supervisory board): by issuing of shares by cash contributions without exclusion of subscription rights of existing shareholders; if, however, the capital increase is used for the issue of shares to employees, management or members of the management board of Erste Group Bank AG or a subsidiary while excluding the subscription rights of existing shareholders; by issuing of shares by contribution in kind while excluding the subscription rights of existing shareholders.

Under clause 6.3 of the articles of association of decision-making by the management board there remains (in the financial years from 2002 to 2010) contingent capital of EUR 22,502,590.00, which may be utilised by issuing up to 11,251,295 bearer or registered shares at an issue price of at least EUR 2.00 (payable in cash) while excluding the subscription rights of existing shareholders. This contingent capital is used for granting options to other staff, other management and Management Board members of the entity or one of their related party.

According to clause 6.4 of the articles of association, the company has contingent capital of EUR 124,700,000 available, which may be utilised by issuing up to 62,350,000 bearer shares. This contingent capital can be used for granting conversion or subscription rights to holders of convertible bonds.

According to clase 7 of the articles of association currently no authority for granting contingent capital is available.

31) Segment reporting

The segment reporting of Erste Group follows the presentation and measurement requirements of IFRS.

New segment structure

In the interest of a clearer presentation of the group structure, the segment reporting has been aligned with the structure of Erste Group and is now divided into four primary segments: Retail & SME, Group Corporate & Investment Banking, Group Markets and Corporate Center.

Basis for Erste Group´s controlling of individual segments is the average attributed equity as well as the average risk-weighted assets. For the measurement and rating of the profitability of segments, RoE as well as cost/income ratio is used.

Retail & SME

The Retail & SME segment includes the individual, retail-focused regional banks of Erste Group. To enhance transparency and maintain continuity with the existing segmentation, the Austria division is divided into two subsegments, Erste Bank Oesterreich (including local subsidiaries) and Savings Banks. The latter subsegment consists of those savings banks which as a result of their membership in the Haftungsverbund are consolidated in the Erste Group accounts; the Savings Banks subsegment is thus unchanged from the past segmentation. In the Segment Central and Eastern Europe the individual subsidiaries continue to be reported separately.

Group Corporate & Investment Banking

The Group Corporate & Investment Banking segment (GCIB) includes all large corporate customers operating in the markets of Erste Group and having revenue of more than EUR 175 million. Also part of Group Corporate & Investment Banking segment is the former International Business excluding treasury activities; the real estate business of Erste Group including the leasing subsidiary, Immorent; and investment banking (including equity capital markets).

Group Markets

The Group Markets (GM) segment comprises the divisionalised business units Group Treasury and Capital Markets (which includes all capital markets activities except equity capital markets). Besides Erste Group Bank's own treasury activities, it also includes the Capital Market units of the CEE subsidiaries and of the foreign branches in Hong Kong and New York, as well as the Capital Market activities of the investment banking subsidiaries Erste Securities Polska, Erste Bank Investment Hungary, Erste Securities Zagreb and Erste Securities Istanbul and the asset management activities of Erste Asset Management GmbH

Corporate Center segment

The Corporate Center segment continues to include group-wide services in the Marketing, Organisation, Information Technology and other departments that support the implementation of corporate strategy at group level. Consolidation effects and non-operating exceptional items are also recorded in this segment. Additionally, the Balance Sheet Management unit forms part of the Corporate Center segment. The results of the local asset/liability business units continue to be reported in the individual subsegments.

Also recorded in Corporate Center is the amortisation of customer relationships at BCR, Erste Card Club d.d. and Ringturm KAG totalling EUR 67.4 million (2009: EUR 65.9 million).

Segmentation by core business

in EUR million	Retail and SME 2010	Retail and SME 2009	Group Corporate & Investment Banking 2010	Group Corporate & Investment Banking 2009	Group Markets 2010	Group Markets 2009	Corporate Center[3] 2010	Corporate Center[3] 2009
Net interest income	4,593.8	4,530.3	574.2	570.5	156.4	193.2	88.1	(73.1)
Risk provisions for loans and advances	(1,844.6)	(1,788.6)	(186.5)	(267.9)	0.0	0.0	(0.1)	0.0
Net fee and commission income	1,672.0	1,567.9	160.1	162.7	157.1	106.1	(53.1)	(63.9)
Net trading result	176.2	182.6	5.8	(3.0)	246.3	407.0	27.8	(1.5)
General administrative expenses	(3,264.8)	(3,274.9)	(183.9)	(174.2)	(233.7)	(222.2)	(134.5)	(136.1)
Other result[1]	(278.1)	(314.6)	(32.4)	(69.7)	1.8	(3.9)	(132.9)	(65.4)
Pre-tax profit from continuing operations	**1,054.6**	**902.7**	**337.3**	**218.4**	**327.9**	**480.2**	**(204.7)**	**(340.0)**
Taxes on income	(237.5)	(238.2)	(74.8)	(47.0)	(67.6)	(89.3)	51.2	89.8
Post-tax profit from continuing operations	**817.1**	**664.5**	**262.5**	**171.4**	**260.3**	**390.9**	**(153.5)**	**(250.2)**
Profit from discontinued operations net of tax	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Profit for the year	**817.1**	**664.5**	**262.5**	**171.4**	**260.3**	**390.9**	**(153.5)**	**(250.2)**
attributable to								
non-controlling interests	153.0	65.5	14.9	5.0	15.2	23.1	(12.1)	(20.3)
owners of the parent	**664.0**	**599.1**	**247.6**	**166.4**	**245.1**	**367.8**	**(141.4)**	**(229.9)**
Average risk-weighted assets	74,951.7	74,338.4	25,421.2	26,536.8	2,943.0	3,144.9	1,399.7	2,579.4
Average attributed equity	4,123.1	4,079.6	2,034.9	2,086.0	323.9	344.0	6,755.4	3,432.3
Cost/income ratio	**50.7%**	**52.1%**	**24.8%**	**23.9%**	**41.7%**	**31.5%**	**214.0%**	**-**
ROE[2]	**16.1%**	**14.7%**	**12.2%**	**8.0%**	**75.7%**	**106.9%**	**-**	**-**

1) Other result consists of four income statement items: other operating result, result from financial assets at fair value through profit or loss, result from financial assets available for sale, and result from financial assets held to maturity.

2) ROE = return on equity. Net profit attributable to owners of the parent divided by average attributed equity.

3) Interest income on impaired loans was allocated to appropriate segments; Erste Factoring Croatia was allocated to the segment Croatia

in EUR million	Austria 2010	Austria 2009	Erste Bank Oesterreich 2010	Erste Bank Oesterreich 2009	Haftungsverbund (Cross Guarantee System) 2010	Haftungsverbund (Cross Guarantee System) 2009	Central and Eastern Europe 2010	Central and Eastern Europe 2009
Net interest income	1,585.8	1,594.6	644.3	637.5	941.4	957.1	3,008.0	2,935.7
Risk provisions for loans and advances	(451.6)	(482.7)	(148.3)	(151.4)	(303.3)	(331.3)	(1,393.0)	(1,305.9)
Net fee and commission income	766.7	696.4	345.2	302.8	421.6	393.6	905.2	871.5
Net trading result	38.8	59.7	11.5	9.4	27.2	50.3	137.5	122.9
General administrative expenses	(1,537.7)	(1,534.5)	(606.8)	(621.4)	(930.9)	(913.1)	(1,727.1)	(1,740.4)
Other result[1)]	(50.1)	(160.1)	(25.7)	3.2	(24.4)	(163.3)	(228.0)	(154.5)
Pre-tax profit from continuing operations	**351.8**	**173.4**	**220.2**	**180.0**	**131.6**	**(6.6)**	**702.7**	**729.3**
Taxes on income	(80.9)	(60.2)	(46.2)	(40.8)	(34.7)	(19.3)	(156.6)	(178.0)
Post-tax profit from continuing operations	**270.9**	**113.2**	**174.0**	**139.1**	**96.9**	**(25.9)**	**546.2**	**551.3**
Profit from discontinued operations net of tax	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Profit for the year	**270.9**	**113.2**	**174.0**	**139.1**	**96.9**	**(25.9)**	**546.2**	**551.3**
attributable to								
non-controlling interests	109.1	(12.2)	7.1	10.0	102.0	(22.2)	43.9	77.7
owners of the parent	**161.8**	**125.4**	**166.9**	**129.1**	**(5.2)**	**(3.7)**	**502.3**	**473.6**
Average risk-weighted assets	38,337.7	38,174.5	14,389.0	14,066.6	23,948.7	24,107.9	36,614.0	36,163.9
Average attributed equity	1,433.7	1,442.8	1,142.9	1,137.4	290.9	305.4	2,689.4	2,636.8
Cost/income ratio	**64.3%**	**65.3%**	**60.6%**	**65.4%**	**67.0%**	**65.2%**	**42.6%**	**44.3%**
ROE[2)]	**11.3%**	**8.7%**	**14.6%**	**11.4%**	**-**	**-**	**18.7%**	**18.0%**

1) Other result consists of four income statement items: other operating result, result from financial assets at fair value through profit or loss, result from financial assets available for sale, and result from financial assets held to maturity.
2) ROE = return on equity. Net profit attributable to owners of the parent divided by average attributed equity.

in EUR million	Czech Republic 2010	Czech Republic 2009	Romania 2010	Romania 2009	Slovakia 2010	Slovakia 2009	Hungary 2010	Hungary 2009
Net interest income	1,087.2	1,080.8	798.6	836.8	426.8	385.9	387.1	353.6
Risk provisions for loans and advances	(365.8)	(288.1)	(506.7)	(532.4)	(123.2)	(156.5)	(244.3)	(170.8)
Net fee and commission income	476.8	429.5	134.4	164.8	106.6	104.6	97.8	86.2
Net trading result	62.5	38.6	24.0	26.6	4.0	8.3	23.2	29.9
General administrative expenses	(709.8)	(695.8)	(375.2)	(383.3)	(222.2)	(249.6)	(202.6)	(214.0)
Other result[1)]	(83.3)	(107.3)	(50.2)	17.0	(20.5)	(50.3)	(68.3)	(1.3)
Pre-tax profit from continuing operations	**467.4**	**457.8**	**24.8**	**129.4**	**171.6**	**42.4**	**(7.1)**	**83.5**
Taxes on income	(82.7)	(105.0)	(6.7)	(17.1)	(34.9)	(14.4)	(14.9)	(25.7)
Post-tax profit from continuing operations	**384.7**	**352.8**	**18.1**	**112.3**	**136.7**	**28.0**	**(22.0)**	**57.8**
Profit from discontinued operations net of tax	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Profit for the year	**384.7**	**352.8**	**18.1**	**112.3**	**136.7**	**28.0**	**(22.0)**	**57.8**
attributable to								
non-controlling interests	5.9	7.1	9.6	38.8	0.1	0.4	(0.2)	0.0
owners of the parent	**378.9**	**345.7**	**8.5**	**73.5**	**136.5**	**27.6**	**(21.8)**	**57.9**
Average risk-weighted assets	12,421.7	11,356.6	9,059.3	9,646.3	5,230.5	5,504.4	4,702.7	4,761.8
Average attributed equity	1,025.0	946.2	516.5	548.1	432.0	457.2	387.6	393.3
Cost/income ratio	**43.6%**	**44.9%**	**39.2%**	**37.3%**	**41.3%**	**50.0%**	**39.9%**	**45.6%**
ROE[2)]	**37.0%**	**36.5%**	**1.6%**	**13.4%**	**31.6%**	**6.0%**	**-**	**14.7%**

1) Other result consists of four income statement items: other operating result, result from financial assets at fair value through profit or loss, result from financial assets available for sale, and result from financial assets held to maturity.
2) ROE = return on equity. Net profit attributable to owners of the parent divided by average attributed equity.

in EUR million	Croatia 2010	Croatia 2009	Serbia 2010	Serbia 2009	Ukraine 2010	Ukraine 2009	Total 2010	Total 2009
Net interest income	247.9	223.4	27.5	28.1	32.9	27.1	5,412.5	5,220.9
Risk provisions for loans and advances	(106.0)	(74.5)	(8.2)	(7.0)	(38.8)	(76.7)	(2,031.1)	(2,056.6)
Net fee and commission income	74.0	74.4	11.5	10.9	4.1	1.3	1,936.0	1,772.8
Net trading result	9.7	9.0	2.4	3.1	11.7	7.5	456.2	585.1
General administrative expenses	(139.0)	(130.6)	(31.0)	(31.1)	(47.1)	(36.1)	(3,816.8)	(3,807.4)
Other result[1)]	(4.8)	(1.4)	(0.8)	(1.5)	(0.1)	(9.7)	(441.6)	(453.5)
Pre-tax profit from continuing operations	**81.8**	**100.3**	**1.5**	**2.5**	**(37.3)**	**(86.7)**	**1,515.1**	**1,261.3**
Taxes on income	(17.0)	(18.5)	0.0	(0.3)	(0.2)	2.9	(328.7)	(284.7)
Post-tax profit from continuing operations	**64.7**	**81.9**	**1.5**	**2.2**	**(37.5)**	**(83.7)**	**1,186.4**	**976.6**
Profit from discontinued operations net of tax	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Profit for the year	**64.7**	**81.9**	**1.5**	**2.2**	**(37.5)**	**(83.7)**	**1,186.4**	**976.6**
attributable to								
non-controlling interests	28.1	30.6	0.4	0.8	0.0	0.0	171.0	73.2
owners of the parent	**36.7**	**51.3**	**1.0**	**1.4**	**(37.5)**	**(83.7)**	**1,015.4**	**903.4**
Average risk-weighted assets	3,902.6	3,577.6	633.5	741.2	663.6	576.0	104,715.6	106,599.5
Average attributed equity	227.0	194.2	42.3	49.0	59.0	48.9	13,237.3	9,941.9
Cost/income ratio	**41.9%**	**42.6%**	**74.9%**	**74.0%**	**96.7%**	**-**	**48.9%**	**50.2%**
ROE[2)]	**16.2%**	**26.4%**	**2.4%**	**2.8%**	**-**	**-**	**7.7%**	**9.1%**

1) Other result consists of four income statement items: other operating result, result from financial assets at fair value through profit or loss, result from financial assets available for sale, and result from financial assets held to maturity.

2) ROE = return on equity. Net profit attributable to owners of the parent divided by average attributed equity.

32) Assets and liabilities denominated in foreign currencies and outside Austria

Assets and liabilities not denominated in EUR were as follows:

in EUR million	2010	2009
Assets	85,965	85,319
Liabilities	59,283	58,760

The assets and liabilities outside Austria are given below:

in EUR million	2010	2009
Assets	110,715	108,671
Liabilities	86,026	86,195

33) Leases

a) Finance leases

Erste Group leases both movable property and real estate to other parties under finance lease arrangements. For the finance lease receivables included in this item, the reconciliation of the gross investment in leases to the present value of the minimum lease payments is as follows:

in EUR million	2010	2009
Outstanding minimum lease payments	5,831	6,477
Non-guaranteed residual values	1,149	1,226
Gross investment	**6,980**	**7,703**
Unrealised financial income	1,017	1,250
Net investment	**5,963**	**6,453**
Present value of non-guaranteed residual values	778	797
Present value of minimum lease payments	**5,185**	**5,656**

The maturity analysis of gross investment in leases and present values of minimum lease payments under non-cancellable leases is as follows (residual maturities):

	Gross investment		Present value of minimum lease payments	
in EUR million	2010	2009	2010	2009
< 1 year	1,250	1,441	1,085	1,214
1-5 years	3,150	3,461	2,479	2,757
> 5 years	2,580	2,801	1,563	1,685
Total	**6,980**	**7,703**	**5,127**	**5,656**

In the reporting period, the total amount of accumulated allowance for uncollectable minimum lease payments is as follows EUR 66 million (2009: 52 million).

The total amount of contingent rents from finance leases recognised as income in the period was EUR 29 million (2009: 45 million).

b) Operating leases

Under operating leases, Erste Group leases both real estate and movable property to other parties.

Operating leases from view of Erste Group Bank AG as lessor:

Further minimum lease payments from non-cancellable operating leases as follows:

in EUR million	2010	2009
< 1 year	95	76
1-5 years	19	202
> 5 years	52	20
Total	**166**	**298**

Operating leases from the view of Erste Group Bank AG as lessee:

Further minimum lease payments from non-cancellable operating leases as follows:

in EUR million	2010	2009
< 1 year	21	1
1-5 years	59	3
> 5 years	16	0
Total	**96**	**4**

34) Related-party transactions and principle shareholders

Besides of principal shareholders, Erste Group defines as related parties also other investments and associates which are included in the consolidated financial statements by using the equity method. Furthermore related parties consist of Mangement and Supervisory Board Members as well as companies over which these persons have control or significant influence. On top of that Erste Group Bank AG defines also close family members of Management and Supervisiory Board Members as related parties.

Transactions between Erste Group Bank AG and fully consolidated companies are not recognised in the consolidated financial statements since they are eliminated.

Principal shareholders

At the end of 2010, DIE ERSTE oesterreichische Spar-Casse Privatstiftung, a foundation, held approximately 25.3% of the shares of Erste Group Bank AG, making the foundation the largest shareholder.

In 2010, the foundation received a dividend of EUR 64.1 million (2009: EUR 64.1 million) on its shareholding in Erste Group Bank AG (for the 2009 financial year). The purpose of the foundation, which is intended to be achieved particularly by holding a substantial equity interest in Erste Group Bank AG, is to support social, scientific, cultural and charitable institutions as well as to generally promote the guiding principles of the savings bank philosophy. At 31 December 2010, the members of the foundation`s management board were Andreas Treichl (chairman of the management board of Erste Group Bank AG), Dietrich Karner, Richard Wolf and Boris Marte. At that date, the foundation`s supervisory board had ten members, two of whom where also members of the supervisory board of Erste Group Bank AG.

Under clause 15.1. of the articles of association, DIE ERSTE österreichische Spar-Casse Privatstiftung is entitled – as long as, under Section 92 (9) of the Austrian Banking Act, it guarantees all present and further liabilities of Erste Group Bank AG in the event of the latter's insolvency – to delegate up to one-third of the supervisory board of members to be elected by the annual general meeting. To date, this right of delegation has not been excercised.

At 31 December 2010, in respect of the foundation, Erste Group had accounts payable of EUR 290.2 million and accounts receivable of EUR 276.1 million. In addition, standard derivative transactions on normal market terms were in place for hedging purposes between Erste Group and foundation at the end of 2010. These were interest rate swaps with caps and floors in the notional amount of 247.4 million each as well as interest rate swaps with caps in the notional amount of EUR 103.0 million.

In 2010, Erste Group accrued interest income of EUR 18.9 million receivable from and interest expenses of EUR 2.9 million payable to the foundation from accounts receivable and payable and from the derivative transactions outlined.

At the end of 2010, Criteria Caixa Corp S.A. with head office in Barcelona, Spain, held 38,170,433 Erste Group Bank shares, which is relating to 10.10% participation of Erste Group Bank AG´s share capital. Juan Maria Nin, Deputy Chairman of Criteria Caixa Corp. S.A. is member of the supervisory board of Erste Group Bank AG.

Loans and advances to and amounts owed to related parties

in EUR million	2010	2009
Loans and advances to credit institutions		
Associates accounted for at equity	99	99
Other investments	5	1
Total	**104**	**100**
Loans and advances to customers		
Associates accounted for at equity	141	279
Other investments	1,127	874
Total	**1,268**	**1,153**
Financial assets - at fair value through profit or loss		
Associates accounted for at equity	3	3
Other investments	6	5
Total	**9**	**8**
Financial assets - available for sale		
Associates accounted for at equity	13	13
Other investments	53	16
Total	**66**	**29**
Financial assets - held to maturity		
Associates accounted for at equity	0	0
Other investments	6	4
Total	**6**	**4**
Deposits by banks		
Associates accounted for at equity	37	78
Other investments	0	0
Total	**37**	**78**
Customer deposits		
Associates accounted for at equity	23	25
Other investments	248	178
Total	**271**	**203**

Transactions with related parties are done on arm´s length basis.

Compensations to Management and Supervisory Board Members

Breakdown of management board compensation:

in EUR thousand	2010	2009
Performance-related salaries	3,684	0
Fixed salaries	4,122	3,779
Other compensations	1,021	892
Total	**8,827**	**4,671**

In the year under review, management board members who held office in 2010 received remuneration (including compensation in kind) totalling EUR 8,827 thousand (2009: EUR 4,671 thousand). This represented 0.4% of the total personnel expenses of the Erste Group. In the 2010 financial year, EUR 924 thousand (2009: EUR 916 thousand) was paid to former members of the management board or their surviving dependants.

The item other compensation includes pension fund contributions (at severance payments – new) and various compensations.

In 2010, the management board of Erste Group Bank AG did not receive board emoluments or other compensation from fully consolidated subsidiaries of Erste Group Bank AG. The compensation of management board members is based on the individual's responsibilities, the achievement of corporate targets and the group's financial situation.

Breakdown of supervisory board compensation:

in EUR thousand	2010	2009
Supervisory Board compensation	350	325
Meeting fees	162	154
Total	**512**	**479**

In 2010, the members of the supervisory board of Erste Group Bank AG were paid a combined total of EUR 512 thousand (2009: EUR 479 thousand) in this capacity. Members of the supervisory board received the following compensation for board positions in fully consolidated subsidiaries of Erste Group Bank AG: Heinz Kessler: EUR 43,980; Friedrich Rödler: EUR 13,000; Werner Tessmar-Pfohl: EUR 24,000 and Georg Winckler: EUR 800.

There were no other transactions with members of the supervisory board.

Based on a resolution of the annual general meeting held on 12 May 20010, the supervisory board at its constituting meeting set out the following annual compensation structure for the fiscal year 2009:

in EUR	Number	Allowance per person	Total allowance
President	1	50,000	50,000
Vice Presidents	2	37,500	75,000
Members	9	25,000	225,000
Total	**12**		**350,000**

The supervisory board must consist of at least three and at most 12 members elected by the general meeting. DIE ERSTE österreichische Spar-Casse Privatstiftung, a foundation, has the right to delegate up to one-third of the members of the supervisory board, elected by the general meeting, as long as the foundation guarantees acc. to Section 92 (9) Austrian Banking Act all existing and future liabilities of the company in case of illiquidity. Participation in the supervisory board ends in case of death, recall, demission, or if a defined obstruction reason occurs. For recall, a majority of three quarters of the valid votes cast and a majority of at least three quarters of the attending members representing the ordinary share capital are necessary.

Loans and advances to related parties

At the end of 2010, loans and advances to members of the management board totalled EUR 166 thousand (2009: EUR 889 thousand). Loans and advances to persons related to members of the management board totalled EUR 26 thousand at 31 December 2010 (2009: EUR 24 thousand). Loans to members of the supervisory board totalled EUR 251 thousand (2009: EUR 259 thousand). Loans and advances to persons related to members of the supervisory board totalled EUR 11 thousand (2009: EUR 418 thousand). The applicable interest rates and other terms (maturity dates and collateral) represent market terms. In 2010 the repayments for loans and advances to members of the management board totalled EUR 429. As regards loans and advances to member of the supervisory board, there were no material loan repayments.

Other transactions with related parties

Companies related to members of the supervisory board invoiced the following amount from other transactions:

In 2010, DORA BRUGGER JORDIS Rechtsanwälte GmbH, a law firm in which Theresa Jordis is a partner, invoiced Erste Group Bank AG a total of EUR 348,775.69 for several mandates.

Friedrich Rödler is senior partner at PricewaterhouseCoopers Austria. Companies of this group invoiced in 2010 Erste Group Bank AG in total EUR 54,726.00 for consulting mandates.
The compensation of the supervisory board members depends on the individual's responsibilities, the business volume and the company's financial situation.

35) Collateral

The following assets were pledged as security for liabilities:

in EUR million	2010	2009
Loans and advances to credit institutions	894	740
Loans and advances to customers	6,480	4,824
Trading assets	92	920
Other financial assets[1)]	5,464	7,662
Total	**12,930**	**14,146**

1) Other financial assets mainly consist of financial assets held to maturity, available for sale, at fair value through profit or loss.

The specific compensation of each member is calculated by dividing the annual allowance by twelve and multiplying the result by the number of months, served in the respective position during the year.

Collaterals were pledged in connection with securities repurchase transactions, securities lending with cash collateral and other collateral agreements.

The fair value of collateral received that may be repledged or resold even without the security provider`s default was EUR 4,470 million (2009: EUR 3,196 million). Of this total, collateral with a fair value of EUR 25 million (2009: EUR 78 million) was resold or repledged. The collateral comes from reverse repo transactions and securities borrowings.

36) Securities lending and repurchase transactions

in EUR million	2010 Carrying amount of assets pledged as collateral	2010 Carrying amount of liabilities	2009 Carrying amount of assets pledged as collateral	2009 Carrying amount of liabilities
Repurchase transactions	2,256	2,219	4,541	4,560
Securities lending agreement	450	0	432	0
Total	**2,706**	**2,219**	**4,973**	**4,560**

Assets received and transferred by Erste Group under sale and repurchase agreements are largely securities.

37) Risk management

37.1. Risk policy and strategy

It is a core function of every bank to take risks in a conscious and selective manner and to professionally manage such risks. Erste Group's proactive risk policy and strategy aims at achieving an optimal balance of risk and return in order to achieve a sustainable, high return on equity.

Erste Group uses a control and risk management system that is proactive and tailored to Erste Group's business and risk profile, which is based on a clear risk strategy consistent with the group's business strategy, focusing on early identification and management of risks and trends. In addition to meeting the internal goal of effective and efficient risk management, Erste Group's control and risk management system has been developed to fulfil external, and in particular, regulatory requirements.

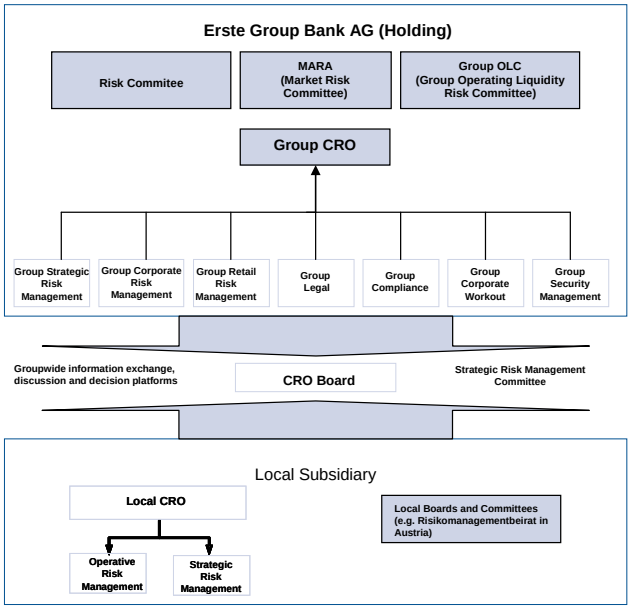
Given Erste Group's business strategy, the key risks for Erste Group are credit risk, market risk and operational risk. Erste Group also focuses on managing liquidity, concentration and business risks. In addition to managing these risks, Erste Group's control and risk management framework takes account of the range of other significant risks faced by Erste Group.

Erste Group Bank AG uses the Internet as the medium for publishing disclosures under section 26 Banking Act and the Disclosure Regulation. Details are available on the website of Erste Group at www.erstegroup.com/ir.

37.2. Risk management organisation

Risk monitoring and control is achieved through a clear organisational structure with defined roles and responsibilities, delegated authorities, and risk limits. The following diagram presents an overview of Erste Group's risk management and control governance and responsibility structure.

Risk Management – Organisation and decision bodies



Overview of Risk Management Structure

The Management Board, and in particular Erste Group's chief risk officer ("Group CRO"), has to perform its oversight function within Erste Group's risk management structure. Risk control and management functions within Erste Group are performed based on the business and risk strategies approved by the Management Board and the strategic risk framework. The Group CRO, working together with the chief risk officers of the subsidiaries, is responsible for the implementation of and adherence to the risk control and risk management strategies across all risk types and business lines. While the Management Board and, in particular, the Group CRO ensure the availability of appropriate infrastructure and staff as well as methods, standards and processes to that effect, the actual identification, measurement, assessment, approval, monitoring, steering, and setting limits for the relevant risks are performed at the operating entity level within Erste Group. At the group level, the Management Board is supported by several divisions established to perform operational risk control functions and exercise strategic management responsibilities:

- **Group Strategic Risk Management;**
- **Group Retail Risk Management;**
- **Group Corporate Risk Management;**
- **Group Corporate Workout;**
- **Group Legal;**
- **Group Compliance; and**
- **Group Security Management.**

Group Strategic Risk Management, which exercises the "risk control" function, is responsible for macro-managing the group's risk portfolios and the provision of adequate risk measurement methodologies and tools as well as an appropriate risk policy and control framework. This unit is comprised of the departments "Group OpRisk and Credit Risk Control", "Group Enterprise-wide Risk Management and Reporting" and "Group Market and Liquidity Risk Management" as well as the corporate function "Basel II". See "Risk Control—Overview of Risk Control Governance Structure" for a further discussion of the risk control management structure of the Erste Group.

Group Corporate Risk Management is the operative credit risk management function for Erste Group's divisionalised corporate business (GCIB). It is responsible for the formal and material verification, recommendation and approval of all credit risks of Erste Group Bank as a holding company. Group Corporate Risk Management is also responsible for credit risk management for the GCIB segment as well as all credit applications where the amount involved exceeds the approval limits granted to the respective subsidiary. This unit covers country risks, sovereigns, other credit institutions, securitisations (ABS and CDO), large corporates, and real estate risks. Group Corporate Risk Management provides specific credit risk reports on the aforementioned centrally managed portfolios of Erste Group Bank as a holding company and is in charge of process development for credit risk management and of the implementation of group standards for these asset classes. This department is also responsible for establishing and monitoring appropriate credit analysis processes and systems for corporate business at the subsidiary level and coordinating and reviewing corporate credit and project analysis adopted across the business.

Group Retail Risk Management focuses on retail business, which is Erste Group's primary business. It coordinates at group level retail risk management processes and standards and also provides credit risk reports for Erste Group's retail business. Operative risk management functions for retail operations are performed at the local level.

Group Corporate Workout is responsible for restructuring of accounts in the GCIB segment. An important additional task for the division is to draw up a uniform procedure and policy on restructurings and work-outs for the whole Erste Group.

Group Legal, in performing the function of the central legal department of Erste Group Bank, mitigates legal risk by providing legal support and counselling for the business and center functions and by taking care of dispute resolution and litigation. Group Legal has a group-wide focus on legal risk management and reporting aiming at identifying and minimizing, limiting or avoiding legal risk. Legal support for the business of the banking subsidiaries in the jurisdictions in which they operate is performed at the local level.

Group Compliance includes the departments Securities Compliance, Anti Money-Laundering (AML) and Fraud Management and is accountable for addressing compliance risks. Compliance risks are risks of legal or regulatory sanctions, material financial loss, or loss to reputation Erste Group may suffer as a result of failure to comply with laws, regulations, rules and standards.
Group Security Management is in charge of the strategy, the definition of security standards, quality assurance, monitoring as well as the further development of issues of relevance for security at Erste Group.

In addition to the risk management activities performed at the Erste Group Bank level in its special role as a holding company, each subsidiary also has a risk control and management unit, the responsibilities of which are tailored to the applicable local requirements. Each subsidiary's risk control and management unit is headed by the respective entity's chief risk officer.

Group Coordination of Risk Management Activities

With the purpose of carrying out risk management activities within Erste Group, certain committees have been established, including the following:

- **Risk Committee;**
- **CRO Board;**
- **Strategic Risk Management Committee;**
- **Group Operational Liquidity Committee (Group OLC); and**
- **Market Risk Committee (MARA).**

The Risk Committee, which consists of the Management Board and senior managers of Erste Group Bank, is the most senior committee in Erste Group Bank. It is responsible for the approval of methods and processes of risk control and management as well as for the risk infrastructure. The Risk Committee also monitors the capital base and allocates capital at the macro level and determines the risk framework on a group-level. As the central risk control body, the Risk Committee is frequently and regularly briefed on the risk status, both retrospectively and prospectively, and across all risk types. The Risk Committee analyses the then current status as well as any trends and makes management decisions at the highest level.

The CRO Board and the Strategic Risk Management Committee are responsible for consistent coordination and implementation of risk management activities within Erste Group, including the Sparkassen Haftungsverbund. The CRO Board is made up of the Group CRO and the chief risk officers of the subsidiaries in the Erste Group. Chaired by the Group CRO, the CRO Board has responsibility for the group-wide coordination of risk management and for ensuring uniformity of risk management standards across Erste Group. The Strategic Risk Management Committee, which is made up of the division heads of the strategic risk management department at each subsidiary, provides support to the CRO Board in decision-making on current risk-related topics.

Erste Group has established committees at the holding level that are specifically responsible for monitoring and managing two key risk categories:

- The Group Operating Liquidity Committee ("Group OLC") is responsible for the day-to-day management of the global liquidity position of Erste Group. It analyses the liquidity situation of Erste Group on a regular basis and reports directly to the Group Asset Liability Committee ("Group ALCO"). It also proposes measures to the Group ALCO within the scope of the management policies and principles laid down in the Liquidity Risk Management Rule Book. Furthermore, members of the Group OLC are points of contact for other departments or Erste Group members for liquidity-related matters. Each local bank has its own local operational liquidity committee. The detailed roles and responsibilities of the Group OLC are described in the Liquidity Risk Management Rule Book. For additional information on the Group ALCO, see "Liquidity Risk - Organisation and reporting".

- The Market Risk Committee ("MRC") is the main steering body for all risks related to capital market trading operations in Erste Group. The MRC meets quarterly, approves group-wide market risk limits and elaborates on the current market situation. The members of the MRC are the Group CRO, the board member responsible for Group Capital Markets, the Head of Group Capital Markets, the Head of Group Strategic Risk Management, and the Head of Group Market and Liquidity Risk Management.

In addition, committees established at local level, e.g. the *Risikomanagementbeirat*, carry out a common risk approach in the Austrian savings banks.

As a result of the principle of segregation of risk origination and risk control, at every level of the risk management structure of Erste Group – particularly concerning market and credit risks – the risk management and control functions are exercised independently of the front office functions. Local operative risk management divisions carry out this control function.

37.3. Risk Control

Overview of Risk Control Governance Structure

The Group Risk Management unit performs the function of the central and independent risk control unit required by section 39 (2) of the Austrian Banking Act. One objective of Group Strategic Risk Management, a unit that is independent from the business units, is to ensure that all risks measured or taken are within the limits approved by the Management Board.

Group OpRisk and Credit Risk Control, which is a sub-unit of the Group Strategic Risk Management, is in charge of management of operational risks, key tasks regarding Erste Group's credit risk methods and rating models and monitoring compliance with relevant credit risk limits. The Group Enterprise-wide Risk Management and Reporting department, which is also a sub-unit of the Group Strategic Risk Management, has responsibility for the Enterprise-wide Risk Management, the group data pool and the group-wide credit risk reporting. Enterprise-wide Risk Management, which is a sub-unit of the Group Enterprise-wide Risk Management and Reporting, is in charge of the essential elements of the risk management framework and Erste Group's risk policy principles which ensure adequate guidance on all risk-related matters. Furthermore, this unit is responsible for Group's Internal Capital Adequacy Assessment Process (ICAAP), planning of risk and risk costs, risk-weighted asset management as well as stress testing and risk simulation. The group-wide daily calculation, analysis and reporting of market and liquidity risks is provided by the Group Market and Liquidity Risk Management department of Group Strategic Risk Management. Ongoing risk calculations are performed using models, the quality of which is continually refined by this department.

Risk control process

Erste Group's independent risk control process consists of five main steps:

Risk identification

Risk identification at Erste Group refers to the detection of all relevant existing and potential risks related to banking operations, with particular emphasis on the use of a systematic and structured approach towards risk identification. The aim of this process is the permanent, timely, rapid, complete and cost-effective identification of each individual risk that has a bearing on the achievement by Erste Group of its business targets. Risk identification process is concerned not only with the early detection of risks, but also with the recognition of all sources of risks in as comprehensive a manner as possible.

Risk measurement
Risk measurement at Erste Group refers to the valuation and analysis of all quantifiable risks using statistical methods. In addition, stress scenarios are defined, with the goal of quantifying the losses that may be triggered by extremely adverse, rare, however plausible events. The information gained from stress test scenarios complements Value-at-Risk ("VaR") results, making it easier to predict the effects of potential extreme market movements on Erste Group.

Risk aggregation
Risk aggregation at Erste Group refers to the compilation of the results of risk measurement for each individual risk type to determine the aggregate potential loss based on the assumption of all of the relevant individual risks. The resulting aggregate measure for potential loss is known as economic capital (representing VaR at a confidence level of 99.95% over a one-year time period).

Risk limit-setting
Erste Group refers to the setting of a loss ceiling by the management through the Risk Committee based on the periodic determination of risk-bearing capacity, which takes into account the group's equity base and profitability status.

Risk reporting
Risk reporting at Erste Group refers to the continuous reporting of the risk measurement results for each individual risk type to management.

Basel II / Basel III

Having passed the required audit conducted by the Austrian supervisory authority in 2006, Erste Group (including almost all Haftungsverbund savings banks and Česká spořitelna) successfully qualified for Basel II internal ratings based (IRB) approach to the measurement of credit risk, effective from the entry of the new regulations into force on 1 January 2007. For credit risk, Erste Group applies the Advanced IRB Approach in the retail segment and the Foundation IRB Approach in all other Basel segments. In 2008, these standards were also adopted by Erste Bank Hungary and Slovenská sporitel'ňa and since 1 July 2009 by Erste Bank Croatia.

According to the current rollout plan for Erste Group, the transition from the Standardised Approach to the IRB Approach was made in 2010 for s-Wohnbaubank in Austria.

For the operational risk Erste Group received regulatory approval to use the AMA (Advanced Measurement Approach) at group level for five entities (Erste Group Bank AG, Erste Bank der oesterreichischen Sparkassen AG, Česká spořitelna a.s., Slovenská sporitel'ňa a.s. and Erste Bank Hungary Nyrt) in the first half of 2009. Beginning of October 2010, additional three entities received the approval to use AMA (Banca Comerciala Roman S.A., Erste&Steiermärkische Bank d.d., Rijeka and Erste Leasing Hungary). Other major subsidiaries which are currently using the Basic Indicator Approach intend to apply for the AMA in the future.

Planned regulatory changes for the coming years (commonly known as Basel III) are closely monitored be Erste Group. Erste Group participated in the Quantitative Impact Study (QIS) of Basel III in 2010 and has undertaken further analyses and preparation activities in order to ensure a timely implementation of those changes.

37.4. Group-wide risk and capital management

Overview

Erste Group's risk management framework is continuously evolving and improving, and not just as a reaction to the recent turbulence on the financial markets; in particular the Group Strategic Risk Management and its Enterprise-wide Risk Management (ERM) has been developed into a comprehensive framework with ICAAP as its principal driver, as required under Pillar 2 of the Basel framework.

The ERM framework is designed to support the bank's management in managing risk portfolios as well as the coverage potential to assure at all times an adequate capital capacity reflecting the nature and magnitude of the bank's risk portfolio. ERM is tailored to the group's business and risk profile, reflects the strategic goal of protecting share- and senior debt holders and ensuring sustainability of the organisation

ERM is a modular and comprehensive steering and management system within Erste Group and is integral to the bank's / group's overall steering and management system. The components necessary to ensure all aspects of ERM, regulatory requirements but particularly internal value adding needs, can be summarised as follows:

- **Risk Strategy and Risk Appetite**
- **Portfolio & Risk Analytics e.g.**
  - **Risk Materiality Assessment**
  - **Risk Modelling & Stress Testing**
  - **Concentration Risk Management**
- **Risk-bearing Capacity Calculation**
- **Emergency Response Plan**
- **Risk Planning & Forecasting e.g.**
  - **RWA Management**
  - **Capital Allocation**

Risk Strategy and Risk Appetite

A major focus of the risk strategy of Erste Group is to prevent excessive risks which could compromise the achievement of strategic goals.
Equally important is the Group Risk Limit Frame derived from the strategy of the Group and which consists of adequate top-down as well as bottom-up limits.

Portfolio and Risk Analytics

For the purpose of adequate management of the group's risk portfolios according to the strategy, risk are systematically analyzed within the scope of portfolio & risk analytics. Therefore Erste Group has developed adequate infrastructure, systems and processes with which it ensures extensive analysis. Risks are quantified, qualified and discussed in a consistent management process in order to decide on appropriate measures on time.

Risk MaterialityAssessment
Its purpose is the systematic and continuous assessment of all relevant risk types and the identification of risks which are significant for the group. Erste Group has defined a clear and structured Risk Materiality Assessment approach which is based on defined quantitative and qualitative factors for each risk type.

This process constitutes the basis for the determination of material risk types to be included in the Risk-bearing Capacity Calculation. Insights generated by the assessment are also used to improve risk management practices per se to further mitigate risks within the group but also as an input for the design and definition of the group's Risk Appetite Statement.

Risk Modelling and Stress Testing
Modelling the existing risks and the detection of potential negative movements at an early stage as well as conducting Stress Tests is a major part of the ERM framework.

Erste Group performs besides the standardised Stress Tests also comprehensive, scenario-based Stress Tests. Due to a clearly defined governance and management process, scenarios and relevant stress parameters are shaped in that way that a maximum degree on information is derived for group steering.

The parameters applied for simulations are derived from the analysis of previous as well as current macroeconomic developments, forecast of the further development and potential stress events. Stress parameters are defined in especially for that purpose developed models and processes.

For stress testing Erste Group developed specific tools to support the process, which represents a combined bottom-up / top-down approach. In addition, Erste Group leverages the intimate knowledge of its professionals located in the different regions to further calibrate the model based stress parameters. Special attention is paid to consider adequate granularity and special characteristics when defining the stress parameters e.g. to the particular developments in the respective region, industry, product type or segment. The adequacy of scenarios and stress parameters is reviewed on a quarterly basis.

Erste Group's most complex stress tests take comprehensive account of the impact of stress scenarios, including second round effects on all risk types (credit, market, operational and liquidity risks) and in addition impacts on the associated profit and loss sensitivities.

The findings from all Erste Group's stress tests are rigorously reviewed in order to decide on the most appropriate courses of action to take. Stress Test results are systematically reviewed in the contexts of the Risk-bearing Capacity and Maximum Risk Exposure Limit calculations for the group.

All stress tests performed in the reporting period clearly showed sufficient capital adequacy.

Erste Group additionally participated in a variety of stress test exercises, both at national (OeNB) and international (CEBS) level. The results of these stress tests showed as well that Erste Group's regulatory capital was adequate.

Concentration Risk Management
Erste Group has implemented an appropriate framework to identify, measure, control, report and manage concentration risks as this is essential to ensure the long-term viability of any financial institution, especially in case of stressed economic conditions.

Concentration risk management at Erste Group is based upon a comprehensive framework of processes, methodologies and reports covering both intra- and inter-concentrations. Erste Group regularly performs, qualifies and reports concentration analyses. Concentration risks are also integral part of stress tests analyses.

These analyses have not evidenced any material concentration risk in the group. This is the result of an efficient limit management as well as a consequence of the business strategy of Erste Group.

The group has a sovereign exposure of EUR 703 million to Greece which equals 2% of the group's total sovereign exposure or approx. 0.3% of the group's total credit risk exposure and hence does not form a concentration risk. The duration profile of this portfolio will lead to a substantial decrease (nearly 50%) until end of 2013 and is protected by the European measures put in place to prevent sovereign defaults. The group monitors public debt restructuring discussions and potential haircuts as well as includes the exposure in stress tests. Additionally, hedging opportunities are being observed and applied if deemed appropriate.

Risk-bearing Capacity Calculation

Within the Risk-bearing Capacity Calculation, Erste Group's material risks are compared to the capital/coverage potential according to internal ICAAP standards. The quarterly capital adequacy calculation undertaken by Erste Group serves not only as a tool to assess the actual capital adequacy of the group but also to provide a forward-looking picture, make recommendations and start taking actions as may be necessary for a sustainable sound capitalisation.

The Management Board and the risk management committees are briefed regularly and at least on a quarterly basis in relation to the results of the capital adequacy calculation. The report includes movements in risks and available capital / coverage potential after consideration of potential losses in stress situations, the degree of utilisation of the risk limit and overall status of ICAAP according to the traffic light system. The ICAAP report also includes a comprehensive forecast of risk-weighted assets and capital adequacy.

Based on the business and risk profile of Erste Group, currently the three main types of banking risks, credit risk, market risk and operational risk, are considered in the Risk-bearing Capital Calculation. Credit risk accounts for approximate 80% of the total economic capital requirement. Reflecting what management believes is the conservative risk management policy and strategy of Erste Group, Erste Group does not offset diversification effects between these three risk types. The economic capital requirement for unexpected losses is computed on a one-year time horizon with 99.95% confidence level, which reflects the implied default risk consistent with a long-term credit rating of AA (double A).

Other risk types, in particular liquidity, concentration and business risks, are managed by means of a proactive management framework that includes forward-looking elements, stress testing, trigger levels and traffic light systems..

The capital or coverage potential required to cover economic risks and unexpected losses is sub-divided based on the characteristic of their components, such as the legal qualification of the source of capital and the tenor of subordinated debt. The coverage potential must be sufficient to absorb unexpected losses resulting from the group's operations.

In addition to the credit limits set by the existing limit frame of the group, Erste Group has defined a Maximum Risk Exposure Limit ("MREL") which, along with the signal system, serves to ensure that there is sufficient time (at least one year) for the management to plan and execute actions to ensure capital adequacy and sustainability going forward.

Emergency Response Plan

In case of unforeseeable events, such as a crisis, an Emergency Response Plan ("ERP") has been defined by Erste Group. The ERP includes a predefined set of tools as well as processes, resources, roles and responsibilities, with the goal of responding immediately and effectively to any such crisis. Measures take into account not only capital, but also the liquidity position and strategy of Erste Group.

Risk Planning and Forecasting

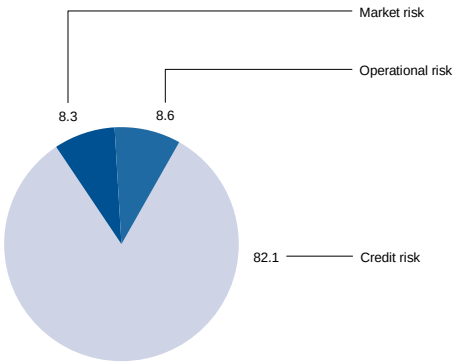
It lies within responsibility of Strategic Risk Management of the group and each subsidiary to ensure a sound risk planning and forecasting process. The relevant risk planning numbers flow directly into the group planning and steering process.

All insights from the ERM / ICAAP are taken into account in the process of allocating capital to entities and segments under risk / return considerations.

Erste Group's Aggregate Capital Requirement by Risk Type

The following diagram presents the composition of the economic capital requirement as of 31 December 2010 according to the type of risk:

Economic Capital Allocation in %, 2010



37.5. Credit risk

Definition and overview

Credit risk arises in Erste Group's traditional lending and investment business, comprising losses incurred as a result of default by the borrowers or by the need to set aside provisions as a result of the deteriorating credit quality of certain borrowers, as well as from trading in market risk instruments (counterparty risk). Country risks are also recognised implicitly in the calculation of credit risk. Operative credit decisions are made by the decentralised credit risk management units, namely, the Group Corporate Risk Management at group level and the credit risk management units at each of the banking subsidiaries. See 'Risk Management Organisation—Overview of Risk Management Structure' for a detailed explanation of the role and responsibilities of Group Corporate Risk Management.

The central database used for credit risk management is the group data pool. All data relevant to credit risk management, performance management and determination of risk-weighted assets and the regulatory capital requirement are regularly input into this database. Relevant subsidiaries not yet integrated into the GDP deliver regularly reporting packages.

The Group Enterprise-wide Risk Management and Reporting department uses the group data pool for centralised credit risk reporting. This ensures centralised analysis and application of ratios according to unified methods and segmentation across Erste Group. The credit risk reporting comprises of regular reports on Erste Group's credit portfolio for external and internal audiences and permits continuous monitoring of credit risk developments, enabling management to take control measures. In-house recipients of these reports include, above all, the Supervisory Board and Management Board of Erste Group Bank, as well as the risk managers, business unit directors and internal audit staff.

The organisational unit 'Credit Limit System' is in charge of the rollout and continual technical improvement of a group-wide online limit system for capping counterparty risk arising from treasury transactions, as well as for surveillance of credit risk from exposure to clients that fall into the asset segments 'financial institutions', 'sovereigns' and 'international large corporates' that work with several different members of Erste Group.

Internal rating system

Overview

Erste Group has business and risk strategies in place for lending policies and credit approval processes, which are reviewed and adjusted at least on a yearly basis. They cover the entire lending business, taking into account the nature, scope and risk level of the transactions and the counterparties involved. Credit approval is also based on the creditworthiness of the customer, the type of credit, collateral, covenant package and other risk mitigation factors involved.

The assessment of counterparty default risk within Erste Group is based on probability of default ('PD'). For each credit exposure and lending decision, Erste Group assigns an internal rating, which is a unique measure of counterparty default risk within each entity of the Erste Group (an 'Internal Rating'). Internal rating of each customer is updated at least on annual basis (Annual Rating Review). Rating of a customer in weaker rating classes is reviewed with higher frequency than the usual Annual Rating Review.

The main purpose of the Internal Ratings is to affect the decision-making for lending and the terms of the credit facility to be extended; however, Internal Ratings also determine the level of decision-making authority within Erste Group and the monitoring procedures for existing exposures. At a quantitative level, Internal Ratings drive the level of required risk pricing and risk provisions. For IRB compliant entities of Erste Group, Internal Ratings are a key element of risk weighted assets' calculation and Internal Capital Adequacy Assessment Process ('ICAAP').
Internal Ratings take into account all available essential information for assessment of counterparty default risk. For non-retail borrowers, Internal Ratings take into account financial strength of the counterparty, possibility for external support, company information, and external credit history information, where available. For the wholesale segment, Internal Ratings also take into account market information such as access to capital markets linked to external ratings or credit spreads external rating or credit spreads. For retail clients, Internal Ratings are based mainly on behavioural and application scoring, but also utilise demographic and financial information, supplemented by credit bureau information, where available. Rating ceiling rules on credit quality are applied based on country domicile and membership in a group of economically related entities.

Internal Rating models and risk parameters are developed by internal teams of specialists. Rating development follows internal methodology formalised into a group wide methodology and documentation standard (White Paper). Rating models are developed based on relevant and most accurate data covering always the respective market. In such a way Erste Group established highly predictive rating models covering also the CEE region.

All scorecards, whether retail or non-retail, are regularly validated based on group-wide standard methodology. Validations are provided using statistical techniques in respect to default prediction performance, rating stability, data quality, completeness and relevancy and last but not least the review of documentation and user acceptance. The results of this validation process are reported to the management and regulatory bodies. In addition to the validation process, the Group applies monthly monitoring process on the performance of rating tools, reflecting the month-to-month new defaults and any early delinquencies.

A Holding Model Committee is established as an elementary steering and control body of the model development and maintenance process. The Holding Model Committee reports to the CRO Board. All new models (rating models and risk parameters) and methodology standards in the group are reviewed by the Holding Model Committee. Holding Model Committee ensures group-wide integrity and consistency of models and methodologies. Beside of review function of new models and methodologies, Holding Model Committee organises the group wide validation process, reviews validation results and approves remedy actions. All development and validation activities are coordinated by the organisational unit 'Group Rating Methods'.

Risk Grades and Categories

The classification of credit assets into risk grades is based on Erste Group's Internal Ratings. Erste Group uses two internal risk-scales for risk classification: for customers that have not defaulted, a risk scale of eight risk grades (for retail) and 13 risk

grades (for all other segments) is used. Defaulted customers are classified in one risk grade. For newly acquired subsidiaries of Erste Group, the respective local risk classification is mapped to group standard classifications until internal rating systems are introduced.

For the purpose of external reporting, Erste Group developed a framework to map the risk grades into four different risk categories, as follows:

_**Low risk**: Typically regional customers with a well-established and rather long standing relationship with Erste Group or large internationally recognised customers. Strong and good financial health and no foreseeable financial difficulties. Retail clients with long relationship with the bank, or clients with a wide product pool use. No late payments currently or in the most recent twelve months. New business is generally with clients in this risk category.

_**Management attention:** Vulnerable non-retail clients, which may have overdue payments/defaults in their credit history or which may encounter debt repayment difficulties in the medium-term. Retail clients with limited savings or probable past payment problems triggering early collection reminder. These clients typically have a good recent history and no current delinquency.

_**Substandard:** The borrower is vulnerable to negative financial and economic developments; such loans are managed in specialised risk management departments.

_**Non-performing:** One or more of the default criteria under Basel II are met: full repayment unlikely, interest or principal payments on a material exposure more than 90 days past due, restructuring resulting in a loss to the lender, realisation of a loan loss, or initiation of bankruptcy proceedings. For purposes of analysing non-performing loans, in Austria Erste Group applies the 'customer view'. Accordingly, if an Austrian customer defaults on one product then all of that customer's performing products are classified as non-performing. For corporate borrowers in CEE, the customer view is also applied. However, in the retail and SME segment in CEE, Erste Group uses the 'product view', so that only the product actually in default is counted as a NPL whereas the other products of the same customer are considered performing.

Erste Group assigns to each rating grade a distinct PD value within the calibration process. Calibration is performed individually for each rating method. PD values reflect the twelve month expectation of long term average default rates. Additionally to the PD values the bank assigns margin of conservatism dependent on the granularity of portfolios and relevant data history. Calibration of PD values are validated on yearly basis in line with all the rating methods validations. Any change in the calibration of the PD values must be approved in the Holding Model Committee together with all the model changes.

Credit Risk Review and Monitoring

Credit Monitoring

In order to manage the credit risk for large corporates, banks, sovereigns and country risk, credit limits are established to reflect the maximum exposure Erste Group is willing to take on that particular customer or the group of connected customers. All credit limits and the exposures booked within the limits are reviewed at least once a year. For small corporates and retail customers, monitoring and credit review is based on a rating model, which is updated monthly. For weaker small corporates (with a risk category of 'Management attention' or 'Substandard'), a continuous review process is undertaken.

Portfolio reports for asset classes and business lines are prepared on a regular basis. Watch-list meetings or remedial committee-meetings are held on a regular basis to discuss customers with weak ratings or to discuss pre-emptive measures to help a particular client avoid default. For retail business, local operational risk management is responsible to undertake these monitoring activities and fulfil the minimum requirements of Group Retail Risk Management.

Credit Exposure

Credit exposure relates to the following balance sheet items:

- **loans and advances to credit institutions**
- **loans and advances to customers;**
- **debt securities held in trading, at fair value through profit or loss, available for sale and held-to-maturity**
- **derivatives and**
- **credit risks held off-balance sheet (including undrawn credit commitments).**

The credit exposure comprises the gross amount without taking into account any collateral held, other credit enhancements or credit risk mitigating transactions. The total credit exposure of Erste Group increased by 1.5% or EUR 3.2 billion from EUR 220.3 billion at 31 December 2009 to EUR 223.5 billion at 31 December 2010.

Erste Group's total credit exposure is presented below divided into the following classes:

- **by industry and balance sheet positions**
- **by risk category,**
- **by industry and risk category,**
- **by region and risk category, and**
- **by business segment and risk category.**

Following this detailed breakdown of credit risk exposure, Erste Group presents a detailed breakdown

- **of its non-performing assets and risk provisions, and**
- **of its loans and advances to customers by business segment.**

Credit Risk Exposure by Industry and balance sheet positions

The following tables present Erste Group's credit risk exposure by industry, broken down by balance sheet positions, as of each period indicated.

Credit exposure by industry 2010

in EUR million	Loans and advances to credit insti-tutions	Loans and advances to customers	Debt instruments: Held to maturity	Debt instruments: Trading assets	Debt instruments: At fair value through profit or loss	Debt instruments: Available for sale	Positive fair value of derivative financial instruments	Off balance	Credit risk exposure
	at amortised cost		Fair Value						
Agriculture and forestry	0	1,946	0	0	0	0	0	281	2,227
Mining	0	494	0	4	0	4	0	97	599
Manufacturing	0	10,619	32	70	1	113	89	4,034	14,958
Energy and water supply	0	2,330	50	13	0	82	16	872	3,363
Construction	0	6,252	224	3	0	88	4	3,002	9,572
Trade	0	9,299	15	9	0	48	58	2,752	12,182
Transport and communication	0	3,900	171	66	0	290	34	639	5,100
Hotels and restaurants	0	4,250	11	0	0	2	18	490	4,770
Financial and insurance services	12,492	7,214	3,936	1,366	827	7,699	7,780	6,435	47,749
Real estate and housing	0	20,035	95	8	3	207	137	2,340	22,826
Services	0	5,162	41	43	2	265	34	1,150	6,696
Public administration	0	6,872	9,623	3,370	1,180	5,548	183	5,251	32,027
Education, health and art	0	2,387	0	0	0	15	2	452	2,856
Private households	0	51,755	0	0	0	0	2	5,461	57,219
Other	5	215	37	4	15	375	116	616	1,384
Total	**12,496**	**132,729**	**14,235**	**4,956**	**2,028**	**14,736**	**8,474**	**33,873**	**223,529**

Credit exposure by industry 2009

in EUR million	Loans and advances to credit insti-tutions	Loans and advances to customers	Debt instruments: Held to maturity	Debt instruments: Trading assets	Debt instruments: At fair value through profit or loss	Debt instruments: Available for sale	Positive fair value of derivative financial instruments	Off balance	Credit risk exposure
	at amortised cost		Fair Value						
Agriculture and forestry	0	1,932	0	0	0	0	0	244	2,176
Mining	0	558	21	1	0	22	0	145	747
Manufacturing	0	10,944	21	7	1	55	81	3,943	15,052
Energy and water supply	0	2,470	84	34	2	156	11	907	3,664
Construction	0	6,111	418	14	3	160	12	2,983	9,701
Trade	0	9,303	0	0	0	0	0	2,606	11,910
Transport and communication	0	4,137	220	31	11	258	31	889	5,578
Hotels and restaurants	0	4,265	14	0	0	2	20	532	4,833
Financial and insurance services	13,063	7,408	6,510	2,575	1,294	7,172	3,533	10,872	52,428
Real estate and housing	0	19,392	97	6	1	80	90	2,356	22,022
Services	0	5,219	130	53	1	1,002	134	1,235	7,773
Public administration	0	5,900	7,190	2,768	1,184	3,828	105	5,133	26,108
Education, health and art	0	2,292	0	0	0	5	2	386	2,686
Private households	0	48,739	0	24	0	0	0	4,898	53,662
Other	77	463	195	83	27	259	153	696	1,951
Total	**13,140**	**129,134**	**14,899**	**5,597**	**2,524**	**13,000**	**4,171**	**37,826**	**220,291**

Credit Exposure by Risk Category

The following table presents the total credit risk exposure of Erste Group by risk category as of 31 December 2010, compared with total credit exposure as of 31 December 2009.

Credit exposure by risk category

in EUR million	Low risk	Management attention	Sub-standard	Non-performing	Credit risk exposure
Total exposure at 31 Dec 2010	178,928	26,772	7,343	10,486	223,529
Share of credit risk exposure	80.0%	12.0%	3.3%	4.7%	100.0%
Total exposure at 31 Dec 2009	176,622	26,876	7,832	8,961	220,291
Share of credit risk exposure	80.2%	12.2%	3.6%	4.1%	100.0%
Change in credit risk exposure in 2010	2,306	(104)	(489)	1,524	3,238
Change	1.3%	(0.4)%	(6.2)%	17.0%	1.6%

From 31 December 2009 to 31 December 2010, the percentage of credit risk exposure in the low risk and non-performing categories increased, while exposure decreased in the other two categories. Non-performing loans as a share of total exposure (*i.e.*, 'NPL ratio') showed an increase from 4.1% to 4.7%. Of Erste Group's total credit exposure, 80.0% constituted the best risk category and 12.0% was in the management attention category; the combined proportion of the two poorer risk categories rose slightly from 7.7% to 8.0% from 31 December 2009 to 31 December 2010

Credit Exposure by Industry and Risk Category

The following tables present the total credit risk exposure of Erste Group broken down by industry and risk category as of 31 December 2010 and 31 December 2009, respectively.

Credit exposure by industry and risk category in 2010

2010 in EUR million	Low risk	Management attention	Sub-standard	Non-performing	Credit risk exposure
Agriculture and forestry	1,169	697	148	213	2,227
Mining	410	96	8	85	599
Manufacturing	8,529	4,003	1,124	1,302	14,958
Energy and water supply	2,733	424	78	128	3,363
Construction	5,938	1,984	792	858	9,572
Trade	7,708	2,823	465	1,185	12,182
Transport and communication	3,254	1,137	276	434	5,100
Hotels and restaurants	2,240	1,540	315	676	4,770
Financial and insurance services	45,498	1,631	199	421	47,749
Real estate and housing	16,651	4,199	969	1,007	22,826
Services	4,555	1,320	213	608	6,696
Public administration	31,366	591	64	6	32,027
Education, health and art	2,213	443	61	139	2,856
Private households	46,227	5,681	1,910	3,401	57,219
Other	438	203	721	22	1,384
Total	**178,928**	**26,772**	**7,343**	**10,486**	**223,529**

Credit exposure by industry and risk category in 2009

2009 in EUR million	Low risk	Manage-ment attention	Sub-standard	Non-per-forming	Credit risk exposure
Agriculture and forestry	1,209	664	147	156	2,176
Mining	537	97	11	102	747
Manufacturing	8,734	4,006	1,184	1,128	15,052
Energy and water supply	2,810	651	83	119	3,664
Construction	6,371	2,117	617	595	9,701
Trade	7,399	2,870	644	997	11,910
Transport and communication	3,686	1,192	325	375	5,578
Hotels and restaurants	2,249	1,699	286	599	4,833
Financial and insurance services	50,350	1,294	327	457	52,428
Real estate and housing	15,961	4,308	950	803	22,022
Services	5,751	1,277	234	511	7,773
Public administration	25,555	522	28	4	26,108
Education, health and art	2,026	492	62	106	2,686
Private households	43,181	5,605	1,901	2,974	53,662
Other	800	81	1,034	36	1,951
Total	**176,622**	**26,876**	**7,832**	**8,961**	**220,291**

Credit Exposure by Region and Risk Category

The geographic analysis of credit exposure is based on the risk country of the borrower. Accordingly, the distribution among Erste Group entities of the credit exposure by geography differs from the composition of credit risk in terms of reporting segments of Erste Group.

The following table presents the total credit risk exposure of Erste Group broken down by region as at 31 December 2010 and 31 December 2009, respectively.

Credit exposure by region and risk category in 2010

2010 in EUR million	Low risk	Management attention	Sub-standard	Non-performing	Credit risk exposure
Core market	**140,857**	**24,186**	**6,891**	**9,718**	**181,652**
Austria	74,954	9,728	1,804	3,565	90,052
Croatia	6,168	2,171	255	760	9,354
Romania	9,750	3,672	2,426	2,270	18,117
Serbia	434	360	10	61	865
Slovakia	10,001	868	362	505	11,736
Slovenia	1,599	328	125	207	2,258
Czech Republic	28,974	4,657	1,070	1,147	35,848
Ukraine	354	453	128	204	1,139
Hungary	8,623	1,950	711	999	12,283
Other EU	**27,361**	**1,804**	**317**	**424**	**29,906**
Other industrialised countries	**5,384**	**352**	**43**	**201**	**5,981**
Emerging markets	**5,326**	**429**	**92**	**142**	**5,989**
Southeastern Europe/CIS	1,314	273	28	123	1,738
Asia	1,900	22	56	4	1,983
Latin America	725	43	3	11	782
Middle East/Africa	1,386	91	5	4	1,486
Total	**178,928**	**26,772**	**7,343**	**10,486**	**223,529**

Credit exposure by region and risk category in 2009

2009 in EUR million	Low risk	Management attention	Sub-standard	Non-performing	Credit risk exposure
Core market	**138,774**	**24,176**	**7,330**	**8,097**	**178,378**
Austria	72,963	10,402	2,510	3,734	89,609
Croatia	6,868	2,047	299	361	9,575
Romania	9,634	3,625	2,195	1,617	17,072
Serbia	406	433	7	63	909
Slovakia	9,903	1,161	314	462	11,839
Slovenia	1,814	208	119	166	2,306
Czech Republic	26,584	4,301	1,132	930	32,946
Ukraine	197	550	206	116	1,069
Hungary	10,407	1,449	549	648	13,052
Other EU	**27,170**	**1,673**	**237**	**468**	**29,548**
Other industrialised countries	**5,597**	**378**	**131**	**238**	**6,344**
Emerging markets	**5,080**	**649**	**133**	**158**	**6,021**
Southeastern Europe/CIS	1,031	368	79	137	1,614
Asia	1,774	45	40	7	1,865
Latin America	747	46	9	11	814
Middle East/Africa	1,529	191	5	4	1,728
Total	**176,622**	**26,876**	**7,832**	**8,961**	**220,291**

The increase in credit risk exposure by EUR 3.2 billion from 31 December 2009 to 31 December 2010 reflected an increase of EUR 2.8 billion, or 3.1% in the CEE core markets and in Austria an increase of EUR 443 million, or 0.5%, coupled with an increase of EUR 358 million, or 1.2% in the other EU member states (EU 27 excluding core markets), a decrease in other indus-

trialised countries of EUR 364 million, or 5.7%, and a decrease of EUR 32 million, or 0.5%, in the emerging markets. The exposure increase in CEE mainly resulted from increases in the Czech Republic.

The countries of Erste Group's core market and the EU accounted for 96.7% of credit exposure. At 1.4%, credit exposure in emerging markets remained of minor significance for the Group total.

Credit Risk Exposure by Business Segment and Risk Category

This Section describes the composition of credit exposure based on reporting segments. Exposure is classified into segments based on the domicile of the Group entities that carry the credit risk on their books.

The following tables present the total credit risk exposure of Erste Group broken down by reporting segment as at 31 December 2010 and 31 December 2009, respectively.

Credit Exposure by business Segment and Risk Category in 2010

2010 in EUR million	Low risk	Management attention	Sub-standard	Non-performing	Credit risk exposure
Retail & SME	**123,209**	**20,962**	**5,703**	**9,191**	**159,065**
Austria	73,268	10,621	1,746	3,957	89,591
EB Österreich	32,645	3,242	443	1,217	37,547
Savings Banks	40,624	7,379	1,303	2,739	52,044
CEE	49,941	10,341	3,958	5,234	69,474
Czech Republic	22,457	3,387	695	1,064	27,603
Romania	8,337	2,875	2,024	2,030	15,266
Slovakia	8,042	580	293	462	9,377
Hungary	5,049	1,548	615	937	8,149
Croatia	5,360	1,622	244	560	7,786
Serbia	358	156	9	44	568
Ukraine	337	174	76	138	725
Group Corporate & Investment Banking	**29,998**	**5,319**	**1,190**	**1,244**	**37,751**
Group Markets	**19,302**	**238**	**25**	**6**	**19,570**
Corporate Center	**6,419**	**254**	**424**	**45**	**7,142**
Total	**178,928**	**26,772**	**7,343**	**10,486**	**223,529**

Credit Exposure by business Segment and Risk Category in 2009

2009 in EUR million	Low risk	Management attention	Sub-standard	Non-performing	Credit risk exposure
Retail & SME	**118,844**	**21,092**	**5,505**	**7,843**	**153,283**
Austria	67,151	11,382	1,758	4,127	84,419
EB Österreich	29,900	3,491	514	1,316	35,221
Savings Banks	37,252	7,891	1,244	2,811	49,198
CEE	51,693	9,709	3,747	3,716	68,865
Czech Republic	22,204	3,221	693	812	26,929
Romania	8,290	2,659	1,901	1,492	14,342
Slovakia	8,472	882	267	427	10,048
Hungary	7,101	1,091	454	556	9,202
Croatia	5,079	1,336	255	297	6,967
Serbia	361	339	6	42	747
Ukraine	187	183	171	90	630
Group Corporate & Investment Banking	**34,332**	**5,441**	**1,349**	**1,042**	**42,165**
Group Markets	**18,161**	**99**	**161**	**10**	**18,430**
Corporate Center	**5,285**	**244**	**817**	**66**	**6,413**
Total	**176,622**	**26,876**	**7,832**	**8,961**	**220,291**

Non-performing assets and risk provisions

For the definition of non-performing (assets) please refer to the description of risk grades and categories.

Erste Group provisions for credit risk, with risk provisions divided into specific risk provisions, portfolio risk provisions and provisions for guarantees. Erste Group has established a common framework which defines minimum standards and principles for risk provisioning principles related to risk infrastructure, processes and quantification of risk provisioning. It also puts risk provisioning into overall economic perspective in terms of financial planning and ratios relevant for the group's performance management. The policy describes also underlying methodological standards for specific risk provisions and portfolio risk provisions, respectively. Through a standardised process, risk provisions are created for the portion of exposure that is not covered by collateral or expected recoveries. This particularly includes methodologies, processes and guidance regarding necessary policies for operative risk management.

The following table shows the risk provisions divided into specific and portfolio provisions and provisions for guarantees:

in EUR million	2010	2009
Specific provisions	5,315	3,777
Portfolio provisions	804	1,177
Provision for guarantees	186	265
Total	**6,305**	**5,219**

Risk provisions covered 60.1% of reported NPL as of 31 December 2010. For the portion of NPL that is not covered by provisions, Erste Group believes there are sufficient levels of collateral and expected other recoveries.

In the twelve months ended 31 December 2010, NPL increased by EUR 1.5 billion, or 17.0%, from EUR 9 billion at 31 December 2009 to EUR 10.5 billion at 31 December 2010. Erste Group has experienced a declining growth rate of NPL formation during the second half of 2010. Risk provisions were increased by EUR 1.1 billion, or 20.8%, from EUR 5.2 billion at 31 December 2009 to EUR 6.3 billion at 31 December 2010. These movements resulted in a net increase of 1.8 percentage points in NPL provision coverage.

The following tables show the coverage of non-performing loans across the reporting segments by provisions (excluding collateral) as of 31 December 2010 and 31 December 2009, respectively. The differences in provisioning levels for the segments result from the risk situation in the respective markets, different levels of collateralisation as well as the local legal environment and regulatory requirements.

The NPL ratio is calculated by dividing non-performing exposure by total exposure. NPL coverage is calculated by dividing risk provisions by non-performing exposures. NPL coverage is calculated exclusive of any collateral and other recoveries.

Coverage of NPL by provisions

	Credit risk exposure				
2010 **in EUR million**	**Non-performing**	**Credit risk exposure**	**Risk provisions**	**NPL Ratio**	**NPL coverage**
Retail & SME	**9,191**	**159,065**	**5,569**	**5.8%**	**60.6%**
Austria	3,957	89,591	2,350	4.4%	59.4%
Erste Bank Oesterreich	1,217	37,547	745	3.2%	61.2%
Savings Banks	2,739	52,044	1,605	5.3%	58.6%
Central and Eastern Europe	5,234	69,474	3,219	7.5%	61.5%
Czech Republic	1,064	27,603	731	3.9%	68.7%
Romania	2,030	15,266	1,102	13.3%	54.3%
Slovakia	462	9,377	383	4.9%	82.8%
Hungary	937	8,149	471	11.5%	50.2%
Croatia	560	7,786	340	7.2%	60.7%
Serbia	44	568	45	7.8%	102.4%
Ukraine	138	725	148	19.0%	107.6%
Group Corporate and Investment Banking	**1,244**	**37,751**	**703**	**3.3%**	**56.5%**
Group Markets	**6**	**19,570**	**1**	**0.0%**	**10.5%**
Corporate Center	**45**	**7,142**	**33**	**0.6%**	**72.1%**
Total	**10,486**	**223,529**	**6,305**	**4.7%**	**60.1%**

Coverage of NPL by provisions

2009 in EUR million	Credit risk exposure Non-performing	Credit risk exposure	Risk provisions	NPL Ratio	NPL coverage
Retail & SME	**7,843**	**153,283**	**4,558**	**5.1%**	**58.1%**
Austria	4,127	84,419	2,256	4.9%	54.7%
Erste Bank Oesterreich	1,316	35,221	734	3.7%	55.8%
Savings Banks	2,811	49,198	1,522	5.7%	54.1%
Central and Eastern Europe	3,716	68,865	2,303	5.4%	62.0%
Czech Republic	812	26,929	510	3.0%	62.8%
Romania	1,492	14,342	857	10.4%	57.4%
Slovakia	427	10,048	316	4.3%	73.9%
Hungary	556	9,202	260	6.0%	46.7%
Croatia	297	6,967	236	4.3%	79.3%
Serbia	42	747	44	5.6%	104.9%
Ukraine	90	630	81	14.2%	90.9%
Group Corporate and Investment Banking	**1,042**	**42,165**	**687**	**2.5%**	**65.9%**
Group Markets	**10**	**18,430**	**2**	**0.1%**	**19.0%**
Corporate Center	**66**	**6,413**	**(27)[1)]**	**1.0%**	**(40.8)%**
Total	**8,961**	**220,291**	**5,220**	**4.1%**	**58.3%**

1) Negative amount due to consolidation effect

Erste Group focuses on early identification of customers who are facing difficulties with payments or other loan-related obligations with the aim of restructuring their loans if the mid- to long-term outlook is positive. Erste Group believes that this can help to build customer loyalty for long-term relationships and cooperation. In principle, Erste Group follows a policy of restructuring by lengthening maturity and/or by deferring capital repayment but insisting on payment of interest.

Collateral obtained in foreclosure procedures are made available for sale in an orderly fashion, with the proceeds used to reduce or repay the outstanding claim. Generally, Erste Group does not occupy repossessed properties for its own business use.

Credit exposure and collateral

2010 in EUR million	Credit risk exposure	Basel II collaterals total	Collaterals and other credit risk mitigation Guarantees	Real estate	Other
Central governments and central banks	30,990	3,841	99	0	3,742
Regional governments and local authorities	6,577	1,320	115	91	1,115
Administrative bodies and non-commercial undertakings	1,811	812	808	1	4
Multilateral development banks	159	0	0	0	0
International organisations	5	0	0	0	0
Institutions	26,239	1,659	1,227	99	332
Corporates	81,367	25,342	3,076	18,797	3,469
Retail & SME	72,007	39,253	455	34,034	4,764
Securitisation positions	2,741	0	0	0	0
Covered Bonds	1,633	1	1	0	0
Total	**223,529**	**72,227**	**5,781**	**53,022**	**13,424**

Credit exposure and collateral

2009 in EUR million	Credit risk exposure	Basel II collaterals total	Collaterals and other credit risk mitigation		
			Guaran-tees	Real estate	Other
Central governments and central banks	26,682	87	84	0	4
Regional governments and local authorities	6,002	1,194	61	81	1,052
Administrative bodies and non-commercial undertakings	1,567	365	356	2	7
Multilateral development banks	130	0	0	0	0
International organisations	5	0	0	0	0
Institutions	31,111	1,193	278	85	830
Corporates	81,785	24,923	2,667	18,644	3,613
Retail & SME	68,448	36,191	210	31,925	4,056
Securitisation positions	3,218	0	0	0	0
Covered Bonds	1,343	0	0	0	0
Total	**220,291**	**63,955**	**3,657**	**50,736**	**9,562**

The major types of collateral are mortgages on residential and commercial real estate, as well as guarantees. Among the other types of collaterals, financial collateral is the most common. The valuation of security takes into account the requirements for risk mitigation under Basel II.

The carrying amount of assets for which during the year 2010 new terms were negotiated because they would otherwise have fallen into arrears or been impaired was EUR 2,650 million.

At 31 December 2010 and 31 December 2009, the balances of assets which were past due but for which specific provisions had not yet been established were as follows:

2010 in EUR million	Credit risk exposure			thereof collateralised		
	Total loans and advances past due	thereof 91-180 days past due	thereof more than 180 days past due	Total loans and advances past due	thereof 91-180 days past due	thereof more than 180 days past due
Regional governments and local authorities	5	1	4	0	0	0
Administrative bodies and non-commercial undertakings	0	0	0	0	0	0
Institutions	0	0	0	0	0	0
Corporates	221	57	164	137	35	101
Retail & SME	199	63	136	148	32	116
Total	**425**	**121**	**304**	**285**	**67**	**218**

2009 in EUR million	Credit risk exposure			thereof collateralised		
	Total loans and advances past due	thereof 91-180 days past due	thereof more than 180 days past due	Total loans and advances past due	thereof 91-180 days past due	thereof more than 180 days past due
Regional governments and local authorities	4	1	3	0	0	0
Administrative bodies and non-commercial undertakings	2	2	0	0	0	0
Institutions	9	6	3	0	0	0
Corporates	290	61	229	138	34	104
Retail & SME	295	104	191	174	47	127
Total	**600**	**173**	**427**	**312**	**81**	**231**

At 31 December 2010 and 31 December 2009, specific provisions existed for the following exposures:

2010 in EUR million	Total loans under specific provisions	thereof 91-180 days past due	thereof more than 180 days past due
Loans and advances to credit institutions	46	0	46
Loans and advances to customers	8,201	948	5,425
Total	**8,248**	**948**	**5,471**

2009 in EUR million	Total loans under specific provisions	thereof 91-180 days past due	thereof more than 180 days past due
Loans and advances to credit institutions	63	0	59
Loans and advances to customers	6,024	696	3,508
Total	**6,087**	**696**	**3,566**

All loans and other advances presented in the tables above were classified as non-performing. Provisions are as a rule established for loans and other advances that are more than 90 days past due. However, specific provisions are not established if the loans and other advances are covered by portfolio provisions or by adequate collateral.

Loans and advances to customers by business segment

The following tables present the customer loan book as at 31 December 2010 and 31 December 2009, excluding loans to financial institutions and commitments, by reporting segments, broken down by risk category, risk provisions, the non-performing loan coverage and NPL ratio. For the purpose of this section, 'NPL ratio' and 'NPL coverage' only relate to customer loans.

Loans and advances to customers by business segment

2010 in EUR million	Low risk	Management attention	Sub-standard	Non-performing	Total loans	Risk provisions	NPL Ratio[1]	NPL coverage
Retail & SME	**81,200**	**18,109**	**5,030**	**8,985**	**113,324**	**5,446**	**7.9%**	**60.6%**
Austria	50,133	9,444	1,337	3,792	64,706	2,251	5.9%	59.4%
EB Österreich	23,147	2,860	295	1,136	27,438	696	4.1%	61.3%
Savings Banks	26,986	6,584	1,042	2,656	37,268	1,554	7.1%	58.5%
CEE	31,067	8,665	3,693	5,193	48,618	3,195	10.7%	61.5%
Czech Republic	12,978	2,816	652	1,040	17,486	728	6.0%	70.0%
Romania	5,186	2,216	1,826	2,020	11,248	1,099	18.0%	54.4%
Slovakia	4,460	513	284	460	5,716	376	8.0%	81.9%
Hungary	4,749	1,468	611	935	7,763	467	12.0%	50.0%
Croatia	3,294	1,401	235	557	5,487	332	10.2%	59.6%
Serbia	301	78	9	44	431	44	10.2%	99.5%
Ukraine	98	174	76	138	486	148	28.3%	107.6%
Group Corporate & Investment Banking	**12,249**	**4,416**	**1,047**	**1,032**	**18,745**	**556**	**5.5%**	**53.8%**
Group Markets	**258**	**72**	**0**	**0**	**331**	**0**	**0.0%**	**1762,4%**
Corporate Center	**154**	**129**	**15**	**32**	**330**	**33**	**9.7%**	**101.5%**
Total	**93,861**	**22,727**	**6,093**	**10,049**	**132,729**	**6,034**	**7.6%**	**60.0%**

1) NPL ratio in the loan to customer section is based on non-performing loans of the customer loan book divided by total loans and hence might deviate from the section credit exposure.

Loans and advances to customers by business segment

2009 in EUR million	Low risk	Manage-ment attention	Sub-standard	Non-per-forming	Total loans	Risk provision s	NPL Ratio[1]	NPL coverage
Retail & SME	**77,484**	**18,512**	**5,018**	**7,570**	**108,584**	**4,417**	**7.0%**	**58.3%**
Austria	46,429	10,115	1,504	3,943	61,990	2,160	6.4%	54.8%
EB Österreich	21,447	3,083	371	1,237	26,137	688	4.7%	55.6%
Savings Banks	24,982	7,032	1,133	2,706	35,853	1,472	7.5%	54.4%
CEE	31,056	8,397	3,514	3,627	46,594	2,256	7.8%	62.2%
Czech Republic	12,546	2,751	658	766	16,721	507	4.6%	66.2%
Romania	5,761	2,235	1,728	1,466	11,190	832	13.1%	56.8%
Slovakia	4,214	775	258	423	5,670	310	7.5%	73.2%
Hungary	5,316	986	448	552	7,301	255	7.6%	46.2%
Croatia	2,889	1,255	252	289	4,684	228	6.2%	79.0%
Serbia	237	234	6	41	518	42	8.0%	102.1%
Ukraine	92	161	167	89	509	81	17.5%	91.3%
Group Corporate & Investment Banking	**12,977**	**4,284**	**1,280**	**918**	**19,458**	**394**	**4.7%**	**42.9%**
Group Markets	**224**	**4**	**32**	**0**	**260**	**0**	**0.0%**	**> 1,000.0%**
Corporate Center	**632**	**143**	**6**	**50**	**831**	**70**	**6.0%**	**139.3%**
Total	**91,317**	**22,944**	**6,335**	**8,537**	**129,134**	**4,880**	**6.6%**	**57.2%**

1) NPL ratio in the loan to customer section is based on non-performing loans of the customer loan book divided by total loans and hence might deviate from the section credit exposure.

ABS and CDO portfolio

At 31 December 2010, Erste Group had a conservative portfolio of securitised assets and their derivatives. In compliance with internal risk standards before investing in such products Erste Group undertakes a fundamental analysis of the market environment, the economic conditions, the profitability and the related risk characteristics. In 2010 Erste Group did not make any investments in securitisations, all repayments were made as scheduled.

As at 31 December 2010, the carrying amount of Erste Group's total securitised asset portfolio was EUR 2.9 billion and so by EUR 0.3 billion lower than as of 31 December 2009. Changes in the carrying amount were caused by repayments, currency effects, changes in prices and disposals of assets. Although the proportion of the portfolio which was rated investment-grade decreased from 90% as of year-end 2009 to 84.6% as at 31 December 2010, the overall quality of the portfolio of securitised assets is still within satisfactory limits. Only 3.9% of the assets are rated CCC or below.

At 31 December 2010 and 31 December 2009 the composition of the total portfolio of securitised assets according to products and balance sheet line items is as follows:

2010	Loans and advances to CI and NCI		Financial assets				Trading assets	Total	
			Held to maturity		At fair value through profit or loss	Available for sale			
in EUR million	Carrying amount	Fair value	Carrying amount	Fair value	Fair Value[1)]	Fair Value[1)]	Fair Value[1)]	Carrying amount	Fair value
Prime RMBS	45.5	44.5	329.7	256.8	5.6	199.0	23.7	603.5	529.7
European CMBS			106.0	67.5	10.3	103.4	2.0	221.7	183.2
SME ABS			36.5	22.1	0.7	33.7		70.9	56.5
Leasing ABS			31.3	27.0	0.4	5.8		37.5	33.2
Other ABS			78.6	72.6	16.9	73.7	11.0	180.2	174.2
CLOs					106.5	752.8	5.3	864.6	864.6
Other CDOs			12.0	11.7	0.1	11.8		23.9	23.6
Total ABS / CDO	**45.5**	**44.5**	**594.1**	**457.8**	**140.5**	**1,180.2**	**42.0**	**2,002.3**	**1,865.0**
CMOs						643.0		643.0	643.0
SL					1.1	267.5		268.6	268.6
Total securitizations	**45.5**	**44.5**	**594.1**	**457.8**	**141.6**	**2,090.7**	**42.0**	**2,913.9**	**2,776.6**

1) Carrying amount is equal to Fair Value

2009	Loans and advances to CI and NCI		Financial assets				Trading assets	Total	
			Held to maturity		At fair value through profit or loss	Available for sale			
in EUR million	Carrying amount	Fair value	Carrying amount	Fair value	Fair Value[1)]	Fair Value[1)]	Fair Value[1)]	Carrying amount	Fair value
Prime RMBS	53.5	44.3	390.1	266.7	2.6	191.7	12.6	650.5	517.9
European CMBS			117.3	49.2	4.5	60.7		182.5	114.4
SME ABS			41.0	23.3		21.4		62.4	44.7
Leasing ABS			55.2	41.9		4.3		59.5	46.2
Other ABS			121.2	109.8	24.4	57.9	3.3	206.8	195.4
CLOs					169.7	702.1	6.6	878.4	878.4
Other CDOs			11.1	9.1	8.3	20.6	23.9	63.9	61.9
Total ABS / CDO	**53.5**	**44.3**	**735.9**	**500.0**	**209.5**	**1,058.7**	**46.4**	**2,104.0**	**1,858.9**
CMOs						830.8		830.8	830.8
SL						270.2		270.2	270.2
Total securitizations	**53.5**	**44.3**	**735.9**	**500.0**	**209.5**	**2,159.7**	**46.4**	**3,205.0**	**2,959.9**

European and US collateralised loan obligations (CLOs)
CLOs are securitisations which are secured by a pool of corporate loans. The major part of CLOs held by Erste Group is still rated investment grade although rating-agencies significantly downgraded this kind of products. Moreover, according to Moody's the global speculative-grade default rate for these assets decreased steadily in 2010 and stood at 6.1% in June 2010 after reaching the highest level with 13% in December 2009. Moody's expects that the global speculative-grade default rate will decline further to 1.8% until second quarter 2011.

European prime residential mortgage backed securities (RMBS)
This portfolio consists primarily of British securitisations, which were strongly affected by the global economic crisis with an average decrease of prices by 21% during third quarter 2007, reaching the lowest level in first quarter 2009. From that time on prices slightly recovered by 6%. However, as in this market there is also the possibility to recourse to other assets of the debtor, Moody's expects the decrease of prices for residential property will have only a moderate negative impact on the credit rating of British prime RMBS

Commercial mortgage backed securities (CMBS)
CMBs are securitisations which are secured by pools of mortgages on commercial property (i.e. offices, retail and others). Erste Group mainly invested in British CMBS. Between July 2007 and July 2009 prices of commercial property fell sharply by 45%, showing a recovery by 15% afterwards. For 2011 a stabilization of the market is expected.

Other asset backed securities (ABS)
Other ABSs mainly comprise securitisations where the underlying assets are leases and loans to small and medium enterprises and other CDOs.
In addition, Erste Group has also invested in US collateralised mortgage obligations (CMOs) issued by Ginnie Mae, Fannie Mae and Freddie Mac. These issuers are considered US government-sponsored or US government-guaranteed institutions and have stable AAA ratings. Erste Group also holds investments in student loan securitisations, all of which are triple-A tranche securities. These securitisations are 97% guaranteed by the US Department of Education, while the remaining 3% are covered by subordination. Credit risk is therefore considered very remote.

37.6. Market risk

Definition and overview
Market risk is the risk of loss that may arise due to adverse changes in market prices and to the parameters derived therefrom. At Erste Group, market risk is divided into interest rate risk, currency risk, equity risk, commodity risk and volatility risk. This concerns both, trading as well as bank book positions.

Employed methods and instruments
At Erste Group, potential losses that may arise from market movements are assessed by using the 'value-at-risk' method. The calculation is done according to the method of historic simulation with a unilateral confidence level of 99%, a holding period of one to ten days and a simulation period of two years. Value-at-risk describes which losses may be expected as a maximum at a defined probability – the confidence level – within a certain holding period of the positions under normal market conditions.

Backtesting is used to constantly monitor the validity of the statistical methods. This process is conducted with a one-day delay to monitor if the model projections regarding losses have actually materialized. At a confidence level of 99% the actual loss on a single day should exceed the value-at-risk statistically only twice to three times a year (1% of around 250 workdays).

This shows one of the limits of the value-at-risk approach: On the one hand, the confidence level is limited to 99%, and on the other hand, the model takes into account only those market scenarios observed respectively within the simulation period of two years, and calculates the value-at-risk for the current position of the bank on this basis. In order to investigate any extreme market situations beyond this, stress tests are conducted at Erste Group. These events include mainly market movements of low probability.

The stress tests are carried out according to several methods: The 'historical worst case' is derived from the value-at-risk calculation, but a confidence level of 100% is assumed, i.e., the absolutely worst value of the simulation time series is used as result. In the 'extreme value theory', a Pareto distribution is adjusted to the extreme end of the loss distribution. In this manner a continuous function is created from which extreme confidence levels such as 99.95% can be evaluated. Finally, standard scenarios are calculated in which the individual market factors are exposed to extreme movements. Such scenarios are calculated at Erste Group for interest rates, stock prices, exchange rates and volatilities. Furthermore, since 2009, combination scenarios have been calculated in which the current position of the trading book is subjected to a historical worst case calculation over an interesting historical period. These analyses are made available to the management board and the supervisory board within the scope of the monthly market risk reports.

The value-at-risk model was approved by the Financial Market Authority (FMA) as an internal market risk model to determine the capital requirements of Erste Group pursuant to the Austrian Banking Act. The best possible multiplier of three is used in this case that was assigned by the Financial Market Authority (FMA) on the basis of an appraisal by Austrian National Bank.

Methods and instruments of risk mitigation
At Erste Group, market risks are controlled in the trading book by setting several layers of limits. The overall limit on the basis of value-at-risk for the trading book is decided by the board in the Risk Committee taking into account the risk-bearing capacity and projected earnings. A further breakdown is done on the basis of a proposal by the Risk Management Unit, 'Group Market & Liquidity Risk Management' in the Market Risk Committee (MARA).

All market risk activities of the trading book are assigned risk limits that are statistically consistent in their entirety with the value-at-risk overall limit. The value-at-risk limit is assigned in a top-down procedure to the individual trading units. This is done up to the level of the individual trading groups or departments. Additionally, in a bottom-up procedure, sensitivity limits are assigned to even smaller units all the way down to the individual traders. These are then aggregated upwards and applied as a second limit layer to the value-at-risk limits. The consistency between the two limit approaches are verified regularly.

Limit compliance is verified at two levels: by the appropriate local decentralised risk management unit and by Group Market & Liquidity Risk Management. The monitoring of the limits is done within the course of the trading day based on sensitivities. This can also be carried out by individual traders or chief traders on an ad hoc basis.

The value-at-risk is calculated every day at the Group level and made available to the individual trading units as well as to the superior management levels all the way up to the management board.

Within the course of the calculation, the trading book positions are valued independently of trading. This means that, on the one hand, the market data is collected by risk controlling itself, and on the other, that the valuation procedures and models are developed and validated independently of the trading units.

Apart from the trading book positions, once a month, the bank book positions are also subjected to a value-at-risk analysis. In this manner, the total value-at-risk is determined. The result of this calculation is presented in the monthly market risk report that is made available to the management board and the supervisory board.

Analysis of market risk

Value at Risk of banking book and trading book

The following tables show the VaR amounts as of 31 December 2010 and 31 December 2009 at 99% confidence level, with a holding period of one day:

2010	Total	Interest	Currency	Shares	Commodity	Volatility
Erste Group	37,667	33,679	1,756	6,228	257	2,118
Banking book	30,767	30,076	1	1,274	0	0
Trading book	8,789	4,298	1,755	5,406	257	2,118

2009	Total	Interest	Currency	Shares	Commodity	Volatility
Erste Group	39,498	35,798	1,812	9,104	397	1,717
Banking book	36,559	36,134	18	1,899	0	0
Trading book	8,940	4,748	1,812	7,981	397	1,717

The method used is subject of limitations that may result in the information not fully reflecting the fair value of the assets and liabilities involved.

Interest rate risk of banking book

Interest rate risk is the risk of adverse change in the fair value of financial instruments caused by movement in market interest rates. This type of risk arises when mismatches exist between assets and liabilities (including off-balance-sheet items) in respect of their maturities or of the timing of interest rate adjustments.

In order to identify interest rate risk, all financial instruments, including transactions not recognised in the balance sheet, are grouped into maturity bands based on their remaining term to maturity or term to an interest rate adjustment.

The following tables list the open fixed-income positions held by Erste Group in the four currencies that carry significant interest rate risk: EUR, CZK, HUF and RON, as of 31 December 2010 and 31 December 2009.

Only the open fixed-income positions that are not allocated to the trading book are presented. Positive values indicate fixed-income risks on the asset side, i.e., a surplus of asset items; negative values represent a surplus on the liability side.

Open fixed-income positions not assigned to the trading book

2010 in EUR million	1-3 years	3-5 years	5-7 years	7-10 years	over 10 years
Fixed-interest gap in EUR positions at 31 December 2010	(1,266.4)	725.0	(350.1)	588.1	2,354.6
Fixed-interest gap in CZK positions at 31 December 2010	(3,768.9)	(1,930.6)	(46.6)	968.7	1,421.4
Fixed-interest gap in HUF positions at 31 December 2010	(576.7)	584.7	222.9	49.9	0.1
Fixed-interest gap in RON positions at 31 December 2010	(297.4)	445.1	457.8	61.2	3.9

2009 in EUR million	1-3 years	3-5 years	5-7 years	7-10 years	over 10 years
Fixed-interest gap in EUR positions at 31 December 2009	(1,297.3)	(146.2)	601.6	1,781.8	1,019.8
Fixed-interest gap in CZK positions at 31 December 2009	(2,317.5)	(518.4)	372.7	405.3	1,194.7
Fixed-interest gap in HUF positions at 31 December 2009	94.4	338.0	76.1	51.3	0.0
Fixed-interest gap in RON positions at 31 December 2009	203.6	315.5	72.2	155.8	4.7

Exchange rate risk
The bank is exposed to the several types of exchange rate-related risks.

Risk from open currency position
Risk from open currency positions is the exchange rate-related risk that derives from the mismatch between assets and liabilities, or from currency-related financial derivatives. These risks might originate from customer-related operations or proprietary trading and are monitored and managed on daily basis. Foreign currency exposure is subject to regulatory and internal limits. The internal limits are set by the Market Risk Committee.

Other exchange rate- related risks
Erste Group separately measures and manages other types of risks relating to the group's balance sheet and earnings structure. The translation risk related to the valuation of the balance sheet positions, earnings, dividends, participations/net investments in local currency or foreign exchange has an impact on consolidated earnings and consolidated capital. Erste Group is also reducing the negative impact relating to volatility of foreign exchange on asset's performance (for example as a result of foreign exchange lending in the CEE countries).

In order to manage multi-currency earnings structure, Erste Group regularly discusses hedging opportunities and takes decision in the Group Asset Liability Committee (Group ALCO). The Asset Liability Management (ALM) uses as the usual source of information the current financial results and the financial budget prepared for the upcoming period to get as much information as possible on the future foreign cash flows. The proposal, which includes mainly the volume, the hedging level, the hedge ratio and the timeline of the hedging, is submitted by the ALM to the Group ALCO. The impact of translation on consolidated capital is monitored and reported to the Group ALCO. Group ALCO decisions are then implemented by the ALM and the implementation status is reported on monthly basis to Group ALCO.

The following tables shows the exchange rate open positions of Erste Group as of the dates indicated, respectively.

Exchange rate open positions

in EUR thousand	2010	2009
US Dollar (USD)	(71,319)	11,656
Japanese Yen (JPY)	(17,125)	(40,993)
Swiss Franc (CHF)	(14,328)	(30,239)
Czech Koruna (CZK)	2,709	1,793
Polish Zloty (PLN)	(1,426)	(5,267)
Hungarian Forint (HUF)	4,679	(7,375)
Romanian Lei (RON)	8,132	(54,632)

Hedging

Banking book market risk management consists of optimizing Erste Group's risk position by finding the proper trade-off between the economic value of the balance sheet and forecasted earnings. Decisions are based on the balance sheet development, the economic environment, competitive landscape, fair value of risk, effect on net interest income and appropriate liquidity position. The steering body responsible for interest rate risk management is the Group ALCO. The ALM submits proposals for actions to steer the interest rate risk to the Group ALCO and implements Group ALCO's decisions.

In order to achieve the goals of risk management, hedging activities focus on the two main control variables: net interest income and market value of equity risk. In a broader sense, hedging means an economic activity that mitigates risk, but does not necessarily qualify for IFRS hedge accounting. In a more narrow sense, hedging is the hedge accounting according to IFRS requirements. For economic fair value, hedging fair value option is used where it is applicable. For IFRS hedge accounting cash flow hedges, fair value hedges and hedges of a net investment are recognised. Most of the hedging within Erste Group concerns hedging of interest rate risk; the remaining is used to hedge foreign exchange rate risk. IFRS hedge accounting is one of the tools of steering the risk.

37.7. Liquidity risk

Definition and overview

The liquidity risk is defined in Erste Group in line with the principles set by the Basel Committee on Banking Supervision. Accordingly, a distinction is made between market liquidity risk, which is the risk that the Group entities cannot easily offset or eliminate a position at the market price because of inadequate market depth or market disruption, and funding liquidity risk, which is the risk that the banks in the Group will not be able to meet efficiently both expected and unexpected current and future cash flow and collateral needs without affecting either daily operations or the financial condition of the Group members.

Funding liquidity risk is further divided into insolvency risk and structural liquidity risk. The former is the short-term risk that current or future payment obligations cannot be met in full, on time in an economically justified way, while structural liquidity risk is the long-term risk of losses due to a change in the Group's own refinancing cost or spread.

In early 2009 a liquidity project was started in order to review the governance, policy and measurement of the already established liquidity risk management. In this Group-wide project all local Risk Management and Asset-Liability Management as well Money Market Departments were involved. As one of the results of the project, the liquidity risk stress testing methodology was improved and linked to the countermeasures in the contingency plan.

There has been no need to change the process of intraday liquidity management, and the access to the available facilities was enlarged due to increased collateral base.

Employed methods and instruments

The maturity profile of short-term funding on a currency level has been monitored on a detailed basis to ensure that they have been within the short-term liquidity limits. The short-term liquidity position is monitored on a daily basis. As the primary funding source for Erste Group is the stable customer deposit base, the share of short-term funding is relatively low. Erste Group is particularly focusing on the net cash outflow projection and its coverage by collateral. In 2010, the focus was set on further improvement of the collateral structure, which resulted in a stable amount of central bank eligible collateral in Erste Group.

Erste Group steers long-term (structural) liquidity risk through a multiple scenario approach, which is limited on both group and individual subsidiary level. Dynamic aspects of the renewal of existing balance sheet items are incorporated through certain set of assumptions describing the going concern situation besides crisis situations. Similarly, the modelling of customer business is adjusted according to the respective scenario. The purpose of the analysis is to determine the ability of Erste Group to withstand distressed situations before they actually occur. Additionally, the traditional liquidity gaps (depicting the going concern maturity mismatches on a currency level) of the subsidiaries and the whole group are reported and monitored regularly. Funding concentration risk is continuously analyzed in respect to counterparties. Erste Group's fund transfer pricing (FTP) system also proved to be an efficient steering tool for structural liquidity risk management.

Methods and instruments of risk mitigation

General standards of liquidity risk controlling and management (standards, limits and analysis) have been defined and are continuously reviewed and improved by Erste Group Bank.

Both short- and long-term liquidity risk are limited by a traffic light system taking entities and currencies into account. Limit breaches are reported to ALCO. Another important channel for steering the liquidity risk within Erste Group Bank and towards its subsidiaries is the above mentioned FTP system and prices of intra-group funding. As the process of planning of funding needs provides important data for liquidity management, a detailed overview of funding needs is prepared for the planning horizon across Erste Group on quarterly basis.

The Comprehensive Contingency Plan ensures the necessary coordination of all involved parties in the liquidity management process in case of crisis and it is reviewed on a regular basis. The contingency plans of the subsidiaries are coordinated as part of the plan for the Erste Group.

Analysis of liquidity risk

Liquidity gap

The long-term liquidity position is managed using liquidity gaps, on the basis of expected cash flows. This liquidity position is calculated for each currency with material volume and based on the assumption of ordinary business activity.

The table shows contractual payments of principal - as they fall due at maturity or according to the amortisation schedule. For products without contractual maturities (like demand deposits and overdrafts), modelled principal cash flows are assumed - the modelling relies on statistical analysis of historical volumes for such products.

The following table shows liquidity gaps as of 31 December 2010 and 31 December 2009:

in EUR million	< 1 month		1-12 months		1-5 years		> 5 years	
	2010	2009	2010	2009	2010	2009	2010	2009
Liquidity GAP	**23,426**	**20,477**	**(34,607)**	**(25,325)**	**(5,424)**	**(17,955)**	**16,605**	**22,696**

Excess of assets over liabilities is disclosed with a positive algebraic sign, while excess of liabilities over assets is disclosed with a negative algebraic sign.

Liquidity buffer

Erste Group holds securities eligible at central banks to manage liquidity risk. Maturities of contractual, not discounted cash flows of these financial assets as of 31 December 2010 and 31 December 2009 are shown in the table below:

2010 in EUR million	< 1 month	1-12 months	1-5 years	> 5 years
Eligible securities	**412**	**5,300**	**13,323**	**10,832**

2009 in EUR million	< 1 month	1-12 months	1-5 years	> 5 years
Eligible securities	**1,223**	**4,907**	**12,837**	**8,669**

Financial liabilities

Maturities of contractual, not discounted cash flows of financial liabilities were as follows:

2010 in EUR million	Carrying amount	Contractual cash flows	< 1 month	1-12 months	1-5 years	> 5 years
Non-derivative liabilities	**174,307**	**184,321**	**70,622**	**51,950**	**39,145**	**22,604**
Deposits by banks	20,154	21,004	11,545	3,869	3,311	2,279
Customer deposits	117,016	119,568	55,418	42,386	16,229	5,535
Debt securities in issue	31,299	35,556	3,643	5,115	17,600	9,199
Subordinated liabilities	5,838	8,193	16	580	2,006	5,591
Derivative liabilities	**1,902**	**1,481**	**57**	**374**	**597**	**453**
Derivatives banking book	1,902	1,481	57	374	597	453
Total	**176,209**	**185,802**	**70,679**	**52,324**	**39,742**	**23,057**

2009 in EUR million	Carrying amount	Contractual cash flows	< 1 month	1-12 months	1-5 years	> 5 years
Non-derivative liabilities	**174,097**	**185,168**	**73,196**	**44,931**	**45,897**	**21,144**
Deposits by banks	26,295	27,182	12,636	9,363	3,572	1,611
Customer deposits	112,042	115,336	57,185	28,631	24,649	4,871
Debt securities in issue	29,612	33,888	3,343	6,398	15,249	8,898
Subordinated liabilities	6,148	8,762	32	539	2,427	5,764
Derivative liabilities	**1,313**	**500**	**25**	**231**	**507**	**(263)**
Derivatives banking book	1,313	500	25	231	507	(263)
Total	**175,410**	**185,668**	**73,221**	**45,162**	**46,404**	**20,881**

The volume of customer deposits due on demand is EUR 45.3 billion, observation of the customer behaviour has shown that during ordinary course of business 93% of this volume is stable. This means that only a minor part of the on demand portfolio is withdrawn by the customer, whereas the major part remains generally in the bank.

37.8. Operational risk

Definition and overview

In line with Section 2 No 57d Banking Act, Erste Group defines operational risk as 'the risk of loss resulting from inadequacy or failure of internal processes, people or systems, or from external events including legal risks'. Both quantitative and qualitative methods are used to identify operational risks. Consistent with international practice, the responsibility for managing operational risk rests with the line management.

Employed methods and instruments

The quantitative measurement methods are based on internal loss experience data, which is collected across Erste Group using a standard methodology and entered in a central data pool. Additionally, in order to be able to model losses that have not occurred in the past but are nonetheless possible, scenarios and external data are also used. Erste Group sources external data from the Operational Riskdata eXchange Assotiation (ORX), a non-profit industry association and leading risk-loss data consortium.

Erste Group received regulatory approval for the AMA approach in 2009. AMA is a sophisticated approach to measure operational risk. Pursuant to AMA, the required capital is calculated using an internal VaR model, taking into account internal data, external data, scenario analysis, business environment and internal risk control factors.

Methods and instruments of risk mitigation

In addition to quantitative methods, qualitative methods are also used to determine operational risk, such as risk assessment surveys (Risk Control and Self Assessments). The results of and suggestions for risk control in these surveys taken by experts are reported to line management and thus help to reduce operational risks. Erste Group also reviews certain key indicators periodically to ensure early detection of changes in risk potential that may lead to losses.

Erste Group uses a group-wide insurance programme, which, since its establishment in 2004, has reduced the cost of meeting Erste Group's traditional property insurance needs and made it possible to buy additional insurance for previously uninsured banking-specific risks. This programme uses a captive reinsurance entity as vehicle to share losses within the group and access the external market.

To further enforce the management of security risks, the functions IT Security, Physical Security, and Business-Continuity Management have been combined in July 2010 to the new service unit "Group Security Management" which reports directly to the CRO. In December 2010 the new division "Group Compliance" has been created under the CRO which is responsible to deal with compliance risks and the group-wide coordination of anti-fraud measures. The existing units "Group Securities Compliance", "AML Compliance", and "Group Fraud Management" are part of this new division.

The quantitative and qualitative methods used, together with the insurance strategy and the modelling approaches described above form the operational risk framework of Erste Group. Information on operational risk is periodically communicated to the Management Board via various reports, including the quarterly top management report, which includes recent loss history, loss development, qualitative information from risk assessments and key risk indicators as well as the operational VaR for Erste Group.

Distribution of operational risk events

Detailed below is the percentage composition by type of event of operational risk sources as defined by the New Basel Capital Accord. The observation period lasts from 1 January 2006 to 31 December 2010.

The event type categories are as follows:

Internal fraud:
Losses due to acts of a type intended to defraud, misappropriate property or circumvent regulations, the law or company policy, excluding diversity/discrimination events, which involves at least one internal party.

External fraud:
Losses due to acts of a type intended to defraud, misappropriate property or circumvent the law, by a third party.

Employment practices and workplace safety:
Losses arising from acts inconsistent with employment, health or safety laws or agreements, from payment of personal injury claims, or from diversity/discrimination events.

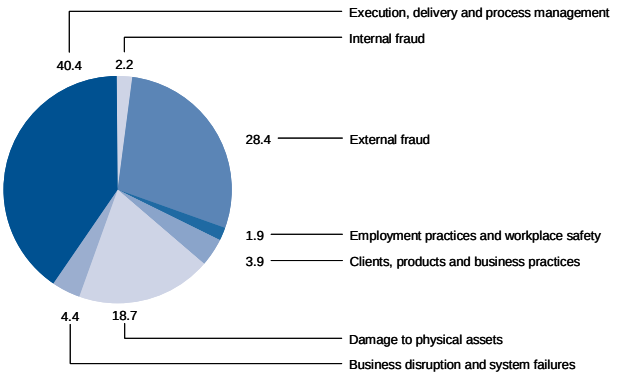
Clients, products and business practices:
Losses arising from an unintentional or negligent failure to meet a professional obligation to specific clients (including fiduciary and suitability requirements), or from the nature or design of a product.

Damage to physical assets:
Losses arising from loss or damage to physical assets from natural disaster or other events.

Business disruption and system failures:
Losses arising from disruption of business or system failures.

Execution, delivery and process management:
Losses from failed transaction processing or process management, from relations with trade counterparties and vendors.

Event type categories (in %)



38) Derivative financial instruments

Fair value hedges are employed to reduce market risk. They are used to turn fixed-income or structured transactions into variable-income transactions. Erste Group's policy is to convert all substantial fixed single transactions bearing interest rate risk into variable transactions in order to separate the interest rate risk from such transactions. This policy is applied primarily to fixed or structured issued bonds, but also to the material fixed purchased bonds and generally, any material fixed transactions in the balance sheet. Group ALM is steering interest rate risk. Steering of interest rate risk is undertaken through issuance of bonds, loans or derivatives, whereas for derivatives IFRS hedge accounting is usually applied. Interest rate swaps are the main instruments used for fair value hedges. In connection with issuance, fair value is also hedged by means of cross-currency swaps, swaptions, caps, floors and other types of instruments.

Cash flow hedges are used to eliminate uncertainty in future cash flows in order to stabilise net interest income. Floors or caps are used to lock in levels of interest income in a changing interest rate environment. Interest rate swaps, caps and floors are used to hedge interest rate risk. Currency risk is hedged with spot transactions as well as currency swaps, FX forwards or balance sheet items denominated in a hedged currency.

In the reporting period, EUR 26 million (2009: EUR 5 million) was removed from the cash flow hedge reserve and recognised as income in the consolidated income statement; EUR (102) million (2009: EUR 13 million) was recognised directly in equity. The majority of the hedged cash flows is likely to occur within the next five years and will then be recognised in the consolidated income statement. Inefficiencies from cash flow hedges amounting to EUR 0.9 million (2009: EUR (10.6) million) are reported in the net trading result.

	2010		2009	
in EUR million	Positive fair value	Negative fair value	Positive fair value	Negative fair value
Hedging instrument - fair value hedge	1,570	783	1,041	728
Hedging instrument - cash flow hedge	135	97	114	32

39) Fair value of financial instruments

Financial instruments for which fair value is determined on the basis of quoted market prices are mainly listed securities and derivatives as well as liquid OTC bonds.

Erste Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: Financial instruments which are valued based on quoted (unadjusted) prices in active market for identical assets or liabilities. This includes financial instruments which are traded with a sufficient volume on an exchange, debt instrument quoted by several market participants with a sufficient depth or liquid derivatives which are traded on an exchange.

Level 2: Financial instruments which are valued based on quoted prices (in non-active markets or in active markets for similar assets or liabilities) and inputs other than quoted prices that are observable. This includes yield curves derived from liquid underlyings or prices from similar instruments.

Level 3 inputs are inputs which are not observable. This includes extrapolation of yield curves or volatilities, usage of historical volatilities, significant adjustment of quoted CDS spreads or equity prices.

The table below details the valuation methods used to determine the fair value of financial instruments (excl. derivatives in banking book) measured at fair value:

2010 in EUR million	Quoted market prices in active markets Level 1	Marked to model based on observable marked data Level 2	Marked to model based on non-observable inputs Level 3	Total
Financial assets - available for sale	10,704	6,385	160	17,249
Financial assets - at fair value through profit or loss	1,039	1,286	78	2,403
Trading assets - securities	2,905	2,619	0	5,524
Positive market value - derivatives	1	8,473	0	8,474
Total assets	**14,649**	**18,763**	**238**	**33,650**
Negative market value - derivatives	1	7,993	2	7,996
Other trading liabilities	105	111	0	216
Total liabilities and equity	**106**	**8,104**	**2**	**8,212**

2009 in EUR million	Quoted market prices in active markets Level 1	Marked to model based on observable marked data Level 2	Marked to model based on non-observable inputs Level 3	Total
Financial assets - available for sale	8,930	6,769	175	15,874
Financial assets - at fair value through profit or loss	1,252	1,620	95	2,967
Trading assets - securities	2,307	3,705	0	6,012
Positive market value - derivatives	2	4,709	2	4,713
Total assets	**12,491**	**16,803**	**272**	**29,566**
Negative market value - derivatives	0	3,746	3	3,749
Other trading liabilities	594	127	0	721
Total liabilities and equity	**594**	**3,873**	**3**	**4,470**

The volume of products whose fair values are determined using valuation models based on non-observable market data is driven in large part by illiquid bonds and securities not quoted in an active market.

Movements in Level 3 of financial instruments measured at fair value

The follwing tables show the development of fair value of securities for which valuation models are based on non observable inputs:

in EUR million	2009	Gain/loss in profit or loss	Gain/loss in other compre-hensive income	Pur-chases	Sales/ Settle-ments	Transfer into Level 3	Transfers out of Level 3	Currency trans-lation	2010
Financial assets - available for sale	175	(3)	1	10	(18)	3	(8)	0	160
Financial assets - at fair value through profit or loss	95	(4)	0	0	(20)	2	0	5	78
Trading assets	0	(1)	0	1	0	0	0	0	0
Trading liabilities	0	0	0	0	0	0	0	0	0
Total	**270**	**(8)**	**1**	**11**	**(38)**	**5**	**(8)**	**5**	**238**

in EUR million	2008	Gain/loss in profit or loss	Gain/loss in other compre-hensive income	Pur-chases	Sales/ Settle-ments	Transfer into Level 3	Transfers out of Level 3	Currency trans-lation	2009
Financial assets - available for sale	1,510	(19)	1	15	(92)	110	(1,348)	(2)	175
Financial assets - at fair value through profit or loss	267	(6)	0	1	(47)	80	(200)	0	95
Trading assets	62	(2)	0	2	(41)	0	(21)	0	0
Trading liabilities	0	0	0	0	0	0	0	0	0
Total	**1,839**	**(27)**	**1**	**18**	**(180)**	**190**	**(1,569)**	**(2)**	**270**

Gains or losses on level 3 securities held at the end of the reporting period, which are included in comprehensive income are as follows:

	2010		2009	
in EUR million	Gain/loss in profit or loss	Gain/loss in other comprehensive income	Gain/loss in profit or loss	Gain/loss in other comprehensive income
Financial assets - available for sale	(4.0)	1.0	(1.0)	0.3
Financial assets - at fair value through profit or loss	(3.0)	0.0	(14.0)	0.0
Trading assets	(1.0)	0.0	(3.8)	0.0
Trading liabilities	0.0	0.0	0.0	0.0
Total	**(8.0)**	**1.0**	**(18.8)**	**0.3**

Movements between Level 1 and Level 2

Generally, the liquidity of the financial instruments held in the portfolio was excellent. For that reason the valuation for some financial instruments was changed to a price based valuation. Furthermore, reinvestment was mainly done in liquid instruments which resulted in an increase in level 1.

Movements in Level 3 financial instruments measured at fair value

As the portfolio quality in 2010 remained stable there was no material change in the level 3 category.

Sensitivity analysis of unobservable parameters

If the value of financial instruments is dependent on unobservable input parameters, the precise level for these parameters could be drawn from a range of reasonably possible alternatives. In preparing the financial statements, levels for the parameters are chosen from these ranges using judgment consistent with prevailing market evidence. If all these unobservable parameters are moved simultaneously to the extremes of these ranges as of December 31, 2010, it could have increased fair value by as much as EUR 12 million or decreased fair value by as much as EUR 19.7 million. In estimating these impacts, mainly PDs (probability of default) and market values for equities were stressed.

The following table shows fair values of financial instruments not measured at fair value:

	2010		2009	
in EUR million	Fair value	Carrying amount	Fair value	Carrying amount
ASSETS				
Cash and balances with central banks	5,839	5,839	5,996	5,996
Loans and advances to credit institutions	12,464	12,412	13,118	13,067
Loans and advances to customers	128,736	126,695	123,767	124,253
Financial assets - held to maturity	14,355	14,235	14,810	14,899
LIABILITIES				
Deposits by banks	20,289	20,154	26,352	26,295
Customer deposits	116,912	116,648	111,821	112,042
Debt securities in issue	31,573	31,210	29,643	29,612
Subordinated liabilities	5,346	5,838	5,778	6,148

The fair value of loans and advances to customers and credit institutions has been calculated by discounting future cash flows taking into consideration interest and risk effects. Loans and advances were grouped into homogeneous portfolios based on maturity and internal rating. The reduction in fair values compared to the carrying amount is driven by an adverse change in the risks of the assets.

For liabilities without contractual maturities, the carrying amount is recorded at fair value. The fair value of the other liabilities is estimated without assumed credit risk, but with changes in interest rates.

40) Financial instruments per category according to IAS 39

	At 31 December 2010							
in EUR million	Loans and receivables	Held to maturity	Trading	Designated at fair value	Available for sale	Financial assets and financial liabilities at amortised cost	Derivatives designated as hedging instruments	Total
ASSETS								
Cash and balances with central banks						5,839		5,839
Loans and advances to credit institutions	12,496							12,496
Loans and advances to customers	132,729							132,729
Risk provisions for loans and advances	(6,119)							(6,119)
Derivative financial instruments			6,769				1,705	8,474
Trading assets			5,536					5,536
Financial assets - at fair value through profit or loss				2,434				2,434
Financial assets - available for sale					17,751			17,751
Financial assets - held to maturity		14,235						14,235
Accruals[1)]						1,204		1,204
Total financial assets	**139,106**	**14,235**	**12,305**	**2,434**	**17,751**	**7,043**	**1,705**	**194,579**
LIABILITIES								
Deposits by banks						20,154		20,154
Customer deposits				368		116,648		117,016
Debt securities in issue				89		31,210		31,299
Derivative financial instruments			7,116				880	7,996
Trading liabilities			216					216
Subordinated liabilities						5,838		5,838
Accruals[2)]						1,839		1,839
Total financial liabilities	**0**	**0**	**7,332**	**457**	**0**	**175,689**	**880**	**184,358**

1) Accruals are reported in other assets.
2) Accruals are reported in other liabilities.

in EUR million	At 31 December 2009							
	Loans and receivables	Held to maturity	Trading	Designated at fair value	Available for sale	Financial assets and financial liabilities at amortised cost	Derivatives designated as hedging instruments	Total
ASSETS								
Cash and balances with central banks						5,996		5,996
Loans and advances to credit institutions	13,140							13,140
Loans and advances to customers	129,134							129,134
Risk provisions for loans and advances	(4,954)							(4,954)
Derivative financial instruments			2,971				1,742	4,713
Trading assets			6,013					6,013
Financial assets - at fair value through profit or loss				2,997				2,997
Financial assets - available for sale					16,390			16,390
Financial assets - held to maturity		14,899						14,899
Accruals[1)]						1,775		1,775
Total financial assets	**137,320**	**14,899**	**8,984**	**2,997**	**16,390**	**7,771**	**1,742**	**190,103**
LIABILITIES								
Deposits by banks						26,295		26,295
Customer deposits				155		111,887		112,042
Debt securities in issue				74		29,538		29,612
Derivative financial instruments			2,929				820	3,749
Trading liabilities			721					721
Subordinated liabilities						6,148		6,148
Accruals[2)]						2,310		2,310
Total financial liabilities	**0**	**0**	**3,650**	**229**	**0**	**176,178**	**820**	**180,877**

1) Accruals are reported in other assets.
2) Accruals are reported in other liabilities.

41) Audit fees and tax consultancy fees

The following table contains fundamental audit fees and tax fees charged by the auditors (of Erste Group Bank AG and subsidiaries; the auditors primarily being Sparkassen-Prüfungsverband, Ernst & Young and Deloitte) in the fiscal years 2010 and 2009:

in EUR million	2010	2009
Audit fees	15.0	17.5[1)]
Tax consultancy fees	1.9	2.5
Total	**16.9**	**20.0**

1) Fees for capital increase and participation capital amounted to EUR 4.2 million

For auditing services provided by the Group auditors EUR 7.2 million (2009: EUR 10.2 million) was paid by Erste Group. The Group auditors also performed tax consultancies for Erste Group with a value of EUR 0.5 million (2009: EUR 1.1 million).

42) Contingent liabilities

To meet the financial needs of customers, the Bank enters into various irrevocable commitments and contingent liabilities. These consist of financial guarantees, letters of credit and other undrawn commitments to lend amounting to EUR 33,873 million (2009: EUR 37,826 million). Even though these obligations may not be recognised on the balance sheet, they do contain credit risk and are therefore part of the overall risk of the Bank (see Note 37 credit exposure).

Legal proceedings

Erste Group Bank and some of its subsidiaries are involved in legal disputes, most of which have arisen in the course of its ordinary banking business. These proceedings are not expected to have a significant negative impact on the financial position or profitability of Erste Group and/or Erste Group Bank. Erste Group is also subject to the following ongoing proceedings:

Haftungsverbund

In 2002, Erste Group Bank formed the Haftungsverbund with the majority of the Austrian savings banks. The purpose of the Haftungsverbund is to establish a joint early-warning system as well as a cross-guarantee for certain liabilities of member savings banks and to strengthen the group's cooperation in the market.

In competition proceedings before the Austrian cartel court, both a competitor of Erste Group Bank and the Austrian federal competition authority requested the court to set aside the Haftungsverbund agreements because of an alleged infringement of Article 81 of the EC Treaty (now Article 101 of The Treaty of the functioning of the European Union/TFEU).

In March 2007, the Supreme Court issued a decision confirming that the agreements that constitute the Haftungsverbund are for the most part in compliance with Article 81 of the EC Treaty. However, the Supreme Court held certain provisions to be anti-competitive on their merits. In its findings, the Supreme Court did not cite any explicit measures that needed to be implemented by Erste Group Bank and the other parties. In April 2008, Erste Group Bank and the Cartel Court reached an understanding on the necessary adjustments to be made. This understanding (commitments within the meaning of section 27 Cartel Act relating primarily to the sharing of data that might have competitive value) was challenged by Erste Group Bank's competitor before the Supreme Court. In October 2008, the Supreme Court set aside the decision of the Cartel Court due to a procedural error and remanded the case to the Cartel Court for reconsideration. Neither the commitments (assuming they are upheld) nor the preceding decision of the Supreme Court affect the consolidation of the Qualifying Capital of the savings banks nor their inclusion as subsidiaries in the consolidated financial statements in accordance with IFRS of Erste Group Bank.

Stockholm Arbitration proceedings

In 2009 a former corporate borrower has initiated arbitration proceedings in Stockholm against a group of lenders, including Erste Group Bank. The plaintiff alleges that arrangements entered into at the peak of the financial crisis between the borrower and the lenders, following the borrower's default, which resulted in the forgiving of the loan - loan amount Erste Group Bank: SEK 400 million - and the transfer of ownership to the lenders of shares in a listed Swedish company should be declared null and void and that the total current value of the shares and compensation for further alleged losses following from such transfer are due to it. With regard to Erste Group Bank, the claimant requested payment in the region of SEK 1 bn, and has since varied its claims in different ways. Erste Group Bank rejects the claim in its entirety as unfounded.

Hungarian Holocaust litigation

In 2010 a group of attorneys has filed a complaint with a U.S. court on behalf of victims of the Holocaust or their heirs against several Hungarian banks in relation to the persecution of Jews in Greater Hungary in 1944. Also Erste Group Bank is named as a defendant. The plaintiffs essentially claim that Hungarian banks improperly benefited from wartime Jewish assets and held on to these assets until today. The assets claimed total $2 billion in 1944 dollars. The plaintiffs allege that Erste Group Bank is the legal successor to a number of banks that were active during that time in Greater Hungary. Erste Group Bank rejects the claim. Neither Erste Group Bank nor its Hungarian subsidiary bank, which was founded only decades after the end of World War II, view themselves as legal successors to any of the banks mentioned in the complaint. Erste Group Bank does not see any basis for a U.S. court having jurisdiction in this matter.

43) Analysis of remaining maturities

2010 in EUR million	2010		2009	
	< 1 year	> 1 year	< 1 year	> 1 year
Cash and balances with central banks	5,839	0	5,996	0
Loans and advances to credit institutions	9,930	2,566	10,360	2,780
Loans and advances to customers	35,317	97,412	34,168	94,966
Risk provisions for loans and advances	(1,812)	(4,307)	(1,511)	(3,443)
Derivative financial instruments	1,290	7,184	1,562	3,151
Trading assets	3,263	2,273	2,792	3,221
Financial assets - at fair value through profit or loss	609	1,826	524	2,473
Financial assets - available for sale	3,290	14,461	3,096	13,294
Financial assets - held to maturity	2,444	11,791	4,160	10,739
Other assets	1,699	10,863	2,043	11,339
Total	**61,869**	**144,069**	**63,190**	**138,520**
Deposits by banks	13,915	6,239	19,687	6,608
Customer deposits	91,322	25,694	91,493	20,549
Debt securities in issue	8,028	23,270	7,242	22,370
Derivative financial instruments	1,497	6,499	1,407	2,342
Trading liabilities	170	46	0	721
Subordinated liabilities	361	5,477	754	5,394
Other liabilities	1,235	5,056	1,732	5,289
Total	**116,528**	**72,281**	**122,315**	**63,273**

44) Own funds and capital requirement

Erste Group as a group of credit institutions is subject to the Banking Act and has to follow the capital requirements set out therein. Own funds and capital requirements are as follows:

in EUR million	Dec 2010	Dec 2009
Subscribed capital	2,520	2,520
Share capital	756	756
Participation capital	1,764	1,764
Reserves	8,944	8,240
Deduction of Erste Group Bank shares held within the group	(758)	(622)
Consolidation difference	(2,437)	(2,467)
Non-controlling interests (excluding hybrid tier-1capital pursuant to section 23 (4a) and (4b) Banking Act)	3,430	3,330
Intangible assets	(500)	(498)
50% deduction for non consolidated credit and financial institutions pursuant to section 23 (13) 3 and 4 Banking Act	(153)	(161)
50% deduction of IRB-shortfall pursuant to section 23 (13) 4c Banking Act	0	(30)
50% deduction of securitisations pursuant to section 23 (13) 4d Banking Act	(27)	(36)
Core tier(1) capital	**11,019**	**10,276**
Hybrid tier(1) capital pursuant to section 23 (4a) and (4b) Banking Act	1,200	1,174
Tier'-'1 capital	**12,219**	**11,450**
Eligible subordinated liabilities	3,909	4,159
Revaluation reserve	0	167
Excess risk provisions	74	0
Qualifying supplementary capital (Tier 2)	**3,983**	**4,326**
50% deduction for non consolidated credit and financial institutions pursuant to section 23 (13) 3 and 4 Banking Act	(153)	(161)
50% deduction of IRB-shortfall pursuant to section 23 (13) 4c Banking Act	0	(30)
50% deduction of securitisations pursuant to section 23 (13) 4d Banking Act	(27)	(36)
100% deductions of holdings in insurances pursuant to section 23 (13) 4a Banking Act	(176)	(183)
Short-term subordinated capital (Tier 3)	**374**	**406**
Total eligible qualifying capital	**16,220**	**15,772**
Capital requirement	9,587	9,911
Surplus capital	6,633	5,861
Cover ratio (in %)	169.2	159.1
Tier-1 ratio – credit risk (in %)[2)]	11.8	10.8
Core tier-1 ratio – total risk (in %)[3)]	9.2	8.3
Tier-1 ratio – total risk (in %)[4)]	10.2	9.2
Solvency ratio (in %)[5)]	13.5	12.7

1) Tier-1 ratio - credit risk is the ratio of tier-1 capital (including hybrid capital pursuant to section 23 (4a) and (4b) Banking Act) to the risk weighted assets pursuant to section 22 (2) Banking Act.
2) Core tier-1 ratio – total risk is the ratio of core tier-1 capital to the calculation base for the capital requirement pursuant to section 22 (1) Banking Act.
3) Tier-1 ratio – total risk is the ratio of tier-1 capital to the calculation base for the capital requirement pursuant to section 22 (1) Banking Act.
4) Solvency ratio is the ratio of total qualifying capital to the calculation base for the capital requirement pursuant to section 22 (1) Banking Act.

The minimum capital requirement as determined under the Austrian Banking Act was fulfilled at all times during the year under review and the prior year.

The risk-weighted basis pursuant to section 22 (1) of the Banking Act and the resulting capital requirement are as follows:

in EUR million	2010		2009	
	Calculation base/ total risk[1)]	Capital requirement[2)]	Calculation base/ total risk[1)]	Capital requirement[2)]
Risk pursuant to section 22 (1) 1 Banking Act[3)]	103,950	8,316	106,383	8,510
a) Standardized approach	27,412	2,193	29,940	2,395
b) Internal ratings based approach	76,538	6,123	76,443	6,115
Risk pursuant to section 22 (1) 2 Banking Act[4)]	4,668	373	5,048	404
Risk pursuant to section 22 (1) 3 Banking Act[5)]	11	1	22	2
Risk pursuant to section 22 (1) 4 Banking Act[6)]	11,215	897	12,438	995
Total	**119,844**	**9,587**	**123,891**	**9,911**

1) Internal calculation base used for calculation of the tier-1 ratio, core tier-1 ratio and the solvency ratio (capital requirement multiplied by 12.5).
2) Capital requirement pursuant to the Banking Act.
3) Risk weighted assets – credit risk.
4) Market risk (trading book).
5) Commodities risk and foreign exchange-risk, including the risk arising from gold positions, each for positions outside the trading book.
6) Operational risk.

45) Events after the balance sheet date

There were no significant events after the balance sheet date.

46) Details of the companies wholly or partly-owned by Erste Group at 31 December 2010

The tables below present material, fully-consolidated subsidiaries, associates accounted for at equity and other investments.

Since IMMORENT Aktiengesellschaft is disclosed here as a sub-group, the single subsidiaries are not listed separately.

Company name, registered office		Interest of Erste Group in %
Fully consolidated subsidiaries		
Credit institutions		
Sparkasse der Stadt Amstetten AG	Amstetten	0.0
Sparkasse Baden	Baden	0.0
Sparkasse Haugsdorf	Haugsdorf	0.0
Sparkasse Herzogenburg-Neulengbach	Herzogenburg	0.0
Weinviertler Sparkasse AG	Hollabrunn	99.5
Sparkasse Horn-Ravelsbach-Kirchberg Aktiengesellschaft	Horn	0.0
Sparkasse Kirchschlag AG	Kirchschlag in der buckligen Welt	0.0
Sparkasse Korneuburg AG	Korneuburg	0.0
KREMSER BANK UND SPARKASSEN AKTIENGESELLSCHAFT	Krems an der Donau	0.0
Sparkasse Langenlois	Langenlois	0.0
Sparkasse Neunkirchen	Neunkirchen	0.0
Sparkasse Pottenstein N.Ö.	Pottenstein/Triesting	0.0
Sparkasse Poysdorf AG	Poysdorf	0.0
SPARKASSE NIEDERÖSTERREICH MITTE WEST AKTIENGESELLSCHAFT	St. Pölten	0.0
Sparkasse Scheibbs AG	Scheibbs	0.0
Waldviertler Sparkasse von 1842 AG	Waidhofen an der Thaya	0.0
Wiener Neustädter Sparkasse	Wiener Neustadt	0.0
Sparkasse Waldviertel-Mitte Bank AG	Zwettl	0.0
Stadtsparkasse Traiskirchen AG	Traiskirchen	0.0
Sparkasse Frankenmarkt Aktiengesellschaft	Frankenmarkt	0.0
Sparkasse Bad Ischl AG	Bad Ischl	0.0
Sparkasse Lambach Bank Aktiengesellschaft	Lambach	0.0
Sparkasse Neuhofen Bank Aktiengesellschaft	Neuhofen	0.0
Sparkasse Eferding-Peuerbach-Waizenkirchen	Eferding	0.0
Sparkasse Pregarten - Unterweißenbach AG	Pregarten	0.0
Sparkasse Ried im Innkreis-Haag am Hausruck	Ried im Innkreis	0.0
Sparkasse Mittersill Bank AG	Mittersill	0.0
Sparkasse Imst AG	Imst	0.0
Sparkasse der Stadt Kitzbühel	Kitzbühel	0.0
Sparkasse Kufstein, Tiroler Sparkasse von 1877	Kufstein	0.0
Lienzer Sparkasse AG	Lienz	0.0
Sparkasse Rattenberg Bank AG	Rattenberg	0.0
Sparkasse Reutte AG	Reutte	0.0
Sparkasse Schwaz AG	Schwaz	0.0
Dornbirner Sparkasse Bank AG	Dornbirn	0.0
Sparkasse der Gemeinde Egg	Egg	0.0
Sparkasse der Stadt Feldkirch	Feldkirch	0.0
Sparkasse Bludenz Bank AG	Bludenz	0.0
Sparkasse Feldkirchen/Kärnten	Feldkirchen	0.0
Sparkasse Mürzzuschlag Aktiengesellschaft	Mürzzuschlag	0.0
Sparkasse Pöllau AG	Pöllau	0.0
Salzburger Sparkasse Bank Aktiengesellschaft	Salzburg	98.7
Sparkasse Mühlviertel-West Bank Aktiengesellschaft	Rohrbach	40.0
Erste Bank (Malta) Limited	Sliema	100.0
Erste Asset Management GmbH	Wien	100.0
Stavebni sporitelna Ceske sporitelny, a.s.	Prag	97.8

Company name, registered office		Interest of Erste Group in %
Sparkasse Hainburg-Bruck-Neusiedl Aktiengesellschaft	Hainburg	75.0
Bausparkasse der österreichischen Sparkassen Aktiengesellschaft	Wien	95.0
Sparkasse Kremstal-Pyhrn Aktiengesellschaft	Kirchdorf a.d. Krems	30.0
Sparkasse Bregenz Bank Aktiengesellschaft	Bregenz	0.0
Sparkasse Voitsberg-Köflach Bankaktiengesellschaft	Voitsberg	5.0
Kärntner Sparkasse Aktiengesellschaft	Klagenfurt	25.0
Erste Bank Hungary Nyrt	Budapest	100.0
Slovenska sporitelna, a. s.	Bratislava	100.0
Allgemeine Sparkasse Oberösterreich Bankaktiengesellschaft	Linz	26.9
Ceska sporitelna, a.s.	Prag	98.0
ERSTE BANK AD NOVI SAD	Novi Sad	80.5
Banca Comerciala Romana SA	Bukarest	69.4
Banca Comerciala Romana Chisinau S.A.	Chisinau	69.4
Anglo Romanian Bank Ltd.	London	69.4
Tiroler Sparkasse Bankaktiengesellschaft Innsbruck	Innsbruck	75.0
Public Company "Erste Bank"	Kiev	100.0
s Wohnbaubank AG	Wien	90.9
Steiermärkische Bank und Sparkassen Aktiengesellschaft	Graz	25.0
Erste & Steiermärkische bank d.d., Rijeka	Rijeka	69.3
ERSTE-SPARINVEST Kapitalanlagegesellschaft m.b.H.	Wien	86.5
Sparkasse Oberösterreich Kapitalanlagegesellschaft m.b.H.	Linz	27.2
Tirolinvest Kapitalanlagegesellschaft mbH.	Innsbruck	77.9
ecetra Central European e-Finance AG	Wien	100.0
Erste Bank der oesterreichischen Sparkassen AG	Wien	100.0
Die Zweite Wiener Vereins-Sparcasse	Wien	0.0
Sparkasse Bank Malta Public Limited Company	Sliema	0.0
BCR Banca pentru Locuinte SA	Bukarest	74.5
SPARKASSE BANK MAKEDONIJA AD SKOPJE	Skopje	24.8
ERSTE BANK AD PODGORICA	Podgorica	69.3
RINGTURM Kapitalanlagegesellschaft m.b.H.	Wien	95.0
Bankhaus Krentschker & Co. Aktiengesellschaft	Graz	25.0
Sparkasse Bank dd	Sarajevo	24.1
Banka Sparkasse d.d.	Laibach	28.0

Company name, registered office		Interest of Erste Group in %
Other financial institutions		
Sparkassenbeteiligungs und Service AG für Oberösterreich und Salzburg	Linz	69.3
EB-Malta-Beteiligungen Gesellschaft m.b.H.	Wien	100.0
NÖ-Sparkassen Beteiligungsgesellschaft m.b.H.	Wien	4.5
EGB e-business Holding GmbH	Wien	100.0
AVS Beteiligungsgesellschaft m.b.H.	Innsbruck	75.0
Erste Bank Beteiligungen GmbH	Wien	100.0
EB Erste Bank Internationale Beteiligungen GmbH	Wien	100.0
Sparkasse (Holdings) Malta Ltd.	Sliema	0.0
EGB Ceps Holding GmbH	Wien	100.0
EGB Ceps Beteiligungen GmbH	Wien	100.0
SPK Immobilien- und Vermögensverwaltungs GmbH	Graz	25.0
Sieben-Tiroler-Sparkassen Beteiligungsgesellschaft m.b.H.	Kufstein	0.0
Immorent-Süd Gesellschaft m.b.H.	Graz	51.3
Immorent - Süd Gesellschaft m.b.H., S - Leasing KG	Graz	46.4
IMMORENT-TOPAS Grundverwertungsgesellschaft m.b.H.	Wien	62.5
Immorent-Smaragd Grundverwertungsgesellschaft m.b.H.	Schwaz	0.0
IMMORENT-RAMON Grundverwertungsgesellschaft m.b.H.	Wien	62.5
Asset Management Slovenskej sporitelne, správ. spol., a. s.	Bratislava	100.0
brokerjet Ceske sporitelny, a.s.	Prag	99.0
Investicni spolecnost Ceske sporitelny, a.s.	Prag	100.0
Erste Securities Zagreb d.o.o.	Zagreb	84.9
Erste Securities Polska S.A.	Warschau	100.0
Erste Befektetesi Zrt.	Budapest	100.0
Portfolio Kereskedelmi, Szolgaltato es Szamitastechnikai Kft.	Budapest	100.0
Erste Alapkezelo Zrt.	Budapest	100.0
Factoring Ceske sporitelny a.s.	Prag	98.0
Erste Invest d.o.o.	Zagreb	100.0
Factoring Slovenskej sporitelne, a.s.	Bratislava	100.0
Erste Faktor Penzügyi Szolgaltato Zrt.	Budapest	100.0
BCR Asset Management SA - under liquidation procedure	Bukarest	56.4
BCR Securities SA - under liquidation procedure	Bukarest	61.9
Erste & Steiermärkische S-Leasing drustvo s ogranicenom odgovornoscu za leasing vozila i strojeva	Zagreb	59.4
S-IMMORENT nepremicnine d.o.o.	Laibach	50.0
IMMORENT leasing nepremicnin d.o.o.	Laibach	44.2
SPARKASSEN LEASING druzba za financiranje d.o.o.	Laibach	50.0
RUTAR INTERNATIONAL trgovinska d.o.o.	Laibach	62.5
IMMORENT ALFA leasing druzba, d.o.o.	Laibach	50.0
IMMORENT BETA, leasing druzba, d.o.o.	Laibach	62.5
IMMORENT DELTA, leasing druzba, d.o.o.	Laibach	50.0
ERSTE DELTA DRUSTVO S OGRANICENOM ODGOVORNOSCU ZA POSLOVANJE NEKRETNINAMA	Zagreb	69.3
S IMMORENT ZETA drustvo s ogranicenom odgovornoscu za poslovanje nekretninama	Zagreb	84.9
PREDUZECE ZA LIZING NEKRETNINA, VOZILA I MASINA S-LEASING DOO BEOGRAD	Belgrad	62.5
Drustvo za lizing nekretnina, vozila, plovila i masina "S-Leasing" doo Podgorica	Podgorica	12.5
S-RENT DOO BEOGRAD	Belgrad	62.5
EBV - Leasing Gesellschaft m.b.H. & Co. KG.	Wien	100.0
IMMORENT Aktiengesellschaft	Wien	100.0
s Autoleasing GmbH	Wien	100.0
s Autoleasing a.s.	Prag	98.0
Leasing Slovenskej sporitelne, a.s.	Bratislava	100.0
Erste Leasing Autofinanszirozasi Penzügyi Szolgaltato Zrt.	Budapest	100.0
Erste Leasing Berlet Szolgaltato Kft. (vm. Erste Leasing Szolgaltato Kft.)	Budapest	100.0

Company name, registered office		Interest of Erste Group in %
Erste Leasing Eszközfinanszirozasi Penzügyi Szolgaltato Zrt. (vm. Erste S Leasing Pénzügyi Szolgáltató Rt.)	Budapest	100.0
BCR Leasing IFN SA	Bukarest	69.3
ERSTE FACTORING d.o.o.	Zagreb	86.4
REICO investicni spolecnost Ceske sporitelny, a.s.	Prag	98.0
ERSTE CARD CLUB d.d.	Zagreb	69.2
S-Factoring, faktoring druzba d.d.	Laibach	26.9
brokerjet Sparkasse d.d.	Laibach	63.3
BCR Partener IFN SA	Bukarest	69.4
SAI Erste Asset Management S.A.	Bukarest	100.0
Sparkasse Leasing S,družba za financiranje d.o.o.	Laibach	28.0
Synergy Capital a.d. in Liqu.	Belgrad	100.0
Erste Securities Istanbul Menkul Degerler AS	Istanbul	100.0
Kärntner Sparkasse Vermögensverwaltungsgesellschaft m.b.H.	Klagenfurt	25.0

Company name, registered office		Interest of Erste Group in %
Other		
CS Property Investment Limited	Nikosia	98.0
CEE Property Development Portfolio B.V.	Amsterdam	19.6
Czech and Slovak Property Fund B.V.	Amsterdam	10.0
ERSTE DMD d.o.o.	Zagreb	69.3
Realitas Grundverwertungsgesellschaft m.b.H.	Wien	66.3
Smichov Real Estate, a.s.	Prag	10.0
Solitaire Real Estate, a.s.	Prag	10.0
Atrium Center s.r.o.	Bratislava	10.0
Penzijni fond Ceske sporitelny, a.s.	Prag	98.0
Erste Penztarszervezö Kft.	Budapest	100.0
Jegeho Residential s.r.o.	Bratislava	10.0
s REAL Immobilienvermittlung GmbH	Wien	96.1
CPDP 2003 s.r.o.	Prag	19.6
Gallery MYSAK a.s.	Prag	19.6
Real-Service für steirische Sparkassen Realitätenvermittlungsgesellschaft m.b.H.	Graz	59.7
Sparkassen-Real-Service für Kärnten und Osttirol Realitätenvermittlungs-Gesellschaft m.b.H.	Klagenfurt	55.6
Real-Service für oberösterreichische Sparkassen Realitätenvermittlungsgesellschaft m.b.H.	Linz	65.8
Sparkassen-Real-Service -Tirol Realitätenvermittlungs-Gesellschaft m.b.H.	Innsbruck	66.8
BGA Czech, s.r.o.	Prag	10.0
S Tourismus Services GmbH	Wien	100.0
CSPF Residential B.V.	Amsterdam	10.0
IT Centrum s.r.o.	Prag	98.0
ERSTE NEKRETNINE d.o.o. za poslovanje nekretninama	Zagreb	69.3
CPDP Polygon s.r.o.	Prag	19.6
CPDP Prievozska a.s.	Bratislava	19.6
TAVARESA a.s.	Prag	19.6
BECON s.r.o.	Prag	19.8
Realitna spolocnost Slovenskej sporitelne, a.s.	Bratislava	100.0
SATPO Jeseniova, s.r.o.	Prag	5.0
EGB Capital Invest GmbH	Wien	100.0
EBB Beteiligungen GmbH	Wien	100.0
Trencin Retail Park a.s.	Bratislava	9.0
Trencin Property a.s.	Bratislava	10.0
CPDP Jungmannova s.r.o.	Prag	19.6
SATPO Kralovska vyhlidka, s.r.o.	Prag	5.0
CPDP Shopping Mall Kladno, a.s.	Prag	19.6
SATPO Sacre Coeur II, s.r.o.	Prag	5.0
CPP Lux S. 'ar.l.	Luxemburg	19.6
CP Praha s.r.o.	Prag	19.6
BCR PENSII, SOCIETATE DE ADMINISTRARE A FONDURILOR DE PENSII PRIVATE SA	Bukarest	69.4
Nove Butovice Development s.r.o.	Prag	10.0
CPDP Logistics Park Kladno I a.s.	Prag	38.0
CPDP Logistics Park Kladno II a.s.	Prag	19.6
s BAU Holding GmbH	Wien	95.0
Sio Ingatlan Invest Kft.	Budapest	100.0
CASIOPEA VISION, A.S.	Brünn	10.0
BELBAKA a.s.	Prag	10.0
Investicni spolecnost Ceske sporitelny, a.s., PF1-otevreny podilovy fond	Prag	98.0
BCR Fleet Management SRL	Bukarest	69.3
Investicni spolecnost Ceske sporitelny, a.s., PF2-otevreny podilovy fond	Prag	98.0
HEBRA Holding GmbH	Wien	100.0
Capexit Private Equity Invest GmbH	Wien	100.0
Capexit Beteiligungs Invest GmbH	Wien	100.0
Procurement Services RO srl	Bukarest	99.9

Company name, registered office		Interest of Erste Group in %
Erste Finance (Jersey) Limited III	St. Helier	100.0
Czech TOP Venture Fund B.V.	Groesbeek	82.6
Erste Finance (Jersey) Limited V	St. Helier	100.0
Erste Finance (Jersey) Limited IV	St. Helier	100.0
Erste Finance (Jersey) 6 Limited	St. Helier	100.0
Erste Capital Finance (Jersey) PCC	St. Helier	100.0
EBV-Beteiligungen GmbH	Wien	100.0
s Wohnbauträger GmbH	Wien	90.9
Erste Kereskedohaz Kft.	Budapest	100.0
"Sparkassen-Haftungs Aktiengesellschaft"	Wien	43.0
LANED a.s.	Bratislava	100.0
Informatika Ceske sporitelny, a.s.	Prag	98.0
Beta-Immobilienvermietung GmbH	Wien	100.0
DIE ERSTE Immobilienvermietungsgesellschaft m.b.H.	Wien	100.0
s IT Solutions AT Spardat GmbH	Wien	82.1
EB-Beteiligungsservice GmbH	Wien	99.9
Erste Ingatlan Fejleszto, Hasznosito es Mernoki Kft. (vm. PB Risk Befektetesi es Szolgaltato Kft).	Budapest	100.0
Dezentrale IT-Infrastruktur Services GmbH	Wien	82.1
ERSTE-DAT Informatikai Tanacsado es Szolgaltato Kft.	Budapest	100.0
CSSC Customer Sales Service Center GmbH	Wien	57.2
s Haftungs- und Kundenabsicherungs GmbH	Wien	63.4
s Wohnfinanzierung Beratungs GmbH	Wien	75.5
CS Investment Limited	St. Peter Port	98.0
OM Objektmanagement GmbH	Wien	100.0
s IT Solutions SK, spol. s r.o.	Bratislava	99.5
MBU d.o.o.	Zagreb	67.4
ÖCI-Unternehmensbeteiligungsgesellschaft.m.b.H.	Wien	99.2
Procurement Services GmbH	Wien	99.9
Derop B.V.	Amsterdam	100.0
Sparkassen Zahlungsverkehrsabwicklungs GmbH	Linz	57.6
EB-Restaurantsbetriebe Ges.m.b.H.	Wien	100.0
S-Tourismusfonds Management Aktiengesellschaft	Wien	100.0
Erste Finance (Delaware) LLC	City of Wilmington	100.0
Financiara SA	Bukarest	67.6
SC Bucharest Financial Plazza SRL	Bukarest	69.4
Erste Ingatlanlizing Penzügyi Szolgaltato Zrt.	Budapest	100.0
Procurement Services CZ s.r.o.	Prag	99.1
Procurement Services SK s.r.o.	Bratislava	99.9
Procurement Services HU Kft.	Budapest	99.9
Procurement Services Zagreb d.o.o.	Zagreb	99.9
Informations-Technologie Austria SK, spol. s r.o.	Bratislava	100.0
s IT Solutions CZ, s.r.o.	Prag	99.2
s IT Solutions HR drustvo s ogranicenom odgovornoscu za usluge informacijskih tehnologija	Bjelovar	93.9
s IT Solutions Holding GmbH	Wien	100.0
GRANTIKA Ceske sporitelny, a.s.	Brünn	98.0
Euro Dotacie, a.s.	Zilina	64.7
Flottenmanagement GmbH	Wien	51.0
Gladiator Leasing Limited	Sliema	99.9
good.bee Service RO SRL	Bukarest	69.4
BCR Real Estate Management SRL	Bukarest	69.4
Sparkasse Kufstein Immobilien GmbH & Co KG	Kufstein	0.0
BCR Finance BV	Amsterdam	69.4
BCR Procesare SRL	Bukarest	69.4
s ASG Sparkassen Abwicklungs- und Servicegesellschaft mbH	Graz	25.0
Erste GCIB Finance I B.V.	Amsterdam	100.0

Company name, registered office		Interest of Erste Group in %
Erste Group Services GmbH	Wien	100.0
PARTNER CESKE SPORITELNY, A.S.	Prag	98.0
SUPORT COLECT SRL	Bukarest	69.4
Erste Lakaslizing Zrt.	Budapest	100.0
Erste Group Shared Services (EGSS), s.r.o.	Hodorun	99.2
Haftungsverbund GmbH	Wien	63.4
AWEKA - Kapitalverwaltungsgesellschaft m.b.H.	Graz	25.0
LIEGESA Immobilienvermietung GmbH Nfg OHG	Graz	25.0
BRS Büroreinigungsgesellschaft der Steiermärkischen Bank und Sparkassen Aktiengesellschaft Gesellschaft m.b.H.	Graz	25.0
SVD-Sparkassen-Versicherungsdienst Versicherungsbörse Nachfolge GmbH & Co. KG	Innsbruck	75.0
KS-Beteiligungs- und Vermögens-Verwaltungsgesellschaft m.b.H.	Klagenfurt	25.0
"Die Kärntner" Trust-Vermögensberatungsgesellschaft m.b.H.	Villach	25.0
KS - Dienstleistungsgesellschaft m.b.H.	Klagenfurt	25.0
Immobilienverwertungsgesellschaft m.b.H.	Klagenfurt	25.0
Sparkasse S d.o.o.	Laibach	25.0
Erste Reinsurance S.A.	Howald	100.0
Quest Investment Services Limited	Sliema	0.0

Company name, registered office		Interest of Erste Group in %
Associates accounted for at equity		
Credit institutions		
"Spar - Finanz" - Investitions- und Vermittlungs-Aktiengesellschaft	Wien	50.0
Prvá stavebná sporitelna, a.s.	Bratislava	35.0
NÖ Bürgschaften GmbH	Wien	25.0
Intermarket Bank AG	Wien	25.2
PayLife Bank GmbH (vorm. Europay Austria Zahlungsverkehrssysteme GmbH)	Wien	18.4
NÖ Beteiligungsfinanzierungen GmbH	Wien	30.0
Other financial institutions		
E-C-A-Holding Gesellschaft m.b.H.	Wien	65.5
E-C-B Beteiligungsgesellschaft.m.b.H.	Wien	24.7
Eurolease Immorent Grundverwertungsgesellschaft m.b..H.	Wien	46.3
Steirische Leasing für öffentliche Bauten Gesellschaft m.b.H.	Graz	50.0
IMMORENT-HUBI Grundverwertungsgesellschaft m.b.H.	Wien	31.3
Tiroler Kommunalgebäudeleasing Gesellschaft m.b.H.	Innsbruck	33.3
TKL II. Grundverwertungsgesellschaft m.b.H.	Innsbruck	33.3
TKL III Grundverwertungsgesellschaft m.b.H.	Innsbruck	33.3
TKL IV Grundverwertungsgesellschaft m.b.H.	Innsbruck	33.3
Quirinal Grundstücksverwaltungs Gesellschaft m.b.H.	Wien	33.3
AVION-Grundverwertungsgesellschaft m.b.H.	Wien	50.0
Esquilin Grundstücksverwaltungs Gesellschaft m.b.H.	Wien	25.0
Viminal Grundstücksverwaltungs Gesellschaft m.b.H.	Wien	25.0
IMMORENT-APOLLO Grundverwertungsgesellschaft m.b.H.	Wien	31.2
Steirische Gemeindegebäude Leasing Gesellschaft m.b.H.	Graz	50.0
Epsilon - Grundverwertungsgesellschaft m.b.H.	Wien	50.0
Vorarlberger Kommunalgebäudeleasing Gesellschaft m.b.H.	Dornbirn	33.3
VKL II Grundverwertungsgesellschaft m.b.H.	Dornbirn	33.3
VKL III Gebäudeleasing-Gesellschaft m.b.H.	Dornbirn	33.3
Steirische Kommunalgebäudeleasing Gesellschaft m.b.H.	Graz	50.0
CALDO Grundstücksverwertungsgesellschaft m.b.H.	Wien	31.2
Schul- und Amtsgebäude Grundstücksverwaltungsgesellschaft m.b.H.	Graz	33.3
Schulerrichtungsgesellschaft m.b.H.	Wien	41.3
Steirische Leasing für Gebietskörperschaften Gesellschaft m.b.H.	Graz	50.0
SWO Kommunalgebäudeleasing Gesellschaft m.b.H.	Wien	50.0
ILION-IMMORENT Grundverwertungsgesellschaft m.b.H.	Wien	28.8
VALET-Grundstückverwaltungs Gesellschaft m.b.H.	Wien	25.0
"SELIMMO" - Sparkasse Mühlviertel-West - DIE ERSTE Leasing - Immobilienvermietung GmbH	Rohrbach	69.4
DIE ERSTE Leasing & VKB Immobilien Vermietungsgesellschaft m.b.H.	Wien	50.0
TRABITUS Grundstückvermietungs Gesellschaft m.b.H.	Wien	25.0
Adoria Grundstückvermietungs Gesellschaft m.b.H.	Wien	25.0
ALTOS-Immorent Immobilienleasing GmbH	Wien	33.3
N.Ö. Kommunalgebäudeleasing Gesellschaft m.b.H.	Wien	28.4
Aventin Grundstücksverwaltungs Gesellschaft m.b.H.	Horn	25.0
N.Ö. Gemeindegebäudeleasing Gesellschaft m.b.H.	Wien	33.4
O.Ö. Gemeindegebäude-Leasing Gesellschaft m.b.H.	Linz	50.0
SUPRIA Raiffeisen-Immobilien-Leasing Gesellschaft m.b.H.	Wien	50.0
O.Ö. Kommunalgebäude-Leasing Gesellschaft m.b.H.	Linz	40.0
TKL V Grundverwertungsgesellschaft m.b.H.	Innsbruck	33.3
Rembra Leasing Gesellschaft m.b.H.	Wien	50.0
NÖ-KL Kommunalgebäudeleasing Gesellschaft m.b.H.	Wien	28.4
Immorent-Hypo-Rent Grundverwertungsgesellschaft m.b.H.	Innsbruck	50.0
Immoconsult "Citycenter" Leasinggesellschaft m.b.H.	Wien	24.5
RL DANTE Mobilien-Leasing GmbH	Wien	20.0
MELIKERTES Raiffeisen-Mobilien-Leasing Gesellschaft m.b.H.	Wien	20.0

Company name, registered office		Interest of Erste Group in %
WASHINGTON PROEKT OOD	Sofia	50.0
IMMOKIK SRL	Bukarest	49.0
Other		
Garage Eisenstadt Betriebsgesellschaft m.b.H.	Wien	50.0
OSTRE Infrastruktur Entwicklungs- und Beteiligungs GmbH	Wien	33.3
ISP Immobilienentwicklungs- und -verwertungsgesellschaft m.b.H.	Wien	42.3
Bio-Wärme Scheifling GmbH	Schefling	49.0
Budapark Estate 2005 Kft.	Budaörs	42.0
Sparkassen Immobilien AG	Wien	9.0
Immobilien West Aktiengesellschaft	Salzburg	49.3
ASC Logistik GmbH	Wien	24.0
VERMREAL Liegenschaftserwerbs- und -betriebs GmbH	Wien	25.6
ERSTE d.o.o.	Zagreb	34.7
RSV Beteiligungs GmbH	Wien	33.3
LTB Beteiligungs GmbH	Wien	25.0
FINEP Jegeho alej a.s.	Bratislava	3.3
SATPO Sacre Coeur, s.r.o.	Prag	5.0
VBV - Betriebliche Altersvorsorge AG	Wien	26.9
SATPO Na Malvazinkach, a.s.	Prag	5.0
SATPO Svedska s.r.o.	Prag	5.0
Gelup GesmbH	Wien	31.7
KWC Campus Errichtungsgesellschaft m.b.H.	Klagenfurt	12.5
Office Center Stodulky GAMA a.s.	Prag	39.2
STRAULESTI PROPERTY DEVELOPMENT SRL	Bukarest	50.0
TRGOVINSKI CENTAR ZADAR - FAZA 2 d.o.o.	Zadar	50.0
APHRODITE Bauträger Aktiengesellschaft	Wien	45.5
Slovak Banking Credit Bureau, s.r.o.	Bratislava	33.3
Informations-Technologie Austria GmbH	Wien	42.2

Company name, registered office		Interest of Erste Group in %
Other investments		
Other financial institutions		
good.bee Holding GmbH	Wien	60.0
WIEPA-Vermögensverwaltungsgesellschaft m.b.H.	Dornbirn	0.0
Vorarlberger Sparkassen Beteiligungs GmbH	Dornbirn	0.0
SPKB Beteiligungs- und Verwaltungsgesellschaft m.b.H.	Bregenz	0.0
Sparkasse Niederösterreich Mitte West Beteiligungsgesellschaft m.b.H.	St. Pölten	0.0
Aviso Gamma GmbH	Wien	23.8
IMMORENT-NÖ Sparkassen-Leasing Gesellschaft m.b.H.	Wien	42.7
Sapor Beteiligungsverwaltungs GmbH	Wien	100.0
KERES-Immorent Immobilienleasing GmbH	Wien	25.0
HOSPES-Grundstückverwaltungs Gesellschaft m.b.H.	St. Pölten	15.0
IMMORENT Ostrava I. s.r.o.	Prag	100.0
CTP Herspicka spol. s.r.o.	Prag	100.0
DINESIA a.s.	Prag	98.0
Karasita s.r.o. v likvidácii (vm. CF Danube Leasing, s.r.o.)	Bratislava	98.0
SPARKASSE Bauholding Gesellschaft m.b.H.	Salzburg	98.7
IMMORENT West Gesellschaft m.b.H.	Innsbruck	100.0
Sparkasse Bauholding Leasing I GmbH	Salzburg	98.7
Sparkasse Bauholding Leasing II GmbH	Salzburg	98.2
Sparkasse Bauholding Leasing III GmbH	Salzburg	98.2
Sparkasse Bauholding Leasing V GmbH	Salzburg	98.7
Österreichisches Volkswohnungswerk, Gemeinnützige Gesellschaft mit beschränkter Haftung	Wien	100.0
S-Leasing d.o.o., Sarajevo	Sarajevo	24.9
Waldviertler Sparkasse von 1842 Leasing GmbH	Waidhofen an der Thaya	0.0
Waldviertler Leasing s.r.o.	Jindrichuv Hradec	0.0
S-Leasing d.o.o., Skopje	Skopje	25.0
Company for Investment Funds Management "Erste Invest" a.d. Belgrade	Belgrad	100.0
Allgemeine Sparkasse Mobilienleasing Gesellschaft m.b.H.	Wien	26.9
AS-WECO 4 Grundstückverwaltung Gesellschaft m.b.H.	Salzburg	27.2
WEST CONSULT Grundstückverwaltung IV Gesellschaft m.b.H.	Salzburg	20.2
Allgemeine Sparkasse Immobilienleasing Projekt Volkshaus Keferfeld/Oed Gesellschaft m.b.H.	Salzburg	26.9
S - Leasing und Vermögensverwaltung - Gesellschaft m.b.H.	Peuerbach	0.0
ILGES - Immobilien- und Leasing - Gesellschaft m.b.H.	Rohrbach	40.0
Lorit Immobilien Leasing Gesellschaft m.b.H.	Wien	56.2
Grema - Grundstückverwaltung Gesellschaft m.b.H.	Innsbruck	75.0
S MORAVA Leasing, a.s.	Znaim	99.5
WNI Wiener Neustädter Immobilienleasing Ges.m.b.H.	Wiener Neustadt	0.0
S Slovensko s.r.o.	Bratislava	99.5
VKL IV Leasinggesellschaft mbH	Dornbirn	23.3
C.I.M. Unternehmensbeteiligungs- und Anlagenvermietungs GmbH	Wien	33.3
TKL VI Grundverwertungsgesellschaft m.b.H.	Innsbruck	28.2
TKL VII Grundverwertungsgesellschaft m.b.H.	Innsbruck	28.4
O.Ö. Leasing für Gebietskörperschaften Ges.m.b.H.	Linz	33.3
O.Ö. Leasing für öffentliche Bauten Gesellschaft m.b.H.	Linz	33.3
TKL VIII Grundverwertungsgesellschaft m.b.H.	Innsbruck	33.3
VKL V Immobilien Leasinggesellschaft m.b.H.	Dornbirn	23.3
Objekt-Lease Grundstücksverwaltungs-Gesellschaft m.b.H.	Wien	50.0
O.Ö. Kommunal-Immobilienleasing GmbH	Linz	40.0
CULINA Grundstücksvermietungs Gesellschaft m.b.H.	St. Pölten	25.0
UNDA Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	25.0
FORIS Grundstücksvermietungs Gesellschaft m.b.H.	St. Pölten	25.0
CONATUS Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	25.0
LITUS Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	25.0

Company name, registered office		Interest of Erste Group in %
Tiroler Landesprojekte Grundverwertungs GmbH	Innsbruck	33.3
VOLUNTAS Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	35.0
UNIQA Immobilien-Projekterrichtungs GmbH	Wien	33.3
Seilbahnleasing GmbH	Innsbruck	33.3
IMMORENT Deutschland GmbH	Pöcking	50.0
EFH-Beteiligungsgesellschaft m.b.H.	Wien	50.0
Neue Eisenstädter gemeinnützige Bau-, Wohn- und Siedlungsgesellschaft m.b.H.	Eisenstadt	50.0
STUWO Gemeinnützige Studentenwohnbau Aktiengesellschaft	Wien	50.3
Fondul de Garantare a Creditului Rural IFN SA	Bukarest	23.1
VISA INC.	Wilmington	0.0
"Wohnungseigentum", Tiroler gemeinnützige Wohnbaugesellschaft m.b.H.	Innsbruck	19.1
NÖ. HYPO LEASING - Sparkasse Region St. Pölten Grundstücksvermietungs Gesellschaft m.b.H.	St. Pölten	0.0

Company name, registered office		Interest of Erste Group in %
IMMORENT S-Immobilienmanagement GesmbH	Wien	100.0
Immorent-Delta-Grundstücksverwertungsgesellschaft m.b.H.	Wien	92.5
AWEKA-Beteiligungsgesellschaft m.b.H.	Wien	25.0
CITY REAL Immobilienbeteiligungs- und Verwaltungsgesellschaft mbH & Co KG	Graz	25.8
Innovationspark Graz-Puchstraße GmbH	Graz	51.0
HBF Eins Holding GmbH	Wien	100.0
HBF Eins Alpha Projektentwicklungs GmbH	Wien	100.0
HBF Zwei Beta Projektentwicklungs GmbH	Wien	100.0
HBF Drei Gamma Projektentwicklungs GmbH	Wien	100.0
HBF Vier Delta Projektentwicklungs GmbH	Wien	100.0
ML-Mobilienleasing Gesellschaft m.b.H.	Wien	100.0
Immorent-Mobilienvermietungsgesellschaft m.b.H. & Co Leasing 89 KG	Wien	100.0
"Immo - Rent" Liegenschaftsanlage und Verwaltung Gesellschaft m.b.H. & Co.KG.	Wien	100.0
IBF-Anlagenleasing 93 Gesellschaft m.b.H.	Wien	100.0
GZ-Finanz Leasing Gesellschaft m.b.H.	Wien	100.0
Immorent Beteiligungs- und Mobilienleasing GmbH	Wien	100.0
IBF 96 Beteiligungs- und Leasinggesellschaft m.b.H.	Wien	100.0
DIE ERSTE Mobilienleasing- und Beteiligungsgesellschaft m.b.H.	Wien	100.0
Sporthotel Wagrain Betriebs- und Leasinggesellschaft m.b.H.	Wien	100.0
Hotel- und Sportstätten Beteiligungs-, Errichtungs- und Betriebsgesellschaft m.b.H. Leasing KG	St. Pölten	54.5
UGRON Vermietung GmbH	Klagenfurt	90.0
Genesis Private Equity Fund 'B' L.P.	St. Peter Port	98.0
Sparkassen IT Holding AG	Wien	29.3
Erste Private Equity Limited	London	100.0
F&S Finance and Service Leasing GmbH	Fellbach-Schmiden	90.0
ÖVW-Bauträger GmbH	Wien	100.0
MEG-Liegenschaftsverwaltungsgesellschaft m.b.H.	Wien	100.0
Dolomitencenter Verwaltungs GmbH	Lienz	50.0
Luitpoldpark-Hotel Betriebs- und Vermietungsgesellschaft mbH	Füssen	71.2
Realitni spolecnost Ceske sporitelny, a.s.	Prag	98.0
AGRI-BUSINESS Kft. (in Konkurs)	Hegyeshalom	100.0
Kleinkraftwerke Betriebsgesellschaft m.b.H.	Wien	100.0
Kraftwerksmanagement GmbH	Wien	100.0
Planung und Errichtung von Kleinkraftwerken Aktiengesellschaft	Wien	82.7
Unzmarkter Kleinkraftwerk-Aktiengesellschaft	Wien	81.4
SZG-Dienstleistungsgesellschaftm.b.H.	Salzburg	98.7
LINEA Beteiligungs-Gesellschaft m.b.H.	Wien	100.0
Erste Corporate Finance GmbH	Wien	100.0
PARAGON Hotelbetriebs GmbH (vm. REMACO)	Wien	87.4
S-Vermögensanlagegesellschaft m.b.H.	Linz	26.9
EB-Grundstücksbeteiligungen GmbH	Wien	100.0
SPV - Druck Gesellschaft m.b.H	Wien	99.9
Erste Group Beteiligungen GmbH	Wien	100.0
EBSPK-Handelsgesellschaft m.b.H.	Wien	29.3
MUNDO FM & S GmbH	Wien	100.0
Sparkassen - Betriebsgesellschaft mbH.	Linz	27.0
Balance Resort AG (vm. Wellness Hotel Stegersbach)	Stegersbach	72.9
Hotel Corvinus Gesellschaft m.b.H. & Co KG	Wien	100.0
Hochkönig Bergbahnen Ges.m.b.H	Mühlbach am Hochkönig	54.9
EBB Hotelbetriebs GmbH	Imst	100.0
Vasudvar Hotel Kft.1	Budapest	100.0
Latifundium Holding Ges.m.b.H.	Wien	100.0
UBG-Unternehmensbeteiligungsgesellschaft m.b.H.	Wien	100.0
Sparkasse Imst Immobilienverwaltung GmbH	Imst	0.0
Erste Finance Malta Limited	Sliema	100.0

Company name, registered office		Interest of Erste Group in %
Bad Leonfelden Hotelbetriebs Gesellschaft mbH	Wien	63.4
BL Hotel Beteiligungs GmbH	Rohrbach	69.4
Sparkasse Reutte Liegenschaftsverwertungs GmbH	Reutte	0.0
Respa GmbH	Kempten	0.0
RVG Czech, s.r.o.	Prag	10.0
Frankenmarkter Errichtungs- und Finanzierungsgesellschaft m.b.H.	Frankenmarkt	0.0
SN - Biogas GmbH	St. Pölten	0.0
HV-Veranstaltungsservice GmbH	Wien	100.0
EGB Property Holding GmbH	Wien	100.0
Argentum Immobilienverwertungs Ges.m.b.H.	Linz	26.9
Koflergasse 10 Liegenschaftsbesitz GmbH	St. Pölten	0.0
Fejer- Kondor Immobilienverwaltungsgesellschaft m.b.H.	Budapest	4.6
Baut auf Werbe GmbH	St. Pölten	0.0
S Servis, s.r.o.	Znaim	99.5
BioEnergie Stainach GmbH	Stainach	25.0
BioEnergie Stainach GmbH & Co KG	Stainach	25.0
Erste Campus Mobilien GmbH & Co KG	Wien	100.0
ESB Holding GmbH	Wien	69.3
Erste Campus Mobilien GmbH	Wien	100.0
EH-Beta Holding GmbH	Wien	100.0
EBB-Delta Holding GmbH	Wien	100.0
CTP Infrastruktura, spol.s.r.o.	Prag	100.0
Beteiligungs- Vermögensverwaltungs- und Treuhand- Gesellschaft m.b.H.	Graz	25.0
Schauersberg Immobilien Gesellschaft m.b.H.	Graz	25.0
Kreco Realitäten Aktiengesellschaft	Wien	19.7
Seniorenresidenz "Am Steinberg" GmbH	Graz	25.0
RTG Tiefgaragenerrichtungs und -vermietungs GmbH	Graz	25.0
BVT Immobilien GmbH	Graz	25.0
SBS Beteiligungs GmbH	Graz	25.0
Sparkasse Hartberg-Vorau Vermögensverwaltungs-Gesellschaft m.b.H.	Hartberg	25.0
CITY REAL Immobilienbeteiligungs- und Verwaltungsgesellschaft mbH	Graz	25.0
Realitäten und Wohnungsservice Gesellschaft m.b.H.	Köflach	4.8
"SIMM" Liegenschaftsverwertungsgesellschaft m.b.H.	Graz	25.0
Sparkassen - Reisebüro Gesellschaft m.b.H.	Linz	26.9
AS LEASING Gesellschaft m.b.H.	Linz	26.9
Sport- und Freizeitanlagen Gesellschaft m.b.H.	Schwanenstadt	8.9
LV Holding GmbH	Linz	44.0
TYROLTRADE Handelsgesellschaft m.b.H.	Innsbruck	75.0
LBH Liegenschafts- und Beteiligungsholding GmbH	Innsbruck	75.0
ISPA-Beteiligungsgesellschaft m.b.H.	Kempten	75.0
SPAKO Holding GmbH	Innsbruck	75.0
Schmied von Kochel Beteiligungsverwaltungs-GmbH	München	75.0
JM Seebensee Baugesellschaft mbH & Co KG	Innsbruck	74.2
TIRO Bauträger GmbH	Innsbruck	75.0
Fuselage Finance Ltd.	Hamilton	75.0
Grundstücksverwertungsgesellschaft mbH Objekt Oggenhof	München	75.0
Rätikon-Center Errichtungs- und Betriebsgesellschaft m.b.H.	Bludenz	0.0
Sparkassen Bankbeteiligungs GmbH	Dornbirn	0.0
WBV Beteiligungs- und Vermögensverwaltungsgesellschaft m.b.H.	Feldkirch	0.0
Sparkasse Bludenz Beteiligungsgesellschaft mbH	Bludenz	0.0
Sparkasse Bludenz Immoblienverwaltungsgesellschaft mbH	Bludenz	0.0
Camping- und Freizeitanlagen Betriebsgesellschaft m.b.H.	St. Pölten	0.0
Sparkasse Niederösterreich Mitte West Stadtentwicklungs GmbH	St. Pölten	0.0
S-Haugsdorf s.r.o.	Hodonice	0.0
SM-Immobiliengesellschaft m.b.H.	Melk	0.0

Company name, registered office		Interest of Erste Group in %
S-Commerz Beratungs- und Handelsgesesellschaft m.b.H.	Neunkirchen	0.0
S-Real, Realitätenvermittlungs- und -verwaltungs Gesellschaft m.b.H.	Wiener Neustadt	0.0
Thayatal Hotel- und Golfanlagen Errichtungs- und Betriebsgesellschaft m.b.H.	Waidhofen an der Thaya	0.0
S IMMOKO Holding GesmbH	Korneuburg	0.0
BTV-Beteiligungs-, Treuhand-, Vermögens-Verwaltungsgesellschaft m.b.H.	Klagenfurt	25.0
C.I.M. Beteiligungen 1998 GmbH	Wien	41.1
C.I.M. Verwaltung und Beteiligungen 1999 GmbH	Wien	26.7
SALIX-Grundstückserwerbs Ges.m.b.H.	Eisenstadt	50.0
EBG Europay Beteiligungs-GmbH	Wien	22.4
AREALIS Liegenschaftsmanagement GmbH	Wien	50.0
Darius Handels-, Produktions- u. Dienstleistungs(gesellschaft) Aktiengesellschaft in Liquidation	Tatabanya	27.1
Kisvallalkozas-fejlesztö Penzügyi Zrt.	Budapest	1.1
Finance New Europe B.V.	KJ Groesbeek	40.4
FINTEC-Finanzierungsberatungs- und Handelsgesellschaft m.b.H.	Wien	25.0
GIRO Elszámolásforgalmi Zrt.	Budapest	8.3
Gemdat Niederösterreichische Gemeinde-Datenservice Gesellschaft m. b. H.	Korneuburg	1.5
Garantiqa Hitelgarancia Zrt.	Budapest	3.5
SVI-EDV-Programmentwicklungsgesellschaft m. b. H.	Wien	23.5
Tellerrand Zukunftsförderung GesbR mit Anteilshaftung	Wien	14.3
Agentia bursiera SIS & Co. SA i.Liqu.	Bukarest	13.9
Newstin, a.s.	Prag	17.5
Öhlknecht-Hof Errichtungs- und Verwaltungsgesellschaft m.b.H.	Horn	0.0
All in Red Hotelbetrieb GmbH & Co KG in Liqu.	Lutzmannsburg	38.9
Reuttener Seilbahnen GmbH & CO KG	Höfen	0.0
Reuttener Seilbahnen GmbH	Höfen	0.0
ÖKO-Heizkraftwerk GmbH	Pöllau	0.0
ÖKO-Heizkraftwerk GmbH & Co KG	Pöllau	0.0
students4excellence GmbH	Wien	20.0
SJESEN s.r.o. v likvidaci	Prag	5.0
ländleticket marketing gmbh	Bregenz	0.0
GEMDAT Oberösterreichische Gemeinde-Datenservice Gesellschaft m.b.H.	Linz	13.2
GEMDAT Oberösterreichische Gemeinde-Datenservice Gesellschaft m.b.H. & Co.KG	Linz	14.7
ROMANIAN EQUITY PARTNERS COÖPERATIEF U.A.	Amsterdam	33.3
Gewerbe- und Dienstleistungspark der Gemeinde Bad Radkersburg und Radkersburg-Umgebung Kommanditgesellschaft	Bad Radkersburg	4.6
Kabel-TV MITTLERES MÜRZTAL Gesellschaft m.b.H.	Kindberg	6.3
GWS Gemeinnützige Alpenländische Gesellschaft für Wohnungsbau und Siedlungswesen m.b.H.	Graz	7.5

Company name, registered office		Interest of Erste Group in %
Weizer Energie-Innovations-Zentrum GmbH	Weiz	6.0
Technologiezentrum Deutschlandsberg GmbH	Deutschlandsberg	7.3
Erz und Eisen Regional Entwicklungs GmbH	Eisenerz	6.5
AU-VISION Entwicklungs-GmbH	Leoben	28.4
RegioZ Regionale Zukunftsmanagement und Projektentwicklung Ausseerland Salzkammergut GmbH	Bad Aussee	5.0
Technologiezentrum Kapfenberg Vermietungs-GmbH	Kapfenberg	6.0
Steirischer Technologie- und Wachstumsfonds Beteiligungen AG	Graz	7.4
Tiefgaragen GmbH	Wels	5.7
Golf Ressort Kremstal Gesellschaft m.b.H. & Co. KG.	Kematen an der Krems	0.0
Golf Ressort Kremstal Gesellschaft m.b.H.	Kematen an der Krems	0.0
B.A.O. Immobilienvermietungs GmbH	Wien	9.0
Fidelio Beteiligungs AG	Wien	10.8
Lantech Innovationszentrum GesmbH	Landeck	0.0
S-Immobilien Gesellschaft m.b.H.	Bregenz	0.0
P3-Kabel-news GmbH	St. Pölten	0.0
Musikkonservatoriumserrichtungs- und vermietungsgesellschaft m.b.H.	St. Pölten	0.0
Geschützte Werkstätte St. Pölten Gesellschaft m.b.H.	St. Pölten-Hart	0.0
Hollawind - Windkraftanlagenerrichtungs- und Betreibergesellschaft mit beschränkter Haftung	Göllersdorf	24.9
Langenloiser Liegenschaftsverwaltungs-Gesellschaft m.b.H.	Langenlois	0.0
S-City Center Wirtschaftsgütervermietungsgesellschaft m.b.H.	Wiener Neustadt	0.0
E-H Liegenschaftsverwaltungs-GmbH	Etsdorf am Kamp	0.0
Erste Corporate Finance, a.s.	Prag	98.5
ESPA- Financial Advisors GmbH	Wien	84.2
ERSTE-SPARINVEST Deutschland Ges.m.b.H.	Zorneding	100.0
EGB-Service CEE GmbH	Wien	100.0
good.bee credit I.F.N. S.A.	Bukarest	29.4
Sparkasse Kufstein Immobilien GmbH	Kufstein	0.0
s Real Sparkasse nepremicnine d.o.o.	Laibach	51.5
Sparkasse Lambach Versicherungsmakler GmbH	Lambach	0.0
Sparkasse Mühlviertel-West Holding GmbH	Rohrbach	40.0
ILGES - Liegenschaftsverwaltung G.m.b.H.	Rohrbach	40.0
Sparkassen Facility Management GmbH	Innsbruck	75.0
Sparkasse Imst Immobilienverwaltung GmbH & Co KG	Imst	0.0
S-Finanzservice Gesellschaft m.b.H.	Baden	0.0
S-Real Morava spol. s.r.o.	Znaim	99.5
SK - Betriebsgesellschaft m.b.H.	Krems an der Donau	0.0
SK - Immobiliengesellschaft m.b.H.	Krems an der Donau	0.0
SK - Betriebsgesellschaft m.b.H. & Co KG	Krems an der Donau	0.0
Sparfinanz-, Vermögens-, Verwaltungs- und Beratungs- Gesellschaft m.b.H.	Wiener Neustadt	0.0
ZWETTLER LEASING Gesellschaft m.b.H.	Zwettl	0.0
S-Immobilien Weinviertler Sparkasse GmbH	Hollabrunn	99.5
"Die Kärntner" - Förderungsgesellschaft für das Gurktal Gesellschaft m.b.H.	Gurk	25.0
"Die Kärntner"-Förderungs- und Beteiligungsgesellschaft für den Bezirk Wolfsberg Gesellschaft m.b.H.	Wolfsberg	25.0
"Die Kärntner"-BTWF-Beteiligungs- und Wirtschaftsförderungsgesellschaft für die Stadt St. Veit/Glan Gesellschaft m.b.H.	St. Veit a. d. Glan	25.0
"Die Kärntner - Förderungs- und Beteiligungsgesellschaft für die Stadt Friesach Gesellschaft m.b.H.	Friesach	25.0
Die Kärntner Sparkasse - Förderungsgesellschaft für den Bezirk Hermagor Gesellschaft m.b.H.	Hermagor	25.0
MasterCard Incorporated	Purchase	0.0
EBV-Leasing Gesellschaft m.b.H.	Wien	50.0
CBCB-Czech Banking Credit Bureau, a.s.	Prag	19.6
Prvni certifikacni autorita, a.s.	Prag	22.8
Österreichische Wertpapierdaten Service GmbH	Wien	32.7
Visa Europe Limited	London	0.0

Biroul de credit SA	Bukarest	16.8
Aldebaran Leasing Limited	Road Town, Tortola	50.0
Finanzpartner GmbH	Wien	50.0
Egg Investment GmbH	Egg	0.0
ERSTE Vienna Insurance Group Biztosito Zrt.	Budapest	5.0

Vienna, 1 March 2011

The Management Board

Andreas Treichl mp
Chairman

Franz Hochstrasser mp
Vice Chairman

Herbert Juranek mp
Member

Gernot Mittendorfer mp
Member

Martin Škopek mp
Member

Bernhard Spalt mp
Member

Manfred Wimmer mp
Member

AUDITOR´S REPORT (REPORT OF THE INDEPENDENT AUDITORS)[1)]

REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

Sparkassen-Prüfungsverband and Ernst & Young Wirtschaftsprüfungsgesellschaft m.b.H., Vienna, have audited the accompanying consolidated financial statements of Erste Group Bank AG, Wien and its subsidiaries (hereinafter referred to as "the Company"), for the financial year from 1 January 2010 to 31 December 2010. These consolidated financial statements comprise the consolidated balance sheet as at 31 December 2010, and the consolidated statement of comprehensive income, the consolidated cash flow statement and the consolidated statement of changes in equity for the year ended 31 December 2010, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Consolidated Financial Statements and for the Group Accounting

The management of Erste Group Bank AG is responsible for the group accounting as well as the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility and Description of the Type and Extent of the Statutory Audit

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with laws and regulations applicable in Austria and in accordance with International Standards on Auditing, issued by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

Our audit did not give rise to any objections. Based on the results of our audit in our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the group as of 31 December 2010, and of its financial performance and its cash flows for the financial year from 1 January 2010 to 31 December 2010 in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.

Statement on the Consolidated Management Report

Laws and regulations applicable in Austria require us to perform audit procedures to determine whether the consolidated management report is consistent with the consolidated financial statements and whether the other disclosures made in the consolidated management report are misleading to the group's position. The audit report must also include a statement as to whether the consolidated management report is consistent with the consolidated financial statements and if the disclosures pursuant to section 243a UGB are appropriate. In our opinion, the consolidated management report for the group is consistent with the consolidated financial statements. The disclosures pursuant to section 243a UGB are appropriate.

Vienna, 1 March 2011

Sparkassen-Prüfungsverband
(Prüfungsstelle)
(Austrian Savings Bank Auditing Association)
(Audit Agency)
(Bank auditor)

Gerhard Margetich mp
Certified Public Accountant

Herwig Hierzer mp
Revisor

Ernst & Young
Wirtschaftsprüfungsgesellschaft m.b.H.

Gerhard Grabner mp
Certified Public Accountant

Elisabeth Glaser mp
Certified Public Accountant

1) The report (in the German language, or translations into another language, including shortened or amended versions) may not be made public or used by third parties, when reference is made in part or in whole to the auditor's report, without the express written consent of the auditors.

STATEMENT OF ALL MEMBERS OF THE MANAGEMENT BOARD

We confirm to the best of our knowledge that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the group as required by the applicable accounting standards and that the group management report gives a true and fair view of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties the Group faces.

Vienna, 1 March 2011

The Management Board

Andreas Treichl mp
Chairman

Franz Hochstrasser mp
Vice Chairman

Herbert Juranek mp
Member

Gernot Mittendorfer mp
Member

Martin Škopek mp
Member

Bernhard Spalt mp
Member

Manfred Wimmer mp
Member

Glossary

Average total shareholder return
Average of the annual total shareholder returns since the IPO in 1997.

Book value per share
Total equity attributable to owner of the parent, of a public company divided by the number of shares outstanding excluding treasury shares.

Cash return on equity
Also referred to as cash-ROE. Calculated as return on equity, but excluding the impact of non-cash items on net profit for the year attributable to owners of the parent such as goodwill impairment and amortisation of customer relationships.

Cash earnings per share
Calculated as earnings per share, but excluding the impact of non-cash items on net profit for the year attributable to owners of the parent, such as goodwill impairments and amortisation of customer relationships.

CEE (Central and Eastern Europe)
Covers the new member states of the EU that joined in 2004 and 2007 as well as the CIS countries and the states that evolved from the former Yugoslavia.

Core tier-1 ratio (total risk in %)
The ratio of tier-1 capital (excluding hybrid capital pursuant to section 23 (4a) and (4b) Banking Act) after regulatory deductions to the calculation base for the capital requirement pursuant to Section 22 (1) Banking Act.

Cost/Income Ratio
General administrative expenses as a percentage of operating income.

Coverage ratio (risk provisions)
Risk provisions as a percentage of non-performing loans excluding collateral.

Dividend yield
Dividend payment of the fiscal year as a percentage of the year-end closing price or the most recent price of the share.

Earnings per share
Net profit for the year attributable to owners of the parent, divided by average shares outstanding.

Interest-bearing assets
Total assets less cash, trading assets, tangible and intangible fixed assets, tax assets and other assets.

Net interest margin
Net interest income as a percentage of average interest-bearing assets, calculated on a monthly basis.

Operating income
Consists of net interest income, net commission income and trading result.

Operating result
Operating income less operating expenses (=general administrative expenses).

Price/earnings ratio
Closing share price of the fiscal year divided by earnings per share. Usually used for valuation comparisons.

Market capitalisation
Overall value of a company calculated by multiplying the share price by the number of shares outstanding.

NPL ratio
Non-performing loans as a percentage of total credit exposure.

Return on equity
Also referred to as ROE – net profit for the year attributable to owners of the parent, as a percentage of average equity. Average equity is calculated on the basis on month-end values.

Risk categories
The classification of credit assets into the risk classes is based on Erste Group`s internal rating of customers. Erste Group employs internal rating systems that, for private individuals, have eight rating grades for customers not in default and one grade for customers in default; for all other clients, the internal rating systems have 13 rating grades for customers not in default and one rating grade for those in default.

Risk category – low risk
The borrower demonstrates a strong repayment capacity; new business generally involves clients in this risk class.

Risk category – management attention
The borrower‘s financial situation is rather good, but his/her repayment ability may be negatively affected by unfavourable economic conditions. New business with clients in this risk class requires adequate structuring of the credit risks, e.g. by way of collateral.

Risk category – substandard
The borrower is vulnerable to negative financial and economic impacts; such loans are managed in specialised risk management departments.

Risk category – non-performing
Non-performing: at least one of the default criteria under Basel II, e.g. total repayment unlikely, interest or principal payment more than 90 days past due, restructuring resulting in a loss to lender, realisation of a loan loss, or opening of bankruptcy proceedings.

Share capital
Total equity attributable to owners of the parent of a company, subscribed by the shareholders at par.

Solvency ratio
The ratio of the sum of tier-1, tier-2 and tier-3 capital, after regulatory deductions, to the calculation base for the capital requirement pursuant to section 22 (1) Banking Act.

Tax rate
Taxes on income as a percentage of pre-tax profit from continuing operations.

Tier-1 ratio (credit risk)
The ratio of tier-1 capital (including hybrid capital pursuant to section 23 (4a) and (4b) Banking Act) after regulatory deductions, to risk-weighted assets (pursuant to section 22 (2) Banking Act).

Tier-1 ratio (total risk)
The ratio of tier-1 capital (including hybrid capital pursuant to section 23 (4a) and (4b) Banking Act) after regulatory deductions, to the calculation base for the capital requirement pursuant to section 22 (1) Banking Act.

Total shareholder return
Annual performance of an investment in Erste Group Bank AG shares including all income streams, such as dividends.

Important Addresses

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