



## **Erste Capital Finance (Jersey) PCC**

*(A protected cell company incorporated with limited liability under the laws of Jersey)*

## **Erste Capital Finance (Jersey) Tier 1 PC**

*(A protected cell of Erste Capital Finance (Jersey) PCC)*

**€1,000,000,000**

## **Perpetual Subordinated Debt Issuance Programme**

*having the benefit of a support agreement entered into with*

## **Erste Bank der oesterreichischen Sparkassen AG**

*(Incorporated as a joint stock company in the Republic of Austria under registered number FN 33209 m)*

Under the Perpetual Subordinated Debt Issuance Programme described in this Prospectus (the "Programme"), Erste Capital Finance (Jersey) Tier 1 PC (the "Issuer"), subject to compliance with all relevant laws, regulations and directives, may from time to time issue perpetual subordinated notes (the "Notes") specified in the relevant Final Terms (as defined herein). The Issuer is a cell of Erste Capital Finance (Jersey) PCC (the "Company"), which was incorporated with limited liability as a protected cell company in Jersey under the Companies (Jersey) Law 1991. The Issuer is not a body corporate and has no legal identity separate from that of the Company. Any legal proceedings by or against the Issuer must be instituted by or against the Company. Where the Company enters into a transaction in respect of the Issuer or incurs a liability arising from an activity or asset of the Issuer, a claim by any person in connection with that transaction or liability will extend only to the cellular assets of the Issuer. The Company itself has no power to meet any liability attributable to a particular cell from its non-cellular assets or to meet any liability, whether attributable to a particular cell or not, from the cellular assets of another cell of the Company. References in this Prospectus to the Issuer, the Company and their respective assets and liabilities must be construed accordingly. The Notes may be issued with terms capable of qualifying as Tier 1 Capital (as defined herein). The holders of the Notes ("Noteholders") will have the benefit of a support agreement (the "Support Agreement") entered into between the Company (in respect of each of its cells from time to time) and Erste Bank der oesterreichischen Sparkassen AG ("Erste Bank"). The aggregate principal amount of Notes outstanding will not at any time exceed €1,000,000,000 (or the equivalent in other currencies).

This Prospectus has been approved by the Austrian Finanzmarktaufsichtsbehörde (the "FMA") in its capacity as competent authority under the Austrian Capital Markets Act. Application has been made for Notes issued under the Programme to be admitted to (1) the "Amtlicher Handel" (Official Market) and the "Geregelter Freiverkehr" (Second Regulated Market) (together, the "Austrian Regulated Markets") of the Wiener Börse AG (the "Vienna Stock Exchange") and (2) the Bourse de Luxembourg of the Luxembourg Stock Exchange (the "Luxembourg Regulated Market", and, together with the Austrian Regulated Markets, the "Markets"). References in this Prospectus to Notes being "listed" (and all related references) shall mean that such Notes have been admitted to trading on the Markets, each of which is a regulated, organised and recognised market for the purposes of the Investment Services Directive 93/22/EC.

Unlisted Notes may be issued pursuant to the Programme. The relevant Final Terms in respect of the issue of any Notes will specify whether or not such Notes will be admitted to trading on the Markets (or any other market and/or stock exchange).

Each Series (as defined herein) of Notes in bearer form will be represented on issue by a temporary global note in bearer form (a "temporary Global Note") or a permanent global note in bearer form (a "permanent Global Note" and each of the temporary Global Note and permanent Global Note, a "Global Note"). Notes in registered form will be represented by a global registered certificate (the "Global Certificate") or by registered certificates (each a "Certificate"), one Certificate being issued in respect of each Noteholder's entire holding of Registered Notes of one Series. Global Notes, Global Certificates and Certificates may be deposited on the issue date with a common depository on behalf of Euroclear Bank S.A./N.V., as operator of the Euroclear System ("Euroclear") and Clearstream Banking, société anonyme ("Clearstream, Luxembourg") or Oesterreichische Kontrollbank Aktiengesellschaft ("OeKB") or with a depository on behalf of OeKB. The provisions governing the exchange of interests in Global Notes or Global Certificates for other Global Notes and definitive Notes and Certificates, respectively, are described in "Summary of Provisions Relating to the Notes while in Global Form".

Tranches of Notes (as defined in "Overview of the Programme") may be rated or unrated. Where a Tranche of Notes is rated, such rating will be specified in the relevant Final Terms. A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction, increase or withdrawal at any time by the assigning rating agency.

**Prospective investors should have regard to the factors described under the section headed "Risk Factors" in this Prospectus. This Prospectus does not describe all of the risks of an investment in the Notes.**

*Arranger*  
**BNP PARIBAS**  
*Dealers*

**BNP PARIBAS**

**ERSTE BANK**

*A copy of this Prospectus has been delivered to the Jersey Registrar of Companies in accordance with Article 5 of the Companies (General Provisions) (Jersey) Order 2002, and he has given, and has not withdrawn, his consent to its circulation.*

*The Jersey Financial Services Commission has given and has not withdrawn its consent under Article 4 of the Control of Borrowing (Jersey) Order 1958 to the issue by the Issuer of the Notes. The Jersey Financial Services Commission is protected by the Control of Borrowing (Jersey) Law 1947, as amended, against liability arising from the discharge of its functions under that law.*

*It must be distinctly understood that, in giving these consents, neither the Jersey Registrar of Companies nor the Jersey Financial Services Commission takes any responsibility for the financial soundness of the Issuer or for the correctness of any statements made, or opinions expressed, with regard to it.*

***The investments described in this document do not constitute a collective investment fund for the purpose of the Collective Investment Funds (Jersey) Law 1988, as amended, on the basis that they are investment products designed for financially sophisticated investors with specialist knowledge of, and experience of investing in, such investments, who are capable of fully evaluating the risks involved in making such investments and who have an asset base sufficiently substantial as to enable them to sustain any loss that they might suffer as a result of making such investments. These investments are not regarded by the Jersey Financial Services Commission as suitable investments for any other type of investor.***

***Any individual intending to invest in any investment described in this document should consult his or her professional adviser and ensure that he or she fully understands all the risks associated with making such an investment and has sufficient financial resources to sustain any loss that may arise from it.***

*This Prospectus comprises a base prospectus for the purposes of Article 5.4 of Directive 2003/71/EC (the “Prospectus Directive”) and relevant implementing legislation in Austria, in particular in respect of section 1 paragraph 1 No 10 and 11 of the Austrian Capital Markets Act and for the purpose of giving information with regard to the Issuer and Erste Bank and its subsidiaries and affiliates taken as a whole (the “Group”) and the Notes which, according to the particular nature of the Issuer, Erste Bank and the Notes, is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profit and losses and prospects of the Issuer and Erste Bank.*

*The Issuer and Erste Bank accept responsibility for the information contained in this Prospectus. To the best of the knowledge of the Issuer and Erste Bank (having taken all reasonable care to ensure that such is the case) the information contained in this Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.*

*This Prospectus is to be read in conjunction with all documents which are deemed to be incorporated herein by reference (see “Documents Incorporated by Reference” below).*

*No person has been authorised to give any information or to make any representation other than those contained in this Prospectus in connection with the issue or sale of the Notes and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer, the Company, Erste Bank or any of the Dealers (as defined in “Subscription and Sale”) or BNP Paribas (the “Arranger”). Neither the delivery of this Prospectus nor any sale made in connection herewith shall, under any circumstances, create any implication that there has been no change in the affairs of the Issuer, the Company, Erste Bank or the Group since the date hereof or the date upon which this Prospectus has been most recently amended or supplemented or that there has been no adverse change in the financial position of the Issuer, the Company, Erste Bank or the Group since the date hereof or the date upon which this Prospectus has been most recently amended or supplemented or that any other information supplied in connection with the*

*Programme is correct as of any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same.*

*The distribution of this Prospectus and the offering or sale of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Prospectus comes are required by the Issuer, the Company, Erste Bank, the Dealers and the Arranger to inform themselves about and to observe any such restriction. The Notes have not been and will not be registered under the United States Securities Act of 1933, as amended (the "Securities Act"), and may include Notes in bearer form that are subject to U.S. tax law requirements. Subject to certain exceptions, Notes may not be offered, sold or delivered within the United States or to U.S. persons. For a description of certain restrictions on offers and sales of Notes and on distribution of this Prospectus, see "Subscription and Sale".*

*This Prospectus does not constitute an offer of, or an invitation by or on behalf of any of the Issuer, the Company, Erste Bank, the Dealers or the Arranger to subscribe for, or purchase, any Notes.*

*The Dealers and the Arranger have not separately verified the information contained in this Prospectus. None of the Dealers or the Arranger makes any representation, express or implied, or accepts any responsibility, with respect to the accuracy or completeness of any of the information in this Prospectus. Neither this Prospectus nor any financial statements supplied in connection with the Programme or any Notes are intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by any of the Issuer, the Company, Erste Bank, the Dealers or the Arranger that any recipient of this Prospectus or any financial statements should purchase the Notes. Each potential purchaser of Notes should determine for itself the relevance of the information contained in this Prospectus or any financial statements and its purchase of Notes should be based upon any such investigation as it deems necessary. None of the Dealers or the Arranger undertakes to review the financial condition or affairs of the Issuer, the Company, Erste Bank or the Group during the life of the arrangements contemplated by this Prospectus nor to advise any investor or potential investor in the Notes of any information coming to the attention of any of the Dealers or the Arranger.*

*If you are in any doubt about the contents of this document you should consult your stockbroker, bank manager, solicitor, accountant or other financial adviser.*

*It should be remembered that the price of the Notes issued under the Programme and the income from them can increase as well as decrease.*

***The Notes are limited recourse obligations, which means, among other things, that principal of, and any interest or premium on, the Notes will be paid only to the extent, subject to the limitations set forth in the Terms and Conditions, that the Issuer has received sufficient distributions on the investments made or has claims under the Support Agreement. The maximum aggregate principal amount of Notes outstanding at any one time under the Programme will not exceed €1,000,000,000 (and, for this purpose, any Notes denominated in another currency shall be translated into euro at the date of the agreement to issue such Notes calculated in accordance with the provisions of the Programme Agreement, as defined under "Subscription and Sale"). The maximum aggregate principal amount of Notes which may be outstanding at any one time under the Programme may be increased from time to time, subject to compliance with the relevant provisions of the Programme Agreement.***

**In connection with the issue of any Tranche of Notes the Dealer or Dealers (if any) named as the Stabilising Manager(s) (or persons acting on behalf of any Stabilising Manager(s)) in the applicable Final Terms may over-allot Notes (provided that, in the case of any Tranche of Notes to be admitted to trading on the Markets the aggregate principal amount of Notes allotted does not exceed 105 per cent. of the aggregate principal amount of the relevant Tranche) or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail.**

**However, there is no assurance that the Stabilising Manager(s) (or persons acting on behalf of a Stabilising Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the relevant Tranche of Notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant Tranche of Notes and 60 days after the date of the allotment of the relevant Tranche of Notes.**

*In this Prospectus, unless otherwise specified or the context otherwise requires, references to “€” or “euro” are to the currency introduced at the start of the third stage of European Economic and Monetary Union pursuant to the Treaty establishing the European Community (as amended from time to time), references “CZK” are to Czech Koruna, “SKK” to Slovak Koruna, “HUF” to Hungarian Forint, “HRK” to Croatian Kuna, “ROL” to Romanian Leu, “RON” to New Romanian Leu and references to “U.S. dollars” and “U.S.\$” are to the currency of the United States of America. References to “Austria” are to the Republic of Austria.*

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## DOCUMENTS INCORPORATED BY REFERENCE

This Prospectus should be read and construed in conjunction with (i) each Final Terms relating to any Notes and (ii) the audited consolidated financial statements of Erste Bank for the financial years ended 31 December 2004 and 2005 together in each case with the audit report thereon and the unaudited consolidated financial statements of Erste Bank for the three months ended 31 March 2006. Such documents shall be deemed to be incorporated in, and form part of this Prospectus, save that any statement contained in a document which is deemed to be incorporated by reference herein shall be deemed to be modified or superseded for the purpose of this Prospectus to the extent that a statement contained herein modifies or supersedes such earlier statement (whether expressly, by implication or otherwise). Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Prospectus.

Copies of documents deemed to be incorporated by reference in this Prospectus may be obtained from the registered offices of the Issuer and Erste Bank and from each of the Paying Agents.

For ease of reference, the tables below set out the relevant page references for the financial statements, the notes to the financial statements and the auditors' reports of Erste Bank for the year ended 31 December 2004 as set out in Erste Bank's 2004 Annual Report and for the year ended 31 December 2005 as set out in Erste Bank's 2005 Annual Report. Any information not listed in the cross-reference table but included in the documents incorporated by reference is given for information purposes only.

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## SUPPLEMENTAL PROSPECTUS

The Issuer and Erste Bank have agreed with the Dealers, and are obliged by the provisions of the Prospectus Directive and §6 of the Austrian Capital Markets Act, that if at any time during the duration of the Programme there is a significant new factor, material mistake or inaccuracy relating to information contained in this Prospectus which is capable of affecting the assessment of any Notes and the inclusion of which would reasonably be required by investors, and would reasonably be expected by them to be found in this Prospectus, for the purpose of making an informed assessment of the assets and liabilities, financial position,

profits and losses and prospects of the Issuer or Erste Bank, and the rights attaching to the Notes, the Issuer and Erste Bank shall prepare an amendment or supplement to this Prospectus or publish a replacement Prospectus for use in connection with any subsequent offering of the Notes and shall supply to each Dealer and to the FMA and the Vienna Stock Exchange such number of copies of such amendment, supplement or replacement hereto as such Dealer may request and the Austrian Capital Markets Act and/or the Stock Exchange Act require.

### **SOURCES OF INFORMATION**

Unless otherwise stated, statistical and other data provided in this Prospectus has been extracted from the audited consolidated financial statements of Erste Bank for the financial year ended 31 December 2005 and the audit report thereon. Erste Bank confirms that such information has been accurately reproduced and that, so far as it is aware, and is able to ascertain from information published by such sources, no facts have been omitted which would render the reproduced information inaccurate or misleading.

## SUMMARY OF THE PROGRAMME

*This summary must be read as an introduction to this Prospectus. Any decision to invest in any Notes should be based on a consideration of this Prospectus as a whole, including the documents incorporated by reference, by any investor. Following the implementation of the relevant provisions of the Prospectus Directive in each Member State of the European Economic Area (an “EEA State”), the responsible persons may have civil liability in respect of this summary, if it is misleading, inaccurate or inconsistent when read together with the other parts of this Prospectus. Where a claim relating to information contained in this Prospectus is brought before a court in an EEA State, the plaintiff may, under the national legislation of the EEA State where the claim is brought, be required to bear the costs of translating the Prospectus before the legal proceedings are initiated.*

*Capitalised terms used but not defined in this Summary shall bear the meanings ascribed thereto in the Terms and Conditions of the Notes herein (the “**Terms and Conditions**”).*

### **The Notes**

#### **Denominations of Notes**

Notes will be issued in such denominations as may be specified in the relevant Final Terms, save that the minimum denomination shall be €1,000 (or its equivalent in any other currency as at the date of issue of the Notes).

#### **Maturities**

The Notes will not have a maturity date and are not redeemable at any time at the option of the Noteholders.

#### **Form of Notes**

The Notes may be issued in bearer form (“Bearer Notes”) or in registered form (“Registered Notes”). The Notes may be fixed rate, floating rate or dual currency Notes or a combination of the foregoing or any other kind of Note, depending upon the interest basis specified in the Final Terms relating to the issue of the Notes.

#### **Issue Price**

Notes may be issued at their principal amount or at a discount or premium thereto.

#### **Status**

The Notes will constitute direct, unsecured and subordinated obligations of the Issuer and will be subordinated to all present and future senior and other unsubordinated and subordinated debt obligations of the Issuer (save for subordinated debt obligations which rank or are expressed to rank *pari passu* with the Notes). Erste Bank’s obligations under the Support Agreement constitute direct, unsecured and subordinated obligations of Erste Bank and will be subordinated to all present and future senior and other unsubordinated and subordinated debt obligations of Erste Bank (save for subordinated debt obligations which rank or are expressed to rank *pari passu* with the Notes or Erste Bank’s obligations under the Support Agreement). The Notes will be limited recourse obligations of the Issuer. Principal and interest will be payable solely from the Issuer’s Available Funds, subject to the limitations set forth in the Terms and Conditions, and no debt will be owed to Noteholders in respect of any Shortfall. Noteholders are not entitled to take action to recover such Shortfall and failure by the Issuer to make any payment in respect of any Shortfall will not constitute a default. The Issuer is a cell of the Company, which is a protected cell company. For the avoidance of doubt, the Noteholders will not be entitled to make any claim in respect of any non-cellular assets of the Company nor in respect of any cellular assets of another cell of the Company.



### **Rights upon Liquidation**

In the event of the voluntary or involuntary liquidation, dissolution or winding-up of the Issuer, Noteholders will be entitled to receive the Liquidation Distribution in respect of each Note held out of the assets of the Issuer available for distribution to Noteholders.

Notwithstanding the availability of sufficient assets to pay any Liquidation Distribution to Noteholders, if at the time such Liquidation Distribution is to be paid, proceedings are pending or have been commenced for the voluntary or involuntary liquidation, dissolution or winding-up of Erste Bank, the Liquidation Distribution per Note payable to Noteholders and the liquidation distribution per security payable to the holders of all Asset Parity Securities, shall not exceed the amount per Note that would have been payable as the liquidation distribution from the assets of Erste Bank (after payment in full in accordance with Austrian law of all creditors of Erste Bank, including holders of its subordinated debt but excluding holders of any liability expressed to rank *pari passu* with, or junior to, Erste Bank's liabilities under the Support Agreement) had the Notes and all Asset Parity Securities been issued by Erste Bank and ranked (x) junior to all liabilities of Erste Bank (other than any liability ranking or expressed to rank *pari passu* with, or junior to, the Support Agreement), (y) *pari passu* with all Asset Parity Securities of Erste Bank and (z) senior to Erste Bank's Bank Share Capital.

### **Interest**

Subject to the restrictions on payments of interest outlined below, interest will be payable out of Available Funds in arrear on the date or dates in each year specified in Part A of the relevant Final Terms and Floating Rate Notes will bear interest set separately for each Series as specified in Part A of the relevant Final Terms.

The Issuer will not be obliged to make any payment of interest during any fiscal year:

- (i) to the extent that the aggregate of such Interest Payments, together with:
  - (a) any Interest Payments (including any Additional Amounts in respect thereof) previously paid by the Issuer in respect of the Notes in the then current fiscal year;
  - (b) any distributions or other payments previously made on Parity Securities in the then current fiscal year; and
  - (c) any distributions or other payments proposed or reasonably likely to be made on Parity Securities in the then current fiscal year,would exceed Distributable Funds for the prior fiscal year; or
- (ii) even if sufficient Distributable Funds are available, to the extent that, (i) if the Directors have received a certified copy of the minutes of a meeting of the directors of Erste Bank in which the directors of Erste Bank have resolved that, in accordance with applicable Austrian banking regulations affecting banks which fail to meet their capital ratios on a consolidated basis pursuant to the Act, Erste Bank would be limited in making such payments on Parity Securities or (ii) there is in effect an order of the FMA (or any other relevant regulatory authority) prohibiting Erste Bank from making any distribution of profits.

The Issuer may also, at its sole discretion (but subject to the approval of Erste Bank), elect not to make Interest Payments on the Notes with a view to ensuring the continuity of Erste Bank's activities without weakening its financial structure (the "Optional Non-Payment Right").

If the payments of interest are not made by the Issuer, then the right of Noteholders to receive interest will be extinguished and the Issuer will have no obligation to pay accrued interest, unless Erste Bank or any Issuing Vehicle declares or pays any dividends or interest or makes any other payment or other distribution on Interest

Parity Securities (which contain an Optional Non-Payment Right or equivalent such right) or Junior Securities (unless such declaration, payment or other distribution on Junior Securities is made to, or in relation to, other Group companies) or redeems, repurchases or otherwise acquires any Parity Securities or Junior Securities (in certain circumstances), in which case the Issuer will make payments of interest subject to the Terms and Conditions of the Notes in the six month period commencing on the date on which such dividend or interest payment or other payment or other distribution was declared or made or such redemption, repurchase or other acquisition occurred.

In the event that the payments described above cannot be made in full by reason of any such limitation, such payments will be made *pro rata* in the proportion that the amounts available for payment bears to the full amount that would have been payable but for such limitation. Any claims in respect of the difference between the full amount and the amount payable will be extinguished.

#### **Support Agreement**

Erste Bank will in the Support Agreement irrevocably agree, subject to the terms of the Support Agreement (including the availability of Distributable Funds of Erste Bank and compliance with Austrian banking regulations), that if at any time the Issuer has insufficient funds to enable it to meet in full its obligations under or in respect of the Notes as and when such obligations fall due, Erste Bank shall make available to the Issuer sufficient funds to meet such payment obligations. The obligations of Erste Bank under the Support Agreement are subordinated to all present and future senior and other unsubordinated and subordinated debt obligations of Erste Bank (save for subordinated debt obligations which rank or are expressed to rank *pari passu* with the Notes or Erste Bank's obligations under the Support Agreement).

#### **Redemption**

The Notes will be perpetual securities in respect of which there will be no fixed redemption date. If the applicable Final Terms specify that the Issuer, in accordance with the Terms and Conditions, has the right to call the Notes (an optional call right), then subject to the prior consent of Erste Bank, the Notes will be redeemable at the option of the Issuer upon giving notice within the notice period (if any) indicated in the applicable Final Terms to the holders of the Notes on the date or dates, at the price and on such terms as indicated in the applicable Final Terms.

The Notes are also redeemable for certain tax reasons (including if the Issuer is required to make additional (gross-up) payments) and capital adequacy reasons in accordance with the Terms and Conditions of the Notes.

Notes which are redeemed must be substituted by capital of equal or better quality (*Kapital gleicher oder besserer Qualität*), unless the FMA determines that Erste Bank and the Credit Institute Group have sufficient Own Funds required for an adequate risk coverage even after repayment of the Notes.

#### **Buybacks**

The Issuer or Erste Bank or any of Erste Bank's other Subsidiaries may, subject to applicable law (including Jersey and Austrian law), purchase outstanding Notes by tender, in the open market or by private agreement. If purchases are made by tender, the tender must be available to all Noteholders alike. Any such Notes so purchased by Erste Bank or any of Erste Bank's Subsidiaries may be resold or cancelled.

#### **Withholding Tax and Additional Amounts**

The Issuer will pay such additional amounts to each Noteholder as may be necessary in order that every payment in respect of the Notes, after withholding for any taxes imposed by Jersey or Austria upon or as a result of such payment, shall equal the amounts which would have been received in the absence of such withholding, subject to the exceptions described in the Terms and Conditions of the Notes. The obligations of the Issuer to pay such additional amounts are described more fully in the Terms and Conditions of the Notes.

**Listing**

Application has been made to the Vienna Stock Exchange and the Luxembourg Stock Exchange for Notes issued under the Programme for the period of 12 months from the date of this Prospectus to be admitted to trading on the Markets. Notes issued under the Programme may be admitted to trading on the Markets or on any other regulated or unregulated markets or stock exchanges or may be unlisted.

**Governing Law**

The Notes will be governed by and construed in accordance with English law, save that determination in respect of Distributable Funds shall be construed in accordance with Austrian law. The Support Agreement will be governed by and construed in accordance with English law save that the provisions concerning the ranking of the Support Agreement will be governed by and construed in accordance with Austrian law.

**Use of Proceeds**

The net proceeds from the issue of any Notes will be used for the Investments.

**Ratings**

Tranches of Notes may be rated or unrated. Where a Tranche of Notes is rated, such rating will be specified in the relevant Final Terms. A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

**Risk Factors relating to the Notes**

*Prospective investors should note that the risks described below are not the only risks relating to the Notes. The Issuer and Erste Bank have described only those risks relating to the Notes that they consider to be material and of which they are currently aware. There may be additional risks that the Issuer and Erste Bank currently consider not to be material or of which they are not currently aware, and any of these risks could have an effect on the market price of the Notes held by Noteholders, or could cause amounts of interest and principal received on such Notes to be less than anticipated. These and further risks are presented in more detail under "Risk Factors" herein.*

*Liquidity Risk*

There can be no assurance that a liquid secondary market for the Notes will develop or, if it does develop, that it will continue. In an illiquid market, an investor may not be able to sell his Notes at fair market prices.

*Market Price Risk*

Noteholders may be exposed to market price risk in any sale of Notes.

*Floating Rate Notes*

A holder of a Floating Rate Note may be exposed to the risk of fluctuating interest rate levels and uncertain interest income.

*Perpetual Nature of the Notes*

The Notes have no fixed final redemption date and holders have no rights to call for their redemption. Although the Issuer may redeem Notes in certain circumstances, there may be limitations on its ability to do so. Therefore, holders should be aware that they may be required to bear the financial risks of an investment in the Notes for an indefinite period of time.

*Risk of Redemption*

In the event that any Notes are redeemed pursuant to the Terms and Conditions thereof, a holder of such Notes may be exposed to risks, including the risk that his investment will have a lower than expected yield.

#### *Subordination / Limited Recourse*

The Notes will constitute direct, unsecured and subordinated obligations of the Issuer and will be subordinated to all present and future senior and other unsubordinated and subordinated debt obligations of the Issuer (save for subordinated debt obligations which rank or are expressed to rank *pari passu* with the Notes). The Notes will be limited recourse obligations of the Issuer. Principal and interest will be payable solely from the Issuer's Available Funds and no debt will be owed to Noteholders in respect of any Shortfall. Noteholders are not entitled to take action to recover such Shortfall and failure by the Issuer to make any payment in respect of any Shortfall will not constitute a default. The Issuer is a cell of the Company, which is a protected cell company. For the avoidance of doubt, the Noteholders will not be entitled to make any claim in respect of any non-cellular assets of the Company nor in respect of any cellular assets of another cell of the Company.

The obligations of Erste Bank under the Support Agreement will rank junior as to payments to all liabilities to its creditors (including, without limitation, depositors, general creditors and subordinated debt holders) and claims of holders of senior ranking securities.

#### *Interest not Cumulative / No Obligation to Pay*

Interest on the Notes is not cumulative. Interest on the Notes will be paid by the Issuer out of Available Funds, except that the Issuer will not be required to make payments of interest to the extent that the aggregate of such interest payments together with interest paid on the Notes previously during the current fiscal year and distributions made or proposed or reasonably likely to be made on Parity Securities during the current fiscal year would exceed Distributable Funds. Even if sufficient Distributable Funds are available, the Issuer will not be required to make payments of interest if (i) the directors of Erste Bank have resolved that, in accordance with applicable Austrian banking regulations affecting banks which fail to meet their capital ratios on a consolidated basis pursuant to the Act, Erste Bank would be limited in making such payments on Parity Securities or (ii) there is in effect an order of the FMA (or any other regulatory authority) prohibiting Erste Bank from making any distribution of profits. If interest on the Notes for any interest period is not paid for such reasons, the holders of the Notes will not be entitled to receive interest, even if Distributable Funds subsequently become available. The Issuer may also, at its sole discretion (but subject to the approval of Erste Bank), elect not to make Interest Payments on the Notes with a view to ensuring the continuity of Erste Bank's activities without weakening its financial structure, known as the "Optional Non-Payment Right", subject to the obligation of the Issuer to make Interest Payments in certain circumstances in which Erste Bank or an Issuing Vehicle makes a dividend payment or distribution or other payment on certain other securities.

#### *Risks related to the market generally*

Investors in the Notes may face certain risks common to the market, including the risk that they may not be able to sell their Notes at prices that will provide a yield comparable to similar investments that have a developed secondary market. In addition, if principal and interest on any Notes is paid in a Specified Currency, investors may be subject to exchange rate risk or the risk that exchange controls may be imposed.

#### *Risks associated with Erste Bank's financial condition*

The Issuer is a newly established cell within a protected cell company with no previous operating history or revenues. The Notes have the benefit of the Support Agreement entered into between the Issuer and Erste Bank. Accordingly, if Erste Bank's financial condition were to deteriorate, the holders of the Notes may suffer direct and materially adverse consequences, including non-payment of interest on the Notes.

#### *Regulatory authorities have oversight powers over the Group*

The FMA or its respective successors, regulatory authorities in the EU and regulatory authorities in other countries have oversight powers over the Issuer and its related entities. Under certain circumstances, any of such regulatory authorities could make determinations or take decisions in the future with respect to any such

entities or a portion of their respective operations or assets that could adversely affect the ability of the Issuer, among other things, to make payment to its security holders, engage in transactions with affiliates, purchase or transfer assets, pay obligations and make any redemption or liquidation payments to its security holders.

**Risk Factors relating to Erste Bank, the Company and the Issuer**

*Erste Bank, the Company and the Issuer may be subject, in particular, to the following risks, which should be carefully considered together with the other information contained in this Prospectus, prior to any investment decision. Prospective investors should note that the risks described below are not the only risks Erste Bank, the Company and the Issuer face. Erste Bank, the Company and the Issuer have described only those risks relating to their business, operations, financial condition or prospects that they consider to be material and of which they are currently aware. There may be additional risks that Erste Bank, the Company and the Issuer currently consider not to be material or of which they are not currently aware, and any of these risks could have an effect on their financial position and results of operations.*

*Erste Bank*

- Market risks could impair the value of Erste Bank's assets and liabilities and adversely impact its financial position and results of operations.
- Erste Bank has significant counterparty and credit risk exposure. The development of Erste Bank's operating performance, loan loss levels or writedowns and impairments could adversely affect its results.
- Erste Bank's subsidiaries in Central and Eastern Europe are subject to increased political and economical risk associated with these countries.
- It may be difficult for Erste Bank to make further acquisitions and/or to identify new suitable acquisition targets. Future acquisitions by Erste Bank may contain hidden liabilities and may prove to be difficult to integrate into the Group.
- The acquisition of Banca Comerciala Romana ("BCR") and its successful and timely integration may present significant challenges for Erste Bank. Additionally, BCR could have liabilities that Erste Bank may have failed to identify and evaluate in the course of its due diligence review of BCR.
- Changes in interest rates may adversely affect Erste Bank's results of operations.
- Erste Bank is subject to liquidity risk.
- Fluctuations in currencies in which the Group generates revenues and incurs expenses could adversely affect its earnings and cash flow.
- Changes in existing, or new, laws or regulations in the countries in which the Group operates may have a material impact on its results of operations.
- Competition is high in the countries where the Group operates and may grow significantly in the future.
- Erste Bank is exposed to a number of operational risks, in particular, the failure or malfunctioning of its IT systems.

*The Company and the Issuer*

- The Company and the Issuer have no business other than issuance of the Notes (and business activities incidental thereto).

- The Issuer is a newly established cell of the Company, which is a newly established protected cell company with no previous operating history or revenues.
- The Issuer has no recourse to the non-cellular assets of the Company or the assets of any other cell of the Company.
- If the Company is to be wound up, the Issuer must be transferred to another cell company, wound up, continued as a body corporate under the law of another jurisdiction, incorporated independently of the cell company or merged with another company.

## **Erste Bank's Business**

### **Organisational Structure**

DIE ERSTE österreichische Spar-Casse Bank Aktiengesellschaft was founded in 1819 in Austria and changed its name to Erste Bank der oesterreichischen Sparkassen AG on 4 October 1997, following its merger with GiroCredit Bank Aktiengesellschaft der Sparkassen. Erste Bank is registered as a stock corporation (*Aktiengesellschaft*) in the Austrian Companies Register (*Firmenbuch*) at the Vienna Commercial Court (*Handelsgericht Wien*).

The Administrative, Managing and Supervisory bodies of Erste Bank currently consist of six Members of the Managing Board (as defined below), eighteen Members of the Supervisory Board (as defined below), including six representatives of the staff council, and six representatives of the Supervisory Authority including the Government Commissioner for Covered Bonds, and Trustees for *Pfandbriefe* and *Kommunalschuldverschreibungen (Öffentliche Pfandbriefe)*.

### **Share Capital**

As of 1 June 2006, Erste Bank's issued share capital was €616,065,120 (comprised of 308,032,560 ordinary shares).

Erste Bank's shares are listed and officially traded on the Vienna Stock Exchange (*Amtlicher Handel*) and on the Prague Stock Exchange.

The major shareholders of Erste Bank are DIE ERSTE österreichische Spar-Casse Privatstiftung (30.5 per cent.) and Austria Versicherungsverein auf Gegenseitigkeit (5 per cent.). The balance held by the public as of 30 April 2006 was 64.5 per cent. (of which all Savings Banks held 7.0 per cent. and Erste Bank's employees held 1.5 per cent.).

### **Financial Information**

The financial information below is extracted from the audited consolidated annual financial statements of Erste Bank for the year ended 31 December 2005:

Total assets .....	€152.7 billion
Net interest income .....	€2.8 billion
Pre-tax profit for the year .....	€1.2 billion
Profit for the year after taxes.....	€0.9 billion
Net profit after minority interests.....	€0.7 billion

## Business Overview

In order to take account of the difference in growth rates between Erste Bank's key geographic markets, its business is divided geographically between Austria, Central Europe, its International Business and the Corporate Centre. The Austria region is further subdivided into four business segments: Savings Banks, Retail and Mortgage (formerly Retail and Real Estate), Large Corporate Customers and Trading and Investment Banking.

### Austria

#### *Savings Banks*

The Savings Banks segment encompasses a current total of 45 Austrian savings banks that are consolidated as a result of their membership in the *Haftungsverbund*, whether Erste Bank holds a minority share or no equity.

#### *Retail and Mortgage*

The Retail and Mortgage segment comprises all activities of the Group in the three business units: Retail, Mortgage Business and Small and Medium-Sized Corporate Customers, which includes savings banks of which Erste Bank is the majority owner. Due to the high proportion of individuals in Erste Bank's customer base, the investment fund business, private banking and portfolio management are also included in this segment.

#### *Large Corporate Customers*

The Large Corporate Customers segment serves companies in Austria and abroad with sales of €70 million and above, with an additional focus on project finance for tourism development projects, tourism facilities, and commercial real estate.

#### *Trading and Investment Banking*

The Trading and Investment Banking segment of the Group includes its asset/liability management activities.

### Central Europe

Initially, Erste Bank's extended home market consisted of Austria's neighbouring countries in Central Europe. Since then, Erste Bank has expanded its home market to adjacent regions in Europe (including the second wave of countries aspiring to EU accession in Eastern and South-Eastern Europe and further potential EU candidates). Following the integration of ten acquisitions in Central and Eastern Europe, the home market of Erste Bank now covers a region with a total population of nearly 70 million people. Erste Bank's long-term strategic objective is to attain a market share of at least 20 per cent. in each country of its extended home market, through both targeted acquisitions and organic growth.

### Direct Holdings of Erste Bank in Central and Eastern Europe<sup>(4)</sup>

Country	Erste Bank subsidiary	Ownership
Czech Republic .....	Česká spořitelna a.s.	98.0%
Slovak Republic .....	Slovenská spořitelňa, a.s. <sup>(1)</sup>	100.0%
Hungary.....	Erste Bank Hungary Rt.	99.9%
Croatia.....	Erste & Steiermärkische banka, d.d. <sup>(2)</sup>	51.4%
Serbia-Montenegro.....	Erste Bank a.d. Novi Sad <sup>(3)</sup>	95.6%

Source: Annual Report 2005, as of 31 December 2005

Notes:

- (1) Increase in stake to 100 per cent. in January 2005
- (2) After realignment of the ownership structure of Erste & Steiermärkische banka, d.d. in January 2005, Erste Bank holds 51.4 per cent.
- (3) Includes 83.3 per cent. purchased from the Republic of Serbia and 12.3 per cent. subsequently purchased following a public tender offer. During 2006 Erste Bank has acquired a further 4.4 per cent. stake from the remaining minority shareholders. As of 3 May 2006 Erste Bank owned 99.99 per cent. of the share capital of Erste Bank a.d. Novi Sad.
- (4) On 21 December 2005 the Romanian privatisation agency AVAS accepted the bid from Erste Bank for 61.9 per cent. of the shares of BCR. The transaction is expected to close not later than 21 September 2006.

### **International Business**

The International Business unit comprises the small and medium-sized corporates business of Erste Bank's branches in London, New York and Hong Kong and also encompasses the foreign business of Erste Bank Vienna, including those inter-bank transactions not handled by Erste Bank's treasury unit.

### **Corporate Centre**

The Corporate Centre segment supports the pursuit of Erste Bank's strategic goals by providing marketing, organisation, and information technology services including e-business.

### **The Company's and the Issuer's Business**

The Company and the Issuer are both wholly-owned subsidiaries of Erste Bank (Malta) Limited, an indirect wholly-owned subsidiary of Erste Bank. The Company was incorporated, and the Issuer created, for the purpose of carrying out the transactions referred to in this Prospectus and they have conducted business activities incidental to, and necessary for, compliance with the Issuer's obligations under the Notes.

The Issuer was created as a cell of the Company for an unlimited duration and with limited liability on 13 June 2006 under the Companies (Jersey) Law 1991. The Company was incorporated in Jersey as a protected cell company for an unlimited duration and with limited liability on 19 May 2006 under the Companies (Jersey) Law 1991. The Issuer is not a body corporate and has no legal identity separate from that of the Company. Any legal proceedings by or against the Issuer must be instituted by or against the Company. Where the Company enters into a transaction in respect of the Issuer or incurs a liability arising from an activity or asset of the Issuer, a claim by any person in connection with that transaction or liability will extend only to the cellular assets of the Issuer. The Company itself has no power to meet any liability attributable to a particular cell from its non-cellular assets or to meet any liability, whether attributable to a particular cell or not, from the cellular assets of another cell of the Company. References in this Prospectus to the Issuer, the Company and their respective assets and liabilities must be construed accordingly.



## GERMAN LANGUAGE VERSION OF SUMMARY OF THE PROGRAMME

**The following translation of the original summary is separate to this Prospectus. It does not form part of the Prospectus itself and has not been approved by the FMA. The FMA has not reviewed it for consistency with the original summary.**

**Die folgende Übersetzung der Zusammenfassung ist ein separates, dem Prospekt angeschlossenes Dokument. Die Übersetzung ist nicht Teil des Prospektes und wurde von der Finanzmarktaufsichtsbehörde nicht gebilligt. Die Finanzmarktaufsichtsbehörde hat außerdem die Übereinstimmung der Übersetzung mit der Zusammenfassung nicht geprüft.**

## DEUTSCHSPRACHIGE VERSION DER ZUSAMMENFASSUNG

*Diese Zusammenfassung ist als Einführung zu diesem Prospekt zu lesen. Jede Entscheidung von Investoren, in die Schuldverschreibungen zu investieren, sollte auf einer Abwägung des gesamten Prospekts basieren, einschließlich der durch Verweis einbezogenen Dokumente. Gemäß der Umsetzung der relevanten Bestimmungen der Prospekttrichtlinie in jedem Mitgliedsstaat des europäischen Wirtschaftsraumes (ein "EWR-Staat") kann auf Basis dieser Zusammenfassung eine zivilrechtliche Haftung der verantwortlichen Personen begründet werden, wenn diese gemeinsam mit anderen Teilen des Prospekts irreführend, unrichtig oder widersprüchlich ist. Sollte ein Anspruch aufgrund der in diesem Prospekt enthaltenen Informationen vor einem Gericht in einem EWR-Staat geltend gemacht werden, kann der Kläger aufgrund einzelstaatlicher Rechtsvorschriften des EWR-Staates, in dem der Anspruch vorgebracht wird, verpflichtet sein, vor Einleitung des Verfahrens die Kosten für die Übersetzung des Prospekts zu tragen.*

*Ausdrücke, die in dieser Zusammenfassung verwendet, nicht aber definiert werden, haben dieselbe Bedeutung wie in den nachstehenden Emissionsbedingungen ("Terms and Conditions") der Schuldverschreibungen.*

### **Die Schuldverschreibungen**

#### **Stückelung der Schuldverschreibungen**

Die Schuldverschreibungen werden in den in den jeweiligen endgültigen Bedingungen festgelegten Stückelungen begeben, wobei die Mindeststückelung EUR 1.000 (oder dessen Gegenwert in einer anderen Währung am Begebungstag der Schuldverschreibungen) beträgt.

#### **Laufzeiten**

Die Schuldverschreibungen haben kein Rückzahlungsdatum und können zu keinem Zeitpunkt nach Wahl der Inhaber der Schuldverschreibungen getilgt werden.

#### **Art der Schuldverschreibungen**

Die Schuldverschreibungen können lautend auf Inhaber ("Inhaberschuldverschreibungen") oder lautend auf Namen ("Namenschuldverschreibungen") begeben werden. Die Schuldverschreibungen können Schuldverschreibungen mit fixem Zinssatz, mit variablem Zinssatz oder Doppelwährungsschuldverschreibungen sein, Kombinationen davon, oder jedwede andere Art von Schuldverschreibungen, abhängig von der in den endgültigen Bedingungen für die Emission der Schuldverschreibungen bestimmten Verzinsung.

#### **Emissionspreis**

Schuldverschreibungen werden zu ihrem Nennbetrag oder mit einem Abschlag oder Aufschlag zum Nennbetrag begeben.

#### **Rang**

Die Schuldverschreibungen begründen direkte, unbesicherte und nachrangige Verbindlichkeiten der Emittentin und sind nachrangig gegenüber allen gegenwärtigen und künftigen vorrangigen und anderen nicht-nachrangigen und nachrangigen Verbindlichkeiten der Emittentin (mit Ausnahme von nachrangigen Verbindlichkeiten, die im Verhältnis zu den Schuldverschreibungen gleichrangig sind). Die Verbindlichkeiten der Erste Bank aus dem Support Agreement begründen direkte, unbesicherte und nachrangige Verbindlichkeiten der Erste Bank und sind nachrangig gegenüber allen gegenwärtigen und künftigen vorrangigen und anderen nicht-nachrangigen und nachrangigen Verbindlichkeiten der Erste Bank (mit Ausnahme von nachrangigen Verbindlichkeiten, die im Verhältnis zu den Schuldverschreibungen oder den Verbindlichkeiten der Erste Bank aus dem Support Agreement gleichrangig sind). Die Schuldverschreibungen begründen Verbindlichkeiten der Emittentin mit einem eingeschränkten Rückgriffsrecht (*limited recourse obligations*). Kapital und Zinsen sind nur aus den verfügbaren Mitteln (*Available Funds*) der Emittentin zahlbar und unterliegen den in den Emissionsbedingungen festgelegten Beschränkungen. Den Inhabern der Schuldverschreibungen steht in Hinblick auf einen allfälligen Fehlbetrag (*Shortfall*) keine Forderung zu. Die Inhaber der Schuldverschreibungen sind nicht berechtigt, Maßnahmen zu ergreifen, um einen solchen Fehlbetrag (*Shortfall*) einbringlich zu machen und die Nichtzahlung eines Fehlbetrags durch die Emittentin stellt keinen Verzug dar. Die Emittentin ist eine Zelle der Gesellschaft (*Company*), welche eine "Gesellschaft mit geschützten Zellen" (*protected cell company*) ist. Klargestellt wird, dass den Inhabern von Schuldverschreibungen weder Ansprüche in Hinblick auf das nicht zellzugehörige Vermögen der Gesellschaft zustehen, noch auf Vermögen, das einer anderen Zelle der Gesellschaft zugehört.

### **Rechte anlässlich einer Liquidation**

Für den Fall einer freiwilligen oder unfreiwilligen Liquidation, Auflösung oder Abwicklung der Emittentin sind die Inhaber der Schuldverschreibungen berechtigt, den Liquidationserlös (*Liquidation Distribution*) für jede Schuldverschreibung zu erhalten, welcher aus dem Vermögen der Emittentin zur Verteilung an die Inhaber von Schuldverschreibungen zur Verfügung steht.

Wenn, ungeachtet der Verfügbarkeit von ausreichendem Vermögen zur Zahlung des Liquidationserlöses an die Inhaber der Schuldverschreibungen, ein Liquidationserlös zu einem Zeitpunkt zu zahlen ist, an dem ein Verfahren über die freiwillige oder unfreiwillige Liquidation, Auflösung oder Abwicklung der Erste Bank anhängig ist oder begonnen hat, darf der an die Inhaber von Schuldverschreibungen zahlbare Liquidationserlös pro Schuldverschreibung und der an die Inhaber von bestimmten vermögensgleichrangigen Sicherheiten (*Asset Parity Securities*) zahlbare Liquidationserlös nicht jenen Betrag pro Schuldverschreibung überschreiten, der als Ausschüttung im Liquidationsfall aus den Mitteln der Erste Bank zahlbar wäre (nach gänzlicher Befriedigung aller Gläubiger der Erste Bank in Übereinstimmung mit österreichischem Recht, einschließlich aller nachrangigen Gläubiger, aber ausgenommen Gläubiger von Verbindlichkeiten, die ausdrücklich gleichrangig oder nachrangig zu den Verbindlichkeiten der Erste Bank aus dem Support Agreement sind), wenn die genannten vermögensgleichrangigen Schuldverschreibungen (*Asset Parity Securities*) von der Erste Bank ausgegeben worden und (x) nachrangig gegenüber allen Verbindlichkeiten der Erste Bank (außer Verbindlichkeiten, die gleichrangig oder nachrangig zum Support Agreement sind), (y) gleichrangig mit den genannten vermögensgleichrangigen Schuldverschreibungen (*Asset Parity Securities*) der Erste Bank, und (z) vorrangig gegenüber dem Grundkapital der Erste Bank wären.

### **Zinsen**

Vorbehaltlich der unten dargestellten Zinszahlungsbeschränkungen sind Zinsen aus den verfügbaren Mitteln (*Available Funds*) im Nachhinein an dem (oder den) in Teil A der jeweiligen endgültigen Bedingungen festgelegten Tag oder Tagen eines jeden Jahres fällig, und variabel verzinsliche Schuldverschreibungen tragen die für jede Serie separat festgelegten Zinsen, wie in Teil A der jeweiligen endgültigen Bedingungen bestimmt.

Die Emittentin ist nicht verpflichtet, Zinszahlungen während eines Geschäftsjahres zu leisten:

- (i) Insoweit der Gesamtbetrag der Zinszahlungen, gemeinsam mit:
  - a. allen Zinszahlungen (einschließlich aller diesbezüglichen Zusatzbeträge [*Additional Amounts*]), die die Emittentin vorher auf die Schuldverschreibungen im laufenden Geschäftsjahr geleistet hat;
  - b. allen Ausschüttungen oder anderen Zahlungen, die vorher auf gleichwertige Wertpapiere (*Parity Securities*) im laufenden Geschäftsjahr geleistet wurden; und
  - c. allen Ausschüttungen oder anderen Zahlungen, die in Hinblick auf gleichwertige Wertpapiere im laufenden Geschäftsjahr vorgeschlagen oder nach vernünftiger Einschätzung wahrscheinlich zahlbar sind,  
die ausschüttbaren Mittel (*Distributable Funds*) des vorherigen Geschäftsjahres übersteigen würde.
- (ii) Selbst wenn genügend ausschüttbare Mittel (*Distributable Funds*) verfügbar sind, wenn (i) die Vorstandsmitglieder (*Directors*) eine beglaubigte Kopie eines Protokolls einer Vorstandssitzung der Erste Bank erhalten haben, in welcher die Vorstandsmitglieder der Erste Bank beschlossen haben, dass die Erste Bank hinsichtlich einer Zahlung auf gleichwertige Wertpapiere (*Parity Securities*) aufgrund der anwendbaren österreichischen bankrechtlichen Vorschriften für Banken, die ihre Eigenmittelquoten auf konsolidierter Basis gemäß Bankwesengesetz nicht erreichen, eingeschränkt wäre, oder (ii) eine Zwangsmaßnahme der FMA (oder einer anderen relevanten Regulierungsbehörde) in Kraft ist, die der Erste Bank die Verteilung von Gewinnen untersagt.

Die Emittentin kann auch nach ihrem alleinigen Ermessen (aber bedingt durch die Zustimmung der Erste Bank) entscheiden, keine Zinszahlungen auf die Schuldverschreibungen zu leisten im Hinblick auf die Sicherung des Fortbestandes der Geschäftstätigkeiten der Erste Bank ohne Schwächung ihrer Finanzstruktur (das "Wahlrecht zur Nichtzahlung" [*Optional Non-Payment Right*]).

Wenn Zinszahlungen von der Emittentin nicht geleistet werden, erlischt das Recht der Inhaber der Schuldverschreibungen, Zinsen zu verlangen, und die Emittentin hat keine Verpflichtung, die angefallenen Zinsen zu bezahlen, vorausgesetzt, weder die Erste Bank noch ein Emissionsvehikel (*Issuing Vehicle*) beschließt oder schüttet Dividenden oder Zinsen oder andere Zahlungen oder Ausschüttungen auf bestimmte zinsgleichrangige Wertpapiere (*Interest Parity Securities*) (welche ein Wahlrecht zur Nichtzahlung oder ein ähnliches Recht enthalten) oder auf nachrangige Wertpapiere (*Junior Securities*) aus (ausgenommen ein solcher Beschluss, Zahlung oder andere Ausschüttung auf nachrangige Wertpapiere erfolgt an oder im Hinblick auf andere Gesellschaften der Gruppe [*Group*]), oder tilgt, kauft zurück oder erwirbt anderweitig gleichwertige Wertpapiere (*Parity Securities*) oder nachrangige Wertpapiere (unter bestimmten Umständen), in welchem Fall die Emittentin gemäß den Emissionsbedingungen der Schuldverschreibungen Zinszahlungen für sechs (6) Monate ab dem Tag, an dem eine solche Dividenden- oder Zinszahlung oder andere Zahlung oder andere Ausschüttung angekündigt oder geleistet wurde oder eine solche Tilgung, Rückkauf oder anderer Erwerb geschehen ist, leisten wird.

Für den Fall, dass die oben beschriebenen Zahlungen aufgrund einer dieser Beschränkungen nicht zur Gänze geleistet werden können, sind solche Zahlungen anteilig in jenem Verhältnis zu leisten, das dem für Zahlungen verfügbaren Betrag zum ohne eine solche Beschränkung zahlbaren Gesamtbetrag entspricht. Jede Forderung in Hinblick auf die Differenz zwischen dem Gesamtbetrag und dem zahlbaren Betrag erlischt.

### **Support Agreement**

Erste Bank erklärt sich im Support Agreement unwiderruflich bereit, gemäß den Bedingungen des Support Agreements (inklusive der Verfügbarkeit von ausschüttbaren Mitteln [*Distributable Funds*] der Erste Bank und in Übereinstimmung mit österreichischen bankrechtlichen Vorschriften), dass, sofern die Emittentin zu irgendeinem

Zeitpunkt unzureichende Mittel hat, um zur Gänze ihre Verpflichtungen unter oder in Hinblick auf die Schuldverschreibungen zu erfüllen, sobald und wenn diese Verpflichtungen fällig werden, die Erste Bank der Emittentin ausreichende Mittel zur Verfügung stellen wird, um diese Zahlungsverpflichtungen zu erfüllen. Die Verbindlichkeiten der Erste Bank aus dem Support Agreement sind nachrangig gegenüber allen gegenwärtigen und künftigen vorrangigen und anderen nicht-nachrangigen und nachrangigen Verbindlichkeiten der Erste Bank (mit Ausnahme von nachrangigen Verbindlichkeiten, die im Verhältnis zu den Schuldverschreibungen oder den Verbindlichkeiten der Erste Bank aus dem Support Agreement gleichrangig sind).

### **Tilgung**

Die Schuldverschreibungen haben eine ewige Laufzeit, es gibt keinen bestimmten Tilgungstag. Wenn die anwendbaren endgültigen Bedingungen angeben, dass die Emittentin in Übereinstimmung mit den Emissionsbedingungen, das Recht hat, die Schuldverschreibungen zu kündigen (optionales Kündigungsrecht), dann kann, abhängig von der vorherigen Zustimmung der Erste Bank, die Emittentin die Schuldverschreibungen nach ihrer Wahl unter Einhaltung einer in den endgültigen Bedingungen allenfalls festgelegten Frist durch Anzeige der Kündigung an die Inhaber der Schuldverschreibungen tilgen, und zwar zu einem Zeitpunkt oder Zeitpunkten und zu einem Preis und solchen Bedingungen, wie in den anwendbaren endgültigen Bedingungen festgelegt.

Die Schuldverschreibungen sind zudem aus bestimmten steuerlichen Gründen (einschließlich wenn die Emittentin verpflichtet ist, bestimmte zusätzliche Zahlungen zu leisten) und aus Kapitaladäquanzgründen in Übereinstimmung mit den Emissionsbedingungen der Schuldverschreibungen tilgbar.

Schuldverschreibungen, die getilgt werden, müssen durch Kapital gleicher oder besserer Qualität ersetzt werden, außer die FMA stellt fest, dass die Erste Bank und die Kreditinstitutsgruppe auch nach Rückzahlung der Schuldverschreibungen über ausreichende Eigenmittel verfügen, die für eine adäquate Risikoabdeckung erforderlich sind.

### **Rückkäufe**

Die Emittentin oder Erste Bank oder andere Beteiligungsgesellschaften (*Subsidiaries*) der Erste Bank können, abhängig vom anwendbaren Recht (einschließlich des Rechts von Jersey und Österreich), ausstehende Schuldverschreibungen durch Angebot, im freien Markt oder mittels privater Vereinbarung erwerben. Bei einem Erwerb durch Angebot muss das Angebot für alle Inhaber von Schuldverschreibungen gleichermaßen verfügbar sein. Alle Schuldverschreibungen, die auf diese Art durch die Erste Bank oder ihre Beteiligungsgesellschaften erworben werden, können wieder verkauft oder entwertet werden.

### **Quellensteuer und zusätzliche Beträge**

Die Emittentin zahlt jedem Inhaber von Schuldverschreibungen jene zusätzlichen Beträge, die notwendig sind, damit jede Zahlung in Hinblick auf die Schuldverschreibungen nach Einbehalt der Quellensteuern, die in Jersey oder Österreich bei oder als Ergebnis einer solchen Zahlung eingehoben werden, jenen Beträgen entspricht, die man ohne einen solchen Abzug erhalten hätte, außer in den in den Emissionsbedingungen der Schuldverschreibungen beschriebenen Ausnahmen. Die Verpflichtungen der Emittentin, solche zusätzlichen Beträge zu zahlen, werden in den Emissionsbedingungen der Schuldverschreibungen genauer beschrieben.

### **Notierung**

Die Zulassung von unter dem Programm ausgegebenen Schuldverschreibungen zur Wiener Börse und zur Luxemburger Börse für eine Zeitspanne von 12 (zwölf) Monaten ab dem Zeitpunkt der Zulassung des Prospekts zum Handel an diesen Märkten wurde beantragt. Schuldverschreibungen, die unter dem Programm emittiert werden, können zum Handel an diesen Märkten oder jedem (oder jeder) anderen regulierten oder unregulierten Markt oder Börse zugelassen werden oder können nicht notieren.

### **Anwendbares Recht**

Die Schuldverschreibungen unterliegen englischem Recht, ausgenommen dass die Bestimmungen hinsichtlich der ausschüttbaren Mittel (*Distributable Funds*) österreichischem Recht unterliegen. Das Support Agreement unterliegt englischem Recht, mit Ausnahme der Bestimmungen betreffend die Rangordnung des Support Agreements, die österreichischem Recht unterliegen.

### **Verwendung des Emissionserlöses**

Die Nettoerlöse der Emissionen von Schuldverschreibungen werden für bestimmte Investitionen (*Investments*) verwendet.

### **Rating**

Tranchen von Schuldverschreibungen können ein Rating oder kein Rating aufweisen. Für den Fall, dass Tranchen von Schuldverschreibungen ein Rating haben, wird dieses Rating in den anwendbaren endgültigen Bedingungen dargestellt. Ein Rating ist keine Empfehlung, Schuldverschreibungen zu kaufen, zu verkaufen oder zu halten, und die das Rating vergebende Agentur kann das Rating jederzeit aussetzen, herabstufen oder widerrufen.

### **Risikofaktoren betreffend die Schuldverschreibungen**

*Interessierte Investoren sollten beachten, dass die nachstehend beschriebenen Risiken nicht die einzigen mit den Schuldverschreibungen verbundenen Risiken sind. Die Emittentin und Erste Bank haben nur jene Risiken im Zusammenhang mit den Schuldverschreibungen beschrieben, die sie als materiell ansehen und welche ihnen derzeit bewusst sind. Es kann zusätzliche Risiken geben, welche die Emittentin oder die Erste Bank derzeit als nicht materiell ansehen oder welche ihnen derzeit nicht bewusst sind, und jedes dieser Risiken könnte eine Auswirkung auf den Marktpreis der von den Inhabern gehaltenen Schuldverschreibungen oder zur Folge haben, dass Zins- und Kapitalbeträge, welche aufgrund dieser Schuldverschreibungen bezahlt werden, weniger als erwartet betragen. Diese und andere Risiken sind detaillierter im Kapitel "Risk Factors" beschrieben.*

#### *Liquiditätsrisiko*

Es besteht keine Gewissheit, dass ein liquider Sekundärmarkt für die Schuldverschreibungen entstehen wird, oder sofern er entsteht, dass er fortbestehen wird. In einem illiquiden Markt könnte es sein, dass ein Anleger seine Schuldverschreibungen nicht zu einem angemessenen Marktpreis veräußern kann.

#### *Marktpreisrisiko*

Die Inhaber von Schuldverschreibungen sind dem Marktpreisrisiko bei jedem Verkauf von Schuldverschreibungen ausgesetzt.

#### *Variabel verzinsliche Schuldverschreibungen*

Ein Inhaber von variabel verzinslichen Schuldverschreibungen ist dem Risiko eines schwankenden Zinsniveaus und ungewisser Zinserträge ausgesetzt.

#### *Ewige Laufzeit der Schuldverschreibungen*

Die Schuldverschreibungen haben kein fixes endgültiges Tilgungsdatum und die Inhaber haben kein Recht, die Tilgung zu verlangen. Obwohl die Emittentin die Schuldverschreibungen in bestimmten Umständen tilgen kann, kann die Fähigkeit dies zu tun, beschränkt sein. Deshalb sollte Inhabern bewusst sein, dass sie möglicherweise die finanziellen Risiken einer Veranlagung in die Schuldverschreibungen für eine unbegrenzte Zeitspanne zu tragen haben.

#### *Risiko einer Tilgung*

Im Falle, dass die Schuldverschreibungen gemäß den Emissionsbedingungen getilgt werden, kann der Inhaber Risiken ausgesetzt sein, insbesondere dem Risiko, dass seine Kapitalanlage eine geringere Rendite als erwartet aufweist.

### *Nachrangigkeit / eingeschränktes Rückgriffsrecht*

Die Schuldverschreibungen begründen direkte, unbesicherte und nachrangige Verbindlichkeiten der Emittentin und sind nachrangig gegenüber allen gegenwärtigen und künftigen vorrangigen und anderen nicht-nachrangigen und nachrangigen Verbindlichkeiten der Emittentin (mit Ausnahme von nachrangigen Verbindlichkeiten, die im Verhältnis zu den Schuldverschreibungen gleichrangig sind). Die Schuldverschreibungen begründen Verbindlichkeiten der Emittentin mit einem eingeschränkten Rückgriffsrecht (*limited recourse obligations*). Kapital und Zinsen sind nur aus den verfügbaren Mitteln (*Available Funds*) der Emittentin zahlbar und den Inhabern der Schuldverschreibungen steht in Hinblick auf einen allfälligen Fehlbetrag (*Shortfall*) keine Forderung zu. Die Inhaber der Schuldverschreibungen sind nicht berechtigt, Maßnahmen zu ergreifen, um einen solchen Fehlbetrag (*Shortfall*) einbringlich zu machen und die Nichtzahlung eines Fehlbetrags durch die Emittentin stellt keinen Verzug dar. Die Emittentin ist eine Zelle der Gesellschaft (*Company*), welche eine "Gesellschaft mit geschützten Zellen" ist. Klargestellt wird, dass den Inhabern von Schuldverschreibungen weder Ansprüche in Hinblick auf das nicht zellzugehörige Vermögen der Gesellschaft zustehen, noch auf Vermögen, das einer anderen Zelle der Gesellschaft zugehört.

Die Verpflichtungen der Erste Bank unter dem Support Agreement sind zahlungsmäßig nachrangig zu allen Verbindlichkeiten gegenüber Gläubigern (einschließlich, aber ohne Einschränkung, Einlegern, allgemeinen Gläubigern und nachrangigen Gläubigern) und Forderungen von Inhabern vorrangigen Schuldverschreibungen.

### *Zinsen nicht kumulativ / Keine Zahlungsverpflichtung*

Die Zinsen auf die Schuldverschreibungen sind nicht kumulativ. Zinsen auf die Schuldverschreibungen werden von der Emittentin aus den ausschüttbaren Mittel (*Distributable Funds*) bezahlt, wobei die Emittentin nicht verpflichtet ist, Zinszahlungen zu leisten, insoweit der Gesamtbetrag dieser Zinszahlungen gemeinsam mit Zinszahlungen, die die Emittentin vorher auf die Schuldverschreibungen im laufenden Geschäftsjahr bezahlt hat, und gemeinsam mit Ausschüttungen, die vorher auf gleichwertige Wertpapiere (*Parity Securities*) im laufenden Geschäftsjahr geleistet wurden oder vorgeschlagen oder nach vernünftiger Einschätzung wahrscheinlich zahlbar sind, die ausschüttbaren Mittel (*Distributable Funds*) übersteigen würde.

Selbst wenn genügend ausschüttbare Mittel (*Distributable Funds*) verfügbar sind, ist die Emittentin nicht verpflichtet, Zinszahlungen zu leisten, wenn (i) die Vorstandsmitglieder der Erste Bank beschlossen haben, dass die Erste Bank hinsichtlich einer Zahlung auf gleichwertige Wertpapiere (*Parity Securities*) aufgrund der anwendbaren österreichischen bankrechtlichen Vorschriften für Banken, die ihre Eigenmittelquoten auf konsolidierter Basis gemäß Bankwesengesetz nicht erreichen, eingeschränkt wäre, oder (ii) eine Zwangsmaßnahme der FMA (oder einer anderen relevanten Regulierungsbehörde) in Kraft ist, die der Erste Bank die Verteilung von Gewinnen untersagt.

Wenn Zinszahlungen für eine Zinsperiode von der Emittentin aus diesen Gründen nicht geleistet werden, erlischt das Recht der Inhaber der Schuldverschreibungen, Zinsen zu verlangen, selbst wenn später wieder ausschüttbare Mittel (*Distributable Funds*) verfügbar werden. Die Emittentin kann auch, nach ihrem alleinigen Ermessen (aber bedingt durch die Zustimmung der Erste Bank) entscheiden, keine Zinszahlungen auf die Schuldverschreibungen zu leisten, im Hinblick auf die Sicherung des Fortbestandes der Geschäftstätigkeiten der Erste Bank ohne Schwächung ihrer Finanzstruktur (das "Wahlrecht zur Nichtzahlung" [*Optional Non-Payment Right*]), mit Ausnahme der Verpflichtung der Emittentin, Zinszahlungen in bestimmten Umständen zu tätigen, in denen die Erste Bank oder ein Emissionsvehikel (*Issuing Vehicle*) eine Dividendenzahlung, Ausschüttung oder andere Zahlung auf bestimmte andere Wertpapiere macht.

### *Generelle Risiken betreffend den Markt*

Investoren in die Schuldverschreibungen können bestimmten üblichen Risiken des Marktes begegnen, einschließlich des Risikos, dass sie unter Umständen nicht in der Lage sein werden, ihre Schuldverschreibungen zu Preisen zu verkaufen, die zu einer Rendite, die mit ähnlichen Anlagen, für die ein entwickelter Sekundärmarkt

besteht, vergleichbar ist. Außerdem kann es sein, dass Anleger dem Wechselkursrisiko oder dem Risiko von Zahlungsbeschränkungen unterliegen, wenn Kapital und Zinsen auf die Schuldverschreibungen in einer bestimmten Währung (*Specified Currency*) gezahlt werden.

*Risiken, die mit der Vermögenslage der Erste Bank verbunden sind*

Die Emittentin ist eine neu gegründete Zelle einer "Gesellschaft mit geschützten Zellen" ohne bisherige operative Geschichte oder Einkünfte. Die Schuldverschreibungen kommen in den Genuss des Support Agreement, welches zwischen der Emittentin und der Erste Bank abgeschlossen wurde. Daher könnten, wenn sich die Vermögenslage der Erste Bank verschlechtern würde, die Inhaber der Schuldverschreibungen als Folge direkte und wesentlich nachteilige Konsequenzen erleiden, einschließlich der Nichtzahlung von Zinsen auf die Schuldverschreibungen.

*Regulierungsbehörden haben Aufsichtsbefugnis über die Gruppe*

Die FMA oder ihre Nachfolgebehörden, Regulierungsbehörden in der Europäischen Union und Regulierungsbehörden in anderen Staaten haben Aufsichtsbefugnisse über die Emittentin und die mit ihr verbundenen Einheiten. Unter bestimmten Umständen kann jede dieser Regulierungsbehörden künftig Feststellungen oder Entscheidungen in Hinblick auf jede dieser Einheiten oder Teile ihres jeweiligen Geschäftsbetriebes oder Vermögens treffen, welche neben anderen Dingen die Fähigkeit der Emittentin, Zahlungen an die Inhaber der von ihr ausgegebenen Wertpapiere zu leisten, Geschäfte mit verbundenen Unternehmen abzuschließen, Vermögensgegenstände zu kaufen oder zu übertragen, Verbindlichkeiten zu begleichen und Tilgungs- oder Liquidationszahlungen an die Wertpapierinhaber zu leisten, nachteilig beeinflussen könnten.

#### **Risikofaktoren in Bezug auf Erste Bank, die Gesellschaft und die Emittentin**

*Erste Bank, die Gesellschaft und die Emittentin sind insbesondere den nachfolgenden Risiken ausgesetzt, welche vor einer Anlageentscheidung gemeinsam mit den anderen Informationen, die in diesem Prospekt enthalten sind, sorgfältig erwogen werden sollten. Angehende Investoren sollten beachten, dass die nachstehend beschriebenen Risiken nicht die einzigen Risiken sind, denen sich die Erste Bank, die Gesellschaft und die Emittentin ausgesetzt sehen. Erste Bank, die Gesellschaft und die Emittentin haben nur jene Risiken betreffend ihr Geschäft, ihre Geschäftstätigkeit, Finanzlage oder Aussichten beschrieben, welche sie als wesentlich ansehen und von welchen sie derzeit Kenntnis haben. Es kann zusätzliche Risiken geben, welche Erste Bank, die Gesellschaft und die Emittentin derzeit als nicht wesentlich ansehen oder von welchen sie derzeit keine Kenntnis haben, und jedes dieser Risiken könnte Auswirkungen auf ihre Finanzlage und das Ergebnis der Geschäftstätigkeit haben.*

*Erste Bank*

- Marktrisiken können den Wert des Vermögens und die Verbindlichkeiten der Erste Bank beeinträchtigen und ihre Finanzlage und Ergebnisse der Geschäftstätigkeit nachteilig beeinflussen.
- Erste Bank ist maßgeblichen Kontrahenten- und Kreditrisiken ausgesetzt. Die Entwicklung der Geschäftstätigkeit, der Darlehensausfälle oder Abwertungen und Abschreibungen der Erste Bank können Ihre Ergebnisse nachteilig beeinflussen.
- Die Tochtergesellschaften der Erste Bank in Zentral- und Osteuropa sind erhöhten politischen und wirtschaftlichen Risiken ausgesetzt, die mit diesen Ländern verbunden sind.
- Es kann schwierig für die Erste Bank sein, weitere Akquisitionen zu tätigen und/oder neue passende Akquisitionsziele zu identifizieren. Künftige Akquisitionen der Erste Bank können versteckte Verbindlichkeiten enthalten und sich als schwer in die Gruppe integrierbar erweisen.

- Der Erwerb der Banca Comerciala Romana ("BCR") und deren erfolgreiche und zeitgerechte Integration kann die Erste Bank vor signifikante Herausforderungen stellen. Außerdem könnte die BCR Haftungen ausgesetzt sein, die von der Erste Bank im Rahmen ihrer Due Diligence Prüfung der BCR nicht erkannt oder bewertet wurden.
- Zinssatzschwankungen können die Ergebnisse der Geschäftstätigkeit der Erste Bank nachteilig beeinflussen.
- Die Erste Bank ist Liquiditätsrisiko ausgesetzt.
- Schwankungen in Währungen, in denen die Gruppe ihre Erträge erwirtschaftet und Aufwendungen tätigt, können ihre Erlöse und den Cashflow nachteilig beeinflussen.
- Änderungen existierender oder die Erlassung neuer Gesetze oder Vorschriften in jenen Ländern, in denen die Gruppe tätig ist, können einen wesentlichen Einfluss auf die Ergebnisse ihrer Geschäftstätigkeit haben.
- Der Wettbewerb ist in den Ländern, in denen die Gruppe ihr Geschäft ausübt, hoch, und kann in Zukunft signifikant wachsen.
- Die Erste Bank ist einer Reihe von operationalen Risiken ausgesetzt, insbesondere einem Ausfall oder einer Fehlfunktion ihrer IT-Systeme.

#### *Die Gesellschaft und die Emittentin*

- Die Gesellschaft und die Emittentin haben keine andere Geschäftstätigkeit als die Emission von Schuldverschreibungen (und damit verbundene Geschäftsaktivitäten).
- Die Emittentin ist eine neu gegründete Zelle der Gesellschaft, welche eine neu gegründete "Gesellschaft mit geschützten Zellen" ohne operative Geschichte oder Einkünfte ist.
- Die Emittentin hat keinen Zugriff auf das nicht zellzugehörige Vermögen der Gesellschaft oder auf Vermögen einer anderen Zelle der Gesellschaft.
- Wenn die Gesellschaft abzuwickeln ist, muss die Emittentin an eine andere Zellgesellschaft übertragen, abgewickelt, als Gesellschaft unter dem Recht einer anderen Jurisdiktion fortgesetzt, unabhängig von der Zellgesellschaft inkorporiert oder mit einer anderen Gesellschaft verschmolzen werden.

#### **Geschäftstätigkeit der Erste Bank**

##### **Organisationsstruktur**

DIE ERSTE österreichische Spar-Casse Bank Aktiengesellschaft wurde 1819 in Österreich gegründet und änderte am 4. Oktober 1997 nach der Verschmelzung mit der GiroCredit Bank Aktiengesellschaft der Sparkassen ihren Namen in Erste Bank der oesterreichischen Sparkassen AG ("Erste Bank"). Die Erste Bank ist eine Aktiengesellschaft, die im österreichischen Firmenbuch beim Handelsgericht Wien eingetragen ist.

Die Verwaltungs-, Geschäftsführungs- und Aufsichtsorgane der Erste Bank bestehen derzeit aus sechs Vorstandsmitgliedern, 18 (achtzehn) Aufsichtsratsmitgliedern, davon sechs vom Betriebsrat entsandte Mitglieder,



sechs Vertreter der Aufsichtsbehörde samt dem Regierungskommissär für fundierte Bankschuldverschreibungen und den Treuhändern für Pfandbriefe und Kommunalschuldverschreibungen (*öffentliche Pfandbriefe*).

### **Aktienkapital**

Am 1.6.2006 betrug das einbezahlte Grundkapital der Erste Bank EUR 616.065.120 (bestehend aus 308.032.560 Stammaktien).

Die Aktien der Erste Bank notieren und werden im amtlichen Handel der Wiener Börse und der Prager Börse gehandelt.

Die Hauptaktionäre der Erste Bank sind DIE ERSTE österreichische Spar-Casse Privatstiftung (30,5 %) und Austria Versicherungsverein auf Gegenseitigkeit (5 %). Zum 30.4.2006 beträgt der vom Streubesitz gehaltene Rest 64,5 % (davon halten Sparkassen 7,0 % und Mitarbeiter der Erste Bank 1,5 % zum 30.4.2006).

### **Finanzinformationen**

Die nachstehenden Finanzinformationen stellen einen Auszug aus dem geprüften, konsolidierten Jahresabschluss der Erste Bank für das am 31.12.2005 beendete Geschäftsjahr dar:

Summe der Aktiva	EUR 152,7 Mrd
Zinsüberschuss	EUR 2,8 Mrd
Jahresüberschuss vor Steuern	EUR 1,2 Mrd
Jahresüberschuss nach Steuern	EUR 0,9 Mrd
Konzernjahresüberschuss	EUR 0,7 Mrd

### **Geschäftsübersicht**

Um der unterschiedlichen Dynamik der Schlüsselmärkte der Erste Bank Rechnung zu tragen, ist das Geschäft geographisch zwischen Österreich, Zentraleuropa und internationalem Geschäft sowie dem Corporate Center aufgeteilt. Die Region Österreich untergliedert sich in vier Geschäftssegmente: Sparkassen, Privatkunden und Wohnbau (früher "Privatkunden und Immobilien"), Großkunden sowie Handel und Investment Banking.

#### **Österreich**

##### *Sparkassen*

Das Sparkassen-Segment umfasst derzeit insgesamt 45 österreichische Sparkassen, die aufgrund ihrer Zugehörigkeit zum Haftungsverbund konsolidiert werden, unabhängig ob die Erste Bank keine oder nur eine Minderheitsbeteiligung hält.

##### *Privatkunden und Wohnbau*

Das Privatkunden und Wohnbau Segment umfasst alle Aktivitäten der Gruppe in den drei Geschäftsfeldern Privatkunden, Wohnbaugeschäft und Klein- und Mittelbetriebe, welches auch Sparkassen umfasst, an denen die Erste Bank mehrheitlich beteiligt ist. Aufgrund des hohen Anteils von natürlichen Personen am Kundenstock der Erste Bank sind das Investmentfondsgeschäft, Private Banking und die Vermögensverwaltung auch in diesem Segment enthalten.

##### *Großkunden*

Das Großkundensegment bedient Unternehmen in Österreich und im Ausland mit Umsätzen von EUR 70 Mio und darüber, wobei ein zusätzlicher Fokus auf Projektfinanzierungen für Tourismusentwicklungsprojekte, Tourismuseinrichtungen und gewerbliches Immobiliengeschäft gelegt wird.

## Handel und Investment Banking

Das Segment Handel und Investment Banking der Gruppe umfasst auch die Aktiv-/Passiv-Managementaktivitäten.

### Zentraleuropa

Ursprünglich bestand der erweiterte Heimatmarkt der Erste Bank aus Österreichs Nachbarländern in Zentraleuropa. Inzwischen hat die Erste Bank ihren Heimatmarkt auf die angrenzenden Regionen in Europa erweitert (einschließlich der Länder der zweiten Beitrittswelle in Ost- und Südosteuropa, welche einen EU-Beitritt anstreben und andere potentielle EU-Kandidaten). Als Folge der Integration von zehn Akquisitionen in Zentral- und Osteuropa umfasst der Heimatmarkt der Erste Bank nun eine Region mit einer Gesamtbevölkerung von nahezu 70 Millionen Menschen. Erste Banks langfristige Strategie ist, einen Marktanteil von zumindest 20 % in jedem Land seines erweiterten Heimatmarktes zu erzielen, sowohl durch zielgerichtete Akquisitionen als auch durch organisches Wachstum.

### Direkte Beteiligungen der Erste Bank in Zentral- und Osteuropa<sup>(4)</sup>

Staat	Erste Bank Beteiligungsgesellschaft	Höhe der Beteiligung
Tschechien	Česká spořitelna a.s.	98 %
Slowakei	Slovenská spořitelňa, a.s. <sup>(1)</sup>	100 %
Ungarn	Erste Bank Hungary Rt.	99,9 %
Kroatien	Erste & Steiermärkische banka, d.d. <sup>(2)</sup>	51,4 %
Serbien-Montenegro	Erste Bank a.d. Novi Sad <sup>(3)</sup>	95,6 %

Quelle: Jahresbericht 2005 zum 31.12.2005

(1) Erhöhung der Beteiligung auf 100 % im Januar 2005

(2) Nach einer Neuordnung der Gesellschafterstruktur der Erste & Steiermärkische banka, d.d. im Januar 2005 hält die Erste Bank 51,4 %.

(3) Einschließlich 83,3 % , welche von der Republik Serbien gekauft wurden, und 12,3 % , welche in der Folge nach einem öffentlichen Bieterverfahren erworben wurden. Im Jahr 2006 hat die Erste Bank einen weiteren Anteil in Höhe von 4,4 % von den verbliebenen Minderheitenaktionären erworben. Seit 3.5.2006 hält die Erste Bank 99,99 % des Aktienkapitals von Erste Bank a.d. Novi Sad.

(4) Am 21.12.2005 hat die rumänische Privatisierungsagentur AVAS das Angebot der Erste Bank für 61,9 % der Aktien der BCR angenommen. Es wird erwartet, dass die Transaktion bis zum 21. September 2006 abgeschlossen wird.

### Internationales Geschäft

Die Geschäftseinheit internationales Geschäft umfasst das KMU-Geschäft der Zweigstellen der Erste Bank in London, New York und Hongkong und umfasst auch das Auslandsgeschäft der Erste Bank Wien, einschließlich des Interbank-Geschäfts, welches nicht von der Treasury-Abteilung der Erste Bank abgewickelt wird.

### Corporate Center

Das Segment Corporate Centre unterstützt die Umsetzung der strategischen Ziele der Erste Bank durch Marketing-, Organisation- und Informationstechnologie-Dienstleistungen, einschließlich E-Business.

### Geschäftstätigkeit der Gesellschaft und der Emittentin

Sowohl die Gesellschaft als auch die Emittentin sind Beteiligungsgesellschaften, die gänzlich im Eigentum der Erste Bank (Malta) Limited stehen, welche eine indirekte, zur Gänze gehaltene Beteiligungsgesellschaft der Erste Bank ist. Die Gesellschaft wurde zur Durchführung der in diesem Prospekt beschriebenen Transaktionen inkorporiert (und die Emittentin wurde hierfür geschaffen), und die Gesellschaft und die Emittentin haben

Geschäftstätigkeiten durchgeführt, welche der Erfüllung der Verpflichtungen der Emittentin unter den Schuldverschreibungen zugehörig und hierfür notwendig sind.

Die Emittentin wurde als Zelle der Gesellschaft für eine unbeschränkte Dauer und mit beschränkter Haftung am 13 Juni 2006 gemäß dem Companies (Jersey) Law 1991 gegründet. Die Gesellschaft wurde in Jersey als eine "Gesellschaft mit geschützten Zellen" mit unbeschränkter Dauer und mit beschränkter Haftung am 19 Mai 2006 gemäß dem Companies (Jersey) Law 1991 inkorporiert. Die Emittentin ist keine eigene Körperschaft und hat keine von der Gesellschaft verschiedene Rechtspersönlichkeit. Jedes Gerichtsverfahren der oder gegen die Emittentin muss durch oder gegen die Gesellschaft eingeleitet werden. Wenn die Gesellschaft eine Transaktion in Hinblick auf die Emittentin eingeht oder eine Verbindlichkeit, welche durch die Tätigkeit oder einen Vermögenswert der Emittentin entsteht, übernimmt, bezieht sich die Forderung einer Person im Zusammenhang mit der Transaktion oder Verbindlichkeit nur auf das zellzugehörige Vermögen der Emittentin. Die Gesellschaft selbst hat keine Befugnis, eine Verbindlichkeit, welche einer bestimmten Zelle zuordenbar ist, durch ihr nicht zellzugehöriges Vermögen zu erfüllen, oder eine Verbindlichkeit, ungeachtet dessen, ob diese einer bestimmten Zelle zuordenbar ist oder nicht, durch das zellzugehörige Vermögen einer anderen Zelle der Gesellschaft zu erfüllen. Bezugnahmen in diesem Prospekt auf die Emittentin, die Gesellschaft und ihre jeweiligen Vermögenswerte und Verbindlichkeiten müssen entsprechend ausgelegt werden.

## **RISK FACTORS**

*Prospective investors should consider carefully the risks set forth below and the other information contained in this Prospectus prior to making any investment decision with respect to the Notes. Each of the risks highlighted below could have a material adverse effect on the ability of the Issuer and Erste Bank to fulfil their obligations under the Notes and the Support Agreement, respectively. In addition, each of the risks highlighted below could adversely affect the trading price of the Notes or the rights of investors under the Notes and, as a result, investors could lose some or all of their investment.*

*Prospective investors should note that the risks described below are not the only risks that the Issuer and Erste Bank face. They have described only those risks relating to their business, operations, financial condition or prospects that they consider to be material and of which they are currently aware. There may be additional risks that the Issuer and Erste Bank currently consider not to be material or of which they are not currently aware, and any of these risks could have the effects set forth above.*

### **Factors that may affect Erste Bank's ability to fulfil its obligations under the Support Agreement**

#### **Credit risk**

Erste Bank is exposed to a variety of counterparty and credit risks. Third parties that owe Erste Bank money, securities or other assets may not pay or perform under their obligations due to bankruptcy, lack of liquidity, downturns in the economy or real estate values, operational failure or other reasons.

The development of Erste Bank's operating performance, loan loss levels or write-downs and impairments could adversely affect its results and may result in capital requirements that could constrain its operations, reducing its ability to fulfil its obligations under the Support Agreement.

#### **Operations in Central and Eastern Europe**

Erste Bank has subsidiaries in some countries in Central and Eastern Europe and a large part of its income is derived from operations in these countries. As a result, the Group's operations are exposed to risks common to all regions undergoing rapid political, economic and social change, including currency fluctuations, exchange control restrictions, an evolving regulatory environment, inflation, economic recession, local market disruption and labour unrest. The occurrence of one or more of these events may also affect the ability of Erste Bank's clients or counterparties located in the affected country or region to obtain foreign exchange or credit and, therefore, to satisfy their obligations towards Erste Bank. These risks could have an adverse effect on the Group's operations.

#### **Acquisition of BCR**

The investment in BCR represents Erste Bank's largest acquisition to date. In addition to the usual risks relating to acquisitions (see also "Future acquisitions"), the acquisition of BCR presents Erste Bank with a number of significant challenges in relation to integration and the upgrading of numerous aspects of BCR's operations. The failure to integrate BCR successfully and on a timely and efficient basis or to adhere to its strategic and operational targets with respect to BCR may have a significant adverse effect on Erste Bank's business. Furthermore, undetected liabilities and potential problem areas, whether or not identified during Erste Bank's due diligence review of BCR, may result in write-downs of assets or charges or other expenses that are higher than expected.

#### **Future acquisitions**

As part of its strategy in Central and Eastern Europe, Erste Bank may decide to make additional acquisitions to complement the growth of the Group. Apart from antitrust or similar laws, which may make it difficult to

make such acquisitions, any acquired business may contain unknown actual or potential liabilities and the ability of Erste Bank to successfully grow through selected acquisitions will depend on, among other things, Erste Bank's ability to identify suitable acquisition or investment opportunities and successfully to close those transactions. However, Erste Bank may not be able to continue to grow at the same pace as in the past. Furthermore, the integration of acquisitions may be difficult and Erste Bank may not be able to achieve anticipated synergies or other expected benefits. Such failure could adversely affect Erste Bank's results of operations.

#### **Regulatory changes and growing competition**

Changes in existing, or new, laws or regulations in the countries in which the Group operates may materially impact the Group, including laws and regulations relating to financial services, securities products and other transactions Erste Bank is conducting.

Furthermore, apart from changes to the economic environment, the introduction of new laws and regulations, such as the introduction of a new framework for capital adequacy rules commonly known as Basel II or changes in accounting matters and/or their application, may adversely affect Erste Bank's business as its implementation and compliance may result in costs that currently cannot be definitively determined.

International banks such as Erste Bank are subject to intense competition, which is expected to grow further in the future. Apart from local competitors, other international banks may enter the banking market in Central and Eastern Europe, thus increasing the pressure on Erste Bank's profit margins.

Changes in laws, regulations or regulatory policies or increased competition in the markets within which it operates may have an adverse effect on the Group's financial conditions and results of operations.

#### **Market risk**

Fluctuations in the debt and equity markets may affect the market value and liquidity of Erste Bank's assets and liabilities. The value of Erste Bank's real estate holdings is also exposed to changes in real estate market prices. The occurrence of such events may also have an adverse impact on the revenues generated from the investment banking operations of Erste Bank and could result in an adverse impact on its financial condition and results of operations, and thus its ability to fulfil its obligations under the Support Agreement.

#### **Interest rate risk**

Changes in prevailing interest rates (including changes in the difference between the levels of prevailing short- and long-term rates) may adversely affect Erste Bank's results of operations and costs of funding.

#### **Currency risk**

A large part of Erste Bank's operations, assets and customers are located in Central and Eastern European countries that are not part of the Euro-zone, and financial transactions in currencies other than euro give rise to foreign currency risks, potentially leading to a material adverse effect on Erste Bank's business, operations, financial condition or prospects.

#### **Liquidity risk**

Erste Bank is exposed to liquidity risks which could materialise in the event that its obligations are not matched to its assets. Failure to manage such risks may affect Erste Bank's ability to fulfil its obligations under the Support Agreement.

#### **Operational risk**

Banks and their activities are increasingly dependent on highly sophisticated information technology ("IT") systems. IT systems are vulnerable to a number of problems, such as computer virus infection, malicious hacking, physical damage to vital IT centres and software or hardware malfunctions. Additionally, further

operational risks may stem from inadequate or failed internal processes, people and systems or from external events. Failure to manage such risks may affect Erste Bank's ability to fulfil its obligations under the Support Agreement.

## **Risks relating to the Company and the Issuer**

### **No business other than issuance of the Notes**

The Company was incorporated, and the Issuer created, for the purpose of carrying out the transactions referred to in this Prospectus and they only conduct business activities incidental to, and necessary for, compliance with the Issuer's obligations under the Notes. The principal asset of the Company is its interest in the Investments. Therefore, the Company and the Issuer are subject to all risks to which Erste Bank is subject, to the extent that such risks could limit Erste Bank or its relevant Subsidiary's ability to satisfy in full and on a timely basis its obligations in respect of the Investments. See "Factors that may affect Erste Bank's ability to fulfil its obligations under the Support Agreement" above for a description of certain of these risks.

### **No operating history**

The Issuer is a newly established cell of the Company, which is a newly established protected cell company with no previous operating history or revenues.

### **No recourse to the non-cellular assets of the Company or the assets of any other cell**

The Company has been established as a protected cell company under the Companies (Jersey) Law 1991 as amended. Each Series of Notes under the Programme will be issued in respect of the Issuer, a separate cell created by the shareholders of the Company and maintained by the Company. This structure was chosen for the Company primarily with a view to achieving segregation between the assets and liabilities attributable to different cells and to the possibility of issuing notes with different characteristics and backed by different assets being issued by one or more newly created cells of the Company in the future. However, investors should be aware that this type of structure does not exist in most jurisdictions and the applicable provisions of the Companies (Jersey) Law 1991, as amended, have not, so far as the Directors are aware, been subject to judicial scrutiny in Jersey or in any other jurisdiction (see "*Subordination / Limited Recourse*" above).

The Issuer is not a body corporate and has no legal identity separate from that of the Company. Any legal proceedings by or against the Issuer must be instituted by or against the Company. Where the Company enters into a transaction in respect of the Issuer or incurs a liability arising from an activity or asset of the Issuer, a claim by any person in connection with that transaction or liability will extend only to the cellular assets of the Issuer. The Company itself has no power to meet any liability attributable to a particular cell from its non-cellular assets or to meet any liability, whether attributable to a particular cell or not, from the cellular assets of another cell of the Company.

In addition, under the Companies (Jersey) Law 1991, as amended, if a creditor manages to make available any assets of the Company that are not assets of the Issuer to meet its claim against the Issuer, such creditor will be liable to pay to the Company an amount equal to the benefit so obtained. If a creditor manages to seize, attach or otherwise levy execution against any such assets, then it will hold such assets on trust for the Company and must pay or return them on demand to the Company.

### **Winding up of cell companies**

Under the Companies (Jersey) Law 1991, as amended, if the Company is to be wound up, the Issuer must be transferred to another cell company, wound up, continued as a body corporate under the law of another jurisdiction, incorporated independently of the cell company or merged with another company. Except as provided in the Terms and Conditions, pursuant to the Support Agreement Erste Bank has undertaken not to commence a winding up of the Company or the Issuer while any Notes of the Issuer are outstanding.

## **Factors which are material for the purpose of assessing the market and credit risks associated with Notes issued under the Programme**

### **Notes may not be a suitable investment for all investors**

Each potential investor in any Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- (i) have sufficient knowledge and experience to make a meaningful evaluation of the relevant Notes, the merits and risks of investing in the relevant Notes and the information contained or incorporated by reference in this Prospectus or any applicable supplement;
- (ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the relevant Notes and the impact such investment will have on its overall investment portfolio;
- (iii) have sufficient financial resources and liquidity to bear all of the risks of an investment in the relevant Notes, including where principal or interest is payable in one or more currencies, or where the currency for principal or interest payments is different from the potential investor's currency;
- (iv) understand thoroughly the terms of the relevant Notes and be familiar with the behaviour of any relevant indices and financial markets;
- (v) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks; and
- (vi) understand that the Notes are deeply subordinated and hence bear a higher credit risk than securities which rank above them in priority.

Some Notes are complex financial instruments and such instruments may be purchased by investors as a way to reduce risk or enhance yield with an understood, measured, appropriate addition of risk to their overall portfolios. A potential investor should not invest in Notes which are complex financial instruments unless it has the expertise (either alone or with the help of a financial adviser) to evaluate how the Notes will perform under changing conditions, the resulting effects on the value of such Notes and the impact this investment will have on the potential investor's overall investment portfolio.

### **Market price risk**

The development of market prices of the Notes depends on various factors, such as changes of market interest rate levels, the policies of central banks, overall economic developments, inflation rates or the lack of or excess demand for the relevant type of Note. The holder of Notes is therefore exposed to the risk of an unfavourable development of market prices of its Notes which may materialise if the holder sells the Notes.

### **Credit spread risk**

The Notes carry a significant risk premium compared to senior debt because they are deeply subordinated and only rank ahead of the ordinary share capital of the Issuer. The risk premium can fluctuate significantly over time.

### **Liquidity risk**

Application has been made to the Vienna Stock Exchange and the Luxembourg Stock Exchange to admit Notes issued under the Programme to trading on the Markets, each of which appears on the list of regulated markets issued by the European Commission. In addition, the Programme provides that Notes may be listed on an alternative market or stock exchange or may not be listed at all.

Regardless of whether the Notes are listed or not, there can be no assurance that a liquid secondary market for the Notes will develop or, if it does develop, that it will continue. The fact that the Notes may be listed does not necessarily lead to greater liquidity as compared to unlisted Notes. If the Notes are not listed on any stock exchange, pricing information for such Notes may, however, be more difficult to obtain, which may adversely affect the liquidity of the Notes. In an illiquid market, an investor might not be able to sell its Notes at any time at fair market prices. The possibility to sell the Notes might additionally be restricted by country-specific reasons.

#### **Reinvestment risk**

Noteholders may be subject to the risk that interest earned from an investment in the Notes may not in the event of an early redemption of any Notes be able to be reinvested in such a way that they earn the same rate of return as the redeemed Notes.

#### **Risk of early redemption**

The Notes will be perpetual securities in respect of which there will be no fixed redemption date. If the applicable Final Terms indicate that the Issuer, in accordance with the Terms and Conditions, has the right to call the Notes (an optional call right), then subject to the prior consent of Erste Bank, the Notes will be redeemable at the option of the Issuer upon giving notice within the notice period (if any) indicated in the applicable Final Terms to the holders of the Notes on the date or dates, at the price and on such terms as indicated in the applicable Final Terms.

The Notes are also redeemable for certain tax reasons (including if the Issuer is required to make additional (gross-up) payments) and capital adequacy reasons in accordance with the Terms and Conditions of the Notes.

If the Issuer redeems the Notes, a holder of such Notes is exposed to the risk that, due to the redemption, its investment will have a lower than expected yield. The Issuer might exercise its optional call right if the yield or relative credit spread on comparable Notes in the capital markets falls, which means that the investor may only be able to reinvest the redemption proceeds in Notes with a lower yield or higher credit spread.

#### **Perpetual nature of the Notes**

The Notes have no fixed final redemption date and holders have no rights to call for their redemption. Although the Issuer may redeem Notes in certain circumstances, there may be limitations on its ability to do so. Therefore, holders should be aware that they may be required to bear the financial risks of an investment in the Notes for an indefinite period of time.

#### **Subordination / limited recourse**

The Notes will constitute direct, unsecured and subordinated obligations of the Issuer and will be subordinated to all present and future senior and other unsubordinated and subordinated debt obligations of the Issuer (save for subordinated debt obligations which rank or are expressed to rank *pari passu* with the Notes). The Notes will be limited recourse obligations of the Issuer. Principal and interest will be payable solely from the Issuer's Available Funds and no debt will be owed to Noteholders in respect of any Shortfall. Noteholders are not entitled to take action to recover such Shortfall and failure by the Issuer to make any payment in respect of any Shortfall will not constitute a default. The Issuer is a cell of the Company, which is a protected cell company. For the avoidance of doubt, the Noteholders will not be entitled to make any claim in respect of any non-cellular assets of the Company nor in respect of any cellular assets of another cell of the Company.

The obligations of Erste Bank under the Support Agreement will rank junior as to payments to all liabilities to its creditors (including, without limitation, depositors, general creditors and subordinated debt holders) and claims of holders of senior ranking securities, *pari passu* as to payments in respect of Parity Securities and senior as to payments in respect of Junior Securities. In the event that Erste Bank is wound up, liquidated or



dissolved, the assets of Erste Bank would be available to pay obligations under the Support Agreement only after all payments have been made on such senior liabilities and claims.

**Interest not cumulative / no obligation to pay**

Interest on the Notes is not cumulative. Interest on the Notes will be paid by the Issuer out of Available Funds, except that the Issuer will not be required to make payments of interest to the extent that the aggregate of such interest payments together with interest paid on the Notes previously during the current fiscal year and distributions made or proposed or reasonably likely to be made on Parity Securities during the current fiscal year would exceed Distributable Funds. Even if sufficient Distributable Funds are available, the Issuer will not be required to make payments of interest if the directors of Erste Bank have resolved that, in accordance with applicable Austrian banking regulations affecting banks which fail to meet their capital ratios on a consolidated basis pursuant to the Act, Erste Bank would be limited in making such payments on Parity Securities or if there is in effect an order of the FMA prohibiting Erste Bank from making any payments. If interest on the Notes for any interest period is not paid for such reasons, the holders of the Notes will not be entitled to receive interest, even if Distributable Funds subsequently become available. The Issuer may also, at its sole discretion (but subject to the approval of Erste Bank), elect not to make Interest Payments on the Notes with a view to ensuring the continuity of Erste Bank's activities without weakening its financial structure, known as the "Optional Non-Payment Right", subject to the obligation of the Issuer to make Interest Payments in certain circumstances in which Erste Bank or an Issuing Vehicle makes a dividend payment or distribution or other payment on certain other securities.

**The "dividend pusher" will only be triggered in certain limited circumstances**

Although in certain circumstances in which Erste Bank or an Issuing Vehicle makes a dividend payment or distribution or other payment on certain other securities the Issuer will be required to make Interest Payments, this requirement will not apply if there are insufficient Distributable Funds or if there is in effect an order of the FMA prohibiting Erste Bank from making any payments or if Erste Bank's capital ratios are not met.

**A Noteholder's actual yield on Notes may be reduced from the stated yield by transaction costs**

When Notes are purchased or sold, several types of incidental costs (including transaction fees and commissions) are incurred in addition to the current price of the security. These incidental costs may significantly reduce or even eliminate the profit potential of the Notes particularly if their nominal value is small. For instance, credit institutions as a rule charge their clients for own commissions which are either fixed minimum commissions or pro-rata commissions depending on the order value. To the extent that additional - domestic or foreign - parties are involved in the execution of an order, including but not limited to domestic dealers or brokers in foreign markets, Noteholders must take into account that they may also be charged for the brokerage fees, commissions and other fees and expenses of such parties (third party costs).

In addition to such costs directly related to the purchase of securities (direct costs), Noteholders must also take into account any follow-up costs (such as custody fees). Investors should inform themselves about any additional costs incurred in connection with the purchase, custody or sale of the Notes before investing in the Notes.

**Fixed Rate Notes**

A holder of Fixed Rate Notes is exposed to the risk that the price of such Notes falls as a result of an increase in the market interest rate. While the nominal interest rate of Fixed Rate Notes as specified in the applicable Final Terms is fixed during the life of such Notes, the current interest rate in the capital market for similar issues of notes (the "market interest rate") typically changes on a daily basis. As the market interest rate changes, the price of Fixed Rate Notes also changes, but in the opposite direction. If the market interest rate increases, the price of Fixed Rate Notes typically falls, until the yield of such Notes is approximately equal to

the market interest rate. If the market interest rate falls, the price of Fixed Rate Notes typically increases, until the yield of such Notes is approximately equal to the market interest rate.

#### **Fixed to Floating Rate Notes**

Fixed to Floating Rate Notes bear interest at a rate that the Issuer may elect to convert from a fixed rate to a floating rate, or from a floating rate to a fixed rate. The Issuer's ability to convert the interest rate will affect the secondary market and the market value of the Notes since the Issuer may be expected to convert the rate when it is likely to produce a lower overall cost of borrowing. If the Issuer converts from a fixed rate to a floating rate, the spread on the Fixed to Floating Rate Notes may be less favourable than then prevailing spreads on comparable Floating Rate Notes relating to the same reference rate. In addition, the new floating rate at any time may be lower than the fixed interest rates payable on other Notes. If the Issuer converts from a floating rate to a fixed rate, the fixed rate may be lower than the then prevailing interest rates payable on its Notes.

#### **Floating Rate Notes**

A holder of Floating Rate Notes is exposed to the risk of fluctuating interest rate levels and uncertain interest income. Fluctuating interest rate levels make it more difficult to determine the profitability of Floating Rate Notes in advance.

#### **Risks in connection with caps**

If the interest rate and/or redemption amount of an issue of Notes are not fixed but will be determined according to the structure of Notes as set out in the relevant Final Terms of the Notes, such an issue may also incorporate a cap. The effect of a cap is that the amount and/or the redemption amount will never rise above the predetermined cap, so that the holder will not be able to benefit from any actual favourable development beyond the cap. The yield could, therefore, be considerably lower than that of similarly structured Notes without a cap.

#### **Index Linked Notes and Dual Currency Notes**

The Issuer may issue Notes with interest determined by reference to an index or formula, to changes in the prices of securities or commodities, to movements in currency exchange rates or other factors (each, a "Relevant Factor"). In addition, the Issuer may issue Notes with interest payable in one or more currencies which may be different from the currency in which the Notes are denominated. Potential investors should be aware that:

- (i) the market price of such Notes may be volatile;
- (ii) they may receive no interest;
- (iii) payment of interest may occur at a different time or in a different currency than expected;
- (iv) a Relevant Factor may be subject to significant fluctuations that may not correlate with changes in interest rates, currencies or other indices;
- (v) if a Relevant Factor is applied to Notes in conjunction with a multiplier greater than one or contains some other leverage factor, the effect of changes in the Relevant Factor on interest payable likely will be magnified; and
- (vi) the timing of changes in a Relevant Factor may affect the actual yield to investors, even if the average level is consistent with their expectations. In general, the earlier the change in the Relevant Factor, the greater the effect on yield.

**Inflation risk**

Inflation risk describes the possibility that the value of assets such as the Notes or income therefrom will decrease as inflation shrinks the purchasing power of a currency. Inflation causes the rate of return to decrease in value. If the inflation rate exceeds the interest paid on any Notes the yield on such Notes will become negative.

**General risks in respect of structured Notes**

In general, an investment in Notes by which the premium and/or the interest on and/or principal of which is determined by reference to one or more values of currencies, commodities, interest rates or other indices or formulae, either directly or inversely, may entail significant risks not associated with similar investments in a conventional debt security. Such risks include the risks that the holder of such Notes will receive no interest at all, or the resulting interest rate will be less than that payable on a conventional debt security at the same time and/or that the holder of such Notes could lose all or a substantial portion of the principal of its Notes. In addition, investors should be aware that the market price of such Notes may be very volatile (depending on the volatility of the relevant currency, commodity, interest rate, index or formula).

Neither the current nor the historical value of the relevant currencies, commodities, interest rates or other indices or formulae should be taken as an indication of future performance of such currencies, commodities, interest rates or other indices or formulae during the term of any Note.

**Risk of potential conflicts of interest**

Each of the Issuer, the Dealer(s) or any of their respective affiliates not only issue/subscribe Notes but also have other business areas which independently do business with companies that might be part of the assets underlying the Notes (e.g., an index, single shares or baskets). It cannot be ruled out that decisions made by those independent business areas may have a positive or a negative impact on the underlying value.

**Impact of regulatory changes**

Erste Bank is subject to financial services laws, regulations, administrative actions and policies in Austria and each other jurisdiction in which Erste Bank operates. Changes in supervision and regulation, in particular in Austria, could materially affect Erste Bank's business, the products and services offered or the value of their assets. Although Erste Bank works closely with regulators and continually monitors the situation, future changes in regulation and fiscal or other policies can be unpredictable and are beyond the control of Erste Bank.

**Limited rights under the Support Agreement**

The Notes are obligations of the Issuer. The Notes do not constitute obligations of, nor are they guaranteed by, Erste Bank. The Issuer is a financial vehicle whose principal asset is its interest in the Investments.

Erste Bank has in the Support Agreement irrevocably agreed, subject to the terms of the Support Agreement (including the availability of Distributable Funds of Erste Bank and compliance with Austrian banking regulations), that if at any time the Issuer has insufficient funds to enable it to meet in full its obligations under or in respect of the Notes as and when such obligations fall due, Erste Bank shall make available to the Issuer sufficient funds to meet such payment obligations.

However, the Support Agreement does not provide the rights and benefits of a guarantee and the Noteholders are not entitled to make a demand on Erste Bank for direct payment to them of principal or interest or other amounts payable in respect of the Notes if the Issuer fails to make payment thereof when due. Noteholders only have direct rights of enforcement against Erste Bank in relation to its obligations vis-à-vis the Issuer under the Support Agreement. The Support Agreement does not oblige Erste Bank to make direct payments to the Noteholders.

## **Risks related to the market generally**

Set out below is a brief description of certain market risks, including liquidity risk, exchange rate risk, interest rate risk and credit risk:

### **The secondary market generally**

Notes may have no established trading market when issued, and one may never develop. If a market does develop, it may not be liquid. Therefore, investors may not be able to sell their Notes easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. This is particularly the case for Notes that are especially sensitive to interest rate, currency or market risks, are designed for specific investment objectives or strategies or have been structured to meet the investment requirements of limited categories of investors. These types of Notes generally would have a more limited secondary market and more price volatility than conventional debt securities. Illiquidity may have a severely adverse effect on the market value of Notes.

### **Exchange rate risks and exchange controls**

The Issuer will pay principal and interest on the Notes in the Specified Currency. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the "Investor's Currency") other than the Specified Currency. These include the risk that exchange rates may significantly change (including changes due to devaluation of the Specified Currency or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to the Specified Currency would decrease (1) the Investor's Currency-equivalent yield on the Notes, (2) the Investor's Currency-equivalent value of the principal payable on the Notes and (3) the Investor's Currency-equivalent market value of the Notes.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal.

### **Interest rate risks**

Investment in Fixed Rate Notes involves the risk that subsequent changes in market interest rates may adversely affect the value of Fixed Rate Notes.

### **Credit ratings may not reflect all risks**

One or more independent credit rating agencies may assign credit ratings to an issue of Notes. The ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above, and other factors that may affect the value of the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time.

### **Legal investment considerations may restrict certain investments**

The investment activities of certain investors are subject to investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (1) Notes are legal investments for it, (2) Notes can be used as collateral for various types of borrowing and (3) other restrictions apply to its purchase or pledge of any Notes. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of Notes under any applicable risk-based capital or similar rules.

## OVERVIEW OF THE PROGRAMME

*The following overview does not purport to be complete and is taken from, and is qualified in its entirety by, the remainder of this Prospectus and, in relation to the terms and conditions of any particular Tranche of Notes, the applicable Final Terms. Words and expressions defined or used in “Terms and Conditions of the Notes” below shall have the same meanings in this overview. The Issuer and Erste Bank may agree with any Dealer that Notes may be issued in a form other than that contemplated in “Terms and Conditions of the Notes” herein, in which event (in the case of listed or publicly offered Notes only) a supplementary Prospectus, if appropriate, will be made available which will describe the effect of the agreement reached in relation to such Notes.*

*Capitalised terms used but not defined in this Overview shall bear the meanings ascribed thereto in the Terms and Conditions of the Notes herein.*

<b>Issuer</b>	Erste Capital Finance (Jersey) Tier 1 PC
<b>Company</b>	Erste Capital Finance (Jersey) PCC
<b>Support Agreement Provider</b>	Erste Bank der oesterreichischen Sparkassen AG
<b>Description</b>	Programme for the issue of Perpetual Subordinated Notes.
<b>Size</b>	Up to €1,000,000,000 (or the equivalent in other currencies at the date of issue) aggregate principal amount of Notes outstanding at any one time.
<b>Arranger</b>	BNP Paribas.
<b>Dealers</b>	BNP Paribas and Erste Bank.  The Issuer and Erste Bank may from time to time appoint dealers in respect of one or more Tranches. References in this Prospectus to “Dealers” are to all persons appointed as a dealer in respect of one or more Tranches.
<b>Fiscal Agent</b>	BNP Paribas Securities Services, Luxembourg Branch
<b>Paying and Transfer Agents</b>	Erste Bank der oesterreichischen Sparkassen AG and BNP Paribas Securities Services, Luxembourg Branch
<b>Registrar</b>	BNP Paribas Securities Services, Luxembourg Branch
<b>Method of Issue</b>	Notes will be issued on a syndicated or a non-syndicated basis.  The Notes will be issued in series (each a “Series”) having one or more issue dates and on terms otherwise identical (or identical other than in respect of the first payment of interest), the Notes of each Series being intended to be interchangeable with all other Notes of that Series. Each Series may be issued in tranches (each a “Tranche”) on the same or different issue dates. The specific terms of each Tranche (which will be supplemented, where necessary, with supplemental terms and conditions and, save in respect of the issue date, issue price, first payment of interest and principal amount of the Tranche, will be identical to the terms of other Tranches of the same Series) will be set out in a final terms supplement to this Prospectus (the “Final Terms”).

<b>Redenomination, renominalisation and/or reconventioning</b>	Notes denominated in a currency that may be redenominated into euro may, following the giving of notice by the Issuer and Erste Bank to the Noteholders, the Fiscal Agent, Euroclear, Clearstream, Luxembourg and/or OeKB, be subject to redenomination, renominalisation, reconventioning and/or consolidation with other Notes then denominated in euro as may be specified in the Final Terms.
<b>Issue Price</b>	Notes may be issued at their principal amount or at a discount or premium to their principal amount.
<b>Form of Notes</b>	The Notes may be issued in bearer form (“Bearer Notes”) or in registered form (“Registered Notes”). Each Tranche of Bearer Notes will be represented on issue by a temporary Global Note if (i) definitive Notes are to be made available to Noteholders following the expiry of 40 days after their issue date or (ii) such Notes have an initial maturity of more than one year and are being issued in compliance with the D Rules (as defined in “Overview of the Programme — Selling Restrictions”), otherwise such Tranche will be represented by a permanent Global Note. Registered Notes will be represented by Certificates, one Certificate being issued in respect of each Noteholder’s entire holding of Registered Notes of one Series. Certificates representing Registered Notes that are registered in the name of one holder or a nominee for one or more clearing systems are referred to as “Global Certificates”.
<b>Clearing Systems</b>	Euroclear and Clearstream, Luxembourg or OeKB and, in relation to any Tranche, such other clearing system as may be agreed between the Issuer, Erste Bank, the Fiscal Agent and the relevant Dealer.
<b>Initial Delivery of Notes</b>	On or before the issue date for each Tranche, the Global Note representing Bearer Notes or the Global Certificate representing Registered Notes may be deposited with a common depository for Euroclear and Clearstream, Luxembourg or OeKB or a depository for OeKB. Global Notes or Global Certificates may also be deposited with any other clearing system or may be delivered outside any clearing system provided that the method of such delivery has been agreed in advance by the Issuer, Erste Bank, the Fiscal Agent and the relevant Dealer. Registered Notes that are to be credited to one or more clearing systems on issue will be registered in the name of nominees or a common nominee for such clearing systems.
<b>Currencies</b>	Subject to compliance with all relevant laws, regulations and directives, Notes may be issued in any currency if the Issuer, Erste Bank and the relevant Dealers so agree.
<b>No Maturity</b>	The Notes will be perpetual and, therefore, will not have a maturity date.
<b>Denomination</b>	Definitive Notes will be in such denominations as may be

specified in Part A of the relevant Final Terms save that the minimum denomination shall be €1,000 (or its equivalent in any other currency as at the date of issue of the Notes).

**Fixed Interest Rate Notes**

Fixed interest will be payable in arrear on the date or dates in each year specified in Part A of the relevant Final Terms and subject to Condition 5 of the Terms and Conditions of the Notes.

**Floating Rate Notes**

Floating Rate Notes will, subject to Condition 5 of the Terms and Conditions of the Notes, bear interest set separately for each Series:

- (i) on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the ISDA Definitions (as defined in the Terms and Conditions of the Notes); or
- (ii) by reference to LIBOR, EURIBOR or Euro-ISDA Swap Rate (or such other benchmark as may be specified in Part A of the relevant Final Terms) as adjusted for any applicable margin.

Interest periods will be specified in Part A of the relevant Final Terms.

**Other Notes**

Terms applicable to step-up Notes, dual currency Notes and any other type of Note that the Issuer and any Dealer may agree to issue under the Programme will be set out in the relevant Final Terms and/or Supplemental Prospectus.

**Interest Periods and Interest Rates**

The length of the interest periods for the Notes and the applicable interest rate or its method of calculation may differ from time to time or be constant for any Series. Notes may have a maximum interest rate, a minimum interest rate or both. The use of interest accrual periods permits the Notes to bear interest at different rates in the same interest period. All such information will be set out in Part A of the relevant Final Terms.

**Redemption / Optional Redemption**

The Notes will be perpetual securities in respect of which there will be no fixed redemption date. If the applicable Final Terms indicate that the Issuer has the right to call the Notes (an optional call right), then, subject to the prior consent of Erste Bank, the Notes will be redeemable at the option of the Issuer upon giving notice within the notice period (if any) indicated in the applicable Final Terms to the holders of the Notes on the date or dates, at the price and on such terms as indicated in the applicable Final Terms.

The Notes are also redeemable for certain tax reasons (including if the Issuer is required to make additional (gross-up) payments) and capital adequacy reasons in accordance with the

Terms and Conditions of the Notes.

Notes which are redeemed must be substituted by capital of equal or better quality (*Kapital gleicher oder besserer Qualität*), unless the FMA determines that Erste Bank and the Credit Institute Group have sufficient Own Funds required for an adequate risk coverage even after repayment of the Notes. “Own Funds” and “Credit Institute Group” bear the meanings given to them in the Terms and Conditions of the Notes.

**Status of the Notes and the Support Agreement**

The Notes will constitute direct, unsecured and subordinated obligations of the Issuer and will be subordinated to all present and future senior and other unsubordinated and subordinated debt obligations of the Issuer (save for subordinated debt obligations which rank or are expressed to rank *pari passu* with the Notes). The Notes will be limited recourse obligations of the Issuer. Principal and interest will be payable solely from the Issuer’s Available Funds and no debt will be owed to Noteholders in respect of any Shortfall. Noteholders are not entitled to take action to recover such Shortfall and failure by the Issuer to make any payment in respect of any Shortfall will not constitute a default, all as described in “Terms and Conditions of the Notes — Status of the Notes”. Erste Bank’s obligations under the Support Agreement constitute direct, unsecured and subordinated obligations of Erste Bank and will be subordinated to all present and future senior and other unsubordinated and subordinated debt obligations of Erste Bank (save for subordinated debt obligations which rank or are expressed to rank *pari passu* with the Notes or Erste Bank’s obligations under the Support Agreement).

**Withholding Tax**

All payments of principal and interest in respect of the Notes will be made free and clear of withholding taxes in Jersey and Austria, subject to customary exceptions as described in “Terms and Conditions of the Notes — Taxation”.

**Governing Law**

The Notes will be governed by and construed in accordance with English law, save that the determination of Distributable Funds shall be construed in accordance with Austrian law. The Support Agreement will be governed by and construed in accordance with English law save that the provisions concerning the ranking of the Support Agreement will be governed by and construed in accordance with Austrian law.

**Listing**

Application has been made to the Vienna Stock Exchange and the Luxembourg Stock Exchange for Notes issued under the Programme to be admitted to trading on the Markets and Notes will be admitted to one or more of those Markets unless otherwise specified in Part A of the relevant Final Terms. References to listing shall be construed accordingly.

**Ratings**

Tranches of Notes may be rated or unrated. Where a Tranche of



## **Selling Restrictions**

Notes is rated, such rating will be specified in the relevant Final Terms. A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, revision or withdrawal at any time by the assigning rating agency.

United States, European Economic Area, United Kingdom, Jersey, Germany, The Netherlands, Japan and such other restrictions as may be required in connection with a particular issue. See “Subscription and Sale”.

The Notes to be offered and sold will be subject to the restrictions of Category 2 for the purposes of Regulation S under the Securities Act.

The Notes will be issued in compliance with U.S. Treas. Reg. §1.163-5(c)(2)(i)(D) (the “D Rules”) unless (i) the relevant Final Terms states that Notes are issued in compliance with U.S. Treas. Reg. §1.163-5(c)(2)(i)(C) (the “C Rules”) or (ii) the Notes are issued other than in compliance with the D Rules or the C Rules but in circumstances in which the Notes will not constitute “registration required obligations” under the United States Tax Equity and Fiscal Responsibility Act of 1982 (“TEFRA”), which circumstances will be referred to in the relevant Final Terms as a transaction to which TEFRA is not applicable.

## TERMS AND CONDITIONS OF THE NOTES

*The following is the text of the terms and conditions that, subject to completion and amendment and as supplemented or varied in accordance with the provisions of Part A of the relevant Final Terms, shall be applicable to the Notes in definitive form (if any) issued in exchange for the Global Note(s) or Certificate(s) representing each Series of Notes. Either (i) the full text of these terms and conditions together with the relevant provisions of Part A of the Final Terms or (ii) these terms and conditions as so completed, amended, supplemented or varied (and subject to simplification by the deletion of non-applicable provisions) shall be endorsed on such Bearer Notes or on the Certificates relating to such Registered Notes. Accordingly, references in these terms and conditions to provisions specified hereon shall be to provisions endorsed on the face of the relevant Note or set out in the relevant Final Terms. All capitalised terms that are not defined in these Conditions will have the meanings given to them in Part A of the relevant Final Terms. Those definitions will be endorsed on the definitive Notes or Certificates, as the case may be. References in the Conditions to “Notes” are to the Notes of one Series only, not to all Notes that may be issued under the Programme.*

The Notes are issued pursuant to an Agency Agreement (as amended or supplemented as at the date of issue of the Notes (the “Issue Date”), the “Agency Agreement”) dated 25 July 2006 between Erste Capital Finance (Jersey) PCC (the “Company”) (in respect of each of its cells from time to time, including Erste Capital Finance (Jersey) Tier 1 PC (the “Issuer”), Erste Bank der oesterreichischen Sparkassen AG (“Erste Bank”), BNP Paribas Securities Services, Luxembourg Branch as fiscal agent and the other agents named therein and with the benefit of a Support Agreement between the Company (in respect of each of its cells from time to time, including the Issuer) and Erste Bank dated 25 July 2006 (as amended or supplemented as at the Issue Date, the “Support Agreement”). The fiscal agent, the paying agents, the registrar, the transfer agents and the calculation agent(s) for the time being (if any) are referred to below respectively as the “Fiscal Agent”, the “Paying Agents” (which expression shall include the Fiscal Agent), the “Registrar”, the “Transfer Agents” (which expression shall include the Registrar) and the “Calculation Agent(s)”. Copies of the Agency Agreement and the Support Agreement are available for inspection during usual business hours at the specified offices of the Paying Agents and the Transfer Agents.

The Noteholders and the holders of the interest coupons (the “Coupons”) relating to interest bearing Notes in bearer form and, in the case of such Notes, talons for further Coupons (the “Talons”) (the “Couponholders”) are deemed to have notice of those provisions of the Agency Agreement applicable to them.

As used in these Conditions, “Tranche” means Notes which are identical in all respects and “relevant Final Terms” means the final terms document relating to a Tranche.

### **1 Form, Denomination and Title**

The Notes are issued in bearer form (“Bearer Notes”) or in registered form (“Registered Notes”) in each case in the Specified Denomination(s) shown hereon.

*All Registered Notes shall have the same Specified Denominations.*

This Note is a Fixed Rate Note, a Floating Rate Note, a Dual Currency Note or a combination of the foregoing or any other kind of Note, depending upon the Interest Basis shown hereon.

Bearer Notes are serially numbered and are issued with Coupons and a Talon attached.

Registered Notes are represented by registered certificates (“Certificates”) and, save as provided in Condition 2(b), each Certificate shall represent the entire holding of Registered Notes by the same holder.

Title to the Bearer Notes and the Coupons and Talons shall pass by delivery. Title to the Registered Notes shall pass upon registration in the register that the Issuer shall procure to be kept by the Registrar in

accordance with the provisions of the Agency Agreement (the “Register”). Except as ordered by a court of competent jurisdiction or as required by law, the holder (as defined below) of any Note, Coupon or Talon shall be deemed to be and may be treated as its absolute owner for all purposes whether or not it is overdue and regardless of any notice of ownership, trust or an interest in it, any writing on it (or on the Certificate representing it) or its theft or loss (or that of the related Certificate) and no person shall be liable for so treating the holder.

In these Conditions, “Noteholder” means the bearer of any Bearer Note or the person in whose name a Registered Note is registered (as the case may be), “holder” (in relation to a Note, Coupon or Talon) means the bearer of any Bearer Note, Coupon or Talon or the person in whose name a Registered Note is registered (as the case may be) and capitalised terms have the meanings given to them hereon, the absence of any such meaning indicating that such term is not applicable to the Notes.

## **2 Transfers of Registered Notes**

### **(a) *Transfer of Registered Notes***

One or more Registered Notes may be transferred upon the surrender (at the specified office of the Registrar or any Transfer Agent) of the Certificate representing such Registered Notes to be transferred, together with the form of transfer endorsed on such Certificate (or another form of transfer substantially in the same form and containing the same representations and certifications (if any), unless otherwise agreed by the Issuer), duly completed and executed, and any other evidence as the Registrar or the relevant Transfer Agent may reasonably require. In the case of a transfer of part only of a holding of Registered Notes represented by one Certificate, a new Certificate shall be issued to the transferee in respect of the part transferred and a further new Certificate in respect of the balance of the holding not transferred shall be issued to the transferor. All transfers of Notes and entries on the Register will be made subject to the detailed regulations concerning transfers of Notes scheduled to the Agency Agreement. The regulations may be changed by the Issuer, with the prior written approval of the Registrar and the Noteholders. A copy of the current regulations will be made available by the Registrar to any Noteholder upon request.

### **(b) *Exercise of Options or Partial Redemption in Respect of Registered Notes***

In the case of an exercise of an Issuer’s or Noteholder’s option in respect of a holding of Registered Notes represented by a single Certificate or (subject to Condition 6) a partial redemption of a holding of Registered Notes represented by a single Certificate, a new Certificate shall be issued to the holder to reflect the exercise of such option or in respect of the balance of the holding not redeemed. In the case of a partial exercise of an option resulting in Registered Notes of the same holding having different terms, separate Certificates shall be issued in respect of those Notes of that holding that have the same terms. New Certificates shall only be issued against surrender of the existing Certificates to the Registrar or any Transfer Agent. In the case of a transfer of Registered Notes to a person who is already a holder of Registered Notes, a new Certificate representing the enlarged holding shall only be issued against surrender of the Certificate representing the existing holding.

### **(c) *Delivery of New Certificates***

Each new Certificate to be issued pursuant to Conditions 2(a) or (b) shall be available for delivery within three business days of receipt of the form of transfer and surrender of the Certificate for exchange. Delivery of the new Certificate(s) shall be made at the specified office of the relevant Transfer Agent or of the Registrar (as the case may be) to whom delivery or surrender of such form of transfer or Certificate shall have been made or, at the option of the holder making such delivery or surrender as aforesaid and as specified in the relevant form of transfer or otherwise in writing, be

mailed by uninsured post at the risk of the holder entitled to the new Certificate to such address as may be so specified, unless such holder requests otherwise and pays in advance to the relevant Transfer Agent the costs of such other method of delivery and/or such insurance as it may specify. In this Condition 2(c), “business day” means a day, other than a Saturday or Sunday, on which banks are open for business in the place of the specified office of the relevant Transfer Agent or the Registrar (as the case may be).

**(d) *Transfer Free of Charge***

Transfer of Notes and Certificates on registration, transfer, exercise of an option or partial redemption shall be effected without charge by or on behalf of the Issuer, the Registrar or the relevant Transfer Agent, but upon payment of any tax or other governmental charges by the person submitting such Notes or Certificates that may be imposed in relation to it (or the giving of such indemnity as the Registrar or the relevant Transfer Agent may require).

**(e) *Closed Periods***

No Noteholder may require the transfer of a Registered Note to be registered (i) during the period of 15 days ending on the due date for redemption of that Note, (ii) during the period of 15 days prior to any date on which Notes may be called for redemption by the Issuer at its option pursuant to Condition 6(b), (iii) after any such Note has been called for redemption or (iv) during the period of seven days ending on (and including) any Record Date (as defined in Condition 7(b)(ii)).

### **3 Status**

**(a) *Status of the Notes***

The Notes and the Coupons relating to them constitute direct, unsecured and subordinated obligations of the Issuer and rank, and will rank, (i) senior to the ordinary share capital of the Issuer, (ii) *pari passu* without any preference among themselves and at least *pari passu* with all (if any) other present and future preference shares or other securities issued by the Issuer which rank *pari passu* with the Notes and (iii) subordinated to all (if any) present and future senior and other unsubordinated and subordinated debt obligations of the Issuer (save for subordinated debt obligations which rank or are expressed to rank *pari passu* with the Notes).

**(b) *Limited Recourse***

The Notes are limited recourse obligations of the Issuer. Principal and interest on the Notes will be solely payable by the Issuer from Available Funds. The Issuer will not be obliged to make any further payment in excess of the relevant Available Funds and accordingly no debt shall be owed by the Issuer in respect of any Shortfall (as defined below). No Noteholder (nor any person acting on behalf of a Noteholder) may take any action to recover such Shortfall. Failure to make any payment in respect of any Shortfall shall not constitute a default under these Conditions.

In this Condition 3(b), “Shortfall” means the difference between the relevant Available Funds and the amount which would but for this Condition 3(b) have been due.

**(c) *Rights upon Liquidation***

In the event of any voluntary or involuntary liquidation, dissolution or winding-up of the Issuer, the Noteholders will be entitled to receive the Liquidation Distribution in respect of each Note held out of the assets of the Issuer available for distribution to Noteholders.

Such entitlement will arise before any distribution of assets is made to holders of ordinary shares or any other securities of the Issuer ranking junior as regards participation in assets to the Notes, but such entitlement will rank equally with the entitlement of the holders of all other securities, if any, of the Issuer ranking *pari passu* with the Notes as regards participation in assets of the Issuer.

Notwithstanding the availability of sufficient assets to pay any Liquidation Distribution to the Noteholders, if at the time such Liquidation Distribution is to be paid, proceedings are pending or have been commenced for the voluntary or involuntary liquidation, dissolution or winding-up of Erste Bank, the Liquidation Distribution per Note payable to Noteholders and the liquidation distribution per security payable to the holders of all Asset Parity Securities shall not exceed the amount per Note that would have been payable as the liquidation distribution from the assets of Erste Bank (after payment in full in accordance with Austrian law of all creditors of Erste Bank, including holders of its subordinated debt ranking, or expressed to rank, senior to Erste Bank's obligations under the Support Agreement but, for the avoidance of doubt, excluding holders of any liability expressed to rank *pari passu* with Erste Bank's obligations under the Support Agreement) had the Notes and all Asset Parity Securities been directly issued by Erste Bank and ranked (x) junior to all liabilities of Erste Bank (other than any liability expressed to rank *pari passu* with, or junior to, Erste Bank's obligations under the Support Agreement), (y) *pari passu* with all Asset Parity Securities of Erste Bank and (z) senior to Erste Bank's Bank Share Capital.

If the Liquidation Distribution and any other such liquidation distributions cannot be made in full by reason of the limitation described in this Condition 3(c), such amounts will be payable *pro rata* in the proportion that the amount available for payment bears to the full amount that would have been payable but for such limitation. After payment of the Liquidation Distribution, paid *pro rata* as aforesaid if applicable, the Noteholders will have no right or claim to any of the remaining assets of the Issuer or Erste Bank.

In the event of the liquidation, dissolution or winding-up of Erste Bank, Erste Bank shall procure that the Issuer convenes an extraordinary general meeting for the purpose of proposing an Extraordinary Resolution (as defined in Condition 10(a)) to put the Issuer into voluntary winding-up and the amount per Note to which the Noteholders shall be entitled as a Liquidation Distribution will be as set out in this Condition 3(c).

Erste Bank will undertake in the Support Agreement that, so long as any Notes are outstanding, unless Erste Bank itself is in liquidation, dissolution or winding-up, Erste Bank will not permit, or take any action to cause, the liquidation, dissolution or winding-up of the Issuer.

**(d) *Support Agreement***

Erste Bank has in the Support Agreement irrevocably agreed, subject to the terms of the Support Agreement (including the availability of Distributable Funds of Erste Bank and compliance with Austrian banking regulations), that if at any time the Issuer has insufficient funds to enable it to meet in full its obligations under or in respect of the Notes as and when such obligations fall due, Erste Bank shall make available to the Issuer sufficient funds to meet such payment obligations.

## **4 Interest and other Calculations**

**(a) *Interest on Fixed Rate Notes***

Subject to Condition 5, each Fixed Rate Note bears interest on its outstanding nominal amount from the Interest Commencement Date at the rate per annum (expressed as a percentage) equal to the Rate of Interest, such interest being payable in arrear on each Interest Payment Date. If a Fixed Coupon

Amount or a Broken Amount is specified hereon, the amount of interest payable on each Interest Payment Date will amount to the Fixed Coupon Amount or, if applicable, the Broken Amount so specified and in the case of the Broken Amount will, subject to Condition 5, be payable on the particular Interest Payment Date(s) specified hereon.

Interest shall cease to accrue on each Note on, but excluding, the due date for redemption unless, upon due presentation, payment of principal is improperly withheld or refused, in which event, subject to Condition 5, interest shall continue to accrue (as well after as before judgment) at the Rate of Interest in the manner provided in this Condition 4 to the Relevant Date.

As used in these Conditions, "Relevant Date" in respect of any Note or Coupon means the date on which payment in respect of it first becomes due or (if any amount of the money payable is improperly withheld or refused) the date on which payment in full of the amount outstanding is made or (if earlier) the date seven days after that on which notice is duly given to the Noteholders that, upon further presentation of the Note (or relative Certificate) or Coupon being made in accordance with the Conditions, such payment will be made, provided that payment is in fact made upon such presentation.

**(b) *Interest on Floating Rate Notes***

*(i) Interest Payment Dates*

Subject to Condition 5, each Floating Rate Note bears interest on its outstanding nominal amount from the Interest Commencement Date at the rate per annum (expressed as a percentage) equal to the Rate of Interest, such interest being payable in arrear on each Interest Payment Date. Such Interest Payment Date(s) is/are either shown hereon as Specified Interest Payment Dates or, if no Specified Interest Payment Date(s) is/are shown hereon, "Interest Payment Date" shall mean each date which falls the number of months or other period shown hereon as the Specified Period after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.

*(ii) Business Day Convention*

If any date referred to in these Conditions that is specified to be subject to adjustment in accordance with a Business Day Convention would otherwise fall on a day that is not a Business Day, then, if the Business Day Convention specified is (A) the Floating Rate Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event (x) such date shall be brought forward to the immediately preceding Business Day and (y) each such subsequent date shall be the last Business Day of the month in which such date would have fallen had it not been subject to adjustment, (B) the Following Business Day Convention, such date shall be postponed to the next day that is a Business Day, (C) the Modified Following Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event such date shall be brought forward to the immediately preceding Business Day or (D) the Preceding Business Day Convention, such date shall be brought forward to the immediately preceding Business Day.

*(iii) Rate of Interest for Floating Rate Notes*

The Rate of Interest in respect of Floating Rate Notes for each Interest Accrual Period shall be determined in the manner specified hereon and the provisions below relating to either ISDA Determination or Screen Rate Determination shall apply, depending upon which is specified hereon.

(A) ISDA Determination for Floating Rate Notes

Where ISDA Determination is specified hereon as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Accrual Period shall be determined by the Calculation Agent as a rate equal to the relevant ISDA Rate. For the purposes of this sub-paragraph (A), “ISDA Rate” for an Interest Accrual Period means a rate equal to the Floating Rate that would be determined by the Calculation Agent under a Swap Transaction under the terms of an agreement incorporating the ISDA Definitions and under which:

- (x) the Floating Rate Option is as specified hereon;
- (y) the Designated Maturity is a period specified hereon; and
- (z) the relevant Reset Date is the first day of that Interest Accrual Period unless otherwise specified hereon.

For the purposes of these Conditions, “Floating Rate”, “Calculation Agent”, “Floating Rate Option”, “Designated Maturity”, “Reset Date” and “Swap Transaction” have the meanings given to those terms in the ISDA Definitions.

(B) Screen Rate Determination for Floating Rate Notes

(xx) In the case of Floating Rate Notes other than CMS Floating Rate Notes, where Screen Rate Determination is specified hereon as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Accrual Period will, subject as provided below, be either:

- (1) the offered quotation; or
- (2) the arithmetic mean of the offered quotations

(expressed as a percentage rate per annum), for the Reference Rate which appears or appear, as the case may be, on the Relevant Screen Page as at 11.00 a.m. (London time in the case of LIBOR or Brussels time in the case of EURIBOR) on the Interest Determination Date in question as determined by the Calculation Agent. If five or more of such offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such quotations) shall be disregarded by the Calculation Agent for the purpose of determining the arithmetic mean of such offered quotations.

(xy) In the case of CMS Floating Rate Notes, where Screen Rate Determination is specified hereon as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Accrual Period will, subject as provided below, be either:

- (1) the offered quotation; or
- (2) the arithmetic mean of the offered quotations

(expressed as a percentage per annum), for the Reference Rate which appears on the Relevant Screen Page, unless otherwise specified hereon, as at 11.00 a.m. (Brussels time in the case of Euro-ISDA Swap Rate or London time in the case of

any other Reference Rate) on the Interest Determination Date in question as determined by the Calculation Agent. If five or more of such offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such quotations) shall be disregarded by the Calculation Agent for the purpose of determining the arithmetic mean of such offered quotations.

If the Reference Rate from time to time in respect of Floating Rate Notes is specified in the applicable Final Terms as being other than LIBOR, EURIBOR or Euro-ISDA Swap Rate, the Rate of Interest in respect of such Notes will be determined as provided in the applicable Final Terms.

- (y) If the Relevant Screen Page is not available, or if sub-paragraph (xx)(1) or, as appropriate, (xy)(1) above applies and no such offered quotation appears on the Relevant Screen Page, or if sub-paragraph (xx)(2) or, as appropriate, (xy)(2) above applies and fewer than three such offered quotations appear on the Relevant Screen Page, in each case as at the time specified above, subject as provided below, the Calculation Agent shall request, if the Reference Rate is LIBOR, the principal London office of each of the Reference Banks or, if the Reference Rate is EURIBOR or Euro-ISDA Swap Rate, the principal Euro-zone office of each of the Reference Banks, to provide the Calculation Agent with its offered quotation (expressed as a percentage rate per annum) for the Reference Rate if the Reference Rate is LIBOR, at approximately 11.00 a.m. (London time), or if the Reference Rate is EURIBOR or Euro-ISDA Swap Rate, at approximately 11.00 a.m. (Brussels time) on the Interest Determination Date in question. If this is a CMS Floating Rate Note, the quotation sought for the Reference Rate shall be the relevant mid-market annual swap rate (expressed as a percentage per annum) for deposits for the relevant Interest Period at approximately 11.00 a.m. (Brussels time) if the Reference Rate is Euro-ISDA Swap Rate, or if the Reference Rate is any other swap rate, unless otherwise specified hereon, at approximately 11.00 a.m. London time on the Interest Determination Date in question. If two or more of the Reference Banks provide the Calculation Agent with such offered quotations, the Rate of Interest for such Interest Period shall be the arithmetic mean of such offered quotations as determined by the Calculation Agent.

In the case of CMS Floating Rate Notes where the Reference Rate is the Euro-ISDA Swap Rate, the mid-market annual swap rate means the arithmetic mean of the bid and offered rates for the annual fixed leg, calculated on a 30/360 day count basis, for a fixed-for-floating euro interest rate swap transaction with a maturity equal to the Designated Maturity commencing on such Interest Determination Date with an acknowledged dealer of good credit in the swap market, where the floating leg, calculated on an Actual/360 day count basis, is equivalent to 6 months EUR-EURIBOR-Telerate. "6 months EUR-EURIBOR-Telerate" means the rate for deposits on the Telerate Page 248 as of 11.00 a.m. (Brussels time) or which is otherwise determined by the relevant Reference Bank.

- (z) In the case of Floating Rate Notes other than CMS Floating Rate Notes, if paragraph (y) above applies and the Calculation Agent determines that fewer than



two Reference Banks are providing offered quotations, subject as provided below, the Rate of Interest shall be the arithmetic mean of the rates per annum (expressed as a percentage) as communicated to (and at the request of) the Calculation Agent by the Reference Banks or any two or more of them, at which such banks were offered, if the Reference Rate is LIBOR, at approximately 11.00 a.m. (London time) or, if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time) on the relevant Interest Determination Date, deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate by leading banks in, if the Reference Rate is LIBOR, the London inter-bank market or, if the Reference Rate is EURIBOR, the Euro-zone inter-bank market, as the case may be, or, if fewer than two of the Reference Banks provide the Calculation Agent with such offered rates, the offered rate for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, or the arithmetic mean of the offered rates for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, at which, if the Reference Rate is LIBOR, at approximately 11.00 a.m. (London time) or, if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time), on the relevant Interest Determination Date, any one or more banks (which bank or banks is or are, in the reasonable opinion of the Issuer, suitable for such purpose) informs the Calculation Agent it is quoting to leading banks in, if the Reference Rate is LIBOR, the London inter-bank market or, if the Reference Rate is EURIBOR, the Euro-zone inter-bank market, as the case may be, provided that, if the Rate of Interest cannot be determined in accordance with the foregoing provisions of this paragraph, the Rate of Interest shall be determined as at the last preceding Interest Determination Date (though substituting, where a different Margin or Maximum or Minimum Rate of Interest is to be applied to the relevant Interest Accrual Period from that which applied to the last preceding Interest Accrual Period, the Margin or Maximum or Minimum Rate of Interest relating to the relevant Interest Accrual Period, in place of the Margin or Maximum or Minimum Rate of Interest relating to that last preceding Interest Accrual Period).

In the case of CMS Floating Rate Notes, if paragraph (y) above applies and the Calculation Agent determines that fewer than two different Reference Banks are providing such offered quotations, subject as provided below, the Rate of Interest shall be the offered quotation or the arithmetic mean of the offered quotations on the Relevant Screen Page, as described above, on the last day preceding the Interest Determination Date on which such quotations were offered.

**(c) *Interest on Dual Currency Notes***

In the case of Dual Currency Notes, if the rate or amount of interest falls to be determined by reference to a Rate of Exchange or a method of calculating a Rate of Exchange, the rate or amount of interest payable shall be determined in the manner specified hereon.

**(d) *Margin, Maximum/Minimum Rates of Interest and Rounding***

- (i) If any Margin is specified hereon (either (x) generally, or (y) in relation to one or more Interest Accrual Periods), an adjustment shall be made to all Rates of Interest, in the case of (x), or the Rates of Interest for the specified Interest Accrual Periods, in the case of (y), calculated in

accordance with Condition 4(b) above by adding (if a positive number) or subtracting the absolute value (if a negative number) of such Margin, subject always to the next paragraph.

- (ii) If any Maximum or Minimum Rate of Interest is specified hereon, then any Rate of Interest shall be subject to such maximum or minimum, as the case may be.
- (iii) Subject to the requirements of applicable law, for the purposes of any calculations required pursuant to these Conditions (unless otherwise specified), (x) all percentages resulting from such calculations shall be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point (with halves being rounded up), (y) all figures shall be rounded to seven significant figures (with halves being rounded up) and (z) all currency amounts that fall due and payable shall be rounded to the nearest unit of such currency (with halves being rounded up). For these purposes “unit” means, with respect to any currency other than euro, the lowest amount of such currency that is available as legal tender in the country[ies] of such currency, and, with respect to euro, means 0.01 euro.

**(e) *Calculations***

The amount of interest payable in respect of any Note for any period shall be calculated by multiplying the product of the Rate of Interest and the outstanding nominal amount of such Note by the Day Count Fraction, unless an Interest Amount (or a formula for its calculation) is specified in respect of such period, in which case the amount of interest payable in respect of such Note for such period shall equal such Interest Amount (or be calculated in accordance with such formula). Where any Interest Period comprises two or more Interest Accrual Periods, the amount of interest payable in respect of such Interest Period shall be the sum of the amounts of interest payable in respect of each of those Interest Accrual Periods.

**(f) *Determination and Publication of Rates of Interest, Interest Amounts and Redemption Amounts***

The Calculation Agent shall, as soon as practicable on each Interest Determination Date or such other time on such date as the Calculation Agent may be required to calculate any rate or amount, obtain any quotation or make any determination or calculation, determine such rate and calculate the Interest Amounts in respect of each Specified Denomination of the Notes for the relevant Interest Accrual Period, calculate the Optional Redemption Amount, the Tax Call Redemption Amount or the Capital Call Redemption Amount, obtain such quotation or make such determination or calculation, as the case may be, and cause the Rate of Interest and the Interest Amounts for each Interest Period and the relevant Interest Payment Date and, if required to be calculated, the Optional Redemption Amount, the Tax Call Redemption Amount or the Capital Call Redemption Amount to be notified to the Issuer, each of the Paying Agents, the Noteholders, any other Calculation Agent appointed in respect of the Notes that is to make a further calculation upon receipt of such information and, if the Notes are listed on a stock exchange and the rules of such exchange or other relevant authority so require, such exchange or other relevant authority as soon as possible after their determination but in no event later than (i) the commencement of the relevant Interest Period, if determined prior to such time, in the case of notification to such exchange of a Rate of Interest and Interest Amount, or (ii) in all other cases, the fourth Business Day after such determination. Where any Interest Payment Date or Interest Period Date is subject to adjustment pursuant to Condition 4(b)(ii), the Interest Amounts and the Interest Payment Date so published may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without notice in the event of an extension or shortening of the Interest Period. If the Notes become due and payable under Condition 3(c), the accrued interest and the Rate of Interest payable in respect of the Notes shall nevertheless continue to be calculated as previously in

accordance with this Condition but no publication of the Rate of Interest or the Interest Amount so calculated need be made. The determination of any rate or amount, the obtaining of each quotation and the making of each determination or calculation by the Calculation Agent(s) shall (in the absence of manifest error) be final and binding upon all parties.

**(g) Definitions**

In these Conditions, unless the context otherwise requires, the following defined terms shall have the meanings set out below:

“Business Day” means:

- (i) in the case of a currency other than euro, a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets settle payments in the principal financial centre for such currency; and/or
- (ii) in the case of euro, a day on which the TARGET system is operating (a “TARGET Business Day”); and/or
- (iii) in the case of a currency and/or one or more Business Centres a day (other than a Saturday or a Sunday) on which commercial banks and foreign exchange markets settle payments in such currency in the Additional Business Centre(s) or, if no currency is indicated, generally in each of the Additional Business Centres.

“Day Count Fraction” means, in respect of the calculation of an amount of interest on any Note for any period of time (from and including the first day of such period to but excluding the last) (whether or not constituting an Interest Period, the “Calculation Period”):

- (i) if “Actual/365” or “Actual/Actual - ISDA” is specified hereon, the actual number of days in the Calculation Period divided by 365 (or, if any portion of that Calculation Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Calculation Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Calculation Period falling in a non-leap year divided by 365)
- (ii) if “Actual/365 (Fixed)” is specified hereon, the actual number of days in the Calculation Period divided by 365
- (iii) if “Actual/360” is specified hereon, the actual number of days in the Calculation Period divided by 360
- (iv) if “30/360”, “360/360” or “Bond Basis” is specified hereon, the number of days in the Calculation Period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months (unless (a) the last day of the Calculation Period is the 31st day of a month but the first day of the Calculation Period is a day other than the 30th or 31st day of a month, in which case the month that includes that last day shall not be considered to be shortened to a 30-day month, or (b) the last day of the Calculation Period is the last day of the month of February, in which case the month of February shall not be considered to be lengthened to a 30- day month))
- (v) if “30E/360” or “Eurobond Basis” is specified hereon, the number of days in the Calculation Period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months, without regard to the date of the first day or last day of the Calculation Period unless, in the case of a Calculation Period ending on the Maturity Date, the Maturity

Date is the last day of the month of February, in which case the month of February shall not be considered to be lengthened to a 30-day month) and

- (vi) if “Actual/Actual-ICMA” is specified hereon,
  - (a) if the Calculation Period is equal to or shorter than the Determination Period during which it falls, the number of days in the Calculation Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Periods normally ending in any year and
  - (b) if the Calculation Period is longer than one Determination Period, the sum of:
    - (x) the number of days in such Calculation Period falling in the Determination Period in which it begins divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Periods normally ending in any year and
    - (y) the number of days in such Calculation Period falling in the next Determination Period divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Periods normally ending in any year

where:

“Determination Date” means the date specified as such hereon or, if none is so specified, the Interest Payment Date.

“Determination Period” means the period from and including a Determination Date in any year to but excluding the next Determination Date.

“Euro-zone” means the region comprised of member states of the European Union that adopt the single currency in accordance with the Treaty..

“Interest Accrual Period” means the period beginning on (and including) the Interest Commencement Date and ending on (but excluding) the first Interest Period Date and each successive period beginning on (and including) an Interest Period Date and ending on (but excluding) the next succeeding Interest Period Date.

“Interest Amount” means the amount of Interest payable, and in the case of Fixed Rate Notes, means the Fixed Coupon Amount or Broken Amount, as the case may be.

“Interest Commencement Date” means the Issue Date or such other date as may be specified hereon.

“Interest Determination Date” means, with respect to a Rate of Interest and Interest Accrual Period, the date specified as such hereon or, if none is so specified, (i) the first day of such Interest Accrual Period if the Specified Currency is sterling or (ii) the day falling two Business Days in the relevant Business Centre for the Specified Currency prior to the first day of such Interest Accrual Period if the Specified Currency is neither sterling nor euro or (iii) the day falling two TARGET Business Days prior to the first day of such Interest Accrual Period if the Specified Currency is euro.

“Interest Period” means the period beginning on (and including) the Interest Commencement Date and ending on (but excluding) the first Interest Payment Date and each successive period beginning on (and including) an Interest Payment Date and ending on (but excluding) the next succeeding Interest Payment Date.

“Interest Period Date” means each Interest Payment Date unless otherwise specified hereon.

“ISDA Definitions” means the 2000 ISDA Definitions as amended or supplemented, as published by the International Swaps and Derivatives Association, Inc. unless otherwise specified hereon.

“Rate of Interest” means the rate of interest payable from time to time in respect of this Note and that is either specified or calculated in accordance with the provisions hereon.

“Reference Banks” means, in the case of a determination of LIBOR, the principal London office of four major banks in the London inter-bank market and, in the case of a determination of EURIBOR, the principal Euro-zone office of four major banks in the Euro-zone inter-bank market, in each case selected by the Calculation Agent or as specified hereon.

“Reference Rate” means the rate specified as such hereon.

“Relevant Screen Page” means such page, section, caption, column or other part of a particular information service as may be specified hereon.

“Specified Currency” means the currency specified as such hereon or, if none is specified, the currency in which the Notes are denominated.

“TARGET System” means the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET) System or any successor thereto.

**(h) Calculation Agent**

The Issuer shall procure that there shall at all times be one or more Calculation Agents if provision is made for them hereon and for so long as any Note is outstanding (as defined in the Agency Agreement). Where more than one Calculation Agent is appointed in respect of the Notes, references in these Conditions to the Calculation Agent shall be construed as each Calculation Agent performing its respective duties under these Conditions. If the Calculation Agent is unable or unwilling to act as such or if the Calculation Agent fails duly to establish the Rate of Interest for an Interest Period or Interest Accrual Period or to calculate any Interest Amount, Optional Redemption Amount, Tax Call Redemption Amount or Capital Call Redemption Amount, as the case may be, or to comply with any other requirement, the Issuer shall appoint a leading bank or investment banking firm engaged in the interbank market (or, if appropriate, money, swap or over-the-counter index options market) that is most closely connected with the calculation or determination to be made by the Calculation Agent (acting through its principal London office or any other office actively involved in such market) to act as such in its place. The Calculation Agent may not resign its duties without a successor having been appointed as aforesaid.

**(i) Payments of Interest**

Payments of interest shall be made when due in accordance with these Conditions in cash.

**(j) Certificates to be final**

All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition 4, shall (in the absence of wilful default, bad faith or manifest error) be binding on the Issuer, the Calculation Agent, the Fiscal Agent, the other Paying Agents and all Noteholders and Couponholders and (in the absence

of wilful default, bad faith or manifest error) no liability to the Issuer, the Noteholders or the Couponholders shall attach to the Calculation Agent or the Fiscal Agent in connection with the exercise or non-exercise by them of their powers, duties and discretions pursuant to such provisions.

## 5 Payment of Interest

### (a) *Non-cumulative Interest Payments*

(i) Interest Payments on the Notes will be non-cumulative and will be deemed to accrue on a day by day basis. Interest on the Notes will be paid by the Issuer out of Available Funds *provided, however*, that the Issuer will not be obliged to make Interest Payments during any fiscal year:

(A) to the extent that the aggregate of such Interest Payments, together with:

(aa) any Interest Payments (including any Additional Amounts (as defined in Condition 8) in respect thereof) previously paid by the Issuer in respect of the Notes in the then current fiscal year;

(bb) any distributions or other payments previously made on Parity Securities in the then current fiscal year; and

(cc) any distributions or other payments proposed or, in the reasonable determination of Erste Bank, reasonably likely to be made on Parity Securities in the then current fiscal year,

would exceed Distributable Funds for the prior fiscal year, or

even if sufficient Distributable Funds are available, to the extent that, (i) if the Directors have received a certified copy of the minutes of a meeting of the directors of Erste Bank in which the directors of Erste Bank have resolved that, in accordance with applicable Austrian banking regulations affecting banks which fail to meet their capital ratios on a consolidated basis pursuant to the Act, Erste Bank would be limited in making such payments on Parity Securities or (ii) there is in effect an order of the Financial Market Authority (or any other relevant regulatory authority) prohibiting Erste Bank from making any distribution of profits.

(B) Subject to Condition 5(a)(ii) below, the Issuer may also, at its sole discretion (but subject to the approval of Erste Bank), elect not to make Interest Payments on the Notes with a view to ensuring the continuity of Erste Bank's activities without weakening its financial structure (the "Optional Non-Payment Right").

(ii) Notwithstanding Condition 5(a)(i)(B) above, but at all times subject to Condition 5(a)(i)(A) above, the Issuer will make Interest Payments as specified below if Erste Bank or any Issuing Vehicle:

(a) declares or pays any dividends or interest or makes any other payment or other distribution on any Interest Parity Securities (other than as a result of this provision or a provision of substantially similar effect in any Interest Parity Securities being triggered by this provision) and the dividend or interest payment or other payment or distribution on such Interest Parity Securities was the full stated amount payable on such Interest Parity Securities. Interest Payments will in these circumstances be made in full on each Interest Payment Date falling in the six month period commencing on the date on which such dividend or interest payment or other payment or other distribution was declared or made on such Interest Parity Securities. If the dividend or interest payment or other payment or distribution on such Interest Parity Securities was only a partial payment of

the amount so owing, the Interest Payment(s) payable in such six month period will be reduced proportionally;

- (b) declares or pays any dividend or interest or makes any other payment or other distribution on any Junior Securities other than to other Group companies. Interest Payments will in these circumstances be made in full on each Interest Payment Date falling in the six month period commencing on the date on which such dividend or interest payment or other payment or other distribution was declared or made on such Junior Securities;
- (c) redeems, repurchases or otherwise acquires any Parity Securities or Junior Securities for any consideration except by way of replacement by, conversion into, or exchange for shares of common stock of Erste Bank or, except where any such redemption, repurchase or acquisition is funded, directly or indirectly, by the issue of shares of common stock or unless such Parity Securities or Junior Securities are redeemed, repurchased or otherwise acquired (i) by Erste Bank in the ordinary course of its investment banking or trading activities or (ii) in order to fulfil its obligations under stock option or employee stock ownership schemes, in each case as permitted by the Austrian Stock Corporations Act (*Aktiengesetz*). Interest Payments will in these circumstances be made in full on each Interest Payment Date falling in the six month period commencing on the date on which such redemption, repurchase or other acquisition occurred.

For the purpose of subsection (ii) above only, “Interest Parity Securities” means any preferred security or preference share or other security (a) issued by Erste Bank and ranking *pari passu* as to payment of dividends, interest or distributions with Erste Bank’s obligations under the Support Agreement, or (b) issued by any Issuing Vehicle, which in both cases includes an Optional Non-Payment Right or equivalent such right.

- (iii) If the Issuer does not pay Interest in respect of the Notes in any Interest Period then, subject to the provisions of this Condition 5(a), the right of Noteholders to receive Interest in respect of the Interest Period ending on the relevant Interest Payment Date will be extinguished and the Issuer will have no obligation to pay Interest accrued for such Interest Period or to pay any Interest thereon, whether or not Interest on the Notes is paid for any future Interest Period.

**(b) Interest Payment**

When, by reason of any limitation described in Condition 5(a), Interest is not paid in full on the Notes and any Parity Securities, all Interest payable upon the Notes and any dividends, interest or other distributions on such Parity Securities will be payable *pro rata* in the proportion that the amounts available for payment on the Notes and any such Parity Securities on the due date of payment shall bear to the full amount that would have been payable on the Notes and such Parity Securities but for such limitation, and any claims in respect of the difference between the full amount and the amount so payable shall be thereupon extinguished. If Interest is not paid in full in accordance with the foregoing, the Noteholders will be notified in accordance with Condition 13.

## **6 Redemption**

**(a) No Fixed Redemption Date**

The Notes are perpetual securities in respect of which there is no fixed redemption date and the Issuer shall (subject to the provisions of Condition 3 and without prejudice to the provisions of Condition 9)

only have the right to repay or purchase them in accordance with the following provisions of this Condition 6.

**(b) *Redemption at the Option of the Issuer***

Unless the Issuer shall have given notice to redeem the Notes under Condition 6(c) on or prior to the expiration of the notice referred to below, if Call Option is specified hereon and subject to the prior consent of Erste Bank, the Issuer may, having given not less than 30 nor more than 60 Business Days' irrevocable notice to the Noteholders (or such other notice period as may be specified hereon) redeem all or, if so provided hereon, some of the Notes on any Redemption Date (provided that such Redemption Date is not prior to the expiry of five years after the Issue Date). Upon the expiry of such notice, the Issuer shall be bound to redeem the Notes accordingly. Any such redemption of Notes shall be at their Optional Redemption Amount together with any interest accrued to (but excluding) the date fixed for redemption in accordance with these Conditions. Such Notes which are redeemed must be substituted by capital of equal or better quality (*Kapital gleicher oder besserer Qualität*), unless the Financial Market Authority determines that Erste Bank and the Credit Institute Group have sufficient Own Funds required for an adequate risk coverage even after repayment of the Notes.

**(c) *Redemption for Tax Reasons and for Capital Reasons***

Notwithstanding the foregoing, the Notes will, subject as provided below, be redeemable in whole but not in part, at the option of the Issuer at any time or, if and for so long as this Note is a Floating Rate Note, on any Interest Payment Date, if:

- (i) the Issuer is or would be required to pay Additional Amounts (as defined in Condition 8) and such obligation cannot be avoided by the Issuer taking reasonable measures available to it;
- (ii) as a result of a change in law or regulation or in the interpretation thereof, the Notes are no longer of a type which qualify as Tier 1 Capital; or
- (iii) as a result of a change in law or regulation or the interpretation thereof, payments made directly by Erste Bank (or any of its Subsidiaries) on any Investments cease to be fully deductible as expenses for purposes of applicable income tax law

provided that, if any of the events described in Conditions 6(c)(i), (ii) or (iii) above occurs but the Issuer elects not to redeem the Notes, then the Optional Non-Payment Right shall cease to be applicable;

and

- (iv) the Issuer has delivered to the Fiscal Agent:
  - (aa) a certificate signed on behalf of the Issuer by two of its directors stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions relevant to the right of the Issuer so to redeem have occurred; and
  - (bb) with respect to any redemption pursuant to Condition 6(c)(i) only, an opinion of independent legal advisers of recognised standing confirming that the event provided for in Condition 6(c)(i) has occurred and that the Issuer has or will become obliged to pay such Additional Amounts.

Subject to the prior consent of Erste Bank, in each such case the Notes will be redeemable in whole but not in part, at any time or, if and for so long as this Note is a Floating Rate Note, on any Interest Payment Date, upon not less than 30 and no more than 60 Business Days' notice to the Noteholders



specifying the relevant Redemption Date (which notice shall be irrevocable), each to be redeemed at the Tax Call Redemption Amount (in the case of any Notes redeemed pursuant to Condition 6(c)(i) or Condition 6(c)(iii)) or the Capital Call Redemption Amount (in the case of any Notes redeemed pursuant to Condition 6(c)(ii)) on the specified Redemption Date, provided that in each case the Notes are substituted by capital of equal or better quality (*Kapital gleicher oder besserer Qualität*), unless the Financial Market Authority determines that Erste Bank and the Credit Institute Group have sufficient Own Funds required for an adequate risk coverage even after repayment of the Notes. Upon the expiry of such notice, the Issuer shall be bound to redeem the Notes accordingly.

**(d) Purchases**

Subject to applicable law (including, without limitation, to Austrian securities and banking laws and regulations), the Issuer or Erste Bank or any of Erste Bank's other Subsidiaries may at any time and from time to time purchase outstanding Notes by tender, in the open market or by private agreement. If purchases are made by tender, the tender must be available to all Noteholders alike. Any such Notes so purchased by Erste Bank or any of Erste Bank's Subsidiaries may be resold or cancelled by surrendering the Notes to the Fiscal Agent for cancellation.

Any such purchase, if made by the Issuer, shall be made in such manner and on such terms as the Company shall approve in a general meeting of shareholders.

## **7 Payments and Talons**

**(a) Bearer Notes**

Payments of principal and interest in respect of Bearer Notes shall, subject as mentioned below, be made against presentation and surrender of the relevant Notes (in the case of all payments of principal and, in the case of interest, as specified in Condition 7(f)(iv)) or Coupons (in the case of interest, save as specified in Condition 7(f)(i)), as the case may be, at the specified office of any Paying Agent outside the United States by a cheque payable in the relevant currency drawn on, or, at the option of the holder, by transfer to an account denominated in such currency with, a Bank. "Bank" means a bank in the principal financial centre for such currency or, in the case of euro, in a city in which banks have access to the TARGET System.

**(b) Registered Notes**

- (i) Payments of principal in respect of Registered Notes shall be made against presentation and surrender of the relevant Certificates at the specified office of any of the Transfer Agents or of the Registrar and in the manner provided in paragraph (ii) below.
- (ii) Interest on Registered Notes shall be paid to the person shown on the Register at the close of business on the fifteenth day before the due date for payment thereof (the "Record Date"). Payments of interest on each Registered Note shall be made in the relevant currency by cheque drawn on a Bank and mailed to the holder (or to the first named of joint holders) of such Note at its address appearing in the Register. Upon application by the holder to the specified office of the Registrar or any Transfer Agent before the Record Date, such payment of interest may be made by transfer to an account in the relevant currency maintained by the payee with a Bank.

**(c) Payments in the United States**

Notwithstanding the foregoing, if any Bearer Notes are denominated in U.S. dollars, payments in respect thereof may be made at the specified office of any Paying Agent in New York City in the same manner as aforesaid if (i) the Issuer shall have appointed Paying Agents with specified offices outside

the United States with the reasonable expectation that such Paying Agents would be able to make payment of the amounts on the Notes in the manner provided above when due, (ii) payment in full of such amounts at all such offices is illegal or effectively precluded by exchange controls or other similar restrictions on payment or receipt of such amounts and (iii) such payment is then permitted by United States law, without involving, in the opinion of the Issuer, any adverse tax consequence to the Issuer.

**(d) *Payments subject to Fiscal Laws***

All payments are subject in all cases to any applicable fiscal or other laws, regulations and directives, but without prejudice to the provisions of Condition 8. No commission or expenses shall be charged to the Noteholders or Couponholders in respect of such payments.

**(e) *Appointment of Agents***

The Fiscal Agent, the Paying Agents, the Registrar, the Transfer Agents and the Calculation Agent initially appointed by the Issuer and their respective specified offices are listed below. Subject as provided in the Agency Agreement, the Fiscal Agent, the Paying Agents, the Registrar, the Transfer Agents and the Calculation Agent act solely as agents of the Issuer and do not assume any obligation or relationship of agency or trust for or with any Noteholder or Couponholder. The Issuer reserves the right at any time to vary or terminate the appointment of the Fiscal Agent, any other Paying Agent, the Registrar, any Transfer Agent or the Calculation Agent(s) and to appoint additional or other Paying Agents or Transfer Agents, provided that the Issuer shall at all times maintain (i) a Fiscal Agent, (ii) a Registrar in relation to Registered Notes, (iii) a Transfer Agent in relation to Registered Notes, (iv) one or more Calculation Agent(s) where the Conditions so require, (v) a Paying Agent having a specified office in a European Union member state that will not be obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any law implementing or complying with, or introduced in order to conform to, such Directive, (vi) a Paying Agent having specified offices in Vienna so long as the Notes are admitted to trading on the *Amtlicher Handel* and *Geregelter Freiverkehr* of the Vienna Stock Exchange and (vii) a Paying Agent having specified offices in Luxembourg so long as the Notes are admitted to trading on the regulated market of the Luxembourg Stock Exchange.

In addition, the Issuer shall forthwith appoint a Paying Agent in New York City in respect of any Bearer Notes denominated in U.S. dollars in the circumstances described in Condition 7(c).

Notice of any such change or any change of any specified office shall promptly be given to the Noteholders.

**(f) *Unmatured Coupons and unexchanged Talons***

- (i) Upon the due date for redemption of any Bearer Note, unexpired Coupons relating to such Note (whether or not attached) shall become void and no payment shall be made in respect of them.
- (ii) Upon the due date for redemption of any Bearer Note, any unexpired Talon relating to such Note (whether or not attached) shall become void and no Coupon shall be delivered in respect of such Talon.
- (iii) Where any Bearer Note is presented for redemption without all unexpired Coupons, and where any Bearer Note is presented for redemption without any unexpired Talon relating to it, redemption shall be made only against the provision of such indemnity as the Issuer may require.

- (iv) If the due date for redemption of any Note is not a due date for payment of interest, interest accrued from the preceding due date for payment of interest or the Interest Commencement Date, as the case may be, shall only be payable against presentation (and surrender, if appropriate) of the relevant Bearer Note or Certificate representing it, as the case may be.

**(g) Talons**

On or after the Interest Payment Date for the final Coupon forming part of a Coupon sheet issued in respect of any Bearer Note, the Talon forming part of such Coupon sheet may be surrendered at the specified office of the Fiscal Agent in exchange for a further Coupon sheet (and another Talon for a further Coupon sheet) (but excluding any Coupons that may have become void pursuant to Condition 9).

**(h) Non-Business Days**

If any date for payment in respect of any Note or Coupon is not a business day, the holder shall not be entitled to payment until the next following business day nor to any interest or other sum in respect of such postponed payment. In this paragraph, “business day” means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for business in the relevant place of presentation, in such jurisdictions as shall be specified as “Financial Centres” hereon and:

- (i) (in the case of a payment in a currency other than euro) where payment is to be made by transfer to an account maintained with a bank in the relevant currency, on which foreign exchange transactions may be carried on in the relevant currency in the principal financial centre of the country of such currency; or
- (ii) (in the case of a payment in euro) which is a TARGET Business Day.

## **8 Taxation**

All payments of principal and interest by or on behalf of the Issuer in respect of the Notes and the Coupons shall be made without withholding or deduction for or on account of, any Jersey Tax or Austrian Tax, unless such withholding or deduction is required by law. In that event, the Issuer shall, subject to Conditions 3 and 5, pay such additional amounts (“Additional Amounts”) as shall result in receipt by the Noteholders and Couponholders of such amounts as would have been received by them had no such withholding or deduction been required by law to be made, except that no such Additional Amounts shall be payable with respect to any Note or Coupon:

**(a) Other connection**

to the extent that such Jersey Tax or Austrian Tax is imposed or levied by virtue of such Noteholder (or the beneficial owner of such Note) having some connection with Jersey or Austria, other than being a Noteholder (or beneficial owner) of such Note; or

**(b) Payment to individuals**

where such Additional Amount is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council Meeting of 26 - 27 November 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive; or

(c) ***Payment by another Paying Agent***

(except in the case of the payment of interest in respect of Registered Notes) presented for payment by or on behalf of a holder who would have been able to avoid such withholding or deduction by presenting the relevant Note or Coupon to another Paying Agent (or, in the case of the payment of principal in respect of Registered Notes, another Transfer Agent or, if applicable, the Registrar) in a Member State of the European Union.

References in these Conditions to (i) “principal” shall be deemed to include any premium payable in respect of the Notes, Optional Redemption Amount, Tax Call Redemption Amount or Capital Call Redemption Amount and all other amounts in the nature of principal payable pursuant to Condition 6 or any amendment or supplement to it, (ii) “interest” or “coupon” shall be deemed to include all Interest Amounts and all other amounts payable pursuant to Condition 4 or any amendment or supplement to it and (iii) “principal” and/or “interest” or “coupon” shall be deemed to include any Additional Amounts.

## **9 Prescription**

Claims against the Issuer for payment in respect of the Notes and Coupons (which, for this purpose, shall not include Talons) shall be prescribed and become void unless made within 10 years (in the case of principal) or five years (in the case of interest) from the appropriate Relevant Date in respect of them.

## **10 Meetings of Noteholders, Modification, Waiver and Substitution**

(a) ***Meetings of Noteholders***

The Agency Agreement contains provisions for convening meetings of Noteholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution (as defined below) of a modification of any of these Conditions. Such a meeting may be convened by Noteholders holding not less than 10 per cent. in nominal amount of the Notes for the time being outstanding. The quorum for any meeting convened to consider an Extraordinary Resolution shall be one or more persons holding or representing a clear majority in principal amount of the Notes for the time being outstanding or, at any adjourned meeting, one or more persons being or representing Noteholders whatever the principal amount of the Notes held or represented, unless the business of such meeting includes consideration of proposals, *inter alia*, (i) to amend the dates of maturity or redemption of the Notes or any date for payment of interest or Interest Amounts on the Notes, (ii) to reduce or cancel the principal amount of or any premium payable on redemption of the Notes, (iii) to reduce the rate or rates of interest in respect of the Notes or to vary the method or basis of calculating the rate or rates or amount of interest or the basis for calculating any Interest Amount in respect of the Notes, (iv) if a Minimum and/or a Maximum Interest Rate or Redemption Amount is shown hereon, to reduce any such Minimum and/or Maximum, (v) to vary any method of, or basis for, calculating the Optional Redemption Amount, the Tax Call Redemption Amount or the Capital Call Redemption Amount, (vi) to vary the currency or currencies of payment or denomination of the Notes, (vii) to effect the exchange or substitution of the Notes for, or the conversion of the Notes into, shares, bonds or other obligations or securities of the Issuer or Erste Bank or any other person or body corporate formed or to be formed, (viii) to amend the terms of the Support Agreement relating to the Notes, or (ix) to modify the provisions concerning the quorum required at any meeting of Noteholders or the majority required to pass the Extraordinary Resolution, in which case the necessary quorum shall be one or more persons holding or representing not less than three-quarters or at any adjourned meeting not less than one-quarter in principal amount of the Notes for the time being outstanding. Any resolution duly passed shall be binding on all Noteholders (whether or not they were present at the meeting at which such resolution was passed) and on all Couponholders. The expression “Extraordinary Resolution” means a

resolution passed at a meeting of Noteholders duly convened by a majority consisting of not less than three-quarters of the votes cast. All other resolutions shall be passed at a meeting of Noteholders duly convened by a clear majority of the votes cast. These Conditions may be amended, modified or varied in relation to any Series of Notes by the terms of the relevant Final Terms in relation to such Series.

**(b) Modification**

The Issuer shall only permit any modification of, or any waiver or authorisation of any breach or proposed breach of, or any failure to comply with, the Agency Agreement, if to do so could not reasonably be expected to be prejudicial to the interests of the Noteholders. The Agency Agreement may be amended by the Issuer and the Fiscal Agent, without the consent of the Registrar or any Paying Agent, Transfer Agent, Calculation Agent or holder, for the purpose of curing any ambiguity or of curing, correcting or supplementing any defective provision contained therein or in any manner which the Issuer and the Fiscal Agent may mutually deem necessary or desirable and which does not adversely affect the interests of the holders.

## **11 Replacement of Notes, Certificates, Coupons and Talons**

If a Note, Certificate, Coupon or Talon is lost, stolen, mutilated, defaced or destroyed, it may be replaced, subject to applicable laws, regulations and stock exchange or other relevant authority regulations, at the specified office of the Fiscal Agent (in the case of Bearer Notes, Coupons or Talons) and of the Registrar (in the case of Certificates) or such other Paying Agent or Transfer Agent, as the case may be, as may from time to time be designated by the Issuer for the purpose and notice of whose designation is given to Noteholders, in each case on payment by the claimant of the fees and costs incurred in connection therewith and on such terms as to evidence, security and indemnity (which may provide, *inter alia*, that if the allegedly lost, stolen or destroyed Note, Certificate, Coupon or Talon is subsequently presented for payment or, as the case may be, for exchange for further Coupons, there shall be paid to the Issuer on demand the amount payable by the Issuer in respect of such Notes, Certificates, Coupons or further Coupons) and otherwise as the Issuer may require. Mutilated or defaced Notes, Certificates, Coupons or Talons must be surrendered before replacements will be issued.

## **12 Further Issues**

The Issuer may from time to time without the consent of the Noteholders or Couponholders create and issue further securities either having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest on them) and so that such further issue shall be consolidated and form a single series with the outstanding securities of any series (including the Notes) or upon such terms as the Issuer may determine at the time of their issue. References in these Conditions to the Notes include (unless the context requires otherwise) any other securities issued pursuant to this Condition and forming a single series with the Notes.

## **13 Notices**

Notices to the holders of Registered Notes shall be mailed to them (or, in the case of joint holders, to the first named) at their respective addresses in the Register and shall be deemed to have been given on the fourth weekday (being a day other than a Saturday or a Sunday) after the date of mailing and, so long as the Notes are listed on the Vienna Stock Exchange, either in a daily newspaper with general circulation in Austria (which is expected to be the *Amtsblatt zur Wiener Zeitung*) or on the internet home page of Erste Bank (which is expected to be <http://treasury.erstebank.com/>) and, so long as the Notes are listed on the Luxembourg Stock Exchange, either in a daily newspaper with general circulation in Luxembourg (which is expected to be *d'Wort*) or on the internet site of the Luxembourg Stock Exchange ([www.bourse.lu](http://www.bourse.lu)). Notices to the holders of Bearer Notes shall be published, so long as the Notes are listed on the Vienna Stock Exchange, in a daily

newspaper with general circulation in Austria (which is expected to be the *Amtsblatt zur Wiener Zeitung*) for information required by the Austrian Stock Exchange Act to be published in a daily newspaper or on the internet home page of the Issuer (which is expected to be <http://treasury.erstebank.com/>) and for so long as the Notes are listed on the Luxembourg Stock Exchange, either in a daily newspaper with general circulation in Luxembourg (which is expected to be *d'Wort*) or on the internet site of the Luxembourg Stock Exchange ([www.bourse.lu](http://www.bourse.lu)). If any such publication is not practicable, notice shall be validly given if published in a leading daily English language newspaper with general circulation in Europe. The Issuer shall also ensure that notices are duly published in a manner which complies with the rules and regulations of any stock exchange on which the Notes are for the time being listed. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once or on different dates, on the date of the first publication as provided above. Couponholders shall be deemed for all purposes to have notice of the contents of any notice given to the holders of Bearer Notes in accordance with this Condition.

#### **14 Contracts (Rights of Third Parties) Act 1999**

No person shall have any right to enforce any term or condition of the Notes under the Contracts (Rights of Third Parties) Act 1999.

#### **15 Governing Law**

##### **(a) Governing Law**

The Notes, the Coupons and the Talons are governed by, and shall be construed in accordance with, English law, save that determination in respect of Distributable Funds shall be construed in accordance with Austrian law.

##### **(b) Jurisdiction**

The Courts of England are to have jurisdiction to settle any disputes that may arise out of or in connection with any Notes, Coupons or Talons and accordingly any legal action or proceedings arising out of or in connection with any Notes, Coupons or Talons (“Proceedings”) may be brought in such courts. The Issuer irrevocably submits to the jurisdiction of the courts of England and waives any objection to Proceedings in such courts on the ground of venue or on the ground that the Proceedings have been brought in an inconvenient forum. This submission is made for the benefit of each of the holders of the Notes, Coupons and Talons and shall not affect the right of any of them to take Proceedings in one or more jurisdictions or preclude the taking of Proceedings in any other jurisdiction (whether concurrently or not).

##### **(c) Service of Process**

The Issuer irrevocably appoints Erste Bank, London branch, 68 Cornhill, London EC3V 3QE as its agent in England to receive, for it and on its behalf, service of process in any Proceedings in England. Such service shall be deemed completed on delivery to such process agent (whether or not it is forwarded to and received by the Issuer). If for any reason such process agent ceases to be able to act as such or no longer has an address in London, the Issuer irrevocably agrees to appoint a substitute process agent and shall immediately notify Noteholders of such appointment in accordance with Condition 13. Nothing shall affect the right to serve process in any manner permitted by law.

##### **(d) Invalidity etc.**

If at any time, any one or more of the provisions of the Notes, the Coupons and the Talons is or becomes invalid, illegal or unenforceable in any respect under the law of any jurisdiction, such provision shall as to such jurisdiction be ineffective to the extent necessary without affecting or

impairing the validity, legality and enforceability of the remaining provisions hereof or of such provisions in any other jurisdiction. The invalid or unenforceable provision shall be deemed replaced by such valid, legal or enforceable provision which comes as close as possible to the original intent of the parties and the invalid, illegal or unenforceable provision.

## 16 Definitions

“Act” means the Austrian Banking Act 1993, as amended;

“Asset Parity Security” means any preferred or preference share or other security issued by Erste Bank, the Issuer, any other Subsidiary, any other special purpose vehicle or protected cell company (i) ranking *pari passu* as to participation in the assets of Erste Bank with Erste Bank’s obligations under the Support Agreement, or (ii) entitled to the benefit of a guarantee or support agreement from Erste Bank ranking *pari passu* as to participation in the assets of Erste Bank with Erste Bank’s obligations under the Support Agreement;

“Austrian Tax” means any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or on behalf of the Republic of Austria or by any authority therein or thereof having power to tax;

“Available Funds” of the Issuer means the distribution and redemption payments deriving from the Investments relating to the Notes and the claims of the Issuer in respect of the Notes against Erste Bank under the Support Agreement;

“Bank Share Capital” means the ordinary shares of Erste Bank, together with all other securities issued by Erste Bank (including *Vorzugsaktien*), ranking *pari passu* with the ordinary shares of Erste Bank as to participation in a liquidation surplus;

“Business Day” means:

- (a) in the case of a currency other than euro, a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets settle payments in the principal financial centre for such currency and/or
- (b) in the case of euro, a day on which the TARGET system is operating (a “TARGET Business Day”) and/or
- (c) in the case of a currency and/or one or more Business Centres, a day (other than a Saturday or a Sunday) on which commercial banks and foreign exchange markets settle payments in such currency in the Business Centre(s) or, if no currency is indicated, generally in each of the Business Centres;

“Capital Call Redemption Amount” means the amount specified as such hereon;

“Credit Institute Group” means all companies consolidated with Erste Bank pursuant to §30 of the Act;

“Directors” means directors of the Issuer;

“Distributable Funds” means, in respect of each fiscal year of Erste Bank, the aggregate amount, as calculated as at the end of the immediately preceding fiscal year, of accumulated retained earnings and any other reserves and surpluses of Erste Bank capable under the companies laws of Austria of being available for distribution to holders of Bank Share Capital, but before deduction of the amount of any dividend or other distribution declared on Bank Share Capital in respect of such prior fiscal year;

“Euro-zone” means the region comprised of member states of the European Union that adopt or have adopted the single currency in accordance with the Treaty;

“Financial Market Authority” means the authority provided for in the Austrian Financial Markets Supervision Act 2001, as amended;

“Fiscal Agent” means BNP Paribas Securities Services, Luxembourg Branch or such other entity as is appointed by the Issuer and notified to the Noteholders in accordance with Condition 13;

“Group” means Erste Bank and its Subsidiaries;

“Interest” means the amount of interest payable on the Notes in accordance with the terms thereof;

“Interest Payment” means, in respect of an Interest Payment Date, the aggregate Interest Amounts for the Interest Period ending on such Interest Payment Date;

“Investments” means direct or indirect investments in the Group which the Issuer shall acquire or subscribe for using the proceeds of the issue of the Notes;

“Issuing Vehicle” means the Issuer or any other Subsidiary or any special purpose vehicle or protected cell company which issues securities which are entitled to the benefit of a guarantee or support agreement from Erste Bank ranking *pari passu* as to payment of dividends, interest or other distributions with Erste Bank’s obligations under the Support Agreement;

“Jersey Tax” means any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or on behalf of the Island of Jersey or by any authority therein or thereof having power to tax;

“Junior Securities” means Bank Share Capital and any other preferred or preference share or other security or instrument issued by any member of the Group ranking or expressed to rank junior to the Parity Securities (either issued directly by Erste Bank or by the Issuer, any other Subsidiary, any special purpose vehicle or protected cell company) and entitled to take the benefit of a guarantee or support agreement ranking or expressed to rank junior to the obligations of Erste Bank under the Support Agreement;

“Liquidation Distribution” means, in respect of each Note, the amount per Note specified hereon or, in relation to any other preference shares, preferred securities or other securities of the Issuer ranking *pari passu* with the Notes as regards participation in the assets of the Issuer, such amount as the holders are entitled to receive by way of liquidation preference per preference share, preferred security or other security held by them in the event of any voluntary or involuntary winding-up of the Issuer plus accrued and unpaid interest for the then current Interest Period to the date of payment;

“Optional Redemption Amount” means the amount specified as such hereon;

“Own Funds” means Eigenmittel as specified in Section 23 of the Act;

“Parity Security” means any preferred security or preference share or other security (i) issued by Erste Bank and ranking *pari passu* as to payment of interest, dividends or distributions with Erste Bank’s obligations under the Support Agreement or (ii) issued by an Issuing Vehicle;

“Paying Agent” means Erste Bank and BNP Paribas Securities Services, Luxembourg Branch or such other entity as is appointed by the Issuer and notified to the Noteholders in accordance with Condition 13;

“Redemption Date” means any date designated for the optional redemption, the redemption for tax reasons or the redemption for capital reasons of the Notes pursuant to Condition 6;

“Registrar” means BNP Paribas Securities Services, Luxembourg Branch or such other entity as is appointed by the Issuer and notified to the Noteholders in accordance with Condition 13;

“Shortfall” shall have the meaning given to it in Condition 3(b);



“Subsidiary” means a company consolidated with Erste Bank under International Financial Reporting Standards;

“Support Agreement” means the Support Agreement dated 25 July 2006 entered into by Erste Bank and the Company (in respect of each of its cells from time to time, including the Issuer);

“TARGET” means the Trans European Real-Time Gross Settlement Express Transfer (TARGET) system;

“Tax Call Redemption Amount” means the amount specified as such hereon;

“Tier 1 Capital” means hybrid Tier 1 Capital provided for in §24 Section 2 No. 5 and No. 6 of the Act;

“Transfer Agent” means Erste Bank and BNP Paribas Securities Services, Luxembourg Branch or such other entity as is appointed by the Issuer and notified to the Noteholders in accordance with Condition 13; and

“Treaty” means the Treaty establishing the European Community, as amended.

## THE SUPPORT AGREEMENT

*The following is a summary of the terms of the Support Agreement. Capitalised expressions have the meanings given to them in the Terms and Conditions.*

Under the Support Agreement, Erste Bank has irrevocably agreed, subject to the limitations described below, that if at any time the Issuer has insufficient funds to enable it to meet in full its obligations under or in respect of the Notes as and when such obligations fall due, to make available to the Issuer sufficient funds to meet such payment obligations. The Issuer shall use any amount made available to it by Erste Bank pursuant to the Support Agreement solely for the purposes of enabling the Issuer to fulfil its payment obligations under or in respect of the Notes.

Erste Bank will not be obliged to make any payment to the Issuer under the Support Agreement in respect of Interest Payments during any fiscal year to the extent that the aggregate amount of such payments, together with any payments (including any Additional Amounts in respect thereof) previously paid by Erste Bank in respect of the Notes in the then current fiscal year, any distributions or other payments previously made on Parity Securities in the then current fiscal year and any distributions or other payments proposed or reasonably likely to be made on Parity Securities in the then current fiscal year would exceed Distributable Funds for the prior fiscal year. Even if sufficient Distributable Funds are available, Erste Bank will not be obliged to make any payment to the Issuer under the Support Agreement if the directors of Erste Bank have resolved that, in accordance with applicable Austrian banking regulations affecting banks which fail to meet their capital ratios on a consolidated basis pursuant to the Act, Erste Bank would be limited in making such payments on Parity Securities or there is in effect an order of the Financial Market Authority (or any other regulatory authority) prohibiting Erste Bank from making any distribution of profits.

Erste Bank shall have a right substantially equivalent to the Issuer's Optional Non-Payment Right.

Erste Bank will (notwithstanding its Optional Non-Payment Right, but at all times subject to there being sufficient Distributable Funds and Erste Bank being able to meet its capital ratios and the absence of an order by the FMA prohibiting Erste Bank from making any distribution of profits) make payments to the Issuer under the Support Agreement if Erste Bank or any Issuing Vehicle declares or pays any dividends or interest or makes any other payment or other distribution on any Interest Parity Securities (other than as a result of that provision of the Support Agreement or a provision of substantially similar effect in any Interest Parity Securities being triggered by such provision) or Junior Securities (other than to other Group companies) or redeems, repurchases or otherwise acquires any Parity Securities or Junior Securities for any consideration, except by way of replacement by, conversion into, or exchange for shares of common stock of Erste Bank or except where any such redemption, repurchase or acquisition is funded, directly or indirectly, by the issue of shares of common stock or unless such Parity Securities or Junior Securities are redeemed, repurchased or otherwise acquired (i) by Erste Bank in the ordinary course of its investment banking or trading activities or (ii) in order to fulfil its obligations under stock option or employee stock ownership schemes, in each case as permitted by the Austrian Stock Corporations Act (*Aktiengesetz*).

Erste Bank has undertaken that it will not issue any preferred securities or preference shares or other securities ranking senior to its obligations under the Support Agreement and which, in any such case, constitutes, or is capable of constituting, Tier 1 Capital or enter into any support agreement or give any guarantee in respect of any preferred securities or preference shares or other securities issued by any Subsidiary of Erste Bank or any special purpose vehicle or protected cell company and which, in any such case, constitutes, or is capable of constituting, Tier 1 Capital if such support agreement or guarantee (including, without limitation, any support agreement or guarantee that would provide a priority of payment with respect to Distributable Funds) would rank senior to the Support Agreement unless, in each case, (a) the

Support Agreement is changed to give the Noteholders such rights and entitlements as are contained in or attached to such preferred securities or such preference shares or such other securities or such other support agreement or guarantee so that the Support Agreement ranks *pari passu* with, and contains substantially equivalent rights of priority as to payment out of Distributable Funds as, any such preferred securities or preference shares or other securities or other support agreement or guarantee and (b) the most recent Interest Payment has been paid in full by the Issuer.

Erste Bank has also undertaken that:

- any amount required to be paid to the Issuer pursuant to the Support Agreement to enable the Issuer to pay any Interest Payment payable in respect of the most recent Interest Period will be paid prior to any other interest payment or other distribution in respect of any interest payment, dividends or other distribution (except dividends in the form of Erste Bank's ordinary shares, *Vorzugsaktien* or other shares of Erste Bank ranking junior to the obligations of Erste Bank under the Support Agreement) upon Junior Securities; and
- Parity Securities or Junior Securities will not be redeemed or otherwise acquired for any consideration (or any moneys be paid to or made available for a sinking fund for the redemption of any such securities) by Erste Bank or any Subsidiary (except by conversion into or in exchange for shares of Erste Bank ranking junior to the obligations of Erste Bank under the Support Agreement) at any time whilst the Issuer is unable to pay Interest Payments in full until such time as the Issuer shall have resumed the payment of, or effectively set aside payment with respect to, full Interest Payments on all outstanding Notes for six months, unless such Parity Securities or Junior Securities are repurchased or otherwise acquired (i) as a result of the trading of Erste Bank in such shares in its ordinary course of business as permitted by the Austrian Stock Corporations Act, or (ii) in order to fulfil its obligations under stock option or employee stock ownership schemes as permitted by the Austrian Stock Corporations Act.

## **USE OF PROCEEDS**

The net proceeds from the issue of any Notes will be used for the Investments (as defined in the Terms and Conditions), unless otherwise stated in the Final Terms relating to the issue of the Notes.

## **SUMMARY OF PROVISIONS RELATING TO THE NOTES WHILE IN GLOBAL FORM**

### **Initial Issue of Notes**

Upon the initial deposit of a Global Note with a common depository for Euroclear or Clearstream, Luxembourg (the “Common Depository”) or OeKB or a depository for OeKB or registration of Registered Notes in the name of any nominee for Euroclear, Clearstream, Luxembourg or OeKB and delivery of the relevant Global Certificate to the Common Depository or a depository for OeKB, Euroclear, Clearstream, Luxembourg or the relevant depository will credit each holder with a principal amount of Notes equal to the principal amount thereof for which it has subscribed and paid.

Notes that are initially deposited with the Common Depository for Euroclear or Clearstream, Luxembourg may (if indicated in the relevant Final Terms) also be credited to the accounts of holders with the Issuer (in the case of Notes deposited with OeKB) or other clearing systems (if indicated in the relevant Final Terms) through direct or indirect accounts with Euroclear, Clearstream, Luxembourg or OeKB held by such other clearing systems. Conversely, Notes that are initially deposited with any other clearing system may similarly be credited to the accounts of holders with Euroclear, Clearstream, Luxembourg, OeKB or other clearing systems.

### **Relationship of Accountholders with Clearing Systems**

Each of the persons shown in the records of Euroclear, Clearstream, Luxembourg, OeKB or any other clearing system as the holder of a Note represented by a Global Note or a Global Certificate must look solely to Euroclear, Clearstream, Luxembourg, OeKB or such clearing system (as the case may be) for its share of each payment made by the Issuer to the bearer of such Global Note or the holder of the Global Certificate, as the case may be, and in relation to all other rights arising under the Global Notes or Global Certificate, subject to and in accordance with the respective rules and procedures of Euroclear, Clearstream, Luxembourg, OeKB or such clearing system (as the case may be). Such persons shall have no claim directly against the Issuer or Erste Bank in respect of payments due on the Notes for so long as the Notes are represented by such Global Note or Global Certificate and such obligations of the Issuer will be discharged by payment to the bearer of such Global Note or the holder of the Global Certificate, as the case may be, in respect of each amount so paid.

### **Exchange**

#### *1. Temporary Global Notes*

Each temporary Global Note will be exchangeable, free of charge to the holder, on or after its Exchange Date:

- (a) if Part A of the relevant Final Terms indicates that such Global Note is issued in compliance with the C Rules or in a transaction to which TEFRA is not applicable (see “Overview of the Programme - Selling Restrictions”), in whole, but not in part, for the Definitive Notes defined and described below and
- (b) otherwise, in whole or in part upon certification as to non-US beneficial ownership in the form set out in the Agency Agreement, for interests in a permanent Global Note or, if so provided in the relevant Final Terms, for Definitive Notes.

2. *Permanent Global Notes*

Each permanent Global Note will be exchangeable, free of charge to the holder, on or after its Exchange Date in whole but not, except as provided under “Partial Exchange of Permanent Global Notes”, in part for Definitive Notes or, in the case of 2(c) below, Registered Notes:

- (a) unless principal in respect of any Notes is not paid when due, by the Issuer giving notice to the Noteholders and the Fiscal Agent of its intention to effect such exchange; or
- (b) if Part A of the relevant Final Terms provides that such Global Note is exchangeable at the request of the holder, by the holder giving notice to the Fiscal Agent of its election for such exchange; or
- (c) otherwise, (1) if the permanent Global Note is held on behalf of Euroclear or Clearstream, Luxembourg or any other clearing system (an “Alternative Clearing System”) and any such clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or in fact does so or (2) if principal in respect of any Notes is not paid when due, by the holder giving notice to the Fiscal Agent of its election for such exchange.

3. *Global Certificates*

If the Final Terms state that the Notes are to be represented by a Global Certificate on issue, transfers of the holding of Registered Notes represented by any Global Certificate pursuant to Condition 2(a) may only be made in part:

- (a) if the Registered Notes represented by the Global Certificate are held on behalf of Euroclear, or Clearstream, Luxembourg or an alternative clearing system and any such clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so; or
- (b) if principal in respect of any Registered Notes is not paid when due; or
- (c) with the consent of the Issuer,

provided that, in the case of the first transfer of part of a holding pursuant to 3(a) or 3(b) above, the holder of the Global Certificate has given the Registrar not less than 30 days’ notice at its specified office of the intention of the holder of the Global Certificate to effect such transfer.

4. *Partial Exchange of Permanent Global Notes*

For so long as a permanent Global Note is held on behalf of a clearing system and the rules of that clearing system so permit, such permanent Global Note will be exchangeable at the cost of the Issuer in part on one or more occasions for Definitive Notes if principal in respect of any Notes is not paid when due.

5. *Delivery of Notes*

On or after any due date for exchange, the holder of a Global Note may surrender such Global Note or, in the case of a partial exchange, present it for endorsement to or to the order of the Fiscal Agent. In exchange for any Global Note, or the part thereof to be exchanged, the Issuer will (i) in the case of a temporary Global Note exchangeable for a permanent Global Note, deliver, or procure the delivery of, a permanent Global Note in an aggregate principal amount equal to that of the whole or that part of a temporary Global Note that is being exchanged or, in the case of a subsequent exchange, endorse, or

procure the endorsement of, a permanent Global Note to reflect such exchange or (ii) in the case of a Global Note or Global Certificate exchangeable for Definitive Notes or Registered Notes, deliver, or procure the delivery of, an equal aggregate principal amount of duly executed and authenticated Definitive Notes and/or Certificates, as the case may be. In this Prospectus, “Definitive Notes” means, in relation to any Global Note, the definitive Bearer Notes for which such Global Note may be exchanged (if appropriate, having attached to them all Coupons in respect of interest and a Talon). Definitive Notes will be security printed and Certificates will be printed in accordance with any applicable legal and stock exchange requirements in or substantially in the form set out in the Schedules to the Agency Agreement. On exchange in full of each permanent Global Note, the Issuer will, if the holder so requests, procure that it is cancelled and returned to the holder together with the relevant Definitive Notes.

6. *Exchange Date*

“Exchange Date” means, in relation to a temporary Global Note, the day falling after the expiry of 40 days after its issue date and, in relation to a permanent Global Note, a day falling not less than 60 days, or in the case of an exchange for Registered Notes five days, or in the case of failure to pay principal in respect of any Notes when due 30 days, after that on which the notice requiring exchange is given and on which banks are open for business in the city in which the specified office of the Fiscal Agent is located and in the city in which the relevant clearing system is located.

### **Amendment to Conditions**

The temporary Global Notes, the permanent Global Notes and the Global Certificates contain provisions that apply to the Notes that they represent, some of which modify the effect of the terms and conditions of the Notes set out in this Prospectus. The following is a summary of certain of those provisions:

1. *Payments*

No payment falling due after the Exchange Date will be made on any temporary Global Note unless exchange for an interest in a permanent Global Note or for Definitive Notes or Registered Notes is improperly withheld or refused. Payments on any temporary Global Note issued in compliance with the D Rules before the Exchange Date will only be made against presentation of certification as to non-U.S. beneficial ownership in the form set out in the Agency Agreement. All payments in respect of Notes represented by a Global Note will be made against presentation for endorsement and, if no further payment falls to be made in respect of the Notes, surrender of that Global Note to or to the order of the Fiscal Agent or such other Paying Agent as shall have been notified to the Noteholders for such purpose. A record of each payment so made will be endorsed on each Global Note, which endorsement will be *prima facie* evidence that such payment has been made in respect of the Notes. Condition 8(b) will apply to the Definitive Notes only. Global Notes will not bear interest coupons.

2. *Prescription*

Claims against the Issuer in respect of Notes that are represented by a permanent Global Note or a Global Certificate will become void unless it is presented for payment within a period of five years (in the case of both principal and interest) from the appropriate Relevant Date (as defined in “Terms and Conditions of the Notes — Taxation”).

3. *Meetings*

The holder of a permanent Global Note or of the Registered Notes represented by a Global Certificate shall (unless such permanent Global Note or Global Certificate represents only one Note) be treated as

being two persons for the purposes of any quorum requirements of a meeting of Noteholders and, at any such meeting, the holder of a permanent Global Note shall be treated as having one vote in respect of the minimum Specified Denomination of Notes for which such Global Note may be exchanged. All holders of Registered Notes are entitled to one vote in respect of each Note comprising such Noteholder's holding, whether or not represented by a Global Certificate.

4. *Cancellation*

Cancellation of any Note represented by a permanent Global Note that is required by the Conditions to be cancelled (other than upon its redemption) will be effected by reduction in the principal amount of the relevant permanent Global Note.

5. *Purchase*

Notes represented by a permanent Global Note may only be purchased by the Issuer or Erste Bank or any of its other Subsidiaries (as defined in the Terms and Conditions of the Notes) if they are purchased together with the rights to receive all future payments of interest set out in Part A of the relevant Final Terms.

6. *Issuer's Option*

Any option of the Issuer provided for in the Conditions of any Notes while such Notes are represented by a Global Note or Global Certificate shall be exercised by the Issuer giving notice to the Noteholders within the time limits set out in and containing the information required by the Conditions, except that the notice shall not be required to contain the certificate numbers of Notes drawn in the case of a partial exercise of an option and accordingly no drawing of Notes shall be required. In the event that any option of the Issuer is exercised in respect of some but not all of the Notes of any Series, the rights of accountholders with a clearing system in respect of the Notes will be governed by the standard procedures of Euroclear, Clearstream, Luxembourg, OeKB or the relevant Alternative Clearing System (as the case may be).

7. *Notices*

So long as any Notes are represented by a Global Note or a Global Certificate and such Global Note or Global Certificate is held on behalf of Euroclear or Clearstream Luxembourg, notices to the holders of Notes of that Series may be given by delivery of the relevant notice to that clearing system for communication by it to entitled accountholders in substitution for publication as required by the Conditions or by delivery of the relevant notice to the holder of the Global Note or Global Certificate, provided that whilst the Austrian Stock Exchange Act requires, notices as to redemption shall be published in a daily newspaper with general circulation in Austria (which is expected to be the *Amtsblatt zur Wiener Zeitung*) and, so long as the Notes are listed on the Luxembourg Stock Exchange, in a daily newspaper of general circulation in Luxembourg (which is expected to be *d'Wort*) or on the internet site of the Luxembourg Stock Exchange ([www.bourse.lu](http://www.bourse.lu)).



## THE COMPANY AND THE ISSUER

### History

The Company was incorporated in Jersey as a public protected cell company for an unlimited duration and with limited liability under the Companies (Jersey) Law 1991 on 19 May 2006, with registered number 93501. The Issuer was created, by special resolution of the Company's shareholders passed on 8 June 2006, as a public cell of the Company for an unlimited duration and with limited liability.

The registered office of the Company and the Issuer is 22 Grenville Street, St Helier, Jersey JE4 8PX. Neither the Company nor the Issuer has any place of business in Austria.

The Company and the Issuer are both wholly owned by Erste Bank (Malta) Limited, an indirect wholly-owned subsidiary of Erste Bank.

### Features of Jersey protected cell companies and their cells

Each Series of Notes under the Programme will be issued by the Issuer as a separate cell maintained by the Company. This structure was chosen by the Company primarily with a view to achieving segregation between the assets and liabilities attributable to different cells and to the possibility of issuing notes with different characteristics and backed by different assets being issued by one or more newly created cells of the Company. By special resolution passed by its shareholders, the Company may create one or more additional cells in the future. The Issuer is the only cell of the Company to have been created as at the date hereof.

The Company and the Issuer each have their own, separate constitutional documents (Memorandum and Articles of Association).

The Issuer is not a body corporate and has no legal identity separate from that of the Company. Any legal proceedings by or against the Issuer must be instituted by or against the Company. Where the Issuer is a party to a written agreement such agreement will be executed by the Company acting in respect of the Issuer. Where the Company enters into a transaction in respect of the Issuer or incurs a liability arising from an activity or asset of the Issuer, a claim by any person in connection with that transaction or liability will extend only to the cellular assets of the Issuer. The Company itself has no power to meet any liability attributable to a particular cell from its non-cellular assets or to meet any liability, whether attributable to a particular cell or not, from the cellular assets of another cell of the Company.

In addition, under the Companies (Jersey) Law 1991, as amended, if a creditor manages to make available any assets of the Company that are not assets of the Issuer to meet its claim against the Issuer, such creditor will be liable to pay to the Company an amount equal to the benefit so obtained. If the creditor manages to seize, attach or otherwise levy execution against any such assets, then it will hold such assets on trust for the Company and must pay or return them on demand to the Company.

Under the Companies (Jersey) Law 1991, as amended, if the Company is to be wound up, the Issuer must be transferred to another cell company, wound up, continued as a body corporate under the law of another jurisdiction, incorporated independently of the cell company or merged with another company. Except as provided in the Terms and Conditions, pursuant to the Support Agreement, Erste Bank has undertaken not to commence a winding up of the Company or the Issuer until no Notes of the Issuer are outstanding.

A protected cell company which applies to be treated as an 'exempt company' for Jersey income tax purposes will be charged only a single annual exempt company fee of £600, regardless of the number of cells it creates. The Company has exempt company status. The Issuer is not treated as a taxable entity separate from the Company for this purpose and is not therefore required to obtain exempt company status in its own right. See "Taxation – Jersey" for a description of the Jersey tax treatment of the Company as an exempt company.

The Company is required by the Companies (Jersey) Law 1991, as amended, to prepare separate accounts for itself and each of its cells. The accounts of the Company and the Issuer will therefore be subject to separate audit reports.

#### **Business and Activities**

The Company was incorporated, and the Issuer created, for the purpose of carrying out the transactions referred to in this Prospectus and they have only conducted business activities incidental to, and necessary for, compliance with the Issuer's obligations under the Notes.

#### **Powers**

There are no constitutional or statutory restrictions in Jersey on the corporate powers of the Company or the Issuer.

#### **Share Capital**

- (a) The existing issued ordinary shares of the Company and the Issuer are not listed on the Vienna Stock Exchange and are not dealt in on any other recognised market.
- (b) The Company was incorporated with an authorised share capital consisting of an unlimited number of shares of no par value designated as ordinary shares. Two ordinary shares were issued and fully paid at a price of €1.00 on creation of the Company and are the only shares currently in issue. Such shares have been beneficially held by Erste Bank (Malta) Limited since their transfer from the subscribers of the Company on 9 June 2006. Save as described, there has been no subsequent change in the share capital of the Company.
- (c) The Issuer was created with an authorised share capital consisting of an unlimited number of shares of no par value designated as ordinary shares. Two ordinary shares were issued and fully paid at a price of €1.00 on 18 July 2006 and are the only shares currently in issue. Such shares have been beneficially held by Erste Bank (Malta) Limited since their issue. Save as described, there has been no subsequent change in the share capital of the Issuer.
- (d) The holders of the ordinary shares of the Company and the Issuer have no rights of pre-emption or preferential subscription rights in respect of the Notes.
- (e) No capital of the Company or the Issuer is under option or is agreed conditionally or unconditionally to be put under option.

#### **Indebtedness**

Since the date of its incorporation, the Company has not had outstanding any loan capital and has not incurred any other borrowings or indebtedness in the nature of borrowings and has had no contingent liabilities or granted any guarantees. Since the date of its creation, the Issuer has not had outstanding any loan capital and has not incurred any other borrowings or indebtedness in the nature of borrowings and has had no contingent liabilities or granted any guarantees.

#### **Directors**

Pursuant to the Companies (Jersey) Law 1991, as amended, a protected cell of a protected cell company shall at all times have the same directors, secretary and registered office as the protected cell company.

- (a) The Directors of the Company and the Issuer and their principal activities outside the Company and the Issuer are as follows:

<b>Name</b>	<b>Principal Occupation</b>
Gareth Essex-Cater	Corporate Administration Services Manager

Helen Grant	Corporate Administration Services Manager
Daniel Le Blancq	Corporate Administration Services Manager
Dean Godwin	Corporate Administration Services Manager

Each of the Directors of the Issuer and the Company is an employee of a subsidiary of Mourant Limited.

Affiliates of Mourant Limited provide ongoing administrative services to the Issuer for which fees are charged at commercial rates and Mourant du Feu & Jeune, the Company's and the Issuer's legal advisers, are part of the Mourant Group.

- (b) The Directors do not, and it is not proposed that they will, have service contracts with the Company or the Issuer. No Director has entered into any transaction on behalf of the Company or the Issuer which is or was unusual in its nature or conditions or is or was significant to the business of the Company since its incorporation or to the business of the Issuer since its creation. No Director or any connected person has any interest, whether or not held by a third party, in the share capital of the Company or the Issuer.
- (c) As at the date of this document there were no loans granted or guarantees provided by the Company or the Issuer to or for the benefit of any Director of the Company or the Issuer.
- (d) The Articles of Association of the Company and the Issuer provide that:

“A Director, notwithstanding his interest, may be counted in the quorum present at any meeting at which any contract or arrangement in which he is interested is considered and, subject to the provisions of ... the Articles of the Company or Issuer regarding disclosure of interests ... he may vote in respect of any such contract or arrangement.”

The remuneration of the Directors shall from time to time be determined by the Company or the Issuer (as the case may be) in general meeting.

Subject to the provisions of the Articles of Association, a Director shall hold office until such time as he resigns, ceases to be eligible to be a Director or is removed from office by a resolution of the Company in general meeting. Any person removed or who resigns as a director of the Company shall, ipso facto, be removed or shall resign as a Director of the Issuer.

For purposes of this paragraph (d) “Law” means the Companies (Jersey) Law, 1991, as amended.

#### **Secretary**

The Secretary of the Company and the Issuer is Mourant & Co. Secretaries Limited of 22 Grenville Street, St. Helier, Jersey JE4 8PX.

#### **General**

- (a) Since 13 June 2006, the date upon which the Issuer was created, there has been no significant change in the trading or financial position of the Issuer.
- (b) Ernst & Young LLP of Unity Chambers, 28 Halkett Street, St. Helier, Jersey JE1 1EY, Channel Islands have been appointed as auditors to the Company and the Issuer.
- (c) No financial statements have yet been prepared for the Company or the Issuer.
- (d) No dividends have been declared or paid by the Issuer since the date of the Issuer's creation.

- (e) No transactions have occurred since incorporation of the Company or creation of the Issuer other than (i) the issue of the shares described under “Share Capital” above and (ii) the execution of the Programme Agreement, the Agency Agreement, the Support Agreement and the Intercompany Agreement described in this Prospectus and of a Corporate Administration Agreement dated June 2006 and made between the Company, Erste Bank and Mourant & Co. Limited.
- (f) There are no legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) which may have, or have had since the creation of the Issuer, a significant effect on the financial position of the Issuer.

## ERSTE BANK DER OESTERREICHISCHEN SPARKASSEN AG

### Introduction

Erste Bank is registered as a stock corporation (*Aktiengesellschaft*) in the Austrian Companies Register (*Firmenbuch*) (the “Companies Register”) at the Vienna Commercial Court (*Handelsgericht Wien*) and has the registration number 33209 m. The registered office of Erste Bank is Graben 21, 1010 Vienna, Austria and its telephone number is +4350100-0.

Erste Bank was established under Austrian law and registered as an *Aktiengesellschaft* under the *Aktiengesetz* 1965 as amended (the “Stock Corporation Act”). DIE ERSTE österreichische Spar-Casse Bank Aktiengesellschaft (“Die Erste”) changed its name to “Erste Bank der oesterreichischen Sparkassen AG” on 4 October 1997, following the merger (the “Merger”) of GiroCredit Bank Aktiengesellschaft der Sparkassen (“GiroCredit”), the third largest Austrian bank, with Die Erste, the fifth largest Austrian banking group, thus creating what is currently the second largest banking group in Austria (Source: 2005 Annual Reports of relevant leading financial institutions). Die Erste was established in 1819 as a *Vereinssparkasse* (association savings bank) and, as the name suggests, was the first savings bank in Austria (“*erste*” means “first” in German). GiroCredit traces its history to 1937, when it was established by the savings bank sector to serve as their central institution and as a clearing bank for payments between savings banks.

The Merger was effected pursuant to an agreement dated 27 June 1997 and was approved by the shareholders of both GiroCredit and Die Erste at extraordinary general meetings held on 21 August 1997. The Merger was formally completed when it was entered into the Companies Register on 4 October 1997.

### Background

Erste Bank is the leading bank in the Austrian savings banks group. It is also a leading retail bank in Central and Eastern Europe, where it serves more than 15 million customers.

In terms of total assets, the Group is the second largest banking group in Austria with assets of €152.7 billion at 31 December 2005. The Group carries on a full range of banking and financial services, including deposit taking, lending, mortgage lending, investment banking, securities trading and derivatives business (on its own account and for its customers), portfolio management, project finance, international trade finance, corporate finance, capital and money market services, foreign exchange, leasing, factoring and bank assurance.

The Group consists of Erste Bank, together with its majority owned financial and non-financial subsidiaries and participations, including Česká spořitelna, a.s. in the Czech Republic (“Česká spořitelna”), Slovenská sporiteľňa, a.s. in the Slovak Republic (“Slovenská sporiteľňa”), Salzburger Sparkasse Bank AG (“Salzburger Sparkasse”), Tiroler Sparkasse Bankaktiengesellschaft Innsbruck (“Tiroler Sparkasse”), ERSTE Bank Hungary Rt. (“Erste Bank Hungary”), Erste & Steiermärkische banka, d.d. (“Erste Bank Croatia”), Erste Bank a.d., Novi Sad (“Erste Bank Serbia”), ERSTE-SPARINVEST Kapitalanlagengesellschaft m.b.H. (“Erste SparInvest”), Bausparkasse der österreichischen Sparkassen Aktiengesellschaft (“S-Bausparkasse”), Sparkassen Versicherung AG, EBV-Leasing Gesellschaft mbH & Co KG (“EBV-Leasing”), IMMORENT AG (“IMMORENT”), S-Wohnbaubank AG (“S-Wohnbaubank”) and others. As of 1 January 2002, the term “Group” includes the savings banks consolidated by the Group under the *Haftungsverbund* agreement (see “Haftungsverbund” below).

On 21 December 2005, Erste Bank agreed to buy a 61.9 per cent. stake in BCR, Romania’s largest bank by total assets, for a purchase price of €3.75 billion. The purchase is currently subject to approval by the

Romanian Parliament. If approved, the acquisition of BCR will increase the Group's customer base by approximately 22 per cent. and provide access to a new market of more than 20 million people.

Comprising some 2,280 branches, the Group (excluding BCR) employed approximately 36,150 people worldwide as of 31 December 2005 and is represented in many countries, with a particular focus on its extended home market in Central and Eastern Europe, and operates in the major financial centres of the world, such as New York, London and Hong Kong.

### **Share Capital of Erste Bank**

On 21 January 2002, the Managing Board of Erste Bank (the "Managing Board") passed a resolution authorising a conditional capital increase in the nominal amount of €18,168,208.54, approved by the Supervisory Board of Erste Bank (the "Supervisory Board") on 30 January 2002, by issuing 2,500,000 shares against cash contributions and by excluding the subscription rights of the current shareholders of Erste Bank in order to satisfy share options granted to employees, senior employees and members of the Managing Board of Erste Bank or the Group.

The Annual General Meeting of Erste Bank held on 4 May 2004 approved a four-for-one stock split (which became effective on 8 July 2004) and a capital increase, which resulted in the accounting par value of the resulting shares being a round number. This increase was funded from reserves and raised Erste Bank's called up share capital from €435,628,641.82 to €479,550,464 with a corresponding decrease in capital reserves. As no new shares were issued in this capital increase, there was no dilution to the value of existing holdings.

The Managing Board, therefore, was further authorised to effect a conditional capital increase with the consent of the Supervisory Board by issuing up to 6,848,928 shares with an issue price of at least €2 per share against cash contributions and by excluding the subscription rights of the current shareholders of Erste Bank. As a result of the capital increase, the amount of Erste Bank's share capital represented by each share rose from €7.27 to €8.00. This permitted a four-for-one stock split, with each resulting share representing €2 of the share capital of Erste Bank.

In May 2005, a total of 332,640 shares were subscribed for under the Employee Stock Ownership Programme ("ESOP"). In April 2005, a total of 352,017 share options of the Management Stock Option Plan 2002 ("MSOP") were exercised. Due to the adjusted exchange ratio following the stock split in 2004, 1,408,068 shares were acquired. Thus, under the ESOP 2005 and MSOP 2002, a total of 1,740,708 shares representing share capital amounting to €3,481,416 were subscribed as a result of the capital increase. The capital increase became effective upon the issue of the shares, and the registration of the increased share capital in the Companies Register took place in July 2005.

MSOP 2005 comprises a maximum of 2,000,000 ordinary shares of Erste Bank. This total includes 54,000 options for the six members of the Managing Board (9,000 per person). The remaining 1,946,000 options were designated for distribution to eligible management staff and other eligible employees of the Group.

Each of the options, which are granted free of charge, entitles the holder to subscribe for one share; the transfer of options inter vivos is not permitted. The options granted in 2005 were delivered to the Managing Board and other management on 1 June 2005 and are being delivered to performance leaders among employees in three tranches (the first tranche was delivered on 1 September 2005 and the second and third tranches will be delivered on 1 September 2006 and 31 August 2007, respectively). The price at which options in all three tranches can be exercised was set at the average quoted price of Erste Bank shares in April 2005 (enhanced by a 10 per cent. premium and rounded down to the nearest half euro), which was €43 per share. Each year declarations to exercise the options may be submitted within 14 days of the day of publication of the quarterly results for the first to third quarters of each financial year, thus providing three exercise periods.

With the approval of the supervisory board, the Managing Board resolved on 9 January 2006 to make use of existing authorised capital in order to issue up to 58.95 million new Erste Bank shares. Furthermore, the greenshoe option amounting to 5,895,360 shares which was granted to the managers in the course of the public offer was fully exercised. In total, Erste Bank issued 64,848,960 new shares, and after registration of the capital increase with the Companies Register in February 2006, Erste Bank's share capital was increased by €129,697,920 to a total of €616,065,120. The proceeds of the capital increase are intended to be used by Erste Bank primarily to finance the acquisition of a majority stake in BCR (see "Acquisition of Banca Comerciala Romana" below) and to improve Erste Bank's own capital base.

Under the ESOP in May 2006 a total of 479,524 shares were subscribed for. During the exercise period in April 2006, a total of 87,059 share options of the MSOP 2002 were exercised. Due to the amended subscription ratio after the stock split in 2004, 348,236 shares were taken up. During the exercise period in May 2006, a total of 85,855 share options of the MSOP 2005 were exercised. Thus, under ESOP 2006, MSOP 2002 and MSOP 2005 a total of 913,615 share options representing share capital amounting to €1,827,230 were subscribed as such as a result of such capital increase. The capital increase became effective upon the issue of shares, and the registration of the increased share capital in the Companies Register will take place in December 2006.

The Annual General Meeting of Erste Bank held on 19 May 2006 approved a resolution authorising the Managing Board to increase the registered capital with the consent of the Supervisory Board in several tranches by an amount of up to €180,000,000 by issuing up to 90,000,000 shares (with the type of shares, issue price, terms and conditions of the issue and, to the extent provided for, the exclusion of the subscription rights to be determined by the Management Board). The Annual General Meeting of Erste Bank held on 19 May 2006 also approved a resolution to effect a conditional increase of the registered capital with the consent of the Supervisory Board by a nominal amount of up to €20,000,000 by issuing up to 10,000,000 bearer or registered ordinary shares (shares with no par value) at an issue price of at least €2 per share against cash contribution and by excluding the subscription rights of the current shareholders, which may be used to service the share options granted to employees, executives and members of the Managing Board of Erste Bank or affiliated entities.

Erste Bank's shares are listed and officially traded (*amtlicher Handel*) on the Vienna Stock Exchange and on the Prague Stock Exchange.

## **Business Overview**

### **Strategy**

At the time of the initial public offering of shares in Erste Bank in 1997, Erste Bank had the following four core strategies: (i) focusing on core business potentials in retail banking; (ii) building a strong brand amongst the Austrian savings banks; (iii) targeting a home market of 40 million people in Central Europe; and (iv) transferring the multi-channel distribution model throughout Central Europe.

Following implementation of these strategies, Erste Bank has revised its core strategies to reflect the development of Erste Bank and its goals as well as changes in the operating environment. Erste Bank now has the following strategies: (i) focusing on the retail banking business; (ii) targeting the Central and Eastern European markets; and (iii) increasing efficiency within the Group.

### **Relationship with Austrian Savings Banks**

The Austrian savings banks sector comprises all savings banks in Austria including Bank Austria Creditanstalt AG ("Bank Austria"), although in October 2004, Bank Austria left the privately organised *Sparkassenverband* which represents all savings banks, including in collective bargaining. Consequently, Bank Austria has, from

December 2004, not been included in the statistics of the Austrian National Bank as a savings bank, although it still participates in the savings banks deposit insurance system and is legally organised as a savings bank (and the Sparkassen-Prüfungsverband Prüfungsstelle is its statutory auditor).

The savings banks group accounted for 17.5 per cent. of the total assets of the Austrian banking system at 31 December 2005 (Source: Austrian National Bank, *www.oenb.at*). At the same date, the savings banks group comprised 57 legally independent savings banks with a branch network of approximately 1,130 outlets. References in this Prospectus to the “savings banks group” or the “savings banks” refer to the Austrian savings banks excluding Bank Austria unless indicated otherwise. For further information, see also “The Austrian Banking System — Savings Banks”.

Erste Bank has continued to provide a wide range of services and products to the savings bank group and its customers. These services and products include syndication services, risk management advice, legal advice, retail mortgage, life insurance and investment fund products and portfolio and asset management services as well as securities-related services which enable independent savings banks to reduce costs while providing a full service to their clients.

The relationship with the savings banks has advantages for both parties (for example, cost efficiency due to common marketing and controlling schemes). With a network of some 980 branches Erste Bank offers a large additional distribution network for its products without the operational costs associated with maintaining additional branches.

The Act requires savings banks to maintain with Erste Bank, as the central financial institution of the savings bank group, a specified amount of their savings deposits and other Euro deposits (the “Liquidity Reserve”). Although a legal change has recently been required by the European Commission, which would enable the savings banks to keep the Liquidity Reserve with banks other than the relevant central financial institution, Erste Bank believes that such change would not affect the savings banks group as the central institution function of Erste Bank is part of the *Haftungsverbund* agreement (see “Haftungsverbund” below). The Liquidity Reserve is intended to ensure that the savings banks have sufficient liquidity available to meet their commitments, in particular to customers for repayments of deposits while meeting their own cash flow needs. As at 31 December 2005, the Liquidity Reserve at Erste Bank amounted to €4.0 billion, of which €492.9 million was held with the Austrian Central Bank at the interest rate set by the European Central Bank (Source: Erste Bank Balance Sheet Accounting).

The savings banks group co-operates in five main areas:

- the common development of products and services;
- the projection of a unified identity through a one-brand strategy;
- the standardisation of business and marketing strategies for retail and corporate banking;
- the development of common management information and control systems and integration of central functions; and
- the introduction of a common performance-related remuneration scheme for management.

### **Haftungsverbund**

On 26 September 2001, the majority of the Austrian savings banks signed an agreement called the *Haftungsverbund*. The *Haftungsverbund* came into force on 1 January 2002. Following this, under International Financial Reporting Standards (“IFRS”), all of the savings banks which signed the *Haftungsverbund* are consolidated into the Group’s financial statements.



The *Haftungsverbund*, as an integral part of the joint marketing strategy and co-operation between the savings banks, is based on three pillars:

- the joint product development and centralisation of processing functions, a uniform risk policy (including standardised credit risk classification), co-ordinated liquidity management and common standards of control;
- a joint early-warning system, designed to identify financial difficulties at member savings banks which provides support mechanisms, including intervention in management to avoid such members becoming bankrupt; and
- a cross-guarantee of certain liabilities of member savings banks.

Pursuant to the *Haftungsverbund*, s Haftungs- und Kundenabsicherungs GmbH (the “Steering Company”) is vested with the power to set the common risk policies of its members and to monitor adherence to these policies. In addition, if a member encounters serious difficulties (which may be discerned from the information that is required to be continually generated by members and provided to the Steering Company), the Steering Company has the authority to provide assistance and/or intervene in the management (by appointing or removing the members of the managing board) of the affected member savings bank and to require other member savings banks to support and contribute to such assistance as the Steering Company determines. Erste Bank is required to hold at least 51 per cent. of the share capital in the Steering Company (as at 31 December 2005 it held 55.6 per cent.).

Assistance may be in the form of injections of liquidity, the granting of loans, the assumption of guarantees or claims, the assignment of claims and injections of equity. To support the Steering Company, member savings banks each consent to contribute funds up to a maximum cumulative amount of 1.5 per cent. of the member’s risk-weighted assets from time to time, determined on a non-consolidated basis, plus 75 per cent. of the member’s anticipated pre-tax profits for the current financial year.

Once a member becomes bankrupt, members guarantee, through the Steering Company, the payment of all amounts owed to customers by the bankrupt member, including:

- (a) all deposits (as defined in §1 Section 1 No. 1 of the Act);
- (b) all monetary claims based on credit balances from banking transactions; and
- (c) all monetary claims from the issuance of securities,

except to the extent that the relevant amounts are owed to a credit institution. Such guarantee is also subject to the cumulative limit on members’ obligations referred to above.

### **The “New Group Architecture” Programme**

In 2004, Erste Bank decided to develop and update its strategy further in order to exploit the full potential of existing business activities and synergies within the Group and further improve the product and service portfolio for the Group’s customers, based on specific strengths in the Austrian market. This initiative required Erste Bank to further integrate the banking group. In order to achieve this, a group-wide programme was developed with the working name “New Group Architecture”.

#### *Goals of the programme*

The “New Group Architecture” programme aims to:

- fully utilise the business potential of the Central European growth markets across customer segments and develop growth initiatives for the short and medium term on a Group-wide basis;

- utilise the economies of scale which result from having a customer base of 15 million people. These customers are located in five markets which, although at very different stages of development, Erste Bank believes are moving towards convergence;
- realise cost synergies in the Group by concentrating on strengthening its market position, creating a Group-wide procurement organisation, and optimising management of demand and of purchasing standards; and
- combine support functions across the Group, especially in information technology (“IT”).

The key prerequisites of such initiatives are comparability and transparency of recording and allocating costs and income, and the institution of uniform methods of performance measurement and controlling throughout the Group.

The project is centred on four main projects (out of a total of 15 Group-wide initiatives):

- group performance model;
- group procurement;
- group large corporates; and
- retail 2008.

#### *Group Performance Model*

The group performance model project aims to standardise processes and performance benchmarks by (i) creating uniform standards for the recognition and allocation of costs and income, (ii) organising major performance indicators and controlling tools into a cohesive system and benchmarking them, (iii) identifying savings potential in major infrastructure and support functions (including IT, facility management and marketing), (iv) identifying additional revenue potential, with greater precision, at the level of product development, pricing, regional sales performance and joint marketing initiatives and (v) adjusting management information system tools accordingly.

#### *Group Procurement*

A savings target of 10 per cent. of controllable costs was set for the group procurement project. The project team identified specific potential cost reductions of approximately €80 million that are to be effected from 2008 onwards. Three-quarters of these target savings relate to cash expenses for products and services purchased outside the Group and are included in the consolidated income statement. The remaining quarter of target savings pertain to investments and will be realised through reduced amortisation charges.

The main objectives of this project are (i) Group-wide pooling of information on non-staff administrative expenses and investment, (ii) combining the Group’s procurement volumes, (iii) identifying potential savings achievable through improved demand management and standardised specifications and (iv) creating a single procurement organisation with uniform procurement processes (the “lead buyer” structure).

#### *Group Large Corporates*

Erste Bank views its Group-wide operations with its large corporate customers as an important activity that can help to enhance performance in this business area. The target group consists of approximately 650 companies with annual revenues of more than €70 million each, which operate in one or more of the Group’s core markets. As of 30 September 2005, approximately 200 of these entities had a business relationship with Erste Bank.

The main objectives are (i) development of a comprehensive portfolio of services and products for the target group of this project, building on Erste Bank’s specific strengths in the region, and (ii) improvement of the

return on equity in this segment from the current 9 per cent. to a sustainable level of at least 15 per cent. Core elements of the business model are the improvement of the product offering, better integration with Treasury and Capital Markets/Investment Banking and capital allocation, supported by active portfolio management. As of 1 January 2005, a Group-wide business unit with full profit and loss responsibility was created for this customer segment.

#### *Retail 2008*

“Retail 2008” represents a package of initiatives under a single umbrella, the aim of which is to apply the experience of the Group to its core retail business. The strategic direction of this programme is provided by the Group’s retail board, which consists of the heads of the material retail banking businesses within the Group. The guiding principle is to ensure, through the continuous exchange of knowledge, that the best practices prevail in the Group at all times. The programme also involves developing Group-wide business and product initiatives in, for example, the structured investment products business, producing a card strategy for the Group, and an enterprise-wide consumer finance strategy complementary to the traditional retail business. These projects are intended partly to address existing clients and partly to target new customer groups and additional revenue potential over the next one to three years.

#### *Further projects*

The Group’s IT project will focus on concentrated demand management, a uniform IT master plan, the bundling of software development functions as well as operating units. It is aimed at unifying desktop and decentralised equipment management.

Increasing efficiency will be driven mainly by the introduction of a new Group-wide IT structure that consists of four integral building blocks (each with significant savings targets to be realised in a separate implementation project): (i) *Group Organisation* will function as the interface between business and the other three units and will be responsible for demand management, the IT masterplan and oversight of day-to-day IT activities, (ii) *IT Solutions* will integrate the five software development units of the Group into a single focused development unit, (iii) *Group IT Operations* will group decentralised operational units and will seek to develop increased transparency, availability and performance and (iv) *Decentralised Computing* will unify management of desktop and decentralised equipment throughout the Group.

This approach is aligned with, and supported by, the results and implementation proposals developed by the Group Performance Model project, which analysed the Group’s overall IT costs in 2005 in order to benchmark processes and systems, identify synergies, and launch appropriate initiatives.

## **Erste Bank’s Business in Austria**

Erste Bank’s business in Austria is divided into four segments: Savings Banks, Retail and Mortgage, Large Corporates, and Trading and Investment Banking.

### **Savings Banks**

In 2005, the Savings Banks segment encompassed 45 Austrian savings banks (the “**Savings Banks**”) that were consolidated as a result of their membership in the *Haftungsverbund* and in which Erste Bank held little or no equity interest. Those Savings Banks which are majority-owned by Erste Bank (Salzburger Sparkasse, Tiroler Sparkasse and Sparkasse Hainburg-Bruck-Neusiedl) are included in the Retail and Mortgage segment (see below).

Erste Bank provides a wide range of services and products to the Savings Banks and its customers. These include syndication, asset management and securities-related services, risk management and legal advice, as well as retail mortgage, life insurance and investment fund products, which enable independent Savings Banks to reduce costs while providing a comprehensive service to their clients. In return, Erste Bank has

access to an additional distribution network of some 711 branches for its products without the usual operational costs associated with operating additional branches.

In addition Erste Bank and the Savings Banks co-operate on key operational issues such as common product development; the projection of a unified identity through a one-brand strategy; the standardisation of business and marketing strategies for retail and corporate banking; the development of common management information and control systems and integration of central functions; and the introduction of a common performance-related remuneration scheme for management.

In 2005, Erste Bank and the Savings Banks were able to expand their client share in Austria. The overall client share increased by 0.7 per cent. to 27.7 per cent., while main client share increased by 1.0 per cent. to 22.6 per cent. (Source: Erste Bank, Annual Report 2005).

In 2005, several technological improvements were implemented to enhance efficiency. A more targeted customer relationship management software package coupled with the necessary employee training was introduced. “*s Abwicklungsmanagement*” will provide the Lending and Securities divisions with electronic document management software. The “Business Intelligence” project will create a common database for compliance with Basel II requirements and the soon to be established risk-oriented reporting system. Finally, the internet portal of the Savings Banks has been updated.

As part of the development of a common risk management policy, the Savings Banks successfully implemented or started joint projects on Basel II, credit business minimum standards and risk-oriented reporting.

The following table sets out summary financial information for the Savings Banks segment in 2004 and 2005.

	2005	2004
	<i>in € million</i>	
Pre-tax profit .....	185.2	182.1
Net profit after taxes and minority interests .....	3.2	7.1
Cost/income ratio in % .....	68.1	67.5
Return on equity in % .....	1.3	2.9

Net profit after taxes and minority interests fell by €3.9 million from €7.1 million to €3.2 million. Return on equity fell from 2.9 per cent. to 1.3 per cent., while the cost/income ratio increased slightly from 67.5 per cent. to 68.1 per cent. Net interest income declined by 1.8 per cent., or €15.5 million, from €849.6 million to €834.0 million. This decrease resulted from persistent low interest rates and a highly competitive market environment. Risk provisions for loans and advances were up sharply from the previous year, increasing by €31.2 million from €184.5 million to €215.8 million. The increase followed two non-recurring negative events at two of the Savings Banks. Given the relatively insignificant equity interest in these banks, net profit after taxes and minority interests was only marginally affected.

Net commission income increased by 12.3 per cent. or €39.4 million. This gain was generated primarily in the funds business as well as through securities sales commissions. General administrative expenses increased by 3.0 per cent. or €23.9 million, from €801.7 million to €825.6 million. The other operating result improved by €32.6 million, from a loss of €18.8 million in 2004 to a gain of €13.8 million in 2005. This was despite non-

recurring gains in 2004 from the sale of a *Haftungsverbund* savings bank's branches and was partly due to financial asset valuation gains.

The following table sets out the Group's ownership in the Savings Banks as of 31 December 2005:

	<b>Ownership in %</b>	<b>Total Assets (in €million)</b>
Salzburger Sparkasse* .....	98.7 <sup>(1)</sup>	3,976.7
Sparkasse Hainburg-Bruck-Neusiedl* .....	75.0	724.4
Tiroler Sparkasse* .....	74.7 <sup>(2)</sup>	3,886.7
Sparkasse Mühlviertel-West.....	40.0	416.4
Allgemeine Sparkasse Oberösterreich.....	26.9 <sup>(3)</sup>	8,506.8
Steiermärkische Bank und Sparkasse.....	25.0	11,188.7
Sparkasse Kremstal-Pyhrn .....	24.1	502.4
Kärntner Sparkasse .....	25.0	3,424.2
Sparkasse Voitsberg-Köflach.....	6.3	473.9

\* These Savings Banks are included in the Retail and Mortgage segment.

(1) Direct holding of Erste Bank amounts to 95.7 per cent.

(2) Direct holding of Erste Bank amounts to 48.9 per cent.

(3) Direct holding of Erste Bank amounts to 24.6 per cent.

Source: Erste Bank Annual Report 2005 and Österreichischer Sparkassenverband.

### **Retail and Mortgage**

The Retail and Mortgage segment comprises all activities in Austria relating to retail, mortgage and small and medium-sized corporate customers ("SMEs"), including Erste Bank's 142 branches in eastern Austria, including Vienna, which predominantly serves professionals, retail clients and SMEs. It also includes three majority-owned savings banks (Salzburger Sparkasse, Tiroler Sparkasse and Sparkasse Hainburg-Bruck-Neusiedl).

A portion of the results of the investment fund business (Erste-Sparinvest), consisting of private banking and portfolio management for retail customers, and of the life insurance business (*s Versicherung*), are also included in this segment. Erste-Sparinvest is a market leader in retail funds in Austria, while *s Versicherung*, the exclusive partner to Erste Bank, the savings banks and *s Bausparkasse*, leads the Austrian life insurance market (Source: Vereinigung Österreichischer Investmentfondsgesellschaften, [www.voieg.at](http://www.voieg.at)). Erste Bank's Austrian retail real estate and mortgage activities also form part of this segment, covering retail mortgages, non-profit, subsidised and commercial housing finance, and property management and brokerage.

Erste Bank's SME business successfully completed a restructuring in 2005 and made a positive contribution to group profit. The business unit expanded its operating profit by 45 per cent. to €26.5 million, while keeping volumes stable. This progress was mainly due to higher commission income and tight cost management. An improved portfolio composition led to a decrease in risk provisions. Overall, these developments translated into a net profit of €4.5 million and substantial uplift in the cost/income ratio and return on equity. Within the mortgage business in 2005, housing finance volumes expanded both through Erste Bank and *s Bausparkasse*. Total loan volume increased from €10.3 billion to €11.2 billion. 2005 also brought a regulatory change for

subsidised building society savings, which can now be used to finance education and home care expenses. Erste Bank has developed and marketed a number of new tailor-made products in response.

Erste-Sparinvest extended its market share to 18.0 per cent. in 2005. Funds under management grew to €28.1 billion by year-end 2005, an increase of €21.5 billion compared with 2004, maintaining its position as the second largest fund manager in Austria. In retail funds Erste Bank's fund management unit maintained its market leadership.

s Versicherung further expanded its market leadership position in Austrian life insurance in 2005, reaching a market share of about 15.3 per cent., an increase of 14.3 per cent. compared with 2004 (Source: Versicherungsverband Österreich, [www.vvo.at](http://www.vvo.at)). The number of policies, covering life and property and casualty policies, exceeded one million in 2005 for the first time. Correspondingly, gross premium written increased from €900 million in 2004 to €1.1 billion in 2005. s Versicherung also successfully expanded its position in the market for government-incentivised retirement savings products.

The following table sets out summary financial information for the Retail and Mortgage segment in 2004 and 2005.

	2005	2004
	<i>in €million</i>	
Pre-tax profit .....	151.6	76.3
Net profit after taxes and minority interests .....	93.2	41.1
Cost/income ratio in % .....	72.2	76.0
Return on equity in % .....	10.1	5.0

In 2005, the Retail and Mortgage segment, including the savings banks in which Erste Bank holds a majority interest, increased profits from €41.1 million in 2004 to €93.2 million, while the return on equity in this segment exceeded the 10 per cent. target level for the first time and the cost income ratio contracted from 76.0 per cent. to 72.2 per cent..

Net interest income fell by 1.0 per cent. or €5.0 million. This decrease occurred mainly in the branch network as a result of persistent low interest rates. Meanwhile, s Bausparkasse, which is also assigned to this segment, recorded gains due to the expiration of high-rate deposits. Risk provision allocations fell by 11.6 per cent., or €13.8 million from €118.9 million to €105.1 million. This decrease was mainly due to the improved risk situation in the SME business as well as at Tiroler Sparkasse.

Net commission income increased by 12.2 per cent., or €34.1 million, from €280.4 million to €314.5 million. General administrative expenses were reduced by 1.7 per cent., or €10.7 million. The other operating result improved from a loss of €5.5 million to a gain of €16.2 million, mainly through proceeds on disposals and project-related income.

### **Large Corporates**

The Large Corporates segment serves domestic and international corporate customers with sales of €70 million and above and sovereign borrowers. Following the establishment of the business unit Group Large Corporates within this segment and as part of the "New Group Architecture" programme, the Large Corporate segment now provides the full range of banking services to corporate customers across Central and Eastern Europe, including project finance for commercial real estate in Austria and abroad, other forms of structured

finance, trade finance, debt and equity corporate finance services, export financing, documentary credits and guarantees and general commercial lending.

Institutional clients, a small component of the investment fund business and IMMORENT (Erste Bank's leasing specialist for real estate and equipment), also form part of the Large Corporates segment. IMMORENT is a full-service provider of leasing and real estate-related services and real estate investment products. In line with Erste Bank's regional strategy, IMMORENT has also expanded its activities into Central and Eastern Europe and currently has subsidiaries in the Czech Republic, Slovakia, Hungary, Slovenia, Croatia, Serbia, Bulgaria and Romania.

In 2005, corporate bond financing was especially popular within corporate finance, given the favourable interest rates and declining risk premiums across all risk classes. Erste Bank was also active in equity financing. Erste Bank had a leading role in the arrangement of equity offerings by Wiener Städtische Versicherung (€1,050 million) and by s Immo AG (€267 million).

The following table sets out summary financial information for the Large Corporates segment for 2004 and 2005.

	<b>2005</b>	<b>2004</b>
	<i>in €million</i>	
Pre-tax profit .....	77.8	83.8
Net profit after taxes and minority interests .....	55.5	55.8
Cost/income ratio in %.....	39.4	39.1
Return on equity in % .....	11.0	12.6

In 2005, the operating result of the Large Corporates segment increased by 6.1 per cent. from €129.3 million to €137.2 million. Business volume increased by 3.1 per cent., or €530 million, with the growth concentrated mainly in the area of lease financing. Net interest income increased by 2.2 per cent., or €3.0 million, from €139.9 million to €142.9 million.

Net commission income increased by 15.4 per cent., or €11.0 million, from €71.2 million to €82.2 million. Commissions on capital market and leasing transactions contributed to this increase.

The income statement line item named "other operating result" decreased by €21.3 million from a loss of €7.7 million to a loss of €29.0 million. In 2005, the volume of project-related provisions, reflected in the other operating result, was essentially unchanged from 2004. Risk provision allocations declined by 19.6 per cent. from €37.9 million to €30.5 million, as the decline in provision allocations for the financing business was only partially offset by a modest increase in provision allocations in the leasing business.

General administrative expenses increased by 7.7 per cent. from €83.0 million to €89.4 million, mainly as a result of the leasing business growth in the extended home market (legal and advisory) and through the establishment of new processes.

In the Large Corporates segment, net profit after taxes and minority interests remained essentially unchanged. Given the generally higher equity allocation, the return on equity decreased to 11.0 per cent. and the cost income ratio was 39.4 per cent. The favourable earnings trend in net interest income and net commission income was offset by the higher costs and expenses in the other operating result.

### Trading and Investment Banking

The Trading and Investment Banking segment comprises third-party and proprietary trading activities in Vienna, London, New York and Hong Kong, as well as asset-liability management. This segment deals with management of asset-liability risk (interest rate and liquidity risks) for the Group, foreign currency, fixed-income and securities trading products for all client groups, and the development of structured products, particularly in relation to Central and Eastern European growth markets.

The establishment of the Group Large Corporates business unit in 2005 led to a reallocation of Erste Bank's investment banking functions, so that large corporate clients are now served by a single entity. Capital market transactions are, therefore, processed by the Group Large Corporates unit, while the traditional equities business (trading and sales) has been integrated into the Treasury segment. This change created synergies in the trading business and a pooling of resources for the structuring of investment and financing products.

In 2005, Erste Bank expanded its market position in Central and Eastern European securities trading. Relative to total trading volume on the relevant local stock exchanges, Erste Bank's market share in 2005 was as follows:

	<b>Market share</b>	<b>Average Market position</b>
Erste Bank (Vienna) .....	19.57%	2
Erste Bank Investment Hungary .....	19.10%	1
Česká spořitelna .....	9.01%	3
Slovenská sporiteľňa .....	2.26%	10
Erste Securities Polska .....	3.75%	9
Erste Securities Zagreb .....	7.71%	4

(Source: Relevant local stock exchanges)

Erste Bank created the New Europe Blue Chip Index (NTX) as a benchmark for the Central and Eastern European growth markets. The NTX includes the 30 largest and most liquid stocks in the region, and was launched jointly with the Vienna Stock Exchange in autumn 2005. In the fourth quarter of 2005, Erste Bank placed €165 million in index-based products such as investment funds, certificates and warrants.

Having steadily built-up its equity derivatives product range, Erste Bank added two further distribution channels in this area in 2005. Erste Bank created an internet portal accessible at [www.erstebank-derivate.at](http://www.erstebank-derivate.at). In addition, Erste Bank is now present as an issuer on EUWAX, Europe's largest derivatives exchange. In 2005, Erste Bank, working with an international partner, placed a collateralised debt obligation in the Austrian capital markets to fund its ongoing technology investments.

Erste Bank also developed more than 50 new structured products that enable its large corporate clients and SMEs to implement innovative zero-cost strategies. In 2005, income from this product group more than doubled.



The following table sets out summary financial information for the Trading and Investment Banking segment for 2004 and 2005.

	2005	2004
	<i>in € million</i>	
Pre-tax profit .....	122.2	140.8
Net profit after taxes and minority interests .....	90.3	105.6
Cost/income ratio in % .....	43.3	38.8
Return on equity in % .....	31.9	43.2

Net profit after taxes and minority interests fell by 14.4 per cent., or €15.2 million from €105.6 million to €90.3 million, as the favourable trend in net commission income did not fully offset the market-led decline in net interest income. The return on equity fell from 43.2 per cent. to 31.9 per cent., while the cost income ratio increased from 38.8 per cent. to 43.3 per cent..

The segment results break down differently from the previous year. The asset-liability management result fell by around €40 million, mainly as a result of interest rate trends and currency hedging effects, while earnings in the Treasury segment increased by 33 per cent., or €25 million. The expected decline in net interest income by 39.3 per cent., or €40.3 million, from €102.4 million to €62.2 million was due to low interest rate levels, a flat yield curve and the impact of currency hedging on the results of Erste Bank's Central and Eastern European subsidiaries.

Net commission income rose by 37 per cent., or €19.1 million, from €51.7 million to €70.9 million, mainly as a result of higher securities commission income (given the sharp increase in trading volume on the Vienna Stock Exchange) and sales of structured products. The net trading result of €84.5 million was consistent with the previous year.

General administrative expenses increased by 0.7 per cent., or €0.6 million, from €93.5 million to €94.1 million due to effective cost management. The other operating result improved by €5.9 million from a loss of €7 million to a loss of €1.1 million, mainly as a result of the portfolio's fair value measurement.

### **Erste Bank's Business in Central and Eastern Europe**

Initially, Erste Bank defined its extended home market as Austria's neighbouring countries in Central Europe, with a total population of more than 40 million people. In the next phase of its strategic development, Erste Bank extended its home market to the adjacent regions (including the second wave of countries aspiring to EU accession in Eastern and Southeastern Europe and any further potential EU candidates). Erste Bank believes that the foremost requirement for succeeding in retail banking in this region is achieving a strong market presence and accordingly Erste Bank's long term objective is to attain a market share of at least 20 per cent. in each such country. To achieve this market position, the Group expects to rely both on targeted acquisitions and organic growth.

#### **Direct Holdings of Erste Bank in Central and Eastern Europe (as at 31 December 2005)**

Country	Erste Bank subsidiary	Ownership
Czech Republic .....	Česká spořitelna a.s.	98.0%

<b>Country</b>	<b>Erste Bank subsidiary</b>	<b>Ownership</b>
Slovak Republic .....	Slovenská sporiteľna, a.s.	100%
Hungary.....	Erste Bank Hungary Rt.	99.9%
Croatia.....	Erste & Steiermärkische banka, d.d.	51.4%
Serbia-Montenegro.....	Erste Bank a.d. Novi Sad <sup>1</sup>	95.6%

<sup>(1)</sup> In 2006 Erste Bank has acquired a further 4.4 per cent. stake from the remaining minority shareholders. Erste Bank now owns 99.99 per cent. of the share capital of Erste Bank a.d. Novi Sad.

A share purchase agreement relating to the acquisition of BCR was signed on 21 December 2005, however, BCR will only be consolidated following the closing of the transaction which is expected to occur not later than 21 September 2006.

Source: Annual Report 2005.

Erste Bank continues to evaluate various options to enter the Ukrainian market.

### **Česká spořitelna**

Česká spořitelna is the leading retail bank in the Czech Republic and the largest among Erste Bank's operations in Central Europe (Source: Czech National Bank, [www.cnb.cz](http://www.cnb.cz)). Since its privatisation in 2000, the former state savings bank has become a universal bank serving some 5.3 million retail, small and medium enterprise and large corporate clients; it operates a network of 646 branches and over 1,070 automatic teller machines ("ATMs"). Česká spořitelna's services include fund management, securities trading and foreign exchange dealing.

Česká spořitelna maintained its first position in retail banking and continued to rank among the three leading banks in terms of total assets. Its market share of total assets was 22 per cent. in 2005 (as for 2004). In terms of retail products, Česká spořitelna maintained its dominant position with almost one third of the retail loan and deposit market. In high growth segments of the market, such as residential mortgages, it has established a market share of almost 40 per cent. (Sources: Erste Bank Annual Report, Czech National Bank, [www.cnb.cz](http://www.cnb.cz)).

The following table sets out summary financial information for Česká spořitelna in 2004 and 2005:

	<b>2005</b>	<b>2004</b>
	<i>in € million</i>	
Pre-tax profit .....	364.1	289.3
Net profit after taxes and minority interests.....	265.4	193.7
Cost/income ratio in %.....	58.6	61.3
Return on equity in % .....	38.5	39.4

Last year, group net profit increased by 37.1 per cent., or €71.8 million, from €193.7 million in 2004 to €265.4 million in 2005. Aided by growth, the cost income ratio fell from 61.3 per cent. to 58.6 per cent. The return on equity fell slightly from 39.4 per cent. to 38.5 per cent., mainly as a result of the increased equity allocation.

Despite two interest rate cuts by the Czech Central Bank totalling 50 basis points, net interest income increased by 18.0 per cent., or €90.8 million, from €504.2 million to €595.0 million. This increase was driven mainly by the robust gains in the lending business. Risk provision allocations increased by €17.9 million from €15.8 million to €33.7 million, mainly as a result of the growth in the lending business.

Net commission income rose by 9.1 per cent. in 2005 (2.0 per cent. adjusted for the foreign exchange impact), or €24.1 million, from €262.9 million to €287.0 million. This increase was largely due to the expansion of the payments and asset management businesses as well as the gains in the lending business (see above).

Driven by substantial gains in interest rate derivatives and securities activities, the net trading result also improved, rising by 20.5 per cent. (or 12.6 per cent. when adjusted to account for the foreign exchange impact), or €8.4 million, to €49.4 million.

General administrative expenses increased in 2005 by 9.9 per cent. (2.7 per cent. adjusted for the foreign exchange impact), or €49.6 million, from €500.5 million to €550.1 million, mainly due to the establishment of additional severance reserves for the redundancy programme and an increase in sales tax following a change in tax law in 2004.

The income statement line item named “other operating result” increased by €19.5 million from a loss of €10.8 million to a gain of €8.7 million due to regulatory changes requiring compulsory payments to the deposit insurance fund and gains on the disposal of other current assets.

## **Slovenská sporiteľňa**

Slovenská sporiteľňa is the market leader in the Slovakian banking market, based on a comparison of the financial statements of Slovenská sporiteľňa with its competitors’ annual reports and the financial statements of the total banking sector according to the National Bank of Slovakia (see [www.nbs.sk](http://www.nbs.sk)). The former state savings bank serves approximately 2.5 million clients (about 50 per cent. of the Slovak population) through a network of 302 branches. It is the market leader in retail as well as total deposits and in 2005 its asset management subsidiary maintained its leading position and life insurance provider Poist’ovňa SLSP continued increasing its market share (Source: Slovenská asociácia poisťovní, [www.slaspo.sk](http://www.slaspo.sk)).

Slovenská sporiteľňa maintains a total asset market share of 20 per cent. and has become the market leader in overall lending as well as retail lending, holding respective market shares of 7 per cent. and 25 per cent. It has also made inroads into the residential mortgage market by successfully launching asset-backed loans (UverPlus) with real estate as collateral.

In 2005 Slovenská sporiteľňa launched a number of new products including “American mortgage”, (home equity loans that allow consumers to extract equity from their property), “10 Minute” loans that aim to reduce administrative requirements in the loan extension process, and all purpose consumer loans. Slovenská sporiteľňa recorded the highest growth rates of any group member, with the overall loan book increasing by approximately 55 per cent., to approach the €2.5 billion mark. The retail loan book also posted strong growth of approximately 54 per cent. and accounted for 45 per cent. of total customer loans.

In 2005 more than 90 per cent. of customers performed non-cash transactions, used the ATM network and made payments with bank cards. Slovenská sporiteľňa issued almost 38,000 new bank cards last year, bringing the total number in circulation to nearly 1.1 million. The number of customers using electronic banking amounted to more than 300,000 in 2005, up by more than 30 per cent. compared with 2004.

The closure of 30 uncompetitive branches during the course of 2005 reduced the number of branches to 302. As a result staff numbers also fell by approximately 5 per cent. to below 4,800.

In January 2005, Erste Bank completed the purchase of the remaining 19.99 per cent. of the share capital of Slovenská sporiteľňa by exercising the call option received from the European Bank for Reconstruction and Development (the “EBRD”) and effectively became the 100 per cent. owner of the Slovenská sporiteľňa.

The following table sets out summary financial information for Slovenská sporiteľňa in 2004 and 2005:

	<b>2005</b>	<b>2004</b>
	<i>in € million</i>	
Pre-tax profit .....	100.6	82.6
Net profit after taxes and minority interests.....	87.3	57.2
Cost/income ratio in %.....	57.2	59.0
Return on equity in % .....	47.7	46.1

In 2005, net profit after taxes and minority interests increased by €30.1 million from €57.2 million to €87.3 million. In January 2005, Erste Bank raised its equity interest in Slovenská sporiteľňa to 100 per cent., with the result that minority interest expenses were no longer incurred but that refinancing costs increased. The return on equity increased from 46.1 per cent. to 47.7 per cent., while the cost income ratio was reduced from 59.0 per cent. to 57.2 per cent.

Net interest income increased by 4.9 per cent. (0.9 per cent. adjusted for the foreign exchange impact), or €9.1 million from €185.8 million in 2004 to €194.9 million in 2005. Risk provisions rose to €11.1 million, commensurate with the increase in lending volume.

Net provision income rose by 24.2 per cent. (19.5 per cent. adjusted for the foreign exchange impact) or €16.1 million, from €66.4 million in 2004 to €82.5 million in 2005, mainly in the payment transaction, financing and asset management businesses.

General administrative expenses increased by €8.8 million from €158.5 million in 2004 to €167.3 million in 2005. Adjusted for the foreign exchange effect, this 1.5 per cent. increase was below the inflation rate. The improvement in other operating results of €15.2 million from a loss of €28.4 million to a loss of €13.2 million can be attributed to proceeds on the sale of fixed-income securities as well as non-recurring reserve allocations in 2004.

### **Erste Bank Hungary**

Following the merger with Postabank és Takarékpénztár Rt. (“Postabank”), Erste Bank Hungary is one of the leading institutions in Hungarian retail banking and holds a strong position in the area of fund management and leasing, based on a comparison of the financial statements of Erste Bank Hungary with the annual reports of its competitors and the financial statements of the total banking sector according to the National Bank of Hungary (see [www.mnb.hu](http://www.mnb.hu)).

In 2005 Erste Bank Hungary had a total asset market share in excess of 7 per cent. and ranked second by branch numbers and clients. The market share in fund management amounted to 10.2 per cent. and the retail lending market share at 9.1 per cent. at the end of 2005.

The collaboration with Magyar Posta Rt (the Hungarian post office) continued in 2005 and the partners have developed a new technical environment for online working, installed a postal version of the interface used by Erste Bank Hungary and introduced a web-based user interface for postal employees as well as a help desk. Erste Bank Hungary holds the No. 4 spot in the Hungarian car leasing market.

The following table sets out summary financial information for Erste Bank Hungary in 2004 and 2005:

	<b>2005</b>	<b>2004</b>
	<i>in € million</i>	
Pre-tax profit .....	84.3	31.3
Net profit after taxes and minority interests .....	67.1	31.5
Cost/income ratio in % .....	61.2	68.1
Return on equity in % .....	34.1	23.6

Net profit after taxes and minority interests more than doubled, rising by €35.7 million from €31.5 million in 2004 to €67.1 million in 2005. The cost income ratio fell from 68.1 per cent. to 61.2 per cent., while the return on equity increased from 23.6 per cent. to 34.1 per cent.

The significant expansion of the retail business led to a €30.4 million increase in net interest income from €174.0 million to €204.4 million. Risk provisions for loans and advances totalled €17.1 million, well below the level in 2004, although this includes approximately €9 million in releases as a result of the first-time consolidation of Postabank.

Net commission income increased by €12.2 million from €52.6 million in 2004 to €64.8 million in 2005, mainly as a result of the gains in the securities and payment transactions businesses. General administrative expenses rose by 5.8 per cent., or €10.1 million, from €175.7 million in 2004 to €185.8 million in 2005. This increase was largely due to the expansion of the branch network and performance related compensation. The sharp rise in the tax expense was due to changes in Hungary's tax law imposing an 8 per cent. tax on financial institutions and leasing companies.

### **Erste Bank Croatia**

Erste Bank Croatia is one of the largest universal banks in Croatia, serving approximately 600,000 clients through a nationwide network of 122 branches, based on a comparison of the financial statements of Erste Bank Croatia with annual reports of competitors and the financial statements of the total banking sector according to the National Bank of Croatia (see [www.hnb.hr](http://www.hnb.hr)). While its core strength is retail banking, it is also the market leader in treasury products, (e.g. fixed income, foreign exchange and derivatives trading), as well as in fund management (Source: Erste Bank Annual Report). In addition, Erste Bank Croatia distributes a range of related financial products in the areas of asset management, life insurance, securities brokerage, leasing and pension funds.

In 2005, Erste Bank Croatia held the following market shares: 11.8 per cent. of total assets (9.6 per cent. in 2003), 11.6 per cent. in retail loans (an increase compared with both 2003 and 2004) and 10.3 per cent. in retail deposits.

Erste Bank Croatia posted retail trading growth rates of approximately 40 per cent. in 2005 and attracted close to 50,000 new customers. On the liability side the bank introduced new saving products, such as structured deposits with a capital guarantee. Erste Bank Croatia holds a market share of 13 per cent. in the area of corporate lending. The growth was driven by ongoing strong performance in the SME segment, as well as significant gains in the segment of large corporates and project finance.

Erste Bank Croatia opened 11 new branches in 2005, mainly in eastern and southern Croatia. The bank upgraded its capabilities in the area of alternative distribution channels by launching an operator-independent

mobile phone banking platform combining the advantages of Java and GPRS (General Packet Radio Service) technologies.

The group's asset management subsidiary won the management mandate for a large, government-sponsored fund project, making it the largest asset manager in Croatia with a share of over 25 per cent. of total assets under management (Source: Erste Bank Annual Report).

The following table sets out summary financial information for Erste Bank Croatia in 2004 and 2005:

	<b>2005</b>	<b>2004</b>
	<i>in € million</i>	
Pre-tax profit .....	52.7	43.2
Net profit after taxes and minority interests .....	25.6	22.1
Cost/income ratio in %.....	52.3	56.6
Return an equity in %.....	14.8	17.7

In 2005, Erste Bank Croatia's net profit after taxes and minority interest rose by 15.7 per cent., or €3.5 million, from €22.1 million in 2004 to €25.6 million. This increase relative to that of pre-tax profit was due to the increase in minority interests following Erste Bank's sale of an almost 15 per cent. equity interest to Steiermärkische Bank und Sparkassen AG (thereby reducing its majority stake from 59.8 per cent. to 51.4 per cent.). Pre-tax profit increased by 22.0 per cent., or €9.5 million, from €43.2 million to €52.7 million. The return on equity fell from 17.7 per cent. to 14.8 per cent. as a result of the overall higher equity allocation and the increase in minority interests (see above). The cost income ratio fell from 56.6 per cent. to 52.3 per cent.

Net interest income rose by 18.7 per cent., or €15.8 million, mainly as a result of an increase in loans and advances to customers of the more than 30 per cent. After adjusting for the legally mandated reclassification of the derivatives result of €9 million from net interest income to the net trading result, net interest income rose by 27 per cent., which largely reflected the expansion of the lending business.

Net commission income increased by 39.4 per cent., or €6.6 million, from €16.7 million in 2004 to €23.3 million in 2005 through gains in the payment transactions, credit and debit card businesses. The net trading result increased by a greater margin of 61.9 per cent., or €7.8 million, from €12.6 million to €20.4 million. This gain resulted primarily from the reclassification of the derivatives result from net interest income (see above) as well as higher foreign exchange trading income.

In 2005, Erste Bank Croatia's expansion strategy led to a 17.0 per cent., or €10.9 million, increase in general administrative expenses from €64.3 million to €75.3 million. The increase resulted from the opening of new branches and the subsequent increase in the average number of employees as well as product launch expenses.

### **Erste Bank Serbia**

Erste Bank Serbia is one of Serbia's smaller banks, with a market share of approximately 2 per cent (Source: National Bank of Serbia, [www.nbs.yu/english/banks/index.htm](http://www.nbs.yu/english/banks/index.htm)). Its operations are concentrated in the Vojvodina region, one of Serbia's more prosperous regions, where it is the second largest bank by asset market share and has approximately 900 employees, 66 branches, and 260,000 customers. Erste Bank acquired a majority stake in Erste Bank Serbia in July 2005.

Erste Bank Serbia's strategic aim is to strengthen its market position in the Vojvodina region and in Serbia as a whole, aiming to increase its total asset market share from 2 per cent. to 10 per cent. by 2010. To this effect

Erste Bank Serbia intends to make substantial investments into the expansion and refurbishment of the branch network. The bank plans to open approximately 15 branches in 2006 and an additional 20 outlets in each of 2007 and 2008.

Erste Bank Serbia launched the transformation programme in September 2005. It concentrates on organisational restructuring, the appointment of key management personnel and on the upgrading of risk management, accounting and controlling policies to group standards. Erste Bank's name and logo replaced the former Novosadska bank brand at the end of December 2005.

The following table sets out summary financial information for Erste Bank Serbia in 2005\*:

	<b>2005</b>
	<i>in € million</i>
Pre-tax loss.....	8.8
Net loss after taxes and minority interest.....	8.3
Cost/income ratio in %.....	-
Return on equity in % .....	-

\* There are no comparable figures for 2004.

In 2005, the net loss after taxes and minority interests totalled €8.3 million, largely as a result of the €5.8 million of restructuring costs. Loans and advances to customers amounted to €127 million. Following Erste Bank Serbia's consolidation with the Group, the bank's performance improved notably. Between September and December 2005, retail loan volume grew by 41.4 per cent., well above the market average of 29.2 per cent. Erste Bank Serbia's performance in the corporates and SME segment was also strong, with a 47.0 per cent. increase compared to 15.7 per cent. for the market as a whole (Source: Erste Bank Annual Report).

### **International Business**

The International Business segment covers commercial lending to foreign banks, leasing companies and sovereign debtors, excluding the treasury-related interbank business of Erste Bank's branches in London, New York and Hong Kong, Erste Bank Vienna and Erste Bank Malta.

Erste Bank's London Branch, with approximately 40 employees, is a wholesale banking operation with a service portfolio including leveraged finance, asset-backed securities, structured trade and commercial property and aircraft finance. The New York Branch is a US federally licensed wholesale banking operation with approximately 30 employees and a U.S.\$10 billion balance sheet total. The branch operates via its lending and treasury profit centres. The Hong Kong Branch is Erste Bank's sole Asia Pacific point of representation. It employs approximately 20 staff and engages in regional wholesale lending and treasury trading.

In order to achieve the greatest possible group-wide diversification of the credit portfolio and accompanying credit risk diversification, the activities of the international business are intended to balance out the loan books of the extended home market. The strategic focus remains the participation in primary market credit syndication as well as secondary market underwriting, without direct client business.

*New York:* Volume of commitments rose in 2005 by 25 per cent. to €1.8 billion. In contrast, the size of the overall loan portfolio remained stable as a result of a moderate increase in corporate lending and a minor reduction in trade finance volumes. In terms of operations, the New York Branch exceeded budget by

approximately 16 per cent., achieved a fully-allocated return on capital in excess of 25 per cent. and cut general expenses by 5 per cent. while maintaining a stable headcount.

*London Branch:* Overall, commitments rose from €2.5 billion in 2004 to €2.8 billion in 2005.

*Hong Kong:* The 2005 loan volume, measured by commitments, exceeded the 2004 level by 25 per cent. in 2005, reaching €2.3 billion, primarily as a result of increased lending to financial institutions. The focus continued to be on the maintenance of a high-grade portfolio of regional credit exposures, principally to governments and their related entities, financial institutions, industry leading corporate entities engaged in staple industries and asset-backed securities. The investment grade portion of the loan portfolio was maintained at 87 per cent..

*Vienna:* Notwithstanding sizeable redemptions, the Vienna Profit Centre increased its commitments by €1.9 billion or 25 per cent., to a total exposure of €9.5 billion in 2005. Credit quality remained stable, with a share of assets rated investment grade of 86 per cent. Approximately 96 per cent. of the loan portfolio was comprised of commitments to financial institutions and sovereign borrowers. The proportion of credit default swaps continued to grow and represented approximately one third of the portfolio at the end of 2005.

The following table sets out summary financial information for the International Business in 2004 and 2005.

	<b>2005</b>	<b>2004</b>
	<i>in € million</i>	
Pre-tax profit .....	158.5	120.4
Net profit after taxes and minority interests .....	113.2	93.6
Cost/income ratio in % .....	19.7	19.1
Return on equity in % .....	22.9	22.8

In 2005, net profit after taxes and minority interests advanced by a substantial 20.8 per cent., or €19.6 million, from €93.6 million to €113.2 million. This earnings growth was primarily due to the increased lending volume in Vienna, while the foreign subsidiaries also contributed as a result of the decrease in risk provisions, which benefited from unexpectedly high loan recoveries as well as necessary releases of existing provisions. The cost income ratio rose slightly from 19.1 per cent. to 19.7 per cent., while the return on equity remained essentially unchanged at 22.9 per cent..

Despite the expected narrowing of credit margins and restrained volume growth on account of unfavourable market conditions, net interest income increased by 1.3 per cent., or €2.0 million, from €150.8 million to €152.7 million. In particular, the New York branch's results were below expectations on account of depressed secondary market activity, weak demand from Latin American banks and lower margins.

Net commission income posted a very satisfactory increase of 30.5 per cent., or €6.9 million, from €22.5 million to €29.4 million. This rise resulted from one-off gains in the area of securities transactions and increased volume, mainly in Hong Kong and Vienna. The net trading result fell slightly by €1.7 million.

General administrative expenses rose by 7.2 per cent., or €2.4 million, from €33.4 million to €35.8 million, driven by higher personnel costs and foreign exchange effects. The other operating result advanced sharply by €7.7 million from a loss of €5.7 million to a gain of €2.0 million as a result of the decline in impairment charges on other financial assets.



## Corporate Centre

The Corporate Centre segment encompasses those banking activities that do not qualify for direct allocation to business lines, including non-banking subsidiaries, e-business and subsidiaries that provide marketing, organisation, IT and other support services. The Corporate Centre segment also includes intragroup profit and loss eliminations, which make line-item and period-to-period comparisons of the results of this segment not meaningful.

*Effective marketing:* In 2005, Erste Bank's marketing activities in Austria focused on wealth creation and estate transfer. Through initiatives to sell securities-based savings plans, Erste Bank contributed to the increase in securities volume. The estate transfer topic continues to play a growing role in light of demographic changes. Further progress is being made towards the positioning of Erste Bank as a long-term and forward-looking partner for financial planning in the estate transfer area.

Novosadska Banka was re-branded in October 2005 under the Erste Bank Serbia name. In the Czech Republic, Erste Bank finished integrating the marketing departments of the local bank subsidiaries into the marketing department of Česká spořitelna. This move generated significant synergies and further strengthened the Česká spořitelna brand as the major distribution channel for products of the subsidiaries such as leasing, insurance and mortgage savings plans.

*Increased use of electronic channels:* In 2005, Erste Bank increased its efforts to shift standardised services towards complementary online distribution channels. In the retail banking segment Erste Bank observed an increase in the number of clients who registered for, and regularly used, netbanking, the online service of Erste Bank and the savings banks. In 2005, the number of registered users at Erste Bank and the savings banks increased by 11 per cent. from 570,000 to 633,000, while the use of netbanking by retail clients increased by a disproportionate 18.8 per cent. from 240,000 to 285,000.

The following table sets out summary financial information for the Corporate Centre in 2004 and 2005.

	<b>2005</b>	<b>2004</b>
	<i>in €million</i>	
Pre-tax loss .....	73.4	53.0
Net loss after taxes and minority interests .....	81.1	86.9
Cost/income ratio in % .....	–	–
Return on equity in % .....	–	–

The trends for net commission income and general administrative expenses were largely determined by profit consolidation of bank support operations, as general administrative expenses rose in large part through capital expenditure for group-wide projects launched in 2004, reduced inter-company eliminations of group services for Central and Eastern European units and due diligence expenses. The deterioration in the other operating result was mainly due to the aforementioned non-recurring items assigned to the Corporate Centre segment, in particular the proceeds from the sale of Investkredit in the fourth quarter of 2004 and gains on real estate disposals in the fourth quarter of 2005.

The major change in tax expense resulted from the non-recurring tax charge relating to the write-down of deferred tax assets in the first quarter of 2004 as a result of the decrease in the Austrian corporation tax (KÖST) from 34 per cent. to 25 per cent. as of 1 January 2005.

## Credit Risk

Erste Bank's credit exposure corresponds to the total of loans and advances to credit institutions and loans and advances to customers (whether in the form of securities or not), all fixed-income securities (held in the trading book or as investments available for sale for financial investments), off-balance sheet credit risks in the form of guarantees and letters of credit, and the investment portfolio of insurance company *s Versicherung*.

The total credit exposure of the Group as of 31 December 2005 rose 11.3 per cent. (by €14.9 billion) as compared to 2004 to €146.9 billion. Of this increase, €5.3 billion was recorded at Erste Bank (largely representing inter-bank business and securities investments of the Treasury segment), €5.8 billion was accounted for by the subsidiaries in the Central European core markets (with growth in lending volume, especially to private households), €1.9 billion represented the *Haftungsverbund* savings banks (in particular increases in retail lending), and €1.1 billion was generated by *s Versicherung*.

### Credit exposure by risk class

	Low risk <sup>(1)</sup>	Management attention <sup>(2)</sup>	Substandard <sup>(3)</sup>	Non-performing <sup>(4)</sup>	Total exposure
	<i>in €million</i>				
Total exposure at 31 December 2005.....	125,296	14,751	2,973	3,833	146,853
% of total .....	85.3	10.0	2.0	2.6	100.0
Risk provisions at 31 December 2005 ...	106	152	514	2,115	2,886
% of exposure .....	0.1	1.0	17.3	55.2	2.0
Total exposure at 31 December 2004.....	112,235	12,406	3,473	3,879	131,993
% of total .....	85.0	9.4	2.6	2.9	100.0
Risk provisions at 31 December 2004 ...	93	107	484	2,185	2,869
% of exposure .....	0.1	0.9	14.0	56.3	2.2
Change in total exposure in 2005.....	13,061	2,345	(500)	(46)	14,861
% change .....	11.6	18.9	(14.4)	(1.2)	11.3
Change in risk provisions in 2005 .....	13	45	30	(71)	17
% change .....	14.0	42.1	6.1	(3.2)	0.6

#### Notes:

- (1) The borrower demonstrates a strong repayment capacity.
- (2) The borrower's repayment ability may be negatively affected by unfavourable economic conditions.
- (3) The borrower is vulnerable to negative financial and economic impacts. The risk management department manages the loan.
- (4) At least one of the default criteria under Basel II is present (total repayment unlikely, interest or principal payment more than 90 days past due, restructuring resulting in loss to a lender, realisation of a loan loss or opening of bankruptcy proceedings).

## Total credit risk by sector as at and for the year ended 31 December 2005

in € million	Low risk	Management attention	Substandard	Non-performing	Total exposure
Agriculture and forestry.....	639	453	66	76	1,234
Mining .....	347	551	43	22	963
Manufacturing .....	5,859	1,547	517	457	8,379
Energy and water supply.....	1,134	259	30	11	1,435
Construction .....	2,846	913	213	301	4,274
Trade.....	5,186	1,942	564	483	8,175
Tourism .....	1,422	1,255	335	405	3,417
Transport and communication .....	1,942	612	196	184	2,933
Banking and insurance.....	47,514	799	66	40	48,419
Real estate and other business activities .....	9,414	3,707	374	524	14,019
Public administration .....	21,411	217	13	23	21,664
Healthcare and social services .....	678	412	31	44	1,166
Other services .....	1,137	581	105	140	1,964
Private households .....	25,063	1,442	418	1,111	28,033
Other.....	703	62	2	10	778
Total .....	125,296	14,751	2,973	3,833	146,853

The new standard risk cost model was introduced into Erste Bank's marginal costing at the beginning of 2005, using internal probabilities of default and transition probabilities. This measure was carried out in anticipation of the operational application of the Basel II provisions to credit pricing. The development of stress test models required by the Austrian supervisory authorities for foreign currency and redemption payer lending was also completed in 2005 and has been implemented at Erste Bank and the other savings banks.

## Basel II

In order to fulfil the requirements of the new capital adequacy regulations ("Basel II"), a dedicated Basel II programme has been set up within the Group. Its technical direction is provided by the strategic risk management unit.

## Acquisition of Banca Comerciala Romana

*The information relating to BCR contained herein consists of extracts from, or summaries of, information provided to Erste Bank during the acquisition process or contained in financial statements and other information publicly available from BCR. Erste Bank has not been involved in the preparation of BCR's publicly available information and financial statements. Financial information of BCR included in this section was converted from ROL to RON at the official conversion rate of 10,000:1.*

### Summary of the acquisition

Erste Bank has agreed to purchase 490,399,321 shares or 61.8825 per cent. of the share capital of BCR pursuant to a share purchase agreement dated 21 December 2005 for a total consideration of €3.75 billion. The shares to be purchased include all of the current shareholdings of the Romanian government (36.8825 per cent.), the EBRD and the International Finance Corporation (12.5 per cent. plus 1 share each). BCR employees continue to hold 8.0 per cent. of BCR's shares with the remainder (30.1175 per cent.) held by five

Romanian investment companies (*societati de investitii financiare*). Erste Bank currently has no plans to acquire any of these minority shareholdings.

The transaction has been approved by a resolution of the Romanian Council of Ministers on 11 December 2005 and is expected to close not later than 21 September 2006. Originally, the acquisition was expected to close by June 2006. Closing has been delayed because the approval of the Romanian Competition Counsel, which includes the preconsultation mechanism agreed between the Romanian Competition Counsel and the European Commission, is still pending. All other preconditions for the closing have been fulfilled.

### **Overview**

BCR is the largest Romanian bank in terms of total assets, as well as in terms of retail and corporate loans and retail and corporate deposits according to information published by the Romanian National Bank, based on a comparison of the financial statements of BCR and those of its competitors and data of the National Bank of Romania (see *www.bnro.ro*). At 31 December 2005, BCR reported more than RON 34.2 billion (approximately €9.3 billion using the exchange rate of 3.6771 RON per EUR applicable on 31 December 2005) in total assets or approximately 26 per cent. of total banking assets in Romania at 31 December 2005 according to information published by the Romanian National Bank.

The Group estimates, based on the approximately 5 million accounts reported by BCR at 31 December 2005, that BCR serves approximately 2.8 million customers, which would constitute the largest customer base of any bank in Romania. In addition, BCR reported approximately 372 domestic branches at 31 December 2005, as well as approximately 12,000 employees.

In 1991, as part of the overall reform of the Romanian banking system, the corporate banking activities of the Romanian National Bank were transferred to BCR. In 1999, the Romanian Bank for Foreign Trade, Banca Română de Comerț Exterior—Bancorex—S.A., which had been declared insolvent and was under special administration, was merged into BCR.

BCR was incorporated in 1990 and is licensed by the National Bank of Romania to conduct banking activities. BCR has its registered seat at 5 Regina Elisabeta Boulevard, sector 3, RO-030016 Bucharest, Romania, and is registered at the Bucharest Trade Registry Office under registration number J40/90/1991.

### **Business description**

BCR's two core business areas are corporate banking and retail banking. In addition, BCR and its subsidiaries provide a broad range of other financial services including leasing, insurance and asset management.

#### ***Corporate banking***

##### *Products and Services*

BCR offers large corporate, SME and micro customers a full range of banking products and services, including short-term lending products such as credit lines and special purpose loans, as well as a variety of medium and long-term lending products. Over the last two years, BCR has increasingly diversified its product and service portfolio to attract new customers.

BCR offers credit lines to finance current activities (stock, production, sales or services) or projects, both in RON and foreign currency, as well as special purpose loans. BCR's medium and long-term lending has focused on investment loans used to finance investment projects both in RON and foreign currency. BCR's other corporate lending products include syndicated loans, structured financing, real estate loans (for the financing of residential, industrial and commercial property), working capital loans, export finance (in connection with the production of goods for export) as well as letters of credit and guarantees. Recently, BCR launched several new lending products to diversify its customer base and its product portfolio. In addition,

BCR offers its corporate customers other banking products and services such as deposit taking, payment transactions and selected corporate finance products.

BCR reported that gross loans to individuals amounted to RON 6,409 million at 31 December 2005 (corresponding to 61.6 per cent. of its gross customer loans), RON 3,446 million at 31 December 2004 and RON 2,457 million at 31 December 2003. Direct loan exposures to public institutions (for example, municipalities and state entities) represented 3.4 per cent. of BCR's gross customer loan portfolio at 30 June 2005, according to BCR.

#### *Customers*

BCR reported that it served approximately 300,000 corporate customers as at 31 December 2005. Historically, BCR's customer base was dominated by the industrial sector, particularly state-owned heavy industries such as machinery manufacture, metallurgy and chemicals. The relatively recent growth of the private sector in Romania, assisted by the Romanian government's privatisation programme, has resulted in a broadening of BCR's customer base, which now covers all areas of economic activity, including companies active in foreign and domestic trade, agriculture, construction, tourism and financial services.

#### *Market Position*

According to information published by the Romanian National Bank, corporate loans made by BCR accounted for approximately 24 per cent. of all corporate loans and corporate deposits of BCR accounted for approximately 25 per cent. of corporate deposits in Romania at 31 December 2005.

#### ***Retail banking***

##### *Products and Services*

BCR offers a broad range of standard retail banking products complemented by a variety of more innovative products introduced in recent years. Retail lending products include short-, medium- and long-term personal, home equity and mortgage loans (in RON and foreign currency), which are generally backed by collateral or other types of guarantees and insurance. In addition, BCR offers credit lines and credit cards for individuals. Over the past two years, BCR has launched a number of new loan products in order to diversify its product offering, such as the used-vehicle loan in foreign currencies, and "Maxicredit", a mortgage-based consumer loan.

BCR's savings products include deposits which earn interest at its standard rate (in RON and foreign currency), deposits at specially negotiated interest rates or on non-standard terms, certificates of deposit (in RON) and discount certificates of deposit (in RON and foreign currency).

BCR recently introduced credit cards to the Romanian market. In addition, it offers debit cards (in RON, US dollars and Euro) and related services such as bill payments via ATMs and "Mobile Banking BCR". Debit cards traditionally had no overdraft facility, but BCR introduced an overdraft facility this year.

##### *Customers*

The Group estimates that BCR serves approximately 2.5 million retail customers across Romania. Historically, customers in Romania have not been able to connect a card to their current account and could only withdraw money from their current accounts in cash at their local branch, but not with a credit or debit card. Accordingly, card accounts have been linked to a system that is separate from the system used for current accounts. As a consequence, it is not entirely clear how many of the current accounts and card accounts overlap. BCR is currently in the process of consolidating the systems of card and current accounts.

BCR introduced the first nation-wide ATM network in Romania, and its current network is the largest in Romania. The facilities offered by BCR cards include cash disbursement to customers, bill payments for different utilities, recharging mobile phone cards, inter-account transfers and payments for goods and services

at point of sale. In addition, BCR operates a significant number of electronic funds transfer point of sale terminals at merchant outlets and has launched an E-banking platform.

#### *Market Position*

According to information published by the Romanian National Bank, retail loans made by BCR accounted for approximately 30 per cent. of all retail loans in Romania, while retail deposits of BCR accounted for approximately 35 per cent. of all retail deposits in Romania as of 31 December 2005.

#### *Other financial services*

Through a number of directly and indirectly owned subsidiaries, BCR is also active in the Romanian markets for leasing (BCR Leasing S.A.), non-life insurance (BCR Asigurari S.A.), asset management (BCR Asset Management S.A.) and financial services (BCR Securities S.A.). In addition, BCR has licensed banking subsidiaries in the United Kingdom (Anglo Romanian Bank Limited) and the Republic of Moldova (Banca Comerciala Romana Chisinau S.A.). BCR Asigurari is currently setting up a subsidiary, BCR Asigurari Viata S.A., to offer life insurance products.

#### *Competitors*

According to information published by the Romanian National Bank, BCR is the largest bank in Romania with a market share of approximately 26 per cent. measured by total assets at 31 December 2005 (according to the Romanian National Bank). According to the information published by the Romanian National Bank, BCR's primary competitors are BRD Société Générale (13 per cent. market share), Raiffeisen Bank Romania (9 per cent.), HVB (7 per cent.) (including Banca Tiriac) and the Romanian Savings Bank Casa de Economii si Consemnatiuni CEC-S.A. ("CEC") (6 per cent.). CEC is currently in the process of being privatised and it is expected that CEC will be sold to a foreign bidder in 2006. Unicredit S.p.A. has announced its intention to combine the operations of HVB Romania, Banca Tiriac and Unicredit Romania.

#### *Key financial information*

The financial information reported below is derived from the audited consolidated financial statements of BCR and its subsidiaries (the "BCR Group") for the year ended 31 December 2005 as published on BCR's internet site. The report by the independent auditors of BCR and the BCR Group, KPMG Audit SRL, as reported by BCR on its internet site, states that the 2004 financial statements present fairly, in all material aspects, the financial position of BCR and of the BCR Group as at 31 December 2004 and the results of their operations and cash flows for the year ended in accordance with IFRS except for (i) the measurement of the amortised cost of loans to customers, and (ii) the determination of impairment losses for loans to customers. The 2005 Report notes that this accounting treatment adopted by BCR and by the BCR Group with respect to the aspects mentioned above did not comply with the requirements in respect of the aspects mentioned above of, respectively, IAS 18 "Revenue", IAS 39 "Financial Instruments: Recognition and Measurement" and IAS 16 "Property, Plant and Equipment".

#### **Selected income statement data**

	<b>31 December 2005</b>	<b>31 December 2004 restated</b>
	<i>In RON million</i>	
Net interest income .....	1,382	1,448
Net fee and commission income .....	627	603
Net trading income .....	222	152
Dividend income .....	4	3
Net gain/(loss) on non-trading financial instruments	4	(4)

	<b>31 December 2005</b>	<b>31 December 2004 restated</b>
	<i>In RON million</i>	
Other operating income .....	158	74
Operating expenses .....	(1,499)	(1,235)
Net charge of provision for impairment losses <sup>(1)</sup> ..	(134)	(205)
Net profit for the year.....	656	636

#### **Selected balance sheet data and capital adequacy**

	<b>31 December 2005</b>	<b>31 December 2004 restated</b>
	<i>In RON million</i>	
Due from central banks .....	7,731	7,148
Loans and advances to customers (gross) .....	16,907	11,343
Loans and advances to customers (net) .....	16,330	10,760
Total assets .....	34,216	25,203
Deposits from customers .....	22,087	17,764
Loans from banks and other financial institutions .....	4,899	2,424
Total liabilities .....	30,208	21,487
Shareholders' equity <sup>(2)</sup> .....	3,982	3,701
Total liabilities, shareholders' equity and minority interest .....	34,216	25,203
<b>Capital adequacy</b>		
Risk weighted assets .....	20,643	14,589
Tier 1 capital .....	3,170	2,962

Note:

- (1) As part of its due diligence process, the Group has identified potential issues regarding the level of loan loss provisions at BCR.
- (2) Excluding minority interest

## ADMINISTRATIVE, MANAGING AND SUPERVISORY BODIES

### Managing Board

#### Andreas Treichl

##### *Chairman*

SB <sup>1</sup> chairman .....	Bausparkasse der österreichischen Sparkassen Aktiengesellschaft
SB chairman .....	Česká spořitelna, a.s.
MB <sup>2</sup> chairman .....	DIE ERSTE österreichische Spar-Casse Privatstiftung
SB deputy chairman .....	Donau Allgemeine Versicherungs-Aktiengesellschaft
SB member .....	Erste Bank Hungary Rt.
SB member .....	Kärntner Sparkasse Aktiengesellschaft
MB member .....	Österreichischer Sparkassenverband
Advisory Board member .....	s Haftungs- und Kundenabsicherungs GmbH
SB deputy chairman .....	Slovenská sporiteľňa, a.s.
SB chairman .....	Sparkassen Versicherung Aktiengesellschaft
SB member .....	Sparkassenbeteiligungs und Service AG für Oberösterreich und Salzburg
SB member .....	Steiermärkische Bank und Sparkassen Aktiengesellschaft
SB chairman .....	Tiroler Sparkasse Bankaktiengesellschaft Innsbruck
MB chairman .....	Felima Privatstiftung
MB chairman .....	Ferdima Privatstiftung
SB chairman .....	MAK-Österreichisches Museum für angewandte Kunst

#### Elisabeth Bleyleben-Koren

##### *Vice Chairman*

SB member .....	Allgemeine Sparkasse Oberösterreich Bankaktiengesellschaft
SB member .....	AVS Beteiligungsgesellschaft m.b.H.
Advisory Board deputy chairman .....	CSSC Customer Sales Service Centre GmbH
Advisory Board member .....	EBV — Leasing Gesellschaft m.b.H. & Co. KG
SB member .....	Oesterreichische Kontrollbank Aktiengesellschaft
SB member .....	Österreichische Hotel- und Tourismusbank Gesellschaft m.b.H.
MB member .....	Österreichischer Sparkassenverband
Advisory Board deputy chairman .....	s Immobilienfinanzierungsberatung GmbH
Advisory Board chairman .....	S Tourismus Services GmbH
SB chairman .....	s Wohnbaubank AG

<sup>1</sup> “SB” means Supervisory Board

<sup>2</sup> “MB” means Managing Board



SB chairman .....	Salzburger Sparkasse Bank Aktiengesellschaft
SB chairman .....	S-Tourismusfonds Management Aktiengesellschaft
SB member .....	Tiroler Sparkasse Bankaktiengesellschaft Innsbruck
Advisory board deputy chairman .....	S-Prüfungsverband

### **Reinhard Ortner**

#### **Member**

SB deputy chairman .....	Česká spořitelna, a.s.
SB chairman .....	Erste Bank Croatia
SB chairman .....	Erste Bank Hungary Rt.
MB chairman .....	Erste Bank Serbia
SB deputy chairman .....	Oesterreichische Kontrollbank Aktiengesellschaft
SB member .....	Österreichische Lotterien Gesellschaft m.b.H.
SB chairman .....	Slovenská sporiteľňa, a.s.
SB chairman .....	VBV-Pensionskasse Aktiengesellschaft

### **Franz Hochstrasser**

#### **Member**

SB member .....	CDI Beteiligungsberatung GmbH
SB chairman .....	ecetra Central European e-Finance AG
SB chairman .....	ecetra Internet Services AG
MB chairman .....	Erste Financial Products Ltd.
SB chairman .....	Erste Securities Polska S.A.
Advisory Board chairman .....	Erste Securities Zagreb d.o.o.
SB chairman .....	IMMORENT Aktiengesellschaft
MB member .....	Österreichischer Sparkassenverband
SB member .....	Steiermärkische Bank und Sparkassen Aktiengesellschaft
SB chairman .....	VBV — Mitarbeitervorsorgekasse Aktiengesellschaft
SB member .....	Wiener Börse AG

### **Erwin Erasim**

#### **Member**

SB member .....	Austrian Payment Systems Services (APSS) GmbH
Advisory Board chairman .....	BMG-Warenbeschaffungsmanagement GmbH
Advisory Board chairman .....	Dezentrale IT-Infrastruktur Service GmbH (vorm. EB-IT)
SB deputy chairman .....	ecetra Central European e-Finance AG
SB deputy chairman .....	ecetra Internet Services AG
SB chairman .....	Europay Austria Zahlungsverkehrssysteme GmbH
SB deputy chairman .....	Informations-Technologie Austria GmbH

Advisory Board chairman .....	OM Objektmanagement GmbH
SB chairman .....	SPARDAT Sparkassen-Datendienst Gesellschaft m.b.H.
SB chairman .....	Sparkassen Zahlungsverkehrabwicklungs GmbH

### **Christian Coreth**

#### ***Member***

SB member .....	Česká spořitelna, a.s.
Advisory Board member .....	Erste Private Equity Limited
Administrative Board chairman .....	Erste Reinsurance S.A.
SB member .....	Oesterreichische Kontrollbank Aktiengesellschaft
SB member .....	Slovenská sporiteľňa, a.s.

The address of the members of the Managing Board is Graben 21, 1010 Vienna, Austria.

## **Supervisory Board**

### **Members of the Supervisory Board**

#### ***Chairman***

Heinz Kessler  
c/o Graben 21  
1010 Vienna

Other supervisory board memberships:

Chairman .....	Nettingsdorfer Papierfabrik Management AG
Chairman .....	Reform-Werke Bauer & Co Holding Aktiengesellschaft
Chairman .....	Reform-Werke Bauer & Co Gesellschaft m.b.H
Deputy chairman .....	Duropack Aktiengesellschaft
Third deputy chairman .....	Uniqa Versicherungen AG
Member .....	DIE ERSTE österreichische Spar-Casse Privatstiftung
Deputy chairman .....	Austria Versicherungsverein auf Gegenseitigkeit Privatstiftung
Member .....	Rath Aktiengesellschaft

Additional supervisory board memberships within the savings banks group

#### ***First Deputy Chairman:***

Georg Winckler  
Rector of the University of Vienna  
Dr. Karl Lueger-Ring 1  
1010 Vienna

Other supervisory board memberships:

Deputy Chairman .....	INiTS Universitäres Gründerservice Wien GmbH
Member .....	Austria Versicherungsverein auf Gegenseitigkeit Privatstiftung
Member .....	UNIQA Versicherungen AG
Member .....	Innovationszentrum Universität Wien GmbH

Additional supervisory board memberships within the savings banks group

***Second Deputy Chairman:***

Theresa Jordis  
Attorney at law  
DORDA BRUGGER JORDIS  
Rechtsanwälte GmbH  
Dr. Karl Lueger-Ring 12  
1010 Vienna

Other supervisory board memberships:

Chairman .....	Wolford Aktiengesellschaft
Member .....	Generali Holding Vienna AG
Chairman .....	Miba Aktiengesellschaft
Chairman .....	Mitterbauer Beteiligungs — Aktiengesellschaft

Bettina Breiteneder  
Businesswoman  
Breiteneder Immobilien-Parking  
Walfischgasse 5  
1010 Vienna

Other supervisory board memberships:

Member .....	ZS Einkaufszentren Errichtungs- und Vermietungs Aktiengesellschaft
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Deputy chairman .....	Drina Neretva Kraftwerke Aktiengesellschaft
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Elisabeth Gürtler  
Minority Shareholders' Representative  
Businesswoman  
Hotel Sacher  
Philharmonikerstraße 4  
1010 Vienna

Member of the General Council .....	Oesterreichische Nationalbank (OeNB)
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Jan Homan  
CEO of Teich AG

Mühlhofen 4  
3200 Obergrafendorf

Other supervisory board memberships:

Member ..... Allianz Elementar Versicherungs-Aktiengesellschaft

Additional supervisory board memberships within the Teich group

Gabriele Zuna-Kratky  
Director of Technisches Museum Wien  
Mariahilfer Strasse 212  
1150 Vienna

Other supervisory board memberships:

Member of the Board of Trustees and Scientific Counsel ..... German Museum Munich

Member of the Foundation Board ..... Technical Museum Berlin

Vice President ..... Austrian Automobile Touring Club

Board Member ..... International Council Of Museums

Member of the University Counsel ..... University for Applied Arts in Vienna

Member ..... Council for Research and Development of Technology

Member of the Supervisory Board ..... Museum Quartier Vienna

Josef Kassler  
Retired CEO of Steiermärkische Sparkasse  
c/o Graben 21  
1010 Vienna

Other supervisory board memberships:

Member ..... DONAU Allgemeine Versicherungs — Aktiengesellschaft

Member ..... ÖWGES Gemeinnützige Wohnbaugesellschaft m.b.H.

Member ..... “MesseCenterGraz” Betriebsgesellschaft m.b.H.

Additional supervisory board memberships within the savings banks group

Lars-Olof Ödlund  
Senior Advisor  
Lokevägen 26  
SE-18261 Djursholm

Other supervisory board memberships:

Chairman ..... EntreprenadMaskinSpecialisten i Sthlm AB

Chairman..... Litorina Capital Management AB  
Chairman..... Eurotema AB  
Chairman..... Baltic Rim Fund

Wilhelm Rasinger  
Minority Shareholders Representative  
Feldmühlgasse 22  
1130 Vienna

Other supervisory board memberships:

Member ..... Böhler-Uddeholm Aktiengesellschaft  
Member ..... Steirerobst Aktiengesellschaft

Friedrich Rödler  
Public Accountant and Tax Consultant  
PwC PricewaterhouseCoopers Wirtschaftsprüfung und Steuerberatung GmbH  
Erdbergstraße 200  
1030 Vienna

Hubert Singer  
CEO of Dornbirner Sparkasse AG  
Bahnhofstraße 2  
6850 Dornbirn

Other supervisory board memberships:

Deputy Chairman ..... Dornbirner Seilbahn Gesellschaft m.b.H.

Additional supervisory board memberships within the savings banks group

### **Representatives of the Staff Council:**

Günter Benischek  
Chairman of the Central Staff Council

Erika Hegmala  
Vice Chairwoman of the Central Staff Council

Ilse Fetik  
Member of the Central Staff Council

Joachim Härtel  
Member of the Central Staff Council

Christian Havelka  
Member of the Central Staff Council

Anton Janku  
Member of the Central Staff Council

## **Representatives of the Supervisory Authorities:**

Robert Spacek  
Chief Senate Councillor  
State Commissioner

Dietmar Griebler  
Senate Councillor  
Vice State Commissioner

Sabine Kanduth-Kristen  
Councillor  
Commissioner for Covered Bonds

Erhard Moser  
Councillor  
Vice-Commissioner for Covered Bonds

Irene Kienzl  
Councillor  
Trustee for *Pfandbriefe* and *Kommunalschuldverschreibungen (Öffentliche Pfandbriefe)*

Anton Rainer  
Councillor  
Deputy Trustee for *Pfandbriefe* and *Kommunalschuldverschreibungen (Öffentliche Pfandbriefe)*

Erste Bank is not aware of any conflicts of interests between any duties to Erste Bank of members of the Supervisory Board or Managing Board and their private interests and/or other interests.

### **Shareholders of Erste Bank**

Erste Bank's major shareholder, DIE ERSTE österreichische Spar-Casse Privatstiftung is a private foundation which was created by the transformation of DIE ERSTE Österreichische Spar-Casse Anteilsverwaltungssparkasse, a special form of savings bank holding company, with effect as of 19 December 2003. Such type of transformation is provided for under the Savings Bank Act. As of 30 April 2006, DIE ERSTE österreichische Spar-Casse Privatstiftung held 30.5 per cent. of the voting stock of Erste Bank and Austria Versicherungsverein auf Gegenseitigkeit held a stake of 5.0 per cent. The balance held by the public was 64.5 per cent. (of which all Savings Banks together held 7.0 per cent. and Erste Bank's employees held 1.5 per cent.) as of 30 April 2006.

## HISTORICAL FINANCIAL INFORMATION

The audited consolidated annual financial statements of Erste Bank for the financial years ended 31 December 2005 and 2004, together in each case with the audit report thereon, are incorporated by reference in this Prospectus.

Extracts from the audited consolidated annual financial statements are included below.

### Consolidated Income Statement of Erste Bank for the year ended 31 December 2005

	<b>For the year ended 31 December</b>	
	<b>2005</b>	<b>2004 restated</b>
	<i>(In € thousands)</i>	
Interest and similar income .....	5,809,085	5,232,137
Interest paid and similar expenses .....	(3,014,857)	(2,571,807)
<b>Net interest income</b> .....	<b>2,794,228</b>	<b>2,660,330</b>
Risk provisions for loans and advances .....	(421,596)	(406,185)
Fee and commission income .....	1,545,213	1,358,449
Fee and commission expenses .....	(288,440)	(223,060)
<b>Net commission income</b> .....	<b>1,256,773</b>	<b>1,135,389</b>
Net trading result .....	241,705	216,481
General administrative expenses .....	(2,676,920)	(2,594,938)
Income from insurance business .....	36,663	36,860
Other operating result .....	(16,127)	(51,343)
<b>Pre-tax profit for the year</b> .....	<b>1,214,726</b>	<b>996,594</b>
Taxes on income .....	(299,977)	(277,876)
<b>Profit for the year</b> .....	<b>914,749</b>	<b>718,718</b>
Minority interests .....	(203,119)	(197,869)
<b>Net profit after minority interests</b> .....	<b>711,630</b>	<b>520,849</b>

## Consolidated Balance Sheet of Erste Bank as at 31 December 2005

	As at 31 December	
	<u>2005</u>	<u>2004 (restated)</u>
	<i>(in € thousands)</i>	
<b>Assets</b>		
Cash and balances with central banks.....	2,728,439	2,722,931
Loans and advances to credit institutions .....	16,858,244	15,684,669
Loans and advances to customers .....	80,418,552	72,843,380
Risk provisions for loans and advances .....	(2,816,668)	(2,804,089)
Trading assets .....	5,426,142	4,628,261
Fair value through profit or loss and available for sale.....	18,644,121	15,966,590
Financial investments .....	23,610,821	21,925,747
Intangible assets.....	1,910,901	1,823,409
Tangible assets.....	1,687,802	1,722,576
Other assets.....	4,191,920	5,298,445
<b>Total assets</b> .....	<b><u>152,660,274</u></b>	<b><u>139,811,919</u></b>
<b>Liabilities and shareholders' equity</b>		
Amounts owed to credit institutions .....	33,911,518	28,551,355
Amounts owed to customers.....	72,792,861	68,212,546
Debts evidenced by certificates .....	21,291,373	19,710,141
Provisions .....	8,634,695	7,500,472
Other liabilities .....	5,278,847	6,178,548
Subordinated capital .....	4,289,826	3,705,520
Total equity.....	6,461,154	5,953,337
thereof shareholders' equity.....	4,129,431	3,423,906
thereof minority interests .....	2,331,723	2,529,431
<b>Total liabilities and shareholders' equity</b> .....	<b><u>152,660,274</u></b>	<b><u>139,811,919</u></b>

The financial information provided above has been audited by Sparkassen-Prüfungsverband Prüfungsstelle and Deloitte Wirtschaftsprüfungs GmbH. The financial year of Erste Bank is the calendar year.

### Auditors' Reports

The Auditors' Reports on the consolidated financial statements as of 31 December 2005 and 2004 are incorporated by reference.

### Interim and Other Financial Information

The unaudited consolidated financial statements for the three months ended 31 March 2006 of Erste Bank are incorporated by reference in this Prospectus. A summary of such statements is set out below.

As the revised IASB standards (IAS 32 (Financial Instruments: Disclosure and Presentation) and IAS 39 (Financial Instruments: Recognition and Measurement)) are compulsory as of 1 January 2005, they mainly



affect the presentation of securities trading and the valuation of loans. Under transitional provisions, the 2004 figures had been restated.

### Consolidated Income Statement of Erste Bank for the three months ended 31 March 2006

	For the three months ended 31 March		
	2006	2005	Change (in per cent.)
	<i>(in € million)</i>		
Interest and similar income.....	1,575.7	1,380.3	14.2
Interest paid and similar expenses .....	(851.7)	(707.6)	20.4
<b>Net interest income</b> .....	<b>724.0</b>	<b>672.7</b>	<b>7.6</b>
Risk provisions for loans and advances .....	(109.1)	(101.3)	7.7
Fee and commission income.....	436.3	372.3	17.2
Fee and commission expenses .....	(94.1)	(61.2)	53.8
<b>Net commission income</b> .....	<b>342.2</b>	<b>311.1</b>	<b>10.0</b>
Net trading result .....	91.2	57.2	59.4
General administrative expenses.....	(693.9)	(658.9)	5.3
Income from insurance business .....	7.7	5.6	37.5
Other operating results.....	18.3	(2.0)	>100.0
<b>Pre-tax profit for the period</b> .....	<b>380.4</b>	<b>284.4</b>	<b>33.8</b>
Taxes on income .....	(85.6)	(68.8)	24.4
<b>Profit for the period</b> .....	<b>294.8</b>	<b>215.6</b>	<b>36.7</b>
Minority interests .....	(55.2)	(55.3)	(0.2)
<b>Net profit after minority interests</b> .....	<b>239.6</b>	<b>160.3</b>	<b>49.5</b>

### Consolidated Balance Sheet of Erste Bank at 31 March 2006

	As at		
	31 March 2006	31 December 2005	Change (in per cent.)
	<i>(in € million)</i>		
<b>ASSETS</b>			
Cash and balances with central banks.....	2,787	2,728	2.2
Loans and advances to credit institutions.....	18,604	16,858	10.4
Loans and advances to customers .....	84,310	80,419	4.8
- Risk provisions for loans and advances.....	(2,809)	(2,817)	(0.3)
Trading assets .....	5,514	5,426	1.6
Fair value through profit and loss and available for sale.....	18,827	18,644	1.0
Financial investments .....	24,060	23,611	1.9

	As at		
	31 March 2006	31 December 2005	Change (in per cent.)
Intangible assets.....	1,903	1,911	(0.4)
Tangible assets.....	1,669	1,688	(1.1)
Other assets.....	3,950	4,192	(5.8)
<b>Total assets .....</b>	<b>158,815</b>	<b>152,660</b>	<b>4.0</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
Amounts owed to credit institutions .....	36,213	33,911	6.8
Amounts owed to customers.....	75,151	72,793	3.2
Debts evidenced by certificates .....	19,900	21,291	(6.5)
Provisions .....	8,845	8,635	2.4
Other liabilities .....	5,196	5,279	(1.6)
Subordinated capital .....	4,302	4,290	0.3
Total equity.....	9,208	6,461	42.5
thereof shareholders' equity.....	6,936	4,129	68.0
thereof minority interests.....	2,272	2,332	(2.6)
<b>Total liabilities and shareholders' equity.....</b>	<b>158,815</b>	<b>152,660</b>	<b>4.0</b>

### Legal and Arbitration Proceedings

Erste Bank is party to a number of legal disputes which have arisen in the course of its ordinary banking business. These proceedings are not unusual for banks and are not expected to have a significant impact on the financial position of the Group.

Erste Bank is also subject to the following ongoing proceedings:

#### *Haftungsverbund*

As described above, in 2002 Erste Bank formed the *Haftungsverbund* on the basis of a set of agreements with the majority of the Austrian savings banks. While the primary purpose of the *Haftungsverbund* was to establish a joint early-warning system as well as a cross-guarantee for certain liabilities (mostly deposits) of member savings banks, and to strengthen the Group's cooperation in the market, the *Haftungsverbund* agreements also allow Erste Bank and the other member institutions to qualify as a 'credit institutes group' within the meaning of the Act. This allows Erste Bank to consolidate the "Qualifying Capital" (required under § 24 of the Act) and the risk-weighted assets (required under § 22 of the Act) of the members of the *Haftungsverbund*. The consolidation of *Haftungsverbund* members' Qualifying Capital and risk-weighted assets originally resulted in a 0.55 per cent. improvement in the core capital ratio of the Group. Without the Qualifying Capital of the other *Haftungsverbund* member savings banks, Erste Bank would currently still comply with the statutory minimum levels of regulatory capital.

At the end of 2003, an Austrian competitor of Erste Bank alleged to the FMA and to the Austrian Federal Competition Authority, as well as to the European Commission, that the formation of the *Haftungsverbund* violated European banking rules as well as European competition rules.

Following this, an examination by the FMA of the validity of the competitor's allegations concluded that the FMA shall continue to apply § 30 (2a) of the Act and confirmed that the *Haftungsverbund* qualifies as a credit institute group.

In the competition proceedings, both the competitor and the Austrian Federal Competition Authority requested the Austrian Cartel Court to set aside the *Haftungsverbund* because of an alleged infringement of Article 81 of the EC-Treaty. In July 2006, the Cartel Court handed down a preliminary resolution (*Zwischenbeschluss*) in this case, which is not yet legally binding. In this decision, the court held that the agreements which constitute the *Haftungsverbund* are for the most part in compliance with Article 81 of the EC Treaty, because, among other things, they have benefits for consumers. This relates in particular to the joint business and marketing policy within the *Haftungsverbund* as well as to the early warning system and the cross-guarantee system. However, the court also held that certain aspects of the agreements (notably the fact that, on the basis of the agreements, the savings banks disseminate a considerable amount of sensitive information not only to the Steering Company, which is qualified as legitimate, but also to Erste Bank) are critical under competition aspects. Handing down a preliminary resolution only, the court did not stipulate any conclusions or consequences from its findings which need to be implemented by Erste Bank and the other parties to the proceedings. The court explicitly left its decision as to measures to effect its judgment to a second stage of the proceedings.

The Cartel Court's decision does not affect the consolidation of the Qualifying Capital of the savings banks as part of Erste Bank's balance sheet yet. However, there is a possibility that the Cartel Court will impose measures which are incompatible with Erste Bank's reporting obligations as parent company.

Erste Bank (along with other members of the *Haftungsverbund*) is in the process of developing alternative solutions if such a situation should arise.

In December 2004, Erste Bank, together with some other members of the *Haftungsverbund*, filed an application with the Austrian Cartel Court for a declaratory decision that the *Haftungsverbund* qualifies as a "*Zusammenschluss*" (merger) within the meaning of the Austrian Cartel Act. If the Austrian Cartel Court finds that the agreements constituting the *Haftungsverbund* as amended by a further agreement are in fact a merger, the rules regarding co-operation agreements would not be applicable to a *Haftungsverbund* co-operation between Erste Bank and savings banks on such basis.

No final decision on this question is expected until 2007.

#### *State aid Erste Bank Hungary*

The European Commission is currently reviewing past state aid granted by the governments of the newly acceded EU member states with respect to their conformity with EU standards for the period after the accession date of 1 May 2004.

With respect to Hungary's Postabank, the European Commission has informed Hungary that it has serious doubts about the compatibility of an "indemnity for unknown claims" granted by the Republic of Hungary to Erste Bank with the *acquis communautaire*. It has, therefore, decided to object to that measure. The European Commission has subsequently initiated the formal investigation procedure laid down in Article 88 (2) of the EC Treaty against Hungary. This investigation, in which Erste Bank participates as an affected third party, is still pending and no decision has yet been taken.

#### *Austrian Cartel Court ruling on CEE acquisitions*

In 2005, Erste Bank applied to the Austrian Cartel Court for a declaration that the acquisitions of majority interests in Česká spořitelna, Slovenská sporiteľňa, Postabank and Riječka banka between 2000 and 2003 were not subject to merger control requirements. Such court subsequently decided that the acquisitions of Postabank and Riječka banka were not subject to domestic merger control but that the acquisitions of Česká

spořitelna, and Slovenská sporiteľňa were not exempt from the notification requirements of Section 41 et seq. of the Austrian Cartel Act. Erste Bank filed an appeal to the Austrian Supreme Court (the appellate court in cartel matters) against this decision and, as a precautionary measure, formally applied for acquisition approval. On 14 October 2005, the Cartel Court approved the acquisitions of Česká spořitelna and Slovenská sporiteľňa and these decisions are final. In the matter of the appeal filed by Erste Bank, the Austrian Supreme Court decided in March 2006 that the acquisitions of Česká spořitelna and Slovenská sporiteľňa were also exempt from the notification requirements of Section 41 et seq. of the Austrian Cartel Act.

*Potential law suit by Deloitte Hungary against Erste Bank Hungary*

Deloitte Hungary has been sued by the Hungarian State alleging that, as the majority shareholder of Postabank, the Hungarian State suffered losses of HUF 171 billion as a result of negligence by Deloitte Hungary in respect of its work as auditor of Postabank's financial statements for the year ended 31 December 1997, as well as the six-month period ended 30 June 1997 and the period ended 31 July 1998. The Hungarian State alleges that Deloitte Hungary was negligent in not uncovering certain transactions which disguised losses suffered by Postabank, as well as uncertainties in relation to Postabank's provisioning and certain other matters. The State alleges that if Deloitte Hungary had uncovered these problems as part of its audit, the shareholders of Postabank would have taken corrective action which would have prevented further losses. In July 2005 the court of first instance found that Deloitte Hungary and the Hungarian State were each 50 per cent. liable for the errors in Postabank's financial statements, since the situation of Postabank at the time should have been evident to the Hungarian State. The question of damages is now being considered.

Deloitte Hungary has indicated to Erste Bank Hungary that, if it is found liable, it will bring suit against Erste Bank Hungary as the successor to Postabank alleging that any errors in the financial statements of Postabank were the result of erroneous data provided by Postabank to Deloitte Hungary. Erste Bank currently expects that a law suit would not be filed until the case between Deloitte Hungary and the Hungarian State is resolved in a final judgment, which is not expected to occur for at least three years. However, there is no certainty as to whether, and if so when, such a law suit would be filed.

*Ruling of the Supreme Court concerning the adjustment of saving deposit rates*

In a ruling published in January 2006, the Austrian Supreme Court has declared certain clauses used by an Austrian competitor in its terms and conditions for savings passbooks to be contrary to consumer protection law. One of these clauses deals with the right of the credit institution to unilaterally change the savings deposit rate. This clause is not only used by the competitor, but by most Austrian credit institutions, including Erste Bank. According to the ruling of the Supreme Court a credit institution may not adjust the interest rate of a savings passbook unilaterally and without having more closely stipulated the conditions for such adjustment in advance, unless such adjustment is reasonable, in particular because the change is only minor and objectively justified.

In its public statements the *Verein für Konsumentenschutz*, an Austrian consumer protection organisation, argues that as a result of this landmark decision there does not only exist a duty on the part of the credit institutions effected to change the interest rate adjustment clause used so far for savings passbooks, but considers that this ruling also provides grounds for review as to whether past adjustments of the applicable interest rates for savings passbooks were objectively justified, including reviewing the possibility of consumers making claims against credit institutions retroactively. The organisation has also announced that it would file further test cases in relation to the issue of interest rate adjustment for savings passbooks.

*Salzburger Sparkasse*

In November 2005, Salzburger Sparkasse reached an agreement in court with the plaintiff's attorneys to settle the WEB-IMMAG case, in which some 3,000 former WEB-IMMAG investors, with the support of the *Verein für Konsumentenschutz*, had brought civil suits against Salzburger Sparkasse claiming alleged damages plus

interest amounting to a total of €127 million. Salzburger Sparkasse undertook to pay an amount of approximately €19.7 million (including legal fees of €0.6 million) to the plaintiffs. The plaintiff's attorneys in turn undertook, amongst other matters, not to represent their clients against Salzburger Sparkasse in relation to the WEB-IMMAG issue any more and to consider the matter settled. After the plaintiffs had given the consents required for the settlement to become enforceable, payment of the settlement amount was effected in January 2006. The payment was made by Erste Bank.

#### *Material contracts*

Since 31 December 2005, the Group has not entered into material contracts, other than contracts entered into in the ordinary course of business, except for the acquisition agreement for BCR (see "Banca Comerciala Romana"). In addition, and other than contracts entered into in the ordinary course of business, there are no contracts entered into by the Group under which any member of the Group has any obligation or entitlement material to the Group as of the date of this Prospectus, except for the *Haftungsverbund* agreement (see *Haftungsverbund* above).

#### *Erste Bank's role in the restructuring of BAWAG*

Bank für Arbeit und Wirtschaft und Österreichische Postsparkasse Aktiengesellschaft ("BAWAG"), one of Austria's largest banks by balance sheet size has recently found itself facing financial difficulties following the institution of legal proceedings and the assertion of legal claims against it in the U.S. Such proceedings and claims are connected with various transactions BAWAG entered into with the now bankrupt U.S. company Refco Inc. and certain entities related to Refco Inc.

At the beginning of May 2006, the Austrian government put forward a restructuring plan for BAWAG which provides for financial support to BAWAG in the form of a €900 million government guarantee based on a special statute (BAWAG-P.S.K-Sicherungsgesetz). In addition, the Austrian government has requested the other four largest Austrian banks and certain Austrian insurance companies to participate in the restructuring of BAWAG's balance sheet. Such banks and insurance companies have agreed to provide support by way of equity investments amounting to a total of €450 million in two companies controlled by BAWAG. These two special purpose companies will invest the funds received from such investors exclusively in listed sovereign debt (Eurobonds) with high credit ratings. As a result of this arrangement, BAWAG will be in a position to consolidate (for capital adequacy purposes) these companies, thus strengthening its own consolidated qualifying capital. Erste Bank is participating in such scheme with an investment of €100 million.

## THE AUSTRIAN BANKING SYSTEM

### Overview

Austria's banking system, like that of other continental European countries, comprises a diverse array of financial institutions. The Austrian banking system is divided into seven "sectors" according to the legal status of a bank and classification in a sector association: (i) *Sparkassen* (savings banks), (ii) *Raiffeisenbanken* (agricultural credit co-operatives), (iii) *Landes-Hypothekenbanken* (provincial mortgage banks), (iv) *Volksbanken* (trade credit co-operative banks), (v) *Aktienbanken und Bankiers* (commercial banks), (vi) *Sonderbanken* (specialist banks) and (vii) *Bausparkassen* (building societies). Erste Bank is a member of the Savings Banks Sector. Changes in banking practices generally, and in Austrian banking law specifically, have contributed to an erosion of the original distinctions between the sectors. Today, commercial banks, savings banks and co-operative banks all engage in substantially similar business; however, each may have different business policies.

The structure of Austria's banking system is characterised by a large number of small banks, a smaller number of medium to large banks and the absence of any banks of international scale other than Erste Bank and Bank Austria Creditanstalt AG, which is indirectly controlled by Unicredito Italiano S.p.A since November 2005. As of 31 December 2005, the Austrian banking system consisted of 880 independent banks with a total of 4,317 branches and estimated total assets of €725.0 billion (Source: Austrian National Bank).

### Savings Banks

Of the seven banking sectors, the Savings Banks Sector is the third largest, accounting for €127.0 billion of total assets (excluding Bank Austria Creditanstalt AG) as of 31 December 2005 (Source: Austrian National Bank). The Savings Banks Sector currently comprises 57 independent savings banks (excluding Bank Austria Creditanstalt AG), with Erste Bank operating as the central financial institution of the Savings Banks Sector.

Austrian savings banks were historically subject to geographical restrictions on their operations, which contributed to the development of a Savings Banks Sector characterised by a large number of small, local savings banks. Savings banks were established either by a benevolent association (*Verein*), or by a community (*Gemeinde*). The historical role of both the *Verein* and the *Gemeinde* with respect to *Vereinssparkassen* (association savings bank) and *Gemeindesparkassen* (community savings bank) was to provide the foundation capital for the savings bank and to act in a supervisory capacity. The principal difference between a *Gemeindesparkasse* and a *Vereinssparkasse* is that creditors of a *Gemeindesparkasse* and of its operating savings bank stock corporation have the benefit of a municipal deficiency guarantee and that, to an extent, a *Gemeindesparkasse* and its operating savings bank stock corporation are influenced by their municipality, whereas a *Vereinssparkasse* has no such guarantee and is wholly independent of the municipalities.

Following an agreement between the European Union and Austria, deficiency guarantees were abolished. Liabilities existing as of 2 April 2003 will continue to be covered until their maturity. Liabilities entered into between 2 April 2003 and 1 April 2007 will be covered if the agreed maturity date is 30 September 2017 at the latest. As the savings banks traditionally did not expressly use this guarantee to reduce their costs of financing, no major impact is expected to result from the revocation of this guarantee. Only 11 smaller savings banks will be affected by the revocation of the guarantee.

In 1986, an amendment to the Austrian Banking Act 1979 (*Kreditwesengesetz*) permitted a savings bank to reorganise as a joint-stock company in order to enable transfers of shares or to raise capital. Such reorganisation involved the creation of an *Anteilsverwaltungssparkasse* (special savings bank holding

company) which holds the shares in the relevant operating savings bank stock corporation. In 1993, Erste Bank changed its structure accordingly.

Such an *Anteilsverwaltungssparkasse* may opt to transform into a privately organised foundation. Accordingly, on 19 December 2003, DIE ERSTE österreichische Spar-Casse Anteilsverwaltungssparkasse was transformed into a private law foundation named DIE ERSTE österreichische Spar-Casse Privatstiftung.

## **Regulation and supervision**

The structure of the regulation and supervision of the Austrian banking system is set forth in a number of statutes, including the Austrian Financial Market Supervision Act 2001 (*Finanzmarktaufsichtsgesetz*), the Banking Act (*Bankwesengesetz*), the Austrian National Bank Act 1984 (*Nationalbankgesetz*), the Austrian Savings Bank Act 1979 (*Sparkassengesetz*), the Financial Conglomerates Act (*Finanzkonglomeratengesetz*) and the Austrian Mortgage Bank Act 1899 (*Hypothekenbankgesetz*), each as amended.

The Austrian Financial Market Supervision Act 2001 assigns the responsibility for the supervision of credit institutions, insurance companies, financial conglomerates, securities firms and exchanges, investment funds and pension funds to the FMA. Most supervisory tasks previously assigned to the Austrian Ministry of Finance and the Austrian Securities Authority (*Bundes-Wertpapieraufsicht*) were transferred to the FMA as of 1 April 2002. Under the Act, regulation and supervision of Austrian credit institutions and the branches of foreign credit institutions in Austria are the responsibility of the FMA assisted by the *Oesterreichische Nationalbank* (Austrian National Bank, the central bank of Austria). The FMA may take a variety of actions under the Act to supervise credit institutions on a comprehensive and consolidated basis. In order to enable the FMA and the Austrian National Bank to fulfil their obligations, credit institutions must, amongst other requirements, prepare monthly interim balance sheets and quarterly profit and loss statements and submit annual audit reports.

The FMA is subject to supervision by the Minister of Finance and is headed by a two-member management board. The board members are nominated by the Minister of Finance and the Austrian National Bank respectively and are appointed by the Austrian federal president upon proposal by the federal government. A supervisory board consisting of eight members, two of whom have no voting rights, approves the FMA's budget, financial statements, top employees and other important matters. The expenses of the FMA are borne primarily by the supervised credit institutions, companies and funds, whilst the Austrian federal government bears a minor portion thereof.

The FMA is afforded an array of powers to regulate and supervise the Austrian banking system. These powers include the power to require the delivery of certain reports, to inspect credit institutions, to require audits, and to appoint certain officers and advisers to assist in the discharge of regulatory and supervisory duties. The FMA may use its own auditors or the Austrian National Bank may be requested by the FMA to perform an audit of a credit institution, including its branches and representative offices outside Austria. Any credit institution operating in Austria that is subject to regulation and supervision by the FMA may be subject to an order by the FMA if there is reason to doubt such credit institution's ability to fulfil its obligations to its customers. By such an order, which may be effective for up to 18 months, the FMA may (i) prohibit withdrawals of capital or profits from the credit institution (in whole or in part), (ii) appoint a government commissioner authorised to prohibit all business which could be prejudicial to the safety of the interests of customers of the credit institution, (iii) prohibit further management of the credit institutions by such credit institution's existing management board or (iv) prohibit (in whole or part) further business of the credit institution.

## **State commissioners**

The Act requires the Minister of Finance to appoint a state commissioner and a deputy state commissioner to assist in the supervision and regulation of Austrian credit institutions that have a total balance sheet of more than €375 million in total assets (at balance sheet value), of all savings banks and, under certain circumstances, of credit institutions organised as limited liability companies (GmbH). The role of the state commissioner is to ensure that these credit institutions do not make decisions at shareholders' and supervisory board meetings which in their view violate federal laws, regulations, other provisions or decisions (*Bescheide*) by the Federal Minister of Finance or the FMA. If a state commissioner objects to any resolution proposed at a shareholders' meeting or a meeting of the supervisory board, then the state commissioner has to notify the FMA immediately. The effectiveness of such resolution is suspended until the FMA makes a determination as to its validity (within one week after application by the credit institution).

Banks are subject to inspection by trustees and deputy trustees appointed by the Minister of Finance in accordance with the Mortgage Bank Act 1899. The trustees and the deputy trustees are charged with the responsibility for determining compliance with legal requirements for the registration of certain assets covering obligations of Erste Bank under *Pfandbriefe* and *Kommunalschuldverschreibungen (Öffentliche Pfandbriefe)*. Commissioners appointed by the Minister of Finance are also responsible for monitoring compliance by Erste Bank with the legal requirements for segregation of assets and security provided for covered bonds (*fundierte Bankschuldverschreibungen*) pursuant to the Act on Covered Bank Bonds 1905.

## **The Austrian National Bank and the European System of Central Banks**

The Austrian National Bank is the central bank of Austria and is mandated by law to assist the European Central Bank. Whereas the European Central Bank decides on the principal monetary issues of the European Monetary Union, the Austrian National Bank, as a member of the European System of Central Banks, executes the directives and regulations of the European Central Bank. Moreover, it co-operates with the FMA in supervising Austrian credit institutions.

In addition to its functions as the central bank and as an institution within the European System of Central Banks, the Austrian National Bank reviews reports filed by credit institutions. Detailed foreign currency statistics concerning the foreign currency position of all Austrian credit institutions are compiled by the Austrian National Bank and provide it with an indication of the business volume of the large Austrian credit institutions.

## **Minimum reserves**

In accordance with EU Regulations, the European Central Bank prescribes by decree minimum reserves to be maintained by Austrian credit institutions with the Austrian National Bank. These minimum reserve requirements apply to the following liabilities denominated in euro: (i) deposits, (ii) debt securities and (iii) money market certificates. Certain exemptions apply. The required reserve ratio ranges between 2.5 per cent. for short-term liabilities and liabilities due within 6 months and 20 per cent. for liabilities due within 36 months. Failure by a credit institution to meet the minimum reserve requirements exposes the credit institution to fines or interest penalties.

## **Statutory deposit insurance scheme**

Austrian law requires that any credit institution which receives deposits requiring a guarantee under applicable law must join the insurance scheme of its sector within the banking system. Failure of a credit institution to join the relevant insurance scheme results in the lapse of the credit institution's licence to



conduct a business involving the acceptance of deposits requiring a guarantee under applicable law in Austria. Payments made by an insurance scheme to restore insured deposits are met by contributions from each member credit institution in the relevant sector. Each bank's contribution is determined in proportion to the aggregate amount of such credit institution's deposits, subject to a maximum contribution amount equal to 0.83 per cent. of the risk-weighted basis of such credit institution pursuant to Section 22(2) of the Austrian Banking Act per business year.

In the event that the aggregate maximum amount that a sector's members can be called upon to contribute is less than the payment liability under the insurance scheme, each deposit insurance scheme of the other banking sectors will contribute a pro rata portion of the amount then remaining unpaid, subject to a maximum amount equal to 0.83 per cent. of their risk-weighted basis. If the amount contributed by all insurance schemes is insufficient to make the required payment, then the insurance scheme that is primarily obligated to repay such protected deposits must issue bonds to cover any amount then remaining unpaid. The Republic of Austria may accept liability for such bonds.

The insurance scheme insures deposits of private individuals up to €20,000 or equivalent per private individual. Deposits of legal entities are insured up to 90 per cent., subject to such maximum amount and are to a certain extent excluded from the scope of the scheme. Deposits not exceeding €2,000 will be repaid in preference to deposits of a greater amount.

### **Haftungsverbund**

Effective 1 January 2002, the majority of the Austrian savings banks, excluding Bank Austria, formed a common risk management system, early warning system and customer deposit insurance scheme. The customer deposit insurance scheme materially expanded the credit institutions' obligations beyond the legally prescribed amount limited to €20,000 per depositor. This arrangement, called the *Haftungsverbund* (literally translated "cross-guarantee system"), ensures enforcement of payments by transferring control of the system to s Haftungs- und Kundenabsicherungs GmbH, an entity in which Erste Bank is required to hold at least 51 per cent. of the shares, and the other savings banks own the remainder. The right to determine risk policies and, in case of serious difficulties of a member, the right to intervene in management was also transferred to s Haftungs- und Kundenabsicherungs GmbH. See "Erste Bank der oesterreichischen Sparkassen AG—Haftungsverbund".

### **Financial statements and audits**

Generally, Austrian auditing regulations are consistent with EU standards. Austrian credit institutions, and credit institutions operating in Austria, are required to submit audited financial statements, including the audit reports thereon, to the FMA and the Austrian National Bank.

Austrian listed companies must prepare consolidated financial statements in accordance with IFRS. IFRS differ from Austrian bank accounting standards mainly in respect of a greater use of fair values and more comprehensive tax deferrals.

All financial statements of credit institutions must be audited by a bank auditor, who is either a certified public accountant or the auditing office of one of the specialised auditing institutions of the relevant sector. The consolidated and separate financial statements of Erste Bank, as a savings bank stock corporation, have been audited by *Sparkassen-Prüfungsverband Prüfungsstelle* (the Savings Banks' Auditing Agency) as statutory bank auditor. This audit was performed jointly with a member of Deloitte, which has been elected by the shareholders' meeting of Erste Bank AG to act as an additional auditor. The audited financial statements,

the contents of which are prescribed by law, must be published in the *Amtsblatt zur Wiener Zeitung* (the Austrian official gazette), the official publication medium in the Republic of Austria.

Bank auditors are also required to examine the timely and complete compliance with all relevant banking regulations. The result of this audit is attached to the long form audit report as a separate bank supervision audit report.

### **Capital adequacy requirements**

Under Austrian risk-based capital adequacy rules, each credit institution must maintain a ratio (the “Solvency Ratio”) of at least 8 per cent. The Solvency Ratio is the ratio of Qualifying Capital (as defined and explained below) to risk-adjusted assets and certain off-balance sheet items (as explained below).

For purposes of calculation of the Solvency Ratio, the Act defines “Qualifying Capital” as consisting principally of (i) paid-in capital, (ii) disclosed reserves, (iii) funds for general bank risks, (iv) supplementary capital, (v) hidden reserves, (vi) participation capital, (vii) subordinated debt, (viii) revaluation reserves, (ix) the commitments of members of co-operative banks to make additional contributions quantified in relation to their shareholdings, (x) short-term subordinated capital and (xi) only for the purpose of supervision on a consolidated basis, hybrid capital. Certain losses, certain intangible assets and certain investments in other banks or financial institutions are required to be deducted in computing Qualifying Capital.

“Core Capital”, as applied to Erste Bank, consists of (i) paid-in capital, (ii) disclosed reserves and (iii) funds for general bank risks, less losses and intangible assets. The Act requires that the aggregate amount of the elements comprising Qualifying Capital, other than those elements which are part of Core Capital, must not exceed the Core Capital. In addition, the sum of subordinated debt may not exceed 50 per cent. of the Core Capital. Core Capital reflects the same concept as “Tier 1 Capital” and Qualifying Capital other than Core Capital reflects a concept similar to “Tier 2 Capital” (as such terms are used in the United Kingdom and the United States capital adequacy rules).

Risk-weighted assets and certain off-balance sheet items, together the risk-weighted basis, are computed by assigning the assets to four broad categories of relative credit risk: 0, 20, 50 or 100 per cent. The varying value of each asset is multiplied by the percentage weight applicable to its risk category to arrive at the risk-weighted value. Off-balance sheet items such as financial guarantees, letters of credit, swaps and other financial derivatives are included (swaps and other derivatives at their fair value). The value is adjusted according to the risk classification of the type of instrument, either by 20, 50 or 100 per cent. As with on-balance sheet assets, each off-balance sheet item is assigned to a credit risk category depending upon the type of counterparty or the debtor and multiplied by the applicable percentage weight.

Capital adequacy rules must be met not only by a credit institution on its own, but also by the credit institution’s group, i.e., the credit institution together with all other subsidiary credit institutions, financial institutions, investment firms and ancillary financial services companies. Savings banks, that are members of the *Haftungsverbund*, are included in the Group for capital adequacy purposes.

A credit institution is required to meet the capital requirements regarding position risk as well as settlement and counterparty risk according to a trading book approach. As a complementary measure, short-term subordinated capital is accepted as part of Qualifying Capital (short-term subordinated capital is commonly referred to as “Tier 3 Capital”, as such term is used in the United Kingdom and the United States capital adequacy rules). The EU Capital Adequacy Directive has been incorporated into the Act, permitting the expanded use of “internal models” for banking supervision purposes.

In June 2004, the Basel Committee published the “International Convergence of Capital Measurement and Capital Standards, a Revised Framework” (“Basel II”) that aims to align the risk of a bank’s loan portfolio

more closely with the capital reserves that it is required to set aside against unexpected losses. Basel II is built on three interlocking pillars (“Pillar 1”, “Pillar 2” and “Pillar 3”), minimum capital requirements, supervisory review and market discipline.

In accordance with Basel II, the European Commission has presented a proposal for a new capital requirements framework for banks and investment firms (“CAD 3”). A revised proposal of CAD 3 was accepted by the European Parliament on 28 September 2005. It is expected that the revised proposal will be adopted by the European Council in the middle of 2006. The provisions of CAD 3 will (based on the current proposal) have to be implemented into the national laws of the member states of the European Union by 31 December 2006.

According to the Financial Conglomerates Act (*Finanzkonglomeratengesetz*) of 2004 which is based on the EU Directive and which came into force on 1 January 2005, Erste Bank will be in the following years a Financial Conglomerate (as defined therein). Currently details of the computation of adequate capital are still being discussed with FMA.

### **The Austrian Banking Act**

In addition to specifying the capital adequacy rules, the Act, as amended, imposes other requirements and restrictions on Austrian credit institutions, including reporting requirements, liquidity requirements, open foreign currency positions, large exposures and restrictions on participations.

#### **Periodical reports**

Austrian credit institutions are required to file a number of reports with the FMA, including periodical monthly and quarterly reports. In addition, reports must also be filed to report any hidden reserves or credit in excess of certain amounts. The form of all reports is established by an implementing ordinance. All reports are delivered to the Austrian National Bank, which reviews them and provides to the FMA an opinion as to whether the regulations on solvency, qualifying capital, liquidity, open foreign currency positions, large exposures and participations have been observed.

#### **Liquidity**

The Act requires each credit institution to establish company-specific finance and liquidity planning. The liquidity plan must generally set forth the programme that enables the credit institution to react to possible disparities between incoming and outgoing payments and to changes in market conditions. The terms of claims and obligations of each credit institution must be structured to provide for changing interest rates and maturity trends. In addition to these general regulations, the Act requires credit institutions to retain minimum liquid resources of both first degree and second degree and to submit a detailed calculation plan for the foregoing.

#### **Open positions**

Open positions are defined as the difference between assets and liabilities, including forwards and options, in foreign currencies and gold. The total of all open positions which fall due within each quarter (except the current quarter and the next two quarters) may not exceed 50 per cent. of the bank’s Qualifying Capital at the close of business of any day. Additional Qualifying Capital is required. Similar restrictions apply to open positions on items that become due within a specific half year except during the current year and the following half-year.

#### **Large exposures**

If the assets and off-balance sheet items with regard to a single client or group of connected clients exceed 10 per cent. of a credit institution’s Qualifying Capital, then a large exposure exists within the meaning of the

Act. A large exposure may not exceed 25 per cent. of the Qualifying Capital of a credit institution on a risk-weighted basis. Moreover, no large exposure may exceed 20 per cent. on a risk-weighted basis if it is made to the parent company or a subsidiary of the parent or the credit institution. A credit institution's aggregate large exposures may not exceed 800 per cent. of its Qualifying Capital on a risk-weighted basis.

**Qualified participations**

A qualified participation is a holding by a bank, whether direct or indirect, of at least 10 per cent. of the capital or voting rights of a company. The possibility of exercising a significant influence over the management of a company may also cause the company to constitute a qualified participation of the bank. Qualified participations in non-banks may not be held by credit institutions or a group of credit institutions if the value of the qualified participation exceeds 15 per cent. of the Qualifying Capital of such credit institutions or group. Moreover, the total varying value of qualified participations may not exceed 60 per cent. of the Qualifying Capital of a credit institution or a group of credit institutions. In certain circumstances, these limitations may be exceeded.

## TAXATION

### General

The comments below are of a general nature based on current law and practice in the relevant jurisdiction referred to. They relate only to the position of persons who are holders of the Notes (“Noteholders”) and may not apply to certain classes of persons such as dealers. Any Noteholders who are in doubt as to their personal tax position should consult their professional advisers.

### Jersey

This summary is based on the law as in effect on the date of this Prospectus and is subject to any change in law that may take effect after such date.

The Company will have “exempt company” status within the meaning of Article 123A of the Income Tax (Jersey) Law 1961, as amended, for the calendar year ended 31 December 2006. The Company will be required to pay an annual exempt company charge that is currently £600 in respect of each subsequent calendar year during which it wishes to continue to have "exempt company" status. The retention of “exempt company” status is conditional on the Comptroller of Income Tax being satisfied that no Jersey resident has a beneficial interest in the Company, except as permitted by concessions granted by the Comptroller of Income Tax, and disclosure of beneficial ownership being made to the Jersey Financial Services Commission.

As an “exempt company” the Company will not be liable to Jersey income tax other than on Jersey source income (which by concession does not include interest on Jersey bank accounts).

Noteholders (other than residents of Jersey) are not subject to any tax in Jersey in respect of the holding, sale or other disposition of the Notes. Whilst the Company maintains its “exempt company” status payments of interest on the Notes may be made by the Issuer without withholding or deduction for or on account of Jersey income tax.

On 3 June 2003, the EU Council of Economic and Finance Ministers reached political agreement on the adoption of a Code of Conduct on Business Taxation. Jersey is not a member of the EU, however, the Policy and Resources Committee of the States of Jersey has announced that, in keeping with Jersey's policy of constructive international engagement, it intends to propose legislation to replace the Jersey exempt company status regime by the end of 2008 with a general zero rate of corporate tax. It is intended that the new corporate tax will preserve tax neutrality (and so retain the existing benefits of the exempt company regime through a revised fiscal structure). Unlike the exempt company regime, it is intended that the new regime will not require an annual application/election, or payment of any sum in connection therewith, by the relevant company.

No stamp duties are payable in Jersey on the acquisition, ownership, redemption, sale or other disposal of the Notes. Probate or Letters of Administration may be required to be obtained in Jersey on the death of an individual holder of the Notes. Stamp duty is payable in Jersey on the registration of such Probate or Letters of Administration on the value of the holder's estate in Jersey.

### European Union Directive on the Taxation of Savings Income

As part of an agreement reached in connection with the EU directive on the taxation of savings income in the form of interest payments, and in line with steps taken by other relevant third countries, Jersey introduced with effect from 1 July 2005 a retention tax system in respect of payments of interest, or other similar income, made to an individual beneficial owner resident in an EU Member State by a paying agent established in Jersey. The retention tax system applies for a transitional period prior to the implementation of a system of

automatic communication to EU Member States of information regarding such payments. During this transitional period, such an individual beneficial owner resident in an EU Member State will be entitled to request a paying agent not to retain tax from such payments but instead to apply a system by which the details of such payments are communicated to the tax authorities of the EU Member State in which the beneficial owner is resident.

The retention tax system in Jersey is implemented by means of bilateral agreements with each of the EU Member States, the Taxation (Agreements with European Union Member States) (Jersey) Regulations 2005 and Guidance Notes issued by the Policy & Resources Committee of the States of Jersey. Based on these provisions and what is understood to be the current practice of the Jersey tax authorities, the Company would not be obliged to levy retention tax in respect of the Issuer in Jersey under these provisions in respect of interest payments made by it to a paying agent established outside Jersey.

## **Austria**

### **Residents**

Under Austrian tax law currently in effect, payments of interest on the Notes in accordance with their terms and conditions to a resident individual or corporation (within the meaning of the relevant Austrian tax laws) will generally be subject to Austrian income tax (at a flat rate of 25 per cent. levied by way of withholding or by way of assessment) and Austrian corporate income tax (at a flat rate of 25 per cent.), respectively.

Capital gains derived from the sale of the Notes by a resident individual or corporation will generally be subject to Austrian income tax (at a progressive rate of up to 50 per cent.) or Austrian corporate income tax (at a flat rate of 25 per cent.), respectively, with an exemption applying in the case of individuals holding the Notes as a non-business asset and selling/redeeming them after the expiry of a minimum one-year holding period.

Resident individuals and corporations are subject to Austrian inheritance and gift tax in the case of a transfer of the Notes *inter mortuos* or *inter vivos*, the rate of such tax depending upon the value of the assets transferred and upon the relationship between the deceased/the donor on the one hand and the heir/the donee on the other hand. An exemption may apply in the case of a transfer *inter mortuos* of Notes held as non-business assets.

No stamp, issue, registration or similar tax or duty will, under present Austrian law, be payable in Austria by resident Noteholders in connection with the issue of the Notes.

### **Non-residents**

Under Austrian tax law currently in effect, payments of interest on the Notes in accordance with their terms and conditions to a non-resident individual or corporation (within the meaning of the relevant Austrian tax laws) having no other connection to Austria except for the mere holding of the Notes are not subject to Austrian taxation of income. If interest payments are made by a paying agent in Austria, a non-resident individual or corporation can - according to the practice of the Austrian tax authorities - prevent the Austrian withholding tax (currently 25 per cent.) from being deducted if proof of non-residency is furnished (e.g. by disclosing his identity and non-Austrian address). Such exemption will, however, only be effective if the Notes have been deposited with an Austrian bank.

Pursuant to the EU Withholding Tax Act (of Austria), paying agents in Austria are obliged to levy a withholding tax on interest payments to beneficial owners who are individuals resident for tax purposes in another member state of the EU or in Aruba, the Netherlands Antilles, Guernsey, the Isle of Man, Jersey, the British Virgin Islands or Montserrat. The withholding tax to be levied by the paying agent amounts to 15 per cent. in the three years beginning on 1 July 2005, 20 per cent. in the following three years and 35 per cent.

thereafter until the end of a transitional period. The withholding tax can be avoided if the beneficial owner provides a certificate issued by his or her local tax office containing certain personal details as well as details relating to the interest. The certificate is valid for three years.

Capital gains derived from the sale of the Notes by a non-resident individual or corporation having no other relation to Austria except for the mere holding of the Notes are not subject to Austrian income or corporation tax.

Non-resident individuals and corporations are not subject to Austrian inheritance or gift tax provided that neither the deceased/the donor nor the heir/the donee qualify as Austrians, within the meaning of the relevant statute, and that the Notes are not attributable to a permanent establishment in Austria. Even in such a case, an exemption may apply where Notes held as non-business assets are transferred *inter mortuos*.

No stamp, issue, registration or similar tax or duty will, under present Austrian law, be payable in Austria by non-resident Noteholders in connection with the issue of the Notes.

This summary of Austrian taxation issues is for general information purposes only and is based on a qualification of the Notes as debt instruments (*Forderungswertpapiere*) in the sense of §93(3) of the Austrian Income Tax Act. The tax consequences would differ if the Notes were to be qualified as equity instruments. Prospective holders of the Notes are advised to consult their tax and legal advisers with regard to the tax effects of their holding of the Notes.

## **Luxembourg**

Under Luxembourg tax law currently in effect and with the possible exception of interest paid to individual Noteholders, there is no Luxembourg withholding tax on payments of interest (including accrued but unpaid interest). There is also no Luxembourg withholding tax, with the possible exception of payments made to individual Noteholders, upon repayment of principal in case of reimbursement, redemption, repurchase or exchange of the Notes.

## **Non-residents**

Under the Luxembourg laws dated 21 June 2005 implementing the European Council Directive 2003/48/EC on the taxation of savings income (the “Savings Directive”) and several agreements concluded between Luxembourg and certain dependent territories of the European Union, a Luxembourg based paying agent (within the meaning of the Savings Directive) is required since 1 July 2005 to withhold tax on interest and other similar income paid by it to (or, under certain circumstances, to the benefit of) an individual resident in another Member State, unless the beneficiary of the interest payments elects for an exchange of information. The same regime applies to payments to individuals resident in certain EU dependent territories.

The withholding tax rate is initially 15 per cent., increasing steadily to 20 per cent. and to 35 per cent. The withholding tax system will only apply during a transitional period, the ending of which depends on the conclusion of certain agreements relating to information exchange with certain third countries.

## **Residents**

A 10 per cent. withholding tax has been introduced, as from 1 January 2006, on interest payments made by Luxembourg paying agents (defined in the same way as in the Savings Directive) to Luxembourg individual residents. Only interest accrued after 1 July 2005 falls within the scope of the withholding tax. This withholding tax represents the final tax liability for the Luxembourg individual resident taxpayers, receiving the payment in the course of their private wealth.

## **EU Directive on the Taxation of Savings Income**

The EU has adopted a Directive regarding the taxation of savings income. The Directive requires Member States to provide to the tax authorities of other Member States details of payments of interest and other similar income paid by a person to an individual in another Member State, except that Austria, Belgium and Luxembourg will instead impose a withholding system for a transitional period unless the beneficiary of the interest payments elects for an exchange of information.



## FORM OF FINAL TERMS

### Final Terms dated [●]

#### [Erste Capital Finance (Jersey) Tier 1 PC]/[other Issuer]

*(a protected cell of Erste Capital Finance (Jersey) PCC, a protected cell company incorporated with limited liability under the laws of Jersey)*

Issue of [Aggregate Nominal Amount of Tranche] [Title of Notes]

having the benefit of a support agreement entered into with

Erste Bank der oesterreichischen Sparkassen AG (“Erste Bank”)

under the

**€1,000,000,000 Perpetual Subordinated Debt Issuance Programme**

### PART A – CONTRACTUAL TERMS

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Prospectus dated 25 July 2006 [and the supplemental Prospectus dated [●]]<sup>1</sup> which [together] constitute[s] a base prospectus for the purposes of the Prospectus Directive (Directive 2003/71/EC) (the “Prospectus Directive”). This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with such Prospectus [as so supplemented]. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Prospectus. [The Prospectus [and the supplemental Prospectus] [is] [are] available for viewing at the registered office of each of the Issuer and Erste Bank [and/or the website of Erste Bank] and the specified offices of the Paying Agents [and/or] [website] and copies may be obtained from [address].]<sup>2</sup>

*The following alternative language applies if the first tranche of an issue which is being increased was issued under a [Prospectus] with an earlier date.*

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the “Conditions”) set forth in the [Prospectus] dated [original date] [and the supplemental Prospectus dated [●]]. This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive (Directive 2003/71/EC) (the “Prospectus Directive”) and must be read in conjunction with the Prospectus dated [current date] [and the supplemental Prospectus dated [●]], which [together] constitute[s] a base prospectus for the purposes of the Prospectus Directive, save in respect of the Conditions which are extracted from the [Prospectus] dated [original date] [and the supplemental Prospectus dated [●]] and are attached hereto. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of these Final Terms and the [Prospectuses] dated [original date] and [current date] [and the supplemental Prospectuses dated [●] and [●]]. [The [Prospectuses] [and the supplemental Prospectuses] are available for viewing at the registered office of each of the Issuer and Erste Bank; [and/or the website of Erste Bank] and the specified offices of the Paying Agents [and/or] [website] and copies may be obtained from [address].]

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<sup>1</sup> Only include details of a supplemental Prospectus in which the Conditions have been amended for the purposes of all future issues under the Programme.

<sup>2</sup> Article 14.2 of the Prospectus Directive provides that a Prospectus is deemed available to the public where, inter alia, made available (i) in printed form free of charge at the offices of the market on which securities are being admitted to trading; or (ii) at the registered office of the Issuer and at the offices of the Paying Agents; or (iii) in an electronic form on the Issuer’s website. Article 16 of the Prospectus Directive requires that the same arrangements are applied to supplemental Prospectuses.

*[Include whichever of the following apply or specify as “Not Applicable” (N/A). Note that the numbering should remain as set out below, even if “Not Applicable” is indicated for individual paragraphs or subparagraphs. Italics denote guidance for completing the Final Terms.]*

*[When completing any final terms, or adding any other final terms or information, consideration should be given as to whether such terms or information constitute “significant new factors” and consequently trigger the need for a supplement to the Prospectus under Article 16 of the Prospectus Directive.]*

[A copy of these Final Terms has been filed with the Jersey Registrar of Companies in accordance with the Registrar’s Consent granted to the Issuer and dated [●].] *[To be included where the issue of the Notes constitutes a public offer in Jersey]*

- |    |  |  |
|----|--|--|
| 1  | (i) Issuer:  | [ ]  |
|    | (ii) Support Agreement Provider:   | Erste Bank der oesterreichischen Sparkassen AG   |
| 2  | [(i)] Series Number:   | [ ]  |
|    | [(ii)] Tranche Number:   | [ ]  |
|    | (If fungible with an existing Series, details of that Series, including the date on which the Notes become fungible).] |  |
| 3  | Specified Currency or Currencies:  | [ ]  |
| 4  | Aggregate Nominal Amount:  | [ ]  |
|    | [(i)] Series:  | [ ]  |
|    | [(ii)] Tranche:  | [ ]  |
| 5  | Issue Price:   | [ ] per cent of the Aggregate Nominal Amount [plus accrued interest from [ <i>insert date</i> ] (if applicable)]   |
| 6  | Specified Denominations:   | <i>[minimum denomination must be €1,000]</i><br><i>(So long as the Notes are represented by a temporary Global Note, permanent Global Note or Global Certificate and the relevant clearing system(s) so permit, the Notes shall be tradeable only in principal amounts of at least the Specified Denomination and integral multiples of being the Tradeable Amount as defined in Part B of these Final Terms.)</i> |
| 7  | [(i)] Issue Date:  | [ ]  |
|    | [(ii)] Interest Commencement Date:   | [ ]  |
| 8  | Interest Basis:  | [● per cent. Fixed Rate]<br>[[ <i>specify reference rate</i> ] +/- ● per cent. Floating Rate]<br>[CMS Floating Rate]<br>[Dual Currency]<br>[Other ( <i>specify</i> )]<br>(further particulars specified below)   |
| 9  | Change of Interest Basis:  | <i>[Specify details of any provision for convertibility of Notes into another interest or payment basis]</i>   |
| 10 | [Call Options:]  | [Issuer Call]  |

- [(further particulars specified below)]
- 11 (i) Status of the Notes: Perpetual Subordinated
- (ii) Status of the Support Agreement: Perpetual Subordinated
- (iii) Liquidation Distribution: [ ]
- [(iv)][Date [Board] approval for issuance of Notes [and Support Agreement] obtained: [ ] [and [ ], respectively]]  
*(N.B Only relevant where Board (or similar) authorisation is required for the particular tranche of Notes or related Support Agreement)*
- 12 Method of distribution: [Syndicated/Non-syndicated]

**PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE**

- 13 **Fixed Rate Note Provisions** [Applicable/Not Applicable]  
*(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
- (i) Rate[(s)] of Interest: [ ] per cent. per annum [payable [annually/semi-annually/quarterly/monthly] in arrear]
- (ii) Interest Commencement Date: [ ]
- (iii) Interest Payment Date(s): [ ] in each year [adjusted in accordance with *[specify Business Day Convention and any applicable Business Centre(s) for the definition of "Business Day"]*] / [not adjusted]
- (iv) Interest Period Date: [ ]
- (v) Specified Period: [ ]
- (vi) Fixed Coupon Amount[(s)]: [ ] per [ ] in Nominal Amount
- (vii) Broken Amount(s): *[Insert particulars of any initial or final broken interest amounts which do not correspond with the Fixed Coupon Amount[(s)]]*
- (viii) Day Count Fraction: [30/360 / Actual/Actual (ICMA/ISDA) / other]
- (ix) Determination Dates: [ ] in each year *(insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon. N.B. only relevant where Day Count Fraction is Actual/Actual (ICMA))*
- (x) Other terms relating to the method of calculating interest for Fixed Rate Notes: [Not Applicable/give details]
- 14 **Floating Rate Note Provisions** [Applicable/Not Applicable]  
*(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
- (i) CMS Floating Rate Notes: [Yes]/[No]
- (ii) Interest Period(s): [ ]
- (iii) Specified Interest Payment Dates: [ ]

- (iv) Business Day Convention: [Floating Rate Convention/ Following Business Day Convention/ Modified Following Business Day Convention/ Preceding Business Day Convention/ other (*give details*)]
  - (v) Business Centre(s): [ ]
  - (vi) Manner in which the Rate(s) of Interest is/are to be determined: [Screen Rate Determination/ISDA Determination/other (*give details*)]
  - (vii) Party responsible for calculating the Rate(s) of Interest and Interest Amount(s) (if not the [Agent]): [ ]
  - (viii) Reference Banks: [ ]
  - (ix) Screen Rate Determination:
    - Reference Rate: [ ]
    - Interest Determination Date(s): [ ]
    - Relevant Screen Page: [ ]
  - (x) ISDA Determination:
    - Floating Rate Option: [ ]
    - Designated Maturity: [ ]
    - Reset Date: [ ]
  - (xi) Margin(s): [+/-][ ] per cent per annum
  - (xii) Minimum Rate of Interest: [ ] per cent per annum
  - (xiii) Maximum Rate of Interest: [ ] per cent per annum
  - (xiv) Day Count Fraction: [ ]
  - (xv) Fall back provisions, rounding provisions, denominator and any other terms relating to the method of calculating interest on Floating Rate Notes, if different from those set out in the Conditions: [ ]
- 15 Dual Currency Note Provisions [Applicable/Not Applicable]  
*(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
- (i) Rate of Exchange/method of calculating Rate of Exchange: [*give details*]
  - (ii) Calculation Agent, if any, responsible for calculating the principal and/or interest due: [ ]

- (iii) Provisions applicable where calculation by reference to Rate of Exchange impossible or impracticable: [ ]
- (iv) Person at whose option Specified Currency(ies) is/are payable: [ ]

**PROVISIONS RELATING TO REDEMPTION**

**16 Call Option** [Applicable/Not Applicable]  
*(If not applicable, delete the remaining sub-paragraphs of this paragraph)*

- (i) Optional Redemption Date(s): [ ]
- (ii) Optional Redemption Amount(s) of each Note and method, if any, of calculation of such amount(s): [ ] per Note of [ ] specified denomination
- (iii) If redeemable in part:
  - (a) Minimum Redemption Amount: [ ]
  - (b) Maximum Redemption Amount: [ ]
- (iv) Notice period [ ]
- (v) Capital Call Redemption Amount: [ ]
- (vi) Optional Redemption Amount: [ ]
- (vii) Tax Call Redemption Amount: [ ]

**GENERAL PROVISIONS APPLICABLE TO THE NOTES**

17 Form of Notes: Bearer Notes:  
 [Temporary Global Note exchangeable for a Permanent Global Note which is exchangeable for Definitive Notes on [ ] days' notice/at any time/in the limited circumstances specified in the Permanent Global Note]  
 [Temporary Global Note exchangeable for Definitive Notes on [ ] days' notice]  
 [Permanent Global Note exchangeable for Definitive Notes on [ ] days' notice/at any time/in the limited circumstances specified in the Permanent Global Note]  
 [Registered Notes]

- 18 Financial Centre(s) or other special provisions relating to payment dates: [Not Applicable/*give details. Note that this paragraph relates to the date and place of payment, and not interest period end dates, to which subparagraphs 13(iii) and 14(v) relate*]
- 19 Talons for future Coupons or Receipts to be attached to Definitive Notes (and dates on which such Talons mature): [Yes/No. *If yes, give details*]
- 20 Redenomination, renominatisation and reconventioning provisions: [Not Applicable/The provisions [in Condition ●] apply]
- 21 Consolidation provisions: [Not Applicable/The provisions [in Condition ●] apply]
- 22 Other final terms: [Not Applicable/*give details*]  
*(When adding any other final terms consideration should be given as to whether such terms constitute "significant new factors" and consequently trigger the need for a supplement to the Prospectus under Article 16 of the Prospectus Directive.)*

## DISTRIBUTION

- 23 (i) If syndicated, names and addresses of Managers and underwriting commitments: [Not Applicable]  
*(Include names and addresses of entities agreeing to underwrite the issue on a firm commitment basis and names and addresses of the entities agreeing to place the issue without a firm commitment or on a "best efforts" basis if such entities are not the same as the Managers.)*
- (ii) Date of Subscription Agreement: [ ]
- (iii) Stabilising Manager(s) (if any): [Not Applicable/*give name*]
- 24 If non-syndicated, name and address of Dealer: [Not Applicable/*give name and address*]
- 25 Total commission and concession: [ ] per cent. of the Aggregate Nominal Amount
- 26 Additional selling restrictions: [Not Applicable/*give details*]

## [LISTING AND ADMISSION TO TRADING APPLICATION

These Final Terms comprise the final terms required to list and have admitted to trading the issue of Notes described herein pursuant to the €1,000,000,000 Perpetual Subordinated Debt Issuance Programme of Erste Capital Finance (Jersey) Tier 1 PC.

## RESPONSIBILITY

The Issuer and the Support Agreement Provider accept responsibility for the information contained in these Final Terms. [● has been extracted from ●]. Each of the Issuer and the Support Agreement Provider confirms that such information has been accurately reproduced and that, so far as it is aware, and is able to ascertain

from information published by [●], no facts have been omitted which would render the reproduced information inaccurate or misleading.

Signed on behalf of the Issuer:

By: .....

Duly authorised

Signed on behalf of the Support Agreement Provider:

By: .....

Duly authorised

## PART B – OTHER INFORMATION

### 1 LISTING

- (i) Listing: [Vienna/Luxembourg/other (*specify*)/None]
- (ii) Admission to trading: [Application has been made for the Notes to be admitted to trading on [ ] with effect from [ ].] [Not Applicable.]  
*(Where documenting a fungible issue need to indicate that original securities are already admitted to trading.)*

### 2 RATINGS

The Notes to be issued have been rated:

[S & P: [ ]]

[Moody's: [ ]]

[[Other]: [ ]]

*[Need to include a brief explanation of the meaning of the ratings if this has previously been published by the rating provider.]*

*(The above disclosure should reflect the rating allocated to Notes of the type being issued under the Programme generally or, where the issue has been specifically rated, that rating.)*

### 3 [NOTIFICATION

The Austrian Finanzmarktaufsichtsbehörde [has been requested to provide/has provided - include first alternative for an issue which is contemporaneous with the establishment or update of the Programme and the second alternative for subsequent issues] the [ *include names of competent authorities of host Member States*] with a certificate of approval attesting that the Prospectus has been drawn up in accordance with the Prospectus Directive.]

### 4 [INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE [ISSUE/OFFER]

Need to include a description of any interest, including conflicting ones, that is material to the issue/offer, detailing the persons involved and the nature of the interest. May be satisfied by the inclusion of the following statement:

"Save as discussed in [ "Subscription and Sale"], so far as the Issuer is aware, no person involved in the offer of the Notes has an interest material to the offer."



## 5 REASONS FOR THE OFFER, ESTIMATED NET PROCEEDS AND TOTAL EXPENSES<sup>3</sup>

[(i) Reasons for the offer: [ ]  
(See ["Use of Proceeds"] wording in Prospectus – if reasons for offer different from making profit and/or hedging certain risks will need to include those reasons here.)]

[(ii)] Estimated net proceeds: [●]  
(If proceeds are intended for more than one use will need to split out and present in order of priority. If proceeds insufficient to fund all proposed uses state amount and sources of other funding.)

[(iii)] Estimated total expenses: [●] [Include breakdown of expenses.]  
(If the Notes are derivative securities to which Annex XII of the Prospectus Directive Regulation applies it is only necessary to include disclosure of net proceeds and total expenses at (ii) and (iii) above where disclosure is included at (i) above.)

## 6 [Fixed Rate Notes Only – YIELD<sup>3</sup>

Indication of yield: [●]  
Calculated as [include details of method of calculation in summary form] on the Issue Date.  
As set out above, the yield is calculated at the Issue Date on the basis of the Issue Price. It is not an indication of future yield.]

## 7 [Floating Rate Notes only - HISTORIC INTEREST RATES

Details of historic [LIBOR/EURIBOR/other] rates can be obtained from [Telerate].]<sup>3</sup>

## 8 [Dual Currency Notes only – PERFORMANCE OF RATE[S] OF EXCHANGE AND EXPLANATION OF EFFECT ON VALUE OF INVESTMENT

*Need to include details of where past and future performance and volatility of the relevant rate[s] can be obtained and a clear and comprehensive explanation of how the value of the investment is affected by the underlying and the circumstances when the risks are most evident.]<sup>3</sup>*

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<sup>3</sup> There is no obligation to complete part B of the Final Terms in its entirety in case of Notes with a Specified Denomination of at least €50,000 or its equivalent in any other currency or, as the case may be, in case of Notes with a minimum transfer amount of at least €50,000 or its equivalent in any other currency, provided that such Notes will not be listed on any regulated market within the European Economic Area. To be completed in consultation with the Issuer on a case by case basis.

## 9 OPERATIONAL INFORMATION

ISIN Code: [ ]

Common Code: [ ]

Any clearing system(s) other than Euroclear Bank S.A./N.V. as operator of the Euroclear System and Clearstream Banking, société anonyme and the relevant identification number(s): [Not Applicable/give name(s) and number(s)[ and address(es)]]

Delivery: Delivery [against/free of] payment

Names and addresses of additional Paying Agent(s) (if any): [ ]

## 10 GENERAL

Applicable TEFRA exemption: [C Rules/D Rules/Not Applicable]

## **SUBSCRIPTION AND SALE**

Subject to the terms and on the conditions contained in a Programme Agreement dated 25 July 2006, between the Company (in respect of each of its cells from time to time, including the Issuer), Erste Bank and BNP Paribas, the Dealers have agreed with the Issuer a basis upon which they may from time to time agree to subscribe for or, as the case may be, to procure subscribers or purchasers for the Notes. The Programme Agreement also provides for Notes to be issued in syndicated Tranches that are jointly and severally underwritten by two or more Dealers. When entering into any such agreement to subscribe for, or as the case may be, to procure subscribers or purchasers for any particular Series of Notes, the Issuer and the relevant Dealer(s) will agree details relating to the form of such Notes and the conditions relation to such Notes.

The Company (failing whom, Erste Bank) will pay each relevant Dealer a commission as agreed between the Issuer, Erste Bank and the Dealer. The Company (failing whom, Erste Bank) has agreed to reimburse the Arranger for certain of its expenses incurred in connection with the establishment of the Programme and the Dealers for certain of their activities in connection with the Programme. The commissions in respect of an issue of Notes on a syndicated basis will be stated in Part A of the relevant Final Terms.

The Company and Erste Bank have agreed to indemnify the Dealers against certain liabilities in connection with the offer and sale of the Notes. The Programme Agreement entitles the Dealers to terminate any agreement that they make to subscribe Notes in certain circumstances prior to payment for such Notes being made to the Issuer.

### **United States**

The Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

Notes in bearer form are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code and regulations thereunder.

Each Dealer has represented and agreed that, except as permitted by the Programme Agreement, it has not offered or sold and will not offer or sell the Notes of any identifiable Tranche, (i) as part of its distribution at any time or (ii) otherwise until 40 days after completion of the distribution of such Tranche, as determined and certified to the relevant Dealer, the Issuer and Erste Bank, by the Fiscal Agent, or in the case of Notes issued on a syndicated basis, the Lead Manager, within the United States or to, or for the account or benefit of, U.S. persons, and it will have sent to each dealer to which it sells Notes during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons.

In addition, until 40 days after the commencement of the offering, an offer or sale of Notes within the United States by any Dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act.

### **EEA (European Economic Area)**

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a "Relevant Member State"), each Dealer has represented, warranted and agreed that with

effect from and including the date on which the Prospectus Directive is implemented in that Member State (the “Relevant Implementation Date”) that it has not made and will not make an offer of Notes to the public in that Relevant Member State, except that it may, with effect from and including the Relevant Implementation Date, make an offer of Notes to the public in that Relevant Member State:

- (a) in (or in Germany, where the offer starts within) the period beginning on the date of publication (or where the offer is made in Austria, the period beginning on the day after the publication on a banking day) of a prospectus in relation to those Notes which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, all in accordance with the Prospectus Directive and ending on the date which is 12 months after the date of such publication;
- (b) at any time to legal entities which are authorised or regulated to operate in the financial markets or, if not so authorised or regulated, whose corporate purpose is solely to invest in securities;
- (c) at any time to any legal entity which has two or more of: (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than €43,000,000; and (3) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts; or
- (d) at any time in any other circumstances which do not require the publication by the Issuer and Erste Bank of a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of this provision, the expression an “offer of Notes to the public” in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe for the Notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression “Prospectus Directive” means Directive 2003/71/EC and includes any relevant implementing measures in each Relevant Member State.

### **United Kingdom**

Each Dealer has represented, warranted and agreed that:

- (a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which Section 21(1) of the FSMA would not, if Erste Bank was not an authorised person, apply to Erste Bank; and
- (b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

### **Jersey**

Each Dealer has represented, warranted and agreed that:

- (a) it will not permit any Notes to be offered to, sold to or purchased by any person resident for income tax purposes in Jersey other than financial institutions in the normal course of business;
- (b) no prospectus, explanatory memorandum or other invitation offering Notes for subscription, sale or exchange at any time has been or will be issued by it on behalf of the Issuer to any person other than a financial institution, dealer or market maker; and

- (c) in relation to any Notes issued by the Issuer in respect of which the applicable Final Terms does not state that a copy of the Final Terms is to be delivered to the Jersey Registrar of Companies, it has not offered or sold and will not offer or sell any Notes in any jurisdiction in circumstances which have resulted or will result in an invitation to the public having been made by the Issuer within the meaning of the Companies (Jersey) Law 1991, as amended.

## **Japan**

The Notes have not been and will not be registered under the Securities and Exchange Law of Japan (the “Securities and Exchange Law”). Accordingly, each of the Dealers has represented, warranted and agreed that it has not, directly or indirectly, offered or sold and will not, directly or indirectly, offer or sell any Notes in Japan or to a resident of Japan except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Securities and Exchange Law and other relevant laws and regulations of Japan. As used in this paragraph, “resident of Japan” means any person resident in Japan, including any corporation or other entity organised under the laws of Japan.

## **General**

These selling restrictions may be modified by the agreement of the Issuer, Erste Bank and the Dealers following a change in a relevant law, regulation or directive. Any such modification will be set out in Part A of the relevant Final Terms issued in respect of the issue of Notes to which it relates or in a supplement to this Prospectus.

No action has been taken in any jurisdiction that would permit a public offering of any of the Notes, or possession or distribution of the Prospectus or any other offering material or any Final Terms, in any country or jurisdiction where action for that purpose is required.

Each Dealer has represented, warranted and agreed that it will, to the best of its knowledge, comply with all relevant laws, regulations and directives in each jurisdiction in which it purchases, offers, sells or delivers Notes or has in its possession or distributes the Prospectus, any other offering material or any Final Terms and neither the Issuer nor any Dealer shall have responsibility therefor.

## GENERAL INFORMATION

1. Application has been made to the Vienna Stock Exchange and the Luxembourg Stock Exchange to admit Notes issued under the Programme to trading on the Markets.
2. All consents, approvals, authorisations or other orders of all regulatory authorities required by the Issuer and/or Erste Bank under the laws of Jersey and Austria have been given in connection with the issue and performance of the Notes and the Support Agreement. The establishment of the Programme was authorised by a resolution of the Board of Directors of the Issuer passed on 24 July 2006, by a resolution of the Management Board of Erste Bank passed on 6 December 2005 and by a resolution of the Risk Management Committee of Erste Bank passed on 13 December 2005 and of the Supervisory Board of Erste Bank passed on 14 December 2005.
3. Except as disclosed in this Prospectus there has been no significant change in the financial or trading position of the Group since 31 March 2006 and no material adverse change in the prospects of the Issuer since its creation or of Erste Bank since 31 December 2005.
4. Save as disclosed in “Legal and Arbitration Proceedings” on pages 114 to 117 of this Prospectus, neither Erste Bank nor any of its subsidiaries is or has been involved in any governmental, legal or arbitration proceedings that may have, or have had during the twelve months preceding the date of this Prospectus, a significant effect on the financial position of the Group, the Issuer or Erste Bank, nor is the Issuer or Erste Bank aware that any such proceedings are pending or threatened.
5. Each Bearer Note, Coupon and Talon will bear the following legend: “Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in Section 165(j) and 1287(a) of the Internal Revenue Code of the United States”.
6. Notes have been accepted for clearance through the Euroclear, Clearstream, Luxembourg and OeKB systems. The Common Code and the International Securities Identification Number (ISIN) and (where applicable) the identification number for any other relevant clearing system for each Series of Notes will be set out in Part B of the relevant Final Terms.
7. The address of Euroclear is 1 Boulevard du Roi Albert II, B-1210 Brussels, Belgium, the address of Clearstream, Luxembourg is 42 Avenue JF Kennedy L-1855 Luxembourg. The address of any alternative clearing system will be specified in the applicable Final Terms and the address of OeKB is Am Hof 4, A-1011 Vienna.
8. The issue price and the amount of the relevant Notes will be determined before filing of the relevant Final Terms of each Tranche, based on then prevailing market conditions. The Issuer does not intend to provide any post-issuance information in relation to any issues of Notes.
9. Copies of the latest financial statements and quarterly interim accounts of Erste Bank may be obtained, and copies of the Prospectus (including any Supplemental Prospectus and any documents incorporated into the Prospectus or any Supplemental Prospectus by reference), any Final Terms and the Agency Agreement will be available for inspection at the registered offices of each of Erste Bank and the Issuer and at the specified offices of each of the Paying Agents during normal business hours, so long as any of the Notes are outstanding.
10. Sparkassen-Prüfungsverband Prüfungsstelle (statutory auditor, two current directors of which are members of the Austrian Institute of Auditors) of Grimmelshausengasse 1, A-1030 Vienna, and Deloitte Wirtschaftsprüfung GmbH (a member of “Kammer der Wirtschaftstreuhänder Österreich”) of

Renngasse 1/Freyung, A-1013 Vienna, have audited and rendered unqualified audit reports on the consolidated financial statements of Erste Bank for the two years ended 31 December 2005 and 31 December 2004 (dated 6 March 2006 and 18 March 2005).

11. For so long as Notes may be issued pursuant to this Prospectus, the following documents will be available, during usual business hours on any weekday (Saturdays and public holidays excepted), for inspection at the registered offices of each of the Issuer and Erste Bank and the specified offices of the Paying Agents:
- (i) the Agency Agreement (which includes the form of the Global Notes, the definitive Bearer Notes, the Certificates, the Coupons, the receipts and talons);
  - (ii) the Programme Agreement;
  - (iii) the Support Agreement;
  - (iv) the Intercompany Agreement;
  - (v) the articles of association of the Company and the Issuer;
  - (vi) the articles of association of Erste Bank;
  - (vii) the published consolidated annual report and audited financial statements of Erste Bank for the two most recent financial years ended prior to the date of this Prospectus and any subsequent interim financial statements of Erste Bank;
  - (viii) each set of Final Terms for Notes that are admitted to trading on one or more of the Markets or on any other market or stock exchange;
  - (ix) a copy of this Prospectus together with any Supplemental Prospectus or further Prospectus; and
  - (x) a copy of the subscription agreement for Notes issued on a syndicated basis that are admitted to trading on one or more of the Markets.

**Signature according to the Austrian Capital Markets Act  
("Kapitalmarktgesetz")**

Erste Capital Finance (Jersey) PCC acting in respect of Erste Capital Finance (Jersey) Tier I PC as Issuer hereby signs this Prospectus pursuant to Sec 8 para 1 of the Austrian Capital Markets Act ("Kapitalmarktgesetz").

Erste Capital Finance (Jersey) PCC acting in respect of Erste Capital Finance (Jersey) Tier I PC  
(as Issuer)

By: Gareth Essex-Cater m.p.

By:

Jersey, 25 July 2006



**REGISTERED OFFICE OF THE COMPANY AND THE ISSUER**

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Channel Islands

**REGISTERED OFFICE OF ERSTE BANK**

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United Kingdom

**DEALERS**

**BNP Paribas**

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United Kingdom

**Erste Bank der oesterreichischen Sparkassen AG**

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**FISCAL AGENT, PAYING AGENT AND TRANSFER AGENT**

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**REGISTRAR**

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**AUDITORS**

**to Erste Bank**

**Sparkassen-Prüfungsverband Prüfungsstelle**

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**to the Company and the Issuer**

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Channel Islands

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*To Erste Bank as to Austrian law*

**Wolf Theiss Rechtsanwälte GmbH**

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*To the Issuer as to Jersey law*

**Mourant du Feu & Jeune**

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**Linklaters**

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