

**Erste Group Bank AG**

# **Financial Statements 2008**



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ERSTE GROUP

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### ***Imprint***

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## Erste Group MANAGEMENT REPORT 2008

### Summary Financial Review of Erste Group Bank AG for the year ended 31 December 2008

#### General notes

In August 2008, the Business Division Austria of Erste Bank AG was spun off to the bank's wholly-owned subsidiary "Dritte Wiener Vereins-Sparcasse AG". The company name of Erste Bank AG was subsequently changed to Erste Group Bank AG.

The official balance sheet and profit & loss account of Erste Bank AG for the year ended 31 December 2007 still include the figures of the Austrian retail business segment and cannot therefore be directly compared to corresponding figures of Erste Group Bank AG for the year 2008. For this reason, the figures used in the company management report commentary are **pro forma values** for 2007. These pro forma figures were calculated based on the assumption that the spin-off of the retail segment from the former Erste Bank AG had taken place on 1 January 2007 to allow comparison with the 2008 end-of-year results.

In this company management report, all explanations, rates of change and quoted figures from the prior year's results refer to these pro forma figures, which have not been audited.

A comparison between summaries of the balance sheets and profit and loss accounts with pro forma figures for 2007 and the actual figures for 2008 can be found in the notes to this company management report.

#### Economic environment

In fiscal year 2008 the growth rate of the Austrian economy's slowed significantly compared to the high-growth years of 2006 and 2007. This was due to the international financial market crisis and higher raw material prices. This negative performance was exacerbated in Q4 of the fiscal year 2008. The international market climate was one of the main reasons for the economic downturn in Austria.

According to a preliminary WIFO calculation, Austrian GDP rose by 1.8%, with significantly slower investment activity. The trough of economic growth (at -0.5%) is forecast for fiscal year 2009, before the expected rebound in 2010, when growth is expected to be 0.9%. Exports were also less dynamic in 2008. Domestic demand fell below the long-term average. Unemployment in 2008 was at an average of 5.8%. The inflation rate was 3.2%. The ECB successively lowered its key interest rate to 2.5%. The number of company insolvencies remained unchanged, at approximately 6,300 cases; personal bankruptcies increased by 16.5%, with insolvency liabilities up 16.7% and 1.2% for companies and private persons respectively.

The industry-specific business trend is as follows: the effects of higher operating expenses and the negative outcome of the financial services business were cushioned by net interest income growth and income from securities and participating interests.

The most important regulatory change in 2008 was the implementation of the 3<sup>rd</sup> Money Laundering Directive. Legal changes were made with respect to the principles of corporate governance, as well as the legal underpinnings of the audit committee and the position of President

of the Supervisory Board. As a result of the financial crisis, changes were also made to the statutory deposit guarantee system under the Austrian Banking Act (“Bankwesengesetz”, BWG).

### **Financial performance indicators**

**Operating income** of Erste Group Bank AG grew strongly by 57.1 percent to EUR 1,292.9 million vis-à-vis the prior year (EUR 823.0 million). Net interest income and income from securities and participating interests increased by 118.3 percent, chiefly due to income from shares in affiliated undertakings.

**Operating expenses** grew by 4.9 percent to EUR 392.7 million.

**Operation income** (operating income less operating expenses) grew by 100.7 percent to EUR 900.2 million.

The **cost-income ratio** (operating expenses as a percentage of operating income) was 30.4 percent, significantly below the prior year's figure of 45.5 percent.

Taking into account the charges to and releases from impairment adjustments for receivables, securities and participating interests (with a year-on-year increase in receivables and income from the release of value adjustments of securities valued as financial fixed assets), **pre-tax profit for the year** was EUR 143.2 million, or 68.6 percent below the prior year's figure. Net profit for the year was EUR 164.6 million – 63.5 percent lower than in the prior year.

**Return on equity** (ROE, net profit for the year expressed in proportion to average equity capital, which consists of subscribed capital, reserves less treasury shares and profit available for distribution) was 2.3 percent (prior year: 6.3 percent).

The **core (Tier 1) capital** of Erste Group Bank AG, pursuant to sec. 23 (14) 1 BWG, on 31 December 2008 totalled EUR 7.1 billion, or EUR 6.9 billion after deductions pursuant to sec. 23 (13) 3 and 4 BWG (prior year: EUR 6.9 billion).

The **core (Tier 1) ratio** of Erste Group Bank AG expressed in proportion to credit risk – regulatory core (Tier 1) capital pursuant to BWG after deductions, expressed as a percentage of the risk-weighted assets pursuant to sec. 22 (2) BWG – totalled 21.8 percent at 31 December 2008 (prior year: 25.9 percent).

The **qualifying capital** of Erste Group Bank AG, pursuant to sec. 23 BWG, including non-credit-risk-related risk requirements (in particular operational risk and position risk for securities and foreign exchange) amounted to EUR 10.2 billion at 31 December 2008 (prior year: EUR 10.1 billion).

The legal minimum requirement was approx. EUR 3.6 billion at the balance sheet date, resulting in a coverage ratio of approx. 284% (prior year approx. 360%).

The **solvency ratio**, in relation to credit risk (own funds less risk requirements other than for credit risk, in particular operational risks and position risk for securities and foreign currency, expressed as a percentage of risk-weighted assets pursuant to sec. 22 (2) BWG) totalled 22.8 percent at 31 December 2008 (prior year: 28.9 percent). This is significantly higher than the 8 percent minimum requirement pursuant to sec. 22 (1) BWG.

Since 1 January 2007, Erste Group Bank AG has been applying the **Basel II** solvency rules. The advanced IRB (internal-rating-based) measurement approach is used for the retail business; in the corporate business, for sovereigns and in interbank business the standardised approach based on the internal rating system is employed. In addition, some asset classes will be valued under the standard assessment rate in accordance with statutory transition regulations.

## Details on earnings

**Net interest income** grew by 131.4 percent to EUR 41.6 million (prior year: EUR 18.0 million).

**Income from securities and participating interests** showed a marked increase of 117.9 percent to EUR 1,192.0 million (prior year: 547.1 million). The reason for this increase is that income from shares in affiliated undertakings rose to EUR 1,151.5 million.

**Net interest income including income from securities and participating interests** exhibited strong growth of 118.3 percent to EUR 1,233,5 million (prior year: EUR 565.1 million).

**Net commission income** increased by 9.3 percent from EUR 166.3 million to 181.7 million; this income is mainly derived from commission charged on guarantees and security portfolios.

As a result of the financial crisis, **net profit on financial operations** fell sharply – by 248.6 percent – to EUR -129.6 million (prior year: EUR +87.2 million).

In addition to salaries (both fixed and variable) and social expenses, expenses for long-term employee provisions, as well as pension expenses and pension fund contributions are included in **staff costs**, a sub-item of **operating expenses**. In total, staff costs grew by 5.8 percent to EUR 223.9 million (prior year: 211.6 million); this increase is the result of rising salaries and a growing number of employees. This was counteracted to some extent by the reduction in variable salary costs.

The **number of employees** at Erste Group Bank AG (weighted according to their number of man hours worked) grew by 6.0 percent in the fiscal year.

	<b>Date</b> <b>31/12/2008</b>	<b>Date</b> <b>31/12/2007</b>
Domestic	1,665	1,528
International	73	112
<i>London</i>	<i>44</i>	<i>60</i>
<i>New York</i>	<i>18</i>	<i>31</i>
<i>Hongkong</i>	<i>11</i>	<i>21</i>
<b>Total</b>	<b>1,738</b>	<b>1,640</b>
<i>of which on unpaid leave</i>	<i>108</i>	<i>112</i>

**Other administrative expenses** grew by 6.8 percent to EUR 149.2 million (EUR 140.0 million in the previous year). Above-average increases were registered in IT, office and training expenses.

In 2008, consistent with recent years, the restrictive investment policy again prompted to a reduction in **value adjustments on tangible fixed assets**. This year the total amount decreased 16.2 percent from EUR 22.3 million in the prior year to EUR 18.7 million.

The net allocation to **risk provisions** for receivables (including receivables write-offs offset against income from written-off receivables) was significantly higher in 2008 than in the prior year. This is partly the result of an exceptionally good fiscal year 2007, but also of increases in provisions in 2008 made necessary by the Icelandic banking crisis.

**Current asset securities'** valuation and price earnings, as well as the income and value adjustment positions on **participating interests** and **fixed-asset securities** all decreased in 2008 (prior year: increased slightly). Profits from the sale of life insurance participating interests contributed positively but were exceeded by expenses from the sale and valuation of securities.

**Operating result** doubled (100.7 percent increase) to EUR 900.2 million, compared to prior year.

**Tax situation:** Pursuant to sec. 9 of the Austrian Corporate Tax Act ("Körperschaftsteuergesetz", KStG), Erste Group Bank AG and its main domestic subsidiaries are considered as a tax group. Due to the high proportion of tax-exempt income – particularly income from participating interests – no Austrian corporate income tax was payable in fiscal year 2008. At 31 December 2008, there still remained a tax loss carried forward from prior years, which was carried forward once again.

**Taxes on profit** mainly comprised expenses from foreign capital gains and other income-related taxes, as well as tax revenue from the tax allocation to subsidiary companies that form a tax group together with Erste Group Bank AG under group taxation regulations.

**Changes in reserves** during the year resulted in the addition of EUR 41.3 million (prior year: EUR 214.9 million); **net income for the year** after changes in the reserves was 12.9 percent less than in the prior year, at EUR 205.9 million.

The Management Board will propose at the Annual General Shareholders' Meeting that a dividend of EUR 0.65 per share (prior year: 0.75) be paid out from **net profit for the year**, which was approximately EUR 206.1 million for 2008.

### **Explanatory notes on the balance sheet**

Erste Group Bank AG divisions Group Capital Markets and Group Capital Investment Banking, as well as the three international branches in New York, London and Hong Kong in 2008 generated a total business volume (**balance sheet total**) of EUR 85.8 billion – this represents an increase of 11.1 percent year-on-year (prior year: EUR 77.2 billion).

**Loans and advances to credit institutions** increased 6.9 percent from EUR 37.2 billion to EUR 39.7 billion. This increase is primarily due to investments at Erste Bank der oesterreichischen Sparkassen AG. **Loans and advances to customers**, on the other hand, fell by 8.0 percent to EUR 12.4 billion (prior year: EUR 13.4 billion).

Total **securities investments** (treasury bills as well as fixed-interest and variable-yield securities) increased by 9.5 percent to EUR 11.5 billion (prior year: EUR 10.5 billion).

The carrying value of **participating interests and shares in affiliated undertakings** remained largely unchanged compared to the prior year.

**Other assets** include interest accruals, accrued premiums, securities lending transactions and receivables from participating interests and affiliated undertakings. In the reporting year, an increase of 172.6 percent to EUR 10.7 billion (prior year: EUR 3.9 billion) was recorded. This increase is largely attributed to growth in the securities lending business.

On the liabilities side, **liabilities to credit institutions** grew 6.2 percent to EUR 36.0 billion (prior year: EUR 33.9 billion). This increase, too, is mainly due to deposits of Erste Bank der oesterreichischen Sparkassen AG.

**Liabilities to customers** declined by 6.6 percent from EUR 7.5 billion in the prior year to EUR 7.0 billion in the reporting year.

Refinancing via **own issues** (securitised liabilities, subordinated liabilities and supplementary capital) exhibited slight growth of 5.2 percent, increasing to EUR 25.9 billion (prior year: EUR 24.6 billion).

**Other liabilities** increased by 162.2 percent to EUR 8.9 billion (prior year: EUR 3.9 billion). Here the largest items included interest and commission accruals, accrued premiums from derivatives trading, liabilities from securities lending transactions and other offsetting liabilities. The increase in other liabilities was primarily brought about by an increase in securities lending transactions.

#### **Investor information pursuant to sec. 243a of the Austrian Commercial Code (“Unternehmensgesetzbuch”, UGB)**

The following paragraph lists significant agreements which the company is party to. These agreements are rendered effective or ineffective or are amended by any change of control of the company as a result of a takeover bid:

For the event of a takeover bid, the **share option plan** of Erste Group Bank AG sets out the following special provisions (section 17 of the share option plan):

- (1) Should a takeover offer for the shares of Erste Group Bank AG be announced to the public, all options that have been granted to the Management Board members and eligible managers by that time but have not yet vested will immediately vest for those Management Board members and eligible managers who fulfil the personal requirements for participation.
- (2) The vesting date, the end of the exercise window and the value date will be determined by the Management Board of Erste Group Bank AG. These dates should be set in such a way that it is possible to exercise the options and sell the shares during the takeover process.
- (3) In the event of a takeover offer, no "key personnel" (i.e. no persons other than the Management Board members and managers referred to above) will be selected as recipients of options and no options will be granted to them.
- (4) All allocated and delivered options may be exercised by recipients starting one day after delivery; the provisions of section 11 (1) 2 (minimum retention period of options) and section 12 (1) 1 (exercise window) do not apply. The shares obtained may be offered for sale to the prospective acquiring entity in the takeover bid; section 16 (holding period) does not apply.
- (5) The lockup period of shares obtained previously (section 16) ends with the announcement of the takeover bid.
- (6) If the takeover bid is withdrawn without a competitor having issued a takeover bid, options allocated pursuant to section 1 but not yet exercised become subject to a lockup period of one year as of the day the withdrawal of the takeover bid becomes known. This corresponds to the

lockup period under section 1, which applies to the shares obtained on the basis of allocated options. However, holding periods that have ended pursuant to subsection 5 above are not revived.

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

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

## **Directors & Officers Insurance**

### Changes of control

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

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

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

## **Additional disclosures pursuant to Article 243a UGB**

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

As per decision of the Annual General Shareholders' Meeting of 6 May 2008:

- the company is entitled to purchase treasury shares pursuant to Article 65 para. 1 no. 7 of the Austrian Stock Corporation Act ("Aktengesetz", AktG) for trading purposes. However, the total volume of these shares may not exceed five percent of the capital stock at the end of



each calendar day. The market price of each of the shares to be purchased may not be lower than EUR 10.00 or higher than EUR 100.00. This authorisation is valid for 18 months, i.e. until 5 November 2009.

- the Management Board is entitled, subject to approval by the Supervisory Board, to purchase treasury shares pursuant to Article 65 para. 1 no. 8 of the Austrian Stock Corporation Act (AktG). However, the shares purchased under this authorisation and pursuant to Article 65 para. 1 nos. 1, 4 and 7 AktG may not exceed ten percent of the capital stock. The market price of each of the shares to be purchased may not be lower than EUR 10.00 or higher than EUR 120.00. The company is obliged to publish the relevant Management Board decision and the details of the repurchase programme, as well as its duration. The shares purchased can be sold, upon approval by the Supervisory Board, in the form of an issue of shares as consideration for the acquisition of companies, businesses, workshops or shares of one or more domestic or foreign companies. Such an offering would be conducted outside the stock markets and does not constitute a public offering. Furthermore, the Management Board is entitled to draw shares without resolution at the Annual General Shareholders' Meeting. This authorisation is valid for 18 months, i.e. until 5 November 2009.

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

### **Other information**

Moreover it should be noted that Erste Group Bank AG – as well as nearly all Austrian savings banks – are members of the **Haftungsverbund of the Savings Bank Group**.

The Savings Bank Group considers itself an association of independent, regionally established savings banks which strives to bolster its market position by strengthening common product development, harmonising its market appearance and advertising concepts, pursuing a common risk policy, engaging in co-ordinated liquidity management and applying common controlling standards.

In addition, the purpose of this association is:

- to identify any business problems of member banks at an early stage and to provide effective assistance to its members in the resolution of business problems - which can range from offering technical assistance or giving guarantees to providing borrowed or qualifying capital, as well as
- to provide customers with a deposit guarantee system that goes beyond the legal deposit guarantee requirement (sec. 93 ff BWG), which guarantees certain types of customer deposits, by creating a suitable obligation to service the liabilities of other participating Savings Banks if the need arises.

The implementation of such measures and the analysis of the business situation of every member bank of the Haftungsverbund is the responsibility of s Haftungs- und Kundenabsicherungs-GmbH. The participating savings banks hold a maximum 49% stake (assuming all savings banks participate) in s Haftungs- und Kundenabsicherungs-GmbH and Erste Group Bank AG always holds a minimum stake of 51%.

As per the requirements of the BWG, individual members of the Haftungsverbund may need to provide assistance to other members (such as giving liquidity assistance, giving credits or guarantees and providing equity capital), and in the case of sec. 93 (3) 1 BWG, to service the

guaranteed customers deposits of a member of the Haftungsverbund. The scope of the individual services to be provided by individual members of the Haftungsverbund where needed cannot therefore be determined beforehand. Any contributions made by the members of the Haftungsverbund under the statutory deposit guarantee system pursuant to sec. 93 ff BWG are taken into account.

### **Events after the balance sheet date and outlook**

The economic climate in Austria at the beginning of 2009 can be characterised as tense, as a result of the worldwide financial crisis triggered by the US sub-prime mortgage crisis. Growth forecasts in various countries have been revised downwards, and Austria is no exception. 2009 is expected to be a recession year, and positive growth of 0.9% will not be seen until 2010. The forecast economic slump is expected to lead to a marked reduction in exports (-0.5%) and investments (-3.4%). As a result of inflation, wage growth is expected to be higher than in previous years: for private households this will lead to an increase in real disposable income and is likely to lead to a higher savings rate (13.1% for 2009). In the financial services industry, competition will intensify further.

For Erste Group Bank AG, becoming a universal bank in the CEE region and maintaining market position there will thus continue to be the top priority in the coming years. Erste Group will continue to pursue its domestic and international activities. Cost management and process optimisation will continue to be the central pillars of our strategy to strengthen our competitive position. This will ensure the continuing existence and profitability of Erste Group and guarantee a dominant position in the market for the long term.

In the medium term, Erste Group's **operating result** is expected to **continue increasing by ten percent per annum**, with the assumption that operating expenses grow by 3.5 percent per annum.

In January 2009, Erste Group Bank AG and the Austrian Finance Ministry signed a **framework agreement for bond issues**. This programme will allow Erste Group Bank AG to issue bonds up to a volume of EUR 6 billion backed by a state guarantee of the Republic of Austria.

Sparkasse Kufstein joined the Haftungsverbund der oesterreichischen Sparkassen effective 20 January 2009.

As part of the sale of the insurance services arm, the asset management business of Vienna Insurance Group (VIG, Ringturm KAG) was acquired with a view to strengthening co-operation with VIG.

By the end of February Erste Group has signed an agreement with the Republic of Austria regarding capitalisation measures originally announced in October 2008. This allows for an issue of participation capital and hybrid capital in an amount of up to EUR 2.7 billion. In line with the decision of the Extraordinary General Meeting of 2 December 2008, Erste Group will offer the participation capital (which according to § 23 Para. 4 and 5 of the Austrian Banking Act ranks pari passu with equity capital) to existing shareholders in accordance with their subscription rights as well as to retail and institutional investors. The offer is expected to run until end of May 2009. Since the issue of the participation certificates is in accordance with the subscription rights, there is no dilution for existing shareholders. Irrespective of market conditions, Erste Group expects to place at least EUR 400 million in the market. The terms of the agreement state that, as a result of the public placement there will be no restrictions on the dividend distribution and the interest rate for the participation capital will be 8% p.a. Depending on the take-up of subscription rights by the

existing shareholders and the private placement, the Republic of Austria will subscribe for a maximum of EUR 1.89 billion of participation capital. The participation capital is not convertible into ordinary shares. Should the capital not be repaid, the interest rate will increase by 0.5 percentage points in both the sixth and seventh years, by 0.75 percentage points in the eighth year and by one percentage point for every year after that. The interest rate is, however, restricted to a maximum of 12-month Euribor plus 10% p.a. The overall package also allows for an issue of hybrid capital by Erste Bank Oesterreich with an interest rate of at least 8.15% p.a.

## **Explanations on the risk profile of Erste Group and its risk management objectives and methods**

As a consequence of Erste Group's business model, our risk profile is pervaded by credit, market and operational risk. At the same time, we must be wary of liquidity risk and general business risk – especially in the current economic climate. In addition to the types of risk indicated above, the Group's risk management system also monitors a range of other, lesser risks. The main types of risk can be summarised as follows:

<b>Credit risk</b>	is the risk of loss from the potential collapse of counterparties, particularly of borrowers in the conventional lending business, and the related credit losses.
<b>Market risk</b>	generally describes the risk of loss from unfavourable price changes in saleable and traded products, such as shares, fixed-income securities and derivatives, as well as from interest and foreign exchange fluctuations and fluctuations in raw material prices
<b>Operational risk</b>	describes the risk of loss as a result of human error, malfunctions of internal procedures or systems, or external events.
<b>Liquidity risk</b>	describes the risk that the bank has insufficient liquidity or is unable to make funds available in a timely manner to service its debts.
<b>Business risk</b>	describes the bank's risk of being unable to reach its financial business objectives.

## **Risk management objectives and methods**

Knowingly and selectively accepting risks and managing them professionally are core functions of every bank. Erste Group's approach to risk management seeks to find the optimum balance between risks and returns in order to earn a sustained high return on equity.

Erste Group has an established, pro-active controlling and risk management system that is tailored specifically to its risk profile. It is based on a clearly defined risk strategy derived from the Group's business strategy. The objective of the system, apart from fulfilling the Group's need for effective and efficient risk management, includes meeting external requirements, especially those of a regulatory nature.

In line with international practice, the risk management process at Erste Bank consists of the following stages: risk identification, risk assessment, risk aggregation, risk mitigation and risk reporting.

For **credit risk**, by far the most important risk category, Erste Group has used the Basel II IRB measurement approach since 2007, and thus has in place all necessary methods and processes required for this advanced measurement approach.

For a number of years, the **market risk** exposure of the trading book has been assessed using the bank's own model.

**Operational risk** is still measured using the standardised approach; however, Erste Group is currently in the process of having the advanced measurement approach approved by the FMA.

In order to provide a comprehensive overview of current and future risks and cover pools of the Group, the bank's risk-absorbing capacity is determined in the framework of the Internal Capital Adequacy Assessment Process (ICAAP). This process provides regular updates on the risk profile and capital adequacy, creating a basis for determining and instigating any necessary measures.

In addition the following risk assessment methods are employed by Erste Group for the ALCO process: Fixed interest statements, reports on interest rate terms, capital maturity statements, cash value fluctuations and net interest income simulations.

#### **The risk management structure:**

An organisational chart with clearly defined duties and responsibilities, including a schedule of risk limits, is in place for the purpose of monitoring and controlling existing risks.

Generally, it is the **Management Board**, and particularly the **Chief Risk Officer (CRO)** of the Group, who oversees his responsibilities with due care. The CRO is responsible for market-independent risk controlling and managing all risk types throughout all business areas.

Risk management is conducted according to a business and risk strategy adopted by the Group's Management Board as well as the bank's aggregate risk schedule.

Committees with explicit strategic and operative controlling functions have been formed to ensure effective and optimal management of the Group. At the top of the risk hierarchy within Erste Group is the Risk Committee (RC).

The main responsibilities of the **Risk Committee**, which consists of the Management Board and other Senior Managers, are to approve the risk management methods and processes, and to oversee the proper functioning of the risk infrastructure. Moreover, this committee decides about capital allocation at the macro level, as well as the bank's aggregate risk schedule. The Risk Committee acts as the central control group and is constantly and regularly informed about the bank's risk situation (both backward- and forward-looking and across all types of risk). It is also charged with analysing the current situation and existing trends, and taking decisions at the highest management level.

The operative units identify, assess, monitor, manage and limit risks, and decide what measures are to be taken. These are combined in the CRO division and are therefore independent from the business units at the Management Board level. The following **sections** are directly answerable to the CRO:

- Group Risk Management
- Risk Management International

- Group Retail Risk Management
- Group Legal and
- Group Compliance.

**Group Risk Management** is essentially charged with developing and deploying the Group's risk management strategy, particularly with regard to its methods and processes. This section comprises the departments Group Risk Control, Group Credit Risk Reporting, Group Market & Liquidity Management, as well as the staff positions Basel II and (as of mid-2008) Group Fraud Management.

**Risk Management International** is responsible for operative credit risk management of Erste Group's lending business.

**Group Retail Risk Management** is a newly established unit that co-ordinates retail risk management processes and standards across the Group.

**Group Legal** is charged with fighting money laundering as part of AML Compliance, in addition to fulfilling the usual duties of a legal department.

Group Compliance is responsible for the implementation of and adherence to the Standard Compliance Code (SCC) of the Austrian banking sector, as well as the parts of the Austrian Securities Supervision Act ("Wertpapieraufsichtsgesetz", WAG) 2007 that have relevance for compliance issues.

## **Corporate Social Responsibility**

### **Introduction**

To Erste Group, Corporate Social Responsibility is much more than just a passing fad or a dreary chore: CSR has always been a part of who we are and is at the heart of all our activities. This attitude has a long tradition: when the first savings banks were established, they already considered themselves an institution whose objective was to work for the common good. Today, Erste Group carries on the tradition by growing its CSR programme just as it grows its businesses.

In short, CSR is part of our company philosophy, and we are committed to adding value – and maintaining that value – by sustainable means. This objective can only be achieved if two criteria are met: first, we must consider the risks and opportunities presented by the economic, ecological and social challenges; second, we must involve all affected parts of the population, be they customers, employees, investors or civil society.

Our achieving second place in the official 2008 Austrian CSR Rankings, in which the efforts of the 100 largest Austrian companies to improve the sustainability of their activities is rated, proves that we are on the right track.

### **Customers**

Erste Group seeks to be as close as possible to the wants and needs of its customers. As a bank that treats its customers as partners, we always welcome your opinions, suggestions and criticism.

### **Ethical investments**

In June 2008, Erste Group introduced the ESPA VINIS STOCK EUROPE EMERGING – the first sustainable equity fund for Eastern Europe. This equity fund invests in approximately 50 companies in Central and Eastern Europe who conduct their business in accordance with social and environmental considerations.

This is already the seventh ESPA VINIS equity fund in the sustainable investments category, of which two were established in co-operation with the WWF. The equity fund is backed by Erste-Sparinvest, a fund management company owned by Erste Group and savings banks, and VINIS, a subsidiary of VBV-Pensionskasse AG.

Stocks undergo a rigorous vetting procedure, carried out by specialists, before being included into these equity funds. The criteria include that the company minimises the environmental stress caused by its production processes, and that it does not use nuclear energy or child labour.

By offering the ESPA VINIS STOCK EUROPE EMERGING equity fund, Erste Group has successfully defended and strengthened its leadership in sustainable investment.

Ethical investments were not spared by the effects of the financial crisis and declined to 996 million euros at the end of 2008; however, their relative share in total investment volume rose slightly, to 4.3%.

### **Civil Society**

For nearly 190 years, helping people in need has been one of Erste Group's biggest concerns. The "Erste oesterreichische Sparcasse" was founded in 1819 to provide simple financial services to people who hitherto had had no access to such services, thereby giving them a chance to save money for the future. Thus, Erste Bank was literally committed to social responsibility from day

one. The idea behind the “Zweite Wiener Vereins-Sparcasse”, which in autumn 2008 celebrated its second anniversary, runs in a similar vein: it allows persons who for various reasons are no longer eligible for a regular bank account, to gain access to basic financial services. Giving these people a bank account without overdraft facility affords them a chance to find their way back into an ordered life. Zweite Sparcasse has opened 4,300 accounts since its founding and is run by more than 400 volunteers from Erste Group in co-operation with school counsellors and experts from the Caritas charity. Zweite Sparcasse has already opened six branches in Austria.

### **Co-operations with charitable organisations**

Erste Group and the Caritas charity have a long-standing partnership and have taken it upon themselves to help shape the development of Central and Eastern Europe together. Particularly in these times of economic turmoil, sharing responsibility in the steady and peaceful social development of the region is one of Erste Group’s biggest concerns. Therefore, Erste Bank has supported its partner, Caritas, since 1999 – especially in its children's aid programmes in Europe’s poorest countries. In 2008, Erste Group provided funding for the Caritas-run farm initiative for youngsters in Bacova, Romania. The programme allows children who live on the streets to start a new life: they are given the chance to go to school, learn a trade and lead an ordinary life by working on the farm on which they live.

### **Art and culture**

In 2008, “Kontakt – The Erste Group Programme for Art and Civil Society” once again served as a platform for Erste Group’s social initiatives and cultural activities.

In addition to the website, Erste Group publishes the magazine “Report” with features on art, science and society in Central and Eastern Europe. Its print edition is published twice a year and there are five online editions every year, which have become a fixed component of the website. In 2008, the magazine was awarded the coveted MAECENAS art sponsorship prize and obtained a special prize in the “art and media” category. This prize was jointly awarded for the 20<sup>th</sup> time by the independent business committee "Initiativen Wirtschaft für Kunst" (“Initiatives for Business and Art”) and the Austrian Broadcasting Corporation ORF, with the support of the Austrian Federal Economic Chamber.

One important component of the “Kontakt” programme is the Erste Bank art collection of the same name: this unique collection concerns itself with the production of art in Central, Eastern and Southern Europe, taking into account contemporary discourses on art and critical theory.

### **Education**

Together with Mobilkom, McKinsey, OMV, Vienna Insurance Group and Wolf Theiss, Erste Group is involved in the students4excellence programme. students4excellence is a programme that has set itself the aim of putting the partners in touch with the *crème-de-la-crème* of Austrian university students at an early stage, as well as to help set up student networks. The partner companies assist students in the transition from student to professional life, hold events with their potential employers, and offer mentoring programmes and products related to their business sectors to selected students.

In 2008/09, Erste Bank in conjunction with OMV and the Executive Academy of Vienna University of Economics and Business Administration offered an MBA programme to young junior managers from Romania. Of the 100 applications, 20 were selected. When making the selection, care was taken to give as many applicants as possible from outside our partner companies (Petrom and BCR) a chance at the application, in order to show that fostering tomorrow's management elite

in Romania is not just done out of business interest but that it is indeed a socioeconomic concern of ours.

In July, Erste Bank and Vienna University of Economics and Business Administration jointly organised the “Summer University Danubia”. 60 students hailing from Austria, the Czech Republic, Slovakia, Hungary, Serbia, Croatia, Romania and Ukraine were sent travelling across countries in which Erste Group operates. The science part of the programme was organised by Vienna University of Economics and Business Administration, while Erste Group subsidiaries provided the practical component.

Since 2006, Erste Group and Erste Foundation have supported the Balkan Case Challenge. The aim of this annual competition is to strengthen co-operation between universities and businesses and promote an exchange of knowledge and ideas among the best students of South-Eastern Europe and Austria.

### Key figures – employees

	2008	2007
Employee turnover	6.2%	5.5%
Sick days per year	5.9	7
Training days per year	1.1	3.2
Percentage of women in management positions	18.1%	22.9%
Percentage of part-time employees	15.7%	22.5%
Percentage of women part-time employees	70.0%	85.5%

### Employee survey

As mentioned in the prior year's annual report, a Group-wide employee survey was conducted in autumn 2007. 55 organisations from seven countries took part in this survey. The feedback rate was 55%. The full analysis carried out in 2008 offered valuable insights for future measures.

- The information flow is seen as being highly positive.
- Erste Group appears somewhat innovative. When carrying out duties, sticking to the rules is seen as more important than achieving objectives.
- Performance management is not efficient enough; there is no consistency in style.
- The management of Erste Group is seen as being too centralised.
- The majority of respondents identifies strongly with the company.
- Motivation: the results show a profile that is strongly geared toward consumption. Customer satisfaction is emphasised; however, the work ethic and respect for workers are at a critical level.
- There is a very high level of rejection of work-related relocations.
- In connection with the high expectations for the company, the Group and the new organisational structure enjoy a great deal of trust. The employee stock ownership programme is considered highly beneficial.
- Employees expect that more emphasis be placed on service improvement and would like to see more Group projects on customer service, education financing, training schemes and best practice models.



A number of initial measures have been drawn up on the basis of these results, with the aim to create a clearly defined, transparent performance management system and to set up a best practice culture. These measures will become the main pillars of Erste Group's company culture and will dominate employee-related initiatives in 2009.

### **Work and Family**

For the third time, Erste Bank der oesterreichischen Sparkassen AG and Erste Group Bank AG have received the unqualified certificate of the "Beruf und Familie" ("Work and Family") audit carried out by the Federal Ministry of Health, Family and Youth. For the bank, this marks its 10<sup>th</sup> anniversary as a successfully audited company. As part of this year's audit, action plans were formulated for the coming three years. These include, above all, the deployment of a new career model, the evaluation and enhancement of the range of services and a number of changes in the management training scheme.

As part of the Federal Ministry of Economics and Labour's initiative to enhance women's role in business, Erste Group's raft of measures for improved work-life balance was recognised as one of the 10 best of its kind. The programme is geared towards helping women to re-enter the workforce after periods of child-related leave, as well as to improve access and advancement opportunities for women in business.

### **Health**

The health of our employees, which is also enshrined in our corporation mission statement, is an important and indeed central aspect of Erste Group.

In 2008, all employees in Austria were offered a health check-up which included a spine check-up. This offer was taken up by 40% of our workforce. What is more, they were given the opportunity to undergo melanoma screening, as well as eye and eyesight testing. All these check-ups were carried out at their place of work. Furthermore, employees can get medical and psychological help or receive treatment in the Erste Group's own Work Health Center. The service range offered includes dietary counselling and physiotherapy. In 2008, approx. 9,000 consultations were held at the Work Health Centre.

### **Employee development programme**

February 2008 saw the founding of "Erste University", one of Austria's first company universities. The objective of this institution is to further enhance our employees' technical skills. This educational institution sets the framework for a homogeneous training system for Group subsidiaries in various countries. One programme of study offered by Erste University is the "Erste Group Junior Training Programme", currently attended by 46 trainees from 10 different Central and Eastern-European countries. The curriculum of this programme covers risk management, corporate investment, real estate banking and treasury services and consists of a mix of practical training in various countries and online courses. In September, Erste Group organised a lecture series on "The Power of Trust" for the benefit of Erste Group's top management echelons. Lectures were held by experts in banking, neurobiology, social sciences and philosophy, who offered a scientific view of the topic of trust.

In 2006, the Group-wide "Group Talent Management" programme was first introduced. It is intended for talented employees from all across Erste Group who are prepared to impart and

employ their knowledge across borders. Towards the end of 2008, 23 managers and 40 non-managerial talents were fostered individually and prepared for international career positions.

“Learning from experience” was the slogan of the management training programme this year. In 2008, we developed a management mentor scheme that constitutes a new way of learning, providing an alternative to conventional training methods. It involves managers conveying their knowledge and experience to other managers – an exchange that benefits both parties. This gives the mentors an opportunity to reflect on their approach to work and to find out about the approaches and ideas of other generations and management levels. Their mentees, on the other hand, learn from their mentors' knowledge and skills, giving them an opportunity for personal growth. In this way, Erste Group succeeded in giving experienced managers a view of the latest technical and social developments, while at the same time providing further training to up-and-coming managers.

## The environment

### Key figures

	2007	2006	2005
Air kilometres (km/employee)	3,015.5	1,643.3	938.0
CO <sub>2</sub> emissions (t/employee)	3.1	2.9	2.7
Water use (l/employee)	11,816.2	12,209.8	15,586.0
Paper use (kg/employee)	30.8	47.2	55.9
Energy consumption (kWh/m <sup>2</sup> )	<b>318.3</b>	320	332.3
Electricity (kWh/m <sup>2</sup> )	<b>234.0</b>	190.8	196.0
Heating energy (kWh/m <sup>2</sup> )	<b>84.3</b>	129.2	136.2
Waste (kg/employee)	267.5	346.2	279.5

In September, the winner was chosen for best architectural design of the new company headquarters – the Erste Campus. The first cornerstones were set for the innovative project.

The following priorities were defined:

- Energy concept with ambitious reduction targets (stipulation of consumption limits; simulation of room temperatures, relative air humidity and air quality; evidence of fresh air supply).
- Calculations of economic efficiency (lifecycle cost calculation, sustainability analysis)
- Calculation of emissions (use of material resources, recyclable building materials)
- Quality assurance of building construction
- Ergonomics
- Monitoring in the operational phase

The aim is to obtain a low-energy certification. Special care is taken to adhere to the principles of sustainable building construction. The primary energy requirement will be significantly lower than the current average for office buildings. At the planning and implementation stages, the trends of modern forward-looking office building planning, such as flexibility, sustainability, mobility, interconnectedness, ergonomics, design, security and cost reduction will all be taken into account.

In the first quarter of 2008, Mochovce was an issue of particular importance. Erste Group engaged in intensive dialogue with NGOs and other members of the public to discuss matters pertaining to

the financing of the Mochovce nuclear power plant. On account of the participation of Slovenská sporiteľňa's in an international consortium to finance energy group Slovenská elektrarne, there have been accusations that Erste Group is helping to finance nuclear energy projects in Eastern Europe through this participation. This was the first time Erste Group faced such a situation and the bank's reaction was swift and decisive: an environmental expert opinion was commissioned and the exchange with the research community intensified in order to present a full picture of the situation and to involve all relevant stakeholders. Finally, due to unfulfilled environmental specifications, a legally binding agreement was signed with the energy group, stipulating that none of the funds provided by Slovenská sporiteľňa may be used to finance the hazardous reactors 3 and 4 of the Mochovce nuclear power plant. We at Erste Group are convinced that this decision will have contributed to the important debate about the necessary safety requirements of nuclear power plants.

### **Outlook**

In 2009, the environment will once again be a top priority at Erste Group. The following environmental measures are planned:

- Implementation of the “ecological bank branch” initiative in co-operation with the Wiener Neustadt University of Applied Sciences (Wieselburg campus), and deployment of the concept in other branches.
- Driver training seminars for environmentally sound and fuel-efficient driving (fuel saving training)
- Purchase of additional natural-gas-powered vehicles to strengthen the existing vehicle fleet.
- Additional bicycle shelters at central locations
- Analysis of mobility behaviour
- Continued participation in the ÖkoProfit project

Vienna, 10 March 2009

**Management Board**



**Andreas Treichl**  
Chairman



**Franz Hochstrasser**  
Deputy Chairman



**Herbert Juranek**  
Member of the Management Board



**Bernhard Spalt**  
Member of the Management Board



**Manfred Wimmer**  
Member of the Management Board

## Year-on-year comparison of balance sheet figures

<b>Assets</b>	<b>31/12/2008</b>	<b>31/12/2007</b>
	<b>EUR million</b>	<b>pro forma EUR million</b>
Cash in hand and balances with central banks	178.7	274.2
Treasury bills and other bills eligible for refinancing with central banks:	2,158.0	2,511.6
Loans and advances to credit institutions	39,730.9	37,158.2
Loans and advances to customers	12,361.0	13,440.6
Debt securities including fixed-income securities	10,293.2	8,997.9
Shares and other variable-yield securities	1,232.3	1,531.4
Participating interests	263.4	156.5
Shares in affiliated undertakings	8,348.0	8,886.0
Intangible fixed assets	35.9	33.7
Tangible assets	44.0	47.9
Own shares and shares in a controlling company	6.0	42.8
Other assets	10,660.7	3,911.0
Prepayments and accrued income	496.1	244.0
<b>Total assets</b>	<b>85,808.2</b>	<b>77,235.8</b>

  

<b>Liabilities</b>	<b>31/12/2008</b>	<b>31/12/2007</b>
	<b>EUR million</b>	<b>pro forma EUR million</b>
Liabilities to credit institutions	35,953.2	33,867.4
Liabilities to customers	6,992.7	7,484.5
Securitised liabilities	20,870.0	20,164.1
Other liabilities	8,883.5	3,388.4
Accruals and deferred income	242.1	89.5
Provisions	526.4	422.1
Subordinated liabilities	2,356.9	1,929.4
Supplementary capital	2,661.4	2,522.3
Subscribed capital	634.0	632.6
Capital reserves	4,776.0	4,750.9
Retained earnings	913.4	1,000.0
Liability reserve pursuant to Article 23 para. 6 BWG	780.0	734.0
Net profit for the year	206.1	237.4
Untaxed reserves	12.5	13.1
<b>Total liabilities</b>	<b>85,808.2</b>	<b>77,235.8</b>

## Year-on-year comparison of profit & loss account figures

	2008	2007
	EUR million	(pro forma) EUR million
<b>NET INTEREST INCOME</b>	<b>41.5</b>	<b>18,0</b>
Income from securities and participating interests	1,192.0	547.1
Commissions receivable / payable	181.7	166.3
Net profit on financial operations	-129.6	87.3
Other operating income	7.3	4.4
<b>OPERATING INCOME</b>	<b>1,292.9</b>	<b>823.0</b>
General administrative expenses	-373.1	-351.4
<i>a) staff costs</i>	-223.9	-211.6
<i>b) other administrative expenses</i>	-149.2	-139.7
Value adjustments in respect of asset items 9 and 10	-18.7	-22.3
Other operating expenses	-0.9	-0.9
<b>OPERATING EXPENSES</b>	<b>-392.7</b>	<b>-374.6</b>
<b>OPERATING RESULT</b>	<b>900.2</b>	<b>448.5</b>
Value adjustments and value re-adjustments in respect of loans and advances and provisions for contingent liabilities and for commitments	-289.1	11.4
Value adjustments and value re-adjustments in respect of transferable securities held as financial fixed assets, participating interests and shares in affiliated undertakings	-467.9	- 3.2
<b>PROFIT ON ORDINARY ACTIVITIES</b>	<b>143.2</b>	<b>456.6</b>
Extraordinary income	-5.1	-11.8
Taxes on profit	27.2	7.6
Other taxes not reported under item 18	-0.7	-1.1
<b>PROFIT FOR THE YEAR AFTER TAX</b>	<b>164.6</b>	<b>451.4</b>
Changes in reserves	41.3	-214.9
<b>NET INCOME FOR THE YEAR</b>	<b>205.9</b>	<b>236.5</b>
Profit brought forward	0.2	0.9
<b>NET PROFIT FOR THE YEAR</b>	<b>206.1</b>	<b>237.4</b>

**Balance Sheet at 31. December 2008**  
**Erste Group Bank AG**

**Assets**

	€	€	Tsd € previous year	Tsd € previous year
<b>1. Cash in hand and balances with central banks</b>		178,657,874.76		492,937
<b>2. Treasury bills and other bills eligible for refinancing with central banks</b>				
a) treasury bills and similar securities	2,158,028,080.33		5,107,967	
b) other bills eligible for refinancing with central banks	0.00	2,158,028,080.33	0	5,107,967
<b>3. Loans and advances to credit institutions</b>				
a) repayable on demand	916,938,300.94		1,463,150	
b) other loans and advances	38,813,927,157.46	39,730,865,458.40	29,246,984	30,710,134
<b>4. Loans and advances to customers</b>		12,361,042,304.29		29,827,749
<b>5. Debt securities and other fixed-income securities</b>				
a) issued by public bodies	1,381,454,179.16		700,579	
b) issued by other borrowers	8,911,793,680.29	10,293,247,859.45	9,106,614	9,807,193
of which: own debt securities	1,907,273,865.77		107,656	
<b>6. Shares and other variable-yield securities</b>		1,232,325,337.53		1,600,475
<b>7. Participating interests</b>		263,358,809.36		564,301
of which: in credit institutions	157,917,511.24		450,651	
<b>8. Shares in affiliated undertakings</b>		8,348,038,031.29		8,773,857
of which: in credit institutions	7,620,398,137.00		7,728,784	
<b>9. Intangible fixed assets</b>		35,852,663.23		62,063
<b>10. Tangible fixed assets</b>		43,988,249.73		77,148
of which: land and buildings used by the credit institution for its own business operations	25,405,321.02		35,876	
<b>11. Own shares and shares in a controlling company</b>		6,018,057.00		42,798
of which: par value	742,970.00		1,765	
<b>12. Other assets</b>		10,660,666,628.79		4,294,288
<b>13. Subscribed capital called but not paid</b>		0.00		0
<b>14. Prepayments and accrued income</b>		496,103,830.30		254,333
<b>Total Assets</b>		<b>85,808,193,184.46</b>		<b>91,615,243</b>

**Off-balance-sheet items**

<b>1. Foreign assets</b>	51,236,648,830.61		56,454,959
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**Balance Sheet at 31. December 2008**  
**Erste Group Bank AG**

**Liabilities and Equity**

	€	€	Tsd € previous year	Tsd € previous year
<b>1. Liabilities to credit institutions</b>				
a) repayable on demand	1,111,420,530.76		984,733	
b) with agreed maturity dates or periods of notice	34,841,780,244.77	35,953,200,775.53	32,811,692	33,796,425
<b>2. Liabilities to customers (non-banks)</b>				
a) savings deposits	0.00		7,976,842	
of which:				
aa) repayable on demand	0.00		1,949,925	
bb) with agreed maturity dates or periods of notice	0.00		6,026,917	
b) other liabilities	6,992,689,717.25		13,627,548	
of which:				
aa) repayable on demand	1,260,554,956.21		5,311,417	
bb) with agreed maturity dates or periods of notice	5,732,134,761.04	6,992,689,717.25	8,316,131	21,604,390
<b>3. Securitised liabilities</b>				
a) Debt securities issued	17,015,912,655.15		14,180,704	
b) other securitised liabilities	3,854,129,032.36	20,870,041,687.51	5,983,435	20,164,139
<b>4. Other liabilities</b>		8,883,467,852.22		3,528,610
<b>5. Accruals and deferred income</b>		242,143,998.36		165,973
<b>6. Provisions</b>				
a) provisions for severance payments	0.00		0	
b) pension provisions	352,043,267.12		360,729	
c) provisions for taxes	9,783,195.03		5,326	
d) other	164,537,565.92	526,364,028.07	169,952	536,007
<b>6.A Special fund for general banking risks</b>		0.00		0
<b>7. Subordinated liabilities</b>		2,356,857,857.65		1,929,441
<b>8. Supplementary capital</b>		2,661,426,267.00		2,522,268
<b>9. Subscribed capital</b>		634,025,526.00		632,578
<b>10. Capital reserves</b>				
a) committed	4,516,003,000.00		4,630,879	
b) uncommitted	260,000,000.00		0	
c) for own shares and shares in a controlling company	0.00	4,776,003,000.00	0	4,630,879
<b>11. Retained earnings</b>				
a) statutory reserve	34,156,000.00		34,156	
b) reserves provided for by the bye-laws	0.00		0	
c) other reserves	873,268,178.92		923,091	
d) for own shares and shares in a controlling company	6,019,000.00	913,443,178.92	42,799	1,000,046
<b>Carry forward</b>		84,809,663,888.51		90,510,756



**Balance Sheet at 31. December 2008**  
**Erste Group Bank AG**

**Liabilities and Equity**

	€	€	Tsd € previous year	Tsd € previous year
<b>Carry forward</b>		84,809,663,888.51		90,510,756
<b>12. Reserve pursuant to Section 23 (6) of the Austrian Banking Act (BWG)</b>		780,000,000.00		854,000
<b>13. Net profit or loss for the year</b>		206,058,295.95		237,357
<b>14. Untaxed reserves</b>				
a) valuation reserve resulting from special depreciation	12,471,000.00		13,130	
b) other untaxed reserves	0.00	12,471,000.00	0	13,130
of which:				
aa) investment reserve pursuant to Section 9 of the Austrian Income Tax Act (EStG) 1988	0.00		0	
bb) investment allowance pursuant to Section 10 of the Austrian Income Tax Act (EStG) 1988	0.00		0	
cc) rent reserve pursuant to Section 11 of the Austrian Income Tax Act (EStG) 1988	0.00		0	
dd) reserve transferred pursuant to Section 12 (7) of the Austrian Income Tax Act (EStG) 1988	0.00		0	
<b>Total Liabilities and Equity</b>		<b>85,808,193,184.46</b>		<b>91,615,243</b>

**Off-balance-sheet items**

<b>1. Contingent liabilities</b>		17,147,987,196.55		12,340,968
of which:				
a) acceptances and endorsements	0.00		0	
b) guarantees and assets pledged as collateral security	8,613,202,647.12		5,862,146	
<b>2. Commitments</b>		5,398,188,986.85		7,774,833
of which: commitments arising from repurchase agreements	0.00		0	
<b>3. Commitments arising from agency services</b>		2,128,711.20		245,694
<b>4. Eligible capital pursuant to Section 23 in conjunction with Section 29 of the Austrian Banking Act (BWG)</b>		10,210,604,466.07		10,072,490
of which: capital pursuant to Section 23 (14) 7 of the Austrian Banking Act (BWG)	327,023,833.39		183,821	
<b>5. Capital requirement pursuant to Section 22 (1) of the Austrian Banking Act (BWG)</b>		3,590,361,900.00		3,611,470
of which: capital required pursuant to Section 22 (1) 1 and 4 of the Austrian Banking Act (BWG)	2,731,544,303.29		2,966,246	
<b>6. Foreign liabilities</b>		28,670,405,134.57		36,126,870

## Profit and Loss Account 2008

### Erste Group Bank AG

	€	€	Tsd € previous year	Tsd € previous year
<b>1. Interest receivable and similar income</b>		2,564,631,628.22		3,363,397
of which: from fixed-income securities	695,421,052.04		929,463	
<b>2. Interest payable and similar expenses</b>		- 2,523,069,100.50		- 3,029,029
<b>I. NET INTEREST INCOME</b>		<b>41,562,527.72</b>		<b>334,368</b>
<b>3. Income from securities and participating interests</b>				
a) income from shares, other ownership interests and variable-yield securities	28,580,263.29		29,894	
b) income from participating interests	11,917,800.18		22,447	
c) income from shares in affiliated undertakings	1,151,463,602.55	1,191,961,666.02	460,858	513,199
<b>4. Commissions receivable</b>		272,516,981.70		468,007
<b>5. Commissions payable</b>		- 90,824,814.11		- 116,854
<b>6. Net profit or net loss on financial operations</b>		- 129,629,912.66		98,206
<b>7. Other operating income</b>		7,302,184.11		4,965
<b>II. OPERATING INCOME</b>		<b>1,292,888,632.78</b>		<b>1,301,891</b>
<b>8. General administrative expenses</b>		- 373,112,129.32		- 705,621
a) staff costs	- 223,917,269.14		- 461,231	
of which:				
aa) wages and salaries	- 134,343,716.08		- 284,073	
bb) expenses for statutory social-security contributions and compulsory contributions related to wages and salaries	- 28,932,109.06		- 68,602	
cc) other social expenses	- 1,340,524.37		- 4,634	
dd) expenses for pensions and assistance	- 40,754,166.14		- 52,459	
ee) allocation to the pension provision	- 10,378,821.12		- 22,770	
ff) expenses for severance payments and contributions to severance and retirement funds	- 8,167,932.37		- 28,693	
b) other administrative expenses	- 149,194,860.18		- 244,390	
<b>9. Value adjustments in respect of assets items 9 and 10</b>		- 18,682,489.50		- 49,623
<b>10. Other operating expenses</b>		- 939,952.53		- 2,133
<b>III. OPERATING EXPENSES</b>		<b>- 392,734,571.35</b>		<b>- 757,377</b>
<b>IV. OPERATING RESULT</b>		<b>900,154,061.43</b>		<b>544,514</b>

## Profit and Loss Account 2008

### Erste Group Bank AG

	€	Tsd € previous year
Carry forward (IV. Operating results)	900,154,061.43	544,514
11. Value adjustments of loans and advances and allocations to provisions for contingent liabilities and commitments	- 331,392,038.74	- 195,144
12. Value re-adjustments of loans and advances and provisions for contingent liabilities and commitments	42,314,622.48	119,476
13. Value adjustments of transferable securities held as financial fixed assets, participating interests and shares in affiliated undertakings	- 727,953,471.69	- 21,032
14. Value re-adjustments of transferable securities held as financial fixed assets, participating interests and shares in affiliated undertakings	260,110,731.79	9,072
<b>V. PROFIT OR LOSS ON ORDINARY ACTIVITIES</b>	<b>143,233,905.27</b>	<b>456,886</b>
15. Extraordinary income	0.00	0
of which: withdrawals from the special fund for general banking risks	0.00	0
16. Extraordinary expenses	- 5,099,034.40	- 11,758
of which: allocation to the special fund for general banking risks	0.00	0
17. Extraordinary result (sub-total of items 15 and 16)	- 5,099,034.40	- 11,758
18. Tax on profit or loss	27,190,704.81	7,629
19. Other taxes not reported under item 18	- 707,480.47	- 1,389
<b>VI. PROFIT OR LOSS FOR THE YEAR AFTER TAX</b>	<b>164,618,095.21</b>	<b>451,368</b>
20. Changes in reserves	41,261,187.08	- 214,862
off which: allocation to liability reserve pursuant to Section 23 (6) of the Austrian Banking Act (BWG)	46,000,000.00	0
reversal of liability reserve pursuant to Section 23 (6) of the Austrian Banking Act (BWG)	0.00	0
<b>VII. NET INCOME FOR THE YEAR</b>	<b>205,879,282.29</b>	<b>236,506</b>
21. Profit brought forward from previous year	179,013.66	851
<b>VIII. NET PROFIT OR LOSS FOR THE YEAR</b>	<b>206,058,295.95</b>	<b>237,357</b>

# Notes to the financial statements of Erste Group Bank AG 2008

## I. General Information

The 2008 financial statements of Erste Group Bank AG have been prepared in accordance with the regulations of the Company Code ("Unternehmensgesetzbuch", UGB), in conjunction with the applicable provisions of the Austrian Banking Act ("Bankwesengesetz", BWG).

Pursuant to Article 59a BWG, Erste Group Bank AG prepared the consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) on the same balance sheet date.

### 1) Reorganisation

Subsequent to the decision on the pro-rata spin-off pursuant to Article 1 para. 2 no. 2 in conjunction with Article 8 para. 1 of the Austrian Act on Joint-Stock Company Demergers (SpaltG), taken at the Annual General Shareholders' Meeting of 6 May 2008, the demerger and takeover agreement of 26 March 2008, using figures from the closing balance sheet of 31 December 2007, was submitted to the companies register ("Firmenbuch") section at Vienna Commercial Court ("Handelsgericht Wien"). Pursuant to the agreement, the Business Division Austria of Erste Bank der oesterreichischen Sparkassen AG (the transferring company), headquartered in Vienna, was transferred to Dritte Wiener Vereins-Sparcasse AG (the acquiring company), headquartered in Vienna, effective 9 August 2008. This was done by way of transfer as a going concern, with universal legal succession and without granting of shares. The name of the company was changed to Erste Group Bank AG. At the same time, the name of the company Dritte Wiener Vereins-Sparcasse AG was changed to Erste Bank der oesterreichischen Sparkassen AG.

The comparative figures of the prior year in these notes are those of the former Erste Bank AG (including the Business Division Austria).

### 2) Ongoing legal cases

#### Haftungsverbund

In 2002 Erste Group Bank formed the Haftungsverbund on the basis of a set of agreements with the majority of the Austrian savings banks. The purpose of the Haftungsverbund was to establish a joint early-warning system as well as a cross-guarantee for certain liabilities of member savings banks and to strengthen the group's co-operation in the market.

In the competition proceedings before the Austrian Cartel Court, both a competitor of Erste Bank and the Austrian Federal Competition Authority requested that the court set aside the Haftungsverbund agreements because of an alleged infringement of Article 81 of the EC Treaty.

In March 2007 the Supreme Court handed down a resolution and confirmed that the agreements which constitute the Haftungsverbund were for the most part in compliance with Article 81 of the EC Treaty.

However, the Supreme Court also held that certain aspects of the agreements could be critical under competition aspects. The Supreme Court did not stipulate any explicit consequences. Erste Group Bank AG and the Cartel Court reached an agreement in April 2008 concerning the necessary changes to be made. This agreement (undertakings within the meaning of Article 27 KartG) was contested before the Austrian Supreme Court by the competitor. In October 2008, the Austrian Supreme Court reversed the decision of the Cartel Court due to an error of procedure and remitted the case to the Cartel Court. Neither the undertakings (if confirmed) nor the earlier decision of the Supreme Court have any bearing on the validity of the consolidation of the qualifying capital of the savings banks as part of Erste Bank's balance sheet.

In 2007, Erste Group Bank AG concluded agreements with all but two of the Austrian savings banks (Allgemeine Sparkasse Oberösterreich and Sparkasse Kufstein) that give Erste Group Bank AG a certain influence on the savings banks and that constitute a merger ("Zusammenschluss") within the meaning of the EC Merger Regulation and the Austrian Cartel Act. The competition authorities formally approved these agreements in October 2007 and in January and May 2008. Erste Group Bank AG and Allgemeine Sparkasse Oberösterreich furthermore decided to engage in closer co-operation, which, according to competition law, also constitutes a merger. Erste Group Bank AG and Sparkasse Kufstein passed the necessary Management Board resolutions and entered into relevant supplementary agreements to the Haftungsverbund (deposit guarantee system). The necessary applications for approval by the competition authorities will be submitted as soon as possible.

## II. Notes on accounting and measurement methods

- 1) The financial statements have been prepared in accordance with **generally accepted accounting principles** and according to the standard principle that the financial statements should give a fair and accurate view of the financial position, income and expenses of the company. The principle of individual measurement was applied in the assessment of the company's assets and liabilities, and it was assumed that the company would continue to operate (going concern principle). The particularities of the banking business were taken into account in the application of the principle of prudence.
- 2) **Receivables and liabilities in foreign currency** were measured at the ECB reference rate as at the balance sheet date. Notes and coin were measured at their purchase as at the balance sheet date. All currencies other than the euro were considered foreign currencies.
- 3) **Participating interests and shares in affiliated undertakings** were recognised at cost of acquisition. Where permanent impairments have resulted from sustained losses or other circumstances, valuations were revised downward accordingly. Where necessary, adequate provisions were established to cover the losses incurred by the subsidiaries.
- 4) For **bonds and other fixed-income securities**, the difference between acquisition cost and redemption value was amortised pro rata temporis pursuant to Article 56 para. 2 BWG, or recognised as income pro rata temporis over the residual time to maturity until redemption pursuant to Article 56 para. 3 BWG. Sustained depreciation was written off pursuant to Article 204 para. 2 UGB at the lower present value as at the balance sheet date. **Securities in the trading portfolio** and other securities in the **available for sale portfolio** were measured at market value pursuant to Article 207 UGB and Article 56 para. 5 BWG.
- 5) **Loans and advances to credit institutions and customers, bills of exchange and other assets** were measured pursuant to Article 207 UGB. Appropriate value adjustments have been made to account for recognisable risks. Write-ups have been made from the reversal of value adjustments. Loans were measured in consideration of statistical risk factors, and provisions in the form of portfolio corrections have been made where applicable. Loans and advances to borrowers in high-risk countries have been assessed conservatively in consideration of the opinion of the Expert Senate for Commercial Law and Auditing (Fachsenat für Handelsrecht und Revision) of the Chamber of Tax Advisors and Certified Accountants (Kammer der Wirtschaftstreuhänder).
- 6) **Intangible and tangible assets** were measured at purchase cost or production cost less planned and unplanned depreciation. Straight-line depreciation was employed where planned. The useful life for buildings is 25 to 50 years, for fixtures and fittings 5 to 20 years; the amortisation period for intangible assets is 4 to 15 years. Capitalised goodwill is written off over 5 to 15 years. Low-value fixed assets were fully written off in the year of purchase.
- 7) **Securitised and subordinated liabilities** were recognised in the balance sheet with their repayment values or the pro rata annual values (zero coupon bonds).
- 8) **Costs of issues** of securities were expensed immediately; **premiums and discounts on issues** were amortised over the term of the securities.
- 9) **Provisions** were set aside in the amounts deemed necessary in standard commercial practice.

The **provisions for company pension plans** for those in retirement were measured based on actuarial expertise according to IFRS principles. The entitlements to pensions were measured in accordance with IAS 19 using the Projected Unit Credit Method and in application of the corridor method. The defined PBO as at 31 December 2008 was EUR 381,220,854.00. In the reporting year, the parameters used in calculations were adapted as follows to take into account the changed market conditions: the discount rate was increased from 5.0% to 5.5%, and the pension benefits were increased from 2.5% to 3.0%. The new mortality tables based on the AVÖ 2008 P-Rechnungsgrundlagen (the actuarial basis for pension insurance of the Austrian Association of Actuaries) were taken into consideration.

The pension expectancies of Erste Bank employees who were in active employment on 31 December 2008 and those who have entered retirement since 1 January 1999, who have tenure or have accrued pension rights, have been transferred to the company VBV-Betriebliche Altersvorsorge AG. The resulting difference between the coverage capital transferred to the pension fund since 1998 and the existing pension provision formed for these assets has been disclosed under deferred expenses pursuant to the transitional provisions of section XII of the Austrian Pensionskassen Act, and will be amortised over a period of ten years. Furthermore, the shortfall created in the pension provision by the change to IFRS accounting standard was disclosed under deferred expenses and will be amortised over a period of five years.

Severance payment entitlements outsourced to S-Versicherung AG were measured based on an actuarial expertise according to IFRS principles. Entitlements for severance payments were measured in accordance with IAS 19 using the Projected Unit Credit Method. In the reporting year, the parameters used in calculations were adapted as follows to take into account the changed market conditions: the discount rate was increased from 5.0% to 5.5%, and the pension benefits were increased from 2.5% to 3.0%. Severance entitlements measured in accordance with commercial law and based on the above parameters amounted to EUR 37,666,707.00 and were shown as a contingent liability in the balance sheet. The credit dedicated for performance of outsourced severance requirements with the insurer as at 31 December 2008 was equivalent to the amount of imputed severance provisions. The outsourcing of severance entitlements to S-Versicherung AG does not result in any changes to employee claims against Erste Group Bank AG, which continues to be liable for employees' severance entitlements.

The **provision for anniversary bonuses** was measured in the same way as the severance payment provision, and an ancillary wage cost addition of 8% was added.

**10) Recoverable trust assets** were declared off-balance sheet in accordance with Article 48 para. 1 BWG.

**11) In derivatives trading** the assets and liabilities were measured as follows:

Hedging products and their underlying asset or liability were shown as a unit in the balance sheet. Interest flows on other products of the non-trading portfolio (strategic positions) during the reporting period were recognised in the income statement. Negative market values were recognised in the income statement, while positive market values were not recognised. Trading portfolios were measured mark-to-market.

### III. Notes on the balance sheet

(Unless noted otherwise, amounts for the reporting year are stated in euros, for the previous year in '000 euros).

#### 1) Maturity structure of loans and advances as well as liabilities to credit institutions and customers (by remaining time to maturity):

##### a) Loans and advances

	31/12/2008	31/12/2007
<b>Loans and advances to credit institutions</b>	<b>39,730,865,458.40</b>	<b>30,710,134</b>
up to 3 months	15,103,664,861.06	18,400,776
more than 3 months and up to 1 year	9,720,101,942.30	5,632,843
more than 1 year and up to 5 years	10,155,310,366.70	4,138,737
more than 5 years	3,834,849,987.40	1,074,629
payable on demand	916,938,300.94	1,463,149
<b>Loans and advances to customers</b>	<b>12,361,042,304.29</b>	<b>29,827,749</b>
up to 3 months	3,363,439,771.64	7,029,603
more than 3 months and up to 1 year	724,674,408.54	2,212,468
more than 1 year and up to 5 years	2,411,609,440.70	7,063,586
more than 5 years	5,292,621,701.31	12,322,808
payable on demand	568,696,982.10	1,199,284

##### b) Liabilities

	31/12/2008	31/12/2007
<b>Liabilities to credit institutions</b>	<b>35,953,200,775.53</b>	<b>33,796,425</b>
up to 3 months	23,004,413,468.42	28,810,789
more than 3 months to 1 year	8,141,656,438.60	1,570,245
more than 1 year to 5 years	471,785,006.73	744,491
more than 5 years	3,223,925,331.02	1,686,167
payable on demand	1,111,420,530.76	984,733
<b>Liabilities to customers (non-banks)</b>	<b>6,992,689,717.25</b>	<b>21,604,390</b>
<b>Savings deposits</b>		
up to 3 months	0	925,016
more than 3 months to 1 year	0	2,073,697
more than 1 year to 5 years	0	1,483,855
more than 5 years	0	3,328,673
payable on demand	0	165,601
<b>Other</b>		
up to 3 months	5,259,221,085.84	7,819,853
more than 3 months to 1 year	83,663,675.20	145,484
more than 1 year to 5 years	4,250,000.00	5,709
more than 5 years	385,000,000.00	345,085
payable on demand	1,260,554,956.21	5,311,417
<b>Securitised liabilities</b>	<b>20,870,041,687.51</b>	<b>20,164,139</b>
up to 3 months	2,700,233,931.48	4,765,153
more than 3 months to 1 year	2,351,544,008.62	1,527,613
more than 1 year to 5 years	11,121,809,532.58	7,707,792
more than 5 years	4,696,454,214.83	6,163,581
payable on demand	0	0

## 2) Debt securities due within one year

As at 31 December 2008, **debt securities including fixed-income securities** for Erste Bank maturing within one year of the balance sheet date amounted to EUR 1,599,718,132.43 (prior year: EUR 1,114,207 thousand).

As at 31 December 2008, **debt securities** maturing within one year of the balance sheet date amounted to EUR 5,051,777,940.10 (prior year: EUR 6,292,766 thousand).

## 3) Assets and liabilities in foreign currencies

	Assets		Liabilities	
	31/12/2008	31/12/2007	31/12/2008	31/12/2007
Total of Erste Group Bank AG as a whole	<b>33,532,705,383.82</b>	30,432,748	<b>23,313,312,650.60</b>	26,675,312

## 4) Loans and advances as well as liabilities to affiliated undertakings and companies in which participating interests were held

	Loans and advances to affiliated undertakings		Loans and advances to companies in which participating interests were held	
	31/12/2008	31/12/2007	31/12/2008	31/12/2007
Loans and advances to credit institutions	<b>24,525,904,919.65</b>	14,350,064	<b>6,194,577,793.65</b>	4,752,419
Loans and advances to customers	<b>5,759,531,488.97</b>	3,638,417	<b>714,544,644.75</b>	628,760
Debt securities including fixed-income securities	<b>176,115,936.25</b>	231,191	<b>28,216,336.3</b>	699,731
			<b>5</b>	
Shares and other variable-yield securities	<b>150,438,157.66</b>	197,481	<b>129,851,751.48</b>	86,854

	Liabilities to affiliated undertakings		Liabilities to companies with participating interests	
	31/12/2008	31/12/2007	31/12/2008	31/12/2007
Liabilities to credit institutions	<b>5,802,617,757.91</b>	1,458,144	<b>2,769,488,849.91</b>	5,647,782
Liabilities to customers (non-banks)	<b>3,984,934,571.04</b>	4,496,459	<b>5,012,546.75</b>	72,768

Among these the most important companies are:

Loans and advances to affiliated undertakings:

Erste Bank der österreichischen Sparkassen AG, Vienna  
 Erste Bank Hungary Rt, Budapest  
 Slovenska Sporitelna, A.S., Bratislava  
 Banca Comerciala Romana SA, Bucharest

Loans and advances to companies with participating interests:

Kärntner Sparkasse AG, Klagenfurt  
 Allgemeine Sparkasse Oberösterreich Bank AG, Linz  
 Steiermärkische Bank und Sparkassen AG, Graz

Liabilities to affiliated undertakings:

Erste Bank der österreichischen Sparkassen AG, Vienna  
 Ceska Sporitelna A.S., Prague, CS  
 Erste Finance (Delaware) LLC, Wilmington, USA



Liabilities to companies with participating interests:

Allgemeine Sparkasse Oberösterreich Bank AG, Linz  
 Kärntner Sparkasse AG, Klagenfurt  
 Steiermärkische Bank und Sparkassen AG, Graz

## 5) Subordinated assets

	31/12/2008	31/12/2007
a) Loans and advances to credit institutions	<b>1,136,909,839.76</b>	312,518
of which:		
to affiliated undertakings	<b>1,134,366,290.56</b>	280,874
to companies with participating interests	<b>2,543,549.20</b>	6,303
b) Loans and advances to customers	<b>250,101,757.67</b>	218,455
of which:		
to affiliated undertakings	<b>6,325,000.00</b>	10,811
to companies with participating interests	<b>570,481.75</b>	570
c) Debt securities incl.		
fixed-income securities	<b>363,917,355.41</b>	376,554
of which:		
to affiliated undertakings	<b>34,568,653.62</b>	20,981
to companies with participating interests	<b>0,00</b>	0

## 6) Fiduciary business

The indicated positions include fiduciary transactions of the following amounts:

	31/12/2008	31/12/2007
Loans and advances to credit institutions	<b>0.00</b>	20,935
Loans and advances to customers	<b>0.00</b>	32,122
Liabilities to credit institutions	<b>0.00</b>	53,057

## 7) Participating interests and shares in affiliated undertakings

A detailed breakdown of the key participating interests and shares in affiliated undertakings is given in the appendix to the notes "Details on the Holdings of Erste Group Bank AG as at 31 December 2008".

## 8) Securities

### a) Breakdown of securities listed for trade on the stock exchange

(pursuant to sec. 64 (1) (10) Austrian Banking Act)

	listed		not listed	
	31/12/2008	31/12/2007	31/12/2008	31/12/2007
a) Debt securities including fixed-income securities	<b>8,229,268,515.68</b>	6,810,798	<b>2,063,979,343.77</b>	2,996,395
b) Shares and other variable-yield securities	<b>232,625,210.89</b>	534,946	<b>157,253,298.68</b>	188,186
c) Participating interests	<b>51,389,340.98</b>	51,389	<b>0.00</b>	0
d) Shares in affiliated undertakings	<b>303,303,629.26</b>	246,473	<b>0.00</b>	0
<b>Total</b>	<b>8,816,586,696.81</b>	7,643,606	<b>2,221,232,642.45</b>	3,184,581

(pursuant to sec. 64 (1) (11) Austrian Banking Act)

	Fixed assets		Current assets	
	31/12/2008	31/12/2007	31/12/2008	31/12/2007
a) Debt securities including fixed-income securities	<b>5,587,716,210.36</b>	7,169,013	<b>4,705,531,649.09</b>	2,638,181
b) Shares and other variable-yield securities	<b>88,687,677.77</b>	94,274	<b>301,190,831.80</b>	628,857
<b>Total</b>	<b>5,676,403,888.13</b>	7,263,287	<b>5,006,722,480.89</b>	3,267,038

Allocation pursuant to Article 64 para. 1 no. 11 BWG was carried out in accordance with the organisational policies adopted by the Management Board. Also included in fixed assets were positions entered due to strategic aspects for a long-term profitable investment.

The difference to the redemption value resulting from the pro-rata write-downs pursuant to Article 56 para. 2 BWG as at 31 December 2008 amounted to EUR 26,367,789.69 (prior year: EUR 41,969 thousand), while the difference to the redemption value from the pro-rata write-ups pursuant to Article 56 para. 3 BWG amounted to EUR 24,792,277.88 (prior year: EUR 23,964 thousand).

### b) Breakdown of the differences of the securities listed for trade on the stock exchange not held as financial fixed assets

	31/12/2008	31/12/2007
Difference between the higher market value recognised at the balance sheet date and the cost of purchase pursuant to Article 56 para. 5 BWG	<b>71,249,064.54</b>	51,211

### c) Repurchase agreements

The carrying value of the assets subject to sale and repurchase agreements amounted to EUR 3,972,287,362.37 at the balance sheet date (prior year: EUR 4,194,013 thousand).

### d) Breakdown of debt securities including fixed-income securities

	31/12/2008	31/12/2007
Issued by public-sector issuers	<b>1,381,454,179.16</b>	700,579
Issued by other issuers	<b>8,911,793,680.29</b>	9,106,614
of which:		
own issues	<b>1,970,273,865.77</b>	107,656
bonds - domestic credit institutions	<b>736,263,248.73</b>	858,240
bonds - foreign credit institutions	<b>2,533,897,916.64</b>	3,457,360
mortgage and municipal securities	<b>423,372,439.51</b>	538,659
convertible bonds	<b>10,438,921.69</b>	6,406
other bonds	<b>3,300,547,287.95</b>	4,138,293

## 9) Trading book

Erste Bank kept a trading book pursuant to Article 22 n BWG throughout the fiscal year. The **securities portfolio** apportioned to the trading book as at 31 December 2008 was EUR 3,019,131,713.78 (prior year: EUR 3,845,626 thousand).

Exercising the option of Article 22 lit. b BWG, **money market instruments** of EUR 30,310,503,253.10 (31 December 2007: EUR 23,930,051 thousand) were apportioned to the trading book on 31 December 2008.

The volume of **other financial instruments** included in the trading book had a par value of EUR 511,261,961,000 at 31 December 2008, (prior year: EUR 349,902,266 thousand). Their breakdown was as follows:

	Long position		Short position		Total	
	2008	2007	2008	2007	2008	2007
Options	<b>23,682,050,343.06</b>	3,050,827	<b>23,865,485,633.88</b>	3,573,188	<b>47,547,534,976.94</b>	6,624,015
Caps and Floors	<b>67,627,842,071.71</b>	62,629,453	<b>61,856,262,590.23</b>	59,604,707	<b>129,484,104,661.94</b>	122,234,160
Currency swaps	<b>55,732,515,600.78</b>	31,825,952	<b>0</b>	0	<b>55,732,515,600.78</b>	31,825,952
Interest swaps	<b>218,580,616,734.86</b>	181,047,725	<b>0</b>	0	<b>218,580,616,734.86</b>	181,047,725
Fwd Rate Agreem.	<b>30,778,767,641.62</b>	758,993	<b>24,319,204,974.90</b>	642,616	<b>55,097,972,616.52</b>	1,401,609
Financial Futures	<b>1,535,035,405.16</b>	2,973,254	<b>661,202,940.36</b>	2,509,739	<b>2,196,238,345.52</b>	5,482,993
Loan Derivatives	<b>1,442,467,347.89</b>	733,326	<b>1,150,567,423.81</b>	552,486	<b>2,593,034,771.70</b>	1,285,812
Commodity trades	<b>29,941,728.17</b>	0	<b>0</b>	0	<b>29,941,728.17</b>	0
<b>Total</b>	<b>399,409,236,873.25</b>	283,019,530	<b>111,852,722,563.18</b>	66,882,736	<b>511,261,959,436.43</b>	349,902,266

Please note: Interest and currency swaps, as well as commodity trades are depicted as unilateral (purchase), all other products as bilateral.

## 10) Fixed assets

The consolidated statement of changes in fixed assets pursuant to Article 226 para. 1 UGB is disclosed separately in the attachment to the notes.

The carrying value of developed land was EUR 11,702,791.39 as at 31 December 2008 (prior year: EUR 12,757 thousand).

The carrying value at 31 December 2008 did not include leased assets.

For the next fiscal year, Erste Bank will have expenses from the use of tangible assets not disclosed in the balance sheet (rental and leasing contracts) of a total of EUR 23,446,601.00 (prior year: EUR 34,496 thousand) and of a total of EUR 132,498,032.00 for the next five fiscal years (prior year: EUR 190,614 thousand).

The intangible fixed assets include assets of a value of EUR 15,266,891.19 (prior year: EUR 35,337 thousand) acquired from an affiliated undertaking. During the year, EUR 7,906,249.79 worth of such assets were acquired (prior year: EUR 6,951 thousand).

## 11) Accrued and deferred items

Prepayments and accrued income had increased to EUR 496,103,830.30 at 31 December 2008 (prior year: EUR 254,333 thousand). Of these, EUR 202,604,082.20 (prior year: EUR 94,359 thousand) were accruals in connection with derivative instruments, and EUR 177,049,179.00 (prior year: EUR 0) were prepayments on commissions.

## 12) Other assets

	31/12/2008	31/12/2007
Total:	<b>10,660,666,628.79</b>	4,294,288
of which from securities transactions	<b>6,135,073,111.51</b>	1,838,226
of which from derivative products	<b>2,575,917,063.02</b>	980,973
of which from recognised interest and commission income	<b>667,259,576.93</b>	774,511
of which from receivables from participating interests and affiliated undertakings	<b>1,149,292,487.80</b>	477,895

## 13) Securitised liabilities

	31/12/2008	31/12/2007
Total:	<b>20,870,041,687.51</b>	20,164,139
of which consolidated loans and bank bonds	<b>25,435,491.96</b>	95,928
of which non-consolidated loans and bank bonds	<b>14,616,996,132.73</b>	14,141,567
of which mortgage bonds and local government bonds	<b>4,250,479,352.09</b>	1,623,580
of which certificates of deposit and commercial papers	<b>1,950,557,710.73</b>	4,127,245

## 14) Other liabilities

	31/12/2008	31/12/2007
Total:	<b>8,883,467,852.22</b>	3,528,610
of which from derivative products	<b>1,862,565,033.77</b>	949,172
of which from investment transactions	<b>6,205,954,765.37</b>	1,869,879
of which from interest and commission expenses	<b>523,328,454.02</b>	539,522

## 15) Provisions

	31/12/2008	31/12/2007
Provisions for pensions	<b>352,043,267.12</b>	360,729
Provisions for taxation	<b>9,783,195.03</b>	5,326
Risk provisions	<b>117,329,119.92</b>	79,770
Other provisions	<b>47,208,446.00</b>	90,182
<b>Total</b>	<b>526,364,028.07</b>	536,007

The decrease in the **provisions for pensions** during the reporting year of EUR 8,686,175.88 was mainly the result of changes to entitlements and parameters of the calculation method as described in section II.9 of these notes.

The **provisions for severance payments** were outsourced to the Sparkassen Versicherung Aktiengesellschaft in 2007.

## 16) Subordinated liabilities

Subordinated liabilities at 31 December 2008 totalled EUR 5,018,284,124.65 (prior year: EUR 4,451,709 thousand), of which EUR 1,037,840.74 was attributed to 14,281 GIRO CREDIT participating certificates issued in 1984 (participation rights pursuant to Article 174 AktG). The participating certificates securitise a share in profit and loss, but not in capital, and do not give the holder voting rights.

No subordinated issue taken by Erste Group Bank AG during the reporting year (including supplementary capital), was above the limit of 10 percent of total subordinated liabilities (EUR 501,828,412.47).

Movements in total subordinated liabilities were as follows:

Increase due to new issues	EUR 521,303,163.00
Decrease due to maturity	EUR 11,991,017.64
Decrease due to partial extinguishment	EUR 17,600,000.00
Book value reductions caused by valuation price fluctuations	EUR 74,862,869.63

At the balance sheet date, the bank held no own issues from subordinated liabilities that were not admitted for listing on stock exchanges.

In 2008, Erste Group Bank AG expenses for subordinated liabilities and supplementary capital was EUR 233,351,978.48 (prior year: EUR 212,711 thousand).

The term "subordinated" is defined in Article 45 para. 4 and Article 51 para. 9 BWG.

#### 17) Subscribed capital

Subscribed capital was EUR 634,025,526.00 at 31 December 2008 (prior year: EUR 632,578 thousand). Share capital at 31 December 2008 was represented by 317,012,763 voting bearer shares (ordinary shares).

#### Capital increases in 2008

Under the **MSOP 2002** programme, 19,179 options were exercised in the April 2008 exercise window, resulting in the subscription for 76,716 bearer shares at an issue price of EUR 16.50. This generated issue proceeds of EUR 1,265,814.00, plus EUR 1,154,636.00 from the difference between the issue price of EUR 16.50 and the price on the value date of 27 May 2008 of EUR 46.60 for 38,360 shares subscribed by Erste Group Bank AG employees (still Erste Bank der österreichischen Sparkassen AG at the time of issue), which was passed to the account of income statement position 8a (staff costs). The resulting total amount was EUR 2,420,450.00, of which EUR 153,432.00 subscribed capital and EUR 2,267,018.00 to the committed capital reserve. Of the second tranche, 12,922 options were exercised (8,600 by managers and 4,322 by other staff). Of the third tranche, 6,257 options were exercised (1,000 by board members, 2,580 by managers and 2,677 by other employees). The difference between the exercise price (EUR 16.50) and the closing price of the Erste Group Bank AG shares at the value date (EUR 46.60) was EUR 30.10.

The exercise price of the individual options (the average of all closing prices in March 2002, rounded down to the nearest half euro) was EUR 66.00; taking account of the four-for-one stock split carried out since then, this gives a value of EUR 16.50 per share. The estimated value of the individual options at the balance sheet date of 31 December 2008 was EUR 2.52 for options vested in 2004.

Under the **MSOP 2005** programme, **in the first exercise window** (May 2008), 2,098 options were exercised. Thus 2,098 bearer shares were issued, at a price of EUR 43.00. This generated issue proceeds of EUR 90,214.00, plus EUR 1,360.80 from the difference between the issue price of EUR 43.00 and the price on the value date of 27 May 2008 of EUR 46.60 for 378 shares subscribed by Erste Group Bank AG employees, passed to the account of income statement position 8a (staff costs). The resulting total amount was EUR 91,574.80, of which EUR 4,196.00 was allocated to subscribed capital and EUR 87,378.80 to the committed capital reserve. The difference between the exercise price (EUR 43.00) and the closing price of the Erste Group Bank AG shares at the value date (EUR 46.60) was EUR 3.60.

**In the second exercise window** (August 2008), 900 options were exercised, resulting in the subscription of 900 bearer shares at an issue price of EUR 43.00. This generated issue proceeds of EUR 38,700.00, of which EUR 1,800.00 were allocated to subscribed capital and EUR 36,900.00 to the committed capital reserve. The difference between the exercise price (EUR 43.00) and the closing price of the Erste Group Bank AG shares at the value date (EUR 40.98) was EUR 2.02, negative.

All 2,998 options exercised in fiscal year 2008 under the MSOP 2005 programme represented the first tranche. Of these, 2,150 were exercised by managers, and 848 by other employees. The estimated value of the individual options at the balance sheet date of 31 December 2008 was EUR 1.78 for options vested in 2005, EUR 3.06 for options vested in 2006 and EUR 4.09 for options vested in 2007.

Under the **ESOP 2008** programme, between 5 and 16 May 2008, a total of 644,104 shares were subscribed, at a price of EUR 34.50. This generated issue proceeds of EUR 22,221,588.00 plus EUR 1,798,689.20 from the difference between the issue price of EUR 34.50 and the price on the value date of 27 May 2008 of EUR 46.60 for 148,652 shares subscribed by Erste Group Bank AG employees (still Erste Bank der österreichischen Sparkassen AG at the time of issue), passed to the account of income statement position 8a (staff costs). The resulting total amount was EUR 24,020,277.20, of which EUR 1,288,208.00 was allocated to subscribed capital and EUR 22,732,069.20 to the committed capital reserve.

Under the ESOP 2008 programme, share subscriptions of board members were as follows:

Andreas Treichl	200 shares
Johannes Kinsky	200 shares

## 18) Employee share ownership programme and management share option programme:

**MSOP 2002:** The MSOP comprises a maximum of 4,400,000 ordinary shares of Erste Bank after the stock split, represented by 1,100,000 options. The tables below show the amounts of vested options distributed to Management Board members, managers and other eligible staff of Erste Group Bank AG.

**Conditions:** each of the options, which are granted free of charge, entitles the holder to subscribe for four shares; the transfer of options inter vivos is not permitted. The options granted in 2002 vest in three tranches, at which time they are credited to recipients' accounts: for the Management Board and other managers, on 24 April 2002, 1 April 2003 and 1 April 2004; for other key staff, on 1 June 2002, 1 June 2003 and 1 June 2004. The exercise price for all three tranches was fixed at the average market price of Erste Group Bank AG shares quoted in March 2002 (rounded down to the nearest half euro), which was EUR 66.00 per share. After the stock split performed in July 2004, the exercise price remains unchanged at EUR 66.00. This means that each option confers the right to purchase four shares of Erste Group Bank AG for a total of EUR 66.00, corresponding to a purchase price of EUR 16.50 per share. The option term begins when the options are credited to the option account (i.e. at vesting) and ends on the value date of the exercise window (defined below) of the fifth calendar year after vesting. Every year, declarations to exercise may be submitted beginning on the day after publication of the preliminary consolidated net profit for the most recent completed financial year, but no earlier than 1 April and no later than 30 April: this period represents the exercise window. It is followed by the one-year holding period, which ends on the value date of the year following exercise of the option. Up to 15% of the purchased shares may be sold during this holding period. A total of 20,350 options were derecognised as worthless as follows: in 2007, 7,901 of options vested in fiscal year 2002; in 2008, 12,449 of the options vested in fiscal year 2003.

**MSOP 2005:** The MSOP programme comprises a maximum of 2,000,000 ordinary shares of Erste Bank, represented by 2,000,000 options. The tables below show the amounts of vested options distributed to Management Board members, managers and other eligible staff of Erste Group Bank AG.

**Conditions:** each of the options, which are granted free of charge, entitles the holder to subscribe to one share; the transfer of options inter vivos is not permitted. The 2005 options were vested on the following dates: for the Management Board and other eligible managers: 1 June 2005; for other key personnel, options were vested in three tranches: on 1 September 2005, 1 September 2006 and 31 August 2007. The options vested in three tranches, at which time they were credited to recipients' accounts: 1 September 2005, 1 September 2006 and 31 August 2008. The exercise price for all three tranches was set at the average market price of Erste Group Bank AG shares quoted in April 2005 plus a 10% premium, rounded down to the nearest half euro. The resulting exercise price was EUR 43.00 per share. The option term begins at the grant date and ends on the value date of the last exercise window of the fifth calendar year after the year in which the option was vested. Every year, notices of intention to exercise may be submitted within 14 days of the day of publication of the quarterly results for the first, second and third quarter of each financial year (three exercise windows per year). The holding period runs for one year from the value date of the share purchase. Up to 25% of the purchased shares may be sold during this holding period.

The breakdown of the **MSOP 2002** options credited and exercised by the balance sheet date was as follows:

	credited	exercised	not yet exercised	expired 2008
Andreas Treichl	12,000	12,000	0	0
Franz Hochstrasser	12,000	12,000	0	0
Bernhard Spalt	3,000	3,000	0	0
Herbert Juranek	3,000	3,000	0	0
Peter Kisbenedek until 30/06/2008	6,000	6,000	0	0
Manfred Wimmer since 01/09/2008	3,000	3,000	0	0
<b>Total received by Management Board members:</b>	<b>39,000</b>	<b>39,000</b>	<b>0</b>	<b>0</b>
Other management	578,200	552,975	15,525	9,700
Other employees	294,914	275,342	8,922	10,650
<b>Total options:</b>	<b>912,114</b>	<b>867,317</b>	<b>24,447</b>	<b>20,350</b>

The breakdown of the **MSOP 2005** options granted, vested and exercised was as follows:

	granted	credited	exercised	not yet exercised
Andreas Treichl	9,000	9,000	3,000	6,000
Franz Hochstrasser	9,000	9,000	3,000	6,000
Bernhard Spalt	5,000	5,000	0	5,000
Herbert Juranek	5,000	5,000	0	5,000
Peter Kisbenedek until 30/06/2008	9,000	9,000	3,000	6,000
Johannes Kinsky	3,000	3,000	0	3,000
Manfred Wimmer since 01/09/2008	3,000	3,000	0	3,000
<b>Total received by Management Board members:</b>	<b>43,000</b>	<b>43,000</b>	<b>9,000</b>	<b>34,000</b>
Other management	729,500	729,500	127,610	601,890
Other employees	686,741	686,741	99,572	587,169
<b>Total options</b>	<b>1,459,241</b>	<b>1,459,241</b>	<b>236,182</b>	<b>1,223,059</b>

#### **19) Authorised but unissued capital and conditional capital and participation capital remaining at 31 December 2008:**

Conditional capital after utilisation in fiscal years 2002 to 2008 pursuant to clause 6.10 of the articles of association was EUR 4,830,506.00. This may be utilised by issuing up to 2,415,253 bearer or registered shares at an issue price of at least EUR 2.00 (payable in cash) while excluding the subscription rights of the existing shareholders.

Under clause 7 of the articles of association, the Management Board is authorised, subject to approval of the Supervisory Board, to carry out a conditional capital increase of up to EUR 20,000,000.00 by issuing up to 10,000,000 ordinary bearer or registered shares at a minimum issue price of EUR 2.00 per share (payable in cash) while excluding the subscription rights of the existing shareholders. This authorisation is valid until 5 July 2011. This conditional capital is used to grant share options to employees, managers and members of the Management Board of the company or of an affiliated undertaking.

The extraordinary Annual General Shareholders' Meeting of 2 December 2008 authorised the Management Board, subject to approval of the Supervisory Board, to increase participation capital pursuant to Article 23 para. 4 BWG by issuing participation certificates without subsequent payment obligation for dividends with the allocation of publicly tradable subscription rights to shareholders, of a total of EUR 2,700,000,000. The conditions both of the issue and of the participation certificates are to be determined by the Management Board and require the approval of the Supervisory Board. This authorisation is effective for five years after the date of decision.

#### **20) Majority shareholder**

At 31 December 2008, the foundation DIE ERSTE oesterreichische Spar-Casse Privatstiftung (hereinafter referred to as "Privatstiftung") held a direct participating interest of approximately 30.12% in Erste Group Bank AG. This makes the foundation the biggest sole investor in Erste Group Bank AG.

The Privatstiftung received a dividend of EUR 73,694,275.50 on its stake in Erste Group Bank AG in 2008 (for fiscal year 2007). The purpose of the foundation, to be achieved notably by way of the participating interest in Erste Bank AG, is to support social, scientific, cultural and charitable institutions as well as to generally promote the guiding principles of the savings bank philosophy. At 31 December 2008 the members of the Privatstiftung's Management Board were Andreas Treichl (Chairman of the Management Board of Erste Group Bank AG), Dietrich Karner, Richard Wolf and Boris Marte. The Privatstiftung's Supervisory Board had ten members at the end of 2008, three of whom were also members of the Supervisory Board of Erste Group Bank AG.

Under clause 15.1 of the articles of association, for the duration of its assumption of liability for all current and future debts in the event of their default on payment, DIE ERSTE oesterreichische Spar-Casse Privatstiftung is entitled, pursuant to Article 92 para. 9 BWG, to delegate up to one-third of the Supervisory Board members to be elected at the Annual General Shareholders' Meeting. Until now, the foundation has not exercised its right to send members of its Supervisory Board on secondment.

Clause 15.4 of the articles of association contains a provision relating to the appointment and withdrawal of members of the Management Board and Supervisory Board that does not follow directly from statutory law. Under this clause, the withdrawal of Supervisory Board members requires a majority of three-quarters of the valid votes cast and a majority of three-quarters of the subscribed capital represented at the meeting considering the resolution.

The articles of association contain no restrictions in respect of voting rights or the transfer of shares. The Management Board has no knowledge of limitations agreed among partners. The sole exception is the lockup period of one year in connection with the employee share ownership programmes (MSOP and ESOP).

Clause 19.9 of the articles of association (amendments to the articles of association) contains a provision that does not follow directly from statutory law: amendments of the articles of association, in so far as they do not alter the purpose of the company, may be passed with simple majority of votes cast and simple majority of the subscribed capital represented at the meeting considering the amendment. Where higher majority votes are required in individual provisions of the articles of association, these provisions can only be amended with the same higher majority vote. Furthermore, clause 19.9 of the articles of association can only be amended with a majority of three-quarters of votes cast and with a majority of three-quarters of the subscribed capital represented at the meeting considering the resolution.

## **21) Reserves**

### **a) Changes in the capital reserve:**

The capital reserve at 31 December 2008 totalled EUR 4,776,003,000.00 (prior year: EUR 4,630,879 thousand). The increase in the capital reserve of EUR 145,124,000.00 was the result of the capital increases described in section III.17 of these notes (EUR 25,123,366.00) and in the amount of EUR 120,000,000.00 the result of changes in connection with the demerger of the Erste Bank der österreichischen Sparkassen AG.

During the reporting year, EUR 260,000,000.00 was transferred from the committed capital reserve to the uncommitted capital reserve. This amount was equal to the net assets of the de-merged Business Division Austria, as disclosed in the item "committed capital reserve" of the demerger balance sheet of 31 December 2007.

### **b) Changes in retained earnings:**

Retained earnings in the reporting year decreased from EUR 1,000,046,000.00 to EUR 913,443,178.92. This decrease was the result of a partial release of EUR 49,822,821.08 of uncommitted reserves, and a partial reversal of the reserve for own shares of EUR 36,780,000.00.

### **c) Changes in the liability reserve:**

EUR 120,000,000.00 was transferred from the liability reserve to Erste Bank der österreichischen Sparkassen AG as part of the demerger. At the balance sheet date there was an additional reserve requirement of EUR 46,000,000.00. Thus, on 31 December 2008, the total liability reserve was EUR 780,000,000.00.

### **d) Changes in untaxed reserves**

The reduction in untaxed reserves to EUR 12,471,000.00 (prior year: EUR 13,130 thousand) was the result of the reversal of valuation reserves due to special depreciation pursuant to Article 12 of the Austrian Income Tax Act of 1988 (EStG).



## 22) Own supplementary capital

At the balance sheet date for 2008, Erste Group Bank AG held supplementary capital issued by itself of a carrying value of EUR 10,044,865.03 (prior year: EUR 13,592 thousand).

## 23) Own subordinated capital

At the balance sheet date for 2008, Erste Group Bank AG held subordinated capital issued by itself with a carrying value of EUR 4,296,663.42 (prior year: EUR 2,336 thousand).

## 24) Own shares

### Treasury shares held by Erste Bank

	no. of shares	par Value (EUR)
Portfolio at 1 January 2008	882,422	1,764,844
Total additions	23,755,066	47,540,132
Total reductions	24,266,023	48,532,046
Portfolio at 31 December 2008	371,485	742,970
Highest level of treasury shares held	1,006,249	2,012,498

## 25) Own funds

Since 1 January 2007, Erste Group Bank AG has applied the Basel II solvency rules. The advanced IRB (internal-rating-based) approach is used for the retail business; in the corporate business, for sovereigns and in interbank business the basic approach based on the internal rating system is used. In addition, some asset categories will be measured according to the standardised approach in accordance with statutory transition regulations.

### a) Assessment base pursuant to Article 22 para. 2 BWG

	unweighted	weighted
Assessment base as per standardised approach	31,628,742,603.68	17,930,585,473.64
Internal Ratings Based (IRB) approach	49,367,547,229.58	13,776,389,959.76
<b>Credit risk assessment base by exposure class at 31 December 2008 according to Basel II rules:</b>	<b>80,996,289,833.26</b>	<b>31,706,975,433.40</b>
Assessment base as at 31 December 2007 according to Basel II rules:	92,094,917,720.18	37,078,077,048.27

**b) Minimum capital requirement pursuant to Article 22 para. 1 BWG**

	31/12/2008	31/12/2007
1. Minimum capital requirement for credit risk pursuant to Articles 22a–h BWG	2,536,558,034.67	2,966,246
a) Standardised approach	1,434,446,837.89	1,622,740
b) Internal Ratings Based (IRB) approach	1,102,111,196.78	1,343,506
2. Settlement risk	13,000.00	57
3. Minimum capital requirement for position risk	573,398,000.00	451,519
4. Minimum capital requirement for operational risk	194,986,268.62	193,648
5. Minimum qualifying capital requirement due to adoption of Basel II rules	285,406,596.71	0
6. Minimum capital requirement for qualified non-financial investments	0.00	0
<b>Total minimum capital requirement</b>	<b>3,590,361,900.00</b>	<b>3,611,470</b>

**c) Own funds pursuant to Article 23 BWG**

	31/12/2008	31/12/2007
Core (Tier 1) capital		
Paid-up capital	634,025,526.00	632,578
Less: treasury shares	-6,018,057.00	-42,798
Disclosed reserves	6,481,917,178.92	6,498,055
Less: intangible assets	-35,852,663.23	-62,063
<b>Core (Tier 1) capital pursuant to Article 23 para. 4 no. 1 BWG (prior to deductions)</b>	<b>7,074,071,984.69</b>	<b>7,025,772</b>
Supplementary qualifying (Tier 2) capital		
Supplementary capital	1,008,006,372.28	979,077
Revaluation reserves	54,232,993.41	229,800
Excess loan loss provision for IRB items		101,078
Subordinated capital	2,202,675,773.96	1,866,770
<b>Supplementary qualifying (Tier 2) capital before deductions</b>	<b>3,264,915,139.65</b>	<b>3,176,725</b>
Eligible short-term subordinated (Tier 3) capital		
Rededication of own-fund components no longer eligible	327,023,833.39	183,821
<b>Eligible short-term subordinated (Tier 3) capital</b>	<b>327,023,833.39</b>	<b>183,821</b>
Deductions from core (Tier 1) capital pursuant to Article 23 para. 13 nos. 3 and 4 BWG	-153,944,505.20	-123,537
Deductions from own funds pursuant to Article 23 para. 13 nos. 3 and 4 BWG	-153,944,505.19	-123,537
Deductions from own funds pursuant to Article 23 para. 13 no. 4a BWG	-143,976,771.35	-66,754
Deductions from core (Tier 1) capital pursuant to Article 23 para. 13 no. 4c BWG	-1,758,977.82	
Deductions from own funds pursuant to Article 23 para. 13 no. 4c BWG	-1,758,977.82	
Deductions from core (Tier 1) capital pursuant to Article 23 para. 13 no. 4d BWG	-11,377.14	
Deductions from own funds pursuant to Article 23 para. 13 no. 4d BWG	-11,377.14	
<b>Eligible capital pursuant to Article 23 BWG</b>	<b>10,210,604,466.07</b>	<b>10,072,490</b>
<b>Required own funds</b>	<b>3,590,361,900.00</b>	<b>3,611,470</b>
<b>Qualifying capital surplus</b>	<b>6,620,242,566.07</b>	<b>6,461,020</b>
<b>Coverage ratio</b>	<b>284.4%</b>	<b>278.9%</b>
<b>Solvency ratio (1), in relation to credit risk</b>	<b>28.9%</b>	<b>25.4%</b>
<b>of which core (Tier 1) ratio (2), in relation to credit risk</b>	<b>21.8%</b>	<b>18.6%</b>

- (1) Total eligible capital pursuant to Article 23 BWG less risk requirements other than for capital risk (settlement risk, operational risk and position risk for trading book and foreign currencies) in relation to the assessment base for credit risk pursuant to Article 22 para. 2 BWG
- (2) Core (Tier 1) capital after deductions relative to the credit risk assessment base pursuant to Article 22 para. 2 BWG.

**26) List of assets pledged as collateral for liabilities pursuant to Article 64 para. 1 no. 8 BWG**

Assets	31 December 2008	pledged as collateral for liabilities related to the following transactions
Fixed interest securities	39,280,960.00	Collateral for the benefit of Oesterr. Kontrollbank AG
	52,180,000.00	Collateral for intraday business
		Collateral for loans to companies of the Erste Group Bank AG
Group:		
	49,250,000.00	of Slovenská Sporitelna a.s.
	18,715,000.00	of Česká Sporitelna a.s.
	29,723,189.17	Premium reserve for funded Erste Group Bank AG bonds
	4.250,000.00	Collateral for other liabilities
	4,313,302,431.00	Collateral for ECB account
	347,874,927.76	Margin requirements
	466,729,865.87	Premium reserve for municipal bonds
	50,656,341.47	Premium reserve for mortgage bonds
Loans and advances to customers	48,073,079.80	Premium reserve for funded Erste Group Bank AG bonds
	24,405,302.00	Premium reserve for mortgage and municipal bonds
Loans and advances to credit institutions	206,356,889.40	Collateral for loans of Erste & Steiermärkische Bank d.d to companies of the Erste Group Bank AG Group
	858,231,530.00	Collateral for other liabilities
	20,564,274.24	Margin requirements
Other assets	2,625,548,814.10	Collateral for ECB account

27) Total volume of unsettled derivatives

as of 31/12/2008		Par value by remaining maturity			
		< 1 year	1-5 years	> 5 years	total
<b>INTEREST RATE CONTRACTS</b>		<b>396,400,900,446.70</b>	<b>153,707,587,512.28</b>	<b>85,690,292,954.26</b>	<b>635,798,780,913.25</b>
<u>OTC products:</u>					
Interest rate options	purchase	28,098,678,699.67	29,083,512,947.93	10,471,593,504.52	67,653,785,152.12
	sale	22,867,155,376.27	29,245,055,241.53	9,751,051,972.43	61,863,262,590.23
Interest rate swaps	purchase	138,130,068,383.75	47,745,716,626.28	34,414,944,567.08	220,290,729,577.11
	sale	147,550,013,320.61	42,717,372,447.38	30,107,626,546.17	22,375,012,314.16
FRAs	purchase	28,839,307,748.52	1,939,459,893.09	0.0	30,778,767,641.61
	sale	22,062,321,968.99	2,256,883,005.90	0.0	24,319,204,974.90
<u>Listed products:</u>					
Futures		1,087,418,265.44	663,000,000.00	242,277,818.50	1,992,696,083.94
Interest rate options		7,765,936,683.45	56,587,35.17	702,798,545.56	8,525,322,579.18
<b>CURRENCY CONTRACTS</b>		<b>137,824,035,552.18</b>	<b>18,989,117,282.48</b>	<b>766,079,241.41</b>	<b>157,579,232,076.07</b>
<u>OTC products:</u>					
Currency options	purchase	12,379,711,698.99	6,312,622,570.39	4,520,847.46	18,696,855,116.84
	sale	12,604,148,594.16	5,817,005,784.89	11,546,770.69	18,432,701,149.74
Currency swaps	purchase	56,477,547,206.34	3,246,956,546.74	540,510,371.85	60,265,014,124.93
	sale	56,335,114,603.39	3,612,532,380.46	209,501,251.41	60,157,148,235.26
<u>Listed products:</u>					
Futures		27,513,449.30	0.00	0.00	27,513,449.30
Currency options		0.00	0.00	0.00	0.00
<b>PRECIOUS METAL CONTRACTS</b>		<b>29,507,234.20</b>	<b>0.00</b>	<b>0.00</b>	<b>29,507,234.20</b>
<u>OTC products:</u>					
Precious metal options	purchase	646,691.10	0.00	0.00	646,691.10
	sale	1,482,350.00	0.00	0.00	1,482,350.00
Precious metal swaps	purchase	14,634,276.80	0.00	0.00	14,634,276.80
	sale	12,644,307.91	0.00	0.00	12,644,307.91
<u>Listed products:</u>					
Futures		99,608.39	0.00	0.00	99,608.39
Precious metal options		0.00	0.00	0.00	0.00
<b>SECURITIES-RELATED TRANSACTIONS</b>		<b>890,708,751.15</b>	<b>1,144,435,944.15</b>	<b>1,369,420,662.23</b>	<b>3,404,565,357.53</b>
<u>OTC products:</u>					
Share options	purchase	0.00	0.00	0.00	0.00
	sale	0.00	0.00	0.00	0.00
<u>Listed products:</u>					
Futures		175,743,229.90	185,974.00	0.00	175,929,203.90
Share options		714,965,521.25	1,144,249,970.15	1,369,420,662.23	3,228,636,153.63
<b>CREDIT DERIVATIVE CONTRACTS</b>		<b>802,788,008.63</b>	<b>4,519,519,178.18</b>	<b>3,313,905,475.42</b>	<b>8,636,212,662.23</b>
<u>OTC products:</u>					
Credit default swaps	purchase	118,786,863.51	1,027,992,872.11	398,619,278.59	1,545,399,014.21
	sale	684,001,145.12	3,491,526,306.07	2,915,286,196.83	7,090,813,648.02
<b>TOTAL</b>		<b>535,947,939,992.86</b>	<b>178,360,659,917.09</b>	<b>91,139,698,333.32</b>	<b>805,448,298,243.28</b>
of which OTC products		526,176,263,235.13	176,496,636,622.77	88,825,201,307.03	791,498,101,164.94
of which listed products		9,771,676,757.73	1,864,023,294.32	2,314,497,026.29	13,950,197,078.34

28) Derivative financial instruments and fixed-asset financial instruments pursuant to the Fair-Value Valuation Act

<b>Derivative financial instruments</b>					
<b>as of 31/12/2008</b>	<b>Nominal value purchase</b>	<b>Nominal value sale</b>	<b>Carrying value</b>	<b>Positive fair value</b>	<b>Negative fair value</b>
<b>Interest rate contracts</b>					
OTC products					
Interest rate options	67,653,785,152.12	61,863,262,590.23	12,034,670.75	1,777,505,340.10	-2,041,779,724.25
Interest rate swaps	220,290,729,577.11	220,375,012,314.16	278,824,614.28	50,047,517,664.25	-49,441,418,246.70
FRAs	30,778,767,641.60	24,319,204,974.89	-13,289,419.62	75,131,013.06	-88,420,432.68
Listed products					
Futures	1,403,809,132.72	588,886,951.22			
Interest rate options	3,866,579,242.21	4,658,743,336.97	-6,288.95	0.00	-6,288.95
<b>Currency contracts</b>					
OTC products					
Currency options	18,696,855,116.84	18,432,701,149.74	-29,988,382.81	3,271,708,443.17	-3,301,819,919.39
Currency swaps	60,235,072,396.76	60,127,206,184.02	41,049,044.31	1,775,342,226.52	-1,643,722,300.05
Listed products					
Futures	4,396,919.24	23,116,530.06			
Currency options	0.00	0.00	0.00	0.00	0.00
<b>Securities-related contracts</b>					
OTC products					
Share options	0.00	0.00	54,815,840.06	59,761,110.67	-4,972,999.02
Listed products					
Futures	122,258,503.20	49,107,564.28			
Share options	1,983,674,507.63	1,125,734,517.98	206,113.27	2,059,380.80	-1,853,267.53
<b>Precious metal contracts</b>					
OTC products					
Precious metal options	646,691.10	1,482,350.00	0,00	2,877,982.60	-2,877,982.60
Precious metal swaps	14,634,276.80	12,644,307.91	1,990,454.90	4,099,932.08	-2,109,477.18
Listed products					
Futures	99,608.39	0.00			
Precious metal options	0.00	0.00	34,465.19	38,970.00	-4,504.81
<b>Commodity and other contracts</b>					
OTC products					
Commodity options	0.00	0.00	-27,728.41	0.00	0.00
Commodity swaps	29,941,728.17	29,942,051.24	613,993.36	7,558,471.21	-6,944,477.87
Listed products					
Futures	4,471,241.62	91,894.80			
Commodity options	61,973,539.18	57,253,588.84	611,656.10	611,656.10	0.00
<b>Credit derivative contracts</b>					
OTC products					
Credit derivative options	0.00	0.00	0.00	0.00	0.00
Credit derivative swaps	1,545,399,014.21	7,090,813,648.02	58,769,526.67	196,044,127.94	-535,885,001.06
OTC products	399,245,831,594.71	392,252,269,570.21	404,792,613.47	57,217,546,311.59	-57,069,950,560.81
Listed products	7,447,262,694.19	6,502,934,384.15	845,945.61	2,710,006.90	-1,864,061.29
<b>Total</b>	<b>406,693,094,288.90</b>	<b>398,755,203,954.36</b>	<b>405,638,559.08</b>	<b>57,220,256,318.49</b>	<b>-57,071,814,622.10</b>

## Financial instrument fixed assets

as of 31/12/2008	Carrying value	Fair value	Hidden liabilities	Hidden reserves
Treasury bills	552,087,284.70	523,079,704.60	29,007,580.10	
	392,445,051.20	400,011,372.60		7,566,321.40
Loans and advances to credit institutions	1,874,714,633.40	1,826,499,459.30	48,215,174.20	
	258,781,849.50	261,214,811.00		2,432,961.40
Loans and advances to customers	2,348,639,423.80	1,934,048,823.7	414,590,600.10	
	91,477,737.30	93,723,145.90		2,245,408.60
Debt securities	3,352,690,196.00	2,643,151,380.50	709,538,815.40	
	692,915,049.50	698,723,201.80		5,808,152.30
Shares	97,638,050.20	91,426,618.60	6,211,431.60	
	179,621,232.80	184,537,622.00		4,916,389.30
<b>Total</b>	<b>8,225,769,588.10</b>	<b>7,018,205,986.70</b>	<b>1,207,563,601.40</b>	
	<b>1,615,240,920.30</b>	<b>1,638,210,153.30</b>		<b>22,969,233.00</b>

Where an asset is impaired and not written off the impairment is presumed to be impermanent. The fair value is the amount that could be attained in an active market through the sale of a financial instrument, or correspondingly the amount that would be payable for its purchase. Market prices were used where available. Where no market price was available, valuation models were used, particularly the discounted cash flow method.

## 29) Risk provisions

### Changes in risk provisions (loans and advances to credit institutions and loans and advances to customers as well as contingent liabilities)

	2008	2007
At the start of the year:	<b>706,007,027.94</b>	719,552
Less: demerger Erste Bank der österreichischen Sparkassen AG	<b>639,373,695.74</b>	
Less: utilised	<b>858,875.86</b>	-86,298
Less: releases	<b>27,322,121.77</b>	-92,132
Plus: additions	<b>150,458,241.36</b>	171,758
Plus: transfer	<b>110,931,889.14</b>	
Currency fluctuations, transfers and changes in the provisions for interest receivables counted towards interest income	<b>1,108,146.50</b>	-6,873
At end of year:	<b>300,950,611.57</b>	706,007

#### IV. Notes on the profit & loss account:

(Unless noted otherwise, amounts for the reporting year are stated in Euros, for the previous year in '000 Euros).

1) Profits of affiliated undertakings (subsidiaries that are considered a tax group with Erste Group Bank AG under the group taxation regulations of 2005), which were posted in the income statement of Erste Group Bank AG under **income from participating interests and shares in affiliated undertakings**, reached a value of EUR 350,418,061.65 (prior year: EUR 117,628 thousand). During the reporting year, there were no depreciation requirements, nor other expenses for group members (prior year: EUR 588 thousand) nor profits from sales (prior year: EUR 988 thousand)

2) The breakdown by region (according to the location of entities) of **gross income** of Erste Group Bank AG was as follows:

	Domestic	International	2008 total	Domestic	International	2007 total
Interest receivable and similar income	2,176,653,222.71	387,978,405.51	2,564,631,628.22	2,663,815	699,581	3,363,396
Income from securities and participating interests	1,191,694,467.48	267,198.51	1,191,961,666.02	512,928	271	513,199
Commissions receivable	251,886,511.18	20,630,470.52	272,516,981.70	457,509	10,499	468,008
Income from financial operations	0.00	1,609,113.70	1,609,113.70	97,749	457	98,206
Other operating income	7,063,721.77	238,462.34	7,302,184.11	4,662	303	4,965
<b>Total</b>	<b>3,627,297,923.17</b>	<b>410,723,650.58</b>	<b>4,038,021,573.75</b>	<b>3,736,663</b>	<b>711,112</b>	<b>4,447,774</b>

3) Commissions receivable included income of EUR 20,126,581.50 (prior year: EUR 73,331 thousand) from **administrative and agency services** on behalf of third parties.

4) **Other operating income** of EUR 7,302,184.11 (prior year: EUR 4,965 thousand) included income from the sale of assets and rental income.

5) Staff costs included **expenses for severance payments and payments to severance-payment funds** of EUR 8,167,932.37 (prior year: EUR 28,693 thousand), expenses for retirement benefits of EUR 40,754,166.14 (prior year: EUR 52,459 thousand) and allocations to the pension provision of 10,378,821.12 (prior year: 22,770 thousand). The expenses for the allocation to the pension provision were in part the result of changes in calculation parameters.

6) **Other operating expenses** of Erste Group Bank AG of EUR 939,952.53 (prior year: EUR 2,133 thousand) in general consisted of losses from sales of, and expenses for real estate purchased at auctions.

7) **Value adjustments in respect of transferable securities held as financial fixed assets, participating interests and shares in affiliated undertakings** included gains on the sale of the participations in the Austrian and Slovak life insurance companies of EUR 237,383,289.59 as well as write-offs for CE-banks in Rumania, Serbia and the Ukraine of EUR 588,281,565.89.

8) As in the prior year, the reported net amount of **extraordinary income** and **extraordinary expenses** of EUR -5,099,034.40 (prior year: EUR -11,758 thousand) was the result of expenses incurred to close the pension provision gap and the proportional amortisation of the difference from the transfer of pension expectancies for active employees to the pension fund, which was also reported as a deferred expense.

9) Under the item **taxes on profit or loss**, a tax income of EUR +27,190,704.81 (prior year: EUR +7,629 thousand) was reported.

Since 2005, Erste Group Bank AG and its main domestic subsidiaries have formed a tax group in accordance with Article 9 of the Austrian Corporate Tax Act ("Körperschaftsteuergesetz", KStG), with Erste Group Bank AG as the top-tier corporation ("Gruppenträger"). Group and tax equalisation agreements were concluded with all members of the group. Under these agreements, group members allocate amounts equivalent to the corporation tax amount on taxable profits to Erste Group Bank AG. Since tax losses from prior years are recorded and offset against their current tax liability by the group member companies themselves, there is no obligation to make tax allocation payments to Erste Group Bank AG. Moreover, Erste Group Bank AG undertakes to make compensatory payments for any tax losses utilised up to that point to group member companies leaving the

group. Future tax liabilities resulting from these constellations were deferred if their realisation was probable. Liabilities with a low probability of realisation were not deferred, as doing so would cause quasi-permanent deferrals.

Net income from taxes on profit or loss was EUR 67,840,877.43 (prior year: EUR 37,016 thousand) under the current tax allocation system pursuant to Article 9 KStG on group taxation. The principal expenses under this item are foreign income tax and other foreign income-related taxes of EUR 38,033,827.24.

## V. Information on board members and employees

### 1) Employees

The average number of employees at Erste Group Bank AG (weighted, excluding employees on leave and members of the Management Board) was 1,591 during fiscal year 2008 (prior year: 4,315).

Of these, 217 employees (prior year: 424) worked for other companies in exchange for reimbursed expenses. The total reimbursement was EUR 29,221,917.19 (prior year: EUR 36,848 thousand) and was recognised under general administrative expenses (staff costs) in the income statement.

### 2) Board members

At the end of 2008, loans and advances to members of the Management Board totalled EUR 881,543.95 (prior year: EUR 663 thousand). Loans to members of the Supervisory Board amounted to EUR 294,375.04 (prior year: EUR 362 thousand). The applicable interest rates and other terms (maturity dates and collateralisation) were in line with normal market practice. In the fiscal year ended 31 December 2008, members of the Management Board made loan repayments totalling EUR 489,396.58 (prior year: EUR 11 thousand), and members of the Supervisory Board made repayments of EUR 5,875.16 (prior year: EUR 400 thousand).

In 2008, the then members of the Management Board received cash and non-cash compensation in their capacity as Management Board members totalling EUR 10,802,810.97 (prior year: EUR 15,190 thousand). These payments also included severance payments of EUR 1,050,000.00.

The compensations of the members of the Management Board who took over management functions in Erste Bank der oesterreichischen Sparkassen AG after the demerger amount to EUR 3.5 millions.

In fiscal year 2008, EUR 1,559,052.00 (prior year: EUR 664 thousand) was paid to former members of the Management Board or their surviving dependants.

The breakdown of the compensation of the members of the Management Board in 2008 was as follows:

Management Board member:	Performance bonus for 2007	Base salary for 2008	Performance bonus for 2008	Other compensations	Total 2008 (incl. performance bonus for 2007)
Andreas Treichl	1,755,504.60	1,208,762.11	0	352,633.18	3,316,899.89
Franz Hochstrasser	1,261,000.00	608,761.99	0	143,533.18	2,013,295.17
Bernhard Spalt	483,000.00	608,761.99	0	61,829.06	1,153,591.05
Peter Kisbenedek until 30/06/2008	350,000.00	355,006.87	0	1,086,696.81	1,791,703.68
Johannes Kinsky until 29/06/2008 (†)	900,000.00	304,985.98	0	102,962.63	1,307,948.61
Herbert Juranek	300,000.00	608,761.99	0	60,712.16	969,474.15
Manfred Wimmer since 01/09/2008	0.00	202,503.43	0	47,394.99	249,898.97
	5,094,504.60	3,897,544.36	0	1,855,762.01	10,802,810.97



The performance bonus payments paid in 2008 relate to the results of 2007 (cash-ROE 14.6%, increase of group net profit by 26% to EUR 1,174.7 millions). For 2008 the Management Board waived the right for a performance bonus.

The item "other compensation" includes pension fund contributions and various types of non-cash compensation. Severance payments and payments in lieu of holiday pay during the reporting period were also included in other compensation. In 2008 the Management Board of Erste Group Bank AG did not receive board emoluments or other compensation from fully consolidated subsidiaries of Erste Group Bank AG. The compensation of the members of the Management Board was commensurate with the individual's responsibilities, the achievement of corporate targets and the group's financial situation.

The Supervisory Board members of Erste Group Bank AG were paid EUR 507,000.00 (prior year: EUR 490 thousand). Members of the Supervisory Board received the following compensation for board positions in fully consolidated subsidiaries of Erste Group Bank AG: Heinz Kessler EUR 39,351, Friedrich Rödler EUR 2,250, Werner Tessmar-Pfohl EUR 25,600, and Georg Winckler EUR 800.00. No other legal transactions were concluded with members of the Supervisory Board. The following amounts were invoiced for other legal transactions by companies related to members of the Supervisory Board: DORDA BRUGGER JORDIS Rechtsanwälte GmbH, with Theresa Jordis as one of its partners, invoiced Erste Group Bank a total of EUR 201,433.32 for several orders in 2008. Friedrich Rödler is Senior Partner of PricewaterhouseCoopers Österreich. Companies of that group invoiced Erste Group Bank a total of EUR 28,700.00 in 2008.

The breakdown of compensation paid to the individual members of the Supervisory Board was as follows:

Supervisory Board member:	Supervisory board compensation	Attendance fees	Total:
Heinz Kessler	50,000.00	16,500.00	66,500.00
Georg Winckler	37,500.00	15,000.00	52,500.00
Theresa Jordis	37,500.00	16,000.00	53,500.00
Bettina Breiteneder	25,000.00	10,000.00	35,000.00
Elisabeth Gürtler	25,000.00	7,500.00	32,500.00
Jan Homan	25,000.00	6,000.00	31,000.00
Brian D. O'Neill	14,583.00	0	14,583.00*)
Wilhelm Rasinger	25,000.00	11,500.00	36,500.00
Friedrich Rödler	25,000.00	16,000.00	41,000.00
Hubert Singer until 06/05/2008	25,000.00	500.00	25,500.00
Jack Stack	14,583.00	2,000.00	16,583.00
Werner Tessmar-Pfohl since 06/05/2008	0	2,000.00	2,000.00
Gabriele Zuna-Kratky	25,000.00	5,500.00	30,500.00
Josef Kassler – from 2007 activity	10,417.00	0	10,417.00
Lars-Olof Ödlund – from 2007 activity	10,417.00	0	10,417.00
Günter Benischek until 09/08/2008	0	4,000.00	4,000.00
Erika Hegmala until 09/08/2008	0	4,500.00	4,500.00
Ilse Fetik until 09/08/2008	0	2,500.00	2,500.00
Christian Havelka	0	10,500.00	10,500.00
Friedrich Lackner	0	9,500.00	9,500.00
Andreas Lachs	0	5,500.00	5,500.00
David Krieber from 17/01/2008 to 09/08/2008	0	1,500.00	1,500.00
Bertram Mach since 09/08/2008	0	4,500.00	4,500.00
Barbara Smrcka since 09/08/2008	0	2,000.00	2,000.00
Karin Zeisel until 17/01/2008 and since 09/08/2008	0	4,000.00	4,000.00

\*) Compensation was not paid

The compensation of Supervisory Board members was commensurate with their responsibilities, the business volume and the company's financial situation.

Pursuant to the decision at the Annual General Shareholders' Meeting of 6 May 2008, the Supervisory Board adopted the following wage schedule in its constituent meeting:

(EUR '000)	Number of persons	Compensation per person	Total compensation
President	1	50,000	50,000
Vice President	2	37,500	75,000
Members	9	25,000	225,000
<b>Total</b>	<b>12</b>		<b>350,000</b>

Information on Erste Group Bank AG securities held by Management Board and Supervisory Board members, as well as transactions carried out with Erste Group Bank AG shares (numbers of shares):

Members of the Management Board:

Management Board member:	as at 31/12/2007	additions 2008	disposals 2008	as at 31/12/2008
Andreas Treichl	167,440	17,200	0	184,640
Franz Hochstrasser	33,260*)	0	0	33,260
Bernhard Spalt	6,376	0	0	6,376
Johannes Kinsky until 29/06/2008	0	500	500	0
Peter Kisbenedek until 30/06/2008	3,400	0	3,400	0
Herbert Juranek	656	0	0	656
Manfred Wimmer since 01/09/2008	0	13,132	0	13,132

\*) In the notes 2007 37,256 shares have been reported for Franz Hochstrasser by error.

When Management Board members commenced or ended their period in office during the fiscal year, their existing shareholdings at the time of commencement or their existing shareholdings at the end of their period in office were either booked in or out as additions or reductions.

The breakdown of Supervisory Board members' holdings of Erste Group Bank AG shares at the balance sheet date of 31 December 2008 was as follows:

Supervisory Board member:	No. of shares
Georg Winckler	2,000
Bettina Breiteneder	2,560
Jan Homan	4,400
Wilhelm Rasinger	8,435
Theresa Jordis	2,900
Friedrich Rödler	849
Jack Stack	34,161
Werner Tessmar-Pfohl	1,268
Günter Benischek	1,527
Ilse Fetik	126
Erika Hegmala	150
Christian Havelka	1,410
David Kriber from 17/01 to 09/08/2008	314
Andreas Lachs since 09/08/2008	46
Friedrich Lackner	246
Bertram Mach since 09/08/2008	46
Barbara Smrcka since 09/08/2008	207
Karin Zeisel until 17/01/2008 and since 09/08/2008	35

At 31 December 2008, members of the Supervisory Board held 1,000 Erste Group Bank AG options. As far as can be determined, persons related to members of the Managing Board or Supervisory Board held 9,665 Erste Group Bank AG shares at 31 December 2008.

Expenses for severance payments, pension severance payments and pensions of Erste Group Bank AG have a bearing on the income statement items "wages and salaries", "expenses for retirement benefits", "allocation to/reversals of the pension provision", "expenses for severance payments and payments to severance-payment funds" and, as far as they pertain to pro rata catch-up requirements, "extraordinary expenses". Expenses for severance payments and pensions for members of the Management Board and managers pursuant to Article 80 para. 1 AktG amounted to EUR 7,334,604.00 (prior year: EUR 12,416 thousand). Expenses for severance payments and pensions for other employees amounted to EUR 52,356,458.00 (prior year: EUR 94,899 thousand). Each of the amounts indicated includes the required expenses for surviving dependants.

Information pursuant to Article 239 para. 2 UGB regarding members of the Management Board and Supervisory Board is disclosed separately in the attachment to the notes.

## VI. Proposed distribution of profit

Pursuant to Article 65 para. 5 Stock Corporation Act, the Management Board will propose at the Annual General Shareholders' Meeting that a dividend of EUR 0.65 per share will be paid out, resulting in a total dividend payment of EUR 206,058,295.95 equalling the net profit of 2008.

## Attachment to the Notes Executive bodies of Erste Group Bank AG

### *Supervisory Board*

**Heinz Kessler,**

President

Retired CEO

**Georg Winckler**

1<sup>st</sup> Vice President

Rector of the University of Vienna

Professor for Economics at the University of Vienna

**Theresa Jordis,**

2<sup>nd</sup> Vice President

Attorney at law

**Bettina Breiteneder**

Businesswoman

**Elisabeth Gürtler**

Businesswoman

**Jan Homan**

Chief Executive Officer of Teich AG

**Brian D. O'Neill**

Businessman

**Wilhelm Rasinger**

Businessman

**Friedrich Rödler**

Public accountant and tax consultant

**Hubert Singer**

**until 06/05/2008**

Chief Executive Officer of Dornbirner Sparkasse AG

**Jack Stack**

Businessman

**Werner Tessmar-Pfohl**

**since 06/05/2008**

Businessman

**Gabriele Zuna-Kratky**

Manager of Technisches Museum Wien

***Representatives of the Employees' Council:***

**Friedrich Lackner**

Chairman of the Employees' Council

**Bertram Mach**

Vice Chairman of the Employees' Council

**since 09/08/2008**

**Barbara Smrcka**

Vice Chairwoman of the Employees' Council

**since 09/08/2008**

**Karin Zeisel**

Vice Chairwoman of the Employees' Council

**until 17/01 and since 09/08/2008**

**Günter Benischek**

Chairman of the Central Employees' Council

**until 09/08/2008**

**Erika Hegmala**

Vice Chairwoman of the Central Employees' Council

**until 09/08/2008**

**Ilse Fetik**

Member of the Central Employees' Council

**until 09/08/2009**

**Christian Havelka**

Member of the Employees' Council

**Andreas Lachs**

Member of the Employees' Council

**since 09/08/2008**

**David Kriber**

Member of the Central Employees' Council

**since 17/01/2008 and until 09/08/2008**

***Representatives of the Supervisory Authority***

**Robert Spacek**

State Commissioner

**Dietmar Griebler**

Deputy State Commissioner

**Marcus Heinz**

State Controller for Premium Reserve

**Eduard Moser**

Deputy State Controller for Premium Reserve

**Irene Kienzl**

Trustee under Mortgage Bank Act

**Anton Rainer**

Deputy Trustee under Mortgage Bank Act

**Management Board**

**Andreas Treichl**

Chairman

**Elisabeth Bleyleben-Koren**

Deputy Chairwoman

**until 09/08/2008**

**Peter Bosek**

Member of the Management Board

**until 09/08/2008**

**Franz Hochstrasser**

Deputy Chairman

Member of the Management Board

**since 24/09/2008**

**Herbert Juranek**

Member of the Management Board

**Johannes Kinsky**

Member of the Management Board

**until 29/06/2008**

**Peter Kisbenedek**

Member of the Management Board

**until 30/06/2008**

**Bernhard Spalt**

Member of the Management Board

**Thomas Uher**

Member of the Management Board

**until 09/08/2008**

**Manfred Wimmer**

Member of the Management Board

**since 01/09/2008**

Statement of changes in fixed assets and long-term assets 2008

in EUR millions	At cost at 1 January 2008	Additions	Disposals	At cost at 31 December.2008	Write-ups (sec. 56 (3) BWG) Currency Translation	Accumulated depreciation 31 December 2008	Carrying amount 31 December 2008	Carrying amount 1 January 2008	Depreciation 2008
<b>1. Participating interests</b>	<b>590,155,362.71</b>	<b>95,811,536.25</b>	<b>20,047,688.88</b>	<b>266,568,780.81</b>	<b>0.00</b>	<b>3,209,971.45</b>	<b>263,358,809.36</b>	<b>564,301,399.59</b>	<b>537,000.00</b>
		<b>23,625,380.24 U</b>	<b>422,975,809.51 S</b>						
<b>2. Shares in affiliated undertakings</b>	<b>9,227,875,648.32</b>	<b>1,311,264,535.68</b>	<b>1,149,603,803.58</b>	<b>9,182,317,561.52</b>	<b>0.00</b>	<b>834,279,530.23</b>	<b>8,348,038,031.29</b>	<b>8,773,856,822.82</b>	<b>633,621,066.82</b>
			<b>183,593,438.66 S</b>						
			<b>23,625,380.24 U</b>						
<b>3. Intangible assets</b>									
Good-will	21,602,604.67	0.00	21,602,604.67	0.00	0.00	0.00	0.00	1,802,121.00	0.00
others	296,915,553.43	17,314,502.14	132,179,462.55	182,050,593.02	0.00	146,197,929.79	35,852,663.23	60,260,442.41	13,093,827.06
	<b>318,518,158.10</b>	<b>17,314,502.14</b>	<b>153,782,067.22</b>	<b>182,050,593.02</b>	<b>0.00</b>	<b>146,197,929.79</b>	<b>35,852,663.23</b>	<b>62,062,563.41</b>	<b>13,093,827.06</b>
<b>4. Tangible assets</b>	<b>345,706,609.10</b>	<b>3,825,125.42</b>	<b>162,331,314.97</b>	<b>187,200,419.55</b>	<b>0.00</b>	<b>143,212,169.82</b>	<b>43,988,249.73</b>	<b>77,147,629.80</b>	<b>5,588,662.44</b>
<b>5. Securities</b>									
Treasury bills and similar securities	3,091,800,895.30	304,177,250.46	2,437,152,312.29	958,825,833.47	1,840,925.24	12,541,694.49	948,125,064.22	3,036,738,628.18	7,241,796.95
Loans and advances to credit institutions	2,470,920,083.45	993,451,276.06	1,184,720,446.03	2,279,650,913.48	240,052.33	14,938,246.56	2,264,952,719.25	2,448,995,454.22	29,059.93
Loans and advances to customers	2,741,661,285.44	205,401,073.19	422,312,549.43	2,524,749,809.20	442,083.59	2,193,270.67	2,522,998,622.12	2,731,616,748.76	318,802.65
Debt securities incl. fixed-income securities	6,361,704,633.29	882,087,016.59	2,285,000,918.44	4,958,790,731.44	4,531,536.32	131,210,635.97	4,832,111,631.79	6,295,435,743.78	74,176,513.07
Shares and other variable-yield securities	337,452,119.13	4,051,286.21	63,942,593.23	277,560,812.11	134,411.74	435,940.87	277,259,282.98	337,064,808.71	123,780.31
	<b>15,003,539,016.61</b>	<b>2,389,167,902.51</b>	<b>6,393,128,819.42</b>	<b>10,999,578,099.70</b>	<b>7,189,009.22</b>	<b>161,319,788.56</b>	<b>10,845,447,320.36</b>	<b>14,849,851,383.65</b>	<b>81,889,952.91</b>
<b>Total</b>	<b>25,485,794,794.84</b>	<b>3,817,383,602.00</b>	<b>7,878,893,694.07</b>	<b>20,817,715,454.60</b>	<b>7,189,009.22</b>	<b>1,288,219,389.85</b>	<b>19,536,685,073.97</b>	<b>24,327,219,799.27</b>	<b>734,730,509.23</b>

S Demerger Erste Bank Österreich

U Transfer

## Holdings of Erste Group Bank AG as at 31 December 2008:

The figures are in accordance with IFRS; dividends received in the same year are deducted from equity capital.

Company name, domicile	Shares (%)	Equity capital (EUR)	Profit/Loss (EUR)	Balance sheet date
<b>1.) Banks</b>				
Banca Comerciala Romana SA, Bucharest	69.31	1,570,504,000.00	541,812,000.00	31/12/2008
Ceska sporitelna, a.s., Prague	97.99	1,855,615,000.00	626,800,000.00	31/12/2008
Erste & Steiermärkische bank d.d., Rijeka	65.35	674,443,000.00	112,433,000.00	31/12/2008
ERSTE BANK AD NOVI SAD, Novi Sad	80.50	117,439,000.00	8,232,000.00	31/12/2008
Erste Bank der oesterreichischen Sparkassen AG, Vienna	100.00	857,691,000.00	143,447,000.00	31/12/2008
Erste Bank Hungary Nyrt, Budapest	99.94	518,171,000.00	128,927,000.00	31/12/2008
Joint-Stock Company "Erste Bank", Kiev	100.00	123,631,000.00	-2,891,000.00	31/12/2008
Prvá stavebná sporitelna, a.s., Bratislava	35.00	260,529,940.91	26,233,933.08	31/12/2007
Slovenska sporitelna, a. s., Bratislava	100.00	736,680,000.00	136,862,000.00	31/12/2008
"Spar - Finanz" - Investitions- und Vermittlungs-Aktiengesellschaft, Vienna	50.00	3,768,015.26	146,024.30	31/12/2007
<b>2.) Financial institutions</b>				
ERSTE CARD CLUB d.d., Zagreb	69.25	39,702,000.00	13,426,000.00	31/12/2008
Erste Corporate Finance GmbH, Vienna	100.00	1,568,000.00	266,000.00	31/12/2008
ERSTE FACTORING d.o.o., Zagreb	84.70	7,404,000.00	5,950,000.00	31/12/2008
Erste Securities Zagreb d.o.o., Zagreb	83.02	1,768,000.00	-415,000.00	31/12/2008
IMMORENT Aktiengesellschaft, Vienna	100.00	329,205,000.00	125,616,000.00	31/12/2008
Synergy Capital a.d., Belgrade	75.00	1,478,000.00	-442,000.00	31/12/2008
<b>3.) Other holdings</b>				
Capexit Private Equity Invest AG, Vienna	100.00	8,047,000.00	-66,000.00	31/12/2008
EB-Malta-Beteiligungen Gesellschaft m.b.H., Vienna	100.00	140,282,000.00	13,777,000.00	31/12/2008
ecetra Internet Services AG, Vienna	100.00	20,656,000.00	809,000.00	31/12/2008
ECO Unternehmensbeteiligungs-GmbH, Vienna	100.00	11,786,000.00	158,000.00	31/12/2008
Erste Group Services GmbH, Vienna	100.00	10,000.00	-49,008,000.00	31/12/2008
Erste Bank Beteiligungen GmbH, Vienna	100.00	76,500,000.00	16,464,000.00	31/12/2008
Erste Reinsurance S.A., Howald	100.00	7,934,000.00	-4,848,000.00	31/12/2008
OM Objektmanagement GmbH, Vienna	100.00	79,657,000.00	2,294,000.00	31/12/2008
Österreichische Wertpapierdaten Service GmbH, Vienna	32.69	36,336.42	0.00	31/12/2007
s Haftungs- und Kundenabsicherungs GmbH, Vienna	68.23	223,000.00	0.00	31/12/2008
s IT Solutions SK, spol. s r.o., Bratislava	99.53	1,736,000.00	1,187,000.00	31/12/2008



Vienna, 10 March 2009

**Management Board**



**Andreas Treichl**  
Chairman



**Franz Hochstrasser**  
Deputy Chairman



**Herbert Juranek**  
Member of the Management Board



**Bernhard Spalt**  
Member of the Management Board



**Manfred Wimmer**  
Member of the Management Board

## Auditors' report

The long form report on the financial statements as of 31 December 2008 ends with the following unqualified auditor's report pursuant to section 274 UGB:

We have audited the financial statements, including the accounting records, of Erste Group Bank AG as of 31 December and for the year then ended. Erste Group Bank AG's management is responsible for the accounting records, the preparation and the content of the financial statements and the management report in accordance with Austrian company law, the supplementary provisions under Austrian banking law and the articles of incorporation. Our responsibility is to express an opinion on these financial statements based on our audit and to state whether the management report is in consistent with the financial statements.

We conducted our audit in accordance with laws and regulations applicable in Austria and in accordance with Austrian Standards on Auditing. These standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement and whether we can state that the management report is in consistent with the financial statements. In determining the audit procedures, we considered our knowledge of the business, the economic and legal environment that Erste Group Bank AG operates in as well as the risk of misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and other disclosures in the accounting records and in the financial statements predominantly on a sample basis. An audit also includes assessing the accounting principles used and significant estimates made by the management as well as evaluating the overall assertions of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Our audit did not give rise to any objections.

In our opinion based on the results of our audit the financial statements are in compliance with legal requirements under company law, the supplementary provisions under banking law and the articles of incorporation, and present fairly, in all material respects, the financial position and the results of operations of Erste Group Bank AG in consistent with Austrian accounting principles. The management report is in consistent with the financial statements.

Vienna, 10 March 2009

**Sparkassen-Prüfungsverband**  
(Prüfungsstelle)  
(Austrian Savings Bank Auditing Association)  
(Audit Agency)  
(Bank auditor)

Friedrich O. Hief mp  
Certified Accountant

Erich Kandler mp  
Certified Accountant

**Ernst & Young Wirtschaftsprüfungsgesellschaft m.b.H.**

Helmut Maukner mp  
Certified Accountant

Elisabeth Glaser mp  
Certified Accountant

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The report (in the German language, or translations into another language, including shortened or amended versions) may not be made public or used by third parties, when reference is made in part or in whole to the auditors report, without the express written consent of the auditors.

## Statement of all members of the management board

We confirm to the best of our knowledge that the separate financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the parent company as required by the applicable accounting standards and that the management report gives a true and fair view of the development and performance of the business and the position of the company, together with a description of the principal risks and uncertainties the company faces.

Vienna, 10 March 2009

### **The Management Board**



Andreas Treichl  
Chairman



Franz Hochstrasser  
Vice Chairman



Herbert Juranek  
Member



Bernhard Spalt  
Member



Manfred Wimmer  
Member