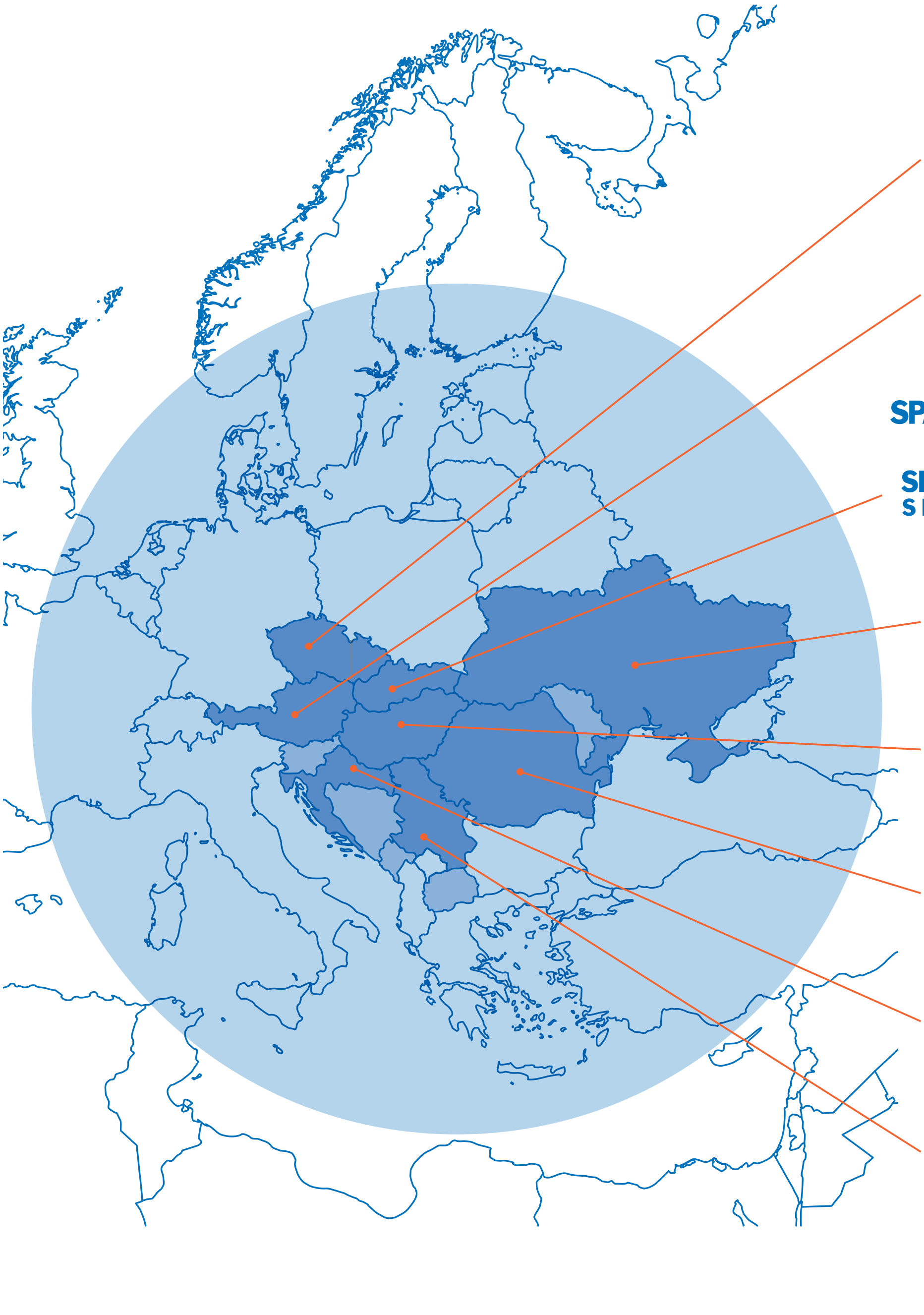
ERSTE GROUP

Annual Report 2011

2011

Extensive presence in Central and Eastern Europe



ČESKÁ SPOŘITELNA

CZECH REPUBLIC
Employees: 10,661
Branches: 654
Customers: 5.2 million

ERSTE BANK

AUSTRIA
Employees: 16,189
Branches: 297
Customers: 1.1 million

SPARKASSE

Branches: 753
Customers: 2.1 million

SLOVENSKÁ SPORITEĽŇA

SLOVAKIA
Employees: 4,157
Branches: 292
Customers: 2.4 million

ERSTE BANK Ukraine

UKRAINE
Employees: 1,685
Branches: 131
Customers: 0.2 million

ERSTE BANK Hungary

HUNGARY
Employees: 2,948
Branches: 184
Customers: 0.9 million

BCR

ROMANIA
Employees: 9,245
Branches: 667
Customers: 3.7 million

ERSTE BANK Croatia

CROATIA
Employees: 2,599
Branches: 146
Customers: 1.0 million

ERSTE BANK Serbia

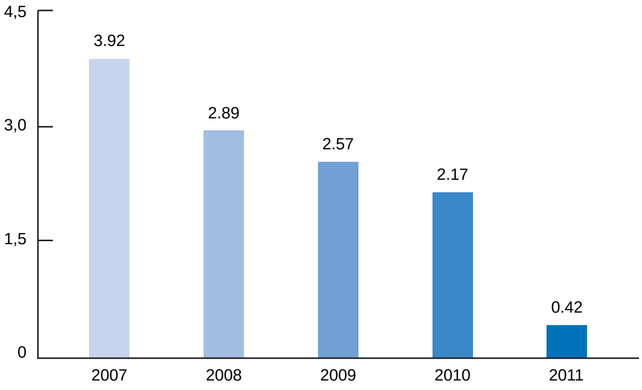
SERBIA
Employees: 919
Branches: 66
Customers: 0.3 million

Key Financial and Operating Data *

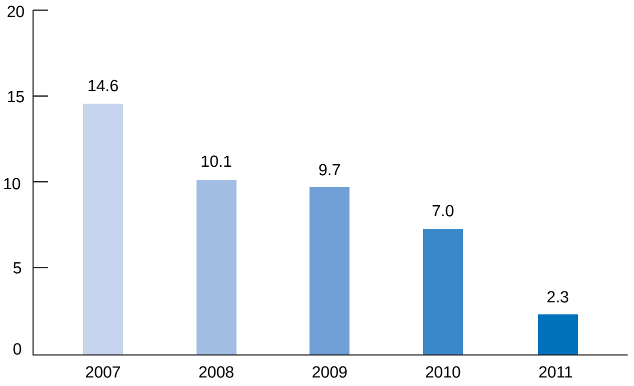
in EUR million (unless otherwise stated)	2007	2008	2009	2010	2011
Balance sheet					
Total assets	**200,519**	**201,441**	**201,513**	**205,770**	**210,006**
Loans and advances to credit institutions	14,937	14,344	13,140	12,496	7,578
Loans and advances to customers	113,956	126,185	128,755	132,334	134,750
Risk provisions for loans and advances	-3,296	-3,783	-4,954	-6,119	-7,027
Securities, other financial assets	42,404	39,238	40,298	39,957	44,008
Other assets	24,464	25,457	24,274	27,102	30,697
Total liabilities and equity	**200,519**	**201,441**	**201,513**	**205,770**	**210,006**
Deposits by banks	35,165	34,672	26,295	20,154	23,785
Customer deposits	100,116	109,305	112,042	117,016	118,880
Debt securities in issue and subordinated capital	36,667	36,530	35,760	37,136	36,565
Other liabilities	17,168	9,839	11,721	14,906	15,596
Equity attributable to non-controlling interests	2,951	3,016	3,321	3,444	3,143
Equity attributable to owners of the parent	8,452	8,079	12,374	13,114	12,037
Changes in total qualifying capital					
Risk-weighted assets pursuant to section 22 Austrian Banking Act	95,091	103,663	106,383	103,950	97,630
Qualifying consolidated capital pursuant to sections 23 & 34 Austrian Banking Act	11,114	11,758	15,772	16,220	16,415
Tier 1 capital	6,674	7,448	11,450	12,219	11,909
Hybrid capital	1,248	1,256	1,174	1,200	1,228
Solvency ratio pursuant to section 22 Austrian Banking Act	10.1%	9.8%	12.7%	13.5%	14.4%
Tier 1 ratio (total risk)	6.1%	6.2%	9.2%	10.2%	10.4%
Income statement					
Net interest income	3,945.8	4,913.1	5,220.9	5,439.2	5,569.0
Risk provisions for loans and advances	-454.7	-1,071.4	-2,056.6	-2,021.0	-2,266.9
Net fee and commission income	1,857.9	1,971.1	1,772.8	1,842.5	1,787.2
Net trading result	351.1	114.7	585.1	321.9	122.3
General administrative expenses	1,857.9	1,971.1	1,772.8	1,842.5	1,787.2
Operating result	2,512.7	2,997.0	3,771.4	3,786.8	3,627.6
Pre-tax profit/loss	1,892.6	576.2	1,261.3	1,324.2	-322.2
Net profit/loss after minority interests	1,174.7	859.6	903.4	878.7	-718.9
Operating data					
Number of employees	52,442	52,648	50,488	50,272	50,452
Number of branches	2,907	3,147	3,205	3,204	3,190
Number of customers (million)	16.4	17.2	17.5	17.0	17.0
Share price and key ratios					
High (EUR)	61.50	49.20	31.15	35.59	39.45
Low (EUR)	44.00	13.25	7.00	25.10	10.65
Closing price (EUR)	48.50	16.20	26.06	35.14	13.59
Price/earnings ratio	13.1	6.0	10.9	15.1	na
Dividend per share (EUR)	0.75	0.65	0.65	0.7	0
Payout ratio	20.2%	24.0%	27.2%	30.1%	0.0%
Dividend yield	1.5%	4.0%	2.5%	2.0%	0.0%
Book value per share (EUR)	27.0	25.8	28.9	29.9	26.1
Price/book ratio	1.8	0.6	0.9	1.2	0.5
Total shareholder return (TSR)	-15.4%	-65.1%	64.9%	37.3%	-59.3%
Number of shares					
Number of shares outstanding	316,288,945	317,012,763	377,925,086	378,176,721	388,288,565
Average number of shares outstanding	312,039,861	313,218,568	322,206,516	374,695,868	377,670,141
Market capitalisation (EUR billion)	15.3	5.1	9.8	13.3	5.3
Trading volume (EUR billion)	23.1	29.4	13.3	15.3	10.9

*) The figures starting from 1 January 2010 are restated according to IAS8. For further details see chapter C on accounting policies − restatement in the consolidated financial statements.
The term "net profit after minorities" corresponds to the term "net profit attributable to owners of the parent".
Shares outstanding include Erste Group shares held by savings banks that are members of the Haftungsverbund (cross-guarantee system).
Trading volume as reported by Vienna Stock Exchange.

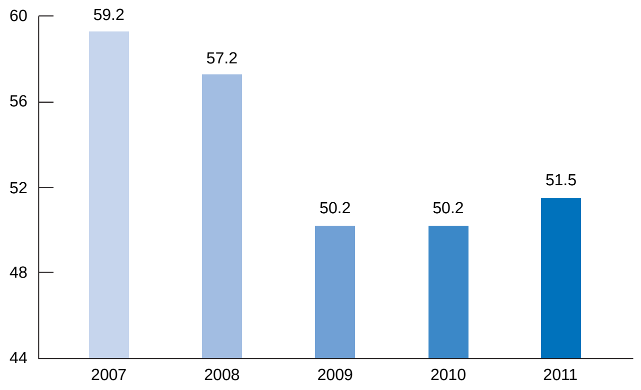
Cash earnings per share in EUR



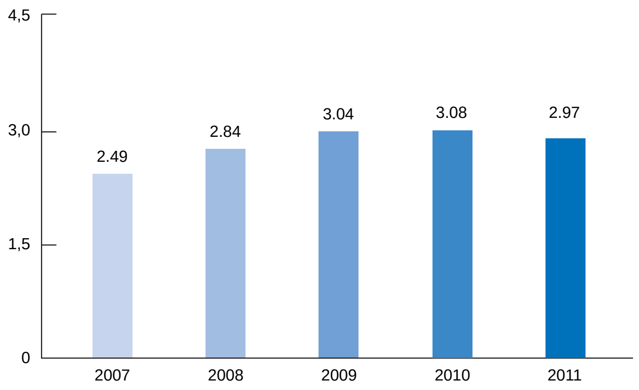
Cash return on equity (in %)



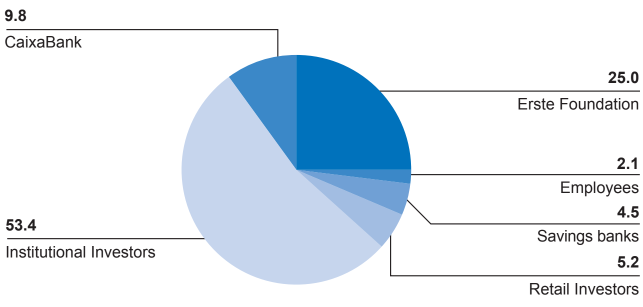
Cost/income ratio (in %)



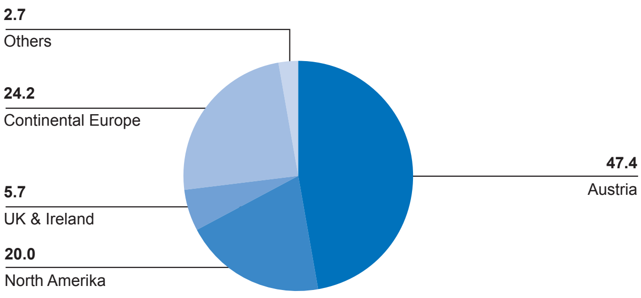
Net interest margin (in %)



Shareholder structure as at 31 December 2011 By investors (in %)



Shareholder structure as at 31 December 2011 By regions (in %)



Ratings as at 31 December 2011

Fitch	
Long-term	A
Short-term	F1
Outlook	Stable
Moody's Investors Service	
Long-term	A1
Short-term	P-1
Outlook	Under Review
Standard & Poor's	
Long-term	A
Short-term	A-1
Outlook	Negative

Financial calendar 2012

Date	Event
30 April 2012	Q1 2012 results
15 May 2012	Annual general meeting
31 May 2012	Dividend payment day - participation capital
31 July 2012	H1 2012 results
30 October 2012	Q3 2012 results

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

Highlights

Operating result remains solid

_ Positive development of important core markets
_ Cost/income ratio at 51.5%

Net loss due to one-off effects

_ Goodwill write downs in Hungary and Romania
_ Mark-to-market losses related to CDS investment portfolio

NPL ratio at 8.5% at year-end 2011

_ Asset quality improved in Czech Republic, Slovakia and Austria, deteriorated in Hungary and Romania
_ Risk costs impacted by extraordinary risk provisions
_ NPL coverage rose to 61.0% in 2011

Excellent funding and liquidity position

_ Strong deposit base is key competitive advantage
_ Successful issuance of covered and senior unsecured bonds

Further improvement in capital ratios

_ EBA core tier 1 ratio already at 8.9%
_ Reduction of RWAs in non-core business

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Letter from the CEO

Dear shareholders,

The year 2011 was an extraordinary one for Erste Group. We posted our first-ever loss since our IPO in 1997 due to one-off effects comprising goodwill write-downs in relation to Hungary and Romania, additional risk provisioning requirements in Hungary, and a shift in the buy-and-hold strategy for our CDS investment portfolio. Of course, there were also positive developments: the economies of Central and Eastern Europe all returned to growth in 2011, and, on an operating level, even after allowing for rising risk costs, Erste Group remained very profitable thanks to good performance in the Czech Republic, Slovakia and Austria. Erste Group's capitalisation improved, with the core tier 1 and EBA ratios rising to 9.4% and 8.9%, respectively, at year-end 2011.

We have responded to the changed political and regulatory environment of 2011 and fine-tuned our strategy for our core and non-core activities: Our core retail and corporate customer business in the eastern part of the European Union will focus on balancing local currency lending and deposit gathering, thus reducing intra-group funding requirements over time and making local operations less vulnerable to political event risk. In addition, we aim to deepen the relationships with our customers. Our non-core businesses, by which I mean those not customer-related or not connected with Central and Eastern Europe, will be pared back over time in order to free up resources for future growth opportunities in Central and Eastern Europe.

CEE more dynamic than euro zone

While Central and Eastern Europe offers potential for long-term growth, economic growth in the euro zone – a market of major importance for the region – slowed in 2011. The deepening of the debt crisis in a number of peripheral countries and fears of a global recession weighed on sentiment. Nevertheless, the economy did not develop uniformly across Central and Eastern Europe either. Growth in the region was driven mainly by the export sector. Austria, the Czech Republic and Slovakia benefited from the strong performance of the German economy. In Austria, GDP was up 3.1%, rising at a rate faster than the euro zone average (1.5%). The Romanian economy, which is driven largely by domestic trade, emerged from the recession of the past two years mainly on the back of its agricultural sector's excellent performance. In addition, the take-up of EU funds increased. In Croatia, the economic recovery remained modest due to weak domestic demand. The Hungarian economy's performance suffered additionally from the government's policies. Overall, the East European states, with their lower levels of household and government debt and competitive manufacturing base, remained well positioned to cope even with the threat of a recession in the euro area.

Solid operating result cuts loss for the year

In a volatile environment, decisions needed to be taken that had major adverse impacts on Erste Group's annual result. In Hungary, unorthodox legislation exacerbated the consequences of foreign currency lending to retail customers, a practice that has long since been discontinued. We created risk provisions in the amount of EUR 200 million to cover losses from the early redemption of retail foreign currency mortgage loans at below-market rates, imposed by new legislation. Another EUR 250 million in risk provisions was necessary to increase the NPL coverage ratio. In addition, we wrote down the entire goodwill related to Erste Bank Hungary in the amount of EUR 312 million. The bank will be repositioned and, going forward, will focus on local currency lending funded from locally available liquidity. Further write-downs also had to be taken in Romania. Banca Comercială Română had been acquired at a time when the economy was booming. The knock-on effects of the subsequent financial and economic crisis resulted in a goodwill write-down in an amount of EUR 700 million. At the same time, we seized the opportunity to increase our stake in Banca Comercială Română by acquiring the shares from four of the five largest minority shareholders. Erste Group's increased ownership of 92.3% reflects our belief that Romania has above average economic convergence potential in the medium and long term.

The third one-off effect was due to the revaluation of our CDS investment portfolio at market prices. This portfolio was part of the International Business unit's diversified credit portfolio, which included bank and sovereign assets. In a profoundly changed market environment, the original intention of holding these instruments to maturity was no longer viable. The changes in fair value of the instruments resulted in a net loss of EUR 420 million, EUR 183 million of which was in 2011. In line with our focus on customer business in the eastern part of the European Union and to minimise future earnings volatility, we liquidated this portfolio with a net nominal amount of EUR 5.2 billion in the fourth quarter.

Due to these one-off effects, Erste Group posted a pre-tax loss before minorities for 2011 in the amount of EUR 322.2 million and a loss for the year after taxes and minorities of EUR 718.9 million while still generating a strong operating result. This was attributable to the solid performance of some key core businesses and a stable cost basis. Net interest income was up slightly. A decline in the securities business resulted in slightly lower net fee and commission income. The net trading result was impacted by the changes in fair value of the CDS book. Goodwill write-downs and the Austrian banking tax impacted adversely upon the other operating result. Overall, Erste Group's operating result declined slightly to EUR 3.6 billion but underscored once again the sustainable profitability of the core business.

Within our region, Česká spořitelna, Slovenská sporiteľňa, Erste Bank Oesterreich and Erste Bank Croatia performed particularly well and made major contributions to the solid operating result. The differences in the development of the individual economies were reflected in asset quality, which improved in the key markets of Austria, the Czech Republic, and Slovakia. In some of the east European countries, however, the SME segment and the real estate business again negatively influenced earnings. Even though NPL growth has slowed again, the need for higher provisioning in Hungary caused risk costs to rise to 168 basis points of average customer loans. The NPL ratio based on customer loans increased to 8.5%, although NPL coverage improved to 61.0%.

Well prepared for new regulations

After years of debate, the new capital adequacy and liquidity standards for banks became clearer in 2011. On the one hand, the European Banking Authority (EBA) fixed a minimum core capital ratio (excluding private participation capital) of 9% to be met by 30 June 2012; on the other hand, the Austrian central bank announced the early introduction of Basel 3 rules as of 1 January 2013. These rules require a core capital ratio of 7%, which from 2016 will be increased by up to three percentage points for major Austrian banks. The only significant question not yet answered concerns recognition of the minority capital of the savings banks. We are therefore reviewing alternative options for our collaboration with the Austrian savings banks to offset any disadvantages that may arise for Erste Group from non-recognition of minority capital. Overall, we will meet all capital adequacy and liquidity standards in due time, particularly on account of the continuing profitability of our core business.

Focus on customer business in the eastern part of the European Union

Erste Group's key strength has been and continues to be its business model, which for nearly 200 years has relied on long-lasting and stable customer relationships. The events of 2011 have even further strengthened our conviction as to the value in that model. Therefore, our business with retail and corporate customers as well as with public sector clients in the eastern part of the European Union and in Austria will have an even more substantial impact on our earnings in future than it has to date. To maintain a comprehensive and sustainable portfolio of products, we will continue also to engage in customer-driven capital market transactions while accessing the interbank market to safeguard short-term liquidity.

As I conveyed at the beginning, 2011 was not an easy year for Erste Group. We will therefore propose to the general shareholders' meeting to pay no dividend to shareholders for the financial year 2011 but to continue servicing the participation capital.

As in previous years, we did our best in 2011 to take decisions in a timely and sustainable manner, even if these have occasionally been criticised. This criticism has not been without impact on our employees, which is why I want to address my special thanks to them at this time. With their focus on customer service, their professional attitude and commitment, they make a major contribution to retaining the trust that our customers place in Erste Group.

Andreas Treichl mp

Management Board

ANDREAS TREICHL

Appointed until June 2017
Born in 1952

Responsibilities:
Strategy & Participation Management
Group Secretariat
Group Communications
Group Investor Relations
Group Human Resources
Group Audit
Group Marketing
Employees' Council
Group Retail

FRANZ HOCHSTRASSER

Appointed until June 2017
Born in 1963

Responsibilities:
Group Research
Group Capital Markets
Group Investment Banking
Group Large Corporates Banking
Steering & Services
Erste Group Immorent Client, Industries & Infrastructure

HERBERT JURANEK

Appointed until June 2017
Born in 1966

Responsibilities:
Group Organisation/IT
Group Operations/Markets
Group Operations Retail & Corporate
Group Services

GERNOT MITTENDORFER

Appointed until June 2017
Born in 1964

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

MANFRED WIMMER

Appointed until June 2017
Born in 1956

Responsibilities:
Group Accounting
Group Performance Management
Group Balance Sheet Management

MARTIN ŠKOPEK

Management board member until 31 January 2012
Born in 1967

BERNHARD SPALT

Management board member until 31 January 2012
Born in 1968

Report of the Supervisory Board

Dear shareholders,

The year 2011 presented formidable challenges not only for Erste Group's management board but also for the supervisory board. The economic performance was predominantly influenced by the spreading sovereign debt crisis at the euro zone's periphery, and this also impacted upon Erste Group. At a joint extraordinary meeting of the management and supervisory boards on 10 October 2011, the management board adopted far-reaching decisions pertaining to the write-down of goodwill in Hungary and Romania, alignment of the effective interest rate method across the Group, and presentation of the CDS portfolio of the International Business unit. These measures resulted in extraordinary one-off expenses and brought about a net loss despite the positive operating result in 2011. From the supervisory board's perspective, the decisions were appropriate and crucial as well as consistent with a strong focus on the retail and corporate businesses in Central and Eastern Europe that constitute the core competencies of Erste Group.

In the course of 35 supervisory board and committee meetings, the management board promptly and comprehensively informed the supervisory board, in both written and oral forms, about all business matters. This allowed us to act in accordance with the mandate set down for us in the law, the articles of association and the Corporate Governance Code, as well as to ascertain the proper conduct of business.

The financial statements (consisting of the balance sheet, income statement and notes), the management report, the consolidated financial statements and the group management report for 2011 were audited by the legally mandated auditor, Sparkassen-Prüfungsverband, and by Ernst & Young Wirtschaftsprüfungsgesellschaft m.b.H., as supplementary auditor, receiving an unqualified audit opinion. Ernst & Young Wirtschaftsprüfungsgesellschaft m.b.H. was also contracted to perform a discretionary audit of the 2011 Corporate Governance Report. The audit did not give rise to any qualifications. Representatives of both auditors attended the financial statements review meeting of the supervisory board and presented their comments on the audits they conducted.

Based upon our own review, we hereby endorse the findings of these audits.

We have approved the financial statements, which are now duly endorsed in accordance with Section 96 (4) of the Austrian Stock Corporation Act. The management report, consolidated financial statements, group management report and Corporate Governance Report have been acknowledged and accepted.

For there to be payment of dividends, the financial statements must show a profit available for distribution or an annual profit. In accordance with the terms for the participation certificates issued by Erste Group Bank AG, the distribution of dividends in the full amount to the holders of participation certificates takes precedence over the distribution of dividends to shareholders. As no profit will be available for distribution once dividends have been disbursed to the holders of participation certificates, we have endorsed the proposal put forward by the management board to pay out a dividend to holders of participation certificates but not to shareholders.

At its meeting on 14 December 2011, the supervisory board agreed to reduce the size of the management board from seven to five members. Former management board members Bernhard Spalt and Martin Škopek took on management board appointments at Erste Bank Hungary and Banca Comercială Română, respectively. The terms of the five management board members Andreas Treichl, Franz Hochstrasser, Manfred Wimmer, Gernot Mittendorfer and Herbert Juranek were extended by five years. Moreover, individual agendas were re-aligned between the five remaining management board members. By slimming down its organisational structure, Erste Group sent out a clear signal in support of cost efficiency.

For the supervisory board:

Heinz Kessler mp
Chairman of the Supervisory Board
Vienna, March 2012

Erste Group on the Capital Markets

The financial crisis that had broken out more than three years ago escalated during 2011 into a debt crisis, and its impacts on the euro and economic activity led to high volatility and heavy losses in international equity markets. The Erste Group share was unable to escape the general downward trend among financial stocks. As in 2008, the share price declined by more than 60% after more than doubling in the two years following the low at year-end 2008.

STOCK MARKET PERFORMANCE

2011 sent stock markets lower world-wide

With just a few exceptions, international markets closed the year at a loss. Of the major financial market indices, only the US Dow Jones Index ended the extremely turbulent 2011 with a gain, rising 5.5% to 12,217.56 points. Apart from slumping after the earthquake and nuclear disaster in Japan, stock market performance was positive in the first months of the year. In the second half, however, concern about global economic trends and exacerbation of the banking and sovereign debt crisis in Europe pushed prices down at double-digit rates in most European and Asian markets. The Euro Stoxx 600 Index, which is composed of the biggest European companies, declined by 11.3%. The markets of the euro zone crisis countries sustained even heavier losses.

Debt crisis spread to the EU core countries

The multi-billion euro rescue packages provided by governments and central banks to support the financial system and economy failed to sustainably restore calm in the international financial markets. With sovereign default looming over Greece, pressure on Italy, Spain and France intensified as well. Later, the focus was on the announcement of austerity packages by those countries affected and actions by the EU Council. Seeing no strategy to comprehensively resolve the debt problem, rating agencies threatened to downgrade several euro zone countries. In view of Hungary's unorthodox economic policies, Moody's and Standard & Poor's downgraded that country's sovereign debt to non-investment grade. The euro has been under pressure, and particularly since the summer.

Weak economic data prompted central bank intervention

Looking forward, the OECD and many economists have warned of recession in the euro zone and deterioration of the global economic climate. In the US, an escalation of the euro crisis has been seen as the greatest risk to the US economy. The high sovereign debt of the US, which led to a downgrade of its rating by Standard & Poor's, was an additional negative factor. The US Federal Reserve decided to keep its fed funds rate at the historic low of zero to 0.25% until mid-2013. In view of the slowdown in economic growth in the euro zone, the ECB (European Central Bank) cut its key interest rate to 1%. To maintain liquidity in the financial system and prevent a credit crunch, European banks were offered easier access to funding.

European banking index declined by 37.6% to 100.34 points

The tight liquidity and funding situation combined with regulatory changes accelerated the downtrend of the Dow Jones Euro Stoxx Bank Index, which is composed of leading European bank shares. Measures taken by the ECB and central banks of the US, Canada, Japan, Great Britain, and Switzerland to boost the money supply buoyed the markets only for a short time. The rating agencies' downgrading of many banks' credit standings heightened uncertainty in the European interbank market. According to stress test results released by the European Banking Authority (EBA) in early December, the 70 banks covered needed additional capital totalling EUR 115 billion to meet the core capital ratio of 9% set by the regulators for 30 June 2012.

Disproportionate decline of ATX

The Austrian Traded Index (ATX) closed the year at 1,891.68 points for a loss of 34.9% year on year. After rising beyond the 3,000 mark in mid-February, the index had been pressed down by escalation of the European debt crisis and sharply lower share prices for index heavyweights from the financial sector. In addition, the new Austrian withholding tax on capital gains from securities reduced liquidity at the Vienna Stock Exchange. Of the 20 ATX shares, only two were up for the year. At year-end, the ATX's market capitalisation stood at EUR 73 billion (2010: EUR 91 billion).

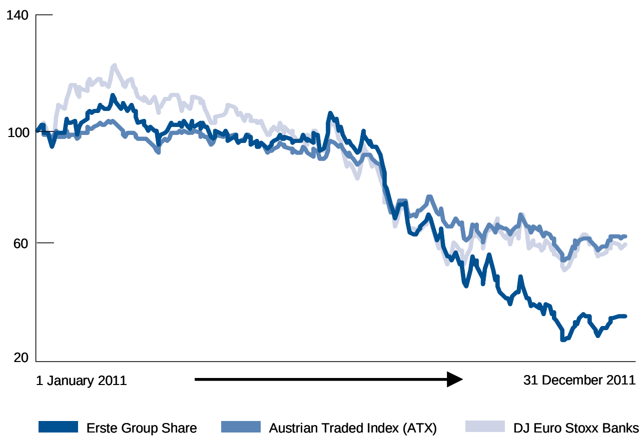
ERSTE GROUP SHARE

Debt crisis and regulators' tightening of liquidity and capital requirements weighed on the Erste Group share price

After its good start into the year, the Erste Group share was unable to escape the effects of the debt crisis on the European banking sector. While European bank stocks had been already down sharply, the Erste Group share initially exhibited relatively little volatility. It ended the first half of 2011 still above its year-end closing price from 2010.

As the year progressed, massive declines in international equity markets triggered by the negative market environment and the special situation in Hungary had a strong adverse impact on the Erste Group share price. In the third quarter alone, the price fell by 46.4%. Due to the capital requirements defined by EBA and additional restrictive capital and lending rules and guidelines announced by the FMA (Financial Market Authority) and Oesterreichische Nationalbank (Austria's central bank) on the Austrian banks' business in Eastern Europe – calling for additional core capital of up to 3 percentage points from 1 January 2016 and a loan to stable local funding ratio of not more than 110% – the Erste Group share hit its low at EUR 10.645 on 23 November.

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



After the announcement of mark-to-market losses on credit default swaps and write-downs of goodwill in Hungary and Romania, analysts and investors focused their attention on Erste Group's capitalisation and its exposure to those European countries that were hit most severely by the debt crisis. Analysts nevertheless received positively statements made by Erste Group at its capital market day in December regarding its reducing exposure to south-European countries and its capital planning in the light of changes in the regulatory environment.

At year-end 2011, the Erste Group share traded at EUR 13.585, down 61.3% versus 2010's close. The Erste Group share price had thus lost significantly more than had either the ATX (-34.9%) or the DJ Euro Stoxx Bank Index (-37.6%).

Performance of the Erste Group Share*

	Erste Group share	ATX	DJ Euro Stoxx Bank Index
Since IPO (Dec 1997)	22.6%	45.0%	–
Since SPO (Sep 2000)	15.6%	61.9%	-71.5%
Since SPO (Jul 2002)	-22.0%	55.1%	-60.1%
Since SPO (Jan 2006)	-69.8%	-51.4%	-73.5%
Since SPO (Nov 2009)	-53.2%	-27.4%	-55.9%
2011	-61.3%	-34.9%	-37.6%

*) IPO – initial public offering, SPO – secondary public offering.

Number of shares, market capitalisation and trading volume

Employee share ownership programme transactions in May increased the number of Erste Group shares from 378,176,721 by 289,663 to 378,466,384. The initial trading date of the new shares was 14 June. In September, Erste Group signed an agreement with four regional Romanian investment funds on the acquisition of additional stakes in BCR of up to 24.12% against payment of cash and issuance of new Erste Group shares in multiple tranches. The first tranche comprising 4,249,746 new shares was issued on 23 November and became tradable on 28 November. The second tranche of 4,025,566 new shares was first tradable on 12 December. The third tranche of 4,025,566 new shares was issued on 15 December and was first tradable on 19 December. All new shares of Erste Group are traded on the stock exchanges of Vienna, Prague, and Bucharest. Overall, these transactions increased the number of shares from 378,466,384 by 12,300,878 to 390,767,262 shares at year-end 2011. Due to the share price decline, Erste Group's market capitalisation diminished to EUR 5.3 billion at year-end 2011 from EUR 13.3 billion in 2010.

The trading volume of Erste Group shares was down in 2011. On average, 867,676 Erste Group shares per day were traded on the Vienna Stock Exchange (2010: 1,020,482). This reflects a decrease of average daily trading volume by almost 15%. Trading volume on the Prague Stock Exchange (PSE), where the shares of Erste Group have been listed since October 2002, rose by around 18% versus the previous year to 316,404 shares per day. On the Bucharest Stock Exchange (BVB), the average daily volume in Erste Group shares, which have been listed there since 14 February 2008, was 7,495 shares (2010: 5,523).

Erste Group in sustainability indices

Erste Group has been included in VÖNIX, the Vienna Stock Exchange's sustainability index, since its launch in 2008 and, since 2010, in the ASPI Eurozone®-Index. In 2011, the Erste Group share was included into the newly created STOXX Global ESG Leaders Index, which is based on the STOXX Global 1800 and is composed of leading sustainable companies worldwide, including 26 financial institutions.

DIVIDEND

Since 2005, Erste Group's dividend policy has been guided by the bank's profitability, growth outlook and capital requirements. The dividend for the financial year 2010, raised slightly to EUR 0.70/share, was approved by the general shareholders' meeting and paid out on 19 May 2011. The 8% p.a. dividend payment on the participation capital of EUR 1.76 billion was paid on 26 May 2011. The management board of Erste Group Bank AG will propose to the general shareholders' meeting to pay no dividend for the financial year 2011 but to continue servicing the participation capital.

SUCCESSFUL FUNDING

Although debt markets remained volatile in 2011, Erste Group three times during the year used windows of opportunity to tap into the international markets with benchmark transactions. It went to the market early in January 2011 with a EUR 1 billion 10-year mortgage Pfandbrief (covered bond). In spring, a 5-year senior unsecured bond was placed with large international participation. There followed a 7-year public sector Pfandbrief in August, which was placed in a deteriorating market. The funding plan for 2011 of EUR 5.0 billion was successfully achieved, and EUR 3.0 billion of that was in Pfandbrief format. The average maturity of the new issues was 7.7 years, which was a notable accomplishment after years of shorter-dated issuances. Some 20% of the funding was placed into the retail market. Erste Group's funding plans for 2012 will be smaller, with a target of EUR 3.5 billion.

INVESTOR RELATIONS

Open and regular communication with investors and analysts

In 2011, Erste Group's management and the investor relations team met with investors in a total of 439 one-on-one and group meetings (2010: 491 meetings). Presentation of the first-quarter results was followed by the spring road show in Europe and the US and the annual analysts' dinner in London. A second road show was conducted in autumn after the release of third-quarter results. Erste Group presented its strategy in the current operating environment at international banking and investor conferences organised by UniCredit, Nomura, Cheuvreux, Wood, Morgan Stanley, ING, KBW, UBS, Deutsche Bank, Bank of America Merrill Lynch, Goldman Sachs, Macquarie, and Barclays. The dialogue with bond investors was intensified, as well. At workshops and road shows, 75 one-on-one meetings were held with credit analysts and portfolio managers. Frequently, these focused on Pfandbriefe.
On 5 April, an internet chat with Erste Group's CEO was held for the ninth time. The chat provided a chance for many retail investors and the general public to communicate directly with the chairman of the management board, Andreas Treichl.

Erste Group held its 8th capital market day in Vienna on 9 December. This was attended by 41 analysts and investors. As one of the leading providers of financial services in Austria and Central and Eastern Europe, Erste Group used this opportunity to reiterate its commitment to this region. The management provided an update on current developments in Erste Group markets and on measures planned in view of the challenging macroeconomic environment.

Comprehensive information on Erste Group and its share is available on the Group's website at www.erstegroup.com/en/Investors. Since early June, investors and the broader public have been able to follow the investor relations team also on the social media platform Twitter at #ErsteGroupIR, which provides users with the latest news on Erste Group in the social network.

At the annual Investor Relations Awards event held at the end of June, international analysts recognised the Erste Group's investor relations team for its focus on "transparency and competent communication with our investors as our top priority". Erste Group's investor relations team won the award for the best investor relations performance of an Austrian company.

Analyst recommendations

In 2011, about 30 analysts released periodic research reports about Erste Group, among them two initial coverage analyses. The Erste Group share was covered by the following national and international financial analysts: Atlantik Ft, Autonomous, Bank of America Merrill Lynch, Barclays, Berenberg, Cheuvreux, Citigroup, Concorde, Credit Suisse, Cyrrus, Deutsche Bank, Exane BNP Paribas, Goldman Sachs, HSBC, ING, JP Morgan, KBW, Kepler, Macquarie, Mediobanca, Morgan Stanley, Nomura, RCB, Royal Bank of Canada, Silkroute, SocGen, UBS, and Wood.

At year-end, 46% of the analysts had issued buy recommendations (2010: 67%), 42% rated the Erste Group share neutral (2010: 25%), and 12% (2010: 8%) had sell recommendations. The average target price was EUR 20.52. The latest updates on analysts' estimates for the Erste Group share are posted at:
http://www.erstegroup.com/en/Investors/Share/AnalystEstimates.

Strategy

An historic principle: serving customer needs

Ever since its foundation in 1819 as Central Europe's first savings bank, Erste Group has been pursuing a business strategy focused upon the real economy. This orientation was changed neither when it went public in 1997 nor by increasing regulatory and political interventions in the banking sector. Quite the contrary: The developments of recent years have strengthened our resolve to focus even more consistently on Erste Group's core activities, which are to provide banking services on a sustainable basis to private individuals, businesses and the public sector in the eastern part of the European Union and in Austria. Activities that do not fit this definition will be adjusted or reduced over the medium term. This is what differentiates Erste Group from investment banks or other banks whose business is not embedded in the real economy.

As our operations developed and became more international, our core activities evolved as well, from those of a savings bank focused on retail lending and deposit-taking into those of a financial group providing banking services to all sectors of the economy. In addition to Erste Group's traditional strength in serving private individuals, our core activities include advisory services and support for our corporate clients in matters of financing, investment, hedging activities and access to international capital markets. Another part of Erste Group's core activities is public sector funding by investing part of its liquidity into sovereign bonds issued in our core region. To meet the short-term liquidity management needs of our customer business, we also operate in the interbank market.

It is important for us to develop client relationships beyond pure lending and deposit-collection that benefit both our customers and Erste Group itself, for only a bank that is financially strong is able to offer services on sustainably attractive terms. We therefore strive to be our customers' principal bank, or at least their most important banking relationship. This applies not only to Erste Group's retail business but also to our large corporate and real estate business and to the serving of entities in the public sector. This applies equally to every country within which Erste Group operates. As we occupy very strong market positions in most of our markets, we also have the resources to achieve this objective.

Our core region: Austria and the eastern part of the European Union

When Erste Group went public in 1997, we defined our core region as consisting of Austria and that part of Europe that offers the best structural and therefore long-term growth prospects, namely Central and Eastern Europe. Many countries of Central Europe have special ties to Austria, not only because of their geographical proximity but also due to a common cultural heritage and shared history, which was interrupted by the division of Europe after World War II but restored after the demise of Communist dictatorships in the late 1980s. In the early 20th century, regions like today's Czech Republic and Hungary had been economically as advanced, or even more advanced, than was Austria. That had been true also in terms of banking, as the savings bank philosophy had spread to all of Central Europe. Decades of a command economy, however, restrained development and the subsequent transition to a market economy has resulted in enormous potential for growth and the need to meet pent-up demand. Against the backdrop of emerging European integration and limited potential for growth in Austria, we grasped this opportunity and from the late 1990s onward acquired savings banks and financial institutions in neighbouring countries.

Erste Group today operates extensive branch networks in our core markets of Austria, the Czech Republic, Slovakia, Hungary and Romania – all of which are members of the European Union – as well as in Croatia, which is set to join the EU in July 2013. Following significant investments into our subsidiaries, Erste Group holds leading market positions in many of these countries and therefore focuses on organic growth. In Serbia, which has now been assigned EU candidate status, we maintain a minor market presence, but one which may be quickly expanded through acquisitions or organic growth as the country makes progress on EU integration. Ukraine is not seeking European Union membership in the medium term, and therefore we do not regard it as a core market. In addition to our core markets and Ukraine, Erste Group also owns direct and indirect majority and minority banking participations in Slovenia, Montenegro, Bosnia and Herzegovina, Macedonia and Moldova. These operations mainly focus on serving private individuals and corporate customers. In our capital markets business, we maintain additional presences in Poland, Turkey, Germany and London. Internationally, Erste Group also operates branches in London, New York and Hong Kong which focus on lending and treasury business and whose future strategic role is currently under review.

Sustainability created by our business model

Erste Group creates value by doing exactly what a customer-centred bank should do for the real economy: It uses the money collected from savers to make loans to people who wish to buy a home for their families or finance companies that make investments, pursue ideas and create jobs. Any material deviation from this principle that may have occurred in the past will be eliminated by reducing activities that are not part of Erste Group's core business or by realigning the core business. For example, we will no longer grant foreign currency loans to customers who do not have corresponding foreign currency income or are not hedged against currency volatility by other instruments. In practice, this means that henceforth we will not provide foreign currency loans to private individuals on any significant scale in Austria and Hungary. In Romania, we are working resolutely on alternative local currency products.

The same sustainable approach is being employed in liquidity and capital planning. Due to its strong deposit business, Erste Group collectively enjoys an excellent liquidity position. That situation varies, however, at the level of individual entities: While countries such as the Czech Republic and Slovakia boast deposit surpluses, the reverse is true in Hungary and in Romania, mainly due to the existence of foreign currency loan portfolios. It is our aim, therefore, to rebalance deposits and loans in the course of time, and in particular in each of the relevant currencies. Hence, we are working in conformity with regulatory efforts to promote self-funding from local deposits.

THE STRATEGY IN DETAIL

The basis of Erste Group's banking operations is the customer business in Central and Eastern Europe. While in all business areas and, especially, in the retail and corporate segments, the geographical focus is clearly on the eastern part of the European Union, the capital markets and interbank activities as well as the public sector business are defined a little more broadly to be able to meet customer needs as effectively as possible.

Erste Group's strategy

Customer banking in Central and Eastern Europe

Eastern part of EU		Focus on CEE, limited exposure to other Europe		
Retail banking	**Corporate banking**	**Capital markets**	**Public sector**	**Interbank business**
Focus on local currency mortgage and consumer loans funded by local deposits FX loans only where funded by local FX deposits (RO & HR) Savings products, asset management and pension products Potential future expansion into Poland	Large, local corporate and SME banking Advisory services, with focus on providing access to capital markekts and corporate finance Real estate business that goes beyond financing Potential future expansion into Poland	Focus on customer busines, incl. customer-based trading activities In addition to core markets, presences in Poland, Turkey, Germany and London with institutional client focus and selected product mix Building debt and equity capital markets in CEE	Financing sovereigns and municipalities with focus on infrastructure development in core markets Any sovereign holdings are only held for market-making, liquidity or balance sheet management reasons	Focus on banks that operate in the core markets Any bank exposure is only held for liquidity or balance sheet management reasons or to support client business

Retail business

Erste Group's key business is the retail business, covering the entire spectrum from lending, deposit and investment products to current accounts and credit cards. This is where the largest part of our capital is tied up, where we generate most of our income and fund the overwhelming part of our other core activities by drawing on our customers' deposits. The retail business represents our strength and is our top priority when developing our product offer.

We serve a total of 17.0 million customers in our eight most important markets and operate some 3,200 branches. In addition, we use alternative distribution channels such as internet and phone banking. Our core competence in retail banking has historical roots. In 1819, wealthy Viennese citizens had donated funds to establish Erste Group's predecessor, the first savings bank in Central Europe. Their aim had been to bring basic banking services to wide sections of the population.

In today's context, retail banking is attractive to us for a number of reasons: It offers a compelling business case that is built on market leadership, an attractive risk–reward profile and the principle of self-funding, as well as a comprehensive range of products that are simple and easy to understand and provide substantial cross-selling potential. Only a retail bank with an extensive branch network is able to fund loans in local currency mainly from deposits made in that same currency. We are in such a position of strength, and Erste Group will be guided by this aspect of its business model even more strongly in future. In short, our retail banking model supports sustainable and deposit-funded growth even in economically more challenging times.

Another positive factor is diversification of the retail business across countries that are at different stages of economic development, such as Austria, the Czech Republic, Romania, Slovakia, Hungary, Croatia, Serbia and Ukraine.

Corporate business

Our second main segment, which also makes a major contribution to the earnings of Erste Group, is our business with small and medium-sized enterprises, regional and multinational groups, and real estate companies. Our goal is to enhance the relationships with these clients beyond the pure lending business. Specifically, in our core region, our goal is for corporate customers to choose Erste Group as their principal bank and, above and beyond obtaining financing, also to route their payment transfers through us and, quite generally, regard Erste Group as their first point of contact for any kind of banking service.

Catering to their different requirements, small and medium-sized enterprises are served locally in branches or separate commercial centres while multinational groups are serviced by the Group Corporate and Investment Banking division. This approach permits us to combine industry-specific and product expertise with an awareness of regional needs and the experience of our local customer relationship managers.
In view of the regulatory reform efforts commonly referred to as Basel 3, advising and supporting our corporate customers in capital market transactions is becoming increasingly important. As these activities form an integral part of our corporate business, we are focused on becoming the leading investment bank in our core region. In pursuit of this strategic goal, we established Group Markets as a separate division within our group as of 2007.

Capital markets business

Client-driven capital markets activities have been and will continue to be part of the comprehensive portfolio of products and services we offer to our retail and corporate clients. The strategic significance of Erste Group's centrally governed and locally rooted capital markets operations consists in supporting all other business areas in their dealings with the capital markets and, hence, in providing our customers with professional access to the financial markets. We therefore view our capital markets business as a link between the financial markets and our customers. As a key capital markets player in our core markets, we also perform important functions such as market-making, capital market research, and product structuring.

The clear focus of our work has always been on the needs of our customers: most importantly, our retail and corporate clients as well as government entities and financial institutions. Due to our divisionalised organisation and strong network in Central and Eastern Europe, we have a thorough understanding of local markets and customer needs. In our capital markets business, too, we concentrate on key markets of our retail and corporate business: Austria, the Czech Republic, Slovakia, Hungary, Romania and Croatia. For institutional clients, designated teams have been established in Germany, Poland, Turkey and London which offer these clients a selective range of products.

In many countries where Erste Group operates, the local capital markets are not yet as highly developed as in Western Europe or in the US. That means we are pioneers in some markets. Building more efficient capital markets where we operate is thus another strategic objective of our Group Markets division, especially against the backdrop of new regulatory guidelines that require local funding of the banking business.

Public sector business

A solid deposit business is one of the key pillars of our business model. Accordingly, customer deposits surpass lending volume in many of our core markets. Erste Group makes a significant part of this liquidity available as financing to the region's public sector entities. In this way, we fund, among other things, indispensable public sector investment. Erste Group's public sector clients are primarily municipalities, regional entities and sovereigns. Apart from arranging finance for these clients, we support and advise them in capital market issuances, infrastructure financing and project financing. In addition, we cooperate with supranational institutions.

Especially in the public sector segment, we will be seeking in future to bundle our resources in the core markets and to cut back investments into bonds issued by sovereigns outside Central and Eastern Europe.

Adequate transport and energy infrastructure and municipal services are key prerequisites for long-term sustainable economic growth. Therefore, Erste Group views infrastructure finance and all financial services associated with it to be of key importance. Until 2013, the European Union will make about EUR 100 billion available to the Czech Republic, Slovakia, Croatia, Hungary and Romania under a range of European funding programmes. Here, a special highlight is our commitment to infrastructure development in Romania. Our Romanian subsidiary Banca Comercială Română supports investment in essential infrastructure by funding key companies in all sectors.

Interbank business

The interbank business is an integral part of our business model that performs the strategic function of making sure that the liquidity needs of our customer business are met. This involves, in particular, short-term borrowing and lending of cash from and to other financial institutions.

LONG-TERM GROWTH TRENDS IN CENTRAL AND EASTERN EUROPE

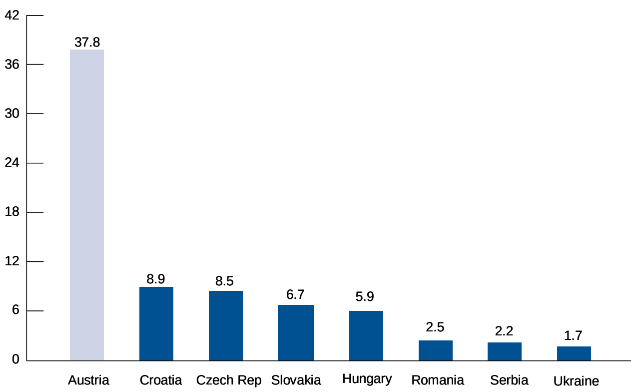
While the financial and economic crisis has slowed the economic catching-up process across the countries of Central and Eastern Europe, the underlying convergence trend continues unabated. The region must make up for almost half a century of Communist mismanagement of the economy, during which time banking activities were largely non-existent. In addition, most countries of Central and Eastern Europe boast human resources that are at least equivalent to those of Western European countries but need not struggle with the unsustainable costs of the western welfare states and have labour markets that are considerably more flexible. These advantages are rounded off by highly competitive export industries, which benefit from wage costs that are low relative to workforce productivity and from investor-friendly tax and welfare systems. Over the next 15 to 20 years, these countries will therefore see much faster growth than will those of Western Europe, even though we might see periods of rapid expansion alternating with times of economic stagnation or even setbacks on this long-term path of sustainable growth.

BANKING GROWTH IN CENTRAL AND EASTERN EUROPE

In many of the countries where Erste Group operates, and with the exception of deposit products, modern banking services were all but unknown until a few years ago. On the lending side, this was first because nominal and real interest rates were high, second because disposable incomes did not support household credit growth, and third because extensive state ownership meant that a healthy competitive environment was lacking. All this has changed in recent years. In the emerging transformation countries, interest rates are in the process of convergence or have already converged to euro levels. Disposable incomes have risen strongly on the back of GDP growth. Most formerly state-owned banks have been sold to strategic investors who fostered product innovation and competition. Even in the face of the recent economic slowdown and temporary negative impacts on the banking markets in Central and Eastern Europe, this combination will be the driving force behind future development.

A comparison of per-capita debt levels in Central and Eastern Europe with those of advanced economies reveals that an enormous gap exists even today. Countries such as Hungary and the Czech Republic, but also Croatia and Slovakia, are many years away from reaching Austrian, let alone Western European levels of loans per capita. Even in relative terms these countries lag far behind debt levels common in the West. The contrast to Serbia or Ukraine is even more pronounced. In short, private debt, and particularly household debt, remains substantially lower than in the advanced economies. Even though the developments of very recent years will likely lead to a reassessment of what constitutes acceptable debt levels and to only a gradual rise in lending in Central and Eastern Europe, we still firmly believe that credit expansion accompanied by long-term economic growth will prove to be a lasting trend rather than a short-term process that has already peaked.

Customer loans/capita in CEE (2011) in EUR thousand

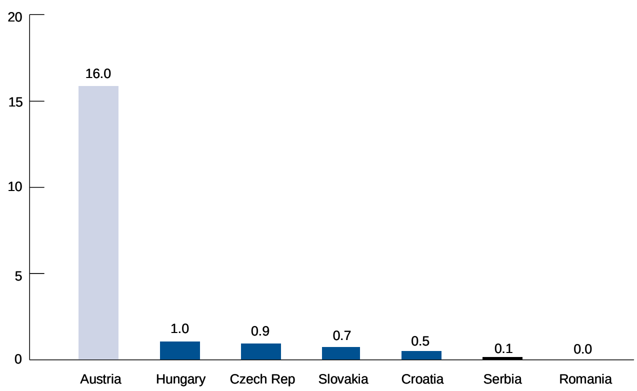


Source: Local central banks, Erste Group

Wealth management

As customers become more prosperous, another source of long-term growth will be wealth management, which is embraced by Erste Group's affluent banking and fund management activities. Irrespective of when this business will begin to make a significant contribution, we already are uniquely positioned to benefit from any such development. In our existing Central and East European universe, we dominate the fund management markets with a market share of almost 20%. In addition, we can draw on our experience in Austria, where we lead the market with a share of 21.8%. Erste Group formerly was active in the life insurance business and had maintained a significant presence in all key CEE markets. In 2008, we sold off these operations to Vienna Insurance Group and entered into a long-term distribution agreement with that organisation. In this way, Erste Group will continue to benefit from the expected rise in demand for insurance products.

Funds/capita in CEE (2011) in EUR thousand



Source: Local fund management associations, Erste Group

The growth dynamics in fund management differ fundamentally from those seen in standard banking products, as growth typically kicks in only at a later stage of economic development. Based on past experience in Austria, we expect that fund management will reach a critical mass as soon as nominal GDP per capita substantially and sustainably exceeds the EUR 10,000 mark. Almost all of our core markets – the Czech Republic, Slovakia, Hungary and Croatia – have either surpassed or are closing in on this level. It is at this level that we believe basic consumption needs are satisfied and attention begins shifting towards providing for the future. The relatively slow economic recovery has certainly clouded the outlook for growth in wealth management activities in the short term, as clients focus on safety first and put any new money into deposit products rather than committing it to mutual or pension funds. In the long term, however, wealth management offers huge potential in Central and Eastern Europe and we are excellently positioned to develop this potential.

CONTINUING DEVELOPMENT OF OUR CUSTOMER BUSINESS

Even as we believe that Erste Group is operating in a region offering above-average long-term growth potential in traditional banking and wealth management, the fact is that we have already established a presence in all major countries in the eastern part of the European Union, with the exception of Poland. Today, we are market leaders in the Czech Republic, in Slovakia, and in Romania. Erste Group's local subsidiaries are among the top five banks in Hungary and Croatia and hold small market shares in Ukraine and Serbia. Erste Group's future development will therefore be driven by organic growth rather than by major acquisitions.

Management Report

ECONOMIC ENVIRONMENT IN 2011

Economic developments in 2011 were characterised by unexpected events, including two supply shocks due to the tsunami in Japan and the Arab Spring protests, a drastic surge in oil prices during the first half of the year, the escalating debt crisis in some euro zone countries, and S&P's rating downgrade of the US. All these events impacted the global economy during 2011, with the development of energy prices and rising uncertainty about the economy playing crucial roles in the downside surprise on GDP growth and the upside surprise on inflation. The latter squeezed household purchasing power and consumption. Although the natural disaster in Japan led to supply chain disruptions in the global automotive, machinery and high-tech industries, the country's production emerged from its post-tsunami setback at a relatively quick pace.

The correction of supply chain disruptions, the decrease in oil prices in the second half of 2011 and ongoing support from Federal Reserve easing helped the US economy to maintain its recovery. Economic growth in Asia continued to outperform that of Europe and the US, driven mainly by China and India. European exporting countries benefited from the improvement, starting with Germany, the continent's leading economy. After a strong first quarter, however, the euro zone economy slowed sharply from the second quarter onwards. The escalating debt crisis in some peripheral countries and fears of global recession depressed sentiment; as a result GDP growth in the euro zone declined to 1.5% for 2011. All in all, however, the world economy grew by 3.8% in 2011, after 4.8% in 2010.

Austria continued to grow faster than the euro zone average in 2011, with its GDP rising by 3.3%. Exports performed well, with Germany remaining the key export market with a share of more than 30%. Domestic demand also contributed to growth. The unemployment rate reflected the growing economy and declined to 4.1%, one of the lowest in Europe. Measured in terms of GDP per capita at approximately EUR 36,000, Austria remained one of the euro zone's most prosperous countries in 2011. Rating agencies also acknowledged Austria's economic performance along with its social and political stability, strong institutions, and a highly educated and flexible workforce. As a result, at the close of 2011, Austria was one of the European countries assigned the highest credit grades by the rating agencies. Both private household debt and public debt as a percentage of GDP remained below the euro zone average, with the latter standing at 71.6%. Inflation increased to 3.3%.

Within Central and Eastern Europe, economic growth varied in 2011 from 4.9% in Ukraine to 0.3% in Croatia. As growth in the region was driven mainly by the export sector, countries with open economies, such as the Czech Republic, Slovakia, or even Hungary, were able to benefit to a greater extent from the performance of Germany. Romania's relatively closed economy exited its two-year recession mainly due to the excellent performance of the agricultural sector. Croatia's economic recovery remained fragile due to weak domestic demand. Nevertheless, with unemployment in the region remaining at relatively high levels, domestic demand continued to be subdued and consumer prices grew only modestly. Some of the currencies came under intense downward pressure due to a combination of contagion from the euro area and questionable policymaking. This was most pronounced in Hungary, where the forint weakened significantly versus the euro and Swiss franc and thus caused difficulties for households with foreign currency debt.

PERFORMANCE IN 2011

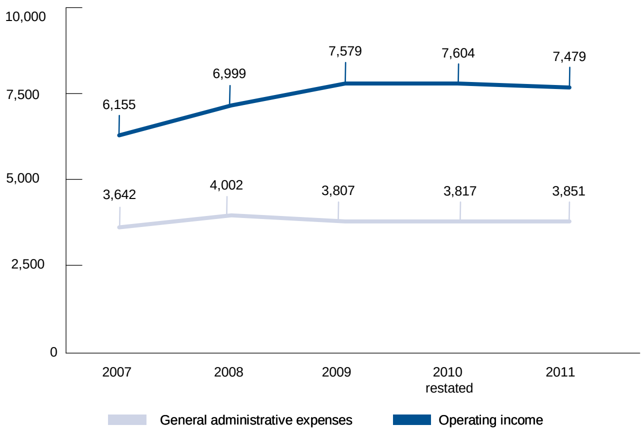
Acquisitions and disposals in Erste Group in 2011 did not have any significant impact and therefore no effects on the rates of changes stated below. Details are provided in the notes to the consolidated financial statements.

Overview

A slight decline in operating income and a moderate rise in operating expenses caused the **operating result** to decrease by 4.2% to EUR 3,627.6 million in the financial year 2011 from EUR 3,786.8 million in the financial year 2010.

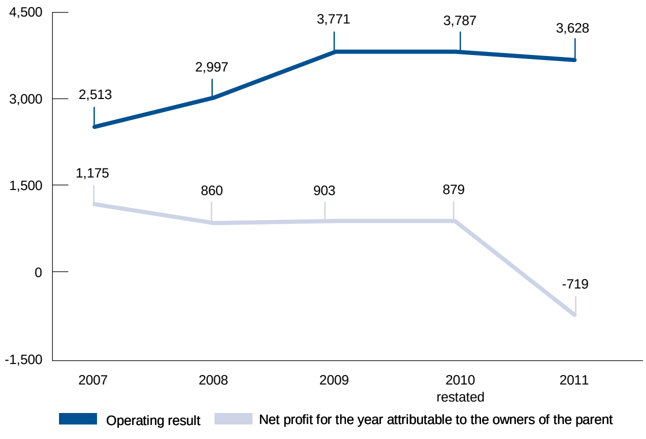
Operating income totalled EUR 7,478.5 million in 2011 (2010: EUR 7,603.6 million). An increase in net interest income (+2.4% to EUR 5,569.0 million) offset the decline in net fee and commission income (-3.0% to EUR 1,787.2 million) but not the drop in the net trading result (-62.0% to EUR 122.3 million). **General administrative expenses** were up 0.9% to EUR 3,850.9 million (2010: EUR 3,816.8 million). This resulted in a **cost/income ratio** of 51.5% (2010: 50.2%).

Operating income and operating expenses in EUR million



Net loss after minorities for 2011 amounted to EUR 718.9 million. 2011 was an exceptional year due to extraordinary effects, including especially goodwill write-downs and extraordinary risk provisions. In the previous year, Erste Group had posted an annual profit of EUR 878.7 million.

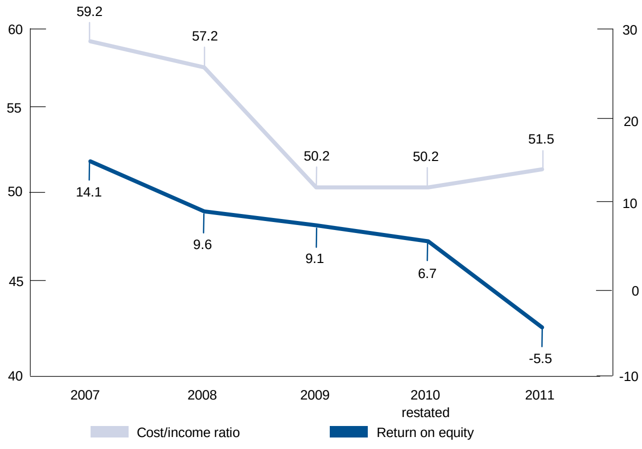
Operating result and net profit for the year attributable to the owners of the company in EUR million



Cash return on equity, i.e. return on equity adjusted for non-cash expenses such as goodwill impairment and straight-line amortisation of customer relationships, was 2.3% for 2011 (reported ROE:-5.5%) versus 7.0% for 2010 (reported ROE: 6.7%).

In the financial year 2011, **cash earnings per share** amounted to EUR 0.42 (reported EPS: EUR -2.28) versus cash earnings per share of EUR 2.17 in 2010 (reported EPS: EUR 1.97).

Key profitability ratios in %



Total assets, at EUR 210.0 billion, were up 2.1% on year-end 2010. On the liability side, this was due to growth in customer deposits and interbank transactions. On the asset side, it reflected a rise in loans and advances to customers and in securities held in the available-for-sale and held-to-maturity portfolios.

The **solvency ratio** improved to 14.4% at 31 December 2011 (year-end 2010: 13.5%), which was attributable to the reduction of risk-weighted assets by 4.8% from EUR 119.8 billion to EUR 114.0 billion. Therefore, it remained comfortably above the statutory minimum requirement of 8.0%. The **tier 1 ratio** in relation to total risk was 10.4% at 31 December 2011 (versus 10.2% at year-end 2010).

Dividend

At the annual general shareholders' meeting, the management board will propose for the fiscal year 2011 not to pay a dividend to shareholders (prior year: EUR 0.70) and to pay the dividend of 8% on the nominal value to the holders of participation capital.

Outlook

Most of Erste Group's core markets are expected to post economic growth in 2012, albeit on a lower level than in 2011 – in line with the weakening outlook for the euro zone in the second half of 2011. A mild negative performance is forecast for Hungary and Croatia only.

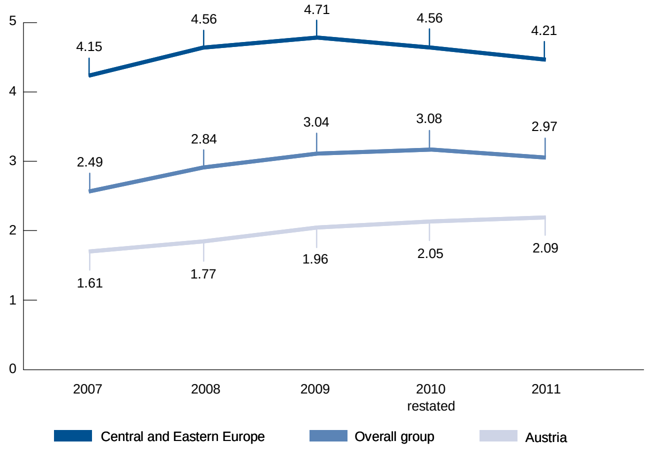
Against this backdrop and despite the reduction of non-core assets, Erste Group expects a slightly rising operating income as well as an improving cost/income ratio supported by unchanged operating expenses and selective loan growth in its core markets in 2012. Risk costs should decrease as extraordinary effects such as the EUR 450 million one-off provisions in Hungary are not expected to recur. Erste Group expects timely and sustainable compliance with the 9% capital requirement set by the European Banking Authority.

ANALYSIS OF PERFORMANCE

Net interest income

Net interest income rose by 2.4% from EUR 5,439.2 million in 2010 to EUR 5,569.0 million in the financial year 2011. This was due to currency changes and to the shift of interest income from trading assets, which is now included in net interest income rather than, as formerly, in the net trading result. Accordingly, trading assets were also included in calculating interest-bearing assets. This change was partly responsible for the contraction of the net interest margin (net interest income as a percentage of average interest-bearing assets) in the financial year 2011 from 3.08% to 2.97%.

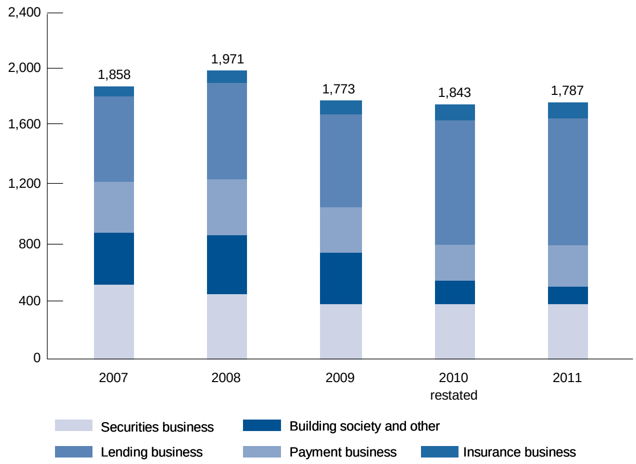
Net interest margin in %



Net fee and commission income

Net fee and commission income declined by 3.0% in the financial year 2011, from EUR 1,842.5 million to EUR 1,787.2 million. This development was mostly due to declines in the securities business (primarily in Austria) as well as in building society brokerage and investment banking. The rising income from payment transfers was caused in large part to the Czech and Croatian subsidiaries (increase in card transactions). The increase in lending business was exclusively attributable to technical effects – on the one hand, the basis of comparison was distorted by loan sales in Romania in 2010 and on the other there was a wider scope of consolidation.

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



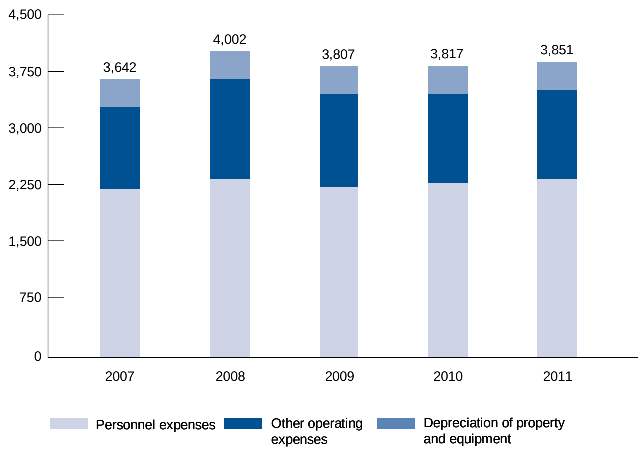
Net trading result

The decline in the net trading result by 62.0% from EUR 321.9 million in 2010 to EUR 122.3 million in the financial year 2011 largely resulted from changes in the fair value of the CDS portfolio of the International Business unit, which was closed out almost completely in the fourth quarter and had an impact of EUR -182.6 million in the financial year 2011 (2010: EUR -134.3 million). Further reasons for the drop were declines in foreign exchange trading and the shift of interest income from trading assets, which is now reported in net interest income rather than, as formerly, in the net trading result.

General administrative expenses

General administrative expenses rose by 0.9% from EUR 3,816.8 million to EUR 3,850.9 million (currency-adjusted: +0.6%).

General administrative expenses, structure and trend, in EUR million

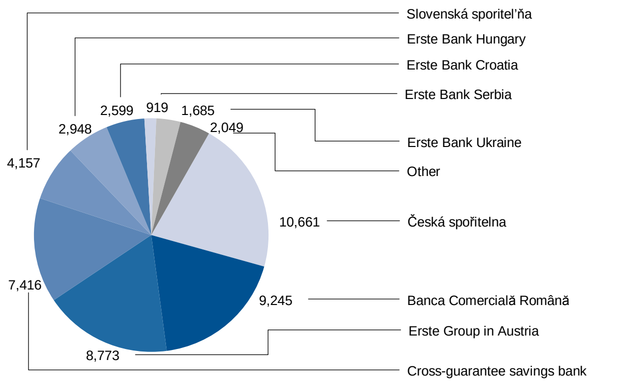


Personnel expenses were up 2.6% (currency-adjusted: +2.4%) from EUR 2,263.8 million to EUR 2,323.7 million. This increase was partly due to severance payments in the Czech Republic, provisions for severance payments in Hungary and Romania, and the integration of Informations-Technologie Austria GmbH (previously not a consolidated subsidiary) into s IT Solutions AT as of 1 July 2010. The latter had a positive effect on **other administrative expenses**, which declined by 1.2% (currency-adjusted: 1.6%) from EUR 1,165.9 million to EUR 1,152.4 million in 2011. Cost reductions were achieved mainly in IT.

The **headcount**, at 50,452 employees, was up 0.4% on year-end 2010. The increase in Austria was mainly due to the expanded scope of consolidation. In Romania it was a consequence of the permanent employment of formerly leased personnel.

Depreciation declined by 3.2% in 2011 (currency-adjusted: -3.6%) versus the financial year 2010, from EUR 387.1 million to EUR 374.8 million.

Headcount at 31 December 2011



Operating result

Due to the weak net trading result, **operating income** declined by 1.6% percent in 2011, totaling EUR 7,478.5 million (2010: EUR 7,603.6 million), while **general administrative expenses** were up moderately by 0.9%, from EUR 3,816.8 million to EUR 3,850.9 million. This led to a reduction of the **operating result** by 4.2%, from EUR 3,786.8 million to EUR 3,627.6 million.

Risk provisions

Risk provisions (i.e. the balance of the allocation and release of provisions for the lending business together with the costs of direct loan write-offs offset by income received from the recovery of loans already written off) increased by 12.2% versus 2010, from EUR 2,021.0 million to EUR 2,266.9 million. In the financial year 2011, risk costs relative to the average volume of customer loans amounted to 168 basis points (2010: 155 basis points). This increase was attributable to extraordinary provisions in Hungary in the amount of EUR 450.0 million as a consequence to legislation passed by the government permitting the early repayment of foreign-currency loans at non-market rates and to raising the NPL coverage ratio. In Romania, provisions remained elevated, primarily due to a deterioration in the SME portfolio. In all other core countries (Austria, Czech Republic and Slovakia) the trend in risk costs was clearly positive.

Other operating result

Other operating result fell from EUR -439.3 million in 2010 to EUR 1,589.9 million in 2011. This was primarily due to the write-down of goodwill in the total amount of EUR 1,064.6 million in 2011. Of this amount, EUR 699.2 million was related to the Romanian, EUR 312.7 million to the Hungarian, and EUR 52.7 million to the Austrian subsidiaries. Other taxes rose from EUR 71.9 million to EUR 163.5 million, which was largely a consequence of banking taxes. In Austria, the banking tax was introduced in 2011 and amounted to EUR 132.1 million. In 2011, Hungary permitted netting of the banking tax against losses resulting from the early repayment of foreign-currency loans on preferential terms (2010: EUR 49.8 million). Expenses for impairments rose from

EUR 77.9 million to EUR 84.3 million, due primarily to write-downs on assets accepted as collateral in Hungary.

Also included in this line item are the straight-line amortisation of intangible assets (i.e. customer relationships) in the amount of EUR 69.0 million (2010: EUR 69.5 million) as well as deposit insurance contributions totalling EUR 87.2 million (2010: EUR 66.2 million).

Result from financial instruments

The overall result from all categories of financial instruments deteriorated from EUR -2.3 million in the financial year 2010 to EUR -93.0 million in 2011. This was mainly attributable to impairments and losses on the sale of Greek bonds in the available-for-sale and held-to-maturity portfolios in the amount of EUR 59.5 million (thereof EUR 23.5 million were attributable to the savings banks).

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

In the financial year 2011, the **pre-tax loss for the year** amounted to EUR 322.2 million; in 2010 the Erste Group had posted a pre-tax profit of EUR 1,324.2 million.

In 2011, **net loss after minorities** amounted to EUR 718.9 million versus a profit of EUR 878.7 million in the financial year 2010.

Tax situation

Pursuant to section 9 of the Austrian Corporate Tax Act ("KStG"), Erste Group Bank AG and its main domestic subsidiaries constitute a tax group. Due to the high proportion of tax-exempt income – particularly income from participating interests – and tax payments for the permanent establishments abroad, no Austrian corporate income tax was payable in fiscal year 2011. The current tax loss carried forward increased in 2011.

Tax 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 along with Erste Group Bank AG under group taxation regulations.

In 2011 the reported total income tax expense amounted to EUR 240.4 million (2010 restated: EUR 280.9 million).

The tax rate decreased from 21.7% in 2010 to negative in 2011.

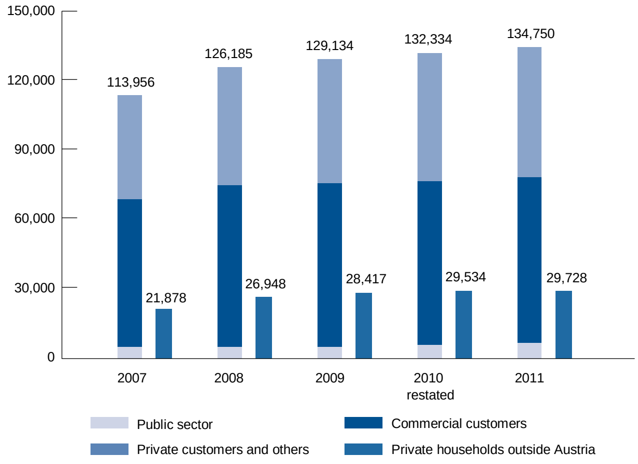
Balance sheet development

Total assets, at EUR 210.0 billion, were up 2.1% on year-end 2010. On the liability side, this was due to growth in customer deposits and interbank transactions. On the asset side, it reflected a rise in loans and advances to customers and in securities held in the available-for-sale and held-to-maturity portfolios.

At EUR 7.6 billion, **loans and advances to credit institutions** as of 31 December 2011 were 39.4% lower than at year-end 2010 (EUR 12.5 billion). This was largely attributable to a decline in short-term interbank transactions, especially repo transactions with the Czech central bank.

Loans and advances to customers were up 1.8% to EUR 132.3 billion versus EUR 134.8 billion. Growth was recorded mostly in lending to Austrian retail and corporate customers and in the Slovak retail business.

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



Risk provisions increased due to additional allocations from EUR 6.1 billion to EUR 7.0 billion. The NPL ratio (non-performing loans as a percentage of loans to customers) rose to 8.5% as at 31 December 2011 (7.6% as at 31 December 2010). The NPL coverage ratio improved further from 60.0% at year-end 2010 to 61.0%.

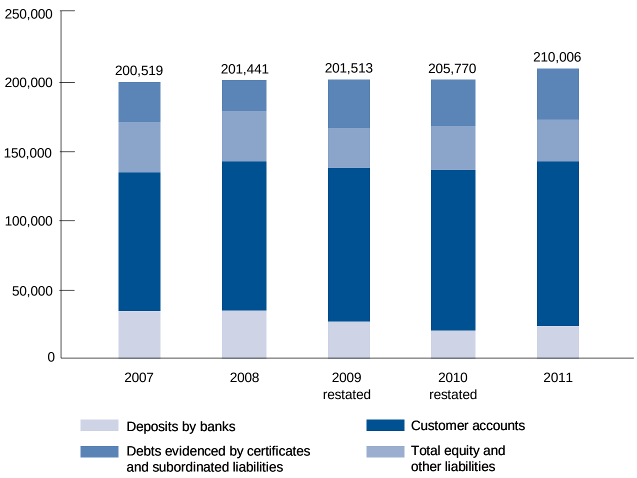
Investment securities held within the various categories of financial assets rose by 10.8% from EUR 34.4 billion at year-end 2010 to EUR 38.1 billion on the back of growth in the available-for sale and held-to-maturity portfolios.

Customer deposits increased by 1.6% (from EUR 117.0 billion to EUR 118.9 billion). This development was primarily owed to growth in deposits from corporate customers in Austria. In the fourth quarter customer deposits decreased due to seasonal fluctuations of deposits by Czech municipalities. The rise in **deposits by banks** is mostly attributable to the use of the ECB's 3-year LTRO (long-term refinancing operation) in the amount of EUR 3.0 billion.

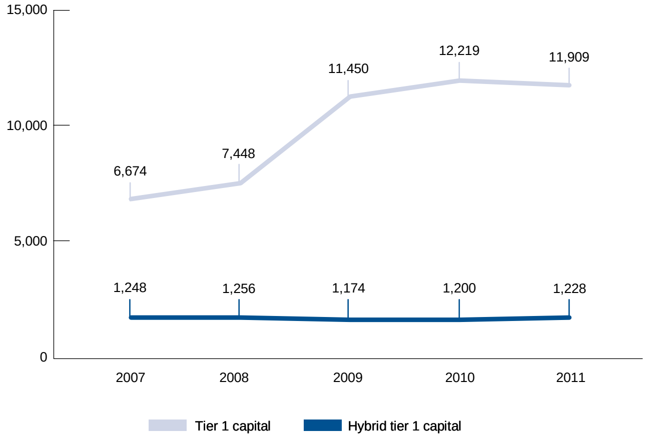
At 113.3%, the **loan-to-deposit ratio** was slightly higher at 31 December 2011 than at 31 December 2010 (113.1%).

As the decline in certificates of deposit was not offset by the rise in mortgage and municipal bonds, **debt securities in issue** declined by 1.6% from EUR 31.3 billion to EUR 30.8 billion.

Balance sheet structure/liabilities and total equity in EUR million



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



Total risk-weighted assets (RWA) fell by 4.8% to EUR 114.0 billion as at 31 December 2011 (31 December 2010: EUR 119.8 billion). This decline was due to the sale of non-core assets, including the almost complete close-out of the CDS portfolio of the International Business unit, as well as a large number of measures taken to meet the EBA's equity capital requirement of 9% by the end of June 2012.

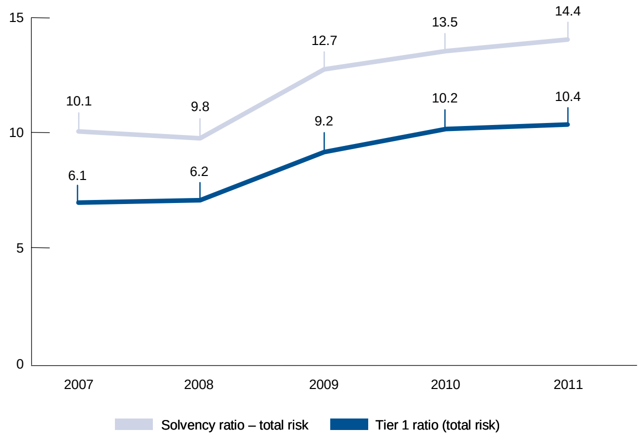
Total eligible **qualifying capital** of the Erste Group credit institution group, as defined by the Austrian Banking Act, rose from EUR 16.2 billion at year-end 2010 to EUR 16.4 billion as at 31 December 2011. The cover ratio with respect to the statutory minimum requirement at the reporting date (EUR 9.1 billion) was 179.9% (year-end 2010: 169.2%).

The **shareholders' equity** amounted to **EUR 12.0 billion** as of 31 December 2011 (year-end 2010: EUR 13.1 billion). The **tier 1 capital** after the deductions defined in the Austrian Banking Act amounted to EUR 11.9 billion (year-end 2010: EUR 12.2 billion).

The **tier 1 ratio** including the capital requirements for market and operational risk (total risk) improved to 10.4% (year-end 2010: 10.2%); the **core tier 1 ratio** rose to 9.4% as at 31 December 2011 (year-end 2010: 9.2%). The core tier 1 ratio as defined by the EBA stood at 8.9% as at 31 December 2011.

The **solvency ratio** in relation to total risk (total eligible qualifying capital as a percentage of the assessment base for total risk pursuant to § 22 par. 1 Austrian Banking Act) amounted to 14.4% as of 31 December 2011 (year-end 2010: 13.5%), which was well above the statutory minimum requirement of 8.0%.

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



EVENTS AFTER BALANCE SHEET DATE

On 17 February 2012, Erste Group announced its plans to repurchase hybrid capital and certain Tier 2 securities for cash in order to strengthen its capital structure. The potential repurchase of hybrid capital up to an indicative limit of EUR 500 million will take place between 17 February 2012 and 2 March 2012.

RISK MANAGEMENT

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

RESEARCH AND DEVELOPMENT

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

CORPORATE SOCIAL RESPONSIBILITY

Corporate social responsibility has been one of the Bank's fundamental principles since its inception in 1819 and continues to be an integral component of Erste Group's corporate philosophy. Efforts undertaken in this regard have been rewarded again in 2011 as the Erste Group has been included in the newly created STOXX Global ESG Leaders Index, which is composed of the best sustainable companies world-wide.

Customers

Erste Group strives to build and maintain long-term relationships with its customers by offering appropriate and understandable products and advice. The bank is constantly working to improve its service quality and to tailor its product portfolio to the demands and requirements of customers.
In 2011, Erste Bank Oesterreich introduced video and online meeting capabilities for retail clients. Despite the increasing importance of electronic banking, the branch network with its facilities remains a key access point for clients. For blind and partially-sighted customers, Erste Bank Oesterreich and the savings banks installed specially equipped ATMs that provide acoustic instructions. To put even more emphasis on its consumer orientation, Erste Group established the independent unit "Group Customer Experience", combining marketing research, service quality management and complaint handling functions. This setup has increased the bank's ability to understand customer needs and expectations and act upon them immediately in the most effective manner. Customers of Erste Bank Oesterreich and the Austrian savings banks, Slovenská sporiteľňa, Erste Bank Croatia, Erste Bank Serbia, Česká spořitelna, and Erste Bank Hungary ranked these institutions as either the top or second-best bank by local satisfaction ratings.

Erste Group's Austrian fund management organisation was an early mover in anticipating the growing needs and intentions of investors to increasingly emphasise environmental as well as ethical and social aspects in their investment decisions. Erste Sparinvest used these changes as an opportunity to develop the largest variety of ethical-sustainable funds in Austria over the last decade. Assets under management reached EUR 1.5 billion in 2011, an increase of 15% compared to 2010. In 2011, Sparinvest's sustainability specialists managed ten investment funds plus several externally mandated portfolios. Erste Sparinvest subscribes to the UN Principles of Responsible Investment. In 2011, the company decided to prohibit investments into companies active in the field of controversial weapons, such as land mines, for all actively managed mutual fund portfolios as of the beginning of 2012.

In 2011, the business focus of good.bee – a joint undertaking of Erste Group Bank AG and Erste Foundation – remained on the areas of Microfinance and Social Enterprise Finance. Microfinance is about finding financial solutions for individuals and entrepreneurs who lack access to financial services. In addition, local support networks assist in capacity building for social entrepreneurs by helping them to acquire the knowledge and skills they need to become successful in their ventures. Several good.bee initiatives were launched by the local banks of Erste Group in 2011: Erste Bank Serbia and the Serbian National Employment Agency launched a programme to help unemployed young people to set up their own businesses. Erste Bank Croatia supports self-employment by providing investment loans to people and businesses that may have difficulties meeting standard requirements for obtaining loans. Training and mentoring are offered as well. Banca Comercială Română granted several loans to social organisations in 2011 and gathered valuable experience in working with the social sector. Erste Bank Ukraine granted a loan to a medical rehabilitation centre investing in medical equipment. Česká spořitelna launched the pilot project Social Enterprise Finance, which grants loans to social enterprises in the Czech Republic.

Civil Society

The idea of working for the common good was already contained in the founding concept of the savings bank 192 years ago. Today, the MehrWERT sponsoring programme of Erste Group is a visible representation of its commitment to society.

In 2011, Erste Group sponsored again, among other projects, the annual Eastern Europe campaign of Caritas to help children in the poorest countries of Europe, the appeal for donations to fight poverty in Austria, and the Coffee to Help campaign. Erste Bank Oesterreich regularly supports special projects of Caritas Vienna, youngcaritas.at, and Caritas Austria. Since 2003, a number of Erste Group entities have been cooperating with Österreichisches Hilfswerk. In 2011, Erste Bank Oesterreich, s Bausparkasse and the savings banks provided again assistance to the Hilfswerk initiative KINDER FÖRDERN. ELTERN HELFEN (Promoting Children, Helping Parents). Erste Bank Oesterreich continued to support the association lobby.16 in 2011, which works to protect the right to education of unaccompanied young refugees and gives them access to education, employment and participation in social life. In the Czech Republic, Česká Spořitelna has been co-operating with Caritas Czech Republic on a number of projects for several years. Erste

Bank Croatia took part in the Step into Life programme, which provides scholarships to young people. Erste Bank Hungary's social activities focused on helping young and socially disadvantaged people and on promoting health issues.

In 2011, Erste Group supported and promoted partnerships between cultural and social institutions intended to develop common ideas and strategies for cultural appreciation programmes. One example is the project Kultur-Transfair, which develops projects designed to inspire interest in culture and facilitate ac-cess to it.
Erste Group continued its wide support of cultural activities in 2011 by sponsoring the Viennale film festival, the VIENNAFAIR art fair, and the Vienna Design Week. Since the 2011/12 season, Erste Bank Oesterreich has been principal sponsor of Jeunesse, an organisation that offers an extensive concert programme covering classical, jazz, world music and new music as well as children's concerts. Erste Bank Hungary is a sponsor of the Palace of Arts centre and in 2011 was awarded the Summa Artium Award for its long-term support of contemporary culture and art. Česká Spořitelna and Slovenská sporiteľňa supported a number of music festivals and Erste Bank Serbia lent its support again in 2011 to talented young musicians through the Klub 27 programme.
Financial literacy initiatives are well aligned with Erste Group's savings bank tradition and were implemented throughout the Group in 2011., The exhibition "Moneten, Kies und Kröten" (Show me the money) initiated by Erste Bank Oesterreich as a sponsor of ZOOM Kindermuseum was on show in Graz in 2011. Local banks operate educational internet portals for various target groups, among them Česká spořitelna's Moneymanie.cz. Erste Bank Croatia and Erste Bank Serbia offer workshops for people who want to improve their financial know-how. Erste Group Ukraine runs a financial education programme for children from low-income families. Slovenská sporiteľňa supported initiatives like Know your money, which teaches pupils how to manage their money.

The bank has supported amateur and professional sporting events in Austria and Central Europe for many decades. Projects are carried out in close cooperation with organisers and hosts of events. Ice hockey, running and tennis are given particular emphasis, as is the promotion of activities for young athletes.

Volunteering programmes comprise a key element within Erste Group's concept of corporate social responsibility. All local subsidiaries of Erste Group encourage their employees to engage in corporate volunteering and support them in these activities. More than 400 employees of Erste Bank Oesterreich and the savings banks work on a volontary basis for Zweite Sparkasse. Česká spořitelna staff provided help to people in need such as elderly and disadvantaged persons or drug addicts, and worked for the protection of the environment.

Staff

In 2011, a variable remuneration policy was implemented that defines performance criteria for determining and paying bonuses. Training of employees remains a high priority for Erste Group. The second class of the Group Leadership Development Programme completed its training modules in 2011 and a new set of trainees participated in the Erste Group Junior Trainee Programme. Erste School of Banking and Finance coordinated group-wide training activities in 2011 again and established three new specialised courses. Healthcare remained a key concern for Erste Group. The focus of activities has been in particular on stress management, burnout prevention, and the early detection of risk factors for cardiovascular diseases. In Austria, 1,200 employees of Erste Bank Oesterreich and Erste Group Bank AG took part in a medical check-up. For its exemplary commitment to managing mental health, Erste Bank Oesterreich was recognised as a "model of good practice" by the European Network for Health Promotion. In 2011, more than 32,000 employees took part in Erste Group's employee engagement survey. Based on staff feedback, improvements are being implemented.

Environment

In 2011, Erste Group started implementing the environmental strategy adopted in the preceding year, initially with a focus on measures in Austria. In 2011, negotiations were started to switch to an electricity provider that supplies electricity from renewable sources; these were successfully finalised at the beginning of 2012. Special emphasis will be put on the reduction of paper consumption at Erste Group. Only FSC or PEFC-certified paper is to be used in the future. A key measure taken in 2011 was the development of ecological criteria for procurement procedures. A catalogue of questions will be used in the future to determine if and to what extent suppliers observe ecological criteria in their production processes. From an environmental point of view 2011 was a successful year: CO2 emission per employee fell again by 9.5% to 1.61 tons. Copy paper consumption per employee was reduced by almost 12% to 37.8 kg per year. As a first step, principles for responsible financing were developed for the energy sector in 2011. Financing is provided only for projects that meet defined environmental and social criteria. Power consumption was reduced substantially. This success was based on in-house activities to raise employee awareness as well as on innovative IT features. Accordingly, a variety of projects were implemented at all Erste Group subsidiaries. This positive trend is driven by a large number of measures including a change to energy-saving technology and optimisation of materials and waste management.

CAPITAL, SHARE, VOTING AND CONTROL RIGHTS

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

As of 31 December 2011, DIE ERSTE österreichische Spar-Casse Privatstiftung, a foundation, held approximately 25% of the shares in Erste Group Bank AG. This makes the foundation the largest shareholder.

Disclosures pursuant to section 243a UGB

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

The Articles of Association contain no restrictions in respect of voting rights or the transfer of shares. A holding period of one year applies with regard to the employee share ownership programmes (MSOP/ESOP).

Art. 19.9 of the Articles of Association concerning amendments to the Articles of Association contains a provision that is not prescribed directly by statutory law: amendments to the Articles of Association, in so far as they do not alter the business purpose, may be passed by 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 by individual provisions of the Articles of Association, these provisions can only be amended with the same higher majority vote. Moreover, amendments to Art. 19.10 require a three-quarter majority of the votes cast and a three-quarter majority of the subscribed capital represented at the meeting considering the proposal.

Significant agreements pursuant to section 243 a no. 8 UGB

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

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

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

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

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

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

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

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

Preferred co-operation between Erste Foundation and Caixabank S.A.

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

After a number of transactions that aimed to reorganise "la Caixa" Group, Criteria CaixaCorp changed its name to CaixaBank, S.A. as of 30 June 2011. In the course of these transactions, the former Criteria CaixaCorp acquired the operational banking business of "la Caixa", which now continues to do business indirectly through the newly set up company CaixaBank which is listed on the stock exchange. As a consequence, CaixaBank - with its operational banking business in "la Caixa" - holds the portfolio of bank participations, including the holdings in Erste Group Bank AG. The name change has affected neither the "Preferred Partnership Agreement" nor the ongoing business cooperation.

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

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

Directors and Officers Insurance

Changes in controlling interests

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

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

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

Additional disclosures pursuant to section 243a no. 7 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 Meeting of 12 May 2011:

(1) the company is entitled to purchase treasury shares under Section 65 (1) no. 7 of the Austrian Stock Corporation Act ("Aktiengesetz", AktG) for trading purpose. However, the trading portfolio of these shares may not exceed five percent of the subscribed capital at the end of any calendar day The market price for the shares to be purchased must not be lower than 50% of the closing price at the Vienna Stock Exchange on the last trading day prior to the purchase and must not exceed 200% of the closing price at the Vienna Stock Exchange on the last trading day prior to the purchase. This authorisation is valid for 30 months, i.e. until 11 November 2013.

(2) Subject to approval by the Supervisory Board, the Management Board is entitled to purchase treasury shares pursuant to section 65 par. 1 no. 8 of the Austrian Stock Corporation Act ("AktG"). However, the shares purchased under this authorisation and under Section 65 par. 1 no. 1, 4 and 7 AktG may not exceed 10% percent of the subscribed capital. The market price of each share to be purchased may not be below EUR 2.00 or above EUR 120.00. Upon approval by the Supervisory Board, the shares purchased according to the above can be sold in the form of an issue of shares as consideration and financing for the acquisition of companies, businesses, business units or shares in one or more domestic or foreign companies. Such an offering would be conducted outside the stock markets and would not constitute a public offering. Furthermore, the Management Board is entitled to withdraw shares without resolution at the Annual General Meeting. This authorisation is valid for 30 months, i.e. until 11 November 2013.

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

INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM FOR THE GROUP FINANCIAL REPORTING PROCEDURES

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

Risks relating to the financial reporting procedures

The main risk in the financial reporting procedures is that errors or deliberate action (fraud) prevent facts from adequately reflecting the company's financial position and performance. This is the case whenever the data provided in the financial statements and notes is essentially inconsistent with the correct figures, i.e. whenever, alone or in aggregate, they are apt to influence the decisions made by the users of financial statements. Such decision may incur serious damage, such as financial loss, the imposition of sanctions by the banking supervisor or reputational harm.

The internal control system (ICS)

To limit these risks, Erste Group has established and operates an extensive internal control system (ICS) to monitor its business activities.
Key components of the ICS include:
(1) Controlling, as a permanent financial/business analysis (e.g. comparison of target and actual data between Accounting and Controlling) and control of the company and/or individual corpo-rate divisions.

(2) Systemic, automatic control systems and measures in the formal procedure and structure, e.g. programmed controls during data processing.

(3) Principles of functional separation and the four-eye principle.

(4) Internal Audit – as a separate organisational unit – is charged with monitoring all corporate divisions in an independent yet proximate manner, particularly with regard to the effectiveness of the components of the internal control system.

The Internal Audit unit is monitored and/or checked by the Management Board, the Audit Committee/Supervisory Board and/or externally by the bank supervisor. In addition, Internal Audit is responsible for auditing and assessing all business activities. The focus of all audit activities is, however, on monitoring the completeness and effectiveness of the internal control system. Internal Audit reports are presented annually to all members of the Management Board, to the Supervisory Board, and to the Audit Committee.

Organisation and supervision

Group Accounting and Group Performance Management are responsible for group reporting and report to Erste Group's CFO. Erste Group issues group policies used for preparation of consolidated financial statements in accordance with IFRS. A summary description of the accounting process is provided in Erste Group' IFRS Accounting Manual. All transactions have to be recorded, posted and accounted for in accordance with the ac-counting and measurement methods set out in this manual. The management of each subsidiary is responsible for the implementation of group policies. Audits are conducted by Internal Audit as well as local audit to review compliance with these group policies.
Reporting is almost fully automated, based on source systems and automated interfaces, and guarantees up-to-date data for controlling, segment reporting, and other analyses. Accounting information is derived from the same data source and is reconciled monthly for reporting purposes. Close collaboration between accounting and controlling permits continual target/actual comparisons for control and reconciliation purposes. Monthly and quarterly reports to the Management Board and the Supervisory Board ensure a regular flow of financial information and monitoring of the internal control system.

Consolidation of group accounts

The data provided by the group entities are checked for plausibility by the organisational units Group Reporting, the IFRS Competence Center, and Group Consolidation. The subsequent consolidation steps are then performed using the consolidation sys-tem (ECCS). Those include consolidation of capital, expense and income consolidation, and debt consolidation. Lastly, possible intra Group gains are eliminated. At the end of the consolidation process, the notes to the financial statements are prepared in accordance with IFRS, the BWG and UGB.

The consolidated financial statements and the group management report are reviewed by the Audit Committee of the Supervisory Board and are also presented to the Supervisory Board for approval. They are published as part of the annual report, on Erste Group's website and in the Official Journal of Wiener Zeitung and finally filed with the Commercial Register.

Vienna, 29 February 2012

The Management Board

Andreas Treichl mp
Chairman

Franz Hochstrasser mp
Vice Chairman

Herbert Juranek mp
Member

Gernot Mittendorfer mp
Member

Manfred Wimmer mp
Member

Segments

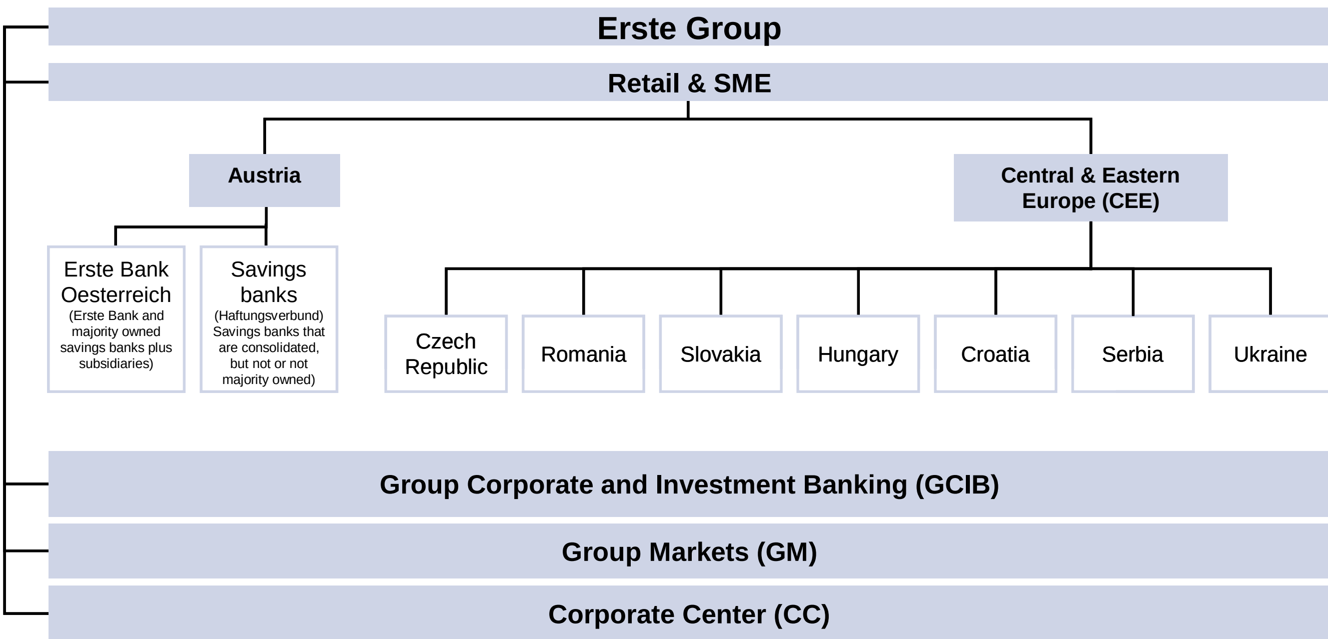
INTRODUCTION

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

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

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

Segment reporting structure at Erste Group



Retail & SME

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

AUSTRIA

Economic review

Austria's growth continued to outpace the euro zone average during 2011 with a 3.1% rise in GDP. Exports performed well, and Germany remained the key export market at a share exceeding 30%. Domestic demand also contributed to growth. Services continued to perform well in 2011, with the tourism sector once again supporting the expansion. Measured in terms of GDP per capita at EUR 36,200, Austria remained one of the euro zone's most prosperous countries in 2011. The unemployment rate reflected the expanding economy and declined to 4.2%, one of the lowest in Europe. Despite the downgrade of S&P in January 2012, other rating agencies acknowledged Austria's economic performance coupled with its social and political stability and its highly educated and flexible workforce. As a result, the rating agencies continued to keep Austria among the highest rated countries in Europe.

Fiscal consolidation continued in 2011. Facilitated also by favourable economic developments, the budget deficit narrowed to 3.3%. The fiscal consolidation package for 2011 comprised measures totalling around 0.9% of GDP. More than half of the consolidation effort occurred on the revenue side, with the biggest item remaining the bank levy at 0.2% of GDP. Other measures included the continuation of a tax on airline tickets, a rise in the tax on property sales by private foundations, and an increase in registration fees for less environment-friendly vehicles. The measures on the expenditure side consisted mainly of cuts in family allowances and pension entitlements.

In light of the economic situation and reflecting global trends toward higher energy prices, average consumer prices rose by 3.6%. Real estate prices also increased and contributed to inflation. The European Central Bank maintained its policy of low interest rates, reducing the base rate to 1.00% by the end of 2011.

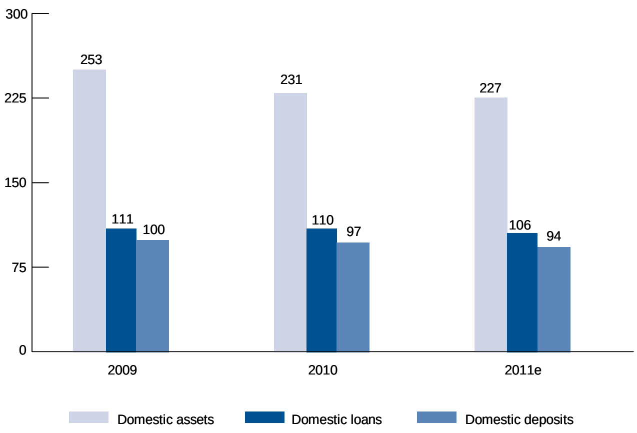
Key economic indicators – Austria	2008	2009	2010	2011e
Population (ave, million)	8.3	8.4	8.4	8.4
GDP (nominal, EUR billion)	282.7	274.8	286.2	305.0
GDP/capita (in EUR thousand)	33.9	32.9	34.1	36.2
Real GDP growth	1.4	-3.8	2.3	3.1
Private consumption growth	0.8	-0.3	2.1	1.0
Exports (share of GDP)	43.0	35.3	39.0	41.3
Imports (share of GDP)	43.2	36.1	40.1	42.0
Unemployment (Eurostat definition)	3.8	4.8	4.4	4.2
Consumer price inflation (ave)	3.2	0.4	1.7	3.6
Short term interest rate (3 months eop)	2.9	0.7	1.0	0.0
EUR FX rate (ave)	1.0	1.0	1.0	1.0
EUR FX rate (eop)	1.0	1.0	1.0	1.0
Current account balance (share of GDP)	4.9	2.7	3.0	2.5
General government balance (share of GDP)	-0.9	-4.1	-4.4	-3.3

Source: Erste Group

Market review

The Austrian banking market, with total assets equivalent to 227% of GDP in 2011, continued to display the characteristics of a developed banking market. The market remained very competitive due to the large number of non-listed banks. As a result, the market was characterised by much lower margins as well as lower risk costs than in Central and Eastern Europe. Growth rates remained low throughout the year, with customer loans expanding by 2.7% while deposits rose by 3.0%. The banking system's loan-to-deposit ratio stood at 113% at year-end. The special banking tax intended to tackle the country's budget deficit totalled EUR 500 million in 2011.

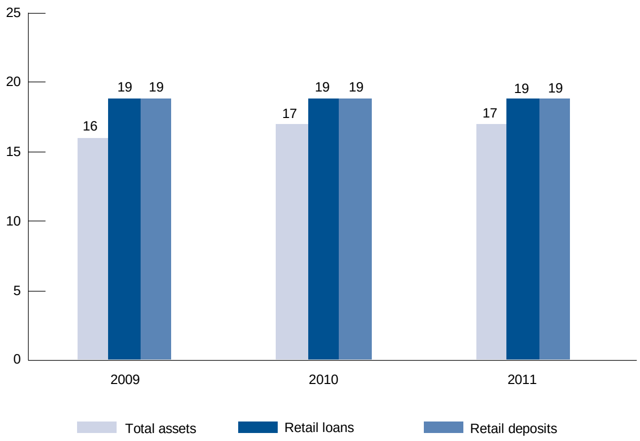
Financial intermediation – Austria (in % of GDP)



Source: Oesterreichische Nationalbank, Erste Group

Capitalisation of the sector's three systematically important banks was twice scrutinised during 2011 by the European Banking Authority. In July, the EBA announced that Erste Group and Raiffeisen Bank International had comfortably passed the test while Oesterreichische Volksbanken AG had not met the 5% requirement for core tier 1 capital. In October, the EBA set new capital rules on the basis of which Austrian banks would need to improve their collective capitalisation by EUR 3.9 billion in order to meet the 9% core tier 1 capital threshold by mid-2012. Financial institutions responded by presenting their plans as to how these rules would be satisfied. Importantly, Austrian banks benefited from their very low exposures to the troubled peripheral European countries. In addition, an important part of Austrian banks' emerging-Europe exposure is in countries with healthy fundamentals, such as the Czech Republic, Slovakia and Poland. Importantly, the Austrian National Bank and the Austrian Financial Market Authority proposed that credit growth should be conditional to the growth of sustainable local refinancing: for new businesses 110% loan to local refinancing (i.e. the loan-to-deposit ratio including local refinancing) should be kept in countries where it exceeds 110%. The main goal is to reduce dependence on parent company funding thus limit potential negative spill-over effects on the Austrian economy.

Market shares – Austria (in %)



Source: Oesterreichische Nationalbank, Erste Group

Erste Bank Oesterreich and the savings banks held onto their very strong market position in the Austrian market. Their combined market share as measured by total assets stood at 17% at year-end 2011. In the retail segment, Erste Bank Oesterreich and the savings banks maintained their shares at about 19%, while in the corporate segment market shares ranged between 16% and 20% depending on customer product.

SAVINGS BANKS

The savings banks segment encompasses 46 Austrian savings banks with 753 branch offices across the country that are consolidated due to their membership in the Haftungsverbund (cross-guarantee system). Erste Bank Oesterreich has no or only minor shareholdings in these institutions. Savings banks that are majority owned by Erste Bank Oesterreich (Salzburger Sparkasse, Tiroler Sparkasse, Sparkasse Hainburg-Bruck-Neusiedl) are included into the Erste Bank Oesterreich segment. The cross-guarantee system covers 45 Austrian savings banks and provides a sound legal basis for collaboration with Erste Bank Oesterreich. In May 2010, Erste Bank Oesterreich and Sparkasse Oberösterreich entered into a separate cross-guarantee agreement.

Business review

Strategy. The savings banks are classic universal banks serving private individuals, free professions, small and medium-sized enterprises as well as large corporate clients, the public sector and non-profit organisations. The Austrian savings banks and Erste Bank Oesterreich are focused on becoming themarket leader in Austria over the medium term. The savings banks' close collaboration in key business areas is reflected in their common corporate identity and their harmonised business and market policies. Customers benefit from the wide variety of financial products and services developed through co-ordinated activities. At the same time, these common production and distribution activities, as well as the shared IT platform and applications (e.g. unified management information and control systems), yield synergies and cost advantages for the savings banks and Erste Bank Oesterreich. Providing outstanding quality and acquiring customers continue to be key goals.

Highlights from 2011

Successful customer acquisition. In 2011, the savings banks gained 75,936 new customers (net). That marked a new record. The total number of customers rose to exceed 3.2 million. Campaigns such as "Kunden werben Kunden" ("clients win clients") contributed significantly to the successful acquisition of new customers. This proved just how much customers appreciate when services are aimed to satisfy their actual needs.

Customer base analysis. A study was made to profile the customer portfolio. The aim was to analyse strengths and weaknesses of the customer allocation based on existing customer segmentation criteria. Areas with potential were highlighted by comparing "right" versus "wrong" customer allocation. From the comparison and benchmarking of the savings banks' customer bases, conclusions were drawn that lead to specific actions. The analysis confirmed that, to optimise long-term customer relationships, it is important to have competent and well-trained relationship managers who are able to provide customers advice meeting their specific needs.

Training supports sales. Key focal points of the savings banks' training activities were how to converse with customers and how to identify their needs within the selling process. "Finance Check" workshops were conducted to practice speaking with clients while using dedicated Finance Check software. This marketing tool benefits customers as well as relationship managers. The customers' financial needs are addressed through a structured approach which enables account managers to offer the most suitable products and services. This type of cross-selling zeroes in on each customer's individual requirements.

Cost projects. Expense-related projects were again implemented in 2011 across the savings banks. Initiatives defined as "optimisation of other administrative expenses" and "personnel benchmarking at savings banks" enabled the participating institutions to compare their expenses in detail with those of their peers. Under these projects, lists of measures were drawn up to tackle weaknesses and to follow best practice examples. As a result, savings banks quickly exploited their optimisation potential.

Financial review

in EUR million	2011	2010
Pre-tax profit/loss	154.7	123.0
Net profit/loss after minority interests	6.0	-5.5
Operating result	487.1	450.8
Cost/income ratio	65.6%	67.4%
Return on equity	2.0%	n.a.
Customer loans	37,604	37,268
Customer deposits	33,555	33,099

At EUR 1,015.6 million, net interest income was EUR 55.0 million, or 5.7%, higher than in the financial year 2010, driven by positive development in margins and the shifting of interest income from trading assets. Net fee and commission income declined by EUR 3.6 million, or 0.9%, from EUR 393.8 million in 2010 to EUR 390.2 million. This was mainly attributable to lower income from lending. The decline in the net trading result from EUR 27.2 million by EUR 15.0 million to EUR 12.2 million in the financial year 2011 was due to the adverse market environment, particularly in the third quarter, as well as to the shifting of interest income from trading assets. At EUR 930.9 million, operating expenses were at the same level as in the previous year. The operating result rose from EUR 450.8 million in the financial year 2010 by EUR 36.3 million, or 8.1%, to EUR 487.1 million.

A decline in the item "Other result" from EUR -24.4 million in the financial year 2010 by EUR 57.6 million to EUR -82.0 million in 2011 was mainly caused by losses on the sale of securities and write-downs on securities not held in the trading portfolio. In the financial year 2011, banking tax was paid in the amount of EUR 6.5 million. Risk provisions decreased from EUR 303.3 million by EUR 52.9 million, or 17.4%, to EUR 250.4 million. Net profit after minorities was EUR 6.0 million (2010: EUR -5.5 million). The cost/income ratio improved to 65.6% in 2011 (2010: 67.4%).

Credit risk

Total credit exposure in the savings bank segment increased in 2011 by 1.7% from EUR 52.0 billion to EUR 52.9 billion. Customer loans grew at a slower 0.9% pace to EUR 37.6 billion. While loans to corporates and private households expanded, those to free professionals and small and medium-sized businesses were down slightly. Generally, lending to free professionals, self-employed persons and small enterprises is a key feature of the business for Austrian savings banks. At nearly one-fifth of overall loans, this customer subsegment is much larger than at Erste Group's subsidiaries in Central and Eastern Europe. This mirrors the structure of the Austrian economy, which has a higher percentage of small and medium-sized businesses than do many other countries. Foreign currency loans in Swiss francs were reduced. At the end of the financial year, these accounted for 19.7% of total loans to customers.

In line with development in the Austrian economy, the quality of the loan portfolio improved slightly over the course of 2011. That continued the positive trend from 2010. The NPL ratio decreased by 0.2 percentage points to 6.9%, and, as in 2010, performing loans significantly migrated to better risk classes. A breakdown by customer segment shows that it was mainly loans to corporates that drove the positive trend, which is a clear indication of recovery in the Austrian economy after the crisis years of 2008 and 2009. NPL coverage improved considerably and was 59.7% at year-end 2011.

ERSTE BANK OESTERREICH

In addition to Erste Bank Oesterreich itself, the segment bearing that name includes the three savings banks in which Erste Bank Oesterreich holds majorities: Salzburger Sparkasse, Tiroler Sparkasse, and Sparkasse Hainburg-Bruck-Neusiedl. Weinviertler Sparkasse was integrated into Erste Bank Oesterreich in autumn 2011. Another component of this segment is Erste Bank's Austrian real estate and mortgage business, which encompass retail mortgages, financing for subsidised and non-subsidised housing projects, as well as facility management and real estate brokerage. s Bausparkasse, the Austrian market leader in financing for retail customers as well as non-profit and commercial developers, is among the key operating entities in this business. Since 2005, s Bausparkasse has also been responsible for the mortgage bond transactions of Erste Bank Oesterreich. The real estate broker s REAL and s Wohnbaubank, a bank specialising in housing loans, also play key roles.

Business review

Strategy. Erste Bank Oesterreich and its three savings banks are universal banks offering clients one-stop shops for all their financing and investment needs. The strategic focus is on strengthening their market position and achieving market leadership jointly with the other savings banks. The banks aim to grow by acquiring new customers and intensifying existing customer relationships. In its core businesses of deposit-taking and lending, Erste Bank Oesterreich is focused on retail customers, corporate customers, and the public sector. Through its multiple-award-winning subsidiaries, the bank offers financial products relating to investments, construction and housing, as well as leasing. In private banking, Erste Bank is one of the market leaders in Austria with assets under management of EUR 28 billion. Together with the savings banks, Erste Bank strives to become Austria's strongest and most profitable banking group. To achieve this goal, the bank is optimising its service and advisory standards and consistently improving the customer experience.

Highlights from 2011

Growth driven by new customers. Erste Bank Oesterreich is pursuing the strategic goal of growing organically by winning new customers. In 2011, approximately 34,000 new customers were acquired. One in four inhabitants of Vienna is already a customer of the bank. Among the efforts contributing to this success was an "action day" organised under the motto "Erste Bank unterwegs" ("Erste Bank out and about") in April 2011. Hundreds of staff members literally were out and about – talking to people in the street, in shops and in businesses – and inviting them to come and meet them at the Erste Bank branches. This campaign publicly demonstrated that Erste Bank's employees are ready to go the extra mile for the customers. The principal aim of this initiative was to highlight that the bank is in touch with how people live and work today – and that its services and financing solutions are state-of-the-art.

Top quality in client relationship management is key to winning new customers. Despite customers' steadily rising expectations and the general public's often critical attitude towards banks, current surveys indicate a high degree of satisfaction among customers of Erste Bank Oesterreich and a willingness to recommend the bank. More than 13,000 customers said in 2011 they would recommend the bank, which is about 80% more than the year before.

Erste Bank improves accessibility. Customers' needs are changing all the time. Clients expect their bank to offer better accessibility and more flexibility than it did a few years ago. Enhancing accessibility to bank services through a variety of channels is one of Erste Bank's business principles. Accordingly, banking and service hours were adjusted during 2011 to meet client needs. All branches in Vienna are now open throughout the day. At the Graben branch, advisory services are offered to clients even on Saturdays from 10 a.m. to 1. p.m. Erste Bank Oesterreich is convinced that individual advice and personal, face-to-face communications will remain crucial to how it provides its services. Among other advantages, individualised attention has a clear positive impact on client retention.

To facilitate mobile financial transactions, Erste Bank Oesterreich offers both device-optimised mobile netbanking for smart phones as well as, since 2011, a netbanking app for iPhone and Windows Phone 7 users. The development of an Android app was started. This innovative product is continuously enhanced with help from a large pool of test users.

New media. Since mid-2010, Erste Bank has been active in social media with a focus on its Facebook presence. Integrated campaigns and numerous activities generated more than 2.5 million ad impressions and 15,000 likes by year-end 2011. Erste Bank targets many of its online activities to young people. The Facebook presence of the youth brand spark7 has become Austria's largest youth community in the financial services sector. In an integrated campaign, students were addressed through a wide diversity of digital channels. A virally distributed youtube video was viewed almost 100,000 times.

Managing CHF loans. Developments in the foreign exchange and financial markets seriously affected Austrian foreign currency borrowers and heightened uncertainty in the market. Demand for advisory meetings increased especially after the Swiss National Bank announced in September 2011 its intentions to enforce a EUR/ CHF minimum exchange rate of 1.20. Through its dedicated "foreign currency loans task force", Erste Bank Oesterreich provides focused advice to clients and assists them if they wish to restructure their foreign currency loans and improve collateral back-up. The aims are to make clients aware of the current situation and the rise in potential risk, explain available options, and help in implementing the decisions taken.

Erste Bank strongly promotes all measures to reduce risk, recommending primarily to transform foreign currency bullet loans into amortising loans and taking a client's individual situation into account when modelling the repayment schedule. Any action that is proposed and promoted is pursued with due regard to legitimate client interests and Erste Bank's responsibility to advise and support its clients.

Euromoney awards. At a London ceremony in July 2011, Euromoney named Erste Bank and the savings banks "Best Bank in Austria". For 20 years, this financial markets magazine has been conferring its Euromoney Awards for Excellence in major financial market and product categories to the most successful financial institutions and leading banks in more than 100 countries. In addition, Erste Group Oesterreich, joined by Erste Bank Hungary and Banca Comercială Română, was again named as the country's leading private banking institution in the Euromoney Private Banking Survey 2011.

Financial review

in EUR million	2011	2010
Pre-tax profit/loss	232.2	219.8
Net profit/loss after minority interests	177.6	166.7
Operating result	397.3	393.7
Cost/income ratio	60.5%	60.6%
Return on equity	16.3%	14.6%
Customer loans	28,199	27,438
Customer deposits	28,774	27,796

The growth in net interest income from EUR 655.3 million in 2010 by EUR 10.7 million, or 1.6%, to EUR 665.9 million in the financial year 2011 was primarily due to an increase in deposits and higher margins. Net fee and commission income declined from EUR 334.0 million by EUR 13.4 million, or 4.0%, to EUR 320.6 million. This was mainly attributable to a subdued securities business that reflected the general market development. The slight rise in operating expenses from EUR 607.0 million by EUR 2.4 million, or 0.4%, to EUR 609.4 million, was primarily due to the inclusion of Intermarket Bank AG in August 2011. Strict cost management by Erste Bank Oesterreich and its subsidiaries kept operating expenses unchanged versus the previous year. The operating result improved from EUR 393.7 million in the financial year 2010 by EUR 3.6 million, or 0.9%, to EUR 397.3 million. The cost/income ratio was almost unchanged at 60.5%. The significant improvement in risk provisions from EUR 148.3 million by EUR 46.9 million, or 31.6%, to EUR 101.4 million reflected the continuously improving risk profile of the retail and SME portfolios.

The decline in the "Other result" item from EUR -25.7 million by EUR 38.0 million to EUR -63.7 million in the financial year 2011 was mainly due to higher write-downs on securities not held for trading (including Greek bonds) as well as the introduction of the banking tax (EUR 7.7 million). Net profit after minorities rose from EUR 166.7 million by EUR 10.9 million, or 6.5% to EUR 177.6 million. Return on equity improved from 14.6% to 16.3%.

Credit risk

The Erste Bank Oesterreich segment's total credit exposure widened during 2011 by 0.4% to EUR 37.7 billion, while customer loans increased by 2.9% from EUR 27.4 billion to EUR 28.2 billion. Erste Bank Oesterreich's share in the total loan portfolio of Erste Group was 20.9% in December 2011, up by 0.2 percentage points versus 2010. A breakdown by customer group shows a gain in lending to the public sector at the expense of loans to retail customers. The share of loans to free professionals, the self-employed and small businesses is smaller than at the savings banks. At year-end 2011 it was unchanged against 2010 at 9.7% of total loans to customers.

While exchange rates were practically unchanged as of the two balance sheet dates – after much volatility through the course of 2011 – the share of Swiss franc loans in the total loan portfolio decreased from 16.0% to 14.4%. This was basically due to two reasons: While on the one hand foreign currency lending to retail customers had been discontinued in autumn 2008, on the other, customers increasingly converted their loans to euro. The percentage of secured loans rose in 2011 by 2.4 percentage points to 69.1%.

Erste Bank Oesterreich's credit portfolio has improved over the past few years even more strongly than has that of the savings banks segment. The NPL ratio based on customer loans dropped from 4.7% at the end of 2009 to 4.1% at year-end 2010 and finally to 3.7% at the close of 2011. Improvements in credit quality were seen in all customer segments, but these were especially strong among the self-employed and small businesses. The public sector and private household borrowers exhibited the best asset quality.

CZECH REPUBLIC

The Czech Republic segment includes the retail and SME business of Česká spořitelna and its subsidiary operations. Česká spořitelna is the leading retail bank in the country and the largest among Erste Group's operations in Central and Eastern Europe. The bank operates a network of 654 branches and 1,413 ATMs. It serves some 5.2 million retail, SME and large corporate and municipality clients. Česká spořitelna has issued almost 3.2 million bank cards, including roughly 400,000 credit cards. The bank's building society, pension fund and factoring subsidiaries also occupy leading positions in their respective fields.

Economic review

The Czech economy remained one of the most successful and stable in Central and Eastern Europe. The economic recovery continued mainly to be driven by exports in 2011. The open Czech economy clearly benefited from the industry-driven recovery in Germany, the country's main trading partner. The automotive and manufacturing industries continued to contribute crucially to exports. Domestic demand, however, remained sluggish because of cuts in government consumption, wage restraint in the public sector, and a slow recovery in the labour market. Real GDP expanded by 1.6% overall in 2011, while GDP per capita stood at EUR 14,800. The unemployment rate declined slightly in 2011 to 8.5%, with manufacturing being the only sector adding to its workforce.

Fiscal deficit reduction in 2011 relied mostly on additional spending cuts across a broad set of categories. The public sector wage bill was reduced by 10%, and cuts also affected social transfers. Additional savings were achieved on interest costs for the government debt due to favourable borrowing conditions. The Czech Republic maintained its traditionally lower public debt relative to its CEE peers at 43% of GDP. The general government deficit was further reduced to 3.7% of GDP in 2011. The government expressed its determination to push the deficit down to below 3% by 2014. Rating agencies acknowledged the overall performance of the Czech economy, with S&P upgrading the country's long-term sovereign credit rating to AA− from A in August 2011. Moody's and Fitch maintained their A1 and A+ ratings throughout 2011.

At 1.9%, growth in consumer prices averaged close to the Czech National Bank's 2% target. Inflation was driven by higher energy and food prices, as well as by price deregulation. These effects were counterbalanced, however, by low demand inflation. The Czech koruna, supported by the country's strong fundamentals, traded within a relatively narrow range versus the euro compared to some of the other regional currencies. In the second half of the year, however, the koruna came under pressure due to the European debt crisis. The Czech National Bank left its base rate unchanged at 0.75% throughout 2011.

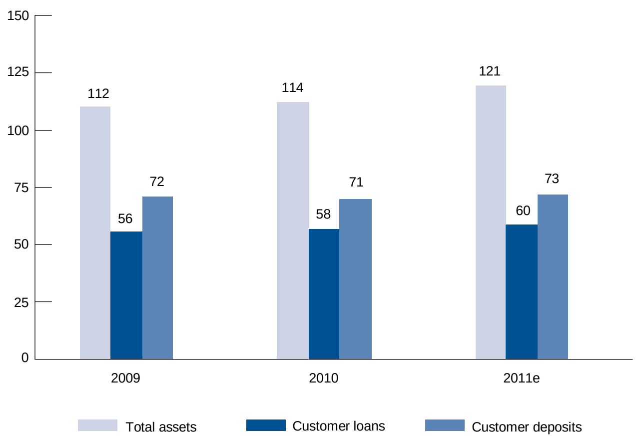
Key economic indicators – Czech Republic	2008	2009	2010	2011e
Population (ave, million)	10.4	10.5	10.5	10.5
GDP (nominal, EUR billion)	154.1	141.5	149.2	155.5
GDP/capita (in EUR thousand)	14.8	13.5	14.2	14.8
Real GDP growth	2.9	-4.5	2.6	1.6
Private consumption growth	3.0	-0.3	0.5	-0.5
Exports (share of GDP)	54.8	50.0	57.2	62.1
Imports (share of GDP)	54.2	47.7	55.9	59.3
Unemployment (Eurostat definition)	5.4	8.1	9.0	8.5
Consumer price inflation (ave)	6.4	1.1	1.5	1.9
Short term interest rate (3 months eop)	3.6	1.5	1.2	1.2
EUR FX rate (ave)	25.0	26.4	25.3	24.6
EUR FX rate (eop)	26.9	26.4	25.0	25.6
Current account balance (share of GDP)	-2.1	-2.4	-3.1	-1.9
General government balance (share of GDP)	-2.2	-5.8	-4.8	-3.7

Source: Erste Group

Market review

In November 2011, the Czech National Bank released the findings from its stress tests. These found that the country's banking system was resilient in the face of widely ranging external risks. Indeed, the Czech banking market remained one of the most liquid and well capitalised in the CEE region. The 82% ratio of loans to deposits across the banking sector as of year-end 2011 provides a case in point. Growth of the banking market reflected lower economic growth in 2011: customer loans and deposits grew by only 6% and 5%, respectively. Foreign exchange-based lending remained insignificant compared to some other CEE countries with higher interest rates. The NPL ratio for the sector decreased to 6.0% and was lower than elsewhere in the CEE region. The attractiveness of the Czech banking market was demonstrated, too, by the entry during 2011 of such new players as Zuno, Air Bank and Equa bank.

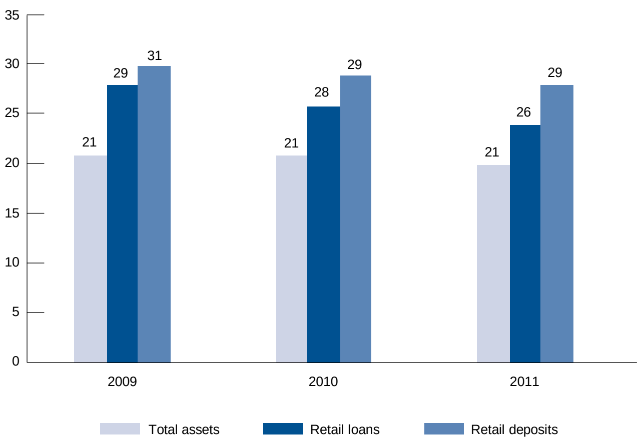
Financial intermediation – Czech Republic (in % of GDP)



Source: Czech National Bank, Erste Group

Česká spořitelna maintained its market leadership positions across all major product categories in 2011. Its retail market shares ranged from 25% to 30% while its share in the corporate segment remained lower at around 20%. Overall, its market share as measured by total assets remained slightly above 20%. Česká spořitelna also retained its number-one position in the payment card market with a market share of 33%.

Market shares – Czech Republic (in %)



Source: Czech National Bank, Erste Group

Business review

Strategy. Česká spořitelna's strategy is directed to growing with the evolving needs of a retail customer base that is becoming wealthier. While catering to the mass market, the bank also offers a broad range of services to corporate and public sector clients. In line with this balanced business model that is focused on the real economy, Česká spořitelna aims to retain its leading market positions in all key product segments while not losing sight of the need to further enhance client satisfaction. The bank aims to achieve sustainable profit growth while maintaining high risk standards.

Highlights from 2011

Contribution to mortgage market recovery. In 2011, Česká spořitelna had quite a significant impact on restoring interest in mortgage loans. It offered new services at attractive terms while taking advantage of the favourable interest rate environment and modestly diminished real estate prices. In 2011, Česká spořitelna provided nearly 18,000 new private mortgages totalling EUR 1.1 billion, an increase of 100% by number of mortgage loans and by volume. The bank's market share increased to 24.3% for private mortgages provided in 2011 (compared to 17.1% in 2010). In most cases the interest rates were fixed for five years. Two-thirds of the mortgage borrowers also contracted insurance to cover monthly payments in case of job loss. The total volume of the retail mortgage loans portfolio rose year on year by 9% to EUR 4.9 billion.

Customised account products. Roughly every fourth inhabitant of the Czech Republic (2.26 million people in all) uses Česká spořitelna's flagship personal account, Osobní účet České spořitelny. The product offers flexible options to meet the requirements of different target groups and remains the most prevalent current account in the Czech Republic. Special account variants are available for clients with higher incomes or sizeable assets, as well as for different age groups. The latter include, for example, secondary school and university students or clients who are about to start their first employment, including graduates from all types of schools, apprenticeships and universities. Since September 2011, clients have been able to open accounts online. The volume of funds deposited at personal accounts grew by 13% to EUR 5.3 billion. Specially designed account packages were made available for the small business and corporate segments. In 2011, options for unsecured company loans and overdrafts were introduced. Clients pay only for those services they actually require and use, and this has proven to have a positive impact on customer satisfaction.

Front-runner in electronic banking. Česká spořitelna maintains its leading position in electronic banking. During 2011, the bank launched multiple new functions for its electronic banking products SERVIS 24 (for retail customers) and BUSINESS 24 (for corporate customers). The total number of users has already crossed the threshold of 1.4 million. In autumn 2011, Česká spořitelna and VISA Europe card association jointly launched a card payment innovation in contactless payment technology. Česká spořitelna's contactless payment cards offer dual-functionality, so clients may use them for both contact and contactless payments.

Pension solutions. Česká spořitelna offers various pension fund products to its clients to provide additional income and thereby maintain adequate living standards during their retirement. Several schemes take into consideration potential changes in the client's financial situation and provide possibilities for adjustments. By the end of the year, the number of Česká spořitelna's pension fund customers totalled approximately 930,000. That corresponded to second place in the Czech Republic's supplementary pension insurance market.

Supporting Czech exports. In co-operation with Czech Export Bank, Česká spořitelna launched a programme to provide working capital loans for subcontractors to exporters. This new instrument is strategically designed to stimulate Czech economic growth, boost employment and competitiveness of small and medium-sized enterprises, and support the Czech export industry. The TOP EXPORT scheme is open to SMEs with turnover from CZK 30 million to CZK 1.5 billion. Loans are secured by Czech Export Bank's guarantees. The suppliers benefit from flexible access to financing and a simplified loan approval process.

International and local recognition. As in previous years, Česká spořitelna received a number of local and international awards. It was recognised as "The Bank of the Decade", and for the eighth year in a row was chosen "Most Trusted Bank" in Fincentrum's Bank of the Year 2011 survey. Pavel Kysilka, CEO of Česká spořitelna, was named "Banker of the Year 2011". Česká spořitelna was selected as Company of the Year: Equal Opportunities 2011 in a competition organised by the non-profit organisation Gender Studies. The jury especially appreciated the bank's benefits system and that it designates a person to address equal opportunities at the company. Česká spořitelna also won Euromoney's Private Banking award for 2011, naming it as the best bank in the Czech Republic in providing private banking services.

Financial review

in EUR million	2011	2010
Pre-tax profit/loss	587.9	467.6
Net profit/loss after minority interests	456.3	379.0
Operating result	920.4	916.7
Cost/income ratio	43.7%	43.6%
Return on equity	42.8%	37.0%
Customer loans	17,187	17,486
Customer deposits	24,296	24,576

Net interest income from the Czech retail and SME business was up strongly year on year by EUR 96.1 million, or 8.8% (currency-adjusted: +5.8%), from EUR 1,087.2 million to EUR 1,183.3 million in the financial year 2011. This increase was driven by better margins in the lending business and higher income from the banking book. Net fee and commission income rose from EUR 476.8 million in the financial year 2010 by EUR 19.7 million, or 4.1% (currency-adjusted: +1.2%), to EUR 496.5 million, mainly as a result of higher income from payment transfers and the cards business. Operating expenses were up EUR 4.1 million, or 0.6%, to EUR 713.9 million. Currency-adjusted, operating expenses were reduced by 2.2%, however, as a result of rigorous cost control. The net trading result decreased from the previous year's strong level of EUR 62.5 million by EUR 108.0 million to EUR -45.5 million, which was mainly attributable to the negative development of financial markets, negative market valuations of the pension funds and lower income from foreign exchange trading.

The operating result rose from EUR 916.7 million by EUR 3.7 million, or 0.4%, to EUR 920.4 million; currency-adjusted, it declined by 2.4%. In view of improved economic conditions and stabilisation of the portfolio, risk provisions fell by EUR 155.3 million, or 42.5% (currency-adjusted: -44.1%), from EUR 365.8 million to EUR 210.5 million in 2011. The item "Other result" deteriorated from EUR -83.3 million by EUR 38.7 million, or 46.4% (currency-adjusted: -42.3%), to EUR -122.0 million due to higher write-downs on securities not held for trading and higher deposit insurance contributions. Net profit after minorities rose by EUR 77.3 million, or 20.4% (currency-adjusted: +17.1%), from EUR 379.0 million to EUR 456.3 million. The cost/income ratio was almost unchanged at 43.7%. Return on equity rose to 42.8% (2010: 37.0%).

Credit risk

Total credit exposure in the Czech Republic segment was EUR 30.3 billion at year-end 2011 (2010: EUR 27.6 billion). Customer loans nevertheless declined marginally during the reporting period, by EUR 0.3 billion to EUR 17.2 billion. This was almost entirely due to the 4% depreciation of the Czech koruna versus the euro. The decline in lending volume was limited to retail loans. Lending to the public sector and to corporates – including both large corporates and SMEs – remained unchanged and, together, amounted to EUR 7.6 billion at year-end 2011, or 43.9% of the total credit portfolio.

The Czech Republic segment accounted for about 12.8% of consolidated customer loans at year-end 2011. By its loan volume, the Czech Republic is the most important market for Erste Group after Austria. Almost all lending in the Czech Republic is in local currency. At year-end 2011, foreign currency loans accounted for only 4% of total lending. These had been provided exclusively to corporate customers.

Compared to other countries in Central and Eastern Europe, the negative impacts of the global financial and economic crisis were relatively minor in the Czech Republic. This situation in combination with effective credit risk management resulted in an improved loan portfolio during 2011. Although the trend had been still slightly negative through the third quarter of 2011, it then reversed. More recently, the credit quality of loans to retail customers, small businesses as well as corporate clients has improved. The NPL ratio declined from 6.0% to 5.5% in 2011. The NPL coverage ratio of 69.7% changed only marginally versus the 70.0% at year-end 2010.

ROMANIA

The Romania segment includes the retail and SME business of Banca Comercială Română and its subsidiaries. The bank offers a full array of retail and corporate banking services through a network of 667 branches and 48 commercial centres as well as internet and phone banking. It also operates the largest national network of ATMs and POS terminals, respectively numbering more than 2,300 and approximately 18,000 units. Banca Comercială Română is the market leader with total assets of EUR 17.8 billion and 3.7 million customers as of year-end 2011. It is also top ranked in leasing and well positioned in the pension fund and brokerage businesses.

Economic review

The Romanian economy returned to modest growth in 2011, after two years of recession that had characterised 2009 and 2010. Real GDP grew by 2.5% in 2011 while GDP per capita rose to EUR 6,300. As one of the least open economies in the region, and with exports accounting for just one-fourth of the country's GDP, Romania benefited less than other CEE countries from Germany's economic performance. Still, exports proved to be a clear contributor to growth in 2011, albeit with a less pronounced impact in the second half of the year due to a slowdown in external demand. Domestic consumption, on the other hand, did not pick up significantly, as it was held back by still weak household demand and the tough austerity measures adopted in July 2010 in order to contain the fiscal deficit. Excellent agricultural output strongly supported growth, given this sector's relatively high share in the overall economy. Government consumption contributed little to growth in 2011, as it was constrained by fiscal consolidation and reduced public sector employment. The latter trend was counterbalanced by a higher number of employees in the private sector, and the unemployment rate remained broadly stable in 2011 at 7.3%.

Romania continued in its very disciplined fiscal consolidation programme in 2011. After the global financial crisis in 2008, Romania had undergone a painful but highly necessary fiscal consolidation process in the context of a stand-by arrangement with the International Monetary Fund and European Union. This successful co-operation has brought very impressive results, as the general government budget deficit declined substantially in 2011 to 4.8% of GDP. As part of the austerity measures, expenditures were streamlined through a 25% cut in public wages (partly offset by a 15% increase in January 2011), layoff of almost 200,000 public employees, a 15% cut in social allowances, a reduction of public subsidies, and a tightening of eligibility criteria for receiving social benefits. Major reforms aimed at boosting government revenues were a 5 percentage point hike in VAT to 24%, a broadening of the taxation base, and consecutive hikes in taxes on tobacco, energy and alcoholic beverages.

Inflation moderated significantly in 2011 and stayed within the Romanian National Bank's target range of 2–4%. Consumer price inflation was 3.1% at the end of 2011 (average CPI 5.8%), driven mainly by the base effect from the VAT hike a year earlier and easing food prices. Following the inflation rate's decline to its lowest level in 22 years for the third quarter of 2011, the Romanian National Bank cut the base rate to a historic low of 6%. The Romanian leu strengthened versus the euro in the first half of the year, but this trend reversed later in the year.

Key economic indicators – Romania	2008	2009	2010	2011e
Population (ave, million)	21.5	21.5	21.5	21.4
GDP (nominal, EUR billion)	139.8	118.2	124.1	134.2
GDP/capita (in EUR thousand)	6.5	5.5	5.8	6.3
Real GDP growth	7.3	-6.6	-1.6	2.5
Private consumption growth	8.9	-9.1	-0.3	0.9
Exports (share of GDP)	24.1	24.6	30.1	33.5
Imports (share of GDP)	40.8	33.0	37.8	40.8
Unemployment (Eurostat definition)	5.8	6.9	7.3	7.3
Consumer price inflation (ave)	7.9	5.6	6.1	5.8
Short term interest rate (3 months eop)	15.5	10.7	6.2	6.1
EUR FX rate (ave)	3.7	4.2	4.2	4.2
EUR FX rate (eop)	4.0	4.2	4.3	4.3
Current account balance (share of GDP)	-11.6	-4.2	-4.4	-4.2
General government balance (share of GDP)	-5.7	-9.0	-6.9	-4.8

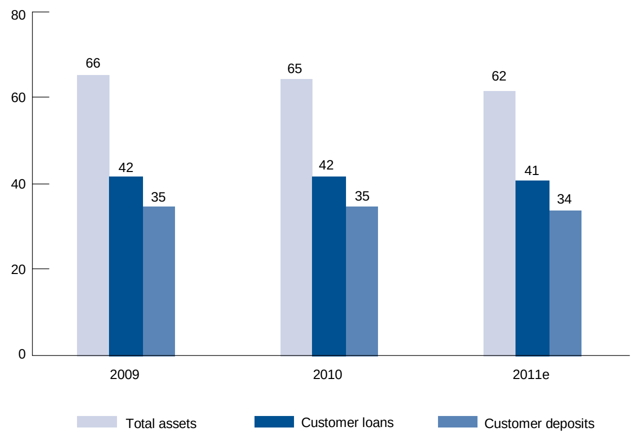
Source: Erste Group

Market review

The Romanian banking sector's profitability in 2011 was severely impacted by portfolio deterioration and consequently high provisioning, as well as by pressure on asset margins due to rising competition and lower rates. Importantly, however, the banking market remained liquid and well capitalised in 2011. Customer loans grew by just 5.5% due to very low demand and banks' cautious lending policies. The only loan growth driver in the retail segment was "Prima Casa", a government-guaranteed, euro-based mortgage programme introduced in 2009. The first three phases of Prima Casa had been very successful, together providing EUR 1.6 billion in mortgages. In June 2011, the government introduced a fourth tranche of Prima Casa, with a 50% state guarantee, totalling EUR 770 million. Corporate loans grew at a quicker pace of 8.4%, driven mainly by short-term working capital needs. The Romanian National Bank introduced new lending criteria in order to limit risks associated with consumer lending. These new rules included limitations on tenor, debt-to-income ratio, loan-to-value ratio, and collateral coverage. Customer deposits grew at slower pace, of 4.8%, than did loans and remained driven by the retail segment.

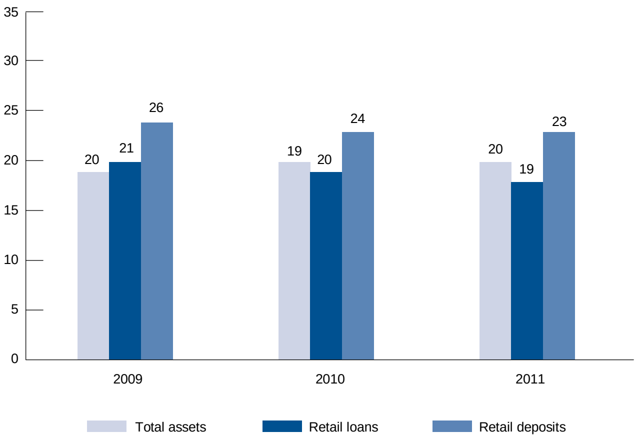
Banca Comercială Română held onto its leadership position in almost all major product categories. The new national bank rules on lending had limited impact on the bank, in light of its already conservative approach to foreign currency lending. Overall, Banca Comercială Română had a market share as measured by total assets of 20.1% at the end of 2011.

Financial intermediation – Romania (in % of GDP)



Source: National Bank of Romania, Erste Group

Market shares – Romania (in %)



Source: National Bank of Romania, Erste Group

Business review

Strategy. Banca Comercială Română's main strategic objective is to maintain its leading market position. Meeting customer needs while providing understandable financial products and high-quality customer services are at the centre of attention. Special emphasis is given to continuously improving risk management as well as efficiency. A customer retention programme, 'win-back' campaigns and proactive complaints monitoring were implemented to support activation of existing customers. In addition, the bank aims to attract new customers with sound creditworthiness. On the product side, Banca Comercială Română concentrates on secured consumer loans in local currency, savings and investments. As economic growth is expected to return in stages – more rapidly in some counties – Banca Comercială Română endeavours especially to boost its presence in the top 10 areas with the highest growth potential.

Highlights from 2011

Positive impact of customer focus. Banca Comercială Română implemented a simplified and more effective process for salary accounts which resulted in growth of its market share for RON sight deposits to 16.2% (up 1.7% year on year). A sales effectiveness project across the entire branch network enabled branch managers and sales people to acquire better understanding of individual retail and SME clients' needs. In combination with improved product offers, this brought greater success in responsible cross-selling. In the face of somewhat aggressive competition, Banca Comercială Română maintained its retail deposit market share (approximately 23%) through implementing enhanced negotiation competences, win-back and sales programmes, as well as differentiated pricing for loyal customers.

Simplification and standardisation. The bank made the most of the low-growth environment by further optimising processes and services, especially emphasising improved customer experience and standardised selling, products and services. In 2011, Banca Comercială Română specifically addressed activities within the life cycle of lending products. Priorities included review of the lending process, automated approval and simplified documentation.

Strengthening risk management processes remained top priority. The bank further improved retail risk assessment. This comprised a variety of measures, such as credit bureau scoring for private individuals, a new scoring system based on customer behaviour, a new credit policy, and a new IT system for the micro segment. On the corporate side, Banca Comercială Română updated the lending guidelines and issued a new pricing and product manual for the sales force. A central loan and collateral documentation solution for SME lending was developed in 2011. Going forward, these measures should have a positive impact on overall asset quality.

Ensuring product competitiveness in a subdued economic environment. Secured lending remained a priority in retail lending. In June 2011, Banca Comercială Română was the first bank starting the new phase of the euro-based Prima Casa programme (benefiting from a 50% state guarantee). The bank boosted its market share from approximately 40% on average for the previous three phases of the programme to about 56%. In its unsecured lending, Banca Comercială Română relied on a risk-based pricing approach and client interest in credit cards picked up slowly. In addition, the bank entered a strategic partnership with Romtelecom-Cosmote. Customers benefited from special voice and/or data offers. A pilot project targeting the student segment was very successful, as some 15,000 students took advantage of the offered account package which included a free Cosmote SIM card. To meet the specific needs of export-oriented corporate customers and importers, Banca Comercială Română launched a highly flexible new loan product that is a multiproduct, multicurrency, revolving credit line.

Advising and participating in EU funded projects. Between 2008 and 2011, Banca Comercială Română advised on 42% of all projects approved for financing at national level (EUR 11.6 billion) and assisted its clients by issuing comfort letters related to those projects. Building on its acknowledged strength, the bank continued to support EU funds absorption. This includes such elements as financial analysis of a respective project, counselling on the project's eligibility for EU funds, and assistance in preparing a business case. In 2011, Banca Comercială Română attracted approximately EUR 1.3 billion of EU funding to new projects which involved approximately EUR 373 million in co-financing (an increase of 112% compared to 2010). The bank is co financing about 40% of works related to the most important infrastructure project in Romania, the Corridor IV Pan-European motorway.

Financial review

in EUR million	2011	2010
Pre-tax profit/loss	-54.9	24.9
Net profit/loss after minority interests	-22.5	8.6
Operating result	475.3	581.7
Cost/income ratio	44.2%	39.2%
Return on equity	n.a.	1.6%
Customer loans	11,160	11,248
Customer deposits	8,003	7,793

In the financial year 2011, net interest income in the Romanian retail and SME segment decreased by EUR 126.3 million or 15.8% (currency-adjusted: -15.3%) to EUR 672.3 million. This development was mainly due to continuing weakness in consumer credit demand and lower margins in subsidised mortgage lending. Net fee and commission income declined by EUR 4.3 million, or 3.2% (currency-adjusted: -2.5%), from EUR 134.4 million in the financial year 2010 to EUR 130.1 million. The rise in the net trading result from EUR 24.0 million by EUR 25.3 million to EUR 49.3 million resulted from revaluation gains in foreign exchange trading. Operating expenses rose only marginally from EUR 375.2 million by EUR 1.2 million, or 0.3% (currency-adjusted: +1.0%), to EUR 376.4 million.

The operating result decreased from EUR 581.7 million to EUR 475.3 million in the financial year 2011 (-18.3°%; currency-adjusted: -17.7%). While economic conditions remained difficult, risk provisions declined from EUR 506.7 million by EUR 7.4 million, or 1.5% (currency-adjusted: -0.8%) to EUR 499.3 million. The improvement in the item "Other result" from EUR -50.2 million by EUR 19.3 million, or 38.4% (currency-adjusted: +38.1%) to EUR -30.9 million in the financial year 2011 was mainly due to one-off income from the liquidation of the subsidiary Anglo-Romanian Bank Ltd. At EUR -22.5 million, net profit after minorities was EUR 31.1 million lower than the net profit of EUR 8.6 million posted in the previous year. The cost/income ratio rose from 39.2% to 44.2%.

The current earnings development in Romania and a revised economic and business outlook for the banking sector led to extraordinary write-downs of goodwill totalling EUR 699.2 million in the third quarter 2011 (including EUR 6.4 million write-downs of Romanian subsidiaries), which reduced goodwill to EUR 1.1 billion.

Credit risk

Total credit exposure in the Romania segment declined in 2011 from EUR 15.3 billion to EUR 14.7 billion. Loans to customers remained practically unchanged at EUR 11.2 billion, which at year-end 2011 accounted for 8.3% (year-end 2010: 8.5%) of Erste Group's total customer loans. The stagnation in lending was due primarily to the subdued macroeconomic environment, but more restrictive new lending policies also played a role.

The share of foreign currency loans in the credit portfolio increased slightly from 62.1% to 62.3% and consisted almost entirely of euro loans. The credit standards for loans were tightened further in comparison to 2010. Moreover, efforts to avoid credit defaults were intensified, with a special focus on restructuring loans of private and corporate customers to adjust to the weaker economic situation. Selling minor parts of the NPL portfolio on the secondary market was continued, especially for unsecured consumer loans.

The country's slow economic recovery caused a continuing deterioration in credit quality despite the countermeasures taken. Some improvement was observed towards year-end, however. The share of the highest risk category declined through 2011 from 46.1% to 42.2% of total customer loans – in the year's first half by 2.5 percentage points and in the second half by 1.4 percentage points. The NPL ratio rose from 18.0% to 22.7%, with most of the deterioration seen in corporate loans. As in previous years, the trend was especially negative in the subsegment of the self-employed and small businesses. This customer group accounted for 6.9% of the total credit portfolio. The trend in loans to private households was significantly improved, with a decrease in non-performing loans. As risk provisions were increased, reserves were again adequate to cover any credit losses. The NPL coverage ratio was 50.1% at year-end.

SLOVAKIA

The Slovakia segment encompasses the retail and SME business of Slovenská sporiteľňa and its subsidiaries. Slovenská sporiteľňa, the formerly state owned savings bank, is the long-standing retail market leader and is one of the top players in the corporate segment. Slovenská sporiteľňa also occupies leading positions in asset management, leasing and factoring. It serves some 2.5 million clients, or about half of the Slovak population, through a network of 292 branches and more than 748 ATMs.

Economic review

Backed by its strong fundamentals, Slovakia exhibited one of the most dynamic recoveries of any European Union country in 2011. Among the most open economies in the CEE region, the country was one of the main beneficiaries of Germany's economic performance. Growth in 2011 was primarily driven by exports of manufactured products such as vehicles, machinery and electrical equipment. By contrast, domestic demand declined in the year. This component of GDP was impacted by a combination of lower household consumption and significant contraction in government spending, both reflecting in part the major fiscal consolidation effort upon which the authorities embarked. Altogether, real GDP grew by 3.3% in 2011 while GDP per capita stood at EUR 12,700 by year-end. The labour market advanced only moderately during 2011, with the unemployment rate improving slightly to 13.3% by the end of the year.

The public deficit as a percentage of GDP stood at 45% in 2011. The government made rapid progress in lowering the fiscal deficit in 2011 by implementing a substantial consolidation effort, which in 2011 alone amounted to 2.5% of GDP. These measures put more emphasis on the expenditure than revenue side. Spending measures featured a cut in the public sector wage bill as well as a boost in the efficiency of health care. Revenue-side measures consisted of a temporary VAT-rate hike to 20%, a broadening of the base for personal income tax and social contributions, and higher excise taxes on tobacco and alcohol. As a result of these measures, the government deficit improved to 5.5% of GDP in 2011.

After two years of historically low price increases below 2%, inflation in 2011 accelerated markedly due to an increase in the regulated prices of gas, heat and electricity for households, the hike in the VAT rate, the rise in excise taxes, and higher food prices. Altogether, average consumer prices in 2011 increased by 3.9%. Having adopted the euro in 2009, Slovakia continued to benefit from low euro zone interest rates.

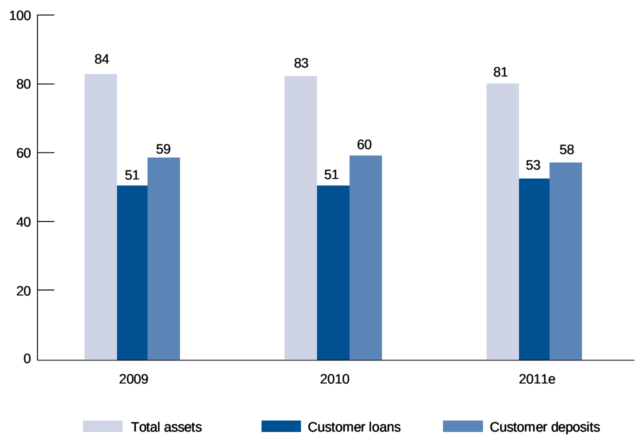
Key economic indicators – Slovakia	2008	2009	2010	2011e
Population (ave, million)	5.4	5.4	5.4	5.4
GDP (nominal, EUR billion)	64.4	62.9	65.9	69.2
GDP/capita (in EUR thousand)	11.9	11.6	12.1	12.7
Real GDP growth	5.9	-4.9	4.2	3.3
Private consumption growth	6.1	0.2	-0.3	-0.5
Exports (share of GDP)	74.0	63.2	73.3	81.6
Imports (share of GDP)	75.1	61.6	72.1	78.0
Unemployment (Eurostat definition)	9.6	12.1	14.4	13.3
Consumer price inflation (ave)	4.6	1.6	1.0	3.9
Short term interest rate (3 months eop)	3.0	0.7	1.0	1.4
EUR FX rate (ave)	1.0	1.0	1.0	1.0
EUR FX rate (eop)	1.0	1.0	1.0	1.0
Current account balance (share of GDP)	-6.6	-3.6	-3.3	-1.1
General government balance (share of GDP)	-2.1	-8.0	-7.7	-5.5

Source: Erste Group

Market review

The positive macroeconomic environment continued to impact favourably upon Slovakia's banking market.

Financial intermediation – Slovakia (in % of GDP)

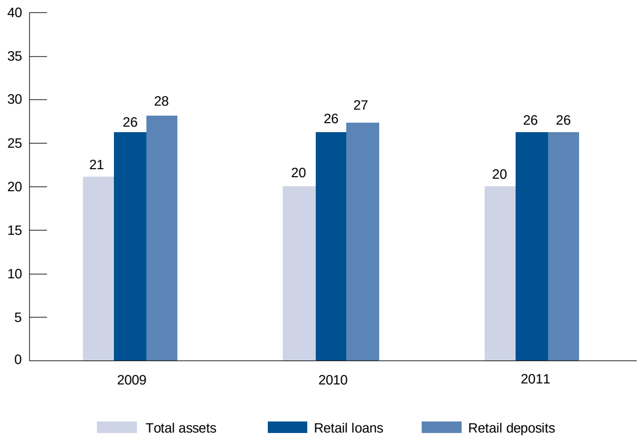


Source: National Bank of Slovakia, Erste Group

Customer loans grew by 8.6% in the year, with the retail segment leading the way on the back of improved consumer confidence. Corporate loan volumes increased by 7.5%. Foreign currency lending remained insignificant. Customer deposits grew less than loans at 1.6%, driven mainly by the retail segment. With its loan-to-deposit ratio of 90%, Slovakia maintained overall one of the most liquid and balanced banking sectors in the region.

In the improved banking market environment, Slovenská sporiteľňa successfully retained its leading market positions. The bank continued to control one-fifth of the country's banking market as measured by total assets, while it also leaded the market in customer loans and deposits. In the housing loan segment, Slovenská sporiteľňa's market share remained above 26%. On the deposit side, its market share was significantly lower in the corporate segment, at 10.4%, than in retail, at 25.8%. Slovenská sporiteľňa benefitted from this deposit structure, as Slovakia introduced a 0.4% special banking tax on non-retail deposits from 2012.

Market shares – Slovakia (in %)



Source: National Bank of Slovakia, Erste Group

Business review

Strategy. The strategic focus of Slovenská sporiteľňa remains on maintaining its leading market position in retail and SME banking by building on its unique strength in retail funding, its trustworthiness and its distribution network. In addition to the core mass segment, it targets the growing ranks of mass affluent clients. In addition, Slovenská sporiteľňa aims to strengthen its position in corporate banking. Special emphasis is given to delivering added value to its clients by providing appropriate financial products and services. The bank is also committed to enhancing the customer experience by improving accessibility.

Highlights from 2011

Strong deposit base continued to support lending business. Slovenská sporiteľňa maintained its market share in retail loans and retail deposits of 26% each. The bank increased the housing loan volume during 2011 by approximately EUR 450 million. New consumer loans grew by 16% year on year. To secure its market position Slovenská sporiteľňa continued in developing new products and services to meet the changing requirements of its clients. In 2011, the bank introduced a fixed-rate mortgage loan with a maturity of up to 30 years. This is a unique product on the Slovak market, and clients benefit as they are isolated from future changes in interest rate levels.

Focus on initiatives for corporate and public sector customers. The bank continued its efforts to boost its market share in the corporate and public sector segments. During 2011, its market shares in corporate loans and deposits were above 10%. Since the end of 2010, Slovenská sporiteľňa's public sector loans market share more than doubled to 13%. Slovenská sporiteľňa launched a long-term programme aiming to support small and medium-sized enterprises. It includes financing at favourable interest terms and fees, access to electronic banking and competitively priced payment operations as well as an analysis of the clients' insurance contracts.

Successful cost management. As a consequence of efficiency improvements in recent years and economies of scale, Slovenská sporiteľňa's cost/income ratio further improved in 2011. This indicator was one of the lowest among banks on the Slovak banking market. Slovenská sporiteľňa's advisors benefit from simplified and standardised processes. Examples include the new core banking system with a CRM (customer relationship management) module that was implemented in 2011. A back-office centralisation project not only lowered costs, it also relieved branches of some back-office tasks and freed up advisors' time for their sales activities and to foster long-term relationships with clients.

Financial review

in EUR million	2011	2010
Pre-tax profit/loss	215.5	171.5
Net profit/loss after minority interests	173.2	136.5
Operating result	329.2	315.3
Cost/income ratio	40.5%	41.3%
Return on equity	43.2%	31.6%
Customer loans	6,217	5,716
Customer deposits	7,202	7,144

Net interest income in the Slovak retail and SME business rose by EUR 18.9 million, or 4.4%, to EUR 445.7 million in the financial year 2011. This positive development was primarily driven by an increase in mortgage lending as well as by improved income from financial investments. Net fee and commission income improved from EUR 106.6 million by EUR 5.6 million, or 5.3%, to EUR 112.2 million, mainly on the back of higher income from payment transfers. Operating expenses were up marginally by EUR 1.8 million, or 0.8%, from EUR 222.2 million to EUR 224.0 million.

Risk provisions reflected an improvement in the market environment versus the financial year 2010. That benefited above all the retail but also the SME business and led to a reduction of risk provisions from EUR 123.2 million by EUR 49.6 million, or 40.3%, to EUR 73.6 million. The "Other result" item deteriorated due to higher write-downs on real estate as well as on securities in the available-for-sale portfolio from EUR -20.5 million in the financial year 2010 by EUR 19.7 million, or 96.1%, to EUR -40.2 million.

Higher net interest and net fee and commission income, along with significantly lower risk provisions, resulted in a net profit after minorities of EUR 173.2 million, up EUR 36.6 million, or 26.8%, on the previous year. The cost/income ratio improved to 40.5% from 41.3% in the financial year 2010. Return on equity increased from 31.6% to 43.2%.

Credit risk

Total credit exposure in the Slovakia segment amounted to EUR 10.2 billion at year-end 2011, which was an increase of 8.7% versus year-end 2010. Customer loans were up by a similar percentage to EUR 6.2 billion at the end of December 2011 and accounted for 4.6% of Erste Group's total customer loan volume. A breakdown of the portfolio by customer segment shows that the trend from 2010 continued. That is to say that the percentage of higher quality retail loans grew at the expense of corporate loans, which accounted for 26.2% of total loans to customers at year-end 2011 (2010: 30.4%).

Almost all lending was in local currency and, again, no foreign currency loans were granted to private individuals. Collateral coverage improved significantly. Considering the deterioration in credit quality resulting from the financial and economic crisis, new lending was scaled back in certain industries, such as for commercial real estate.

The fact that Slovakia has enjoyed a more dynamic economic development than the EU average also had a positive impact on credit quality. The NPL-ratio remained unchanged at 8.0%. There were differing trends in the various customer segments yet. While defaults on loans to medium-sized and large corporates increased, the NPL ratio for retail loans dropped from 6.8% to 5.5%. In contrast to many other countries of Central and Eastern Europe, the credit quality of small businesses did not worsen in 2011. At year-end, the NPL coverage ratio was exceptionally high at 79.2%.

HUNGARY

The Hungary segment comprises the retail and SME business of Erste Bank Hungary and its subsidiaries. Erste Bank Hungary operates a network of 184 branches and commercial centres plus more than 450 ATMs. It uses nearly 350 post offices as an additional sales channel. Erste Bank Hungary serves approximately 950,000 clients and has market shares of 7% to 14%, varying by product category. It also has significant market positions in securities brokerage and in leasing.

Economic review

Hungary's macroeconomic recovery in 2011 remained moderate by regional standards. Weakness in domestic demand reflected a persistently high unemployment rate of 10.9% and a continuing credit contraction in relation to both households and the corporate sector. Consumption was held back, too, by surging instalment payments on foreign currency loans as the Hungarian forint depreciated, while, contrary to the government's original expectations, the sizeable general cut in the personal income tax to 16% failed to lift domestic demand. Although the export sector put in a favourable performance at the beginning of the year, the slowdown in global, and especially Ger-man, growth along with the sovereign debt crisis prevented the pace of that expansion from being sustained. Overall, Hungary's GDP expanded by 1.6% in 2011 while GDP per capita stood at EUR 10,000 at year-end. One of Hungary's key structural bottlenecks to growth remained its very low labour market participation rate of 56%.

After peaking at 81% of GDP in 2010, the public debt ratio improved in 2011 to 80%, driven mainly by the one-off impact of reforming the private pension scheme. This shift of funds from the private sector to the state had a significant impact on the government budget balance, which showed a surplus of 3.8% in 2011. Additional measures were taken in line with the government's convergence programme, which aims to reduce the budget deficit to below 2% of GDP by 2015, mainly through cuts in unemployment benefits, pharmaceutical subsidies, public transportation, education, and pensions. To this end, a structural reform package was announced in the spring. In November 2011, the government announced a large additional consolidation package. Its most important component was a 2 percentage-point increase in VAT to 27%, the highest in the European Union.

Key economic indicators – Hungary	2008	2009	2010	2011e
Population (ave, million)	10.0	10.0	10.0	10.0
GDP (nominal, EUR billion)	105.7	91.3	97.1	99.8
GDP/capita (in EUR thousand)	10.5	9.1	9.7	10.0
Real GDP growth	0.9	-6.8	1.3	1.6
Private consumption growth	0.6	-6.8	-2.2	-0.3
Exports (share of GDP)	69.5	64.7	73.6	77.7
Imports (share of GDP)	69.7	60.6	67.9	70.6
Unemployment (Eurostat definition)	7.8	10.0	11.2	10.9
Consumer price inflation (ave)	6.1	4.2	4.9	3.9
Short term interest rate (3 months eop)	10.0	6.2	5.9	7.2
EUR FX rate (ave)	251.3	280.6	275.4	279.2
EUR FX rate (eop)	264.8	270.8	278.8	311.1
Current account balance (share of GDP)	-7.3	-0.2	1.1	1.4
General government balance (share of GDP)	-3.7	-4.5	-4.2	3.8

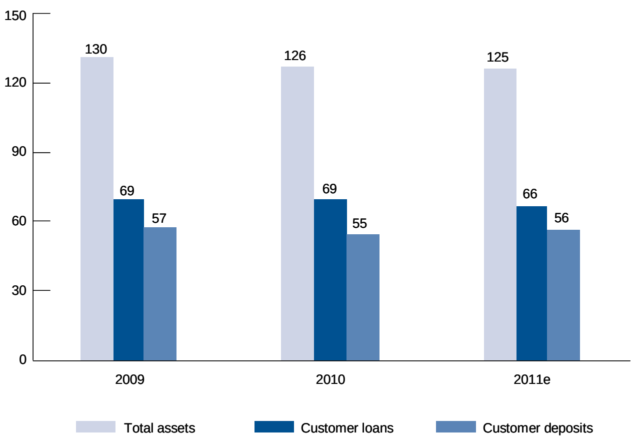
Source: Erste Group

Inflation was driven by the VAT hike, commodity price increases, and the currency's weakness. In the last quarter of 2011, inflation markedly accelerated on the back of excise tax hikes on fuel, alcohol and tobacco. In the dim light of unorthodox economic policies, an unstable regulatory environment, and the weak communication skills, investors' confidence faded in 2011. That contributed to significant weakening of the currency versus the euro and Swiss franc. This, coupled with the inflation development, prompted the National Bank of Hungary to raise the base rate to 7% by the end of the year.

Market review

For Hungary's banking market, 2011 was an extremely difficult year. The country's unbalanced banking market, with a loan-to-deposit ratio of 118%, was severely hit by unpredictable and haphazard legislative steps. The nationalisation of private pension funds affected the sector's operations, but the hardest impact came from the foreign exchange loan conversion scheme in the second half of the year. The sector's losses due to this conversion totalled to around EUR 1 billion in 2011. In addition, Hungary continued to have the highest banking tax in Europe, at 0.53% of the balance sheet.

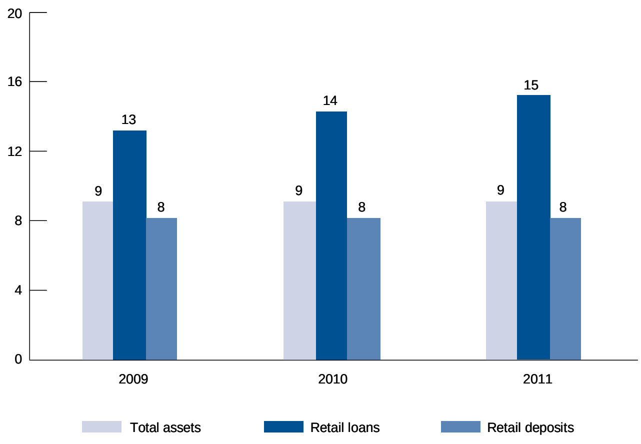
Financial intermediation – Hungary (in % of GDP)



Source: National Bank of Hungary, Erste Group

Moreover, banks' income statements were also impacted by sharp increase in non-performing loans driven by still high unemployment and the weak currency. As a result of all these factors, the Hungarian banking sector became loss making in 2011. Responding to the very unfavourable developments, many financial institutions in Hungary decided to scale down their operations.

Market shares – Hungary (in %)



Source: National Bank of Hungary, Erste Group

As Erste Bank Hungary continued to be the country's second-largest bank in FX mortgage lending, at 22% of total such mortgages, it was among those financial institutions most affected. Due to its record loss, Erste Bank Hungary was recapitalised in the amount of EUR 600 million. In response to these developments, the bank presented an updated strategy which is expected to return the company to profitability by 2014. The bank's overall market positions did not change significantly in 2011: market shares for customer loans and customer deposits stood at 11.6% and 7.5%, respectively.

Business review

Strategy. A changed political and economic situation in Hungary has demanded a complete revision of the strategy, and consequently the business model is going through a fundamental change. The bank is downsizing its operations. It will reduce the number of branches to 141 and make redundant 15% of its workforce. Erste Bank Hungary aims to be a relationship bank, and thus it will continue its efforts to further enhance the customer experience for its retail clients. The corporate business focus will be on a selective corporate client base. The strategic orientation is on local currency business from locally sourced liquidity and on reducing the dependence on parent company funding.

Highlights from 2011

Unorthodox government measures. In 2011, the Hungarian government passed a law enabling retail customers to repay foreign currency loans at fixed rates below the market exchange rates. Approximately 20% of eligible customers opted for the early repayment. In total, EUR 730 million of loans denominated in Swiss francs had been repaid through the end of February 2012. This resulted in a loss of roughly EUR 200 million which was covered by risk provisions created in the third quarter of 2011. As 30% of the losses were deductable from the 2011 banking tax, the banking tax burden for 2011 was reduced to zero.

Establishment of Erste Building Society. In the first years of its operation, Erste Bank Hungary's newly established building society subsidiary will focus on deposit collection by offering its customers 4- to 10-year saving products. Lending activities will begin after the 4-year saving contracts will mature. By the end of 2011, some 5,700 contracts had been signed with a total target savings amount of HUF 18.9 billion. The average monthly saving amount was HUF 13,500.

Brokerage business maintains leading market position. Erste Investment Hungary, the brokerage subsidiary of Erste Bank Hungary, reached a 19% market share in 2011 as measured by volume traded on the Budapest Stock Exchange. Inasmuch as retail customers continued to prefer offline brokerage, the usage of electronic sales channels did not further increase in 2011. The main challenge continued to be the low market turnover on the Budapest Stock Exchange. Moreover, many pension funds disappeared from the market in 2011 due to the elimination of the pension scheme's second pillar.

Financial inclusion initiative. As a part of Erste Group's good.bee programme, a local good.bee strategy was developed to support financial inclusion of the unbanked and underbanked population as well as non-government organisations. The aim is to improve the lives of disadvantaged people in selected social areas that connect directly with their most basic needs: health and social care, employment, education, and housing.

Financial review

in EUR million	2011	2010
Pre-tax profit/loss	-549.8	-7.1
Net profit/loss after minority interests	-566.6	-21.8
Operating result	319.1	305.5
Cost/income ratio	38.6%	39.9%
Return on equity	n.a.	n.a.
Customer loans	7,088	7,763
Customer deposits	3,692	3,887

Net interest income in the Hungarian retail and SME business improved from EUR 387.1 million in the financial year 2010 by EUR 15.6 million, or 4.0% (currency-adjusted: +5.5%), to EUR 402.7 million in the financial year 2011. This was due, however, to higher unwinding effects (which at the same time led to an increase in risk provisions) as well as to currency-related effects. The decline in the net trading result from EUR 23.2 million by EUR 4.1 million, or 17.8% (currency-adjusted: -16.6%), to EUR 19.1 million in the financial year 2011 mainly resulted from declining income from the foreign-currency retail loan book. At EUR 200.5 million, operating expenses were almost unchanged versus the financial year 2010 on a currency-adjusted basis despite additional restructuring provisions in the amount of EUR 11.6 million. The operating result rose from EUR 305.5 million in the previous year by EUR 13.6 million, or 4.4% (currency-adjusted: +5.9%), to EUR 319.1 million. The cost/income ratio improved to 38.6% in the financial year 2011 (2010: 39.9%).

A significant rise in risk provisions by EUR 567.7 million from EUR 244.3 million in the financial year 2010 to EUR 812.0 million was attributable to extraordinary one-time provisions. A provision in the amount of EUR 200.0 million was created to cover expected losses from the early repayment of foreign-currency loans at non-market rates permitted under recent legislation. In addition, in view of the economic outlook and the uncertain political climate in Hungary, additional risk provisions were created to increase the NPL coverage ratio.

The item "Other result" improved by EUR 11.4 million from EUR -68.3 million in the financial year 2010 to EUR -56.9 million. Offsetting of the banking tax against the costs of repayment of foreign-currency loans at non-market rates had a positive effect. On the other hand, the need to recognise higher write-downs on collateral for loans and restructuring costs had a negative impact. Net profit after minorities amounted to EUR -566.6 million (versus a loss of EUR -21.8 million in the previous year). In November 2011, a capital increase was carried out in the amount of EUR 600.0 million.

In view of the current development of earnings and forecasts for the Hungarian economy, the remaining goodwill of EUR 312.7 million was written off in the third quarter 2011 and reported in Group Corporate Center in the "Other result" item.

Credit risk

Total exposure of the Hungary segment declined by approximately 10% to EUR 7.3 billion in 2011. Loans to customers fell at a similar rate, by nearly 9%, to EUR 7.1 billion. As a result, the share of the Hungary segment in Erste Group's total customer loans shrank from 5.8% at year-end 2010 to less than 5.3% at year-end 2011. The distribution between retail and corporate loans remained almost unchanged. Loans to retail customers accounted for almost two-thirds of lending volume at the close of 2011.

The volume decrease related mostly to the option for early repayment of foreign currency loans at non-market exchange rates permitted under recent legislation. Lower demand for loans as well as more restrictive lending policies and an almost 12% depreciation of the Hungarian forint versus the euro accelerated the downward trend. Lending in Swiss francs had been discontinued already in 2009. In 2011, the share of Swiss franc loans as a percentage of total customer loans declined from 55.7% to 51.6%. An even greater weighting was assigned to liquidity in the loan approval process, which basically means cash flow in the case of corporates and disposable income in that of private households.

Not least due to the forint's depreciation, asset quality deteriorated further in 2011 and the default growth rate accelerated in the fourth quarter. At year-end 2011, 71.6% of customer loans were classified in the best two risk categories (year-end 2010: 80.1%). The NPL ratio rose in the course of the year from 12.0% to 21.1%. The trend was especially negative for investment and working capital loans extended to corporates. There were also defaults on loans to local governments. At year-end 2011, NPLs amounted to EUR 18.6 million. As a consequence of extraordinary risk provisions, the NPL coverage ratio rose from 50.0% to 70.3% in 2011.

CROATIA

The Croatia segment comprises the retail and SME business of Erste & Steiermärkische Bank, commonly referred to as Erste Bank Croatia, as well as Erste Bank Montenegro. It serves more than 970,000 clients via a state-of-the-art network of 146 branches and well developed alternative distribution channels, such as internet and mobile communications as well as ATMs. With double-digit market shares in all key product categories, Erste Bank Croatia is one of the major banking institutions in Croatia. In addition to banking services, Erste Bank Croatia also occupies strong market positions in a wide range of other financial services, such as fund management, pension funds, brokerage and leasing.

Economic review

Croatia's economy struggled to recover fully in 2011. After two years of contraction in 2009 and 2010, real GDP showed a marginal gain of 0.3% in 2011. GDP per capita stood at EUR 10,700 at the end of 2011. Domestic demand remained weak throughout the year, impacted by low consumer confidence and a further rise in the unemployment rate to 13.4%. Private consumption stagnated throughout 2011. Exports, which traditionally account for less in Croatia's economy than in other CEE countries, showed an improved performance and grew by 1%. A robust tourist season also supported the economy in 2011 and remained an important source of income. European Union accession negotiations were successfully completed in 2011, and, as a result, the country is expected to join the EU in 2013.

Reflecting weak domestic consumption, the average rise in consumer prices remained at a relatively modest 2.3% in 2011. To manage inflation, the central bank continued its policy of holding the currency within a narrow range versus the euro. Given the country's very high use of the euro, the Croatian National Bank's main objective remained to preserve nominal exchange rate stability. The exchange rate also was supported by the broadly balanced current account, which, as a result of subdued domestic demand and low export growth, measured at just 0.1% of GDP.

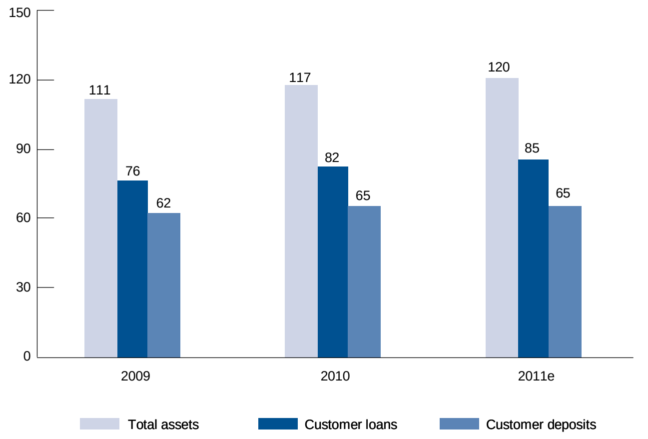
Key economic indicators – Croatia	2008	2009	2010	2011e
Population (ave, million)	4.4	4.4	4.4	4.4
GDP (nominal, EUR billion)	47.8	45.7	46.0	46.1
GDP/capita (in EUR thousand)	10.9	10.4	10.4	10.7
Real GDP growth	2.2	-6.0	-1.2	0.3
Private consumption growth	0.8	-8.5	-0.9	0.2
Exports (share of GDP)	20.5	16.9	19.8	19.5
Imports (share of GDP)	43.1	33.1	32.8	31.6
Unemployment (Eurostat definition)	8.4	9.1	11.8	13.4
Consumer price inflation (ave)	6.1	2.4	1.1	2.3
Short term interest rate (3 months eop)	8.2	3.8	2.5	4.9
EUR FX rate (ave)	7.2	7.3	7.3	7.4
EUR FX rate (eop)	7.3	7.3	7.4	7.5
Current account balance (share of GDP)	-8.8	-5.2	-1.2	0.1
General government balance (share of GDP)	-2.1	-4.5	-5.0	-5.5

Source: Erste Group

Market review

Croatia's banking market in 2011 reflected the macroeconomic development of the country. The market was characterised by mid single digit growth in customer loans and deposits, which increased by 6% and 3%, respectively.

Financial intermediation – Croatia (in % of GDP)

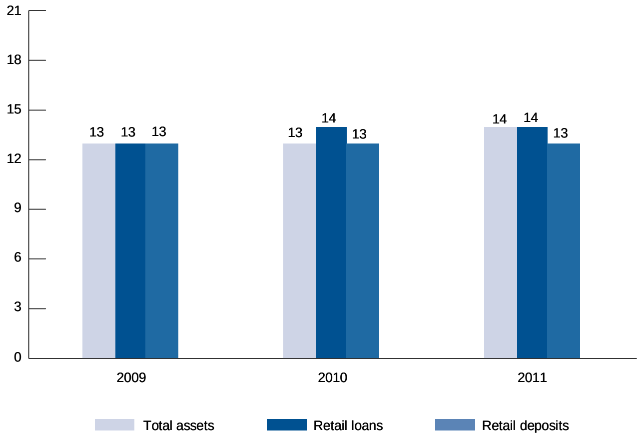


Source: National Bank of Croatia, Erste Group

The lending market was driven by the corporate sector, while household clients largely remained on the sidelines given tight labour market conditions and uncertainty regarding the euro zone debt crisis. The deposit market showed improvement in the retail segment, while the corporate sector continued to exhibit weakness due to high illiquidity and the lack of economic recovery. Overall, the sector's loan- to-deposit ratio stood at 131% at the end of 2011. Profitability of the Croatian banking sector improved compared to 2010, and capital adequacy remained satisfactory. The country's level of financial intermediation remained among the highest, with total banking assets at 120% of GDP.

Erste Bank Croatia performed broadly in line with the overall trends in the country's banking market. Growth in corporate loans was the main driver behind loan expansion, but growth in customer deposits was positively impacted by the retail segment's performance. The bank's loan-to-deposit ratio was 150% at year-end 2011. Erste Bank Croatia remained among the top three players in the market overall, with a total asset market share of 14.2%.

Market shares – Croatia (in %)



Source: National Bank of Croatia, Erste Group

Business review

Strategy. Erste Bank Croatia's main objective is to further enhance its market position in the medium and long term by providing simple and transparent products and excellent banking services to retail, SME and corporate clients with favourable risk profiles. Efficiency remains a top priority. Special emphasis is put on continuous optimisation and automation of processes and work flows while maintaining high risk management standards. These measures are designed to ensure efficiency in service delivery as well as high service quality and client satisfaction.

Highlights from 2011

Improved convenience for retail clients. Erste Bank Croatia continued to strengthen accessibility and communication with its clients by extending the branch network and further developing its alternative communication channels by opening a virtual branch on Facebook. The competitiveness of the bank's current account, an anchor product for building long-term relationships and cross-selling activities, was further enhanced by up-to-date technology such as a new smartphone app.

Corporate customers drive loan growth. New corporate business was mostly related to large corporate clients, especially state-owned infrastructure companies manifesting greater resilience to the macroeconomic environment. SME clients of Erste Bank Croatia continued to show subdued interest in investing and consequently in new loans during 2011.

Successfully tapping into different funding channels. In July 2011, Erste Bank Croatia issued EUR 80 million of subordinated bonds. Most of these were bought by retail clients. The issue not only strengthened the bank's liquidity and capital position but also supported the development of the Croatian capital market. The bonds benefited from a very good response on the market while there was almost no impact on Erste Bank Croatia's deposit volume.

In addition, Erste Bank Croatia co-operated with multinational financial institutions such as the European Investment Bank. Via financing or risk-sharing facilities, SME and corporate clients − mostly in the energy, agriculture and tourism sectors − received support.

Recognition by public and clients. In February 2011, Erste Bank Croatia was awarded for the fourth time in the last six years the Golden Kuna for being the best bank in the country. In bestowing this honour, the Croatian Chamber of Economy noted that experts and the public especially appreciated the bank's innovativecapacity and flexibility, friendly personnel, high recognition and strong brand presence. In addition, Erste Bank Croatia's ongoing activities to continuously improve service quality were confirmed by the survey's findings of excellent customer satisfaction and loyalty ratings.

Financial review

in EUR million	2011	2010
Pre-tax profit/loss	89.1	81.8
Net profit/loss after minority interests	43.5	36.7
Operating result	208.6	192.6
Cost/income ratio	40.3%	41.9%
Return on equity	17.3%	16.2%
Customer loans	5,917	5,487
Customer deposits	3,984	4,087

In Croatia, net interest income from the retail and SME business improved from EUR 247.9 million in the financial year 2010 by EUR 13.9 million, or 5.6% (currency-adjusted: +7.8%), to EUR 261.8 million. This was primarily attributable to rising lending volumes and improved margins, particularly in the deposit business. Net fee and commission income rose from EUR 74.0 million in the previous year by EUR 2.7 million, or 3.6% (currency-adjusted: +5.7%), to EUR 76.7 million on the back of higher income from the cards business. The net trading result improved from EUR 9.7 million in the financial year 2010 by EUR 1.5 million, or 15.7% (currency-adjusted: +18.1%), to EUR 11.2 million, reflecting higher income from foreign exchange trading. Operating expenses were up – especially in sales – by EUR 2.1 million, or 1.5% (currency-adjusted: +3.6%), from EUR 139.0 million in the financial year 2010 to EUR 141.1 million.

In the financial year 2011, the operating result rose by EUR 16.0 million, or 8.3% (currency-adjusted: +10.5%), from EUR 192.6 million to EUR 208.6 million. This improved the cost/income ratio to 40.3% from 41.9% in the previous year. A need for higher provisioning in the real estate business caused risk provisions to rise from EUR 106.0 million by EUR 3.3 million, or 3.2% (currency-adjusted: +5.3%), to EUR 109.3 million. Net profit after minorities improved from EUR 36.7 million in the financial year 2010 by EUR 6.8 million, or 18.6% (currency-adjusted: +21.0%), to EUR 43.5 million. Return on equity stood at 17.3% (2010: 16.2%).

Credit risk

In the Croatia segment, total exposure rose from EUR 7.8 billion at the close of 2010 by 5.1% to EUR 8.2 billion. Customer loans grew at a slightly faster 7.8% rate to EUR 5.9 billion at year-end 2011. The highest growth rate was seen in loans to municipalities, whose share in the total customer loan portfolio expanded from 6.9% to 11.1%. There was a decline in loans to small businesses, which, as in other CEE segments, play only a minor role in lending within Croatia. The Croatia segment's share of Erste Group's total customer loans has increased continuously in recent years and in 2011 went up from 4.1% to 4.4%.

Due to the overall economic situation after several years of recession, economic growth was still very subdued in 2011, borrowers' payment difficulties have been steadily worsening and lending criteria remained tight. Apart from the real estate industry, this concerned mainly retail customers with lower creditworthiness as well as employees in such riskier sectors as the construction industry. Most loans in Croatia were extended in foreign currency (especially euro), and at year-end 2011 foreign currency loans accounted for almost 80% of total lending volume.

While the quality of customer loans continued to deteriorate in 2011, the pace of that deterioration significantly moderated relative to 2010. Non-performing loans rose from EUR 557 million to EUR 759 million or from 10.2% to 12.8% of the total portfolio. Within the performing loan categories, a shift to lower risk categories was seen. This migration was observed mainly in loans to retail customers, whose default rate nevertheless remained significantly lower than that of companies. NPL coverage was 55.2% at year-end. Considering existing collateral, NPL coverage was therefore sufficient.

SERBIA

The Serbia segment comprises business of Erste Bank Serbia, which serves some 280,000 clients through a network of 66 branches plus nine commercial centres for corporate clients. Catering to the needs of a broad retail and mid-market corporate client base, the bank is well represented in all of Serbia's major business centres. While Erste Bank Serbia's current market share is some 3% in key product segments, its position is considerably stronger in alternative distribution channels. For example, it has a 4.6% market share as measured by number of bank cards in Serbia (up from 4.3% in 2010).

Economic review

The Serbian economy continued its slow recovery in 2011, with real GDP growing by 1.9% and GDP per capita standing at EUR 4,400. Private consumption remained weak due to poor labour market conditions and deteriorating disposable income in light of persistent inflationary pressures. Investments, on the other hand, supported the economy, mainly those in the automotive sector. The gradual recovery in economic activity proved too feeble to reverse negative labour market trends, so the unemployment rate remained one of the highest in the region (23% at year-end 2011). Serbia achieved major progress toward joining the European Union. In October 2011, the

European Commission issued an opinion on the country's application for EU membership recommending to assign formal candidate status to Serbia. A major step forward in the process was the arrest of the last two remaining fugitives wanted by the International Criminal Tribunal for the Former Yugoslavia in The Hague.

The government's fiscal policies had been anchored by a stand-by arrangement with the International Monetary Fund which expired in April 2011. In September, the IMF approved an 18-month EUR 1.1 billion precautionary follow-on agreement. This provided an important back-up for the country in general and for the exchange rate of the dinar, which performed strongly in 2011. Under the new agreement, the authorities committed to cut spending by between RSD 15 billion and RSD 20 billion in order to cover the deficit opening up due to slower economic growth and a decentralisation law from June 2011 which envisages major transfers from the central government to local municipalities. The new agreement allows a fiscal deficit of up to 4.5% of GDP and stabilises public debt below a 45% threshold.

Despite the favourable exchange rate development, inflation remained one of the main problems for the country's economy. With consumer prices rising on average by 11% in 2011, Serbia's inflation remained significantly above that of its regional peers. Inflationary pressures increased amid rising food and energy prices. Inflation, however, moderated significantly in the second half of the year and the National Bank of Serbia cut the base rates several times to 9.75% by the end of 2011.

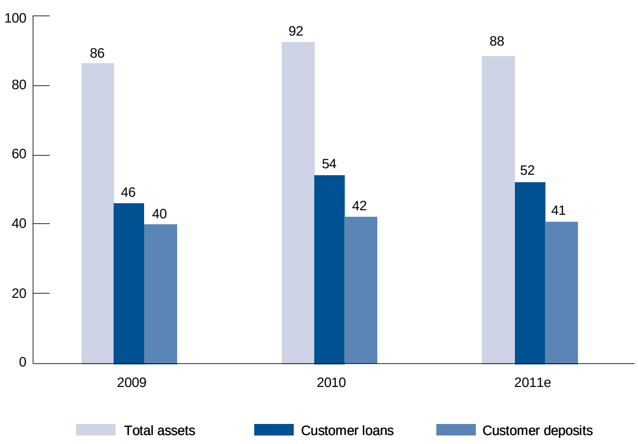
Key economic indicators – Serbia	2008	2009	2010	2011e
Population (ave, million)	7.4	7.4	7.4	7.4
GDP (nominal, EUR billion)	32.7	28.9	29.0	32.5
GDP/capita (in EUR thousand)	4.4	3.9	3.9	4.4
Real GDP growth	3.8	-3.5	1.0	1.9
Private consumption growth	na	na	na	na
Exports (share of GDP)	22.7	20.7	25.5	26.0
Imports (share of GDP)	45.8	38.4	42.0	43.1
Unemployment (Eurostat definition)	13.7	16.1	19.2	23.0
Consumer price inflation (ave)	11.7	8.4	6.1	11.2
Short term interest rate (3 months eop)	18.9	10.8	13.5	11.0
EUR FX rate (ave)	81.4	94.0	103.1	102.0
EUR FX rate (eop)	88.6	95.9	105.5	104.6
Current account balance (share of GDP)	-18.6	-7.2	-7.2	-9.1
General government balance (share of GDP)	-2.6	-4.3	-4.5	-4.5

Source: Erste Group

Market review

The Serbian government continued to support the country's banking market by providing subsidised local currency consumer and housing loans throughout 2011. In order to stem inflationary pressures, the Serbian National Bank raised the short-term foreign currency reserve requirement for banks to 30% from 25% and maintained the long-term FX reserve rate at 25%. For domestic dinar-denominated assets with maturities up to two years, the national bank set a mandatory reserve requirement at 5%. It dropped this requirement for dinar assets with maturities longer than two years. Due in part to these measures, customer loans only grew by 7.3% in 2011. With customer deposits expanding at a very similar 9% pace, the system's loan-to-deposit ratio was held at 125%.

Financial intermediation – Serbia (in % of GDP)



Source: National Bank of Serbia, Erste Group

Erste Bank Serbia remained in 2011 among the country's top 15 banks as measured by total assets. Its market shares for customer loans did not change significantly and remained higher in the retail segment, at 3.3%, compared to the corporate segment, at 2.2%. On the deposit side, Erste Bank Serbia's activities were mainly driven by local currency deposit taking, where its market share increased by 1.3 percentage points to 3.7%. Overall, the bank's market share for customer deposits stood at 2.5% at the end of 2011.

Business review

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

Highlights from 2011

Record net profit in 2011. In profitability terms, 2011 was the most successful year since Erste Bank launched its operations in Serbia. Erste Bank Serbia more than tripled its net profit in 2011 compared to 2010. Its operating performance improved substantially in the year, as revenues were positively impacted by higher loan volume and margin expansion while costs remained well under control. Risk costs increased, which mainly was due to more conservative risk policies.

Balanced business model. Erste Bank Serbia remained one of the most balanced financial institutions in the country with a loan-to-deposit ratio of 100%. The bank was particularly successful during 2011 in attracting local currency deposits. This development underscored that Erste Bank Serbia is one of the most trusted banks in its market. Expanding customer deposits provided a solid basis for loan growth, and both retail and corporate loans achieved double-digit gains in 2011.

Supporting corporate customers. Along with its continuing focus on the SME segment, Erste Bank Serbia not only participated during 2011 in various syndicated loans to the largest enterprises in Serbia but played a leading role in some of them. The European Investment Bank signed an agreement with the bank to provide funds earmarked to support lending to local corporates.

Financial review

in EUR million	2011	2010
Pre-tax profit/loss	5.0	1.4
Net profit/loss after minority interests	3.5	1.0
Operating result	15.8	10.4
Cost/income ratio	68.1%	74.9%
Return on equity	8.6%	2.4%
Customer loans	486	431
Customer deposits	483	455

Net interest income of Erste Bank Serbia increased by EUR 8.9 million, or 32.3% (currency-adjusted: +30.9%), from EUR 27.5 million to EUR 36.4 million in the financial year 2011. This improvement was attributable primarily to a rise in lending volumes and improved margins in the deposit business as well as rising income from short-term investments in local government bonds. Net fee and commission income improved from EUR 11.5 million by EUR 1.5 million, or 13.3% (currency-adjusted: +12.1%), to EUR 13.0 million. Net trading result decreased by EUR 2.3 million due to lower income from foreign exchange trading. At EUR 33.8 million, operating expenses were up EUR 2.8 million, or 8.8% (currency-adjusted: +7.7%), on the financial year 2010. This increase was primarily attributable to rising inflation and severance payments. The cost/income ratio improved to 68.1% (2010: 74.9%).

The operating result rose from EUR 10.4 million in the financial year 2010 by EUR 5.4 million, or 51.9% (currency-adjusted: +50.4%), to EUR 15.8 million. Risk costs increased from EUR 8.2 million by EUR 1.3 million, or 16.5% (currency-adjusted: +15.3%), to EUR 9.5 million. The item "Other result" deteriorated from EUR -0.8 million in the previous year by EUR 0.4 million, or 62.1% (currency-adjusted: -60.4%), to EUR -1.2 million, mainly due to higher deposit insurance contributions. Net profit after minorities rose from EUR 1.0 million by EUR 2.5 million to EUR 3.5 million.

Credit risk

Total exposure in the Serbia segment increased by 26.4% in 2011 from EUR 568 million to EUR 718 million. Customer loans rose by EUR 54 million to EUR 486 million. With its share of just 0.4% in total customer loans, the Serbia segment was still of only minor significance for Erste Group. Viewed by customer segment, the gain in business volume was distributed equally across lending to retail customers and corporates. Compared to other Erste Group subsidiaries in Central and Eastern Europe, the share of corporate loans in the total credit portfolio was above average at 60%.

A majority of loans were still denominated in foreign currency, as their share in the total loan portfolio rose from 72.7% to 76.1% in 2011. Tighter lending criteria boosted the percentage of loans secured by collateral. Asset quality slightly deteriorated in 2011, as the NPL ratio increased by 1.7 percentage points to 11.9%. This was primarily attributable to corporate loans. Defaults on retail loans were higher, as well, but to a much lesser extent. NLP coverage by risk provisions excluding collateral was around 90% at year-end 2011.

UKRAINE

The Ukraine segment encompasses the business of Erste Bank Ukraine, which serves approximately 230,000 customers through a country-wide network of 131 branches. It offers a broad range of standard banking services, including deposit-taking, current accounts, treasury services and loans to its retail and corporate customer base. As Erste Bank Ukraine launched its operations only in 2007, its market shares in 2011 were still small, at about 1% in most product categories. As measured by total assets, the bank ranked 22th.

Economic review

The Ukrainian economy continued its recovery in 2011. Real GDP grew by 4.9%, one of the strongest rates in Central and Eastern Europe, while GDP per capita increased to EUR 2,400. Despite this gain, GDP per capita was still much lower than in other CEE countries. Domestic consumption, which accounts for 70% of GDP, performed well and achieved a double-digit growth rate in 2011. Favourable weather conditions boosted agriculture supporting overall economic growth. Exports, on the other hand, did not contribute to growth as the price of steel, Ukraine's main export product, began to decline in the second half of the year. The labour market also showed an improvement, as the unemployment rate dropped further to 7.8% by the end of 2011. The country retained its traditional regional employment pattern, with the lowest unemployment rate recorded in the industrially more developed eastern part of the country.

Ukraine's dispute with the IMF over natural gas prices did not help the country's business climate, as citizens paid only a fraction of the subsidised the price hike. Meanwhile, a record harvest and high trade barriers for exports sent food prices much lower. As a result, average consumer prices increased by 8% in 2011, the lowest level import gas price while the difference was covered by the state budget. However, the authorities made significant steps toward creating a more transparent business environment. In July, a new law on preventing corruption came into effect. The law aims to structure and strengthen existing legislation in this area. The number of economic activities requiring licensing was further reduced. In addition, pension reform legislation was enacted in September 2011. This included rising the minimum retirement age for women from 55 years of age to 60, capping the maximum pension at 10 times the minimum wage, and extending the required time of employment by 10 years. A new tax code was introduced in 2011 with the intent to streamline the complex tax system. It reduced the corporate income tax rate from 25% to 23% in 2011 and will further cut to 16% by 2014. At the same time, the personal income tax was raised to 17% for 2011.

Inflation came in lower than expected for 2011 and moderated significantly compared to the previous year. Increasing gas prices did not have an impact on consumer prices as the government in nine years. The Ukrainian National Bank kept the hryvna pegged to the US dollar while leaving its base interest rate unchanged at 7.75% throughout 2011.

Key economic indicators – Ukraine	2008	2009	2010	2011e
Population (ave, million)	46.1	46.0	45.7	45.5
GDP (nominal, EUR billion)	123.6	80.7	104.2	106.6
GDP/capita (in EUR thousand)	1.9	1.7	2.2	2.4
Real GDP growth	2.3	-14.8	4.2	4.9
Private consumption growth	12.0	-14.9	7.0	8.0
Exports (share of GDP)	37.1	35.7	37.9	46.2
Imports (share of GDP)	47.4	40.4	44.1	56.1
Unemployment (Eurostat definition)	6.4	8.8	8.1	7.8
Consumer price inflation (ave)	25.2	16.2	9.4	8.0
Short term interest rate (3 months eop)	23.6	18.1	6.5	25.0
EUR FX rate (ave)	7.7	11.3	10.5	11.4
EUR FX rate (eop)	10.7	11.7	10.7	11.2
Current account balance (share of GDP)	-6.7	-1.7	-1.9	-4.7
General government balance (share of GDP)	-1.2	-6.3	-5.5	-3.5

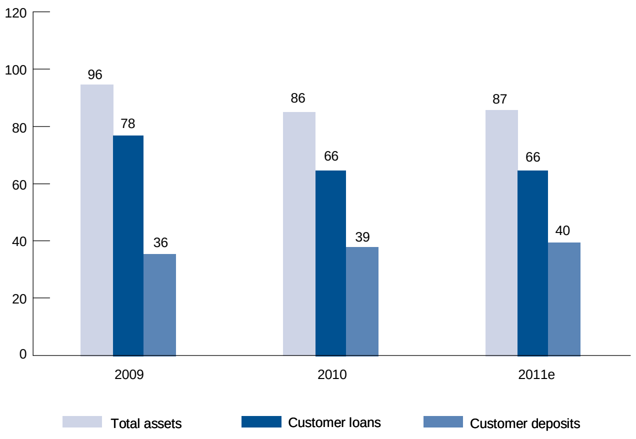
Source: Erste Group

Market review

The year 2011 was the third straight in which Ukraine's banking system had an aggregate bottom-line loss. This was mainly due to the system's poor portfolio quality, as non-performing loans remained above 40% of all customer borrowings, which is one of the highest in the world. In addition, due to deleveraging of the banking system, customer loan growth at 9.8% was weaker than nominal GDP growth. The minimal expansion was driven by corporate loans (up by 15%) while retail loans declined by 4%. Ukrainian- and Russian-owned banks accounted for the vast majority of newly issued loans in 2011, while western banks mainly shrank their loan portfolios. Ukraine's deposit market remained lively in 2011, as banks continued to focus on deposit-taking activities. As a result, customer deposits grew by 15% in 2011. Despite the strong deposit growth, the banking system's loan-to-deposit ratio remained high compared to those of other CEE countries. The structure of the banking market remained stable, albeit highly fragmented. The single largest of the 180 banks in operation accounted for only 12% of total assets.

Erste Bank Ukraine had a pronounced focus on collecting deposits while lending activities were limited and selective in 2011. Erste Bank Ukraine was among the biggest market share gainers on the deposit side, benefiting from its strong brand name and new deposit products. On the lending side, it maintained its market shares throughout the year. The bank's loan-to-deposit ratio also improved significantly but remained well above 100%. Overall, Erste Bank Ukraine's market share as measured by total assets stood at 1.1% at the end of 2011.

Financial intermediation – Ukraine (in % of GDP)



Source: National Bank of Ukraine, Erste Group

Business review

Strategy. Erste Bank Ukraine's main objective is to provide the best service quality while offering transparent and affordable products. Even as the bank is focused upon strengthening its market position in retail and SME banking, it endeavours at the same time to boost operating efficiency. Erste Bank Ukraine aims to enhance its product offer for both retail and corporate customers. In the retail segment, this includes providing a better product range and pursuing a balanced lending policy. Special emphasis is given to achieving sustainable business results by encouraging existing clients to use more services while growing the volumes of deposits and current accounts. In the corporate segment, the bank emphasises financing for energy efficiency projects, the agriculture sector, food and beverage production, as well as engineering companies.

Highlights from 2011

Retail business in challenging economic environment. Erste Bank Ukraine's sound reputation once again resulted in rising customer deposits in 2011, mainly driven by deposits of private individuals and treasury operations of large corporate clients. Retail deposits grew by 27%. Retail loans on the other hand, declined by 22%, as both strict lending criteria and the general economic environment were not supportive to loan growth.

Focus on broadening customer relationships. Erste Bank Ukraine introduced new products, including cash products, and optimised its lending process in line with market demand and Erste Group policies. A customer relationship management project was started, and the bank implemented a new proactive sales approach directed to activating the existing customer base. Erste Bank Ukraine expanded its co-operation with international financial institutions (EIB and EBRD) to support local SMEs in energy and environmental projects, as well as in the trade finance area.

Financial review

in EUR million	2011	2010
Pre-tax profit/loss	-23.6	-37.3
Net profit/loss after minority interests	-23.1	-37.5
Operating result	-14.5	1.6
Cost/income ratio	142.4%	96.7%
Return on equity	n.a.	n.a.
Customer loans	497	486
Customer deposits	190	136

Net interest income of Erste Bank Ukraine declined in the financial year 2011 from EUR 32.9 million by EUR 0.3 million, or 0.8%, to EUR 32.6 million. Currency-adjusted, it was up 4.4%, however. Lower lending volumes were offset by higher interest income from other financial assets. Higher income from payment transfers and insurance brokerage led to an improvement of net fee and commission income by EUR 0.8 million, or 19.2% (currency-adjusted: +25.5%), to EUR 4.9 million. The net trading result declined from EUR 11.7 million by EUR 14.9 million to EUR -3.2 million, which was largely attributable to the shift of interest income from trading assets, which is now included in net interest income.

Operating expenses increased from EUR 47.1 million by EUR 1.7 million, or 3.6% (currency-adjusted: +9.0%), to EUR 48.8 million, driven mainly by higher IT and personnel expenditure. Stabilisation of the portfolio led to a significant reduction of risk provisions by EUR 28.1 million, or 72.5% (currency-adjusted: -71.1%), to EUR 10.7 million. Net loss after minorities declined by EUR 14.4 million, or 38.4% (currency-adjusted: +35.0%), from EUR -37.5 million to EUR -23.1 million.

Credit risk

In the Ukraine segment, total exposure grew by 20.4% from EUR 725 million at year-end 2010 to EUR 873 million at year-end 2011. Loans to customers expanded at a much slower rate, rising only 2.1% to EUR 497 million. This increase was mainly attributable to the Ukrainian hryvnia's appreciation (+2.8% vs. the euro) and, especially, to the higher exchange rate against the US dollar (+3.3% vs. the euro). The dollar was by far the most important lending currency. The rise in credit volume was driven by lending to small businesses. Retail .loans and large corporate loans declined. At year-end 2011, the Ukraine segment accounted for less than 0.4% of Erste Group's overall customer loans.

Despite the return to growth, the economic situation in the country was still challenging and policies for new lending remained very restrictive throughout 2011. In co-operation with customers, efforts again were concentrated on credit restructuring with the aim of adjusting debt service terms as best as possible to the changed economic environment and, thereby, ensuring full repayment of the loans over the medium to long term.

After steadying through the first half of 2011, the negative trend in credit quality continued in the second half of the year. At year-end, the NPL ratio based on customer loans equalled almost one-third of total loans (32.5% vs. 28.3% at year-end 2010). In contrast to other countries in Central and Eastern Europe where Erste Group operates, the default rates on retail loans were higher than for corporate loans. NPL coverage was around 95.3% at year-end 2011.

Group Corporate and Investment Banking (GCIB)

The Group Corporate and Investment Banking (GCIB) segment includes Erste Group's fully divisionalised large corporate (Group Large Corporates), investment banking (Group Investment Banking), real estate (Erste Group Immorent) and global (International Business) business lines. These provide the full range of banking services to large corporate clients, as well as institutional and public sector clients. The division employs 1,250 professionals who combine industry and product expertise with local knowledge, and it offers services in debt financing, equity capital markets, mergers and acquisitions, debt advisory, acquisition finance, infrastructure finance, project finance, syndication, real estate development, lending and leasing, as well as transaction banking. The division co-operates closely with the capital markets, retail and SME business lines.

Business review

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

Deepening relationships with core clients by combining an industry sector coverage approach and broadening the product range to match the clients' needs remains key for Group Large Corporates.

In light of still challenging market conditions, Erste Group Immorent is focused on the existing portfolio. A 'one-stop shop' in its segment, Erste Group Immorent (EGI) covers the full real estate value chain (lending, leasing, investment, project development, construction services) for commercial, residential and municipal projects, as well as the infrastructure business across all countries. In line with Erste Group's strategic focus on retail banking, special emphasis is given to financing of housing projects.

Erste Group's investment banking business line specialises on corporate finance transactions and investment business for private equity funds in CEE. The Equity Capital Markets team advises on and executes initial and secondary public offerings, private placements and accelerated book buildings, and it advises on share buy-backs and delistings. Leveraged Finance is focused on providing acquisition finance for leveraged buy-outs by private equity funds in CEE as well as financing solutions for leveraged corporates. In addition, the team advises on debt restructurings of Erste Group corporate clients. The Mergers & Acquisitions team provides buy- or sell-side advisory to corporate or institutional clients seeking to buy or sell companies in CEE. Services include valuations, bidding strategies and process execution. Staff is based in the Prague and Vienna execution hubs as well as across Erste Group's core markets and in London, Poland and Turkey.

The International Business unit covers all lending and investing activities outside the Group's core markets and is responsible for business development with, as well as credit line management for, banks and non-bank financial institutions. In accordance with Erste Group's strategic business objective to exit non-core activities, the International Business portfolio will be further reduced. International Business will continue to provide line management activities for financial institutions while taking a proactive approach to risk-reduction activities and capital allocation.

Highlights from 2011

Group Large Corporates aims for balanced portfolio growth. The Group Large Corporates (GLC) business line finalised implementation of its sector-based approach, as all locally based client executives are now integrated into the respective industry teams. Clients across the region benefited from special "industry day" events. The aim of the revised structure is to improve the service to clients and thus ensure balanced portfolio growth across countries and sectors while generating stable revenues from intensified client relations.

GLC took a selective approach in lending to core clients as well. Syndicated lending remained important. Erste Group Bank AG acted as mandated lead arranger, bookrunner and documentation agent in a EUR 500 million club deal for Porsche Corporate Finance, guaranteed by Porsche Holding. Erste Group upheld its strong position in CEE bond markets through the combined efforts of product specialists and client executives. ČEZ, the leading Czech energy group, mandated Erste Group as joint lead manager and bookrunner for its EUR 500 million 2016 benchmark transaction. In addition, Česká spořitelna arranged for ČEZ a private placement in the amount of CZK 1.25 billion. Czech Railways selected Erste Group as joint lead manager and bookrunner for its inaugural EUR 300 million 2016 Eurobond issue. Increasing emphasis has been put on transaction banking. Enhanced product offers in cash management allow clients to optimise payment flows in the CEE region while also positively contributing to the deposit base. Given the export-oriented nature of Erste Group's markets, trade flows were supported by trade finance and services.

Focus Of Erste Group Immorent remains on existing real estate portfolio. The operating environment for the real estate sector remained challenging. Activities in CEE during 2011 were mostly limited to prime quality real estate investments. Yields decreased in most countries. New development activity has not yet picked up. The continued commitment to the region and clients was recognised, as Erste Group Immorent in the Czech Republic was named Developer of the Year by the Construction & Investment Journal, a leading CEE real estate trade publication. Erste Group remains convinced that a significant need to renew the real estate stock across its core markets will support a positive market development in the future.

EGI adhered to a cautious and selective market approach in 2011, focusing on high quality new business with clients in Erste Group's core region. The emphasis remained on managing the existing portfolio and on supporting weaker clients and projects. Consequently, the segment's portfolio did not change significantly and the overall exposure decreased slightly to EUR 11.7 billion. This figure excludes roughly EUR 4.7 billion ofbuilding society business of Bausparkasse (commercial and subsidised housing), as well as any activities of the savings banks and the local real estate business. The portfolio remained well-diversified. The most stable economies of Erste Group's region (Austria, Czech Republic and Slovakia) accounted for approximately half of the exposure and the majority of the total volume was related to projects in the capitals and major economic centres. Retail outlets accounted for 23%, offices for 21% of the portfolio. Further important asset segments were hotel/tourism (11%) and logistics/industry (10%).

Group Investment Banking franchise in CEE is growing. Group Investment Banking's competitive advantage stems from delivering professional service at an international standard, efficient product organisation that builds upon local insights, and very close co-operation between GCIB's client coverage teams and the local corporate banking teams.

Transaction highlights in 2011 included sell-side advisory services and full underwriting of a EUR 150 million staple finance transaction to Permira Private Equity for the sale of Provimi Pet Food, a regional pet food producer headquartered in Budapest. The financing was taken up by Advent International, which acquired the business from Permira. This was the only successful buy-out in CEE during 2011 based upon a staple finance transaction. Leveraged buy-outs were arranged in Poland (where Resource Partners acquired Polbita, a Polish personal care retail group) and Croatia (as Bancroft Private Equity bought the private courier service CityEx). Other transactions included a joint mandate as bookrunner for Kapsch TrafficCom in its equity capital increase at the Vienna Stock Exchange through accelerated book building and a sole mandate to act as bookrunner for Intercell on a EUR 33 million convertible bond. In the second half of 2011, several M&A as well as equity capital market transactions were deferred or put on hold as a consequence of depressed trading and low transaction multiples in the relevant peer groups.

International Business accelerated portfolio reduction. The business objective traditionally has been to provide risk-return diversification to complement Erste Group's performance. Given the Group's strategic business objective to adjust or exit non-core activities, the International Business unit will continue in its efforts to divest. The globally diversified portfolio of International Business bank and sovereign exposures included loans and bonds as well as credit default swaps (CDS). In the fourth quarter 2011, the International Business CDS investment portfolio in the net amount of EUR 5.2 billion was closed out. Changes in the fair value of the CDS portfolio led to losses of EUR 420 million in total, EUR 183 million therof in 2011.

Financial review

in EUR million	2011	2010
Pre-tax profit/loss	116.4	161.3
Net profit/loss after minority interests	73.7	115.7
Operating result	341.4	370.1
Cost/income ratio	35.9%	33.2%
Return on equity	3.8%	5.7%
Customer loans	19,805	18,745
Customer deposits	5,493	6,135

In the financial year 2011, net interest income decreased by EUR 31.0 million, or 5.4%, to EUR 543.2 million. This was attributable to the continuing reduction of business volume in the International Business unit. In Austria, net interest income from real estate business was slightly up in 2011 while net interest income from the large corporate business was slightly down year on year, particularly in CEE. Net fee and commission income improved in the financial year 2011 by EUR 10.5 million, or 9.7%, to EUR 118.8 million, mainly due to real estate development business in Austria. The net trading result was affected by the negative impact of changes in the fair value of the CDS investment portfolio of the International Business Unit and, at EUR -129.2 million, was unchanged versus the previous year. Operating expenses were up EUR 7.6 million, or 4.2%, to EUR 191.5 million, driven mainly by costs related to Immorent.

Risk provisions rose by EUR 1.8 million, or 1.0%, to EUR 178.2 million. While risk provisions were up by EUR 24.9 million in the real estate and large corporate business, they declined significantly in the International Business as a result of portfolio reduction. Overall, the operating result declined from EUR 370.1 million in 2010 by EUR 28.7 million, or 7.8%, to EUR 341.4 million in the financial year 2011. The decline in the item "Other result" by EUR 14.3 million, or 44.0%, to EUR -46.7 million, was primarily attributable to higher write-downs and losses on asset sales in the International Business.

Net profit after minorities declined from EUR 115.7 million by EUR 42.0 million, or 36.3%, to EUR 73.7 million. This was due in particular to lower income from the International Business. The cost/income ratio rose from 33.2% in the previous year to 35.9%.

Credit risk

Total exposure in the GCIB segment shrank in 2011, as it had in previous years, and amounted to EUR 29.7 billion at the end of the year. The decline was due to the International Business subsegment. By contrast, lending volume in the GLC and EGI subsegments increased. Loans to customers across the GCIB segment as a whole grew from EUR 18.7 billion to EUR 19.8 billion in 2011. At year-end, GCIB lending accounted for 14.7% of Erste Group's entire loan portfolio. The EGI and GLC subsegments accounted for almost 92% of total lending to GCIB customers.

In 2011, around 7% of the GCIB portfolio was comprised of loans to the public sector, while the rest was related to corporates and project financing. Euro-denominated loans accounted for 78.8% of the GCIB portfolio, and US dollar loans decreased in significance. The share of secured loans increased.

Asset quality deteriorated in 2011: Non-performing loans rose by EUR 244 million to almost EUR 1.3 billion. On the other hand, the share of the top risk categories in the portfolio rose from 65.3% to 72.6%. The NPL coverage ratio improved from 53.8% at year-end 2010 to 54.6% for year-end 2011.

Group Markets (GM)

The Group Markets segment comprises the divisionalised business units Group Treasury and Group Capital Markets (GCM). In addition to Erste Holding's own treasury activities, it encompasses the treasury units of the CEE subsidiaries and of the branches in Hong Kong, New York; the branches in Berlin and Stuttgart; the investment banks in Poland, Hungary and Turkey as well as Erste Asset Management. Group Capital Markets includes the divisionalised customer and proprietary trading activities of Erste Group. Specifically, GCM is responsible for trading in foreign exchange and interest rate products, as well as in securities for all customer groups. Moreover, it is tasked to design and develop products that cater to market demand in Erste Group's core markets.

Business review

Strategy. The focus is on client-oriented capital markets business. Group Capital Markets is the link between financial markets, customers and the bank. In an environment of persistent uncertainty, customers benefit from the Group's strong network in the CEE region and the resulting solid knowledge of local markets and customer needs. Products are developed jointly with the sales units in an ongoing process. The bank's array of standard products is a key contributor to its success, as are the customised products that emphasise simple structure, competitive pricing, plus professional and personal advisory services. Erste Group responded very early to the adverse market situation and increasingly offered products – especially for the retail segment – that are easy to understand and have a strong focus on safe investing. To serve institutional customers, designated teams have been set up not only in Vienna but also in Germany, Poland, Turkey and London. These teams offer a selective product range with a sharp focus on CEE. The goal is to combine the best of the various core markets while benefiting from synergies.

Highlights from 2011

New branches in Germany. Erste Group took advantage of opportunities opening up due to changes in the German banking industry and in 2011 began providing services to German institutional customers such as savings banks, insurance companies and pension funds directly from its new branch offices in Berlin and Stuttgart. The focus is on fixed-income products and services, including primary market activities, bonds and other debt securities (e.g. the unique German Schuldscheindarlehen) from Erste Group's core markets.

New web portal features. The web portal at https://produkte.erstegroup.com features not only information on products, markets and trends but also research reports and numerous videos with content ranging from market opinions to product information and training sessions. The videos are produced in-house to ensure that reports on market developments and new products are always up to date. The high click rates confirm lively demand for information provided through this channel. The "Client Valuation Tool" project was completed successfully in 2011. This is an application that provides automated valuations of portfolios to corporate and institutional customers.

Leading position in CEE new issues. In the CEE 'League Tables', Debt Capital Markets retained its number one position in bond issuance and even successfully gained market share in this segment compared to the previous year. Despite a difficult market environment, Debt Capital Markets successfully placed numerous government bonds through its well-established sales network. In addition, it won mandates from several renowned companies from within the bank's core markets.

Financial review

in EUR million	2011	2010
Pre-tax profit/loss	232.6	327.9
Net profit/loss after minority interests	166.6	245.1
Operating result	234.4	326.2
Cost/income ratio	51.1%	41.7%
Return on equity	53.4%	75.7%
Customer loans	225	331
Customer deposits	2,459	2,536

Net interest income rose by EUR 41.0 million, or 26.2%, year on year to EUR 197.4 million, mainly due to the shift of funding costs and interest income from trading assets. Income from fixed income business was lower in the financial year 2011 than in the previous year. Net fee and commission income fell by EUR 30.5 million, or 19.4%, to EUR 126.6 million, which was due in particular to declining contributions from Asset Management and direct sales of treasury products. The risk provisions in the amount of EUR 12.0 million were related to an impairment of an interbank transaction. The net trading result was down from EUR 246.3 million in the previous year by EUR 91.1 million, or 37.0%, to EUR 155.2 million. Adjusted for the shift of funding cost and interest income from trading assets, the decline amounted to about 15%. At EUR 244.8 million, operating expenses were up by EUR 11.1 million, or 4.8%, mainly due to new offices in Germany (fixed-income sales) and higher costs in Asset Management and in CEE.

The operating result declined by EUR 91.8 million, or 28.1%, to EUR 234.4 million. The cost/income ratio rose from 41.7% to 51.1%. Net profit after minorities declined by EUR 78.5 million, or 32.0%, from EUR 245.1 million to EUR 166.6 million. Return on equity was 53.4%.

Corporate Center (CC)

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

Financial review

in EUR million	2011	2010
Pre-tax profit/loss	-1,327.3	-210.6
Net profit/loss after minority interests	-1,207.1	-145.8
Operating result	-86.4	-77.7
Cost/income ratio	275.0%	237.1%
Return on equity	n.a.	n.a.

The increase in net interest income by 32.4%, from EUR 84.7 million to EUR 112.1 million, was mainly driven by positive contributions from asset/liability management. The negative development of net fee and commission income was attributable mainly to profit consolidation, which also had a partial impact on general administrative expenses. Organisational and regulatory requirements resulted in cost increases for centralized steering and management units.

The item “Other result” included the straight-line amortisation of customer relationships of BCR, Erste Card Club, and Ringturm KAG totalling EUR 69.0 million as well as one-time goodwill write-downs of EUR 692.8 million for the Romanian subsidiary Banca Comercială Română, EUR 312.7 million for the Hungarian subsidiary Erste Bank Hungary, and EUR 52.7 million on Austrian subsidiaries. The Austrian banking tax related to the Holding in the amount of EUR 117.5 million was also reported under “Other result”.

Commitment to society

Already 192 years ago, the very founding concept of the savings banks embraced the idea of contributing to the common good. Today, Erste Group's MehrWERT sponsoring programme is a visible representation of the continuing commitment to society. It provides support to numerous institutions, initiatives and projects in the areas of social welfare, culture and education. Erste Group's selective support for sports likewise has a long tradition.

SOCIAL ACTIVITIES

The Group's commitment to social welfare is characterised by longstanding co-operation with established local and international organisations. It focuses on providing practical and swift assistance to people in difficult life situations, supporting initiatives for the long-term personal development of disadvantaged people, and creating new opportunities.

Caritas and Erste Group have been partnering for many years. An important element in their widely ranging joint efforts is the fight against poverty in Austria. Erste Bank Oesterreich sponsors, among other things, domestic aid campaigns as well as the annual Eastern Europe campaign to help children in Europe's poorest countries. Branches, many departments, as well as several savings banks took part during 2011 in the Coffee to Help campaign. Customers, colleagues and friends were invited for coffee and encouraged to donate to the charity Kinder in Not (Children in Need). Support for youngCaritas.at was also continued. This project offers young people aged between 15 and 24 the opportunity to become acquainted with the work of Caritas and to gain experience in social work by, for example, collecting food or organising school tutoring. Česká spořitelna has co-operated for several years with Caritas Czech Republic on a number of projects.

Since 2003, Erste Bank Oesterreich, the savings banks and sBausparkasse have been sponsoring Hilfswerk Österreich, one of the largest non-profit providers of health, social and family services in Austria. Assistance is given to the annual initiative Kinder Fördern, Eltern Helfen (Promoting Children, Helping Parents), which offers information on specific matters such as child care and child-care allowances, children's safety, preventive health care and nursing care.

Erste Bank Oesterreich again supported the association known as lobby.16, which works to protect the right to education of unaccompanied young refugees and gives them access to education, employment and participation in social life.

Erste Bank Croatia assists the project Step into Life, which provides scholarships to young people from deprived social backgrounds in order to enable them to obtain university degrees.

At Erste Bank Hungary, social activities focused on helping young people, improving living standards of the disadvantaged, and promoting good health (primarily through encouraging healthy lifestyles and initiatives to prevent disease). In addition to cash donations, the bank often donates the expertise and social work of its employees to help those in need. Some of its local partners are SOS-gyermekfalvak (SOS Children's Villages), Magyar Vöröskereszt (Hungarian Red Cross) and Mosoly Alapítvány (Smile Foundation).

ART AND CULTURE

In 2011, Erste Group supported and promoted partnerships between cultural and social institutions intended to develop common ideas and strategies for deepening the understanding and appreciation of art. One example is the project Kultur-Transfair, a part of "Aktion Hunger auf Kunst und Kultur" (Hunger for Art and Culture Campaign). Partners of Erste Bank Oesterreich – comprising in each case one cultural institution and one social institution – collaborated in developing projects designed to meet social needs of the target groups while inspiring interest in culture and facilitating access to it.

Starting with the 2011/12 season, Erste Bank Oesterreich is principal sponsor of Jeunesse, an organisation that offers an extensive concert programme covering classical, jazz, world and new music as well as children's concerts. While developing new concepts for teaching music appreciation, Jeunesse puts equal emphasis on actively promoting young artists and giving them opportunities to perform professionally. A goal of this co-operation is to provide socially disadvantaged people a chance to experience music by putting on special workshops for children and young people as well as concerts at retirement homes. Erste Group works, too, with charitable organisations such as Caritas to implement concrete measures for bringing music to people.

For the eighth time, Erste Bank Oesterreich acted as the principal sponsor of Viennale, Austria's largest international film festival. Customers and employees were able to profit directly from discounted cinema tickets. For the first time, Erste Bank Oesterreich awarded the "MehrWERT" film prize to a film presented at Viennale 2011 by an Austrian director. The award went to Gerald Igor Hauzenberger for "Der Prozess" (The Trial).

Vienna Design Week is an international design festival staged annually in autumn. It is a unique combination of experimentation, culture and business. With support from Erste Bank Oesterreich, each year five selected designers obtain an opportunity to bring their projects to fruition as part of the festival. In 2011, a social design project on the subject of homeless young people was presented in co-operation with Caritas Vienna.

As its principal sponsor, Erste Group enabled galleries from Central and Eastern Europe to take part in Viennafair. In recent years, this event has become well-established in the international art community for contemporary art focused on Central, Eastern and Southeastern Europe.

Erste Bank Hungary is a sponsor of the Palace of Arts (Művészetek Palotája), a centre for arts recognised and acclaimed both in Hungary and internationally. The bank was awarded the Summa Artium Award 2011 in the category of contemporary art for its many years of supporting contemporary culture and art. Česká spořitelna is a partner of the Prague Spring Festival as well as the Prague Spring International Music Competition. In addition, the bank supported other classical music festivals such as the International Music Festival in Český Krumlov and Smetana's Litomyšl. It also assists the Colours of Ostrava music festival and the Designblok Days exhibition in Prague. Through its programme directed to decentralising culture and known as Centrifuga, Erste Bank Serbia has supported 35 projects in more than 20 Serbian towns over the last five years. Erste Bank Serbia also lent its support to the talent, success and creativity of young people through the Klub 27 project. Slovenská sporiteľňa, meanwhile, sponsored Bratislava Jazz Days, an annual international festival of jazz music.

Kontakt, the art collection of Erste Group, explores art production in Central, Eastern and South-Eastern Europe with a special emphasis on contemporary art discourses and critical theory. Kontakt reflects the political transformation in Europe and the significance of art before the background of specific cultural, social and economic developments in the post-socialist countries.

FINANCIAL LITERACY

Improving financial literacy is fundamental to economic growth and to the long-term wellbeing of communities. Initiatives to increase the understanding of finances are well aligned with Erste Group's savings bank tradition. The underlying concept of empowering individuals to make informed decisions about the management of their money is even more important in times of economic uncertainties.

Financial education starts at an early age. As one of ZOOM Kindermuseum's main sponsors, Erste Bank Oesterreich initiated a travelling exhibition on the topic of money for a target group of children between 6 and 12. The exhibition "Show me the money" deals with the basic terms of finance. It explains how money came into being, what it is for and how it is produced. In 2011, it was on display at the children's museum in Graz and will be presented in various Central- and Eastern European cities in the next years, e.g. at the Children's Museums in Bratislava in 2012.

On www.csas.cz/mladi, Česká spořitelna provides information about financial products and instruments to young customers. The bank also operates Moneymanie.cz, an educational internet portal designated primarily for children and adolescents, but also for their parents and teachers. Children up to the 1st level of primary schools are the target group for Spořínkov (www.csas.cz/Sporinek). Erste Bank Hungary runs a financial literacy program named "Pénzügyi Kisokos" (Financial Guide), a non-branded financial guide website, and edits a blog on basic financial topics for younger generations.

Erste Bank in Croatia and Erste Bank Serbia offer "Managing Personal Finance" workshops for people, who want to improve their financial know-how. The Erste Group Ukraine is offering a School of financial literacy and entrepreneurship program to give children from low-income families the possibility to get basic financial and business knowledge.

SPORT

The capacity for sports to bring people together while encouraging them to pursue common goals embodies an ideal that also can be seen in Erste Group's business philosophy. The bank has supported amateur and professional sporting events in Austria and Central Europe for many decades. Projects are carried out in a spirit of close partnership with the organisers and hosts of those events. Ice hockey, running and tennis are given particular emphasis, as is the promotion of activities for young athletes.

In tennis, activities range from support for such amateur initiatives as the BCR Tennis Partner Circuit and the BCR Tennis 10 in Romania to sponsorship of tennis professionals like Jürgen Melzer in Austria and Viktor Troicki in Serbia. In 2011, Erste Bank Oesterreich was for the first time the main, name-giving sponsor of Austria's most important tennis tournament, the Erste Bank Open in Vienna.

Erste Bank Sparkasse Running is the largest running initiative in Austria. In 2011, Erste Bank Oesterreich and the savings banks supported 212 running events involving more than 100,000 participants dashing some 2 million kilometres throughout Austria. The bank's internet presence was expanded to include a Facebook page for Erste Bank Sparkasse Running.

Since 2003, Erste Bank Oesterreich has been sponsor of the professional Austrian Ice Hockey League, the Austrian national ice hockey team, as well as the local Vienna Capitals team.

For more than 30 years, Erste Bank Oesterreich and the savings banks have supported the school leagues in soccer and volleyball. This commitment represents the longest-standing sponsorship for promoting young athletes in Austrian sports and boasts the participation of over 1,000 schools. That makes it the largest youth competition in Austria. In 2011, the final games of the school league were held in Bad Gastein (volleyball) and in Schwaz (soccer).

CORPORATE VOLUNTEERING

Volunteering programmes comprise a key element within Erste Group's concept of corporate social responsibility. All the Group's local subsidiaries support community projects through cash contributions, donations in-kind and matched-giving. Moreover, employees are encouraged and empowered to engage in corporate volunteering, frequently in co-operation with long-term partners or through the banks' financial literacy initiatives.

More than 400 employees of Erste Bank Oesterreich and the savings banks work on a voluntary basis at the Zweite Sparkasse initiated by Erste Foundation. People who are in financial difficulties and therefore have no access to banking services can open an account without an overdraft facility with this "bank for people without a bank". The account is offered only in close co-operation with partners such as Caritas and accompanied by debt counselling services.

In 2011, Slovenská sporiteľňa volunteers focused on financial literacy and support to youth, such as the "Know Your Money" initiative, which educated students at elementary and secondary schools about earning, spending and saving money.

Banca Comercială Română launched an internal online volunteering platform that provides access to volunteering opportunities with 110 organisations across the country.

Česká spořitelna continued its successful grant programme, wherein employees may nominate a non-profit organisation within a defined strategic area that helps people in need. Examples include fostering sustainable environmental development and assisting the elderly, the disadvantaged or drug addicts. Česká spořitelna staff voted for six projects to receive one-off grants. Moreover, employees participating in voluntary projects are entitled to two charity days per year during which they continue to be paid by the bank while they provide volunteering services to the community.

Supporting our customers

RELATIONSHIP BANKING

Erste Group puts clients and their interests at the centre of attention. Erste Group strives to build and to maintain long-term relationships with its customers by offering appropriate and understandable products and advice. The bank is constantly working to improve its service quality and to tailor its product portfolio to the demands and requirements of customers. Several factors are taken into account, including the financial knowledge and experience, financial position and risk appetite of the individual client. To provide reliable, high-quality financial services to all clients is an important element of the customer relationship concept. With a view to retaining trust and loyalty, the approach is to "pull customers" rather than "push products".

ACCESSIBILITY

With social media and virtual contacts gaining in importance, dialogue with clients is no longer limited to contact at the counter in branches or on the telephone. Accessibility across multiple channels will further improve the convenience of Erste Group services. Technology is going to play a pivotal role in improving customer satisfaction.

In 2011, Erste Bank Oesterreich introduced video and online meeting capabilities for retail clients as an increasing number of clients browse the web for financial consultancy. Video conferencing is used to present financial topics of interest (e.g. to inform customers with foreign currency loans about various scenarios). In addition, one-to-one online meetings were offered enabling individual clients to talk about financial topics specific to them. Currently, 25 online retail advisors are available.

Even at a time when electronic banking is gaining in importance, the branch network with its facilities still remains a key access point for clients. Erste Bank Oesterreich and the savings banks introduced special, self-service machines with auditory instructions for blind and partially sighted people. The "speaking ATM" was developed jointly with experts from the Austrian Federation of the Blind and Partially Sighted and optimised in several test phases. By the end of 2011, in all lobbies of Erste Bank Oesterreich branches at least one self-service device was equipped with a headphone jack and labelled device keyboard. Savings banks will implement this new feature during 2012 in a similar form.

CUSTOMER SATISFACTION

Erste Group is committed to continuously improving the customer experience and quality of its services. Proving its willingness to put even more emphasis on consumer orientation, Erste Group established the independent "Group Customer Experience" unit combining marketing research, service quality management and complaint-handling functions. This set-up has increased the bank's ability to understand customer needs and expectations and act upon them immediately in the most effective manner.

To assess customer satisfaction, market surveys and quality checks such as mystery shopping or determining "moments of truth" − key interactions with clients which contribute most to customer satisfaction − are conducted on a regular basis in all markets where Erste Group is represented except Ukraine. The results of the 2011 customer satisfaction surveys comparing the local Erste Group banks with their industry peers were encouraging. Customers of Erste Bank Oesterreich and the Austrian savings banks, Slovenská sporiteľňa, Erste Bank Croatia, Erste Bank Serbia as well as Česká spořitelna and Erste Bank Hungary ranked them as either the top or second-best bank by local satisfaction rating.

In addition to customer satisfaction, Erste Bank Oesterreich focused strongly on boosting the recommendation rate among customers. The willingness to recommend the bank branch and individual advisor both increased again compared to 2010. Erste Bank Oesterreich introduced an enhanced qualitative approach to mystery shopping, with the evaluation incorporating active performance assessment as well as coaching and best practice examples. Česká spořitelna and Banca Comercială Română initiated projects to identify those "moments of truth" and focused their service quality efforts to improve significantly in these key interactions

Erste Group as a whole focused its efforts in 2011 on further increasing the service orientation of branch staff and improving process effectiveness and system reliability. Internal service quality is considered essential to Erste Group's ability to provide high-quality professional services to its clients.

ETHICAL INVESTING

Erste Group's Austrian fund management organisation, Erste Sparinvest, was an early mover in anticipating the growing needs and intentions of investors to increasingly emphasise environmental and ethical-social aspects in their investment decisions. Over the past decade, Erste Sparinvest has used these changes as an opportunity to develop the largest variety of ethical-sustainable funds in Austria. Erste Sparinvest is an acknowledged provider of ethical-sustainable investment funds in Austria and the CEE region. Assets under management reached EUR 1.5 billion in 2011, an increase of 15% compared to 2010.

In 2011, Sparinvest's sustainability specialists managed ten investment funds plus several externally mandated portfolios. The managed mutual funds comprised three bond funds, four regional stock funds as well as a microfinance fund of funds and two theme funds for climate protection and the environment (the latter funds are managed in co-operation with WWF Austria). In 2011, Espa Vinis Bond Euro-Corporate, a new fund focusing on European corporate bond issuers, was launched.

Erste Sparinvest is a subscriber to the United Nations-backed Principles of Responsible Investment. In 2011, the company decided from the beginning of 2012 to prohibit investments into companies active in the field of controversial weapons, such as land mines, for all actively managed mutual fund portfolios.

FINANCIAL INCLUSION

One of the main reasons behind the foundation of Erste österreichische Spar-Casse in 1819 was to make simple banking services available to the unbanked part of the population. For a variety of reasons, some sections of the population do not have access to financial services from commercial banks.

good.bee is the financial inclusion business owned 60% by Erste Group and 40% by Erste Foundation. Set up in 2008, its principal task is to develop innovative solutions for breaking down the barriers to financial inclusion for individuals and enterprises in Central and Eastern Europe. By extending the reach of responsible and suitable financial services to social enterprises and disadvantaged people, good.bee aims to support social integration and promotes economic development of individuals and communities.

In 2011, good.bee's business focus remained on the areas of microfinance and social enterprise finance. Microfinance is about finding financial solutions for individuals and entrepreneurs who lack access to financial services. Social enterprise finance develops solutions for the social sector. In addition, local support networks assist in capacity building for social entrepreneurs, helping them to acquire the knowledge and skills they need to become successful in their ventures.

good.bee Credit was set up in 2009 in partnership with the Economic Development Center in Romania. The company offers development-oriented financing products for economically active individuals and small businesses. From individual farmers to small shop owners, customers are provided with investment loans and working capital to sustainably develop their businesses.

good.bee Mobile Transactions combines the advantages of mobile telephones with an easy-to-use bank account and debit card. Since 2010, this venture is owned by Banca Comercială Română (BCR). Through an independent sales network, the company offers its clients an affordable good.bee current account and debit card as an easily accessible payment platform. Customers can send and receive payments via mobile phone technology, with no need to visit a branch.

Through the local Erste Group banks, good.bee offers social enterprise finance solutions to suit the needs of the social sector. At Erste Bank Oesterreich, a separate social banking unit co-ordinates all activities relating to social issues and businesses. While there exist various financing options and instruments for commercial companies, the social sector is largely underbanked.

Several good.bee initiatives were launched in 2011 by the local banks of Erste Group. Namely, Erste Bank Serbia and the Serbian National Employment Agency launched a programme to support unemployed young people with capital and training to set up their own businesses. The project is called "supERSTEp" and offers loans of up to RSD 500,000 to selected candidates. Erste Bank Croatia is also supporting self-employment by providing investment loans to people and businesses that have difficulties meeting standard requirements for obtaining loans. The Centre for Entrepreneurship has been offering these customers training and mentoring in the Osijek area. This part of the region Slavonia was chosen due to its extremely high unemployment rate.

Banca Comercială Română granted several loans to social organisations in 2011 and has acquired great experience in working with the social sector. The first social enterprise borrower of Erste Bank Ukraine was a medical rehabilitation centre investing in medical equipment. Česká spořitelna has launched a social enterprise finance pilot project for social enterprises in the Czech Republic. Further social enterprise loans were finalised in Austria, Hungary, Serbia and Slovakia.

Employees

Retaining experienced and committed employees is fundamental to the long-term success of every company. Toward that end, Erste Group strives to be an employer of choice for talented people in Central and Eastern Europe. The bank aims to attract professionals committed to working long term with Erste Group by offering career development opportunities within a strong organisation that is governed by sound values. Mobility within the Group is encouraged and facilitated by a group-wide, cross-border internal job market.

RECRUITING AND EMPLOYER BRANDING

In 2011, Erste Group launched an employer branding initiative to define what working at Erste Group is all about. The bank's commitment and promise as an employer is embodied in its declaration that, "At Erste Group, we believe earning money must have a deeper meaning". The bank endeavours to attract and support experts and people with potential who show initiative and who wish to take their careers into their own hands. Countless surveys show that long-term happiness at work derives not from salary alone but from genuine satisfaction. While what constitutes this satisfaction certainly can vary from person to person and market to market, people remain committed if they enjoy their working environments. In 2011, employees from all Erste Group markets were featured in a campaign – "The faces of Erste Group" – encouraging them to share their personal, real-life accounts of working for the bank.

KNOWLEDGE AND TRAINING

Erste Group strives to tap into the full potential of its workforce through comprehensive development programmes. Investing in human resources ensures that employees have the skills and competences they need to work efficiently in a rapidly changing and complex environment.

Targeting professionals from different areas, Erste School of Banking and Finance established three new business colleges in 2011. Developed in co-operation with the respective business lines, the colleges provide expert knowledge and a uniform understanding of standards and processes within Erste Group at fundamental, advanced, and excellence levels. Because people constitute a crucial differentiating factor in banking, the Human Resource College provides Human Resources professionals with knowledge and skills to optimally perform their increasingly challenging role. The Private Banking College aims to implement best-practice quality standards as well as instil unsurpassed professional conduct and etiquette across Erste Group, thus providing relationship managers with a competitive edge in the marketplace. The Project Management College enhances IT project and change management competences across Erste Group and awards professionals with internally and externally recognised certificates. In addition, the colleges for risk management, trading, investment banking, corporate banking, and controlling continued their training programmes.

Intending to expand employees' knowledge base, the well-proven, open-access Group Lecture Series was continued in 2011 with around 50 lectures presented by outstanding internal and external speakers in Austria and CEE countries. Topics from various areas of banking and beyond were taken up in order to stimulate thinking that is strategic, innovative, and ventures "outside the box".

The Erste Group Junior Trainee Programme kicked off with a new class of trainees. Each year, a group of bright and highly skilled university graduates is given the opportunity to discover the world of Erste Group by participating in the programme. After one year of intensive on-the-job training as well as classroom education, the programme ends with an examination, a project presentation, and a final evaluation. Trainees acquire a solid understanding of the banking industry and of Erste Group's core business fields.

TALENT DEVELOPMENT

The group-wide Talent Career Management (TCM) process – set up to identify, develop and retain employees who demonstrate both high performance and high potential – comprises several initiatives for different target groups. As from 2011, the selection of talent is focused on creating a pool of internationally mobile potential successors for key positions across Erste Group. Upon passing the selection process, successful candidates will each be offered a dedicated development plan addressing the requirements of a respective key position.

In order to be part of TCM initiatives, an employee needs to be nominated and must meet the basic criteria of high performance and high potential for further growth. Business goals achievement and leadership competency ratings are taken into account. To assess potential, the following dimensions are evaluated: international career aspiration and drive; learning and next-level competencies, and commitment and values.

The second class of the Group Leadership Development Programme (GLDP) graduated in 2011 after completing the compulsory cross-border job rotations. The third GLDP class is planned for 2012–2013 and will be open to members of the international succession pool. In December 2011, the second class of CONNECT (the international development programme for senior specialists) kicked off with its goal to boost international knowledge exchange, networking, and career support for selected non-managerial talents. With this group, the number of employees having taken part in one of the group-wide TCM development programmes rose to 152.

PERFORMANCE MANAGEMENT

Performance management is an important tool underpinning Erste Group's HR programme. This aligns agreed individual targets for employees with the bank's goals in order to improve overall performance. The concept unites business performance and competency performance criteria, and each individual employee's accomplishments are measured against specific competency criteria. In 2011, further steps were taken to strengthen the objectives and target-setting as well as the employee appraisal dialogue. The updated group-wide performance management process was implemented in Erste Bank Hungary and Ukraine. Erste Bank Oesterreich, Erste Group Bank, Slovenská sporitel´ňa and Česká spořitelna will follow in the beginning of 2012. The regular employee appraisal dialogue is one of the central performance management tools available to managers and employees. Invaluable, too, is 360° leadership feedback, which gives about 2000 Erste Group managers the opportunity to receive structured multi-source feedback from their superiors, peers, and subordinates. This evaluates leadership competencies, which at Erste Group are regarded to include innovation, development (with a focus on living and promoting cultural diversity, inspiring commitment, team development and leadership, self-awareness and learning) and execution (customer orientation, driven by performance and results). Banca Comercială Română and Erste Bank Croatia have piloted the 360° feedback method in the retail branches.

EMPLOYEE ENGAGEMENT SURVEY

As committed and motivated employees play a vital role in Erste Group's success, a group-wide survey was conducted to establish which factors impact on staff engagement. More than 32,000 employees participated in the 2011 employee engagement survey (a 74% response rate), and results from the survey were representative for every country. The survey will be repeated at regular intervals in order to implement continuous improvement measures and obtain up-to-date employee feedback.

The survey's findings proved that especially teamwork and good leadership are seen as above average. In other areas (e.g. equality of opportunity for all employees), the bank did not always match up to employees' expectations. Improvement measures will be developed in every country and consolidated at group level in January 2012. A project team specifically has been set up for this purpose and will monitor the development and implementation.

REMUNERATION POLICY

In 2011, Erste Group focused on implementing a variable remuneration policy that provides performance criteria for determining and paying bonuses. The variable remuneration is linked to the performance of individuals, a given team or entity, and the Group as a whole. In addition, the performance measurement considers adherence to group standards for risk-taking, to the group values, and to the bank's strategic direction. The policy also describes the governance structure regarding bonus decisions. Erste Group's remuneration governance structure and practices are in line with the CRD III (Capital Requirements Directive) regulation and guidelines on remuneration from the European Banking Association. The group-wide variable remuneration framework is fine-tuned in local banks and entities to comply with varying country legislation and interpretation of CRD III by the respective national banks.

HEALTH AND WORK-LIFE BALANCE

Investing into its employees' physical health and psychological well-being is a key priority at Erste Group.

An analysis by Erste Group's corporate health centre showed, not unexpectedly, marked regional differences in statutory standards and the organisation of health-promoting activities at local subsidiaries. To improve overall health services and strengthen collaboration among relevant staff, a group-wide strategy will be implemented in a phased process. Local needs and national differences in the health care sector will be taken duly into account.

Common milestones were defined in 2011 and the first group-wide projects launched. Simultaneously in Romania and in Austria, a project designed to prevent cardiovascular diseases was implemented while taking a multi-modal approach (nutrition – exercise – smoking – stress – high blood pressure). Supporting measures included, among others, the involvement of employee cafeterias, provision of blood pressure meters at the workplace, and training of health care experts. The focus of these efforts was on "enabling", which means to help employees improve their understanding of health care issues and, consequently, take the right decisions for a healthy lifestyle.

In Austria, some 1,200 Erste Group employees took part in a voluntary medical check-up. This examination was supplemented by in-depth advice on lifestyle issues and a well-balanced diet. In addition, special examinations were offered centring on early detection of smoker's lung, melanoma, and rheumatism.

The health centre addressed not only matters of physical health and conventional primary prevention (focused on the cardiovascular system, preventing diseases of the spinal column and musculoskeletal system in sedentary occupations, and preventative projects targeting apprentices – for which the bank received an award for corporate health management in Austria) but also issues of mental health in the work environment.

Under a group-wide initiative aimed at preventing mental disorders, Erste Group managers were issued a specially designed handbook entitled "Leading the way to better health". Greater attention was given to providing psychological counselling, where needed, and that is focused on occupational issues. Further key areas addressed were stress management and burnout prevention. Managers and staff were informed about early detection and stress-release techniques.

Building a network of diverse players within the Austrian health care system (ministry, pension insurance, general practitioners and specialists, the Chamber of Commerce, health insurers) proved to be very effective. In a joint pilot project, all options available for the prevention and treatment of mental difficulties were exploited. One key component is a standardised re-entry management procedure for employees returning after protracted illness. The project yielded surprising results. Erste Group was able significantly to reduce the cases of mental illness among its staff, with their number currently at only about one-third the average level in the "salaried employees in Austria" peer group.

For its exemplary commitment to managing mental health, Erste Bank Oesterreich's approach was recognised as a "model of good practice" by the European Network for Health Promotion. The Federal Ministry for Social Affairs has recommended the project as an "Austrian best practice model" for rolling out to other companies

Staff indicators – Austria (excluding savings banks)

	2011	2010	2009
Employee turnover	4.4%	4.8%	4.4%
Sick days per year	7.5	7.8	7.6
Training days per year	2.7	2.5	2.9
Women in management positions	26.8%	26.7%	25.4%
Share of part-time staff	25.8%	25.3%	23.6%
Share of female part-time staff	80.4%	79.8%	83.4%

The equivalent 2011 data is available for employees in CEE as well for the first time. The data base will be enlarged.

Staff indicators – CEE

	2011	2010	2009
Employee turnover	7.6%	*	*
Sick days per year	5.4	*	*
Training days per year	3.0	*	*
Women in management positions	31.6%	*	*
Share of part-time staff	2.6%	*	*
Share of female part-time staff	55.8%	*	*

*not reported yet

Environment

Respect for the environment, just like respect for individuals and for society, is an integral part of Erste Group's corporate philosophy. Adoption of the environmental strategy in 2010 reinforced the Group's efforts to develop ecologically sustainable banking operations. The focus is on reducing the direct and indirect impacts on the environment from all its activities. Sustainable environmental protection and related issues are to be integrated even more effectively into the core activities of Erste Group. A precondition for achieving this goal is for employees to understand the impact that their behaviour has – or may have – on the environment. Therefore, creating awareness among employees is fundamental to the strategy's successful execution.

Erste Group began during 2011 to implement the environmental strategy while initially focusing on measures undertaken in Austria. Many larger and smaller projects and measures were completed according to schedule, although the introduction of an integrated environmental management system (e.g. according to ISO 14001) was postponed.

SUSTAINABLE USE OF RESOURCES

More economical use of resources such as water, heating and cooling energy, electricity and paper means lower consumption, and that, in turn, indirectly reduces CO_2 emissions. Diminished costs represent a welcome side effect, as the positive ecological contribution translates into an economic benefit. Another priority in environmental management is to assure the ecological quality of those resources used.

One positive example can be seen in electricity consumption at Erste Group's Austrian business locations . Negotiations were undertaken in 2011 to switch to an electricity provider supplying power from renewable sources, such as water, wind and solar. These talks were successfully finalised at the beginning of 2012, and as of the second quarter Erste Group will procure electricity in Austria exclusively from renewable energy sources. These measures will permanently reduce the Group's CO_2 footprint in Austria by more than 50%. Hence, the defined goal of reducing carbon dioxide emissions by 15% in three years has already been attained. In most of the other countries, this measure cannot yet be implemented as the options there are more limited to freely choose an electricity provider.

The 2011 report on the CO_2 footprint already shows a neutral electricity consumption balance. This was attained by acquiring RECS (Renewable Energy Certificate System) certificates. While this procedure is completely legal, it is nevertheless controversial from an ecological standpoint. Real reduction of CO_2emissions can be achieved only by switching to power coming from renewable sources.

Special emphasis will be given to reducing paper consumption at Erste Group, where employees use around 2,900 tonnes of copy paper annually. To date procurement has not always taken ecological criteria into account, a goal of environmental management is in future to use exclusively paper certified by the Forest Stewardship Council (FSC) or Programme for the Endorsement of Forest Certification (PEFC).

ECOLOGICAL IMPACT OF PRODUCTS AND SERVICES PROCURED (SUPPLY CHAIN)

The principal measure taken in 2011 was to develop ecological criteria for procurement procedures (e.g. for IT and office furniture). A catalogue of questions was created for Erste Group procurement tenders which addresses whether and to what extent suppliers observe ecological criteria in their production processes.

ECOLOGICAL IMPACT OF BANKING SERVICES

As one of the largest financial services providers in Central and Eastern Europe, Erste Group also has an indirect influence over the development of society and the environment through its funding of customers' activities. Therefore, in a first step, principles for responsible financing were developed in 2011 for the energy sector. Financing is provided only for projects meeting defined environmental and social criteria. Further guidelines for socially, ecologically and ethically sensitive sectors are currently being prepared.

FURTHER ACTIVITIES

In all of Erste Group's markets, numerous environmental projects were continued or initiated in accordance with Group guidelines and harmonised to match implementation priorities.

In Vienna, a step was taken towards achieving CO_2 neutrality in employee mobility. Five e bicycles are now available as alternative means of transport for moving between individual locations of Erste Group within the city.

Green IT: IT accounts for a substantial share of electricity consumption at Erste Group. Working with the companies CITEM and Grothusen, a mobile measurement device was developed according to the specifications of sIT Solutions (Erste Group's central IT provider). This technical innovation facilitates testing individual components in a live operating environment. The bank is thus enabled to take energy efficiency properly into account when selecting new servers without relying solely on the consumption data provided by manufacturers. sIT Solution's goal is to reduce electricity consumption at the data center in Vienna by 20% within five years.

Česká spořitelna extended its 'Green Mouse Employee Contest', an initiative to decrease paper consumption.

Banca Comercială Română continued its efforts to use resources efficiently. The bank expanded its range of paper-free solutions and services, such as through e-banking. Plans call for reducing paper consumption by promoting electronic account statements. Even in-house the impact can be substantial, as roughly 7,000 employees still receive their account statements in print (which translates into approximately 340,000 printed pages each year). During 2011, around 383 cubic meters of paper were recycled at its six headquarters buildings.

Erste Bank Croatia offers special environmental loans (so-called 'eco loans') for retail and corporate clients. Examples of consumer eco-loans include the funding of energy-saving renovations or renewable energy technologies for housing. Employees of Erste Bank Croatia started a PET plastic packaging collection initiative to support a local non-government organisation committed to providing work therapy for people with mental disabilities.

Erste Bank Serbia again focused on promoting the importance of investing into renewable energy sources and recycling. The bank recycled office paper (34.6 t), empty toner cartridges (823) and electronic IT equipment (1,990 kg in total, including computers, monitors, printers, UPS devices, telephones, as well as computer network and communication equipment). Its measures included printing of publications on FSC-certified paper (made using pulp sourced from environmentally audited forests).

MEDIUM-TERM PRIORITIES

Climate protection and energy: Continual improvement of energy efficiency at all company locations and branches, vehicle fleet management in line with environmental protection and ecological principles, fewer business trips, and increased use of renewable energy sources

Ecological construction methods: Application of sustainability standards in renovating buildings and constructing new ones

Green IT: Energy- and resource-efficient software solutions, implementation of internal rules for purchasing sustainable hardware, redesigning the data centre for low resource consumption, continuous optimisation of IT processes

Resources and waste management: Installation of electronic document administration, optimisation of internal waste separation, employee information and training on the subject of waste management

Sustainable business procedures: Definition of criteria for sustainable financing and investment, participation in international agreements

Product development: Focus on sustainability

Environmental sponsoring: Selected projects with reference to Erste Group's core business and regional focus

ENVIRONMENTAL DATA

The environmental data reporting was improved in 2011. For the first time data was provided by all Austrian entities of Erste Group. The information thus covered 6,982 employees, compared to just 4,450 in 2010.

Plans call for expanding the environmental database further in 2012 and to bring data up to the same level of quality for all countries.

Environmental effects of banking operations in Austria were quantified according to the Global Reporting Initiative standards and Greenhouse Gas Protocol of the World Business Council for Sustainable Development.

Environmental indicators Austria*

	2011	2010	2009
Flight distance (km per employee)	1,322	1,874	2,174
CO_2 emissions (tonnes per employee)	2.03	1.78	1.89
Copy paper consumption (kg per employee)	37.5	42.8	41.4
Recycling rate (%)	**	72.6	70.5
Electricity consumption (kWh per employee)	5,699	3,637	4,322
Heat energy consumption (kWh per m2)	108.3	88.7	79.7
Waste (kg per employee)	218	278	206

* In case of availability of more accurate data,historic data was adjusted.
** not available yet

In 2011, Erste Group was successful in reducing waste per employee (−21.6%) and copy paper consumption per employee (−12.7%). The rise in electricity consumption – and consequently also of CO_2 emission per employee – is due to inclusion for the first time of the data center. Almost 50% of total electricity consumption relates to Erste Group's data center in Vienna. Excluding the data centre, the CO_2 emissions per employee declined by 10% to 1.6 tonnes per employee.

Erste Group's CO_2 emissions in 2011 totalled 14,191 tonnes, of which 8,357 tonnes, or 58.9%, were due to electricity consumption. This reflects not only the electricity consumption itself but also a change in CO_2 labelling by Erste Group's energy provider. According to Energie-Control Austria, that label value increased from 413 g CO_2/kWh to 717 g CO_2/kWh.

Total energy consumption 2011

in MWh	Electricity	District Heating	Gas
Austria	39,794	11,713	7,979
Czech Republic	66,730	31,224	26,324
Hungary	4,762	1,510	2,963
Romania	36,323	5,083	55,005
Slovakia	19,113	911	17,931
Croatia	10,130	1,003	2,482
Serbia	2,926	*	93
Ukraine	4,141	1,716	2,525

* data not available

Corporate Governance

Corporate Governance Report

of Erste Group Bank AG pursuant to Section 243b Austrian Commercial Code and rules 60 et seq of the Austrian Code of Corporate Governance as of 31 December 2011

CODE OF CORPORATE GOVERNANCE

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

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

COMMITMENT TO COMPLY WITH THE RULES OF THE AUSTRIAN CCG

(C rule 61 Austrian CCG)

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

In financial year 2011, Erste Group Bank AG complied with all L rules (legal requirement) and R rules (recommendation). The deviation from two “Comply or Explain” rule (C rules) is presented and explained below.

Qualification and Composition and Independence of the Supervisory Board

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

Due to the size of the company, the supervisory board of Erste Group Bank AG (excluding employees’ representatives) consists of 12 members. Ahead of the elections to the supervisory board in the general meeting 2010, Mr. Rasinger was elected to be a representative of private shareholders as a result of a selection process.

57 (C) Supervisory board members who are on the management board of a listed company must not exercise more than a total of 4 supervisory board mandates (chairmanship counts as double) in external limited companies. Companies included in the consolidated financial statements or in which there is a business involvement are not considered as being group external limited companies.

Juan Maria Nin Génova, as a member of the management board of the listed company CaixaBank S.A., held five supervisory board mandates in group external limited companies in the 2011 financial year. The stock exchange listing of the CaixaBank S.A., in which he is acting as a member of the management board, only took place in 2011 after he had taken up his supervisory board mandates.

INFORMATION IN ACCORDANCE WITH THE SUSTAINABILITY REPORTING GUIDELINES

The sustainability reporting guidelines define standards for the improvement of the reporting and disclosure requirements. Publisher of these guidelines is the non-governmental organisation Global Reporting Initiative" (www.globalreporting.org).

Governance structure

Erste Group Bank AG has as a two-tier governance structure with management board and supervisory board as management bodies.

Mechanisms for shareholders and employees to provide recommendations or direction to the supervisory board

The DIE ERSTE österreichische Spar-Casse Privatstiftung (Privatstiftung) is accorded the right by the articles of association (Point 15.1) to delegate up to one third of the members of the supervisory board to be elected by the general meeting. The Privatstiftung has not yet exercised this right.

The employees' council, according to the legal stipulations and the articles of association, is authorized to delegate up to one third of the members for the supervisory board to be elected by the general meeting. In the financial year 2011, six members represented the interests of the employees in the supervisory board of Erste Group Bank AG.

Measures in place for the supervisory board to ensure conflicts of interest are avoided

The members of the supervisory board are made to annually consider the regulations of the Austrian Corporate Governance Code regarding conflicts of interest. Furthermore, new members of the supervisory board receive comprehensive information regarding the avoidance of conflicts of interest when taking up their supervisory board functions.

INFORMATION ON THE MANAGEMENT BOARD

(section 243b par. 2 Austrian Commercial Code)

Name, year of birth and date of initial appointment and end of current period of office of each member of the management board (C rule 16 Austrian CCG)

Andreas Treichl (Chairman)

Born 1952
Member of the management board since 1 October 1994
End of the current period of office: 30 June 2017

Franz Hochstrasser (Vice Chairman)

Born 1963
Member of the management board since 1 January 1999
End of the current period of office: 30 June 2017

Herbert Juranek

Born 1966
Member of the management board since 1 July 2007
End of the current period of office: 30 June 2017

Gernot Mittendorfer

Born 1964
Member of the management board since 1 January 2011
End of the current period of office: 30 June 2017

Martin Škopek*

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

Bernhard Spalt*

Born 1968
Member of the management board since 01 November 2006
End of the current period of office: 30 June 2012

Manfred Wimmer

Born 1956
Member of the management board since 01 September 2008
End of the current period of office: 30 June 2017

* The mandates of the members of the management board Martin Škopek and Bernhard Spalt were terminated by mutual agreement, effective as of 31 January 2012. The number of management board mandates was thus reduced to five from previously seven.

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

Andreas Treichl

DONAU Versicherung AG Vienna Insurance Group
(Vice Chairman)
MAK – Österreichisches Museum für angewandte Kunst
(Chairman)
Sparkassen Versicherung AG Vienna Insurance Group

(Chairman)Franz Hochstrasser

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

Herbert Juranek

None

Martin Škopek

None

Bernhard Spalt

None

Manfred Wimmer

Österreichische Galerie Belvedere

Gernot Mittendorfer

Oesterreichische Kontrollbank Aktiengesellschaft

INFORMATION ON THE SUPERVISORY BOARD

(section 243b par. 2 Austrian Commercial Code)

Name, year of birth, occupation and date of initial appointment and end of current period of office of each member of the supervisory board (C rule 58 Austrian CCG)

Position	Name	Year of birth	Occupation	Date of initial appointment	End of the current period of office
Chairman	Heinz Kessler	1938	General Director, ret.	26.05.1998	AGM 2012
1.Vice Chairman	Georg Winckler	1943	Former rector of the University of Vienna and Professor for Economics at the University of Vienna	27.04.1993	AGM 2015
2.Vice Chairwoman	Theresa Jordis	1949	Attorney at law	26.05.1998	AGM 2013
Member	Bettina Breiteneder	1970	Entrepreneur	04.05.2004	AGM 2014
Member	Elisabeth Gürtler	1950	Entrepreneur	26.05.1998	AGM 2015
Member	Jan Homan	1947	General Manager Teich AG	04.05.2004	AGM 2014
Member	Brian D. O'Neill	1953	Vice Chairman Lazard International	31.05.2007	AGM 2012
Member	Juan Maria Nìn Génova	1953	Vice Chairman and CEO CaixaBank	12.05.2009	AGM 2014
Member	Wilhelm Rasinger	1948	Consultant	11.05.2005	AGM 2015
Member	Friedrich Rödler	1950	Auditor and tax advisor	04.05.2004	AGM 2014
Member	John James Stack	1946	President and CEO, ret.	31.05.2007	AGM 2012
Member	Werner Tessmar-Pfohl	1942	Entrepreneur, ret.	06.05.2008	AGM 2013
Delegated by the employees council					
Member	Christian Havelka	1966		31.10.2001	21.11.2011
Member	Markus Haag	1980		21.11.2011	until further notice
Member	Andreas Lachs	1964		09.08.2008	until further notice
Member	Friedrich Lackner	1952		24.04.2007	until further notice
Member	Bertram Mach	1951		09.08.2008	until further notice
Member	Barbara Smrcka	1969		09.08.2008	until further notice
Member	Karin Zeisel	1961		09.08.2008	until further notice

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

Name	Construction Committee	Nomination and Remuneration Committee	Audit Committee	Risk Management Committee	Strategy Committee
Heinz Kessler	Member	Chairman	Chairman	Member	Chairman
Georg Winckler	-	Member	Vice Chairman	Member	Vice Chairman
Theresa Jordis	-	Member	Member	Member	Member
Bettina Breiteneder	Chairwoman	-	Substitute	Member	-
Elisabeth Gürtler	-	-	-	Substitute	-
Jan Homan	-	-	Member	Substitute	Member
Brian D. O'Neill	-	-	-	-	-
Juan Maria Nìn Génova	-	-	-	-	Member
Wilhelm Rasinger	-	-	Member	Member	Substitute
Friedrich Rödler	Member	Member	Member	Chairman	Member
John James Stack	-	-	-	-	-
Werner Tessmar-Pfohl	Member	-	-	-	-
Delegated by the employees council					
Christian Havelka (from 31.10.2001 to 21.11.2011)	-	-	Member	Substitute	Member
Markus Haag (since 21.11.2011)	-	-	Substitute	Substitute	Member
Andreas Lachs	-	-	Member	Member	Substitute
Friedrich Lackner	Member	Member	Member	-	Member
Bertram Mach	-	Member	-	Member	Member
Barbara Smrcka	Member	-	Member	-	-
Karin Zeisel	-	Substitute	-	Member	-

Mandates in supervisory boards or similar functions in other foreign and domestic companies for each supervisory board member with reference date 31 December 2011 (listed companies are marked with *)
(C rule 16 Austrian CCG)

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

Georg Winckler
Austria Versicherungsverein auf Gegenseitigkeit Privatstiftung (Chair)
DIE ERSTE österreichische Spar-Casse Privatstiftung (Vice Chair)
Educational Testing Service (ETS) (Trustee)
UNIQA Versicherungen AG* (Vice Chair)

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

Bettina Breiteneder
ZS Einkaufszentren Errichtungs- und Vermietungs-Aktiengesellschaft
Austria Versicherungsverein auf Gegenseitigkeit Privatstiftung

Elisabeth Gürtler
ATP Planungs- und Beteiligungs-Aktiengesellschaft (Vice Chair)
Chokoladefabriken Lindt & Sprüngli AG (Administrative Board)
Oesterreichische Nationalbank
Österreich Werbung
Wiener Kongresszentrum Hofburg Betriebs GmbH

Jan Homan
Allianz Elementar Versicherungs-Aktiengesellschaft
Constantia Flexibles GmbH (Chair)
Drukkerij Verstraete
Alfred Umdasch Privatstiftung
European Aluminium Foil Association (Chair)
Globalpack Mexico
Flexible Packaging Europe (Chair)

Brian D. O'Neill
Council of the Americas (BoD)
Emigrant Bank (BoD)
Inter-American Dialogue (BoD)

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

Wilhelm Rasinger
S IMMO AG*
Wienerberger AG*

Friedrich Rödler
Erste Bank der oesterreichischen Sparkassen AG

John James Stack
Ally Financial Inc.* (BoD)
Mutual of America* (BoD)
CERGE-EI (BoD)

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

Delegated by the employees council

Friedrich Lackner
DIE ERSTE österreichische Spar-Casse Privatstiftung

Christian Havelka
None

Markus Haag
None

Andreas Lachs
None

Bertram Mach
None

Barbara Smrcka
None

Karin Zeisel
None

INDEPENDENCE CRITERIA DEFINED BY THE SUPERVISORY BOARD
(C rule 53 Austrian CCG)

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

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

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

- **The supervisory board member should not be a close family relation (children, spouse, life partner, parent, uncle, aunt, sibling, niece, nephew) of a member of the management board or of persons that are in one of the aforementioned positions.**

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

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

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

Until November 2011, four members of the supervisory board held a function on a body of a company that owns over 10% of the shares in Erste Group Bank AG (Kessler, Winckler, Lackner, Nin). Since November 2011, only three members of the supervisory board, as the CaixaBank S. A. – whose CEO is Nin – fell below the 10 % threshold at this time; additionally, in 2010, one member (Rasinger) represented, above all, the interests of retail shareholders.

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

All members personally attended at least half of the meetings.

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

The firm DORDA BRUGGER JORDIS Rechtsanwälte GmbH, in which Theresa Jordis is a partner, invoiced companies of Erste Group for consulting work for an amount of EUR 156,266.76 in 2011. Friedrich Rödler is Senior Partner at PricewaterhouseCoopers Austria. Companies of this group billed companies of Erste Group for consulting work in an amount of EUR 142,095.14 in 2011.

INFORMATION ON THE SELFEVALUATION OF THE SUPERVISORY BOARD
(C rule 36 Austrian CCG)

The supervisory board annually considers the efficiency of its work, in particular with its organisation and working methods (Supervisory Board meeting on 14 September 2011).

INFORMATION ON THE WORKING METHODS OF THE MANAGEMENT BOARD AND SUPERVISORY BOARD
(section 243b par. 2 Austrian Commercial Code)

Management Board

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

Supervisory Board

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

AREAS OF COMPETENCE ON THE MANAGEMENT BOARD
(C rule 16 Austrian CCG)

As of 31 December 2011

Andreas Treichl (Chairman)

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

Franz Hochstrasser (Vice Chairman)

Group Capital Markets, Group Research, Group Balance Sheet Management

Herbert Juranek

Group Organisation/IT, Group Operations/Markets, Group Property Management and Services, Group Operations Retail and Corporate

Martin Škopek

Group Retail Business Development, Wealth Creation and Group-Private Banking, Group Card Management, Group Retail Management Information System

Gernot Mittendorfer

Erste Group Immorent Client Industries and Infrastructure, Group Investment Banking, Group Large Corporates Banking, Corporate Support and Operations, Group Public Sector, Group Corporate Investment Banking Portfolio Management

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

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

As of 1 February 2012

Andreas Treichl (Chairman)
Strategy & Participation Management, Group Secretariat, Group Communications, Group Investor Relations, Group Human Resources, Group Audit, Group Marketing, Employees' Council, Group Retail

Franz Hochstrasser (Vice Chairman)
Group Capital Markets, Group Research, Group Investment Banking, Group Large Corporates Banking, Steering & Services, Erste Group Immorent Client Industries and Infrastructure

Herbert Juranek
Group Organisation/IT, Group Operations/Markets, Group Operations Retail and Corporate, Group Services

Gernot Mittendorfer
Group Strategic Risk Management, Group Corporate Risk Management, Group Retail Risk Management, Group Corporate Workout, Group Compliance Legal & Security

Manfred Wimmer
Group Accounting, Group Performance Management,
Group Balance Sheet Management

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

The supervisory board has set up a risk management committee, a strategy committee, an audit committee, a nomination and remuneration committee as well as a construction committee.

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

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

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

Nomination and remuneration committee

According to rule 43 of the Austrian CGC the remuneration committee in Erste Group Bank is identical with the nomination committee and has been named "Remuneration and nomination committee". The remuneration and nomination committee deals with the contents of employment contracts for members of the management board and decides on relationships between the company and members of the management board with the exception of resolutions on appointment or revocation of appointment of management board members as well as the granting of stock options of the company. In addition, the remuneration and nomination committee approves the general principles of the remuneration policy and monitors the remuneration practices and compensation related incentive structures.

Construction committee

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

INFORMATION ON THE NUMBER OF MEETINGS OF THE SUPERVISORY BOARD DURING THE REPORTING YEAR AND REPORT ON THE FOCUS OF ITS ACTIVITIES

(C rule 36 Austrian CCG)

Six meetings of the supervisory board were held in the financial year 2011.

At each ordinary meeting of the supervisory board, the monthly developments of the balance sheet and the income statement were presented and reports were given on current market risk, risk-bearing capacity, the individual status of the banking subsidiaries in Central and Eastern Europe and on the areas audited and the material findings of these audits by the internal audit department. The chairpersons of the committees reported on the main topics dealt with by the committees since the last supervisory board meeting. A topic repeatedly discussed at supervisory board meetings was the respective status of the future banking supervisory regime at European level (Basel 3/CRD IV) and its implications for Erste Group.

On 18 March 2011, the financial statements and management report 2010, the consolidated financial statements and management report 2010 as well as the corporate governance report 2010 were audited; the financial statements 2010 were adopted in accordance with the recommendation of the audit committee, and the proposal for the distribution of the profit 2010 approved. Furthermore, the management board was authorized to carry out negotiations with regard to acquisition of additional shares in BCR, the Romanian subsidiary of Erste Group. Also, a change of the current trademark and the retail strategy were discussed.

At the constituent meeting on 12 May 2011 after the general shareholders' meeting, the resolution was passed on the appointments to the committees of the supervisory board and on the distribution key for the remuneration of the supervisory board resolved at the general shareholders' meeting.

On 22 June 2011, the annual compliance report, the report on major participations for 2010 and the 1st quarter of 2011, and the strategy for corporate business were discussed, among other items on the agenda.

On 14 September 2011, the go-ahead for the commissioning of the construction work on the "Erste Campus", the new corporate head office in Vienna, was given. Furthermore, the results of the self evaluation 2010/2011 of the supervisory board and the refinancing situation of Erste Group were discussed.

In the joint, extraordinary meeting of the management and supervisory boards on 10 October 2011, the various measures by Erste Group in connection with the sovereign debt crisis in Europe were discussed, approved by the management board and announced to the supervisory board. The measures in particular concerned goodwill amortisations in Hungary and Romania, the uniform group-wide application of the effective interest method and the CDS-portfolio. Due to the volatilities in the financial and capital markets, the management of Erste Group has analysed the existing portfolio of Credit Default Swaps (CDS), which are held in the business unit International Business, with regard to the business orientation of Erste Group. Based on this analysis, Erste Group has retroactively adjusted the financial reporting for these instruments, which in previous periods were accounted as financial instruments. As a result of this, these instruments will henceforth be accounted and rated as financial instruments, at fair value through profit and loss. Because of the significantly deteriorated forecast for the economies of the euro area, but also as a precautionary measure, the premature repayment of the public share of the participation capital was deferred by at least one year.

On 14 December 2011, the budget and the investment plan 2012 of Erste Group Bank AG were approved and the Group projections for 2012 were presented. At the centre of discussions was the capital planning with regard to achieving the core capital ratio of 9 % as required by the European Banking Authority. A further item on the agenda was to approve changes in the structure of the management board, on recommendation of the nomination and remuneration committee. As from the supervisory board's point of view, stronger management focus should be put on the subsidiaries of Erste Group in Hungary and Romania, it was decided that two members of the management board, Bernhard Spalt und Martin Škopek, would take over management board duties in Erste Bank Hungary and in BCR, respectively. The mandates for the other five members were extended for additional five years, at which Andreas Treichl was appointed chairman and Franz Hochstrasser vice chairman. Also, the new distribution of the agendas resulting from these changes, effective as of 1 February 2012, was discussed. Furthermore, directors dealings were reported on and the annual report on large exposures presented.

INFORMATION ON THE NUMBER OF MEETINGS OF COMMITTEES DURING THE REPORTING YEAR AND REPORT ON THEIR ACTIVITIES

(C rule 39 Austrian CCG)

The risk management committee held seventeen meetings in 2010, at which it regularly took decisions on exposures and loans exceeding the powers of the management board and was briefed on loans granted within the scope of authorization of the management board. The committee was regularly informed of current credit risk, market risk, risk bearing capacity and large exposures. Special reports were delivered on various civil disputes, the new concept in the field of group compliance, the preparation for and results of the EU stress test, the fraud case in the UBS regarding the illegitimate trade in securities and the requirements of the European Banking Authority with regard to the 9 % core capital ratio for systemically relevant banks.

Also, the risk management committee reported extensively on the situation in Erste Hungary Leasing, the Hungarian leasing subsidiary. In the committee meetings as from September, the disputed law passed by the Hungarian Parliament was regularly reported on, which makes possible early repayment of mortgage collateralized foreign currency loans at a fixed exchange rate, which is considerably more favourable than the current rate in the currency markets. As a result of the decisions made at the joint meeting of the management and supervisory boards on 10 October 2011, the accounting treatment of the CDS-portfolio in Erste Group was discussed in several meetings of the risk management committee.

The strategy committee met four times in 2011. New regulatory developments at European and national level (Basel 3/CRD IV and sustainable business models) were reported on. A recurring topic was the complex situation triggered by the Euro crisis and its ramifications on Erste Group. Furthermore, the state of the negotiations for the acquisition of additional shares in the Romanian subsidiary bank BCR was reported on. In the committee meeting on 15 June 2011, the participations report was discussed.

The audit committee met four times in 2011. The auditors reported on the status of the audit of the financial statements and consolidated financial statements. Subject to the approval of the supervisory board, the decision was taken to propose Ernst & Young Wirtschaftsprüfungsgesellschaft m.b.H. to the general shareholders' meeting as an additional (Group) auditor for the financial year 2012. The supervisory board approved this proposal at its next meeting. Furthermore, the audit committee conducted its final discussion. The financial statements and the management report, as well as the group financial statements and the group management report, and the corporate governance report were audited and recommended to the supervisory board for adoption, and the proposal of the management board for the distribution of the net profit for the financial year 2010 was acknowledged. The head of the internal audit department reported on the areas audited and the key findings of the audit for the year 2010 and explained the audit plan for 2011. In the committee meetings on 24 February 2011 and 5 December 2011, the internal audit department presented its report pursuant to section 42 paragraph 3 Banking Act. At the meeting on 5 December 2011, the bank auditors presented the results of the preliminary audit and the focal points of their audit. The audit committee issued the instructions to obtain a bid for the audit of the (consolidated) financial statements 2013. Furthermore, in the meeting on 5 December 2011, the handling of the CDS and the measures on their reclassification adopted by Erste Group on 10 October 2011 were discussed. In the same meeting, the results and measures with regard to a fraud case in Erste Hungary Leasing, the Hungarian leasing subsidiary, was discussed at length.

The remuneration and nomination committee met four times in 2011. In its meetings, the remuneration policy of Erste Group and its subsidiaries was discussed, which was compiled in the course of 2011 and finally approved in the meeting on 14 December 2011. Furthermore, in the meetings of the remuneration and nomination committee, changes to the structure in the management board were prepared and discussed. These consisted of, on the one hand, terminating the management board mandates of Bernhard Spalt and Martin Škopek by mutual agreement in order to allow them to take up work for a certain period of time in those subsidiaries in which there is a difficult situation, Erste Bank Hungary and BCR, and on the other hand to extend the mandates of the other five members of the management board for another five years.

The construction committee met three times in 2011. The main topics discussed were project plan, project organisation, budget and costs, procedure for tenders, deadlines and connected developments for "Erste Campus", the planned new headquarters of Erste Group at the future central station in Vienna. In its meeting on 13 September 2011, the construction committee decided to recommend the supervisory board to give the go-ahead for the commissioning of the construction work.

MEASURES TO PROMOTE WOMEN ON MANAGEMENT BOARDS, SUPERVISORY BOARDS AND IN MANAGING POSITIONS

(section 243b Austrian Commercial Code)

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

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

The success of the measures implemented to date is shown by the steadily increasing share of women in management positions and bodies (e.g. supervisory board) over the past few years.

The systematic approach of succession pooling and group-wide development programmes is being further pressed ahead with, following the example of Česká spořitelna, which was elected Diversity Employer of the Year.

Differences and discrimination in salaries between male and female employees are well below the Austrian average. In some departments, these differences have already been overcome.

DISCLOSURE OF INFORMATION ON THE REMUNERATION OF THE MANAGEMENT BOARD AND SUPERVISORY BOARD

Remuneration of the management board
(C rules 30 and 31 Austrian CCG)

Salary for the financial year 2011

in EUR thousand	Fixed salaries	Other compensation	Performance-linked cash component for the FY 2011	Total FY
Andreas Treichl	1,242.3	463.2	0.0	1,705.6
Franz Hochstrasser	621.2	148.3	0.0	769.4
Bernhard Spalt	621.2	60.4	0.0	681.5
Herbert Juranek	621.2	60.3	0.0	681.5
Manfred Wimmer	621.2	161.1	0.0	782.2
Martin Škopek	660.0	130.1	0.0	790.1
Gernot Mittendorfer	600.0	54.5	0.0	654.5
	4,987.0	**1,077.8**	**0.0**	**6,064.8**

There will be no performance-linked compensation to the management board for the 2011 financial year.

The item 'other compensation' includes pension fund contributions (at severance payments – new) and various other forms of compensation.

Payouts for previous years

Since the 2010 financial year, the variable part of the compensation to the management board is distributed over five years as according to the legal regulations and only paid out under specific conditions.

In keeping with the terms of the Long-Term Incentive-Programm (LTI) from 2007, a payout was made in 2011 for 2010. Beginning with 1st January 2010, a Long-Term Incentive-Programme was again introduced. Like the previous programme which has now expired, it is based on changes in the share price of Erste Group Bank AG compared to a group of peers and the Dow Jones Euro Stoxx Banks. For the share equivalents awarded for the year 2010, the first-time payout can be made in 2012, following a one-year retention period.

In connection with the measures for the strategic strengthening of the bank, the management board has paid back performance-linked compensation for the year 2010 to the amount of EUR 585 thousand and relinquished claims for performance-linked compensation for the year 2010 to the amount of EUR 1,340 thousand, which would have been due in the years 2012–2016. This relinquishment is considered in the following table.

Performance-linked compensation paid out in the financial year 2011

in EUR tsd	LTI programme 2007	LTI programme 2010	For the FY 2010
Andreas Treichl	284.7	0.0	490.7
Franz Hochstrasser	71.2	0.0	320.0
Bernhard Spalt	71.2	0.0	134.9
Herbert Juranek	71.2	0.0	126.6
Manfred Wimmer	0.0	0.0	128.4
Martin Škopek	0.0	0.0	104.8
Gernot Mittendorfer	0.0	0.0	0.0
	498.3	**0.0**	**1,305.4**

In addition to the aforementioned performance bonus, the beneficiaries received a total of 43,529 share equivalents of Erste Group Bank AG (Andreas Treichl 16.362, Franz Hochstrasser 10.671, Bernhard Spalt 4.497, Herbert Juranek 4.223, Manfred Wimmer 4.283, Martin Škopek 3.493, Gernot Mittendorfer 0 share equivalents). Valuation is based on the average, weighted daily share price of Erste Group Bank AG in 2011, which was EUR 25.37. Pay-outs will be made in 2012 after a one-year retention period.

The performance-linked compensation of the member of the management board deceased in 2010 Johannes Leobacher in the amount of EUR 1,207,500 was accounted for in May 2011.

Principles of the pension scheme for management board members

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

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

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

Directors and officers insurance

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

Disclosure of remuneration paid to each member of the supervisory board in the financial year

(C rule 51 Austrian CCG)

in EUR thousand	Meeting fees for 2011	Supervisory board compensation for 2010	Total
Heinz Kessler	31.0	100.0	131.0
Georg Winckler	22.5	75.0	97.5
Theresa Jordis	25.5	75.0	100.5
Bettina Breiteneder	20.0	50.0	70.0
Elisabeth Gürtler	6.5	50.0	56.5
Jan Homan	9.0	50.0	59.0
Wilhelm Rasinger	23.0	50.0	73.0
Friedrich Rödler	30.0	50.0	80.0
Werner Tessmar-Pfohl	6.5	50.0	56.5
Brian D.O´Neill*	4.5	56.3	60.8
John James Stack	3.5	50.0	53.5
Juan Maria Nìn Génova	4.5	50.0	54.5
Markus Haag	3.0	0.0	3.0
Christian Havelka	9.0	0.0	9.0
Friedrich Lackner	17.0	0.0	17.0
Andreas Lachs	20.5	0.0	20.5
Bertram Mach	25.0	0.0	25.0
Barbara Smrcka	10.5	0.0	10.5
Karin Zeisel	15.0	0.0	15.0
	286.5	**706.3**	**992.8**

* Brian O'Neill was paid the remuneration for the supervisory board from the year 2007 of EUR 6,262.20 in arrears in 2011.

The general meeting 2011 granted the members of the supervisory board compensation in the amount of EUR 706,262.20 for the 2010 financial year, whereby the distribution of this compensation is at the discretion of the supervisory board. In addition, meeting fees are paid to the members of the supervisory board; these were set at EUR 1,000 per meeting of the supervisory board or one of its committees.

REPORT ON THE EXTERNAL EVALUATION

(R rule 62 Austrian CCG)

In 2006, for the first time, Erste Group Bank AG conducted an external evaluation of compliance with the Code of Corporate Governance for 2005. In April 2009, a voluntary external evaluation was completed for the financial year 2008. The two evaluations arrived at the results that Erste Group Bank AG complied with all of the requirements of the Code. The summaries of the reports on these evaluations are available on the website of Erste Group Bank AG. A further external evaluation will be carried out in 2012 for the financial year 2011.

SHAREHOLDERS' RIGHTS

Voting rights

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

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

Dividend rights

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

Liquidation proceeds

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

Subscription rights

In principle, holders of shares have subscription rights allowing them to subscribe to any newly issued shares to maintain their existing share in the share capital of Erste Group Bank. Such subscription rights are in proportion to the number of shares held by such shareholders prior to the issue of the new shares. The aforementioned subscription rights do not apply if the respective shareholder does not exercise his or her subscription rights, or the subscription rights are excluded by a resolution of the shareholders' meeting or a resolution of the management board and the supervisory board in certain cases.

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

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

Stock corporations like Erste Group Bank AG must hold at least one shareholders' meeting per year (ordinary shareholders' meeting), which must be held within the first eight months of any business year and must cover at least the following issues:
_ Presentation of certain documents;
_ Distribution of the annual profit;
_ Grant of discharge to the members of the management board and supervisory board for the preceding business year.

Vienna, 29 February 2012

Management Board

Andreas Treichl mp
Chairman

Franz Hochstrasser mp
Vice Chairman

Herbert Juranek mp
Member

Gernot Mittendorfer mp
Member

Manfred Wimmer mp
Member

ADDITIONAL CORPORATE GOVERNANCE PRINCIPLES

Compliance

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

Directors' dealings

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

Transparency

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

Risk management

Erste Group's approach to risk management seeks to achieve the best balance between risks and returns for earning a sustained high return on equity. A detailed report on risk policy, risk management strategy and organisation, as well as a thorough discussion of the individual risk categories, are found in the Notes beginning on page 137. In addition, credit risk is analysed in detail in a separate section starting on page 27, in the "Segments" section of this report.

Accounting and auditors

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

Consolidated Financial Statements 2011 (IFRS)

I. Statement of Comprehensive Income of Erste Group for the Year ended 31 December 2011

Income statement

in EUR thousand	Notes	2011	2010 restated[1)]
Interest and similar income		9,350,593	8,821,637
Interest and similar expenses		(3,789,576)	(3,403,422)
Income from equity method investments		7,952	21,015
Net interest income	1	5,568,969	5,439,230
Risk provisions for loans and advances	2	(2,266,877)	(2,021,047)
Fee and commission income		2,298,233	2,394,945
Fee and commission expenses		(510,997)	(552,388)
Net fee and commission income	3	1,787,236	1,842,557
Net trading result	4	122,330	321,895
General administrative expenses	5	(3,850,904)	(3,816,782)
Other operating result	6	(1,589,851)	(439,327)
Result from financial instruments – at fair value through profit or loss	7	306	(6,025)
Result from financial assets – available for sale	8	(66,253)	9,244
Result from financial assets – held to maturity	9	(27,084)	(5,535)
Pre-tax profit/loss		**(322,128)**	**1,324,210**
Taxes on income	10	(240,440)	(280,900)
Net profit/loss for the year		**(562,568)**	**1,043,310**
attributable to			
non-controlling interests		156,332	164,644
owners of the parent	**11**	**(718,900)**	**878,666**

1) Regarding restatement, see section so named in the Notes under Accounting Policies.

Earnings per share

Earnings per share constitute net profit/loss for the year attributable to owners of the parent (adjusted for dividend on participation capital in the amount of EUR 141.1 million) divided by the average number of ordinary shares outstanding. Diluted earnings per share represent the maximum potential dilution (through an increase in the average number of shares) which would occur if all subscription and conversion rights granted were exercised (see Note 30) Total equity).

		2011	2010 restated[1)]
Net profit/loss for the year attributable to owners of the parent	in EUR thousand	(718,900)	878,666
Dividend on participation capital		(141,100)	(141,100)
Net profit/loss for the year attributable to owners of the parent after deduction of dividend on participation capital		(860,000)	737,566
Weighted average number of shares outstanding	Number	377,670,141	374,695,868
Earnings per share	**in EUR**	**(2.28)**	**1.97**
Weighted average number of shares taking into account the effect of dilution	Number	377,670,141	376,749,863
Diluted earnings per share	in EUR	(2.28)	1.96

1) Regarding restatement, see section so named in the Notes under Accounting Policies.

Statement of comprehensive income

in EUR thousand		2011		2010 restated[1)]
Net profit/loss for the year		**(562,568)**		**1,043,310**
Other comprehensive income				
Available for sale reserve (including currency translation)		(64,617)		127,620
Gain/loss during the year	(30,739)		161,987	
Reclassification adjustments	(33,878)		(34,367)	
Cash flow hedge reserve (including currency translation)		30,567		(76,497)
Gain/loss during the year	67,094		(50,725)	
Reclassification adjustments	(36,527)		(25,772)	
Actuarial gains and losses		(42,651)		34,753
Currency translation		(232,947)		78,164
Deferred taxes on items recognised in other comprehensive income		23,049		(26,210)
Gain/loss during the year	23,502		(39,666)	
Reclassification adjustments	(453)		13,456	
Total other comprehensive income		**(286,599)**		**137,830**
Total comprehensive income		**(849,167)**		**1,181,140**
attributable to				
non-controlling interests		124,250		193,207
owners of the parent		**(973,417)**		**987,933**

1) Regarding restatement, see section so named in the Notes under Accounting Policies.

II. Balance Sheet of Erste Group as of 31 December 2011

in EUR thousand	Notes	2011	2010 restated[1)]	1 Jan 2010 restated[1)]
ASSETS				
Cash and balances with central banks	12	9,412,879	5,839,384	5,996,253
Loans and advances to credit institutions	13	7,577,654	12,496,460	13,139,942
Loans and advances to customers	14	134,749,509	132,334,114	128,754,895
Risk provisions for loans and advances	15	(7,027,331)	(6,119,058)	(4,954,291)
Derivative financial instruments	16	10,930,814	8,507,929	4,749,421
Trading assets	17	5,875,838	5,535,543	6,012,564
Financial assets – at fair value through profit or loss	17	1,813,055	2,434,158	2,997,230
Financial assets – available for sale	17	20,245,339	17,751,115	16,389,828
Financial assets – held to maturity	17	16,073,575	14,234,700	14,899,067
Equity method investments	18	173,116	223,497	240,575
Intangible assets	19	3,531,968	4,674,578	4,866,518
Property and equipment	19	2,360,804	2,445,580	2,343,859
Current tax assets	20	115,667	116,474	123,784
Deferred tax assets	20	701,886	616,775	605,048
Assets held for sale	21	87,179	52,461	57,785
Other assets	19, 22	3,384,382	4,626,328	5,290,998
Total assets		**210,006,334**	**205,770,038**	**201,513,476**
LIABILITIES AND EQUITY				
Deposits by banks	23	23,785,284	20,153,934	26,295,125
Customer deposits	24	118,880,197	117,016,323	112,042,412
Debt securities in issue	25	30,781,595	31,298,536	29,612,066
Derivative financial instruments	16	9,336,614	8,398,818	3,980,193
Trading liabilities	26	535,552	215,698	720,674
Provisions	27	1,580,114	1,544,549	1,670,015
Current tax liabilities	20	33,729	68,367	30,077
Deferred tax liabilities	20	344,759	328,062	331,044
Other liabilities	28	3,765,955	4,349,677	4,988,353
Subordinated liabilities	29	5,782,574	5,838,041	6,148,376
Total equity	30	15,179,961	16,558,033	15,695,141
attributable to				
non-controlling interests		3,142,895	3,443,621	3,320,742
owners of the parent		12,037,066	13,114,412	12,374,399
Total liabilities and equity		**210,006,334**	**205,770,038**	**201,513,476**

1) Regarding restatement, see section so named in the Notes under Accounting Policies.

III. Statement of Changes in Total Equity

A) STATEMENT OF CHANGES IN TOTAL EQUITY FOR THE YEAR ENDED 31 DECEMBER 2011

in EUR million	Subscribed capital	Additional paid-in capital	Retained earnings	Cash flow hedge reserve	Available for sale reserve	Currency translation	Deferred tax[2)]	Total owners of the parent	Non-controlling interests	Total equity
Total equity as of 31 December 2010	**2,513**	**6,177**	**4,939**	**11**	**(278)**	**(312)**	**64**	**13,114**	**3,444**	**16,558**
Changes in treasury shares			(27)					(27)		(27)
Purchase			(731)					(731)		(731)
Sale			681					681		681
Result			23					23		23
Dividends			(405)					(405)	(36)	(441)
Capital increases[1)]	26	236						262		262
Participation capital			0					0		0
Purchase			(4)					(4)		(4)
Sale			4					4		4
Result								0		0
Change in interest in subsidiaries								0	(389)	(389)
Acquisition of non-controlling interest			67					67		67
Total comprehensive income	0	0	(744)	24	(38)	(229)	13	(974)	124	(850)
Net profit/loss for the year			(719)					(719)	156	(563)
Other comprehensive income			(25)	24	(38)	(229)	13	(255)	(32)	(287)
Total equity as of 31 December 2011	**2,539**	**6,413**	**3,830**	**35**	**(316)**	**(541)**	**77**	**12,037**	**3,143**	**15,180**

1) Capital increase in connection with ESOP (Employees Share Option Plan) was EUR 8 million and in connection with issuance of new ordinary shares related to acquisition of additional shares in Banca Comercială Română SA was EUR 256 million (see section V.B.). Costs in relation to the capital increase reduced the equity by EUR 2 million.
2) For disclosure of tax effects relating to each component of other comprehensive income, see Note 10.

For further details, see Note 30) Total equity.

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

in EUR million	Sub-scribed capital	Addi-tional paid-in capital	Retained earnings	Cash flow hedge reserve	Avail-able for sale reserve	Cur-rency translat ion	Deferred tax[2]	Total owners of the parent	Non-control-ling interests	Total equity
Total equity as of 31 December 2009	**2,517**	**6,171**	**4,628**	**73**	**(372)**	**(390)**	**82**	**12,709**	**3,414**	**16,123**
Restatement[4]			**(335)**					**(335)**	**(93)**	**(428)**
Restated total equity as of 1 January 2010	**2,517**	**6,171**	**4,293**	**73**	**(372)**	**(390)**	**82**	**12,374**	**3,321**	**15,695**
Changes in treasury shares			146					146		146
Purchase			(541)					(541)		(541)
Sale			664					664		664
Result			23					23		23
Dividends			(385)					(385)	(42)	(427)
Capital increases[1]		6						6		6
Participation capital	(4)		0					(4)		(4)
Purchase			(37)					(37)		(37)
Sale			37					37		37
Result			0					0		0
Change in interest in subsidiaries								0	(28)	(28)
Acquisition of non-controlling interest			(11)					(11)		(11)
Total comprehensive income	0	0	896	(62)	94	78	(18)	988	193	1,181
Net profit/loss for the year			879					879	164	1,043
Other comprehensive income			17	(62)	94	78	(18)	109	29	138
Total equity as of 31 December 2010	**2,513**	**6,177**	**4,939**	**11**	**(278)**	**(312)**	**64**	**13,114**	**3,444**	**16,558**

1) Capital increase in connection with ESOP (Employee Stock Ownership Plan).
2) For disclosure of tax effects relating to each component of other comprehensive income, see Note 10.
3) Expenses incurred in relation to the capital increase reduced the equity by EUR 5 million and the positive tax effect from tax deductible expenses incurred by the capital increase resulted in an increase of equity by EUR 1 million. See also Note 30.
4) Regarding restatement, see section so named in the Notes under Accounting Policies.

IV. Cash Flow Statement

in EUR million	2011	2010 restated[2]
Net profit/loss for the year	**(563)**	**1,043**
Non-cash adjustments for items in net profit/loss for the year		
Depreciation, amortisation, impairment and reversal of impairment, revaluation of assets	1,608	676
Allocation to and release of provisions (including risk provisions)	2,400	2,142
Gains/losses from the sale of assets	23	(82)
Other adjustments	(132)	(66)
Changes in assets and liabilities from operating activities after adjustment for non-cash components		
Loans and advances to credit institutions	4,529	653
Loans and advances to customers	(1,744)	(3,580)
Trading assets and positive market value from derivative financial instruments	(2,763)	(2,957)
Financial assets – at fair value through profit or loss	609	557
Financial assets – available for sale	(2,539)	(1,264)
Other assets from operating activities	17	(372)
Deposits by banks	3,457	(6,141)
Customer deposits	1,803	4,974
Debt securities in issue	(517)	1,686
Trading liabilities and negative market values from derivative financial markets	1,228	3,153
Other liabilities from operating activities	(695)	(102)
Cash flow from operating activities	**6,721**	**320**
Proceeds of disposal		
Financial assets – held to maturity and associated companies	2,507	3,790
Property and equipment, intangible assets and investment properties	171	252
Acquisition of	0	0
Financial assets – held to maturity and associated companies	(4,573)	(3,225)
Property and equipment, intangible assets and investment properties	(534)	(622)
Acquisition of subsidiaries (net of cash and cash equivalents acquired)	(29)	(7)
Disposal of subsidiaries	0	3
Cash flow from investing activities	**(2,458)**	**191**
Capital increases	8	2
Acquisition of non-controlling interest	(88)	0
Dividends paid to equity holders of the parent	(405)	(385)
Dividends paid to non-controlling interests	(36)	(42)
Other financing activities (mainly changes of subordinated liabilities)	(55)	(268)
Cash flow from financing activities	**(576)**	**(693)**
Cash and cash equivalents[1] at beginning of period	**5,839**	**5,996**
Cash flow from operating activities	6,721	320
Cash flow from investing activities	(2,457)	191
Cash flow from financing activities	(576)	(693)
Effect of currency translation	(114)	25
Cash and cash equivalents[1] at end of period	**9,413**	**5,839**
Cash flows related to taxes, interest and dividends	**5,329**	**5,084**
Payments for taxes on income	(240)	(329)
Interest received	9,236	8,668
Dividends received	123	148
Interest paid	(3,790)	(3,403)

1) Cash and cash equivalents are equal to cash in hand and balances held with central banks.
2) Regarding restatement, see section so named in the Notes under Accounting Policies.

V. Notes to the Financial Statements of Erste Group

A. GENERAL INFORMATION

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

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

The consolidated financial statements of Erste Group for the 2011 financial year and the comparative information were prepared in compliance with applicable International Financial Reporting Standards (IFRS) as adopted by the European Union on the basis of IAS Regulation (EC) No. 1606/2002. This satisfies the requirements of Section 59a of the Austrian Banking Act and Section 245a of the Austrian Commercial Code.

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

It is planned for the Management (following a presentation to the supervisory board) to approve the consolidated financial statements for publication on 29 February 2012.

B. ACQUISITIONS AND DISPOSALS

Acquisitions in 2011

Intermarket Bank AG

Erste Bank der österreichischen Sparkassen AG, Wien increased its 22.38% share of Intermarket Bank AG, Wien by 66.24% to 88.62%.

With the existing shares of Kärntern Sparkasse Aktiengesellschaft, Klagenfurt of approximately 4.38% and of Steiermärkische Bank und Sparkassen Aktiengesellschaft, Graz of 7.00%, Erste Group owns 100% (91.46% directly and indirectly held shares by Erste Group Bank AG) of Intermarket Bank AG, Wien.

Intermarket Bank AG, Wien was fully consolidated in the financial statements of Erste Group with effect from 1 August 2011.

The purchase price for acquisition of shares of Intermarket Bank AG, Wien was about EUR 28.9 million and was paid in cash.

The identifiable assets acquired and liabilities assumed, measured at fair value had the following composition at the time of initial consolidation:

in EUR million	Carrying amount	Fair value adjustment	Fair value
Loans and advances to credit institutions	7.5	0.0	7.5
Loans and advances to customers	276.6	0.0	276.6
Risk provisions for loans and advances	(5.5)	0.0	(5.5)
Property and equipment	2.2	0.0	2.2
Other assets	5.6	1.4	7.0
ASSETS	**286.4**	**1.4**	**287.8**
Deposits by banks	173.6	0.0	173.6
Customer deposits	60.8	0.0	60.8
Other liabilities	10.4	0.0	10.4
Total equity	41.6	1.4	43.0
LIABILITIES AND EQUITY	**286.4**	**1.4**	**287.8**

Taking into account identifiable equity of EUR 43.0 million and the EUR 7.6 million fair value for the share of Intermarket Bank AG, Wien held by Erste Group immediately before the acquisition date resulted in negative goodwill in the amount of EUR 2.8 million. This was recognised directly in other operating result.

The carrying amount of the non-controlling interest is EUR 3.7 million.

Due to remeasurement to fair value of the equity interest held before the business combination, Erste Group recognised a loss of EUR 1.1 million directly in other operating result.

The contribution of Intermarket Bank AG, Wien to the operating income of Erste Group since the time of initial consolidation was EUR 6.8 million; its contribution to net profit/loss attributable to owners of the parent was EUR (0.8) million. Had Intermarket Bank AG, Wien already been included in Erste Group's consolidated financial statements from 1 January 2011, its contribution to operating income would have been EUR 14.3 million. Likewise, net profit/loss attributable to owners of the parent would have been EUR 6.0 million.

Banca Comercială Română SA

Erste Group raised its participation in Banca Comercială Română SA from 69.4% by 20.5 percentage points to 89.9% by capital increase and acquisition of shares from owners of non-controlling interests.

As consideration for acquisition of 13.7% of the voting shares in Banca Comercială Română SA, EUR 373 million was paid out to the owners of the non-controlling interests. Additionally, a put option was written to the owners of non-controlling interests. Consideration of EUR 88 million was settled in cash and EUR 256 million was settled by issuance of Erste Group Bank shares. The contractual consideration for the put option in the amount of EUR 29 million would be settled in cash.

The carrying amount for the additional acquired shares was EUR 433 million. The EUR 60 million difference between the costs of acquisition and the carrying amount resulting from the acquired shares was recognised in equity among retained earnings.

Acquisitions in 2010

Erste Group made no significant acquisitions or disposals during 2010.

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

C. ACCOUNTING POLICIES

a) BASIS OF CONSOLIDATION

Subsidiaries

All subsidiaries directly or indirectly controlled by Erste Group Bank AG are consolidated in the group financial statements on the basis of the subsidiaries' annual accounts as of 31 December 2011 and for the year then ended.

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

Acquisitions of non-controlling interests are accounted for as equity transactions, whereby the difference between the consideration transferred and the share in the carrying amount of the net assets acquired is recognised as equity. Disposals of non-controlling interests that do not lead to loss of control are accounted for in the same way.

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

Investments in associates

Investments in companies over which Erste Group Bank AG exercises significant influence ('associates') are accounted for under the equity method. As a general rule, significant influence is presumed to mean an ownership interest of between 20% and 50%. Under the equity method, an interest in an associate is recognised in the balance sheet at cost plus post-acquisition changes in the Group's share of the net assets of the entity. The Group's share of the associate's profit or loss is recognised in the income statement. Entities accounted for under the equity method are recognised on the basis of annual financial statements as of 31 December 2011 and for the year then ended.

b) ACCOUNTING AND MEASUREMENT METHODS

The consolidated financial statements have been prepared on a cost basis, except for available-for-sale investments, derivative financial instruments, financial assets and liabilities held for trading, and financial assets and liabilities designated at fair value through profit or loss, all of which have been measured at fair value.

Restatement

Due to volatility on capital and financial markets, the management of Erste Group analysed the outstanding portfolio of credit default swaps (CDS) which were held within its International Business Division with a view to Erste Group's strategic business orientation. Based upon this analysis, the accounting for these instruments classified in prior periods as financial guarantees has been consequently restated to classify and measure them as financial instruments at fair value through profit and loss. By year-end 2011 the outstanding notional value of this portfolio had been reduced to EUR 57 million.

As a result of harmonising and improving certain IT tools within Erste Group, prior calculations as to the effective interest rates (EIR) for loans and advances to customers have been restated.

In accordance with IAS 8, comparative figures have been restated to reflect the above.

Balance sheet of Erste Group

in EUR million

1 Jan 2010	Published amount	CDS	EIR	Restated amount
ASSETS				
Loans and advances to customers	129,134		(379)	128,755
Derivative financial instruments	4,711	37		4,748
Deferred tax assets	454	51	100	605
Other assets	5,297	(6)		5,291
Non-adapted positions	62,114			62,114
Total assets	**201,710**	**82**	**(279)**	**201,513**
LIABILITIES AND EQUITY				
Derivative financial instruments	3,749	231		3,980
Non-adapted positions	181,838			181,838
Total equity	16,123	(149)	(279)	15,695
attributable to				
non-controlling interests	3,414		(93)	3,321
owners of the parent	12,709	(149)	(186)	12,374
Total liabilities and equity	**201,710**	**82**	**(279)**	**201,513**

in EUR million

31 Dec 2010	Published amount	CDS	EIR	Restated amount
ASSETS				
Loans and advances to customers	132,729		(395)	132,334
Derivative financial instruments	8,474	34		8,508
Deferred tax assets	418	95	104	617
Other assets	4,632	(6)		4,626
Non-adapted positions	59,685			59,685
Total assets	**205,938**	**123**	**(291)**	**205,770**
LIABILITIES AND EQUITY				
Derivative financial instruments	7,996	403		8,399
Non-adapted positions	180,813			180,813
Total equity	17,129	(280)	(291)	16,558
attributable to				
non-controlling interests	3,544		(100)	3,444
owners of the parent	13,585	(280)	(191)	13,114
Total liabilities and equity	**205,938**	**123**	**(291)**	**205,770**

Statement of comprehensive income of Erste Group

in EUR million

1-12 2010	Published amount	CDS	EIR	Restated amount
Net interest income	5,412.5		26.7	5,439.2
Risk provisions for loans and advances	(2,031.2)	10.1		(2,021.1)
Net fee and commission income	1,936.0	(51.7)	(41.7)	1,842.6
Net trading result	456.2	(134.3)		321.9
General administrative expenses	(3,816.8)			(3,816.8)
Other result	(441.6)			(441.6)
Pre-tax profit/loss from continuing operations	1,515.1	(175.9)	(15.0)	1,324.2
Taxes on income	(328.7)	44.1	3.7	(280.9)
Net profit/loss for the year	1,186.4	(131.8)	(11.3)	1,043.3
Total other comprehensive income	137.8			137.8
Total comprehensive income	1,324.2	(131.8)	(11.3)	1,181.1
attributable to				
non-controlling interests	199.6		(6.4)	193.2
owners of the parent	**1,124.6**	**(131.8)**	**(4.9)**	**987.9**

Earnings per share

in EUR million

1–12 2010	Published amount	CDS	EIR	Restated amount
Earnings per share	2.33	(0.35)	(0.01)	1.97
Diluted earnings per share	2.32	(0.35)	(0.01)	1.96

Foreign currency translation

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

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

(i) Transactions and balances in foreign currency

Transactions in foreign currencies are initially recorded at the functional currency exchange rate effective as of the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency's exchange rate as of the balance sheet date. All resulting exchange differences that arise are recognised in the income statement in the line 'Net trading result' or in the line 'Result from financial instruments – at fair value through profit or loss'. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as of the dates of the initial transactions.

(ii) Translation of the statements of group companies

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

Financial instruments – recognition and measurement

A financial instrument is any contract giving rise to a financial asset at one company and a financial liability or equity instrument at another company. In accordance with IAS 39, all financial assets and liabilities – which also include derivative financial instruments – have to be recognised in the balance sheet and measured in accordance with their assigned categories.

Erste Group uses the following categories of financial instruments:

_ financial assets or financial liabilities at fair value through profit or loss
_ available-for-sale financial assets
_ held-to-maturity investments
_ loans and receivables
_ financial liabilities measured at amortised cost

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

(i) Initial recognition
Financial instruments are initially recognised when Erste Group becomes a party to the contractual provisions of the instrument. Regular way (spot) purchases and sales of financial assets are recognised at settlement date, which is the date that an asset is delivered. The classification of financial instruments at initial recognition depends on their characteristics as well as the purpose and management's intention for which the financial instruments were acquired.

(ii) Initial measurement of financial instruments
Financial instruments are measured initially at their fair value including transaction costs. In the case of financial instruments at fair value through profit or loss, however, transaction costs are not included but are recognised directly in profit or loss. Subsequent measurement is described in the chapters below.

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

(iv) Derivative financial instruments
Derivatives used by Erste Group include mainly interest rate swaps, futures, forward rate agreements, interest rate options, currency swaps and currency options as well as credit default swaps. Derivatives are measured at fair value. Derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative. All kinds of derivatives without regard to their internal classification are disclosed under the line item 'Derivative financial instruments', which can be found, depending on their fair value as of the balance sheet date, on the assets or liabilities side of the balance sheet. Hence, the line item 'Derivative financial instruments' contains both derivatives held in the trading book and banking book and includes also derivatives designated for hedge accounting. Changes in fair value (clean price) are recognised in the income statement in the line 'Net trading result', except for those resulting from the effective part of cash flow hedges which are reported in other comprehensive income. Interest income/expense related to derivative financial instruments is recognised in the income statement in the line 'Net interest income' for those held in the banking book or designated as hedging instruments in fair value hedges or in the line 'Net trading result' for those held in the trading book.

(v) Financial assets and financial liabilities held for trading
Financial assets and financial liabilities held for trading include debt securities as well as equity instruments acquired or issued principally for the purpose of selling or repurchasing in the near term. Financial instruments held for trading are measured at fair value and are presented as 'Trading assets' or 'Trading liabilities' in the balance sheet. Changes in fair value (clean price) resulting from financial instruments held for trading are reported in the income statement in the line 'Net trading result'. Nonetheless, interest income and expenses are reported in the income statement in the line 'Net interest income'.

If securities purchased under agreement to resell are subsequently sold to third parties, the obligation to return the securities is recorded as a short sale within 'Trading liabilities'.

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

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

Financial assets designated at fair value through profit or loss are recorded in the balance sheet at fair value in the line 'Financial assets – at fair value through profit or loss' with changes in fair value recognised in the income statement in the line 'Result from financial instruments – at fair value through profit or loss'. Interest earned on debt instruments as well as dividend income on equity instruments is shown in the position 'Interest and similar income'.

Erste Group uses the fair value option in case of some hybrid financial liabilities, if:

_ such classification eliminates or significantly reduces an accounting mismatch between the financial liability otherwise measured at amortised cost and the related derivative measured at fair value; or

_ the entire hybrid contract is designated at fair value through profit or loss due to existence of an embedded derivative.

The amount of fair value change attributable to changes in own credit risk for financial liabilities designated at fair value through profit or loss is calculated by the method described by IFRS 7. This amount is the difference between the present value of the liability and the observed market price of the liability at the end of the period. The rate used for discounting the liability is the sum of the observed (benchmark) interest rate at the end of the period and the instrument-specific component of the internal rate of return determined at the start of the period.

Financial liabilities designated at fair value through profit or loss are reported under the respective financial liabilities positions 'Customer deposits', 'Debt securities in issue' or 'Subordinated liabilities'. Changes in fair value are recognised in the income statement in the line 'Result from financial instruments – at fair value through profit or loss'. Interest incurred is reported in the line 'Interest and similar expenses'.

(vii) Available-for-sale financial assets

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

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

If the fair value of investments in non-quoted equity instruments cannot be measured reliably, they are recorded at cost less impairment. This is the case when the variability in the range of reasonable fair value estimates calculated by valuation models is so significant that probabilities of the various estimates cannot be reasonably assessed. There is no market for such investments. Erste Group does not have any specific plan to dispose of such investments.

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

(viii) Held-to-maturity financial investments

If Erste Group has the intention and ability to hold these until maturity, non-derivative financial assets with fixed or determinable payments and fixed maturities are reported in the balance sheet as 'Financial assets – held to maturity'. After initial recognition, held-to-maturity financial investments are subsequently measured at amortised cost including impairment. Amortised cost is calculated by taking into account any discount, premium and/or transaction costs that are an integral part of the effective interest rate. Interest earned on financial assets held to maturity is reported in the income statement in the line 'Interest and similar income'. Losses arising from impairment of such investments as well as occasional realised gains or losses from selling are recognised in the income statement in the line 'Result from financial assets – held to maturity'. Provisions for incurred but not reported losses are shown in the position 'Risk provisions for loans and advances'.

(ix) Loans and receivables

The balance sheet line items 'Loans and advances to credit institutions' and 'Loans and advances to customers' include assets meeting the definition of loans and receivables. Loans and receivables are non-derivative financial assets (including debt securities) with fixed or determinable payments that are not quoted in an active market, other than:

_ those that Erste Group intends to sell immediately or in the near term and those that Erste Group upon initial recognition designates as at fair value through profit or loss;
_ those that Erste Group, upon initial recognition, designates as available for sale; or
_ those for which Erste Group may not recover substantially all of its initial investment, other than because of credit deterioration.

After initial measurement, loans and receivables are subsequently measured at amortised cost including impairment. Interest income earned is included in the line 'Interest and similar income' in the income statement. Allowance for impairment and incurred but not reported losses are reported in the balance sheet line 'Risk provisions for loans and advances'. Losses arising from impairment are recognised in the income statement in the line 'Risk provisions for loans and advances'.

(x) Deposits and other financial liabilities

Financial liabilities are measured at amortised cost, unless they are measured at fair value through profit or loss. Except those which are held for trading, financial liabilities are reported in the balance sheet in the lines 'Deposits by banks', 'Customer deposits', 'Debt securities in issue' or 'Subordinated liabilities'. Interest expenses incurred are reported in the line 'Interest and similar expenses' in the income statement.

(xi) Relationships between balance sheet positions and categories of financial instruments:

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

For purposes of risk disclosures under IFRS 7, Erste Group splits balance sheet positions for financial instruments into classes, including to disaggregate these according to industries (see Note 37.5).

Derecognition of financial assets and financial liabilities

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

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

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

Repurchase and reverse repurchase agreements

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

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

Securities lending and borrowing

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

Determination of fair value

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

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

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

Impairment of financial assets and credit risk losses of contingent liabilities

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

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

Credit risk losses resulting from contingent liabilities are recognised if it is probable that there will be an outflow of resources to settle a credit risk bearing contingent liability which will result in a loss.

(i) Financial assets carried at amortised cost
Erste Group first assesses individually for significant loans and held-to-maturity securities whether objective evidence of impairment exists. If no objective evidence of impairment exists for an individually assessed financial asset, Erste Group includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the original effective interest rate. The calculation of the present value of the estimated future cash flows of a collateralised financial asset also reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral.

In cases of loans and advances, any impairment is reported in the allowance account referred to as 'Risk provisions for loans and advances' in the balance sheet and the amount of the loss is recognised in the income statement in the line 'Risk provisions for loans and advances'. Risk provisions for loans and advances include specific risk provisions for loans and advances for which objective evidence of impairment exists. In addition, 'Risk provisions for loans and advances' include portfolio risk provisions for incurred but not reported losses. For held-to-maturity investments, impairment is recognised directly by reducing the asset account and in the income statement in the line 'Result from financial assets – held to maturity'. Incurred but not reported losses on held-to-maturity investments recognised at portfolio level are presented both in the balance sheet and in the income statement in the line 'Risk provisions for loans and advances'.

Loans together with the associated allowance are removed from the balance sheet when there is no realistic prospect of future recovery and all collaterals have been realised by Erste Group.

If, in a subsequent year, the amount of the estimated impairment loss increases or decreases, the previously recognised impairment loss is increased or reduced by adjusting the allowance account in case of loans and advances. No allowance account is used in the case of impaired held-to-maturity investments, but the carrying amount is increased or decreased directly.

(ii) Available-for-sale financial investments
In cases of debt instruments classified as available for sale, Erste Group assesses individually whether there is objective evidence of impairment based on the same criteria as used for financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement.

On recognising impairment, any amount of losses retained in the other comprehensive income item 'Available for sale reserve' is reclassified to the income statement and shown as impairment loss in the line 'Result from financial assets – available for sale'. If, in a subsequent period, the fair value of a debt instrument increases, the impairment loss is reversed through the income statement in the line 'Result from financial assets – available for sale'. Impairment losses and their reversals are recognised directly against the assets in the balance sheet.

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

(iii) Contingent liabilities
Provisions for credit losses of contingent liabilities (particularly financial guarantees as well as credit commitments) are included in the balance sheet line 'Provisions'. The related expense is reported in the income statement in the line 'Risk provisions for loans and advances'.

Hedge accounting

Erste Group makes use of derivative instruments to manage exposures to interest rate risk and foreign currency risk. At inception of a hedge relationship, the bank formally documents the relationship between the hedged item and the hedging instrument, including the nature of the risk, the objective and strategy for undertaking the hedge and the method that will be used to assess the effectiveness of the hedging relationship. Also at the inception of the hedge relationship, a formal assessment is undertaken to ensure the hedging instrument is expected to be highly effective in offsetting the designated risk in the hedged item. A hedge is expected to be highly effective if the changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated are expected to offset the fair value changes of the hedging instrument in a range of 80% to 125%. Exact conditions for particular types of hedges applied by Erste Group are specified internally.

(i) Fair value hedges

Fair value hedges are employed to reduce market risk. For qualifying and designated fair value hedges, the change in the fair value of a hedging instrument is recognised in the income statement in the line 'Net trading result'. The change in the fair value of the hedged item attributable to the hedged risk is also recognised in the income statement in the line 'Net trading result'.

If the hedging instrument expires, is sold, is terminated or is exercised, or when the hedge no longer meets the criteria for hedge accounting, the hedge relationship is terminated. In this case, the fair value adjustment of the hedged item shall be amortised to the income statement in the line 'Net interest income' until maturity of the financial instrument.

(ii) Cash flow hedges

Cash flow hedges are used to eliminate uncertainty in the future cash flows in order to stabilise net interest income. For designated and qualifying cash flow hedges, the effective portion of the gain or loss on the hedging instrument is recognised in other comprehensive income and reported under the 'Cash flow hedge reserve'. The ineffective portion of the gain or loss on the hedging instrument is recognised in the income statement in the line 'Net trading result'. When the hedged cash flow affects the income statement, the gain or loss on the hedging instrument is reclassified from other comprehensive income into the corresponding income or expense line in the income statement (mainly 'Net interest income').

When a hedging instrument expires, is sold, is terminated, is exercised, or when a hedge no longer meets the criteria for hedge accounting, the hedge relationship is terminated. In this case, the cumulative gain or loss on the hedging instrument that has been recognised in other comprehensive income shall remain separately in 'Cash flow hedge reserve' until the transaction occurs.

Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the balance sheet if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

Leasing

A lease is an agreement whereby the lessor conveys to the lessee in return for a payment or series of payments the right to use an asset for an agreed period of time. A finance lease at Erste Group is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. Remaining lease agreements at Erste Group are classified as operating leases.

Erste Group as a lessor

The lessor in the case of a finance lease reports a receivable against the lessee in the line 'Loans and advances to customers' or 'Loans and advances to credit institutions'. The receivable is equal to the present value of the contractually agreed payments taking into account any residual value. Interest income on the receivable is reported in the income statement in the line 'Net interest income'.

In the case of operating leases, the leased asset is reported by the lessor in 'property and equipment' or in 'investment property' and is depreciated in accordance with the principles applicable to the assets involved. Lease income is recognised on a straight-line basis over the lease term in the income statement in the line 'Net interest income'.

Lease agreements in which Erste Group is the lessor almost exclusively are comprised of finance leases.

Erste Group as a lessee

As a lessee, Erste Group has not entered into any leases meeting the conditions of finance leases. Operating lease payments are recognised as expense in the income statement in the line 'General administrative expenses' on a straight-line basis over the lease term.

Business combinations and goodwill

(i) Business combinations

Business combinations are accounted for using the acquisition method of accounting. Goodwill represents the future economic benefits resulting from the business combination, arising from assets that are not individually identified and separately recognised. Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests and the fair value of the previously held equity interest over the net of the acquisition-date amounts of the identifiable assets acquired as well as the liabilities assumed.

If, after reassessment of all components described above, the calculation results in a negative amount, it is recognised as a bargain purchase gain and reported in the income statement in the line 'Other operating result' in the year of acquisition.

Non-controlling interests that are present ownership interests in the acquiree are measured at the proportionate share of the acquiree's identifiable net assets. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another IFRS. Acquisition costs incurred are expensed and included in the income statement line 'Other operating result'. At the acquisition date, the identifiable assets acquired and the liabilities assumed are generally recognised at their fair values.

(ii) Goodwill and goodwill impairment testing

Goodwill arising on an acquisition of a business is carried at cost as established as of the date of acquisition of the business less accumulated impairment losses, if any. Goodwill is tested for impairment annually in November, or whenever there is an indication of possible impairment during the year, with any impairment determined recognised in profit or loss. The impairment test is carried out for each cash-generating unit (CGU) to which goodwill has been allocated. A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

Goodwill is tested for impairment by comparing the recoverable amount of each cash-generating unit to which goodwill has been allocated with its carrying amount. The carrying amount of a cash-generating unit is based on the amount of net asset value allocated to a cash-generating unit taking into account any goodwill and unamortised intangible assets recognised for the cash-generating unit at the time of business combination. The recoverable amount is the higher of a CGU's fair value less costs to sell and its value in use. Where available, the fair value less costs to sell is determined based on recent transactions, market quotations or appraisals. The value in use is determined using a discounted cash flow model (DCF model), which incorporates the specifics of the banking business and its regulatory environment. In determining value in use, the present value of future earnings distributable to shareholders is calculated.

The estimation of future earnings distributable to shareholders is based on financial plans for the CGUs as agreed by the subsidiaries' management taking into account the fulfilment of the respective regulatory capital requirements. The planning period is five years. Any forecasted earnings beyond the planning period are derived on the basis of the last year of the planning period and a long-term growth rate, which is based on macroeconomic parameters for each CGU. The present value of such forecasted earnings is reflected in the terminal value.

The 2011 goodwill impairment test is based on the current macroeconomic situation, updated macroeconomic projections for each country, as well as updated five-year budgets for each subsidiary or group of subsidiaries (subgroup).

In September 2011, Erste Group identified indications of impairment of goodwill, especially in Hungary and in Romania. In Hungary, given the adoption of legislation allowing early repayment of FX loans at a fixed FX rate as well as worsening of the macroeconomic outlook, substantial losses have been incurred. Consequently, the entire goodwill related to the Hungarian subsidiary was written off in September 2011. In Romania, lower banking sector profitability, compounded by a worsening macroeconomic outlook, led to a goodwill impairment charge in the amount of EUR 693 million.

Additionally, Erste Group performed the regular annual goodwill impairment review of all its subsidiaries. A worsening macroeconomic outlook together with higher capital adequacy requirements (and higher target capital ratios) led to impairment of goodwill in some Austrian subsidiaries.

As part of the annual goodwill impairment review, the calculation of the value in use of the CGU related to the subsidiary in Romania was updated in November 2011. On the basis of this update, no additional impairment of goodwill has been recognised.

Expected cash flow forms the basis for calculating the terminal value, which represents the ability of the CGUs to generate future cash flows beyond that year. Terminal value is calculated as a perpetual income estimated on the basis of economically sustainable cash flow. The value in use is determined by discounting the cash flows at a rate that takes into account present market rates and the specific risks of the asset. Taking into consideration the different risk levels of respective geographical locations, the Group used different risk premiums specific to the individual subsidiaries (groups of subsidiaries).

The calculation of the value in use for impairment testing purposes was conducted using a discounted cash flow (DCF) model. The cash flows were determined by subtracting the annual capital requirement generated by change in the amount of risk-weighted assets from the net profit. The capital requirement was defined through the target tier 1 ratio in light of the expected future minimum regulatory capital requirements.

The DCF model used by the Group is based on two periods:

_ from 2012 to 2016 (i.e. the five-year budget);
_ beyond 2016, the terminal value was calculated using a nominal growth rate of 1% to 4.5%. For the CEE countries the terminal value growth was estimated on the basis of the expectation for convergence of the economic level to the euro area and while taking into account the projection for the banking sector of a respective CEE country to reach the ma-

tured level. For Austria, a nominal growth rate of 1% was used.

Long-term growth rates applied to estimate future earnings beyond the five-year planning period are as follows:

	Growth rates	
in %	2011	2010
Austria	1.0	2.0–3.3
CEE	1.5–4.5	2.0–4.3
Other	-	2.0

The discount rates applied to calculate the present values have been determined based on the capital asset pricing model (CAPM). According to the CAPM, the discount rate comprises a risk-free interest rate together with a market risk premium that itself is multiplied by a factor that represents the systematic market risk (beta factor). Furthermore, a country-risk premium component is considered in calculating the discount rate. The values used to establish the discount rates are determined using external sources of information.

Discount rates applied to determine the value in use of the CGUs in 2011 and 2010 are as follow:

	Discount rates	
in %	2011	2010
Austria	8.7–10.2	8.1–9.0
CEE	12.8–17.7	10.6–12.0
Other	-	11.6–15.0

Where the recoverable amount of a CGU is less than its carrying amount, the difference is recognised as an impairment loss in the income statement in the line 'Other operating result'. The impairment loss is allocated first to write down the CGU's goodwill. Any remaining impairment loss reduces the carrying amount of the CGU's other assets, though not to an amount lower than their fair value less costs to sell. There is no need to recognise an impairment loss if the recoverable amount of the CGU is higher than or equal to its carrying amount. Impairment losses relating to goodwill cannot be reversed in future periods.

(iii) Sensitivities

The value in use of a CGU is most sensitive to changes in the estimated future earnings distributable to shareholders, the discount rate, the long-term growth rate as well as the targeted level of the capital adequacy.

As the goodwill related to the Hungarian subsidiary was fully impaired in 2011, no sensitivity analysis is meaningful. For the goodwill related to subsidiaries in the Czech Republic, Slovakia and Croatia, hidden reserves (excess of calculated value in use over the carrying amount) are so significant that no reasonable change in key parameters would cause the value in use to equal the carrying amount.

The following change in key parameters applied to determine the value in use of the subsidiary in Romania (Banca Comercială Română) would cause the value in use to equal the carrying amount (based on the updated calculation of the value in use from November 2011):

	Increase in discount rate	Increase in target capital adequacy	Decrease in terminal growth rate	Decrease in annual profit
Change in key parameters	17 basis points	0.5%	0.3 percent-age point	1.2%

It should be taken into account that changing the parameters might have compensatory impacts on overall change in the value in use.

Property and equipment

Property and equipment is measured at cost less accumulated depreciation and accumulated impairment. Borrowing costs for qualifying assets are capitalised into the costs of property and equipment.

Depreciation is calculated using the straight-line method to write down the cost of property and equipment to their residual values over their estimated useful lives. Depreciation is recognised in the income statement in the line 'General administrative expenses' and impairment in the line 'Other operating result'.

The estimated useful lives are as follow:

	Useful life in years
Buildings	15–50
Office furniture and equipment	4–10
Passenger cars	4–8
Computer hardware	4–6

Land is not depreciated.

Property and equipment is derecognised on disposal or when no future economic benefits are expected from its use. Any gain or loss arising on disposal of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognised in the income statement in the line 'Other operating result' in the year the asset is derecognised.

Investment properties

Investment property is property (land and buildings) held for the purpose of earning rental income or for capital appreciation. In case of partial own use, the property is investment property only if the owner-occupied portion is insignificant. Investment properties are measured at cost less accumulated straight-line depreciation based on useful life and less accumulated impairment. Such depreciation is recognised in the income statement in the line 'Net interest income'. Any impairment losses are recognised in the income statement line 'Other operating result'. If the reasons which led to the impairment cease to apply, the previously recognised impairment loss is reversed to no more than the asset's carrying amount reflecting depreciation as if no impairment loss had been recognised over the past years.

The useful lives of investment properties are identical to those of buildings as reported under property and equipment.

Intangible assets

In addition to goodwill, Erste Group's other intangible assets include computer software and customer relationships, brand, distribution network and other intangible assets. An intangible asset is recognised only when its cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to it will flow to the bank.

Costs of internally generated software are capitalised if Erste Group can demonstrate technical feasibility and intention of completing the software, ability to use it, how it will generate probable economic benefits, availability of resources and ability to measure the expenditures reliably. Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

The cost of intangible assets acquired in a business combination is their fair value as of the date of acquisition. In the case of Erste Group, these are brands, customer relationships and distribution networks and they are capitalised on acquisition if they can be measured with sufficient reliability.

Intangible assets with finite lives are amortised over their useful economic lives using the straight-line method. The amortisation period and method are reviewed at least at each financial year-end and adjusted if necessary. The amortisation expense on intangible assets with finite lives is recognised in the income statement in the line 'General Administrative expenses' except for amortisation of customer relationships which is reported in the line 'Other operating result'.

The estimated useful lives are as follow:

	Useful life in years
Computersoftware	4–6
Customer relationships	10–20
Distribution network	5.5

Brands are not amortised as they are assumed to have an indefinite useful life. An intangible asset has an indefinite useful life if there are no legal, contractual, regulatory or other factors limiting that useful life. Brands are annually tested for impairment within cash-generating units to which they belong and impairment is recognised if necessary. Furthermore, each period brands are reviewed as to whether current circumstances continue to support the conclusion about indefinite life. In the event of impairment, impairment losses are recognised in the income statement in the line 'Other operating result'.

Impairment of non-financial assets (property and equipment, investment property, intangible assets)

The bank assesses at each reporting date whether there is an indication that a non-financial asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the bank estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs to sell and its value in use. If the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In measuring value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For non-financial assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the bank estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount or exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years.

Impairments and their reversals are recognised in the income statement in the line 'Other operating result'.

Non-current assets held for sale

Non-current assets are classified as held for sale if they can be sold in their present condition and the sale is highly probable within 12 months of their being classified as held for sale. Assets classified as held for sale are reported under the balance sheet line 'Assets held for sale'. Non-current assets that are classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell.

Financial guarantees

In the ordinary course of business, Erste Group gives financial guarantees, consisting of various types of letters of credit and guarantees. According to IAS 39, a financial guarantee is a contract that requires the guarantor to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with original or modified terms of a debt instrument. If Erste Group is in a position of being a guarantee holder, the financial guarantee is not recorded in the balance sheet but is taken into consideration as collateral when determining impairment of the guaranteed asset.

Erste Group as a guarantor recognises financial guarantees as soon as it becomes a contracting party, i.e., when the guarantee offer is accepted. Financial guarantees are initially measured at fair value. Generally the initial measurement is the premium received for a guarantee. If no premium is received at contract inception the fair value of a financial guarantee for which the premium is not received at contract inception is nil, as this is the amount at which the guarantee could be settled in an arm's length transaction with an unrelated party. Subsequent to initial recognition the financial guarantee contract is reviewed for the possibility that provisioning will be required under IAS 37.

The premium received is recognised in the income statement in the line 'Net fee and commission income' on a straight-line basis over the life of the guarantee.

Defined employee benefit plans

Defined employee benefit plans operated by Erste Group are for pensions, severance and jubilee benefits.

The defined benefit pension plans relate only to retired employees. The pension obligations for current employees were transferred to external pension funds in previous years. Remaining with Erste Group is a defined benefit obligation for entitlements of former employees who were already retired as of 31 December 1998 before the pension reform took effect, as well as for those former employees who retired only in 1999 but remained entitled to a direct pension from Erste Group under individual agreements. Included also are entitlements to resulting survivor pensions.

Severance benefit obligations exist in relation to Austrian employees who entered the Group's employment before 1 January 2003. The severance benefit is a one-time remuneration to which employees are entitled when their employment relationship ends. The entitlement to this severance payment arises after three years of employment.

Defined benefit plans include also jubilee benefits. Jubilee payments (long-service/loyal-service payments) are remuneration tied to the length of an employee's service to the employer. The entitlement to jubilee benefits is established by collective agreement, which defines both the conditions and amount of the entitlement.

Obligations resulting from defined employee benefit plans are determined using the projected unit credit method. Future obligations are determined based on actuarial expert opinions. The calculation takes into account not only those salaries, pensions and vested rights to future pension payments known as of the balance sheet date but also anticipated future rates of increase in salaries and pensions.

As of 31 December 2011, for all domestic subsidiaries, the most important actuarial assumptions used in the computation were adjusted to reflect the situation at year-end 2011. Thus, the actuarial calculation of pension, severance and jubilee benefit obligations is based on a discount rate (long-term capital market interest rate) of 4.65% per annum (previously: 4.25%). The statutory increase in pension benefits is assumed to be 2.4% per year (previously: 2.0%) and severance and jubilee benefits are calculated based on an expected annual increase of 3.4% per year in salaries (previously: 3.0%). Obligations were calculated in accordance with the Pagler & Pagler mortality tables entitled 'AVÖ 2008 P – Rechnungsgrundlagen für die Pensionsversicherung'. The expected retirement age for each employee was individually calculated on the basis of the changes set out in the Budget Implementation Act of 2003 (Austrian Federal Law Gazette Vol. I No. 71/2003) regarding the increase in the minimum retirement age. The currently applicable legislation on the gradual raising of the retirement age for men and women to 65 was taken into consideration. For Central European subsidiaries, depending upon the particular countries, the mandatory retirement ages are used, as are the discount rates, which range from 3.4% (previously: 3.1%) to 7.5% (previously: 6.7%).

The liability recognised from a defined benefit plan represents the present value of the defined benefit obligation less the fair value of the plan assets available for the direct settlement of obligations. For all plans, the present value of the obligation exceeds the fair value of the plan assets. The resulting defined benefit liability is reported in the balance sheet in the line 'Other provisions'. At Erste Group, the plan assets consist of qualifying insurance policies purchased to back severance and jubilee benefit provisions.

Actuarial gains or losses of pension and severance benefit obligations and of plan assets available to settle these obligations are recognised in other comprehensive income for the period in which they occur. Actuarial gains or losses of provisions for jubilee benefits are recognised in the income statement in the line 'General administrative expenses' in the period during which they occur.

Based on actually realised returns of portfolios and forecasts on the development of investments included in these portfolios, as of 31 December 2011 an interest rate of 4.00% (2010: 4.25%) was assumed for the expected return on plan assets.

Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. In the balance sheet, provisions are reported in the line ‘Other provisions’. They include credit risk loss provisions for contingent liabilities (particularly financial guarantees) as well as provisions for litigations and restructuring. Expenses or income from allocation or release relating to credit risk loss provisions for contingent liabilities are presented in the income statement line ‘Risk provisions for loans and advances’. All other expenses or income related to provisions are reported in the line ‘Other operating result’.

Share-based payment transactions

As compensation for their services, Erste Group grants shares and share options to employees and managers under the employee stock ownership plan (ESOP) and the management share option (MSOP) plan. Both take the form of equity-settled share-based payment transactions.

The cost of equity-settled transactions with employees is measured by reference to the fair value as of the date upon which they are granted. Under ESOP, Erste Group shares are offered to employees at a discounted price; therefore, the fair value results from the discount at which employees purchase Erste Group shares. Any expense incurred from this fair value is immediately recognised in personnel expenses in the income statement in the line ‘General administrative expenses’. Under MSOP, Erste Group share options are granted to managers and other key personnel. For MSOP initial fair value of the options granted is determined by means of generally accepted option pricing models (Black and Scholes, binomial model). Expense from this fair value together with corresponding increase in equity is spread over the vesting periods (the period between the granting date and the first permitted exercise date). Expense is recognised in the income statement as personnel expense in the line ‘General administrative expenses’.

Taxes

(i) Current tax

Current tax assets and liabilities for the current and prior years are measured as the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amounts are those enacted by the balance sheet date.

(ii) Deferred tax

Deferred tax is recognised for temporary differences between the tax bases of assets and liabilities and their carrying amounts as of the balance sheet date. Deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences and unused tax losses to the extent it is probable that taxable profit will be available against which the deductible temporary differences and carry forward of unused tax losses can be utilised. Deferred taxes are not recognised on temporary differences arising from the initial recognition of goodwill.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted as of the balance sheet date. For the subsidiaries, local tax environments apply.

Deferred tax relating to items recognised in other comprehensive income is also recognised in other comprehensive income and not in the income statement.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right to offset exists and the deferred taxes relate to the same taxation authority.

Treasury shares and contracts on treasury shares

Equity instruments of Erste Group which it or any of its subsidiaries acquire into treasury are deducted from equity. Consideration paid or received on the purchase, sale, issue or cancellation of Erste Group’s own equity instruments is recognised directly in equity. No gain or loss is recognised in the statement of comprehensive income on the purchase, sale, issue or cancellation of its own equity instruments.

Fiduciary assets

The Group provides trust and other fiduciary services that result in the holding or investing of assets on behalf of its clients. Assets held in a fiduciary capacity are not reported in the financial statements, as they are not the assets of the Group.

Dividends on ordinary shares

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by Erste Group’s shareholders.

Regarding dividends on participation capital, see Note 30).

Recognition of income and expenses

Revenue is recognised to the extent that it is probable the economic benefits will flow to the entity and the revenue can be reliably measured. Regarding the lines reported in the income statement, their description and revenue recognition criteria are as follow:

(i) Net interest income

Interest income or expense is recorded using the effective interest rate (EIR) method. The calculation includes origination fees resulting from the lending business as well as transaction costs that are directly attributable to the instrument and are an integral part of the EIR (apart from financial instruments at fair value through profit or loss) but no future credit losses. Interest income from individually impaired loans is calculated by applying the original effective interest rate used to discount the estimated cash flows for the purpose of measuring the impairment loss.

Interest and similar income mainly includes interest income on loans and advances to credit institutions and customers, on balances with central banks and on bonds and other interest-bearing securities in all portfolios. Interest and similar expenses mainly include interest paid on deposits by banks and customer deposits, deposits of central banks, debt securities in issue and subordinated debt. In addition, net interest income includes interest on derivative financial instruments held in the banking book.

Also reported in interest and similar income is current income from shares and other equity-related securities (especially dividends) as well as income from other investments in companies categorised as available for sale. Such dividend income is recognised when the right to receive the payment is established.

Net interest income also includes rental income and corresponding depreciation charge from investment properties. Such rental income constitutes income from operating leases and is recognised on a straight-line basis over the lease term.

Income from associates recorded by applying the equity method (share of profit or loss in associates) is also included in the total of net interest income. Impairment losses, reversal of impairment losses, and realised gains and losses on investments in associates accounted for at equity are reported in the line 'Other operating result'.

(ii) Risk provisions for loans and advances
This item includes allocations to and releases of specific and portfolio risk provisions for loans and advances and for contingent liabilities bearing credit risk. Also reported in this item are direct write-offs of loans and advances as well as recoveries on written-off loans removed from the balance sheet.

(iii) Net fee and commission income
The bank earns fee and commission income from a diverse range of services it provides to its customers.

Fees earned for the provision of services over a period of time are accrued over that period. These fees include lending fees, guarantee fees, commission income from asset management, custody and other management and advisory fees as well as fees from insurance brokerage, building society brokerage and foreign exchange transactions.

Fee income earned from providing transaction services, such as arranging the acquisition of shares or other securities or the purchase or sale of businesses, is recognised on completion of the underlying transaction.

(iv) Net trading result
Results arising from trading activities include all gains and losses from changes in fair value (clean price) on financial assets and financial liabilities classified as held for trading, including all derivatives not designated as hedges. In addition, for derivative financial instruments held in the trading book, 'Net trading result' contains also interest income or expense. However, interest income or expenses on non-derivative trading assets and liabilities and on derivatives held in the banking book are not part of 'Net trading result' as they are reported as 'Net interest income'. It also includes any ineffective portions recorded in hedging transactions as well as foreign exchange gains and losses.

(v) General administrative expenses
General administrative expenses represent the following expenses accrued in the reporting period: personnel and other administrative expenses, as well as depreciation and amortisation, apart from amortisation of customer relationships and impairment of goodwill that are reported under 'Other operating result'.

Personnel expenses include wages and salaries, bonuses, statutory and voluntary social security contributions, staff-related taxes and levies. They also include expenses and income for severance payments, pension and jubilee obligations (covering service cost, interest cost, expected return on plan assets and actuarial gains and losses for jubilee obligations).

Other administrative expenses include information technology expenses, expenses for office space, office operating expenses, advertising and marketing, expenditures for legal and other consultants as well as sundry other administrative expenses.

(vi) Other operating result
Other operating result reflects all other income and expenses not directly attributable to Erste Group's ordinary activities. This includes especially impairment losses or any reversal of impairment losses as well as results on the sale of property and equipment and other intangible assets. Also included here are amortisation and impairment of customer relationships and any impairment losses on goodwill. In addition, other operating result encompasses the following: expenses for other taxes, including special banking taxes and for deposit insurance contributions; income from the release of and expenses for allocations to other provisions; impairment losses (and their reversal if any) on investments in associates accounted for at equity; and realised gains and losses from the disposal of equity-accounted investments.

(vii) Result from financial instruments
Result from financial instruments consists of the following lines in the income statement:

_ Result from financial instruments – at fair value through profit or loss: Changes in clean price of assets and liabilities designated at fair value through profit or loss are reported here. Furthermore this position contains changes in clean prices of derivatives which are related to financial liabilities designated at fair value through profit or loss. Designation of such liabilities at fair value was chosen to remove or reduce an accounting mismatch between the liability and the derivative.
_ Result from financial assets – available for sale: Realised gains and losses from selling as well as impairment losses and reversals of impairment losses from financial assets available for sale are reported in this position. However interest and dividend element on these assets and reversals of impairment losses on equity instruments are not part of this position.
_ Result from financial assets – held to maturity: Impairment losses and reversals of impairment losses as well as occasional selling gains and losses from financial assets held to maturity are reported in this position. However, this position does not include losses incurred but not reported which are recognised for financial assets held to maturity on portfolio level, which rather are part of the position 'Risk provisions for loans and advances'.

Significant accounting judgements, assumptions and estimates

The consolidated financial statements contain amounts that have been determined on the basis of judgements and by use of estimates and assumptions. The estimates and assumptions used are based on historical experience and other factors, such as planning as well as expectations and forecasts of future events that are currently deemed to be reasonable. As a consequence of the uncertainty associated with these assumptions and estimates, actual results could in future periods lead to adjustments in the carrying amounts of the related assets or liabilities. The most significant use of judgements, assumptions and estimates are as follow:

Going concern
Erste Group's management has made an assessment of Erste Group's ability to continue as a going concern and has concluded that Erste Group has the resources to continue in business for the foreseeable future. The management is aware of no material uncertainties that may cast significant doubt upon Erste Group's ability to continue as a going concern. Therefore, the consolidated financial statements continue to be prepared on a going concern basis.

Fair value of financial instruments
Where the fair values of financial assets and financial liabilities recorded on the balance sheet cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data is not available judgement is required to establish fair values. Disclosures for valuation models, fair value hierarchy and fair values of financial instruments can be found in Note 39) Fair value of financial instruments.

Impairment of financial assets
Erste Group reviews its financial assets not measured at fair value through profit or loss at each balance sheet date to assess whether an impairment loss should be recorded in the income statement. In particular, it is required to determine whether there is objective evidence of impairment as a result of a loss event occurring after initial recognition and to estimate the amount and timing of future cash flows when determining an impairment loss.

Disclosures concerning impairment are provided in Note 37) Risk Management in the part 'Credit risk – Non-performing credit risk exposure, risk provisions and collateral'. Development of loan loss provisions is described in Note 15) Risk provisions for loans and advances.

Impairment of non-financial assets
Erste Group reviews its non-financial assets at each balance sheet date to assess whether there is an indication of impairment loss which should be recorded in the income statement. This is especially relevant for cash-generating units containing goodwill which have to be tested for impairment annually. Judgement and estimates are required to determine the value in use by estimating the timing and amount of future expected cash flows and the discount rates. Assumptions and estimates used for impairment on non-financial assets calculations are described in the parts 'Business combinations and goodwill' and 'Impairment of non-financial assets (property and equipment, investment property, intangible assets)' in the Accounting Policies discussion of the Notes.

Deferred tax assets
Deferred tax assets are recognised in respect of tax losses and deductible temporary differences to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits, together with future tax planning strategies. Disclosures concerning deferred taxes are in Note 20) Tax assets and liabilities.

Defined benefit obligation plans
The cost of the defined benefit pension plan is determined using an actuarial valuation. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Assumption and estimates used for the defined benefit obligation calculations can be found in 'Defined benefit plans' within the Accounting Policies discussion under the Notes. Quan-

titative data for long-term employee provisions are in Note 27) Other provisions.

Leases
From Erste Group's perspective as a lessor, judgement is required to distinguish whether a given lease is a finance or operating lease based on the transfer of substantially all the risk and rewards from the lessor to the lessee.

c) APPLICATION OF AMENDED AND NEW IFRS/IAS

The accounting policies adopted are consistent with those used in the previous financial year except for standards and interpretations which became effective for financial years beginning on or after 1 January 2011.

Effective standards and interpretations

The following amended standards and interpretations have been mandatory since 2011:
- *IAS 24:* (revised 2009) Related Party Disclosures
- *Amendments to IAS 32:* Classification of Rights Issues
- *Amendments to IFRS 1:* Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters
- *Improvements to IFRSs (issued in 2010)*
- *IFRIC 19:* Extinguishing Financial Liabilities with Equity Instruments
- *Amendments to IFRIC 14*: IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

Application of these amended standards and interpretations had no material effect on the recognition and measurement methods of Erste Group. However, amendments to IFRS 7 brought by the Improvements to IFRS (issued in 2010) have resulted in omission of disclosures for the carrying amount of financial assets that would be past due or impaired but whose terms have been renegotiated.

Standards and interpretations not yet effective

The following standards and interpretations were issued by IASB but are not yet effective. Except for *Amendments to IFRS 7 – Disclosures–Transfers of Financial Assets* they have not yet been endorsed by the EU and therefore are not applicable for Erste Group. Although the IFRS 7 amendments *(Disclosures–Transfers of Financial Assets)* have been endorsed by the EU, Erste Group decided not to apply them before they become effective.

Amendments to IAS 1 – Presentation of Items of Other Comprehensive Income
Amendments to IAS 1 were issued in June 2011 and become effective for annual periods beginning on or after 1 July 2012.

The main requirement is to present, by using subtotals, whether the items of other comprehensive income (OCI) are reclassifiable to profit or loss or not. Moreover, if OCI items are presented before tax then the tax related to each of the two categories has to be presented separately.

Application of these amendments will have an impact on presentation of the statement of comprehensive income due to changes in the presentation of OCI items and their tax effects.

Amendments to IAS 12 – Deferred Tax: Recovery of Underlying Assets
Amendments to IAS 12 were issued in December 2010 and are effective for annual periods beginning on or after 1 January 2012.

These amendments provide clarification for deferred taxes arising from investment property measured using the fair value model in IAS 40. For such property there is a rebuttable presumption that the carrying amount of the property will be recovered entirely through sale rather than through use.

Application of these amendments is not expected to have any impact on Erste Group's financial statements since the fair value model is not applied to investment property.

IAS 19 (revised 2011) Employee Benefits
The revised IAS 19 was issued in June 2011 and becomes effective for annual periods beginning on or after 1 January 2013.

The revision brought changes mainly in accounting for defined benefit plans. Net interest is recognised in profit or loss by multiplying the net defined liability by the discount rate. As the corridor method is no longer allowed, actuarial gains and losses are treated as remeasurements and are recognised fully in other comprehensive income. Clarifications were made for the area of plan amendments, curtailments and settlements. Past service costs are recognised immediately in profit or loss. Disclosure requirements were revised. New definition and recognition criteria were introduced for the termination benefits.

Application of this standard is not expected to have a significant impact on Erste Group's financial statements. However, it will result in some new disclosures in the Notes.

IAS 27 (revised 2011) Separate Financial Statements
Revised IAS 27 was issued in May 2011 and is effective for annual periods beginning on or after 1 January 2013.

After revision, only the part relevant for individual financial statements was kept in IAS 27. This is due to the fact that IFRS 10 becomes a new standard relevant for consolidated financial statements. This resulted in a change of the name of IAS 27.

The revised IAS 27 is not expected to have a significant impact on Erste Group's financial statements.

IAS 28 (revised 2011) Investments in Associates and Joint Ventures
Revised IAS 28 was issued in May 2011 and is effective for annual periods beginning on or after 1 January 2013.

Joint ventures are added into the scope of the revised IAS 28, which also results in a change in the name of the standard. This is due to the fact that under IFRS 11 the equity method is the only way of including joint ventures into the consolidated financial statements.

IAS 28 revised is not expected to have a significant impact on Erste Group's financial statements.

Amendments to IAS 32 – Offsetting Financial Assets and Liabilities
Amendments to IAS 32 were issued in December 2011 and are effective for annual periods beginning on or after 1 January 2014.

The amendments clarify the meaning of the terms 'currently' and 'settlement on net basis'.

The amendments are not expected to have a significant impact on Erste Group's financial statements.

Amendments to IFRS 1: Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopters
Amendments to IFRS 1 were issued in December 2010 and are effective for annual periods beginning on or after 1 July 2011.

Application of these amendments does not have any impact on Erste Group's financial statements as Erste Group is not a first-time adopter of IFRSs.

Amendments to IFRS 7 – Disclosures–Transfers of Financial Assets
Amendments to IFRS 7 were issued in October 2010 and are effective for financial years beginning on or after 1 July 2011.

The aim of the new disclosures is to understand relationships between transferred financial assets which are not derecognised in their entirety and the associated liabilities as well as to evaluate the nature of, and risks associated with, the entity's continuing involvement in derecognised financial assets.

The amendments will result in new disclosures mainly related to repo and security lending transactions.

Amendments to IFRS 7 – Offsetting Financial Assets and Liabilities
Amendments to IFRS 7 were issued in December 2011 and are effective for annual periods beginning on or after 1 January 2013.

Disclosures required by the amendments have to be provided for financial assets and liabilities that are set off in accordance with IAS 32. Furthermore, potential effects of netting and similar agreements which do not result in offsetting under IAS 32 are disclosed.

The amendments will result in new disclosures about the effects of master netting agreements and cash collateral agreements which do not result in offsetting under IAS 32.

IFRS 9: Financial Instruments
IFRS 9 relevant for classification and measurement of financial assets was issued in November 2009 and supplemented by regulation for financial liabilities in October 2010. An amendment issued in December 2011 concerns the mandatory effective date, which was postponed. As a result, IFRS 9 becomes effective for financial years beginning on or after 1 January 2015.

IFRS 9 introduces two classification criteria for financial assets: 1) an entity's business model for managing the financial assets, and 2) the contractual cash flow characteristics of the financial assets. As a result, a financial asset is measured at amortised cost only if the following conditions both are met: a) the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows, and b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding. All financial assets which do not fulfil these conditions are measured at fair value with changes recognised in profit or loss.

Based on changes in the business model an entity shall reclassify all affected assets from fair value to amortised cost category or vice versa.

IFRS 9 eliminates the concept of embedded derivatives for financial assets. Application of the classification criteria results in the fact that all structured financial instruments have to be fair valued (except for narrowly defined cases, such as for interest rate caps or floors, prepayments, puts, calls, renewal options).

Generally, all equity instruments are measured at fair value through profit or loss. For those which are not held for trading an entity may make an irrevocable election at initial recognition to measure them at fair value with changes recognised in other comprehensive income. Gains and losses once recognised in other comprehensive income, with the exception of dividends, are never recycled into profit or loss even when the equity instruments are sold.

Investments in tranches resulting from securitisation (referred to as contractually linked instruments) are subject to a 'look-through' approach to determine if they are measured at fair value or amortised cost. This means that risk and cash flow characteristics of the underlying pool of instruments and the tranches are assessed according to the defined criteria. If the look-through approach is not possible, tranches must be fair valued.

IFRS 9 requires that an entity which applies the fair value option for its financial liabilities recognises the fair value changes resulting from its own credit risk in other comprehensive income rather than in the income statement. Recycling from other comprehensive income into profit or loss is not allowed.

Entities need not restate prior periods in the first year of IFRS 9 application. Instead, comprehensive disclosures on transition from IAS 39 to IFRS 9 will be required.

This standard will have a significant effect on balance sheet positions and measurement methods for financial instruments. As IFRS 9 has not yet been published in its final version, its impact cannot be quantified.

IFRS 10 Consolidated Financial Statements
IFRS 10 was issued in May 2011 and is effective for annual periods beginning on or after 1 January 2013. It replaces IAS 27, 'Consolidated and Separate Financial Statements' and interpretation SIC-12, 'Consolidation – Special Purpose Entities'.

IFRS 10 defines the principle of control for all entities, including those that were previously considered special purpose entities under SIC-12. An investor controls an investee when it is exposed or has rights to variable returns from the investee and has the ability to affect those returns through its power over the investee. The assessment of control is based on all facts and circumstances, and the conclusion is reassessed if there are changes in those facts and circumstances.

Furthermore, IFRS 10 addresses other issues such as control with less than majority voting rights, control solely through rights other than voting rights, and delegated decision rights. Parts dealing with consolidation procedures, non-controlling interests and loss of control were taken over into IFRS 10 from IAS 27.

Erste Group is currently evaluating its control of its subsidiaries in light of the new definition of control in IFRS 10.

IFRS 11 Joint Arrangements
IFRS 11 was issued in May 2011 and is effective for annual periods beginning on or after 1 January 2013. It supersedes IAS 31, 'Interests in Joint Ventures' and SIC-13, 'Jointly-controlled Entities – Nonmonetary Contributions by Venturers'.

The core principle of IFRS 11 is that a party to a joint arrangement determines the type of joint arrangement in which it is involved by assessing its rights and obligations and accounts for those rights and obligations in accordance with that type of joint arrangement. IFRS 11 classifies joint arrangements as either joint ventures or joint operations. IFRS 11 requires use of the equity method of accounting for joint ventures by eliminating the option to use the proportionate consolidation method. A joint operator recognises its assets, liabilities, revenues and expenses separately in relation to its interest in the arrangement.

As the Erste Group did not apply the proportionate consolidation method allowed in IAS 31, application of this standard is not expected to have a significant impact on Erste Group's financial statements.

IFRS 12 Disclosure of Interests in Other Entities
IFRS 12 was issued in May 2011 and is effective for annual periods beginning on or after 1 January 2013.

The objective of IFRS 12 is to require disclosure of information enabling users of financial statements to evaluate the nature of, and risks associated with, an investor's interests in other entities as well as the effects of those interests on the investor's financial position, financial performance and cash flows. Disclosures are provided separately for subsidiaries, joint operations, joint ventures, associates, and unconsolidated structured entities. IFRS 12 is a comprehensive disclosures standard. Therefore, there are no specific disclosure requirements in IFRS 10, IFRS 11 and IAS 28.

Application of this standard is not expected to have a significant impact on Erste Group's financial statements. However, it will result in new disclosures.

IFRS 13 Fair Value Measurement
IFRS 13 was issued in May 2011 and is effective for annual periods beginning on or after 1 January 2013.

It establishes a single source of guidance for fair value measurement and application under IFRS. It applies for fair value measurements which are already required or permitted by other standards. Therefore, IFRS 13 does not increase the scope of assets and liabilities measured at fair value. IFRS 13 also introduces more comprehensive disclosure requirements on fair value measurement (e.g. extending the fair value hierarchy to financial instruments measured at amortised cost).

Application of IFRS 13 will result in enhanced disclosures about fair value measurements.

IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine
IFRIC 20 was issued in October 2011 and becomes effective for annual periods beginning on or after 1 January 2013.

Application of this Interpretation is not expected to have any impact on Erste Group's financial statements.

D. NOTES TO THE STATEMENT OF COMPREHENSIVE INCOME AND THE BALANCE SHEET OF ERSTE GROUP

1) Net interest income

in EUR million	2011	2010 restated
Interest income		
Lending and money market transactions with credit institutions	1,077.4	1,090.9
Lending and money market transactions with customers	6,426.5	6,333.6
Bonds and other interest-bearing securities	1,331.9	1,139.3
Other interest and similar income	10.3	10.8
Current income		
Equity-related securities	77.8	93.6
Investments		
Non-consolidated subsidiaries	11.2	8.2
Other investments	19.2	18.4
Investment properties	74.0	78.2
Interest and similar income	**9,028.3**	**8,773.0**
Interest income from financial assets – at fair value through profit or loss	322.3	48.6
Total interest and similar income	**9,350.6**	**8,821.6**
Interest expenses		
Deposits by banks	(654.6)	(532.6)
Customer deposits	(1,831.8)	(1,661.7)
Debt securities in issue	(1,032.2)	(890.1)
Subordinated liabilities	(239.5)	(304.4)
Other	(8.9)	(10.1)
Interest and similar expenses	**(3,767.0)**	**(3,398.9)**
Interest expenses from financial liabilities – at fair value through profit or loss	(22.6)	(4.5)
Total interest and similar expenses	**(3,789.6)**	**(3,403.4)**
Income from equity method investments	**8.0**	**21.0**
Total	**5,569.0**	**5,439.2**

Rental income from investment properties which are classified in accordance with IAS 40 totalled EUR 88.7 million (2010: EUR 85.8 million).

For financial assets or liabilities that are not measured at fair value through profit or loss, the total interest income amounted to EUR 7,570.9 million (2010: EUR 7,383.4 million) and the total interest expense to EUR (3,551.6) million (2010: EUR (3,257.4) million). Net interest income for these positions is therefore EUR 4,019.3 million (2010: EUR 4,126.0 million).

In 2011, the interest income from securities which are accounted for as trading assets is presented in ‘Net interest income’ (in ‘Interest income from financial assets – at fair value through profit or loss’) and no longer in ‘Net trading result’.

2) Risk provisions for loans and advances

in EUR million	2011	2010 restated
Allocation to risk provisions for loans and advances	(3,111.8)	(2,887.9)
Release of risk provisions for loans and advances	1,016.5	933.3
Direct write-offs of loans and advances	(223.6)	(93.8)
Recoveries on written-off loans and advances	52.0	27.4
Total	**(2,266.9)**	**(2,021.0)**

3) Net fee and commission income

in EUR million	2011	2010 restated
Lending business	279.9	243.8
Payment transfers	863.3	847.3
Card business	205.6	182.1
Securities business	373.4	421.7
Investment fund transactions	205.6	215.8
Custodial fees	36.5	43.0
Brokerage	131.3	162.9
Insurance brokerage	105.0	112.0
Building society brokerage	33.7	40.1
Foreign exchange transactions	24.8	26.1
Investment banking business	13.1	25.9
Other	94.0	125.6
Total	**1,787.2**	**1,842.5**

4) Net trading result

in EUR million	2011	2010 restated
Securities and derivatives trading	(33.4)	103.9
Foreign exchange transactions	155.7	218.0
Total	**122.3**	**321.9**

5) General administrative expenses

in EUR million	2011	2010
Personnel expenses	(2,323.7)	(2,263.8)
Other administrative expenses	(1,152.4)	(1,165.9)
Depreciation and amortisation	(374.8)	(387.1)
Total	**(3,850.9)**	**(3,816.8)**

Personnel expenses

in EUR million	2011	2010
Wages and salaries	(1,768.5)	(1,684.6)
Compulsory social security contributions	(445.5)	(456.2)
Long-term employee provisions	(62.9)	(73.0)
Other personnel expenses	(46.8)	(50.0)
Total	**(2,323.7)**	**(2,263.8)**

Personnel expenses include expenses of EUR 57.4 million (2010: EUR 55.8 million) for defined contribution plans of which EUR 0.9 million (2010: EUR 0.9 million) relates to members of the management board.

Average number of employees during the financial year (weighted according to the level of employment)

	2011	2010
Employed by Erste Group	50,167	50,386
Domestic	16,051	16,010
Haftungsverbund savings banks	7,465	7,624
Abroad	34,116	34,376
Banca Comercială Română Group	9,299	9,077
Česká spořitelna Group	10,556	10,744
Slovenská sporiteľňa Group	4,097	4,084
Erste Bank Hungary Group	2,949	3,100
Erste Bank Croatia Group	2,536	2,289
Erste Bank Serbia	931	943
Erste Bank Ukraine	1,716	1,719
Other subsidiaries and foreign branch offices	2,032	2,420

Other administrative expenses

in EUR million	2011	2010
IT expenses	(265.9)	(282.0)
Expenses for office space	(295.4)	(281.9)
Office operating expenses	(144.4)	(210.9)
Advertising/marketing	(193.7)	(182.7)
Legal and consulting costs	(115.4)	(86.6)
Sundry administrative expenses	(137.6)	(121.8)
Total	**(1,152.4)**	**(1,165.9)**

For 2011, telephone costs are no longer shown as office operating expenses but among the IT expenses.

Operating expenses (including repair and maintenance) for 'Investment properties' held for rental income totalled EUR 5.1 million (2010: EUR 4.5 million).

Depreciation and amortisation

in EUR million	2011	2010
Software and other intangible assets	(139.3)	(158.4)
Real estate used by the Group	(88.8)	(86.4)
Office furniture and equipment and sundry property and equipment	(146.7)	(142.3)
Total	**(374.8)**	**(387.1)**

Amortisation of customer relationships is included not in the item depreciation and amortisation but in other operating result.

6) Other operating result

in EUR million	2011	2010
Other operating income	195.1	157.4
Other operating expenses	(1,785.0)	(596.7)
Total	**(1,589.9)**	**(439.3)**
Result from real estates/movables/properties/software	(84.3)	(77.9)
Allocation/release of other provisions/risks	(35.2)	(17.2)
Expenses for deposit insurance contributions	(87.2)	(66.2)
Amortisation of customer relationships	(69.0)	(69.5)
Other taxes	(163.5)	(71.9)
Impairment of goodwill	(1,064.6)	(51.9)
Result from other operating expenses/income	(86.1)	(84.7)
Total	**(1,589.9)**	**(439.3)**

Operating expenses (including repair and maintenance) for 'Investment properties' not held for rental income totalled EUR 8.9 million (2010: EUR 9.8 million).

The amount of impairment on assets held for sale recognised in the result from real estates/moveables/properties/software is EUR (14.7) million (2010: EUR (17.1) million).

7) Result from financial instruments – at fair value through profit or loss

in EUR million	2011	2010
Gain / (loss) from measurement / sale of financial instruments at fair value through profit or loss	0.3	(6.0)

8) Result from financial assets – available for sale

in EUR million	2011	2010
Gain / (loss) from sale of financial assets available for sale	64.1	67.6
Impairment / reversal of impairment of financial assets available for sale	(130.3)	(58.4)
Total	**(66.2)**	**9.2**

During the reporting period, the amount removed from 'Other comprehensive income' to 'Result from Financial assets – available for sale' was EUR 33.9 million (2010: EUR 34.4 million).

The carrying amount of investments in equity instruments measured at cost which were sold during the period was EUR 4.4 million (2010: 0.1 million). The resulting gain on sale was EUR 17.3 million (2.7 million).

9) Result from financial assets – held to maturity

in EUR million	2011	2010
Income		
Income from sale of financial assets held to maturity	8.7	6.6
Reversal of impairment loss of financial assets held to maturity	1.3	0.0
Expenses		
Loss from sale of financial assets held to maturity	(27.8)	0.0
Impairment of financial assets held to maturity	(9.3)	(12.1)
Total	**(27.1)**	**(5.5)**

10) Taxes on income

Taxes on income are made up of current taxes on income calculated in each of the group companies based on the results reported for tax purposes, corrections to taxes on income for previous years, and the change in deferred taxes.

in EUR million	2011	2010 restated
Current tax expense / income	(308.5)	(318.3)
current period	(302.2)	(320.0)
prior period	(6.3)	1.7
Deferred tax expense / income	68.1	37.4
current period	77.9	8.6
prior period	(9.8)	28.8
Total	**(240.4)**	**(280.9)**

The following table reconciles the income taxes reported in the income statement to the pre-tax profit/loss multiplied by the nominal Austrian tax rate.

in EUR million	2011	2010 restated
Pre-tax profit/loss	(322.2)	1,324.2
Income tax expense for the financial year at the domestic statutory tax rate (25%)	80.6	(331.0)
Impact of different foreign tax rates	(83.9)	29.5
Impact of tax-exempt earnings of investments and other tax-exempt income	168.5	130.6
Tax increases due to non-deductible expenses	(389.5)	(140.5)
Tax income not attributable to the reporting period	(16.1)	30.5
Total	**(240.4)**	**(280.9)**

Since the loss is mainly resulting from impairment of goodwill in some countries and Erste Group expects taxable profits in future, tax assets have been recognised.

Tax effects relating to each component of other comprehensive income:

	2011			2010		
in EUR million	Before-tax amount	Tax benefit	Net-of-tax amount	Before-tax amount	Tax benefit	Net-of-tax amount
Available for sale reserve (including currency translation)	(64.6)	14.5	(50.1)	127.6	(33.4)	94.2
Cash flow hedge reserve (including currency translation)	30.6	(6.4)	24.2	(76.5)	14.8	(61.7)
Actuarial gains and losses	(42.7)	15.0	(27.7)	34.8	(7.6)	27.2
Currency translation	(232.9)	0.0	(232.9)	78.2	0.0	78.2
Other comprehensive income	**(309.6)**	**23.1**	**(286.5)**	**164.1**	**(26.2)**	**137.9**

11) Appropriation of profit

It will be proposed to the Annual General Meeting of Erste Group Bank AG that shareholders will be paid no dividend (2010: dividend of EUR 0.70 per share). Shareholders of participation capital will be paid a dividend of 8% on nominal value, which is EUR 141,099,520.00 in total. In 2011, a dividend of EUR 0.70 per share was paid for the financial year 2010, which is EUR 264,723,704.70 in total. (In 2010, a dividend of EUR 0.65 per share was paid for the financial year 2009, which is EUR 245,651,305.90 in total.) The total profit of Erste Group Bank AG distributable under Austrian accounting regulations is EUR 141.1 million (2010: EUR 405.8 million).

12) Cash and balances with central banks

in EUR million	2011	2010
Cash in hand	2,164	2,142
Balances with central banks	7,249	3,697
Total	**9,413**	**5,839**

A portion of 'Balances with central banks' represent mandatory reserve deposits that are not available for use in the day-to-day operations of Erste Group.

13) Loans and advances to credit institutions

in EUR million	2011	2010
Loans and advances to domestic credit institutions	726	1,356
Loans and advances to foreign credit institutions	6,852	11,140
Total	**7,578**	**12,496**

14) Loans and advances to customers

in EUR million	2011	2010 restated
Loans and advances to domestic customers		
Public sector	3,027	2,996
Commercial customers	37,541	35,970
Private customers	25,148	24,443
Unlisted securities	256	250
Other	268	201
Total loans and advances to domestic customers	**66,240**	**63,860**
Loans and advances to foreign customers		
Public sector	3,487	3,100
Commercial customers	34,313	34,548
Private customers	29,728	29,534
Unlisted securities	689	971
Other	293	321
Total loans and advances to foreign customers	**68,510**	**68,474**
Total	**134,750**	**132,334**

15) Risk provisions for loans and advances

Development in risk provisions 2011

in EUR million	2010	Acquisition/disposal of subsidiaries	Currency translation	Allocations	Use	Releases	Interest income from impaired loans	Reclassification	2011
Specific loan loss provisions	5,315	16	(75)	2,653	(920)	(712)	(178)	14	6,113
Loans and advances to credit institutions	67	0	0	12	(4)	(11)	0	0	64
Loans and advances to customers	5,248	16	(75)	2,641	(916)	(701)	(178)	14	6,049
Portfolio loan loss provisions	804	0	(12)	335	0	(221)	0	8	914
Loans and advances to credit institutions	18	0	0	2	0	(11)	0	0	9
Loans and advances to customers	785	0	(12)	320	0	(210)	0	8	891
Financial assets – held to maturity	1	0	0	13	0	0	0	0	14
Risk provisions for loans and advances[1)]	**6,119**	**16**	**(87)**	**2,988**	**(920)**	**(933)**	**(178)**	**22**	**7,027**
Other risk provisions[2)]	116	3	(2)	35	(2)	(10)	0	(10)	130
Provisions for contingent credit risk liabilities	186	0	(1)	89	(4)	(74)	0	(10)	186
Total	**6,421**	**19**	**(90)**	**3,112**	**(926)**	**(1,017)**	**(178)**	**2**	**7,343**

1) Risk provisions for loans and advances are recognised in the balance sheet as a deduction from assets.
2) Other risk provisions mainly include provisions for legal proceedings in the course of the lending business.

Development in risk provisions 2010

in EUR million	2009	Acquisi-tion/dis-posal of subsidi-aries	Currency translation	Allo-cations	Use	Releases	Interest income from impaired loans	Reclassifi-cation[3)]	2010
Specific loan loss provisions	3,777	(3)	27	2,405	(806)	(593)	(113)	621	5,315
Loans and advances to credit institutions	69	0	0	11	(5)	(8)	0	0	67
Loans and advances to customers	3,708	(3)	27	2,394	(801)	(585)	(113)	621	5,248
Portfolio loan loss provisions	1,177	0	30	357	0	(249)	0	(511)	804
Loans and advances to credit institutions	4	0	1	2	0	(9)	0	20	18
Loans and advances to customers	1,172	0	29	355	0	(240)	0	(531)	785
Financial assets – held to maturity	1	0	0	0	0	0	0	0	1
Risk provisions for loans and advances[1)]	**4,954**	**(3)**	**57**	**2,762**	**(806)**	**(842)**	**(113)**	**110**	**6,119**
Other risk provisions[2)]	112	0	4	13	(5)	(9)	0	1	116
Provisions for contingent credit risk liabilities	266	0	(1)	113	(11)	(82)	0	(99)	186
Total	**5,332**	**(3)**	**60**	**2,888**	**(822)**	**(933)**	**(113)**	**12**	**6,421**

1) Risk provisions for loans and advances are recognised in the balance sheet as a deduction from assets.
2) Other risk provisions mainly include provisions for legal proceedings in the course of the lending business.
3) Due to the group-wide implementation of Erste Group Risk Management Standards in retail businesses, portfolio loan loss provisions have been reclassified to specific loan loss provisions.

Impairment loss for financial instruments

in EUR million	2011	2010	Position in Statement of Comprehensive Income
Loans and advances to credit institutions	19.1	17.7	Risk provisions for loans and advances (Note 2)
Loans and advances to customers	3,180.2	2,837.8	Risk provisions for loans and advances (Note 2)
Financial assets – available for sale	136.1	63.9	Result from financial assets – available for sale (Note 8)
Financial assets – held to maturity	21.9	12.5	Result from financial assets – held to maturity (Note 9), Risk provisions for loans and advances (Note 2)
Contingent credit risk liabilities	123.6	126.3	Risk provisions for loans and advances (Note 2)

16) Derivative financial instruments

	2011			2010 restated		
	Notional amount	Fair value		Notional amount	Fair value	
in EUR million		Positive	Negative		Positive	Negative
Derivatives held for trading						
Interest rate swaps	206,081	5,533	5,571	204,496	3,951	4,079
Currency swaps	41,008	878	616	31,601	817	829
Credit default swaps	986	29	20	3,373	50	30
Interest forward rate agreement	31,903	30	29	106,122	24	23
Currency forward rate agreement	2,992	70	30	1,748	41	35
Interest rate futures	9	0	0	643	0	0
Currency futures	47	0	0	15	0	0
Interest rate options	76,668	1,343	1,371	101,274	1,035	1,006
Currency options	2,901	57	44	8,620	69	59
Other agreements	854	8	9	2,371	32	33
Total derivatives held for trading	**363,449**	**7,948**	**7,690**	**460,263**	**6,019**	**6,094**
Derivatives held in banking book						
Fair value hedges						
Interest rate contracts	15,484	1,648	499	18,153	1,516	627
Currency contracts	583	29	76	314	54	156
Other agreements	20	3	1	2	0	0
Total fair value hedges	**16,087**	**1,680**	**576**	**18,469**	**1,570**	**783**
Cash flow hedges						
Interest rate contracts	4,633	97	19	6,378	134	97
Currency contracts	1,291	36	4	500	1	0
Other agreements	2	0	0	0	0	0
Total cash flow hedges	**5,926**	**133**	**23**	**6,878**	**135**	**97**
Other derivatives						
Interest rate contracts	31,173	884	642	32,071	606	605
Currency contracts	10,436	170	314	11,593	86	350
Credit default swaps – purchased	377	56	1	90	0	1
Credit default swaps – issued	384	0	28	6,717	34	403
Credit default swaps (held within International Business Division)	57	0	21	6,602	34	403
Other agreements	1,352	60	63	194	58	65
Total other derivatives	**43,722**	**1,170**	**1,048**	**50,665**	**784**	**1,425**
Total derivatives in banking book	**65,735**	**2,983**	**1,647**	**76,012**	**2,489**	**2,305**
Total derivatives	**429,184**	**10,931**	**9,337**	**536,275**	**8,508**	**8,399**

17) Securities

in EUR million	Loans and advances to customers and credit institutions		Trading assets		Financial assets: At fair value through profit or loss		Financial assets: Available for sale		Financial assets: Held to maturity		Total	
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
Bonds and other interest-bearing securities	**1,705**	**2,077**	**5,461**	**4,945**	**1,502**	**2,029**	**17,654**	**14,736**	**16,074**	**14,235**	**42,396**	**38,022**
Listed	0	0	4,253	4,316	1,375	1,942	16,457	12,942	15,150	13,630	37,235	32,830
Unlisted	1,705	2,077	1,208	629	127	87	1,197	1,794	924	605	5,161	5,192
Equity-related securities	**0**	**0**	**406**	**580**	**311**	**406**	**2,109**	**2,513**	**0**	**0**	**2,826**	**3,499**
Listed	0	0	119	182	311	406	474	529	0	0	904	1,117
Unlisted	0	0	287	398	0	0	1,635	1,984	0	0	1,922	2,382
Equity holdings	0	0	0	0	0	0	482	502	0	0	482	502
Total	**1,705**	**2,077**	**5,867**	**5,525**	**1,813**	**2,435**	**20,245**	**17,751**	**16,074**	**14,235**	**45,704**	**42,023**

Investment funds are disclosed within equity-related securities. Held-to-maturity financial assets include bonds and other interest-bearing securities that are quoted in active markets and are intended to be held to maturity.

The carrying amount of investments in equity instruments measured at cost is EUR 431 million (2010: EUR 436 million).

Securities lending and repurchase transactions are disclosed in Note 36).

18) Equity method investments

in EUR million	2011	2010
Credit institutions	94	106
Non-credit institutions	79	117
Total	**173**	**223**

The table below shows the aggregated financial information of companies accounted for at equity:

in EUR million	2011	2010
Total assets	2,533	5,142
Total liabilities	2,159	4,099
Income	366	567
Profit/loss	43	60

As of 31 December 2011, the fair value of listed companies accounted for at equity was EUR 0 million (2010: EUR 33 million).

19) Movements in fixed assets schedule

19.1) Property, equipment and other assets

A) AT COST

	Property and equipment				Other assets		
in EUR million	Land and buildings (used by the Group)	Office and plant equipment / other fixed assets	IT assets (hardware)	Property and equipment	Investment properties	Movable other property	Investment properties and movable other property
Balance as of 1 Jan 2010	**2,766**	**1,293**	**535**	**4,594**	**1,549**	**29**	**1,578**
Additions in current year (+	108	120	176	405	42	3	45
Disposals (-)	(50)	(175)	(86)	(311)	(30)	(10)	(40)
Acquisition of subsidiaries (+)	0	1	131	132	27	0	27
Disposal of subsidiaries (-)	0	0	0	0	(20)	0	(20)
Reclassifications (+/-)	0	0	0	0	0	0	0
Assets held for sale (+/-)	0	0	0	0	0	0	0
Currency translation (+/-)	41	10	8	59	29	0	29
Balance as of 31 Dec 2010	**2,865**	**1,250**	**765**	**4,879**	**1,597**	**22**	**1,619**
Additions in current year (+	92	81	44	218	75	35	110
Disposals (-)	(72)	(81)	(94)	(248)	(38)	(15)	(54)
Acquisition of subsidiaries (+)	5	4	4	14	0	0	0
Disposal of subsidiaries (-)	(6)	(6)	(1)	(13)	(6)	0	(6)
Reclassifications (+/-)	1	(35)	14	(20)	6	20	26
Assets held for sale (+/-)	64	0	0	64	0	0	0
Currency translation (+/-)	(33)	(12)	(11)	(57)	(14)	0	(14)
Balance as of 31 Dec 2011	**2,917**	**1,200**	**720**	**4,837**	**1,620**	**62**	**1,682**

B) ACCUMULATED DEPRECIATION

in EUR million	Property and equipment				Other assets		
	Land and buildings (used by the Group)	Office and plant equipment / other fixed assets	IT assets (hardware)	Property and equipment	Investment properties	Movable other property	Investment properties and movable other property
Balance as of 1 Jan 2010	**(897)**	**(905)**	**(448)**	**(2,250)**	**(368)**	**(14)**	**(382)**
Amortisation and depreciation (-)	(86)	(67)	(75)	(228)	(34)	(4)	(38)
Disposals (+)	46	101	(67)	79	(8)	6	(1)
Acquisition of subsidiaries (-)	0	0	0	0	(1)	0	(1)
Disposal of subsidiaries (+)	0	0	0	0	1	0	1
Impairment (-)	(3)	(1)	0	(4)	(20)	0	(20)
Reversal of impairment (+)	0	0	0	1	1	0	1
Reclassifications (+/-)	0	0	0	0	0	0	0
Assets held for sale (+/-)	0	0	0	0	0	0	0
Currency translation (+/-)	(15)	(8)	(8)	(30)	(5)	0	(5)
Balance as of 31 Dec 2010	**(955)**	**(880)**	**(598)**	**(2,434)**	**(434)**	**(12)**	**(446)**
Amortisation and depreciation (-)	(89)	(70)	(76)	(235)	(34)	(9)	(43)
Disposals (+)	47	69	91	207	11	5	16
Acquisition of subsidiaries (-)	(2)	(2)	(3)	(7)	(4)	0	(4)
Disposal of subsidiaries (+)	2	3	1	6	0	0	0
Impairment (-)	(9)	(2)	0	(12)	(23)	0	(23)
Reversal of impairment (+)	0	0	0	0	5	1	7
Reclassifications (+/-)	6	4	0	10	(4)	(4)	(8)
Assets held for sale (+/-)	(26)	0	0	(26)	0	0	0
Currency translation (+/-)	7	0	8	15	1	0	1
Balance as of 31 Dec 2011	**(1,019)**	**(879)**	**(578)**	**(2,476)**	**(481)**	**(18)**	**(499)**

C) CARRYING AMOUNTS

in EUR million	Property and equipment				Other assets		
	Land and buildings (used by the Group)	Office and plant equipment / other fixed assets	IT assets (hardware)	Property and equipment	Investment properties	Movable other property	Investment properties and movable other property
Balance as of 31 Dec 2010	**1,910**	**369**	**166**	**2,446**	**1,163**	**10**	**1,173**
Balance as of 31 Dec 2011	**1,897**	**322**	**142**	**2,361**	**1,139**	**44**	**1,183**

The amount recorded for investment properties under operating leases includes a carrying amount of EUR 157 million (2010: EUR 102 million).

In the reporting period, borrowing costs of EUR 6.0 million (2010: EUR 4.7 million) were capitalised. The related interest rates ranged from 1.0% to 3.7%. (2010: 1.9% to 8.0%).

Impairment losses recognised in 2011 and 2010 for investment property come from real estate funds managed by Česká spořitelna, a.s.

19.2) Intangible assets

A) AT COST

	Intangible assets						
in EUR million	Goodwill	Customer relation-ships	Brand	Software acquired	Self-constructed software within the Group	Others (licenses, patents, etc.)	Total
Balance as of 1 Jan 2010	**4,012**	**777**	**305**	**1,067**	**239**	**494**	**6,893**
Additions in current year (+)	0	0	0	117	15	40	172
Disposals (-)	0	0	0	(67)	(1)	(28)	(96)
Acquisition of subsidiaries (+)	3	8	0	32	0	0	44
Disposal of subsidiaries (-)	0	0	0	0	0	0	0
Reclassifications (+/-)	0	0	0	0	0	0	0
Assets held for sale (+/-)	0	0	0	0	0	0	0
Currency translation (+/-)	(12)	(3)	(2)	11	0	15	8
Balance as of 31 Dec 2010	**4,003**	**782**	**303**	**1,160**	**253**	**520**	**7,021**
Additions in current year (+)	0	0	0	178	15	14	207
Disposals (-)	0	0	0	(102)	(16)	(2)	(120)
Acquisition of subsidiaries (+)	0	0	0	6	0	1	8
Disposal of subsidiaries (-)	(2)	0	0	(1)	0	0	(3)
Reclassifications (+/-)	0	0	0	36	0	(29)	7
Assets held for sale (+/-)	0	0	0	0	0	0	0
Currency translation (+/-)	(21)	(6)	(4)	(20)	0	(9)	(59)
Balance as of 31 Dec 2011	**3,981**	**776**	**299**	**1,258**	**251**	**495**	**7,060**

B) ACCUMULATED DEPRECIATION

	Intangible assets						
in EUR million	Goodwill	Customer relation-ships	Brand	Software acquired	Self-constructed software within the Group	Others (licenses, patents, etc.)	Total
Balance as of 1 Jan 2010	**(692)**	**(206)**	**0**	**(684)**	**(200)**	**(244)**	**(2,027)**
Amortisation and depreciation (-)	0	(70)	0	(108)	(24)	(27)	(228)
Disposals (+)	0	2	0	28	0	0	30
Acquisition of subsidiaries (-)	0	0	0	(30)	0	0	(30)
Disposal of subsidiaries (+)	0	0	0	0	0	0	0
Impairment (-)	(52)	0	0	(18)	0	0	(69)
Reversal of impairment (+)	0	0	0	0	0	0	0
Reclassifications (+/-)	0	0	0	0	0	0	0
Assets held for sale (+/-)	0	0	0	0	0	0	0
Currency translation (+/-)	0	0	0	(9)	0	(13)	(22)
Balance as of 31 Dec 2010	**(744)**	**(274)**	**0**	**(821)**	**(224)**	**(284)**	**(2,346)**
Amortisation and depreciation (-)	0	(69)	0	(102)	(16)	(21)	(208)
Disposals (+)	0	0	0	88	19	2	109
Acquisition of subsidiaries (-)	0	0	0	(4)	0	(1)	(5)
Disposal of subsidiaries (+)	0	0	0	1	0	0	1
Impairment (-)	(1,065)	0	0	0	0	(1)	(1,066)
Reversal of impairment (+)	0	0	0	0	0	0	0
Reclassifications (+/-)	0	0	0	0	0	1	0
Assets held for sale (+/-)	0	0	0	0	0	0	0
Currency translation (+/-)	0	0	0	0	0	(14)	(14)
Balance as of 31 Dec 2011	**(1,809)**	**(343)**	**0**	**(838)**	**(221)**	**(317)**	**(3,528)**

In comparison with the prior period, EUR 314 million of accumulated amortisation was eliminated with a corresponding decrease in gross amount of goodwill. This amount represents accumulated amortisation of goodwill accounted for before 1 January 2003. Consequently, the carrying amount of goodwill did not change.

C) CARRYING AMOUNTS

	Intangible assets						
in EUR million	Goodwill	Customer relation-ships	Brand	Software acquired	Self-constructed software within the Group	Others (licenses, patents, etc.)	Total
Balance as of 31 Dec 2010	**3,259**	**508**	**303**	**340**	**29**	**236**	**4,675**
Balance as of 31 Dec 2011	**2,172**	**433**	**299**	**420**	**30**	**178**	**3,532**

As of 31 December 2011, customer relationships included the customer relationships of Banca Comercială Română at EUR 315.2 million (2010: EUR 375.3 million), the customer relationship and distribution network of Erste Card Club d.d. Croatia at EUR 17.4 million (2010: EUR 24.5 million), as well as the customer relationships of Ringturm Kapitalanlagegesellschaft m.b.H at EUR 72.8 million (2009: EUR 77.2 million). The remaining amortisation period of customer relationships in Banca Comercială Română is 5.7 years, in Erste Card Club d.d. Croatia 2.6 years and in Ringturm Kapitalanlagegesellschaft m.b.H 16.8 years.

The item 'Brand' as of 31 December 2011 consisted of the brand of Banca Comercială Română, at EUR 298.7 million (2010: EUR 303.0 million).

Impairment losses recognised in 2010 for other intangible assets, shown in the movements in the fixed assets schedule, relate to the core banking systems in Slovenská sporiteľňa, a.s. and Erste Bank Ukraine.

Development in goodwill

The changes in the carrying amount of goodwill, as well as gross amounts and accumulated impairment losses of goodwill, for the years ended 31 December 2011 and 2010 are shown below by country of subsidiary:

in EUR million	Romania	Czech Republic	Slovakia	Hungary	Croatia	Austria	Other countries	Total
Balance as of 1 Jan 2010	**1,828**	**544**	**226**	**313**	**117**	**269**	**23**	**3,320**
Acquisitions	2	0	0	0	0	0	1	3
Disposals	0	0	0	0	0	0	0	0
Impairment losses	0	0	0	0	0	(29)	(23)	(52)
Exchange rate changes	(11)	0	0	0	(1)	0	0	(12)
Balance as of 31 Dec 2010	**1,819**	**544**	**226**	**313**	**116**	**240**	**1**	**3,259**
Gross amount of goodwill	2,299	544	226	313	116	363	142	4,003
Cumulative impairment	(480)	0	0	0	0	(123)	(141)	(744)
Balance as of 1 Jan 2011	**1,819**	**544**	**226**	**313**	**116**	**240**	**1**	**3,259**
Acquisitions	0	0	0	0	0	0	0	0
Disposals	0	0	0	0	0	0	(1)	(1)
Impairment losses	(699)	0	0	(313)	0	(53)	0	(1,065)
Exchange rate changes	(19)	0	0	0	(2)	0	0	(21)
Balance as of 31 Dec 2011	**1,101**	**544**	**226**	**0**	**114**	**187**	**0**	**2,172**
Gross amount of goodwill	2,280	544	226	313	114	363	141	3,981
Cumulative impairment	(1,179)	0	0	(313)	0	(176)	(141)	(1,809)

The gross amount of goodwill is the amount at the time of acquisition, less accumulated amortisation before 2004, including exchange rate changes.

In the development of goodwill, all companies are grouped by the country of subsidiary.

Goodwill as of 31 December 2011 comprised predominantly goodwill of EUR 1,097.6 million (2010: EUR 1,809.8 million) from Banca Comercială Română S.A, goodwill of EUR 543.1 million (2010: EUR 543.1 million) from Česká spořitelna a.s., and goodwill of EUR 226.3 million (2010: EUR 226.3 million) from Slovenská sporitel'ňa a.s.

Impairment losses recognised for goodwill in 2011 come from Banca Comercială Română S.A. (EUR 692.8 million). Goodwill from Erste Bank Hungary Nyrt. (balance as of 31 Dec 2010: EUR 312.7 million), Erste Asset Management GmbH (balance as of 31 Dec 2010: EUR 36.3 million), as well as BCR Leasing IFN S.A. and Tiroler Sparkasse AG was fully impaired in 2011.

Goodwill from Kärtner Sparkasse AG (EUR 26.2 million), Investbanka a.d. Skopje, Macedonia (EUR 14.6 million), as well as Sparkasse Waldviertel AG and ABS Banka d.d., Bosnia-Herzegovina was fully impaired in 2010.

All these impairments were allocated based on value in use of the assets.

20) Tax assets and liabilities

in EUR million	Tax assets 2011	Tax assets 2010 restated	Tax liabilities 2011	Tax liabilities 2010
Temporary differences relate to the following items:				
Loans and advances to credit institutions and customers	53	110	(33)	(140)
Risk provisions for loans and advances	146	110	(114)	(83)
Financial assets – available for sale	227	114	(38)	(36)
Property and equipment	32	18	(6)	84
Deposits by banks and customer deposits	(20)	4	0	(34)
Long-term employee provisions	114	79	1	32
Sundry provisions	32	21	(2)	10
Carry forward of tax losses	174	66	15	46
Customer relationships and brand	0	0	(119)	(131)
Other	(56)	95	(49)	(76)
Total deferred taxes	**702**	**617**	**(345)**	**(328)**
Current taxes	**116**	**116**	**(34)**	**(68)**
Total taxes	**818**	**733**	**(379)**	**(396)**

In compliance with IAS 12.39, no deferred tax liabilities were recognised for temporary differences relating to investments in subsidiaries in the amount of EUR 337 million (31 December 2010: EUR 356 million), as they are not expected to reverse in the foreseeable future.
No deferred taxes were recognised for tax losses carried forward of EUR 1,694 million (31 December 2010: EUR 888 million), as they will not be realised in the foreseeable future.

21) Assets held for sale

in EUR million	2011	2010
Assets held for sale	87	52

Assets held for sale include mainly cars and buildings.

22) Other assets

in EUR million	2011	2010 restated
Accrued interest and commissions	125	1,370
Deferred income	224	213
Investment properties	1,139	1,163
Sundry assets	1,894	1,880
Total	**3,382**	**4,626**

Sundry assets consist mainly of clearing items from the settlement of securities and payment transactions.

In 2011, accrued interest is presented together with the respective underlying financial asset and is no longer presented in other assets.
The fair value of investment properties totalled EUR 1,212 million (2010: EUR 1,184 million).

The determination of fair values in Austria is widely conducted by internal experts, while in the CEE countries it is on the basis of external expert opinions. The determined market values are then cross-checked with observed market values.

The carrying amount of expenditure recognised in the line ‘Fixed assets and investment properties during their construction’ is EUR 334.9 million (2010: EUR 339.7 million). The contractual commitments for purchase of fixed assets and investment properties amounts to EUR 199.7 million (2010: EUR 206.2 million).

23) Deposits by banks

in EUR million	2011	2010
Deposits by banks – domestic credit institutions	7,865	5,680
Deposits by banks – foreign credit institutions	15,920	14,474
Total	**23,785**	**20,154**

24) Customer deposits

in EUR million	Domestic 2011	Domestic 2010	Abroad 2011	Abroad 2010	Total 2011	Total 2010
Savings deposits	41,508	41,347	13,229	12,974	54,737	54,321
Other deposits						
Public sector	908	987	2,814	3,293	3,722	4,280
Commercial customers	12,450	11,118	12,893	13,072	25,343	24,190
Private customers	5,505	5,263	28,888	28,382	34,393	33,645
Sundry	318	279	367	301	685	580
Total other	**19,181**	**17,647**	**44,962**	**45,048**	**64,143**	**62,695**
Total	**60,689**	**58,994**	**58,191**	**58,022**	**118,880**	**117,016**

Customer deposits include a total of EUR 553 million (2010: EUR 368 million) of liabilities to which the fair value option was applied. As of 31 December 2011, the total amount repayable on these liabilities at maturity was EUR 549 million (2010: EUR 363 million). The difference between the fair value of the customer deposits to which the fair value option was applied and the amount repayable at maturity totalled EUR 4 million (2010: EUR 5 million).

25) Debt securities in issue

in EUR million	2011	2010
Bonds	18,656	19,754
Certificates of deposit	1,420	3,761
Other certificates of deposits/ name certificates	2,033	1,761
Mortgage and municipal bonds	11,652	9,090
Other	18	62
Own issues repurchased	(2,997)	(3,130)
Total	**30,782**	**31,298**

In 1998, Erste Group Bank AG launched a debt issuance programme (DIP) amounting to EUR 30 billion. The DIP is a programme for issuing debt instruments in various currencies and with a wide array of available structures and maturities. In 2011, 71 new issues with total volume of about EUR 3.5 billion were issued under the DIP.

Furthermore, in July 2010, a programme to offer bonds to retail customers was begun. In 2011, 69 new issues with total volume of about EUR 1 billion were floated.

The Euro Commercial Paper and Certificates of Deposit Programme from August 2008 has an overall size of EUR 10 billion. In all, 248 issues amounting to EUR 16.4 billion were placed in 2011. Issues totalling approximately EUR 17.8 billion were redeemed over the same period.

'Debt securities in issue' include EUR 781 million (2010: EUR 89 million) in liabilities to which the fair value option was applied. As of 31 December 2011, the total amount repayable on these liabilities at maturity was EUR 788 million (2010: EUR 119 million). The difference between the fair value of the debt securities for which the fair value option was applied and the amount repayable at maturity was EUR (7) million (2010: EUR (30) million). Fair value changes attributable to changes in own credit risk resulted in a reduction of the carrying amount of EUR 30.0 million for the reporting period 2011, and the cumulative gains resulting from fair value changes as of 31 December 2011 attributable to the changes in credit risk is EUR 30.0 million.

The profit from own issues repurchased is EUR 4.1 million (2010: EUR 5.6 million).

26) Trading liabilities

in EUR million	2011	2010
Debt instruments	64	64
Trading liabilities	472	152
Total	**536**	**216**

27) Provisions

in EUR million	2011	2010
Long-term employee provisions	1,101	1,109
Sundry provisions	479	436
Total	**1,580**	**1,545**

a) Long-term employee provisions

in EUR million	Pensions	Severance payments	Jubilee payments	Total
Present value of long-term employee benefit obligations, 31 Dec 2007	**991**	**395**	**62**	**1,448**
Present value of long-term employee benefit obligations, 31 Dec 2008	**950**	**407**	**70**	**1,427**
Present value of long-term employee benefit obligations, 31 Dec 2009	**887**	**409**	**72**	**1,368**
Increase from acquisition of subsidiaries	0	5	0	5
Decrease from disposal of subsidiaries	0	0	0	0
Settlements	0	0	0	0
Curtailments	0	0	0	0
Service cost	0	16	5	21
Interest cost	42	21	3	66
Payments	(71)	(34)	(4)	(109)
Exchange rate difference	0	0	0	0
Actuarial gains/losses recognised in other comprehensive income	(25)	(12)	0	(37)
Actuarial gains/losses recognised in income	0	0	(3)	(3)
Present value of long-term employee benefit obligations, 31 Dec 2010	**833**	**405**	**73**	**1,311**
Obligations covered by plan assets	0	190	12	202
Obligations covered by provisions	0	215	61	276
Less fair value of plan assets	**0**	**190**	**12**	**202**
Provisions as of 31 Dec 2010	**833**	**215**	**61**	**1,109**
Present value of long-term employee benefit obligations, 31 Dec 2010	**833**	**405**	**73**	**1,311**
Increase from acquisition of subsidiaries	3	2	0	5
Decrease from disposal of subsidiaries	0	0	0	0
Settlements	0	0	0	0
Curtailments	0	0	0	0
Service cost	0	14	5	19
Interest cost	35	17	3	55
Payments	(72)	(51)	(5)	(128)
Exchange rate difference	0	2	0	2
Actuarial gains/losses recognised in other comprehensive income	26	8	0	34
Actuarial gains/losses recognised in income	0	0	(3)	(3)
Present value of long-term employee benefit obligations, 31 Dec 2011	**825**	**397**	**73**	**1,295**
Obligations covered by plan assets	0	182	12	194
Obligations covered by provisions	0	215	61	276
Less fair value of plan assets	**0**	**182**	**12**	**194**
Provisions as of 31 Dec 2011	**825**	**215**	**61**	**1,101**

The movement in plan assets during the reporting period was as follows:

in EUR million	Severance payments	Jubilee payments	Total
Fair value of plan assets as of 31 Dec 2009	**189**	**8**	**197**
Expected return on plan assets	0	4	4
Contributions by the employer	10	1	11
Benefits paid	11	1	12
Actuarial gains/losses recognised in other comprehensive income	(18)	(2)	(20)
Actuarial gains/losses recognised in income	(2)	0	(2)
Settlements	0	0	0
Fair value of plan assets as of 31 Dec 2010	**190**	**12**	**202**
Expected return on plan assets	7	1	8
Contributions by the employer	12	1	13
Benefits paid	(18)	(1)	(19)
Actuarial gains/losses recognised in other comprehensive income	(9)	0	(9)
Actuarial gains/losses recognised in income	0	(1)	(1)
Settlements	0	0	0
Fair value of plan assets as of 31 Dec 2011	**182**	**12**	**194**

In 2012, the expected premiums for the severance and jubilee benefit obligations will amount to EUR 10.7 million (2011: EUR 11.2 million).

The following table presents the portfolio structure of the plan assets.

in EUR million	2011	2010
Debt instruments	129	183
Fixed-term deposits / cash	65	19
Total	**194**	**202**

In 2011 (2010), actual loss (gain) on plan assets amounted to EUR (1.8) million (2010: EUR 8.4 million).

b) Sundry provisions

Sundry provisions 2011

in EUR million	2010	Acquisition/ disposal of subsidiaries	Currency translation	Alloca-tions	Use	Releases	Reclassi-fication	2011
Provisions for contingent credit risk liabilities and other risk provisions	302	3	(3)	124	(6)	(84)	(20)	316
Other provisions[1)]	134	1	(5)	68	(20)	(15)	0	163
Total	**436**	**4**	**(8)**	**192**	**(26)**	**(99)**	**(20)**	**479**

1) Other provisions consist mainly of provisions for litigation. It is considered highly likely that use will be made of sundry other provisions next year.

Sundry provisions 2010

in EUR million	2009	Acquisition/ disposal of subsidiaries	Currency translation	Alloca-tions	Use	Releases	Reclassi-fication	2010
Provisions for contingent credit risk liabilities and other risk provisions	378	0	3	126	(16)	(91)	(98)	302
Other provisions[1)]	121	(1)	1	33	(11)	(9)	0	134
Total	**499**	**(1)**	**4**	**159**	**(27)**	**(100)**	**(98)**	**436**

1) Other provisions consist mainly of provisions for litigation. It is considered highly likely that use will be made of sundry other provisions next year

28) Other liabilities

in EUR million	2011	2010
Deferred income	343	366
Accrued interest and commissions	14	1,191
Sundry liabilities	3,407	2,793
Total	**3,764**	**4,350**

Sundry liabilities consist mainly of clearing items from the settlement of securities and payment transactions.

In 2011, accrued interest is presented together with the respective underlying financial liability and is no longer presented in other liabilities.

29) Subordinated liabilities

in EUR million	2011	2010
Subordinated issues and deposits	3,090	2,885
Supplementary capital	1,510	1,775
Hybrid issues	1,239	1,200
Own issues repurchased	(56)	(22)
Total	**5,783**	**5,838**

Subordinated liabilities include EUR 215 million (2010: EUR 0 million) in liabilities to which the fair value option was applied. As of 31 December 2011, the total amount repayable on these liabilities at maturity was EUR 223 million. The difference between the fair value of the subordinated liabilities for which the fair value option was applied and the amount repayable at maturity was EUR (8) million. Fair value changes attributable to changes in own credit risk resulted in a reduction of the carrying amount of EUR 17.7 million for the reporting period 2011, and the cumulative gains resulting from fair value changes as of 31 December 2011 attributable to the changes in credit risk is EUR 17.7 million.

30) Total equity

in EUR million	2011	2010 restated
Subscribed capital	2,539	2,513
Share capital	782	756
Participation capital	1,757	1,757
Additional paid-in capital	6,413	6,177
Retained earnings and other reserves	3,085	4,424
Owners of the parent	**12,037**	**13,114**
Non-controlling interests	3,143	3,444
Total[1)]	**15,180**	**16,558**

1) Details on equity are provided in Section III, Consolidated Statement of Changes in Total Equity.

As of 31 December 2011, subscribed capital (also known as called up and fully paid share capital – the capital paid in by shareholders) consisted of 390,767,262 (2010: 378,176,721) voting bearer shares (ordinary shares). The par value of each ordinary share was EUR 2.00. Additional paid-in capital (or share premium) represents the amount by which the issue price of the shares exceeded their par value. Retained earnings and other reserves represent accumulated net profit brought forward, as well as income and expenses recognised in other comprehensive income.

In April 2009, Erste Group Bank AG issued participation capital for subscription. Within the context of this offer, Erste Group Bank AG placed EUR 540 million of participation capital with private and institutional investors. In March 2009, the Republic of Austria subscribed to EUR 1.0 billion of participation capital and in May 2009, another EUR 224 million of participation certificates. In total, the participation capital issued in measures to strengthen the bank at that time amounts to EUR 1.76 billion. The participation capital securities are perpetual and non-transferable. The notional amount of each participation capital security is EUR 1,000.00. Erste Group is entitled to repay the participation capital securities only if the repayment amount would not be below 100% (or 150% after 1 January 2019) of the nominal amount.

Participation capital participates in losses of Erste Group in the same manner as does share capital, but the holders of participation capital have no voting rights. The participation capital securities confer no conversion right for ordinary shares of Erste Group. Dividend payments to holders of participation capital securities are made prior to distributions of dividends to shareholders of Erste Group. Erste Group shall not be obliged to make up for any dividends which were not paid as a result of losses.

The dividend on the participation capital is 8.0% per annum for the business years 2009 to 2013. For the business years starting from 2014, the dividend is stepped up as follows: 2014, 8.5% p.a.; 2015, 9.0% p.a.; 2016, 9.75%; and from 2017, 1% increase each year. However, the dividend must never exceed 12-month EURIBOR plus 10% per annum.

In the second half of 2011, Erste Group Bank AG negotiated with all five regional Romanian investment funds (‘‘Societati de Investitii Financiare’, in short ‘SIF’), namely, SIF Banat-Crisana, SIF Moldova, SIF Muntenia, SIF Oltenia and SIF Transilvania on the acquisition of the shares in Banca Comercială Română (BCR) currently held by those funds. Acquisition of the shares will be carried out in several tranches. The last transaction is expected to take place in 2013, which will increase the interest of Erste Group in BCR to around 99.5%.

Prior to the first transaction, the SIFs held a total of 3,257,561,011 shares in BCR (30.0%). Out of those, up to 2,575,523,440 shares of BCR stock will be incorporated into Erste Group Bank AG by means of a capital increase from authorised capital with a conversion ratio of 1 to 127.9583 excluding the subscription rights of existing shareholders. The remaining shares of BCR held by the SIFs will be acquired by Erste Group in an all-cash payment.

The issue price for the new shares of the tranches from the capital increase by contribution in kind executed during 2011 was fixed at EUR 20.79. In 2011, SIF Banat-Crisina, SIF Moldova, SIF Muntenia and SIF Transilvania contributed 1,573,999,761 shares of BCR into Erste Group Bank AG in kind and the share capital of the company was accordingly increased by EUR 24,601,756. A total of 12,300,878 new Erste Group Bank AG shares were issued to the four SIFs.

Upon completion of all transactions in 2011, Erste Group owns in total 89.9% of BCR.

In addition, at year-end 2011 the SIFs held options that could lead to the issue of 3,801,386 shares of Erste Group Bank AG.

Changes in number of shares and participation capital securities

Shares in units	2011	2010
Shares outstanding as of 1 January	**361,988,924**	**355,211,949**
Acquisition of treasury shares	(20,634,660)	(16,827,866)
Disposal of treasury shares	17,498,999	23,353,206
Capital increases due to ESOP and MSOP	289,663	251,635
Capital increase November/December 2011	12,300,878	0
Shares outstanding as of 31 December	**371,443,804**	**361,988,924**
Treasury shares	19,323,458	16,187,797
Number of shares as of 31 December	**390,767,262**	**378,176,721**
Weighted average number of shares outstanding	377,670,141	374,695,868
Dilution due to MSOP/ESOP	2,085,372	2,053,995
Dilution due to options	3,801,386	
Weighted average number of shares taking into account the effect of dilution[1)]	377,670,141	376,749,863

Participation capital securities in units	2011	2010
Participation capital securities outstanding as of 1 January	**1,763,478**	**1,763,353**
Acquisition of own participation capital securities	(4,640)	(36,973)
Disposal of own participation capital securities	4,436	37,098
Participation capital securities outstanding as of 31 December	**1,763,274**	**1,763,478**
Participation capital securities	470	266
Number of participation capital securities as of 31 December	**1,763,744**	**1,763,744**

1) Options are anti-dilutive in 2011, and therefore no consideration is given to dilution in relation to them.

Employee share ownership plan and management share option plan

Under the **ESOP 2011,** between 2 and 13 May 2011, a total of 289,663 shares were subscribed for at a price of EUR 28.00. The resulting issue proceeds of EUR 8,110,564.00 plus EUR 172,547.49 (resulting from the difference between the issue price of EUR 28.00 and the quoted price of EUR 33.73 on the 26 May 2011 value date when 30,113 shares were subscribed for by employees of Erste Group Bank AG and subsequently charged to personnel expenses in the income statement) totalled EUR 8,283,111.49. Of this amount, EUR 579,326.00 was allocated to subscribed capital and EUR 7,703,785.49 to additional paid-in capital.

Personnel expenses include EUR 1.6 million (prior year: EUR 0.8 million) related to the ESOP and profit-sharing.

MSOP 2005: The MSOP comprises a maximum of 2,000,000 ordinary shares of Erste Group Bank AG, represented by 2,000,000 options. The distribution of vested options among members of the management board, managers and eligible other staff of Erste Group Bank AG is shown in the tables below.

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

The **MSOP 2005** options granted, vested and exercised had the following distribution among recipients:

	Outstanding / Exercisable 1 Jan 2011	Forfeited in 2011	Expired in 2011	Outstanding/ Exercisable 31 Dec 2011
Members of the management board	34,000	0	15,000	19,000
Other management	486,000	18,500	201,000	266,500
Other staff	461,321	4,200	207,851	249,270
Total options	**981,321**	**22,700**	**423,851**	**534,770**

The outstanding/exercisable amount as of 1 Jan 2011 changed by 4,000 options due to change in composition of the management board in comparison to 31 Dec 2010.

In 2011, no options were exercised (2010: none exercised).

Information on shares held and transactions in Erste Group Bank AG shares by members of the management board and supervisory board (in number of shares):

Members of the management

Managing board member	As of 31 Dec 2010	Additions 2011	Disposals 2011	As of 31 Dec 2011
Andreas Treichl	184,640	0	0	184,640
Franz Hochstrasser	25,260	0	0	25,260
Herbert Juranek	656	0	0	656
Gernot Mittendorfer	2,100	0	0	2,100
Bernhard Spalt	6,376	0	0	6,376
Martin Škopek	1,560	200	0	1,760
Manfred Wimmer	18,132	0	0	18,132

The number of shares held by members of the management board as of 31 December 2010 changed by 2,710 options, mainly due to change in the composition of the board.

Members of the management board held the following amounts of Erste Group Bank AG participation capital as of the balance sheet date of 31 December 2011:

Managing board member	Notional amount
Andreas Treichl	30,000
Herbert Juranek	30,000
Bernhard Spalt	10,000
Manfred Wimmer	30,000

Supervisory board members held the following numbers of Erste Group Bank AG shares as of the balance sheet date of 31 December 2011:

Supervisory board member	Number
Georg Winckler	2,500
Jan Homan	4,400
Wilhelm Rasinger	15,135
Theresa Jordis	2,900
Friedrich Rödler	1,702
John James Stack	32,761
Werner Tessmar-Pfohl	1,268
Elisabeth Gürtler	700
Christian Havelka	1,851
Andreas Lachs	52
Friedrich Lackner	500
Bertram Mach	95
Barbara Smrcka	281
Karin Zeisel	35
Markus Haag	160

As of 31 December 2011, supervisory board members did not hold options in Erste Group Bank AG shares.

As far as can be determined, persons related to members of the management board or supervisory board held 4,136 shares of Erste Group Bank AG as of 31 December 2011.

Supervisory board members held the following amounts of participation capital as of the balance sheet date of 31 December 2011:

Supervisory board member	Notional amount
Heinz Kessler	30,000
Georg Winckler	5,000
Wilhelm Rasinger	20,000
Friedrich Rödler	82,000
Elisabeth Gürtler	59,000

As of 31 December 2011 persons related to members of the management board or supervisory board held participation capital of Erste Group Bank AG in notional amount of EUR 91,000.

Remaining authorised and contingent capital and participation capital as of 31 December 2011

Clause 5 of the articles of association authorises the management board until 12 May 2015, subject to approval by the supervisory board, to increase – if necessary in several tranches – the subscribed capital of Erste Group Bank AG up to EUR 175,398,244.00 by issuing up to 87,699,122 shares as follows (type of share, issue price, terms of issue, and – if intended – exclusion of subscription rights are assigned by the management board with approval by the supervisory board): by issuing of shares by cash contributions without exclusion of subscription rights of existing shareholders; if, however, the capital increase is used for the issue of shares to employees, management or members of the Management Board of Erste Group Bank AG or a subsidiary while excluding the subscription rights of existing shareholders; by issuing of shares by contribution in kind while excluding the subscription rights of existing shareholders.
Under clause 6.3 of the articles of association, based on decisions of the management board taken from 2002 to 2010, there exists contingent capital of EUR 21,923,264.00 which may be utilised by issuing up to 10,961,632 bearer or registered shares at an issue price of at least EUR 2.00 (payable in cash) while excluding the subscription rights of existing shareholders. This contingent capital is used for granting options to other staff, other management and members of the management board of the entity or of one of its related undertakings.

Under clause 6.4 of the articles of association, the company has contingent capital of EUR 124,700,000.00 available, which may be utilised by issuing up to 62,350,000 bearer shares. This contingent capital can be used for granting conversion or subscription rights to holders of convertible bonds.

Under clause 7 of the articles of association, currently no authority for granting contingent capital is available.

31) Segment reporting

The segment reporting of Erste Group follows the presentation and measurement requirements of IFRS.

Segment structure

Following the structure of Erste Group, the segment reporting is divided into four primary segments based on class of business: Retail & SME, Group Corporate & Investment Banking, Group Markets and Corporate Center.

The geographical information regarding segments is based on the internal reporting structure. The Retail & SME segment is divided between Austria (Erste Bank Oesterreich and Saving Banks) and the CEE countries (Czech Republic, Romania, Slovakia, Hungary, Croatia, Serbia and Ukraine). The other three segments are directed from the Group's perspective and thus are not split into additional geographical segments.

The basis for Erste Group's management of individual segments is the average attributed equity as well as the average risk-weighted assets (credit risk). For measuring and assessing the profitability of segments, return on equity as well as cost/income ratio is used.

The return on equity is calculated as net profit/loss attributable to owners of the parent divided by the average attributed equity allocated to the segment.

The average attributed equity of each segment represents the economic capital of the segment, which is assigned on the basis of credit risk, market risk and operational risk.

Retail & SME

The Retail & SME segment includes the individual, retail-focused regional banks of Erste Group. To enhance transparency, the Austria division is divided into two subsegments, Erste Bank Oesterreich (including local subsidiaries) and Savings Banks. The latter subsegment consists of those savings banks which as a result of their membership in the Haftungsverbund are consolidated into the Erste Group accounts. In the segment Central and Eastern Europe, the individual subsidiaries are reported separately.

Group Corporate & Investment Banking

The Group Corporate & Investment Banking segment (GCIB) includes all large corporate customers operating in the markets of Erste Group and having revenue of more than EUR 175 million. Also part of the Group Corporate & Investment Banking segment is the International Business Division excluding treasury activities; the real estate business of Erste Group including the leasing subsidiary, Immorent; and investment banking (including equity capital markets).

Group Markets

The Group Markets (GM) segment comprises the divisionalised business units Group Treasury and Capital Markets (which includes all capital markets activities except equity capital markets). In addition to Erste Group Bank's own treasury activities, it also includes the capital market units of the CEE subsidiaries and of the foreign branches in Hong Kong and New York, as well as the capital markets activities of the investment banking subsidiaries Erste Securities Polska, Erste Bank Investment Hungary, Erste Securities Zagreb (merged with Erste Bank Croatia in 2011) and Erste Securities Istanbul, as well as the asset management activities of Erste Asset Management GmbH

Corporate Center segment

The Corporate Center segment includes group-wide services in the Marketing, Organisation, Information Technology and other departments that support the implementation of corporate strategy at group level. Consolidation effects and non-operating exceptional items are also recorded in this segment. Additionally, the Balance Sheet Management unit forms part of the Corporate Center segment. The results of the local asset/liability business units are reported in the individual subsegments.

Total impairment of goodwill in 2011 amounted to EUR 1,064.6 million. Corporate Center segment results include impairment of goodwill in the amount of EUR 1,058.2 million and segment Romania includes EUR 6.4 million (2010: total amount EUR 51.9 million, of which EUR 30.3 million is shown in the segment Group Corporate Center and EUR 21.6 million in the Savings Banks segment. Details regarding impairment of goodwill are included in Note 19. Also recorded in the Corporate Center segment is the amortisation of customer relationships at BCR, Erste Card Club d.d. and Ringturm KAG totalling EUR 66.8 million (2010: EUR 67.4 million).

Segmentation by core business

in EUR million	Retail and SME 2011	Retail and SME 2010 restated	Group Corporate and Investment Banking 2011	Group Corporate and Investment Banking 2010 restated	Group Markets 2011	Group Markets 2010	Corporate Center 2011	Corporate Center 2010 restated	Total Group 2011	Total Group 2010 restated
Net interest income	4,716.3	4,623.9	543.2	574.2	197.4	156.4	112.1	84.8	5,569.0	5,439.2
Risk provisions for loans and advances	(2,076.7)	(1,844.6)	(178.2)	(176.4)	(12.0)	0.0	0.0	(0.1)	(2,266.9)	(2,021.0)
Net fee and commission income	1,642.0	1,633.0	118.8	108.3	126.6	157.1	(100.2)	(55.8)	1,787.2	1,842.5
Net trading result	58.8	176.2	(129.2)	(128.5)	155.2	246.3	37.5	27.8	122.3	321.9
General administrative expenses	(3,278.8)	(3,264.8)	(191.5)	(183.9)	(244.8)	(233.7)	(135.9)	(134.5)	(3,850.9)	(3,816.8)
Other result[1)]	(405.5)	(278.1)	(46.7)	(32.4)	10.2	1.8	(1,240.8)	(132.9)	(1,682.9)	(441.6)
Pre-tax profit/loss	**656.0**	**1,045.6**	**116.4**	**161.4**	**232.7**	**327.9**	**(1,327.2)**	**(210.8)**	**(322.1)**	**1,324.2**
Taxes on income	(263.8)	(235.3)	(31.3)	(30.7)	(55.6)	(67.6)	110.3	52.6	(240.4)	(280.9)
Net profit/loss for the year	**392.2**	**810.4**	**85.1**	**130.7**	**177.0**	**260.3**	**(1,216.9)**	**(158.1)**	**(562.6)**	**1,043.3**
attributable to										
non-controlling interests	144.4	146.7	11.4	14.9	10.4	15.2	(9.9)	(12.2)	156.3	164.6
owners of the parent	**247.7**	**663.7**	**73.8**	**115.8**	**166.6**	**245.1**	**(1,207.0)**	**(146.0)**	**(718.9)**	**878.7**
Average risk-weighted assets	74,934	74,952	24,429	25,421	2,743	2,943	970	1,400	103,077	104,716
Average attributed equity	4,117	4,123	1,956	2,035	312	324	6,654	6,595	13,038	13,077
Cost/income ratio	**51.1%**	**50.7%**	**35.9%**	**33.2%**	**51.1%**	**41.7%**	**274.7%**	**237.1%**	**51.5%**	**50.2%**
ROE[2)]	**6.0%**	**16.1%**	**3.8%**	**5.7%**	**53.4%**	**75.7%**	**(18.1)%**	**(2.2)%**	**(5.5)%**	**6.7%**

1) Other result consists of four income statement items: other operating result, result from financial instruments at fair value through profit or loss, result from financial assets available for sale, and result from financial assets held to maturity.
2) ROE = return on equity = Net profit/loss attributable to owners of the parent divided by average attributed equity.

	Austria		Haftungsverbund (cross-guarantee system)		Total Austria		Central and Eastern Europe		Total Retail & SME	
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
in EUR million		**restated**		**restated**		**restated**				**restated**
Net interest income	665.9	655.2	1,015.6	960.6	1,681.5	1,615.8	3,034.8	3,008.0	4,716.3	4,623.9
Risk provisions for loans and advances	(101.4)	(148.3)	(250.4)	(303.3)	(351.8)	(451.6)	(1,724.9)	(1,393.0)	(2,076.7)	(1,844.6)
Net fee and commission income	320.6	334.0	390.2	393.8	710.7	727.7	931.2	905.2	1,642.0	1,633.0
Net trading result	20.2	11.5	12.2	27.2	32.4	38.8	26.4	137.5	58.8	176.2
General administrative expenses	(609.4)	(606.8)	(930.9)	(930.9)	(1,540.3)	(1,537.7)	(1,738.4)	(1,727.1)	(3,278.8)	(3,264.8)
Other result[1]	(63.7)	(25.7)	(81.9)	(24.4)	(145.6)	(50.1)	(259.9)	(228.0)	(405.5)	(278.1)
Pre-tax profit/loss	**232.2**	**219.9**	**154.7**	**123.0**	**386.9**	**342.9**	**269.1**	**702.7**	**656.0**	**1,045.6**
Taxes on income	(50.3)	(46.1)	(40.1)	(32.6)	(90.4)	(78.7)	(173.4)	(156.6)	(263.8)	(235.3)
Net profit/loss for the year	**181.9**	**173.8**	**114.6**	**90.4**	**296.5**	**264.2**	**95.7**	**546.2**	**392.2**	**810.4**
attributable to										
non-controlling interests	4.3	6.9	108.7	95.8	113.0	102.8	31.5	43.9	144.4	146.7
owners of the parent	**177.6**	**166.9**	**5.9**	**(5.4)**	**183.5**	**161.4**	**64.2**	**502.3**	**247.7**	**663.7**
Average risk-weighted assets	13,708	14,389	24,451	23,949	38,159	38,338	36,775	36,614	74,934	74,952
Average attributed equity	1,088	1,143	304	291	1,393	1,434	2,724	2,689	4,117	4,123
Cost/income ratio	**60.5%**	**60.6%**	**65.6%**	**67.4%**	**63.5%**	**64.5%**	**43.5%**	**42.6%**	**51.1%**	**50.7%**
ROE[2]	**16.3%**	**14.6%**	**1.9%**	**(1.9)%**	**13.2%**	**11.3%**	**2.4%**	**18.7%**	**6.0%**	**16.1%**

1) Other result consists of four income statement items: other operating result, result from financial instruments at fair value through profit or loss, result from financial assets available for sale, and result from financial assets held to maturity.
2) ROE = return on equity = Net profit/loss attributable to owners of the parent divided by average attributed equity.

in EUR million	Czech Republic 2011	2010	Romania 2011	2010	Slovakia 2011	2010	Hungary 2011	2010	Croatia 2011	2010	Serbia 2011	2010	Ukraine 2011	2010	Total CEE 2011	2010
Net interest income	1,183.2	1,087.2	672.3	798.6	445.7	426.8	402.7	387.1	261.8	247.9	36.4	27.5	32.6	32.9	3,034.8	3,008.0
Risk provisions for loans and advances	(210.5)	(365.8)	(499.3)	(506.7)	(73.6)	(123.2)	(812.0)	(244.3)	(109.3)	(106.0)	(9.5)	(8.2)	(10.7)	(38.8)	(1,724.9)	(1,393.0)
Net fee and commission income	496.5	476.8	130.1	134.4	112.2	106.6	97.8	97.8	76.7	74.0	13.0	11.5	4.9	4.1	931.2	905.2
Net trading result	(45.5)	62.5	49.3	24.0	(4.6)	4.0	19.1	23.2	11.2	9.7	0.1	2.4	(3.2)	11.7	26.4	137.5
General administrative expenses	(713.9)	(709.8)	(376.4)	(375.2)	(224.0)	(222.2)	(200.5)	(202.6)	(141.1)	(139.0)	(33.8)	(31.0)	(48.8)	(47.1)	(1,738.4)	(1,727.1)
Other result[1)]	(122.0)	(83.3)	(30.9)	(50.2)	(40.2)	(20.5)	(56.9)	(68.3)	(10.2)	(4.8)	(1.2)	(0.8)	1.6	(0.1)	(259.9)	(228.0)
Pre-tax profit/loss	**587.8**	**467.4**	**(54.8)**	**24.8**	**215.5**	**171.6**	**(549.8)**	**(7.1)**	**89.0**	**81.8**	**5.0**	**1.5**	**(23.6)**	**(37.3)**	**269.1**	**702.7**
Taxes on income	(122.4)	(82.7)	23.7	(6.7)	(42.3)	(34.9)	(16.8)	(14.9)	(16.1)	(17.0)	0.0	0.0	0.5	(0.2)	(173.4)	(156.6)
Net profit/loss for the year	**465.4**	**384.7**	**(31.1)**	**18.1**	**173.2**	**136.7**	**(566.6)**	**(22.0)**	**72.9**	**64.7**	**5.1**	**1.5**	**(23.2)**	**(37.5)**	**95.7**	**546.2**
attributable to																
non-controlling interests	9.2	5.9	(8.7)	9.6	0.0	0.1	0.0	(0.2)	29.5	28.1	1.5	0.4	0.0	0.0	31.5	43.9
owners of the parent	**456.2**	**378.9**	**(22.5)**	**8.5**	**173.2**	**136.5**	**(566.6)**	**(21.8)**	**43.4**	**36.7**	**3.6**	**1.0**	**(23.2)**	**(37.5)**	**64.2**	**502.3**
Average risk-weighted assets	12,951	12,422	9,167	9,059	4,825	5,231	4,147	4,703	4,321	3,903	606	634	757	664	36,775	36,614
Average attributed equity	1,065	1,025	556	517	401	432	345	388	251	227	41	42	66	59	2,724	2,689
Cost/income ratio	**43.7%**	**43.6%**	**44.2%**	**39.2%**	**40.5%**	**41.3%**	**38.6%**	**39.9%**	**40.4%**	**41.9%**	**68.1%**	**74.9%**	**142.4%**	**96.7%**	**43.5%**	**42.6%**
ROE[2)]	**42.8%**	**37.0%**	**(4.0)%**	**1.6%**	**43.2%**	**31.6%**	**(164.4)%**	**(5.6)%**	**17.3%**	**16.2%**	**8.7%**	**2.4%**	**(35.2)%**	**(63.6)%**	**2.4%**	**18.7%**

1) Other result consists of four income statement items: other operating result, result from financial instruments at fair value through profit or loss, result from financial assets available for sale, and result from financial assets held to maturity.
2) ROE = return on equity = net profit/loss attributable to owners of the parent divided by average attributed equity.

32) Assets and liabilities denominated in foreign currencies and outside Austria

Assets and liabilities not denominated in EUR were as follow:

in EUR million	2011	2010 restated
Assets	85,662	86,089
Liabilities	57,288	59,513

The assets and liabilities outside Austria are given below:

in EUR million	2011	2010 restated
Assets	116,594	110,733
Liabilities	89,279	86,029

33) Leases

a) Finance leases

Erste Group leases both movable property and real estate to other parties under finance lease arrangements. For the finance lease receivables included in this item, the reconciliation of the gross investment in leases to the present value of the minimum lease payments is as follows:

in EUR million	2011	2010
Outstanding minimum lease payments	5,627	5,831
Non-guaranteed residual values	1,118	1,149
Gross investment	**6,745**	**6,980**
Unrealised financial income	1,114	1,017
Net investment	**5,631**	**5,963**
Present value of non-guaranteed residual values	745	778
Present value of minimum lease payments	**4,886**	**5,185**

The maturity analysis of gross investment in leases and present values of minimum lease payments under non-cancellable leases is as follows (residual maturities):

in EUR million	Gross investment 2011	Gross investment 2010	Present value of non-guaranteed residual values 2011	Present value of non-guaranteed residual values 2010
< 1 year	1,111	1,250	950	1,085
1–5 years	3,039	3,150	2,344	2,479
> 5 years	2,595	2,580	1,592	1,563
Total	**6,745**	**6,980**	**4,886**	**5,127**

In the reporting period, the total amount of accumulated allowance for uncollectable minimum lease payments, presented as risk provisions for loans and advances, was EUR 205 million (2010: EUR 66 million).

The total amount of contingent rents from finance leases recognised as income in the period was EUR 31 million (2010: EUR 29 million).

Finance leases receivables are included in the balance sheet position 'Loans and advances to customers'.

b) Operating leases

Under operating leases, Erste Group leases both real estate and movable property to other parties.

Operating leases from view of Erste Group Bank AG as lessor:

Further minimum lease payments from non-cancellable operating leases were as follows:

in EUR million	2011	2010
< 1 year	22	95
1–5 years	70	19
> 5 years	57	52
Total	**149**	**166**

Operating leases from the view of Erste Group Bank AG as lessee:

Further minimum lease payments from non-cancellable operating leases were as follow:

in EUR million	2011	2010
< 1 year	31	21
1–5 years	94	59
> 5 years	65	16
Total	**190**	**96**

34) Related-party transactions and principal shareholders

In addition to principal shareholders, Erste Group defines as related parties also other investments and associates which are included into the consolidated financial statements by the equity method. Furthermore related parties consist of management and supervisory board members as well as companies over which these persons have control or significant influence. Moreover, Erste Group Bank AG defines also close family members of management and supervisory board members as related parties.

Transactions between Erste Group Bank AG and fully consolidated companies are not recognised in the consolidated financial statements since they are eliminated.

Principal shareholders

As of 31 December 2011, the foundation DIE ERSTE oesterreichische Spar-Casse Privatstiftung (hereinafter referred to as 'the Privatstiftung') controls a 25.02% interest in Erste Group Bank AG, of which 23.39% of the shares are held directly by DIE ERSTE oesterreichische Spar-Casse Privatstiftung and 1.63% of the shares are held by Sparkassen Beteiligungs GmbH & Co KG, an affiliated undertaking of DIE ERSTE oesterreichische Spar-Casse Privatstiftung. This makes the Privatstiftung the largest single investor in Erste Group Bank AG.

The Privatstiftung received a dividend of EUR 67.0 million (prior year: EUR 64.1 million) on its stake in Erste Group Bank AG in 2011 (for financial year 2010). The dividend for participation capital of Erste Group Bank AG amounted to EUR 1.4 million. The purpose of the Privatstiftung, to be achieved notably by way of the participating interest in Erste Group Bank AG, is to support social, scientific, cultural and charitable institutions as well as to generally promote the guiding principles of the savings bank philosophy. As of 31 December 2011, the members of the Privatstiftung's management board were Andreas Treichl (Chairman of the Management Board of Erste Group Bank AG), Rupert Dollinger, Theodora Eberle, Richard Wolf and Boris Marte. The Privatstiftung's supervisory board had eight members at the end of 2011, three of whom are also members of the Supervisory Board of Erste Group Bank AG.
Under article 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 Section 92, para. 9 of the Austrian Banking Act, to nominate up to one-third of the supervisory board members to be elected at the Annual General Meeting. To date, the Privatstiftung has not exercised this right.

As of 31 December 2011, Erste Group Bank AG has in relation to the Privatstiftung accounts payable of EUR 120.1 million (2010: EUR 290.2 million) and accounts receivable of EUR 87.0 million (2010: 276.1 million). In addition, standard derivative transactions for hedging purposes were in place between Erste Group Bank AG and the Privatstiftung, namely interest rate swaps with caps and floors in the notional amount of EUR 0.0 million (2010: EUR 247.4 million), as well as interest rate swaps with caps in the notional amount of EUR 185.0 million (2010: EUR 103.0 million) and foreign currency swaps in the notional amount of EUR 29.3 million (2010: EUR 0.0 million).

In 2011, the interest income of Erste Group Bank AG resulting from said derivative transactions for the reporting period was EUR 11.4 million (2010: EUR 18.9 million) while interest expenses totalled EUR 6.9 million (2010: EUR 2.9 million).

CaixaBank S.A., located in Barcelona, Spain, holds a total of 38,195,848 (2010: 38.170.433) Erste Group shares, equivalent to 9.77% (2010: 10.10%) of the share capital of Erste Group Bank AG. In addition, CaixaBank S.A. held participation capital with a notional value of EUR 15 million in Erste Group Bank AG as of 31 December 2011. Juan Maria Nin, the Deputy Chairman and CEO of CaixaBank S.A. is a member of the Supervisory Board of Erste Group Bank AG.

CaixaBank S.A. received a dividend in the amount of EUR 26.7 million for its interest in Erste Group Bank AG during the year 2011 (for the fiscal year 2010). Its dividend for participation capital was EUR 1.2 million.

Loans and advances to and amounts owed to related parties

in EUR million	2011	2010
Loans and advances to credit institutions		
Equity method investments	4	99
Other investments	26	5
Total	**29**	**104**
Loans and advances to customers		
Equity method investments	363	141
Other investments	1,221	1,127
Total	**1,584**	**1,268**
Financial assets – at fair value through profit or loss		
Equity method investments	1	3
Other investments	14	6
Total	**15**	**9**
Financial assets – available for sale		
Equity method investments	13	13
Other investments	67	53
Total	**80**	**66**
Financial assets – held to maturity		
Equity method investments	0	0
Other investments	6	6
Total	**6**	**6**
Deposits by banks		
Equity method investments	8	37
Other investments	18	0
Total	**26**	**37**
Customer deposits		
Equity method investments	9	23
Other investments	197	248
Total	**207**	**271**

Transactions with related parties are done at arm's length.

Compensation to management and supervisory board members

Breakdown of management board compensation:

	Compensation in 2011			Comparison with 2010	
in EUR thousand	for 2011	for 2010	for 2007	for 2010	for 2009
Fixed salaries	4,987			4,122	
Performance-related salaries		1,305	498		3,684
Other compensation	1,078			1,021	
Total	**6,065**	**1,305**	**498**	**5,143**	**3,684**

In 2011, members of the management board received cash and non-cash compensation for their functions as members of the management board totalling EUR 6,065 thousand (prior year: EUR 5,143 thousand). Performance bonus paid in 2011 for the fiscal year 2010 totalled EUR 1,305 thousand and that for the year 2007 amounted to EUR 498 thousand (performance bonus payment in 2010 for the year 2009 was EUR 3,684 million). This represented 0.3% (prior year: 0.4%) of the total personnel expenses of the Erste Group.

In the 2011 financial year, EUR 2,148 thousand (2010: EUR 924 thousand) was paid to former members of the management board or their surviving dependants.

The item 'other compensation' includes pension fund contributions (at severance payments – new) and various other forms of compensation.

No performance bonus will be paid to members of the management board for the fiscal year 2011. In relation to measures aimed at strengthening the bank strategically, the management board repaid EUR 585 thousand of performance bonuses for the year 2010 (including interest) and further waived its bonus entitlement of EUR 1,340 thousand for the year 2010 that would have been paid out in the years from 2012 to 2016.

In addition to the aforementioned performance bonus, the beneficiaries received a total of 43,529 share equivalents of Erste Group Bank AG. Valuation is based on the average, weighted daily share price of Erste Group Bank AG in 2011, which was EUR 25.37. Pay-outs will be made in 2012 after a one-year holding period.

Personnel expenses contain EUR 1,104 thousand related to cash-settled share-based payments.

In 2011 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 members of the management board is based on each individual's responsibilities, the achievement of corporate targets and the Group's financial situation.

Breakdown of supervisory board compensation:

in EUR thousand	2011	2010
Supervisory board compensation	706	350
Meeting fees	287	162
Total	**993**	**512**

In 2011, the members of the Supervisory Board of Erste Group Bank AG were paid a combined total of EUR 993 thousand (2010: EUR 512 thousand) in this capacity. Members of the supervisory board received the following compensation for board positions in fully consolidated subsidiaries of Erste Group Bank AG: Heinz Kessler: EUR 48,489; Friedrich Rödler: EUR 13,250 and Werner Tessmar-Pfohl: EUR 25,600.

There were no other transactions with members of the supervisory board.

Pursuant to the decision at the Annual General Meeting of 12 May 2011, the supervisory board adopted the following compensation structure in its constituent meeting:

in EUR	Number	Allowance per person	Total allowance
President	1	100,000	100,000
Vice Presidents	2	75,000	150,000
Members	9	50,000	450,000
Total	**12**		**700,000**

The supervisory board must consist of at least three and at most 12 members elected by the general meeting. DIE ERSTE österreichische Spar-Casse Privatstiftung, a foundation, has the right to delegate up to one-third of the members of the supervisory board, elected by the general meeting, as long as the foundation guarantees pursuant to Section 92, para. 9 of the Austrian Banking Act all existing and future liabilities of the company in case of insolvency. Participation in the supervisory board ends in case of death, recall, resignation, or if a defined impediment arises. For recall, it is necessary to have a three-quarters majority of the valid votes cast and at least a three-quarters majority of the ordinary share capital represented at the meeting.

Loans and advances to related parties

At the end of 2011, loans and advances to members of the management board totalled EUR 2,766 thousand (2010: EUR 166 thousand). Loans and advances to persons related to members of the management board totalled EUR 20 thousand as of 31 December 2011 (2010: EUR 26 thousand). Loans to members of the supervisory board totalled EUR 228 thousand (2010: EUR 251 thousand). Loans and advances to persons related to members of the supervisory board totalled EUR 14 thousand (2010: EUR 11 thousand). The applicable interest rates and other terms (maturity dates and collateral) are at market conditions. As regards loans and advances to member of the supervisory board, there were no material loan repayments.

Other transactions with related parties

Companies related to members of the supervisory board invoiced the following amounts from other transactions:

In 2011, DORDA BRUGGER JORDIS Rechtsanwälte GmbH, a law firm in which Theresa Jordis is a partner, invoiced Erste Group Bank AG a total of 156,266.76 (2010: EUR 348,775.69) for several mandates.

Friedrich Rödler is senior partner at PricewaterhouseCoopers Austria. During 2011, companies of this group invoiced Erste Group Bank AG in total EUR 142,095.14 (2010: 54,726.00 for consulting mandates.

The compensation of the supervisory board members depends on the individual's responsibilities, the business volume and the company's financial situation.

35) Collateral

The following assets were pledged as security for liabilities:

in EUR million	2011	2010
Loans and advances to credit institutions	876	894
Loans and advances to customers	7,522	6,480
Trading assets	218	92
Financial assets – at fair value through profit or loss	566	0
Financial assets – available for sale	3,297	3,192
Financial assets – held to maturity	3,005	2,272
Total	**15,484**	**12,930**

The financial assets pledged as collateral consist of loan receivables, bonds and other interest-bearing securities.

Collaterals were pledged as a result of repo transactions, refinancing transactions with the European Central Bank, loans backing issued mortgage bonds and other collateral arrangements.

The fair value of collateral received from repo transactions which may be repledged or resold even without the security provider's default was EUR 940 million (2010: 4,470 million). Collateral with fair value of EUR 471 million (2010: 25 million) was resold.

Securities lending and repurchase transactions

in EUR million	2011		2010	
	Carrying amount of assets pledged as collateral	Carrying amount of liabilities	Carrying amount of assets pledged as collateral	Carrying amount of liabilities
Repurchase transactions	3,009	2,864	2,256	2,219
Securities lending agreements	5	0	450	0
Total	**3,014**	**2,864**	**2,706**	**2,219**

The total amount EUR 3,014 million (2010: EUR 2,706 million) represents the carrying amount of financial assets in the respective balance sheet positions for which the transferee has a right to sell or repledge.

Liabilities from repo transaction in the amount of 2,864 million (2010: 2,219 million), which are measured at amortised cost, represent an obligation to repay the borrowed funds.

The following balance sheet positions are affected by the transfers of financial instruments as a result of repo transactions and securities lending:

	Repurchase transactions		Securities lendings	
	Carrying amount of transferred assets		Carrying amount of transferred assets	
in EUR million	2011	2010	2011	2010
Loans and advances to credit institutions	0	1	0	0
Loans and advances to customers	0	0	0	0
Trading assets	124	92	0	0
Financial assets – at fair value through profit or loss	191	0	5	0
Financial assets – available for sale	2,225	1,683	0	0
Financial assets – held to maturity	469	480	0	450
Total	**3,009**	**2,256**	**5**	**450**

The transferred financial instruments consist of bonds and other interest-bearing securities**.**

36) Risk management

37.1) Risk policy and strategy

It is a core function of every bank to take risks in a conscious and selective manner and to professionally manage such risks. Erste Group's proactive risk policy and strategy aims to achieve an optimal balance of risk and return in order to achieve a sustainable, high return on equity.

Erste Group uses a control and risk management system that is proactive and tailored to its business and risk profile. It is based on a clear risk strategy that is consistent with the Group's business strategy and focused on early identification and management of risks and trends. In addition to meeting the internal goal of effective and efficient risk management, Erste Group's control and risk management systems have been developed to fulfil external and, in particular, regulatory requirements.

Given Erste Group's business strategy, the key risks for Erste Group are credit risk, market risk and operational risk. Erste Group also focuses on managing liquidity, concentration and macroeconomic risks. In addition, Erste Group's control and risk management framework takes into account the range of other significant risks faced by the banking group.

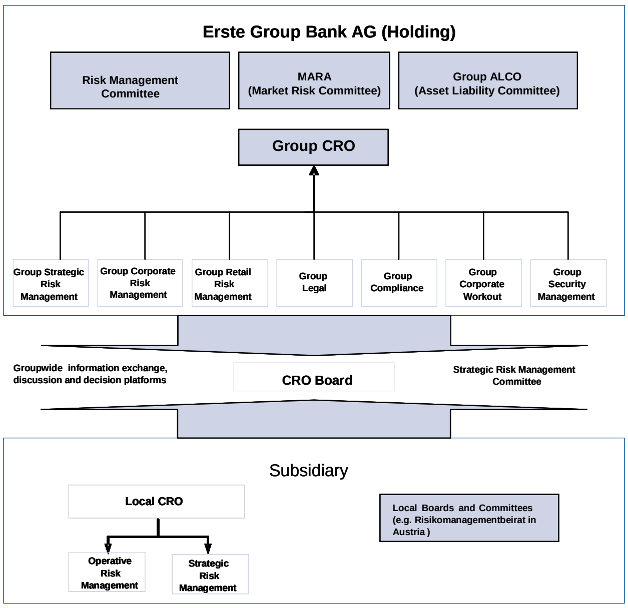
In 2011, Erste Group's risk management framework was broadened by the preparation of a formal Risk Appetite Statement (RAS) which serves to define the level of risks the Group is willing to take from a strategic point of view. The RAS sets boundaries and defines limits which are then relevant for the Group's daily operations. The RAS also forms an integral element of the planning process – both at group but also at local entity level – and is defined in the Holding Board Strategy Meeting. Furthermore, compliance with limits established within the RAS is regularly monitored and reported on at least a quarterly basis.

Erste Group Bank AG uses the Internet as the medium for publishing disclosures of Erste Group under Section 26 of the Banking Act and the Disclosure Regulation. Details are available on the website of Erste Group at www.erstegroup.com/ir.

37.2) Risk management organisation

Risk monitoring and control is achieved through a clear organisational structure with defined roles and responsibilities, delegated authorities, and risk limits. The following diagram presents an overview of Erste Group's risk management and control governance and responsibility.

Risk management – organisation and decision bodies



Overview of Risk Management Structure

The management board, and in particular Erste Group's chief risk officer ('Group CRO'), must perform its oversight function within Erste Group's risk management structure. Risk control and management functions within Erste Group are performed based on the business and risk strategies approved by the management board and the strategic risk framework. The Group CRO, working together with the chief risk officers of the subsidiaries, is responsible for implementation of and adherence to the risk control and risk management strategies across all risk types and business lines. While the management board and, in particular, the Group CRO ensure the availability of appropriate infrastructure and staff as well as methods, standards and processes to that effect, the actual identification, measurement, assessment, approval, monitoring, steering, and setting of limits for the relevant risks are performed at the operating entity level within Erste Group. At the group level, the management board is supported by several divisions established to perform operational risk control functions and exercise strategic management responsibilities:

- Group Strategic Risk Management,
- Group Corporate Risk Management,
- Group Retail Risk Management,
- Group Corporate Workout,
- Group Legal,
- Group Compliance, and
- Group Security Management.

Strategic Risk Management

Group Strategic Risk Management, which exercises the risk control function, is responsible for the provision of adequate risk measurement methodologies and tools as well as an appropriate risk policy and control framework. The Group Strategic Risk Management unit performs the function of the central and independent risk control unit required by Section 39 (2) of the Austrian Banking Act. One objective of Group Strategic Risk Management, a unit that is independent from the business units, is to ensure that all risks measured or taken are within the limits approved by the management board. The division is comprised of the departments Group Credit Risk Methods, Group Enterprise-wide Risk Management and Reporting, and Group Market and Liquidity Risk Management, as well as of the unit Group Operational Risk Control and the corporate function 'Basel II'. Group Credit Risk Control is in charge of key tasks regarding Erste Group's credit risk methods and rating models. Group Enterprise-wide Risk Management and Reporting is in charge of the essential elements of the risk management framework, Erste Group's risk policy principles, the group data pool and the group-wide credit risk reporting. The group-wide daily calculation, analysis and reporting of market and liquidity risks is provided by the Group Market and Liquidity Risk Management department. The organisational unit Group Operational Risk Control is responsible for modelling, managing and reporting of operational risks.

Group Corporate Risk Management

Group Corporate Risk Management is the operative credit risk management function for Erste Group's divisionalised corporate business (GCIB). It is responsible for the formal and material verification, recommendation and approval of all credit risks of Erste Group Bank AG as a holding company. Group Corporate Risk Management is also responsible for credit risk management for the GCIB segment as well as all credit applications where the amount involved exceeds the approval limits granted to the respective subsidiary. This unit covers country risks, sovereigns, other credit institutions, securitisations, large corporates, and real estate risks. Group Corporate Risk Management provides specific credit risk reports on the aforementioned centrally managed portfolios of Erste Group Bank AG as a holding company. It is in charge of process development for credit risk management and implementation of group standards for these exposure classes, and it monitors compliance with relevant credit risk limits. This unit is also responsible for establishing and monitoring appropriate credit analysis processes and systems for corporate business at the subsidiary level and co-ordinating and reviewing corporate credit and project analysis adopted across the business.

Group Corporate Workout

Group Corporate Workout is responsible for managing problematic clients of the group-wide Group Corporate and Investment Banking (GCIB) segment as well as of the local corporate segment where the exposure is above the authority of the management board of the respective subsidiary. This task includes the operative restructuring and workout function for exposures booked in Erste Group Bank and the risk management function for all substandard and non-performing clients in the other local SME segments mentioned above. An important additional task for the division is to implement group-wide procedures and policies on corporate restructurings and work-outs. Additionally, this area organises expert training programmes as well as workshops to ensure knowledge transfer across Erste Group entities. Furthermore, the group collateral catalogue defines standards for collateral management and principles for collateral evaluation.

Group Retail Risk Management

Group Retail Risk Management is responsible for controlling the Group's retail lending portfolio and defining the retail risk management lending framework. It provides an analytical framework to monitor local banks' retail loan portfolios and supplies timely and actionable information for senior management decisions. In addition, the unit ensures knowledge transfer across Erste Group entities. The local chief risk officer and the local retail risk head assume primary responsibility for credit risk management of retail loan portfolios of the respective local bank and for managing the risk–reward trade-off of their business. In line with Group Retail Risk Management Standards, local credit policy rules are defined locally in every bank, respecting the local regulatory and business environment.

Group Legal

Group Legal, in performing the function of the central legal department of Erste Group Bank, mitigates legal risk by providing legal support and counselling for the business and centre functions and by taking care of dispute resolution and litigation. Group Legal has a group-wide focus on legal risk management and reporting aimed at identifying and minimising, limiting or avoiding legal risk. Legal support for the business of the banking subsidiaries in the jurisdictions in which they operate is performed at the local level.

Group Compliance

Group Compliance includes the departments Securities Compliance, Anti-Money Laundering (AML) and Fraud Management and is accountable for addressing compliance risks. Compliance risks are those of legal or regulatory sanctions, material financial loss, or loss of reputation which Erste Group may suffer as a result of failure to comply with laws, regulations, rules and standards.

Group Security Management

Group Security Management is in charge of the strategy, the definition of security standards, quality assurance, monitoring as well as the further development of issues of relevance for security at Erste Group.

In addition to the risk management activities performed at the Erste Group Bank level in its special role as a holding company, each subsidiary also has a risk control and management unit, the responsibilities of which are tailored to the applicable local requirements. Each subsidiary's risk control and management unit is headed by the respective entity's chief risk officer.

Group co-ordination of risk management activities

The management board deals in its regular board meetings with risk issues. All types of risks are reported periodically and actions are taken when needed. In addition, the board is concerned with current risk issues and receives through the internal risk reporting ad hoc reports for all types of risk.

With the purpose of carrying out risk management activities within Erste Group, certain committees have been established, including the following:

- Risk Management Committee,
- CRO Board,
- Strategic Risk Management Committee,
- Group Asset/Liability Committee (ALCO),
- Group Operational Liquidity Committee, and
- Market Risk Committee.

The Risk Management Committee is responsible for granting approval in all those cases in which loans and exposures or large exposures reach an amount exceeding the approval authority of the management board according to the approval authority regulation. It is charged with granting approval to exposures or large exposures pursuant to Section 27 of the Austrian Banking Act, if such an investment in credit institutions exceeds 10% of the entity's own funds or if the investment amounts to at least 10% of the consolidated banking group's own funds. Within the competence assigned to it, the committee may grant advance approvals to the extent permitted by law. In addition, it is responsible for supervising the risk management of Erste Group Bank AG. The Risk Management Committee meets regularly. As the central risk control body, the Risk Management Committee is regularly briefed on the risk status across all risk types.

The CRO Board and the Strategic Risk Management Committee are responsible for consistent co-ordination and implementation of risk management activities within Erste Group, including the Sparkassen Haftungsverbund. The CRO Board is made up of the Group CRO and the chief risk officers of the subsidiaries in the Erste Group. Chaired by the Group CRO, the CRO Board has responsibility for the group-wide co-ordination of risk management and for ensuring uniformity of risk management standards across Erste Group. The Strategic Risk Management Committee, which is made up of the division heads of the strategic risk management department at each subsidiary, provides support to the CRO Board in decision-making on current risk-related topics.

Erste Group has established committees at the holding level that are specifically responsible for monitoring and managing market and liquidity risk:

- Group ALCO is managing the consolidated group balance sheet, focusing on trade-offs between all consolidated balance sheet risks (interest rate,, exchange rate, and liquidity risks) as well as taking care of Erste Group Bank's profit and loss account by performing management actions on the holding's balance sheet and by setting the group standards and limits for Erste Group members. Additionally, it approves policies and strategies for controlling liquidity risk, interest rate risk (net interest income), capital management of the banking book, as well as examining proposals, statements and opinions of ALM, Risk Management, Controlling and Accounting functions. The approved investment strategy is within the guidelines agreed with Risk Management.
- The Group Operational Liquidity Committee (Group OLC) is responsible for day-to-day management of the global liquidity position of Erste Group. It analyses the liquidity situation of Erste Group on a regular basis and reports directly to the Group Asset/Liability Committee (Group ALCO). It also proposes measures to the Group ALCO within the scope of the management policies and principles laid down in the Liquidity Risk Management Rule Book. Furthermore, members of the Group OLC are points of contact for other departments or Erste Group members for liquidity-related matters. Each local bank has its own local operational liquidity committee.
- The Market Risk Committee (MRC) is the main steering body for all risks related to capital market trading operations in Erste Group. The MRC meets quarterly, approves group-wide market risk limits and elaborates on the current market situation. The members of the MRC are the Group CRO, the board member responsible for Group Capital Markets, the Head of Group Capital Markets, the Head of Group Strategic Risk Management, and the Head of Group Market and Liquidity Risk Management.

In addition, committees established at local level (e.g. the *Risikomanagementbeirat* in Austria) carry out a common risk approach in the Austrian members of Erste Group (i.e. Erste Bank Austria and Savings Banks).

As a result of the principle of segregation of risk origination and risk control, at every level of the risk management structure of Erste Group – and particularly concerning market and credit risks – the risk control functions are exercised independently of the front office functions. Local operative risk control divisions carry out this control function.

37.3. Current topics

Current regulatory topics

Having passed the required audit conducted by the Austrian supervisory authority in 2006, Erste Group Bank AG, almost all Haftungsverbund savings banks and Česká spořitelna successfully qualified for the Basel II internal ratings based (IRB) approach to the measurement of credit risk, effective from entry of the new regulations into force on 1 January 2007. For credit risk, Erste Group applies the Advanced IRB Approach in the retail segment and the Foundation IRB Approach in all other Basel segments. Since that time, additional subsidiaries have successfully implemented the IRB approach.

For managing operational risk, Erste Group received regulatory approval to use the AMA (Advanced Measurement Approach) at group level for its major entities (Erste Group Bank AG; Erste Bank der oesterreichischen Sparkassen AG; Česká spořitelna a.s.; Slovenská sporitel'ňa a.s.; Erste Bank Hungary Nyrt; Banca Comercială Română S.A.; Erste&Steiermärkische Bank d.d., Rijeka; and Erste Leasing Hungary). Other major subsidiaries and savings banks which are currently using the Basic Indicator Approach intend to apply for the AMA in future. Erste Group received in 2011 approval for the use of insurance contracts for mitigation in the Advanced Measurement Approach.

Since 2010, Erste Group has been scrutinising the impacts of the planned regulatory changes commonly known as Basel III. The Group has established a group-wide Basel III programme, which ensures that all requirements arising from the Capital Requirements Directive IV (CRD IV) and from related national and international regulations are implemented in time and completely within the whole Group. The programme includes a stream covering capital requirements (including deductions from own funds), changes in risk-weighted asset (RWA) calculations, counterparty credit risk (CCR), and the new capital charge for credit value adjustments (CVA). Further streams focus on new requirements of the disclosure policy, the new liquidity rules, the newly introduced leverage ratio, and CRD IV-related projects like stressed value-at-risk (SVaR).

Due to the established programme structure, Erste Group has an integrated view on all requirements arising from Basel III. Furthermore, a close alignment is being undertaken with programmes focusing on other internal or regulatory requirements in the areas of risk and accounting, such as the IFRS 9 project.

Regarding changes in risk-weighted assets according to Basel III, in 2011 Erste Group actively participated in the semi-annual Quantitative Impact Study (QIS) which was co-ordinated by regulatory authorities. In future, Erste Group will also participate in the quarterly exercises. The bank has completed several calculations to evaluate the impact of the new accord on its risk-weighted assets, both within and beyond the scope of the QIS exercises.

Erste Group calculated as well the Basel III compliant liquidity ratios which also will be collected within the scope of the planned exercises. The Group has made several calculations to assess the status of the entities with regards to these ratios, and the preparation for the future regulatory reporting is currently underway.

Regulatory changes for the internal model approach to market risk according to the Capital Requirements Directive III (CRD III) became effective for Erste Group at year-end 2011. The inclusion of stressed VaR and event risk (for equity-related risks) into the internal model was developed and received approval from regulators after a successful audit by the Austrian regulator in the fourth quarter of 2011.

The capital question has once again moved centre stage, as the European Union is aiming to resolve the ongoing sovereign debt crisis. The European Banking Authority (EBA) has defined a capital threshold of 9% (according to EBA definition) that has to be met by 30 June 2012.

According to an initial calculation with figures as of 30 September 2011, Erste Group required additional capital amounting to EUR 743 million. According to the EBA calculation's logic, the core capital ratio was 8.9% and the additional capital requirement amounted to EUR 166 million as of 31 December 2011. Several measures will be implemented for covering the capital requirements. The eligible qualifying capital will be reinforced by retained earnings. The resulting effect could be optimised by the buy-back of hybrid capital issues. The selective disposal of non-core assets will be continued in 2012. Hence, the required capital ratio of 9% will be met without any government support.

Under the EBA calculation, the core tier 1 ratio includes the participation capital provided by the Republic of Austria but excludes the hybrid capital and participation capital provided by private investors amounting to EUR 540 million.

Current economic topics

The main focus in 2011 was the European sovereign debt crisis as a consequence of the financial crisis in 2008. The Group monitors public debt restructuring discussions and potential haircuts, and it includes the relevant exposures in stress tests. Additionally, hedging opportunities are being analysed and applied as deemed appropriate.

As stated in the tables below, Erste Group's net exposure to European countries which are particularly affected by the sovereign debt crisis was reduced significantly during 2011. The net exposure decreased from EUR 6.3 billion at year-end 2010 to EUR 3.1 billion as of 31 December 2011. The exposure to sovereign obligors in Greece and Portugal was eliminated almost completely. The reduction resulted from repayments and above all from the sale of securities and credit default swaps (CDS) in the fourth quarter of 2011. The CDS portfolio of the International Business Division was sold almost in its entirety and new investments in bonds of sovereign issuers in these countries have not been undertaken.

The following tables show the net exposure to sovereigns and institutions in selected European countries as of 31 December 2011 and 31 December 2010, respectively. The net exposure includes all on- and off-balance-sheet positions after counterparty netting and risk transfer to guarantors. Derivatives are netted (ISDA Master Agreement with netting agreement) and collateral for derivatives reduces the exposure, provided that respective contracts are in force (Credit Support Annex to ISDA Master Agreement). In the case of repo transactions, the book value of the securities sold under repurchase agreements is recognised as exposure of the issuer. Moreover, an exposure of the counterparty amounting to the difference between the funds received and a potentially higher market value of the securities sold plus a percentage of the nominal value is considered in order to account for price fluctuations. In the case of reverse repurchase agreements, the respective counterparty risk is considered as for repurchase agreements (the difference between the funds placed and a potentially lower market value of the securities purchased plus a percentage of the nominal value in order to account for price fluctuations), but the issuer risk is not taken into account. The net exposure represents the net risk view. It differs from the credit risk exposure, which is treated in the 'Credit risk' chapter, primarily by applying the risk transfer to guarantors, by the deduction of collateral and by taking into consideration of netting agreements. Therefore, the two are not comparable. The sovereign net exposure includes central banks, central governments and institutions which are explicitly guaranteed by the central government.

Net exposure to selected European countries

Total	Sovereigns		Banks		Other[1]		Total	
in EUR million	2011	2010	2011	2010	2011	2010	2011	2010
Greece	4	602	58	172	8	8	70	782
Ireland	47	89	204	252	78	82	329	423
Italy	473	1,076	807	1,165	582	1,082	1,861	3,323
Portugal	6	235	94	281	13	14	113	529
Spain	24	114	282	735	426	384	732	1,232
Total	**553**	**2,115**	**1,445**	**2,604**	**1,106**	**1,569**	**3,105**	**6,289**

1) "Other" is composed of securitisations and claims against corporates.

Sovereigns	Fair value		Available for sale		At amortised cost		Total	
in EUR million	2011	2010	2011	2010	2011	2010	2011	2010
Greece	(9)	457	10	78	3	68	4	602
Ireland	0	60	32	25	15	4	47	89
Italy	400	907	71	149	2	20	473	1,076
Portugal	0	168	6	11	0	56	6	235
Spain	(27)	35	39	52	12	28	24	114
Total	**364**	**1,627**	**157**	**314**	**31**	**174**	**553**	**2,115**

Without taking into account credit protection, such as guarantees from third parties, or in particular credit default swaps, the claims against Greek and Spanish sovereign obligors increase by EUR 13.5 million and EUR 27.1 million, respectively. The Greek sovereign exposure is impaired, and the receivables were written down to 25% of their face value.

Banks	Fair value		Available for sale		At amortised cost		Total	
in EUR million	2011	2010	2011	2010	2011	2010	2011	2010
Greece	0	0	0	0	58	172	58	172
Ireland	99	142	92	90	13	20	204	252
Italy	234	323	181	153	393	689	807	1,165
Portugal	9	72	30	56	55	152	94	281
Spain	62	341	65	164	156	230	282	735
Total	**404**	**877**	**367**	**463**	**674**	**1,263**	**1,445**	**2,604**

The following table shows the net exposure to sovereigns and banks in Erste Group's core market as of 31 December 2011 and 31 December 2010, respectively:

Net exposure to sovereigns and banks in the core market

	Sovereigns		Banks		Total	
in EUR million	2011	2010	2011	2010	2011	2010
Austria	9,797	7,424	1,838	2,825	11,635	10,249
Croatia	2,363	1,961	75	94	2,437	2,055
Romania	5,709	5,223	73	72	5,782	5,295
Serbia	115	159	0	3	116	162
Slovakia	4,838	4,084	194	181	5,032	4,265
Slovenia	374	287	75	259	448	546
Czech Republic	9,438	5,240	906	966	10,344	6,206
Ukraine	360	204	24	39	385	243
Hungary	3,217	2,792	33	102	3,250	2,894
Total	**36,211**	**27,374**	**3,218**	**4,540**	**39,429**	**31,914**

37.4) Group-wide risk and capital management

Overview

In light of the lessons learned from recent turbulence on the financial markets, among other reasons, Erste Group's risk management framework has been continuously strengthened. In particular, the Group Strategic Risk Management and its Enterprise-wide Risk Management (ERM) have been developed into a comprehensive framework. This includes as its fundamental pillar the Internal Capital Adequacy Assessment Process (ICAAP), as required under Pillar 2 of the Basel framework.

The ERM framework is designed to support the bank's management in managing the risk portfolios as well as the coverage potential to assure at all times an adequate capital capacity reflecting the nature and magnitude of the bank's risk portfolio. ERM is tailored to the Group's business and risk profile, and it reflects the strategic goal of protecting share- and senior debt holders while ensuring sustainability of the organisation.

ERM is a modular and comprehensive management and steering system within Erste Group and is integral to the bank's and Group's overall steering and management system. The components necessary to ensure all aspects of ERM, regulatory requirements, but particularly internal value adding needs, can be clustered as follows:

- _ Risk Appetite Statement
- _ Portfolio & Risk Analytics including
  - _ Risk Materiality Assessment
  - _ Concentration Risk Management
  - _ Risk Modelling and Stress Testing
- _ Risk-bearing Capacity Calculation
- _ Risk Planning & Forecasting including
  - _ RWA Management
  - _ Capital Allocation
- _ Emergency Response Plan

In addition to ICAAP's ultimate goal of assuring capital adequacy and sustainability at all times, the ERM components serve to support the bank's management in pursuing its strategy.

Risk Appetite Statement

The Risk Appetite Statement (RAS) is a high-level strategic statement and forms an integral part of Erste Group's business and risk strategy. It also serves as a formalised, high-level steering tool from which top-down targets for the bank's limit system on lower aggregation levels can be derived.

The objective of Erste Group's Risk Appetite Statement is to contain earnings volatility, avoid net losses, ensure a stable target rating for Erste Group (including all associated aspects, e.g. funding costs) and protect external and internal stakeholders.

In order to reach those goals, general indicators are defined as well as indicators for credit, market and liquidity risk. In order to ensure that the RAS is operationally efficient, the indicators are classified as either limits, targets or principles, where the main differences will be in the mechanisms triggered in case of a breach of the RAS during the year.

Exceeding a limit will typically trigger immediate management action. Counterbalancing measures have to be taken to close the limit breach as soon as possible, but at least within the next month. Targets are in general derived as part of the planning process, where the final budget is aligned with the targets set. A significant deviation from a target usually will trigger management action and a 'cure' plan over the next 12 months must be formulated. Principles are the equivalent to a qualitative strategic statement/directive and are monitored ex ante and operationalised (e.g. via guidelines and policies).

The Risk Appetite Statement is part of the yearly planning process. The indicators of the RAS are regularly monitored and reported to the management.

Portfolio and risk analytics

For the purpose of adequately managing the Group's risk portfolios according to the strategy, risks are systematically analysed within the scope of portfolio and risk analytics. Therefore, Erste Group has developed adequate infrastructure, systems and processes with which extensive analyses are ensured. Risks are quantified, qualified and discussed in a consistent management process in order to decide on appropriate measures on time.

Risk materiality assessment

For the purpose of systematically and continuously assessing all relevant risk types and identifying risks which are significant for the Group, Erste Group has defined a clear and structured risk materiality assessment approach which is based on defined quantitative and qualitative factors for each risk type.

This process constitutes the basis for the determination of material risk types to be included into the Risk-bearing Capacity Calculation. Insights generated by the assessment are also used to improve risk management practices per se to further mitigate risks within the Group but also as an input for the design and definition of the Group's Risk Appetite Statement. Furthermore, insights from the risk materiality assessment are considered in the stress test when defining stress parameters.

Concentration risk management

Erste Group has implemented a framework to identify, measure, control, report and manage concentration risks. This is essential to ensuring the long-term viability of Erste Group, and especially in times of stressed economic conditions.

Concentration risk management at Erste Group is based on a framework of processes, methodologies and reports covering both intra- and inter-risk concentrations. Concentration risks also comprise an integral part of stress test analyses. Furthermore, the outcome of a stress test is directly considered in the Risk-bearing Capacity Calculation of the Group

Additionally, the results of concentration risk assessments are used in defining the Risk Appetite Statement, defining stress factors for stress tests, and when setting or calibrating Erste Group's limit system.

Based on the results of concentration risk studies, potential regional, country and industry concentration risks could be identified in the credit portfolio. Country concentration mainly reflects the Group's strategy to operate in its core CEE region.

Risk modelling and stress testing

Modelling sensitivities of the Group's assets, liabilities and profit or loss provide management and steering impulses and help in optimising the Group's risk / return profile. The additional dimension of stress tests should help to factor in severe but plausible scenarios and provide further robustness to the measuring, steering and management system. Risk modelling and stress testing are vital forward-looking elements of ICAAP. Finally, sensitivities and stress scenarios are explicitly considered within the Group's planning and budgeting process as well as the Risk-bearing Capacity Calculation and the setting of the Maximum Risk Exposure Limit (MREL).

Erste Group's most complex stress tests take comprehensive account of the impact of stress scenarios, including second-round effects on all risk types (credit, market, operational and liquidity) and in addition impacts on the associated volumes (assets/liabilities) as well as on profit and loss sensitivities.

Erste Group has developed specific tools to support the stress testing process, which represents a combined bottom-up and top-down approach. In addition, Erste Group leverages the intimate knowledge of its professionals located in the different regions to further calibrate the model-based stress parameters. Special attention is given to consider adequate granularity and special characteristics when defining the stress parameters (e.g. the particular developments in the respective region, industry, product type or segment). The adequacy of scenarios and stress parameters is reviewed on a quarterly basis.

Results from all of Erste Group's stress tests are checked as to their explanatory power in order to decide on appropriate measures. All stress tests performed in the reporting period clearly showed capital adequacy to be sufficient .

Erste Group additionally participated in several stress test exercises at both national (OeNB) and international (EBA) levels. The results of these stress tests showed, too, that Erste Group's regulatory capital was adequate.

Risk-bearing Capacity Calculation (RCC)

The Risk-bearing Capacity Calculation is ultimately the tool to define the capital adequacy required by ICAAP. Within the RCC, all material risks are aggregated and compared to the coverage potential and capital of the bank. The integral forecast, risk appetite limit as well as a traffic light system support management in its discussion and decision process.

The traffic light system embedded in Erste Group's RCC helps in alerting the management in case there is a need to decide, plan and execute actions to either replenish the capital base or to take appropriate business measures for reducing the risk.

The management board and risk management committees are briefed regularly (and at least on a quarterly basis) in relation to the results of the capital adequacy calculation. The report includes movements in risks and available capital and coverage potential after consideration of potential losses in stress situations, the degree of utilisation of the risk limit and overall status of capital adequacy according to the traffic light system. The Group Risk Report also includes a comprehensive forecast of risk-weighted assets and capital adequacy.

Other risk types, in particular liquidity, concentration and macroeconomic risks, are managed by means of a proactive management framework that includes forward-looking scenarios, stress testing, trigger levels and traffic light systems.

Based on the business and risk profile of Erste Group, currently the three main types of banking risks – credit risk, market risk and operational risk – are considered directly in the Risk-bearing Capital Calculation. Credit risk accounts for approximate 81% of the total economic capital requirement. Reflecting what management believes is Erste Group's conservative risk management policy and strategy, the Group does not offset diversification effects between these three risk types. The economic capital requirement for unexpected losses is computed on a one-year time horizon with a 99.95% confidence level, which reflects the implied default risk consistent with a long-term credit rating of AA.

The capital or coverage potential required to cover economic risks and unexpected losses is subdivided based on the characteristics of their components, such as the legal qualification of the source of capital and tenor of subordinated debt. The coverage potential must be sufficient to absorb unexpected losses resulting from the Group's operations.

Risk planning and forecasting

It lies within the responsibility of Strategic Risk Management of the Group and each subsidiary to ensure a sound risk planning and forecasting process. The numbers determined by risk management are a consequence of close co-operation with all stakeholders in the Group's overall planning process, and in particular with Controlling, Group Performance Management (GPM), Balance Sheet Management, Asset/Liability Management and the Business Lines. The relevant numbers flow directly into the Group steering and planning process, which is hosted by the Controlling department.

A particular role and forward-looking element is played by the quarterly forecast within the RCC and which is vital in determining the trigger level of the traffic light system.

RWA management

As risk-weighted assets (RWAs) determine the actual regulatory capital requirement of a bank and influence the capital ratio as a key performance indicator, particular emphasis is devoted to the planning and forecasting capacity for this parameter. Insights from RWA analyses are used to improve the calculation infrastructure, increasing the quality level of input parameters and data as well as the most efficient application of the Basel framework.

Capital allocation

A particular task integral to the process is the allocation of capital to entities, business lines and segments. This is done with close co-operation between Strategic Risk Management and Controlling. All insight from the ICAAP and controlling processes is used to allocate capital with a view to risk / return considerations.

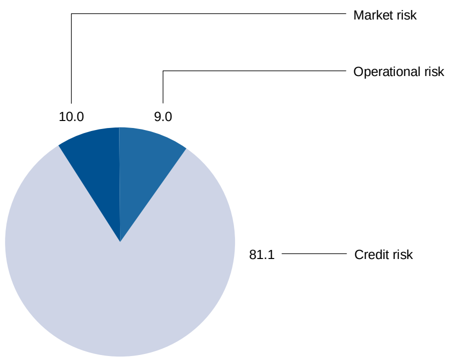
Emergency Response Plan

The Emergency Response Plan provides the general governance framework and action plan for the Group in case of a crisis situation in order to respond in a timely and effective manner to such situation. The ERP is a modular system which can be applied as required by a particular situation.

Erste Group's aggregate capital requirement by risk type

The following diagram presents the composition of the economic capital requirement as of 31 December 2011 according to type of risk:

Economic capital allocation
in %, 2011



37.5) Credit risk

Credit risk arises in Erste Group's traditional lending and investment businesses. It involves losses incurred as a result of default by borrowers and the need to set aside provisions as a result of the deteriorating credit quality of certain borrowers, as well as counterparty risk from trading in market risk instruments. Country risk is also recognised in the calculation of credit risk. Operative credit decisions are made by the decentralised credit risk management units, namely, the Group Corporate Risk Management at group level and the credit risk management units at each of the banking subsidiaries. For a detailed explanation of the role and responsibilities of Group Corporate Risk Management, see 'Overview of risk management structure' in Note 37.2) Risk management organisation.

The central database used for credit risk management is the group data pool. All data relevant to credit risk management, performance management and determination of risk-weighted assets and the regulatory capital requirement are regularly input to this database. Relevant subsidiaries not yet integrated into the group data pool regularly deliver reporting packages.

The Group Enterprise-wide Risk Management and Reporting Department uses the group data pool for centralised credit risk reporting. This ensures centralised analysis and application of ratios according to unified methods and segmentation across Erste Group. The credit risk reporting is comprised of regular reports on Erste Group's credit portfolio for external and internal audiences and permits continuous monitoring of credit risk developments, thus enabling management to take control measures. In-house recipients of these reports include, above all, the supervisory and management boards of Erste Group Bank, as well as the risk managers, business unit directors and internal audit staff.

The Credit Limit System organisational unit is in charge of the roll-out and continuous technical improvement of a group-wide online limit system for capping counterparty risk arising from treasury transactions, as well as for surveillance of credit risk from exposure to clients that fall into the 'financial institutions', 'sovereigns' and 'international large corporates' asset segments and which work with several different members of Erste Group.

Internal rating system

Overview

Erste Group has business and risk strategies in place, as well as policies for lending and credit approval processes, which are reviewed and adjusted regularly (at minimum on a yearly basis). They cover the entire lending business, taking into account the nature, scope and risk level of the transactions and the counterparties involved. Credit approval is also based on the creditworthiness of the customer, the type of credit, collateral, covenant package and other risk mitigation factors involved.

The assessment of counterparty default risk within Erste Group is based on the customer's probability of default (PD). For each credit exposure and lending decision, Erste Group assigns an internal rating which is a unique measure of counterparty default risk. The internal rating of each customer is updated at least on an annual basis (Annual Rating Review). Ratings of customers in weaker rating classes are reviewed with higher frequency than the usual Annual Rating Review.

The main purpose of the internal ratings is to support the decision-making for lending and for the terms of credit facilities to be extended. However, internal ratings also determine the level of decision-making authority within Erste Group and the monitoring procedures for existing exposures. At a quantitative level, internal ratings drive the level of required risk pricing and risk provisions.

For IRB compliant entities of Erste Group, internal ratings are a key element of the risk-weighted assets' calculation. They are also used in the Group's Internal Capital Adequacy Assessment Process (ICAAP). For these purposes, a distinct PD value is assigned to each rating grade for its IRB portfolios within the calibration process. Calibration is performed individually for each rating method. PD values reflect the 12-month expectation of long-term average default rates. In addition to the PD values, the bank assigns margins of conservatism dependent on the granularity of portfolios and relevant data history. Calibration of PD values is validated annually in line with all the rating methods validations.

Internal ratings take into account all available essential information for the assessment of counterparty default risk. For non-retail borrowers, internal ratings take into account financial strength of the counterparty, possibility of external support, company information, and external credit history information, where available. For the wholesale segment, internal ratings also take into account market information such as access to capital markets linked to external ratings or credit spreads. For retail clients, internal ratings are based mainly on behavioural and application scoring, but they also utilise demographic and financial information, supplemented by credit bureau information, where available. Rating ceiling rules on credit quality are applied based on membership in a group of economically related entities and country of main economic activity. Country ceilings are applied for cross-border financing facilities.

Internal rating models and risk parameters are developed by internal teams of specialists. Rating development follows an internal methodology formalised into a group-wide methodology and documentation standard. Rating models are developed based on relevant and most-accurate data covering always the respective market. In such way, Erste Group has established highly predictive rating models covering its entire core region.

All scorecards, whether retail or non-retail, are regularly validated based on a group-wide standard methodology. Validations are provided using statistical techniques in respect to default prediction performance, rating stability, data quality, completeness and relevancy, as well as, last but not least, the review of documentation and user acceptance. The results of this validation process are reported to the management and regulatory bodies. In addition to the validation process, the Group applies a monthly monitoring process on the performance of rating tools, reflecting the month-to-month new defaults and any early delinquencies.

A Holding Model Committee is established as an elementary steering and control body for the model development and maintenance process. The Holding Model Committee reports to the CRO Board. All new models and modifications of existing models in the group (rating models and risk parameters), as well as methodology standards, are reviewed by the Holding Model Committee. The Holding Model Committee ensures group-wide integrity and consistency of models and methodologies. Besides its review function for new models and methodologies, the Holding Model Committee organises the group-wide validation process, reviews validation results and approves remedial actions. All development and validation activities are co-ordinated by the Group Credit Risk Methods organisational unit.

Risk grades and categories
The classification of credit assets into risk grades is based on Erste Group's internal ratings. Erste Group uses two internal risk scales for risk classification: for customers that have not defaulted, a risk scale of eight risk grades (for retail) and 13 risk grades (for all other segments) is used. Defaulted customers are classified into a separate risk grade. For newly acquired subsidiaries of Erste Group, the respective local risk classification is mapped to group standard classifications until internal rating systems according to group methodology are introduced.

For the purpose of external reporting, Erste Group has developed a framework to map the risk grades into four different risk categories, as follow:

Low risk: Typically regional customers with well-established and rather long-standing relationships with Erste Group or large internationally recognised customers. Strong and good financial position and no foreseeable financial difficulties. Retail clients having long relationships with the bank, or clients with a wide product pool use. No late payments currently or in the most recent 12 months. New business is generally with clients in this risk category.

Management attention: Vulnerable non-retail clients, which may have overdue payments or defaults in their credit history or may encounter debt repayment difficulties in the medium-term. Retail clients with limited savings or probable payment problems in the past triggering early collection reminders. These clients typically have good recent histories and no current delinquencies.

Substandard: The borrower is vulnerable to negative financial and economic developments. Such loans are managed in specialised risk management departments.

Non-performing: One or more of the default criteria under Basel II are met: full repayment unlikely, interest or principal payments on a material exposure more than 90 days past due, restructuring resulting in a loss to the lender, realisation of a loan loss, or initiation of bankruptcy proceedings. For purposes of analysing non-performing positions, Erste Group applies the 'customer view' in Austria. Accordingly, if an Austrian customer defaults on one product then all of that customer's performing products are classified as non-performing. For corporate borrowers in CEE, the customer view is also applied. However, in the retail and SME segment in CEE, Erste Group uses the 'product view', so that only the product actually in default is counted as a NPL whereas the other products of the same customer are considered performing.

Credit risk review and monitoring

Credit monitoring
In order to manage the credit risk for large corporates, banks, sovereigns and country risk, credit limits are established to reflect the maximum exposure Erste Group is willing to take on that particular customer or group of connected customers. All credit limits and the exposures booked within the limits are reviewed at least once a year. For small corporates and retail customers, monitoring and credit review is based on a rating model, which is updated monthly. For weaker small corporates (with a risk category of 'Management attention' or 'Substandard'), a continuous review process is undertaken.

Credit portfolio reports for asset classes and business lines are prepared on a regular basis. Watch-list meetings or remedial committee meetings are held on a regular basis to discuss customers with weak ratings or to discuss pre-emptive measures to help a particular client avoid default.

For retail businesses, local operational risk management is responsible to undertake these monitoring activities and fulfil the minimum requirements of Group Retail Risk Management.

Credit risk exposure

Credit risk exposure relates to the following balance sheet items:

_ loans and advances to credit institutions;
_ loans and advances to customers;
_ debt securities held for trading, at fair value through profit or loss, available for sale, and held to maturity;
_ derivatives; and
_ credit risks held off balance sheet (primarily financial guarantees and undrawn credit commitments).

The credit risk exposure comprises the gross amount without taking into account loan loss provisions, any collateral held (including risk transfer to guarantors), netting effects, other credit enhancements or other credit risk mitigating transactions. The figures relating to 31 December 2010 which are mentioned in the text of this chapter refer to values after restatement of the consolidated financial statements. Similarly, absolute and percentage differences between 31 December 2011 and 31 December 2010 correspond to values of the restated balance sheet as of 31 December 2010.

The credit risk exposure of Erste Group increased by 1.3% or EUR 2.9 billion from EUR 216.6 billion as of 31 December 2010 to EUR 219.5 billion as of 31 December 2011 is presented by

_ Basel II exposure class and financial instrument,
_ industry and financial instrument,
_ risk category,
_ industry and risk category,
_ region and risk category, and
_ business segment and risk category.

Hereafter is presented a breakdown of
_ contingent credit risk liabilities by country of risk and risk category, and
_ contingent credit risk liabilities by product, as well as
_ credit risk exposure to sovereigns by country of risk and financial instrument, and
_ credit risk exposure to institutions by country of risk and financial instrument.

This is followed by presentations of
_ non-performing credit risk exposure by business segment and risk provisions,
_ credit risk exposure by business segment and collateral,
_ credit risk exposure past due and not covered by specific provisions by Basel II exposure class and collateralisation, and
_ credit risk exposure covered by specific provisions by Basel II exposure class

and a breakdown of
_ loans and advances to customers by business segment and risk category (including coverage of non-performing loans and advances to customers by risk provisions and collateral), and
_ loans and advances to customers by business segment and currency.

Credit risk exposure by Basel II exposure class and financial instrument

The following tables include Erste Group's credit risk exposure broken down by Basel II exposure class and financial instrument as of 31 December 2011 and 31 December 2010, respectively. The assignment of obligors to Basel II exposure classes is based on legal regulations. For reasons of clarity, individual Basel II exposure classes are presented in aggregated form in the tables below and in other tables in the chapter 'credit risk'. The aggregated exposure class 'sovereigns' also contains regional and local governments as well as public sector entities in addition to central governments, central banks, international organisations and multinational development banks.

Credit risk exposure by Basel II exposure class and financial instrument in 2011

	Debt instruments								
	at amortised cost			fair value					
in EUR million	Loans and advances to credit institutions	Loans and advances to customers	Held to maturity	Trading assets	At fair value through profit or loss	Available for sale	Positive fair value of derivative financial instruments	Contingent credit liabilities	Credit risk exposure
Sovereigns	1,556	8,247	12,427	4,638	928	9,230	166	1,276	38,468
Institutions	6,008	174	2,388	573	309	5,432	9,853	509	25,246
Corporates	13	61,968	1,259	259	265	2,992	904	15,932	83,592
Retail	0	64,361	0	0	0	0	7	7,782	72,150
Total	**7,578**	**134,750**	**16,074**	**5,471**	**1,502**	**17,654**	**10,931**	**25,499**	**219,457**

Credit risk exposure by Basel II exposure class and financial instrument in 2010

	Debt instruments								
	at amortised cost			fair value					
in EUR million	Loans and advances to credit institutions	Loans and advances to customers	Held to maturity	Trading assets	At fair value through profit or loss	Available for sale	Positive fair value of derivative financial instruments restated	Contingent credit liabilities restated	Credit risk exposure restated
Sovereigns	4,988	7,605	9,744	3,912	1,334	6,230	213	1,574	35,599
Institutions	7,494	146	3,115	763	500	4,803	7,674	752	25,246
Corporates	14	60,498	1,376	281	195	3,703	619	17,422	84,108
Retail	0	64,481	0	0	0	0	2	7,524	72,007
Total without EIR restatement	**12,496**	**132,729**	**14,235**	**4,956**	**2,028**	**14,736**	**8,508**	**27,271**	**216,960**
EIR restatement									(395)
Total									**216,565**

Credit risk exposure by industry and financial instruments

The following tables present Erste Group's credit risk exposure by industry, broken down by financial instruments, as of each reporting date indicated.

Credit risk exposure by industry and financial instrument in 2011

in EUR million	Loans and advances to credit institutions	Loans and advances to customers	Held to maturity	Trading assets	At fair value through profit or loss	Available for sale	Positive fair value of derivative financial instruments	Contingent credit liabilities	Credit risk exposure
	at amortised cost		Debt instruments	fair value					
Agriculture and forestry	0	2,076	0	0	0	0	2	285	2,362
Mining	0	460	0	0	0	2	0	116	578
Manufacturing	0	10,931	111	20	1	119	125	3,865	15,172
Energy and water supply	0	2,419	51	18	0	68	33	955	3,544
Construction	0	6,745	141	1	0	65	8	3,220	10,179
Trade	0	9,476	0	1	0	9	84	2,458	12,028
Transport and communication	0	3,770	154	12	0	365	26	644	4,970
Hotels and restaurants	0	4,227	10	0	0	2	33	513	4,785
Financial and insurance services	7,578	6,633	3,166	1,931	707	8,511	10,094	2,468	41,088
Real estate and housing	0	20,630	54	9	4	233	224	2,111	23,265
Services	0	5,441	98	33	0	272	61	1,193	7,098
Public administration	0	7,166	12,247	3,442	790	7,768	161	997	32,571
Education, health and art	0	2,498	0	0	0	0	6	452	2,957
Private households	0	52,031	0	0	0	0	5	5,647	57,683
Other	0	247	42	2	0	241	70	575	1,177
Total	**7,578**	**134,750**	**16,074**	**5,471**	**1,502**	**17,654**	**10,931**	**25,499**	**219,457**

Credit risk exposure by industry and financial instrument in 2010

in EUR million	Loans and advances to credit institutions	Loans and advances to customers	Held to maturity	Trading assets	At fair value through profit or loss	Available for sale	Positive fair value of derivative financial instruments restated	Contingent credit liabilities restated	Credit risk exposure restated
	Debt instruments								
	at amortised cost			fair value					
Agriculture and forestry	0	1,946	0	0	0	0	0	281	2,227
Mining	0	494	0	4	0	4	0	97	599
Manufacturing	0	10,619	32	70	1	113	89	4,034	14,958
Energy and water supply	0	2,330	50	13	0	82	16	872	3,363
Construction	0	6,252	224	3	0	88	4	3,002	9,573
Trade	0	9,299	15	9	0	48	58	2,752	12,181
Transport and communication	0	3,900	171	66	0	290	34	639	5,100
Hotels and restaurants	0	4,250	11	0	0	2	18	490	4,771
Financial and insurance services	12,492	7,214	3,936	1,366	827	7,699	7,798	3,758	45,090
Real estate and housing	0	20,035	95	8	3	207	137	2,340	22,825
Services	0	5,162	41	43	2	265	34	1,150	6,697
Public administration	0	6,872	9,623	3,370	1,180	5,548	199	1,327	28,119
Education, health and art	0	2,387	0	0	0	15	2	452	2,856
Private households	0	51,755	0	0	0	0	2	5,461	57,218
Other	5	215	37	4	15	375	116	616	1,383
Total without EIR restatement	**12,497**	**132,730**	**14,235**	**4,956**	**2,028**	**14,736**	**8,507**	**27,271**	**216,960**
EIR restatement									**(395)**
Total									**216,565**

Credit risk exposure by risk category

The following table presents the credit risk exposure of Erste Group divided by risk category as of 31 December 2011, compared with the credit risk exposure as of 31 December 2010.

Credit risk exposure by risk category

in EUR million	Low risk	Management attention	Sub-standard	Non-performing	Credit risk exposure (pre EIR restatement)	EIR restatement	Credit risk exposure
Total exposure as of 31 Dec 2011	175,425	27,038	5,194	11,800	219,457	0	219,457
Share of credit risk exposure	79.9%	12.3%	2.4%	5.4%	100.0%		
	restated	restated					restated
Total exposure as of 31 Dec 2010	172,396	26,736	7,343	10,485	216,960	(395)	216,565
Share of credit risk exposure	79.5%	12.3%	3.4%	4.8%	100.0%		
Change in credit risk exposure in 2011	3,029	302	(2,149)	1,315	2,497		2,892
Change	1.8%	1.1%	(29.3)%	12.5%	1.2%		1.3%

From 31 December 2010 to 31 December 2011, the percentage of credit risk exposure in the low risk and non-performing categories increased, while exposure decreased in the other two categories. Non-performing claims as a share of total credit risk exposure (i.e. the non-performing ratio) showed an increase from 4.8% to 5.4%. Of Erste Group's total credit exposure, 79.9% constituted the best risk category and 12.3% was in the management attention category. The combined proportion of the two weaker risk categories decreased from 8.2% to 7.8% between 31 December 2010 and 31 December 2011.

Credit risk exposure by industry and risk category

The following tables present the credit risk exposure of Erste Group broken down by industry and risk category as of 31 December 2011 and 31 December 2010, respectively.

Credit risk exposure by industry and risk category in 2011

in EUR million	Low risk	Management attention	Substandard	Non-performing	Credit risk exposure
Agriculture and forestry	1,459	603	60	241	2,362
Mining	439	68	4	67	578
Manufacturing	9,709	3,305	423	1,735	15,172
Energy and water supply	2,722	585	86	151	3,544
Construction	6,670	1,901	477	1,132	10,179
Trade	7,954	2,398	312	1,364	12,028
Transport and communication	3,369	1,017	125	460	4,970
Hotels and restaurants	2,399	1,285	317	784	4,785
Financial and insurance services	39,335	1,224	131	398	41,088
Real estate and housing	17,860	3,562	565	1,278	23,265
Services	5,284	1,040	186	587	7,098
Public administration	31,493	995	36	47	32,571
Education, health and art	2,284	500	41	132	2,957
Private households	44,032	8,447	1,842	3,362	57,683
Other	416	107	591	63	1,177
Total	**175,425**	**27,038**	**5,194**	**11,800**	**219,457**

Credit risk exposure by industry and risk category in 2010

in EUR million	Low risk restated	Management attention restated	Substandard restated	Non-performing restated	Credit risk exposure restated
Agriculture and forestry	1,169	697	148	213	2,227
Mining	410	96	8	85	599
Manufacturing	8,529	4,003	1,124	1,302	14,958
Energy and water supply	2,733	424	78	128	3,363
Construction	5,938	1,984	792	858	9,572
Trade	7,708	2,823	465	1,185	12,181
Transport and communication	3,254	1,137	276	434	5,101
Hotels and restaurants	2,240	1,540	315	676	4,771
Financial and insurance services	42,874	1,595	199	421	45,089
Real estate and housing	16,651	4,199	969	1,007	22,826
Services	4,555	1,320	213	608	6,696
Public administration	27,457	591	64	6	28,118
Education, health and art	2,213	443	61	139	2,856
Private households	46,227	5,681	1,910	3,401	57,219
Other	438	203	721	22	1,384
Total without EIR restatement	**172,396**	**26,736**	**7,343**	**10,485**	**216,960**
EIR restatement					**(395)**
Total					**216,565**

Credit risk exposure by region and risk category

The geographic analysis of credit exposure is based on the risk country of the borrower. Accordingly, the distribution among Erste Group entities of the credit risk exposure by geography differs from the composition of credit risk exposure in terms of reporting segments of Erste Group.

The following tables present the credit risk exposure of Erste Group divided by region as of 31 December 2011 and 31 December 2010, respectively.

Credit risk exposure by region and risk category in 2011

in EUR million	Low risk	Management attention	Substandard	Non-performing	Credit risk exposure
Core market	**142,947**	**25,055**	**4,889**	**10,822**	**183,714**
Austria	76,513	9,114	1,686	3,316	90,629
Croatia	5,954	2,417	466	982	9,818
Romania	10,641	4,924	869	2,813	19,247
Serbia	587	365	16	71	1,039
Slovakia	10,299	1,412	260	539	12,509
Slovenia	1,519	264	167	236	2,187
Czech Republic	29,197	4,128	693	1,039	35,058
Ukraine	423	574	136	230	1,362
Hungary	7,812	1,858	598	1,597	11,864
Other EU	**25,336**	**1,466**	**170**	**613**	**27,584**
Other industrialised countries	**4,181**	**204**	**46**	**178**	**4,610**
Emerging markets	**2,960**	**313**	**89**	**186**	**3,549**
South-Eastern Europe/CIS	1,298	222	47	148	1,714
Asia	714	14	40	22	791
Latin America	167	8	2	9	186
Middle East/Africa	782	69	0	7	858
Total	**175,425**	**27,038**	**5,194**	**11,800**	**219,457**

Credit risk exposure by region and risk category in 2010

in EUR million	Low risk restated	Management attention restated	Substandard restated	Non-performing restated	Credit risk exposure restated
Core market	**140,048**	**24,187**	**6,891**	**9,718**	**180,844**
Austria	74,956	9,728	1,804	3,565	90,053
Croatia	6,050	2,171	255	760	9,236
Romania	9,652	3,672	2,426	2,270	18,020
Serbia	434	360	10	61	865
Slovakia	9,897	868	362	505	11,632
Slovenia	1,558	328	125	207	2,218
Czech Republic	28,962	4,657	1,070	1,147	35,836
Ukraine	354	453	128	204	1,139
Hungary	8,185	1,950	711	999	11,845
Other EU	**23,968**	**1,804**	**317**	**424**	**26,513**
Other industrialised countries	**5,137**	**352**	**43**	**201**	**5,733**
Emerging markets	**3,243**	**393**	**92**	**142**	**3,870**
South-Eastern Europe/CIS	1,179	237	28	123	1,567
Asia	865	22	56	4	947
Latin America	189	43	3	11	246
Middle East/Africa	1,010	91	5	4	1,110
Total without EIR restatement	**172,396**	**26,736**	**7,343**	**10,485**	**216,960**
EIR restatement					**(395)**
Total					**216,565**

The growth in credit risk exposure by EUR 2.9 billion from 31 December 2010 to 31 December 2011 reflected an increase of EUR 2.3 billion, or 2.5%, in the CEE core markets and an increase of EUR 576 million, or 0.6%, in Austria, coupled with an increase of nearly EUR 1.1 billion, or 4.0%, in the other EU member states (EU 27 excluding core markets), a decrease in other industrialised countries of more than EUR 1.1 billion, or almost 20%, and a decrease of EUR 321 million, or 8.3%, in emerging markets. The countries of Erste Group's core market and the EU accounted for 96.3% of credit risk exposure as of 31 December 2011. At 1.6%, credit risk exposure in emerging markets remained of minor significance.

Credit risk exposure by business segment and risk category

This section describes the composition of credit exposure based on reporting segments. Exposure is classified into segments based on the domicile of the group entities that carry the credit risk on their books.

The following tables show the credit risk exposure of Erste Group broken down by reporting segment as of 31 December 2011 and 31 December 2010, respectively.

Credit risk exposure by business segment and risk category in 2011

in EUR million	Low risk	Management attention	Substandard	Non-performing	Credit risk exposure
Retail & SME	**125,950**	**22,282**	**4,275**	**10,395**	**162,902**
Austria	75,183	9,928	1,632	3,854	90,597
EB Österreich	33,193	2,973	401	1,148	37,716
Savings Banks	41,990	6,955	1,231	2,706	52,881
CEE	50,767	12,355	2,642	6,541	72,305
Czech Republic	24,962	3,739	608	975	30,284
Romania	7,542	3,844	734	2,579	14,699
Slovakia	8,553	916	223	498	10,189
Hungary	3,655	1,648	517	1,504	7,324
Croatia	5,184	1,825	443	764	8,216
Serbia	416	228	15	59	718
Ukraine	455	155	101	161	873
Group Corporate & Investment Banking	**23,330**	**4,411**	**569**	**1,398**	**29,708**
Group Markets	**18,987**	**176**	**3**	**3**	**19,169**
Corporate Center	**7,158**	**169**	**348**	**4**	**7,679**
Total	**175,425**	**27,038**	**5,194**	**11,800**	**219,457**

Credit risk exposure by business segment and risk category in 2010

in EUR million	Low risk restated	Management attention restated	Substandard restated	Non-performing restated	Credit risk exposure restated
Retail & SME	**123,209**	**20,962**	**5,702**	**9,191**	**159,064**
Austria	73,269	10,620	1,746	3,956	89,591
EB Österreich	32,645	3,241	443	1,217	37,546
Savings Banks	40,624	7,379	1,303	2,739	52,045
CEE	49,940	10,342	3,956	5,235	69,473
Czech Republic	22,457	3,387	695	1,064	27,603
Romania	8,337	2,875	2,024	2,030	15,266
Slovakia	8,042	580	293	462	9,377
Hungary	5,049	1,548	615	937	8,149
Croatia	5,360	1,622	244	560	7,786
Serbia	358	156	9	44	567
Ukraine	337	174	76	138	725
Group Corporate & Investment Banking	**23,466**	**5,283**	**1,190**	**1,244**	**31,183**
Group Markets	**19,302**	**238**	**25**	**6**	**19,571**
Corporate Center	**6,419**	**254**	**424**	**45**	**7,142**
Total without EIR restatement	**172,396**	**26,737**	**7,341**	**10,486**	**216,960**
EIR restatement					**(395)**
Total					**216,565**

Contingent credit liabilities by region and risk category

The following tables present the credit risk exposure of Erste Group's off-balance-sheet positions broken down by region and risk category, as well as by product, as of 31 December 2011 and 31 December 2010, respectively.

Contingent credit liabilities by region and risk category in 2011

in EUR million	Low risk	Management attention	Substandard	Non-performing	Credit risk exposure
Core market	**19,871**	**2,618**	**716**	**265**	**23,470**
Austria	13,896	846	542	146	15,431
Croatia	550	176	20	14	760
Romania	1,247	757	28	55	2,085
Serbia	74	25	2	1	103
Slovakia	825	110	24	7	966
Slovenia	117	57	2	8	184
Czech Republic	2,773	524	83	26	3,406
Ukraine	0	67	0	0	67
Hungary	389	58	14	8	468
Other EU	**1,324**	**195**	**11**	**22**	**1,552**
Other industrialised countries	**206**	**10**	**10**	**1**	**227**
Emerging markets	**217**	**27**	**2**	**3**	**250**
South-Eastern Europe/CIS	127	12	2	3	144
Asia	12	1	0	0	13
Latin America	17	3	0	0	20
Middle East/Africa	62	12	0	0	73
Total	**21,618**	**2,851**	**739**	**290**	**25,499**

Contingent credit liabilities by region and risk category in 2010

in EUR million	Low risk restated	Management attention restated	Substandard	Non-performing	Credit risk exposure restated
Core market	**20,704**	**2,942**	**884**	**305**	**24,835**
Austria	14,827	1,081	513	174	16,595
Croatia	614	209	9	13	846
Romania	894	588	257	62	1,801
Serbia	57	27	1	0	85
Slovakia	983	81	32	8	1,104
Slovenia	130	39	2	8	179
Czech Republic	2,760	726	43	32	3,561
Ukraine	8	72	4	1	85
Hungary	430	118	24	7	579
Other EU	**1,472**	**248**	**4**	**17**	**1,740**
Other industrialised countries	**444**	**17**	**17**	**12**	**490**
Emerging markets	**152**	**53**	**0**	**0**	**206**
South-Eastern Europe/CIS	72	19	0	0	92
Asia	25	0	0	0	25
Latin America	17	0	0	0	17
Middle East/Africa	38	34	0	0	72
Total without EIR restatement	**22,772**	**3,260**	**905**	**334**	**27,271**
EIR restatement					**0**
Total					**27,271**

Contingent credit liabilities by product

in EUR million	2011	2010 restated
Financial guarantees	6,920	7,826
Irrevocable commitments	18,579	19,445
Total	**25,499**	**27,271**

Credit risk exposure to sovereigns by region and financial instrument

The following tables show Erste Group's credit risk exposure to sovereigns broken down by region and financial instrument as of 31 December 2011 and 31 December 2010, respectively. The assignment of obligors to sovereigns is based on Basel II exposure classes.

Credit risk exposure of sovereigns by region and financial instrument in 2011

			Debt instruments						
in EUR million	Loans and advances to credit institutions	Loans and advances to customers	Held to maturity	Trading assets	At fair value through profit or loss	Available for sale	Positive fair value of derivative financial instruments	Contingent credit liabilities	Credit risk exposure
	at amortised cost			fair value					
Core market	**1,516**	**7,772**	**12,192**	**4,184**	**343**	**7,280**	**166**	**1,257**	**34,709**
Austria	0	3,960	842	58	0	3,511	51	777	9,201
Croatia	642	783	86	138	0	497	0	56	2,202
Romania	166	1,388	1,936	550	6	1,201	0	123	5,371
Serbia	57	66	3	9	0	36	0	1	171
Slovakia	0	235	2,597	552	46	998	2	4	4,435
Slovenia	0	28	47	2	0	168	0	0	246
Czech Republic	620	658	5,671	1,548	112	352	112	256	9,330
Ukraine	0	36	0	0	0	0	0	0	36
Hungary	30	618	1,010	1,326	179	516	0	39	3,718
Other EU	**0**	**122**	**216**	**443**	**585**	**1,450**	**0**	**16**	**2,833**
Other industrialised countries	**23**	**0**	**0**	**4**	**0**	**381**	**0**	**0**	**409**
Emerging markets	**18**	**353**	**19**	**7**	**0**	**119**	**0**	**3**	**518**
South-Eastern Europe/CIS	0	115	18	6	0	112	0	3	254
Asia	0	147	1	0	0	2	0	0	150
Latin America	3	51	0	0	0	1	0	0	54
Middle East/Africa	14	40	0	0	0	4	0	0	60
Total	**1,556**	**8,247**	**12,427**	**4,638**	**928**	**9,230**	**166**	**1,276**	**38,468**

Credit risk exposure of sovereigns by region and financial instrument in 2010

			Debt instruments						
in EUR million	Loans and advances to credit institutions	Loans and advances to customers	Held to maturity	Trading assets	At fair value through profit or loss	Available for sale	Positive fair value of derivative financial instruments restated	Contingent credit liabilities restated	Credit risk exposure restated
	at amortised cost			fair value					
Core market	**4,925**	**7,204**	**9,318**	**3,603**	**153**	**4,940**	**189**	**1,482**	**31,813**
Austria	544	3,703	399	218	2	2,627	28	819	8,341
Croatia	529	484	98	173	0	334	1	6	1,626
Romania	0	1,590	1,381	606	6	894	1	179	4,657
Serbia	4	72	37	10	0	0	0	0	124
Slovakia	0	69	2,140	753	7	849	2	54	3,873
Slovenia	0	20	29	0	0	65	0	21	134
Czech Republic	3,751	699	4,097	1,110	126	30	152	363	10,329
Ukraine	0	32	0	0	0	0	0	0	32
Hungary	96	535	1,135	732	12	140	5	40	2,696
Other EU	**0**	**136**	**424**	**309**	**1,181**	**909**	**8**	**66**	**3,034**
Other industrialised countries	**23**	**0**	**0**	**0**	**0**	**276**	**0**	**25**	**324**
Emerging markets	**40**	**264**	**2**	**0**	**0**	**105**	**16**	**1**	**429**
South-Eastern Europe/CIS	0	72	2	0	0	96	0	0	170
Asia	0	99	0	0	0	3	16	0	118
Latin America	3	58	0	0	0	1	0	0	62
Middle East/Africa	37	35	0	0	0	6	0	1	79
Total without EIR restatement	**4,988**	**7,605**	**9,744**	**3,912**	**1,334**	**6,230**	**213**	**1,574**	**35,599**
EIR restatement									**0**
Total									**35,599**

Credit risk exposure institutions by region and financial instrument

The following tables present Erste Group's credit risk exposure to institutions broken down by region and financial instrument as of 31 December 2011 and 31 December 2010, respectively. The assignment of obligors to institutions is based on Basel II exposure classes.

Credit risk exposure to institutions by region and financial instrument in 2011

in EUR million	Loans and advances to credit institutions	Loans and advances to customers	Held to maturity	Trading assets	At fair value through profit or loss	Available for sale	Positive fair value of derivative financial instruments	Contingent credit liabilities	Credit risk exposure
	at amortised cost		Debt instruments	fair value					
Core market	**1,808**	**120**	**890**	**380**	**62**	**2,614**	**588**	**441**	**6,903**
Austria	660	3	307	280	57	1,394	417	337	3,455
Croatia	51	4	0	11	0	0	3	0	68
Romania	28	0	0	2	0	0	2	50	82
Serbia	17	3	0	0	0	0	0	0	20
Slovakia	5	0	2	0	1	75	15	0	98
Slovenia	86	0	10	0	0	85	0	2	184
Czech Republic	871	63	526	0	4	830	143	13	2,450
Ukraine	31	0	0	86	0	227	0	0	344
Hungary	59	48	45	2	0	2	8	38	202
Other EU	**1,879**	**39**	**1,150**	**172**	**198**	**2,494**	**8,753**	**27**	**14,711**
Other industrialised countries	**1,290**	**0**	**164**	**21**	**48**	**318**	**510**	**10**	**2,361**
Emerging markets	**1,031**	**15**	**183**	**0**	**0**	**7**	**3**	**32**	**1,271**
South-eastern Europe/CIS	138	0	0	0	0	1	0	1	141
Asia	412	0	55	0	0	0	2	11	480
Latin America	32	15	0	0	0	0	0	0	48
Middle East/Africa	448	0	129	0	0	5	0	20	602
Total	**6,008**	**174**	**2,388**	**573**	**309**	**5,432**	**9,853**	**509**	**25,246**

Credit risk exposure to institutions by region and financial instrument in 2010

in EUR million	Loans and advances to credit institutions	Loans and advances to customers	Held to maturity	Trading assets	At fair value through profit or loss	Available for sale	Positive fair value of derivative financial instruments restated	Contingent credit liabilities restated	Credit risk exposure restated
	Debt instruments								
	at amortised cost			fair value					
Core market	**3,388**	**50**	**824**	**476**	**71**	**2,458**	**632**	**527**	**8,425**
Austria	1,264	8	273	370	66	1,449	482	424	4,336
Croatia	136	5	0	11	0	0	1	5	158
Romania	318	0	0	1	0	0	3	0	323
Serbia	9	3	0	0	0	0	0	0	11
Slovakia	2	0	27	10	1	41	15	0	95
Slovenia	155	0	10	14	0	92	0	4	275
Czech Republic	1,312	0	457	9	4	706	121	1	2,610
Ukraine	14	0	0	53	0	151	0	1	219
Hungary	179	34	57	8	0	19	11	91	397
Other EU	**2,389**	**73**	**1,473**	**229**	**375**	**1,965**	**6,545**	**126**	**13,174**
Other industrialised countries	**633**	**0**	**291**	**58**	**53**	**377**	**492**	**31**	**1,936**
Emerging markets	**1,085**	**23**	**527**	**0**	**0**	**3**	**5**	**68**	**1,711**
South-Eastern Europe/CIS	169	0	0	0	0	3	0	1	174
Asia	345	0	182	0	0	0	5	23	555
Latin America	53	23	10	0	0	0	0	0	86
Middle East/Africa	517	0	335	0	0	0	0	43	896
Total without EIR restatement	**7,494**	**146**	**3,115**	**763**	**500**	**4,803**	**7,674**	**752**	**25,246**
EIR restatement									**0**
Total									**25,246**

Non-performing credit risk exposure, risk provisions and collateral

For the definition of credit risk exposure classified as non-performing, please refer to the description of risk categories in the section ‘Internal rating system’ under Note 37.5.

Erste Group allocates provisions for credit risk losses. It has established a common framework referred to as Group IFRS Principles for Credit Risk Loss Provisions which defines minimum standards and principles for credit risk provisioning related to processes and measurement. According to the underlying methodological standards, the policy distinguishes between

- loan loss provisions allocated for financial assets carried at amortised cost according to IAS 39 requirements, and
- contingent credit risk provisions allocated for contingent credit liabilities reflecting IAS 37 principles.

In both areas, risk provisions are further split into specific and portfolio provisions, whereby specific provisions are allocated for defaulted and portfolio provisions for non-defaulted customers or products. Portfolio loan loss provisions are calculated according to the incurred but not reported losses methodology. Specific loan loss provisions are calculated by estimating future cash flows, including collateral recoveries, and discounting these by the original effective interest rate. Contingent credit risk provisions are based on expected loss methodology.

The following table shows the risk provisions divided into specific and portfolio provisions and provisions for guarantees as of 31 December 2011 and 31 December 2010, respectively.

in EUR million	2011	2010
Specific provisions	6,113	5,315
Portfolio provisions	914	804
Provision for guarantees	186	186
Total	**7,213**	**6,305**

Risk provisions covered 61.1% of the reported non-performing credit risk exposure as of 31 December 2011. For the portion of the non-performing credit risk exposure that is not covered by provisions, Erste Group assumes there are sufficient levels of collateral and expected other recoveries.

In the 12 months ended 31 December 2011, the non-performing credit risk exposure increased by approximately EUR 1.3 billion, or 12.5%, from EUR 10.5 billion as of 31 December 2010 to EUR 11.8 billion as of 31 December 2011. Erste Group saw a declining growth rate in formation of new non-performing credit risk exposure during the second half of 2011. Risk provisions were increased by EUR 906 million, or 14.4%, from EUR 6.3 billion as of 31 December 2010 to EUR 7.2 billion as of 31 December 2011. These movements resulted in a net increase in coverage of the non-performing credit risk exposure by one percentage point from 60.1% to 61.1%.

The following tables show the coverage of the non-performing credit risk exposure across the reporting segments by provisions (excluding collateral) as of 31 December 2011 and 31 December 2010, respectively. The differences in provisioning levels for the segments result from the risk situation in the respective markets, different levels of collateralisation, as well as the local legal environments and regulatory requirements.

The non-performing ratio is calculated by dividing non-performing credit risk exposure by total credit risk exposure. The non-performing coverage ratio is calculated by dividing risk provisions by non-performing credit risk exposure. Collateral or other recoveries are not taken into account.

Coverage of NPL by provisions in 2011

	Credit risk exposure				
in EUR million	Non-performing	Credit risk exposure	Risk provisions	Non-performing-ratio	Non-performing coverage ratio
Retail & SME	**10,395**	**162,902**	**6,390**	**6.4%**	**61.5%**
Austria	3,854	90,597	2,346	4.3%	60.9%
Erste Bank Oesterreich	1,148	37,716	735	3.0%	64.0%
Savings Banks	2,706	52,881	1,611	5.1%	59.5%
Central and Eastern Europe	6,541	72,305	4,044	9.0%	61.8%
Czech Republic	975	30,284	674	3.2%	69.1%
Romania	2,579	14,699	1,283	17.5%	49.8%
Slovakia	498	10,189	399	4.9%	80.2%
Hungary	1,504	7,324	1,055	20.5%	70.2%
Croatia	764	8,216	425	9.3%	55.6%
Serbia	59	718	54	8.3%	91.1%
Ukraine	161	873	154	18.5%	95.3%
Group Corporate and Investment Banking	**1,398**	**29,708**	**818**	**4.7%**	**58.5%**
Group Markets	**3**	**19,169**	**0**	**0.0%**	**1.7%**
Corporate Center	**4**	**7,679**	**6**	**0.1%**	**139.3%**
Total	**11,800**	**219,457**	**7,213**	**5.4%**	**61.1%**

Coverage of NPL by provisions in 2010

	Credit risk exposure				
in EUR million	**Non-performing**	**Credit risk exposure restated**	**Risk provisions**	**Non-performing ratio restated**	**Non-performing coverage ratio restated**
Retail & SME	**9,191**	**159,065**	**5,570**	**5.8%**	**60.6%**
Austria	3,956	89,591	2,350	4.4%	59.4%
Erste Bank Oesterreich	1,217	37,547	745	3.2%	61.2%
Savings Banks	2,739	52,044	1,605	5.3%	58.6%
Central and Eastern Europe	5,235	69,474	3,220	7.5%	61.5%
Czech Republic	1,064	27,603	731	3.9%	68.7%
Romania	2,030	15,266	1,102	13.3%	54.3%
Slovakia	462	9,377	383	4.9%	82.8%
Hungary	937	8,149	471	11.5%	50.2%
Croatia	560	7,786	340	7.2%	60.7%
Serbia	44	568	45	7.8%	102.4%
Ukraine	138	725	148	19.0%	107.6%
Group Corporate and Investment Banking	**1,244**	**31,183**	**703**	**4.0%**	**56.5%**
Group Markets	**6**	**19,570**	**1**	**0.0%**	**10.5%**
Corporate Center	**45**	**7,142**	**33**	**0.6%**	**72.1%**
Total without EIR restatement	**10,486**	**216,960**	**6,307**	**4.8%**	**60.1%**
EIR restatement		**(395)**			
Total	**10,486**	**216,565**	**6,307**	**4.8%**	**60.1%**

Erste Group focuses on early identification of customers who are facing difficulties with payments or other loan-related obligations with the aim of restructuring their loans if the mid- to long-term outlook is positive. It believes that this can help to build customer loyalty for long-term relationships and co-operation. In principle, Erste Group follows a policy of restructuring by lengthening maturity and/or by deferring capital repayment but insisting on payment of interest.

Recognition of collateral
At the beginning of 2011, the Collateral Management Department was created as a staff unit within the Group Corporate Workout business area. The adopted 'Standards and Rules for Collateral Management' define, among other things, uniform valuation standards for credit collateral for the entire Group. These ensure both that the requirements of credit risk mitigation are met and the standardisation of credit risk decision processes with respect to the assets recognised as collateral.

All the collateral types acceptable within the Group are given in an exhaustive list in the Group Collateral Catalogue. Locally permitted collateral is defined by the respective bank in accordance with applicable national legal provisions. The valuation and revaluation of collateral is done according to the principles defined in the Group Catalogue broken down by class and based on the internal work instructions in accordance with the individual supervisory requirements. Whether a type of security or a specific collateral asset is accepted for credit risk mitigation is decided by Strategic Risk Management after determining if the applicable regulatory capital requirements are met. Adherence to the standard work processes stipulated for assigning the acceptable collateral assets to the categories available is monitored by operative risk management.

Main types of collateral
The following types of collateral are the most frequently accepted:
_ Real estate: This includes both private and commercial real estate.
_ Financial collateral: This category includes primarily securities portfolios and cash deposits as well as life insurance policies.
_ Guarantees: Guarantees are provided mainly by states, banks and companies. All guarantors must have a minimum credit rating that is reviewed annually.

Other types of collateral such as real collateral in the form of movable property or the assignment of receivables are accepted less frequently.

Collateral valuation and management
Collateral valuation is based on current market prices taking into account an amount that can be recovered within a reasonable period. The valuation processes are defined and technically implemented by authorised staff with the assistance of software applications. Only independent appraisers not involved in the lending decision process are permitted to conduct real estate valuations, and the valuation methods to be applied are defined. For quality assurance purposes, the real estate valuations are validated on an ongoing basis.

The methods and discounts used for valuations are based on empirical data representing past experience of the workout departments and on the collected data on loss recovery from realising collateral. The valuation methods are adjusted regularly – at least once a year – to reflect current recoveries. Financial collateral assets are recognised at market value.

The revaluation of collateral is done periodically and is automated as far as possible. In the case of external data sources, the appropriate interfaces are used. The maximum periods for the revaluation of individual collateral assets are predefined and compliance is monitored by risk management using software applications. Apart from periodic revaluations, collateral is assessed when information becomes available that indicates a decrease in the value of the collateral for exceptional reasons.

Concentration risks resulting from credit risk mitigation techniques may affect a single customer, but also a portfolio defined by region, industry or type of security. Erste Group is a retail bank and due to its customer structure and the markets in which it does business, it does not have any concentrations with respect to collateral from customers. Concerning other areas of a potentially detrimental correlation of risks, the collateral portfolios are analysed using statistical evaluations for, among other things, regional or industry-specific concentrations within the scope of portfolio monitoring. Early warning tools play an important role. The response to those risks identified includes, above all, the adjustment of volume targets, setting of corresponding limits and modification of the staff's discretionary limits for lending.

Collaterals obtained in foreclosure procedures are made available for sale in an orderly fashion, with the proceeds used to reduce or repay the outstanding claim. Generally, Erste Group does not occupy repossessed properties for its own business use. The main part of assets taken onto its own books are commercial land and buildings. In addition, privately occupied properties and transport vehicles are taken into Erste Group's possession. The carrying value of these assets amounted to EUR 312 million as of 31 December 2011.

The following tables compare the credit risk exposure broken down by business segment as of 31 December 2011 and 31 December 2010, respectively, to the collateral received.

Credit risk exposure by business segment and collateral in 2011

in EUR million	Credit risk exposure	Collaterals total	Collaterals and other credit risk mitigation: Guaran-tees	Real estate	Other	Credit risk exposure excluding collaterals
Retail & SME	**162,902**	**74,408**	**5,280**	**57,111**	**12,016**	**88,494**
Austria	90,597	44,083	4,168	33,681	6,234	46,514
EB Österreich	37,716	21,205	2,149	16,290	2,767	16,511
Savings Banks	52,881	22,878	2,019	17,392	3,467	30,003
CEE	72,305	30,325	1,112	23,430	5,782	41,980
Czech Republic	30,284	8,713	549	7,297	867	21,571
Romania	14,699	8,749	185	5,071	3,494	5,949
Slovakia	10,189	4,567	74	4,187	306	5,623
Hungary	7,324	4,485	83	3,673	729	2,840
Croatia	8,216	3,099	181	2,703	215	5,117
Serbia	718	285	41	192	53	433
Ukraine	873	425	0	307	119	448
Group Corporate & Investment Banking	**29,708**	**9,442**	**2,220**	**5,807**	**1,415**	**20,266**
Group Markets	**19,169**	**2,343**	**110**	**0**	**2,233**	**16,826**
Corporate Center	**7,679**	**768**	**570**	**22**	**177**	**6,910**
Total	**219,457**	**86,961**	**8,181**	**62,940**	**15,840**	**132,496**

Credit risk exposure by business segment and collateral in 2010

in EUR million	Credit risk exposure restated	Collaterals total	Collaterals and other credit risk mitigation: Guaran-tees	Real estate	Other	Credit risk exposure excluding collaterals erstated
Retail & SME	**159,065**	**73,992**	**5,082**	**56,934**	**11,976**	**85,073**
Austria	89,591	42,708	4,018	32,493	6,197	46,883
EB Österreich	37,547	20,511	1,977	15,729	2,805	17,036
Savings Banks	52,044	22,197	2,041	16,764	3,392	29,847
CEE	69,474	31,285	1,064	24,441	5,780	38,189
Czech Republic	27,603	9,328	645	7,843	840	18,275
Romania	15,266	8,610	160	5,215	3,236	6,656
Slovakia	9,377	4,155	80	3,814	261	5,222
Hungary	8,149	5,566	97	4,452	1,017	2,583
Croatia	7,786	2,927	81	2,607	240	4,859
Serbia	568	253	1	196	56	315
Ukraine	725	445	0	316	129	280
Group Corporate & Investment Banking	**31,183**	**9,501**	**1,855**	**6,183**	**1,463**	**21,682**
Group Markets	**19,570**	**4,181**	**166**	**0**	**4,015**	**15,389**
Corporate Center	**7,142**	**552**	**513**	**5**	**33**	**6,590**
Total without EIR restatement	**216,960**	**88,227**	**7,616**	**63,122**	**17,488**	**128,733**
EIR restatement	**(395)**					**(395)**
Total	**216,565**	**88,227**	**7,616**	**63,122**	**17,488**	**128,338**

The following tables show credit risk exposure which was past due but for which specific provisions had not been established as of 31 December 2011 and 31 December 2010, respectively.

Credit risk exposure past due and not covered by specific provisions by Basel II exposure class and collateralisation in 2011

	Credit risk exposure			thereof collateralised		
in EUR million	Total	thereof 91–180 days past due	thereof more than 180 days past due	Total	thereof 91–180 days past due	thereof more than 180 days past due
Sovereigns	5	1	3	2	1	1
Institutions	0	0	0	0	0	0
Corporates	312	126	187	152	49	103
Retail	228	46	181	151	27	124
Total	**545**	**173**	**371**	**304**	**76**	**228**

Credit risk exposure past due and not covered by specific provisions by Basel II exposure class and collateralisation in 2010

	Credit risk exposure			thereof collateralised		
in EUR million	Total	thereof 91–180 days past due	thereof more than 180 days past due	Total	thereof 91–180 days past due	thereof more than 180 days past due
Sovereigns	5	1	4	0	0	0
Institutions	0	0	0	0	0	0
Corporates	221	57	164	137	35	101
Retail	199	63	136	148	32	116
Total	**425**	**121**	**304**	**285**	**67**	**218**

As of 31 December 2011 and 31 December 2010, specific provisions existed for the following credit risk exposure more than 90 days past due.

Credit risk exposure covered by specific provisions by Basel II exposure class in 2011

in EUR million	Credit risk exposure covered by specific provisions total	thereof 91-180 days past due	thereof more than 180 days past due
Sovereigns	17	1	5
Institutions	52	3	49
Corporates	4,609	418	3,149
Retail	4,663	429	3,058
Total	**9,342**	**850**	**6,261**

Credit risk exposure covered by specific provisions by Basel II exposure class in 2010

in EUR million	Credit risk exposure covered by specific provisions total	thereof 91-180 days past due	thereof more than 180 days past due
Sovereigns	18	0	3
Institutions	49	0	49
Corporates	4,269	606	2,881
Retail	3,911	341	2,538
Total	**8,248**	**948**	**5,471**

All claims presented in the tables above were classified as non-performing. Provisions are, as a rule, established for assets that are more than 90 days past due. However, specific provisions are not established if the loans and other advances are covered by adequate collateral.

Loans and advances to customers by business segment

The following tables present the customer loan book as of 31 December 2011 and 31 December 2010, excluding loans to financial institutions and commitments, broken down by business segment and risk category.

Loans and advances to customers by business segment and risk category in 2011

in EUR million	Low risk	Management attention	Sub-standard	Non-per-forming	Total loans
Retail & SME	**80,952**	**19,513**	**3,779**	**10,112**	**114,355**
Austria	51,910	8,948	1,287	3,658	65,803
EB Österreich	24,248	2,630	270	1,051	28,199
Savings Banks	27,662	6,318	1,018	2,607	37,604
CEE	29,042	10,565	2,491	6,454	48,552
Czech Republic	12,733	2,997	511	947	17,187
Romania	4,709	3,204	714	2,533	11,160
Slovakia	4,661	845	215	496	6,217
Hungary	3,461	1,615	513	1,499	7,088
Croatia	3,080	1,654	424	759	5,917
Serbia	316	99	13	58	486
Ukraine	82	152	101	161	497
Group Corporate & Investment Banking	**14,376**	**3,663**	**490**	**1,275**	**19,805**
Group Markets	**204**	**20**	**0**	**0**	**225**
Corporate Center	**313**	**36**	**15**	**1**	**365**
Total	**95,845**	**23,233**	**4,284**	**11,388**	**134,750**

Loans and advances to customers by business segment and risk category in 2010

in EUR million	Low risk	Management attention	Sub-standard	Non-per-forming	Total loans
Retail & SME	**81,199**	**18,110**	**5,030**	**8,986**	**113,325**
Austria	50,133	9,444	1,337	3,792	64,706
EB Österreich	23,147	2,860	295	1,136	27,438
Savings Banks	26,986	6,584	1,042	2,656	37,268
CEE	31,066	8,666	3,693	5,194	48,619
Czech Republic	12,978	2,816	652	1,040	17,486
Romania	5,186	2,216	1,826	2,020	11,248
Slovakia	4,460	513	284	460	5,717
Hungary	4,749	1,468	611	935	7,763
Croatia	3,294	1,401	235	557	5,487
Serbia	301	78	9	44	432
Ukraine	98	174	76	138	486
Group Corporate & Investment Banking	**12,249**	**4,416**	**1,047**	**1,032**	**18,744**
Group Markets	**258**	**72**	**0**	**0**	**330**
Corporate Center	**154**	**129**	**15**	**32**	**330**
Total without EIR restatement	**93,860**	**22,727**	**6,092**	**10,050**	**132,729**
EIR restatement					**(395)**
Total					**132,334**

In the tables below the non-performing loans and advances to customers subdivided by business segment are contrasted with risk provisions and the collateral for non-performing loans (NPL) as of 31 December 2011 and 31 December 2010, respectively. The NPL ratio, the NPL coverage ratio and the NPL total coverage ratio are also included. The NPL total coverage ratio specifies the coverage of non-performing loans by risk provisions and collateral for non-performing loans. The terms 'NPL ratio', 'NPL coverage ratio' and 'NPL total coverage ratio' only relate to customer loans (and to other asset classes).

Non-performing loans and advances to customers by business segment and coverage by risk provisions and collateral in 2011

in EUR million	Non-performing	Total loans	Risk provisions	NPL ratio	NPL coverage ratio	Collateral for NPL	NPL total coverage ratio
Retail & SME	**10,112**	**114,355**	**6,244**	**8.8%**	**61.7%**	**5,186**	**113.0%**
Austria	3,658	65,803	2,245	5.6%	61.4%	1,540	103.5%
EB Österreich	1,051	28,199	688	3.7%	65.4%	436	106.8%
Savings Banks	2,607	37,604	1,557	6.9%	59.7%	1,104	102.1%
CEE	6,454	48,552	3,999	13.3%	62.0%	3,647	118.5%
Czech Republic	947	17,187	660	5.5%	69.7%	404	112.3%
Romania	2,533	11,160	1,268	22.7%	50.1%	1,740	118.8%
Slovakia	496	6,217	393	8.0%	79.2%	275	134.6%
Hungary	1,499	7,088	1,054	21.1%	70.3%	731	119.0%
Croatia	759	5,917	419	12.8%	55.2%	363	103.1%
Serbia	58	486	52	11.9%	89.9%	25	132.3%
Ukraine	161	497	154	32.5%	95.3%	109	162.9%
Group Corporate & Investment Banking	**1,275**	**19,805**	**697**	**6.4%**	**54.6%**	**465**	**91.1%**
Group Markets	**0**	**225**	**0**	**0.0%**	**452.4%**	**0**	**452.4%**
Corporate Center	**1**	**365**	**1**	**0.1%**	**179.6%**	**0**	**179.6%**
Total	**11,388**	**134,750**	**6,942**	**8.5%**	**61.0%**	**5,651**	**110.6%**

The 'NPL ratio' in this section ('loans and advances to customers') is calculated by dividing non-performing loans and advances by total loans and advances to customers. Hence, it differs from the 'non-performing ratio' in the section credit risk exposure.

Non-performing loans and advances to customers by business segment and coverage by risk provisions and collateral in 2010

in EUR million	Non-performing	Total loans	Risk provisions	NPL ratio	NPL coverage ratio	Collateral for NPL	NPL total coverage ratio
Retail & SME	**8,986**	**113,325**	**5,445**	**7.9%**	**60.6%**	**4,634**	**112.2%**
Austria	3,792	64,706	2,251	5.9%	59.4%	1,586	101.2%
EB Österreich	1,136	27,438	696	4.1%	61.3%	469	102.6%
Savings Banks	2,656	37,268	1,555	7.1%	58.5%	1,117	100.6%
CEE	5,194	48,619	3,194	10.7%	61.5%	3,048	120.2%
Czech Republic	1,040	17,486	728	5.9%	70.0%	427	111.1%
Romania	2,020	11,248	1,099	18.0%	54.4%	1,455	126.4%
Slovakia	460	5,717	376	8.0%	81.7%	231	131.9%
Hungary	935	7,763	467	12.0%	49.9%	544	108.2%
Croatia	557	5,487	332	10.2%	59.6%	259	106.1%
Serbia	44	432	44	10.2%	100.0%	18	141.4%
Ukraine	138	486	148	28.4%	107.2%	113	189.4%
Group Corporate & Investment Banking	**1,032**	**18,744**	**556**	**5.5%**	**53.9%**	**474**	**99.8%**
Group Markets	**0**	**330**	**0**	**0.0%**	**1762%**	**0%**	**1762%**
Corporate Center	**32**	**330**	**33**	**9.7%**	**103.1%**	**0**	**103.1%**
Total without EIR restatement	**10,050**	**132,729**	**6,034**	**7.6%**	**60.0%**	**5,108**	**110.9%**
EIR restatement		**(395)**					
Total	**10,050**	**132,334**	**6,034**	**7.6%**	**60.0%**	**5,108**	**110.9%**

The 'NPL ratio' in this section ('loans and advances to customers') is calculated by dividing non-performing loans and advances by total loans and advances to customers. Hence, it differs from the 'non-performing ratio' in the section credit risk exposure.

The risk provisions which are shown in the tables above as of 31 December 2011 are composed of specific provisions amounting to EUR 6,049 million (2010: EUR 5,248 million) and portfolio provisions amounting to EUR 891 million (2010: EUR 785 million). Collateral for non-performing loans mainly consists of real estate.

The following tables show the loans and advances to customers broken down by business segment and currency as of 31 December 2011 and 31 December 2010, respectively.

Loans and advances to customers by business segment and currency in 2011

in EUR million	EUR	Local currencies	CHF	USD	Other currencies	Total loans
Retail & SME	**72,266**	**23,988**	**15,625**	**858**	**1,619**	**114,355**
Austria	52,815	0	11,172	223	1,594	65,803
Erste Bank Österreich	23,598	0	4,061	73	468	28,199
Savings Banks	29,217	0	7,112	150	1,125	37,604
CEE	19,451	23,988	4,453	636	25	48,552
Czech Republic	637	16,497	2	44	7	17,187
Romania	6,765	4,208	0	176	10	11,160
Slovakia	6,199	0	5	9	4	6,217
Hungary	1,559	1,860	3,654	13	2	7,088
Croatia	3,936	1,192	772	14	2	5,917
Serbia	346	116	18	4	0	486
Ukraine	8	114	0	376	0	497
Group Corporate & Investment Banking	**15,615**	**1,124**	**331**	**1,841**	**894**	**19,805**
Group Markets	**126**	**13**	**22**	**35**	**29**	**225**
Corporate Center	**363**	**0**	**0**	**0**	**2**	**365**
Total	**88,369**	**25,125**	**15,978**	**2,735**	**2,543**	**134,750**

Loans and advances to customers by business segment and currency in 2010

in EUR million	EUR	Local currencies	CHF	USD	Other currencies	Total loans
Retail & SME	**69,588**	**24,173**	**17,098**	**902**	**1,563**	**113,324**
Austria	51,017	0	11,897	270	1,523	64,706
Erste Bank Österreich	22,507	0	4,380	84	468	27,438
Savings Banks	28,510	0	7,517	186	1,055	37,268
CEE	18,571	24,173	5,201	632	40	48,618
Czech Republic	687	16,762	4	27	7	17,486
Romania	6,813	4,258	0	153	24	11,248
Slovakia	5,693	0	6	10	7	5,716
Hungary	1,613	1,807	4,328	14	1	7,763
Croatia	3,469	1,163	844	9	2	5,487
Serbia	290	118	19	5	0	431
Ukraine	7	65	0	414	0	486
Group Corporate & Investment Banking	**14,698**	**920**	**246**	**2,148**	**733**	**18,745**
Group Markets	**176**	**43**	**36**	**38**	**37**	**331**
Corporate Center	**328**	**0**	**0**	**1**	**1**	**330**
Total without EIR restatement	**84,789**	**25,136**	**17,379**	**3,090**	**2,334**	**132,729**
EIR restatement						**(395)**
Total						**132.334**

Securitisations

As of 31 December 2011, Erste Group has a conservative portfolio of securitised assets and their derivatives. In compliance with internal risk standards, before investing into such products Erste Group undertakes a fundamental analysis of the market environment, the economic conditions, the profitability and the related risk characteristics. In 2011 all repayments were made as scheduled.

As of 31 December 2011, the carrying amount of Erste Group's total securitised asset portfolio was EUR 1.8 billion and so was EUR 1.1 billion lower than as of 31 December 2010. Changes in the carrying amount were due to repayments, currency effects, changes in prices and disposals of assets. The proportion of the portfolio which was rated investment grade increased from 84.6% as of year-end 2010 to 85.9% as of 31 December 2011. Only 5.4% of the assets are rated CCC or below.

As of 31 December 2011 and 31 December 2010 the composition of the total portfolio of securitised assets according to products and balance sheet line items is as follows:

2011	Loans and advances to customers and credit institutions		Financial assets: Held to maturity		Financial assets: At fair value through profit or loss	Financial assets: Available for sale	Trading assets	Total	
in EUR million	carrying amount	fair value	carrying amount	fair value	fair value[1]	fair value[1]	fair value[1]	carrying amount	fair value
Prime RMBS	9	9	269	201	4	203	15	500	432
CMBS	0	0	81	52	12	94	11	198	169
SME ABS	0	0	19	11	1	40	1	61	53
Leasing ABS	0	0	21	14	0	4	0	25	18
Other ABS	0	0	37	33	8	55	8	108	104
CLOs	0	0	0	0	47	727	1	775	775
Other CDOs	0	0	0	0	0	3	0	3	3
Other RMBS	**0**	**0**	**0**	**0**	**2**	**13**	**4**	**19**	**19**
Total ABS / CDO	**9**	**9**	**427**	**311**	**74**	**1,139**	**40**	**1,689**	**1,573**
Student loans	0	0	0	0	1	154	0	155	155
Total securitisations[2)3)]	**9**	**9**	**427**	**311**	**75**	**1,293**	**40**	**1,844**	**1,728**

1) Carrying amount is equal to fair value.
2) In 2011 exclusive of CMOs, since they no longer are treated as securitisations due to regulatory amendments.
3) Including cash from funds.

2010	Loans and advances to customers and credit institutions		Financial assets: Held to maturity		Financial assets: At fair value through profit or loss	Financial assets: Available for sale	Financial assets: Trading assets	Total	
in EUR million	carrying amount	fair value	carrying amount	fair value	fair value[1]	fair value[1]	fair value[1]	carrying amount	fair value
Prime RMBS	46	45	330	257	6	199	24	605	531
CMBS	0	0	106	68	10	103	2	221	183
SME ABS	0	0	37	22	1	34	0	72	57
Leasing ABS	0	0	31	27	0	6	0	37	33
Other ABS	0	0	79	73	17	74	11	181	175
CLOs	0	0	0	0	107	753	5	865	865
Other CDOs	0	0	12	12	0	12	0	24	24
Total ABS / CDO	**46**	**45**	**595**	**459**	**141**	**1,181**	**42**	**2,005**	**1,868**
CMOs	0	0	0	0	0	643	0	643	643
Student loans	0	0	0	0	1	268	0	269	269
Total securitisations	**46**	**45**	**595**	**459**	**142**	**2,092**	**42**	**2,917**	**2,780**

1) Carrying amount is equal to fair value.

European prime residential mortgage backed securities (Prime RMBS)
This portfolio consists primarily of British securitisations, which were strongly affected by the global economic crisis. Its quotations reached the lowest level in first quarter 2009. Since that time, prices recovered by 20%. However, higher inflation as well as a generally difficult economic environment have dampened the recovery.

Commercial mortgage backed securities (CMBS)
CMBs are securitisations which are secured by pools of mortgages on commercial property (i.e. offices, retail and others). Erste Group mainly invested in British CMBS. After slumping until July 2009, prices of commercial property have since recovered by 18%. Depending on the further development of the overall economic situation in Europe, the 2012 outlook for this market is rather strained.

European and US collateralised loan obligations (CLOs)
CLOs are securitisations backed by pools of corporate loans. Following changes in the rating methodology of Moody’s Investors Service in the first half of 2011, most of the CLOs held by Erste Group that had been downgraded during the crisis are now back at investment grade. Moody’s Investors Service’s global speculative-grade default rate for these assets continuously decreased in 2011 and stood at 1.7% in December 2011, after having reached the highest level at 13% in December 2009. The rating agency expects an increase of the global speculative-grade default rate to 2.9% by second quarter 2012.

Other asset backed securities (ABS)
Other ABSs mainly comprise securitisations where the underlying assets are lease receivables or loans to small and medium enterprises and other CDOs.

Due to regulatory amendments during 2011, collateralised mortgage obligations (CMOs) are no longer treated as securitisations and were therefore excluded from the securitisation portfolio.

Erste Group also holds investments in student loan securitisations, all of which are triple-A tranche securities. These securitisations are 97% guaranteed by the US Department of Education, while the remaining 3% are covered by subordination. Credit risk is therefore considered very low.

37.6) Market risk

Definition and overview
Market risk is the risk of loss that may arise due to adverse changes in market prices and to the parameters derived therefrom. At Erste Group, market risk is divided into interest rate risk, currency risk, equity risk, commodity risk and volatility risk. This concerns both trading and bank book positions.

Methods and instruments employed
At Erste Group, potential losses that may arise from market movements are assessed by using the ‘value-at-risk’ method. The calculation is done according to the method of historic simulation with a unilateral confidence level of 99%, a holding period of one day and a simulation period of two years. Value-at-risk describes which losses may be expected as a maximum at a defined prob-

ability – the confidence level – within a certain holding period of the positions under normal market conditions.

Back-testing is used to constantly monitor the validity of the statistical methods. This process is conducted with a one-day delay to monitor if the model projections regarding losses have actually materialised. At a confidence level of 99%, the actual loss on a single day should exceed the value-at-risk statistically only two to three times a year (1% of around 250 workdays).

This shows one of the limits of the value-at-risk approach: On the one hand, the confidence level is limited to 99%, and on the other hand, the model takes into account only those market scenarios observed respectively within the simulation period of two years, and calculates the value-at-risk for the current position of the bank on this basis. In order to investigate any extreme market situations beyond this, stress tests are conducted at Erste Group. These events include mainly market movements of low probability.

The stress tests are carried out according to several methods: 'Stressed VaR' is derived from the normal value-at-risk calculation. But instead of simulating only over the two most recent years, an analysis of a much longer period is carried out in order to identify a one-year period which constitutes a significant period of stress. According to the legal framework, that one-year period is used to calculate a VaR with a 99% confidence level. In the 'extreme value theory', a Pareto distribution is adjusted to the extreme end of the loss distribution. In this manner, a continuous function is created from which extreme confidence levels such as 99.95% can be evaluated. Finally, standard scenarios are calculated in which the individual market factors are exposed to extreme movements. Such scenarios are calculated at Erste Group for interest rates, stock prices, exchange rates and volatilities. Furthermore, since 2009, combination scenarios have been calculated in which the current position of the trading book is subjected to a combination of market data shifts. These analyses are made available to the management board and the supervisory board within the scope of the monthly market risk reports.

The value-at-risk model was approved by the Financial Market Authority (FMA) as an internal market risk model to determine the capital requirements of Erste Group pursuant to the Austrian Banking Act.

Methods and instruments of risk mitigation

At Erste Group, market risks are controlled in the trading book by setting several layers of limits. The overall limit on the basis of value-at-risk for the trading book is decided by the board in the Risk Committee taking into account the risk-bearing capacity and projected earnings. A further breakdown is done by the Market Risk Committee on the basis of a proposal from the Group Market & Liquidity Risk Management unit.

All market risk activities of the trading book are assigned risk limits that are statistically consistent in their entirety with the value-at-risk overall limit. The value-at-risk limit is assigned in a top-down procedure to the individual trading units. This is done up to the level of the individual trading groups or departments. Additionally, in a bottom-up procedure, sensitivity limits are assigned to even smaller units all the way down to the individual traders. These are then aggregated upwards and applied as a second limit layer to the value-at-risk limits. The consistency between the two limit approaches is verified regularly.

Limit compliance is verified at two levels: by the appropriate local decentralised risk management unit and by Group Market & Liquidity Risk Management. The monitoring of the limits is done within the course of the trading day based on sensitivities. This can also be carried out by individual traders or chief traders on an ad hoc basis.

The value-at-risk is calculated every day at group level and made available to the individual trading units as well as to the superior management levels all the way up to the management board.

Apart from the trading book positions, banking book positions are once monthly also subjected to a value-at-risk analysis. In this manner, the total value-at-risk is determined. In addition to VaR, a long-horizon interest rate risk measure was introduced to gauge the interest rate risk of the banking book. A historical simulation approach looking back five years and with a one-year holding period was chosen. The result of these calculations is presented in the monthly market risk report that is made available to the management and supervisory boards.

Analysis of market risk

Value at risk of banking book and trading book

The following tables show the VaR amounts as of 31 December 2011 and 31 December 2010 at the 99% confidence level using equally weighted market data and with a holding period of one day:

2011	Total	Interest	Currency	Shares	Commodity	Volatility
Erste Group	42,442	39,013	1,996	4,774	646	1,811
Banking book	36,563	36,276	2,227	1,030	0	0
Trading book	7,779	4,358	1,826	4,071	646	1,811

2010	Total	Interest	Currency	Shares	Commodity	Volatility
Erste Group	37,667	33,679	1,756	6,228	257	2,118
Banking book	30,767	30,076	1	1,274	0	0
Trading book	8,789	4,298	1,755	5,406	257	2,118

The method used is subject to limitations that may result in the information's not fully reflecting the fair value of the assets and liabilities involved.

Interest rate risk of banking book

Interest rate risk is the risk of adverse change in the fair value of financial instruments caused by movement in market interest rates. This type of risk arises when mismatches exist between assets and liabilities, including derivatives, in respect of their maturities or of the timing of interest rate adjustments.

In order to identify interest rate risk, all financial instruments, including transactions not recognised in the balance sheet, are grouped into maturity bands based on their remaining terms to maturity or terms to an interest rate adjustment.

The following tables list the open fixed-income positions held by Erste Group in the four currencies that carry significant interest rate risk – EUR, CZK, HUF and RON – as of 31 December 2011 and 31 December 2010.

Only the open fixed-income positions that are not allocated to the trading book are presented. Positive values indicate fixed-income risks on the asset side, i.e., a surplus of asset items; negative values represent a surplus on the liability side.

Open fixed-income positions not assigned to the trading book

2011 in EUR million	1–3 years	3–5 years	5–7 years	7–10 years	over 10 years
Fixed-interest gap in EUR positions as of 31 Dec 2011	(4,048.6)	1,586.1	2,541.1	1,754.7	(205.3)
Fixed-interest gap in CZK positions as of 31 Dec 2011	(2,524.3)	311.6	81.5	164.3	(486.3)
Fixed-interest gap in HUF positions as of 31 Dec 2011	405.9	132.6	(18.1)	(28.9)	0.0
Fixed-interest gap in RON positions as of 31 Dec 2011	97.9	247.6	345.9	(98.1)	(105.0)

Open fixed-income positions not assigned to the trading book

2010 in EUR million	1–3 years	3–5 years	5–7 years	7–10 years	over 10 years
Fixed-interest gap in EUR positions as of 31 Dec 2010	(1,266.4)	725.0	(350.1)	588.1	2,354.6
Fixed-interest gap in CZK positions as of 31 Dec 2010	(3,768.9)	(1,930.6)	(46.6)	968.7	1,421.4
Fixed-interest gap in HUF positions as of 31 Dec 2010	(576.7)	584.7	222.9	49.9	0.1
Fixed-interest gap in RON positions as of 31 Dec 2010	(297.4)	445.1	457.8	61.2	3.9

Exchange rate risk

The bank is exposed to several types of risks related to exchange rates. These concern risks from open foreign exchange positions and others.

Risk from open currency positions is the risk related to exchange rates that derives from the mismatch between assets and liabilities, or from currency-related financial derivatives. These risks might originate from customer-related operations or proprietary trading and are monitored and managed on a daily basis. Foreign currency exposure is subject to regulatory and internal limits. The internal limits are set by the Market Risk Committee.

Erste Group separately measures and manages other types of risks relating to the Group's balance sheet and earnings structure. The translation risk related to the valuation of the balance sheet positions, earnings, dividends and participations/net investments in local currency or foreign exchange has an impact on consolidated earnings and consolidated capital. Erste Group is also reducing the negative impact related to volatility of foreign exchange on assets' performance (for example as a result of foreign exchange lending in the CEE countries).

In order to manage its multi-currency earnings structure, Erste Group regularly discusses hedging opportunities and takes decisions in the Group Asset/Liability Committee (Group ALCO). Asset/Liability Management (ALM) uses as the usual source of information the current financial results and the financial budget prepared for the upcoming period to obtain as much information as possible on the future foreign cash flows. The proposal, which includes mainly the volume, hedging level, hedge ratio and timeline of the hedging, is submitted by ALM to Group ALCO. The impact of translation on consolidated capital is monitored and reported to Group ALCO. Group ALCO decisions are then implemented by ALM and the implementation status is reported on a monthly basis to Group ALCO.

The following table shows the open exchange rate positions of Erste Group as of the dates indicated.

Open exchange rate positions

in EUR thousand	31 Dec 2011	31 Dec 2010
Hungarian forint (HUF)	(65,737)	4,679
Romanian lei (RON)	(55,789)	8,132
US dollar (USD)	(52,027)	(71,319)
Croatian kuna (HRK)	34,943	(1,480)
Swiss franc (CHF)	(28,629)	(14,328)
Czech koruna (CZK)	25,536	2,709
Polish zloty (PLN)	6,058	(1,426)
Japanese yen (JPY)	(1,395)	(17,125)

Hedging

Banking book market risk management consists of optimising Erste Group's risk position by finding the proper trade-off between the economic value of the balance sheet and forecasted earnings. Decisions are based on the balance sheet development, economic environment, competitive landscape, fair value of risk, effect on net interest income and appropriate liquidity position. The steering body responsible for interest rate risk management is the Group ALCO. The ALM submits proposals for actions to steer the interest rate risk to the Group ALCO and implements Group ALCO's decisions.

In order to achieve the goals of risk management, hedging activities focus on the two main control variables: net interest income and market value of equity risk. In a broader sense, hedging means an economic activity that mitigates risk but does not necessarily qualify for hedge accounting under IFRS rules. Within the scope of IFRS-compliant hedge accounting, cash flow hedges and fair value hedges are used. If IFRS-compliant hedge accounting is not possible the fair value option is applied, where appropriate, for the hedging of market values. Most of the hedging within Erste Group concerns hedging of interest rate risk. The remainder is hedging foreign exchange rate risk. IFRS hedge accounting is one of the tools for managing the risk.

37.7) Liquidity risk

Definition and overview

The liquidity risk is defined in Erste Group in line with the principles set by the Basel Committee on Banking Supervision. Accordingly, a distinction is made between market liquidity risk, which is the risk that the Group entities cannot easily offset or eliminate a position at the market price because of inadequate market depth or market disruption, and funding liquidity risk, which is the risk that the banks in the Group will not be able to meet efficiently both expected and unexpected current and future cash flow and collateral needs without affecting either daily operations or the financial condition of the Group members.

Funding liquidity risk is further divided into insolvency risk and structural liquidity risk. The former is the short-term risk that current or future payment obligations cannot be met in full and on time in an economically justified way, while structural liquidity risk is the long-term risk of losses due to a change in the Group's own refinancing cost or spread.

The Group's 2011 liquidity strategy was implemented successfully. In addition to fulfilling the funding plan, the USD and CHF liquidity profile was improved by lengthening maturities. The product split for the EUR 5.3 billion of total new issues is the following: EUR 2.1 billion senior unsecured, EUR 2.9 billion covered bonds and EUR 0.3 billion of subordinated debt. In December 2011, the Group participated in three-year longer-term refinancing operations (LTRO) of the European Central Bank in an amount of EUR 3 billion, which served mainly to replace short-term secured and unsecured refinancing.

An extensive project was begun during 2011 to improve the group liquidity risk reporting framework. One of the goals of the project is to meet the new regulatory requirements from the Basel III framework (i.e. the monitoring of the liquidity coverage ratio and the net stable funding ratio starting in 2012).

Methods and instruments employed

Short-term insolvency risk is monitored by calculating the survival period for each currency on both entity and group levels. This analysis determines the maximum period during which the entity can survive in various crisis scenarios while relying on its pool of liquid assets. The monitored worst-case scenario combines a severe name and market crisis scenario, which simulates very limited money market and capital market access and at the same time significant client deposit outflow. Furthermore, higher drawing rates of guarantees and credit facilities are assumed while taking into account the counterparty type in estimating the probability of drawdown.

Erste Group manages long-term (structural) liquidity risk on both group and individual subsidiary levels through a multiple scenario approach, Dynamic aspects of the renewal of existing balance sheet items are incorporated through a certain set of assumptions describing the going concern situation outside of crisis situations. Similarly, the modelling of customer business is adjusted according to the respective scenario. The purpose of the analysis is to determine Erste Group's ability to withstand distressed situations before they actually occur. Additionally, the traditional liquidity gaps (depicting the going concern maturity mismatches on a currency level) of the subsidiaries and the Group as a whole are reported and monitored regularly. Funding concentration risk is continuously analysed in respect to counterparties. Erste Group's fund transfer pricing (FTP) system also proved to be an efficient tool for structural liquidity risk management.

Methods and instruments of risk mitigation

General standards of liquidity risk controlling and management (standards, limits and analysis) have been defined and are continuously reviewed and improved by Erste Group.

The short-term liquidity risk is managed by the survival period model on both entity and group levels, while the long-term liquidity risk is limited by the traffic light system for each entity. Both limits are monitored on a single currency level, as well. Limit breaches are reported to the Group Asset/Liability Committee. Another important means for managing the liquidity risk within Erste Group Bank and in relation to its subsidiaries is the FTP system. As the process of planning funding needs provides important data for liquidity management, a detailed overview of funding needs is prepared on a quarterly basis for the planning horizon across Erste Group.

The Comprehensive Contingency Plan ensures the necessary co-ordination of all parties involved in the liquidity management process in case of crisis, and it is reviewed on a regular basis. The contingency plans of the subsidiaries are co-ordinated as part of the plan for the Erste Group.

Analysis of liquidity risk

Liquidity gap

The long-term liquidity position is managed using liquidity gaps on the basis of expected cash flows. This liquidity position is calculated for each materially relevant currency and based on the assumption of ordinary business activity.

The table below shows contractual payments of principal as they fall due at maturity or according to the amortisation schedule. For products without contractual maturities (like demand deposits and overdrafts), modelled principal cash flows are assumed. The modelling relies on statistical analysis of historical volumes for such products.

The following table shows liquidity gaps as of 31 December 2011 and 31 December 2010

in EUR million	< 1 month		1–12 months		1–5 years		> 5 years	
	2011	2010	2011	2010	2011	2010	2011	2010
Liquidity GAP	32,653	23,426	(40,710)	(34,607)	(5,112)	(5,424)	13,168	16,605

An excess of assets over liabilities is indicated by a positive value, while an excess of liabilities over assets is indicated by a negative value.

Liquidity buffer

Erste Group holds securities that can be used in repo transactions at central banks to manage liquidity risk. The maturity profile (notional amounts) of these financial assets as of 31 December 2011 and 31 December 2010 are shown in the table below:

2011				
in EUR million	< 1 month	1–12 months	1–5 years	> 5 years
Repo-eligible securities	2,966	7,017	13,325	12,786

2010				
in EUR million	< 1 month	1–12 months	1–5 years	> 5 years
Repo-eligible securities	412	5,300	13,323	10,832

Financial liabilities

Maturities of contractual, undiscounted cash flows from financial liabilities as of 31 December 2011 and 31 December 2010, respectively, were as follow:

2011 in EUR million	Carrying amounts	Contractual cash flows	< 1 month	1–12 months	1–5 years	> 5 years
Non-derivative liabilities	**179,230**	**189,550**	**74,403**	**51,923**	**41,228**	**21,996**
Deposits by banks	23,785	24,757	10,571	4,764	6,381	3,040
Customer deposits	118,880	121,101	60,704	41,894	13,944	4,558
Debt securities in issue	30,782	35,262	3,100	4,759	16,818	10,586
Subordinated liabilities	5,783	8,430	28	505	4,086	3,812
Derivative liabilities	**1,647**	**1,445**	**156**	**358**	**490**	**441**
Derivatives banking book[1]	1,647	1,445	156	358	490	441
Total	**180,877**	**190,995**	**74,559**	**52,281**	**41,718**	**22,437**

1) The maturity analysis of undiscounted contractual cash flows of derivative financial instruments includes only the remaining contractual maturities for derivative financial liabilities in the banking book since these are essential for an understanding as to the timing of the cash flows.

2010 in EUR million	Carrying amounts restated	Contractual cash flows restated	< 1 month restated	1–12 months restated	1–5 years restated	> 5 years restated
Non-derivative liabilities	**174,306**	**184,321**	**70,622**	**51,950**	**39,145**	**22,604**
Deposits by banks	20,154	21,004	11,545	3,869	3,311	2,279
Customer deposits	117,016	119,568	55,418	42,386	16,229	5,535
Debt securities in issue	31,298	35,556	3,643	5,115	17,600	9,199
Subordinated liabilities	5,838	8,193	16	580	2,006	5,591
Derivative liabilities	**2,305**	**1,886**	**65**	**463**	**862**	**496**
Derivatives banking book[1]	2,305	1,886	65	463	862	496
Total	**176,611**	**186,207**	**70,687**	**52,413**	**40,007**	**23,100**

1) The maturity analysis of undiscounted contractual cash flows of derivative financial instruments includes only the remaining contractual maturities for derivative financial liabilities in the banking book since these are essential for an understanding as to the timing of the cash flows.

As of 31 December 2011 the volume of customer deposits due on demand amounted to EUR 47.9 billion (2010: EUR 45.3 billion). Observation of customer behaviour has shown that 95% of this volume is stable during the ordinary course of business. This means that only a minor part of the on-demand portfolio is withdrawn by the customer, whereas the major part remains generally in the bank.

37.8) Operational risk

Definition and overview

In line with Section 2, para. 57(d) of the Austrian Banking Act, Erste Group defines operational risk as the risk of loss resulting from inadequacy or failure of internal processes, people or systems, or from external events, including legal risks. Both quantitative and qualitative methods are used to identify operational risks. Consistent with international practice, the responsibility for managing operational risk rests with the line management.

Methods and instruments employed

The quantitative measurement methods are based on internal loss experience data, which is collected across Erste Group using a standard methodology and entered into a central data pool. Additionally, in order to be able to model losses that have not occurred in the past but are nonetheless possible, scenarios and external data are also used. Erste Group sources external data from a leading non-profit risk-loss data consortium.

Erste Group received regulatory approval for the Advanced Measurement Approach (AMA) in 2009. AMA is a sophisticated approach to measuring operational risk. Pursuant to AMA, the required capital is calculated using an internal VaR model, taking into account internal data, external data, scenario analysis, business environment and internal risk control factors. In 2011, Erste Group received approval to use insurance contracts for mitigation within the AMA pursuant to Section 22l of the Austrian Banking Act.

Methods and instruments of risk mitigation

In addition to quantitative methods, qualitative methods are also used to determine operational risk, such as risk assessment surveys (risk and control self-assessments). The results of and suggestions for risk control in these surveys, which are conducted by experts, are reported to the line management and thus help to reduce operational risks. Erste Group also reviews certain key indicators periodically to ensure early detection of changes in risk potential that may lead to losses.

Erste Group uses a group-wide insurance program, which, since its establishment in 2004, has reduced the cost of meeting Erste Group's traditional property insurance needs and made it possible to buy additional insurance for previously uninsured bank-specific risks. This programme uses a captive reinsurance entity as vehicle to share losses within the Group and access the external market.

The quantitative and qualitative methods used, together with the insurance strategy and the modelling approaches described above, form the operational risk framework of Erste Group. Information on operational risk is periodically communicated to the management board via various reports, including the quarterly top management report, which describes recent loss history, loss development, qualitative information from risk assessments and key risk indicators as well as the operational VaR for Erste Group.

Distribution of operational risk events

Detailed below is the percentage composition by type of event of operational risk sources as defined by the Basel II Capital Accord. The observation period lasts from 1 January 2007 to 31 December 2011.

The event type categories are as follow:

Internal fraud:
Losses due to acts of a type intended to defraud, misappropriate property or circumvent regulations, the law or company policy, excluding diversity or discrimination events, which involve at least one internal party.

External fraud:
Losses due to acts by a third party of a type intended to defraud, misappropriate property or circumvent the law.

Employment practices and workplace safety:
Losses arising from acts inconsistent with employment, health or safety laws or agreements, from payment of personal injury claims, or from diversity or discrimination events.

Clients, products and business practices:
Losses arising from unintentional or negligent failure to meet a professional obligation to specific clients (including fiduciary and suitability requirements) or from the nature or design of a product.

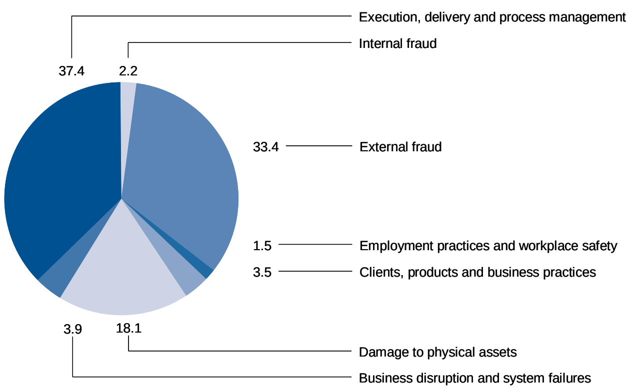
Damage to physical assets:
Losses arising from loss or damage to physical assets from natural disaster or other events.

Business disruption and system failures:
Losses arising from disruption of business or system failures.
Execution, delivery and process management:
Losses from failed transaction processing or process management. Losses pertaining to relationships with trading counterparties and vendors or suppliers.

37) Hedge accounting

Fair value hedges are employed to reduce market risk. They are used to transform fixed-rate or structured transactions into variable-rate transactions. Erste Group's policy is to convert all substantial fixed-rate individual transactions bearing interest rate risk into variable transactions in order to separate the interest rate risk from such transactions unless a given position is part of the interest rate strategy of the Group. This policy is applied primarily to fixed-rate or structured bonds issued, but also to substantial fixed-rate bonds purchased, and generally to any material fixed-rate transactions in the balance sheet. The interest rate risk is managed by Group ALM. Management of interest rate risk is undertaken through issuance of securities, loans or derivatives, whereas for derivatives IFRS hedge accounting is usually applied. Interest rate swaps are the main instruments used for fair value hedges. In connection with issuance, fair value is also hedged by means of cross-currency swaps, swaptions, caps, floors and other types of instruments.

Event type categories (in %)



Cash flow hedges are used to eliminate uncertainty in future cash flows in order to stabilise net interest income. Floors or caps are used to lock in levels of interest income in a changing interest rate environment. Interest rate swaps, caps and floors are used to hedge interest rate risk. Currency risk is hedged with spot transactions as well as currency swaps, FX forwards or balance sheet items denominated in a hedged currency.

In the reporting period, EUR 37 million (2010: EUR 26 million) was removed from the cash flow hedge reserve and recognised as income in the consolidated income statement (2010: expense); EUR 67 million (2010: EUR (102) million) was recognised directly in equity. The majority of the hedged cash flows is likely to occur within the next five years and will then be recognised in the consolidated income statement. Inefficiencies from cash flow hedges amounting to EUR 3.7 million (2010: EUR 0.9 million) are reported in the net trading result.

in EUR million	2011 Positive fair value	2011 Negative fair value	2010 Positive fair value	2010 Negative fair value
Hedging instrument – fair value hedge	1,680	576	1,570	783
Hedging instrument – cash flow hedge	133	23	135	97

Fair value hedges resulted during 2011 in gains of EUR 353.6 million on hedging instruments and losses of EUR 382.4 million on hedged items.

38) Fair value of financial instruments

Financial instruments for which fair value is determined on the basis of quoted market prices are mainly listed securities and derivatives as well as liquid OTC bonds.

Erste Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: Financial instruments which are valued based on quoted (unadjusted) prices in active markets for identical assets or liabilities. This includes financial instruments which are traded in sufficient volume on an exchange, debt instruments quoted by several market participants with a sufficient depth, or liquid derivatives which are traded on an exchange.

Level 2: Financial instruments which are valued based on quoted prices (in non-active markets or in active markets for similar assets or liabilities) and inputs other than quoted prices that are observable. This includes yield curves derived from liquid underlying instruments or prices from similar instruments.

Level 3: Inputs used are not observable. This includes extrapolation of yield curves or volatilities, usage of historical volatilities, significant adjustment of quoted CDS spreads or equity prices.

The table below details the valuation methods used to determine the fair value of financial instruments measured at fair value:

2011 in EUR million	Quoted market prices in active markets Level 1	Marked to model based on observable market data Level 2	Marked to model based on non-observable inputs Level 3	Total
Loans to credit institutions	0	0	4	4
Financial assets – available for sale	13,574	6,092	148	19,814
Financial assets – at fair value through profit or loss	722	1,064	27	1,813
Trading assets – securities	2,087	3,789	0	5,876
Positive market value – derivatives	2	10,929	0	10,931
Total assets	**16,385**	**21,874**	**179**	**38,438**
Negative market value – derivatives	0	9,335	2	9,337
Customer deposits	0	553	0	553
Debt securities in issue	85	696	0	781
Subordinated liabilities	0	215	0	215
Trading liabilities	0	536	0	536
Total liabilities and equity	**85**	**11,335**	**2**	**11,422**

2010 in EUR million	Quoted market prices in active markets Level 1	Marked to model based on observable market data Level 2	Marked to model based on non-observable inputs Level 3	Total
Financial assets – available for sale	10,704	6,385	160	17,249
Financial assets – at fair value through profit or loss	1,039	1,286	78	2,403
Trading assets – securities	2,905	2,619	0	5,524
Positive market value – derivatives	1	8,507	0	8,508
Total assets	**14,649**	**18,797**	**238**	**33,684**
Negative market value – derivatives	1	8,396	2	8,399
Trading liabilities	105	111	0	216
Total liabilities and equity	**106**	**8,507**	**2**	**8,615**

The volume of products whose fair values are determined using valuation models based on non-observable market data is driven in large part by illiquid bonds and securities not quoted in an active market.

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Movements in Level 3 of financial instruments measured at fair value

The following tables show the development of fair value of securities for which valuation models are based on non-observable inputs:

in EUR million	2010	Gain/loss in profit or loss	Gain/loss in other compre-hensive income	Purchases	Sales/ Settle-ments	Transfer into Level 3	Transfers out of Level 3	Currency translation	2011
Loans to credit institutions	0	0	0	4	0	0	0	0	4
Financial assets – available for sale	160	(2)	0	40	(48)	0	(2)	0	148
Financial assets – at fair value through profit or loss	78	(8)	0	0	(43)	0	0	0	27
Total assets	**238**	**(10)**	**0**	**44**	**(91)**	**0**	**(2)**	**0**	**179**
Negative market value – derivatives	2	(1)	0	0	0	1	0	0	2
Total liabilities and equity	**2**	**(1)**	**0**	**0**	**0**	**1**	**0**	**0**	**2**

in EUR million	2009	Gain/loss in profit or loss	Gain/loss in other compre-hensive income	Purchases	Sales/Settl ements	Transfer into Level 3	Transfers out of Level 3	Currency translation	2010
Financial assets – available for sale	175	(3)	1	10	(18)	3	(8)	0	160
Financial assets – at fair value through profit or loss	95	(4)	0	0	(20)	2	0	5	78
Trading assets	0	(1)	0	1	0	0	0	0	0
Total	**270**	**(8)**	**1**	**11**	**(38)**	**5**	**(8)**	**5**	**238**

Gains or losses on Level 3 securities held at the reporting period's end and which are included in comprehensive income are as follow:

		2011		2010
in EUR million	Gain/loss in profit or loss	Gain/loss in other comprehensive income	Gain/loss in profit or loss restated	Gain/loss in other comprehensive income
Loans to credit institutions	(0.3)	0	0	0
Financial assets – available for sale	(0.5)	(0.4)	(4.0)	1.0
Financial assets – at fair value through profit or loss	(5.2)	0.0	(3.0)	0.0
Trading assets	0.0	0.0	(1.0)	0.0
Negative market value – derivatives	0.7	0.0	0.0	0.0
Total	**(5.3)**	**(0.4)**	**(8.0)**	**1.0**

Movements between Level 1 and Level 2

The share of Level 2 assets increased compared to 2010, which is mainly due to the fact of reinvestment in bonds which are valued via the yield curve. A minor number of securities were reclassified from Level 2 to Level 1 and from Level 1 to Level 2, respectively. The reclassification resulted from increase or decrease in market depth for the relevant securities.

Movements in Level 3 financial instruments measured at fair value

As the portfolio quality in 2011 remained stable, there was no material change in the Level 3 category.

Sensitivity analysis of unobservable parameters

If the value of financial instruments is dependent on unobservable input parameters, the precise level for these parameters could be drawn from a range of reasonably possible alternatives. In preparing the financial statements, levels for the parameters are chosen from these ranges using judgement consistent with prevailing market evidence. Had all these unobservable parameters been moved simultaneously to the extremes of their ranges as of 31 December 2011, it could have increased fair value by as much as EUR 13.2 million (2010: EUR 12.0 million) or decreased fair value by as much as EUR 20.6 million (2010: EUR 19.7 million). In estimating these impacts, mainly probabilities of default and market values for equities were emphasised.

39) Fair values of financial instruments not measured at fair value

The following table shows fair values of financial instruments not measured at fair value:

	2011		2010	
in EUR million	Fair value	Carrying amount	Fair value	Carrying amount restated
ASSETS				
Cash and balances with central banks	9,413	9,413	5,839	5,839
Loans and advances to credit institutions	7,552	7,506	12,464	12,412
Loans and advances to customers	130,614	127,808	128,736	126,300
Financial assets – held to maturity	16,074	16,060	14,355	14,235
LIABILITIES				
Deposits by banks	24,007	23,785	20,289	20,154
Customer deposits	118,853	118,327	116,912	116,648
Debt securities in issue	30,202	30,001	31,573	31,210
Subordinated liabilities	5,709	5,568	5,346	5,838

The fair value of loans and advances to customers and credit institutions has been calculated by discounting future cash flows while taking into consideration interest effects. Loans and advances were grouped into homogeneous portfolios based on maturity. The change in fair values compared to the carrying amount is driven by changes in interest rates.

For liabilities without contractual maturities, the carrying amount represents its fair value. The fair value of the other liabilities is estimated by taking into consideration the actual interest rate environment and changes in own credit risk.

40) Financial instruments per category according to IAS 39

in EUR million	As of 31 December 2011							
	Category of financial instruments							
	Loans and receivables	Held to maturity	Trading	Designated at fair value	Available for sale	Financial assets and financial liabilities at amortised cost	Derivatives designated as hedging instruments	Total
ASSETS								
Cash and balances with central banks	0	0	0	0	0	9,413	0	9,413
Loans and advances to credit institutions	7,574	0	0	4	0	0	0	7,578
Loans and advances to customers	134,750	0	0	0	0	0	0	134,750
Risk provisions for loans and advances	(7,027)	0	0	0	0	0	0	(7,027)
Derivative financial instruments	0	0	9,118	0	0	0	1,813	10,931
Trading assets	0	0	5,876	0	0	0	0	5,876
Financial assets – at fair value through profit or loss	0	0	0	1,813	0	0	0	1,813
Financial assets – available for sale	0	0	0	0	20,245	0	0	20,245
Financial assets – held to maturity	0	16,074	0	0	0	0	0	16,074
Total financial assets	**135,297**	**16,074**	**14,994**	**1,817**	**20,245**	**9,413**	**1,813**	**199,653**
LIABILITIES								
Deposits by banks	0	0	0	0	0	23,785	0	23,785
Customer deposits	0	0	0	553	0	118,327	0	118,880
Debt securities in issue	0	0	0	781	0	30,001	0	30,782
Derivative financial instruments	0	0	8,738	0	0	0	599	9,337
Trading liabilities	0	0	536	0	0	0	0	536
Subordinated liabilities	0	0	0	215	0	5,568	0	5,783
Total financial liabilities	**0**	**0**	**9,274**	**1,549**	**0**	**177,681**	**599**	**189,103**

in EUR million	As of 31 December 2010							
	Category of financial instruments							
	Loans and receivables restated	Held to maturity	Trading restated	Designated at fair value	Available for sale	Financial assets and financial liabilities at amortised cost	Derivatives designated as hedging instruments	Total restated
ASSETS								
Cash and balances with central banks	0	0	0	0	0	5,839	0	5,839
Loans and advances to credit institutions	12,496	0	0	0	0	0	0	12,496
Loans and advances to customers	132,334	0	0	0	0	0	0	132,334
Risk provisions for loans and advances	(6,119)	0	0	0	0	0	0	(6,119)
Derivative financial instruments	0	0	6,803	0	0	0	1,705	8,508
Trading assets	0	0	5,536	0	0	0	0	5,536
Financial assets – at fair value through profit or loss	0	0	0	2,435	0	0	0	2,435
Financial assets – available for sale	0	0	0	0	17,751	0	0	17,751
Financial assets – held to maturity	0	14,235	0	0	0	0	0	14,235
Accruals[1]	0	0	0	0	0	1,204	0	1,204
Total financial assets	**138,711**	**14,235**	**12,339**	**2,435**	**17,751**	**7,043**	**1,705**	**194,219**
LIABILITIES								
Deposits by banks	0	0	0	0	0	20,154	0	20,154
Customer deposits	0	0	0	368	0	116,648	0	117,016
Debt securities in issue	0	0	0	89	0	31,209	0	31,298
Derivative financial instruments	0	0	7,519	0	0	0	880	8,399
Trading liabilities	0	0	216	0	0	0	0	216
Subordinated liabilities	0	0	0	0	0	5,838	0	5,838
Accruals[2]	0	0	0	0	0	1,839	0	1,839
Total financial liabilities	**0**	**0**	**7,735**	**457**	**0**	**175,688**	**880**	**184,760**

1) Accruals are reported in other assets in the balance sheet.
2) Accruals are reported in other liabilities in the balance sheet.

41) Audit fees and tax consultancy fees

The following table contains fundamental audit fees and tax fees charged by the auditors (of Erste Group Bank AG and subsidiaries; the auditors primarily being Sparkassen-Prüfungsverband, Ernst & Young and Deloitte) in the fiscal years 2011 and 2010:

in EUR million	2011	2010
Audit fees	15.6	15.0
Tax consultancy fees	1.9	1.9
Total	**17.5**	**16.9**

For auditing services provided by the Group's auditors EUR 8.6 million (2010: EUR 7.2 million) was paid by Erste Group. The Group's auditors also performed tax consultancy for Erste Group with a value of EUR 0.4 million (2010: EUR 0.5 million).

42) Contingent liabilities

To meet the financial needs of customers, the bank enters into various irrevocable commitments and contingent liabilities. Even though these obligations may not be recognised on the balance sheet, they do contain credit risk and are therefore part of the overall risk of the Bank (see Note 37) Credit exposure).

Legal proceedings

Erste Group Bank and some of its subsidiaries are involved in legal disputes, most of which have arisen in the course of its ordinary banking business. These proceedings are not expected to have a significant negative impact on the financial position or profitability of Erste Group and/or Erste Group Bank. Erste Group is also subject to the following ongoing proceedings:

Haftungsverbund

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

In competition proceedings before the Austrian cartel court, both a competitor of Erste Group Bank and the Austrian federal competition authority requested the court to set aside the Haftungsverbund agreements because of an alleged infringement of Article 81 of the EC Treaty (now Article 101 of the Treaty on the Functioning of the European Union/TFEU).

In March 2007, the Austrian Supreme Court issued a decision confirming that the agreements constituting the Haftungsverbund are for the most part in compliance with Article 81 of the EC Treaty.

However, the Supreme Court held certain provisions to be anticompetitive on their merits. In its findings, the Supreme Court did not cite any explicit measures that needed to be implemented by Erste Group Bank and the other parties. In April 2008, Erste Group Bank and the Cartel Court reached an understanding on the necessary adjustments to be made. This understanding (commitments within the meaning of Section 27 of the Cartel Act relating primarily to the sharing of data that might have competitive value) was challenged by Erste Group Bank's competitor before the Supreme Court. In October 2008, the Supreme Court set aside the decision of the Cartel Court due to a procedural error and remanded the case to the Cartel Court for reconsideration.

Neither the commitments (assuming they are upheld) nor the preceding decision of the Supreme Court affect the consolidation of the qualifying capital of the savings banks nor their inclusion as subsidiaries of Erste Group Bank in the consolidated financial statements in accordance with IFRS .

Hungarian Holocaust litigation

In 2010, a group of attorneys filed a complaint with a US court on behalf of victims of the Holocaust or their heirs against several Hungarian banks in relation to the persecution of Jews in Greater Hungary in 1944. Erste Group Bank also is named as a defendant. The plaintiffs essentially claim that Hungarian banks improperly benefited from wartime Jewish assets and held on to these assets until today. The assets claimed total $2 billion in 1944 dollars. The plaintiffs allege that Erste Group Bank is the legal successor to a number of banks that were active during that time in Greater Hungary. Erste Group Bank rejects the claim. Neither Erste Group Bank nor its Hungarian subsidiary bank, which was founded only decades after the end of World War II, view themselves as legal successors to any of the banks mentioned in the complaint. Erste Group Bank sees no basis for a US court to have jurisdiction in this matter. In February 2011, the United States submitted a Statement of Interest to the court recommending dismissal of the claims against Erste Group Bank. The case is still pending.

43) Analysis of remaining maturities

in EUR million	2011		2010 restated	
	< 1 year	> 1 year	< 1 year	> 1 year
Cash and balances with central banks	9,413	0	5,839	0
Loans and advances to credit institutions	5,483	2,095	9,930	2,566
Loans and advances to customers	35,132	99,618	35,277	97,057
Risk provisions for loans and advances	(2,129)	(4,898)	(1,812)	(4,307)
Derivative financial instruments	9,838	1,093	1,291	7,217
Trading assets	3,272	2,604	3,263	2,273
Financial assets – at fair value through profit or loss	841	972	609	1,826
Financial assets – available for sale	4,704	15,541	3,290	14,461
Financial assets – held to maturity	3,034	13,040	2,444	11,791
Other assets	599	9,754	1,699	11,056
Total	**70,187**	**139,819**	**61,830**	**143,940**
Deposits by banks	15,288	8,497	13,915	6,239
Customer deposits	96,186	22,694	91,322	25,694
Debt securities in issue	6,772	24,010	8,028	23,270
Derivative financial instruments	1,886	7,451	1,498	6,901
Trading liabilities	11	525	170	46
Subordinated liabilities	106	5,677	361	5,477
Other liabilities	391	5,332	1,235	5,056
Total	**120,640**	**74,186**	**116,529**	**72,683**

44) Own funds and capital requirement

Erste Group as a group of credit institutions is subject to the Austrian Banking Act and must follow the capital requirements set out therein.

The minimum capital requirement as determined under the Austrian Banking Act was fulfilled at all times during the year under review as well as in the prior year.

Erste Group is subject to regulatory limitations (e.g. concentration risk) that restrict the ability of Erste Group to transfer funds among entities in different countries. Own funds and capital requirements are as follow:

in EUR million	2011	2010
Subscribed capital	2,545	2,520
Share capital	781	756
Participation capital	1,764	1,764
Reserves	9,181	8,944
Deduction of Erste Group Bank shares held within the Group	(627)	(758)
Consolidation difference	(3,074)	(2,437)
Non-controlling interests (excluding hybrid tier−1 capital pursuant to Section 23 (4a) and (4b) of the Austrian Banking Act)	3,322	3,430
Intangible assets	(505)	(500)
50% deduction for non-consolidated credit and financial institutions pursuant to Section 23 (13) 3 and 4 of the Austrian Banking Act	(125)	(153)
50% deduction of IRB-shortfall pursuant to Section 23 (13) 4c of the Austrian Banking Act	0	0
50% deduction of securitisations pursuant to Section 23 (13) 4d of the Austrian Banking Act	(36)	(27)
Additional deduction for instruments measured at fair value pursuant to Section 23 (13) 4e of the Austrian Banking Act	0	0
Core tier−1 capital	**10,681**	**11,019**
Hybrid tier−1 capital pursuant to Section 23 (4a) and (4b) of the Austrian Banking Act	1,228	1,200
Tier−1 capital	**11,909**	**12,219**
Eligible subordinated liabilities	4,018	3,909
Revaluation reserve	0	0
Excess risk provisions	397	74
Qualifying supplementary capital (tier−2)	**4,415**	**3,983**
50% deduction for non−consolidated credit and financial institutions pursuant to Section 23 (13) 3 and 4 of the Austrian Banking Act	(125)	(153)
50% deduction of IRB-shortfall pursuant to Section 23 (13) 4c of the Austrian Banking Act	0	0
50% deduction of securitisations pursuant to Section 23 (13) 4d of the Austrian Banking Act	(36)	(27)
100% deductions of holdings in insurance pursuant to Section 23 (13) 4a of the Austrian Banking Act	(162)	(176)
Short-term subordinated capital (tier−3)	**414**	**374**
Total eligible qualifying capital	**16,415**	**16,220**
Capital requirement	9,122	9,587
Surplus capital	7,293	6,633
Cover ratio (in %)	179.9	169.2
Tier−1 ratio – credit risk (in %)[1)]	12.2	11.8
Core tier−1 ratio – total risk (in %)[2)]	9.4	9.2
Tier−1 ratio – total risk (in %)[3)]	10.4	10.2
Solvency ratio (in %)[4)]	14.4	13.5

1) Tier-1 ratio – credit risk is the ratio of tier-1 capital (including hybrid capital pursuant to Section 23 (4a) and (4b) of the Austrian Banking Act) to the risk-weighted assets pursuant to Section 22 (2) of the Austrian Banking Act.
2) Core tier-1 ratio – total risk is the ratio of core tier-1 capital (excluding hybrid capital pursuant to Section 23 (4a) and (4b) of the Austrian Banking Act) to the calculation base for the capital requirement pursuant to Section 22 (1) of the Austrian Banking Act.
3) Tier-1 ratio – total risk is the ratio of tier-1 capital (including hybrid capital pursuant to Section 23 (4a) and (4b) of the Austrian Banking Act) to the calculation base for the capital requirement pursuant to Section 22 (1) of the Austrian Banking Act.
4) Solvency ratio is the ratio of total eligible qualifying capital to the calculation base for the capital requirement pursuant to Section 22 (1) of the Austrian Banking Act.

The risk-weighted basis pursuant to Section 22 (1) of the Austrian Banking Act and the resulting capital requirement are as follow:

in EUR million	2011		2010	
	Calculation base/total risk[1)]	Capital requirement[2)]	Calculation base/total risk[1)]	Capital requirement[2)]
Risk pursuant to Section 22 (1) 1 of the Austrian Banking Act[3)]	97,630	7,811	103,950	8,316
a) Standardised approach	26,461	2,117	27,412	2,193
b) Internal ratings based approach	71,169	5,694	76,538	6,123
Risk pursuant to Section 22 (1) 2 of the Austrian Banking Act[4)]	5,060	405	4,668	373
Risk pursuant to Section 22 (1) 3 of the Austrian Banking Act[5)]	119	9	11	1
Risk pursuant to Section 22 (1) 4 of the Austrian Banking Act[6)]	11,210	897	11,215	897
Total	**114,019**	**9,122**	**119,844**	**9,587**

1) Internal calculation base used for calculation of the tier-1 ratio, core tier-1 ratio and solvency ratio (capital requirement multiplied by 12.5).
2) Capital requirement pursuant to the Austrian Banking Act.
3) Risk-weighted assets – credit risk.
4) Market risk (trading book).
5) Commodities risk and foreign exchange-risk, including the risk arising from gold positions, each for positions outside the trading book.
6) Operational risk.

45) Events after the balance sheet date

In order to strengthen its capital structure Erste Group announced its plans to repurchase issued hybrid tier-1 capital and certain tier-2 securities for cash on 17 February 2012.

The potential repurchase up to an indicative limit of EUR 500 million of hybrid tier-1 instruments will take place from 17 February 2012 to 2 March 2012.

46) Details of the companies wholly or partly owned by Erste Group as of 31 December 2011

The tables below present material, fully consolidated subsidiaries, investments in associates accounted for at equity and other investments.

Since IMMORENT Aktiengesellschaft is disclosed here as a sub-group, the single entities are not listed separately.

Company name, registered office		Interest of Erste Group in %
Fully consolidated subsidiaries		
Credit institutions		
Allgemeine Sparkasse Oberösterreich Bankaktiengesellschaft	Linz	29.8
Banca Comercială Română Chișinău S.A.	Chişinău	89.1
Banca Comercială Română SA	Bucharest	89.1
Banka Sparkasse d.d.	Ljubljana	28.0
Bankhaus Krentschker & Co. Aktiengesellschaft	Graz	25.0
Bausparkasse der österreichischen Sparkassen Aktiengesellschaft	Vienna	95.0
BCR Banca pentru Locuinte SA	Bucharest	90.3
Česká spořitelna, a.s.	Prague	98.0
Dornbirner Sparkasse Bank AG	Dornbirn	0.0
ecetra Central European e-Finance AG	Vienna	100.0
Erste & Steiermärkische Bank d.d.	Rijeka	69.3
Erste Asset Management GmbH	Vienna	100.0
Erste Bank (Malta) Limited	Sliema	100.0
ERSTE BANK AD NOVI SAD	Novi Sad	80.5
ERSTE BANK AD PODGORICA	Podgorica	69.3
Erste Bank der oesterreichischen Sparkassen AG	Vienna	100.0
Erste Bank Hungary Zrt	Budapest	100.0
ERSTE Immobilien Kapitalanlagegesellschaft m.b.H.	Vienna	74.0
ERSTE-SPARINVEST Kapitalanlagegesellschaft m.b.H.	Vienna	86.5
Intermarket Bank AG	Vienna	91.5
Kärntner Sparkasse Aktiengesellschaft	Klagenfurt	25.0
KREMSER BANK UND SPARKASSEN AKTIENGESELLSCHAFT	Krems an der Donau	0.0
Lienzer Sparkasse AG	Lienz	0.0
Public Company 'Erste Bank'	Kiev	100.0
RINGTURM Kapitalanlagegesellschaft m.b.H.	Vienna	95.0
s Wohnbaubank AG	Vienna	91.0
Salzburger Sparkasse Bank Aktiengesellschaft	Salzburg	98.7
Slovenská sporiteľňa, a. s.	Bratislava	100.0
Sparkasse Baden	Baden	0.0
Sparkasse Bank dd	Sarajevo	24.3
SPARKASSE BANK MAKEDONIJA AD SKOPJE	Skopje	24.9
Sparkasse Bank Malta Public Limited Company	Sliema	0.0
Sparkasse Bludenz Bank AG	Bludenz	0.0
Sparkasse Bregenz Bank Aktiengesellschaft	Bregenz	0.0
Sparkasse der Gemeinde Egg	Egg	0.0
Sparkasse der Stadt Amstetten AG	Amstetten	0.0
Sparkasse der Stadt Feldkirch	Feldkirch	0.0
Sparkasse der Stadt Kitzbühel	Kitzbühel	0.0
Sparkasse Eferding-Peuerbach-Waizenkirchen	Eferding	0.0
Sparkasse Feldkirchen/Kärnten	Feldkirchen	0.0
Sparkasse Frankenmarkt Aktiengesellschaft	Frankenmarkt	0.0
Sparkasse Hainburg-Bruck-Neusiedl Aktiengesellschaft	Hainburg	75.0
Sparkasse Haugsdorf	Haugsdorf	0.0
Sparkasse Herzogenburg-Neulengbach	Herzogenburg	0.0
Sparkasse Horn-Ravelsbach-Kirchberg Aktiengesellschaft	Horn	0.0
Sparkasse Imst AG	Imst	0.0

Company name, registered office		Interest of Erste Group in %
Sparkasse Korneuburg AG	Korneuburg	0.0
Sparkasse Kremstal-Pyhrn Aktiengesellschaft	Kirchdorf a.d. Krems	30.0
Sparkasse Kufstein, Tiroler Sparkasse von 1877	Kufstein	0.0
Sparkasse Lambach Bank Aktiengesellschaft	Lambach	0.0
Sparkasse Langenlois	Langenlois	0.0
Sparkasse Mittersill Bank AG	Mittersill	0.0
Sparkasse Mühlviertel-West Bank Aktiengesellschaft	Rohrbach	40.0
Sparkasse Mürzzuschlag Aktiengesellschaft	Mürzzuschlag	0.0
Sparkasse Neuhofen Bank Aktiengesellschaft	Neuhofen	0.0
Sparkasse Neunkirchen	Neunkirchen	0.0
SPARKASSE NIEDERÖSTERREICH MITTE WEST AKTIENGESELLSCHAFT	St. Pölten	0.0
Sparkasse Oberösterreich Kapitalanlagegesellschaft m.b.H.	Linz	29.6
Sparkasse Pöllau AG	Pöllau	0.0
Sparkasse Pottenstein N.Ö.	Pottenstein/Triesting	0.0
Sparkasse Poysdorf AG	Poysdorf	0.0
Sparkasse Pregarten - Unterweißenbach AG	Pregarten	0.0
Sparkasse Rattenberg Bank AG	Rattenberg	0.0
Sparkasse Reutte AG	Reutte	0.0
Sparkasse Ried im Innkreis-Haag am Hausruck	Ried im Innkreis	0.0
Sparkasse Salzkammergut AG	Bad Ischl	0.0
Sparkasse Scheibbs AG	Scheibbs	0.0
Sparkasse Schwaz AG	Schwaz	0.0
Sparkasse Voitsberg-Köflach Bankaktiengesellschaft	Voitsberg	5.0
Sparkasse Waldviertel-Mitte Bank AG	Zwettl	0.0
Stavebni sporitelna Ceske sporitelny, a.s.	Prague	97.8
Steiermärkische Bank und Sparkassen Aktiengesellschaft	Graz	25.0
Tiroler Sparkasse Bankaktiengesellschaft Innsbruck	Innsbruck	75.0
Tirolinvest Kapitalanlagegesellschaft mbH.	Innsbruck	77.9
Waldviertler Sparkasse von 1842 AG	Waidhofen an der Thaya	0.0
Wiener Neustädter Sparkasse	Wiener Neustadt	0.0

Company name, registered office		Interest of Erste Group in %
Other financial institutions		
Asset Management Slovenskej sporitelne, správ. spol., a. s.	Bratislava	100.0
AVS Beteiligungsgesellschaft m.b.H.	Innsbruck	75.0
BCR Leasing IFN SA	Bucharest	89.0
BCR Partener IFN SA	Bucharest	89.1
BCR Payments Services SRL	Sibiu	89.1
BCR Securities SA – under liquidation procedure	Bucharest	79.5
brokerjet Ceske sporitelny, a.s.	Prague	99.0
brokerjet Sparkasse d.d.	Ljubljana	100.0
Diners Club BH d.o.o. Sarajevo	Sarajevo	69.3
Drustvo za lizing nekretnina, vozila, plovila i masina ‘S-Leasing’ doo Podgorica	Podgorica	62.5
EB Erste Bank Internationale Beteiligungen GmbH	Vienna	100.0
EB-Malta-Beteiligungen Gesellschaft m.b.H.	Vienna	100.0
EBV - Leasing Gesellschaft m.b.H. & Co. KG.	Vienna	100.0
EGB Ceps Beteiligungen GmbH	Vienna	100.0
EGB Ceps Holding GmbH	Vienna	100.0
EGB e-business Holding GmbH	Vienna	100.0
Erste & Steiermärkische S-Leasing drustvo s ogranicenom odgovornoscu za leasing vozila i strojeva	Zagreb	59.4
Erste Alapkezelo Zrt.	Budapest	100.0
Erste Bank Beteiligungen GmbH	Vienna	100.0
Erste Befektetesi Zrt.	Budapest	100.0
ERSTE CARD CLUB d.d.	Zagreb	69.3
ERSTE DELTA DRUSTVO S OGRANICENOM ODGOVORNOSCU ZA POSLOVANJE NEKRETNINAMA	Zagreb	69.3
ERSTE FACTORING d.o.o.	Zagreb	76.9
Erste Faktor Penzügyi Szolgaltato Zrt.	Budapest	100.0
Erste Group Immorent AG	Vienna	100.0
Erste Invest d.o.o.	Zagreb	100.0
Erste Lakas-Takarekpenztar Zartkoruen Mukodo Reszvenytarsasag	Budapest	100.0
Erste Leasing Autofinanszirozasi Penzügyi Szolgaltato Zrt.	Budapest	100.0
Erste Leasing Berlet Szolgaltato Kft. (vm. Erste Leasing Szolgaltato Kft.)	Budapest	100.0
Erste Leasing Eszközfinanszirozasi Penzügyi Szolgaltato Zrt. (vm. Erste S Leasing Pénzügyi Szolgáltató Rt.)	Budapest	100.0
Erste Securities Istanbul Menkul Degerler AS	Istanbul	100.0
Erste Securities Polska S.A.	Warsaw	100.0
Factoring Ceske sporitelny a.s.	Prague	98.0
Factoring Slovenskej sporitelne, a.s.	Bratislava	100.0
Immorent - Süd Gesellschaft m.b.H., S - Leasing KG	Graz	46.4
IMMORENT ALFA leasing druzba, d.o.o.	Ljubljana	50.0
IMMORENT BETA, leasing druzba, d.o.o.	Ljubljana	62.5
IMMORENT DELTA, leasing druzba, d.o.o.	Ljubljana	50.0
IMMORENT leasing nepremicnin d.o.o.	Ljubljana	44.9
IMMORENT-RAMON Grundverwertungsgesellschaft m.b.H.	Vienna	62.5
Immorent-Süd Gesellschaft m.b.H.	Graz	51.3
IMMORENT-TOPAS Grundverwertungsgesellschaft m.b.H.	Vienna	62.5
Investicni spolecnost Ceske sporitelny, a.s.	Prague	100.0
Kärntner Sparkasse Vermögensverwaltungsgesellschaft m.b.H.	Klagenfurt	25.0
Leasing Slovenskej sporitelne, a.s.	Bratislava	100.0
Magyar Factor Penzugyi Szolgaltato Zartkoruen Mukodo Reszvenytarsasag	Budapest	100.0
NÖ-Sparkassen Beteiligungsgesellschaft m.b.H.	Vienna	2.5
Portfolio Kereskedelmi, Szolgaltato es Szamitastechnikai Kft.	Budapest	100.0
PREDUZECE ZA LIZING NEKRETNINA, VOZILA I MASINA S-LEASING DOO BEOGRAD	Belgrade	62.5
REICO investicni spolecnost Ceske sporitelny, a.s. s.	Prague	98.0

Company name, registered office		Interest of Erste Group in %
RUTAR INTERNATIONAL trgovinska d.o.o.	Ljubljana	62.5
s Autoleasing a.s.	Prague	98.0
s Autoleasing GmbH	Vienna	100.0
S MORAVA Leasing, a.s.	Znojmo	98.0
SAI Erste Asset Management S.A.	Bucharest	100.0
S-Factoring, faktoring druzba d.d.	Ljubljana	53.4
S-IMMORENT nepremicnine d.o.o.	Ljubljana	50.0
Sparkasse Leasing S,družba za financiranje d.o.o.	Ljubljana	28.0
SPARKASSEN LEASING druzba za financiranje d.o.o.	Ljubljana	50.0
Sparkassenbeteiligungs und Service AG für Oberösterreich und Salzburg	Linz	69.3
SPK Immobilien- und Vermögensverwaltungs GmbH	Graz	25.0
S-RENT DOO BEOGRAD	Belgrade	62.5

Company name, registered office		Interest of Erste Group in %
Other		
'Die Kärntner' Trust-Vermögensberatungsgesellschaft m.b.H.	Villach	25.0
'Sparkassen-Haftungs Aktiengesellschaft'	Vienna	43.2
Atrium Center s.r.o.	Bratislava	10.0
AWEKA - Kapitalverwaltungsgesellschaft m.b.H.	Graz	25.0
BCR Finance BV	Amsterdam	89.1
BCR Fleet Management SRL	Bucharest	89.0
BCR PENSII, SOCIETATE DE ADMINISTRARE A FONDURILOR DE PENSII PRIVATE SA	Bucharest	89.1
BCR Procesare SRL	Bucharest	89.1
BCR Real Estate Management SRL	Bucharest	89.1
BELBAKA a.s.	Prague	10.0
Beta-Immobilienvermietung GmbH	Vienna	100.0
BGA Czech, s.r.o.	Prague	10.0
BRS Büroreinigungsgesellschaft der Steiermärkischen Bank und Sparkassen Aktiengesellschaft Gesellschaft m.b.H.	Graz	25.0
Capexit Beteiligungs Invest GmbH	Vienna	100.0
Capexit Private Equity Invest GmbH	Vienna	100.0
CASIOPEA VISION, A.S.	Brno	10.0
CEE Property Development Portfolio 2 B.V.	Amsterdam	19.6
CEE Property Development Portfolio B.V.	Amsterdam	19.6
CP Praha s.r.o.	Prague	19.6
CPDP 2003 s.r.o.	Prague	19.6
CPDP Jungmannova s.r.o.	Prague	19.6
CPDP Logistics Park Kladno I a.s.	Prague	19.6
CPDP Logistics Park Kladno II a.s.	Prague	19.6
CPDP Polygon s.r.o.	Prague	19.6
CPDP Prievozska a.s.	Bratislava	19.6
CPDP Shopping Mall Kladno, a.s.	Prague	19.6
CPP Lux S. 'ar.l.	Luxembourg	19.6
CS Investment Limited	St. Peter Port	98.0
CS Property Investment Limited	Nicosia	98.0
CSPF Residential B.V.	Amsterdam	10.0
CSSC Customer Sales Service Center GmbH	Vienna	57.3
Czech and Slovak Property Fund B.V.	Amsterdam	10.0
Czech TOP Venture Fund B.V.	Groesbeek	82.6
Derop B.V.	Amsterdam	100.0
DIE ERSTE Immobilienvermietungsgesellschaft m.b.H.	Vienna	100.0
EBB Beteiligungen GmbH	Vienna	100.0
EB-Beteiligungsservice GmbH	Vienna	99.9
EB-Restaurantsbetriebe Ges.m.b.H.	Vienna	100.0
EGB Capital Invest GmbH	Vienna	100.0
Erste Campus Mobilien GmbH & Co KG	Vienna	100.0
Erste Capital Finance (Jersey) PCC	St. Helier	100.0
ERSTE DMD d.o.o.	Zagreb	69.3
Erste Finance (Delaware) LLC	City of Wilmington	100.0
Erste Finance (Jersey) (6) Limited	St. Helier	100.0
Erste Finance (Jersey) Limited III	St. Helier	100.0
Erste Finance (Jersey) Limited IV	St. Helier	100.0
Erste Finance (Jersey) Limited V	St. Helier	100.0
Erste GCIB Finance I B.V.	Amsterdam	100.0
Erste Group Services GmbH	Vienna	100.0
Erste Group Shared Services (EGSS), s.r.o.	Hodonín	99.2
Erste Ingatlan Fejleszto, Hasznosito es Mernoki Kft. (vm. PB Risk Befektetesi es Szolgaltato Kft).	Budapest	100.0
Erste Ingatlanlizing Penzügyi Szolgaltato Zrt.	Budapest	100.0

Company name, registered office		Interest of Erste Group in %
Erste Kereskedohaz Kft.	Budapest	100.0
Erste Lakaslizing Zrt.	Budapest	100.0
ERSTE NEKRETNINE d.o.o. za poslovanje nekretninama	Zagreb	69.3
Erste Penztarszervezö Kft. 'vegelszamolas alatt'	Budapest	100.0
Erste Reinsurance S.A.	Howald	100.0
Euro Dotacie, a.s.	Žilina	64.7
Financiara SA	Bucharest	86.9
Flottenmanagement GmbH	Vienna	51.0
Gallery MYSAK a.s.	Prague	19.6
Gladiator Leasing Limited	Sliema	99.9
GLL MSN 038 / 043 LIMITED	Sliema	99.9
good.bee Service RO SRL	Bucharest	89.1
GRANTIKA Ceske sporitelny, a.s.	Brno	98.0
Haftungsverbund GmbH	Vienna	63.4
HEBRA Holding GmbH	Vienna	100.0
Immobilienverwertungsgesellschaft m.b.H.	Klagenfurt	25.0
Informations-Technologie Austria SK, spol. s r.o.	Bratislava	100.0
Investicni spolecnost Ceske sporitelny, a.s., PF2-otevreny podilovy fond	Prague	98.0
IT Centrum s.r.o.	Prague	98.0
Jegeho Residential s.r.o.	Bratislava	10.0
KS-Dienstleistungsgesellschaft m.b.H.	Klagenfurt	25.0
KS-Beteiligungs- und Vermögens-Verwaltungsgesellschaft m.b.H.	Klagenfurt	25.0
LANED a.s.	Bratislava	100.0
LIEGESA Immobilienvermietung GmbH Nfg OHG	Graz	25.0
Lighthouse 449 Limited	Sliema	99.9
MBU d.o.o.	Zagreb	100.0
Nove Butovice Development s.r.o.	Prague	10.0
OM Objektmanagement GmbH	Vienna	100.0
PARTNER CESKE SPORITELNY, A.S.	Prague	98.0
Penzijni fond Ceske sporitelny, a.s.	Prague	98.0
Procurement Services GmbH	Vienna	99.9
Procurement Services HU Kft.	Budapest	99.9
Procurement Services RO srl	Bucharest	99.9
Procurement Services SK s.r.o.	Bratislava	99.9
Procurement Services Zagreb d.o.o.	Zagreb	99.9
Realitas Grundverwertungsgesellschaft m.b.H.	Vienna	66.3
Realitna spolocnost Slovenskej sporitelne, a.s.	Bratislava	100.0
Real-Service für oberösterreichische Sparkassen Realitätenvermittlungsgesellschaft m.b.H.	Linz	66.9
Real-Service für steirische Sparkassen, Realitätenvermittlungsgesellschaft m.b.H.	Graz	59.7
s ASG Sparkassen Abwicklungs- und Servicegesellschaft mbH	Graz	25.0
s IT Solutions AT Spardat GmbH	Vienna	82.2
s IT Solutions CZ, s.r.o.	Prague	99.2
s IT Solutions Holding GmbH	Vienna	100.0
s IT Solutions HR drustvo s ogranicenom odgovornoscu za usluge informacijskih tehnologija	Bjelovar	93.9
s IT Solutions SK, spol. s r.o.	Bratislava	99.5
s REAL Immobilienvermittlung GmbH	Vienna	96.1
S Tourismus Services GmbH	Vienna	100.0
s Wohnbauträger GmbH	Vienna	91.0
s Wohnfinanzierung Beratungs GmbH	Vienna	75.4
SATPO Jeseniova, s.r.o.	Prague	5.0
SATPO Kralovska vyhlidka, s.r.o.	Prague	5.0
SATPO Sacre Coeur II, s.r.o.	Prague	5.0
sBAU Holding GmbH	Vienna	95.0
SC Bucharest Financial Plazza SRL	Bucharest	89.1
Sio Ingatlan Invest Kft.	Budapest	100.0

Company name, registered office		Interest of Erste Group in %
Smichov Real Estate, a.s.	Prague	10.0
Solitaire Real Estate, a.s.	Prague	10.0
Sparkasse S d.o.o.	Ljubljana	25.0
Sparkassen Real Vorarlberg Immobilienvermittlung GmbH	Dornbirn	48.1
Sparkassen Zahlungsverkehrsabwicklungs GmbH	Linz	57.8
Sparkassen-Real-Service für Kärnten und Osttirol Realitätenvermittlungs-Gesellschaft m.b.H.	Klagenfurt	55.6
Sparkassen-Real-Service -Tirol Realitätenvermittlungs-Gesellschaft m.b.H.	Innsbruck	66.8
S-Tourismusfonds Management Aktiengesellschaft	Vienna	100.0
SUPORT COLECT SRL	Bucharest	89.1
SVD-Sparkassen-Versicherungsdienst Versicherungsbörse Nachfolge GmbH & Co. KG	Innsbruck	75.0
TAVARESA a.s.	Prague	19.6
Trencin Property a.s.	Bratislava	10.0
Trencin Retail Park a.s.	Bratislava	9.0

Company name, registered office		Interest of Erste Group in %
Equity method investments		
Credit institutions		
'Spar-Finanz'-Investitions- und Vermittlungs-Aktiengesellschaft	Vienna	50.0
NÖ Beteiligungsfinanzierungen GmbH	Vienna	30.0
NÖ Bürgschaften GmbH	Vienna	25.0
Prvá stavebná sporitelna, a.s.	Bratislava	35.0
Other		
APHRODITE Bauträger Aktiengesellschaft	Vienna	45.5
ASC Logistik GmbH	Vienna	24.0
EBB-Gamma Holding GmbH	Vienna	49.0
ERSTE d.o.o.	Zagreb	41.7
FINEP Jegeho alej a.s.	Bratislava	3.3
Gelup GesmbH	Vienna	31.7
Immobilien West Aktiengesellschaft	Salzburg	49.3
KWC Campus Errichtungsgesellschaft m.b.H.	Klagenfurt	12.5
Let's Print Holding AG	Graz	42.0
LTB Beteiligungs GmbH	Vienna	25.0
Office Center Stodulky GAMA a.s.	Prague	39.2
ROMANIAN EQUITY PARTNERS COÖPERATIEF U.A.	Amsterdam	66.7
RSV Beteiligungs GmbH	Vienna	33.3
SATPO Na Malvazinkach, a.s.	Prague	5.0
SATPO Sacre Coeur, s.r.o.	Prague	5.0
SATPO Svedska s.r.o.	Prague	5.0
Slovak Banking Credit Bureau, s.r.o.	Bratislava	33.3
VBV – Betriebliche Altersvorsorge AG	Vienna	26.9

Although Erste Group holds less than 20% of the equity shares in FINEP Jegeho Alej, a.s., SATPO Sacre Coeur, s.r.o., SATPO Na Malvazinkach, s.r.o. and SATPO Svedska, s.r.o., it exercises significant influence over those companies by virtue of significant additional investments in those companies as well as representation on the board of directors.

Company name, registered office		Interest of Erste Group in %
Other investments		
Credit institutions		
VBV – Vorsorgekasse AG	Vienna	24.5
Other financial institutions		
'Wohnungseigentumsbau' Gemeinnützige Wohnungs- und Siedlungs Aktiengesellschaft in Liqu.	Salzburg	22.7
Allgemeine Sparkasse Immobilienleasing Projekt Volkshaus Keferfeld/Oed Gesellschaft m.b.H.	Salzburg	29.8
AS-WECO 4 Grundstückverwaltung Gesellschaft m.b.H.	Salzburg	29.6
Company for Investment Funds Management 'Erste Invest' a.d. Belgrade	Belgrade	100.0
DINESIA a.s.	Prague	98.0
E-C-A-Holding Gesellschaft m.b.H.	Vienna	65.5
E-C-B Beteiligungsgesellschaft.m.b.H.	Vienna	24.7
EFH-Beteiligungsgesellschaft m.b.H.	Vienna	50.0
Fondul de Garantare a Creditului Rural IFN SA	Bucharest	29.7
good.bee Holding GmbH	Vienna	60.0
Grema – Grundstückverwaltung Gesellschaft m.b.H.	Innsbruck	75.0
ILGES – Immobilien- und Leasing-Gesellschaft m.b.H.	Rohrbach	40.0
KERES-Immorent Immobilienleasing GmbH	Vienna	25.0
Lorit Immobilien Leasing Gesellschaft m.b.H.	Vienna	56.2
Neue Eisenstädter gemeinnützige Bau-, Wohn- und Siedlungsgesellschaft m.b.H.	Eisenstadt	50.0
Österreichisches Volkswohnungswerk, Gemeinnützige Gesellschaft mit beschränkter Haftung	Vienna	100.0
S Slovensko s.r.o.	Bratislava	100.0
S-Leasing d.o.o., Sarajevo	Sarajevo	24.9
S-Leasing d.o.o., Skopje	Skopje	25.0
SPARKASSE Bauholding Gesellschaft m.b.H.	Salzburg	98.7
Sparkasse Bauholding Leasing I GmbH	Salzburg	98.7
Sparkasse Bauholding Leasing II GmbH	Salzburg	98.2
Sparkasse Bauholding Leasing III GmbH	Salzburg	98.2
Sparkasse Bauholding Leasing V GmbH	Salzburg	98.7
STUWO Gemeinnützige Studentenwohnbau Aktiengesellschaft	Vienna	50.3
Transfactor Slovakia a.s.	Bratislava	91.5
WEST CONSULT Grundstückverwaltung IV Gesellschaft m.b.H.	Salzburg	30.0
Other		
'Die Kärntner' – Förderungs- und Beteiligungsgesellschaft für die Stadt Friesach Gesellschaft m.b.H.	Friesach	25.0
'Die Kärntner' – Förderungsgesellschaft für das Gurktal Gesellschaft m.b.H.	Gurk	25.0
'Die Kärntner'-BTWF-Beteiligungs- und Wirtschaftsförderungsgesellschaft für die Stadt St. Veit/Glan Gesellschaft m.b.H.	St. Veit a. d. Glan	25.0
'Die Kärntner'-Förderungs- und Beteiligungsgesellschaft für den Bezirk Wolfsberg Gesellschaft m.b.H.	Wolfsberg	25.0
'SIMM' Liegenschaftsverwertungsgesellschaft m.b.H.	Graz	25.0
S-PREMIUM' Drustvo sa ogranicenom odgovornoscu za posredovanje i zastupanje u osiguranju d.o.o. Sarajevo	Novo Sarajevo	24.6
A1KS Beteiligungs GmbH	Klagenfurt	25.0
AGRI-BUSINESS Kft. (in Konkurs)	Hegyeshalom	100.0
Argentum Immobilienverwertungs Ges.m.b.H.	Linz	28.3
AS LEASING Gesellschaft m.b.H.	Linz	29.8
AS-WECO Grundstückverwaltung Gesellschaft m.b.H.	Linz	28.3
AWEKA-Beteiligungsgesellschaft m.b.H.	Vienna	25.0
Bad Leonfelden Hotelbetriebs Gesellschaft mbH	Vienna	63.4
Balance Resort GmbH (vm. Wellness Hotel Stegersbach)	Stegersbach	97.8
BBH Hotelbetriebs GmbH	Vienna	69.0
Bergbahn Gesellschaft mit beschränkter Haftung Dienten am Hochkönig	Dienten am Hochkönig	45.3
Bergbahn Gesellschaft mit beschränkter Haftung Dienten am Hochkönig & Co. K.G.	Dienten am Hochkönig	45.2

Company name, registered office		Interest of Erste Group in %
Beteiligungs- Vermögensverwaltungs- und Treuhand- Gesellschaft m.b.H.	Graz	25.0
Betriebliche Altersvorsorge-Software Engineering GmbH	Vienna	24.2
BioEnergie Stainach GmbH	Stainach	25.0
BioEnergie Stainach GmbH & Co KG	Stainach	25.0
Biroul de credit SA	Bucharest	21.6
BTV-Beteiligungs-, Treuhand-, Vermögens-Verwaltungsgesellschaft m.b.H.	Klagenfurt	25.0
Business Capital for Romania – Opportunity Fund Cooperatief UA	Amsterdam	74.3
BVP-Pensionsvorsorge-Consult G.m.b.H.	Vienna	26.9
BVT Immobilien GmbH	Graz	25.0
CITY REAL Immobilienbeteiligungs- und Verwaltungsgesellschaft mbH	Graz	25.0
CITY REAL Immobilienbeteiligungs- und Verwaltungsgesellschaft mbH & Co KG	Graz	25.8
Die Kärntner Sparkasse - Förderungsgesellschaft für den Bezirk Hermagor Gesellschaft m.b.H.	Hermagor	25.0
Dolomitencenter Verwaltungs GmbH	Lienz	50.0
EBB Hotelbetriebs GmbH	Imst	100.0
EBB-Delta Holding GmbH	Vienna	100.0
EBG Europay Beteiligungs-GmbH	Vienna	22.4
EB-Grundstücksbeteiligungen GmbH	Vienna	100.0
EBSPK-Handelsgesellschaft m.b.H.	Vienna	29.7
EBV-Leasing Gesellschaft m.b.H.	Vienna	50.0
EGB Property Holding GmbH	Vienna	100.0
EGB-Service CEE GmbH	Vienna	100.0
EH-Alpha Holding GmbH (vm. Dezentrale IT-Infrastruktur Services GmbH)	Vienna	82.2
EH-Beta Holding GmbH	Vienna	100.0
Erste Bank – Wiener Stadthalle Marketing GmbH	Vienna	60.0
Erste Campus Mobilien GmbH	Vienna	100.0
Erste Corporate Finance GmbH	Vienna	100.0
Erste Corporate Finance, a.s.	Prague	98.0
Erste Finance Malta Limited	Sliema	100.0
Erste Group Beteiligungen GmbH	Vienna	100.0
Erste Private Equity Limited	London	100.0
ERSTE-SPARINVEST Deutschland Ges.m.b.H.	Zorneding	100.0
ESB Holding GmbH	Vienna	69.3
ESPA- Financial Advisors GmbH	Vienna	84.2
Finance New Europe B.V.	KJ Groesbeek	40.4
Finanzpartner GmbH	Vienna	50.0
FINTEC-Finanzierungsberatungs- und Handelsgesellschaft m.b.H.	Vienna	25.0
Genesis Private Equity Fund 'B' L.P.	St. Peter Port	98.0
good.bee credit IFN S.A.	Bucharest	29.4
Grundstücksverwertungsgesellschaft mbH Objekt Oggenhof	Munich	75.0
Hochkönig Bergbahnen GmbH	Mühlbach am Hochkönig	45.3
Hollawind – Windkraftanlagenerrichtungs- und Betreibergesellschaft mit beschränkter Haftung	Göllersdorf	25.0
Hotel Corvinus Gesellschaft m.b.H. & Co KG	Vienna	100.0
HV-Veranstaltungsservice GmbH	Vienna	100.0
ILGES – Liegenschaftsverwaltung G.m.b.H.	Rohrbach	40.0
ISPA-Beteiligungsgesellschaft m.b.H.	Kempten	75.0
KKT d.o.o. za posredovanje i usluge	Zagreb	69.3
Kleinkraftwerke-Betriebsgesellschaft m.b.H.	Vienna	100.0
Kraftwerksmanagement GmbH	Vienna	100.0
Latifundium Holding Gesellschaft m.b.H.	Vienna	100.0
LBH Liegenschafts- und Beteiligungsholding GmbH	Innsbruck	75.0
LINEA Beteiligungs-Gesellschaft m.b.H.	Vienna	100.0
Luitpoldpark-Hotel Betriebs- und Vermietungsgesellschaft mbH	Füssen	71.2
LV Holding GmbH	Linz	45.4

Company name, registered office		Interest of Erste Group in %
MEG-Liegenschaftsverwaltungsgesellschaft m.b.H.	Vienna	100.0
MUNDO FM & S GmbH	Vienna	100.0
ÖCI-Unternehmensbeteiligungsgesellschaft.m.b.H.	Vienna	99.2
Österreichische Wertpapierdaten Service GmbH	Vienna	32.7
ÖVW Bauträger GmbH	Vienna	100.0
PARAGON Hotelbetriebs GmbH (vm. REMACO)	Vienna	87.4
Planung und Errichtung von Kleinkraftwerken Aktiengesellschaft	Vienna	82.7
Procurement Services CZ s.r.o.	Prague	99.1
Prvni certifikacni autorita, a.s.	Prague	22.8
Realitni spolecnost Ceske sporitelny, a.s.	Prague	98.0
RTG Tiefgaragenerrichtungs und -vermietungs GmbH	Graz	25.0
s REAL Nekretnine d.o.o.	Sarajevo	33.7
s Real Sparkasse nepremicnine d.o.o.	Ljubljana	51.5
S Servis, s.r.o.	Znojmo	98.0
SALIX-Grundstückserwerbs Ges.m.b.H.	Eisenstadt	50.0
SBS Beteiligungs GmbH	Graz	25.0
Schauersberg Immobilien Gesellschaft m.b.H.	Graz	25.0
Schmied von Kochel Beteiligungsverwaltungs-GmbH	Munich	75.0
Seniorenresidenz 'Am Steinberg' GmbH	Graz	25.0
S-Immobilien Weinviertler Sparkasse GmbH	Hollabrunn	100.0
SPAKO Holding GmbH	Innsbruck	75.0
Sparkasse Mühlviertel-West Holding GmbH	Rohrbach	40.0
Sparkassen-Betriebsgesellschaft mbH.	Linz	29.8
Sparkassen-Reisebüro Gesellschaft m.b.H.	Linz	28.3
Sparkassen Facility Management GmbH	Innsbruck	75.0
Sparkassen IT Holding AG	Vienna	29.7
SPV-Druck Gesellschaft m.b.H	Vienna	99.9
S-Real Morava spol. s.r.o.	Znojmo	100.0
students4excellence GmbH	Vienna	20.0
SZG-Dienstleistungsgesellschaft m.b.H.	Salzburg	98.7
TIRO Bauträger GmbH	Innsbruck	75.0
TYROLTRADE Handelsgesellschaft m.b.H.	Innsbruck	75.0
UBG-Unternehmensbeteiligungsgesellschaft m.b.H.	Vienna	100.0
Unzmarkter Kleinkraftwerk-Aktiengesellschaft	Vienna	81.4
Valtecia Achizitii S.R.L.	Voluntari	100.0
Vasudvar Hotel Kft.1	Budapest	100.0
VBV-Beratungs- und Service GmbH	Vienna	26.9
VBV-Pensionsservice-Center GmbH	Vienna	26.9
VBV-Pensionskasse Aktiengesellschaft	Vienna	26.9
VERMREAL Liegenschaftserwerbs- und -betriebs GmbH	Vienna	25.6
VINIS Gesellschaft für nachhaltigen Vermögensaufbau und Innovation m.b.H.	Vienna	26.9
WEST CONSULT Bauten- und Beteiligungsverwaltung GmbH	Salzburg	49.3
WEVA – Veranlagungs- und Beteiligungsgesellschaft m.b.H.	Linz	28.3

Vienna, 29 February 2012

The Management Board

Andreas Treichl mp
Chairman

Franz Hochstrasser mp
Vice Chairman

Herbert Juranek mp
Member

Gernot Mittendorfer mp
Member

Manfred Wimmer mp
Member

AUDITOR'S REPORT (REPORT OF THE INDEPENDENT AUDITORS)[1)]

REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

Sparkassen-Prüfungsverband and Ernst & Young Wirtschaftsprüfungsgesellschaft m.b.H., Vienna, have audited the accompanying consolidated financial statements of Erste Group Bank AG, Vienna, for the fiscal year from 1 January 2011 to 31 December 2011. These consolidated financial statements comprise the consolidated balance sheet as of 31 December 2011, the consolidated income statement, the consolidated cash flow statement and the consolidated statement of changes in equity for the fiscal year ended 31 December 2011, and the Notes.

Management's Responsibility for the Consolidated Financial Statements and for the Group Accounting System

The management of Erste Group Bank AG is responsible for the group accounting system and for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility and Description of the Type and Scope of the Statutory Audit

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with laws and regulations applicable in Austria and Austrian Standards on Auditing, as well as in accordance with International Standards on Auditing (ISAs) issued by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC). Those standards require that we comply with professional guidelines and that we plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment as to the risks of material misstatement by the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Group's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a reasonable basis for our audit opinion.

Opinion

Our audit did not give rise to any objections. In our opinion, which is based on the results of our audit, the consolidated financial statements comply with legal requirements and give a true and fair view of the financial position of the Group as of 31 December 2011 and of its financial performance and its cash flows for the fiscal year from 1 January 2011 to 31 December 2011 in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU.

Comments on the Management Report for the Group

Pursuant to statutory provisions, the management report for the Group is to be audited as to whether it is consistent with the consolidated financial statements and as to whether the other disclosures are not misleading with respect to the Company's position. The auditor's report also has to contain a statement as to whether the management report for the Group is consistent with the consolidated financial statements and whether the disclosures pursuant to Section 243a UGB (Austrian Commercial Code) are appropriate. In our opinion, the management report for the Group is consistent with the consolidated financial statements. The disclosures pursuant to Section 243a UGB (Austrian Commercial Code) are appropriate.

Vienna, 29. February 2012

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

Friedrich O. Hief mp Certified Accountant	Herwig Hierzer mp Auditor

Ernst & Young

Wirtschaftsprüfungsgesellschaft m.b.H.

Andrea Stippl mp Certified Accountant	Elisabeth Glaser mp Certified Accountant

1) The report (in the German language, or translations into another language, including shortened or amended versions) may not be made public or used by third parties, when reference is made in whole or in part to the auditors' report, without the express written consent of the auditors. This report has been translated from German into English for reference purposes only. Please refer to the official legally binding version as written and signed in German. Only the German version is definitive.

STATEMENT OF ALL MEMBERS OF THE MANAGEMENT BOARD

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

Vienna, 29 February 2012

The Management Board

Andreas Treichl mp
Chairman

Franz Hochstrasser mp
Vice Chairman

Herbert Juranek mp
Member

Gernot Mittendorfer mp
Member

Manfred Wimmer mp
Member

Glossary

Book value per share
Total equity attributable to owners of the parent of a public company, excluding participation capital, divided by the number of shares outstanding (excluding treasury shares).

Cash return on equity
Also referred to as cash ROE. Calculated as return on equity, but excluding the impact of non-cash items on net profit/loss for the year attributable to owners of the parent such as goodwill impairment and amortisation of customer relationships.

Cash earnings per share
Calculated as earnings per share based on net profit/loss for the year attributable to owners of the parent, adjusted for dividends on participation capital, excluding goodwill impairments and amortisation of customer relationships.

CEE (Central and Eastern Europe)
Encompasses the new member states of the EU that joined in 2004 and 2007, the CIS countries, states that evolved from the former Yugoslavia, as well as Albania.

Core tier-1 ratio (total risk in %)
The ratio of tier-1 capital (excluding hybrid capital pursuant to section 23 (4a) and (4b) of the Austrian Banking Act) after regulatory deductions to the calculation base for the capital requirement pursuant to Section 22 (1) of the Austrian Banking Act.

Cost/Income Ratio
General administrative expenses as a percentage of operating income.

Coverage ratio (own funds)
Total eligible qualifying capital as a percentage of total capital requirement.

Dividend yield
Dividend payment of the fiscal year as a percentage of the year-end closing price or the most recent price of the share.

Earnings per share
Net profit for the year attributable to owners of the parent adjusted for dividends of participation capital, divided by average shares outstanding.

Interest-bearing assets
Total assets less cash, derivative financial instruments, tangible and intangible assets, tax assets, assets held for sale and other assets.

Net interest margin
Net interest income as a percentage of average interest-bearing assets, calculated on a monthly basis.

Operating income
Consists of net interest income, net commission income and trading result.

Operating result
Operating income less operating expenses (i.e. general administrative expenses).

Price/earnings ratio
Closing share price of the fiscal year divided by earnings per share. Usually used for valuation comparisons.

Market capitalisation
Overall value of a company calculated by multiplying the share price by the number of shares outstanding.

Non-performing coverage ratio
Risk provisions for the credit risk exposure as a percentage of the non-performing credit risk exposure.

Non-performing ratio
Non-performing credit risk exposure as a percentage of total credit risk exposure.

NPL coverage ratio (non-performing loans coverage ratio)
Risk provisions for loans and advances to customers as a percentage of non-performing loans and advances to customers.

NPL ratio
Non-performing loans and advances to customers as a percentage of total loans and advances to customers.

NPL total coverage ratio
Risk provisions and collateral for non-performing loans and advances to customers as a percentage of non-performing loans and advances to customers.

Return on equity
Also referred to as ROE – net profit/loss for the year attributable to owners of the parent, as a percentage of average equity. The average equity is calculated based upon the equity outstanding as of the close of each of the 12 months during the year.

Risk categories
Risk categories are based on internal customer ratings and are used for classification of the bank's assets and contingent credit liabilities. Erste Group applies internal rating systems, which for private individuals comprise eight rating grades for non-defaulted customers and one rating grade for customers in default. For all other customer segments, the Group uses 13 rating grades for non-defaulted customers and one rating grade for defaulted customers.

Risk category – low risk
Typically regional customers with well-established and rather long-standing relationships with Erste Group or large internationally recognised customers. Strong and good financial positions and no foreseeable financial difficulties. Retail clients with long relationships with the bank, or clients with wide product pool use. No late payments currently or in the most recent 12 months. New business is generally with clients in this risk category.

Risk category – management attention
Vulnerable non-retail clients, which may have overdue payments or defaults in their credit history or which may encounter debt repayment difficulties in the medium-term. Retail clients with limited savings or possible payment problems in the past triggering early collection reminders. These clients typically have good recent histories and no current delinquencies.

Risk category – substandard
The borrower is vulnerable to negative financial and economic developments. Such loans are managed in specialised risk management departments.

Risk category – non-performing
One or more of the default criteria under Basel II are met: full repayment unlikely, interest or principal payments on a material exposure more than 90 days past due, restructuring resulting in a loss to the lender, realisation of a loan loss, or initiation of bankruptcy proceedings.

Share capital
Total equity attributable to owners of the parent of a company, subscribed by the shareholders at par.

Solvency ratio
The ratio of the sum of tier-1, tier-2 and tier-3 capital, after regulatory deductions, to the calculation base for the capital requirement pursuant to section 22 (1) of the Austrian Banking Act.

Tax rate
Taxes on income/loss as a percentage of pre-tax profit from continuing operations.

Tier-1 ratio (credit risk)
The ratio of tier-1 capital (including hybrid capital pursuant to section 23 (4a) and (4b) Banking Act) after regulatory deductions to risk-weighted assets (pursuant to section 22 (2) of the Austrian Banking Act).

Tier-1 ratio (total risk)
The ratio of tier-1 capital (including hybrid capital pursuant to section 23 (4a) and (4b) of the Austrian Banking Act) after regulatory deductions to the calculation base for the capital requirement pursuant to section 22 (1) of the Austrian Banking Act.

Total shareholder return
Annual performance of an investment in Erste Group Bank AG shares including all income streams (e.g. dividend for the year plus or minus gain or loss in the share price from the beginning to the end of the year).

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