

OFFERING CIRCULAR

Dated 22 March 2004



**EUR 275,000,000**

**Erste Finance (Jersey) (4) Limited**

*(Incorporated with limited liability under the laws of Jersey)*

**Series H**

**Non-cumulative Non-voting Preference Shares**

*(liquidation preference of EUR 1,000 per Series H Preference Share)*

having the benefit of a support agreement entered into with

**Erste Bank der oesterreichischen Sparkassen AG**

*(Incorporated as a joint stock company in the Republic of Austria)*

275,000 Series H Floating Rate Non-cumulative Non-voting Preference Shares with a liquidation preference of EUR 1,000 each (the "Series H Preference Shares") are proposed to be issued by Erste Finance (Jersey) (4) Limited (the "Issuer") on 24 March 2004 (the "Closing Date"). The holders of the Series H Preference Shares will have the benefit of a support agreement to be entered into by Erste Bank der oesterreichischen Sparkassen AG ("Erste Bank") and the Issuer, as further described in the "Support Agreement" herein, and in connection therewith the Issuer will have the benefit of an intercompany agreement to be entered into between the Issuer and Erste Bank, as further described in "Intercompany Agreement" herein.

The Series H Preference Shares will entitle holders to receive (subject to the limitations described in "Statement of Rights of the Series H Preference Shares") non-cumulative preferential cash dividends payable at a floating rate equal to the aggregate of the prevailing Reference Rate (as defined herein) and 0.10 per cent. per annum provided the dividend rate shall in no event be more than 9 per cent. per annum. Dividends will be payable quarterly in arrear on the Dividend Date (as defined herein) falling on 24 March, 24 June, 24 September and 24 December in each year, a "Dividend Date" commencing on the Dividend Date falling on 24 June 2004.

The Series H Preference Shares will be redeemable at the option of the Issuer, (subject to the prior consent of Erste Bank and provided that the Series H Preference Shares are (subject to certain exceptions) substituted by capital of equal or better quality unless the Financial Market Authority (as defined herein) determines that Erste Bank and the Credit Institute Group (as defined herein) have sufficient Own Funds required for an adequate risk coverage even after repayment of the capital), in whole but not in part, at EUR 1,000 per Series H Preference Share plus accrued and unpaid dividends (whether or not declared) for the then current Dividend Period (as defined in "Statement of Rights of the Series H Preference Shares") to the Optional Redemption Date, on the Dividend Date falling on 24 March 2009 or any Dividend Date falling thereafter and, for taxation reasons or capital reasons, on any Dividend Date, subject as described in "Statement of Rights of the Series H Preference Shares".

In the event of the liquidation, dissolution or winding-up of the Issuer, holders of Series H Preference Shares will be entitled to receive for each Series H Preference Share a liquidation preference of EUR 1,000 plus accrued and unpaid dividends (whether or not declared) for the then current applicable Dividend Period to the date of payment, subject as described in "Statement of Rights of the Series H Preference Shares".

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**Issue Price: 100 per cent of the liquidation preference  
per Series H Preference Share**

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*Application for the listing of the Series H Preference Shares has been made to the Luxembourg Stock Exchange.*

**BNP PARIBAS**

*A copy of this Offering Circular will be delivered to the Jersey Registrar of Companies in accordance with Article 5 of the Companies (General Provisions) (Jersey) Order 1992, in order that he gives his consent to its circulation.*

*The consent of the Jersey Financial Services Commission under Article 4 of the Control of Borrowing (Jersey) Order 1958 to the issue by the Issuer of the Series H Preference Shares will be sought prior to the issue of the Series H Preference Shares. The Jersey Financial Services Commission is protected by the Borrowing (Control) (Jersey) Law 1947, as amended, against liability arising from the discharge of its functions under that Law.*

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

*The Issuer confirms, after having made all reasonable inquiries, that this Offering Circular contains all information with regard to the Issuer and the Series H Preference Shares which is material to the issue of the Series H Preference Shares, that such information is true and accurate in all material respects and is not misleading, that the opinions and intentions expressed in this Offering Circular on the part of the Issuer are honestly held and that there are no other facts the omission of which makes any such information or the expression of any such opinion or intention misleading in any material respect. The Issuer accepts responsibility accordingly.*

*The Issuer has taken all reasonable care to ensure that the facts stated in this document are true and accurate in all material respects, and that there are no other facts the omission of which would make misleading any statement in the document, whether of facts or of opinion. The Issuer accepts responsibility accordingly.*

*Erste Bank confirms, after having made all reasonable inquiries, that this Offering Circular contains all information with regard to the Issuer, Erste Bank and its subsidiaries and affiliates and the Series H Preference Shares which is material to the issue of the Series H Preference Shares, that the information contained in this Offering Circular is true and accurate in all material respects and is not misleading, that the opinions and intentions expressed in this Offering Circular on the part of Erste Bank and the Issuer are honestly held and that there are no other facts the omission of which makes this Offering Circular as a whole or any such information or the expression of any such opinion or intention misleading in any material respect. Erste Bank accepts responsibility accordingly.*

*No person has been authorised to give information or to make any representation other than those contained in this document and, if given or made, such information or representation must not be relied on as having been authorised by the Issuer, Erste Bank or the Lead Manager (as defined in "Subscription and Sale" below). Neither the delivery of this document nor any subscription, sale or purchase made in connection herewith shall, in any circumstances, create any implication that there has been no change in the affairs of the Issuer or Erste Bank since the date hereof.*

*Prospective investors should inform themselves as to the legal requirements and tax consequences within the countries of their residence and domicile for the acquisition, holding or disposition of Series H Preference Shares and any foreign exchange restrictions that might be relevant to them. This Offering Circular does not constitute an offer of, or an invitation by or on behalf of, the Issuer, Erste Bank or any Manager to subscribe for or purchase any of the Series H Preference Shares.*

*Investors should satisfy themselves that they understand all the risks associated with making investments in the nature of the Series H Preference Shares. If a prospective investor is in any doubt whatsoever as to the risks involved in investing in the Series H Preference Shares, he or she should consult his or her professional advisers.*

*If you are in any doubt about the contents of this document you should consult your stockbroker, bank manager, solicitor, accountant or other financial adviser. It should be remembered that the price of securities and the income from them can go down as well as up.*

*The Series H Preference Shares are only suitable for financially sophisticated investors who are capable of evaluating the risks involved in investing in the Series H Preference Shares.*

*The distribution of this document and the offering of the Series H Preference Shares in certain jurisdictions may be restricted by law. Persons into whose possession this document comes are required by the Issuer, Erste Bank and the Lead Manager to inform themselves about, and to observe, any such restrictions.*

*No action has been taken as a matter of the laws of any jurisdiction to permit the public offering of the Series H Preference Shares in any jurisdiction. Accordingly, the Series H Preference Shares may not be offered or sold, directly or indirectly, and this Offering Circular may not be distributed in any jurisdiction, except in accordance with the legal requirements applicable in that jurisdiction. In particular, the Series H Preference Shares have not been and will not be registered under the United States Securities Act of 1933 as amended (the "Securities Act"). Subject to certain exceptions, the Series H Preference Shares may not be offered, sold or delivered within the United States or to U.S. persons. A further description of certain restrictions on the offering and sale of the Series H Preference Shares and on the distribution of this document is given under "Subscription and Sale" below.*

*Unless otherwise specified or the context requires, references to "HUF" are to the lawful currency of Hungary, references to "SKK" are to the lawful currency of the Slovak Republic, references to "CZK" are to the lawful currency of the Czech Republic, references to U.S.\$ are to the lawful currency of the United States of America, references to £ are to the lawful currency of the United Kingdom, references to ¥ are to the lawful currency of Japan and references to "euro", "EUR" and "€" are to the currency introduced at the start of the third stage of European Economic and Monetary Union pursuant to the Treaty establishing the European Community, as amended from time to time.*

***In connection with this issue, BNP Paribas may over-allot or effect transactions with a view to supporting the market price of the Series H Preference Shares at a level higher than that which might otherwise prevail for a limited period after the issue date. However, there is no obligation on BNP Paribas or any agent of its to do this. Such stabilising, if commenced, may be discontinued at any time, and must be brought to an end after a limited period ending, in any event, no later than 30 days after the issue date. Such stabilising shall be carried out in accordance with all applicable laws and regulations.***

## DEFINITIONS

In this Offering Circular, the following definitions will be used to refer to Erste Bank der oesterreichischen Sparkassen AG and its majority owned and other subsidiaries (save that for the “Statement of Rights” these terms shall have the meanings referred to therein):

“Erste Bank AG” or “Erste Bank” means Erste Bank der oesterreichischen Sparkassen AG the parent company alone, which prepares separate non-consolidated financial statements in accordance with Austrian GAAP. Certain statistical information included in this Offering Circular was prepared exclusively for Erste Bank AG.

“Erste Bank Group” means Erste Bank AG together with consolidated subsidiaries and associates (which are stated at equity and where Erste Bank has a significant influence). Before the *Haftungsverbund* became effective on 1 January 2002, Erste Bank Group’s consolidated financial statements included only subsidiaries in which Erste Bank AG owned a majority interest and associates. As of 1 January 2002, the term “Erste Bank Group” includes the savings banks consolidated by Erste Bank Group under the *Haftungsverbund* agreement. Therefore, unless otherwise stated, the term “Erste Bank Group” in this Offering Circular in respect of any period from and including 1 January 2002 includes the consolidated savings banks under the *Haftungsverbund* agreement.

“Core Group” or “Erste Bank Core Group” means Erste Bank Group excluding subsidiaries consolidated solely by reason of the *Haftungsverbund* agreement.

“Subsidiaries” means all companies consolidated with Erste Bank AG under International Financial Reporting Standards (“IFRS”).

“Savings Bank Group” means Erste Bank AG, the savings banks consolidated under the *Haftungsverbund* agreement (together, Erste Bank Group) and nine other savings banks that are not members of the *Haftungsverbund* agreement, but excluding Bank Austria Creditanstalt AG (“Bank Austria”).

“Savings Bank Sector” means the Savings Bank Group together with Bank Austria and is the legal definition of all Austrian savings banks combined and is the basis on which the Austrian National Bank (*Oesterreichische Nationalbank*) prepares statistical information for the savings bank industry.

## PRESENTATION OF FINANCIAL INFORMATION OF ERSTE BANK

The audited consolidated financial statements as at and for the years ended 31 December 2002 and 31 December 2001 of the Erste Bank Group appear on pages F-2 to F-59 of this Offering Circular. The information given on the Core Group as at and for the year ended 31 December 2002 was not subject to an audit. The unaudited consolidated financial statements as at and for the nine months ended 30 September 2003 and unaudited comparative figures as at and for the nine months ended 30 September 2002 of the Erste Bank Group appear on pages F-60 to F-69 of this Offering Circular. It should be noted that the consolidated financial statements for periods prior to 1 January 2002 are not directly comparable to the consolidated financial statements as at and for periods ended on or after 1 January 2002 since Erste Bank AG entered into a *Haftungsverbund* with a number of other Austrian savings banks with effect from 1 January 2002, as a result of which Erste Bank is required (under IFRS) to consolidate all members of the *Haftungsverbund* in its own consolidated financial statements prepared in accordance with IFRS. This has a significant effect on Erste Bank’s consolidated financial statements. For a description of the *Haftungsverbund* see “*Erste Bank der oesterreichischen Sparkassen AG – Savings Banks Strategy of Erste Bank*” on page 21 below and see generally the Notes to the unaudited consolidated financial statements as at and for the nine months ended 30 September 2003. All financial information presented from and including 1 January 2002 for the Erste Bank Group includes (unless otherwise dated or grouped as the Core Group) the savings banks consolidated by the Erste Bank Group under the *Haftungsverbund* agreement.

## INCORPORATION BY REFERENCE

The audited consolidated financial statements of Erste Bank as at and for the years ended 31 December 2002 and 2001 are incorporated by reference in this Offering Circular. Copies of these audited consolidated financial statements are available free of charge from the paying agent in Luxembourg shown on the back page of this Offering Circular during normal business hours for so long as the Series H Preference Shares are outstanding and at the registered offices of the Issuer and Erste Bank.

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## SUMMARY OF THE ISSUE

*The following summary is qualified in its entirety by the more detailed information included elsewhere in this Offering Circular.*

### THE ISSUE

- Issuer:** Erste Finance (Jersey) (4) Limited, an indirect wholly-owned subsidiary of Erste Bank incorporated in Jersey and organised under the Companies (Jersey) Law 1991.
- Parent:** Erste Bank der oesterreichischen Sparkassen AG.
- Issue Size:** EUR 275,000,000
- Issue Details:** 275,000 Series H Floating Rate Non-cumulative Non-voting Preference Shares each with a liquidation preference of EUR 1,000.
- Dividends:** Dividends will be payable quarterly in arrear by the Issuer, whether or not declared by the Board of Directors of the Issuer. Dividends for each Dividend Period (as defined in “Statement of Rights of the Series H Preference Shares”) will be payable on each Dividend Date at a floating rate equal to the aggregate of the prevailing Reference Rate and 0.10 per cent. per annum provided the Dividend Rate shall be in no event more than 9 per cent. per annum. If no Dividend is paid by the Issuer in respect of any Dividend Period (as defined in “Statement of Rights of the Series H Preference Shares”), rights to such dividends shall lapse.
- As used herein “Reference Rate” means in respect of any Dividend Period, the 10-year mid swap rate in EUR (annual, 30/360) versus 6 month EURIBOR (semi-annual, ACT/360) which appears on Reuters Page “ISDAFIX2” under the heading “EURIBOR BASIS – 11:00 AM FRANKFURT” as of 11:00 am Frankfurt time (the “Relevant Screen Page”), on the Dividend Determination Date.
- Support Agreement:** The holders of the Series H Preference Shares will have the benefit of a support agreement to be entered into as a deed poll by Erste Bank and the Issuer in respect of the obligations of the Issuer under the Series H Preference Shares (the “Support Agreement”). In connection with the Support Agreement, the Issuer will have the benefit of an intercompany agreement to be entered into between the Issuer and Erste Bank (the “Intercompany Agreement”) in respect of Erste Bank’s obligations under the Support Agreement. See “Support Agreement” and “Intercompany Agreement” below.
- Restrictions on Payments:** Erste Bank will not be obliged to make any payment in respect of Dividends under the Support Agreement in respect of any fiscal year:
- (a) to the extent that such payment, together with the amount of:
    - (i) any Dividends (including any Additional Amounts as defined in “Statement of Rights of the Series H Preference Shares” in respect thereof) previously paid by the Issuer in respect of the Series H Preference Shares in respect of such fiscal year;
    - (ii) any Dividends previously paid on, or payments made to holders in respect of, Dividend Parity Securities (as defined in “Statement of Rights of the Series H Preference Shares”) in respect of such fiscal year; and

(iii) any Dividends proposed to be paid on, or payments proposed to be made to holders in respect of, Dividend Parity Securities in respect of such fiscal year,

would exceed “Distributable Funds” (as defined in “Statement of Rights of the Series H Preference Shares”) for the prior fiscal year; or

(b) even if sufficient Distributable Funds are available, to the extent that, in accordance with applicable Austrian banking regulations affecting banks which fail to meet their capital ratios on a consolidated basis pursuant to the Austrian Banking Act 1993, as amended, Erste Bank would be limited in making payments on preferred securities or preference shares issued by it ranking *pari passu* as to participation in profits with Erste Bank’s obligations under the Support Agreement relating to Dividend Parity Securities.

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

For the text of the Support Agreement, see “Support Agreement”.

The above restrictions are imposed *mutatis mutandis* on payments by the Issuer of Dividends in respect of the Series H Preference Shares; see “Statement of Rights of the Series H Preference Shares”.

If no payment is made by Erste Bank under the Support Agreement pursuant to the foregoing provisions, the entitlement of the holders of Series H Preference Shares to enforce payment by Erste Bank to the Issuer shall lapse, and no payment in respect of any missed or reduced Dividend need be made at any time by the Issuer or by Erste Bank in such circumstances.

If a dividend is not paid on the Series H Preference Shares by the Issuer, no dividend or other distribution may be made by Erste Bank in respect of its ordinary shares or its preferred stock until such time as payment of Dividends in respect of the Series H Preference Shares is resumed.

**Withholding Tax and Additional Amounts:**

The Issuer will pay such additional amounts to each holder of the Series H Preference Shares as may be necessary in order that every net payment in respect of the Series H Preference Shares, after withholding for any taxes imposed by Jersey or Austria upon or as a result of such payment, shall equal the amounts which would have been receivable in the absence of such withholding, subject to the exceptions described in “Statement of Rights of the Series H Preference Shares”. The obligations of the Issuer to pay any such additional amounts are described more fully in “Statement of Rights of the Series H Preference Shares”.

**Optional Redemption:**

The Series H Preference Shares are redeemable at the option of the Issuer, subject to applicable legislation and to the prior consent of Erste Bank, in whole but not in part, on the Dividend Date falling on 24 March 2009 or any Dividend Date thereafter, upon not less than 30 and no more than 60 Business Days’ notice to the Holders, each to be redeemed at EUR 1,000 per Series H Preference Share plus accrued and unpaid dividends (whether or not declared) for the then current Dividend Period on the specified Optional Redemption Date, provided that the Series H Preference Shares which are

redeemed are substituted by capital of equal or better quality, unless the Financial Market Authority (as defined in the Austrian Banking Act 1993, as amended) determines that Erste Bank and the Credit Institute Group (as defined in “Statement of Rights of the Series H Preference Shares”) have sufficient Own Funds (as defined in the Austrian Banking Act 1993, as amended) required for an adequate risk coverage even after repayment of the Series H Preference Shares. Upon the expiry of such notice, the Issuer shall be bound to redeem the relevant Series H Preference Shares accordingly.

**Redemption for Tax Reasons and Capital Reasons:**

In addition, the Series H Preference Shares are redeemable at the option of the Issuer, subject to applicable legislation and to the prior consent of Erste Bank and provided (subject to certain exceptions) that the Series H Preference Shares are substituted by capital of equal or better quality, unless the Financial Market Authority determines that Erste Bank and the Credit Institute Group have sufficient Own Funds required for an adequate risk coverage even after repayment of the Series H Preference Shares. The Series H Preference Shares are redeemable in whole but not in part, at EUR 1,000 per Series H Preference Share plus accrued and unpaid dividends (whether or not declared) for the then current Dividend Period to the Optional Redemption Date, on any Dividend Date if (i) the Issuer is or would be required to pay Additional Amounts (as described in “Statement of Rights of the Series H Preference Shares”) in respect of payments due on the Series H Preference Shares; or (ii) the statutory countability of the Series H Preference Shares as Tier I regulatory capital as part of the Own Funds (as defined in the Austrian Banking Act) of Erste Bank for Austrian capital adequacy purposes on a consolidated basis (for capital adequacy purposes) is changed.

**Rights upon Liquidation:**

In the event of the liquidation, dissolution or winding-up of the Issuer, holders of Series H Preference Shares will be entitled to receive for each such Series H Preference Share a liquidation preference of EUR 1,000 plus accrued and unpaid dividends (whether or not declared) for the then current Dividend Period to the date of payment.

Notwithstanding the availability of sufficient assets of the Issuer to pay any liquidation distribution to the holders of the Series H Preference Shares as aforesaid, if, at the time such liquidation distribution is to be paid, proceedings are pending or have been commenced for the voluntary or involuntary liquidation, dissolution or winding-up of Erste Bank, the liquidation distribution paid to holders of Series H Preference Shares and Asset Parity Securities (as defined in “Statement of Rights of the Series H Preference Shares”) shall not exceed the amount per share that would have been paid as the liquidation distribution from the assets of Erste Bank (after payment in full in accordance with Austrian law of all creditors of Erste Bank, including holders of its subordinated debt but excluding holders of any liability expressed to rank *pari passu* with or junior to the Support Agreement) had the Series H Preference Shares and all such Asset Parity Securities been issued by Erste Bank and ranked (i) junior to all liabilities of Erste Bank (other than any liability expressed to rank *pari passu* with or junior to the Support Agreement), (ii) *pari passu* with all Asset Parity Securities of Erste Bank and (iii) senior to Erste Bank Share Capital (as defined in “Statement of Rights of the Series H Preference Shares”).



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

**Voting Rights:**

Holders of the Series H Preference Shares will not be entitled to vote at any general meeting of shareholders of the Issuer. Holders of the Series H Preference Shares together with the holders of any other preferred or preference shares of the Issuer having the right to vote for the election of Directors in such event are entitled to elect two additional Directors to the Issuer's Board of Directors if Dividends and any Additional Amounts in respect of such Dividends have not been paid in full for four consecutive Dividend Periods. Such Directors must vacate their office if, for four subsequent, consecutive Dividend Periods, dividend payments and any Additional Amounts in respect of such Dividends are made by the Issuer in full. For a fuller description see "Statement of Rights of the Series H Preference Shares".

**Form of the Shares:**

The Series H Preference Shares will be issued in registered form. On the Closing Date, a single share certificate representing the Series H Preference Shares will be deposited with J.P. Morgan Bank Luxembourg S.A. (the "Common Depository") as common depository for Euroclear Bank S.A./N.V., as operator of the Euroclear system ("Euroclear") and Clearstream Banking, société anonyme ("Clearstream, Luxembourg"). The initial share certificate will be issued, and the Series H Preference Shares will be registered, in the name of Chase Nominees Limited as nominee for the Common Depository. For so long as the Series H Preference Shares are deposited and registered as described above, book-entry interests in the Series H Preference Shares will be shown on, and transfers thereof will be effected only through, records maintained by Euroclear and Clearstream, Luxembourg.

If either or both of Euroclear and Clearstream, Luxembourg announces an intention permanently to cease business and the Issuer is unable to locate a qualified successor within 60 days of receiving notice of, or becoming aware of, such intention, the number of Series H Preference Shares corresponding to its book-entry interest in the Series H Preference Shares represented by the initial share certificate will be transferred to each holder of Series H Preference Shares, and each such holder will be registered as a holder of the Series H Preference Shares in the register of members maintained by the Issuer, and receive a share certificate made out in its name. Other than in the circumstances referred to in this paragraph, definitive share certificates will not be available to holders of the Series H Preference Shares.

**Ratings:**

On issue, the Series H Preference Shares are expected to be assigned an A3 rating by Moody's Investor Services, Limited ("Moody's"). A rating is not a recommendation to buy, sell or hold securities or shares and may be subject to suspension, change or withdrawal at any time by the assigning rating agency.

**Governing Law:**

The Series H Preference Shares will be governed by and construed in accordance with the law of Jersey. The Support Agreement and the Intercompany Agreement will be governed by and construed in accordance with English law save that the provisions concerning the ranking of the Support Agreement and the Intercompany Agreement and those provisions described under "Restrictions on Payments" above will be governed by, and construed in accordance with, Austrian law.

<b>Listing:</b>	Application has been made for the Series H Preference Shares to be listed on the Luxembourg Stock Exchange.
<b>ISIN:</b>	XS0188305741
<b>Common Code:</b>	018830574
<b>Deutsche WKN:</b>	A0AW29

## SUMMARY FINANCIAL INFORMATION FOR ERSTE BANK

Subject as provided below, the following summary financial information has been extracted from the audited consolidated financial statements of Erste Bank for the years ended 31 December 2002 and 31 December 2001:

		At 31 December	
		2002	2001
		<i>(in EUR millions)</i>	
<b>Balance sheet</b>			
<b>Assets</b>			
Cash and balances with central banks .. .. .		3,181	2,573
Loans and advances to credit institutions .. .. .		15,492	18,912
Loans and advances to customers .. .. .		64,435	39,210
Risk provisions for loans and advances .. .. .		(2,983)	(1,875)
Trading assets .. .. .		3,487	3,451
Investments available for sale .. .. .		6,736	2,912
Financial investments .. .. .		22,572	14,730
Intangible fixed assets .. .. .		1,596	932
Tangible assets .. .. .		1,866	1,318
Other assets .. .. .		4,840	3,870
<b>Total Assets .. .. .</b>		<b>121,222</b>	<b>86,033</b>
<b>Liabilities and equity</b>			
Amounts owed to credit institutions.. .. .		26,425	28,642
Amounts owed to customers .. .. .		61,308	37,175
Debts evidenced by certificates .. .. .		14,191	9,751
Provisions .. .. .		5,488	953
Other liabilities .. .. .		5,220	3,393
Subordinated capital .. .. .		3,386	2,956
Minority interests .. .. .		2,723	1,259
Equity <sup>(1)</sup> .. .. .		2,481	1,904
<b>Total Liabilities and Equity .. .. .</b>		<b>121,222</b>	<b>86,033</b>
		Year ended 31 December	
		2002	2001
<b>Income statement</b>			
Net interest income .. .. .		2,463.0	1,438.9
Operating income <sup>(2)</sup> .. .. .		3,583.2	2,166.0
General administrative expenses .. .. .		(2,432.0)	(1,454.3)
<b>Operating result .. .. .</b>		<b>1,151.2</b>	<b>711.7</b>
<b>Pre-tax profit for the period .. .. .</b>		<b>664.6</b>	<b>405.7</b>
Profit for the period .. .. .		513.2	324.4
<b>Net profit after minority interests .. .. .</b>		<b>255.2</b>	<b>223.3</b>
Core Capital (Tier 1) .. .. .		3,800.0	2,337.0
Qualifying Supplementary Capital (Tier 2) .. .. .		2,949.0	1,992.0
Short-term subordinated capital (Tier 3) .. .. .		325.0	264.0
Deductions according to Section 23(13) and Section 29 Austrian Banking Act		(91.0)	(285.0)
<b>Total Eligible Qualifying Capital .. .. .</b>		<b>6,983.0</b>	<b>4,308.0</b>
Risk weighted basis according to Section 22			
Austrian Banking Act .. .. .		60,257	37,803
<b>Tier 1 ratio (%) .. .. .</b>		<b>6.3</b>	<b>6.2</b>
Solvency ratio (%) .. .. .		11.0	10.7

(1) Equity is equal to subscribed capital, reserves and accumulated profits

(2) Operating income includes net interest income, net commission income net trading results and income from insurance business

Subject as provided below, the following summary financial information has been extracted from the unaudited consolidated financial statements of Erste Bank as at and for the nine months ended 30 September 2003 and 30 September 2002:

	At 30 September 2003 Erste Bank Group	At 30 September 2002 Erste Bank Group
	<i>(in EUR millions)</i>	
<b>Balance sheet</b>		
<b>Assets</b>		
Cash and balances with central banks .. .. .	2,512	3,161
Loans and advances to credit institutions .. .. .	17,851	19,956
Loans and advances to customers .. .. .	65,854	64,283
Risk provisions for loans and advances .. .. .	(2,781)	(3,113)
Trading assets .. .. .	4,352	3,426
Investments available for sale .. .. .	8,713	6,707
Financial investments .. .. .	25,726	22,858
Intangible fixed assets .. .. .	1,560	1,513
Tangible assets .. .. .	1,839	1,887
Other assets .. .. .	4,855	4,119
<b>Total assets .. .. .</b>	<b>130,481</b>	<b>124,797</b>
<b>Liabilities and equity</b>		
Amounts owed to credit institutions .. .. .	27,774	28,293
Amounts owed to customers .. .. .	64,329	61,572
Debts evidenced by certificates .. .. .	16,815	15,041
Provisions .. .. .	6,122	5,421
Other liabilities .. .. .	5,969	5,326
Subordinated capital .. .. .	3,843	3,974
Minority interests .. .. .	3,028	2,727
Equity <sup>(1)</sup> .. .. .	2,601	2,443
<b>Total liabilities and equity .. .. .</b>	<b>130,481</b>	<b>124,797</b>

(1) Equity is equal to subscribed capital, reserves and accumulated profits

	For the nine months ended September	
	2003	2002
	Erste Bank Group	Erste Bank Group
	<i>(in EUR millions)</i>	
<b>Income statement</b>		
Net interest income .. .. .	1,934.7	1,835.0
Operating income <sup>(1)</sup> .. .. .	2,853.6	2,657.3
General administrative expenses .. .. .	(1,837.0)	(1,815.8)
<b>Operating result</b> .. .. .	<b>1,016.6</b>	<b>841.5</b>
<b>Pre-tax profit for the period</b> .. .. .	<b>589.2</b>	<b>494.8</b>
Profit for the period .. .. .	418.6	377.2
<b>Net profit after minority interests</b> .. .. .	<b>255.2</b>	<b>161.7</b>
	<b>as per 30 September 2003</b>	<b>as per 30 September 2002</b>
<b>Core capital (Tier 1)</b> .. .. .	<b>3,958</b>	<b>3,631</b>
Qualifying supplementary capital (Tier 2) .. .. .	3,117	2,941
Short-term subordinated capital (Tier 3) .. .. .	339	335
Deductions according to Section 23 (13) and Section 29 (1, 2) of the Austrian Banking Act .. .. .	(71)	(123)
<b>Total Eligible Qualifying Capital</b> .. .. .	<b>7,343</b>	<b>6,784</b>
Risk weighted basis according to Section 22 Austrian Banking Act .. .. .	60,640	59,574
<b>Tier 1 ratio (%)</b> .. .. .	<b>6.5</b>	<b>6.1</b>
Solvency ratio (%) .. .. .	11.6	10.8

(1) Operating income includes net interest income, net commission income, net trading results and result from insurance business

## **USE OF PROCEEDS**

The net proceeds of the issue, which are expected to amount to approximately EUR 269,500,000 (after deduction of fees and commissions), will be on-lent within the Erste Bank Core Group and used to strengthen the capital base of the Erste Bank Group.

## THE ISSUER

### History

The Issuer was incorporated in Jersey on 19 June 2002 for an unlimited duration and with limited liability under the laws of Jersey.

The registered office of the Issuer is 22 Grenville Street, St Helier, Jersey JE4 8PX. The Issuer has no place of business in Austria.

The Issuer is a wholly-owned subsidiary of Erste Bank (Malta) Limited, an indirect wholly-owned subsidiary of Erste Bank.

### Business and Activities

The Issuer was incorporated for the purpose of carrying out the transactions referred to in this document and has conducted business activities incidental to, and necessary for, compliance with the Issuer's obligations in relation to the Series H Preference Shares.

### Powers

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

### Share Capital

- (a) The existing issued ordinary shares are not listed on the Luxembourg Stock Exchange or on any other stock exchange and are not dealt in on any other recognised market.
- (b) The Issuer was established with an authorised capital of (i) EUR 10,000 divided into 500,000 Ordinary Shares of EUR 0.01 each and 500,000 Unclassified Shares of EUR 0.01 each, (ii) US\$10,000 divided into 500,000 Ordinary Shares of US\$0.01 each and 500,000 Unclassified Shares of US\$0.01 each, (iii) £10,000 divided into 500,000 Ordinary Shares of £0.01 each and 500,000 Unclassified Shares of £0.01 each and (iv) ¥10,000 divided into 5,000 Ordinary Shares of ¥1.00 each and 5,000 Unclassified Shares of ¥1.00 each. 10 Ordinary Shares of EUR 0.01 par value were issued on incorporation, are the only shares currently on issue and have been beneficially held by Erste Bank (Malta) Limited since incorporation of the Issuer on 19 June 2002. Further Ordinary Shares have been subscribed for by Erste Bank (Malta) Limited and will be issued on or around the date of issue of the Series H Preference Shares at a share premium such that the aggregate subscription proceeds received by the Issuer in respect of such issue of further Ordinary Shares to Erste Bank (Malta) Limited will be no less than an amount equal to 8% of the aggregate subscription proceeds to be received by the Issuer in respect of the Series H Preference Shares. Save as described, there has been no subsequent change in the share capital of the Issuer.
- (c) The holders of the Ordinary Shares in the Issuer have no rights of pre-emption or preferential subscription rights in respect of the Series H Preference Shares.
- (d) No capital of the Issuer is under option or is agreed conditionally or unconditionally to be put under option.

### Indebtedness

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

## Directors

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

<u>Name</u>	<u>Function in the Issuer</u>	<u>Principal Activity Outside the Issuer</u>
Helen Grant	Executive Director	Corporate services manager of Mourant & Co. Limited
Daniel Le Blancq	Executive Director	Corporate Services Manager of Mourant & Co. Limited
Gareth Essex-Cater	Executive Director	Corporate services manager and associate director of Mourant & Co. Limited
Martin Sadleder	Executive Director	Managing Director of Erste Bank (Malta) Limited
Peter Muscat	Executive Director	General Manager of Erste Bank (Malta) Limited
Richard Wilkinson	Non-Executive Director	Balance Sheet Manager of Erste Bank

The partners of the Mourant Group (of which the Issuer's legal advisers Mourant du Feu & Jeune is part) own the issued shared capital of Mourant & Co. Limited which supplies administrative services and the Company Secretary to the Issuer.

- (b) The Directors do not, and it is not proposed that they will, have service contracts with the Issuer. No Director has entered into any transaction on behalf of the Issuer which is or was unusual in its nature or conditions or is or was significant to the business of the Issuer since its incorporation.

No Director or any connected person has any interest, whether or not held by a third party, in the share capital of the Issuer.

At the date of this document there were no loans granted or guarantees provided by the Issuer to any Director of the Issuer.

- (c) As at the date of this document, the Directors have not received any remuneration from the Issuer for the provision of their services to the Issuer.
- (d) The Articles of Association of the Issuer provide that:

Subject to the provisions of the Law, any Director of the Issuer may be counted in the quorum present at any meeting at which any proposed arrangement or contract in which he or she is interested is considered and, subject to the Articles of Association, may vote on any proposal, arrangement or contract in which he is materially interested provided he has disclosed the nature of his interest in it prior to its consideration and any vote thereon, provided however that notwithstanding the above, no Director of the Issuer may vote or be counted in the quorum in relation to any proposal, arrangement or contract in which he is materially interested.

The remuneration of the Directors shall from time to time be determined by the Issuer in general meeting.

Subject to the provisions of the Articles of Association, a Director shall hold office until such time as he resigns, ceases to be eligible to be a Director or is removed from office by an ordinary resolution of the Issuer in general meeting.

For purposes of this paragraph (d) "Law" means the Companies (Jersey) Law, 1991.

## Secretary

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

## General

- (a) Since 19 June 2002, the date upon which the Issuer was incorporated, there has been no significant change in the trading or financial position of the Issuer.
- (b) BDO Attard Buttigieg Psaila & Co. of 136 St. Christopher Street, Valletta, VLT 05, Malta have been appointed as auditors to the Issuer.
- (c) No accounts have yet been prepared for the Issuer nor have any dividends been declared or paid since the date of the Issuer's incorporation.



- (d) No transactions have occurred since incorporation of the Issuer other than (i) the allotment of the shares described under “Share Capital” and (ii) the execution of the Subscription Agreement and the Agency Agreement described in this Offering Circular and of a Corporate Administration Agreement dated 22 March 2004 and made between the Issuer, Erste Bank and Maurant & Co. Limited.
- (e) There are no legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) which may have or have had since the incorporation of the Issuer a significant effect on the financial position of the Issuer.

## CAPITALISATION OF THE ERSTE BANK GROUP

The following table sets forth, as at 30th September 2003, the unaudited consolidated capitalisation of the Erste Bank Group. This table should be read in conjunction with the unaudited consolidated financial statements as at and for the nine months ended 30th September 2003 and the notes thereto which appear elsewhere in this Offering Circular.

	<b>As at 30th September 2003</b>
	<b>Erste Bank Group</b>
	<i>(in EUR millions)</i>
<b>Capitalisation</b>	
Subscribed capital <sup>(1)</sup> .. .. .	436
Capital reserves .. .. .	1,447
Retained earnings .. .. .	718
	2,601
Total equity .. .. .	2,601
Minority interests .. .. .	3,028
	5,629
<b>Total shareholders' equity (including minority interests)</b> .. .. .	<b>5,629</b>
Total supplementary capital .. .. .	2,119
Total subordinated debt .. .. .	1,724
Total secured debt .. .. .	1,123
Total long-term unsecured debt .. .. .	15,692
	26,287
	<b>26,287</b>
<b>Qualifying Capital as determined pursuant to the Austrian Banking Act</b>	
Core Capital (Tier 1).. .. .	3,958
Qualifying supplementary capital (Tier 2) .. .. .	3,117
Short-term subordinated capital (Tier 3) .. .. .	339
	7,414
Total Qualifying Capital .. .. .	7,414
Deductions according to Sections 23 (13) and 29 (1,2) of the Austrian Banking Act .. .. .	(71)
	7,343
Total Eligible Qualifying Capital.. .. .	7,343
Total capital requirement .. .. .	5,191
Surplus capital .. .. .	2,152
Cover Ratio in % .. .. .	141.5
Tier 1 ratio in % .. .. .	6.5
Solvency ratio in % .. .. .	11.6

Notes:

(1) As at 30th September 2003, the subscribed capital consisted of 59,943,808 voting shares with no par nominal value of EUR 435,628,641.82.

(2) Figures are based on financial statements in accordance with IFRS.

Save as described herein, there has been no material change in the capitalisation of the Erste Bank Group since 30th September 2003.

# ERSTE BANK DER OESTERREICHISCHEN SPARKASSEN AG

## Introduction

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

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

On 6th October 1997 the newly combined bank began operating as Erste Bank der oesterreichischen Sparkassen AG under the direction of one *Vorstand* (Management Board) and an integrated senior management team. The integration of the business and operations of Die Erste, GiroCredit and their respective subsidiaries was completed in 1998.

## Background

Erste Bank is a leading retail bank in Central Europe. Serving as the lead bank of the Austrian savings bank sector, Erste Bank, together with the savings banks, has a strong presence in its extended home market which covers Austria and adjacent Central Europe (the Czech Republic, the Slovak Republic, Croatia, Hungary and Slovenia) where it serves over 11.5 million customers. Next to its geographic focus, the Bank’s strengths lie above all in the quality of its products and services and the commitment of its employees.

Erste Bank Group is the second largest banking group in Austria with assets of EUR 121.2 billion at 31st December 2002. Erste Bank Group carries on a full range of banking and financial services, including deposit taking, lending, mortgage lending, investment banking, securities trading and derivatives business (on its own account and for its customers), portfolio management, project finance, international trade finance, corporate finance, capital and money market services, foreign exchange, leasing, factoring and bank assurance.

Erste Bank Group consists of Erste Bank, together with its majority owned financial and non-financial subsidiaries and participations, including Česká spořitelna, a.s. (in the Czech Republic), Slovenská sporiteľňa, a.s. (in the Slovak Republic), Salzburger Sparkasse Bank AG (“Salzburger Sparkasse”), Tiroler Sparkasse Bankaktiengesellschaft Innsbruck (“Tiroler Sparkasse”), Erste Bank Hungary Rt. (“Erste Bank Hungary”) and Postabank és Takarékpénztár (“Postabank”, Hungary, acquired on 16th December 2003 (day of closing)), Erste & Steiermärkische Banka d.d. (in Croatia), ERSTE-SPARINVEST Kapitalanlagegesellschaft m.b.H. (“Erste SparInvest”), Bausparkasse der österreichischen Sparkassen Aktiengesellschaft (“Ss Bausparkasse”), Sparkassen Versicherung AG (“s Versicherung”), EBV-Leasing Gesellschaft mbH & Co KG (“EBV-Leasing”), IMMORANT AG, “s Wohnbaubank AG (“s Wohnbaubank”) and others. Until the *Haftungsverbund* (see explanation below) came into force on 1st January 2002, Erste Bank Group’s consolidated financial statements included these subsidiaries and associates. As of 1st January 2002, the term “Erste Bank Group” includes the savings banks consolidated by Erste Bank Group under the *Haftungsverbund* agreement.

Comprising some 2,280 branches, Erste Bank Group employed approximately 36,900 people worldwide as of 31st December 2002. Erste Bank Group is represented in many countries, with a particular focus on its extended home market in Central Europe, and operates in the major financial centres of the world, such as New York, London and Hong Kong.

As of 31st December 2003, Erste Bank’s authorised and issued capital stood at EUR 435,628,641.82 (divided into 59,943,808 Ordinary Shares).

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

In connection with the Employee Stock Ownership Programme 2002 (“ESOP 2002”) and the Management Stock Option Plan 2002, 252,159 ordinary bearer shares with a nominal value of EUR 1,832,510.92 were subscribed for by employees, senior employees and members of the Management Board of Erste Bank and of Erste Bank Group in 2002. This capital increase became effective upon the issue of the shares and the registration of the increased share capital in the Companies Register took place on 26th June 2002.

In the context of the Employee Stock Ownership Programme 2003 (“ESOP 2003”) 117,926 shares were subscribed for. Under the Management Stock Option Plan 2002 (“MSOP 2002”) 768 share options were exercised. Thus, under the ESOP 2003 and the MSOP 2002, 118,694 shares with a total nominal value of EUR 862,582.94 were subscribed for in 2003. The capital increase became effective upon the issue of the shares, and the registration of the increased share capital in the Companies Register took place on 26th July 2003.

The Managing Board, therefore, is further authorised to effect a conditional capital increase with the consent of the Supervisory Board by preserving the ratio of the shares to the existing shares of up to a nominal value of EUR 15,473,114.68 by issuing up to 2,129,147 shares with an issue price of at least EUR 7.27 per share against cash contributions and by excluding the subscription rights of the current shareholders of Erste Bank.

At the Annual General Meeting of Erste Bank held on 6th May 2003 the Managing Board was authorised for a maximum period of five years after the registration of the amendment to the Articles of Association in the Companies Register to increase the registered capital of Erste Bank with the consent of the Supervisory Board by preserving the ratio of shares to existing shares – also in several tranches – by an amount of up to EUR 145,345,668.34 by the issue of up to 20,000,000 shares (i) against cash contribution without the exclusion of the subscription rights of the shareholders, but, if the capital increase is used to issue shares to employees, executives and members of the Managing Board of Erste Bank or affiliated companies, with the exclusion of the subscription rights of the shareholders, and (ii) against contribution in kind with the exclusion of the subscription rights of the shareholders. The type of shares, the issue price, the issuing conditions and, to the extent provided for, the exclusion of the subscription rights may be determined by the Managing Board with the consent of the Supervisory Board.

DIE ERSTE österreichische Spar-Casse Privatstiftung, a private foundation since 19th December 2003 holds shares of the voting stock of Erste Bank. Before its conversion into a private foundation DIE ERSTE österreichische Spar-Casse Anteilsverwaltungssparkasse was a special form of savings bank holding company (Anteilsverwaltungssparkasse which held 100% of the voting stock of Die Erste prior to the Merger with GiroCredit in 1997). Austria Verein holds 6.1% in Erste Bank, the balance being held by the public is 59.9%. This transformation did not entail a change in the shareholding of DIE ERSTE österreichische Spar-Casse Privatstiftung in Erste Bank.

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

### **Strategy**

Erste Bank has four core strategies, namely: (i) focusing on and exploiting core business potentials in Austria, (ii) building a strong retail franchise with the Austrian savings banks, (iii) targeting a home market of 40 million people in Central Europe, and (iv) transferring the multi-channel distribution model throughout Central Europe.

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

The savings bank sector (excluding Bank Austria) accounted for 18.0% of the total assets of the Austrian banking system at 31st December 2002. At the end of 2002, the Austrian savings banks sector comprised 62 (excluding Bank Austria) legally independent savings banks with a branch network of approximately 1,068 outlets. References in this Offering Circular to the “savings banks sector” or the “savings banks” refer to the Austrian savings banks excluding Bank Austria unless indicated otherwise. See also “The Austrian Banking System-Savings Banks”.

Having succeeded GiroCredit, by merging it in 1997 into Erste Bank, as the lead bank of the savings banks sector, Erste Bank is continuing to provide a wide range of services and products to the savings bank sector and its customers. These services and products include syndication services, risk management advice, legal advice, retail mortgage, life insurance and investment fund products and portfolio and asset management services as well as securities-related services which enable independent savings banks to reduce costs while providing full service to their clients.

The relationship with the savings banks has clear advantages for Erste Bank; with a network of some 750 branches it offers Erste Bank a large additional distribution network for its products without the operational costs of additional branches.

The principal advantage to the savings banks of their relationship with Erste Bank is the access it gives them throughout Austria to the products and services offered by Erste Bank (both domestically and internationally), thus enabling even the smallest of the savings banks to operate as full-service banks with an extended range of corporate and retail products.

Erste Bank offers savings banks Bauspar products (a popular form of retail mortgage product consisting of mortgage deposit contracts and mortgage loans), Wohnbau products (real estate finance products sold to private individual investors), investment fund products, insurance products and leasing services. It also provides investment advice, discretionary portfolio management and investment management services to the savings banks and their customers. Erste Bank acts as the domestic and foreign exchange clearing house for Austria's savings banks. EDP and the development of information systems are fundamental to the operations of Erste Bank and the savings banks. EDP services are provided by Sparkassen Datendienst GmbH ("Spardat") in which Erste Bank has approximately a 73% interest and operational services are provided by IT Austria (as described below). Spardat provides EDP and systems development services to Erste Bank and the savings banks (which own approximately 25% of Spardat's shares).

The Austrian Banking Act requires savings banks to maintain with Erste Bank, as the central financial institution of the savings bank sector, a specified amount of their savings deposits and other Euro deposits (the "Liquidity Reserve"). Although a legal change was required by the European Commission recently, which would enable the sector banks to keep the Liquidity Reserve not only with the central financial institution, such a possible legal change would not affect the savings banks sector as the central institutional function of Erste Bank has been stipulated in the Haftungsverbund. The Liquidity Reserve is intended to ensure that the savings banks have sufficient liquidity available to meet their commitments, in particular to customers for repayments of deposits while meeting their own cash flow needs. As at 31st December 2002, the Liquidity Reserve at Erste Bank amounted to EUR 3.6 billion, of which EUR 443 million were held with the Austrian Central Bank to fulfill the minimum reserve requirements set up by the European Central Bank.

### **Savings Banks Strategy of Erste Bank**

The savings banks strategy of Erste Bank is based on Erste Bank's role as the sector's lead bank and central product development and production facility. Erste Bank seeks increasingly closer co-operation and co-ordination with the independent savings banks. The sharing of resources and responsibilities will create synergies for all parties in terms both of cost reduction and revenue growth. The saving banks strategy also involves the reduction in geographic overlap in branch networks.

The sector is co-operating in five main areas:

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

Examples of actions taken to date are:

In a process begun in 1997 and continually deepened and broadened since then, Erste Bank continued the co-operation with the savings banks in the areas of joint marketing and the central settlement of securities transactions. In order to improve advisory services and the delivery of asset/liability management (ALM), a common interface was established for data transmission. Sales support has been greatly reinforced since 2001. Thus, the Erste Bank retail model, which combines a customer-centred approach to advice and sales with professional support tools, is already in use at 87% of all savings bank locations as of December 2002. In housing finance, in the distribution of speciality products (such as car leases) and in the launch of electronic sales channels (e-business), Erste Bank and the savings banks regularly move in unison, as described in the relevant sections of this report.

In the next several years, the synergies flowing from the concerted action in the savings bank sector and within the Erste Bank Group regarding marketing, target group strategy and product strategy will continue to help these partners stay on their successful course.

On 26th September 2001, the majority of the Austrian savings banks signed an agreement which unites them under a common roof of risk management, early warning system and customer deposit guarantee. Customer deposit guarantee is materially expanded while the legally prescribed amount is limited to EUR 20,000 per individual. This agreement, called *Haftungsverbund* (translated as “cross-guarantee system” in the English documents of Erste Bank, for example, in the Annual Report), ensures enforcement of payments under the guarantee system by transferring control over the system under the leadership of s Haftungs- und Kundenabsicherungs GmbH. The power to govern risk policies and – in case of serious problems of a member – the power to intervene in management was also transferred to s Haftungs- und Kundenabsicherungs GmbH, an entity of which Erste Bank owns at least 51% and the other savings banks own a maximum of 49% of shares.

The Haftungsverbund, as an integral part of the close co-operation between the savings banks (as already described), is based on three pillars:

- Joint product development and centralisation of processing functions, a uniform risk policy (including a standardised credit risk classification), co-ordinated liquidity management and common standards of controlling.
- A joint early-warning system that is designed to prevent financial difficulties at member savings banks and that provides support mechanisms.
- The guarantee of customer deposits.

This agreement came into force on 1st January 2002. Consequently, under International Financial Reporting Standards (“IFRS”), from then on all member savings banks are consolidated into Erste Bank Group’s financial statements (“Erste Bank Group”).

#### *Branch Transfers*

As of 1st January 2002 Erste Bank owned 50.5% of Tiroler Sparkasse. In the 2002 financial year the interest in Tiroler Sparkasse (both direct and indirect) was successively increased to 74.7% as a result of various measures such as acquisitions of shares, capital increases and transferring Erste Bank AG’s business unit Tirol-Mitte, consisting of 3 branch offices and a business volume of about EUR 300 million. In addition, a transformation and restructuring process for Tiroler Sparkasse Bankaktiengesellschaft Innsbruck was launched in 2002, just as with other acquisitions in the recent past.

In the continued pursuit of its strategy to streamline the branch office structure within Austria’s savings bank group, a process which has already been completed in the provinces of Salzburg, Carinthia, Upper Austria and Styria. With effect from 30th September 2002 some of Erste Bank’s branches in Tyrol were transferred as explained above, while some of Erste Bank AG’s branches in Burgenland and the eastern part of Lower Austria were transferred to Sparkasse Hainburg-Bruck-Neusiedl Aktiengesellschaft (previously Niederösterreichische Sparkasse Hainburg AG) in exchange for shares. This transfer comprised 13 branch offices and total assets of about EUR 210 million. Taking into account other transactions, this increased Erste Bank’s share in Sparkasse Hainburg-Bruck-Neusiedl AG from 26.04% to 75.03%.

As of 30th September 2003 Erste Bank transferred branches in Vorarlberg to three local savings banks – in part in exchange for the relevant equity stake, in part against cash payment. The transaction involved a business volume of EUR 0.4 billion and about 11,000 customers. The three savings banks which acquired the branches from Erste Bank are members of the Haftungsverbund.

Erste Bank has increased its stake in Kärntner Sparkasse AG from 10% to 25% plus 1 share. This was effected by a capital increase of Kärntner Sparkasse AG in May 2003.

Overall, Erste Bank now supports 45 savings banks – corresponding to more than 90% of the total assets of the savings bank group – in the active management of their balance sheet structure. In order to unify their corporate identity, Erste Bank and the savings banks entirely redesigned their internet presence in 2002. The websites at [www.erstebank.at](http://www.erstebank.at) and [www.sparkasse.at](http://www.sparkasse.at) now give customers easier access to the savings bank group’s offering of information and services. As part of the relaunch, more services were added to make important facilities such as netbanking, nettrading and SPARK7.COM even more attractive to customers. The Customer Sales Service Centre (CSSC), newly established in 2001 as part of the implementation of multi-channel management, further expanded its services in 2002. As this virtual outlet is open around the clock, an emergency service was extended to the customers of the savings banks. Moreover, several savings banks began to expand their direct sales activities. The total number of clients approached by the CSSC increased to 370,000 by the end of 2002.

*Erste Bank’s ownership of savings banks at 31st December 2003 and total assets at 31st December 2002*

	<b>Ownership in %</b>	<b>Total assets in EUR million<sup>(1)</sup></b>
Salzburger Sparkasse Bank AG .. .. .	98.7	3,629.5
Sparkasse Hainburg-Bruck-Neusiedl Bank AG .. .. .	75.0	683.2
Tiroler Sparkasse Bank AG .. .. .	74.7	3,467.9
Sparkasse Mühlviertel-West Bank AG .. .. .	40.0	555.1
Allgemeine Sparkasse Oberösterreich Bank AG .. .. .	26.9	7,111.5
Steiermärkische Bank und Sparkassen AG .. .. .	25.0	8,431.3
Sparkasse Bregenz Bank AG .. .. .	43.7	343.3
Sparkassen Kremstal – Phyrn AG .. .. .	24.1	432.1
Kärntner Sparkasse AG .. .. .	25.0	2,647.8
Sparkasse Voitsberg Köflach Bank AG.. .. .	5.8	424.6

(1) According to Austrian Accounting Standards as of 31st December 2002.

## **Retail and Real Estate**

### *Retail*

Erste Bank has the clear aim of becoming entrenched as the best retail bank in all its market regions. The comprehensive retail concept centres on meeting the individual customer’s specific needs with made-to-measure personal service. The target groups of this business segment are retail customers, the free professions and small businesses. Through a wide array of state-of-the-art distribution channels, Erste Bank gives clients access around the clock to the latest in financial products and services. In Austria the retail model is delivered by Erste Bank and the savings banks; in Central Europe it is delivered by the Erste Bank Group’s local subsidiaries.

In the continuing drive to enhance the level of personal attention to retail clients, the proportion of customers with whom a structured needs-analysis interview was held increased to about 45% in 2002 (2001: 35%). Erste Bank began successful tests of customer relationship management tools to approach clients proactively and in a targeted way. By providing excellent advice and service, Erste Bank was able to maintain its market share of 28% (or 59% together with the savings banks) among free professionals. In the loan business, the product portfolio was expanded by adding “Komfort Kredit Online”, a service which allows customers to apply for loans conveniently via the internet. The trend towards alternative, modern types of accounts available in multi-channel distribution, such as savings accounts accessible by card, continued apace in 2002. In these products Erste Bank saw growth of 22%. By being first in Austria to introduce a multi-account function (up to four accounts can be accessed with a single card), Erste Bank and the savings banks are on the leading edge of banking convenience and are enhancing service quality still further. Working with the savings banks, the new multi-channel distribution model for branch banking was developed.

### *Real Estate*

The Real Estate unit serves non-profit and commercial housing developers, property management companies, real estate brokers, real estate trusts and retail mortgage customers. By positioning itself as a hub for every aspect of home building, Erste Bank seeks to optimise the co-operation in this segment between real estate developers and retail customers, with the goal of serving its clients best. A focal point of this effort is the teamwork with the savings banks, particularly in matters of target group management, syndicated lending and refinancing. The transfer of real estate finance know-how to the subsidiaries in Central Europe is being stepped up in order to provide seamless service for customers' cross-border transactions throughout the extended home market of the Erste Bank Group. By issuing bonds with double tax advantages, s Wohnbaubank raises low cost capital at stable long-term interest rates for social-welfare housing and other municipal residential construction.

A marketplace for real estate advice and opportunities was launched two years ago under the name "wohnquadrat". In 2002 this offering was defined as its own brand while the number of so-called "wohn2Centers" in the savings bank group grew to 32. In 2002, about 400,000 page views per month bear witness to customers' strong interest in [www.wohnquadrat.at](http://www.wohnquadrat.at), the corresponding internet portal of Erste Bank and the savings banks. Although home construction activity in Austria declined, Erste Bank succeeded in stabilising its total retail housing loan book at EUR 2.5 billion. The market share of about 5% was thus defended. s Bausparkasse der österreichischen Sparkassen AG, the building society, held its business steady in a shrinking market, with total savings deposits of EUR 5.0 billion in 2002 and total outstanding loans of EUR 4.7 billion in 2002. In lending, strong new business of EUR 894 million enlarged the market share from 37% to 43%, further widening the building society's lead in Austria.

Deposits on the commercial housing finance side grew by about 4% in 2002 to EUR 382 million. Total outstanding loans in commercial and retail housing operations rose by 2.4% to EUR 9.2 billion. Erste Bank's market share in commercial housing lending in Austria as a whole is about 30%, but reaches roughly 50% in eastern Austria. The issuance volume of s Wohnbaubank in 2002 was EUR 194 million. The intensified sales efforts by Erste Bank and the savings banks produced a volume gain of 215% in 2002 in new business, bringing the market share to some 16% in 2002. Outstanding loans rose by 27% in 2002 to EUR 652 million. In 2002 Erste Bank's specialised real estate brokerage and appraisal firm, s REAL, attained growth of about EUR 234 million in brokerage fees, an improvement of approximately 10% compared to 2001.

### **Small to Medium-Sized Corporate Customers**

Small to mid-sized enterprises (SMEs) traditionally constitute a core part of Erste Bank's customer base. In its regional SME banking centres, Erste Bank's focus is on providing highly specialised expertise and the best service to its Austrian business clients. SME customers in particular require a multitude of different products, which Erste Bank offers in end-to-end solutions of the highest quality. Through the banking subsidiaries, the retail service for SME clients is also offered in Central Europe. Likewise, the services of EBV-Leasing, an automotive leasing firm, are made available to the customers of Erste Bank and the savings banks via the Group's extensive distribution network. In 2002 the economic environment remained unfavourable amid the lasting downturn in the business cycle for SMEs. As Erste Bank puts quality before quantity in its SME business as well, total outstanding loans eased by 6% to EUR 2.2 billion in 2002 compared to 2001. This reflected the intensive reduction of risky commitments, combined with the selective and successful acquisition of new accounts. A pronounced increase of 12% in 2002 compared to 2001 was delivered in syndicated lending with the Austrian savings banks. This was accomplished even as the savings bank group continued its process of concentration into larger entities. Despite strong pressure on margins, the Erste Bank Group succeeded in holding the margins in the SME business largely steady in 2002. With the GO! campaign, a marketing drive targeted at the high-quality customer segment of entrepreneurs, Erste Bank continued together with the Austrian savings banks to lend support to new businesses, helped by dedicated sales-and-service centres for entrepreneurs and a comprehensive website. As part of the transfer of branches to regional savings banks, the provincial SME banking headquarters in Tyrol was transferred to Tiroler Sparkasse in November 2002. Even in the adverse market conditions of the year 2002, EBV-Leasing managed a small increase in new leases for vehicles to EUR 219.7 million (2001: EUR 218.8 million) and thus held its market share of more than 10%. EBV-Leasing remains Austria's largest manufacturer-independent provider of automobile leases. Some 60% of EBV-Leasing's auto lease revenue is generated through the branches of Erste Bank and the savings banks while another 30% by UNIQA insurance group and 10% is generated directly by EBV-Leasing.



In May 2003 Erste Bank carried out its first loan securitisation in the form of asset-backed securities for its auto leasing subsidiary, EBV-Leasing. To this end, a portfolio of about 20,000 lease contracts from the loan book of EBV-Leasing, with a value of approximately EUR 220 million, was sold to a special purpose company. To fund lending operations, this company issues rated, exchange-listed bonds and places them with international investors. The business relationship with and servicing of the lease customers remain with EBV-Leasing / s Autoleasing.

## Asset Gathering

### *Asset Management*

Erste Bank and the savings banks are focused on providing their clients with the right investment services for that particular client. In addition to embracing absolute transparency, they attach great importance to using the most advanced analytical tools and offering a very extensive selection of products. Both private-banking and institutional clients are thus given comprehensive solutions that deliver the desired balance between risks and returns. One priority of Erste Bank's Asset Management unit is to expand activities in the extended home market, Central Europe, where the demand for portfolio management and life insurance is increasing. Erste Bank intends to make full use of this potential through its subsidiary banks.

### *Private banking*

In the private banking sector, the Erste Bank Group concentrates on made-to-measure solutions (provided especially in discretionary portfolio management), a wide offering of international mutual funds, and special funds for high-net-worth individuals and institutional clients. Although the year 2002 was marked by declining equity prices and investors were very reluctant to take new positions, assets under management grew by 38% to EUR 9.58 billion in 2002 versus 2001, with most of the growth coming from the institutional side. Its range of 682 international funds as of 2002 – an increase of 17% from 2001 – made Erste Bank the leading vendor of such products in Austria in 2002.

### *Portfolio management*

In portfolio management Erste Bank offers custom-tailored solutions based on a thorough understanding of the individual client's needs. In 2002 the challenging conditions in the financial markets caused assets under management to decline to EUR 1.3 billion (2001: EUR 1.6 billion). Since the beginning of 2002 Erste Bank uses a new portfolio management system, PORTIA, that provides full reporting to international standards for private banking and institutional clients.

### *ERSTE-SPARINVEST Kapitalanlagegesellschaft m.b.H.*

ERSTE-SPARINVEST KAG, the mutual fund company of Erste Bank and the savings banks, is Austria's number one provider of mutual funds. The assets in the subsidiary's 194 funds (as of 2002) increased by 5.5% in 2002 to EUR 16.17 billion versus 2001. ERSTE-SPARINVEST KAG thus remained the second largest fund company in Austria, increasing its market share in 2002 from 17.5% to 17.9%. In mutual funds the market share was augmented slightly to 20.7% with fund assets of EUR 10.16 billion at year-end 2002, thus cementing the unit's lead in the market. Assets managed for institutional accounts rose by 28.4% to EUR 6.01 billion in 2002. This represented a market share of 14.6% in 2002 (2001: 13.3%). Three bond funds introduced in 2001 – Mortgage-Bond-Funds, Corporate-Bond-Funds and Eurokonvergenzfunds – grew by a total of EUR 500 million in assets in 2002 (2001: about EUR 300 million). In 2002 ERSTE-SPARINVEST KAG was evaluated in a stringent process by international rating agency RCP & Partners and was rated "very good". The success of ERSTE-SPARINVEST KAG was also confirmed when it received the Standard & Poor's Fund Award for 2002, naming ERSTE-SPARINVEST KAG the best large fund company.

### *Market share of Erste Bank in fund assets as at 31st December 2002*

Country	Market size in EUR million	Market share in %
Austria .. .. .	90,362	17.90%
Czech Republic .. .. .	3,176	40.14%
Slovak Republic .. .. .	351	18.44%
Hungary .. .. .	3,788	1.23%
Croatia .. .. .	304	0.88%

## *Sparkassen Versicherung AG*

s-Versicherung is an insurance company providing mainly life insurance. s-Versicherung is the exclusive partner for life insurance for Erste Bank, the savings banks and Bausparkasse der österreichischen Sparkassen. The proven approach taken in Austria is to be exported to Central Europe. With the help of its local subsidiaries, Erste Bank aims to become the life insurance leader in this growth region as well.

While premium growth in the Austrian life business slowed overall, s-Versicherung achieved an increase of 6.6% in the number of life insurance contracts to nearly 800,000 in 2002. The leading market position in Austria, first attained in 2001, was defended in 2002 with a market share of 12.7% of premiums. Total premium income of s-Versicherung in 2002 was EUR 737.3 million, with life insurance accounting for 98.5% of this amount. At the same time, income from single-premium policies eased by 8.8% to EUR 491.5 million, following the general market trend downward. In the accident insurance line, premium income increased by 9.8% to EUR 11.0 million. In an effort to streamline the structure of its holdings and strengthen the strategic focus on bancassurance in its core business, in 2002 Erste Bank AG raised its directly held interest in s-Versicherung by 20% points to 56.1%. Including indirectly held ownership, this brings Erste Bank AG's total stake in s-Versicherung to 62.4% as of 31st December 2002. In exchange, Erste Bank sold 15% of its stake in Donau Allgemeine Versicherungs-Aktiengesellschaft, which offers primarily property and casualty insurance.

### **Central Europe**

Erste Bank regards the Central European countries near Austria as its extended home market. This region of 40 million people consists of the Czech Republic, the Slovak Republic, Hungary, Croatia and Slovenia. Erste Bank believes that a strong market presence is a central prerequisite for success in the retail business. The bank's goal is therefore to attain a market share of at least 20% in each country of the extended home market. Erste Bank is expanding its market position in Central Europe by means of acquisitions and organic growth.

#### *Holdings of Erste Bank in Central Europe*

<b>Country</b>	<b>Erste Bank subsidiaries</b>	<b>Ownership in %<sup>(1)</sup></b>
Czech Republic .. ..	Česká spořitelna, a.s. (CS)	97.96%
Slovak Republic .. ..	Slovenská sporiteľňa, a.s. (SLSP)	70.01% <sup>(2)</sup>
Hungary .. ..	Erste Bank Hungary Rt. (EBH) Postabank és Takarékpénztár Rt. (PB)	99.62% 99.97%
Croatia .. ..	Erste & Steiermärkische Banka d.d. (ESB)	59.81% <sup>(3)</sup>

(1) At 31st December 2003.

(2) On 3rd March 2004 the Slovak government agreed to sell its remaining stake of 10% in Slovenská sporiteľňa, a.s. (SLSP) to Erste Bank der oesterreichischen Sparkassen AG. This transaction will increase Erste Bank's stake in SLSP to 80.01%. The total purchase price amounts to EUR 72 million. The transaction will be settled within the next few weeks.

(3) At 27th January 2004.

### **Czech Republic**

On 5th August 2002 Erste Bank raised its stake in Česká spořitelna, a.s. by buying 38.6% of the savings bank's ordinary shares from DIE ERSTE österreichische Spar-Casse Anteilsverwaltungsparkasse (AVS). Following the transfer to Erste Bank of previously acquired preference shares in October 2002, Erste Bank as of 31 December 2002, holds 94.8% of the capital and 96.1% of the voting rights of Česká spořitelna, a.s.. On 10th April 2003 Erste Bank increased its stake in Česká spořitelna a.s. from 94.8% to 97.9%. This followed the agreement with Česká pojišť'ovna to purchase its 3.1% holding in Erste Bank's Czech subsidiary. The price paid was CZK 402.42 per share, equating to a total of CZK 1,902 million (approx. EUR 60.3 million). Through the transaction, Erste Bank increased its voting rights in Česká spořitelna a.s. a from 96.1% to 99.4%. A crucial goal for Česká spořitelna, a.s. in 2002 was to complete the restructuring of its loan portfolio. In accordance with the restructuring and guarantee agreement with Česká konsolidační agentura (CKA), Česká spořitelna, a.s. exercised its "total put" option in July 2002 and transferred loans with a face value of CZK 6.7 billion to CKA. The number of people employed by Česká spořitelna, a.s. continued to fall during the reporting period, declining by 2.0% from 12,994 (parent company) at the end of 2002 to 12,736. Česká spořitelna, a.s. in 2002 maintained its market position in key products.

This Czech subsidiary thus commands market shares in retail deposits and retail loans of 30.4% and 30.2%, respectively; in automatic teller machines the share is even higher, at 46.9%. In the retail mortgage business, Česká spořitelna, a.s. gained ground in 2002, raising its market share to 28.0%. Retail lending grew strongly to a total portfolio of CZK 54.9 billion, an increase of 26%. Retail mortgages played a large role in this total, amounting to CZK 14.6 billion. In the spring of 2002 a law was passed in the Czech Republic to abolish anonymous savings account passbooks. This new legislation had an effect on Česká spořitelna, a.s. in particular, traditionally the dominant Czech institution in the segment of anonymous passbooks. However, with intensive marketing the savings bank succeeded in rolling most of the deposits over into disclosed savings or investment products. The institution's relentless work for its 4.9 million customers is thus widely recognised.

As announced on 27th November 2003, a contract was signed on that date in Prague to sell the non-life insurance business of Czech insurer Pojišť'ovna ČS, a.s. to Kooperativa pojistovna a.s., the Czech subsidiary of Austrian insurer Wiener Städtische. The completion of the transaction is expected in the first quarter 2004, subject to necessary approvals. Pojišť'ovna ČS, a.s., is the fourth largest insurance company in the Czech Republic with a market share of 6.33%. Česká spořitelna, a.s. owns a 55% stake in Pojišť'ovna ČS, a.s., and 45% is held by Erste Bank's subsidiary s Versicherung AG.

The purchase price was agreed to be CZK 4.1 billion (approx. EUR 128.5 million) but is subject to adjustment by up to 10% either way based on the final results of Pojišť'ovna ČS, a.s. for the business year 2003.

### **Slovak Republic**

For Slovenská sporiteľňa, a.s. the year 2002 was shaped by the transformation process, which led to a fundamental restructuring of the bank, for example its risk management and distribution. This process was concluded on schedule at the beginning of 2003 after all targets were achieved. Any remaining restructuring-related tasks were turned over to the line authority of Slovenská sporiteľňa, a.s. With large market shares in retail deposits (41.5% as of 31st December 2002), mortgage loans (24.7% as of 31st December 2002) and card operations (40.6% as of 31st December 2002), Slovenská sporiteľňa, a.s. held or strengthened its position as the leading retail bank in the Slovak Republic. The retail network was streamlined by about 20% to 353 locations and physically redesigned to accord with Erste Bank's retail concept. In retail banking, Slovenská sporiteľňa, a.s. concentrated on adopting the service concept of Erste Bank and expanding its product portfolio. As well, four outlets for SME clients were established and the SME service range was extended, thus laying the foundation for the intensive development of this market segment. Total loans to customers grew by 28% to SKK 38.5 billion. Retail lendings increased by 11% to SKK 12.6 billion in 2002 compared to 2001, thanks in large part to brisk new mortgage business of SKK 2.8 billion. Important building blocks for the creation of a Slovenská sporiteľňa financial services group were put in place by setting up subsidiaries for asset management, factoring, and life insurance.

Erste Bank has increased its stake in Slovenská sporiteľňa, a.s. from 67.19% to 70.01% by acquiring a 2.82% stake in the open market at a price of SKK 584.6 million (approximately EUR 14.5 million). The transaction closed on 22nd September 2003.

The remaining shares in Slovenská sporiteľňa a.s. are held by the EBRD (19.99%) and the Slovak Ministry of Finance (10.0%).

On 3rd March 2004 the Slovak government agreed to sell its remaining stake of 10% in Slovenská sporiteľňa, a.s. (SLSP) to Erste Bank. This transaction will increase Erste Bank's stake in SLSP to 80.01%. The total purchase price amounts to EUR 72 million. It is anticipated that the transaction will settle within the next few weeks.

For the remaining stake (19.99%) in SLSP held by the EBRD, Erste Bank has the right to buy those remaining shares according to a call/put option agreement which will come into effect on 1st January 2005.

### **Hungary**

Erste Bank Hungary Rt. expanded its business significantly in 2002. Lendings increased by 59% to HUF 169,052 million, with the retail component soaring by 94% to HUF 33,810 million. Commercial loans increased by 50% to HUF 135,242 million in 2002. The market share of Erste Bank Hungary Rt. rose to just under 5% both in retail and commercial banking. The branch network of Erste Bank Hungary Rt. was expanded from 66 to 79 locations, with most of the growth occurring in the Budapest area.

On 20th October 2003 the Hungarian State Privatisation and Holding Company (“ÁPV”) and Erste Bank signed a share purchase agreement whereby Erste Bank agreed to acquire 99.97 per cent. of the shares in Postabank és Takarékpénztár Rt (“Postabank”) for HUF 101.3 billion (EUR 394.1 million), corresponding to 2.7 times the audited IFRS net equity of Postabank as at 31st December 2002 (HUF 37 billion/EUR 144 million).

Following a due diligence process, the major terms of the share purchase agreement between Erste Bank and ÁPV were agreed in September 2003. The terms of the contract included, *inter alia*, a range of warranties and assurances by the Hungarian State in respect of potential and threatened litigation against Postabank. Erste Bank believes that this provides it with a comfortable level of protection against past risks and unknown liabilities.

Postabank was established in 1988 as a commercial bank. In 1998 Postabank was consolidated and recapitalised with a EUR 640 million capital injection provided by the Hungarian Ministry of Finance and ÁPV.

As of 31st December 2002, Postabank had total assets of HUF 407.6 billion (at current exchange rates, approximately EUR 1.6 billion), total liabilities of HUF 370.5 billion (at current exchange rates, approximately EUR 1.4 billion), total shareholders’ equity of HUF 37.0 billion (at current exchange rates, approximately EUR 144 million) and a net loss for the year of HUF 2,142 million (at current exchange rates, approximately EUR 8 million), in accordance with International Financial Reporting Standards.

Postabank currently has approximately 1,600 employees at 113 branches serving around 480,000 customers. One of its subsidiaries, Postabank Leasing, is a leading player in vehicle financing in Hungary with a market share of approximately 10%.

The integration of Erste Bank Hungary Rt. and Postabank is due to be completed by the end of 2004. The new management team has been nominated and was elected at the General Meeting of Postabank on 16th December 2003. As with the other Central European banks of the Erste Bank Group, the first year following privatisation (2004 for Postabank) will be regarded as a period of restructuring, during which Postabank is not expected to make a positive contribution to group profits.

Erste Bank will, by virtue of the acquisition, be the second largest retail bank in Hungary in terms of number of clients and will provide a strong partner for small and medium sized companies throughout the country.

With the purchase of Postabank, Erste Bank’s share of the Hungarian market should rise from the current 5% to around 8%. Together, Erste Bank Hungary Rt. and Postabank currently serve approximately 900,000 customers through 200 branches. Through the strategic partnership with Magyar Posta, the Hungarian postal service, customers will also have access to Postabank’s services via a further 3,200 post offices. In December 2002 Postabank and Magyar Posta entered into a 10-year term strategic co-operation agreement. This agreement is non-exclusive in respect of the development and sale of banking products and services. However, Magyar Posta has undertaken not to offer any third party items which are more favourable than those agreed with Postabank. In addition the parties agreed to jointly develop new banking products and services and to exclusively share the distribution of such products.

The acquisition of Postabank is expected to create increased opportunities for cross-selling of existing and new products through the sales channels of the merged bank (Erste Bank Hungary Rt. and Postabank) and to provide cost synergies (for example: consolidation of IT systems, through data migration and new investment, and of central control functions and the integration of the branch networks through head count realignment, the merger of central and back office functions and the closure of unprofitable branches). The price agreed for the acquisition of Postabank reflects the expectation of considerable synergies that Erste Bank is expected to gain from the integration and the strategic importance that Erste Bank attaches to the Hungarian market.

The regulatory approvals for the acquisition were given in November 2003, in Hungary by the Pénzügyi Szervezetek Állami Felügyelete (the Hungarian Financial Supervisory Authority) on 5th November 2003, by the Office of Economic Competition on 14th November 2003, and in Austria by the Austrian Financial Markets Authority on 27th November 2003. Following the completion of the transaction, Erste Bank has, in accordance with Hungarian law, submitted a mandatory tender offer for the 0.03% of shares outstanding. This offer was at the same price as the original offer made by Erste Bank.

## Croatia

The acquisition of the majority stake in Riječka banka d.d. in April 2002 raised Erste Bank into the uppermost echelon of banks in Croatia. In August 2003, Riječka banka d.d. merged with Erste & Steiermärkische Banka d.d. Subsequently, Steiermärkische Bank und Sparkassen AG stepped up its participation in the combined enterprise to a total of 35.0% by acquiring 17.5% of the shares from Erste Bank in January 2004 and by making a voluntary offer to the minority shareholders. Erste Bank retains a majority participation of 59.8%. The free float was reduced from 7.6% to 5.2%. The bank operates some 112 branches and serves about 600,000 customers.

*Key figures of Erste Bank subsidiaries in Central Europe (IFRS)*

	Česká spořitelna		Slovenská sporiteľňa		Erste Bank Hungary		Erste & Steiermärkische Banka		Riječka banka	
	2001	2002	2001	2002	2001	2002	2001	2002	2001	2002
	<i>in EUR million</i>									
Operating result .. ..	217.9	298.0	37.0	75.3	9.2	17.2	19.7	22.0	28.7	19.1
Profit for the year.. ..	56.3	184.3	26.8	29.5	4.2	7.4	10.1	12.0	(87.6)	16.4
ROE <sup>(1)</sup> (in %) .. ..	7.6%	21.4%	10.1%	10.1%	8.4%	10.6%	15.7%	17.0%	—	20.0%
Cost-income ratio (in %) .. ..	68.6%	62.6%	78.5%	66.8%	83.5%	75.9%	51.1%	52.3%	53.6%	60.8%
Total assets .. ..	15,381	16,504	4,623	4,918	1,113	1,818	668	987	1,439	1,126
Shareholders' equity ..	765	947	270	307	58	76	67	73	35	128
Number of employees ..	13,341	12,994	5,856	5,248	1,044	1,166	432	529	992	955
Number of customers (in million) .. ..	4.5	4.9	2.2	2.3	0.4	0.4	0.2	0.2	—	0.4
Number of bank branches .. ..	684	673	448	353	66	79	33	38	75	74

(1) After taxes and minority interests.

	Česká spořitelna		Slovenská sporiteľňa		Erste Bank Hungary		Erste & Steiermärkische Banka <sup>(2)</sup>	
	At 30th September 2003	At 30th September 2002	At 30th September 2003	At 30th September 2002	At 30th September 2003	At 30th September 2002	At 30th September 2003	At 30th September 2002
	<i>(in EUR million)</i>							
Profit for the period	177.1	161.4	50.5	20.7	11.2	3.4	23.9	25.2
ROE (%) .. ..	24.2	24.4	19.9	9.6	18.6	7.0	15.6	21.8
Cost/Income ratio (%) .. ..	61.8	60.9	49.5	62.0	68.3	77.9	58.0	55.1
Employees .. ..	12,736	13,046	5,277	5,488	1,163	1,136	1,568	1,472
Total assets .. ..	17,758	16,504 <sup>(1)</sup>	4,941	4,918 <sup>(1)</sup>	1,847	1,818 <sup>(1)</sup>	2,300	2,095 <sup>(1)</sup>

(1) Balance Sheet numbers as of 31st December 2002.

(2) At 30th September 2003: Total of ERSTE & Steiermärkische and Riječka banka – *pro forma*.

## Large Corporate Customers

On the strength of its advice and service, Erste Bank plans to win additional large corporate customers in Austria. Large corporate customers in the extended home market in Central Europe are generally won and managed by the local subsidiaries. However, the Austrian arm of the large corporate customers segment, serving as a centre of competence, sees an important emerging market in Central and Eastern Europe for projects in tourism and commercial real estate. Erste Bank's strategy in the large corporate customers business is to value quality over quantity. In credit approval decisions, the first consideration is therefore always credit quality. In 2002 almost half of the 500 largest Austrian companies today do business with Erste Bank, a further increase from the 2001 figure of just under 45%. Erste Bank's portfolio of tourism projects grew slightly in 2002 to approximately EUR 850 million; more than half of this total represented projects in Central Europe. For instance, Erste Bank won the mandate to arrange the syndicated loan for "Grand Hotel Wien" in a EUR 63 million deal. The expertise of Erste Bank in its extended home market was underlined during 2002 by

a project for international hotel chain Hilton in the Croatian city of Dubrovnik. The commercial project finance portfolio amounted to approximately EUR 900 million as of 2002; collaboration with international investors from Europe and the USA grew considerably in 2002. Commercial project finance accounts for about half of new projects. In structured finance, Erste Bank mainly confines itself to advising on projects led by other sections of the large corporate customers segment. The structured finance department itself thus managed accounts worth only about EUR 25 million in total. The total credit portfolio of Erste Bank Vienna's large corporate customers business in 2002 was EUR 10.4 billion, a figure that was steady compared to the previous year (EUR 10.2 billion). Average margins in lending to large corporate accounts followed a favourable trend in 2002, increasing to 0.53% from the previous year's 0.42%.

## **IMMORENT AG**

IMMORENT AG is Erste Bank's lease specialist for equipment and real estate. In addition to providing the financing, IMMORENT AG focuses on planning, construction and construction management of real estate and on managing real estate investment funds. Aside from its activities in Austria, IMMORENT AG is also highly active in Erste Bank's extended Central European home market, where the company's entire range of services is available. IMMORENT AG surpassed its lease sales target in 2002 with new contracts worth EUR 940.1 million, a gain of 19% on 2001. This growth was driven largely by a greater presence in Central Europe. Thus, new foreign real estate leases grew by 46.9% in 2002 and new contracts for foreign equipment by 34.0%. In construction management, net revenues remained steady, reaching EUR 5.8 million. The expansion of this line of business to Central Europe began in 2002. The commercial project business, which was also extended to Central Europe in 2002, saw an increase of 43.5% in net revenues to EUR 3.5 million. In 2002 the Erste Bank Group's expertise in real estate investment was concentrated by combining DIE ERSTE Immobilien AG with Sparkassen-Immobilienanlagen-AG to form Sparkassen Immobilien AG. With a market share of about 20% as measured by capitalisation in the real estate sector of the Austrian Traded Index (ATX), the merged entity is one of the three leading real estate investment companies in Austria and is thus an even stronger competitor.

## **International Business**

The International Business unit has the function of balancing the risk profile of the Erste Bank Group's loan portfolios in Austria and Central Europe. This business unit does not lend directly to customers, but largely in the secondary and syndication markets. All profit centres actively manage their loan portfolios by risk-return criteria in order to make stable contributions to the Erste Bank Group's net earnings.

### *New York profit centre*

The New York branch focuses on corporate, trade and project finance. Some three-quarters of total lendings represent corporate finance (syndication of senior secured debt). The typical size of individual new loans is USD 10-15 million; cyclical and volatile industries are avoided in principle. In view of the strained macroeconomic situation in the USA, however, few new corporate loans have been granted since mid-2001. The trade finance activities of this branch centre on short-term credit risks of Latin American banks. Canadian and US power stations and gas pipelines form the core of the project finance business, which is always well-collateralised and based on strong capital resources.

### *London profit centre*

The London branch mainly provides syndicated acquisition financing, aircraft finance, asset-backed securities and real estate financing. Trade finance is only a small element in the transaction volume. The asset-backed-securities portfolio was built up further in 2002 to EUR 1,061 million and was the main driver of the growth in the London branch's portfolio. Erste Bank participates chiefly in investment-grade mezzanine tranches secured by mortgages. The quality of the portfolio remained virtually unchanged in 2002. Given the inauspicious market conditions, business volume in aircraft finance was reduced in 2002. The branch's trade finance activity consists above all of export finance that carries export credit insurance, and structured syndicated transactions (usually involving commodity shipments). Erste Bank is an active partner in acquisition finance in Western Europe, particularly in senior secured syndicated debt. In Central Europe the London branch arranges acquisition finance using equity and debt. Proactive portfolio management ensures stable quality in this line of activity.

### *Hong Kong profit centre*

The Hong Kong branch provides financing primarily for governments, banks and companies with good credit quality. Thanks to the solid economic situation in Asia, the branch surpassed its target for new business. In 2002 the investment-grade part of the portfolio was enlarged to significantly more than 75%.

### *Vienna profit centre*

International Business in Vienna focuses on lending to sovereign issuers and banks; to a lesser extent, corporate and project finance are also provided. The portfolio consists mainly of asset swaps, floating rate notes and euroloans. In 2002 the activity in credit default swaps, stripped convertibles and forfaiting was expanded in order to diversify the product range. The share of investment-grade transactions was raised further in 2002 and significantly exceeded 75% of the portfolio. In keeping with the strategy of Erste Bank, Central Europe forms one of the main pillars of this business, reaching about one-third of outstanding loans while Western Europe accounts for around one-half.

### *Loan portfolio in profit centers*

	<b>2000</b>	<b>2001</b>	<b>2002</b>
	<i>in EUR million</i>		
New York .. .. .	2,035	1,544	1,678
London .. .. .	1,797	1,999	2,193
Hong Kong .. .. .	1,540	1,640	1,613
Vienna .. .. .	4,744	5,602	5,196

## **Trading and Investment Banking**

### **Treasury**

The foremost task of the Treasury unit is to safeguard the liquidity of the Erste Bank Group in Austria and Central Europe both in the short and long term. Treasury is also responsible for the further development of group-wide systems for controlling and managing liquidity, earnings and risk. Additionally, the Treasury unit of Erste Bank supports the Austrian savings banks in matters concerning asset/liability management. The distribution model of the Treasury unit involves serving the top 100 companies in the extended Central European home market. Comprehensive and up-to-date information is continually made available to the customers of Erste Bank as a broad base for their investment decisions.

### *Asset/Liability Management (ALM)*

The Asset/Liability Committee (ALCO) process initiated earlier was broadened during 2002. New software now allows analyses to be performed directly by the local Treasury teams. In 2002 Erste Bank provided ALM consulting for no fewer than 45 Austrian savings banks, seven more than one year earlier, thus covering 90% of the total assets of the savings bank group.

### *New Issues*

In another successful benchmark issue, Erste Bank placed a 5-year, EUR 750 million floating rate note in 2002. In 2003, Erste Bank issued a 5-year floating rate note benchmark bond with a total volume of EUR 850 million and a 10-year fixed rate note benchmark bond with a volume of EUR 750 million.

The size of the Debt Issuance Programme (DIP), set up in 1998, is currently EUR 15 billion. 47 new issues with a total volume of about EUR 2.8 billion were issued under this programme in 2003.

The size of the Euro-Commercial-Paper Programme (ECP), set up in 2000, is currently EUR 3 billion. 63 new issues with a total volume of about EUR 2.4 billion were issued under this programme in 2003.

### *Trading and Sales*

By virtue mainly of good positioning in foreign exchange and bond trading, the Trading and Sales department fully met its targets in 2002. The co-operation with Erste Bank's Central European banking subsidiaries in currency trading was expanded. A market-induced decline in equity and fund products was balanced by Erste Bank's own issues and by structured products on the fixed income

side. Rigorous implementation of the Central Europe strategy in Treasury (matrix-style responsibility on the part of Treasury Vienna combined with local centres of competence) strengthened the position of Erste Bank as a market maker for Czech and Slovak Koruna and Hungarian Forint.

### **Investment Banking**

Erste Bank's Investment Banking unit offers Austrian customers – particularly its core clientele of small to medium-sized businesses – a full range of services for all their capital market needs. Most of all, Erste Bank sees an opportunity to serve companies that work in Central European countries. Both in Austria and Central Europe, Erste Bank is a one-stop provider of all major investment banking services – from capital market transactions, to corporate finance and advisory, to M&A advice and research, all the way to equity sales. Erste Bank's trading team also acts as a market maker and also strives to capitalise on market opportunities for Erste Bank's own account.

#### *Capital markets and corporate finance*

In 2003 the international IPO market recovered. Erste Bank's capital markets unit was engaged in three major Austrian transactions, including the Privatisation of Voest Alpine. In customer business, Erste Bank increased its corporate finance business and consulting for pre-listing equity financing and thus nearly made up for the lack of new issues.

#### *Equity sales and derivatives*

The Vienna stock exchange closed the year 2003 with a rise of 34.2% in the Austrian Traded Index (ATX). Similarly, on the ÖTOB (the Austrian futures and options exchange), despite lower exchange turnover Erste Bank was able to keep its top-four position in customer business. The equity sales team, which aims above all to strengthen its presence in Central European issues, expanded its contacts to small-cap and midcap funds in 2002. This makes itself felt, among other ways, in growing market shares in the extended home market. As a prominent example, Erste Investment Bank Hungary Rt. raised its market share in Hungary to about 17% in 2002. Erste Securities Polska S.A., with a market share of some 4%, became the leading vendor of international derivatives in Poland in 2002. In the international derivatives business, Erste Bank added precious metals and commodity contracts to its product range. This has placed its strong market position on a wider footing.

### **Corporate Centre**

#### **Marketing**

The Erste Bank Group Marketing unit establishes the brands of the Erste Bank Group in Austria and in its extended home market of Central Europe. As part of its matrix-style responsibility, Group Marketing ensures the co-ordination of the marketing activities and advertising of all entities in the Erste Bank Group and the Austrian savings banks.

The dual-logo strategy of Erste Bank and the savings banks, which has created a strong shared brand, continued to be pursued consistently in 2003. Amid these activities, brand retention for the Erste Bank Group increased significantly. Likewise, recognition of the Erste Bank axiom "In every relationship, it's the people that count" rose noticeably. In September 2002 Slovak subsidiary Slovenská sporiteľňa, a.s. introduced its new logo consistent with that of Erste Bank and the Austrian savings banks. To customers and business partners, the fresh design proclaims the new standing of Slovenská sporiteľňa, a.s. as a member of the Erste Bank Group and provider of the high quality of products and services that this entails.

#### **Organisation and IT**

The role of the Organisation and IT unit is to ensure the smooth day-to-day functioning of Erste Bank's entire information technology resources. The unit is also responsible for standardising all of the bank's IT platforms in Austria and abroad. The planning, strategies and innovations of the Organisation and IT department support the Erste Bank Group and the savings banks in executing their business strategies. Erste Bank's responsibility for organisational matters is to be gradually expanded to include the Austrian savings banks and the subsidiaries in Central Europe.

#### *Activities in Austria*

After extensive preparation, EASD+, the new joint IT platform of Erste Bank and the savings banks, was commissioned on schedule on 14th July 2002. EASD+ forms the basis for efficient use of applications in computer assisted sales and the other IT-dependent processes of the entire savings



bank sector. EASD+ integrates virtually all elements of the retail and commercial business, notably savings, clearing, securities trading and settlement, payments, financing, customer relationship management, treasury, accounting and reporting. Besides involving a great deal of software development, the IT conversion required intensive staff training. With the introduction of RICOS and Riskwatch – a new global limit management system that permits real-time queries and the integration of all trading and accounting systems – Erste Bank continued to build the foundation for ever-better risk management. After being installed in Austria and the foreign branches, RICOS was also implemented at Česká spořitelna, a.s. Another priority in the introduction of innovations by the Organisation and IT unit remained the multi-channel strategy of the Erste Bank Group. At the centre of many activities in Austria was the expansion of netbanking to a 24/7 basis, as well as the production of an English-language version of this platform. In addition, netbanking, nettrading, brokerjet and the target group portals [www.SPARK7.COM](http://www.SPARK7.COM), [www.dame.at](http://www.dame.at) and [www.wohnquadrat.at](http://www.wohnquadrat.at) were given even more customer appeal by adding further applications. During 2002 the internet presence of Erste Bank and the savings banks at [www.erstebank.at](http://www.erstebank.at) and [www.sparkasse.at](http://www.sparkasse.at) was redesigned from the ground up.

#### *Projects at the banking subsidiaries in Central Europe*

The Organisation and IT unit at Česká spořitelna, a.s. concentrated especially on the introduction of new banking software applications for treasury and corporate banking. The implementation of the new Web presence and Intranet of Česká spořitelna, a.s. was completed by January 2003. Netbanking went live at Erste & Steiermärkische Banka d.d. and Riječka banka d.d. in 2002. Both at Česká spořitelna, a.s. and Slovenská sporiteľňa, a.s. the financial reporting was expanded based on SAP software and thus converted to the group-wide standard. Immediately after the acquisition of Riječka banka d.d., preparations already began for its merger with Erste & Steiermärkische Banka d.d., which was consummated both in legal and technical terms in August 2003. Spodat Bratislava, the centre of competence for joint software development by the Central European subsidiaries that was established by the Organisation and IT unit, started operation in 2002.

#### *Other achievements*

The Organisation and IT unit played an important role in the migration of 17 Erste Bank branches to local savings banks in the Austrian provinces of Tyrol and Lower Austria. November 2002 saw the trouble-free technical transfer of about 30,000 customers, 125 employees and approximately EUR 500 million of business. In 2002, for the first time, the processing costs of the computing centre were lowered year-on-year not only on a per-unit-throughput basis, but also in absolute terms, despite the fact that the total number of transactions increased. This reflects the successful restructuring of the computing centre and the creation of a standardised IT platform for Erste Bank and the savings banks.

#### **E-business**

Erste Bank's fourth core strategy is to give customers the choice of how and when to use the Erste Bank Group's services. As one of the cornerstones of this multi-channel approach to distribution, e-business is becoming indispensable. The electronic banking products of Erste Bank are developed and rolled out in close co-operation with the Austrian savings banks. In Central Europe as well, Erste Bank wants to offer e-business services via its subsidiaries and is therefore accelerating the development of this offering in the region. To give customers better access to information and services, Erste Bank and the savings banks completely remodelled their websites in 2002. A Customer Sales Service Centre (CSSC), a virtual branch, was created that serves clients around the clock with most day-to-day financial transactions. Direct sales by the CSSC have already been expanded to the clients of some savings banks; in total, about 370,000 customers were approached in 2002. The number of users of the savings bank group's netbanking – which affords customers full access to their accounts and allows them such access quickly at any time of day or night – increased in 2002 by 74% to almost 390,000. In phonebanking as well, customer numbers grew significantly in 2002, rising by 127% to more than 240,000. Meanwhile, the mobilebanking service of Erste Bank and the savings banks is now used by 12,000 customers, 13% more than in 2001. Via the ecetra internet portal, Erste Bank and the savings banks provide a wealth of financial information. The portal's 33,000 subscribers represent growth of about 74% since the end of 2001. Marked increases in traffic were also logged by the two securities trading platforms, nettrading (meant primarily for longer-term investors) and brokerjet (designed for day-traders). Total customers now number over 14,000, or 75% more than a year earlier. Since the autumn of 2002, the internet community SPARK7.COM for the younger generation has a new face and offers a variety of new applications. With almost 100,000 registered subscribers and 11.5 million page

views per year, the savings bank group boasts Austria's largest community in this age group. A positive trend, with 44,000 users, is also seen in telebanking, Erste Bank's e-business product for small- and medium-sized corporate customers.

### **Credit risk at the Erste Bank Group**

#### *Group risk management*

The credit risk of the Erste Bank Core Group is managed both by the Group Credit Risk Management division located at Erste Bank AG in Vienna, and by the local credit risk units at the subsidiaries. The operational responsibility of the Erste Bank Group Credit Risk Management unit is limited to managing the risk of large exposures on a group-wide basis. These exposures relate to the largest borrowers in absolute terms, as well as those customers or groups of companies that carry substantial exposures at several institutions of the Erste Bank Group and thus require global, centralised attention.

These lendings are identified by the Erste Bank Group Risk Management unit, which together with the subsidiaries sets a ceiling for total exposure. Beginning in the second quarter of 2003, these limits (the maximum total amounts of exposure for a given group of companies within Erste Bank Group) are defined by a special-purpose committee. The limit allocation to the various parts of Erste Bank Group is defined as well, while taking account of risk-return profiles. Within these limits, loans are approved by the authorised local staff. The risk management units at the individual subsidiary institutions have a corresponding degree of lending authority. Above a certain lending limit, Erste Bank AG as the Erste Bank Group parent becomes involved in credit decisions. In this function, Erste Bank AG is usually represented by its Managing Board members or other corporate staff delegated to local supervisory boards.

An important strategic role of Group Credit Risk Management lies in monitoring and refining Erste Bank's credit culture. Key credit processes – for instance rules concerning lending authority, procedural rules and methods for the valuation of collateral – are centrally developed for the Erste Bank Group and adopted by the subsidiaries. When developing such rules, care is taken to ensure that they harmonise with the expected requirements of Basle II. The procedures of the subsidiaries are checked for compliance with the Erste Bank Group standards.

The Group Credit Risk Management division also provides the credit reporting for the Erste Bank Group. Aside from the operation and data maintenance of the group-wide limit system, the unit is also responsible for developing and implementing systems and databases that Erste Bank will need to qualify for the IRB (internal ratings-based) approach under Basle II.

#### *Credit portfolio Erste Bank Group*

The following tables include all loans and advances to credit institutions and customers as well as all fixed income securities (irrespective of whether they are assigned to the trading portfolio, to investments available for sale or to financial investments). Also included are the off-balance sheet credit risks (such as guarantees and letters of credit).

*Credit Risk by industry sectors at Erste Bank Group as of 30th September 2003*

	<b>Low Risk</b>	<b>Management attention</b>	<b>Substandard</b>	<b>Doubtful</b>	<b>Total outstanding</b>	
	<i>(in EUR million)</i>				<i>(Share in %)</i>	
Banking & Insurance .. ..	42,673	514	70	51	43,308	35.4%
Private households .. ..	16,820	1,334	390	832	19,376	15.8%
Public administration .. ..	17,188	140	8	37	17,372	14.2%
Real Estate & other business	6,524	2,663	706	662	10,555	8.6%
Manufacturing .. ..	4,581	1,631	901	510	7,623	6.2%
Trade .. ..	4,168	1,591	773	659	7,192	5.9%
Construction .. ..	2,869	930	329	354	4,481	3.7%
Hotels & restaurants .. ..	1,014	873	449	396	2,731	2.2%
Transport & communication	1,452	724	177	158	2,511	2.1%
Other (below 2% of total) ..	5,081	1,471	361	365	7,278	5.9%
<b>Total.. ..</b>	<b>102,370</b>	<b>11,871</b>	<b>4,162</b>	<b>4,023</b>	<b>122,426</b>	<b>100.0%</b>
In % of exposure .. ..	83.6	9.7	3.4	3.3	100.0	
Risk provisions .. ..	81	142	469	2,140	2,832	
Cover ratio (%) .. ..	0.1	1.2	11.3	53.2	2.3	

*Credit risk by regions at Erste Bank Group as of 30th September 2003*

	<b>Low Risk</b>	<b>Management attention</b>	<b>Substandard</b>	<b>Doubtful</b>	<b>Total outstanding</b>	
	<i>(in EUR million)</i>				<i>(Share in %)</i>	
<b>Austria</b> .. ..	46,809	9,277	3,526	3,232	62,843	51.3%
<b>Industrialized countries</b> .. ..	28,742	800	224	234	29,999	24.5%
<b>Extended home market</b> .. ..	24,003	1,278	366	470	26,118	21.3%
– Czech Republic .. ..	14,506	363	154	187	15,210	12.4%
– Slovak Republic .. ..	3,979	320	15	114	4,429	3.6%
– Hungary .. ..	2,415	476	37	51	2,979	2.4%
– Croatia .. ..	2,349	26	144	74	2,593	2.1%
– Slovenia .. ..	754	93	16	44	907	0.7%
<b>Emerging Markets</b> .. ..	2,714	504	29	63	3,311	2.7%
– Asia .. ..	926	36	6	23	991	0.8%
– Latin America .. ..	608	92	19	18	737	0.6%
– Russia .. ..	76	83	1	2	162	0.1%
– Other .. ..	1,104	294	3	20	1,420	1.2%
<b>LDCs</b> .. ..	102	12	19	23	156	0.1%
<b>Total.. ..</b>	<b>102,370</b>	<b>11,871</b>	<b>4,163</b>	<b>4,023</b>	<b>122,426</b>	<b>100.0%</b>
In % of exposure .. ..	83.6	9.7	3.4	3.3	100.0	
<b>Risk provisions</b> .. ..	81	142	469	2,140	2,832	
Cover ratio (%) .. ..	0.1	1.2	11.3	53.2	2.3	

*Non-performing loans (Erste Bank Group)*

As of the end of 2002, the Haftungsverbund savings banks were for the first time included in the calculation of non-performing loans for the Erste Bank Group; the total amounted to EUR 4.1 billion. The coverage of non-performing loans by risk provisions for loans and advances was nearly 74% (whereas collateral was not included in the calculation), a figure close to the risk provision cover in the Core Group. Due to the consolidation for the first time of the savings banks of the Haftungsverbund as of 1st January 2002 figures for 2001 are not available on a comparative basis.

**Management**

Erste Bank, in common with other Austrian joint stock companies, has a two-tier board comprising of an Aufsichtsrat (Supervisory Board) and a Vorstand (Management Board). The day-to-day management of Erste Bank is vested in the Management Board, which represents Erste Bank with respect to all third parties. The Supervisory Board is vested with the authority to appoint and remove members of the Management Board. Certain actions of the Management Board require the approval by the Supervisory Board.

## **Legal Proceedings**

### *Haftungsverbund*

Assertions made by an Austrian competitor at the end of 2003 to the Austrian Financial Market Authority and to the Austrian Federal Competition Authority allege that sec 30 (2a) of the Austrian Banking Act (BWG), which was introduced by an amendment to the Austrian Banking Act in 2002, conflicts with European law and that the formation of the Haftungsverbund between Erste Bank and most of the other Austrian savings banks does not comply with European and/or national legislation. Art 30 (2a) Austrian Banking Act has the effect that co-operation such as the Haftungsverbund existing between Erste Bank and the other members qualifies as a banking group.

At present the Cartel Court (on request from the Federal Competition Authority and the competitor) is reviewing the question of the applicability of European competition law to the co-operation under the Haftungsverbund between Erste Bank and the member savings banks. While under national competition law, partnerships under sec 30 (2a) of the Austrian Banking Act are explicitly exempt from competition rules, plaintiffs argue that the Haftungsverbund has an effect on interstate commerce between Austria and other EU member states and therefore also falls under Art 81 of the EC Treaty, although no explicit ruling on co-operations of this kind exists. In a worst case-scenario, the Cartel Court could decide that Art 81 (1) of the EC Treaty is applicable to the Haftungsverbund, and that an exemption for the Haftungsverbund under Art 81 (3) of the EC Treaty would require certain amendments to the co-operation. In the opinion of Erste Bank, the Haftungsverbund is in full compliance with all applicable laws and regulations, and Erste Bank's co-operation with the participating savings banks does not breach any laws and any regulations.

The banking group forms the basis for Erste Bank's consolidation of qualifying capital (required under sec 24 of the Austrian Banking Act) and of risk weighted assets (required under sec 22 of the Austrian Banking Act) of the members of the Haftungsverbund.

An examination by the Financial Market Authority of the validity of the competitor's allegations has already been completed with the following conclusion: the Financial Market Authority shall continue to apply sec 30 (2a) of the Austrian Banking Act. Furthermore it has confirmed that the Haftungsverbund existing between Erste Bank and the other members qualifies as a banking group.

The consolidation of Haftungsverbund members' qualifying capital and risk weighted assets improved by 55 basis points (0.55%) the Tier 1 ratio of the Erste Bank Group upon first application in September 2002. Even without the equity of the other Haftungsverbund member savings banks, the statutory minimum levels of regulatory capital would have been fully complied with.

### *Consumer Protection*

Like many other Austrian credit institutions, Erste Bank has for several years had to deal with the consumer protection issues caused by the formerly used sliding interest rate clause. Consumer protection advocates have been raising allegations that banks in Austria had been charging interest and/or fees in excess of what would have been appropriate according to applicable consumer protection provisions. Although no precedent was available until 2003, when the Austrian Supreme Court (Oberster Gerichtshof) resolved some of the legal issues in a landmark decision against another Austrian bank, Erste Bank has already for several years been implementing a policy to study the claims filed and to reach settlements with its customers on an individual basis by evaluating each claim asserted by a customer.

As for the related "rounding rule", suits filed against other banks have since prompted the Supreme Court to rule that the practice of rounding up to the nearest eighth that was applied in the sliding interest rate clause in consumer loan agreements is not admissible. Erste Bank has already decided to apply what it has learned from these rulings by making the appropriate refunds and interest adjustments.

### *Antitrust Proceedings*

In 2002 Erste Bank entered a plea for annulment with the European Court of First Instance of the European Community, after eight Austrian banks, among them Erste Bank, were fined a total of EUR 124.3 million by the European Commission for entering into illicit antitrust arrangements in the period from 1995 to 1998. The penalty imposed on Erste Bank was EUR 37.7 million.

The case is still pending and it is not foreseeable whether the case will be settled before 2005. Since the date of filing there have been no major developments in this case. Erste Bank made adequate provisions for this case already in the 2002 Financial Statements.

### *State Aid*

In preparation for accession to the European Union, the European Commission is screening state aid granted by the governments of the accession countries in the past with respect to their conformity with EU standards for the period after the accession date of 1st May 2004. The European Commission's examination of the restructuring of the Czech Republic's Česká spořitelna, a.s. was completed on 28th January 2004 with a positive outcome: The European Commission found that the restructuring measures have no effect on the period after the accession date. The same inquiries concerning Slovenská sporiteľňa, a.s. of the Slovak Republic and Postabank of Hungary should be completed prior to May 2004. Based on present information, these inquiries are not likely to have negative consequences for Erste Bank or the banks in question.

### *Česká spořitelna a.s.*

Česká spořitelna, a.s. is still involved in litigation concerning the ownership of a number of buildings used for business operations.

### *Pension Obligations*

Until 1998 Erste Bank provided, in line with other savings banks pursuant to the Collective Bargaining Agreement between the Austrian Association of Trade Unions and the Association of Savings Banks – as amended for Erste Bank by a shop agreement (Betriebsvereinbarung) made between Erste Bank and its Staff Council (Betriebsrat) – for approximately 2,000 of Erste Bank's then approximately 5,000 employees to receive additional payments to the pension paid by the Austrian Social Security system upon their retirement. The additional payments meant that the retired employees would receive up to 85% of their final salary.

A reform of the Austrian Pension Fund Act in 1999 provided the possibility for Erste Bank to shift its obligations resulting from the abovementioned system to independent pension funds. As a result of this, future pensions became dependent on the amount of contributions paid into these pension funds. This change required that certain amounts of money be transferred from the respective savings banks to the pension funds.

As a result of the declining capital markets, the return on amounts invested in pension funds were not sufficient to generate funds to maintain the envisaged level of payments to employees who were or will be retiring in the years 2001 to 2005.

The Austrian Association of Trade Unions, on behalf of some of its members, sued the Association of Savings Banks under the Collective Bargaining Agreement.

Parallel to this lawsuit, an amendment to the Pension Fund Act was passed by Parliament and came into effect in August 2003. It provides a mechanism for employees or former employees of Erste Bank to change the risk profile of their pension from a "high risk" category to a "lower risk" one (by investing in fixed income securities rather than in shares) by 30th November 2003. Erste Bank subsequently entered into an agreement with its Staff Council whereby if employees, or recently retired employees, had suffered a shortfall as a result of being, until then, in a "high risk" category and these same employees, or recently retired employees, elected to change their risk profile to a lower risk category, Erste Bank would offer to make additional payments to cover the shortfall suffered to date. Acceptance of Erste Bank's offer was possible until 30th November 2003. Given the high acceptance of the offer made by Erste Bank to its employees and recently retired employees, which was compulsorily linked with a renunciation of action (*Klagsverzicht*), Erste Bank is of the opinion that the outcome of the Austrian Association of Trade Unions' lawsuit is unlikely to be material to the financial position of Erste Bank.

### *Postabank*

Several lawsuits are pending against Postabank (an institution acquired by Erste Bank in 2003 (See "*Erste Bank der oesterreichischen Sparkassen AG – Background*")) and some additional legal proceedings have been threatened. In the due diligence performed before purchasing Postabank and after the closing of the transaction, Erste Bank examined the pending legal proceedings and the existing provisions therefore. Furthermore, in the purchase agreement, Erste Bank obtained a warranty from the vendor, the Hungarian state, against risks arising from threatened or yet unknown legal actions (not pending actions) against Postabank, with the vendor providing for an indemnification above a certain threshold.

## Salzburger Sparkasse

In 2003, in connection with the financial collapse at the end of the 1980s of the WEB-IMMAG group, a conglomerate of real estate and finance companies in Salzburg, Austria, a trial court passed criminal judgements against three former managers of Salzburger Sparkasse. The verdicts are subject to appeal. The three retired managers were charged with being accessories to acts of embezzlement committed by the individuals responsible at the WEB-IMMAG conglomerate, who were already convicted by the court of last instance. At the beginning of 2004, former WEB-IMMAG investors, with reference to these appealable sentences, brought a civil suit against Salzburger Sparkasse claiming alleged damages.

The members of the Supervisory Board, the representatives of the Supervisory Authority and the members of the Management Board, their position and, where significant, their principal activities outside the Erste Bank Group as at the date of this Offering Circular are as follows:

### Supervisory Board

Name	Position	Principal Activities outside the Erste Bank Group
Heinz Kessler	Chairman	Former CEO of Nettingsdorfer Papierfabrik AG until 31 August 2003
Klaus Braunegg .. .. .	First Deputy Chairman	Attorney-at-Law
Theresa Jordis .. .. .	First Deputy Chairwoman	Attorney-at-Law
Werner Hutschinski .. .. .	Member of the Supervisory Board	Businessman
Georg Winckler .. .. .	Member of the Supervisory Board	Rector of the University of Vienna
Dietrich Blahut .. .. .	Member of the Supervisory Board	Businessman
Dietrich Karner .. .. .	Member of the Supervisory Board	CEO of Generali Holding Vienna AG
Elisabeth Gürtler .. .. .	Member of the Supervisory Board	Businesswoman
Wolfgang Houska .. .. .	Member of the Supervisory Board	Businessman
Josef Kassler .. .. .	Member of the Supervisory Board	CEO of Steiermärkische Bank u. Sparkassen AG, President of the Savings Bank Association
Hubert Singer .. .. .	Member of the Supervisory Board	CEO of Dornbirner Sparkasse Bank AG
Lars-Olof Ödlund .. .. .	Member of the Supervisory Board	Senior Advisor FöreningsSparbanken AB, Sweden
Günter Benischek .. .. .	Employee Representative	—
Christian Havelka .. .. .	Employee Representative	—
Erika Hegmala .. .. .	Employee Representative	—
Ilse Fetik .. .. .	Employee Representative	—
Joachim Härtel .. .. .	Employee Representative	—
Anton Janku .. .. .	Employee Representative	—

### Managing Board

Name	Position
Andreas Treichl .. .. .	Chief Executive Officer
Elisabeth Bleyleben-Koren .. .. .	Deputy Chief Executive Officer
Reinhard Ortner .. .. .	Member of the Managing Board
Franz Hochstrasser .. .. .	Member of the Managing Board
Erwin Erasim .. .. .	Member of the Managing Board
André Horovitz .. .. .	Member of the Managing Board

### Representatives of the Supervisory Authority

Name	Position
Robert Spacek .. .. .	Senate Councillor, State Commissioner
Peter Pillmeier .. .. .	Deputy Municipal Director, Deputy State Commissioner
Sabine Kristen .. .. .	Councillor, Commissioner for Guarantee Stock
Erhard Moser .. .. .	Councillor, Vice-Commissioner for Guarantee Stock
Irene Kienzl .. .. .	Councillor, Trustee for Guarantee of Mortgage and Municipal Bonds
Anton Rainer .. .. .	Councillor, Trustee for Guarantee of Mortgage and Municipal Bonds

# STATEMENT OF RIGHTS OF THE SERIES H PREFERENCE SHARES

## ERSTE FINANCE (JERSEY) (4) LIMITED (the “Company”)

### Series H Non-cumulative Non-voting

#### Preference Shares

The following are the terms and conditions of the Unclassified shares of the Company hereby designated as Series H Non-cumulative Non-voting Preference Shares (the “**Series H Preference Shares**”), which expression shall include any further shares of the same Series issued pursuant to Article 6 of the Company’s Articles of Association (the “**Articles**”), as adopted by the Board of Directors pursuant to their meeting held on 22 March 2004. The Series H Preference Shares shall have attached to them the following rights and obligations in addition to the rights and obligations set out in the Articles.

#### 1 Definitions and Interpretation

1.1 Capitalised terms used but not defined herein shall have the meanings given to them in the Articles. In addition, as used in this Statement, if not inconsistent with the subject or context, the terms set out below shall have the following meanings:

the “**Agent**” means JPMorgan Chase Bank or such other entity as is appointed by the Company and notified to the Holders of the Series H Preference Shares in accordance with Paragraph 10;

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

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

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

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

“**Business Day**” means a day on which TARGET is operating;

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

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

“**Dividend Date**” means 24 March, 24 June, 24 September and 24 December in each year, commencing on 24 June 2004, and shall remain unadjusted if any such Dividend Date falls on a date which is not a Business Day;

“**Dividend Determination Date**” means, with respect to any Dividend Period, the second Business Day prior to the first day of such Dividend Period;

“**Dividend Parity Security**” means any preferred security or preference share or other security (i) issued by Erste Bank and ranking *pari passu* as to payment of dividends with Erste Bank’s obligations under the Support Agreement or (ii) issued by the Company or any other Subsidiary of Erste Bank and entitled to the benefit of a guarantee or support agreement from Erste Bank ranking *pari passu* as to payment of dividends with Erste Bank’s obligations under the Support Agreement;

“**Dividend Period**” means the period from (and including) 24 March 2004 to (but excluding) the first Dividend Date and each successive period from (and including) a Dividend Date to (but excluding) the next succeeding Dividend Date;

“**Dividend Rate**” means, in respect of a Dividend Period, the percentage rate determined pursuant to Paragraph 3;

“**Dividends**” means the amount of dividends payable on the Series H Preference Shares in accordance with the terms thereof;

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

“**Holder**” means a person whose name is entered in the Register as a holder of Series H Preference Shares;

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

“**Liquidation Distribution**” means EUR 1,000 per Series H Preference Share plus accrued and unpaid Dividends (whether or not declared) for the then current Dividend Period to the date of payment;

“**Margin**” means 0.10 per cent.;

“**Optional Redemption Date**” means any date designated for the optional redemption, the redemption for tax reasons or the redemption for capital reasons of the Series H Preference Shares pursuant to Paragraph 5 or 6;

“**Optional Redemption Price**” means EUR 1,000 per Series H Preference Share plus accrued and unpaid Dividends (whether or not declared) for the then current Dividend Period to the Optional Redemption Date;

“**Paid-Up Amount**” means EUR 1,000 per Series H Preference Share comprising a nominal amount of EUR 0.01 and a premium of EUR 999.99 per Series H Preference Share;

“**Paying and Transfer Agent**” means J.P. Morgan Bank Luxembourg S.A. or such other entity as is appointed by the Company and notified to the Holders of the Series H Preference Shares in accordance with Paragraph 10;

“**Reference Rate**” means in respect of any Dividend Period, the 10-year mid swap rate in EUR (annual, 30/360) versus 6 month EURIBOR (semi-annual, ACT/360) which appears on Reuters Page “ISDAFIX2” under the heading “**EURIBOR BASIS – 11:00 AM FRANKFURT**” as of 11:00 am Frankfurt time (the “**Relevant Screen Page**”), on the Dividend Determination Date.;

“**Registrar**” means J.P. Morgan Bank Luxembourg S.A. or such other entity as is appointed by the Company and notified to the Holders of the Series H Preference Shares in accordance with Paragraph 10;

“**Subsidiary**” means a company consolidated with Erste Bank under International Accounting Standards;

“**Support Agreement**” means the Support Agreement to be dated 22 March 2004 entered into by Erste Bank and the Company;

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

“**Treaty**” means the Treaty establishing the European Community, as amended by the Treaty on European Union.

1.2 A reference to a numbered Paragraph herein is to the corresponding numbered paragraph of this Statement of Rights relating to the Series H Preference Shares.

1.3 The provisions of Paragraph 3.3 hereof shall be construed in accordance with Austrian law.

## **2 Form, Denomination, Title and Listing**

2.1 The Series H Preference Shares shall be issued in registered form at a price per Series H Preference Share equal to the Paid-Up Amount.

2.2 Transfers of the Series H Preference Shares shall be effected in accordance with the provisions contained in the Articles.



- 2.3 Application has been made to list the Series H Preference Shares on the Luxembourg Stock Exchange. The Company shall use its best endeavours to obtain and maintain a listing of the Series H Preference Shares on the Luxembourg Stock Exchange.

### 3 Dividend

- 3.1 Subject as provided in Paragraph 3.3, non-cumulative dividends on the Series H Preference Shares will accrue from (and including) 24 March 2004 and are payable quarterly in arrear on each Dividend Date (whether or not declared by the Board of Directors). Dividends will be calculated as described below. Subject to the Law and Paragraph 3.2 below, Dividends in respect of each Dividend Period commencing from (and including) 24 March 2004, will be payable quarterly in arrear on the relevant Dividend Date at the Dividend Rate on the amount of the liquidation preference of EUR 1,000 per Series H Preference Share. The amount of the Dividend payable for any Dividend Period or any period less than a Dividend Period will be calculated on the basis of the number of days elapsed in the period using a calendar year of 360 days consisting of 12 months of 30 days each divided by 360.

- 3.2 The Dividend Rate will be determined by the Agent for each Dividend Period on the basis of the following provisions:

- (a) On each Dividend Determination Date the Agent will determine the Reference Rate as at 11.00 am Frankfurt time. The Dividend Rate for the relevant Dividend Period shall be the aggregate of the relevant Reference Rate plus the Margin and provided that if the Dividend Rate for any Dividend Period would otherwise be greater than 9 per cent. per annum it will be deemed to be 9 per cent. per annum for such Dividend Period.
- (b) In the event that the Reference Rate does not appear on the Relevant Screen Page, the Agent shall determine the applicable rate based on quotations from five major banks in the Euro-zone interbank market (the “**Reference Banks**”) (to be chosen by the Company and the Agent) for the EUR CMS10 (the relevant mid-market ten year annual swap rate 30/360 in Euro) commencing 2 Business Days following the relevant Dividend Determination Date. The highest and lowest (or, in the event of equality, one of the highest and/or lowest) quotations so determined shall be disregarded by the Agent for the purpose of determining the Reference Rate which will be the arithmetic mean (rounded if necessary to the fifth decimal place with 0.000005 being rounded upwards) of such provided quotations.

If, for any reason, the Reference Rate is no longer published or if fewer than three quotations are provided to the Agent in accordance with the above paragraph, the Reference Rate will be determined by the Agent in its sole discretion, acting in good faith and in a commercial and reasonable manner.

- (c) The Agent will, as soon as practicable after 11.00 a.m. (Frankfurt Time) on each Dividend Determination Date, determine the Dividend Rate in respect of the relevant Dividend Period and calculate the amount of the Dividend payable on the Dividend Date for the relevant Dividend Period (the “**Dividend Amount**”) by applying the Dividend Rate for such Dividend Period to the liquidation preference amount of EUR 1,000 per Series H Preference Share, multiplying such sum by the number of days elapsed in the period using a calendar year of 360 days consisting of 12 months of 30 days each divided by 360 and, if necessary, rounding the resultant figure to the nearest euro 0.01 (euro 0.005 being rounded upwards).
- (d) The Company shall cause notice of the Dividend Rate determined in accordance with this Paragraph 3.2 in respect of each Dividend Period and of the Dividend Amount and the relevant Dividend Date to be given to the Holders in accordance with Paragraph 10 as soon as practicable after its determination but in any event not later than the fourth Business Day thereafter.

The Dividend Amounts and the Dividend Date so notified may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without notice in the event of any extension or shortening of the relevant Dividend Period or in the event of proven or manifest error.

- (e) The Company shall cause notice of the Dividend Rate determined in accordance with this Paragraph 3.2 in respect of each Dividend Period and of the Dividend Amount and the relevant Dividend Date to be given to the Luxembourg Stock Exchange by no later than the first day of each new Dividend Period and shall cause such information to be available at the offices of the Paying and Transfer Agent in Luxembourg.
- (f) So long as any Series H Preference Share remains outstanding the Company will maintain an Agent.

The Company may from time to time replace the Agent by another leading investment, merchant or commercial bank. If the Agent is unable or unwilling to continue to act as the Agent or fails duly to determine the Dividend Rate in respect of any Dividend Period as provided above, the Company shall forthwith appoint another such bank to act as Agent.

- (g) All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Paragraph 3.2 shall (in the absence of wilful default, fraud, bath faith or manifest error) be binding on the Company, Erste Bank and the Holders of all Series H Preference Shares, and (in the absence of wilful default, fraud, bath faith or manifest error as aforesaid) no liability to the Holders of the Series H Preference Shares shall attach to the Agent in connection with the exercise or non-exercise by it of its powers, duties and discretions.

- 3.3 Dividends on the Series H Preference Shares will be non-cumulative and will be deemed to accrue on a day by day basis whether or not declared. Dividends on the Series H Preference Shares will be paid by the Company out of funds legally available therefor provided, however, that the Company will not be obliged to pay Dividends during any fiscal year:

3.3.1 to the extent that the aggregate of such Dividends, together with:

- (i) any Dividends (including any Additional Amounts (as defined in Paragraph 9) in respect thereof) previously paid by the Company in respect of the Series H Preference Shares in the then current fiscal year;
- (ii) any dividends previously paid on, or payments made to holders in respect of, Dividend Parity Securities in the then current fiscal year; and
- (iii) any dividends proposed to be paid on, or payments proposed to be made to holders in respect of, Dividend Parity Securities in the then current fiscal quarter,

would exceed Distributable Funds for the prior fiscal year; or

- 3.3.2 even if sufficient Distributable Funds are available, to the extent that, if the Board of Directors has received a certified copy of the minutes of a meeting of the Board of Directors of Erste Bank in which the Board of Directors of Erste Bank has resolved that, in accordance with applicable Austrian banking regulations affecting banks which fail to meet their capital ratios on a consolidated basis pursuant to the Act, Erste Bank would be limited in making such payments on Dividend Parity Securities.

If the Company does not pay a Dividend in respect of the Series H Preference Shares in any Dividend Period then the right of Holders of the Series H Preference Shares to receive a Dividend in respect of the Dividend Period ending on the relevant Dividend Date will be extinguished and the Company will have no obligation to pay the Dividend accrued for such Dividend Period or to pay any interest thereon, whether or not Dividends on the Series H Preference Shares are paid for any future Dividend Period.

- 3.4 When, by reason of any limitation described in Paragraph 3.3 above, Dividends are not paid in full on the Series H Preference Shares and any Dividend Parity Securities, all Dividends declared or payable upon the Series H Preference Shares and any such Dividend Parity Securities will be payable *pro rata* in the proportion that the amounts available for payment on the Series H Preference Shares and any such Dividend Parity Securities on the due date of payment shall bear to the full amount that would have been payable on the Series H Preference Shares and such Dividend Parity Securities but for such limitation and any claims in respect of the difference between the full amount and the amount so payable shall be thereupon extinguished. If Dividends are not paid in full in accordance with the foregoing, the Holders will be notified in accordance with Paragraph 10.
- 3.5 Save as described in this Paragraph 3, Holders of the Series H Preference Shares will have no right to participate in the profits of the Company.

#### **4 Liquidation Distributions**

- 4.1 In the event of any voluntary or involuntary liquidation, dissolution or winding-up of the Company, the Holders of the Series H Preference Shares at the time outstanding will be entitled to receive the Liquidation Distribution in respect of each Series H Preference Share held out of the assets of the Company available for distribution to shareholders.

Such entitlement will arise before any distribution of assets is made to holders of ordinary shares or any other class of shares of the Company ranking junior as regards participation in assets to the Series H Preference Shares, but such entitlement will rank equally with the entitlement of the holders of any other preferred or preference shares, if any, of the Company ranking *pari passu* with the Series H Preference Shares as regards participation in assets of the Company.

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

- 4.2 If the Liquidation Distribution and any other such liquidation distributions cannot be made in full by reason of the limitation described in Paragraph 4.1 above, such amounts will be payable *pro rata* in the proportion that the amount available for payment bears to the full amount that would have been payable but for such limitation. After payment of the Liquidation Distribution, as adjusted if applicable, the Holders of Series H Preference Shares will have no right or claim to any of the remaining assets of the Company or Erste Bank.
- 4.3 In the event of the liquidation, dissolution or winding-up of Erste Bank, the amount per share to which Holders of the Series H Preference Shares shall be entitled as a Liquidation Distribution will be as set out in Paragraphs 4.1 and 4.2 above.

#### **5 Optional Redemption**

The Series H Preference Shares are redeemable, at the option of the Company, subject to applicable legislation and to the prior consent of Erste Bank, in whole but not in part, on the Dividend Date falling in March 2009 or any Dividend Date thereafter, upon not less than 30 and no more than 60 Business Days' notice to the Holders of the Series H Preference Shares (in accordance with Paragraph 10) specifying the relevant Optional Redemption Date (which notice shall be irrevocable), each to be redeemed at the Optional Redemption Price on the specified Optional Redemption Date; provided that such Series H Preference Shares which are redeemed are substituted by capital of equal or better quality, unless the Financial Market Authority (as defined in the Act) determines that Erste Bank and the Credit Institute Group have sufficient Own Funds (as defined in the Act) required for an adequate risk coverage even after repayment of the Series H Preference Shares. Upon the expiry of such notice, the Company shall be bound to redeem the relevant Series H Preference Shares accordingly.

#### **6 Redemption for Tax Reasons and for Capital Reasons**

Notwithstanding the foregoing, the Series H Preference Shares will, subject as provided below, be redeemable, at the option of the Company on any Dividend Date after the issuance of the Series H Preference Shares, if:

- 6.1.1 the Company is or would be required to pay Additional Amounts (as defined in Paragraph 9); or
- 6.1.2 the statutory countability of the Series H Preference Shares as Tier 1 regulatory capital as part of the Own Funds (as defined in the Act) of Erste Bank for Austrian capital adequacy purposes on a consolidated basis (for capital adequacy purposes) is changed.

Subject to applicable legislation and to the prior consent of Erste Bank, in each such case the Series H Preference Shares will be redeemable in whole but not in part, on any Dividend Date, upon not less than 30 and no more than 60 Business Days' notice to the Holders of the Series H Preference Shares specifying the relevant Optional Redemption Date (which notice shall be irrevocable), each to be redeemed at the Optional Redemption Price on the specified Optional Redemption Date provided that in each case such Series H Preference Shares are substituted by capital of equal or better quality, unless the Financial Market Authority (as defined in the Act) determines that Erste Bank and the Credit Institute Group have sufficient Own Funds (as defined in the Austrian Banking Act) required for an adequate risk coverage even after repayment of the Series H Preference Shares. Upon the expiry of such notice, the Company shall be bound to redeem the Series H Preference Shares accordingly.

## **7 Payments and Purchases**

- 7.1 Dividends declared or payable on the Series H Preference Shares (other than Dividends forming part of the Optional Redemption Price) will be payable by the Company on the relevant Dividend Date (or if in any case such day is not a Business Day, the next following Business Day but without adjustment or interest in respect of a delay where such Dividend Date is not a Business Day) or other due date for payment as provided herein to the Holders of record thereof as they appear on the Register for the Series H Preference Shares on the relevant record date, which will be five days prior to the relevant date for payment.

If the Company gives a notice of redemption in respect of the Series H Preference Shares, then, by 3.00 p.m. (London time) on the Optional Redemption Date, the Company will irrevocably deposit with the Agent funds sufficient to pay the Optional Redemption Price, and will give the Agent irrevocable instructions and authority to pay the Optional Redemption Price to the Holders of the Series H Preference Shares as at the relevant record date, which will be seven days prior to the relevant Optional Redemption Date. If notice of redemption shall have been given and funds deposited as required, then upon the date of such deposit, all rights of Holders of the Series H Preference Shares will be extinguished, except the right of the Holders of Series H Preference Shares to receive the Optional Redemption Price in respect of each share, but without interest, and the Series H Preference Shares will cease to be outstanding and will be cancelled.

- 7.2 Subject to any applicable fiscal or other laws and regulations:

7.2.1 each payment in respect of Dividends will be made by cheque and mailed to the Holder of record at such Holder's address as it appears on the Register on the relevant record date for the Series H Preference Shares; and

7.2.2 any payment in respect of the redemption of any Series H Preference Share will be made by cheque against presentation and surrender of the relevant share certificate at the office of the Paying and Transfer Agent,

provided however, that a Holder of Series H Preference Shares may receive any such payment by wire transfer if the Company (or its agent) so agrees with such Holder and if appropriate wire transfer instructions have been received by the Paying and Transfer Agent in sufficient time prior to the relevant date of payment.

- 7.3 In the event that payment of the Optional Redemption Price in respect of any Series H Preference Share is improperly withheld or refused and not paid by the Company, Dividends on such Series H Preference Share, subject as described in Paragraph 3.2, will continue to accrue, at the then applicable rate, from the Optional Redemption Date to the date of actual payment of such Optional Redemption Price.
- 7.4 In making any payment in respect of the Series H Preference Shares, amounts shall be rounded, if necessary, to the nearest EUR 0.01 (with EUR 0.005 being rounded upwards).
- 7.5 Subject to the foregoing and to applicable law (including, without limitation, to Jersey and Austrian securities and banking laws and regulations), the Company or Erste Bank or any of Erste Bank's other Subsidiaries may at any time and from time to time purchase outstanding Series H Preference Shares by tender, in the open market or by private agreement. If purchases are made by tender, the tender must be available to all Holders of Series H Preference Shares alike. Any such Series H Preference Share so purchased by Erste Bank or any of Erste Bank's Subsidiaries may be resold or cancelled.

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

## **8 Voting Rights**

- 8.1 Holders of Series H Preference Shares will not be entitled to receive notice of or attend or vote at any general meeting of shareholders of the Company.
- 8.2 If for any four consecutive Dividend Periods, Dividends (whether or not declared) and any Additional Amounts in respect of such Dividends have not been paid in full on the Series H Preference Shares by the Company, then the Holders of outstanding Series H Preference Shares together with the holders of any other preferred or preference shares of the Company having the right to vote for the election of Directors in such event, acting as a single class without regard to series, will be entitled, by written notice to the Company given by the Holders of a majority in liquidation preference of such shares or by ordinary resolution passed by the Holders of a majority in liquidation preference of such shares present in person or by proxy at a separate general meeting of such Holders convened for the purpose, to appoint two additional members of the Board of Directors who, whether because of their individual residency status or otherwise, do not adversely affect the Company's regulatory or taxation position or status.

Not later than 30 days after such entitlement arises, if the written notice of the Holders of outstanding Series H Preference Shares and the holders of any other preferred or preference shares of the Company having the right to vote for the election of Directors in the circumstances described in the preceding paragraph has not been given as provided for in the preceding paragraph, the Board of Directors will convene a separate general meeting for the above purpose. If the Board of Directors fails to convene such meeting within such 30 day period, the Holders of 10 per cent. in liquidation preference of the Series H Preference Shares and such other preferred or preference shares will be entitled to convene such meeting. The provisions of the Articles concerning the convening and conduct of general meetings of shareholders will apply with respect to any such separate general meeting.

Any member of the Board of Directors so appointed shall vacate office, subject to the terms of such other preferred or preference shares, if for any four subsequent, consecutive Dividend Periods, Dividends and any Additional Amounts in respect of such Dividends have been paid in full on the Series H Preference Shares by the Company.

- 8.3 The Company will cause a notice of any meeting at which Holders of the Series H Preference Shares are entitled to vote to be mailed to each Holder of a Series H Preference Share. Each such notice will include a statement setting forth (a) the date, time and place of such meeting, (b) a description of any resolution to be proposed for adoption at such meeting on which such Holders are entitled to vote and (c) instructions for the delivery of proxies.

## **9 Additional Amounts**

- 9.1 All payments in respect of the Series H Preference Shares by the Company will be made without withholding or deduction for, or on account of, any Jersey Tax or Austrian Tax, unless the withholding or deduction of such Jersey Tax or Austrian Tax is required by law. In that event, the Company will pay, as further Dividends, such additional amounts ("**Additional Amounts**") as may be necessary in order that the net amounts received by the Holders of Series H Preference Shares after such withholding or deduction shall equal the amounts which would have been receivable in respect of the Series H Preference Shares in the absence of such withholding or deduction; except that no such Additional Amounts will be payable to a Holder of Series H Preference Shares (or to a third party on his behalf) with respect to any Series H Preference Share:
- 9.1.1 to the extent that such Jersey Tax or Austrian Tax is imposed or levied by virtue of such Holder (or the beneficial owner of such Series H Preference Share) having some connection with Jersey or Austria, other than being a Holder (or beneficial owner) of such Series H Preference Share; or
- 9.1.2 where such Additional Amount is imposed on a payment to an individual and is required to be made pursuant to European Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26th-27th November, 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive; or

9.1.3 in respect of which the share certificate representing it is presented for payment by or on behalf of a Holder who would have been able to avoid such withholding or deduction by presenting the relevant Note, Receipt or Coupon to another Paying and Transfer Agent in a Member State of the European Union;

except that the Company's obligations to make any such payments are subject to the limitations provided in Paragraph 3.3 and 3.4 and Paragraphs 4.1 and 4.2 above.

The Company shall at all times maintain a Paying and Transfer Agent with a specified office in a European Union member state that will not be obliged to withhold or deduct tax pursuant to European Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26th-27th November 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive.

**10 Notices**

All notices to the Holders will be mailed to the Holder of record and, for so long as the Series H Preference Shares are listed on the Luxembourg Stock Exchange and the rules of the Luxembourg Stock Exchange so require, in a leading Luxembourg daily newspaper (which is expected to be the *Luxemburger Wort*).

Signed on behalf of

**ERSTE FINANCE (JERSEY) (4) LIMITED**

by

.....  
Director

.....  
Date

## OTHER PROVISIONS OF THE ISSUER'S ARTICLES

In addition, the Articles of Association of the Issuer contain, *inter alia*, provisions (with the exception of sections in italics) to the following effect:

(a) *Transfer of Shares*

The shares of the Issuer are in registered form. Shares may be transferred by instrument in writing in the usual or common form, or in such other form as the Directors may approve. All instruments of transfer shall be signed by or on behalf of the transferor and, in the case of a partly paid share, by the transferee. Registration of transfers of shares will be effected without charge by or on behalf of the Issuer, but upon payment (or the giving of such indemnity as the Issuer may require) in respect of any tax or other governmental charges which may be imposed in relation to it. The Directors of the Issuer may, without assigning any reason, refuse to register a transfer of any share which is not fully paid and may also refuse the registration of any transfer of any share (which is not fully paid) on which the Issuer has a lien. The Directors of the Issuer will not be required to register the transfer of any Series H Preference Share after it has been called for redemption. Save as aforesaid, the Articles of Association contain no restrictions on the transferability of fully paid shares, provided that the instrument of transfer is lodged at the office of the Paying and Transfer Agent *in Luxembourg* or at the offices of any other authorised transfer agent appointed by the Issuer in respect of the Series H Preference Shares, accompanied by the relevant share certificate and such other evidence of the right to make the transfer as the Directors may require and is only in respect of one class of share.

Every person whose name is entered as a member in the Register shall be entitled without payment to one certificate, for each class of shares, evidencing all shares in registered form held by him. Where a Holder has transferred part of the shares comprised in his holding, he shall be entitled to a share certificate for the balance without charge. Every certificate with respect to shares shall be issued within two months after allotment or the lodgement at the office of the Paying and Transfer Agent *in Luxembourg* or such other authorised transfer agent appointed by the Issuer for such purposes. *If definitive share certificates are made available in respect of Series H Preference Shares, such share certificates will be available from the Paying and Transfer Agent at its offices in Luxembourg.*

*In the Agency Agreement (the "Agency Agreement") to be dated 22 March 2004 between the Issuer, Erste Bank, the Agent and the Registrar and Paying and Transfer Agent, the Issuer will agree that if a transferee is not a nominee for a common depositary for Euroclear and Clearstream, Luxembourg, it shall give sufficient notice to the Registrar to allow for the appointment of a replacement registrar, if necessary.*

*The Registrar and Paying and Transfer Agent will be J.P. Morgan Bank Luxembourg S.A. (or such other person as the Issuer may appoint and notify to the Holders). For so long as the Series H Preference Shares are listed on the Luxembourg Stock Exchange, the Issuer will maintain a paying and transfer agent in Luxembourg.*

(b) *Replacement of Share Certificate*

If a share certificate is damaged, defaced, lost, stolen or destroyed, a new share certificate representing the same shares may be issued on payment of such fee and on such terms (if any) as to evidence and indemnity and the payment of out-of-pocket expenses as the Directors of the Issuer may think fit and on payment of any exceptional expenses of the Issuer incidental to its investigation of the evidence and, if damaged or defaced, on delivery of the old share certificate.

(c) *Alteration in Capital*

Subject as described in "Description of the Series H Preference Shares" above, the Issuer may from time to time by special resolution alter its share capital in any manner permitted by the Law and, in particular, may increase its share capital by the creation of new shares, such new capital to be of such amount and to be divided into shares of such respective amounts and to carry such special rights (if any) or to be subject to such restrictions (if any) as the resolution may prescribe.

Subject as described in “Statement of Rights of the Series H Preference Shares” above, the Issuer may from time to time by special resolution consolidate and divide all or any of its share capital into shares of larger nominal amount than its existing shares, cancel any shares which at the date of the passing of the resolution have not been taken or agreed to be taken by any person, sub-divide its shares or any of them into shares of smaller amount and redeem its shares and may by special resolution reduce its share capital and capital redemption reserve in any manner authorised by Jersey law.

(d) *Variation of Rights*

All or any of the rights attached to any class of shares (other than the Series H Preference Shares) may be varied or abrogated in such manner (if any) as may be provided by such rights or, in the absence of any such provision, with the consent in writing of the holders of not less than two-thirds of the issued shares of the class or with the sanction of a special resolution passed at a separate meeting of the holders of shares of that class. The necessary quorum for such separate meeting (other than an adjourned meeting) is two holders holding or representing at least one-third in nominal amount of the issued shares of that class or, if there is only one holder of the issued shares of such class, such holder.

(e) *Dividends*

Subject to the Law the general meeting may declare annual or interim dividends out of profits on the recommendation of, and not exceeding the amount recommended by, the Directors. No dividend may be declared or paid on the ordinary shares unless all dividends on the Series H Preference Shares shall have been declared and paid in full for the immediately preceding twelve month period. *No dividend has been paid on the ordinary shares of the Issuer since its incorporation.*

(f) *Prescription and Governing Law*

Any dividend or distribution unclaimed for a period of ten years from its date of declaration shall be forfeited and shall cease to be owing by the Issuer. *The Series H Preference Shares are governed by Jersey law.*

(g) *Members' Rights*

Subject to any rights or restrictions as to voting attached to any class of shares, at any general meeting on a show of hands, every member who is present in person or by proxy has one vote, and on a poll, every member present in person or by proxy has one vote for every share of any class of which he is the holder.

Subject to the rights attached to the preference shares of the Issuer, the Issuer may, with the sanction of a special resolution of the Issuer and any other sanction required by Law, divide amongst the members *in specie* or in kind the whole or any part of the assets of the Issuer and the liquidator (or, if none, the directors) may determine how such division shall be carried out as between the members or different classes of members.



## SUPPORT AGREEMENT

“THIS SUPPORT AGREEMENT (the “**Support Agreement**”), dated 22 March 2004, is executed and delivered by each of ERSTE BANK DER OESTERREICHISCHEN SPARKASSEN AG, incorporated under the laws of Austria (“**Erste Bank**”) and ERSTE FINANCE (JERSEY) (4) LIMITED, a company incorporated with limited liability under the laws of Jersey (the “**Company**”).

WHEREAS, Erste Bank desires to cause the Company to issue, and the Company desires to issue, the Series H Preference Shares (as defined below) and Erste Bank and the Company desire to enter into this Support Agreement.

NOW, THEREFORE each of Erste Bank and the Company executes and delivers this Support Agreement for the benefit of the Holders (as defined below).

1 As used in this Support Agreement, the following terms shall, unless the context otherwise requires, have the following meanings:

“**Additional Amounts**”, in relation to the Company, has the meaning given to that term in Paragraph 9 of the Statement of Rights;

“**Articles of Association**” means the Articles of Association of the Company, as amended from time to time;

“**ASCA**” means the Austrian Stock Corporation Act, as amended from time to time;

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

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

“**Credit Institute Group**” means all companies consolidated with Erste Bank pursuant to §30 of the Austrian Banking Act 1993, as amended;

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

“**Dividend Parity Security**” means any preferred or preference share or other security (i) issued by Erste Bank, and ranking *pari passu* as to payment of dividends with Erste Bank’s obligations under this Support Agreement, or (ii) issued by the Company or any other Subsidiary of Erste Bank and entitled to the benefit of a guarantee or support agreement as to payment of dividends from Erste Bank ranking *pari passu* with Erste Bank’s obligations under this Support Agreement;

“**Dividend Period**” has the meaning, in relation to the Series H Preference Shares, given to such term in the Statement of Rights;

“**Dividends**” means the amount of dividends payable on the Series H Preference Shares in accordance with the terms thereof;

“**Holder**” means any “**Holder**” as defined in the Statement of Rights from time to time of any Series H Preference Share of the Company, provided, however, that in determining whether the Holders of the requisite percentage of Series H Preference Shares have given any request, notice, consent or waiver hereunder, such term shall not include Erste Bank or any entity of which Erste Bank, either directly or indirectly, owns 20 per cent. or more of the voting shares or similar ownership interests (including the Company);

“**Liquidation Date**” means the date of final distribution of the assets of the Company in the case of a liquidation, dissolution or winding-up of the Company (whether voluntary or involuntary);

“**Liquidation Distribution**” means, with respect to the Series H Preference Shares, the liquidation preference per share as provided by the terms thereof;

“**Optional Redemption Date**” has the meaning, in relation to the Series H Preference Shares, given to such term in the Statement of Rights;

“**Optional Redemption Price**” has the meaning, in relation to the Series H Preference Shares, given to such term in the Statement of Rights;

“**Series H Preference Shares**” means all of the euro Series H Non-cumulative Non-voting Preference Shares of the Company in issue from time to time, whether or not in issue on the date of this Support Agreement, the Holders of which are entitled to the benefits of this Support Agreement as evidenced by the execution of this Support Agreement;

“**Statement of Rights**” means the statement of rights adopted and prevailing from time to time in relation to the Series H Preference Shares and setting out the rights attaching thereto as issued by or on behalf of the Directors on behalf of the Company pursuant to Article 6(b)(i) of the Articles of Association; and

“**Subsidiary**” means a company consolidated with Erste Bank under International Accounting Standards.

Any other terms used in this Agreement and defined in the Statement of Rights or Articles of Association of the Company shall have the same meaning when used in this Agreement.

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2.1 (a) Subject to the limitations contained in the following paragraphs of this clause 2.1, Erste Bank irrevocably and unconditionally agrees, if at any time the Company has insufficient funds to enable it to meet in full all of its obligations under or in respect of the Series H Preference Shares as and when such obligations fall due, to make available to the Company such funds in such form as are sufficient to enable it to meet such payment obligations. The Company shall use any amount made available to it by Erste Bank pursuant to this Support Agreement solely for the purposes of enabling the Company to fulfil its payment obligations under or in respect of the Series H Preference Shares.

(b) Notwithstanding clause 2.1(a), Erste Bank will not be obliged to make any payment to the Company under this Support Agreement in respect of Dividends (including accrued and unpaid Dividends relating to any payment due upon redemption or liquidation distribution and any Additional Amounts payable by the Company in respect of Dividends) on any Series H Preference Shares in any fiscal year:

(i) to the extent that such payment, together with the amount of:

(a) any Dividends (including any Additional Amounts in respect thereof) previously paid by the Company in respect of the Series H Preference Shares in the then current fiscal year;

(b) any dividends previously paid on, or payments made to holders in respect of, Dividend Parity Securities in the then current fiscal quarter; and

(c) any dividends proposed to be paid on, or payments proposed to be made to holders in respect of, Dividend Parity Securities in the then current fiscal quarter,

would exceed Distributable Funds for the prior fiscal year; or

(ii) even if sufficient Distributable Funds are available, to the extent that, in accordance with applicable Austrian banking regulations affecting banks which fail to meet their capital ratios on a consolidated basis pursuant to the Austrian Banking Act 1993, as amended, Erste Bank would be limited in making payments on Dividend Parity Securities

(c) Notwithstanding clause 2.1(a), if, at the time that any amounts are to be paid in respect of Liquidation Distributions on the Series H Preference Shares, proceedings are pending or have been commenced for the voluntary or involuntary liquidation, distribution or winding-up of Erste Bank, payment under this Support Agreement of amounts in respect of such Liquidation Distributions and payment by Erste Bank in respect of any liquidation distributions payable with respect to any Asset Parity Securities shall not exceed the amount per share that would have been paid as the liquidation distribution from the assets of Erste Bank (after payment in full in

accordance with Austrian law of all creditors of Erste Bank, including holders of its subordinated debt but excluding holders of any liability expressed to rank *pari passu* with or junior to this Support Agreement) had the Series H Preference Shares and all such Asset Parity Securities been issued by Erste Bank and ranked (i) junior to all liabilities of Erste Bank (other than any liability expressed to rank *pari passu* with or junior to this Support Agreement), (ii) *pari passu* with all Asset Parity Securities of Erste Bank and (iii) senior to Bank Share Capital.

- (d) In the event that any amounts owed by Erste Bank to the Company under clause 2.1(a) cannot be paid in full by reason of any limitation referred to in clause 2.1(b) or (c), such amounts will be payable by Erste Bank to the Company *pro rata* in the proportion that the amount available for payment bears to the full amount that would have been payable but for such limitation.

The determination of any such limitation of Erste Bank's obligations under this Support Agreement as set forth above will be made on the relevant Dividend Date, Optional Redemption Date or Liquidation Date, as the case may be.

- 2.2 This Support Agreement shall be deposited with and held by JPMorgan Chase Bank, as Agent until all the obligations of Erste Bank have been discharged in full. Erste Bank hereby acknowledges the right of every Holder to the production of, and the right of every Holder to obtain a copy of, this Support Agreement.
- 2.3 Subject to applicable law, Erste Bank, at its sole option, shall be entitled to purchase Series H Preference Shares from any Holder and hold or resell any Series H Preference Share so purchased.
- 2.4 Subject to applicable law, Erste Bank's obligations hereunder constitute unsecured obligations of Erste Bank and rank and will at all times rank (a) junior to all liabilities of Erste Bank (other than any liability expressed to rank *pari passu* with or junior to this Support Agreement), (b) *pari passu* with all payment obligations of Erste Bank in respect of Asset Parity Securities and (c) senior to all payment obligations of Erste Bank in respect of Bank Share Capital.

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- 3.1 Erste Bank undertakes that it will not issue any preferred securities or preference shares ranking senior to its obligations under this Support Agreement or enter into any support agreement or give any guarantee in respect of any preference shares issued by any Subsidiary of Erste Bank if such support agreement or guarantee (including, without limitation, any support agreement or guarantee that would provide a priority of payment with respect to Distributable Funds) would rank senior to this Support Agreement unless, in each case, (a) this Support Agreement is changed to give the Holders such rights and entitlements as are contained in or attached to such preferred securities or preference shares or such other support agreement or guarantee so that this Support Agreement ranks *pari passu* with, and contains substantially equivalent rights of priority as to payment out of Distributable Funds as, any such preferred securities or preference shares or other support agreement or guarantee and (b) the most recent dividend payment on the Series H Preference Shares has been paid in full by the Company.
- 3.2 Erste Bank undertakes that any amount required to be paid to the Company pursuant to this Support Agreement to enable the Company to pay any Dividend payable in respect of the most recent Dividend Period will be paid prior to any payment or other distribution in respect of any dividends (except dividends in the form of Erste Bank's ordinary shares, *Vorzugsaktien* or other shares of Erste Bank ranking junior to the obligations of Erste Bank under this Support Agreement) upon ordinary shares, *Vorzugsaktien* or any other shares of Erste Bank ranking junior to this Support Agreement (whether issued directly by Erste Bank or by a Subsidiary and entitled to the benefit of a support agreement or guarantee ranking junior to Support Agreement).

Erste Bank also undertakes that Bank Share Capital and any other shares of Erste Bank ranking *pari passu* with or junior to the obligations of Erste Bank under this Support Agreement (whether issued directly by Erste Bank or by a Subsidiary and entitled to the benefits of any support agreement or guarantee ranking *pari passu* with or junior to this Support Agreement) will not be redeemed, repurchased or otherwise acquired for any

consideration (or any moneys be paid to or made available for a sinking fund for the redemption of any such shares) by Erste Bank or any Subsidiary (except by conversion into or in exchange for shares of Erste Bank ranking junior to this Support Agreement), at any time whilst the Company is unable to pay Dividends in full until such time as the Company shall have resumed the payment of, or set aside payment with respect to, full Dividends on all outstanding Series H Preference Shares for four consecutive Dividend Periods, unless such Bank Share Capital or any such other shares of Erste Bank are redeemed, repurchased or otherwise acquired (i) as a result of the trading of Erste Bank in such shares in its ordinary course of business as permitted by the ASCA, or (ii) in order to fulfil its obligations under stock option or employee stock ownership schemes as permitted by the ASCA.

- 3.3 Erste Bank undertakes to maintain the Company as a Subsidiary for so long as any Series H Preference Share shall remain in issue. Erste Bank undertakes that, so long as any of the Series H Preference Shares is outstanding, unless Erste Bank is itself in liquidation, Erste Bank will not permit, or take any action to cause, the liquidation, dissolution or winding-up of the Company.
- 4 This Support Agreement shall terminate and have no further force and effect upon full payment of the Optional Redemption Price on, or purchase and cancellation of, all outstanding Series H Preference Shares or full payment of the Liquidation Distributions and liquidation of the Company, provided however that this Support Agreement will continue to be effective or will be reinstated, as the case may be, if at any time payment of any sums paid under the Series H Preference Shares or this Support Agreement must be restored by a Holder for any reason whatsoever.
- 5 Each of Erste Bank and the Company undertakes, for the benefit of the Holders:
  - (a) that it will perform its obligations under this Support Agreement and, in the case of the Company (without limitation to the foregoing), will exercise its rights under an agreement between it and Erste Bank on similar terms to this Support Agreement to enforce performance of the terms of this Support Agreement by Erste Bank; and
  - (b) that it will consent to an order for specific performance or similar relief by any court of competent jurisdiction in the event that any such order or relief is sought in an action brought by a Holder in respect of this Support Agreement.
- 6 This Support Agreement shall take effect as a Deed Poll for the benefit of the Holders. Each of Erste Bank and the Company hereby acknowledges and covenants that the obligations binding upon it contained in this Support Agreement are owed to, and shall be for the benefit of, each and every Holder, and that each Holder shall be entitled severally to enforce the said obligations against Erste Bank or the Company.
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- 7.1 Subject to applicable law, all undertakings and agreements contained in this Support Agreement shall bind the successors, assigns, receivers, trustees and representatives of Erste Bank and the Company (as the case may be) and shall inure to the benefit of the Holders. The Company shall not transfer its obligations hereunder in any circumstances and Erste Bank shall not transfer its obligations hereunder without the prior approval of the Holders of not less than two-thirds of the Series H Preference Shares, which consent shall be obtained in accordance with procedures contained in the Statement of Rights or the Company's Memorandum and Articles of Association and the applicable laws of Jersey; provided, however, that the foregoing shall not preclude Erste Bank from merging or consolidating with, or transferring or otherwise assigning all or substantially all of its assets and obligations (including its obligations under this Agreement) to, a banking organisation organised under the laws of a member state of the European Union, without obtaining any approval of any Holders.
- 7.2 Except for those changes (a) required by clause 3.1 hereof; (b) which do not materially adversely affect the rights of Holders; or (c) necessary or desirable to give effect to any one or more transactions referred to in the proviso to clause 7.1 (in any of which cases no agreement will be required), this Support Agreement shall be changed only by agreement in writing signed by Erste Bank and the Company with the prior approval of the Holders of not less than two-thirds of the Series H Preference Shares (excluding in each case any

Series H Preference Shares held by Erste Bank or any entity of which Erste Bank, either directly or indirectly, owns 20 per cent. or more of the voting shares or other similar ownership interests), in accordance with the procedures contained in the Statement of Rights or the Company's Memorandum and Articles of Association and the applicable laws of Jersey.

- 7.3 Any notice, request or other communication required or permitted to be given hereunder to Erste Bank shall be given in writing by delivering the same against receipt therefor or by facsimile transmission (confirmed by mail) addressed to Erste Bank, as follows (and if so given, shall be deemed given upon mailing of confirmation, if given by facsimile transmission), to:

Erste Bank der oesterreichischen Sparkassen AG  
Börsegasse 14  
A-1010 Vienna  
Austria

Facsimile: +431 53631 8080

Attention: Balance Sheet Manager

The address of Erste Bank may be changed at any time and from time to time and shall be the most recent such address furnished in writing by Erste Bank to JPMorgan Chase Bank as Agent.

Any notice, request or other communication required or permitted to be given hereunder to the Company shall be given in writing by delivering the same against receipt therefor or by facsimile transmission (confirmed by mail) addressed to the Company, as follows (and if so given, shall be deemed given upon mailing of confirmation, if given by facsimile transmission), to:

Erste Finance (Jersey) (4) Limited  
22 Grenville Street  
St. Helier  
Jersey JE4 8PX

Facsimile: +44 1534 609333

Attention: Jersey Corporate 3  
Mourant International Finance Administration

The address of the Company may be changed at any time and from time to time and shall be the most recent such address furnished in writing by the Company to JPMorgan Chase Bank as Agent.

Any notice, request or other communication required or permitted to be given hereunder to the Holders shall be given by Erste Bank or the Company in the same manner as notices sent by the Company to the Holders.

- 7.4 The obligations of Erste Bank and the Company to the Holders under this Support Agreement are solely for the benefit of the Holders and are not separately transferable from the Series H Preference Shares.
- 7.5 Erste Bank will furnish any Holder, upon request of such Holder, with a copy of its annual report, and any interim reports made generally available by Erste Bank to holders of the ordinary shares of Erste Bank.

- 8.1 This Support Agreement shall be governed by, and construed in accordance with English law save that Clauses 2.1(b) and (c) and Clause 2.4 shall be governed by, and construed in accordance with, Austrian law.
- 8.2 Each of Erste Bank and the Company hereby irrevocably agrees for the benefit of the Holders that the courts of England are to have jurisdiction to settle any disputes which may arise out of or in connection with this Support Agreement and that accordingly any suit, action or proceedings arising out of or in connection therewith (together referred to as (“**Proceedings**”)) may be brought in such courts.

Each of Erste Bank and the Company irrevocably and unconditionally waives and agrees not to raise any objection which it may have now or subsequently to the laying of the venue of any Proceedings in the courts of England or any claim that any Proceedings have been brought in an inconvenient forum and further irrevocably and unconditionally agrees that a final judgment in any Proceedings brought in the courts of England shall be conclusive and binding upon Erste Bank and the Company and may be enforced in the courts of any other jurisdiction. Nothing contained in this clause shall limit any right to take Proceedings against Erste Bank or the Company in any other court of competent jurisdiction, nor shall the taking of Proceedings in one or more jurisdictions preclude the taking of Proceedings in any other competent jurisdictions, whether concurrently or not.

Each of Erste Bank and the Company hereby irrevocably and unconditionally appoints Erste Bank der oesterreichischen Sparkassen AG, London branch at 68 Cornhill, London EC3V 3QE or at its London office for the time being as its agent for service of process in England in respect of any Proceedings and has undertaken that in the event of its ceasing so to act it will appoint another person as its agent for that purpose.

- 9 A person who is not a party to this Agreement has no right under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of this Agreement but this does not affect the rights of any person which exist apart from that Act.

**IN WITNESS WHEREOF** this Support Agreement has been executed as a deed and delivered on behalf of each of Erste Bank and the Company on the date shown below:

Executed as a deed by  
**ERSTE BANK DER  
OESTERREICHISCHEN SPARKASSEN AG**

}

By:

By:

acting under the authority of that company in the presence of:

Witness's Signature:

Name:

Address

Executed as a deed by  
**ERSTE FINANCE (JERSEY) (4) LIMITED**

}

By:

acting under the authority of that company in the presence of:

Witness's Signature:

Name:

Address

Dated: 22 March 2004

## INTERCOMPANY AGREEMENT

Set forth below is the text of the Intercompany Agreement:

“THIS INTERCOMPANY AGREEMENT (the “**Intercompany Agreement**”), dated 22 March 2004, is entered into by ERSTE BANK DER OESTERREICHISCHEN SPARKASSEN AG, incorporated under the laws of Austria (“**Erste Bank**”) and ERSTE FINANCE (JERSEY) (4) LIMITED, a company incorporated with limited liability under the laws of Jersey (the “**Company**”).

WHEREAS, Erste Bank desires to cause the Company to issue, and the Company desires to issue, the Series H Preference Shares (as defined below)

WHEREAS, Erste Bank and the Company have, for the benefit of the Holders (as defined below), entered into the Support Agreement (as defined below).

NOW, THEREFORE Erste Bank and the Company execute and deliver this Intercompany Agreement to give the Company the benefit of the Support Agreement.

1 As used in this Intercompany Agreement, the following terms shall, unless the context otherwise requires, have the following meanings:

“**Series H Preference Shares**” means all of the euro Series H Non-cumulative Non-voting Preference Shares of the Company in issue from time to time, whether or not in issue on the date of the Support Agreement, the Holders of which are entitled to the benefits of the Support Agreement as evidenced by the execution of the Support Agreement; and

“**Support Agreement**” means the Support Agreement dated 22 March 2004 entered into by Erste Bank and the Company.

Any other capitalised terms used in this Agreement shall have the same meaning as in the Support Agreement.

2 Erste Bank irrevocably and unconditionally agrees to extend all of the obligations assumed by it pursuant to the Support Agreement to and for the benefit of the Company as if the Support Agreement were given by Erste Bank only and references therein to “**Holders**” and “**Holder**” (other than in Clause 2(iii) thereof and the second reference to Holders in Clause 7(ii) thereof) were references to the “**Company**” and the words immediately following “**Holders**” in the second sentence of Clause 7.1 thereof up to the semi-colon therein were deleted.

3 This Intercompany Agreement shall terminate and be of no further force and effect upon full payment of the Optional Redemption Price on, or purchase and cancellation of, all outstanding Series H Preference Shares or full payment of the Liquidation Distributions and liquidation of the Company, provided however that this Intercompany Agreement will continue to be effective or will be reinstated, as the case may be, if at any time payment of any sums paid under the Series H Preference Shares or the Support Agreement must be restored by a Holder for any reason whatsoever.

4 This Intercompany Agreement shall take effect as a Deed. Erste Bank hereby acknowledges and covenants that the obligations binding upon it contained in this Intercompany Agreement are owed to, and shall be for the benefit of, the Company, and that the Company shall be entitled to enforce the said obligations against Erste Bank.

5 Subject to operations of law, all undertakings and agreements contained in this Intercompany Agreement shall bind the successors, assigns, receivers, trustees and representatives of Erste Bank and shall inure to the benefit of the Company.

6 Any notice, request or other communication required or permitted to be given hereunder to Erste Bank shall be given in writing by delivering the same against receipt therefor or by facsimile transmission (confirmed by mail) addressed to Erste Bank, as follows (and if so given, shall be deemed given upon mailing of confirmation, if given by facsimile transmission), to:

Erste Bank der oesterreichischen Sparkassen AG  
Börsegasse 14  
A-1010 Vienna  
Austria

Facsimile: +431 53631 8080

Attention: Balance Sheet Manager



Any notice, request or other communication required or permitted to be given hereunder to the Company shall be given in writing by delivering the same against receipt therefor or by facsimile transmission (confirmed by mail) addressed to the Company, as follows (and if so given, shall be deemed given upon mailing of confirmation, if given by facsimile transmission), to:

Erste Finance (Jersey) (4) Limited  
22 Grenville Street  
St. Helier  
Jersey JE4 8PX

Facsimile: +44 1534 609333

Attention: Jersey  
Corporate 3  
Mourant International Finance Administration

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- 7.1 This Intercompany Agreement shall be governed by, and construed in accordance with, English law.
- 7.2 Each of Erste Bank and the Company hereby irrevocably agrees for the benefit of each other that the courts of England are to have jurisdiction to settle any disputes which may arise out of or in connection with this Intercompany Agreement and that accordingly any suit, action or proceedings arising out of or in connection therewith (together referred to as (“**Proceedings**”)) may be brought in such courts.

Each of Erste Bank and the Company irrevocably and unconditionally waives and agrees not to raise any objection which it may have now or subsequently to the laying of the venue of any Proceedings in the courts of England or any claim that any Proceedings have been brought in an inconvenient forum and further irrevocably and unconditionally agrees that a final judgment in any Proceedings brought in the courts of England shall be conclusive and binding upon Erste Bank and the Company and may be enforced in the courts of any other jurisdiction. Nothing contained in this clause shall limit any right to take Proceedings against Erste Bank or the Company in any other court of competent jurisdiction, nor shall the taking of Proceedings in one or more jurisdictions preclude the taking of Proceedings in any other competent jurisdictions, whether concurrently or not.

Each of Erste Bank and the Company hereby irrevocably and unconditionally appoints Erste Bank der oesterreichischen Sparkassen AG, London branch at 68 Cornhill, London EC3V 3QE or at its London office for the time being as its agent for service of process in England in respect of any Proceedings and has undertaken that in the event of its ceasing so to act it will appoint another person as its agent for that purpose.

- 8 A person who is not a party to this Agreement has no right under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of this Agreement.

**IN WITNESS WHEREOF** this Intercompany Agreement has been executed as a deed and delivered on behalf of each of Erste Bank and the Company on the date shown below:

Executed as a deed by  
**ERSTE BANK DER  
OESTERREICHISCHEN SPARKASSEN AG**

}

By:

By:

acting under the authority of that company in the presence of:

Witness's Signature:

Name:

Address:

Executed as a deed by  
**ERSTE FINANCE (JERSEY) (4) LIMITED**

}

By:

acting under the authority of that company in the presence of:

Witness's Signature:

Name:

Address:

Dated: 22 March 2004

## THE AUSTRIAN BANKING SYSTEM

### Overview

In common with other continental European countries, Austria's banking system is comprised of a diverse array of financial institutions. The Austrian banking system is divided into seven "sectors" according to the legal status of a bank and classification in a sector association: (i) *Sparkassen* (savings banks), (ii) *Raiffeisenbanken* (agricultural credit co-operatives), (iii) *Landes-Hypothekenbanken* (provincial mortgage banks), (iv) *Volksbanken* (commercial credit co-operative banks); (v) *Aktienbanken und Bankiers* (commercial banks); (vi) *Sonderbanken* (specialist banks), and (vii) *Bausparkassen* (building societies). Erste Bank is a member of the Savings Banks Sector.

Changes in banking practice generally, and in Austrian banking law specifically, have contributed to an erosion of the original distinctions between the sectors. Today, commercial banks, savings banks and co-operative banks all engage in substantially similar business; however, each may have different business policies.

As of 31st December 2003, the Austrian banking system consisted of 896 independent banks with a total of 4,401 branches and estimated total assets of EUR 605 billion. The structure of Austria's banking system is characterised by a large number of small banks, a smaller number of medium to large banks and the absence of any banks of international scale other than Bank Austria, a subsidiary of HVB Group, and Erste Bank.

Of the seven sectors, the Savings Banks Sector is the largest, accounting for EUR 215 billion of total assets. The Savings Bank Sector is currently comprised of 63 independent savings banks (including Bank Austria), with Erste Bank operating as the central financial institution of the Savings Bank Sector (excluding Bank Austria). Erste Bank is not only the central financial institution of the Savings Bank Group, but is the second largest savings bank in Austria by total assets, after Bank Austria, with Erste Bank accounting for some 28% of the Savings Banks Sector as at 31st December 2002.

### Savings Banks

The Savings Bank Act (*Sparkassengesetz*) in Austria differentiates between two types of savings banks. *Vereinsparkassen* and their operating savings bank stock corporations, such as Erste Bank, as opposed to *Gemeindesparkassen* and their operating savings bank stock corporations, such as Bank Austria Creditanstalt AG. The primary difference between a *Vereinsparkasse* and a *Gemeindesparkasse* is the fact that creditors of a *Gemeindesparkasse* and of its operating savings bank stock corporation have the benefit of a municipal deficiency guarantee and, to an extent a *Gemeindesparkasse* and its operating savings bank stock corporation are influenced by their municipality.

According to an arrangement reached between EU and Austrian authorities the institution of *Ausfallsbürgschaft* ("deficiency guarantee") shall be abolished by legal measures to be adopted not later than September 2004. It is envisaged that liabilities existing as of 2nd April 2003 will continue to be covered until their maturity. Liabilities entered into between 2nd April 2003 and 1st April 2007 will be covered until the end of September 2017. Appropriate Austrian Legislation to adopt this arrangement will have to be passed the State ("*Bundesland*") and Federal ("*Republic of Austria*") level. As the savings banks traditionally did not expressly use this guarantee for cheaper financing no major impact will result from the loss of this guarantee. Only some 17, smaller, savings banks will be affected by the loss of the guarantee.

Savings banks were historically subject to geographical restrictions on their operations, which contributed to the development of a savings bank sector characterised by a large number of small, local savings banks. Savings banks were established either by a benevolent association (*Verein*), or by the community (*Gemeinde*) itself. The historical role of both the *Verein* and the *Gemeinde* with respect to *Vereinsparkassen* and *Gemeindesparkassen* was to provide the foundation capital for the savings bank and to act in a supervisory capacity.

In 1986, an amendment to the Banking Act 1979 (*Kreditwesengesetz*) permitted a savings bank to reorganise as a joint-stock company in order to raise capital. Such reorganisation involved the creation of an *Anteilsverwaltungsparkasse* (special savings bank holding company) which holds the shares in the respective operating savings bank stock corporation. In 1993, Die Erste changed its structure accordingly.

Such *Anteilsverwaltungsparkassen* may opt to transform into privately organised foundations. Accordingly, on 19th December 2003, Die ERSTE österreichische Spar-Casse-Anteilsverwaltungsparkasse (AVS) was transformed into a private law foundation named DIE ERSTE

österreichische Spar-Casse Privatstiftung. In the case of a “*Gemeindesparkasse*” this would have resulted in the loss of the municipal deficiency guarantee for the operating savings bank stock corporation after the transformation.

*Anteilsverwaltungssparkassen* or such privately organised foundations may sell their shares in the savings bank; however, Erste Bank as the Savings Bank Sector’s lead bank has the statutory right of first refusal once 51% of the shares are offered. This right expires on 31st December 2005.

### **Regulation and Supervision**

The structure of the regulation and supervision of the Austrian banking system is set forth in a number of statutes, including the Financial Market Supervision Act (*Finanzmarktaufsichtsgesetz*), the Banking Act (*Bankwesengesetz*), the National Bank Act 1984 (*Nationalbankgesetz*), the Savings Bank Act 1979 (*Sparkassengesetz*) and the Mortgage Bank Act 1899 (*Hypothekenbankgesetz*), each as amended.

The Financial Market Supervision Act of 2001 puts the responsibility for the supervision of banks, insurance companies, securities exchanges, investment and pension funds on the Financial Market Authority (“FMA”, *Finanzmarktaufsichtsbehörde*). Most supervisory tasks previously assigned to the Austrian Ministry of Finance and the Austrian Securities Authority (*Bundes-Wertpapieraufsicht*) were transferred to the FMA as of 1st April 2002. Under the Banking Act, regulation and supervision of Austrian banks and of the branches of foreign banks in Austria are the responsibility of the FMA assisted by the Oesterreichische Nationalbank (Austrian National Bank). The FMA may take a variety of actions under the Banking Act to supervise banks on a comprehensive and consolidated basis. In order to enable the FMA and the National Bank to fulfil their obligations, banks must, amongst other requirements, prepare monthly interim balance sheets and quarterly profit and loss statements, and submit annual audit reports.

#### *Financial Market Authority*

The FMA is subject to supervision by the Minister of Finance and is headed by a two-member management board. The board members are nominated by the Minister of Finance and Oesterreichische Nationalbank and appointed by the Austrian Government. A supervisory board consisting of eight members, two of which are non-voting, approves the FMA’s budget, financial statements, top employees and other important matters. The expenses of the FMA are borne primarily by the supervised banks, companies and funds whilst the Federal Government bears a minor portion thereof.

*Authority of the FMA.* The FMA is afforded an array of powers to regulate and supervise the Austrian banking system. These powers include the power to require the delivery of certain reports, to inspect banks, to require audits, and to appoint certain officers and advisers to assist in the discharge of regulatory and supervisory duties. The FMA may utilise its own auditors or Oesterreichische Nationalbank may be required by the FMA to perform an audit of a bank, including its branches and representative offices outside Austria. Any bank operating in Austria which is subject to regulation and supervision by the FMA and which is found not to be in compliance with Austrian legal requirements, may be subject to an order by the FMA if there is reason to doubt such bank’s ability to fulfil its obligations to its customers. Through such an order, which may be effective for up to 18 months, the FMA may (i) prohibit withdrawals of capital or profits from the bank (in whole or in part), (ii) appoint a government commissioner authorised to prohibit all business which could be prejudicial to the safety of the interests of customers of the bank, (iii) prohibit further management of the bank by such bank’s existing management board or (iv) prohibit (in whole or in part) further business of the bank.

*State Commissioners.* The Austrian Banking Act requires the Minister of Finance to appoint a State Commissioner and a Deputy State Commissioner to assist in the supervision and regulation of Austrian banks which have more than EUR 375 million in total assets. The role of the State Commissioner is to ensure that these banks do not make decisions at shareholders’ and Supervisory Board meetings which, in their view, violate federal laws, regulations or decisions (*Bescheide*). The State Commissioners must be invited to the meetings of the shareholders and of the supervisory board of the bank to which they are appointed. If a State Commissioner objects to any resolution proposed at a shareholder meeting or a meeting of the supervisory board, then the Commissioner has to immediately notify the FMA. The effectiveness of such resolution is suspended until the FMA makes a determination as to its validity.

*Trustees.* Erste Bank, along with other Austrian banks, is subject to inspection by Trustees and Deputy Trustees appointed by the Minister of Finance in accordance with the Mortgage Bank Act 1899. The Trustees and the Deputy Trustees are charged with the responsibility to determine compliance with legal requirements for the registration of certain mortgage assets. State Cover Fund Controllers, who are also appointed by the Minister of Finance, are responsible for monitoring compliance by Erste Bank with the legal requirements for segregation and security of certain asset-backed debt obligations.

#### *Oesterreichische Nationalbank and the European System of central banks*

Oesterreichische Nationalbank is the central bank of Austria and is mandated to assist the European Central Bank. Whereas the European Central Bank decides on the principal monetary issues of the European Monetary Union, Oesterreichische Nationalbank, as a member of the European System of Central Banks, executes the directives and regulations of the European Central Bank. The functions of Oesterreichische Nationalbank mainly concern transactions on the money and currency markets, supply and control of payment systems, statistical information, economic analysis, participation in international finance organisations and the supervision of credit institutions. Within the limits of the law of the European Union, Oesterreichische Nationalbank must pursue price stability and promote economic growth and employment. The Oesterreichische Nationalbank is authorised by the European Central Bank to issue bank notes denominated in Euro.

Oesterreichische Nationalbank is organised as a joint stock company with a registered capital of EUR 12 million. 50% of the shares are owned by the Republic of Austria, while the remaining share capital is owned by institutions representing the interests of employers and employees, Austrian banks and insurance companies. The General Council of Oesterreichische Nationalbank is charged with the overall direction and supervision of the Oesterreichische Nationalbank's business. A Commissioner appointed by the Minister of Finance attends the meetings of the General Council and of the shareholders of Oesterreichische Nationalbank in an advisory capacity. The Commissioner ensures that Oesterreichische Nationalbank acts in accordance with applicable law and is entitled to examine the conduct of Oesterreichische Nationalbank's business.

In addition to its functions as the central bank and as an institution within the European System of Central Banks, Oesterreichische Nationalbank reviews reports filed by banks and makes recommendations to the Ministry of Finance and the FMA. Detailed foreign currency statistics concerning the foreign currency position of all Austrian banks are compiled by Oesterreichische Nationalbank and provide it with an indication of the business volume of all large Austrian banks. Austria's detailed information reporting requirements act as a regulatory mechanism since the figures in these reports and the information provided by the banks must be consistent and be compiled in accordance with the rules and regulations of Oesterreichische Nationalbank and must be transmitted to the European Central Bank.

In co-operation with the Federal Ministry of Finance, Oesterreichische Nationalbank has made use of its powers to participate actively in the work of various international institutions and committees in charge of banking and financial market supervision (e.g. Banking Supervision Committee of the ESCB). Of particular importance are the efforts to push ahead with the harmonisation of the supervisory framework and a strengthening of international co-operation in the field of financial market supervision.

*Minimum reserves.* In accordance with EU Regulations, the European Central Bank prescribes by decree minimum reserves to be maintained by banks with Oesterreichische Nationalbank. These minimum reserve requirements apply to the following liabilities: (i) deposits, (ii) debt securities issued and (iii) money market paper. Certain exclusions apply. Required reserve ratios are generally 2%, except for deposits with agreed maturity over two years, deposits redeemable at notice over two years, repos and debt securities issued with an agreed maturity over two years, for which a reserve ratio of 0% applies. Failure by a bank to meet the minimum reserve requirements exposes the bank to fines or interest penalties.

#### *Statutory deposit insurance scheme*

Austrian law requires that any bank which receives deposits must join the insurance scheme of its sector within the banking system. Failure of a bank to join the relevant insurance scheme results in the lapse of the bank's licence to conduct a deposit-taking business in Austria. Payments made by an insurance scheme to restore insured deposits are met by contributions from each member bank in the

relevant sector. Each bank's contribution is determined in proportion to the aggregate amount of such bank's deposits, subject to a maximum contribution amount equal to 0.83% of the risk-weighted basis of such bank pursuant to Section 22(2) of the Austrian Banking Act per business year.

In the event that the aggregate maximum amount that a sector's members can be called upon to contribute is less than the payment due from the insurance scheme, the deposit insurance schemes of the other banking sectors each will contribute a *pro rata* portion of the amount then remaining unpaid, subject to a maximum amount equal to 0.83 per cent. of their risk-weighted basis. If the amount contributed by all insurance schemes is insufficient to make the required payment, then the insurance scheme that is primarily obligated to repay such protected deposits issues bonds to cover any amount then remaining unpaid. The Republic of Austria may accept liability for such bonds.

The insurance scheme insures deposits of private individuals up to EUR 20,000 or equivalent per private person depositor. Deposits of legal entities are insured up to 90% of this amount or are to a certain extent excluded from the scope of the scheme. Deposits not exceeding EUR 2,000 will receive preferred treatment by repayment in preference of any major deposits.

In autumn 2001, the majority of the Austrian savings banks excluding Bank Austria signed an agreement which unites them under a common risk management system, early warning system and customer deposit insurance scheme. The customer deposit insurance scheme is materially expanded beyond the legally prescribed amount limited to EUR 20,000 per depositor. This agreement, called the Haftungsverbund ("cross-guarantee system"), ensures enforcement of payments by transferring control of the system under the leadership of s Haftungs- und Kundenabsicherungs GmbH. The right to determine risk policies and, in case of serious difficulties of a member, the right to intervene in management was also transferred to s Haftungs- und Kundenabsicherungs GmbH, an entity of which Erste Bank owns at least 51% and the other savings banks own the remainder. This agreement became effective on 1st January 2002.

#### *Audits and financial statements*

Generally, Austrian auditing regulations are adapted to EU standards. Austrian banks, and banks operating in Austria, are required to submit audited financial statements, including the audit reports thereon, to the FMA and Oesterreichische Nationalbank. Such reports must be submitted within six months of the end of the business year. Oesterreichische Nationalbank requires that data of the financial statements be transmitted electronically in standardised formats.

Austrian banks may prepare consolidated financial statements in accordance with International Accounting Standards ("IAS" or "IFRS") under certain conditions. Under EU rules they will have to report under IFRS as from 2005 on, if quoted on a stock exchange. IFRS differs from Austrian bank accounting standards mainly in respect of a greater use of fair values, more comprehensive tax deferrals and the consolidation of all subsidiaries while Austrian standards exclude those with different activities.

All financial statements of banks must be audited by a bank auditor, who is either a certified public accountant or the auditing office of one of the specialised auditing institutions of the respective sector. As a savings bank stock corporation, Erste Bank's consolidated and separate financial statements for the years ended 31st December 2000, 2001 and 2002 have been audited by *Sparkassen-Prüfungsverband Prüfungsstelle* (the Savings Banks' Auditing Agency) as statutory bank auditor. This audit was performed jointly with EIDOS Wirtschaftsberatung GmbH (member of Deloitte & Touche), which has been appointed by the shareholders meeting of Erste Bank to act as additional auditors. The audited financial statements, the contents of which are prescribed by law, must be published in the official gazette of the Wiener Zeitung ("*Amtsblatt zur Wiener Zeitung*"), the official publication of the Republic of Austria.

Bank auditors are also required to examine the correctness of the valuation of a bank's assets as well as the timely and complete compliance by the bank with all relevant banking regulations. The result of this audit is included in a separate bank supervision audit report that is communicated to the managing and supervisory boards of the bank and the supervisory entities of the federal government.

#### *Capital adequacy requirements*

Under Austrian risk-based capital adequacy rules, which are based on EU law, each bank must maintain a ratio (the "Solvency Ratio") of at least 8%. The Solvency Ratio is the ratio of Qualifying Capital (as explained below) to risk-adjusted assets and certain off-balance sheet items (as explained below).

For purposes of calculation of the Solvency Ratio, the Austrian Banking Act defines “Qualifying Capital” as consisting principally of (i) paid-in capital, (ii) disclosed reserves, (iii) funds for general bank risks, (iv) supplementary capital, (v) hidden reserves, (vi) participation capital, (vii) subordinated debt, (viii) revaluation reserves, (ix) the commitments of members of co-operative banks to make additional contributions quantified in relation to their shareholdings, (x) short-term subordinated capital and (xi), only for the purpose of supervision on a consolidated basis, hybrid capital. Certain losses, certain intangible assets and certain investments in banks or financial institutions are required to be deducted in computing Qualifying Capital.

“Core Capital”, as applied to Erste Bank, consists of (i) paid-in capital, (ii) disclosed reserves and (iii) funds for general bank risks, less losses and intangible assets. The Austrian Banking Act requires that the aggregate amount of the elements comprising Qualifying Capital, other than those elements which are part of Core Capital, must not exceed the Core Capital. In addition, the sum of subordinated debt may not exceed 50% of the Core Capital. Core Capital reflects that same concept as “Tier 1 Capital” and Qualifying Capital other than Core Capital reflects a concept similar to “Tier 2 Capital” (as such terms are used in the United Kingdom and the United States capital adequacy rules).

Risk-weighted assets and certain off-balance sheet items, together the risk-weighted basis, are computed by assigning the assets of Erste Bank to four broad categories of relative credit risk: 0, 20, 50 or 100%. The balance sheet value of each asset is multiplied by the percentage weight applicable to its risk category to arrive at the risk-weighted value. Off-balance sheet items such as financial guarantees, letters of credit, swaps and other financial derivatives are included (swaps and other derivatives at their fair value). Then the value is adjusted according to the risk classification of the type of instrument, either by 20, 50 or 100%. As with on-balance sheet assets, each off-balance sheet item is assigned to a credit risk category depending upon the type of counterparty or the debtor and multiplied by the applicable percentage weight.

Capital adequacy rules must be met not only by Erste Bank on its own, but also by Erste Bank together with all other subsidiary banks, financial institutions, Investment firms and ancillary financial services companies of Erste Bank. For this purpose, Erste Bank consists of Erste Bank and all other banks, factoring and leasing companies, investment firms and ancillary banking service undertakings of which it owns more than 50%, where it has the right to control or where it actively controls. Savings banks, that are members of the Haftungsverbund, are included in the group for capital adequacy purposes.

A bank is required to meet the capital requirements regarding position risk as well as settlement and counterparty risk according to a trading book approach. As a complementary measure, short-term subordinated capital is being accepted as part of Qualifying Capital (short-term subordinated capital is commonly referred to as “Tier 3 Capital”, as such term is used in the United Kingdom and the United States capital adequacy rules). The 1998 amendments to the Capital Adequacy Directive have meanwhile been partially incorporated into the Austrian Banking Act permitting the use of “internal models” for banking supervision purposes to a greater extent.

In June 1999, the Basle Committee set out proposals for a new capital adequacy framework to replace the 1988 Basle Capital Accord which set down the agreement among the G-10 central banks to apply common minimum capital standards. The objective of the proposals is to improve the way in which regulatory capital requirements reflect underlying risks. The European Commission commenced a consultation process on changes to the capital adequacy framework for banks and investment firms taking into account the Basle Committee’s proposals. The new framework is intended to result in legislation covering both EU banks operating internationally and also domestic banks, building societies and investment firms. On the basis of the proposals as developed to date, it is expected that the new capital adequacy framework will not have a material adverse impact on the business of Erste Bank Group.

#### *The Austrian Banking Act of 1993*

In addition to specifying the capital adequacy rules, the Austrian Banking Act, as amended, imposes other requirements and restrictions on Austrian banks, including reporting requirements, liquidity requirements, open foreign currency positions, large exposures and restrictions on participations.

*Periodical reports.* Austrian banks are required to file a number of reports with the FMA, including periodical monthly and quarterly reports. In addition, reports on hidden reserves and credit in excess of certain amounts, if in existence, must also be filed. The form of all reports is established by the implementing ordinance. These reports are an essential element of regulation and supervision in

Austria. All reports are delivered to Oesterreichische Nationalbank which reviews them and provides to the FMA an opinion as to whether the regulations on solvency, Qualifying Capital, liquidity, open foreign currency positions, large exposures and participations have been observed.

*Liquidity.* The Austrian Banking Act requires that each bank establish a financial results and liquidity cash flow/position plan. The liquidity plan must generally set forth the programme that enables the bank to react to possible disparities between incoming and outgoing payments and to changes in market conditions. The terms of claims and obligations of each bank must be structured to provide for changing interest rates and maturity trends. In addition to these general regulations, the Austrian Banking Act requires banks to retain minimum liquid resources of both first degree and second degree and to submit a detailed calculation plan for the foregoing.

*Open Positions in foreign currencies and gold*

“Open positions” are defined as the difference between assets and liabilities, including forwards and options, in foreign currencies and gold. The total of all open positions which fall due within each quarter (except the current and the next two quarters) may not exceed 50% of the bank’s qualifying capital at the close of business of any day. Additional qualifying capital is required. Similar restrictions apply to open positions on items that become due within a specific half year except during the current and the following half year.

*Large exposures.* If the assets and off-balance sheet items with regard to a single client or group of connected clients exceed 10% of a bank’s Qualifying Capital, then a large exposure exists, within the meaning of the Austrian Banking Act. A large exposure can only be maintained with the prior consent of the Supervisory Board of the bank; however, no single large exposure may exceed 25% of the Qualifying Capital of a bank on a risk-rated basis. Moreover, no large exposure may exceed 20% on a risk-related basis if it is made to the parent company or a subsidiary of the parent or the bank. A bank’s aggregated large exposures may not exceed 800% of its Qualifying Capital on a risk-rated basis.

*Participations.* Qualified participations are governed by the Austrian Banking Act. A qualified participation is a holding by a bank, whether direct or indirect, of at least 10% of the capital or voting rights of a company. The possibility of exercising a significant influence over the management of a company may also cause the company to constitute a qualified participation of the bank. Qualified participations in non-banks may not be held by banks or a group of banks if the book value of the qualified participation exceeds 15% of the Qualifying Capital of such bank or group. Moreover, the entire book value of qualified participations may not exceed 60% of the Qualifying Capital of a bank or a group of banks. In certain circumstances, these limitations may be exceeded, for instance if participations are held (i) temporarily in connection with the financial restructuring of a company, (ii) to fulfil a placement obligation for newly issued securities (iii) in the name of the bank but for the account of a third person or (iv) as a non-permanent investment.



## TAXATION

### General

The comments below are of a general nature based on current law and practice in the relevant jurisdiction referred to. They relate only to the position of persons who are the Holders of their Series H Preference Shares and may not apply to certain classes of persons such as dealers. Any Holders of Series H Preference Shares who are in doubt as to their personal tax position should consult their professional advisers.

### Jersey Taxation and the EU Savings Tax Directive

#### *Jersey*

This summary is based on the law as in effect on the date of this Offering Circular and is subject to any change in law that may take effect after such date.

The Issuer will have “exempt company” status within the meaning of Article 123A of the Income Tax (Jersey) Law 1961, as amended, for the calendar year ended 31 December 2004. The Issuer will be required to pay an annual exempt company charge that is currently £600 in respect of each subsequent calendar year during which it wishes to continue to have “exempt company” status. The retention of “exempt company” status is conditional on the Comptroller of Income Tax being satisfied that no Jersey resident has a beneficial interest in the Issuer, except as permitted by concessions granted by the Comptroller of Income Tax, and disclosure of beneficial ownership being made to the Jersey Financial Services Commission.

As an “exempt company” the Issuer will not be liable to Jersey income tax other than on Jersey source income (except by concession bank deposit interest on Jersey bank accounts).

Holders of Series H Preference Shares (other than residents of Jersey) are not subject to any tax in Jersey in respect of the holding, sale or other disposition of Series H Preference Shares. Whilst the Issuer maintains its “exempt company” status, payments of dividends on the Series H Preference Shares may be made by the Issuer without withholding or deduction for or on account of Jersey income tax.

No stamp duties are payable in Jersey on the acquisition, ownership, redemption, sale, exchange or other disposal of Series H Preference Shares. Probate or Letters of Administration may be required to be obtained in Jersey on the death of an individual holder of Series H Preference Shares. Stamp duty is payable in Jersey on the registration of such Probate or Letters of Administration on the value of the holder’s estate in Jersey.

#### *EU Code of Conduct on Business Taxation*

On 3 June 2003, the European Union Council of Economic and Finance Ministers reached political agreement on the adoption of a Code of Conduct on Business Taxation (the “Code”). Jersey is not a member of the European Union, however, the Policy & Resources Committee of the States of Jersey has announced that, in keeping with Jersey’s policy of constructive international engagement, it intends to propose legislation to replace the Jersey exempt company regime by the end of 2008 with a general zero rate of corporate tax.

#### *EU Directive on the Taxation of Savings Income*

On 3 June 2003, the European Union (“EU”) Council of Economic and Finance Ministers adopted a directive on the taxation of savings income in the form of interest payments (the “EU Savings Tax Directive”). It is proposed that, subject to a number of important conditions being met, each EU Member State will, from 1 January 2005, be required to provide to the tax authorities of another EU Member State details of payments of interest (or other similar income) paid by a person within its jurisdiction to or for the benefit of an individual resident in that other EU Member State; however, Austria, Belgium and Luxembourg will instead apply a withholding tax system for a transitional period in relation to such payments.

Jersey is not a member of the European Union and therefore is not required to implement the EU Savings Tax Directive. However, the Policy & Resources Committee of the States of Jersey has announced that, in keeping with Jersey’s policy of constructive international engagement, Jersey, in line with steps proposed by other relevant third countries, proposes to introduce a withholding tax system in respect of payments of interest, or other similar income, made to an individual beneficial owner resident in an EU Member State by a paying agent situate in Jersey (the terms “beneficial owner” and “paying agent” for this purpose are as defined in the EU Savings Tax Directive). The

withholding tax system would apply for a transitional period prior to the implementation of a system of automatic communication to EU Member States of information regarding such payments. During this transitional period, such an individual beneficial owner resident in an EU Member State will be entitled to request a paying agent not to withhold tax from such payments but instead to apply a system by which the details of such payments are communicated to the tax authorities of the EU Member State in which the beneficial owner is resident.

Under the current proposals in respect of the implementation of such a withholding tax system in Jersey, the Issuer would not be obliged to levy withholding tax in respect of interest payments made by it to a paying agent.

The State of Jersey has not yet adopted measures to implement these proposals but is expected to adopt such measures on the same timetable as EU Member States and other relevant third countries.

## **Taxation in Austria**

### *Corporate Income Tax*

Corporations that are resident in Austria are subject to 34% corporate income tax on their worldwide profits. The Austrian government plans to reduce the corporate income tax rate to 25% as from 2005. The annual minimum tax payment for banks amounts to EUR 5,452, and is payable quarterly in advance. The minimum tax is credited against the final tax liability of the current year or following years.

### *Taxable Income*

To arrive at taxable income, the profit or loss shown in the financial statements is adjusted to account for any differences between the requirements of tax and commercial law.

In general, expenses are deductible if they are incurred as a result of a company's business operations. The most important non-deductible expenses to be mentioned are payments directly related to non-taxable income. Apart from corporate income tax, most taxes are deductible.

Dividends received by one resident company from another are tax-exempt, irrespective of the threshold. Dividends received by a resident company from a non-resident company are – among the lines of the EU Parent Subsidiary Directive – exempt from income taxation under a domestic provision, known as affiliation privilege. This privilege applies if a minimum holding period of one year and a minimum threshold of 10% in a foreign (EU as well as third country) resident corporate is fulfilled. Under certain conditions, the Federal Ministry of Finance may deny the tax exemptions of the affiliation privilege. In such cases, tax relief must be claimed through a refund procedure.

As from 2004 a new regime applies to capital gains and capital losses generated by the sale or write-off of qualified international participations. As a rule they are tax neutral. If – however – the taxpayer opts for the taxation, capital gains are subject to the regular corporate income tax rate and losses derived from the sale or the write-off of the participation are *pro rata* tax deductible over a period of seven years.

### *Loss Utilisation*

Losses generated from ordinary business that cannot be offset against profits of the same year can be carried forward for an unlimited period of time but not carried back. The loss utilisation is limited up to 75% of the current years profits, resulting in a minimum taxation of the annual profits at 25%. In a corporate merger or reorganisation, losses incurred by the absorbed company or transferred business may, as a rule and under certain conditions, be carried over into the absorbing company.

### *Tax treatment of group of companies*

Under the current tax regime resident companies and their resident subsidiaries (affiliated companies) may opt for consolidated income taxation (*Organschaft*) according to which the profits and losses of the subsidiaries are added up and taxed in the hands of the parent company (the controlling company). The requirements to be met are financial, economic and operational control including a profit and loss absorption agreement. Financial control requires in practice a 75% shareholding in the subsidiary, which allows the parent to put through any decision at its discretion. Economic control exists if the subsidiary closely services the parent company's business and operational control is assumed if members of the board of directors of the parent company are also represented in the Subsidiaries' board of directors.

### *Tax reform plans 2005*

The latest tax reform plans of the Austrian government provide for far-reaching amendments of the corporate income tax regime. The most significant amendments worth mentioning in this context are:

- Reduction of the corporate income tax rate from 34% down to 25%
- Replacement of the existing group taxation regime by a simplified and more far-reaching tax consolidation regime including also foreign group members and eliminating the economic and operational control requirement
- Tax deductibility of finance costs directly related to tax-exempt dividend income

### *Value added tax (VAT)*

Austria's VAT system is based on the relevant EU Directives according to which the services typically provided by banks, such as the granting of credits, loans, securities etc are exempt from VAT. On the other hand, any input VAT directly related to tax-exempt services cannot be credited against VAT liabilities. The standard VAT rate applicable to the supply of goods and services amounts to 20%, the reduced rate amounts to 10%.

## SUBSCRIPTION AND SALE

Under a Subscription Agreement dated 22 March 2004 (the “Subscription Agreement”) BNP Paribas (the “Lead Manager”) has agreed with the Issuer and Erste Bank, subject to the satisfaction of certain conditions, to subscribe for or procure subscribers for the Series H Preference Shares at the issue price of EUR 1,000 per Series H Preference Share. The Issuer has agreed to pay to the Lead Manager a combined commission of EUR 20 per Series H Preference Share. The Lead Manager is entitled to terminate the Subscription Agreement in certain circumstances prior to payment to the Issuer. The Issuer and Erste Bank have agreed to indemnify the Lead Manager against certain liabilities in connection with the issue of the Series H Preference Shares.

### **United States of America**

The Series H Preference Shares have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, US persons except pursuant to an exemption from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

The Lead Manager has agreed that, except as permitted by the Subscription Agreement, it will not offer, sell or deliver the Series H Preference Shares (i) as part of their distribution at any time or (ii) otherwise until the expiration of the period ending 40 days after the later of the commencement of the offering and the Closing Date (the “Distribution Compliance Period”) within the United States or to, or for the account or benefit of, U.S. persons, and that it will have sent to each distributor, dealer or person receiving a selling concession, fee or other remuneration to which it sells Series H Preference Shares during the Distribution Compliance Period a confirmation or other notice setting forth the restrictions on offers and sales of the Series H Preference Shares within the United States or to, or for the account or benefit of, US persons. Terms used in this paragraph have the meaning given to them by Regulation S.

The Series H Preference Shares are being offered and sold outside the United States to non-US persons in reliance on Regulation S.

In addition, until 40 days after the commencement of the offering, an offer or sale of Series H Preference Shares within the United States by a dealer (that is not participating in the offering) may violate the registration requirements of the Securities Act.

### **United Kingdom**

The Lead Manager has represented and agreed that:

1. it has not offered or sold and prior to the date six months after the issue of the Series H Preference Shares will not offer or sell any Series H Preference Shares to persons in the United Kingdom except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995;
2. it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000 (the “FSMA”)) received by it in connection with the issue or sale of any Series H Preference Shares in circumstances in which section 21(1) of the FSMA does not apply to the Issuer or Erste Bank; and
3. it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Series H Preference Shares in, from or otherwise involving the United Kingdom.

### **Austria**

The Lead Manager has represented and agreed that it will only offer the Series H Preference Shares in the Republic of Austria in compliance with the provisions of the Austrian Capital Markets Act, Federal Law Gazette 1991/625 as amended, and any other laws applicable in the Republic of Austria governing the offer and sale of the Series H Preference Shares in the Republic of Austria.

## **Hong Kong**

The Lead Manager has represented and agreed that:

1. it has not offered or sold and will not offer or sell in Hong Kong, by means or any document, any Series H Preference Shares other than to persons whose ordinary business is to buy or sell shares or debentures, whether as principal or agent, or in circumstances which do not constitute an offer to the public within the meaning of the Companies Ordinance (Cap. 32) of Hong Kong; and
2. it has not issued and will not issue any advertisement, invitation or document relating to the Series H Preference Shares, whether in Hong Kong or elsewhere, which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Series H Preference Shares which are or are intended to be disposed of only to persons outside Hong Kong or only to “professional investors” within the meaning of the Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made thereunder.

## **Singapore**

This Offering Circular has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, the Lead Manager has represented, warranted and agreed that it has not circulated or distributed nor will it circulate or distribute this Offering Circular and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of any Series H Preference Share nor has it offered or sold or caused such Series H Preference Shares to be made the subject of an invitation for subscription or purchase and will not offer or sell such Series H Preference Shares or cause such Series H Preference Shares to be made the subject of an invitation for subscription or purchase, whether directly or indirectly to the public or any member of the public in Singapore other than (i) to an institutional investor specified in Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the “SFA”), (ii) to a sophisticated investor, and in accordance with the conditions, specified in Section 275 of the SFA or (iii) otherwise pursuant to and in accordance with the conditions of, any other applicable provisions of the SFA.

## **General**

The Lead Manager has undertaken that it will comply (to the best of its knowledge and belief) with all applicable securities laws and regulations in each jurisdiction in which it purchases, offers, sells or delivers Series H Preference Shares or possesses or distributes this Offering Circular or any other offering material and will obtain any consent, approval or permission which is (to the best of its knowledge and belief) required by it for the purchase, offer or sale by it of Series H Preference Shares under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers or sales in all cases at its own expense.

## GENERAL INFORMATION

### 1 Listing

Application has been made to list the Series H Preference Shares on the Luxembourg Stock Exchange. The listing on the Luxembourg Stock Exchange of the Series H Preference Shares will be expressed as a percentage of the relevant liquidation preference in each case. For listing purposes, the Series H Preference Shares will be considered as debt securities.

As required by Luxembourg law, a *notice légale* in connection with the application for listing of the Series H Preference Shares on the Luxembourg Stock Exchange will be filed, together with copies of the Memorandum and Articles of Association of the Issuer, with the Registrar of the District Court in Luxembourg prior to the listing of the Series H Preference Shares and copies thereof may be obtained on request, against payment of the customary charges.

The Articles of Association of the Issuer have been filed with the Luxembourg Register of Commerce and Companies, where copies are available against payment of customary charges.

BNP Paribas Securities Services, Luxembourg branch as Luxembourg listing agent will serve as intermediary between the Luxembourg Stock Exchange and persons connected with the issuance and listing of the Series H Preference Shares for so long as the Series H Preference Shares remain listed on the Luxembourg Stock Exchange.

### 2 Authorisations

The issue of the Series H Preference Shares by the Issuer has been duly authorised by a resolution of the Board of Directors of the Issuer passed on 22 March 2004.

The entering into of the Support Agreement and the Intercompany Agreement by Erste Bank has been duly authorised by resolutions of its Management Board passed on 20 October 2003 and of the Supervisory Board passed on 10 December 2003.

All consents, approvals, authorisations or other orders of all regulatory authorities required by the Issuer and/or Erste Bank under the laws of Jersey and Austria have been given for the issue of Series H Preference Shares and for the Issuer and Erste Bank, as the case may be, to undertake and perform their respective obligations under each of the Subscription Agreement, the Agency Agreement, the Series H Preference Shares, the Support Agreement and the Intercompany Agreement.

### 3 Legal status

The Issuer operates under the laws of Jersey with limited liability and for an unlimited duration.

Erste Bank operates under Austrian law as a stock corporation with indefinite duration. Erste Bank is registered in the Commercial Register of the Commercial Court in Vienna under file number FN 33209 m.

### 4 Clearing

The Series H Preference Shares have been accepted for clearance through Euroclear and Clearstream, Luxembourg.

ISIN: XS0188305741

Common Code: 018830574

Deutsche WKN: AOAW29

### 5 No material change

Save as described herein, there has been no significant change in the financial or trading position of Erste Bank or the Erste Bank Group since 30 September 2003 or, in the case of the Issuer, 19 June 2002, and no material adverse change in the financial position or prospects of Erste Bank or the Erste Bank Group since 31 December 2002 or, in the case of the Issuer, 19 June 2002.

### 6 Litigation

Save as described herein, there are no litigation or arbitration proceedings against or affecting the Issuer or Erste Bank or any of its subsidiaries or any of their respective assets, nor is the Issuer or Erste Bank aware of any pending or threatened proceedings, which are or might be material in the context of the issuance of the Series H Preference Shares.

## **7 Subsidiaries**

A list of Erste Bank's subsidiaries including Erste Bank's holdings of subsidiaries as at 31 December 2002 is set out under "Financial Statements".

## **8 Documents**

Copies of the following documents will be available, free of charge, (together, if applicable with an English translation thereof) from the offices of the Paying Agent in Luxembourg shown on the back page of this Offering Circular during normal business hours for so long as the Series H Preference Shares are outstanding and at the registered offices of the Issuer and Erste Bank:

- (a) the memorandum and articles of association of the Issuer;
- (b) the articles of association of Erste Bank;
- (c) the consolidated audited accounts and the annual reports of Erste Bank and its subsidiaries for the financial year ended 31 December 2002;
- (d) the Auditors' reports set out herein;
- (e) the consents and authorisations referred to in paragraph 2 above;
- (f) the Support Agreement;
- (g) the Intercompany Agreement;
- (h) the Agency Agreement;
- (i) the Subscription Agreement; and
- (j) documents incorporated by reference.

For so long as the Series H Preference Shares are listed on the Luxembourg Stock Exchange, the most recently published consolidated and non-consolidated audited annual financial statements and consolidated unaudited quarterly interim financial statements of Erste Bank, and the most recently published audited annual accounts and unaudited quarterly interim financial statements of the Issuer, will also be available free of charge at the offices of the Paying Agents in Luxembourg, currently shown on the back page of this Offering Circular. Erste Bank does not publish non-consolidated interim financial statements. The first annual accounts of the Issuer are expected to be prepared for the period 19 June 2002 to 31 December 2003. The consolidated audited accounts and the annual reports of Erste Bank and its subsidiaries for the financial year ended 31 December 2003 are expected to be available on 1 April 2004.

## **9 Auditors**

Sparkassen-Prüfungsverband Prüfungsstelle and Eidos Wirtschaftsberatung GesmbH have audited the consolidated annual financial statements of Erste Bank prepared in accordance with IFRS for the financial year ended 31 December 2002. The auditors expressed an unqualified opinion on the accounts of Erste Bank for the financial year ended 31 December 2002. Each of Sparkassen-Prüfungsverband Prüfungsstelle and Eidos Wirtschaftsberatung GesmbH has given and not withdrawn its written consent to the issue of this Offering Circular with their report in the form and context in which it is included under "Auditors' Report".

The financial statements of Erste Bank as at and for the nine months ended 30 September 2003 and 30 September 2002 have not been audited.

No accounts of the Issuer have yet been prepared or audited. BDO Attard Buttigieg Psaila & Co. have been appointed as auditors to the Issuer.

## **10 Notices**

Notices to the holders of Series H Preference Shares, including notices for general meetings of holders of the Series H Preference Shares and payments of distributions or other amounts in relation to the Series H Preference Shares will be published, for so long as the Series H Preference Shares are listed on the Luxembourg Stock Exchange and the rules of the Luxembourg Stock Exchange so require, in a leading Luxembourg daily newspaper (which is expected to be the *Luxemburger Wort*).

## **11 Structuring Advice**

BNP Paribas will receive a fee pursuant to its role as structuring adviser in connection with the on-lending of the proceeds of the issue within the Erste Bank Core Group.

## AUDITORS' REPORT

We have audited the accompanying Consolidated Financial Statements of Erste Bank der oesterreichischen Sparkassen AG (the Erste Bank Group) as of 31st December 2002 and 31st December 2001 comprised of the Balance Sheet at 31st December 2002 and 31st December 2001, and the Income Statements, Statements of Changes in Equity, Cash Flow Statements and Notes for the years ended 31st December 2002 and 31st December 2001. Our audit focused on the Consolidated Financial Statements for the period from 1st January to 31st December 2002, which were expanded to include the consolidation of additional companies due to the establishment of the cross-guarantee system.

These Consolidated Financial Statements are the responsibility of the Managing Board. Our responsibility is to express an opinion on these Consolidated Financial Statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing (ISA) of the International Federation of Accountants (IFAC). Those standards require that we plan and perform the audit to obtain reasonable assurance as to whether the Consolidated Financial Statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures found in the Financial Statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion the Consolidated Financial Statements give a true and fair view of the financial position of the Group as of 31st December 2002 and 31st December 2001, and of the results of its operations and its cash flows for the financial years then ended in accordance with International Financial Reporting Standards (IFRS, formerly International Accounting Standards (IAS)).

Under Austrian commercial law, the Group Management Report must be audited and it must be ascertained whether the legal requirements (Section 59a Austrian Banking Act) for exemption from the preparation of consolidated accounts according to Austrian accounting principles have been met.

We confirm that the Management Report is consistent with the Consolidated Financial Statements and that the legal requirements have been met for exemption from the preparation of Consolidated Financial Statements according to Austrian accounting principles.

Vienna, 21st March 2003

Sparkassen-Prüfungsverband  
Auditing Agency

**Wolfgang Riedl**  
Public Accountant

**Klaus Goschler**  
Audit Director

EIDOS Wirtschaftsberatung GmbH  
Public Accountants and Tax Advisers

**Erich Kandler**  
Public Accountant

**Kurt Schweighart**  
Public Accountant



## 2002 Consolidated financial statements according to IFRS

In order to improve comparison of 2002 financial information with that of 2001 additional data also has been provided for the “Core Group”, which essentially consists of the Erste Bank and its Group of 2001 and only includes its equity holdings, as defined under company law. Although the presentation of the Core Group’s assets, earnings and financial position for 2002 have not been audited, they have been submitted to a review in accordance with ISA 910. The accompanying notes form an integral part of the financial statements.

### I. Group Balance Sheet of Erste Bank at 31st December 2002

	Notes	at 31st Dec 2002	at 31st Dec 2001	Core Group at 31st Dec 2002
<i>(in EUR thousand)</i>				
<b>Assets</b>				
1. Cash and balances with central banks ..	12	3,181,046	2,572,909	2,608,208
2. Loans and advances to credit institutions .. .. .	1, 13	15,492,393	18,912,535	19,238,194
3. Loans and advances to customers .. ..	1, 14	64,435,407	39,210,012	40,471,269
4. Risk provisions for loans and advances ..	2, 15	(2,982,868)	(1,875,051)	(1,786,981)
5. Trading assets .. .. .	3, 16	3,487,007	3,450,982	3,351,514
6. Investments available for sale .. ..	4, 17	6,735,714	2,912,071	4,134,460
7. Financial investments .. .. .	5, 18, 19, 49	22,572,142	14,730,222	20,379,794
8. Intangible assets .. .. .	6, 19	1,595,753	932,145	1,518,299
9. Tangible assets .. .. .	7, 19	1,866,017	1,317,633	1,347,139
10. Other assets .. .. .	11, 20, 21	4,839,641	3,869,922	4,302,083
<b>Total assets</b> .. .. .		<b>121,222,252</b>	<b>86,033,380</b>	<b>95,563,979</b>
<b>Liabilities and shareholders' equity</b>				
1. Amounts owed to credit institutions ..	22	26,424,661	28,642,181	27,917,900
2. Amounts owed to customers .. ..	23	61,308,019	37,175,097	39,337,050
3. Debts evidenced by certificates .. ..	9, 24	14,190,783	9,751,047	12,387,032
4. Provisions .. .. .	10, 11, 25	5,488,009	953,383	4,904,507
5. Other liabilities .. .. .	26	5,219,988	3,392,692	4,547,298
6. Subordinated capital .. .. .	27	3,386,632	2,955,683	2,757,702
7. Minority interests .. .. .		2,723,258	1,259,438	968,441
8. Shareholders' equity .. .. .	28	2,480,902	1,903,859	2,744,049
<b>Total liabilities and shareholders' equity</b> .. ..		<b>121,222,252</b>	<b>86,033,380</b>	<b>95,563,979</b>

## II. Group Income Statement of Erste Bank for the year ended 31st December 2002

	Notes	2002	2001	Core Group 2002
<i>(in EUR thousand)</i>				
1. Interest and similar income .. .. .		5,699,613	4,283,600	4,111,201
2. Interest paid and similar expenses .. .. .		(3,236,577)	(2,844,710)	(2,540,473)
<b>I. Net interest income .. .. .</b>	<b>29</b>	<b>2,463,036</b>	<b>1,438,890</b>	<b>1,570,728</b>
3. Risk provisions for loans and advances ..	30	(406,361)	(203,603)	(211,140)
4. Fee and commission income .. .. .		1,118,002	729,043	825,766
5. Fee and commission expenses .. .. .		(173,695)	(154,437)	(151,297)
<i>Net commission income (Net of 4 and 5)</i>	31	<i>944,307</i>	<i>574,606</i>	<i>674,469</i>
6. Net trading result .. .. .	32	167,359	152,585	137,545
7. General administrative expenses .. .. .	33	(2,431,964)	(1,454,341)	(1,634,303)
8. Income from insurance business .. .. .	34	8,442	—	—
9. Other operating result .. .. .	35	(80,209)	(102,485)	(68,405)
10. Extraordinary result.. .. .		—	—	—
<b>II. Pre-tax profit for the year .. .. .</b>		<b>664,610</b>	<b>405,652</b>	<b>468,894</b>
11. Taxes on income .. .. .	36	(151,387)	(81,299)	(92,285)
<b>III. Profit for the year .. .. .</b>		<b>513,223</b>	<b>324,353</b>	<b>376,609</b>
12. Minority interests .. .. .		(258,019)	(101,060)	(130,671)
<b>IV. Net profit after minority interests .. .. .</b>	<b>37</b>	<b>255,204</b>	<b>223,293</b>	<b>245,938</b>

### Earnings per share

Earnings per share (EPS) is the amount representing net profit after minority interests divided by the average number of ordinary shares outstanding. Diluted earnings per share is the amount showing the maximum dilution effect possible if the average number of shares has increased or may increase as a result of the issued subscription and conversion rights.

	2002	2001
<i>(in EUR thousand)</i>		
Net profit after minority interests.. .. .	255,204	223,293
Average number of shares outstanding .. .. .	number 53,942,369	49,965,944
<b>Earnings per share .. .. .</b>	<b>4.73</b>	<b>4.47</b>

In calculating EPS, the Erste Bank shares held by the cross-guarantee system of the savings banks are not subtracted from the outstanding shares.

The diluted earnings per share for 2002 and 2001 show no change over the above figures.

### III. Statement of Changes in Shareholders' Equity

	Subscribed capital	Add. paid in capital	Retained earnings	Distributable profit	Total 2002	Total 2001
<i>(in EUR million)</i>						
<b>Shareholders' equity as of</b>						
<b>31st December previous year</b>	366	868	607	63	1,904	1,856
Translation differences .. ..	—	—	(5)	—	(5)	41
Own shares	—	—	(270)	—	(270)	—
<i>thereof Shares acquired</i> .. ..	—	—	(391)	—	(391)	—
<i>thereof Shares sold</i> .. ..	—	—	111	—	111	—
<i>thereof Balance</i> .. ..	—	—	10	—	10	—
Dividends .. ..	—	—	1	(63)	(62)	(62)
Capital increases .. ..	69	572	—	—	641	—
Net profit after minority interests .. ..	—	—	181	74	255	223
Other changes <sup>(1)</sup> .. ..	—	—	18	—	18	(27)
First-time application of IAS 39 .. ..	—	—	—	—	—	(127)
<b>Shareholders' equity as of</b>						
<b>31st December</b> .. ..	<b>435</b>	<b>1,440</b>	<b>532</b>	<b>74</b>	<b>2,481</b>	<b>1,904</b>

(1) This includes the cash flow hedge reserve balance totalling EUR 32 million (2001: EUR 19 million).

#### Changes in number of shares (see Note 28)

	31st Dec 2002 Shares	31st Dec 2001 Shares	PCs
<i>(in units)</i>			
Issued shares .. ..	59,825,114	50,362,955	—
less own shares in bank's portfolio <sup>(1)</sup> .. ..	(4,392,897)	(13,340)	—
<b>Shares outstanding</b> .. ..	<b>55,432,217</b>	<b>50,349,615</b>	<b>—</b>
Shares outstanding at 1st January .. ..	50,349,615	50,340,784	3,798
Additions from first-time inclusion of cross-guarantee savings banks at 1st January 2002 .. ..	(3,621,064)	—	—
Other acquisitions of own shares .. ..	(2,625,806)	(4,157,459)	(3,798)
Disposal of own shares .. ..	1,867,313	4,164,134	—
Capital increase in July 2002 .. ..	9,210,000	—	—
Capital increase due to ESOP 2002 .. ..	252,159	—	—
Effect of calling in PCs .. ..	—	2,156	—
Shares outstanding at 31st December .. ..	55,432,217	50,349,615	—
Own shares <sup>(1)</sup> .. ..	4,392,897	13,340	—
<b>Number of shares as of 31st December</b> .. ..	<b>59,825,114</b>	<b>50,362,955</b>	<b>—</b>

In accordance with a resolution taken by the General Meeting convened on 8th May 2001, all of the outstanding participation certificates were called in financial 2001.

(1) Including shares held by the members of the cross-guarantee system.

#### IV. Cash Flow Statement

	<b>2002</b>	<b>2001</b>
	<i>(in EUR million)</i>	
<b>Profit for the year</b> .. .. .	<b>513</b>	<b>324</b>
Non-cash items in net profit		
Depreciation, amortisation, revaluation of tangible assets, financial investments as well as investments available for sale .. .. .	407	271
Allocation/release of provisions (including risk provisions) .. .. .	422	203
Profits from the sale of financial investments and tangible assets .. .. .	(113)	(20)
Other adjustments .. .. .	(1,936)	(1,887)
Changes in assets and liabilities from operating activities after adjustment for non-cash components		
Loans and advances to credit institutions .. .. .	155	2,851
Loans and advances to customers .. .. .	(1,581)	(2,875)
Trading portfolio .. .. .	56	(820)
Investments available for sale .. .. .	(1,357)	(529)
Other assets .. .. .	(307)	(977)
Amounts owed to credit institutions .. .. .	(1,474)	1,716
Amounts owed to customers .. .. .	2,023	2,991
Debts evidenced by certificates .. .. .	2,554	1,173
Other liabilities from operating activities .. .. .	1,472	702
Interest and dividends received .. .. .	5,700	4,284
Interest paid .. .. .	(3,237)	(2,845)
<b>Cash flow from operating activities</b> .. .. .	<b>3,297</b>	<b>4,562</b>
Proceeds from the disposal of		
Financial investments .. .. .	5,221	1,425
Fixed assets .. .. .	233	(279)
Payments for the acquisition of		
Financial investments .. .. .	(6,864)	(4,163)
Fixed assets .. .. .	(1,169)	(341)
Acquisition of subsidiaries (net of cash and cash equivalents acquired) ..	(486)	(68)
Other changes .. .. .	—	—
<b>Cash flow from investing activities</b> .. .. .	<b>(3,064)</b>	<b>(3,426)</b>
Capital increases .. .. .	641	—
Dividends paid .. .. .	(62)	(62)
Other financing activities .. .. .	(180)	351
<b>Cash flow from financing activities</b> .. .. .	<b>399</b>	<b>289</b>
<b>Cash and cash equivalents at beginning of period</b> .. .. .	<b>2,573</b>	<b>1,146</b>
Cash flow from operating activities .. .. .	3,297	4,562
Cash flow from investing activities .. .. .	(3,064)	(3,426)
Cash flow from financing activities .. .. .	399	289
Effect of translation differences .. .. .	(24)	2
<b>Cash and cash equivalents at end of period</b> .. .. .	<b>3,181</b>	<b>2,573</b>

Apart from the coming into effect of the cross-guarantee system (HV) on 1st January 2002, Erste Bank during the reporting period acquired 98.0% of Riječka banka d.d. (RB), 20% of Sparkassen Versicherung AG (s-Versicherung), 39.5% of Stavební spořitelna České spořitelny, a.s. (CSST), 11% of Steiermärkische Bank und Sparkassen AG (Stmk. Spk.), 42.7% of Česká spořitelna, a.s. (CS), and 24.2% of Tiroler Sparkasse Bankaktiengesellschaft Innsbruck (Tispa).

	HV	RB	S-Vers.	CSST	Total	Stmk. Spk.	CS	TiSpa	Total
	<i>(in EUR million)</i>								
Shares purchased (in %) ..	—	98.0%	20.0%	39.5%	—				
Successive share purchases (in %) .. .. ..						11.0%	42.7%	24.2%	—
Cash and cash equivalents ..	471	162	—	—	633	—	—	—	—
Loans and advances to credit institutions and customers ..	19,658	677	—	696	21,031	—	—	—	—
Risk provisions .. .. ..	(1,159)	(72)	—	(4)	(1,235)	—	—	—	—
Trading assets .. .. ..	92	—	—	—	92	—	—	—	—
Investments available for sale..	2,385	87	—	91	2,563	—	—	—	—
Financial investments .. ..	5,990	111	4,103	412	10,616	—	—	—	—
Sundry assets .. .. ..	1,655	61	114	41	1,871	—	—	—	—
Amounts owed to credit institutions and customers ..	(20,399)	(965)	—	(1,178)	(22,542)	—	—	—	—
Debts evidenced by certificates and subordinated liabilities..	(2,489)	—	(67)	—	(2,556)	—	—	—	—
Sundry liabilities .. .. ..	(4,820)	(33)	(4,030)	(12)	(8,895)	—	—	—	—
Minority interest .. .. ..	(188)	—	—	—	(188)	—	—	—	—
Shareholders' equity .. ..	1,196	28	120	46	1,390	550	941	241	3,122
Share purchase (in %) .. ..	—	98.0%	20.0%	39.5%	—	11.0%	42.7%	24.2%	—
Erste Bank stake .. .. ..	—	27	24	18	70	61	402	58	591
Goodwill .. .. ..									528
Purchase price .. .. ..									1,119
Cash and cash equivalents ..									(633)
<b>Cash flow for acquiring companies less cash and cash equivalents acquired .. ..</b>									<b>486</b>

## V. Notes to the Consolidated Financial Statements of the Erste Bank Group

### General information

Erste Bank der oesterreichischen Sparkassen AG is Austria's oldest savings bank and largest credit institution that is entirely privately owned. It is listed on the Vienna stock exchange and in October 2002 it was admitted to listing on the Prague stock exchange. Its registered offices are located at Graben 21, 1010 Vienna, Austria.

Erste Bank Group offers a complete array of banking and financing services such as saving, asset management (e.g. investment fund business), lending, mortgage loans, investment banking, securities and derivatives trading, portfolio management, project financing, foreign trade financing, corporate finance, capital market and money market services, foreign exchange trading, leasing, factoring and insurance business.

Erste Bank's Consolidated Financial Statements for financial year 2002 and the comparative figures for 2001 were prepared in compliance with the International Financial Reporting Standards (IFRS – formerly IAS) issued by the International Accounting Standards Board (IASB) and their interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC – formerly SIC) and also satisfies the prerequisites set forth in Section 59a Austrian Banking Act and Section 245a Austrian Commercial Code on exempted consolidated financial statements prepared according to internationally recognised accounting principles. Furthermore, the disclosure requirements of the European Union were met.

Points where the Consolidated Financial Statements according to IFRS differ from Austrian financial reporting standards are outlined in Section VI.

Unless otherwise indicated, all amounts are stated in EUR million. Rounding differences may occur in the accompanying tables.

The 2002 Financial Statements were prepared on the basis of the cross-guarantee agreement concluded between Erste Bank AG and almost all of the Austrian savings banks which went into effect 1st January 2002 (additional information is provided in the section on acquisitions of shares in other companies). As a result, s-Versicherung, which had been reported at equity before the cross-guarantee system was established, had to be fully consolidated as of 1st January 2002 as Erste Bank now holds majority ownership in this insurance company together with members of the cross-guarantee system. Since 1st January 2002 the result from the insurance business has consequently been reported as a separate item in the Income Statement and explained in detail in Note 34. The asset, debt and equity components have been assigned to the respective balance sheet items. In order to improve comparison

of 2002 financial information with that of 2001 additional data also has been provided for the “Core Group”, which essentially consists of Erste Bank and its Group of 2001 and only includes its equity holdings as defined under company law. Although the presentation of the Core Group’s assets, earnings and financial position for 2002 has not been audited, they have been reviewed in accordance with ISA 910.

#### **Acquisition of shares in other companies**

Erste Bank is a member of the cross-guarantee system (*Haftungsverbund*) of the savings bank group, a system that was established in 2001 and went into effect 1st January 2002. As of the balance sheet date almost all of Austria’s savings banks were part of this system.

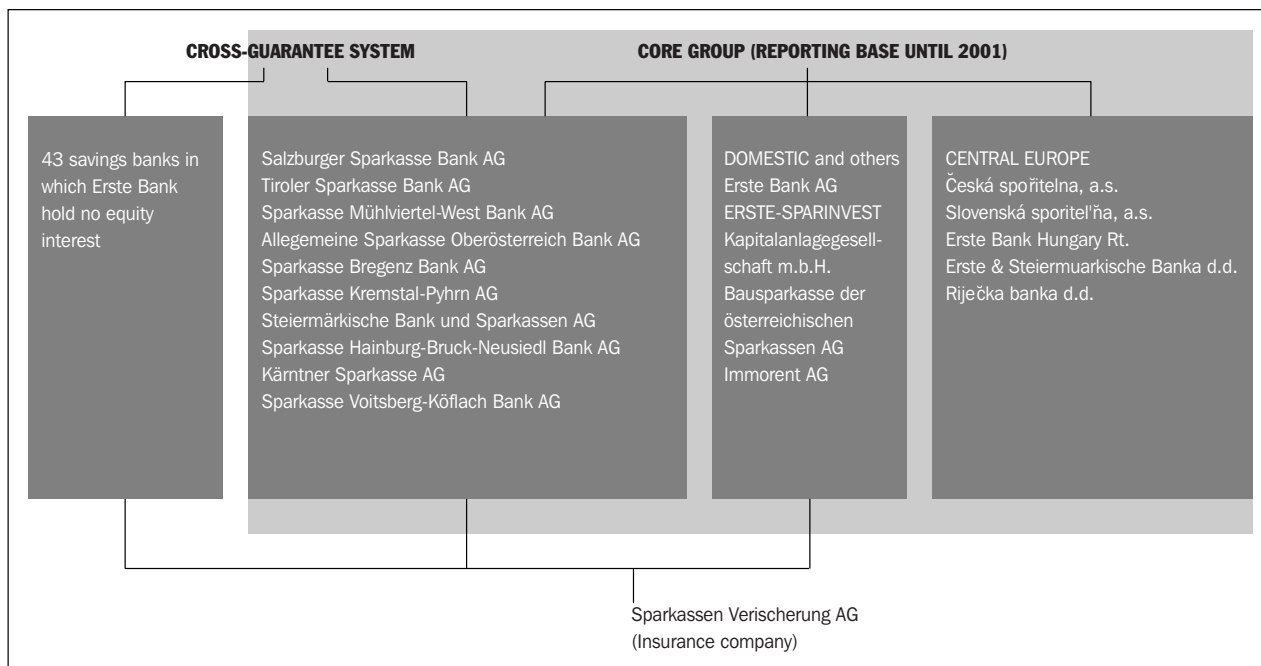
According to the provisions of the framework agreement between Erste Bank and participating savings banks, this system guarantees by virtue of joint and several liability the payment of all amounts owed to customers (all deposits according to Section 1 (1.1) Austrian Banking Act, all monetary claims based on credits from banking transactions, all monetary claims from issuing securities, except capital resources pursuant to Section 23 Austrian Banking Act and payables from transactions relevant under criminal law).

Pursuant to the requirements laid down in the Austrian Banking Act and the framework agreement of the cross-guarantee system, the individual members in the system must provide support and other types of intervention to fellow members in financial difficulty (including injection of liquidity, granting of loans, assumption of guarantees and transfer of capital resources to intervention in business policy and changes in management) and honour secured obligations to customers in the event defined in Section 93 (3.1) Austrian Banking Act. Consequently, it is impossible to determine the actual scope of performance to be rendered by individual members of the cross-guarantee system, in addition to which those amounts made available by members as part of legal deposit protection as set forth in Sections 93 ff Austrian Banking Act are to be credited.

The provisions set forth in the agreement governing the cross-guarantee system are implemented by the Steering Company, s-Haftungs- und KundenabsicherungsGmbH. Erste Bank AG directly holds at least 51% of the share capital of the Steering Company (as of 31st December 2002 a directly and indirectly estimated 62.6%). Two of the four members of the Steering Company’s management, including the CEO, who has the casting vote, are appointed by Erste Bank AG. The Steering Company is vested with the power to establish and monitor risk policies and in case a member encounters serious difficulties it has the right to intervene and make executive management decisions (as mentioned before) at the troubled savings bank.

As Erste Bank AG owns a controlling interest in the cross-guarantee company, which by virtue of its rules of procedure can exercise significant influence on the business policy of any of its members, in accordance with IFRS all members of the cross-guarantee system are to be included in Erste Bank’s consolidated financial statements as of 1st January 2002.

## Erste Bank Group (reporting base from 2002 on)



Following the amendment of Section 30 Austrian Banking Act effective 1st September 2002, credit institutions belonging to a cross-guarantee system meeting the prerequisites laid down in Section 30a Austrian Banking Act shall be included in the group of credit institutions as the superordinate credit institution pursuant to Section 30 Austrian Banking Act. This applies to Erste Bank and the savings banks belonging to the cross-guarantee system. Therefore, effective 1st September 2002, all relevant legal provisions are to be fulfilled which pertain to groups of credit institutions as defined in Section 30 Austrian Banking Act, thus including all members of the cross-guarantee system.

As of 1st January 2002 Erste Bank owned 50.5% of Tiroler Sparkasse. In the current financial year the interest in Tiroler Sparkasse (both direct and indirect) was successively increased to 74.7% as a result of various measures such as acquisitions of shares, capital increases and transferring Erste Bank's business unit Tirol-Mitte, consisting of 3 branch offices and a business volume of about EUR 300 million. In addition, a transformation and restructuring process was launched in 2002, just as with other acquisitions in the recent past. After reviewing the portfolio once again and analysing the findings of the transformation process, adaptations were made in the fair value adjustments and provisions originally made as of 31st December 2001 to cover risks which were not yet reasonably foreseeable, thus resulting in a total goodwill of EUR 82.7 million as of 31st December 2002 to be written off on a straight-line basis over 20 years. The impact on the result is about EUR 4.2 million per annum.

In addition to acquiring Tiroler Sparkasse, Innsbruck in December 2001, an agreement was reached with Bayerische Landesbank Girozentrale to take over the latter's 39.5% stake in the Czech building society Stavební spořitelna České spořitelny, a.s., a transaction that took effect on 31st July 2002. Based on the agreed purchase price of EUR 30 million, the goodwill comes to about EUR 12 million, which will be written off on a straight-line basis over 15 years. The impact on the result is about EUR 0.8 million per annum. Altogether, Erste Bank Group's stake in Stavební spořitelna České spořitelny, a.s. comes to 100%, as the other shares are held by Česká spořitelna, a.s. The Czech building society boasts total assets of approximately EUR 1.5 billion and employs a staff of 300.

On 1st April 2002 Erste Bank increased its share in Steiermärkische Bank und Sparkassen AG by a capital increase from 14% to 25% plus 1 share. The purchase price was EUR 85.8 million, resulting in a goodwill of EUR 25.1 million, which brings total goodwill to EUR 63.4 million, to be written off on a straight-line basis over 20 years. The impact on the result is EUR 3.2 million per annum.

On 29th April 2002 Erste Bank AG concluded a purchase agreement to take over a 85% stake in Riječka banka d.d. from the Croatian Deposit Insurance and Bank Rehabilitation Agency (DAB). After completing due diligence on 12th June 2002, the final purchase price for the interest in Riječka banka d.d. was set at EUR 51 million. Mid-June was also when the compulsory takeover offer

extended to the Croatian minority shareholders expired. Of the 15% free float, 7.9% were sold to Erste Bank, thus increasing Erste Bank's share in the Croatian bank's share capital to 92.9%. In signing the purchase agreement, Erste Bank also undertook to subscribe a capital increase in the amount of EUR 80 million, which took place in August 2002. This brought the stake in Riječka banka d.d. to 98.0% as per 31st December 2002. After making the required fair value adjustments at the time of acquisition, setting up provisions to cover risks which are not yet reasonably foreseeable and accounting for the purchase price, goodwill came to EUR 36.5 million to be written off on a straight-line basis over 15 years. The impact on the result is about EUR 2.5 million per annum. The total assets of Riječka banka d.d. come to EUR 1 billion. The Croatian bank has 1,000 employees and 74 branches located mainly on the northern coast of Croatia and in the vicinity of Rijeka.

On 5th August 2002 Erste Bank acquired 38.63% of the ordinary shares and 7.0% of the preference shares in Česká spořitelna, a.s. from its biggest shareholder, DIE ERSTE österreichische Spar-Casse Anteilsverwaltungssparkasse (AVS) for a total purchase price of EUR 693.2 million, which was derived from the takeover offer. As the amendment to the by-laws of Česká spořitelna, a.s. was entered in the commercial register by the relevant court in the third quarter of 2002 after it was passed by the General Meeting convened 22nd October 2001, Erste Bank was able to take over the preference shares as well – not only those acquired back in 2001 but also those purchased by AVS in the course of taking over the minority stake in 2002. Once all of these transactions had been completed, Erste Bank's share in Česká spořitelna, a.s. totalled 94.8%. As a result, the minority interests reported in the Consolidated Financial Statements, which include Česká spořitelna, a.s. as of 3rd August 2000, were reduced accordingly as of August 2002. Due to the acquisition of ordinary shares on 5th August 2002 and transfer of the preference shares, EUR 362 million in additional goodwill was acquired which will be written off on a straight-line basis over 15 years. As of 31st December 2002 total goodwill for Česká spořitelna, a.s. came to EUR 539 million.

In the continued pursuit of its strategy to streamline the branch office structure within Austria's savings bank group, a process which has already been completed in the provinces of Salzburg, Carinthia, Upper Austria and Styria, with effect from 30th September 2002 Tyrol's branches were transferred as explained above, while Erste Bank AG's branches in Burgenland and the eastern part of Lower Austria were transferred to Sparkasse Hainburg-Bruck-Neusiedl Aktiengesellschaft (previously Niederösterreichische Sparkasse Hainburg AG) in exchange for shares. This transfer comprises 13 branch offices and total assets of about EUR 210 million. Taking into account other capital market transactions, this increases Erste Bank AG's share in Sparkasse Hainburg-Bruck-Neusiedl Aktiengesellschaft from 26.0% to 75.0%. This transfer and the increased stake in Sparkasse Hainburg-Bruck-Neusiedl AG impacted the financial statements beginning in the fourth quarter of 2002.

In mid-December 2002 the holdings in s-Versicherung were restructured, which involved Erste Bank acquiring a 20% share in s-Versicherung from Donau Allgemeine Versicherungsaktiengesellschaft. In exchange, the Wiener Städtische Group acquired a 15% stake in Donau Allgemeine Versicherungsaktiengesellschaft from Erste Bank. Based on this transaction and the capital increase conducted at s-Versicherung in 2002, which led to minor changes in shareholdings, the Erste Bank Group now holds an estimated 62.4% stake in s-Versicherung. The goodwill arising on the acquisition amounts to EUR 89.1 million and will be written off on a straight-line basis over 20 years. The amortisation of goodwill is EUR 4.4 million per annum. These transactions reduced Erste Bank AG's direct stake in Donau Allgemeine Versicherungsaktiengesellschaft from 20% to 5%.

In 2000 Erste Bank's New York branch concluded an investment consulting contract with High Peak Funding LLC (registered offices: New York). This is a company with a special legal construction that is owned by Global Securitization Services, LLC (registered offices: New York), which does not belong to the Erste Bank Group. Global Securitization Services LLC specialises in the management and administration of companies whose business object is structured financing. High Peak Funding provides an opportunity to issue asset-backed commercial paper for international investors and invest these funds in internationally rated American asset-backed securities. This company's investment policy is subject to mutually agreed stringent regulations which also define and continually monitor risk diversification (i.e. spreading the risk in accordance with the international ratings of the individual investments). Based on the ratings assigned by Moody's and Fitch, at least 80% of the overall portfolio must have a rating of between A1/A+ and Aaa/AAA and at least 60% of the securities portfolio must have a rating of Aa2/AA or better, thus giving this portfolio a low risk content. No investments may be made with a rating below Baa3/BBB. Furthermore, Erste Bank's New York branch extends this company short-term refinancing lines in case the investments can not be completely refinanced with the issues made by High Peak Funding. Erste Bank's New York branch



also has a financing obligation in the event that a security is assigned a credit rating below Aa3/AA and there are more than ten securities in High Peak Funding's portfolio with this rating. Erste Bank's New York branch has no guarantee or financing obligation in the event that a securities issuer does not meet its payment obligations nor is it liable if High Peak Funding itself claims insolvency. Erste Bank's New York branch receives commissions for the activities described here. As of 31st December 2002 High Peak Funding had a business volume of about USD 2.9 billion. Given the company's particular situation in terms of company law and form of business management, it was not consolidated in the Erste Bank Group's Financial Statements.

Shareholdings in significant companies and their reporting in the Consolidated Financial Statements are presented in Note 49.

### **Relationship to AVS**

DIE ERSTE österreichische Spar-Casse Anteilsverwaltungssparkasse (AVS) is a mere holding company organised according to the Austrian Savings Bank Act. As of year-end 2002, this savings bank holding company held a 35.6% interest in Erste Bank AG, making it the biggest single shareholder. AVS has no legal owner but is controlled by an association (Verein).

AVS has a two-tier board consisting of a Vorstand (Managing Board) and a Sparkassenrat (supervisory board). Currently, Mr. Andreas Treichl and Mr. Reinhard Ortner, members of the Managing Board of Erste Bank AG, are the only members of the Managing Board of AVS. Seven members of the Sparkassenrat are also members of the Supervisory Board of Erste Bank AG. The members of the *Verein* elect the members of the Sparkassenrat, which in turn elects the members of the Managing Board of AVS.

During a takeover offer effective from 8th April until 10th July 2002 that was initially voluntary and then mandatory, AVS acquired ordinary and preference shares in Česká spořitelna, a.s. which were then sold to Erste Bank AG on 5th August 2002. For more details see the section acquisitions of shares in other companies.

In the course of the capital increase of Erste Bank conducted in July 2002 AVS exercised part of its subscription rights. As a result of the Greenshoe agreement between JP Morgan and Erste Bank, AVS sold 800,000 shares in Erste Bank at the issue price.

### **Accounting policies**

Assets and liabilities stated in foreign currencies and pending foreign currency spot transactions are converted at the mean rate of exchange and forward exchange contracts at the forward rate at the balance sheet date.

In translating the financial statements of foreign subsidiaries prepared in foreign currencies, the mean rate of exchange at the balance sheet date was applied in the case of the Balance Sheet and the annual average rate was used for the Income Statement. Translation gains and losses resulting from the inclusion of foreign subsidiaries in the Consolidated Financial Statements are recorded directly in retained earnings.

### **Principles of Consolidation**

All significant subsidiaries which are controlled by Erste Bank AG are included in the Consolidated Financial Statements. Significant investments of between 20% and 50% (associates) are stated at equity. As for investments in the insurance sector, owing to the special national legal requirements and the fact that insurance companies in Austria are not yet reporting according to IFRS these are stated at equity pursuant to local accounting standards.

Proportionate consolidation is not applied in the Consolidated Financial Statements (IAS 31.28) because joint ventures are of minor significance in the Erste Bank Group's portfolio of equity holdings.

Subsidiaries whose influence on the Group's assets, earnings and financial position is of minor significance and undertakings whose assets are subject to restrictions due to provisions of the Non-Profit Housing Act were not consolidated.

The remaining equity holdings are reported at fair value. If the value of these holdings can not be reliably determined they are reported at cost which are in cases of impairment adjusted accordingly.

Business combinations are accounted for using the purchase method by comparing the acquisition cost against the parent company's share in identifiable assets and liabilities at fair values. Goodwill arising after 1st January 1995 is recognised as an asset and written off over its estimated useful life. This is generally set at 20 years for domestic banks and financial service providers, 15 years for foreign banks and financial service providers and between 5 and 15 years for all other investments (see Note 6 Intangible assets).

Minority interests are stated at the proportionate equity.

Intercompany balances, income and expenses as well as intercompany profits and losses are eliminated provided they are not of minor significance.

#### **(1) Loans and advances**

Loans and advances to credit institutions and customers are reported at cost. Credit losses which were not provided for are directly written off in this item. Provisions for specific and country risks are not set off against the corresponding loans and advances, but rather reported as a separate line item in the Balance Sheet.

Premiums and discounts – the differences between amounts paid out and nominal amounts – are reported as interest income or interest expense under other assets or other liabilities, and attributed to the accounting period in which they are earned or incurred, respectively.

Interest receivable is not recognised as revenue in the Income Statement if – regardless of the legal right to do so – it is highly improbable that future economic benefits will flow to the company.

Securities not listed on the stock exchange (with the exception of negotiable credit substitutes) are reported under the appropriate securities portfolio item (trading portfolio, investments available for sale or held to maturity). As of 1st January 2001 (first-time application of IAS 39), an exception has been made for asset swaps, which are reported as loans and advances to credit institutions and loans and advances to customers.

#### **(2) Risk provisions for loans and advances**

The special risks inherent to the banking business are taken into account by making adequate specific and general provisions. Provisions are made for specific risks using the same measurement methods throughout the Group and account for any eventual collateralisation. The transfer risk inherent in loans to borrowers in foreign countries (country risk) is valued using an internal rating system which takes into consideration the respective economic, political and regional situation.

The total amount of risk provisions for loans and advances appearing in the Balance Sheet is reported under assets as a separate item and presented as a line item deduction after loans and advances to credit institutions and loans and advances to customers. The risk provision for off-balance-sheet transactions (particularly warranties and guarantees as well as other lending commitments) is included under other provisions.

#### **(3) Trading assets**

Securities, derivatives and other financial instruments held for trading purposes are reported at their fair values at the balance sheet date. Negative fair values are reported in the balance sheet item other liabilities. The prices quoted on the stock exchange are used to measure listed products. For non-listed products the fair values are determined according to the present value method or using suitable options pricing models.

All realised gains and changes in measurement of such positions are shown in the Income Statement under the net trading result. Also included in this item are interest and dividend income earned on the trading portfolio and the incurred funding interest.

#### **(4) Investments available for sale**

Securities which, according to the Group's internal guidelines and in accordance with IAS 39, are assigned neither to the trading portfolio nor to financial investments are reported at fair value under this item. The gains and losses of this portfolio – realised or unrealised – are included under other operating result.

## **(5) Financial investments**

This item contains bonds being held to maturity and other fixed-income and variable-yield securities, provided they have a fixed maturity. In compliance with IAS 39, these assets are assigned to the Held to Maturity portfolio (HTM). Also included in this item are investments in associates, ownership rights in non-consolidated companies and property intended primarily for leasing to outside parties. Investments in associates are accounted for using the equity method. Equity holdings that are intended for sale in the short to medium term are stated at fair value (for listed investments at the quoted price) at the balance sheet date.

Financial investments intended for leasing to outside parties are reported at cost (for leased property less normal periodic depreciation) using the cost method permitted by IAS 40. In the case of impairment the asset is written down accordingly and if the reasons which led to the write-off cease to apply, it is written back up to no more than the original cost.

## **(6) Intangible assets**

This item is mainly comprised of goodwill arising on acquisition and software, which are reported at cost less amortisation and impairment.

Goodwill arising on acquisitions after 1st January 1995 is amortised on a straight-line basis (for domestic financial service providers over 20 years, for foreign financial service providers over 15 years, for all other companies between 5 and 15 years) and recognised in the Income Statement. Goodwill arising on acquisitions before 1st January 1995 was deducted from equity.

Software generated internally is recognised as an asset if it is probable that future economic benefits associated with that item will flow to the Group and the method of determining cost is reliable. Such software is amortised over the estimated useful life, which is generally set at 4 to 6 years as is the case for acquired software.

Write-downs are recognised as impairments in value that are deemed permanent.

## **(7) Tangible assets**

Tangible assets – land and buildings, office furniture and equipment – are stated at cost less the depreciation corresponding to their estimated useful life or impairment. Write-downs are recognised for impairments.

The useful life of tangible assets is assumed as shown in the following table:

	<b>Useful life in years</b>
Buildings .. .. .	25-50
Office furniture and equipment .. .. .	5-20
Computer hardware .. .. .	4-5

## **(8) Leasing**

The leasing agreements in force in the Erste Bank Group are almost exclusively finance leases, which means that all of the risks and rewards associated with the leased assets are transferred to the lessee. Pursuant to IAS 17, the lessor reports a receivable from the lessee amounting to the present value of the contractually agreed payments and taking into account any residual amounts.

In the case of operating leases (in this type of lease the risks and rewards associated with the property remain with the lessor), the leased property is reported by the lessor under financial investments and depreciated in accordance with the principles applicable to the fixed assets involved. Leasing payments are recognised as revenue in the Income Statement in accordance with the period of use.

## **(9) Debts evidenced by certificates**

Debts evidenced by certificates are stated at their repayment or nominal amount. Bonds issued at a discount with long terms (e.g. zero coupon bonds) and similar debts evidenced by certificates are reported at their present value.

## (10) Provisions

In compliance with IAS 19 (Employee Benefits), long-term employee provisions (obligations for pensions as well as for termination and jubilee benefits) are determined using the projected unit credit method. Pension provisions are made only for pension obligations for retired employees, whereas the pension obligations for active employees were transferred in the preceding years to retirement funds.

Future obligations are determined using the calculations provided in actuarial expert opinions. This calculation takes into account not only those pensions and vested rights to future pension payments known at the balance sheet date but also anticipates future rates of increase in salaries and pensions.

The most important assumptions used for the actuarial computation of pension obligations are an annual discount rate (long-term capital market interest rate) of 5.5% and an annual rise in salaries of 3.5% for active employees. The parameters for pension provisions for retirees (for this portion there is no transfer to a pension fund) are a discount rate of 5.5% and an anticipated pension increase of 1.5% annually. The assumed retirement age is 56.5 for women and 61.5 for men.

Obligations for termination and jubilee benefits are also calculated based on an annual discount of 5.5% and an average annual raise in salary of 3.5%.

Long-term employee provisions (obligations for pensions as well as for termination and jubilee benefits) were calculated in accordance with the current mortality charts AVÖ 1999 P – Rechnungsgrundlagen für die Pensionsversicherung – Pagler & Pagler, which reflect an increased average life expectancy.

Other provisions are made for contingent liabilities payable to outside parties in the amount of the anticipated utilisation of benefits.

## (11) Taxes on income – deferred taxes

Deferred tax assets and liabilities are included in the items other assets and other provisions. Deferred tax assets and liabilities are stated at the tax rates at which it is expected that the taxes will be paid to or credited by the respective tax authorities.

In measuring deferred taxes, the balance sheet liability method is used for temporary differences, which compares the carrying amounts with the tax base of the respective Group company. Differences between these amounts lead to temporary differences, for which deferred tax assets or deferred tax liabilities are to be reported regardless of when such differences cease to exist. The deferred taxes for the various Group companies are measured at the local future tax rates that are expected to be applied. The deferred tax assets and deferred tax liabilities of any one company are netted only if the taxes on income are levied by the same tax authority.

A deferred tax asset for unused tax losses is recognised if it is likely that the entity will generate taxable profits in periods for which the unused tax losses can be utilised. Deferred taxes are not discounted.

### *Information on the Group Balance Sheet*

## (12) Cash and balances with central banks

	at 31st Dec 2002	at 31st Dec 2001	Core Group at 31st Dec 2002
		<i>(in EUR million)</i>	
Cash in hand .. .. .	1,303	885	913
Balances with central banks .. .. .	1,878	1,688	1,695
<b>Total .. .. .</b>	<b>3,181</b>	<b>2,573</b>	<b>2,608</b>

**(13) Loans and advances to credit institutions**

	<b>at 31st Dec 2002</b>	<b>at 31st Dec 2001</b>	<b>Core Group at 31st Dec 2002</b>
	<i>(in EUR million)</i>		
Loans and advances to domestic credit institutions .. ..	3,462	6,940	7,275
Loans and advances to foreign credit institutions .. ..	12,030	11,973	11,963
<b>Total .. .. .</b>	<b>15,492</b>	<b>18,913</b>	<b>19,238</b>

**(14) Loans and advances to customers**

	<b>at 31st Dec 2002</b>	<b>at 31st Dec 2001</b>	<b>Core Group at 31st Dec 2002</b>
	<i>(in EUR million)</i>		
Loans and advances to domestic customers			
Public sector .. .. .	3,116	1,814	1,591
Commercial customers .. .. .	26,990	13,457	13,592
Private customers .. .. .	16,157	8,459	8,825
Other .. .. .	150	171	148
Total loans and advances to domestic customers .. ..	46,413	23,901	24,156
Loans and advances to foreign customers			
Public sector .. .. .	3,090	3,272	3,084
Commercial customers .. .. .	11,402	9,806	10,179
Private customers .. .. .	3,314	1,994	2,838
Other .. .. .	216	237	214
Total loans and advances to foreign customers .. ..	18,022	15,309	16,315
<b>Total .. .. .</b>	<b>64,435</b>	<b>39,210</b>	<b>40,471</b>

This item includes receivables from finance leasing agreements totalling EUR 2,904 million. (2001: EUR 1,987 million). The gross investment in the leases is EUR 3,613 million (2001: EUR 2,459 million), and the related unearned finance income totals EUR 774 million (2001: EUR 537 million).

## (15) Risk provisions

	at 31st Dec 2001	Acquisition of companies <sup>(3)</sup>	Translation differences	Allocations <sup>(4)</sup>	Use	Releases <sup>(4)</sup>	Reclassi- fication	at 31st Dec 2002
<i>(in EUR million)</i>								
Specific risks .. .. .	1,596	1,191	(8)	576	(422)	(276)	—	2,657
Country risks .. .. .	9	—	—	—	—	—	(9)	—
General provisions .. .. .	128	56	2	108	(26)	(89)	9	188
<b>Subtotal .. .. .</b>	<b>1,733</b>	<b>1,247</b>	<b>(6)</b>	<b>684</b>	<b>(448)</b>	<b>(365)</b>	<b>—</b>	<b>2,845</b>
Suspended interest .. .. .	142	28	(1)	31	(41)	(21)	—	138
<b>Risk provisions for loans and advances<sup>(1)</sup> .. .. .</b>	<b>1,875</b>	<b>1,275</b>	<b>(7)</b>	<b>715</b>	<b>(489)</b>	<b>(386)</b>	<b>0</b>	<b>2,983</b>
Other risk provisions <sup>(2)</sup> .. .. .	36	2	—	7	(10)	(5)	—	30
Provision for guarantees .. .. .	28	17	—	21	(5)	(10)	—	51
<b>Total risk provisions .. .. .</b>	<b>1,939</b>	<b>1,294</b>	<b>(7)</b>	<b>743</b>	<b>(504)</b>	<b>(401)</b>	<b>—</b>	<b>3,064</b>
<b>Total risk provisions for Core Group .. .. .</b>	<b>1,939</b>	<b>128</b>	<b>(6)</b>	<b>428</b>	<b>(360)</b>	<b>(274)</b>	<b>—</b>	<b>1,855</b>

(1) Risk provisions for loans and advances are reported in item 4 of the Asset side of the Balance Sheet.

(2) Includes provisions for legal proceedings, risks associated with investments, realisation losses and liabilities for statements made in Offering Circulars.

(3) This essentially results from including the cross-guarantee system savings banks and Riječka banka d.d.

(4) Allocations to and releases of risk provisions pertaining to specific risks, country risks, general provisions and provisions for guarantees are accounted for in the Income Statement under the item risk provisions for loans and advances. Suspended interest is reported under net interest income and other risk provisions are accounted for in other operating result.

Total non-performing loans of the Erste Bank Group as of 31st December 2002 amounted to EUR 4,120 million (previous year: EUR 1,808 million), with most of the increase attributable to the first-time consolidation of the cross-guarantee system savings banks. In the Core Group the non-performing part of the portfolio increased by EUR 606 million to a total of EUR 2,414 million. This was the result of several factors: the first-time inclusion of Riječka banka d.d., the use – in preparation for Basle II – of even more stringent criteria in rating clients (moreover, collateral securities are not taken into account), and the general macroeconomic trend, particularly in Austria.

Total risk provisions for loans and advances cover almost 74% of gross non-performing loans.

## (16) Trading assets

	at 31st Dec 2002	at 31st Dec 2001	Core Group at 31st Dec 2002
<i>(in EUR million)</i>			
Bonds and other fixed-income securities			
Listed .. .. .	1,733	1,716	1,650
Unlisted .. .. .	423	633	423
Shares and other variable-yield securities			
Listed .. .. .	115	129	111
Unlisted .. .. .	335	314	331
Positive fair value of derivative financial instruments			
Currency transactions .. .. .	159	218	158
Interest rate transactions .. .. .	722	424	678
Other transactions .. .. .	—	17	—
<b>Total .. .. .</b>	<b>3,487</b>	<b>3,451</b>	<b>3,351</b>

**(17) Investments available for sale**

	at 31st Dec 2002	at 31st Dec 2001	Core Group at 31st Dec 2002
<i>(in EUR million)</i>			
Bonds and other fixed-income securities			
Listed .. .. .	3,528	1,692	2,847
Unlisted .. .. .	492	207	469
Shares and other variable-yield securities			
Listed .. .. .	87	405	110
Unlisted .. .. .	2,629	608	708
<b>Total .. .. .</b>	<b>6,736</b>	<b>2,912</b>	<b>4,134</b>

**(18) Financial investments**

	at 31st Dec 2002	at 31st Dec 2001	Core Group at 31st Dec 2002
<i>(in EUR million)</i>			
Bonds and other fixed-income securities			
Listed .. .. .	11,950	9,767	9,897
Unlisted .. .. .	3,800	3,000	3,863
Variable-yield securities			
Listed .. .. .	264	29	256
Unlisted .. .. .	692	611	522
Equity holdings			
In non-consolidated subsidiaries .. .. .	72	49	66
In associates accounted for at equity			
Credit institutions .. .. .	80	170	287
Non-credit institutions .. .. .	95	172	67
In other investments			
Credit institutions .. .. .	102	162	115
Non-credit institutions .. .. .	114	84	92
Investments of insurance companies .. .. .	4,294	—	4,294
Other financial investments .. .. .	1,109	686	921
<b>Total .. .. .</b>	<b>22,572</b>	<b>14,730</b>	<b>20,380</b>

The item other financial investments contains the carrying amounts of assets subject to operating lease agreements amounting to EUR 190 million (2001: EUR 115 million).

**(19) Movement of fixed assets and financial investments**

	At cost 1st Jan 2002	Currency translation (+/-)	Acquisition of companies <sup>(1)</sup> (+)	Additions (+)	Disposals (-)	At cost 31st Dec 2002
<i>(in EUR million)</i>						
<b>Intangible assets</b> ..	<b>1,384.8</b>	<b>4.3</b>	<b>145.5</b>	<b>845.8</b>	<b>(130.8)</b>	<b>2,249.7</b>
Goodwill .. ..	811.1	(0.0)	57.8	593.3	(45.2)	1,417.0
Other .. ..	573.7	4.4	87.7	252.5	(85.6)	832.6
<b>Tangible assets</b> ..	<b>2,014.9</b>	<b>23.6</b>	<b>695.7</b>	<b>916.2</b>	<b>(403.4)</b>	<b>3,247.1</b>
Land and buildings ..	1,303.4	13.1	422.4	296.2	(124.3)	1,910.8
Office furniture and equipment .. ..	711.6	10.6	273.3	620.0	(279.1)	1,336.3
<b>Financial investments</b> ..	<b>1,613.5</b>	<b>1.5</b>	<b>69.3</b>	<b>733.7</b>	<b>(435.6)</b>	<b>1,982.3</b>
Non-consolidated subsidiaries .. ..	70.4	0.4	(59.7)	134.8	(34.1)	111.9
Associates accounted for at equity .. ..	357.2	0.8	(184.7)	88.7	(63.3)	198.8
Other equity holdings	298.2	0.2	117.6	95.2	(217.0)	294.3
Other financial investments (particularly property used by third parties) ..	887.6	0.1	196.0	415.0	(121.3)	1,377.4
<b>Total</b> .. ..	<b>5,013.2</b>	<b>29.5</b>	<b>910.5</b>	<b>2,495.7</b>	<b>(969.7)</b>	<b>7,479.1</b>
	<b>Accumulated depreciation (-)</b>	<b>Currency translation (+/-)</b>	<b>Amortisation and depreciation (-)<sup>(2)</sup></b>	<b>Impairment (-)<sup>(3)</sup></b>	<b>Carrying amounts 31st Dec 2002</b>	<b>Carrying amounts 31st Dec 2001</b>
<i>(in EUR million)</i>						
<b>Intangible assets</b> ..	<b>(653.9)</b>	<b>2.5</b>	<b>(179.6)</b>	<b>(14.4)</b>	<b>1,595.8</b>	<b>932.2</b>
Goodwill .. ..	(218.5)	(0.0)	(67.2)	—	1,198.5	657.4
Other .. ..	(435.4)	2.5	(112.4)	(14.4)	397.2	274.8
<b>Tangible assets</b> ..	<b>(1,381.1)</b>	<b>21.6</b>	<b>(202.4)</b>	<b>(4.4)</b>	<b>1,866.0</b>	<b>1,317.6</b>
Land and buildings ..	(521.0)	12.3	(67.3)	(3.8)	1,389.8	988.0
Office furniture and equipment .. ..	(860.1)	9.4	(135.1)	(0.6)	476.2	329.6
<b>Financial investments</b> ..	<b>(405.7)</b>	<b>(10.5)</b>	<b>(41.0)</b>	<b>(46.9)</b>	<b>1,576.6</b>	<b>1,324.2</b>
Non-consolidated subsidiaries .. ..	(39.7)	0.4	(3.3)	(19.5)	72.2	49.4
Associates accounted for at equity .. ..	(23.5)	0.8	(3.0)	(1.9)	175.3	341.9
Other equity holdings	(78.5)	(12.0)	(1.8)	(14.5)	215.8	246.3
Other financial investments (particularly property used by third parties) ..	(264.1)	0.3	(32.9)	(11.0)	1,113.3	686.6
<b>Total</b> .. ..	<b>(2,440.7)</b>	<b>13.6</b>	<b>(422.9)</b>	<b>(65.7)</b>	<b>5,038.4</b>	<b>3,574.0</b>

(1) Predominantly from first-time inclusion of cross-guarantee system savings banks and Riječka banka d.d.

(2) Including depreciation of companies not engaged in the banking business, which is reported under other operating result.

(3) Impairment is included in other operating result.



**(20) Other assets**

	at 31st Dec 2002	at 31st Dec 2001	Core Group at 31st Dec 2002
	<i>(in EUR million)</i>		
Income from accrued interest and commissions.. ..	1,144	1,162	910
Prepaid expenses .. .. .	42	29	24
Deferred taxes .. .. .	385	400	376
Securities lending and other repurchase agreements .. ..	1,157	742	1,130
Positive fair values of derivatives (Banking Book) .. ..	712	218	638
Sundry assets .. .. .	1,400	1,319	1,224
<b>Total .. .. .</b>	<b>4,840</b>	<b>3,870</b>	<b>4,302</b>

Sundry assets essentially pertain to payments on account for construction in progress and capitalised fund-raising costs.

**(21) Deferred tax assets and liabilities**

	Deferred tax assets		Deferred tax liabilities	
	31st Dec 2002	31st Dec 2001	31st Dec 2002	31st Dec 2001
	<i>(in EUR million)</i>			
Temporary differences relate to the following items:				
Risk provisions .. .. .	(5)	(13)	—	—
Investments available for sale	—	—	(52)	—
Financial investments .. .. .	69	53	(3)	—
Tangible fixed assets .. .. .	16	24	—	—
Long-term employee provisions .. .. .	84	44	33	—
Other provisions .. .. .	26	54	(9)	(10)
Tax loss carry forward .. .. .	167	152	6	—
Other .. .. .	28	86	(44)	(5)
<b>Total .. .. .</b>	<b>385</b>	<b>400</b>	<b>(69)</b>	<b>(15)</b>

In compliance with IAS 12.39, no deferred taxes were calculated for temporary differences relating to investments in subsidiaries amounting to EUR 267.5 million (2001: EUR 190.3 million).

Deferred tax assets are reported under other assets, deferred tax liabilities under provisions.

**(22) Amounts owed to credit institutions**

	at 31st Dec 2002	at 31st Dec 2001	Core Group at 31st Dec 2002
	<i>(in EUR million)</i>		
Amounts owed to domestic credit institutions .. .. .	6,860	9,459	9,811
Amounts owed to foreign credit institutions .. .. .	19,565	19,183	18,107
<b>Total .. .. .</b>	<b>26,425</b>	<b>28,642</b>	<b>27,918</b>

**(23) Amounts owed to customers**

	Domestic			Foreign countries			Total		
	2002	2001	Core Group 2002	2002	2001	Core Group 2002	2002	2001	Core Group 2002
	<i>(in EUR million)</i>								
Savings deposits ..	28,842	12,680	12,625	8,038	8,485	7,566	36,880	21,165	20,191
Other									
Public sector ..	287	230	161	911	611	904	1,198	841	1,065
Commercial									
customers ..	5,718	2,934	3,097	4,715	3,146	4,320	10,433	6,081	7,417
Private customers	3,792	2,040	2,041	8,316	6,462	7,940	12,108	8,502	9,981
Sundry .. ..	194	241	194	495	346	489	689	586	683
Total other.. ..	9,991	5,445	5,493	14,437	10,565	13,653	24,428	16,010	19,146
<b>Total .. ..</b>	<b>38,833</b>	<b>18,125</b>	<b>18,118</b>	<b>22,475</b>	<b>19,050</b>	<b>21,219</b>	<b>61,308</b>	<b>37,175</b>	<b>39,337</b>

**(24) Debts evidenced by certificates**

							at 31st Dec 2002	at 31st Dec 2001	Core Group at 31st Dec 2002
	<i>(in EUR million)</i>								
Mortgage and municipal bonds .. ..							1,067	926	1,067
Other bonds.. ..							9,464	7,197	9,217
Certificates of deposit .. ..							1,115	870	1,009
Profit-sharing rights .. ..							86	85	121
Other <sup>(1)</sup> .. ..							2,459	673	973
<b>Total .. ..</b>							<b>14,191</b>	<b>9,751</b>	<b>12,387</b>

(1) This item primarily comprises certificates of deposit and medium-term notes.

The size of the Debt Issuance Programme (DIP) set up in 1998 was set at EUR 10 billion for 2002. The DIP is a programme for issuing debt instruments in any currency, with a wide array of structures and maturities available.

In 2002 the DIP floated 56 new issues with a total volume of EUR 1.8 billion and as of 31st December 2002 the DIP's utilisation rate was about 78%.

In order to further diversify its funding structure, Erste Bank set up a Euro commercial paper programme whose volume has now been increased to EUR 3 billion. In 2002 116 issues were floated under this programme with a total volume of EUR 4.5 billion (the volume of commercial paper issues redeemed was similar).

**(25) Provisions**

							at 31st Dec 2002	at 31st Dec 2001	Core Group at 31st Dec 2002
	<i>(in EUR million)</i>								
Long-term employee provisions .. ..							1,117	601	601
Other provisions .. ..							4,371	352	4,304
<b>Total .. ..</b>							<b>5,488</b>	<b>953</b>	<b>4,905</b>

The main change in the item other provisions was occasioned by the consolidation of s-Versicherung and its underwriting reserve, a step that was required as of the financial year 2002.

(a) Long-term employee provisions

	<u>Pensions provisions</u>	<u>Termination provisions</u>	<u>Jubilee provisions</u>	<u>Total long- term provisions</u>
	<i>(in EUR million)</i>			
<b>Net present value at 31st Dec 2000</b> .. ..	<b>425</b>	<b>116</b>	<b>22</b>	<b>563</b>
Unrecognised actuarial losses (corridor) ..	32	—	—	32
<b>Long-term employee provisions at 31st Dec 2000</b> .. .. .	<b>393</b>	<b>116</b>	<b>22</b>	<b>531</b>
Settlements .. .. .	(10)	—	—	(10)
Service cost .. .. .	—	7	1	8
Interest cost .. .. .	22	6	1	29
New commitments from acquisition of companies .. .. .	63	10	2	75
Payments .. .. .	(32)	(8)	2	(38)
Actuarial gains/losses .. .. .	46	4	2	52
<b>Net present value at 31st Dec 2001</b> .. ..	<b>482</b>	<b>135</b>	<b>30</b>	<b>647</b>
Unrecognised actuarial losses (corridor) ..	(46)	—	—	(46)
<b>Long-term employee provisions at 31st Dec 2001</b> .. .. .	<b>436</b>	<b>135</b>	<b>30</b>	<b>601</b>
New commitments from acquisition of companies .. .. .	351	153	16	520
Service cost .. .. .	—	13	2	15
Interest cost .. .. .	43	15	2	60
Payments .. .. .	(71)	(11)	(7)	(89)
Actuarial gains/losses .. .. .	68	9	1	78
<b>Net present value at 31st Dec 2002</b> .. ..	<b>827</b>	<b>314</b>	<b>44</b>	<b>1,185</b>
Unrecognised actuarial losses (corridor) ..	(68)	—	—	(68)
<b>Long-term employee provisions at 31st Dec 2002</b> .. .. .	<b>759</b>	<b>314</b>	<b>44</b>	<b>1,117</b>
<b>Long-term employee provisions at 31st Dec 2002 – Core Group</b> .. .. .	<b>421</b>	<b>153</b>	<b>27</b>	<b>601</b>

**Long-term employee provisions**

Applying the current mortality charts AVÖ 1999 P – Rechnungsgrundlagen für die Pensionsversicherung – Pagler & Pagler, which assume a longer life expectancy, the present value for future benefits for pension obligations as of 31st December 2002 is EUR 827 million. The difference of EUR 68 million between this amount and the pension provisions reported in the Balance Sheet essentially results from applying the current mortality charts and remains within the limits defined in IAS 19.92.

(b) Other provisions

	at 31 Dec 2001	Acquisition of companies <sup>(1)</sup>	Allocations	Use	Releases	Reclassi- fications	Currency translation	at 31st Dec 2002
<i>(in EUR million)</i>								
Provision for taxes <sup>(2)</sup> .. ..	35	37	69	(14)	(6)	—	—	121
Provision for off-balance- sheet and other risks .. ..	64	19	28	(15)	(15)	—	—	81
Insurance reserves .. ..	78	3,382	743	(130)	0	—	(1)	4,072
Sundry other provisions <sup>(3)</sup> .. ..	175	(8)	10	(57)	(25)	—	2	97
<b>Other provisions</b> .. ..	<b>352</b>	<b>3,430</b>	<b>850</b>	<b>(216)</b>	<b>(46)</b>	<b>—</b>	<b>1</b>	<b>4,371</b>
<b>Other provisions – Core Group</b> .. ..	<b>352</b>	<b>3,883</b>	<b>313</b>	<b>(205)</b>	<b>(40)</b>	<b>—</b>	<b>1</b>	<b>4,304</b>

(1) These additions result primarily from consolidating the savings banks of the cross-guarantee system, Riječka Bank and s-Versicherung.

(2) Regarding deferred tax liabilities, refer to Note 21.

(3) This item essentially consists of restructuring provisions at Česká spořitelna, a.s. and Slovenská sporiteľňa, a.s.

(26) Other liabilities

	at 31st Dec 2002	at 31st Dec 2001	Core Group at 31st Dec 2002
<i>in EUR million</i>			
Liabilities relating to trading			
Currency transactions .. ..	69	57	69
Interest rate transactions .. ..	587	228	540
Other transactions .. ..	1	—	1
Deferred income .. ..	246	191	221
Accrued interest and commissions .. ..	657	528	502
Securities lending and other repurchase agreements .. ..	1,164	742	1,140
Negative fair values of derivatives (Banking Book) .. ..	747	330	682
Sundry liabilities .. ..	1,749	1,316	1,392
<b>Total</b> .. ..	<b>5,220</b>	<b>3,393</b>	<b>4,547</b>

Sundry liabilities pertain in particular to current balances from securities transactions, derivatives and from ongoing payment transactions as well as other current accounts.

(27) Subordinated capital

	at 31st Dec 2002	at 31st Dec 2001	Core Group at 31st Dec 2002
<i>in EUR million</i>			
Subordinated liabilities .. ..	1,765	1,421	1,631
Supplementary capital .. ..	1,622	1,535	1,127
<b>Total</b> .. ..	<b>3,387</b>	<b>2,956</b>	<b>2,758</b>

## (28) Shareholders' equity

As of 31st December 2002 subscribed capital amounted to EUR 434.8 million (2001: EUR 366.0 million), which is divided up into 59,825,114 voting bearer shares with no par value (ordinary shares).

Within the scope of the IPO in 1997 stock options were issued to management-level staff of the Erste Bank Group. The number of stock options issued as of 1st January 2002, each of which entitles the bearer to one Erste Bank share, came to 726,530; as of 31st December 2002 there were only 504,687 stock options left, because 2,500 options had lapsed due to employees leaving the company before they were entitled to termination benefits, 3,750 options were granted due to changes in functions and 223,093 options had been exercised. The options are non-negotiable and non-transferable.

The number of stock options that may actually be exercised after the lock-up period depended on the return on equity of the Erste Bank Group in 2000. A return on equity of 10.2% or more meant that all stock options could be exercised, which was actually the case, since the Erste Bank Group's return on equity was 12.3% in 2000.

The exercise price for the individual options is EUR 46.06, while the estimated fair value of a single option as of the balance sheet date is EUR 18.58. The timeframe for exercising the options is 30th June 2001 to 30th June 2003, the lock-up period is one year and the financing is furnished by the seller (DIE ERSTE österreichische Spar-Casse Anteilsverwaltungssparkasse).

	<b>Employees</b>	<b>Management – level staff</b>	<b>Managing Board</b>
Number of stock options originally issued in 1997 (excluding lapsed options, including new issues) .. .. .	436,030	316,350	55,000
Number of options exercised by 31st Dec 2001 .. .. .	17,420	26,180	36,000
Number of options exercised in the financial year 2002 .. .. .	114,694	106,399	2,000
Number of options in existence as of 31st Dec 2002 .. .. .	303,916	183,771	17,000
Spread between exercise and closing price when exercised in financial 2002 (in EUR) .. .. .	8.94-39.67	6.94-39.77	22.94-26.44
		<b>Granted options</b>	<b>Options exercised</b>
<b>Managing Board</b>			
Andreas Treichl .. .. .		20,000	20,000
Elisabeth Bleyleben-Koren .. .. .		16,000	1,000
Reinhard Ortner .. .. .		16,000	16,000
Franz Hochstrasser .. .. .		3,000	1,000

Furthermore, in April 2002 Erste Bank introduced a new employee stock ownership programme and a management stock option plan.

In exercising the authorisation granted by a resolution passed by the General Meeting convened on 8th May 2001 and described in Article 4.4.3. of Erste Bank's Articles of Association ("authorised conditional capital"), stock options are to be granted by conducting a conditional increase of EUR 18,168,208.54 in the share capital by issuing 2,500,000 ordinary bearer shares, but only to the extent to which the granted stock options are exercised.

At its meeting held on 30th January 2002 Erste Bank's Supervisory Board approved the plan described below as well as a conditional capital increase pursuant to Article 4.4.3. of the Articles of Association. The exclusion of stockholders' subscription is justified in line with Section 153 (5) Austrian Stock Corporation Act.

Employee Stock Ownership Programme – ESOP 2002: In the context of this ESOP a maximum of 1,400,000 ordinary shares in Erste Bank were available for subscription, of which no more than 1,370,000 shares for some 28,000 employees of the Erste Bank Group and 30,000 ordinary shares for some 300 management-level staff.

Conditions: Any person eligible for the plan is entitled to subscribe a maximum of 100 shares. In the event of oversubscription the number of shares issued to each individual is reduced proportionately. The subscription period began 8th April 2002 and ended 19th April 2002, the issue price per share

was set at the average quoted price of Erste Bank shares in March 2002 minus 20% rounded down to the half euro. The shares issued must be held until 4th May 2003 (inclusive), otherwise the discount must be paid back.

Management Stock Option Plan – MSOP 2002: The MSOP consists of 1,100,000 ordinary shares in Erste Bank, of which 60,000 options (12,000 each) are reserved for the five members of Erste Bank’s Managing Board, 890,000 options for eligible management-level staff of the Erste Bank Group and 150,000 for eligible employees.

Conditions: Each of the options granted free of charge entitles the holder to purchase one share; the transfer of options inter vivos is not permitted. Those eligible must place a binding order for the maximum number of shares (100) as part of the ESOP 2002. The options shall be granted in three tranches: The Managing Board and other management-level staff on 24th April 2002, 1st April 2003 and 1st April 2004, top-performing employees on 1st June 2002, 1st June 2003 and 1st June 2004. The exercise price for all three tranches was set at the average quoted price of Erste Bank shares in March 2002 (rounded down to the half euro). The term of the options begins when they are granted and ends on the value date of the exercise window (see description below) of the fifth calendar year after the options are granted. Declarations to exercise can be submitted throughout the year beginning on the day after the preliminary Group result for the previous financial year is published but no earlier than 1st to 30th April of a given year (exercise window). The lock-up period lasts until 10th May of the year following exercise of the option but the eligible individual may sell a maximum of 15% of the purchased shares before the lock-up period expires.

### Exercising options

The conditional capital increase pursuant to Article 4.4.3. of the Articles of Association was conducted with the following results: 252,159 bearer shares with a par value of EUR 1,832,510.92 were subscribed by employees, management-level staff, and members of the Managing Board of Erste Bank and its related companies within the context of the ESOP and MSOP 2002 passed by the Managing Board and approved by the Supervisory Board. At an issue price of EUR 53 per share, the proceeds of the issue came to about EUR 13.4 million.

Of the 252,159 bearer shares subscribed as part of ESOP 2002, 53,513 went to Erste Bank employees. Of this total, 18,441 shares were acquired by management-level staff, 34,572 by employees and 500 by members of the Managing Board.

The shares subscribed by the Managing Board as part of the ESOP 2002 are divided up as follows:

	<b>Number of shares 2002</b>
Andreas Treichl .. .. .	100
Elisabeth Bleyleben-Koren .. .. .	100
Reinhard Ortner .. .. .	100
Franz Hochstrasser .. .. .	100
Erwin Erasim .. .. .	100

Within the context of the MSOP 2002, 668,495 stock options were to be granted on Erste Bank shares in three tranches. In the first tranche in 2002, 285,495 stock options were granted. The granted options were split up as follows among those eligible:

	<u>Number of options</u>	<u>Number of options</u>
Managing Board .. .. .	20,000	
Andreas Treichl.. .. .		4,000
Elisabeth Bleyleben-Koren .. .. .		4,000
Reinhard Ortner .. .. .		4,000
Franz Hochstrasser .. .. .		4,000
Erwin Erasim .. .. .		4,000
Management-level staff .. .. .	171,500	
Employees .. .. .	93,995	

The exercise price of the individual options, which is the average of all closing prices achieved in March 2002 rounded down to the half euro, came to EUR 66. The estimated fair value of the individual options was EUR 16.05 as of 31st December 2002 and no options were exercised during the period under review. Additional tranches are planned in 2003 and 2004.

The benefits for those eligible resulting from the ESOP and MSOP were set off against shareholders' equity when the options were granted.

#### **Capital increase in July 2002**

Article 4.4.2. of the Articles of Association authorises the Managing Board with the consent of the Supervisory Board to increase the share capital by issuing 15,000,000 ordinary bearer shares at an issue price of no less than EUR 7.27 per share. In accordance with the resolution taken by the Managing Board on 21st May 2002 and by the Supervisory Board on 10th July 2002, Erste Bank availed itself of this right by issuing 9,210,000 bearer shares with a par value of EUR 66,931,680.27. Following the subscription period for the offering from 25th June 2002 to 10th July 2002, the final subscription price of EUR 69.70 was fixed and published on 11th July 2002. The gross issue proceeds totalled EUR 641.4 million; after accounting for the costs incurred by the issue and deferred taxes on income, the net proceeds came to EUR 627.4 million.

#### **As of the balance sheet date (31st December 2002) the following authorised and conditional capital was approved:**

Authorised capital in accordance with Article 4.4.2. of the Articles of Association for a period of five years from the date of registration of the amendment of the Company's Articles of Association in the Commercial Register through the issue of up to 5,790,000 bearer shares; the Managing Board is authorised, with the consent of the Supervisory Board, to rule out the shareholders' subscription right for no more than 3,000,000 shares.

Authorised capital totalling EUR 18,168,208.54 pursuant to Article 4.4.3. of the Articles of Association for a period of five years from the date of registration of the amendment of the Company's Articles of Association in the Commercial Register through the issue of 2,500,000 ordinary registered or bearer shares to be used to grant stock options to employees, management-level staff and members of the Managing Board of Erste Bank and its subsidiaries. The conditional capital increase was conducted to the extent that as part of the ESOP and MSOP 2002 a total of 252,159 bearer shares were subscribed with a par value of EUR 1,832,510.92, thus still authorising the Board to issue up to 2,247,841 bearer shares.

Provided the Supervisory Board gives its consent, the Managing Board plans to introduce another employee stock ownership programme in the financial year 2003 which will be implemented with the remaining volume by virtue of the authority still vested in it. Except for Croatia, all of the Group's employees and management will be eligible. No more than 100 shares may be subscribed by each employee. The lock-up period is one year, the subscription price is to be based on the average price of Erste Bank shares in April 2003 with a 20% discount rounded down to the half euro.

The Erste Bank Group's qualifying capital as determined pursuant to the Austrian Banking Act is composed of the following elements:

	<b>at 31st Dec 2002</b>	<b>at 31st Dec 2001</b>
	<i>in EUR million</i>	
Subscribed capital (less shares held in own portfolio) .. .. .	435	366
Reserves .. .. .	3,839	2,265
Less intangible assets .. .. .	(474)	(294)
<b>Core capital (Tier 1) .. .. .</b>	<b>3,800</b>	<b>2,337</b>
Eligible subordinated liabilities .. .. .	2,764	1,902
Revaluation reserve .. .. .	185	90
<b>Qualifying supplementary capital (Tier 2) .. .. .</b>	<b>2,949</b>	<b>1,992</b>
<b>Short-term subordinated capital (Tier 3).. .. .</b>	<b>325</b>	<b>264</b>
<b>Total qualifying capital .. .. .</b>	<b>7,074</b>	<b>4,593</b>
Deductions according to Section 23 (13) and Section 29 (1-2) Austrian Banking Act .. .. .	(91)	(285)
<b>Total eligible qualifying capital .. .. .</b>	<b>6,983</b>	<b>4,308</b>
Capital requirement .. .. .	5,146	3,288
Surplus capital .. .. .	1,837	1,020
Cover ratio (in %) .. .. .	136	131
<b>Tier 1 ratio (in %) .. .. .</b>	<b>6.3</b>	<b>6.2</b>
<b>Solvency ratio (in %) .. .. .</b>	<b>11.0</b>	<b>10.7</b>

Risk-weighted basis pursuant to Section 22 (1) Austrian Banking Act and the resulting capital requirement showed the following changes:

	<b>at 31st Dec 2002</b>	<b>at 31st Dec 2001</b>
	<i>in EUR million</i>	
Risk-weighted basis acc. to Section 22 Austrian Banking Act .. .. .	60,257	37,803
of which 8% minimum capital requirement .. .. .	4,821	3,024
Capital requirement for open foreign exchange position acc. to Section 26 Austrian Banking Act .. .. .	9	4
Capital requirement for the Trading Book acc. to Section 22 b (1) Austrian Banking Act .. .. .	316	260
<b>Capital requirement .. .. .</b>	<b>5,146</b>	<b>3,288</b>

With effect from 1st September 2002 the Austrian Banking Act was amended so that under certain conditions cross-guarantee systems have to be subsumed as a banking group as defined in Section 30 Austrian Banking Act. As Erste Bank AG and the savings banks that joined the cross-guarantee system have met these conditions, with effect from 1st September 2002 consolidated qualifying capital is computed according to the Austrian Banking Act by including the savings banks that are members of the cross-guarantee system.



## Information on the Group Income Statement

### (29) Net interest income

	<u>2002</u>	<u>2001</u>	<u>Core Group 2002</u>
	<i>in EUR million</i>		
Interest income from			
Lending and money market transactions with credit institutions .. .. .	1,016.3	1,186.7	895.6
Lending and money market transactions with customers..	3,112.8	1,967.4	2,011.4
Fixed-income securities .. .. .	1,190.3	934.6	998.6
Other interest and similar income .. .. .	99.9	56.3	52.7
Current income from			
Shares and other variable-yield securities .. .. .	169.3	59.4	52.2
Investments			
– in non-consolidated subsidiaries .. .. .	12.7	5.7	11.7
– In associates accounted for at equity .. .. .	22.5	30.6	37.2
In other investments .. .. .	10.9	10.8	7.7
Property used by outside parties .. .. .	64.9	32.1	44.0
<b>Total interest and similar income .. .. .</b>	<b><u>5,699.6</u></b>	<b><u>4,283.6</u></b>	<b><u>4,111.1</u></b>
Interest expenses for			
Amounts owed to credit institutions .. .. .	(856.8)	(1,125.8)	(864.0)
Amounts owed to customers .. .. .	(1,525.5)	(1,043.2)	(981.7)
Debts evidenced by certificates .. .. .	(615.4)	(500.1)	(500.6)
Subordinated capital .. .. .	(227.4)	(167.0)	(185.1)
Other .. .. .	(11.5)	(8.6)	(9.0)
<b>Total interest and similar expenses .. .. .</b>	<b><u>(3,236.6)</u></b>	<b><u>(2,844.7)</u></b>	<b><u>(2,540.4)</u></b>
<b>Net interest income .. .. .</b>	<b><u>2,463.0</u></b>	<b><u>1,438.9</u></b>	<b><u>1,570.7</u></b>

Net interest income also includes the net interest income from finance leasing, which totalled EUR 124 million (2001: EUR 72 million).

### (30) Risk provisions for loans and advances

	<u>2002</u>	<u>2001</u>	<u>Core Group 2002</u>
	<i>in EUR million</i>		
Allocation to risk provisions for loans and advances .. .. .	(711.7)	(344.3)	(401.8)
Release of risk provisions for loans and advances .. .. .	380.3	169.2	254.8
Direct write-offs of loans and advances .. .. .	(90.0)	(33.8)	(73.0)
Amounts received against written-off loans and advances ..	15.0	5.3	8.9
<b>Total .. .. .</b>	<b><u>(406.4)</u></b>	<b><u>(203.6)</u></b>	<b><u>(211.1)</u></b>

The above figures do not include the allocations to and releases of risk provisions netted in net interest income (suspended interest). See explanation provided in Note 15.

The allocations to and releases of other risk provisions that are not assigned to lending business are reported in the item other operating result (see Note 35).

The above figures include the allocation and release of provisions for off-balance-sheet credit risks as well as sundry risks.

**(31) Net commission income**

	<b>2002</b>	<b>2001</b>	<b>Core Group 2002</b>
	<i>in EUR million</i>		
Lending business .. .. .	151.4	112.2	109.0
Payment transfers .. .. .	344.7	173.0	234.0
Securities transactions .. .. .	232.7	156.8	161.7
of which investment fund transactions .. .. .	105.8	94.6	87.1
of which custodial fees .. .. .	43.4	14.2	24.1
of which brokerage .. .. .	83.5	48.0	50.5
Insurance business .. .. .	47.5	25.9	27.4
Building society brokerage .. .. .	28.3	7.6	14.1
Foreign exchange transactions .. .. .	49.9	27.1	29.0
Other .. .. .	89.8	72.0	99.3
<b>Total .. .. .</b>	<b>944.3</b>	<b>574.6</b>	<b>674.5</b>

**(32) Net trading result**

	<b>2002</b>	<b>2001</b>	<b>Core Group 2002</b>
	<i>in EUR million</i>		
Securities and derivatives trading .. .. .	64.5	81.1	60.0
Foreign exchange transactions .. .. .	102.9	71.5	77.5
<b>Total .. .. .</b>	<b>167.4</b>	<b>152.6</b>	<b>137.5</b>

This item is comprised of the results of trading activities and is based on fair value (realised and unrealised). Listed products are valued by applying the quoted rate at the balance sheet date and for non-listed products the fair values are measured according to the present value method or using suitable options pricing models. All realised and unrealised gains are reported in the Income Statement under the net trading result. Also included in this item are interest and dividend income earned on the trading portfolio and the related funding cost.

### (33) General administrative expenses

	<u>2002</u>	<u>2001</u>	<u>Core Group 2002</u>
	<i>in EUR million</i>		
Personnel expenses .. .. .	(1,373.2)	(757.0)	(862.5)
Other administrative expenses.. .. .	(762.6)	(510.2)	(560.2)
Depreciation and amortisation .. .. .	(296.2)	(187.1)	(211.6)
<b>Total .. .. .</b>	<b><u>(2,432.0)</u></b>	<b><u>(1,454.3)</u></b>	<b><u>(1,634.3)</u></b>

#### Personnel expenses

	<u>2002</u>	<u>2001</u>	<u>Core Group 2002</u>
	<i>in EUR million</i>		
Wages and salaries .. .. .	(1,006.4)	(554.8)	(632.8)
Compulsory social security contributions .. .. .	(259.9)	(145.6)	(166.9)
Long-term employee provisions .. .. .	(85.0)	(43.0)	(49.3)
Other personnel expenses .. .. .	(21.9)	(13.6)	(13.5)
<b>Total .. .. .</b>	<b><u>(1,373.2)</u></b>	<b><u>(757.0)</u></b>	<b><u>(862.5)</u></b>

#### Average number of employees on payroll during the financial year (weighted according to extent of employment)

	<u>2002 Total Erste Bank Group</u>	<u>2001 Total Erste Bank Group</u>
Employed by Group .. .. .	37,152	29,580
Domestic .. .. .	15,532	7,328
thereof cross-guarantee system savings banks.. .. .	7,061	—
Foreign countries .. .. .	21,620	22,252
thereof Česká spořitelna-Group .. .. .	13,084	14,525
thereof Slovenská sporiteľňa, a.s... .. .	5,570	6,185
thereof Riječka banka d.d. .. .. .	955	—
thereof other CEE subsidiaries .. .. .	1,650	998

In addition to the above-mentioned headcount, during the reporting period an average staff of 223 (2001: 283) was employed in Group companies that are not engaged in the banking business (hotel and recreation segment).

As of year-end 2002, loans and advances to members of the Managing Board totalled EUR 157 thousand (2001: EUR 55 thousand). Loans to members of the Supervisory Board amounted to EUR 2,323 thousand (2001: EUR 187 thousand). The interest rates and other conditions (maturity dates and collateralisation) are customary. Of the loans and advances extended to members of the Managing Board, EUR 54 thousand (2001: EUR 26 thousand) were repaid during the reporting period and of those granted to members of the Supervisory Board EUR 2 thousand were repaid (2001: EUR 350 thousand).

Remuneration paid to the members of the Managing Board active during financial 2002 totalled EUR 3,021 thousand (2001: EUR 3,046 thousand), which is 0.85% of Erste Bank's total personnel expenses. This remuneration includes a profit-related bonus of EUR 845 thousand.

In the financial year 2002 EUR 587 thousand (2001: EUR 572 thousand) were paid out to former members of the Managing Board and their dependants.

The total emoluments paid to members of the Supervisory Board of Erste Bank in the last financial year amounted to EUR 459 thousand (2001: EUR 465 thousand).

**Other administrative expenses**

	<u>2002</u>	<u>2001</u>	<u>Core Group 2002</u>
	<i>in EUR million</i>		
IT expenses .. .. .	(208.9)	(150.0)	(153.8)
Expenses for office space .. .. .	(133.2)	(87.8)	(97.5)
Office operating expenses .. .. .	(145.3)	(87.8)	(113.4)
Advertising/marketing .. .. .	(106.4)	(56.2)	(72.0)
Legal and consulting costs .. .. .	(74.8)	(44.5)	(55.6)
Sundry administrative expenses .. .. .	(94.0)	(83.9)	(67.9)
<b>Total .. .. .</b>	<b><u>(762.6)</u></b>	<b><u>(510.2)</u></b>	<b><u>(560.2)</u></b>

**Depreciation and amortisation**

	<u>2002</u>	<u>2001</u>	<u>Core Group 2002</u>
	<i>in EUR million</i>		
Software and other intangible assets .. .. .	(98.6)	(58.7)	(73.9)
Real estate used by the Group .. .. .	(71.1)	(41.9)	(43.0)
Office furniture and equipment and sundry tangible fixed assets .. .. .	(126.5)	(86.5)	(94.7)
<b>Total .. .. .</b>	<b><u>(296.2)</u></b>	<b><u>(187.1)</u></b>	<b><u>(211.6)</u></b>

**(34) Net income from insurance business**

	<u>2002</u>	<u>2001</u>
	<i>in EUR million</i>	
Premiums earned .. .. .	880.7	—
Investment income from technical business .. .. .	160.5	—
Claims incurred .. .. .	(291.8)	—
Change in underwriting reserves .. .. .	(564.1)	—
Expenses for policyholder bonuses .. .. .	(42.1)	—
Operating expenses .. .. .	(89.0)	—
Sundry underwriting profit/loss .. .. .	(58.2)	—
Underwriting profit/loss .. .. .	(4.0)	—
Financial profit/loss .. .. .	172.9	—
Carry forward – underwriting .. .. .	(160.5)	—
<b>Total .. .. .</b>	<b><u>8.4</u></b>	<b><u>—</u></b>

As a result of the inclusion of the cross-guarantee system savings banks in the financial statements of the Erste Bank Group, it also became necessary to consolidate s-Versicherung, with effect from 1st January 2002. As this did not have a material effect on net profit, no pro-forma figures for the prior year and no parallel 2002 results for the Core Group are shown.

### (35) Other operating result

	<b>2002</b>	<b>2001</b>	<b>Core Group 2002</b>
	<i>in EUR million</i>		
Other operating income			
Income from measurement/sale of securities held to maturity ..	17.2	3.5	7.1
Income from real estate/properties .. .. .	12.9	4.9	16.1
Income from insurance business .. .. .	—	136.4	321.7
Income from release of other provisions/risks.. .. .	13.7	5.4	13.5
Sundry operating income .. .. .	94.0	49.4	75.3
<b>Total other operating income</b> .. .. .	<b>137.8</b>	<b>199.6</b>	<b>433.7</b>
Other operating expenses			
Expenses from measurement/sale of securities held to maturity ..	(12.4)	(3.8)	(3.9)
Losses from real estate/properties .. .. .	(18.7)	(3.1)	(16.7)
Amortisation of goodwill .. .. .	(58.4)	(38.4)	(57.3)
Expenses from insurance business.. .. .	—	(117.6)	(319.4)
Expenses from allocation of other provisions/risks .. .. .	(9.2)	(39.3)	(8.6)
Expenses from making deposit insurance contributions .. .. .	(36.3)	(26.6)	(35.1)
Other taxes .. .. .	(12.7)	(6.2)	(8.6)
EU antitrust law penalty .. .. .	(20.7)	—	(20.7)
Sundry operating expenses .. .. .	(109.5)	(41.1)	(78.3)
<b>Total other operating expenses</b> .. .. .	<b>(278.0)</b>	<b>(276.1)</b>	<b>(548.6)</b>
Other operating result			
Results from measurement/sale of securities held as investments available for sale .. .. .	(5.0)	24.0	(4.3)
Results from measurement/sale of shares in unconsolidated subsidiaries .. .. .	65.0	(50.0)	50.8
<b>Total other operating result</b> .. .. .	<b>(80.2)</b>	<b>(102.5)</b>	<b>(68.4)</b>

### (36) Taxes on income

Taxes on income are made up of the current taxes on income calculated in each of the Group companies based on the results as reported for tax purposes, corrections in taxes on income for previous years and the change in deferred taxes.

	<b>2002</b>	<b>2001</b>	<b>Core Group 2002</b>
	<i>in EUR million</i>		
Current tax expense .. .. .	(101.3)	(55.8)	(65.7)
Deferred tax expense .. .. .	(50.1)	(25.5)	(26.6)
<b>Total</b> .. .. .	<b>(151.4)</b>	<b>(81.3)</b>	<b>(92.3)</b>

The following table shows the reconciliation between the reported tax expense and the pre-tax income multiplied by the tax rate:

	<u>2002</u>	<u>2001</u>
	<i>in EUR million</i>	
Pre-tax profit for the year .. .. .	664.6	405.7
Income tax expense for the financial year at the domestic statutory tax rate (34%) .. .. .	(226.0)	(137.9)
Impact of different foreign tax rates.. .. .	8.7	(8.0)
Tax reductions due to tax-exempt earnings of investments and other tax-exempt income .. .. .	100.1	72.9
Tax increases due to non-deductible expenses .. .. .	(57.4)	(31.0)
Tax expense/income not attributable to the reporting period .. .. .	23.2	22.7
<b>Reported taxes on income and earnings .. .. .</b>	<b><u>(151.4)</u></b>	<b><u>(81.3)</u></b>

### (37) Appropriation of net profit

	<u>2002</u>	<u>2001</u>
	<i>in EUR million</i>	
Net profit after minority interests .. .. .	255.2	223.3
Allocation to reserves .. .. .	(181.0)	(161.6)
Profit carried forward .. .. .	0.2	0.9
<b>Distributable profit of the parent company .. .. .</b>	<b><u>74.4</u></b>	<b><u>62.6</u></b>

At the General Meeting to be held on 6th May 2003 the Managing Board will propose that the stockholders be paid an unchanged dividend of EUR 1.24 per share, whereby the new shares issued in the 2002 capital increases are entitled to full dividends, and that the remaining profit be carried forward to the new account in observance of Section 65 (5) Austrian Stock Corporation Act.

### Earnings per share

Earnings per share is the amount representing net profit after minority interests divided by the average number of ordinary shares outstanding. Diluted earnings per share is the amount showing the maximum dilution effect possible if the average number of shares has increased or may increase as a result of the issued subscription and conversion rights.

	<u>2002</u>	<u>2001</u>
Net profit after minority interests .. .. . in EUR thousand	255,204	223,293
Average number of shares outstanding .. .. . number	53,942,369	49,965,944
<b>Earnings per share .. .. . in EUR</b>	<b><u>4.73</u></b>	<b><u>4.47</u></b>

In calculating EPS, the Erste Bank shares held by the savings banks in the cross-guarantee system are not subtracted from the outstanding shares.

The diluted earnings per share for 2002 and 2001 show no change over the above figures.

### (38) Segment reporting

The objective of segment reporting is to present a comprehensive overview of the earnings components of the Erste Bank Group (and the Core Group) according to

- business segments and
- geographical markets.

The basis for calculation is the internal profit contribution report by business areas. Income comprises net interest income determined based on opportunity cost (market spread, mismatch), net commission income, net trading result and other operating result; shareholders' equity is allocated to the segments according to their risk-weighted assets.

Administrative expenses are derived from activity-based costing and comprise product costs, indirect costs and general overhead. Actual risk provisions as reflected in the Income Statement are used to present the risk situation of the financial year.

Reporting according to business segment covers the following segments:

- Savings Banks (all those belonging to the cross-guarantee system; for the Core Group only those savings banks in which Erste Bank holds equity interest).
- Retail and Real Estate (activities in retail banking, small- and medium-sized corporate customers and real estate finance in Austria and Central Europe)
- Large Corporate Customers (key accounts in industry, trade and service sectors as well as international business outside Central Europe)
- Trading and Investment Banking (investment banking, treasury, balance sheet management)
- Asset Gathering (investment funds, portfolio management, insurance business) and
- Corporate Centre (fixed assets, other equity holdings, consolidating items)
- Slovenská sporiteľňa, a.s. is still presented as a separate segment in financial 2002

The earnings components of Česká spořitelna, a.s. (CS) are also reported separately in each segment and include the results of the CS Group, amortisation of goodwill and funding costs for the acquisition.

#### Segment reporting of the Erste Bank Group's business segments

	Saving Banks		Retail and Real Estate					
	2002	2001	2002	2001	2002	2001	2002	2001
			EB Domestic		CS		Total	
			<i>(in EUR million)</i>					
Net interest income ..	1,003.9	71.6	497.8	469.1	401.9	333.0	899.7	802.1
Risk provisions for loans/ advances ..	(216.5)	(15.8)	(110.6)	(103.5)	(8.5)	6.4	(119.1)	(97.1)
Net commission income	337.0	41.6	127.1	132.0	202.6	158.4	329.7	290.4
Net trading result ..	28.6	2.0	31.5	21.3	4.2	3.8	35.7	25.1
General administrative expenses .. ..	(969.8)	(91.2)	(534.6)	(515.9)	(388.1)	(361.9)	(922.7)	(877.8)
Income from insurance business .. ..	0.0	0.0	0.0	0.0	2.3	0.0	2.3	0.0
Other operating result ..	(47.1)	(0.1)	1.2	8.1	(12.7)	(42.7)	(11.5)	(34.6)
<b>Pre-tax profit for the year</b>	<b>136.1</b>	<b>8.1</b>	<b>12.3</b>	<b>11.1</b>	<b>201.8</b>	<b>97.0</b>	<b>214.1</b>	<b>108.1</b>
less taxes .. ..	(40.4)	(1.0)	2.7	(1.8)	(63.5)	(23.3)	(60.8)	(25.1)
less minority interests ..	(123.2)	0.0	(1.4)	(2.4)	(50.9)	(46.0)	(52.3)	(48.4)
<b>Net profit after minority interests .. ..</b>	<b>(27.5)</b>	<b>7.1</b>	<b>13.6</b>	<b>6.9</b>	<b>87.4</b>	<b>27.7</b>	<b>101.0</b>	<b>34.6</b>
Average risk-weighted assets .. ..	26,400.0	2,126.1	9,790.7	10,437.7	1,855.5	1,249.3	11,646.2	11,687.0
Average attributed equity .. ..	222.6	100.6	514.6	493.7	97.5	59.1	612.1	552.8
<b>Cost-income ratio (in %)</b>	<b>70.8%</b>	<b>79.2%</b>	<b>81.5%</b>	<b>82.9%</b>	<b>63.5%</b>	<b>73.1%</b>	<b>72.8%</b>	<b>78.5%</b>
<b>ROE based on net profit after minority interests (in %) .. ..</b>	<b>(12.4%)</b>	<b>7.1%</b>	<b>2.6%</b>	<b>1.4%</b>	<b>89.6%</b>	<b>46.9%</b>	<b>16.5%</b>	<b>6.3%</b>
Amortisation of goodwill	(12.7)	(5.5)	(1.2)	0.0	(7.5)	(5.4)	(8.7)	(5.4)

Segment reporting of the Erste Bank Group's business segments (continued)

	Large Corporate Customers							
	2002		2001		2002		2001	
	EB Domestic		CS		Total			
<i>(in EUR million)</i>								
Net interest income .. ..	270.6	269.7	89.6	67.1	360.2	336.8		
Risk provisions for loans/ advances .. .. .	(104.6)	(83.8)	31.6	(20.1)	(73.0)	(103.9)		
Net commission income .. ..	84.6	59.8	18.4	14.2	103.0	74.0		
Net trading result .. ..	2.8	5.2	(0.8)	(0.1)	2.0	5.1		
General administrative expenses .. .. .	(130.9)	(111.3)	(43.1)	(44.7)	(174.0)	(156.0)		
Income from insurance business .. .. .	0.0	0.0	0.0	0.0	0.0	0.0		
Other operating result .. ..	(2.3)	(22.2)	(19.3)	(11.9)	(21.6)	(34.1)		
<b>Pre-tax profit for the year</b> .. ..	<b>120.2</b>	<b>117.3</b>	<b>76.3</b>	<b>4.5</b>	<b>196.5</b>	<b>121.8</b>		
less taxes .. .. .	(24.6)	(14.7)	(20.7)	(0.8)	(45.3)	(15.5)		
less minority interests .. ..	(9.5)	(6.0)	(26.2)	(12.5)	(35.7)	(18.5)		
<b>Net profit after minority interests .. .. .</b>	<b>86.1</b>	<b>96.6</b>	<b>29.4</b>	<b>(8.8)</b>	<b>115.5</b>	<b>87.8</b>		
Average risk-weighted assets ..	12,606.9	13,648.4	2,545.5	2,110.3	15,152.4	15,758.7		
Average attributed equity .. ..	662.7	645.6	133.7	99.8	796.4	745.4		
<b>Cost-income ratio (in %)</b> .. ..	<b>36.6%</b>	<b>33.3%</b>	<b>40.2%</b>	<b>55.0%</b>	<b>37.4%</b>	<b>37.5%</b>		
<b>ROE based on net profit after minority interests (in %)</b> .. ..	<b>13.0%</b>	<b>15.0%</b>	<b>22.0%</b>	<b>(8.8%)</b>	<b>14.5%</b>	<b>11.8%</b>		
Amortisation of goodwill .. ..	0.0	0.0	(10.2)	(6.0)	(10.2)	(6.0)		

	Trading and Investment Banking						Asset Gathering	
	2002		2001		2002		2001	
	EB Domestic		CS		Total			
<i>(in EUR million)</i>								
Net interest income .. ..	70.7	87.3	(11.7)	24.7	59.0	112.0	(1.0)	3.6
Risk provisions for loans/ advances .. .. .	0.0	(0.3)	0.0	0.2	0.0	(0.1)	0.0	0.0
Net commission income .. ..	18.1	28.8	5.9	9.6	24.0	38.4	103.6	92.8
Net trading result .. ..	79.1	83.5	26.0	27.5	105.1	111.0	0.0	0.0
General administrative expenses .. .. .	(100.1)	(94.7)	(27.5)	(40.9)	(127.6)	(135.6)	(46.0)	(43.7)
Income from insurance business .. .. .	0.0	0.0	0.0	0.0	0.0	0.0	6.1	0.0
Other operating result .. ..	(10.3)	2.9	3.0	0.5	(7.3)	3.4	(1.2)	0.2
<b>Pre-tax profit for the year</b> .. ..	<b>57.5</b>	<b>107.6</b>	<b>(4.4)</b>	<b>21.6</b>	<b>53.1</b>	<b>129.2</b>	<b>61.5</b>	<b>52.8</b>
less taxes .. .. .	(11.1)	(13.5)	(0.2)	(11.7)	(11.3)	(25.2)	(13.4)	(6.6)
less minority interests .. ..	1.2	0.0	(2.5)	(11.1)	(1.2)	(11.1)	(4.0)	(2.7)
<b>Net profit after minority interests .. .. .</b>	<b>47.6</b>	<b>94.1</b>	<b>(7.0)</b>	<b>(1.2)</b>	<b>40.6</b>	<b>92.9</b>	<b>44.1</b>	<b>43.5</b>
Average risk-weighted assets .. .. .	3,891.2	4,670.5	1,090.1	1,213.4	4,981.3	5,883.9	8.3	10.8
Average attributed equity .. .. .	204.5	220.9	57.3	57.4	261.8	278.3	0.4	0.5
<b>Cost-income ratio (in %)</b> .. ..	<b>59.6%</b>	<b>47.4%</b>	<b>136.3%</b>	<b>66.2%</b>	<b>67.8%</b>	<b>51.9%</b>	<b>42.3%</b>	<b>45.4%</b>
<b>ROE based on net profit after minority interests (in %)</b> .. .. .	<b>23.3%</b>	<b>42.6%</b>	<b>(12.3%)</b>	<b>(2.1%)</b>	<b>15.5%</b>	<b>33.4%</b>	<b>&gt;100.0%</b>	<b>&gt;100.0%</b>
Amortisation of goodwill .. ..	(0.2)	0.0	(4.2)	(3.4)	(4.4)	(3.4)	0.0	0.0



Segment reporting of the Erste Bank Group's business segments (continued)

	Corporate Center						SLSP	
	2002	2001	2002	2001	2002	2001	2002	2001
	EB Domestic		CS		Total			
	<i>(in EUR million)</i>							
Net interest income ..	(17.6)	(0.2)	(2.4)	(3.0)	(20.0)	(3.2)	161.3	116.0
Risk provisions for loans/advances..	4.7	0.0	0.0	0.0	4.7	0.0	(2.4)	13.3
Net commission income	3.6	6.3	(0.1)	0.0	3.5	6.3	43.4	31.1
Net trading result..	(13.0)	(12.1)	0.0	3.9	(13.0)	(8.2)	9.1	17.7
General administrative expenses .. ..	(46.8)	(21.5)	0.0	2.2	(46.8)	(19.3)	(145.0)	(130.7)
Income from insurance business .. ..	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other operating result ..	41.1	(18.3)	(1.9)	(1.8)	39.2	(20.1)	(30.6)	(17.2)
<b>Pre-tax profit for the year</b>	<b>(28.0)</b>	<b>(45.7)</b>	<b>(4.3)</b>	<b>1.3</b>	<b>(32.3)</b>	<b>(44.4)</b>	<b>35.8</b>	<b>30.2</b>
less taxes .. ..	21.7	5.7	0.3	1.1	22.0	6.8	(2.3)	(14.7)
less minority interests ..	(24.5)	(11.3)	(0.4)	(1.4)	(24.9)	(12.7)	(16.7)	(7.7)
<b>Net profit after minority interests .. ..</b>	<b>(30.8)</b>	<b>(51.3)</b>	<b>(4.4)</b>	<b>1.0</b>	<b>(35.2)</b>	<b>(50.3)</b>	<b>16.8</b>	<b>7.8</b>
Average risk-weighted assets .. ..	550.6	787.3	739.4	702.8	1,290.0	1,490.1	1,033.7	1,037.9
Average attributed equity .. ..	28.9	37.2	38.9	33.2	67.8	70.4	54.4	49.1
<b>Cost-income ratio (in %)</b>	<b>&gt;(100.0%)</b>	<b>&gt;(100.0%)</b>	<b>0.0%</b>	<b>&gt;(100.0%)</b>	<b>&gt;(100.0%)</b>	<b>&gt;(100.0%)</b>	<b>67.8%</b>	<b>79.3%</b>
<b>ROE based on net profit after minority interests (in %) .. ..</b>	<b>&gt;(100.0%)</b>	<b>&gt;(100.0%)</b>	<b>(11.2%)</b>	<b>3.1%</b>	<b>(51.9%)</b>	<b>(71.4%)</b>	<b>30.9%</b>	<b>15.8%</b>
Amortisation of goodwill	(7.4)	(6.0)	(3.0)	(0.1)	(10.4)	(6.1)	(12.0)	(12.0)
	<b>Total (excluding savings banks)</b>						<b>Erste Bank Group</b>	
	2002	2001	2002	2001	2002	2001	2002	2001
	EB Domestic		CS		Total		Total	
	<i>(in EUR million)</i>							
Net interest income ..	820.5	829.5	477.4	421.8	1,459.2	1,367.3	2,463.0	1,438.9
Risk provisions for loans/advances..	(210.5)	(187.6)	23.0	(13.5)	(189.8)	(187.8)	(406.4)	(203.6)
Net commission income	337.0	319.7	226.9	182.2	607.2	533.0	944.3	574.6
Net trading result..	100.4	97.9	29.4	35.1	138.8	150.7	167.4	152.7
General administrative expenses .. ..	(858.4)	(787.2)	(458.7)	(445.3)	(1,462.1)	(1,363.1)	(2,432.0)	(1,454.3)
Income from insurance business .. ..	6.1	0.0	2.3	0.0	8.4	0.0	8.4	0.0
Other operating result ..	28.5	(29.2)	(30.8)	(55.9)	(33.0)	(102.4)	(80.1)	(102.5)
<b>Pre-tax profit for the year</b>	<b>223.5</b>	<b>243.1</b>	<b>269.5</b>	<b>124.4</b>	<b>528.8</b>	<b>397.7</b>	<b>664.6</b>	<b>405.8</b>
less taxes .. ..	(24.7)	(31.0)	(84.1)	(34.6)	(111.1)	(80.3)	(151.4)	(81.3)
less minority interests ..	(38.2)	(22.4)	(79.9)	(71.0)	(134.8)	(101.1)	(258.0)	(101.1)
<b>Net profit after minority interests .. ..</b>	<b>160.6</b>	<b>189.8</b>	<b>105.5</b>	<b>18.8</b>	<b>282.9</b>	<b>216.3</b>	<b>255.2</b>	<b>223.4</b>
Average risk-weighted assets .. ..	26,847.7	29,554.7	6,230.5	5,275.8	34,111.9	35,868.4	60,511.9	37,994.5
Average attributed equity .. ..	1,411.1	1,397.9	327.4	249.5	1,792.9	1,696.5	2,015.5	1,797.1
<b>Cost-income ratio (in %)</b>	<b>67.9%</b>	<b>63.1%</b>	<b>62.3%</b>	<b>69.7%</b>	<b>66.0%</b>	<b>66.5%</b>	<b>67.9%</b>	<b>67.1%</b>
<b>ROE based on net profit after minority interests (in %) .. ..</b>	<b>11.4%</b>	<b>13.6%</b>	<b>32.2%</b>	<b>7.5%</b>	<b>15.8%</b>	<b>12.7%</b>	<b>12.7%</b>	<b>12.4%</b>
Amortisation of goodwill	(8.8)	(6.0)	(24.9)	(14.9)	(45.7)	(32.9)	(58.4)	(38.4)

## Segment reporting of the Core Group's business segments

	Saving Banks		Retail and Real Estate					
	2002	2001	2002	2001	2002	2001	2002	2001
			EB Domestic		CS		Total	
			<i>(in EUR million)</i>					
Net interest income ..	142.3	71.6	466.7	469.1	401.9	333.0	868.6	802.1
Risk provisions for loans/advances..	(29.9)	(15.8)	(102.0)	(103.5)	(8.5)	6.4	(110.5)	(97.1)
Net commission income	66.4	41.6	126.9	132.0	202.6	158.4	329.5	290.4
Net trading result..	4.0	2.0	25.9	21.3	4.2	3.8	30.1	25.1
General administrative expenses .. ..	(198.4)	(91.2)	(510.5)	(515.9)	(388.1)	(361.9)	(898.6)	(877.8)
Other operating result ..	(40.1)	(0.1)	(3.5)	8.1	(10.4)	(42.7)	(13.9)	(34.6)
<b>Pre-tax profit for the year</b>	<b>(55.7)</b>	<b>8.1</b>	<b>3.5</b>	<b>11.1</b>	<b>201.7</b>	<b>97.0</b>	<b>205.2</b>	<b>108.1</b>
less taxes .. ..	16.7	(1.0)	5.9	(1.8)	(63.5)	(23.3)	(57.6)	(25.1)
less minority interests ..	3.0	0.0	(0.1)	(2.4)	(50.9)	(46.0)	(50.9)	(48.4)
<b>Net profit after minority interests .. ..</b>	<b>(36.0)</b>	<b>7.1</b>	<b>9.4</b>	<b>6.9</b>	<b>87.3</b>	<b>27.7</b>	<b>96.7</b>	<b>34.6</b>
Average risk-weighted assets .. ..	4,233.9	2,126.1	9,790.7	10,437.7	1,855.5	1,249.3	11,646.2	11,687.0
Average attributed equity .. ..	249.0	100.6	575.8	493.7	109.1	59.1	684.9	552.8
<b>Cost-income ratio (in %)</b>	<b>93.3%</b>	<b>79.2%</b>	<b>82.4%</b>	<b>82.9%</b>	<b>63.8%</b>	<b>73.1%</b>	<b>73.2%</b>	<b>78.5%</b>
<b>ROE based on net profit after minority interests (in %) .. ..</b>	<b>(14.5%)</b>	<b>7.1%</b>	<b>1.6%</b>	<b>1.4%</b>	<b>80.1%</b>	<b>46.9%</b>	<b>14.1%</b>	<b>6.3%</b>
Amortisation of goodwill	(11.6)	(5.5)	(1.2)	0.0	(7.5)	(5.4)	(8.7)	(5.4)

### Large Corporate Customers

	2002	2001	2002	2001	2002	2001
	EB Domestic		CS		Total	
	<i>(in EUR million)</i>					
Net interest income ..	270.6	269.7	89.6	67.1	360.2	336.8
Risk provisions for loans/advances .. ..	(104.6)	(83.8)	31.6	(20.1)	(73.0)	(103.9)
Net commission income	84.6	59.8	18.4	14.2	103.0	74.0
Net trading result..	2.8	5.2	(0.8)	(0.1)	2.0	5.1
General administrative expenses .. ..	(130.9)	(111.3)	(43.1)	(44.7)	(174.0)	(156.0)
Other operating result ..	4.6	(22.2)	(19.3)	(11.9)	(14.7)	(34.1)
<b>Pre-tax profit for the year</b>	<b>127.1</b>	<b>117.3</b>	<b>76.3</b>	<b>4.5</b>	<b>203.4</b>	<b>121.8</b>
less taxes .. ..	(26.3)	(14.7)	(20.7)	(0.8)	(47.0)	(15.5)
less minority interests ..	(9.5)	(6.0)	(26.2)	(12.5)	(35.7)	(18.5)
<b>Net profit after minority interests .. ..</b>	<b>91.3</b>	<b>96.6</b>	<b>29.4</b>	<b>(8.8)</b>	<b>120.7</b>	<b>87.8</b>
Average risk-weighted assets ..	12,606.9	13,648.4	2,545.5	2,110.3	15,152.4	15,758.7
Average attributed equity ..	741.4	645.6	149.7	99.8	891.1	745.4
<b>Cost-income ratio (in %)</b>	<b>36.6%</b>	<b>33.3%</b>	<b>40.2%</b>	<b>55.0%</b>	<b>37.4%</b>	<b>37.5%</b>
<b>ROE based on net profit after minority interests (in %) ..</b>	<b>12.3%</b>	<b>15.0%</b>	<b>19.7%</b>	<b>(8.8%)</b>	<b>13.5%</b>	<b>11.8%</b>
Amortisation of goodwill ..	0.0	0.0	(10.2)	(6.0)	(10.2)	(6.0)

## Segment reporting of the Core Group's business segments (continued)

	Trading and Investment Banking						Asset Gathering	
	2002	2001	2002	2001	2002	2001	2002	2001
	EB Domestic		CS		Total			
	<i>(in EUR million)</i>							
Net interest income ..	69.1	87.3	(11.7)	24.7	57.4	112.0	0.2	3.6
Risk provisions for loans/advances..	0.0	(0.3)	0.0	0.2	0.0	(0.1)	0.0	0.0
Net commission income	17.9	28.8	5.9	9.6	23.8	38.4	103.6	92.8
Net trading result..	79.3	83.5	26.0	27.5	105.3	111.0	0.0	0.0
General administrative expenses .. ..	(98.0)	(94.7)	(27.5)	(40.9)	(125.5)	(135.6)	(46.0)	(43.7)
Other operating result ..	(11.1)	2.9	3.0	0.5	(8.1)	3.4	(0.1)	0.2
<b>Pre-tax profit for the year</b>	<b>57.2</b>	<b>107.6</b>	<b>(4.4)</b>	<b>21.6</b>	<b>52.8</b>	<b>129.2</b>	<b>57.7</b>	<b>52.8</b>
less taxes .. ..	(10.5)	(13.5)	(0.2)	(11.7)	(10.7)	(25.2)	(11.4)	(6.6)
less minority interests ..	0.3	0.0	(2.5)	(11.1)	(2.1)	(11.1)	(1.7)	(2.7)
<b>Net profit after minority interests .. ..</b>	<b>47.0</b>	<b>94.1</b>	<b>(7.0)</b>	<b>(1.2)</b>	<b>40.0</b>	<b>92.9</b>	<b>44.6</b>	<b>43.5</b>
Average risk-weighted assets .. ..	3,891.2	4,670.5	1,090.1	1,213.4	4,981.3	5,883.9	8.3	10.8
Average attributed equity .. ..	228.8	220.9	64.1	57.4	292.9	278.3	0.5	0.5
<b>Cost-income ratio (in %)</b>	<b>58.9%</b>	<b>47.4%</b>	<b>&gt;100%</b>	<b>66.2%</b>	<b>67.3%</b>	<b>51.9%</b>	<b>44.3%</b>	<b>45.4%</b>
<b>ROE based on net profit after minority interests (in %) .. ..</b>	<b>20.6%</b>	<b>42.6%</b>	<b>(11.0%)</b>	<b>(2.1%)</b>	<b>13.7%</b>	<b>33.4%</b>	<b>&gt;100%</b>	<b>&gt;100%</b>
Amortisation of goodwill	(0.2)	0.0	(4.2)	(3.4)	(4.4)	(3.4)	0.0	0.0
	Corporate Center						SLSP	
	2002	2001	2002	2001	2002	2001	2002	2001
	EB Domestic		CS		Total			
	<i>(in EUR million)</i>							
Net interest income ..	(16.8)	(0.2)	(2.4)	(3.0)	(19.2)	(3.2)	161.3	116.0
Risk provisions for loans/advances..	4.7	0.0	0.0	0.0	4.7	0.0	(2.4)	13.3
Net commission income	4.7	6.3	(0.1)	0.0	4.6	6.3	43.4	31.1
Net trading result..	(13.0)	(12.1)	0.0	3.9	(13.0)	(8.2)	9.1	17.7
General administrative expenses .. ..	(46.8)	(21.5)	0.0	2.2	(46.8)	(19.3)	(145.0)	(130.7)
Other operating result ..	40.9	(18.3)	(1.9)	(1.8)	39.0	(20.1)	(30.6)	(17.2)
<b>Pre-tax profit for the year</b>	<b>(26.3)</b>	<b>(45.7)</b>	<b>(4.3)</b>	<b>1.3</b>	<b>(30.6)</b>	<b>(44.4)</b>	<b>35.8</b>	<b>30.2</b>
less taxes .. ..	19.8	5.7	0.3	1.1	20.1	6.8	(2.3)	(14.7)
less minority interests ..	(26.1)	(11.3)	(0.4)	(1.4)	(26.5)	(12.7)	(16.7)	(7.7)
<b>Net profit after minority interests .. ..</b>	<b>(32.6)</b>	<b>(51.3)</b>	<b>(4.4)</b>	<b>1.0</b>	<b>(37.0)</b>	<b>(50.3)</b>	<b>16.8</b>	<b>7.8</b>
Average risk-weighted assets .. ..	550.6	787.3	739.4	702.8	1,290.0	1,490.1	1,033.7	1,037.9
Average attributed equity .. ..	32.4	37.2	43.5	33.2	75.9	70.4	60.7	49.1
<b>Cost-income ratio (in %)</b>	<b>&gt;(100.0%)</b>	<b>&gt;(100.0%)</b>	<b>0.0%</b>	<b>&gt;(100.0%)</b>	<b>&gt;(100.0%)</b>	<b>&gt;(100.0%)</b>	<b>67.8%</b>	<b>79.3%</b>
<b>ROE based on net profit after minority interests (in %) .. ..</b>	<b>&gt;(100.0%)</b>	<b>&gt;(100.0%)</b>	<b>(10.1%)</b>	<b>3.1%</b>	<b>(48.7%)</b>	<b>(71.4%)</b>	<b>27.7%</b>	<b>15.8%</b>
Amortisation of goodwill	(7.4)	(6.0)	(3.0)	(0.1)	(10.4)	(6.1)	(12.0)	(12.0)

## Segment reporting of the Core Group's business segments (continued)

	Total (excluding savings banks)						Core Group	
	2002	2001	2002	2001	2002	2001	2002	2001
	EB Domestic		CS		Total		Total	
	<i>(in EUR million)</i>							
Net interest income ..	789.8	829.5	477.4	421.8	1,428.5	1,367.3	1,570.7	1,438.9
Risk provisions for loans/advances..	(201.9)	(187.6)	23.0	(13.5)	(181.3)	(187.8)	(211.1)	(203.6)
Net commission income	337.7	319.7	226.9	182.2	608.0	533.0	674.5	574.6
Net trading result..	95.0	97.9	29.4	35.1	133.5	150.7	137.5	152.7
General administrative expenses .. ..	(832.2)	(787.2)	(458.7)	(445.3)	(1,435.9)	(1,363.1)	(1,634.3)	(1,454.3)
Other operating result ..	30.8	(29.2)	(28.5)	(55.9)	(28.3)	(102.4)	(68.4)	(102.5)
<b>Pre-tax profit for the year</b>	<b>219.2</b>	<b>243.1</b>	<b>269.5</b>	<b>124.4</b>	<b>524.5</b>	<b>397.7</b>	<b>468.9</b>	<b>405.8</b>
less taxes .. ..	(22.5)	(31.0)	(84.1)	(34.6)	(108.9)	(80.3)	(92.3)	(81.3)
less minority interests ..	(37.0)	(22.4)	(79.9)	(71.0)	(133.6)	(101.1)	(130.7)	(101.1)
<b>Net profit after minority interests .. ..</b>	<b>159.7</b>	<b>189.8</b>	<b>105.5</b>	<b>18.8</b>	<b>282.0</b>	<b>216.3</b>	<b>245.9</b>	<b>223.4</b>
Average risk-weighted assets .. ..	26,847.7	29,554.7	6,230.5	5,275.8	34,111.9	35,868.4	38,345.8	37,994.5
Average attributed equity .. ..	1,578.9	1,397.9	366.4	249.5	2,006.0	1,696.5	2,255.0	1,797.1
<b>Cost-income ratio (in %)</b>	<b>68.1%</b>	<b>63.1%</b>	<b>62.5%</b>	<b>69.7%</b>	<b>66.1%</b>	<b>66.5%</b>	<b>68.5%</b>	<b>67.1%</b>
<b>ROE based on net profit after minority interests (in %) .. ..</b>	<b>10.1%</b>	<b>13.6%</b>	<b>28.8%</b>	<b>7.5%</b>	<b>14.1%</b>	<b>12.7%</b>	<b>10.9%</b>	<b>12.4%</b>
Amortisation of goodwill	(8.8)	(6.0)	(24.9)	(14.9)	(45.7)	(32.9)	(57.3)	(38.4)

Segment reporting according to geographical markets is based on the following breakdown:

- Austria
- Central Europe (Czech Republic, Slovak Republic, Hungary, Slovenia, Croatia)
- The rest of Europe
- North America
- Central and South America
- Asia
- Others (including international organisations)

Attribution to the different segments is determined by the country code (ISO code) assigned to each customer based on its place of residence.

**Segment reporting by region — Erste Bank Group**

	2002	2001	2002	2001	2002	2001
	<b>Austria</b>		<b>Central Europe</b> <i>(in EUR million)</i>		<b>Rest of Europe</b>	
Net interest income .. ..	1,485.2	632.3	774.9	569.7	103.8	114.3
Risk provisions for loans/ advances .. ..	(335.6)	(107.3)	(10.3)	(2.5)	(16.3)	(53.7)
Net commission income .. ..	590.3	314.7	301.6	219.3	30.2	23.0
Net trading result .. ..	64.1	84.9	99.5	48.5	0.1	16.9
General administrative expenses .. ..	(1,609.9)	(746.1)	(716.9)	(605.7)	(62.8)	(59.4)
Income from insurance business .. ..	6.1	0.0	2.3	0.0	0.0	0.0
Other operating result .. ..	(8.6)	(38.7)	(73.3)	(59.8)	2.6	(4.9)
<b>Pre-tax profit for the year</b> .. ..	<b>191.5</b>	<b>139.8</b>	<b>377.7</b>	<b>169.4</b>	<b>57.6</b>	<b>36.2</b>
less taxes .. ..	(34.7)	(19.5)	(99.3)	(51.6)	(10.6)	(3.8)
less minority interests .. ..	(132.8)	(11.8)	(102.8)	(78.7)	(22.4)	(10.6)
<b>Net profit after minority interests</b> .. ..	<b>24.0</b>	<b>108.5</b>	<b>175.6</b>	<b>39.1</b>	<b>24.6</b>	<b>21.8</b>
Average risk-weighted assets ..	42,449.5	19,929.1	11,532.8	11,118.1	2,214.6	2,372.0
			<b>2002</b>	<b>2001</b>	<b>2002</b>	<b>2001</b>
			<b>North America</b>		<b>Central/South America</b> <i>(in EUR million)</i>	
Net interest income .. ..			40.6	59.2	11.9	12.4
Risk provisions for loans/advances .. ..			(7.2)	(19.6)	(5.0)	(5.8)
Net commission income .. ..			14.7	11.9	1.3	0.5
Net trading result .. ..			1.8	0.7	0.0	0.0
General administrative expenses .. ..			(20.3)	(19.3)	(2.4)	(2.3)
Income from insurance business .. ..			0.0	0.0	0.0	0.0
Other operating result .. ..			(0.8)	1.3	0.0	0.0
<b>Pre-tax profit for the year</b> .. ..			<b>28.7</b>	<b>34.2</b>	<b>5.9</b>	<b>4.9</b>
less taxes .. ..			(5.2)	(3.6)	(1.1)	(0.5)
less minority interests .. ..			0.0	0.0	0.0	0.0
<b>Net profit after minority interests</b> .. ..			<b>23.5</b>	<b>30.6</b>	<b>4.8</b>	<b>4.4</b>
Average risk-weighted assets .. ..			2,643.2	2,693.2	319.4	343.5
			<b>2002</b>	<b>2001</b>	<b>2002</b>	<b>2001</b>
	<b>Asia</b>		<b>Other</b> <i>(in EUR million)</i>		<b>Total</b>	
Net interest income .. ..	18.3	23.2	28.4	27.8	2,463.0	1,438.9
Risk provisions for loans/ advances .. ..	(14.5)	(7.8)	(17.4)	(6.9)	(406.4)	(203.6)
Net commission income .. ..	4.1	2.8	2.1	2.4	944.3	574.6
Net trading result .. ..	(5.2)	0.1	7.2	1.5	167.4	152.7
General administrative expenses .. ..	(10.1)	(12.6)	(9.7)	(8.9)	(2,432.0)	(1,454.3)
Income from insurance business .. ..	0.0	0.0	0.0	0.0	8.4	0.0
Other operating result .. ..	(0.1)	(0.2)	0.1	(0.2)	(80.1)	(102.5)
<b>Pre-tax profit for the year</b> .. ..	<b>(7.4)</b>	<b>5.5</b>	<b>10.7</b>	<b>15.8</b>	<b>664.6</b>	<b>405.8</b>
less taxes .. ..	1.3	(0.6)	(1.8)	(1.7)	(151.4)	(81.3)
less minority interests .. ..	0.0	0.0	0.0	0.0	(258.0)	(101.1)
<b>Net profit after minority interests</b> .. ..	<b>(6.1)</b>	<b>4.9</b>	<b>8.9</b>	<b>14.1</b>	<b>255.2</b>	<b>223.4</b>
Average risk-weighted assets ..	783.7	765.2	568.7	773.5	60,511.9	37,994.5

**Segment reporting by region — Core Group**

	2002	2001	2002	2001	2002	2001
	<b>Austria</b>		<b>Central Europe</b> <i>(in EUR million)</i>		<b>Rest of Europe</b>	
Net interest income .. ..	625.6	632.3	743.7	569.7	102.2	114.3
Risk provisions for loans/ advances .. ..	(149.0)	(107.3)	(1.8)	(2.5)	(16.3)	(53.7)
Net commission income .. ..	320.8	314.7	301.4	219.3	30.0	23.0
Net trading result .. ..	39.5	84.9	93.9	48.5	0.3	16.9
General administrative expenses .. ..	(838.5)	(746.1)	(692.8)	(605.7)	(60.7)	(59.4)
Other operating result .. ..	6.2	(38.7)	(75.7)	(59.8)	1.8	(4.9)
<b>Pre-tax profit for the year</b> .. ..	<b>4.5</b>	<b>139.8</b>	<b>368.8</b>	<b>169.4</b>	<b>57.3</b>	<b>36.2</b>
less taxes .. ..	20.8	(19.5)	(96.1)	(51.6)	(10.0)	(3.8)
less minority interests .. ..	(5.9)	(11.8)	(101.4)	(78.7)	(23.3)	(10.6)
<b>Net profit after minority interests</b> .. ..	<b>19.4</b>	<b>108.5</b>	<b>171.3</b>	<b>39.1</b>	<b>24.0</b>	<b>21.8</b>
Average risk-weighted assets ..	20,283.4	19,929.1	11,532.8	11,118.1	2,214.6	2,372.0
			<b>2002</b>	<b>2001</b>	<b>2002</b>	<b>2001</b>
			<b>North America</b>		<b>Central/South America</b> <i>(in EUR million)</i>	
Net interest income .. ..			40.6	59.2	11.9	12.4
Risk provisions for loans/advances .. ..			(7.2)	(19.6)	(5.0)	(5.8)
Net commission income .. ..			14.7	11.9	1.3	0.5
Net trading result .. ..			1.8	0.7	0.0	0.0
General administrative expenses .. ..			(20.3)	(19.3)	(2.4)	(2.3)
Other operating result .. ..			(0.8)	1.3	0.0	0.0
<b>Pre-tax profit for the year</b> .. ..			<b>28.7</b>	<b>34.2</b>	<b>5.9</b>	<b>4.9</b>
less taxes .. ..			(5.2)	(3.6)	(1.1)	(0.5)
less minority interests .. ..			0.0	0.0	0.0	0.0
<b>Net profit after minority interests</b> .. ..			<b>23.5</b>	<b>30.6</b>	<b>4.8</b>	<b>4.4</b>
Average risk-weighted assets .. ..			2,643.2	2,693.2	319.4	343.5
	<b>2002</b>	<b>2001</b>	<b>2002</b>	<b>2001</b>	<b>2002</b>	<b>2001</b>
	<b>Asia</b>		<b>Other</b> <i>(in EUR million)</i>		<b>Total</b>	
Net interest income .. ..	18.3	23.2	28.4	27.8	1,570.7	1,438.9
Risk provisions for loans/ advances .. ..	(14.5)	(7.8)	(17.4)	(6.9)	(211.1)	(203.6)
Net commission income .. ..	4.1	2.8	2.1	2.4	674.5	574.6
Net trading result .. ..	(5.2)	0.1	7.2	1.5	137.5	152.7
General administrative expenses .. ..	(10.1)	(12.6)	(9.7)	(8.9)	(1,634.3)	(1,454.3)
Other operating result .. ..	(0.1)	(0.2)	0.1	(0.2)	(68.4)	(102.5)
<b>Pre-tax profit for the year</b> .. ..	<b>(7.4)</b>	<b>5.5</b>	<b>10.7</b>	<b>15.8</b>	<b>468.9</b>	<b>405.8</b>
less taxes .. ..	1.3	(0.6)	(1.8)	(1.7)	(92.3)	(81.3)
less minority interests .. ..	0.0	0.0	0.0	0.0	(130.7)	(101.1)
<b>Net profit after minority interests</b> .. ..	<b>(6.1)</b>	<b>4.9</b>	<b>8.9</b>	<b>14.1</b>	<b>245.9</b>	<b>223.4</b>
Average risk-weighted assets ..	783.7	765.2	568.7	773.5	38,345.8	37,994.5

**(39) Additional information**

Assets and liabilities denominated in foreign currencies:

	at 31st Dec 2002	at 31st Dec 2001	Core Group at 31st Dec 2002
	<i>(in EUR million)</i>		
Assets .. .. .	49,590	39,834	44,020
Liabilities.. .. .	41,360	34,699	38,270

Only currencies used outside the euro zone are now listed as foreign currencies.

Unconsolidated foreign investments and goodwill are not reported as assets denominated in foreign currencies.

Foreign assets and liabilities:

	at 31st Dec 2002	at 31st Dec 2001	Core Group at 31st Dec 2002
	<i>(in EUR million)</i>		
Assets .. .. .	48,891	43,592	46,884
Liabilities.. .. .	51,514	44,591	49,124

**(40) Loans and advances to and amounts owed to unconsolidated subsidiaries and investments**

	at 31st Dec 2002	at 31st Dec 2001
	<i>(in EUR million)</i>	
<b>Loans and advances to credit institutions</b>		
Unconsolidated subsidiaries.. .. .	2	—
Associates accounted for at equity .. .. .	106	663
Other investments .. .. .	306	2,155
<b>Loans and advances to customers</b>		
Unconsolidated subsidiaries.. .. .	340	217
Associates accounted for at equity .. .. .	252	245
Other investments .. .. .	809	708
<b>Investments available for sale</b>		
Unconsolidated subsidiaries.. .. .	—	1
Associates accounted for at equity .. .. .	36	37
Other investments .. .. .	252	1
<b>Financial investments</b>		
Unconsolidated subsidiaries.. .. .	—	—
Associates accounted for at equity .. .. .	4	34
Other investments .. .. .	4	—
<b>Amounts owed to credit institutions</b>		
Unconsolidated subsidiaries.. .. .	8	—
Associates accounted for at equity .. .. .	37	608
Other investments .. .. .	1,581	2,483
<b>Amounts owed to customers</b>		
Unconsolidated subsidiaries.. .. .	53	24
Associates accounted for at equity .. .. .	36	148
Other investments .. .. .	101	101
<b>Debts evidenced by certificates</b>		
Unconsolidated subsidiaries.. .. .	5	—
Associates accounted for at equity .. .. .	26	26
Other investments .. .. .	66	2
<b>Subordinated capital</b>		
Unconsolidated subsidiaries.. .. .	—	—
Associates accounted for at equity .. .. .	—	10
Other investments .. .. .	1	—

#### (41) Assets pledged as collateral

Assets in the amounts stated below were pledged as collateral for the following liabilities and contingent liabilities:

	<u>at 31st Dec 2002</u>	<u>at 31st Dec 2001</u>
	<i>(in EUR million)</i>	
Amounts owed to credit institutions .. .. .	326	84
Amounts owed to customers .. .. .	827	35
Debts evidenced by certificates .. .. .	1,361	1,263
Other liabilities .. .. .	—	—
Contingent liabilities .. .. .	—	—
Other obligations .. .. .	29	—

The following assets were pledged as collateral for the above mentioned liabilities:

	<u>at 31st Dec 2002</u>	<u>at 31st Dec 2001</u>
	<i>(in EUR million)</i>	
Loans and advances to credit institutions .. .. .	98	—
Loans and advances to customers .. .. .	1,956	1,630
Trading assets .. .. .	373	42
Investments available for sale .. .. .	160	24
Financial investments .. .. .	345	205
Tangible fixed assets .. .. .	1	—

#### (42) Fiduciary transactions

The fiduciary operations not reported in the Balance Sheet are broken down as follows:

	<u>at 31st Dec 2002</u>	<u>at 31st Dec 2001</u>	<u>Core Group at 31st Dec 2002</u>
	<i>(in EUR million)</i>		
Loans and advances to credit institutions.. .. .	330	414	327
Loans and advances to customers .. .. .	387	211	214
Investments available for sale .. .. .	529	564	529
<b>Assets held in trust</b> .. .. .	<b>1,246</b>	<b>1,189</b>	<b>1,070</b>
Amounts owed to credit institutions .. .. .	280	87	105
Amounts owed to customers .. .. .	411	490	410
Debts evidenced by certificates .. .. .	555	612	555
<b>Liabilities held in trust</b> .. .. .	<b>1,246</b>	<b>1,189</b>	<b>1,070</b>

#### (43) Risk Management Policies

The Erste Bank Group's strategy for limiting risk is guided on the one hand by the demands placed on a customer-oriented banking business and on the other by general legal requirements (in particular the Austrian Banking Act but also Basle II).

In order to attain these objectives the Erste Bank Group has implemented a risk management structure designed to ensure that all risks throughout the Group (market, liquidity, credit, business and operational risks) are identified, measured in accordance with Value-at-Risk (VAR) and then actively controlled by management.

In light of the increasing demands placed on risk diversification and for the sake of making a clear distinction between the roles and responsibilities of all units involved, in financial 2002 operative Group credit risk management and risk controlling activities as well as the responsibility for balance sheet analysis and rating systems were combined to form the newly created Group Risk Management division effective 1st June 2002.



## GROUP RISK MANAGEMENT

<b>Operative Group Credit Risk Management &amp; Reporting</b>	<b>Erste Bank Balance Sheet Analysis &amp; Rating</b>	<b>Risk Controlling</b>
Commitment Management, Limit Management & Reporting	Erste Bank Balance Sheet Analysis	Market Risk
Operative Group Credit Risk Management	Rating Systems & Methods	Credit Risk Operational Risk

Info Centre

Based on the requirements dictated by law (and by the Austrian Banking Act in particular) the Managing Board as a whole bears the main responsibility for risk management. The Managing Board carries out the associated duties in part by passing a resolution at the quarterly meeting of the Risk Committee to impose an aggregate bank limit based on Value-at-Risk.

According to the Erste Bank Risk Rulebook, the duties of the Risk Committee are to approve amendments to the rules, perform capital allocation at the bank level, set an aggregate bank risk limit based on the bank's risk absorbing capacity, set an aggregate limit based on Value-at-Risk for market risk activities on the Trading Book, and define medium-term objectives for risk management.

### **Risk Controlling**

The Risk Controlling department (formerly Central Risk Management) is part of the newly created Group Risk Management division. This department acts as a central and independent risk control unit as required by the Austrian Banking Act and sets up group guidelines for processes relating to risk management (Erste Bank Risk Rulebook). The task assigned to this department is to identify all risks (market, credit, business and operational risks) existing throughout the Group based on Value-at-Risk and aggregate them to arrive at total bank risk (economic capital) as a component in determining risk-absorbing capacity. This also lays the foundation for risk-efficient capital allocation in the context of measuring risk-adjusted performance (RAPM). Furthermore, Risk Controlling is also responsible for supplying the Managing Board with regular reporting based on Value-at-Risk.

In order to better manage all of these tasks, the Risk Controlling department is divided into three groups, each with its own focus: market, credit and operational risk. The Value-at-Risk calculations are done on a continual basis in each of these groups with the aid of the implemented models. These groups are also responsible for continually updating and improving the quality of the models and measurement methods used as well as for the roll-out of risk management processes in the Group.

### **Market risk**

Fluctuations in interest rates, exchange rates, share prices and commodities prices create market risks. Market risks derive from short-term trading (Trading Book) in instruments whose prices are fixed daily as well as from the traditional banking business (Banking Book).

Close attention is paid to the management of market risks. Taking into account the Bank's risk-absorbing capacity and projected earnings, the Managing Board sets the aggregate limit by passing a resolution to this effect in the Risk Committee. The aggregate limit is then distributed based on a recommendation from the decentralised unit for Risk Management Treasury and Investment Banking made in the Market Risk Committee. All market risk activities are subject to risk limits which taken as a whole are statistically consistent with the aggregate Value-at-Risk limit. Limit compliance is checked at several stages: by the appropriate decentralised local risk management unit, invariably by Risk Management Treasury and Investment Banking and also by the Risk Controlling independent risk control unit.

A key component in defining the limits is estimating the potential losses that could be caused by market movements. Value-at-Risk is calculated at the Group level on a daily basis and relayed to the Managing Board via Erste Bank's electronic management information system. The calculation is based on the historical simulation method using the internationally acclaimed software KVAR+. In its analysis Erste Bank uses a 99% confidence interval and a holding period of one or ten days. Back-testing is used to constantly review the validity of the statistical methods applied.

Extreme market situations can wield a great impact on the value of trading positions and consequently have extraordinary effects on the results. This is particularly true of improbable market movements. Relying on purely statistical methods to measure risk, as is the case with Value-at-Risk, does not adequately take into account the consequences of crisis situations. Consequently, in addition to risk measurement applying Value-at-Risk Erste Bank also performs stress testing according to several methods (historical worst, extreme value theory, scenario analyses). These analyses are also relayed to the Managing Board via the electronic management information system.

### **Risk ratios for market risk: Trading and Banking Book (Core Group)**

Value-at-Risk of market risk at the balance sheet date (31st December 2002) by risk-taking units and risk types (unaudited):

	<u>Total</u>	<u>Interest</u>	<u>Currency</u>	<u>Shares</u>	<u>Commodity</u>	<u>Volatility</u>
	<i>(in EUR million)</i>					
<b>Core Group</b> .. ..	<b>7.4</b>	<b>3.6</b>	<b>0.5</b>	<b>4.7</b>	—	<b>0.8</b>
Banking Book .. ..	5.1	3.7	—	3.2	—	—
Hedge funds .. ..	1.4	—	—	1.4	—	—
Trading Book .. ..	2.2	2.1	0.5	0.7	—	0.8

The market risks for the Group as a whole were distributed as follows as of 31st December 2002:

The total Value-at-Risk with a 99% confidence interval and a one-day holding period was EUR 7.4 million. The market risk for the Banking Book was EUR 5.1 million, the market risk for the hedge funds was EUR 1.4 million and the market risk in the Trading Book was EUR 2.2 million.

Seen according to risk types, the risk arising from interest rate fluctuations was EUR 3.6 million, from exchange rate fluctuations EUR 0.5 million, share price fluctuations EUR 4.7 million, and fluctuations in the implicit options volatilities EUR 0.8 million. The difference between the sum of individual risks and the total risk is explained by diversification effects.

This market risk model has been approved by the Austrian Federal Ministry of Finance and is applied to determine Erste Bank's capital requirement pursuant to the Austrian Banking Act.

### **Credit risk**

Credit risk results from traditional lending business (losses incurred by default or by the deteriorating creditworthiness of borrowers) as well as from trading in market risk instruments (default risk on the part of counterparties). Country risks are implicitly accounted for in the calculation of credit risk.

The task assigned to the Credit Risk group in the Risk Controlling department in this context is to determine the credit risk for all of the lending business done by Erste Bank and its largest foreign and domestic subsidiaries using a portfolio model based on credit Value-at-Risk. Neither the Risk Controlling department nor the Credit Risk group is involved in the operative credit decisions taken. This responsibility lies with the corresponding decentralised credit risk management units (Credit Risk Management Domestic/Central Europe and Credit Risk Management International).

Credit Value-at-Risk is calculated based on the CreditMetrics methodology using CreditManager software. Here, the calculation is based on confidence intervals of 95% and 99.95%, just as in aggregate bank risk management (risk-absorbing capacity), and a risk horizon of one year.

### **Operational risk**

When the Basle consultation paper (Basle II) was published in January 2001 it became clear that in future banks would have to deal much more in depth with the subject of operational risk. In the last couple of years progress has been made towards arriving at a uniform definition. The definition that Erste Bank uses for operational risk is in line with the Basle consultation paper.

Erste Bank thus defines operational risk as the "risk of losses resulting from the inadequacy or failure of processes, humans or systems, or from external events". In keeping with current practice in most international banks, line management is responsible for operational risks.

In March 2000 a project was launched to define and measure operational risk throughout the entire bank for the first time; in April 2001 the project was completed with the implementation of a model for calculating operational risk based on Value-at-Risk. Internal data on cases of loss collected retroactively to 1st January 1998 serve as the foundation of this model. Since June 2001 loss cases

have been reported by the business units to the Operational Risk group. The proper transmission of loss reports is verified by the Internal Audit department. In addition, data pooling and the associated recording of loss data in a central database at the Sparkassenprüfungsverband (Savings Bank Auditing Agency) was extended to take in the entire savings bank sector. External data and scenarios are used in order to also take into account losses which have not occurred before but are nevertheless possible.

In collaboration with the Security Organisation unit, the groundwork was laid for qualitative risk assessment, which is to be introduced at Erste Bank AG in the coming year. Another main event next year aside from the roll-out in the Erste Bank Group will be the further development of qualitative assessments. Based on this qualitative information, another step could be to develop risk management instruments to support line management in making decisions aimed at reducing operational risk.

#### **Business risk (fixed costs risk)**

At Erste Bank business risk is defined as the risk of a loss being incurred in the remanence of fixed costs when revenues decline. The element being observed here is the volatility of volumes and costs. This is often referred to as operating leverage risk or business risk.

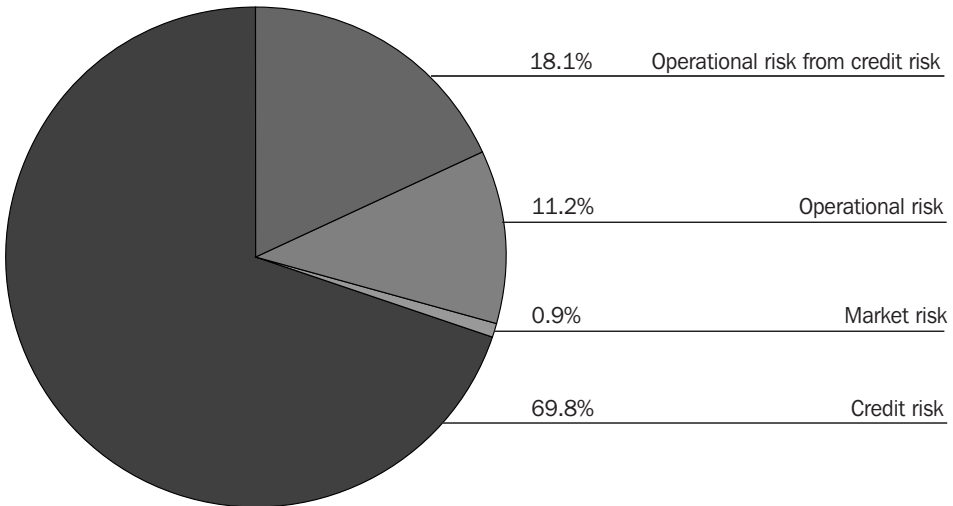
#### **Risk-absorbing capacity and risk-adjusted performance measurement**

It follows from the formula for risk-absorbing capacity that the objective of risk-adjusted performance measurement must be to ensure the credit institution's solvency now and in the future. The central instrument for securing the solvency of Erste Bank is the calculation of risk-absorbing capacity. In this calculation, the Value-at-Risk resulting from the different risk types is aggregated to arrive at the total loss potential from assuming risk (economic capital) and then this loss potential is compared in a multiple-stage process to the resources (earning power, reserves and equity) available to cover these potential losses. Aside from the risk actually measured, a safety buffer and the existing risk limits are also taken into account on a Value-at-Risk basis. The goal of this comparison is to determine the extent to which the Bank is in a position to absorb potential unexpected losses (calculation of risk-absorbing capacity). Risk-absorbing capacity thus acts as a limit for all risk activities at Erste Bank. Based on the bank's determined risk-absorbing capacity, the Managing Board passes a resolution at the quarterly Risk Committee meeting establishing an aggregate bank limit.

The measure of risk used to calculate this aggregate bank limit is the economic capital that the bank has to hold in order to cover risk. This economic capital is defined as the minimum capital necessary on an annual basis to cover unexpected losses at a confidence interval of 99.95%, which is derived from the default probability of Erste Bank's target rating. The objective of calculating this figure is to determine the amount of capital needed in order to ensure Erste Bank's solvency (the going concern principle) even in extreme loss scenarios. This figure also allows for comparative measurement and aggregation of all risks. Parallel to looking at this from the economic capital perspective, for information purposes the risk-absorbing capacity is also calculated at a much lower confidence interval of 95% and conveyed to the management.

**Share of each type of risk in Erste Bank's aggregate risk (unaudited)**

Allocation of economic capital (confidence interval 99.95%)



**Risk-adjusted performance measurement (RAPM) and shareholder value added**

Building on this calculation of risk throughout the bank based on Value-at-Risk for the different types of risk, Erste Bank can use the economic capital determined for each business division as the crucial component in the calculation of risk-adjusted return on economic capital (ROEC). This figure compares revenue with the risk that is taken in order to generate it, using economic capital as the measure of risk. As part of measuring risk-adjusted performance, a comparison is drawn between the results of marginal costing based on regulatory capital and the economically required risk capital.

ROEC (Return on Economic Capital) is determined for each business unit. In this way, in addition to the proven controlling tools — such as marginal costing — management can also be provided with the information it needs to portray the entire bank on the basis of risk/return ratios. Aside from determining capital adequacy pursuant to regulatory requirements, this also lays the foundation for risk-efficient capital allocation as a part of risk-adjusted performance measurement (RAPM). Thus, economic capital and ROEC combine risk limitation aimed at preserving the Bank's solvency (going concern principle) and active risk and capital management geared toward increasing Erste Bank's enterprise value for its shareholders (shareholder value added).

**Decentralised Risk Management**

The decentralised unit Risk Management Treasury and Investment Banking within the Treasury division is responsible for the day-to-day control of the market risk associated with trading activities. This unit oversees market risk limits and counterparty limits. Other main duties include risk reporting, support for the trading division, legal support, product-testing processes when new products are introduced and — in co-ordination with Central Risk Management — market risk management.

The Treasury division is also in charge of measuring the market risks relating to the Banking Book. The Balance Sheet Management unit submits monthly reports to the Asset Liability Committee (ALCO) on the interest rate risks for the Erste Bank Group and the credit institution group to be used as a basis for adjusting balance sheet structure risks.

The responsibility for credit risk management lies with the two divisions Credit Risk Management Domestic/Central Europe and Credit Risk Management International. Depending on the size and level of trading activities, foreign branch offices and subsidiaries either have their own risk management units or are covered by the corresponding decentralised Risk Management unit (e.g. Risk Management Treasury and Investment Banking).

**Erste Bank Risk Rulebook**

The procedures relating to risk management at Erste Bank are laid down in the Erste Bank Risk Rulebook, a set of rules applied throughout the entire Group. The objective of the Rulebook is twofold: to minimise operational risks and to create a consistent basis for the quality of data on market and credit risk activities. These rules are consistent with commonly applied international

standards. Current developments both at home and abroad, particularly in light of the new equity capital regulations for banks (Basle II), are also taken into account in the ongoing adaptation of the Rulebook and swiftly incorporated therein.

Based on these rules and regulations, which provide a uniform framework that can be applied throughout the Group, Local Risk Manuals are drawn up by the individual decentralised Risk Management units in order to reflect regional peculiarities and differences in the general legal conditions from one country to the next. The Group's Internal Audit department oversees whether the rules and regulations in the Rulebook are being complied with and verifies the consistency of the Local Risk Manuals with the Rulebook.

## **Basle II**

In order to implement the requirements imposed by the new capital adequacy regulations (Basle II/Brussels), a separate Basel II Programme was set up within the Erste Bank Group.

### **Advanced approaches to measuring credit, market and operational risk**

Erste Bank AG is an active participant in the consultation process of the new capital adequacy regulations for banks. Erste Bank has made it its goal to qualify for advanced approaches when the new provisions go into force.

In the credit risk area, Erste Bank is striving to apply the Advanced IRB Approach in the retail segment and the Foundation IRB Approach in all other Basel segments. An internal model approved by the Austrian Supervisory Authority is already in place for measuring market risk in the Trading Book and the model for measuring interest rate risk in the Banking Book already satisfies the Basel requirements to a great extent. In the area of operational risk Erste Bank is working on qualifying for an Advanced Measurement Approach (Loss Distribution Approach) when the new provisions enter into force.

### **Rating systems**

A basic prerequisite for qualifying for the Foundation IRB Approach is the use of appropriate systems for determining internal customer ratings. Above and beyond the requirements of Basel II, it is the aim of Erste Bank to evaluate each customer using an optimal rating method appropriate to its customer segment.

Consequently, two of the main activities in 2002 involved optimising existing systems (e.g. in the retail segment) and developing new rating methods for customer segments for which standardised and IT-supported evaluation methods have not been applied in the past (e.g. the special financing segment). In developing new methods, great importance is being attached to process-supported aspects.

In the course of 2003 several completed components of different rating systems will enter the test phase. Once they have been examined and validated (quality assurance), they will be put into general use. At the same time, work will continue on further perfection and fine-tuning these tools, so that optimised methods can be applied to evaluate all relevant customer segments as of 1st January 2004.

These systems and methods will ultimately be made available not only to Erste Bank AG, but also their functional and banking subsidiaries as well as the entire savings bank sector.

### **Quantitative Impact Study 3.0 (QIS 3.0)**

In the course of the Basel II consultation process, in autumn 2002 Erste Bank participated in the third impact study on the new capital adequacy (Basel II: Quantitative Impact Study 3.0). All of the results on the current approach, the standardised approach and the Foundation IRB Approach in the area of credit risk as well as all approaches used for operational risk were transmitted to the Austrian National Bank.

Qualifying for the Foundation IRB Approach and the Advanced Measurement Approach (Loss Distribution Approach) is expected to have a correspondingly positive impact on the capital adequacy requirement of the Erste Bank Group.

## Credit risks

The credit risks stated at their carrying amounts as of 31st December 2002:

	Total loans and advances to credit institutions and customers (incl. fixed income securities)	Guarantees/ letters of credit	Total 31st Dec 2002	Total 31st Dec 2001
	<i>in EUR million</i>			
Banking and insurance .. .. .	31,290	1,349	32,638	28,530
Consumers .. .. .	18,302	114	18,416	9,774
Public administration, social security .. .. .	16,944	247	17,191	9,735
Manufacturing .. .. .	6,331	1,376	7,708	5,434
Real estate .. .. .	10,012	510	10,522	7,810
Retail .. .. .	6,909	483	7,392	3,550
Construction .. .. .	3,462	859	4,321	2,225
Hotels and restaurants .. .. .	2,715	239	2,954	2,114
Transport and communication .. .. .	2,604	264	2,868	3,234
Energy and water supply .. .. .	1,693	186	1,879	1,762
Other .. .. .	5,885	254	6,139	5,577
<b>Total .. .. .</b>	<b>106,148</b>	<b>5,879</b>	<b>112,027</b>	<b>79,745</b>

The total is comprised of loans and advances to credit institutions and customers, fixed-income securities held in the trading portfolio, as investments available for sale and as financial investments (held to maturity) as well as off-balance-sheet credit risks.

The changes in risk provisions are explained in Notes 15 and 30.

## Interest rate risk

Interest rate risk is the change in the fair value of financial instruments caused by changes in market interest rates. This risk occurs when the maturity ranges or times when interest rate adjustments are made on the assets and liabilities (including transactions not recognised in the balance sheet) do not match. In order to identify the interest rate risk, all financial instruments (including transactions not recognised in the balance sheet) are entered in the appropriate maturity ranges in accordance with their remaining maturity or term until expiration of the interest rate lock-up period.

The following tables list the open fixed-income positions held by the Erste Bank Group in the three currencies that carry a significant interest rate risk: EUR, CZK and SKK.

Only those open fixed-income positions are shown which are not attributed to the Trading Book. Positions with a positive value indicate the fixed-income risk on the asset side, i.e. in this area there is a surplus of asset items; negative values represent the surplus on the liability side.

Open fixed-income positions not attributed to the Trading Book:

	1-3 years	3-5 years	5-7 years	7-10 years	>10 years
	<i>(in million)</i>				
Interest rate lock-up gap as of 31st Dec 2002 in EUR ..	(3,166.7)	(753.0)	2,939.7	1,237.3	351.7
Interest rate lock-up gap as of 31st Dec 2002 in CZK ..	(47,588.1)	9,220.8	1,562.8	15,180.9	3,665.9
Interest rate lock-up gap as of 31st Dec 2002 in SKK ..	(11,147.3)	11,913.6	63.5	2,283.2	189.0

## Hedging

The goals of market risk management for the Banking Books of the Erste Bank Group are to optimise the risk position, taking into account the economic environment and competitive situation while observing the net present value risk and the effect on net interest income; to maintain an

adequate liquidity position for the Group; and to centrally manage all market risks inherent in the Banking Book via the Group's Asset Liability Committee (and Balance Sheet Management with the support of the decentralised Asset Liability Committee and Balance Sheet Management units).

In keeping with the goals of risk management, hedging activities focus on the two main control variables — net interest income and the net present value risk. Pursuant to IAS 39, the following instruments can be used to manage these two variables: Cash flow hedges are used as measures to stabilise the interest rate risk. Fair value hedges are used to reduce the net present value risk.

Fair value hedges are currently used to turn fixed-income or structured transactions into transactions with a variable income. The current policy on debts evidenced by certificates is to use fair value hedges to convert those issues that are not money market linked into issues that are. Additional fair value hedges were defined for a portion of the syndicated loan portfolio, for only a few of the fixed-interest loans and deposits as well as for a small portion of liabilities with no defined interest rate lock-up period according to the above-mentioned funds transfer pricing guidelines.

Interest rate swaps were the main instruments used for these fair value hedges. Particularly when issues are involved, cross currency swaps, swaptions, caps, floors and other options are also used to hedge fair value.

Cash flow hedges are used on the one hand to turn money market linked transactions into fixed-interest transactions in order to reduce the interest rate risk and on the other hand to hedge planned interest income in foreign currencies so that this income is not exposed to exchange rate risk. The former were used to convert some of the revolving money market assets and liabilities into fixed-interest transactions while the latter were used for hedging the planned income from the international units of the Group.

Interest rate swaps were the only instrument used to hedge interest cash flows, while spot transactions were used to hedge the foreign exchange risk.

**(44) Total volume of unsettled derivatives as of 31st December 2002**

	Nominal amount by remaining maturity				Fair value	
	<1 year	1-5 years	>5 years	Total	Positive	Negative
<i>(in EUR million)</i>						
<b>Interest rate contracts</b>						
OTC products						
– Interest rate options						
Purchase	3,557	5,238	1,861	10,655	40	—
Sell	3,344	6,461	2,718	12,524	—	(76)
– Interest rate swaps						
Purchase	78,556	25,452	15,923	119,932	2,639	304
Sell	82,652	24,731	11,711	119,094	522	(2,405)
– FRAs						
Purchase	12,965	1,582	—	14,547	4	7
Sell	10,280	1,551	—	11,831	14	(7)
Listed products						
– Futures						
Purchase	696	15	5	717	—	—
Sell	451	587	207	1,245	—	—
– Interest rate options						
Purchase	3,454	267	151	3,872	21	—
Sell	27	114	30	171	—	(21)



	Nominal amount by remaining maturity				Fair value	
	< 1 year	1-5 years	> 5 years	Total	Positive	Negative
<i>(in EUR million)</i>						
<b>Currency contracts</b>						
OTC products						
– Currency options						
Purchase	1,519	13	—	1,532	7	—
Sell	1,391	13	—	1,404	—	4
– Currency swaps						
Purchase	25,697	1,444	477	27,618	1,745	38
Sell	22,384	1,680	406	24,469	88	(1,585)
Listed products						
– Futures						
Purchase	1	—	—	1	—	—
Sell	74	—	—	74	—	—
– Currency options						
Purchase	—	—	—	—	—	—
Sell	—	—	—	—	—	—
<b>Precious metal contracts</b>						
OTC products						
– Precious metal options						
Purchase	—	—	—	—	—	—
Sell	—	—	—	—	—	—
Listed products						
– Futures						
Purchase	—	—	—	—	—	—
Sell	—	—	—	—	—	—
– Precious metal options						
Purchase	—	—	—	—	—	—
Sell	—	—	—	—	—	—

	Nominal amount by remaining maturity				Fair value	
	< 1 year	1-5 years	> 5 years	Total	Positive	Negative
<i>(in EUR million)</i>						
<b>Securities-related transactions</b>						
OTC products						
– Stock options						
Purchase .. .. .	71	21	45	136	26	—
Sell .. .. .	37	128	20	185	—	(5)
Listed products						
– Futures						
Purchase .. .. .	72	—	—	72	—	(1)
Sell .. .. .	92	—	—	92	1	—
– Stock options						
Purchase .. .. .	54	—	—	54	1	—
Sell .. .. .	22	—	—	22	—	(4)
<b>Total .. .. .</b>	<b>247,397</b>	<b>69,298</b>	<b>33,554</b>	<b>350,248</b>	<b>5,108</b>	<b>(3,752)</b>
Thereof OTC products						
Purchase .. .. .	122,365	33,750	18,306	174,421	4,461	349
Sell .. .. .	120,088	34,565	14,855	169,508	624	(4,074)
Thereof listed products						
Purchase .. .. .	4,277	282	156	4,715	22	(1)
Sell .. .. .	666	701	237	1,604	1	(25)

#### (45) Fair values of financial instruments

In the following table, the fair values of the balance sheet items are compared with their carrying amounts.

The fair value is the amount for which a financial instrument could be exchanged or settled between knowledgeable, willing parties in an arm's length transaction. In those cases where market prices were available, they were used in measurement, otherwise internal valuation models were applied, in particular the present value method.

	31st Dec 2002		31st Dec 2001	
	Fair value	Carrying amount	Fair value	Carrying amount
<i>in EUR million</i>				
<b>Assets</b>				
Cash and balances with central banks .. .. .	3,181	3,181	2,573	2,573
Loans and advances to credit institutions .. .. .	15,519	15,492	18,923	18,913
Loans and advances to customers .. .. .	65,270	64,435	39,310	39,210
Risk provisions	(2,983)	(2,983)	(1,875)	(1,875)
Trading assets.. .. .	3,487	3,487	3,451	3,451
Investments available for sale .. .. .	6,736	6,736	2,912	2,912
Financial investments .. .. .	23,107	22,572	14,784	14,730
Derivatives in Banking Book (other assets)	712	712	218	218
<b>Liabilities</b>				
Amounts owed to credit institutions .. .. .	26,480	26,425	28,638	28,642
Amounts owed to customers .. .. .	61,868	61,308	37,292	37,175
Debts evidenced by certificates .. .. .	14,191	14,191	9,721	9,751
Trading liabilities (other liabilities)	657	657	285	285
Subordinated capital .. .. .	3,387	3,387	2,956	2,956
Derivatives in Banking Book (other liabilities)	747	747	330	330

#### (46) Contingent liabilities and other obligations

	at 31st Dec 2002	at 31st Dec 2001	Core Group at 31st Dec 2002
	<i>in EUR million</i>		
Contingent liabilities .. .. .	5,918	4,149	4,261
– from guarantees and warranties.. .. .	5,809	4,069	4,165
– Other .. .. .	109	80	96
Other obligations .. .. .	14,972	15,643	12,626
– Undrawn credit and loan commitments, promissory notes .. .. .	13,549	12,495	11,256
– Amounts owed resulting from repurchase agreements .. .. .	1,063	2,616	1,046
– Other .. .. .	360	532	324

Like many other Austrian credit institutions, Erste Bank AG had to deal with the consumer protection issue raised by the former sliding interest rate clause. Although the Supreme Court has not yet handed down a ruling on this, the bank is studying the claims filed and is reaching settlements with its customers on an individual basis by evaluating each claim asserted by a customer.

As for the related “rounding rule,” suits filed against other banks have since prompted Austria’s Supreme Court to rule that the practice of rounding up to the nearest eighth that is applied in the current sliding interest rate clause in consumer loan agreements is not admissible. Erste Bank has already decided to apply what it has learned from these rulings by making the appropriate refunds and interest rate adjustments.

On 11th June 2002 eight Austrian banks were fined a total of EUR 124.3 million by the European Commission for entering into illicit antitrust arrangements in the period from 1995 to 1998. The penalty imposed on Erste Bank was EUR 37.7 million. The relatively large fine imposed on Erste Bank compared to the other penalised banks is due to the market shares assumed by the Commission, which attributed the entire savings bank sector to Erste Bank. Erste Bank entered a plea for annulment of the Commission’s decision with the Court of first instance of the European Community. The case is still pending and it is not foreseeable that the case will be settled any time before 2005. Erste Bank made adequate provisions for this case in the 2002 Financial Statements.

Česká spořitelna, a.s. is still involved in litigation concerning the ownership of a number of buildings used for business operations.

In connection with preparations for the Czech Republic’s accession to the EU, the Czech government must issue retroactive authorisation for past state aid granted to the Czech banking sector (including Česká spořitelna, a.s.). Česká spořitelna, a.s. is cooperating closely with the Czech government in preparing for this procedure, which has not yet officially begun.

Furthermore, Erste Bank and a number of its subsidiaries are involved in litigation relating to ordinary business operations. As far as can be judged, these legal disputes are not expected to have any negative material effect on the Bank’s assets, earnings and financial position, because in some cases the appropriate provisions have been made, in others Erste Bank has rights of recourse and in the rest the disputes are so minor that their impact is considered to be immaterial.

**(47) Breakdown of remaining maturities as of 31st December 2002**

	<u>On demand</u>	<u>Up to 3 months</u>	<u>3 months -1 year</u>	<u>1-5 years</u>	<u>&gt; 5 years</u>
<i>in EUR million</i>					
Loans and advances to credit institutions .. .. .	599	10,582	2,283	1,400	628
Loans and advances to customers ..	6,109	5,942	8,790	17,979	25,615
Securities held in the trading portfolio .. .. .	906	70	352	1,064	1,096
Securities held as investments available for sale .. .. .	301	240	258	1,584	4,353
Securities held to maturity .. ..	13	967	2,276	7,021	6,429
<b>Total .. .. .</b>	<u>7,928</u>	<u>17,801</u>	<u>13,959</u>	<u>29,048</u>	<u>38,120</u>
Amounts owed to credit institutions	1,619	19,772	2,819	661	1,554
Amounts owed to customers .. ..	21,383	10,503	9,430	9,309	10,683
Debts evidenced by certificates ..	42	703	1,701	6,257	5,488
Subordinated capital .. .. .	5	95	157	654	2,476
<b>Total .. .. .</b>	<u>23,049</u>	<u>31,073</u>	<u>14,107</u>	<u>16,881</u>	<u>20,201</u>

**Subsequent events**

As part of its expansion strategy in Central Europe, at its meeting held on 27th January 2003 Erste Bank's Supervisory Board authorised Erste Bank's participation in the privatisation of Bulgaria's second-largest credit institution, DSK Bank. Consequently, Erste Bank submitted a non-binding offer on 27th January 2003 and took part in due diligence in February-March 2003. A binding offer is to be submitted once DSK Bank has presented audited financial statements for 2002.

In pension funds such as those used for Erste Bank employees, most of the funds have posted a weak performance over the last few years as a result of stock market and interest rate trends. The extent to which subsequent payments will have to or can be made in order to achieve the mandatory long-term minimum yield on invested funds is uncertain at the present time, nor is it clear whether the statutory regulations on investment, performance and shareholders' equity will be changed. At the present time it is impossible to ascertain whether this will have an impact on Erste Bank.

**(48) Governing bodies of Erste Bank der oesterreichischen Sparkassen AG**

***Supervisory Board***

<b>Herbert Schimetschek</b> President	Chairman of the Austria Association of Mutual Insurance Companies Chairman of the Supervisory Board of UNIQA International AG Vice President of the General Council of the Austrian National Bank
<b>Karl Korinek</b> 1st Vice President	President of the Austrian Constitutional Court
<b>Klaus Braunegg</b> 2nd Vice President	Attorney at Law
<b>Dietrich Blahut</b>	Businessman Member of the Supervisory Board of UNIQA Versicherungen AG
<b>Dirk Bruneel</b>	Member of the Executive Committee of the Dexia Group (Belgium)
<b>Elisabeth Gürtler</b>	Businesswoman Member of the Managing Board of the Austrian Hotel Association
<b>Wolfgang Houska</b>	Businessman Member of the Supervisory Board of Alpine Mayreder GmbH
<b>Werner Hutschinski</b>	Executive Director of Hutschinski GmbH Executive Director of Frauenfeld & Berghof
<b>Theresa Jordis</b>	Attorney at Law
<b>Dietrich Karner</b>	General Director of Generali Holding Vienna AG
<b>Josef Kassler</b>	General Director of Steiermärkische Bank und Sparkassen AG President of the Austrian Savings Banks Association
<b>Heinz Kessler</b>	General Director of Nettingsdorfer Papierfabrik AG
<b>Lars-Olof Ödlund</b> (from 7th May 2002)	Chief Consultant of FöreningsSparbanken AB (Sweden)
<b>Axel Freiherr von Ruedorffer</b>	Member of the Managing Board of Commerzbank Aktiengesellschaft (Germany)
<b>Hubert Singer</b>	General Director of Dornbirner Sparkasse
<b>Georg Winckler</b>	Rector of the University of Vienna Professor of Economics at the University of Vienna
<b>Delegated by the Employee Council</b>	
<b>Günter Benischek</b>	Chairman of the Central Employee Council
<b>Bertram Mach</b>	1st Deputy Chairman of the Central Employee Council
<b>Erika Hegmala</b>	2nd Deputy Chairwoman of the Central Employee Council
<b>Ilse Fetik</b>	Member of the Central Employee Council
<b>Joachim Härtel</b>	Member of the Central Employee Council
<b>Anton Janku</b>	Member of the Central Employee Council
<b>Elfriede Junger</b>	Member of the Central Employee Council
<b>Christian Havelka</b>	Member of the Central Employee Council
<b>Representatives of the Supervisory Authority</b>	
<b>Robert Spacek</b>	Senate Councillor, State Commissioner
<b>Peter Pillmeier</b>	Deputy Municipal Director, Deputy State Commissioner
<b>Managing Board</b>	
<b>Andreas Treichl</b>	Chairman
<b>Elisabeth Bleyleben-Koren</b>	Deputy Chairwoman
<b>Reinhard Ortner</b>	Member
<b>Franz Hochstrasser</b>	Member
<b>Erwin Erasim</b>	Member
<b>André Horovitz</b>	Member (from 1st January 2003)

#### (49) Details of the companies of the Erste Bank Group at 31st December 2002

##### Companies of the Erste Bank Group

An explanation is provided in Section V Notes on how the cross-guarantee system agreement, which was reached between Erste Bank and Austrian savings banks and went into effect 1st January 2002, affects acquisition and disposal of subsidiaries and branches.

The reported equity and earnings figures were generally prepared in accordance with IFRS and may therefore differ from the financial statements of the individual companies prepared according to local reporting policies.

The net income reported is equivalent to net income/loss after tax (but before allocations to reserves), in the case of tax affiliations to net income before tax.

Company name, domicile	Interest in %	Shareholders' equity in EUR million	Net income in EUR million	Profit transfer <sup>(1)</sup>	Balance sheet date	Inclusion in Consolidated Financial Statements <sup>(2)</sup>
<b>1. Credit institutions</b>						
Allgemeine Sparkasse Oberösterreich Bankaktiengesellschaft, Linz (Group) .. ..	26.9%	285.5	43.7		31st Dec 2002	V*
Bausparkasse der österreichischen Sparkassen Aktiengesellschaft, Vienna .. ..	100.0%	114.0	20.3	X	31st Dec 2002	V
Česká spořitelna, a.s., Prague (Group) .. ..	94.8%	983.3	190.4		31st Dec 2002	V
Die Erste & Constantia Beteiligungsfonds Aktiengesellschaft, Vienna .. ..	100.0%	17.7	0.7	X	31st Dec 2002	V
ERSTE & STEIERMÄRKISCHE Banka d.d., Zagreb .. ..	41.6%	73.3	11.9		31st Dec 2002	V*
Erste Bank (Malta) Limited, Sliema (Group) ..	100.0%	575.3	32.8		31st Dec 2002	V
Erste Bank Hungary Rt., Budapest (Group) ..	99.6%	76.2	7.1		31st Dec 2002	V
Erste Financial Products Ltd., London .. ..	100.0%	34.2	5.1		31st Dec 2002	V
ERSTE Sparkasse Bank (Liechtenstein) Aktiengesellschaft, Vaduz .. ..	32.1%	10.6	(1.9)		31st Dec 2002	V*
ERSTE-SPARINVEST Kapitalanlagegesellschaft m.b.H., Vienna ..	84.3%	12.1	20.0	X	31st Dec 2002	V
Europay Austria Zahlungsverkehrssysteme GmbH, Vienna .. ..	3.1%	38.1	13.1		31st Dec 2001	E*
Intermarket Bank AG, Vienna .. ..	22.2%	17.6	1.7		31st Dec 2002	E
Investkredit Bank AG, Vienna .. ..	11.3%	325.8	15.6		31st Dec 2002	A
Kapital-Beteiligungs Aktiengesellschaft, Vienna	15.0%	8.5	0.0		30th Sep 2002	A
Kärntner Sparkasse Aktiengesellschaft, Klagenfurt (Group) .. ..	10.0%	128.8	6.2		31st Dec 2002	V*
Niederösterreichische Kapitalbeteiligungsgesellschaft m.b.H., Vienna ..	30.0%	2.9	0.1		30th Sep 2002	E
Niederösterreichische Kreditbürgschaftsgesellschaft m.b.H., Vienna ..	25.0%	6.5	(0.2)		31st Dec 2001	E
Oesterreichische Kontrollbank Aktiengesellschaft, Vienna .. ..	12.9%	234.7	20.7		31st Dec 2002	A
Österreichische Hotel- und Tourismusbank Gesellschaft m.b.H., Vienna .. ..	18.8%	26.1	0.4		31st Dec 2002	A
Riječka banka d.d., Rijeka .. ..	98.0%	128.3	16.3		31st Dec 2002	V
s Wohnbaubank AG, Vienna (Group) .. ..	91.0%	29.2	3.6	X	31st Dec 2002	V
Salzburger Sparkasse Bank Aktiengesellschaft, Salzburg .. ..	98.7%	160.2	5.2	X	31st Dec 2002	V
Slovenská sporiteľňa, a.s., Bratislava .. ..	67.2%	306.7	29.5		31st Dec 2002	V
Spar-Finanz-Investitions- und Vermittlungs-Aktiengesellschaft, Vienna .. ..	50.0%	3.7	0.1		31st Dec 2001	E
Sparkasse Bregenz Bank Aktiengesellschaft, Bregenz .. ..	25.0%	23.0	0.7		31st Dec 2002	V*
Sparkasse Hainburg-Bruck-Neusiedl Bank Aktiengesellschaft, Hainburg .. ..	75.0%	28.3	4.1		31st Dec 2002	V
Sparkasse Kremstal-Pyhrn Aktiengesellschaft, Kirchdorf .. ..	24.1%	28.8	2.0		31st Dec 2002	V*
Sparkasse Mühlviertel-West Bank Aktiengesellschaft, Rohrbach .. ..	40.0%	32.2	0.7		31st Dec 2002	V*
Sparkasse Voitsberg-Köflach Bankaktiengesellschaft, Voitsberg .. ..	5.8%	24.1	3.3		31st Dec 2002	V*
Steiermärkische Bank und Sparkassen Aktiengesellschaft, Graz (Group) .. ..	25.0%	530.2	26.4		31st Dec 2002	V*
Tiroler Sparkasse Bankaktiengesellschaft Innsbruck, Innsbruck (Group) .. ..	74.7%	149.7	(45.6)		31st Dec 2002	V

Company name, domicile	Interest in %	Shareholders' equity in EUR million	Net income in EUR million	Profit transfer <sup>(1)</sup>	Balance sheet date	Inclusion in Consolidated Financial Statements <sup>(2)</sup>
<b>2. Financial institutions</b>						
CDI-Erste Central Europe Holding Ges.m.b.H., Düsseldorf (Group) .. .. .	100.0%	0.2	(0.8)		31st Dec 2002	V
EBV-Leasing Gesellschaft m.b.H. & Co. KG, Vienna .. .. .	100.0%	4.1	0.3		31st Dec 2002	V
Erste Securities Polska S.A., Warsaw .. ..	100.0%	3.7	0.2		31st Dec 2002	V
Erste Securities Zagreb d.o.o., Zagreb .. ..	95.0%	0.8	(0.2)		31st Dec 2002	V
IMMORENT Aktiengesellschaft, Vienna (Group) .. .. .	100.0%	331.7	47.8	X	31st Dec 2002	V
Neue Eisenstädter gemeinnützige Bau-, Wohn- und Siedlungsgesellschaft m.b.H., Eisenstadt ..	49.8%	2.0	0.1		31st Dec 2001	A
Österreichisches Volkswohnungswerk Gemeinnützige Gesellschaft mit beschränkter Haftung, Vienna..	100.0%	22.5	1.5		31st Dec 2001	A
s-Autoreasing GmbH, Vienna.. .. .	100.0%	0.0	0.0		31st Dec 2002	V
“Wohnungseigentümer” Gemeinnützige Wohnbaugesellschaft m.b.H., Mödling .. ..	26.0%	11.2	2.2		31st Dec 2001	A
<b>3. Others</b>						
ARWAG Holding-Aktiengesellschaft, Vienna (Group) .. .. .	19.2%	48.6	6.9		31st Dec 2001	A
AVS Beteiligungsgesellschaft m.b.H., Innsbruck	51.0%	78.6	(32.3)		31st Dec 2002	V
BMG-Warenbeschaffungsmanagement GmbH, Vienna .. .. .	55.9%	0.0	0.0		31st Dec 2002	V
BVP-Pensionskassen Aktiengesellschaft, Vienna	19.0%	10.5	0.4		31st Dec 2001	A
BVP-Pensionsvorsorge-Consult G.m.b.H., Vienna .. .. .	19.0%	0.3	0.0		30th Jun 2002	A
Capexit Private Equity Invest AG, Vienna (Group) .. .. .	93.9%	8.5	(0.6)		31st Dec 2002	V
CSSC Customer Sales Service Center GmbH, Vienna .. .. .	46.9%	0.0	0.0		31st Dec 2002	V*
Donau Allgemeine Versicherungs-Aktiengesellschaft, Vienna .. .. .	8.1%	100.8	5.9		31st Dec 2001	A
EB-Beteiligungsservice GmbH, Vienna .. ..	100.0%	0.0	0.1	X	31st Dec 2002	V
EB-IT-Erste Bank Informations-Technologie Ges.m.b.H., Vienna .. .. .	100.0%	0.0	0.0	X	31st Dec 2002	V
EB-Malta-Beteiligungen Gesellschaft m.b.H., Vienna .. .. .	100.0%	96.9	3.6		31st Dec 2002	V

Company name, domicile	Interest in %	Shareholders' equity in EUR million	Net income in EUR million	Profit transfer <sup>(1)</sup>	Balance sheet date	Inclusion in Consolidated Financial Statements <sup>(2)</sup>
EB-Restaurantsbetriebe Ges.m.b.H., Vienna ..	100.0%	0.1	0.0	X	31st Dec 2002	V
EB-Touristik Unternehmensbeteiligungs GmbH, Vienna .. .. .	100.0%	3.2	0.1		31st Dec 2002	V
ecetra Internet Services AG, Vienna (Group) ..	100.0%	4.2	(8.5)		31st Dec 2002	V
ECO Unternehmensbeteiligungs-GmbH, Vienna	100.0%	11.5	(0.2)		31st Dec 2002	V
Erste Bank Beteiligungen Gesellschaft m.b.H., Vienna .. .. .	100.0%	81.4	5.8		31st Dec 2002	V
Erste Wiener Hotel-Aktiengesellschaft, Vienna ..	35.2%	21.0	(0.9)		31st Dec 2001	E
Gartenbau-Grundstücksverwertung Gesellschaft m.b.H., Vienna .. .. .	100.0%	4.2	(0.1)		31st Dec 2002	V
GESCO Gesellschaft für Unternehmenscommunication GmbH, Vienna .. .. .	55.9%	2.3	0.1		31st Dec 2002	V
Hotel Ananas-Hotelbetriebsgesellschaft m.b.H. & Co KG, Vienna .. .. .	42.6%	(2.9)	0.7		31st Dec 2002	V
Industriegrundstücks-Verwaltungsgesellschaft m.b.H., Vienna .. .. .	100.0%	9.1	0.0		31st Dec 2002	V
Informations-Technologie Austria GmbH, Vienna .. .. .	25.9%	32.7	0.1		31st Dec 2001	E
OM Objektmanagement GmbH, Vienna (Group) .. .. .	100.0%	82.9	1.9	X	31st Dec 2002	V
s-Haftungs- und Kundenabsicherungs GmbH, Vienna .. .. .	62.6%	0.3	0.0		31st Dec 2002	V
s-Immobilienfinanzierungsberatung GmbH, Vienna .. .. .	68.7%	(2.3)	(1.9)		31st Dec 2002	V
S REAL Holding GmbH, Vienna (Group) ..	100.0%	0.8	0.1		31st Dec 2002	V
SPARDAT Sparkassen-Datendienst Gesellschaft m.b.H., Vienna .. .. .	73.4%	1.8	(0.2)		31st Dec 2002	V
Sparkassen Versicherung Aktiengesellschaft, Vienna (Group) .. .. .	62.4%	121.6	4.6		31st Dec 2002	V
Sparkassen Zahlungsverkehrabwicklungs GmbH, Linz .. .. .	40.0%	0.3	0.0		31st Dec 2002	V*
“Sparkassen-Haftungs Aktiengesellschaft”, Vienna .. .. .	38.8%	0.2	0.0		31st Dec 2002	V*
Sparkassen Immobilien Aktiengesellschaft, Vienna (Group) .. .. .	25.0%	193.3	1.8		31st Dec 2002	V
SporDat, spol. s.r.o., Bratislava .. .. .	51.0%	1.8	1.8		31st Dec 2002	V
S-Tourismusfonds Management Aktiengesellschaft, Vienna .. .. .	99.9%	75.7	2.4		31st Dec 2002	V
UBG-Unternehmensbeteiligungsgesellschaft m.b.H., Vienna .. .. .	100.0%	0.6	0.0		31st Dec 2001	A
Vereinigte Pensionskasse Aktiengesellschaft, Vienna .. .. .	29.9%	20.4	0.8		31st Dec 2001	E
VERMREAL Liegenschaftserwerbs- und -betriebs GmbH, Vienna.. .. .	25.6%	4.7	(0.7)		31st Dec 2001	E
VMG-Erste Bank Versicherungsmakler GmbH., Vienna .. .. .	100.0%	0.4	(0.3)	X	31st Dec 2002	V
WED Holding Gesellschaft m.b.H., Vienna ..	19.2%	11.5	0.0		31st Dec 2001	A
Wiener Börse AG, Vienna .. .. .	10.1%	25.1	(1.5)		31st Dec 2001	A

1) Profit transfer agreement with Erste Bank AG

2) V Full consolidation pursuant to the provisions of Austrian company law

V\* Full consolidation as a result of the cross-guarantee system agreement

E Reported at equity pursuant to the provisions of Austrian company law

E\* Reported at equity as a result of the cross-guarantee system agreement

A Stated at cost

## VI. Information and explanations pursuant to Section 245a Austrian Commercial Code on accounting, measurement and consolidation methods applied which differ from Austrian Accounting Principles

The objectives of consolidated financial statements prepared according to IFRS essentially differ from those of consolidated financial statements drawn up according to the specific accounting principles of the Austrian Commercial Code and Banking Act. In particular, financial statements prepared



according to IFRS provide greater transparency and more relevant information about the company. Figures prepared solely for tax purposes are not permitted according to IFRS. IFRS assign priority to the investor's information needs.

As the objectives of IFRS differ from those of the Austrian Commercial Code, this results in different accounting principles in some cases as well as extended reporting requirements in the Notes.

In the following cases, the differences between IFRS and Austrian accounting provisions lead to substantial differences in the methods of measurement and reporting used in consolidated financial statements (selected items only):

**Acquisitions and disposals of subsidiaries and branches:** As opposed to the scope of consolidation applied according to Austrian Accounting Principles, the respective IFRS provisions also call for consolidating subsidiaries (including those stated at equity) that are not engaged in the banking business, but are included due to the control concept.

**Balance sheet and income statement:** The Austrian Banking Act provides for a specific format to be used for the balance sheets and income statements of credit institutions. According to IFRS there is no such requirement.

**Loans and advances to credit institutions and customers:** These items are now reported as gross amounts according to IFRS, i.e. before deducting provisions. In addition, unlisted securities, which were assigned to the loans and advances items pursuant to the Austrian Banking Act, are grouped together with the respective securities portfolio (trading assets, investments available for sale or financial investments) according to IFRS.

**Risk provisions for loans and advances:** Those risk provisions accounted for in the balance sheet are reported according to IFRS in line with standard international practice as a separate line item under assets following loans and advances. This provides greater insight into the Group's risk provisioning policy. Allocations to and releases of risk provisions for the lending business are reported at the end of the year as a separate item in the income statement following net interest income.

**Trading assets:** All trading assets are reported in the balance sheet as a separate item according to IFRS. This item is mainly comprised of the securities held in the trading portfolio stated at fair value and the positive fair value of derivatives transactions that were not yet settled at the balance sheet date.

**Investments available for sale:** In accordance with IFRS, securities that are classified neither as trading assets nor as financial investments (liquidity reserves) are reported under this item. With the mandatory application of IAS 39 as of 1st January 2001 these assets are measured at fair value.

**Financial investments:** In accordance with IFRS, this item is comprised of long-term investments, securities held as financial investments and other financial investments (particularly leased properties). In compliance with IAS 39, shares and other financial assets with no fixed maturity are no longer reported as fixed assets (held to maturity).

**Intangible fixed assets:** Intangible fixed assets generated internally must be capitalised according to IFRS if the requirements for capitalising assets are met, whereas the Austrian Commercial Code prohibits capitalisation of such assets.

Purchased goodwill must be capitalised according to IFRS and written off on a straight-line basis over its useful life. According to the Austrian Commercial Code, on the other hand, such assets may be offset against equity.

**Long-term employee provisions:** According to IFRS, the actuarial calculation of long-term provisions for employee benefits (applying the projected unit credit method) takes into account the expected rise in salaries and a long-term capital market interest rate is used as the discount rate.

**Deferred taxes:** In calculating and reporting deferred taxes pursuant to IFRS, the temporary concept is applied which compares the carrying amounts of the assets and liabilities with the respective tax basis. Variances in these amounts lead to temporary differences in value, which justify deferred tax claims and deferred tax liabilities regardless of when these differences cease to exist. According to IFRS, these deferred items must be reported, whereas under the Austrian Commercial Code reporting deferred taxes is optional in the separate financial statements. According to the Austrian Commercial Code, tax accruals and deferrals are only permissible as a consequence of temporary differences between the result according to commercial law and the profit determined in accordance with tax

regulations, provided a tax expense would actually have been incurred before accounting for tax losses carried forward. The Austrian Commercial Code prohibits tax assets relating to tax losses carried forward.

**Fiduciary transactions:** In line with their economic purpose, pursuant to IFRS fiduciary operations conducted in the bank's name but for the accounts of third parties are not included in the balance sheet. According to Section 48 (1) Austrian Banking Act, such fiduciary agreements are to be reported in principle as assets or liabilities by the fiduciary agent. However, should other regulations exist according to which the assets held in trust can be segregated from bankruptcy proceedings, they should be reported as an off-balance-sheet item.

**Net interest income:** Pursuant to IFRS, this item includes interest income, interest expenses, income from investments, other dividends and income earned on variable-yield securities. Interest income and funding expenses resulting from items attributed to the trading portfolio, on the other hand, are reported in the income statement under the net trading result. According to the form stipulated by the Austrian Banking Act, net interest income and income from variable-yield income securities and investments are reported as two separate items.

**Depreciation and amortisation:** Included in this item are depreciation, amortisation and impairment of all tangible and intangible fixed assets. Amortisation of acquired goodwill, which is accounted for in the item depreciation according to the Austrian Commercial Code, is reported under other operating result pursuant to IFRS.

**Other operating result:** Under IFRS this item includes the following main earnings components:

- Result from the measurement and/or sale of securities held as investments available for sale and of all assets reported as financial investments (securities held as financial investments, investments);
- Result from measurement, allocation to and release of provisions not attributed to lending business;
- Real estate write-offs and sales revenue;
- Amortisation of acquired goodwill;
- Other operating income/expenses not attributed to other items in the income statement.

**UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS  
AS AT AND FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2003**

*The following information is extracted from the Quarterly Report for Erste Bank AG prepared on a consolidated basis for the period from 1 January to 30 September 2003. This information has not been audited.*

**Erste Bank Group Balance Sheet as of 30 September 2003 (unaudited)**

	Notes	<u>30 September 2003</u>	<u>31 December 2002</u>
<i>(in EUR million)</i>			
<b>Assets</b>			
1. Cash and balances with central banks .. .. .		2,512	3,181
2. Loans and advances to credit institutions .. .. .	(1)	17,851	15,492
3. Loans and advances to customers .. .. .	(2)	65,854	64,435
4. Risk provisions for loans and advances .. .. .	(3)	(2,781)	(2,983)
5. Trading assets .. .. .	(4)	4,352	3,487
6. Investments available for sale .. .. .	(5)	8,713	6,736
7. Financial investments .. .. .	(6)	25,726	22,572
8. Intangible fixed assets .. .. .		1,560	1,596
9. Tangible fixed assets .. .. .		1,839	1,866
10. Other assets .. .. .		4,855	4,840
		<u>130,481</u>	<u>121,222</u>
<b>Total assets .. .. .</b>		<b><u>130,481</u></b>	<b><u>121,222</u></b>
<b>Liabilities and Equity</b>			
1. Amounts owed to credit institutions .. .. .	(7)	27,774	26,425
2. Amounts owed to customers .. .. .	(8)	64,329	61,308
3. Debts evidenced by certificates .. .. .		16,815	14,191
4. Provisions .. .. .	(9)	6,122	5,488
5. Other liabilities .. .. .		5,969	5,220
6. Subordinated capital .. .. .		3,843	3,386
7. Minority interests .. .. .		3,028	2,723
8. Equity .. .. .		2,601	2,481
		<u>130,481</u>	<u>121,222</u>
<b>Total liabilities and equity .. .. .</b>		<b><u>130,481</u></b>	<b><u>121,222</u></b>

**Erste Bank Group Income Statement for the nine months ended 30 September 2003<sup>1</sup> (unaudited)**

	Notes	Jan- September 2003	Jan- September 2002
		<i>(in EUR million)</i>	
1. Interest and similar income.. .. .		4,057.6	4,356.9
2. Interest and similar expenses .. .. .		(2,122.9)	(2,521.9)
<b>Net interest income</b> .. .. .	(10)	<b>1,934.7</b>	<b>1,835.0</b>
3. Risk provisions for loans and advances .. .. .	(11)	(298.6)	(272.2)
4. Fee and commission income .. .. .		860.8	809.9
5. Fee and commission expenses .. .. .		(133.3)	(114.7)
<b>Net commission income</b> .. .. .	(12)	727.5	695.2
6. Net trading result .. .. .	(13)	170.6	126.5
7. General administrative expenses .. .. .	(14)	(1,837.0)	(1,815.8)
8. Income from insurance business .. .. .	(15)	20.8	0.6
9. Other operating results .. .. .	(16)	(128.8)	(74.5)
10. Extraordinary result.. .. .		—	—
<b>Pre-tax profit for the period</b>		<b>589.2</b>	<b>494.8</b>
11. Taxes on income		(170.6)	(117.6)
<b>Profit for the period</b>		<b>418.6</b>	<b>377.2</b>
12. Minority interests		(163.4)	(215.5)
<b>Net profit after minority interests</b>		<b>255.2</b>	<b>161.7</b>

<sup>1</sup> Since the coming into effect of the cross-guarantee system, income from insurance business is reported as a separate item.

## Statement of Changes in Equity

	<b>Jan- September 2003</b>	<b>Jan- September 2002</b>
	<i>(in EUR million)</i>	
<b>Equity as of 1 January</b> .. .. .	<u>2,481</u>	<u>1,704</u>
Translation differences .. .. .	(23)	28
Net profit after minority interests .. .. .	255	162
Capital Increase .. .. .	7	618
Dividends .. .. .	(74)	(63)
Erste Bank Shares .. .. .	(74)	(33)
Cash flow hedge .. .. .	34	14
Other changes .. .. .	(5)	13
<b>Equity at end of period</b> .. .. .	<u><u>2,601</u></u>	<u><u>2,443</u></u>

## Cash Flow Statement

	<b>Jan- September 2003</b>	<b>Jan- September 2002</b>
	<i>(in EUR million)</i>	
Cash and cash equivalents at beginning of period .. .. .	<u>3,181</u>	<u>2,573</u>
Cash flows from operating activities .. .. .	2,256	2,317
Cash flows from investing activities .. .. .	(3,235)	(2,767)
Cash flows from financing activities .. .. .	315	1,008
Effect of changes in exchange rates .. .. .	(5)	30
<b>Cash and cash equivalents at end of period</b> .. .. .	<u><u>2,512</u></u>	<u><u>3,161</u></u>

## **Notes to the Financial Statements for the third quarter of 2003**

The consolidated financial statements of the Erste Bank Group are prepared in accordance with International Financial Reporting Standards (IFRS – formerly IAS) as interpreted by the International Financial Reporting Interpretations Committee (IFRIC – formerly SIC). The current report for the first nine months of 2003 complies with IAS 34 (Interim Financial Reporting). No changes were made to accounting policies or measurement methods for this reporting period.

### ***Major business events during the reporting period***

With effect from 31 August, Česká spořitelna a.s. sold another tranche of its portfolio of legacy loans that had been advanced before Erste Bank acquired the bank. The assets sold totalled CZK 7,962 million (about EUR 249 million) and were covered by CZK 7,920 million (approximately EUR 248 million) of risk provisions for loans and advances. The sale generated proceeds of CZK 775 million.

Erste & Steiermärkische Banka d.d. and Riječka banka the two Croatian subsidiaries, were merged with effect from 1 August. The resulting new entity, Erste & Steiermärkische Banka d.d. (Erste Bank Croatia), is the third largest bank in Croatia, with total assets of about EUR 2.3 billion at 30 September 2003. Erste Bank der oesterreichischen Sparkassen AG (Erste Bank) owns 77.3% of the merged Institution; Steiermärkische Sparkasse und Bank AG holds a 15.1% equity interest.

On 22 September 2003 Erste Bank acquired a further 2.82% interest in Slovak subsidiary Slovenská sporiteľňa and thus now owns 70.01% of the capital. The purchase price was SKK 584.6 million (approximately EUR 14.1 million).

Pojišťovna ČS, the Czech insurance company owned by Česká spořitelna a.s. and by s Versicherung AG, decided in 2003 to divest its non-life insurance business to Kooperativa pojišťovna a.s. The agreed selling price of CZK 4.1 billion (about EUR 128 million) may change by 10% in either direction depending on the 2003 financial statements of Pojišťovna ČS. The purchase agreement was signed at the beginning of November 2003 and the sale is to close (on the receipt of the required approvals) in the first quarter of 2004. Details of the transaction will be released as part of the Erste Bank Group's year-end financial reporting, once the final business results for the full year 2003 are available for the unit in question.

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

On 20 October 2003 Erste Bank signed the purchase contract for the acquisition of 99.97% of the shares of Hungary's Postabank. Clearance for the transaction through the privatisation process was received on 25 September 2003. The purchase price is HUF 101.3 billion (about EUR 394.1 million) and represents 2.7 times the reported and audited book value of Postabank at the end of 2002 on the basis of IFRS. Postabank will be included in Erste Bank's consolidated financial statements from the date of the share transfer, probably in December 2003. Postabank is a retail bank with total assets of approximately EUR 1.7 billion.

Continuing the established strategy of streamlining the branch network within the Austrian savings bank group, the already announced transfer of Erste Bank branches in the Vorarlberg region to local savings banks is scheduled for the fourth quarter of 2003. The transactions will involve total loans and advances to customers of about EUR 350 million and customer deposits of some EUR 183 million. The Erste Bank Group is being paid mainly in cash and to a lesser extent in equity.

In 1998 and 1999 Erste Bank and its most significant Austrian subsidiaries transferred existing pension provisions to pension funds in order to adopt a defined contribution pension plan throughout Austria, in line with international practice. Based on an amendment to pension fund legislation in August 2003, and in order to avoid possible negative financial consequences for Erste Bank and Austrian subsidiaries, it has been decided to give employees the opportunity to switch to a more conservative scheme for risk-sharing and collective investment, with one-off additional individual contributions offered by the Erste Bank Group. As employees have until the end of November to opt for this alternative, the potential financial effect on the Erste Bank Group cannot yet be determined with any certainty.

## Information on the Group Balance Sheet

### 1) Loans and advances to credit institutions

	<u>30.9.2003</u>	<u>31.12.2002</u>
Loans and advances to domestic credit institutions .. .. .	2,582	3,462
Loans and advances to foreign credit institutions .. .. .	15,269	12,030
<b>Total .. .. .</b>	<u>17,851</u>	<u>15,492</u>

### 2) Loans and advances to customers

	<u>30.9.2003</u>	<u>31.12.2002</u>
Loans and advances to domestic customers .. .. .	45,926	46,413
<i>Public sector</i> .. .. .	3,118	3,116
<i>Commercial customers</i> .. .. .	26,171	26,990
<i>Private customers</i> .. .. .	16,517	16,157
<i>Other</i> .. .. .	120	150
Loans and advances to foreign customers .. .. .	19,928	18,022
<i>Public sector</i> .. .. .	2,995	3,090
<i>Commercial customers</i> .. .. .	12,880	11,402
<i>Private customers</i> .. .. .	3,931	3,314
<i>Other</i> .. .. .	122	216
<b>Total .. .. .</b>	<u>65,854</u>	<u>64,435</u>

### 3) Risk provisions

	<u>1.1.- 30.9.2003</u>	<u>1.1.- 30.9.2002</u>
<i>Risk provisions for loans and advances</i>		
<b>At 1 January</b> .. .. .	2,983	1,905
Change in scope of consolidation (2002: cross-guarantee system) .. .. .		1,236
Use .. .. .	(463)	(301)
Net allocation of risk provisions .. .. .	277	248
Changes in exchange rates .. .. .	(16)	25
<b>At 30 September</b> .. .. .	2,781	3,113
Risk provisions for off-balance credit risk and for other risks (included in provisions) .. .. .	77	103
<b>Risk provisions at 30 September</b> .. .. .	2,858	3,216

### 4) Trading assets

	<u>30.9.2003</u>	<u>31.12.2002</u>
Bonds and other fixed-income securities .. .. .	3,058	2,156
Shares and other variable-yield securities .. .. .	385	450
Positive fair value of derivative financial instruments .. .. .	909	881
<b>Total .. .. .</b>	<u>4,352</u>	<u>3,487</u>

**5) Investments available for sale**

	<u>30.9.2003</u>	<u>31.12.2002</u>
Bonds and other fixed income securities .. .. .	5,908	4,020
Shares and other variable-yield securities .. .. .	2,805	2,716
<b>Total</b> .. .. .	<u>8,713</u>	<u>6,736</u>

**6) Financial investments**

	<u>30.9.2003</u>	<u>31.12.2002</u>
Bonds and other fixed-income securities (held to maturity) .. .. .	18,293	15,750
Variable-yield securities .. .. .	889	956
Investments .. .. .	514	463
Investments of insurance companies .. .. .	4,723	4,294
Other financial investments (particularly carrying amounts of assets subject to operating leases and rental agreements).. .. .	1,307	1,109
<b>Total</b> .. .. .	<u>25,726</u>	<u>22,572</u>

**7) Amounts owed to credit institutions**

	<u>30.9.2003</u>	<u>31.12.2002</u>
Amounts owed to domestic credit institutions .. .. .	8,658	6,860
Amounts owed to foreign credit institutions .. .. .	19,116	19,565
<b>Total</b> .. .. .	<u>27,774</u>	<u>26,425</u>

**8) Amounts owed to customers**

	<u>30.9.2003</u>	<u>31.12.2002</u>
Savings deposits .. .. .	36,455	36,880
Other .. .. .	27,874	24,428
<b>Total</b> .. .. .	<u>64,329</u>	<u>61,308</u>

**9) Provisions**

	<u>30.9.2003</u>	<u>31.12.2002</u>
Long-term employee provisions .. .. .	1,097	1,117
Insurance reserves .. .. .	4,662	4,072
Other .. .. .	363	299
<b>Total</b> .. .. .	<u>6,122</u>	<u>5,488</u>



## 10) Net interest income

	<u>1.1.- 30.9.2003</u>	<u>1.1.- 30.9.2002</u>
Interest income from		
Lending and money market transactions with credit institutions .. ..	650.8	835.1
Lending and money market transactions with customers .. ..	2,225.4	2,380.9
Fixed-income securities .. ..	912.4	915.8
Other interest and similar income .. ..	39.5	32.8
Current income from		
Shares and other variable-yield securities .. ..	117.5	115.4
Investments .. ..	62.1	37.1
Property used by outside parties .. ..	49.9	39.8
<b>Total interest and similar income .. ..</b>	<u>4,057.6</u>	<u>4,356.9</u>
Interest expenses for		
Amounts owed to credit institutions .. ..	(555.9)	(689.8)
Amounts owed to customers .. ..	(941.9)	(1,183.5)
Debts evidenced by certificates* .. ..	(456.7)	(494.0)
Subordinated capital* .. ..	(159.3)	(144.5)
Other .. ..	(9.1)	(10.1)
<b>Total interest and similar expenses .. ..</b>	<u>(2,122.9)</u>	<u>(2,521.9)</u>
<b>Net interest income.. ..</b>	<u>1,934.7</u>	<u>1,835.0</u>

\* (hotel and leisure sector) at 30 September 2003.

## 11) Risk provisions for loans and advances

	<u>1.1.- 30.9.2003</u>	<u>1.1.- 30.9.2002</u>
Net allocation to risk provisions in lending business .. ..	(276.5)	(247.7)
Direct write-off for loans and advances less amounts recovered on loans and advances written off .. ..	(22.1)	(24.5)
<b>Total .. ..</b>	<u>(298.6)</u>	<u>(272.2)</u>

## 12) Net commission income

	<u>1.1.- 30.9.2003</u>	<u>1.1.- 30.9.2002</u>
Lending business* .. ..	116.8	115.9
Payment transfers* .. ..	282.1	239.6
Securities transactions .. ..	176.8	169.9
<i>Investment fund transactions</i> .. ..	78.1	72.3
<i>Custodial fees</i> .. ..	29.2	29.4
<i>Brokerage</i> .. ..	69.5	68.2
Insurance business .. ..	37.9	36.3
Building society agency operations .. ..	19.9	16.9
Foreign exchange operations .. ..	38.6	36.1
Other* .. ..	55.4	80.5
<b>Total .. ..</b>	<u>727.5</u>	<u>695.2</u>

\* (hotel and leisure sector) at 30 September 2003.

### 13) Net trading result

	<u>1.1.- 30.9.2003</u>	<u>1.1.- 30.9.2002</u>
Securities and derivatives trading .. .. .	85.0	57.8
Foreign exchange .. .. .	85.6	68.7
<b>Total .. .. .</b>	<u>170.6</u>	<u>126.5</u>

### 14) General administrative expenses

	<u>1.1.- 30.9.2003</u>	<u>1.1.- 30.9.2002</u>
Personnel expenses.. .. .	(1,041.1)	(1,006.6)
Other administrative expenses .. .. .	(538.8)	(582.2)
Depreciation and amortisation of fixed assets .. .. .	(257.1)	(227.0)
<b>Total .. .. .</b>	<u>(1,837.0)</u>	<u>(1,815.8)</u>

### 15) Income from insurance business

	<u>1.1.- 30.9.2003</u>	<u>1.1.- 30.9.2002</u>
Earned premiums .. .. .	667.9	689.6
Investment income on underwriting business .. .. .	181.6	118.1
Claims incurred .. .. .	(172.6)	(238.2)
Change in underwriting provisions .. .. .	(525.9)	(422.7)
Expenses for profit-linked premium reimbursements .. .. .	(56.0)	(36.1)
Operating expenses .. .. .	(77.2)	(73.3)
Other underwriting result .. .. .	(6.7)	(40.4)
<b>Net underwriting income .. .. .</b>	11.1	(3.0)
Net investment income .. .. .	191.3	121.8
Carried to underwriting account .. .. .	(181.6)	(118.2)
<b>Total .. .. .</b>	<u>20.8</u>	<u>0.6</u>

### 16) Other operating result

	<u>1.1.- 30.9.2003</u>	<u>1.1.- 30.9.2002</u>
Other operating income .. .. .	69.5	80.8
<i>Other operating expenses</i> .. .. .	(215.7)	(178.4)
<i>Amoritsation of goodwill</i> .. .. .	(60.9)	(39.8)
<i>Other operating expenses</i> .. .. .	(154.8)	(138.6)
Income from securities held as investments available for sale .. .. .	16.0	2.8
Income from investments and related companies .. .. .	1.4	20.3
<b>Total .. .. .</b>	<u>(128.8)</u>	<u>(74.5)</u>

## 17) Contingent liabilities and other obligations

	<u>30.09.2003</u>	<u>31.12.2002</u>
<b>Contingent liabilities</b> .. .. .	6,605	5,918
Contingent liabilities .. .. .	6,511	5,809
Other .. .. .	94	109
<b>Other obligations</b> .. .. .	16,339	14,972
Undrawn credit and loans commitments .. .. .	14,821	13,549
Amounts owed resulting from repurchase transactions .. .. .	1,043	1,063
Other .. .. .	475	360

## 18) Number of employees (weighted by extent of employment)

	<u>30.09.2003</u>	<u>31.12.2002</u>
Employed by Group .. .. .	36,422	36,923
Domestic .. .. .	15,190	15,654
Abroad .. .. .	21,232	21,269
thereof CS-Group .. .. .	12,736	12,994
thereof SLSP.. .. .	5,277	5,248

\* (hotel and leisure sector) at 30 September 2003.

**Development in Erste Bank Group's qualifying capital under the Austrian Banking Act**

	<b>30 September 2003</b>	<b>31 December 2002</b>	<b>30 September 2002</b>
	<i>(in EUR million)</i>		
Subscribed capital (less shares held in own portfolio) .. ..	435	435	435
Reserves and minority interests .. ..	3,973	3,839	3,596
Intangible fixed assets .. ..	(450)	(474)	(399)
<b>Core capital (Tier 1) .. ..</b>	<b>3,958</b>	<b>3,800</b>	<b>3,632</b>
Eligible subordinated liabilities .. ..	2,919	2,764	2,762
Revaluation reserve .. ..	198	185	179
<b>Qualifying supplementary capital (Tier 2) .. ..</b>	<b>3,117</b>	<b>2,949</b>	<b>2,941</b>
<b>Short-term subordinated capital (Tier 3) .. ..</b>	<b>339</b>	<b>325</b>	<b>335</b>
<b>Total qualifying capital .. ..</b>	<b>7,414</b>	<b>7,074</b>	<b>6,908</b>
Deductions under Section 23 (13) and Section 29 (1-2) Austrian Banking Act .. ..	(71)	(91)	(123)
<b>Total eligible qualifying capital .. ..</b>	<b>7,343</b>	<b>6,983</b>	<b>6,785</b>
Capital requirement .. ..	5,191	5,146	5,102
Surplus capital .. ..	2,152	1,837	1,683
<b>Cover ratio .. ..</b>	<b>141.5%</b>	<b>135.7%</b>	<b>133.0%</b>
<b>Tier 1 ratio .. ..</b>	<b>6.5%</b>	<b>6.3%</b>	<b>6.1%</b>
<b>Solvency ratio .. ..</b>	<b>11.6%</b>	<b>11.0%</b>	<b>10.8%</b>
Risk-weighted basis under Section 22 Austrian Banking Act ..	60,640	60,257	59,574
Thereof 8% minimum capital requirement .. ..	4,851	4,821	4,766
Capital requirement for the open foreign exchange position under Section 26 Austrian Banking Act .. ..	20	9	11
Capital requirement for the trading book under Section 22b (1) Austrian Banking Act .. ..	320	316	325
<b>Total capital requirement .. ..</b>	<b>5,191</b>	<b>5,146</b>	<b>5,102</b>

## PRELIMINARY ANNOUNCEMENT AS TO RESULTS (UNAUDITED) OF ERSTE BANK FOR THE YEAR ENDED 31 DECEMBER 2003

*The following is a copy of the press release issued by Erste Bank on 17 March 2004 relating to the results (unaudited) of Erste Bank for the year ended 31 December 2003, as amended for minor errors in the original text.*

Vienna 17 March 2004

### Results 2003: Erste Bank delivers another strong set of results

“This year’s results repeat the resounding success of the last six years, during which we have achieved a continuous increase in our net profit. Exceeding the targets set at the IPO in 1997 so convincingly and in such a short space of time, is something to be immensely proud of,” announced CEO Andreas Treichl at the presentation of Erste Bank’s preliminary full year results for 2003.

#### Highlights<sup>1</sup>

- **Consolidated total assets** up by 6.1%, from EUR 121.2bn at 31.12.2002 to EUR 128.6bn
- **Net interest income** grew by 5% against 2002, rising from EUR 2,463m to 2,586.8m
- **Net commission income** up by 5.5% from EUR 944.3m to EUR 996.6m
- **Operating results** improved by 19% from EUR 1,151.2m to EUR 1,370.1m
- **Pre-tax profit** increased by 14.6% from EUR 664.6m to EUR 761.6m
- **Net profit** after tax and minority interests up by 38.4%, from EUR 255.2m to EUR 353.3m
- **Return on equity** improved by a full percentage point taking it to 13.7% at the end of 2003
- **Cost-income ratio** was reduced substantially, improving to 64.2% from 67.9% at the previous year end.
- **The tier 1 ratio**, as defined under the Austrian Banking Act, remains stable at 6.3%
- **Earnings per share** have markedly increased from EUR 4.73 at the previous year end to EUR 5.95 for the full year 2003.

“Leading the retail banking field in Central Europe with 11 million customers, Erste Bank has more than 21% of total customer deposits in the region, amounting to EUR 20,686m. Furthermore our investors have witnessed a share price increase of 160% over six years. In that time, earnings per share have more than doubled to EUR 5.95 and dividend payments totalling EUR 447.3m have been paid out. In addition, our market capitalisation has seen a dramatic rise from EUR 2bn to just under EUR 7bn. Cooperation in the savings bank group has also brought success in the shape of a market share increase in Austria from 26% to 27% over the past year. All these results combined make us particularly proud of our achievements.”

In line with the strategy set out by Erste Bank’s Management Board, the focus in the coming years will be to continue to exploit the potential for synergies within the Group for the benefit of our customers as well as translating the continuing high economic growth in Central Europe into continued earnings growth. Current forecasts predict that it will take the accession countries between one and two decades to reach the current economic level of the existing EU-15. “The growth that this implies is precisely what we see as the basis of Erste Bank’s high earnings potential,” explained Treichl. “We are among the market leaders in the retail banking sector in all of the countries where we are active. It is this sector – whether in private real estate, pension provision or consumer finance – that is currently enjoying growth, and whose development has convinced us that we will be successful in reaping long term benefits from these regions”.

1. In assessing these figures, it is important to note three factors – the inclusion of Riječka Banka figures from May 2002 onwards, the increased stake in Česká spořitelna from July 2002 and the addition of Postabank late in 2003 (16 December). Furthermore, as had already happened in other provinces during the previous years, Erste Bank branches in Vorarlberg were transferred to the local savings banks in Vorarlberg.

## Outlook 2005

“The combination of this year’s excellent results, the further earnings potential that we expect EU enlargement to bring as well as our rigorous cost management measures mean that we remain confident that we will definitely reach our 2005 targets. These are a group profit of EUR 500m based on a return on equity of at least 16%, and a cost-income ratio of no more than 62%,” stated Reinhard Ortner, CFO.

For 2004 a double digit increase in group net profit is again expected.

### I: Overview of Group Results

The marked improvement in **operating results**, up 19% to EUR 1,370.1m, is attributed to two main factors. Firstly, overall **operating income** of the Erste Bank Group (the sum of net interest income, net commission income, net trading result and result from insurance business) increased by 6.9% in 2003 to EUR 3,830.9m. Secondly, **general administrative expenses** (personnel expenses, other administrative expenses and depreciation of fixed assets) rose only slightly, by 1.2% to EUR 2,460.8m. Discounting the one-off expenditure of EUR 32m due to legal changes in the employee pension scheme, general administrative expenses would even have decreased by around 0.1%.

Despite this one-off expense, the **cost-income ratio** has significantly improved, decreasing from 67.9% in December 2002 to 64.2% at year end 2003. This compares with a ratio of 73.5% in 1997.

The **other operating result** was mainly affected by higher goodwill amortisation as well as one-off expenses in the Central European subsidiaries of Česká spořitelna (ČS) and Slovenská sporiteľna (SLSP), which led to an increase of the negative result from EUR -80.2m in 2002 to EUR -202.1m.

**Pre-tax profit** for 2003 rose by almost 15% from EUR 664.6m to EUR 761.6m.

“The 38.4% increase in **net profit** for 2003 to EUR 353.3m demonstrates how well we have positioned ourselves in Europe’s key growth area. We are especially proud that this increase can be attributed exclusively to the operating business,” stated CFO, Reinhard Ortner. “We also want the shareholders to be able to participate in our success and will be recommending a dividend increase of 21% from EUR 1.24 to EUR 1.50 at this year’s Annual General Meeting.”

**Return on equity** was up a full percentage point to 13.7%. The cash return on equity (return on equity less goodwill) rose from 15.3% in 2002 to 16.6% in 2003.

### II: Group Results in Detail

#### 1. Earnings Developments

##### 1.1 Operating Income

**Operating income** rose by 6.9% to EUR 3,830.9m, with satisfactory rates of growth achieved in all areas. The net trading result and income from insurance business performed particularly well.

Net interest income (represents interest in the narrow sense, interest-like income and expenses, and income from equity holdings including the share in the results of operations of associates) increased over the past year by 5% to EUR 2,586.8m.

The overall net interest margin – net interest income as a percentage of average interest bearing assets (derived from total assets less cash reserves, trading assets, tangible and intangible assets as well as other assets) remained unchanged against 2002 at 2.3%. The net interest margin in Austria was 1.9%. In Central Europe this figure lies between 3.6% and 4.5%.

An increase of 5.5% to EUR 996.6m for **net commission income** was achieved for 2003. Growth was realised in all commission bearing areas, with the income from insurance and building society businesses in particular climbing 28.4% to EUR 97.3m. Improved market conditions also led to positive developments in securities, with an increase of 6.9%, especially in fund business and brokerage.

**Net trading result** showed an above average rise of 28.2% to EUR 214.6m. The good market positioning of our treasury activities contributed significantly towards this achievement.

Income from insurance business increased almost fourfold compared to the previous year, growing to EUR 32.9m. This result contrasts with the unusually low result in 2002, which was caused by unfavourable market conditions and damages claims stemming from natural disasters. The turnaround was also assisted by improving capital market conditions.

## 1.2 General Administrative Expenses

**General administrative expenses** (personnel expenses, other administrative expenses and depreciation of fixed assets) remained stable at EUR 2,460.8m, up only 1.2% from the previous year. Excluding the one-off charge of EUR 32m (detailed below), general administrative expenses would have seen a slight reduction.

<b>Erste Bank-Group</b>	<b>2003</b>	<b>2002</b>	<b>% Change</b>	<b>Excl. Pension contributions</b>	<b>% Change against 2002</b>
	<i>EUR million</i>				
Personnel expenses .. .. .	1,422.3	1,373.2	3.6	1,390.3	1.3
Other administrative expenses ..	691.9	762.6	(9.3)	691.9	(9.3)
<b>Subtotal .. .. .</b>	<b>2,114.2</b>	<b>2,135.8</b>	<b>(1.0)</b>	<b>2,082.2</b>	<b>(2.5)</b>
Depreciation .. .. .	346.6	296.2	17.0	346.6	17.1
<b>Total general administrative expenses</b>	<b>2,460.8</b>	<b>2,432.0</b>	<b>1.2</b>	<b>2,428.8</b>	<b>(0.1)</b>

<b>Austria (including Corporate Center and International business)</b>	<b>2003</b>	<b>2002</b>	<b>% Change</b>	<b>Excl. Pension contributions</b>	<b>% Change against 2002</b>
	<i>EUR million</i>				
Personnel expenses .. .. .	1,078.0	1,064.0	1.3	1,046.0	(1.5)
Other administrative expenses ..	415.1	477.0	(13.0)	415.1	(13.2)
<b>Subtotal .. .. .</b>	<b>1,493.1</b>	<b>1,541.0</b>	<b>(3.1)</b>	<b>1,461.1</b>	<b>(5.1)</b>
Depreciation .. .. .	201.0	185.8	8.2	201.0	7.5
<b>Total general administrative expenses</b>	<b>1,694.1</b>	<b>1,726.8</b>	<b>(1.9)</b>	<b>1,662.1</b>	<b>(3.8)</b>

<b>Central Europe</b>	<b>2003</b>	<b>2002</b>	<b>% Change</b>
	<i>EUR million</i>		
Personnel expenses .. .. .	344.3	309.2	11.4
Other administrative expenses .. .. .	276.8	285.6	(3.1)
<b>Subtotal .. .. .</b>	<b>621.1</b>	<b>594.8</b>	<b>4.4</b>
Depreciation .. .. .	145.6	110.4	31.9
<b>Total general administrative expenses</b>	<b>766.7</b>	<b>705.2</b>	<b>8.7</b>

**Personnel expenses** increased by 3.6% to EUR 1,422.3m. This was due to a one-off expense of approximately EUR 32m, the cost incurred by the transfer of current and retired employees' pension contributions into a new scheme following a change in the related pension law. Excluding this one-off effect, total administrative expenses would have decreased by 0.1%.

Excluding the addition of 1,804 employees from the acquisition of Postabank, there was a 2.9% reduction in headcount in 2003, with numbers falling to 35,846.

## Headcount

	<u>As of</u> <u>31.12.2003</u>	<u>As of</u> <u>31.12.2002</u>
Austria.. .. .	14,974	15,654
thereof cross guarantee savings banks .. .. .	6,931	7,272
International .. .. .	22,676	21,269
thereof Česká spořitelna Group .. .. .	12,420	12,994
thereof Slovenská sporitelna Group .. .. .	5,283	5,248
thereof other international subsidiaries .. .. .	4,973*	3,027
<b>Total</b> .. .. .	<u>37,650</u>	<u>36,923</u>

\* Of which 1,804 employees are an addition through the acquisition of Postabank.

As at the end of 2003, a further 72 employees were working in consolidated non-bank subsidiaries (mainly in the hotel and leisure industry), down from 256 at year end 2002.

Strict cost management enabled **other administrative expenses** to be reduced by 9.3% to EUR 691.9m. This was mainly the result of cost reductions in IT expenditure, which decreased from EUR 208.9m to EUR 162.1m. Depreciation of fixed assets increased by 17% up to EUR 346.6m, according to plan, as a result of higher IT spending over the last couple of years.

### 1.3 Risk Provisions

The actual requirement for risk provisions for loans and advances in the lending businesses remained at EUR 406.4m as expected. This led to a decrease in provision charges as a percentage of average loans and advances to customers from 65 to 62 basis points.

### 1.4 Other operating result

The negative balance increased significantly in 2003 to EUR -202.1m against EUR – 80.2m in the previous year. Increased amortisation of goodwill (caused in part by the additional stake purchased in ČS in 2002), lower income from the sale of non-core investments and planned software write-offs in connection with the restructuring in Central Europe were the main contributors towards this figure.

### 1.5 Tax situation

The effective tax rate for 2003 (taxes on income and profit as a percentage of pre-tax profit) was 29.4%, which whilst expected, was considerably higher than last year's rate of 22.8%. However, the rate for 2002 was atypically low as a result of changes in the legal framework as well as the amount of non-tax deductible goodwill being significantly higher. These factors combined resulted in an increase in the effective tax rate for 2003.

The proposed tax reform by the Austrian government, due to come into effect from 2005, will see corporation tax fall from 34% to 25%. Expected changes in the tax regime and the proposed introduction of a new group taxation, where details remain to be finalised, mean that the final effects on the Erste Bank Group cannot yet be determined.

### 1.6 Net Profit after minority interests

There has been a considerable reduction in Erste Bank's **minority interests**, down 28.6% to EUR 184.1m. One reason for this is the additional stakes in CS, purchased in mid-2002, which have led to lower deductions for minority interests in 2003. In addition, in accordance with the IFRS requirement, the exceptional revaluation gains arising from savings bank holdings of Erste Bank shares are eliminated from the P&L results of those savings banks in the cross guarantee system where Erste Bank has either no or minimal participation. IFRS rule states that any share price gains arising from a company's own shares cannot affect its profits. This has therefore contributed to the overall reduction in minority interests.

**Net profit after minority interests** showed an increase of 38.4% to EUR 353.3m compared to the previous year.



## 2. Balance Sheet Developments

**Total assets** for the Erste Bank Group grew 6.1% in the past year to EUR 128.6bn.

**Loans and advances to customers** increased by 5.2% to EUR 67.8bn. This increase is attributed to the first-time inclusion of loans and advances from Postabank, worth EUR 1.1bn. It is, however, slightly off-set by the disposal of CZK 8bn (EUR 0.25bn) of high risk loans and advances from Česká spořitelna, auctioned off to an investment bank during 2003.

Furthermore, Erste Bank carried out a placement on the capital market in May 2003 in the form of asset-backed securities for its car leasing subsidiary – EBV Leasing. A car leasing portfolio of 20,000 contracts with a total value of EUR 220m was sold.

Leaving these special developments aside, the figures illustrate only moderate growth due both to the general economic situation and a tight risk control policy.

The disposal of bad loans at ČS mentioned above included the use of existing risk provisions. This, in addition to other uses, explains why **risk provisions** decreased to EUR 2,772m, despite provision charges in 2003.

Once again, there was a rise in **financial investments** – up 17.2% to EUR 26.5bn – and similarly the investments available for sale increased by 9.5% to EUR 7.4bn. Above all, this is a result of the increase in the ‘held to maturity’ portfolio of fixed income securities – a position the Bank took because of large volumes of customer funding and a cautious expansion of the loan portfolio.

**Customer deposits** grew by 5.8% to EUR 64.8bn in 2003. Savings deposits also grew slightly during the year.

As in previous years, there was a notable increase in funding from our **own issuance** in 2003. The sum of debts evidenced by certificates and subordinated capital grew by 16.5% to EUR 20.5bn.

**Shareholders’ equity** of Erste Bank AG (including net profit after minority interests) grew by EUR 310m (12.5%) to approximately EUR 2.8bn.

Included in the **minority interests** is the equity of those cross guarantee system savings banks in which Erste Bank has only a minority or no equity stake. Here, 2003 showed an increase of 5.7% to EUR 2.9bn. In addition, the first quarter of 2003 saw the placing of a hybrid Tier 1 issue of Japanese Yen (amounting to EUR 150m) through a subsidiary.

The **total eligible qualifying capital** under the Austrian Banking Act (BWG) was EUR 7,009m at year end 2003, compared to EUR 6,983m at previous year end.

The statutory minimum requirement at 31.12.03 was EUR 5,315m, resulting in a coverage ratio of 131.9% (2002: 135.7%).

Risk weighted assets as defined by Section 22 of the Austrian Banking Act grew by EUR 1,931m or 3.2% to EUR 62.2bn from EUR 60.3bn last year. EUR 1,136m of this increase is attributed to the first-time inclusion of Postabank.

The Tier 1 Capital of the Erste Bank Group under the Austrian Banking Act was EUR 3,912m at 31 December 2003 (2002: EUR 3,800m).

**The Tier 1 ratio** at 31 December 2003 was thus unchanged at 6.3%; the **solvency ratio** reached 10.7% (2002: 11%) and therefore significantly exceeds the legally required minimum level of 8%.

## 3. Results for 4th Quarter 2003

**Net profit after minority interests** for the fourth quarter – traditionally the strongest period of the year – was up 9% from the previous quarter at EUR 98.3m. **Operating income** rose 2.5% against the third quarter to EUR 977.4m. Significant rates of growth were seen in commission income and income from insurance business. **Net interest income** was up by a moderate 1.1%. The net trading result was down by 21.2% from EUR 55.9m in Q4 to EUR 44m in the fourth quarter.

**General administrative expenses** rose by 1.5% to EUR 623.5m. It is important to note, however, that this includes the one-off effect of EUR 32m referred to earlier. Discounting this one-off expense, Erste Bank’s successful cost management measures were evidenced by the 3.6% reduction in general administrative expenses for the fourth quarter.

**Risk provisions** increased by EUR 15.1m against the previous quarter, as the savings banks within the cross guarantee system increased their end-of-year risk provisioning compared to previous quarters. In addition, the total volume of risk provisions for the full year corresponded to the previous year's level, as the previously planned releases of provisions at Česká spořitelna were netted-off at EB group level.

The negative balance in **other operating result** increased against the previous quarter. This is attributable to provisioning outside the lending business and marked-to-market valuations of the available-for-sale portfolio.

The relatively strong decline in **minority interests** from EUR 37.5m to EUR 20.5m is largely due to changes in the Savings Bank segment. As mentioned previously, in order to comply with IFRS regulation, the gains from the higher valuation of the Erste Bank share had to be eliminated from the consolidated accounts.

The **tax rate** for the last quarter of 2003 was 31% above the level of the previous quarter. This development is attributable to the tax results of group companies and the current valuation of tax assets and tax liabilities.

#### 4. Segment Reporting

##### *Austria*

In comparison to the equivalent period last year, and despite an increase in funding costs and goodwill amortisation, the Austrian segment was able to secure excellent results (after taxes and minority interests) – up 70 % from EUR 99.4m to EUR 168.7m. Following better performance in all areas of the P&L, ROE improved to 10.9% from 8.4% in 2002. The cost-income ratio also improved from 69.1% last year to 67.1% this year. This can be attributed to an increase in the operating result (net interest income, net commission income, net trading result and good results from the insurance business), which was up 4.7%, and only a slight (1.4%) increase in general administrative expenses.

##### *Savings Banks*

In the Saving Banks subsegment, net commission income grew substantially in 2003 (up 20.2% to EUR 321.5m). An element of this rise can be accredited to the first time inclusion in this segment of the savings bank payment services company. This also explains the rise in general administrative expenses, as in 2002 the business was allocated to the Corporate Center. Interest income was down slightly, by 2.9%. As a result of improved capital market conditions, this segment was also able to achieve an excellent trading result, up 19.2% to EUR 29.3m.

##### *Retail and Real Estate*

This segment covers retail and commercial business in Austria and includes the majority-owned savings banks and the subsidiaries mainly involved in retail business (Bausparkasse, Sparinvest, EBV-Autoleasing and s-Versicherung). The significant increase in net profit after minority interests from EUR 0.5m to EUR 19.8m was due to excellent progress in the insurance business (up to EUR 25.9m) as well as to a clear improvement in other operating result (mainly due to higher results from valuation of securities held as investments available for sale of the Savings Banks where Erste Bank has a majority stake). The slight reduction in net interest income of 1.7% was mainly a result of higher funding costs due to the acquisition of an additional stake in s-Versicherung at the end of 2002. Whilst general administrative expenses were reduced by 0.4% to EUR 653m, risk provisioning in the lending business was up 7% to EUR 132.4m. The main reason for this was the risk provisions at Tiroler Sparkasse which were no longer off-set by the first-time consolidation measures applied on acquisition in 2002.

##### *Large Corporate Customers*

This segment also includes the leasing subsidiary Immorent, alongside the large corporate customer business of Erste Bank AG. Whilst net interest income showed a substantial increase (up 8.7% to EUR 147.7m), net commission income was down by 29.9% on last year at EUR 53.1m. This decrease is mainly due to the above average result in commission income from Immorent in 2002 (particularly in the areas of construction project financing and other leasing commissions), which could not be repeated in 2003. Risk provisions for loans and advances were down 16.5%, and strict cost management measures resulted in a 5% decrease in general administrative expenses.

### *Trading and Investment Banking*

In addition to the related business areas in Vienna (Treasury, Asset/Liability management, and Investment Banking), the Trading and Investment Banking segment also includes the Treasury activities of the New York and Hong Kong offices.

Net profit after minority interests of this segment was up strongly to EUR 91.2m from EUR 47.8m and can be attributed to good results within Asset / Liability management. Net interest income rose by almost 60% (EUR 112.1m from EUR 70.7m in 2002) and the net trading result increased by 13.3% (EUR 89.6m from EUR 79.1m in 2002), both as a result of the improved market conditions in general. Furthermore, net commission income saw a sharp increase (to EUR 41.5m from EUR 18.1m in 2002) mostly as a result of the sale of structured products. Growth in general administrative expenses was maintained at a modest rate, up by only 3%.

### *Central Europe Segment*

The Central Europe segment demonstrated significant double digit increases in all areas of results. Furthermore, the growth rate in general administrative expenses was kept at a moderate level of 8% despite two main factors. Firstly, personnel expenses rose as a result of salary increases necessary to bring them in line with local market levels and secondly, costs increased due to the write-offs of fixed assets required in the modernisation of the network and IT. Despite an increase in the negative balance in other operating result, net profit after minority interests increased by over 28.5% from EUR 147.7m to EUR 189.7m. As a consequence of these good results, return on equity increased to 31% and the cost-income ratio improved from 64% to 61%.

#### *Česká spořitelna (ČS)*

The decrease in net interest income (EUR 460.8m from EUR 477.3m) at ČS was due to higher funding costs (acquisition by Erste Bank of additional stakes in ČS in mid 2002), a weaker Czech Crown compared to 2002 and the sharp decline in interest rates. However this was largely off-set by the rise in net commission income (up 11.2%), which was mainly due to the increased sale of asset-management products and from payment services. The insurance business returned to normal levels, achieving results of EUR 10.2m after the previous year, in which it was affected by the flood catastrophe and generally weak capital market conditions. General administrative expenses (including depreciation and amortisation of fixed assets) rose only slightly to EUR 474.1m. Looking at these costs in more detail, administrative and personnel costs were reduced by 3%. The decrease in other operating result is due partly to the additional amortisation of goodwill following the acquisition of the additional stake in ČS in 2002, and also to the higher expenses for the deposit insurance contributions and a one-off write-off of intangible assets. These developments as well as the acquisition of the further stake in mid-2002 have all contributed to an improved net profit after minority interests – by 16% to EUR 122.5m.

#### *Slovenská sporiteľňa (SLSP)*

The effect of both the completed restructuring and the strengthened marketing initiatives was evident in the results of SLSP. Net interest income increased by 45.5% to EUR 234.7m. This rise was also supported by an exceptionally high result in the at-equity valuation of the Slovakian building society (PSS) of approximately EUR 36m. Commission income improved by almost 20% to EUR 51.6m – particularly in payment services and the lending business. These increases comfortably covered the rise in general administrative expenses by 8.5% to EUR 157.3m. Again, the sum of personnel and other administrative costs were contained at last year's level (adjusted for inflation, there was even a reduction). The success of the restructuring was clearly illustrated by the increase in net profit after minority interests, up by 95.1% to EUR 32.7m. The decline in other operating result was mainly due to provisioning outside the lending business as well as the one time write-off of intangible assets.

#### *Erste Bank Hungary (EBH)*

Likewise in EBH, the effect of the good market positioning was visible in earnings growth. Net interest income, boosted by the significant increase in business volume, was up by 30.1% from EUR 45m to EUR 58.5m. The rise in commission income by 66.7% from EUR 17.3m to EUR 28.8m was particularly pleasing. The reason for this was increased revenues within the payment business and commission growth in the lending business. The increase in general administrative expenses was mainly due to the expansion of the branch network and the related higher personnel costs. The other operating result was affected by provisions connected to the takeover of Postabank, which was completed at the end of 2003. Net profit after minority interests rose from EUR 4.9m to EUR 13.2m, resulting in return on equity exceeding 20% for the first time.

### *Erste Bank Croatia*

The acquisition of Riječka Banka in the second quarter 2002 was one of the main reasons behind the increase in net profit in this segment. In the course of this financial year, the merger of Riječka Bank with Erste & Steiermärkische Bank, which took place in the third quarter of 2003, was one of the key events. Despite a government lending regulation, interest income increased by 30%. Similarly, net commission income rose by 29.3% to EUR 12.5m, reflecting the good position in the market. The higher general administrative expenses were a consequence of the merger of the two banks. Here in particular, marketing costs in connection with introduction of a new logo and increased provisioning for personnel as a result of the merger were the main contributors.

### *International Business*

Alongside the related business areas in Vienna, the international business segment also includes the commercial activities of the overseas branches in London, New York and Hong Kong. In this segment, growth was seen in both net interest income (up 8.9% to EUR 146.8m) and net commission income (up 38.8% to EUR 21.1m). This led to an increase in net profit after minority interests by 36.4% to EUR 70.1m. The positive trend in risk costs in the lending business has to be seen in conjunction with the development of other operating results, which declined due to the higher revaluation requirements for investment securities based on decreasing asset quality. In total, however, risk provisions were below last year's level.

### *Corporate Center*

The Corporate Center segment encompasses other units that cannot be directly allocated to the individual business segments (e.g. ancillary units, the Internet subsidiary etcetra etc). In regard to general administrative expenses, a one-off payment of EUR 32m was made into a new pension scheme as a result of an amendment in the pension legislation law. Due to a change in the segment constituents in 2003 (the Savings Bank payment services company was included in this sector in 2002 and for 2003 falls under the Savings Bank segment), a comparison line by line to previous years is not representative. As a result of consolidation effects, particularly between service units and business areas in this segment, the development of the net commission income and general administrative expenses can only be seen from the aggregate of these positions.

## I. Balance sheet according to IFRS

	<u>31/12/03</u>	<u>31/12/02</u>	<u>+/- %</u>
	<i>(in EUR million)</i>		
<b>Assets</b>			
1. Cash and balances with central banks .. .. .	2,549	3,181	(19.9)
2. Loans and advances to credit institutions.. .. .	13,140	15,492	(15.2)
3. Loans and advances to customers .. .. .	67,766	64,435	5.2
4. Risk provisions for loans and advances .. .. .	(2,772)	(2,983)	(7.1)
5. Trading assets .. .. .	5,259	3,487	50.8
6. Investments available for sale .. .. .	7,379	6,736	9.5
7. Financial investments .. .. .	26,454	22,572	17.2
8. Intangible assets .. .. .	1,868	1,596	17.1
9. Tangible assets .. .. .	1,814	1,866	(2.8)
10. Other assets .. .. .	5,117	4,840	5.7
<b>Total assets</b> .. .. .	<u>128,575</u>	<u>121,222</u>	<u>6.1</u>
	<i>(in EUR million)</i>		
	<u>31/12/03</u>	<u>31/12/02</u>	<u>+/- %</u>
<b>Liabilities and shareholders' equity</b>			
1. Amounts owed to credit institutions .. .. .	25,704	26,425	(2.7)
2. Amounts owed to customers .. .. .	64,839	61,308	5.8
3. Debts evidenced by certificates .. .. .	16,944	14,191	19.4
4. Provisions .. .. .	6,366	5,488	16.0
5. Other liabilities .. .. .	5,515	5,220	5.6
6. Subordinated capital .. .. .	3,538	3,386	4.5
7. Minority interests .. .. .	2,879	2,723	5.7
8. Shareholders' equity .. .. .	2,791	2,481	12.5
<b>Total liabilities and shareholders' equity</b> .. .. .	<u>128,575</u>	<u>121,222</u>	<u>6.1</u>

## II. Income Statement according to IFRS

	<u>2003</u>	<u>2002</u>	<u>+/- %</u>
	<i>(in EUR million)</i>		
<b>I. Net interest income</b> .. .. .	2,586.8	2,463.0	5.0
Risk provisions for loans and advances .. .. .	(406.4)	(406.4)	0.0
Net commission income .. .. .	996.6	944.3	5.5
Net trading result .. .. .	214.6	167.4	28.2
General administrative expenses .. .. .	(2,460.8) <sup>2</sup>	(2,432.0)	1.2
Result from insurance business .. .. .	32.9	8.4	>100.0
Other operating result .. .. .	(202.1)	(80.2)	>(100.0)
Extraordinary result .. .. .	0.0	0.0	-
<b>II. Pre-tax profit for the year</b> .. .. .	761.6	664.6	14.6
Taxes on income .. .. .	(224.2)	(151.4)	48.1
<b>III. Profit for the year</b> .. .. .	537.4	513.2	4.7
Minority interests .. .. .	(184.1)	(258.0)	(28.6)
<b>IV. Net profit after minority interests</b> .. .. .	353.3	255.2	38.4

2 Including a one-off pension charge of EUR 32 million

### III. Erste Bank Group YE 2003 – Divisional Reporting (Overview)

#### Overview

	Austria		Central Europe		International Business		Corporate Centre	
	2003	2002	2003	2002	2003	2002	2003	2002
	<i>(in EUR million)</i>							
Net interest income .. .. .	1,622.8	1,604.2	829.4	741.7	146.8	134.7	(12.1)	(17.5)
Risk provisions for loan and adv.	(374.6)	(363.1)	(9.7)	3.9	(26.1)	(51.9)	3.9	4.7
Net commission income .. ..	680.2	628.1	345.3	297.2	21.1	15.2	(50.0)	3.6
Net trading result .. .. .	137.1	123.8	71.2	56.6	0.1	0.0	6.2	(13.0)
General administrative expenses	(1,655.6)	(1,633.2)	(766.7)	(705.2)	(34.0)	(38.4)	(4.4)	(55.1)
Income from insurance business ..	25.9	6.1	10.2	2.3	0.0	0.0	(3.2)	0.0
Other operating result	(26.4)	(67.0)	(167.1)	(57.9)	(13.8)	3.6	5.2	41.2
<b>Pre-tax profit</b> .. .. .	409.4	298.9	312.6	338.7	94.1	63.3	(54.5)	(36.2)
Taxes on income .. .. .	(128.4)	(68.1)	(78.1)	(89.0)	(24.0)	(11.8)	6.3	17.3
Minority interest .. .. .	(112.3)	(131.4)	(44.7)	(102.0)	0.0	0.0	(27.1)	(24.5)
<b>Net profit after minority interests</b> ..	168.7	99.4	189.7	147.7	70.1	51.4	(75.3)	(43.4)
Average risk-weighted assets ..	44,771.0	44,674.8	10,162.1	9,157.6	6,387.5	6,128.9	567.3	550.6
Average attributed equity .. ..	1,549.1	1,183.1	611.0	481.3	384.0	322.1	34.1	28.9
<b>Cost/Income Ratio</b> .. .. .	67.1%	69.1%	61.0%	64.2%	20.2%	25.6%	n.a.	n.a.
<b>ROE based on net profit</b> .. .. .	10.9%	8.4%	31.1%	30.7%	18.3%	16.0%	n.a.	n.a.
Thereof funding costs .. .. .	(73.0)	(57.8)	(44.4)	(36.9)	0.0	0.0	(24.5)	(34.7)
Thereof goodwill .. .. .	(18.5)	(12.9)	(54.4)	(38.1)	0.0	0.0	(8.3)	(7.4)

#### TOTAL

	Erste Bank Group	
	2003	2002
	<i>(in EUR million)</i>	
Net interest income .. .. .	2,586.8	2,463.0
Risk provisions for loan and adv. ..	(406.4)	(406.4)
Net commission income .. .. .	996.6	944.3
Net trading result .. .. .	214.6	167.4
General administrative expenses ..	(2,460.8)	(2,432.0)
Income from insurance business ..	32.9	8.4
Other operating result .. .. .	(202.1)	(80.2)
<b>Pre-tax profit</b> .. .. .	761.6	664.6
Taxes on income .. .. .	(224.2)	(151.4)
Minority interest .. .. .	(184.1)	(258.0)
<b>Net profit after minority interests</b> ..	353.3	255.2
Average risk-weighted assets .. ..	61,888.0	60,511.9
Average attributed equity .. .. .	2,578.2	2,015.5
<b>Cost/Income Ratio</b> .. .. .	64.2%	67.9%
<b>ROE based on net profit</b> .. .. .	13.7%	12.7%
Thereof funding costs .. .. .	(142.0)	(129.4)
Thereof goodwill .. .. .	(81.1)	(58.5)

#### IV. Erste Bank Group YE 2003 – Divisional Reporting (Details)

##### AUSTRIA

	Savings Banks		Retail and Real Estate		Large Corporate Customers		Trading und Investment Banking	
	2003	2002	2003	2002	2003	2002	2003	2002
	<i>(in EUR million)</i>							
Net interest income .. .. .	841.3	866.6	521.8	531.0	147.7	135.9	112.1	70.7
Risk provisions for loan and adv.	(198.1)	(186.6)	(132.4)	(123.7)	(44.1)	(52.7)	0.0	0.0
Net commission income .. .. .	321.5	267.5	264.1	266.7	53.1	75.8	41.5	18.1
Net trading result .. .. .	29.3	24.6	16.7	17.3	1.5	2.8	89.6	79.1
General administrative expenses	(820.5)	(794.1)	(653.0)	(655.3)	(81.2)	(85.7)	(100.9)	(98.1)
Income from insurance business ..	0.0	0.0	25.9	6.1	0.0	0.0	0.0	0.0
Other operating result .. .. .	(22.3)	(10.8)	(2.5)	(39.9)	9.1	(5.9)	(10.8)	(10.3)
<b>Pre-tax profit</b> .. .. .	151.3	167.1	40.5	2.1	86.1	70.1	131.5	59.6
Taxes on income .. .. .	(46.7)	(40.8)	(15.5)	(1.4)	(25.6)	(13.0)	(40.6)	(12.9)
Minority interest .. .. .	(101.5)	(122.9)	(5.3)	(0.2)	(6.0)	(9.5)	0.3	1.2
<b>Net profit after minority interests</b> ..	3.1	3.5	19.8	0.5	54.6	47.7	91.2	47.8
Average risk-weighted assets ..	22,179.7	22,164.3	12,185.8	12,141.3	6,918.9	6,478.0	3,486.6	3,891.2
Average attributed equity .. .. .	190.8	0.0	732.7	638.1	416.0	340.5	209.6	204.5
<b>Cost/Income Ratio</b> .. .. .	68.8%	68.5%	78.8%	79.8%	40.2%	40.0%	41.5%	58.4%
<b>ROE based on net profit</b> .. .. .	1.6%	n.a.	2.7%	0.1%	13.1%	14.0%	43.5%	23.4%
Thereof funding costs .. .. .	(15.3)	(13.2)	(39.5)	(27.0)	(15.7)	(14.2)	(2.5)	(3.4)
Thereof goodwill .. .. .	(5.9)	(4.9)	(12.6)	(7.8)	0.0	0.0	0.0	(0.2)

##### CENTRAL EUROPE

	Česká spořitelna		Slovenská sporiteľňa		Erste Bank Hungary		Erste Bank Croatia <sup>3</sup>	
	2003	2002	2003	2002	2003	2002	2003	2002
	<i>(in EUR million)</i>							
Net interest income .. .. .	460.8	477.3	234.7	161.3	58.5	45.0	75.4	58.1
Risk provisions for loan and adv.	1.3	23.0	3.3	(2.4)	(7.5)	(8.2)	(6.9)	(8.6)
Net commission income .. .. .	252.3	226.9	51.6	43.4	28.8	17.3	12.5	9.7
Net trading result .. .. .	38.1	29.4	10.8	9.1	11.6	6.3	10.7	11.9
General administrative expenses ..	(474.1)	(458.7)	(157.3)	(145.0)	(69.3)	(54.3)	(66.1)	(47.3)
Income from insurance business ..	10.2	2.3	0.0	0.0	0.0	0.0	0.0	0.0
Other operating result .. .. .	(75.7)	(30.9)	(81.9)	(30.6)	(7.6)	(1.1)	(1.8)	4.7
Pre-tax profit .. .. .	212.9	269.4	61.3	35.8	14.7	5.0	23.7	28.5
Taxes on income .. .. .	(75.2)	(84.0)	(5.6)	(2.3)	(1.7)	(0.4)	4.3	(2.3)
Minority interest .. .. .	(15.2)	(79.9)	(22.9)	(16.7)	0.1	0.3	(6.7)	(5.7)
Net profit after minority interests ..	122.5	105.5	32.7	16.8	13.2	4.9	21.3	20.5
Average risk-weighted assets ..	6,287.5	6,230.5	1,493.2	1,033.7	920.8	590.9	1,460.6	1,302.5
Average attributed equity .. .. .	378.0	327.5	89.8	54.3	55.4	31.1	87.8	68.5
<b>Cost/Income Ratio</b> .. .. .	62.3%	62.3%	52.9%	67.8%	70.0%	79.1%	67.1%	59.3%
<b>ROE based on net profit</b> .. .. .	32.4%	32.2%	36.5%	30.9%	23.8%	15.8%	24.2%	29.9%
Thereof funding costs .. .. .	(27.7)	(22.9)	(6.2)	(6.9)	(3.2)	(3.0)	(7.3)	(4.1)
Thereof goodwill .. .. .	(40.2)	(24.9)	(12.0)	(12.0)	0.0	0.0	(2.2)	(1.2)

3 Riječka Banka only included for 8 months in 2002

Percentage changes in financial figures between two financial periods may differ slightly from non-rounded rates of change

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