

### 4 INTRODUCTION

After 15 years of rapid growth rates, Erste Group's expansion in the CESEE region came to a standstill in 2008. Since then, Erste Group had to re-shape its operations, reduce its risk positions and cut costs consequently. Despite the difficult frame conditions, Erste Group successfully managed to build up its capital base and stabilize its operations in difficult markets. However, Erste Group also had to pay a high price for the expansion in CESEE.

Compared to the years before 2008, the banking group post very low income figures. Now, Erste Group's main challenges are to keep its strong position in countries like Austria, the Czech Republic and Slovakia, to stabilize its operations in Romania and Southeastern Europe and to improve the asset quality. In the next few quarters, Erste Group will not record the same growth rates as in the period from 2000 to 2008.

From a strategic point of view Erste Group's absence in Russia and Poland is rather painful. Despite enormous exit costs, the withdrawal from the potential growth market Ukraine was right, though. For Erste Group, establishing a selective growth strategy is difficult. Apart from smaller transactions in Southeastern Europe, Erste Group will have no opportunities to re-start its expansion program in the medium term.

For Erste Group, the situation in CESEE is highly ambiguous. On the one hand, the exposure in some CESEE markets is still the biggest risk factor. On the other hand, the business in CESEE is Erste Group's only chance to succeed.

To sum up, the next few quarters will remain rather challenging. Nevertheless, we expect Erste Group to be on the growth track again after 2014/15. From a medium term perspective, Erste Group has never lost its position as an attractive investment opportunity.