

> Risk Management at Erste Bank Group

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> Synopsis of the CRO function

» **Optimize economic capital allocation throughout Group**

» **Safeguard Group's risk position through:**

» Risk policy formulation & implementation

» Risk limits allocation (ex ante & ex post)

» Limits utilization monitoring

> Credit Risk

> Group credit risk profile – regional diversification

- » **Group credit risk profile is typical for a CE retail banking franchise**
- » **Regional Structure - clear focus on core markets:**
 - » 52 % Austria
 - » 21 % Central Europe
 - » 24 % Industrialized Countries:
 - » driven mainly by interbank placements
 - » 3 % Emerging markets and Less Developed Countries:
 - » minimal share of risk with declining tendency

> Group credit risk profile – regional diversification

H1 2003

in EUR million	Total outstanding				
	Low risk	Management attention	Substandard	Doubtful	Total
Austria	47.135	9.321	3.570	3.185	63.211
Industrialised Countries	27.689	865	217	245	29.016
Extended Home Market	22.883	1.310	331	678	25.202
Croatia	2.046	105	140	73	2.364
Slovak Republic	3.841	309	17	119	4.286
Slovenia	708	33	5	39	784
Czech Republic	14.193	288	137	397	15.016
Hungary	2.095	575	32	50	2.752
Emerging Markets	2.538	521	24	95	3.179
Asia	947	36	2	29	1.014
Latin America	578	118	13	25	734
Russia	28	112	1	3	144
other	985	255	8	38	1.286
LDC's	99	19	18	23	159
Total	100.345	12.036	4.160	4.226	120.767

> Group credit risk profile – segmental by industry class

- » **High share of Financial Institutions (35 %) and Public Sector (14 %) exposure**
 - » due to inclusion of treasury investments
- » **Private sector (15 %) underscores retail focus of Erste Bank Group**
- » **Real estate (9%) contains diversified types of borrowers and therefore does not constitute a significant risk concentration**

> Group credit risk profile – segmental by industry class

H1 2003

in EUR million	Total Outstanding				
	Low risk	Management attention	Substandard	Doubtful	Total
Banking and insurance	41.931	719	82	69	42.801
Private households	16.371	1.110	371	799	18.651
Public administration	16.825	137	9	36	17.006
Real estate	6.403	2.568	716	636	10.323
Manufacturing	4.479	1.751	880	554	7.665
Trade	4.175	1.639	783	701	7.298
Construction	2.743	1.039	333	368	4.483
Hotels and restaurants	997	898	440	424	2.759
Transport and communication	1.532	693	216	195	2.636
Other (industries < 2% of total)	4.889	1.481	329	445	7.144
Total	100.345	12.036	4.160	4.226	120.767

> Group credit risk profile – segmental structure

» **64 % of credit risk in core retail business:**

» Savings Banks 25 %

» Retail 20 %

» Central Europe 19 %

> Group credit risk profile – segmental structure

H1 2003

in EUR million	Total Outstanding				
	Low risk	Management attention	Substandard	Doubtful	Total
Savings Banks	21.916	4.355	1.764	1.643	29.678
Retail and Real Estate	18.884	3.056	998	1.116	24.054
Large Corporates	6.815	2.678	933	670	11.096
Trading and Investment Banking	18.257	158	0	1	18.415
Austria total	65.872	10.247	3.695	3.429	83.243
Ceska Sporitelna	14.713	182	124	410	15.429
Slovenska Sporitelna	3.867	290	16	116	4.290
Erste Bank Hungary	1.048	395	31	19	1.493
Erste & Steiermärkische Bank + Rijecka Banka	1.607	70	143	60	1.881
Central Europe total	21.235	938	314	606	23.092
International Business	13.045	852	151	192	14.240
Corporate Center	192	0	0	0	192
Total	100.345	12.036	4.160	4.226	120.767

> NPL coverage ratios

H1 2003

in EUR million	Total Outstanding					Non-performing loans	Risk provisions	NPL coverage
	Low risk	Management attention	Substandard	Doubtful	Total			
Austria total	65.872	10.247	3.695	3.429	83.243	3.429	2.112	62%
Central Europe total	21.235	938	314	606	23.092	606	806	133%
International Business	13.045	852	151	192	14.240	192	138	72%
Corporate Center	192	0	0	0	192	0	0	
Total	100.345	12.036	4.160	4.226	120.767	4.226	3.056	72%

- » NPL coverage ratios mimic the distinctly different economic stages of countries in our core markets
- » NPL coverage ratios do not reflect the value of collateral
- » Risk provisions forecast for the year 2003 remain flat

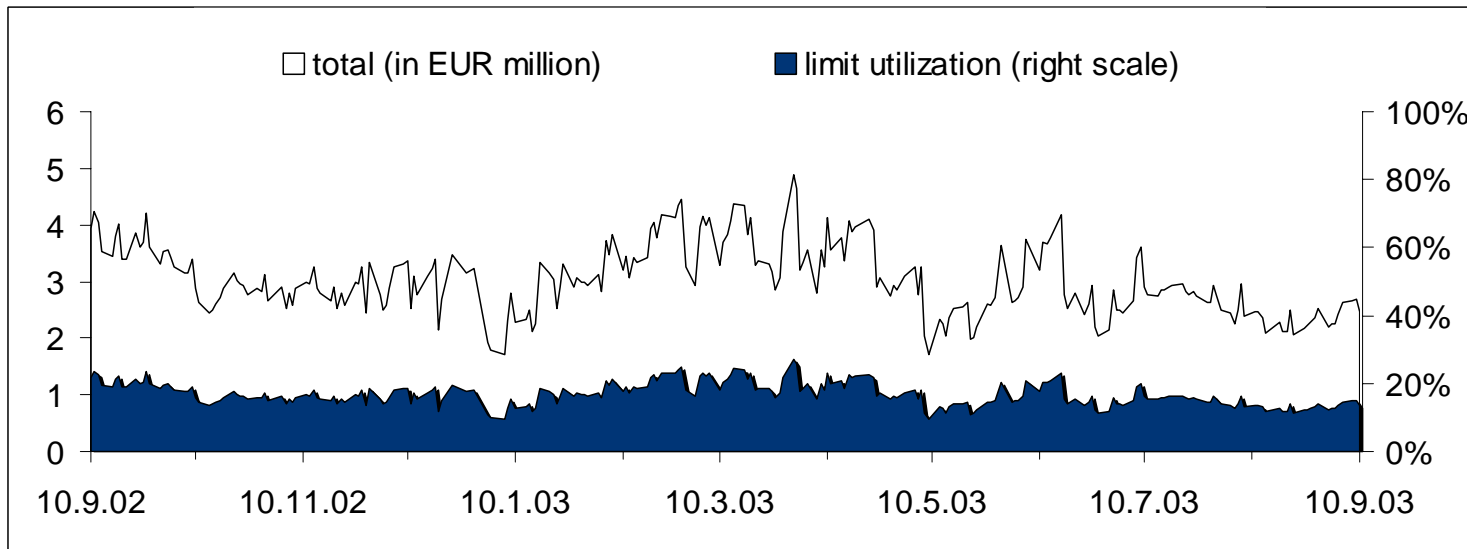
> Market Risk

> Low limit utilization reflects conservative approach to risk taking in trading

Market-value-at-risk per end of July 2003:

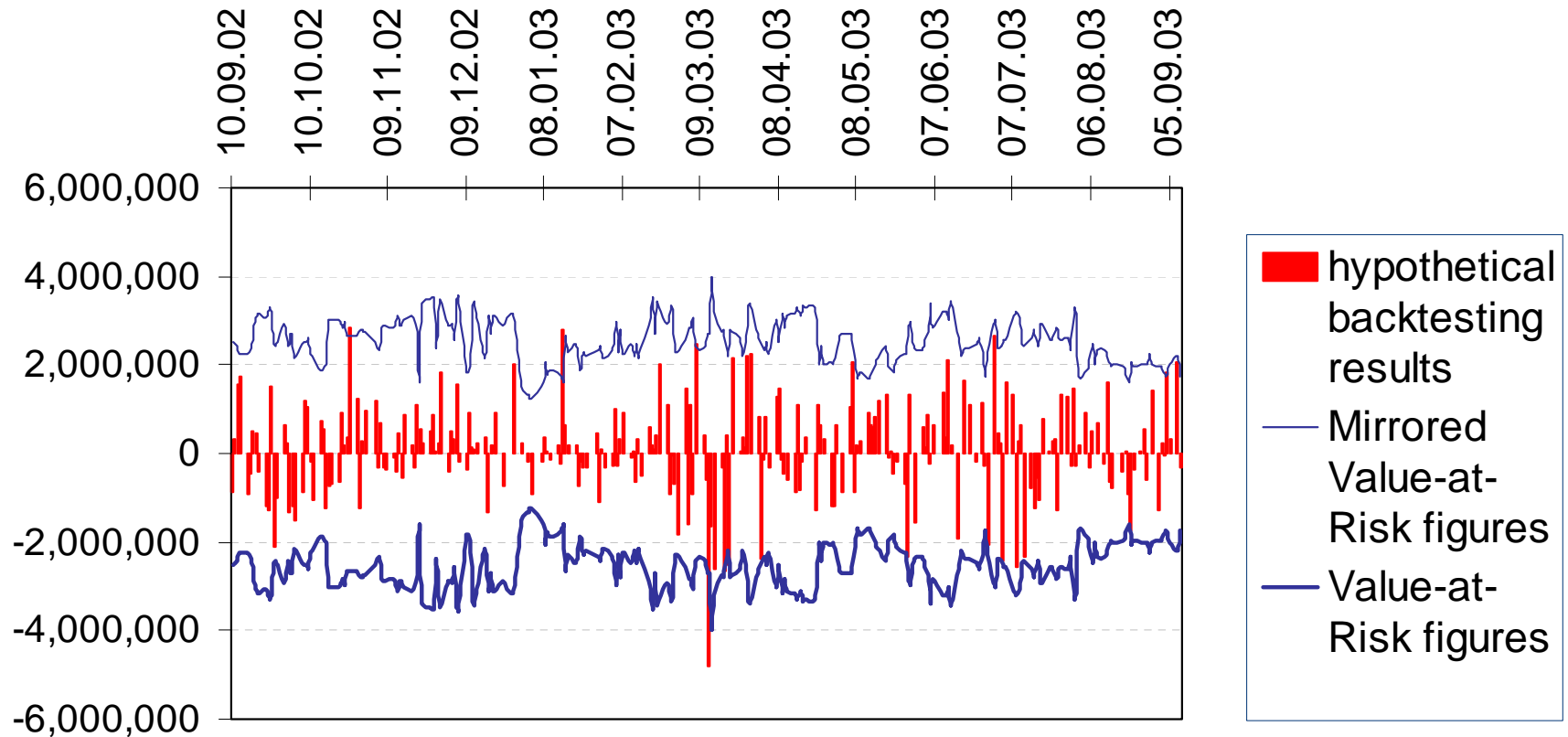
in EUR million	total	interest rate	currencies	equities	commodities	volatility
Core Group	14.51	13.22	0.70	4.64	0.10	1.62
Trading Book	2.51	1.67	0.74	0.92	0.07	1.59
Banking Book	14.05	14.17	0.07	2.57	0.03	0.07
Hedge Funds	1.60	-	-	1.60	-	-

EOD Trading book-Value-at-Risk and limit utilization:



> Trading book VAR figures

Regulatory reporting vs. hypothetical backtesting results in EUR



> EB's internal model approved by the Austrian FMA

Regulatory capital multiplier was reduced to 3.0

- » **Model based on historical simulations using KVAR+**
- » **Covers trading & banking books (incl. Foreign subsidiaries)**
- » **No surcharges due to hypothetical backtesting overruns – 2 cases of theoretical loss exceeding 99% VAR over a rolling 250 days period**

> Limit procedures and position flow processes

» Procedures concerning position limit approval/review:

- » Dual limit structure (VaR - and sensitivity limits)
- » Combination of top down and bottom up approach
- » Global market risk limit allocated by the Risk Committee congruent with economic capital utilization
- » Market Risk Committee assigns global market risk VAR limits to risk taking units. Sensitivity limits are allocated for trading units consistent with VAR limits.
- » Market risk limit structure: Value-at-Risk limits, Sensitivity limits, Stop loss limits, Nominal limits

» Position flow processes:

- » centralized real-time position keeping
- » common trading systems
- » real-time interfaces

> Operational Risk

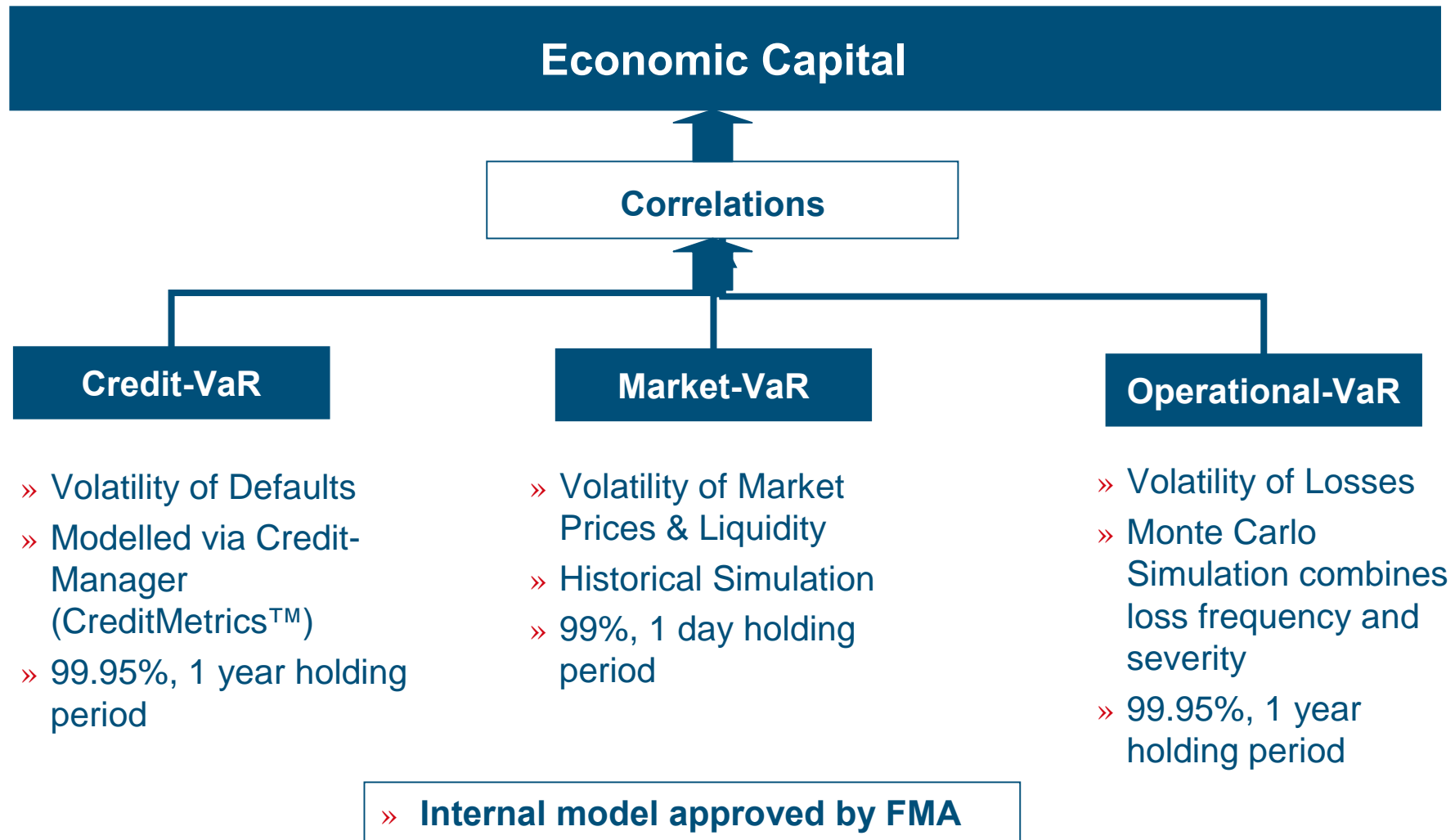
> Operational Risk Control

- » **Independent unit “Group Operational Risk Control” as part of “Group Risk Control”**
- » **Quantitative approach**
 - » Loss data collection
 - » Statistical modelling (loss distribution approach)
- » **Qualitative approach**
 - » Risk Assessments

> Operational Risk Loss Data Collection

- » **Loss data collection in Erste Bank Vienna since mid 2001 (Loss time series since 1998)**
- » **Loss data collection in ČS and savings banks since begin 2002**
- » **Goal: Loss data collection in all major subsidiaries by begin of 2004**
- » **Currently use of Excel-sheet and Access-database, a web-based tool is under development (planned for 1st half 2004)**

> Economic Capital - where it all fits together



> Capital Utilization – a quarterly review

Risk absorbing capacity calculation as of

30.06.2003

EUR mio.

Risk level 95% Limit

474.6

Capacity to cover risk 95%

443.8

Probability in %

93.9%

Probability in years

16.3

Economic Capital - actual risk (99,95%)

2,122.8

Economic Capital - Limit (99,95%)

2,161.3

Capital (excl. profit for the year)

2,944.8

Capital (incl. reserves)

3,359.9

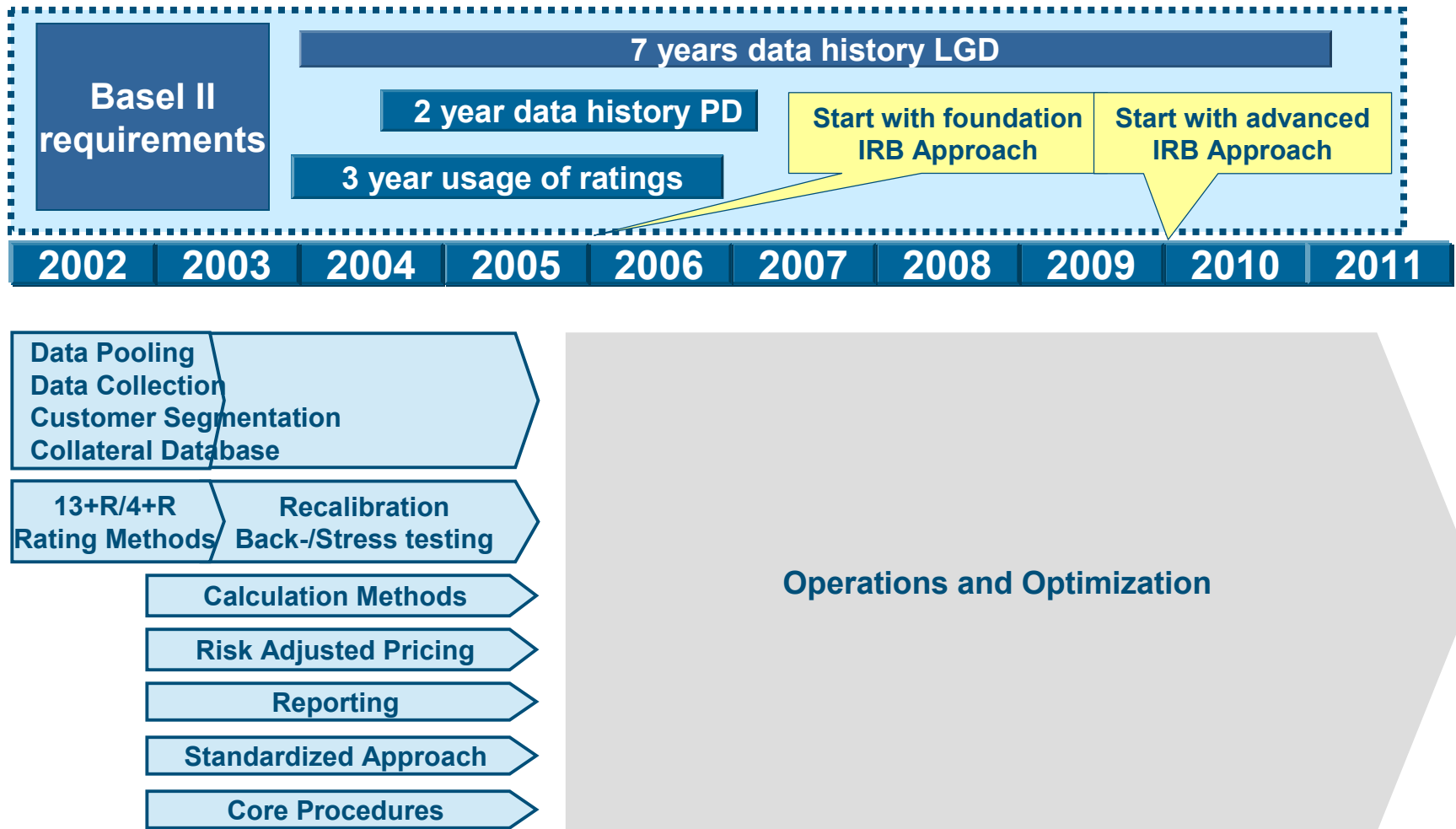
> Erste Bank & Basel II

> Basel II is a Group Project

- » Erste Bank strives to **qualify for the IRB approach** for credit risk (commencing with the foundation setting)
- » Opt for the AMA - OpRisk
- » Erste Bank treats Basel II as a **group project**
 - hence all Group entities follow a joint path towards the project's completion
- » Implementation under **methodological leadership** of Erste Bank – consideration of local conditions/ regulatory specifics

> Appendix

> Project Plan for Basel II



> Impact of Basel II on Credit Risk Management

» Introduction of standardized rating systems for all client segments

» Data collection and data pooling to meet the IRB approach (internal ratings-based approach)

» foundation approach

- bank's internal assessment of PD (Probability of default)
- supervisory regulation for LGD (Loss given default) and EAD (Exposure at default)

» advanced approach for retail portfolio

- bank's internal assessments of PD, LGD and EAD

» advanced approach for the rest of the portfolio as soon as the required data series are available

» Adoption of the organizational structure and process according to Basel II requirements

(e.g. independent credit risk management to examine rating-systems and methodologies)

> QIS 3.0 - Results for Erste Bank AG

QIS 3.0 - Risk Weighted Assets, EBAG

		Current	Standard	FIRB		Current	Standard	FIRB		Current	Standard	FIRB
	RWA (in EUR Mio)	25,575	33,220	30,066		25,575	33,220	30,066		-	12.3%	1.8%
Brutto	Davon				Davon in %				% Veränderung zu Current			
50,988	Bankbuch	22,544	24,072	21,327	74.5%	72.5%	70.9%		-	9.2%	-3.3%	
11,990	Unternehmen	7,972	8,463	8,834	27.0%	26.5%	32.7%		-	6.2%	23.4%	
8,875	UN ohne KMU, SpecFin.	5,325	5,803	4,547	18.0%	17.5%	16.4%		-	5.0%	-7.1%	
3,114	Spezialfinanzierungen	2,647	2,660	4,887	8.9%	8.0%	16.2%		-	0.5%	84.7%	
9,332	Sozvertra	753	909	757	2.8%	2.7%	2.5%		-	19.1%	-0.8%	
9,448	Banken	1,966	2,608	1,579	8.9%	8.5%	5.8%		-	42.8%	0.6%	
3,950	Retail	2,734	2,188	894	9.2%	6.6%	3.0%		-	-20.0%	-87.3%	
1,999	Hypothekendarlehen	1,547	1,243	241	5.2%	3.7%	0.8%		-	-19.7%	-84.4%	
1,006	Sonst. Retailfond.	888	688	466	2.9%	2.1%	1.5%		-	-20.8%	-48.3%	
945	Revolv. Retailfond.	319	258	187	1.1%	0.8%	0.6%		-	-	-	
12,642	KMU	7,904	8,506	6,083	28.7%	25.6%	20.2%		-	7.6%	-22.9%	
9,997	KMU Unternehmen	6,219	6,889	4,906	21.0%	20.7%	16.3%		-	10.8%	-21.1%	
2,645	KMU Retail	1,686	1,617	1,187	5.7%	4.9%	3.9%		-	-4.1%	-28.8%	
195	Anleiherechte WP-FF	179	195	1,297	0.8%	0.6%	4.3%		-	8.8%	624.8%	
562	A&S	526	414	275	1.8%	1.2%	0.9%		-	-21.3%	-47.7%	
2,949	High Peak Funding	-	589	197	0.0%	1.8%	0.7%		-	-	-	
Handelsbuch		2,964	2,964	2,679	10.1%	9.0%	8.9%		-	0.0%	-10.2%	
Operationales Risiko		-	1,625	1,625	-	4.9%	5.4%		-	-	-	
Sonstige		4,546	4,550	4,468	15.4%	13.7%	14.8%		-	0.1%	-1.7%	

KMU-Retail LGDs

Blanko	96.72%
Hypothek	40.99%
Fin. Coll.	0.99%
Zession	80.99%
Privathaft.	90.99%

Retail LGDs

Blanko	63.90%
Hypothek	20.90%
Fin. Coll.	0.90%
Privathaft.	80.90%

Legende:

Bruttowerte: Buchwerte laut Bilanz (inkl. Off-B.)

OpRisk: Nur Standardansatz in QIS 3.0 möglich

Sonstige: Investmentrisiko und Beteiligungen an verbundenen Unternehmen (Ceska, sBauspa)

5 Customer classes according to Basel II requirements

1. Retail:

- » Private individuals: employed and self-employed persons (e.g. freelancers, sole traders, farmers)
- » Non private entities: SMEs (Small and Medium Enterprises) Exposure less € 1 Million and turnover less € 5 Million for SME and self-employed persons

2. Corporates:

- » „normal corporate“ lendings (includes special methods as for Public houses construction, leasing, insurance, ...)
- » 5 classes for Specialized lendings (Project finance, Income producing real estate, Object finance, Commodities finance, high volatility commercial real estate),,

3. Sovereigns: national / regional / local

4. Banks: Banks / PSE (Public Sector Entities) / Security firms

5. Equity: investment book

» Retail: inputs for rating systems

- » for Private individuals: personal data, household budget, behaviour scoring, external informations
- » for employed persons and SMEs: hard facts (key financial data) soft facts, behaviour scoring

Result: Customer risk grade and Facility risk grade => Final risk grade

» Corporate:

- » Systems based on SABINE-Tool (ann. reports analysis) financial ratios combined with soft facts
- » Special methods for specialized lendings
- » ECAI - External credit assessment institutions / KMV

» Sovereign: Systems for developed and emerging markets / External credit assessment institutions / Expert opinion

» Banks: Systems for banks / External credit assessment institutions / Expert opinion

» Equity:

> Rating Systems EB – S+P

Erste Bank Private Cust.	Erste Bank Other Cust.	Standard & Poor's	S&P One-Year Default Rates	Standard & Poor's Ratings Definitions
A	1	AAA	0,00	An obligor rated "AAA" has EXTREMELY STRONG capacity to meet its financial commitments. "AAA" is the highest Issuer Credit Rating assigned by Standard & Poor's.
	2	AA+	0,01	An obligor rated "AA" has VERY STRONG capacity to meet its financial commitments. It differs from the highest rated obligors only in small degree.
		AA		
		AA-		
	3	A+	0,05	An obligor rated "A" has STRONG capacity to meet its financial commitments but is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligors in higher-rated categories.
		A		
		A-		
	4a	BBB+	0,37	An obligor rated "BBB" has ADEQUATE capacity to meet its financial commitments. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitments.
	4b	BBB		
	4c	BBB-		
B	5a	BB+	0,52	An obligor rated "BB" is LESS VULNERABLE in the near term than other lower-rated obligors. However, it faces major ongoing uncertainties and exposure to adverse business, financial, or economic conditions which could lead to the obligor's inadequate capacity to meet its financial commitments.
	5b	BB	1,16	
	5c	BB-	2,07	
C	6a	B+	3,29	An obligor rated "B" is MORE VULNERABLE than the obligors rated "BB", but the obligor currently has the capacity to meet its financial commitments. Adverse business, financial or economic conditions will likely impair the obligor's capacity or willingness to meet its financial commitments.
	6b	B	9,31	
	7	B-	13,15	
D	8	CCC	27,87	An obligor rated "CCC" is CURRENTLY VULNERABLE , and is dependent upon favorable business, financial and economic conditions to meet its financial commitments.
		CC		An obligor rated "CC" is CURRENTLY HIGHLY-VULNERABLE .
R	R	D		

Customer Classes in Erste Bank Group

Ratingmethod		Customerclasses																																
short term	long term	Retail		Corporate														Sovereign					Institution				Equity							
		Priv	NP	Corporates general								Specialised Lendings						AssBaSec		Nat	Reg	Loc	other		mixed	Bank	other		mixed	Equ	oth			
		Ind.	Ent.	gen	Publ.	Prop	Le	Ins	oth	mixed	Proj.	InPro	Obj	Com	HiVo	mixed	ABS	mixed					other	mixed		Pub	Sec	oth	mixed	Equ	oth			
				eral	hou.	Man	as	ura			Fin.	Real	Fin	Fin.	Com.								Mult	oth			Pub	Sec	urit.					
					cons		ing	n			Est.				R.Est								Ban			Ent.	Firm							
PRK	Privates																																	
PAU	KOFB flat rate																																	
EAR	KOFB prof./loss-Statem.																																	
BIL	KOFB double bookkeep.																																	
CORPSCOR	CORP turnover < x Mio.																																	
CORPALL	SAB-Corpor. general																																	
CORPWB	SAB-Pub. hous. constr.																																	
CORPHVW	SAB-Prop. Managem.																																	
CORPL	SAB-Leasing Company																																	
CORPV	SAB-Insurance Comp.																																	
CORPSON	SAB-other																																	
SLPF	SL-Project Finance																																	
SLIPRE	SL-Inc. Prod. Real Est.																																	
SLOF	SL-Object Finance																																	
SLCF	SL-Commodit. Finance																																	
KMVPR	Private Firms / Abroad																																	
KMVPU	Public Firms / Abroad																																	
LRIL	Developed Markets																																	
LREM	Emerging Markets																																	
GEM	Municipalities																																	
CARLA	Banks																																	
ECAI	Extern. Credit Ass. Inst.																																	
EXOP	Expert opinion																																	

Private individuals/profession: 1. employed persons, into education, non and part-time employees, unknown
2. self-employed persons (freelancer, craftsmen, farmer)

Corporates: private individuals (self-employed persons) and non private entities

Note:  Default value