

5th Capital Markets Day

21 September 2007, Bratislava

Update on Erste Group's ABS and CDO portfolios

Bernhard Spalt, CRO, Erste Group



Cautionary note regarding forward-looking statements

- THE INFORMATION CONTAINED IN THIS DOCUMENT HAS NOT BEEN INDEPENDENTLY VERIFIED AND NO REPRESENTATION OR WARRANTY EXPRESSED OR IMPLIED IS MADE AS TO, AND NO RELIANCE SHOULD BE PLACED ON, THE FAIRNESS, ACCURACY, COMPLETENESS OR CORRECTNESS OF THIS INFORMATION OR OPINIONS CONTAINED HEREIN.
- CERTAIN STATEMENTS CONTAINED IN THIS DOCUMENT MAY BE STATEMENTS OF FUTURE EXPECTATIONS AND OTHER FORWARD-LOOKING STATEMENTS THAT ARE BASED ON MANAGEMENT'S CURRENT VIEWS AND ASSUMPTIONS AND INVOLVE KNOWN AND UNKNOWN RISKS AND UNCERTAINTIES THAT COULD CAUSE ACTUAL RESULTS, PERFORMANCE OR EVENTS TO DIFFER MATERIALLY FROM THOSE EXPRESSED OR IMPLIED IN SUCH STATEMENTS.
- NONE OF ERSTE BANK OR ANY OF ITS AFFILIATES, ADVISORS OR REPRESENTATIVES SHALL HAVE ANY LIABILITY WHATSOEVER (IN NEGLIGENCE OR OTHERWISE) FOR ANY LOSS WHATSOEVER ARISING FROM ANY USE OF THIS DOCUMENT OR ITS CONTENT OR OTHERWISE ARISING IN CONNECTION WITH THIS DOCUMENT.
- THIS DOCUMENT DOES NOT CONSTITUTE AN OFFER OR INVITATION TO PURCHASE OR SUBSCRIBE FOR ANY SHARES AND NEITHER IT NOR ANY PART OF IT SHALL FORM THE BASIS OF OR BE RELIED UPON IN CONNECTION WITH ANY CONTRACT OR COMMITMENT WHATSOEVER.

- **Investment principles**
- Subprime crisis: limited impact on Erste Group
- Drill-down: CDOs
- Investment approval process
- Summary

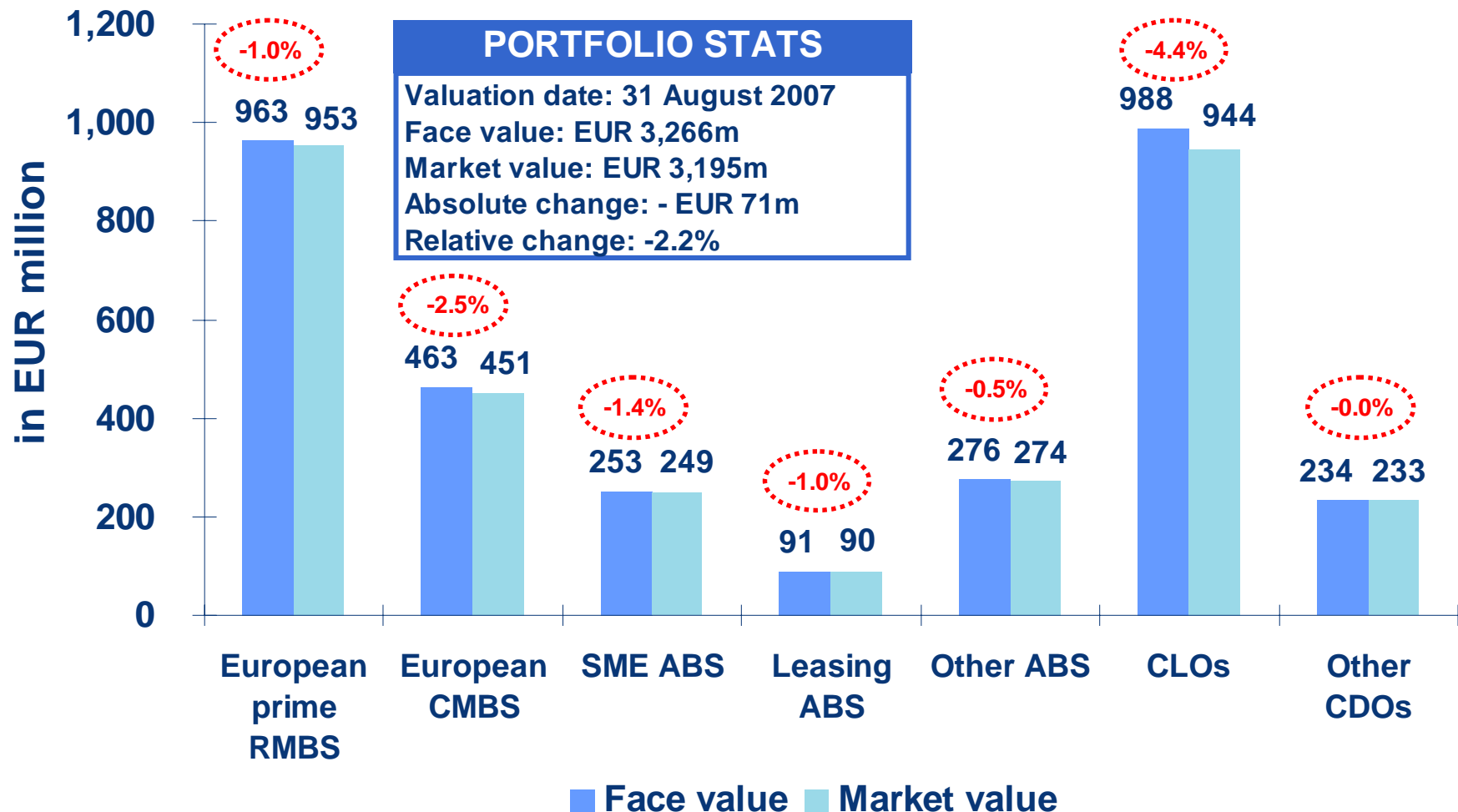
Investment principles –

We adhere to strict investment guidelines

- We use securitisations only as an investment, we don't use them for funding
- We mark-to-market all AfS and fair value holdings and monitor mark-to-market for HtM holdings on a monthly basis
- If we receive no prices, we use the discounted margin of received marks to determine a price
- We don't do book/model valuations
- We keep our investments until maturity, irrespective of where they are booked (though we keep the option to sell in case of credit concerns)
 - Distribution: 46% in HTM; 38% in Available for sale; 16% in Fair value portfolio

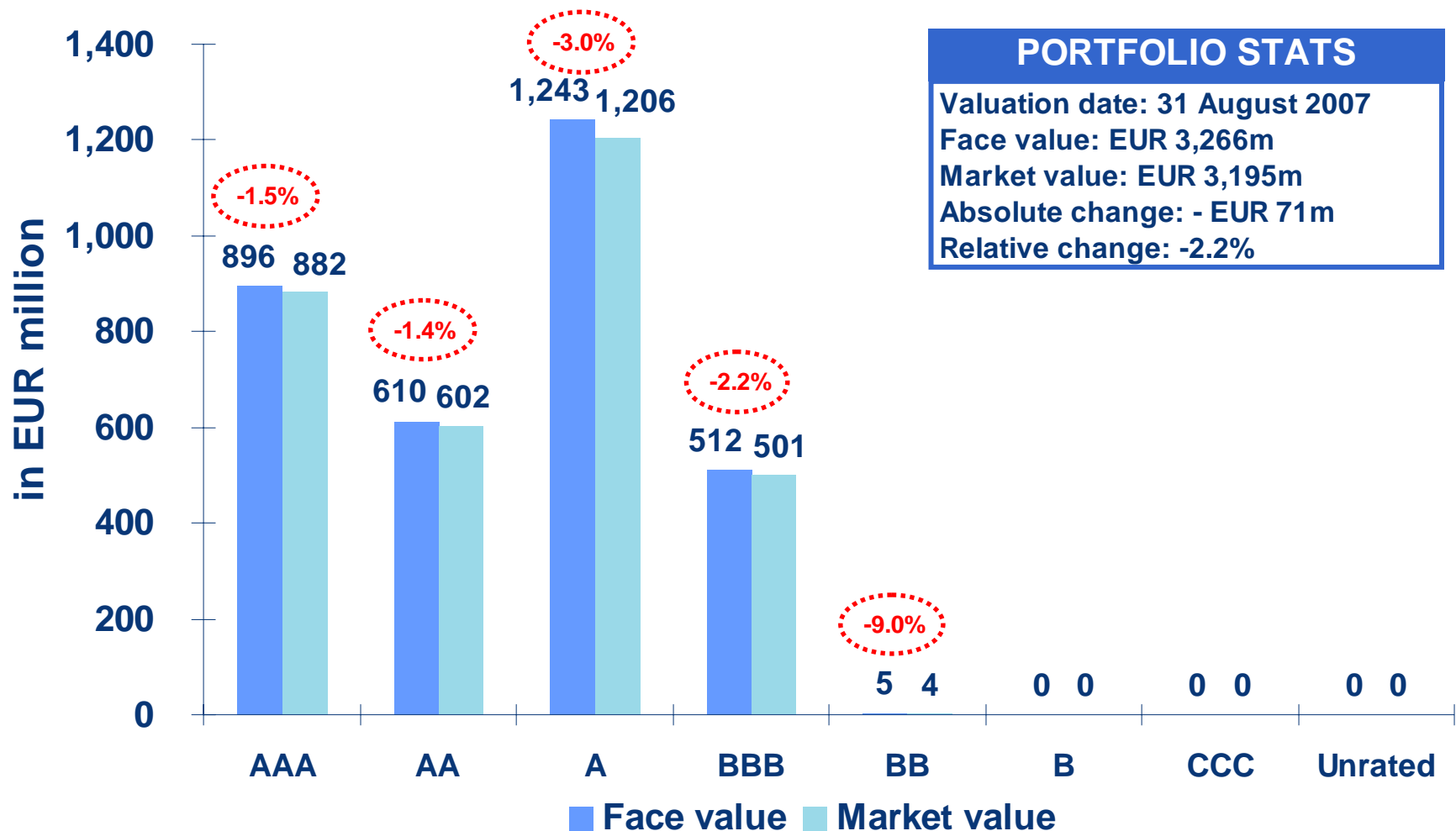
-
- Investment principles
 - **Subprime crisis: limited impact on Erste Group**
 - Drill-down: CDOs
 - Investment approval process
 - Summary

Subprime crisis: limited impact on Erste Group – Portfolio by product



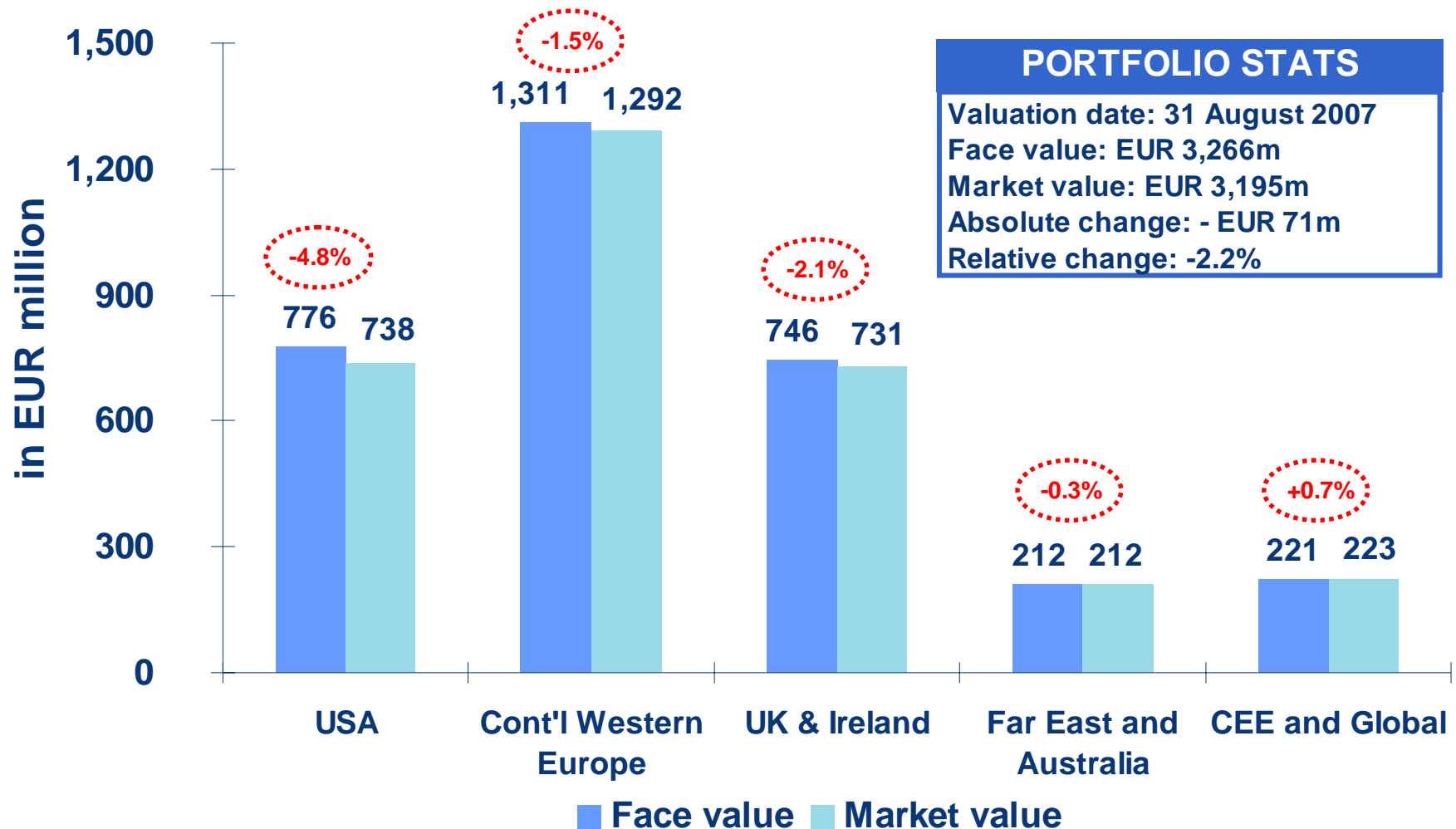
NB – Rates of change could differ due to rounding

Subprime crisis: limited impact on Erste Group– Portfolio quality



NB – Rates of change could differ due to rounding

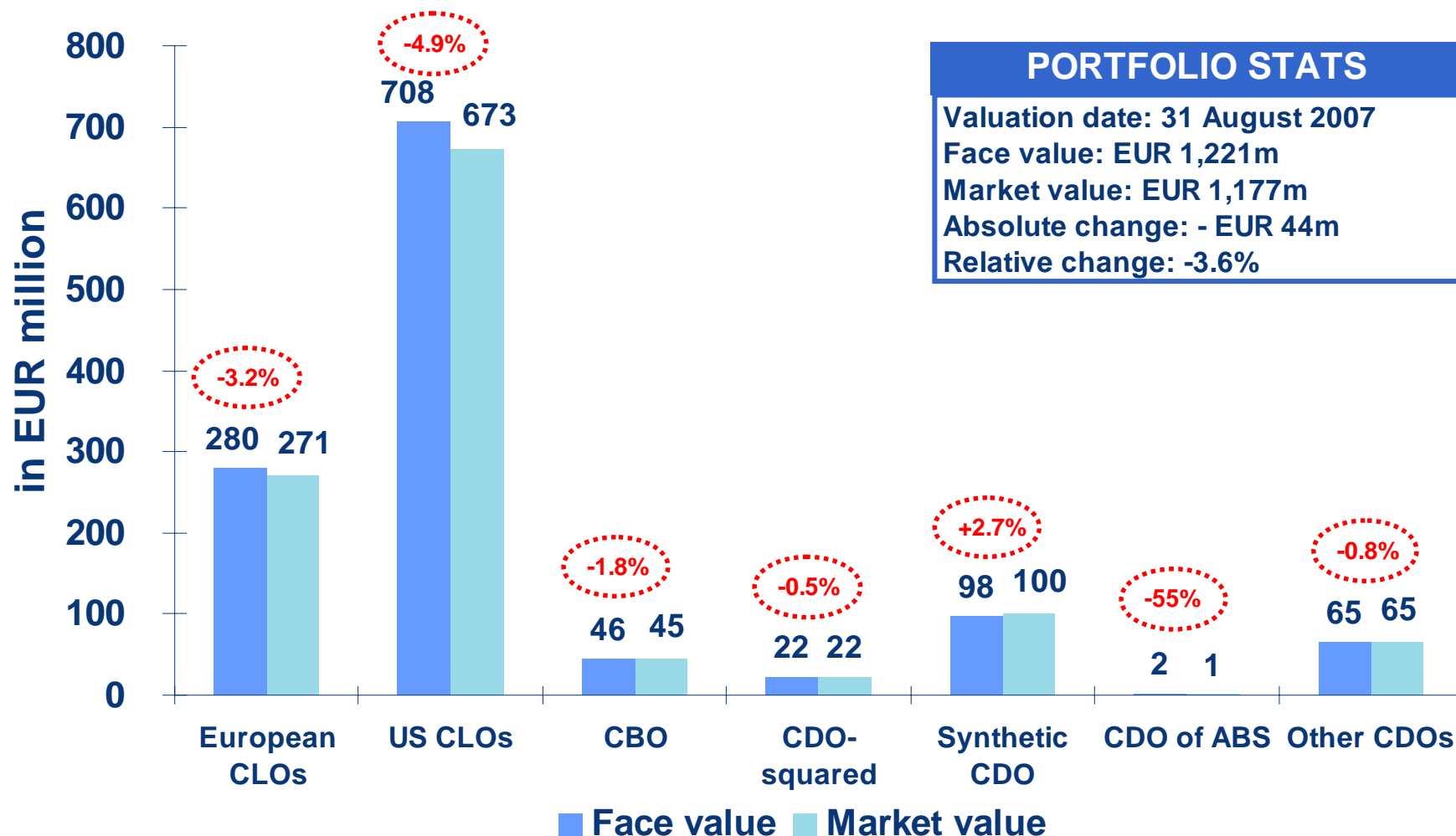
Subprime crisis: limited impact on Erste Group– Portfolio by region



NB – Rates of change could differ due to rounding

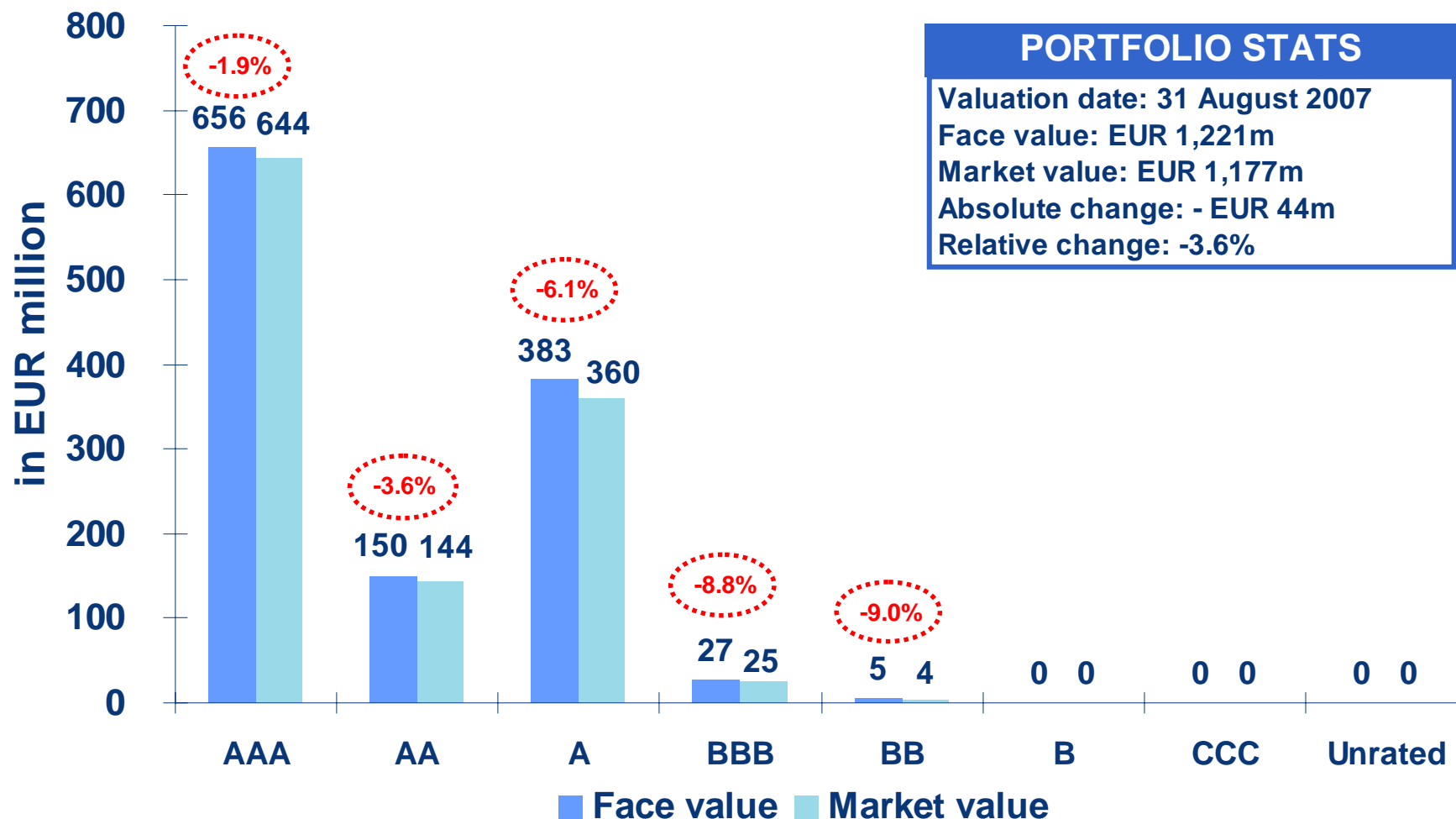
- Investment principles
- Subprime crisis: limited impact on Erste Group
- **Drill-down: CDOs**
- Investment approval process
- Summary

CDO drill-down – Portfolio by product



NB – Rates of change could differ due to rounding

CDO drill-down – Portfolio quality



CDO drill-down – Why we did not invest in subprime

-
- **A principle condition in our ABS investments is to avoid asset classes without long history of default and loss rates through an economic downturn**

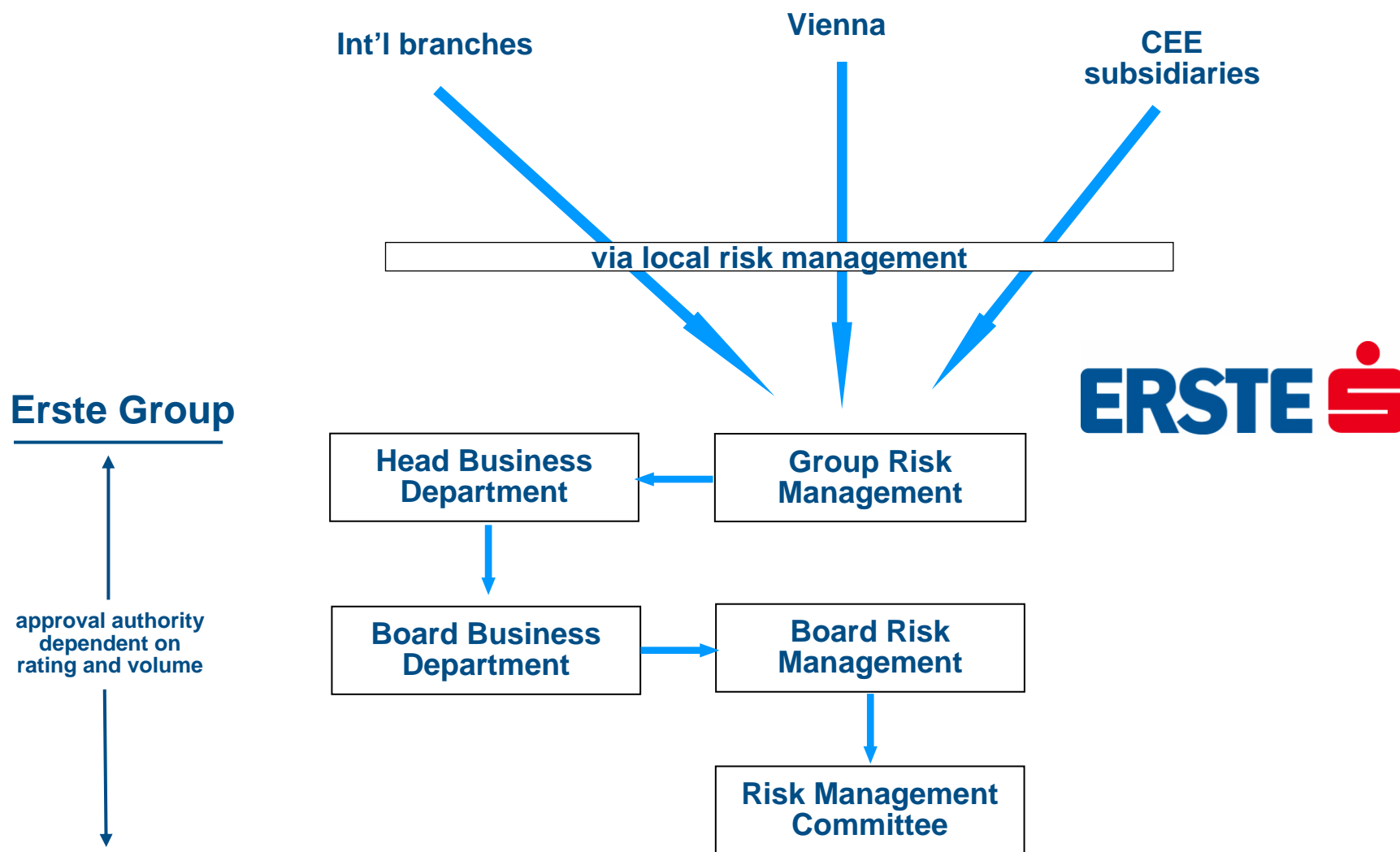
 - **Major concerns**
 - Over-concentration in I/O and option-ARM mortgages
 - Possible abuse of no-documentation loans (“liars loans”)
 - Concerns about subprime followed the assessment that the US housing markets were highly vulnerable for a downturn

 - **Conclusion: a variety of new product conditions invalidated the historical default/loss data, resulting in an unpredictable future**

 - **Investment criteria exclude exposures to this industry, either direct or indirect**
 - No exposure to subprime
 - No exposure to mortgage underwriters
 - No exposure to building and construction industry

- Investment principles
- Subprime crisis : limited impact on Erste Group
- Drill-down: CDOs
- **Investment approval process**
- Summary

Investment approval process – Clearly defined processes for ABS and CDOs



Investment approval process – Analysing and monitoring CLOs

-
- **NY branch has long-standing experience in the US leveraged loan market**
 - Single name investments and securitisations
 - **Conservative structures**
 - High proportion of senior secured buckets (approximately 90%)
 - Limitations on 2nd liens, structured securities or bonds
 - **Collateral manager assessment**
 - Long relationship
 - Invest in multiple issues of the same collateral manager
 - Continued contact and dialogue
 - **Monitoring: monthly review of remittances report**
 - **Frequent review of purchases and sales of individual loan assets for deepening market intelligence**

Investment approval process – Structural criteria of CLO investments

-
- **Historical default rates of leveraged loans peaked at 8.2% (December 2000); average 3.2% (last 9 years) according to S&P**
 - **Recoveries hit a low of 72% in 2003, and have averaged 82% since 1991**
 - **Subordination in our CLO's averages:**
 - 24% for AAA
 - 19% for AA
 - 15% for A
 - **Loss in our A/A2 tranches in a 1 year time frame will only occur if:**
 - Default rate tops 37.5%
 - Recovery rate drops to below 60%
 - **Structure of a CLO calls for early redemption of the portfolio if a violation in the interest coverage and over-collateralisation test occurs**
 - Based upon historical events this would happen at app. 12% default rate and 60% recovery rate

- Investment principles
- Subprime crisis: limited impact on Erste Group
- Drill-down: CDOs
- Investment approval process
- **Summary**

Summary –

Prudent investment leads to stability

- **Our ABS asset classes are stable because we invested in:**
 - Structures that provide real financing for underlyings, not arbitrage vehicles
 - The least volatile sectors with a proven track record
 - Structures that are prone to upgrades rather than downgrades (ie credit enhancement increases from the first payment date)
- **Since 2005 we moved up the credit curve in search for quality and avoided areas with higher margins and less robust rating methodology/stability**