

## PRESS RELEASE

Budapest, 21<sup>st</sup> May, 2008

### Erste Bank first to adopt Basel II

Adoption of EU requirements to improve efficiency of outlays

**Budapest, 21<sup>st</sup> May, 2008 – Erste Bank Hungary is the first Hungarian large bank to apply the Basel II guidelines, having introduced the system that regulates the capital adequacy ratios of financial institutions and investment companies on 1<sup>st</sup> April. The Austrian financial market regulator and the Hungarian authority Pénzügyi Szervezetek Állami Felügyelete PSzÁF have approved Erste Bank's proposal to calculate its own capital adequacy based on its own risk assessment in an Internal Rating Based (IRB) system, which could optimise the bank's lending activities in the long-term.**

Erste Bank risk management director Jonathan Till said Erste Bank opted for the more complex IRB, which offers greater profitability in the long-term, because the system will allow the bank to assess its own capital adequacy on the basis of its own risk rating. Coming into compliance with Basel II meant a comprehensive review and restructuring of the bank's risk management system, rating and scoring processes. The bank's risk management can better support lending, for instance by providing client rating and risk segment categorisation-based portfolio planning services in the corporate division, and by creating a form of positive debtor list in the retail division.

Preparation for the adoption of the new system took three years: data collection and system assessment began in late 2004. A year ago a separate project was set up to ensure the conditions for adoption of the system and bringing the bank into compliance with the Basel II requirements. The numerous changes to processes and systems necessary for the adoption of Basel II means that risk assessment and risk management will become more efficient, which will in turn improve the bank's operation and decision-making mechanisms.

Mr Till added that the European Union's Basel II directives applied to the entire international group, and therefore each and every member of the Erste Group – Europe's first IRB compliant bank – must individually comply with the requirements. The relationship of the various regulatory bodies (PSzÁF in Hungary) will change fundamentally, as the various regulatory bodies will regularly review the Group's compliance with the Basel II requirements.

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#### Basel II agreement

The European Parliament approved in September 2005 the package of regulations known as Basel II. Each member state, Hungary included, must comply with the law. European directives allowed the adoption of the system by early 2007, and the requirements became binding in January 2008. All financial institutions and investment companies must choose from the methods approved by EU directives. There are two methods to rate credit risks and capital requirements: the standard method, and the complex (IRB) method.

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