

# STATE-OF-THE-ART RISK MANAGEMENT

RLB NÖ-Wien's risk management is based on clearly delimited responsibilities, which constitute a decisive competitive advantage for the bank. The bank's risk policy is defined by the Management Board itself. All relevant risks to which the bank is exposed are identified and controlled in a strategically optimized manner and with due consideration of the bank's capital requirements. The active decision-making body in which the bank's risk situation is analyzed and strategic risk decisions are made is the Bank Risk Committee, which consists of the Management Board and the heads of risk-taking departments. The committee is chaired by the Head of RLB NÖ-Wien's Bank Risk Management Section and meets on a quarterly basis.

As part of the Raiffeisen Banks / Management Service Division, the Bank Risk Management Section reports to the Accounting and Management Control Department, where all relevant risk analyses for investment, market, credit, and operational risk are aggregated. The responsibilities of the Credit Risk Management Department range from the pre-application analysis of credit commitments to restructuring crisis situations and even minimizing losses in cases of bankruptcy.

All tasks, decision-making bodies, reports and organizational units in the risk management process are defined and described in detail in the Raiffeisen Holding Group's Risk Management Manual, which is updated by the Bank Risk Management Section each year. This ensures that the bank uses a coordinated process for recording, limiting, measuring, reporting and documenting risks.

## BANK RISK MANAGEMENT

RLB NÖ-Wien's bank risk management system aggregates all relevant risk exposures – which are calculated using state-of-the-art methods and systems – and compares them with the bank's ability to bear risk (by means of earnings, equity and hidden reserves).

At RLB NÖ-Wien, credit and market risk come first in risk management, especially as the bank focuses on business with retail, trade, corporate and institutional customers as well as treasury and investment banking. Likewise, RLB NÖ-Wien also pays special attention to the investment risk associated with equity investments in near-bank subsidiaries.

The market risk in RLB NÖ-Wien's trading and bank books is calculated using well-established Value at Risk (VaR) calculations (i.e., potential losses given a certain probability and retention period). Credit and investment risk is assessed using scenario techniques as well as VaR methods.

Along with market-dependent risks, operational risks are also recorded and calculated in the bank's risk management processes. The central analysis tool in which all relevant risk information comes together is our quarterly risk tolerance analysis, in which RLB NÖ-Wien's current ability to bear risk is compared to the overall risk taken by the bank. This analysis is the starting point for limiting the bank's activities to an appropriate level in order to ensure its continued existence and

at the same time to make the most of its earnings potential.

## CREDIT RISK

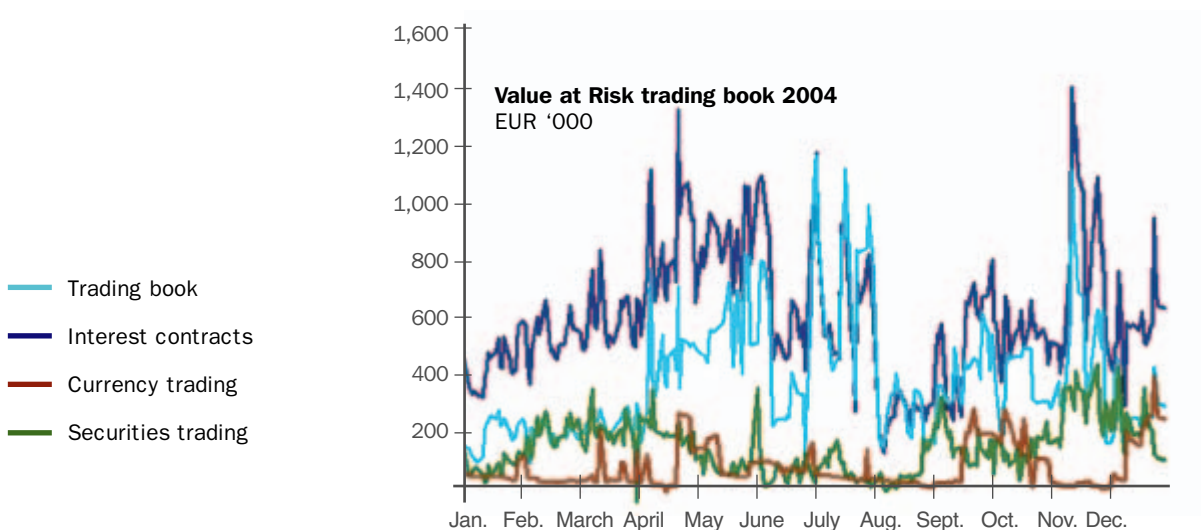
Default risk constitutes a major part of RLB NÖ-Wien's risk portfolio. For this reason, the Credit Risk Management Department supports the bank's sales units by implementing and monitoring credit risk measurement and control as well as servicing problem commitments.

The risk level of the bank's commitments is recorded using a comprehensive rating system which is tailored to the requirements of each customer segment.

In order to assess the country risk to be covered in credit risk assessments, RLB NÖ-Wien relies on professional support from RZB's Country and Bank Risk Management Department. This procedure ensures uniform country risk assessment throughout the Raiffeisen sector.

## MARKET RISK

RLB NÖ-Wien's Management Board receives a daily VaR report which contains information on the current limit utilization in the bank's entire trading book and in its individual portfolios. The chart shows the daily risk in the trading book and the component interest rate contracts, foreign exchange contracts, and securities transactions measured at 99 percent Value at Risk with a retention period of one day. In addition, we also prepare a daily worst-case analysis which provides information on losses in extreme cases and on how high the risk of loss was in money market, foreign exchange and securities trading over the year. For example, a VaR of 200 means that there is 99 percent certainty that the bank will not lose more than EUR 200,000 on a given day of trading. However, this value does not reveal any information about how high the actual profit or loss was on that day. For the last five years, the reliability of the VaR approach has been back-tested using historical data on a daily basis.



Monthly reports on market risk exposure in the banking book are presented at the Asset/Liability Management Committee meetings. Control measures are taken in line with interest rate expectations. The risk and profit analysis for the banking book is performed on a total return basis, that is, changes in the banking book's present value are taken into account in addition to structural contributions, thus ensuring long-term flexibility and earning power in maturity transformation.

Liquidity risk refers to the risk of the bank being unable to meet its current and future payment obligations completely and in a timely manner. Liquidity management is handled centrally by the Treasury Department.

## INVESTMENT RISK

Investment risk is integrated into RLB NÖ-Wien's risk tolerance analysis by means of scenario techniques.

## OPERATIONAL RISKS

Operational risk is defined as the risk of loss due to failures in systems or processes or due to errors caused by employees or external parties. Currently, operational risk is calculated using the earnings/volatility method and then included in the risk tolerance analysis.

By compiling a historical loss database, RLB NÖ-Wien has been able to meet the essential prerequisites for applying an advanced approach to calculating regulatory capital requirements for operational risk under Basel II.

## RAIFFEISEN-KUNDENGARANTIEGEMEINSCHAFT

Apart from taking these internal steps in risk identification, measurement and control, RLB NÖ-Wien is a member of the *Raiffeisen-Kundengarantiegemeinschaft Österreich* (Raiffeisen's nationwide customer guarantee association). This association of local and regional Raiffeisen banks as well as RZB mutually guarantees all customer deposits and its members' own issues of securities, regardless of the amount. It is organized on two levels: First, local banks (e.g., Lower Austrian Raiffeisen banks) deposit liquid reserves to guarantee customer deposits at the regional level, and second, the entire Raiffeisen Banking Group guarantees deposits if regional guarantees can not cover them. This multi-level system provides the local and regional Raiffeisen banks as well as RZB with a dual "safety net" for customer deposits.

## RAIFFEISEN SECTOR DEPOSIT GUARANTEE INSTITUTIONS

Through their regional deposit insurance association, RLB NÖ-Wien as well as the Lower Austrian Raiffeisen banks are members of the *Österreichische Raiffeisen-Einlagensicherung reg. Gen. mbH*, a registered deposit insurance cooperative which assumes liability for the entire Raiffeisen Banking Group under § 93, 93a and 93b of the Austrian Banking Act. RLB NÖ-Wien and the Lower Austrian Raiffeisen banks have also formed the *Solidaritätsverein* (solidarity association) for the Raiffeisen Banking Group Lower Austria-Vienna, which offers the necessary assistance if members in the province encounter financial difficulties.

The early warning system used to secure deposits in the Raiffeisen sector provides depositor

protection far beyond any legal deposit insurance requirements. The system is based on comprehensive reporting of income and risk developments by all Raiffeisen provincial headquarters (including all Raiffeisen banks in each province of Austria) to *Österreichische Raiffeisen-Einlagensicherung reg. Gen. mbH*. Ongoing analysis and monitoring ensure the smooth operation of the early warning system.

The Raiffeisen Banking Group is the largest private banking group in Austria, and its economic power provides investors with a high level of security.