

Andreas Treichl: A fresh perspective on the Romanian business

“We will continue to be tightly engaged in Romania. Its success is our success”

Interview with Andreas Treichl, CEO of Erste Group Bank AG published in the Romanian daily Ziarul Financiar on 3 June 2015

What are your expectations for this year regarding BCR results (in terms of income, assets, loans, number of clients)? What are the bank's priorities this year: will it continue the cleaning process of the loan portfolio or will it focus on development of new business?

The first quarter was successful for us in the region overall and in Romania. At BCR, we noticed that last year's clean-up has started to pay off, prompting a decline in risk costs for nonperforming loans and stable provisioning, while the improving economic environment is bringing about a pick-up in lending.

There is clear evidence of economic recovery in Romania and we have understood the call of the Romanian authorities to finance the real economy. Our business is financial inclusion and that is in the charter of Erste Group since its foundation; if we look at the financial intermediation level in Romania, it is still an actual opportunity today. We are confident that we can work towards that purpose as we managed in the Czech Republic, Slovakia and even Hungary. BCR is one of the largest financial supporters of young people acquiring a house in Romania – this is one of the ways we pitch in to the country's sustainable development. We also support many businesses and have put a lot of risk on our books given a very incipient stage of capitalism development here. Maybe that is why we didn't make much money in Romania (people think we did, but we didn't), yet if we look forward, our presence here is legitimate.

And when I say “legitimate”, I am talking about the fact that unrolling financial intermediation is legitimate from our business philosophy, but particularly the right thing to do to support the development of the middle-class and general prosperity. Our bet on Romania and Central and Eastern Europe is based on two pillars: The European Union project will continue and the CEE countries will continue to develop in societies with a prosperous middle-class. From a historic perspective, only 25 years since the fall of communism, these markets have not yet shown Europe everything they can do, because the middle-class is still in formation. This is a logical matter, this is why I trust BCR and Romania as much as I did 10 years ago.

In this respect, I want to particularly emphasize our long term commitment to infrastructure financing in Romania. I trust that, independent of the governing party, the local political class will understand the need to place large infrastructure projects outside the 4-years election cycle and will manage these as priority projects of national interest.

Where do you see the greatest growth potential for new business (retail, corporate or small business)? What do you think are the main barriers to resume lending on the Romanian market?

The potential exists for lending in all economic segments, tightly connected to Romania's economic development, and our efforts to improve risk management basics as well as corporate banking basics lay the foundation for growth.

In very precise terms, we focus on the way we offer risk management services through intermediation/financial counseling to absorb financial shocks or to create the safety net over the customers' economic and life cycle.

It is interesting to notice that consumer sentiment seems to have improved and increased consumption has the potential to change the mood in the business sector as well. As far as retail lending goes, psychologically, the population has learned its lessons from the crisis and now is much more conservative.

On a regional basis, though, after adjusting for wages discrepancies, Romanians are some of the most indebted when it comes about consumer debt, much more than the Polish, for instance. This is why BCR offers its clients a competitive refinancing offer and we pay more and more attention to counselling services for customers.

The same assessment made for mortgage loans shows that currently Romania still has an upside potential which is reflected by the strong growth of mortgage lending. However consumer credit indebtedness may act as a limiting factor for this.

We are also focusing on how we add value through the financial intermediation process. Here and there and particularly in on the corporate financing segment, it has proven to be a "value destroyer".

When abundant liquidity and cheap FX met natural financing needs of this region (re-technologization, real estate & infrastructure development, working capital to meet orders from Western Europe), the major weakness within the model was revealed: overreliance on asset based financing and thin client-company capitalization just as the economic cycle was peaking off. We look very carefully at not repeating the same mistakes again.

For Romania and BCR we have a clear target of local and regional companies in strategic industry sectors & infrastructure. We also focus on export and supply chain driven manufacturing, as we have seen superb export driven growth and companies which in the crisis have managed well their market risk, maintained turnover, didn't borrow. In a new paradigm of conservative origination aimed at ensuring portfolio sustainability, there is a lot of value which focusing on corporate clients can create, considering the natural financing needs of the region remain intact and further European inter-connection of these markets.

Nonetheless, we will not be able to execute our strategy unless we lead in client service quality. Right now we focus efforts on critical improvements such as credit process re-engineering, infrastructure & technological upgrade, operational and analytical CRM, bank wide training/testing/ licensing of the staff. The sooner we match resolution of those matters to our active presence and risk appetite for long term financing of Romanian economy, the sooner we will be

able to generate solid revenues, value for clients, prosperity for the country. We mean structural transformation about re-launching corporate lending and full reassessment of the products and processes that pertain to corporate lending.

Also, after the decision seen as “bold” by the market, but which we saw as “return to normality” - granting loans only in local currency - we noticed that both the population and the companies, irrespective of their size, became much more aware of the importance of correlating the loan currency with the currency in which they achieve their income.

Basically, the potential we see in RON-denominated lending - whether we are talking about mortgage loans for consumers, where we are market leaders commanding a quarter of the new production in RON, about consumer loans, where improved risk assessment instruments led to revival on an ascending path of such loans volumes, or - on a medium term - about corporate lending.

What results has so far the workout department of BCR? Do you intend to keep this department or you prefer a quick fix of balance sheet through NPL sales? What percentage of BCR NPLs accumulated during the crisis come from loans granted before privatization and what percentage came from loans granted after 2006?

Currently BCR NPLs ratio decreased from 30.3% in Q1 2014 to 25.6% in Q1 2015. Improving asset quality continues to remain a priority for us. It is an absolute prerequisite to revive lending, but also for BCR to fully accomplish its role as a true financial intermediary for Romania.

We know that there is much interest in BCR's strategy on this segment. BCR had the most direct approach in this respect and the market is watching, even waiting, for our results with a lot of interest. I cannot stress well enough the importance of reducing the complexity and the consumption of inadequate resources on three pillars: capital, in order to redirect it towards supporting healthy growth, management's attention, in order to focus on our main activity, and legal and operational risks' management, in order to focus on the new business and growth models we are steering in this new economic cycle.

What are the chances that a scenario like the one in Hungary (state invited to become a shareholder of Erste subsidiary) can be repeated in Romania?

Such a scenario is basically impossible to envision. The Hungarian context is singular and so it required a singular concept.

If you look back at the evolution of BCR in the last ten years, do you consider that the price paid for the bank in 2005 was too much? What would you do differently if you would take it over again? What are the chances that in 2-3 years from now BCR to turn from a "millstone around Erste's neck, in one of the main contributors to the profit of the group?

To judge the price that we paid for BCR based on today's parameters is completely unfair. We live in completely different times. What remains unchanged is that BCR is an extremely important bank and a very important asset for Erste Group. We have bought it at the peak of the cycle and the returns have not been those desired so far, due to the severe economic hardships Romania faced in the past years, which strongly affected BCR's clients and, thus, BCR overall. However, we well proved we can adapt to the situation and believe to be on a

sustainable growth path. That is actually a key point since our power to adapt has been proved over the course of 200 years. No current bank in CEE in its current shape and form is older than Erste Group. We are adaptable and we are here to stay on a long term.

Our objectives are deeply tied to the country's economic, political and regulatory agenda so that is why we can be nothing short of a very dedicated advocate of the country. And the most critical thing right now is to align perspectives and priorities at the highest level, so that our efforts go in the same direction.

Are you prepared to support BCR with credit lines in the scenario that lending activity will intensify or the bank should rely more on funds raised from clients?

Currently, the business model that lays at the foundation of sustainable banking operations provisions that new loans granted by branches are increasingly more financed from locally-attracted resources. However, Erste Group maintained its exposure rather constant in the past years and we are convinced that when there will be an increased demand, as well as large projects with long-term financing needs (which are currently missing from the Romanian market), our exposure level will also increase.

We will continue to be tightly engaged in Romania. Its success is our success. And that preoccupies us beyond merely financial figures, because Romania is in an international context where it matters a lot if you are anchored strongly in the institutions of Europe and in if your economy is competitive enough to fight for capital with emerging economies in Asia and Africa.

The country cannot afford to lose the window of opportunity it currently has - after successfully surpassing the economic austerity period, it is imperative to focus on stability and a predictable framework for investments and investors. Should we extrapolate the growth in the first semester, achieving an annual growth of 4% in Romania would be an incredible success; it is a proof that the pain throughout the fiscal consolidation of the country is going to pay off.

We trust that in the long term we can contribute to the social capital of the country, not merely the financial one. Some of the areas we will engage in a lot are building understanding on good governance and prosperity built on education, knowledge, entrepreneurship, clusters.

How do you assess the current performance of the BCR's board led by Tomas Spurny? What percentage of the initial objectives have been met? Do you consider that BCR is efficient enough to face competition after in 2013's restructuring and last year's cleaning of balance sheet or there additional adjustments still needed?

The turnaround program increased BCR efficiency by more than 20% and fundamentally changed the Bank. I would say that the recovery mandate assigned to Mr. Spurny has been successful so far.

During the past three years, key objectives focused on elimination of risks and improvement of efficiency. The risk elimination came at a very high price for the shareholders and taught us the lesson of sustainability. Our sustained efforts to improve the loans portfolio quality paid off and now set the pace for a fresh start and sustainable growth.

In particular, since 2008, we have been experiencing the sobering effects of the recession and it has very often been the consumer who faces the bitter consequences of over-indebtedness, in Romania just as much as in other countries. As such, it is not by accident we have seen a flurry of consumer rights and consumer protection laws aiming to hold sellers of financial goods and services accountable when they seek to enter a business relationship with consumers.

While trying to cope with that from a solid legal ground, the true lesson for us going forward is that, apart from an undisputed need for co-operation with consumers' rights bodies and associations, we have to invest a lot in equipping consumers with the knowledge, tools, and capabilities they need in order to make better-informed financial decisions. Therefore I believe we should aim at significantly increased target outreach activities and digital education to boost financial literacy, instead of merely beefing up aggressive marketing campaigns.

And we must not forget: We are arguably in midst of the third industrial revolution powered by digitization. The shift in the behavior of customers as a result of digitization and of the success of smartphones is dramatically changing the banking business!

Therefore, Erste Group & BCR must manage to excel the two major trends that shape the world today: simplicity in digital experience + create value with information! We wish to completely rethink our bank and offer an enjoyable, accessible and simple banking experience to our customers. We need to understand our customer and offer the experience they need!

Article in Romanian available here:

<http://www.zfcorporate.ro/banci-asigurari/dupa-un-an-de-absenta-din-peisajul-public-romanesc-seful-erste-anunta-o-transformare-structurala-la-bcr-pe-creditarea-corporate-14388983>