

## > Group Synergies

### Update on the New Group Architecture Project



> Manfred Wimmer  
Executive Director,  
Group Architecture & Group Program Management

# > Agenda



## Overview of the main NGA initiatives

### Revenue Enhancement

### Cost Reduction & Efficiency Improvement

1. *Group Large Corporates*
2. *Group Cards Synergy Project*
3. *Retail 2008*
  - » Structured Investment Products
  - » Sales Management Techniques
  - » Consumer Finance
4. *Group Procurement*
5. *Information Technology*
  - » Software Development
  - » Group IT Operations
  - » Decentralized Computing

*(6) Group  
Performance  
Model  
(GPM)*

## > (1) Group Large Corporates



### **Group Large Corporates set-up completed successfully**

- » **Transition from project into roll-out completed**
  - » Organizational blueprint implemented throughout the Group
- » **Key elements of Large Corporate strategy developed and put into place in H1 2005:**
  - » New Relationship Management Concept
  - » New Account Planning Process
  - » New Credit Policy and Credit Processes
  - » New Product Class Concept and Group-wide Competence Centers
  - » Optimization of IT support
- » **RWA assets of Group Large Corporate portfolio at EUR 9.6bn (H1 05)**
  - » 70% in Austria expected to grow at an average rate of 3%
    - Below nominal GDP growth
  - » 30% in CEE with an average growth expectation of > 20%
  - » Increasing the CEE stake to over 40% by 2008

## > (1) Group Large Corporates (cont)



### Positive trend in operating result confirms strategy

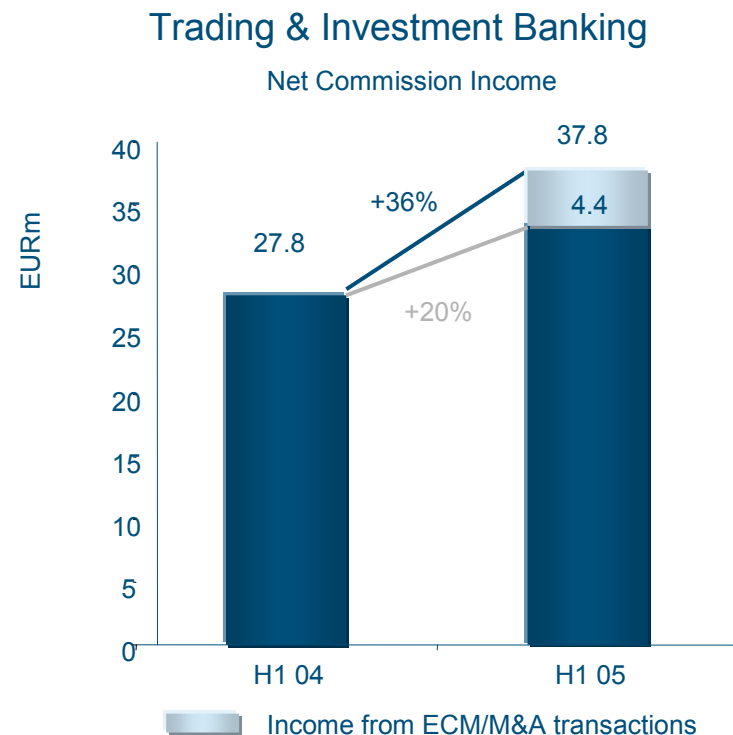
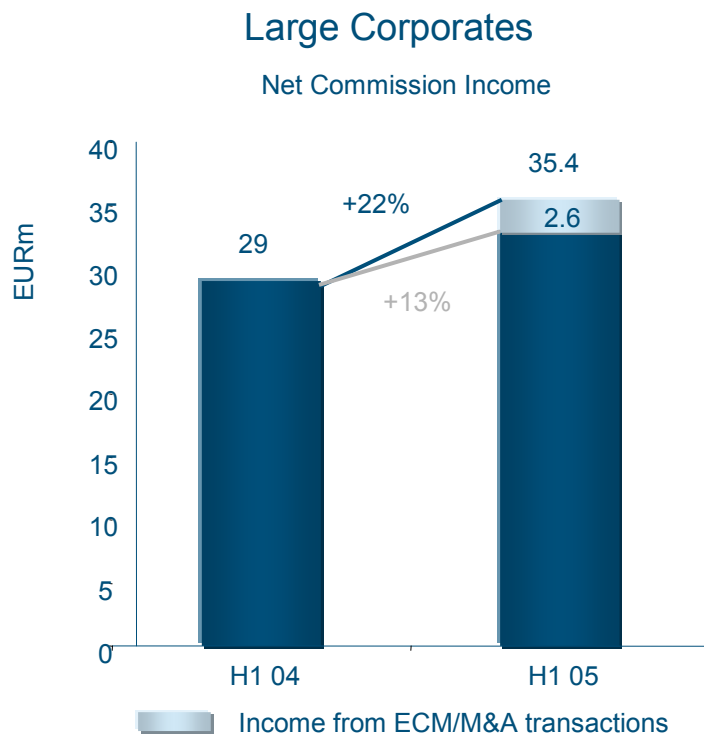
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- » Operating result development for H1 2005 (+5.4%) reflects achievements up to now and confirms defined strategy
  - » Increasing contribution in particular from high value fee business
  
- » Erste Bank Group confirms 2008 target for Group Large Corporates:
  - » Achieve sustainable ROE >15%

## > (1) Group Large Corporates (cont)



### Increasing contribution from high value fee business



#### » Recent transactions include:

##### Sales:



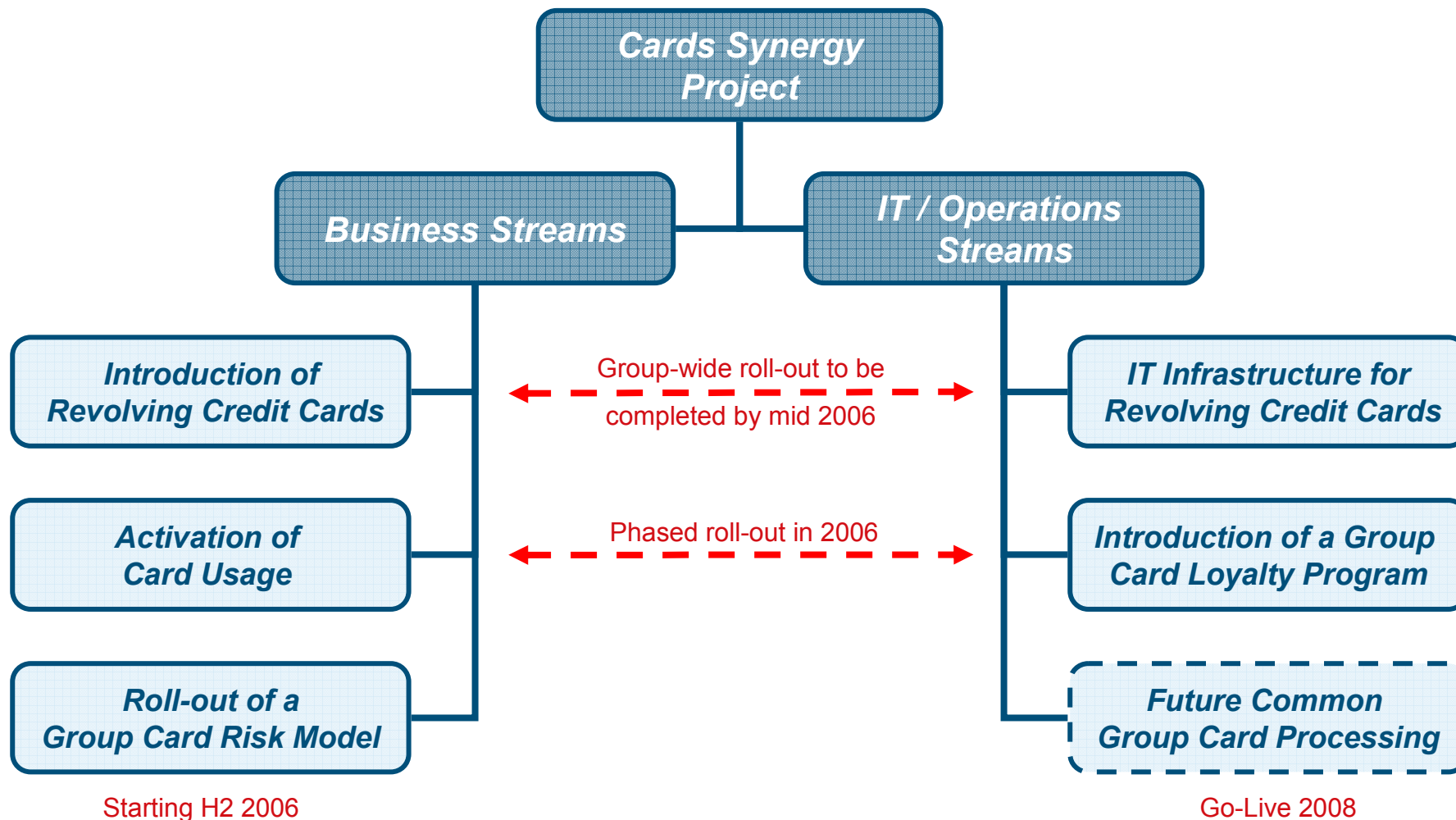
##### Equity / Equity-linked offerings:



## > (2) Group Cards Synergy Project



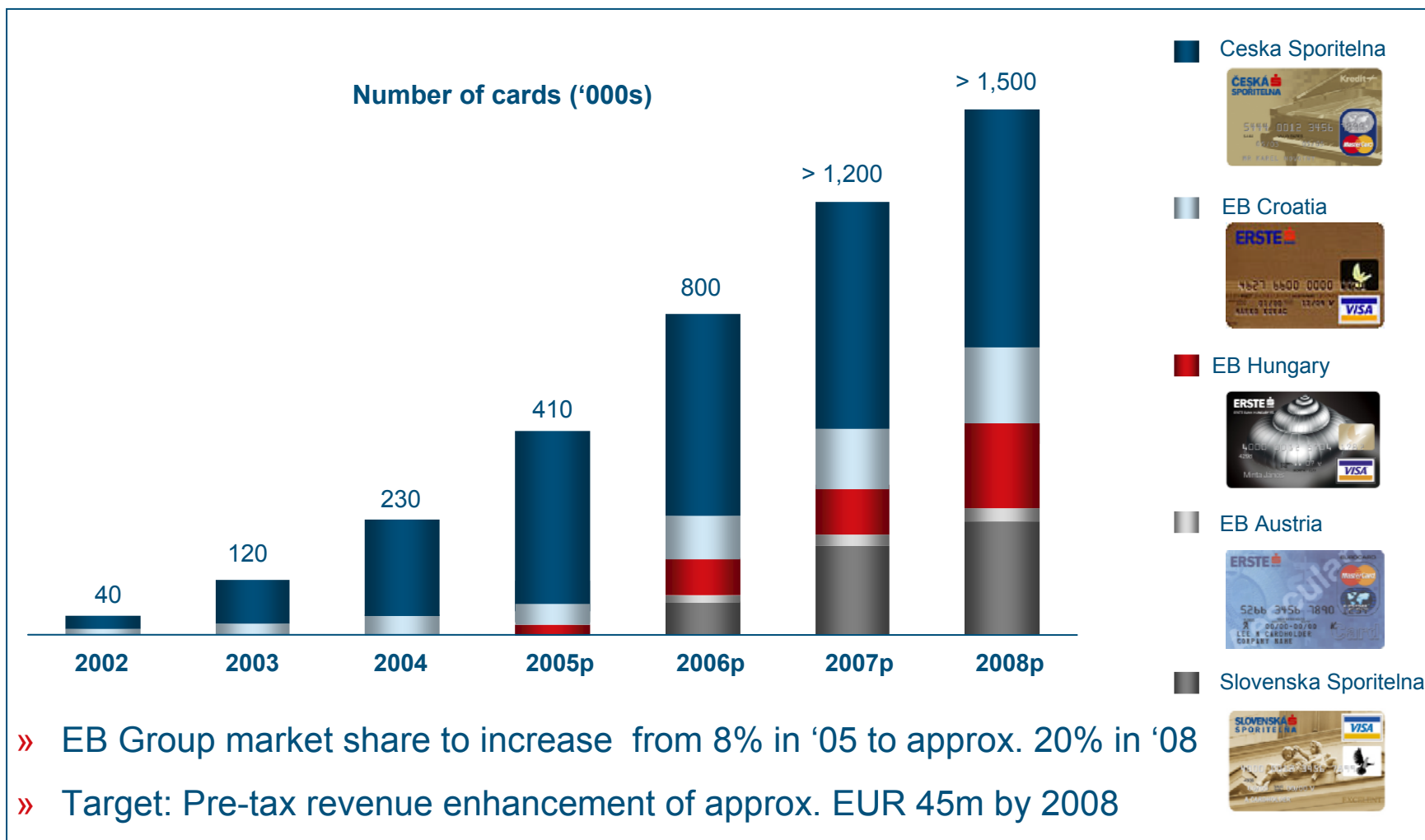
### Overview – Project structure and workstreams



## > (2) Group Cards Synergy Project



### Rapid growth of EB Group credit card base forecast to 2008



## > (3) Project Retail 2008



### Creating value through Group-wide convergence models

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#### » Core elements of the Retail 2008 philosophy

- » Focus on quick-wins while developing a long term strategy
- » Mutual learning through best-practice and competence sharing
- » Establishing a working model for effective Group-wide cooperation

#### » Concrete convergence models are beginning to take effect

- » Increasing commonality in retail products, processes and IT support
- » Ready-to-use blueprints for roll-out in additional new markets

#### » Special emphasis on three initiatives that were started in 2004

- » Rollout of Structured Investment Products (SIPs) in Central Europe
- » Exchange of best-practice Sales Management Techniques (SMT)
- » Establishment of a Group Consumer Finance platform



## > (3) Project Retail 2008 (cont)



### **Structured Investment Products – A quick-win initiative for CE**

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- » **Roll-out in CE subsidiaries based on the experience and product know-how of Erste Bank Vienna**
  - » Initial focus on Structured Deposits and Structured Funds
- » **Roll-out is based on an elaborate business plan for 2005-2008**
  - » With the market launch in Hungary by end of Q3 2005, Structured Investment Products will be marketed throughout the extended home market
- » **First results of this quick-win initiative are very encouraging**
  - » AT and CZ well within ambitious business plan
  - » SK, HU and HR on track and making rapid progress
- » **Target: Pre-tax revenue enhancement of approx. EUR 20m by 2008**

## > (3) Project Retail 2008 (cont)



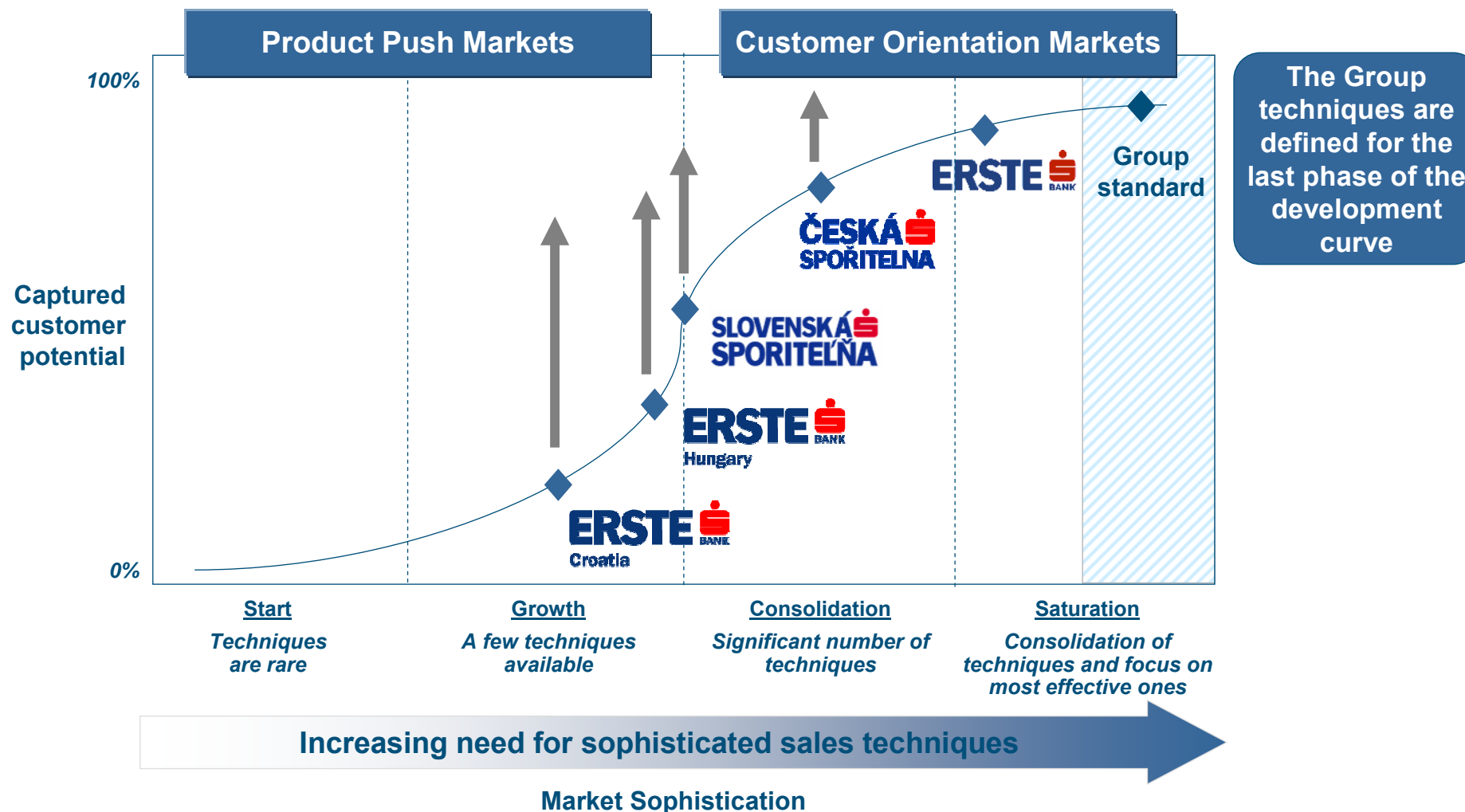
### **Sales Management Techniques – Best-practice sharing**

- » **Through cross-border teamwork, an Erste Bank Group standard for Sales Management Techniques at branch-level has been developed**
  - » Implementation in all countries starting in Q3 2005
- » **New Group Toolkit contains revenue-enhancing sales tools:**
  - » Product Push Focus → main focus for SK, HU, HR
    - Product Overview (purchased products per client)
    - Finance Check (product-based)
    - Sales Arguments
    - Cross-Selling Guidelines
  - » Customer Orientation Focus → main focus for AT, CZ
    - Product Bundles
    - Customer Care Concept
    - Campaign Management
    - Finance Check (need-based)
    - Next Best Product
- » **Target: Pre-tax revenue enhancement of approx. EUR 25m by 2008**

## > (3) Project Retail 2008 (cont)



### Sales Management Techniques – Development curve



## > (3) Project Retail 2008 (cont)



### Consumer finance – Exploiting a new business model

- » The Consumer Lending business is developing very well throughout Erste Bank's home market
- » To supplement this, the Consumer Finance Initiative aims to build up a truly Group-wide platform for specialized lending products
  - » Focus on Instalment Loans, Car Leasing and Small Cash Loans
  - » Processing on a scalable and transplantable state-of-the-art platform
- » Erste Bank is reconsidering its originally intended target model in favour of further evaluation for two reasons:
  - » Major changes in local CF markets: new competitors, margin deterioration, non-availability of key merchants for distribution partnerships, etc.
  - » Discussion on group risk appetite: Developing new customer groups<sup>(1)</sup> implies moving into sub-prime customer segments (currently not a priority)
- » Revenue enhancement will be quantified after final decision on Consumer Finance model in Q1 2006

(1) In particular in CZ and SK, where Erste Bank Group already holds significant client shares

## > (4) Group Procurement



### Establishing a value-generating Group function

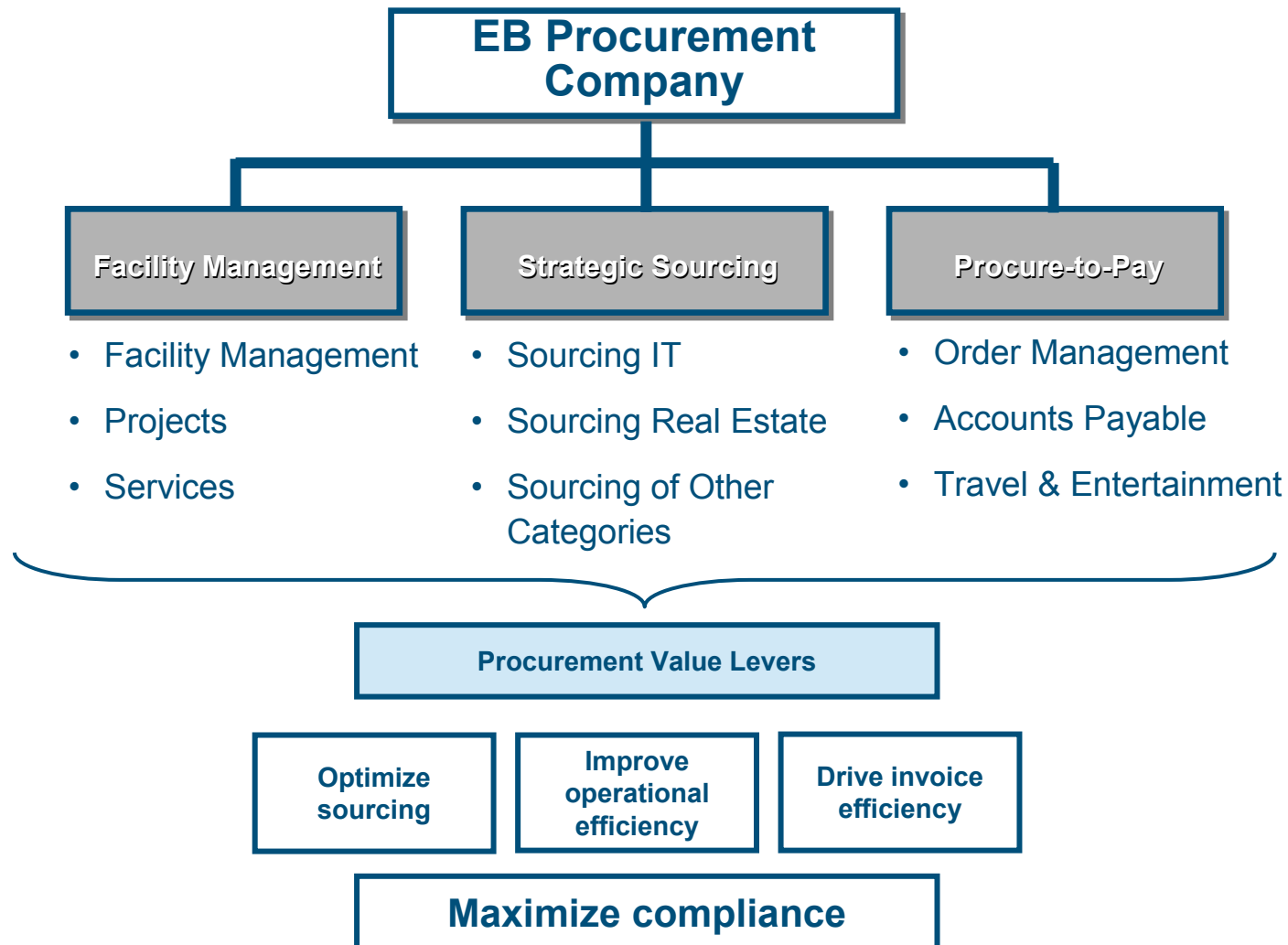
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- » **Initial Group Procurement structure set-up YE 2004 to**
  - » Drive and monitor the Group function transition process
  - » Screen main purchase categories to ensure defined cash savings
  - » Coordinate local procurement units to act as a true Group function
  - » Develop future operational model (2006 forward)
  
- » **All major targets met to date**
  - » Transition process largely completed
  - » Matrix-based interim organization established
  - » Target for 2008 cash savings of > EUR 80m confirmed
  
- » **Group Procurement will be transformed into a separate company**
  - » Ensure that negotiated cash savings are realized and sustainable over time
  - » Enhance transparency and provide optimized governance
  - » Enable scalability of organizational structure (e.g. next acquisitions)

## > (4) Group Procurement (cont)



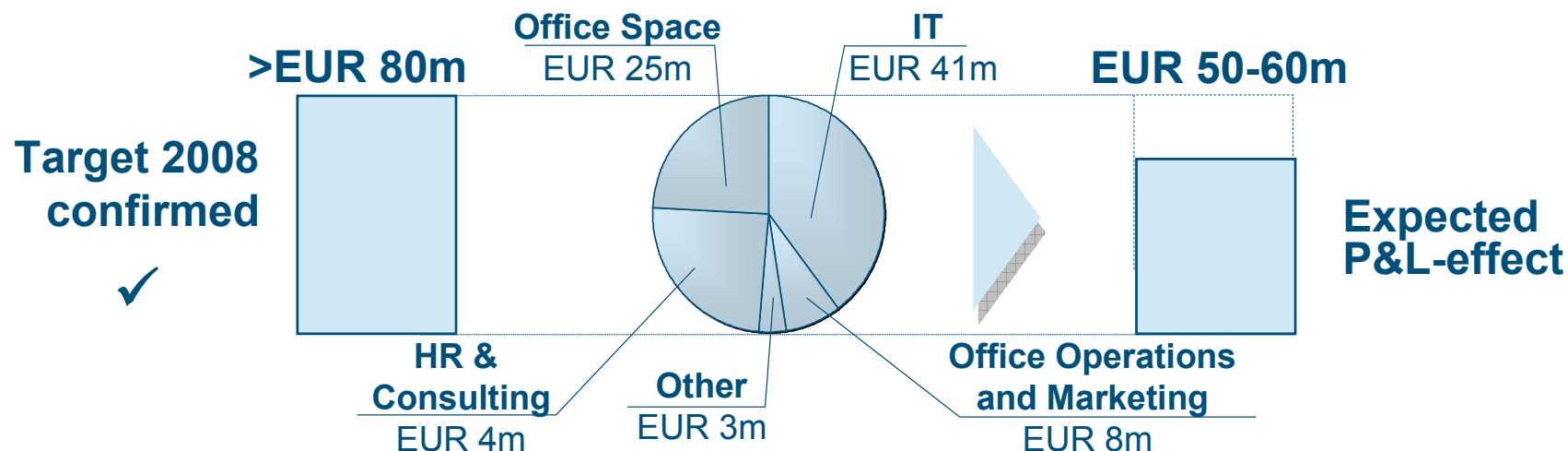
### New organizational set-up – EB Procurement Company





## > (4) Group Procurement (cont)

**Cash saving target for 2008 of > EUR 80m confirmed**



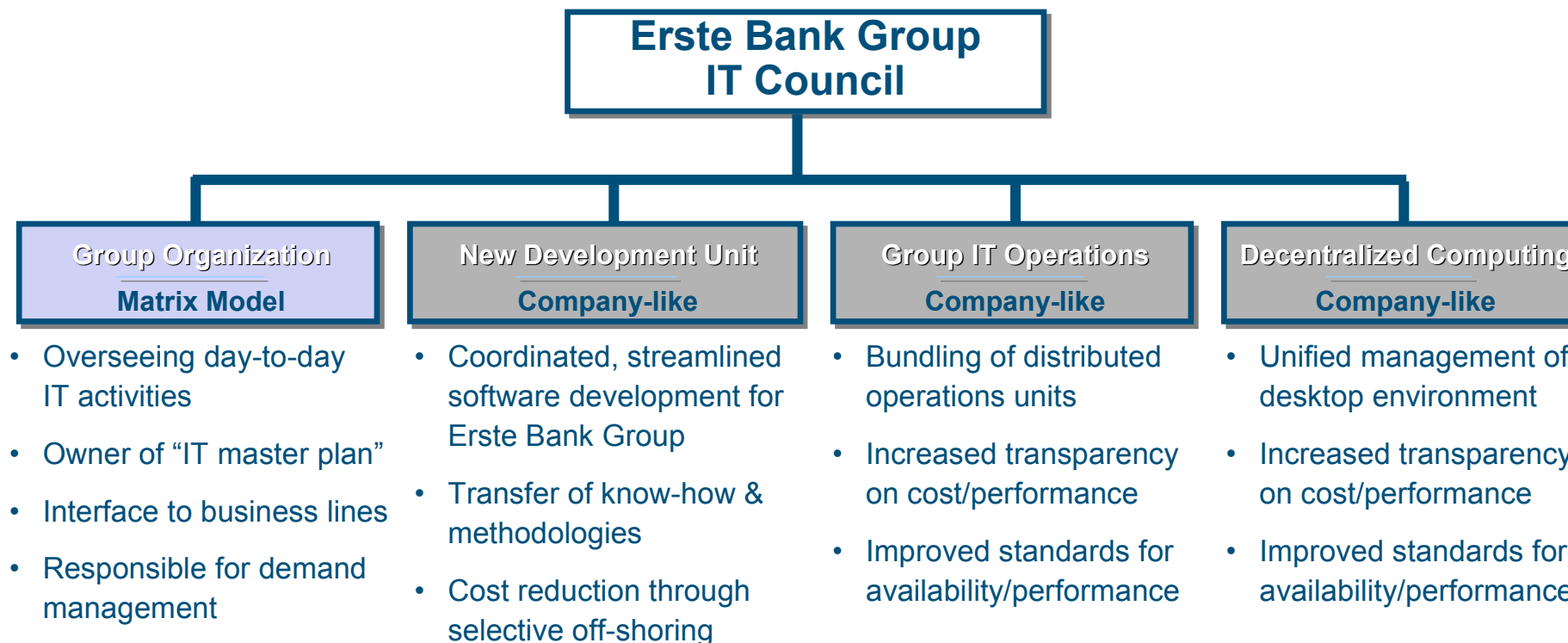
### Cash Savings – Some Examples

Office Space	IT	HR & Consulting	Office Operations/Marketing
<ul style="list-style-type: none"> <li>Space reduction programme</li> <li>Reduction of operational cost incl. security</li> <li>Joint office equipment tenders</li> </ul>	<ul style="list-style-type: none"> <li>Discounted end-user Microsoft licences</li> <li>Decentralized Computing auctions</li> <li>Server/primary storage consolidation and contracting</li> </ul>	<ul style="list-style-type: none"> <li>New Group travel policy</li> <li>Consulting demand management</li> <li>Training consolidation</li> </ul>	<ul style="list-style-type: none"> <li>Group chip cards supply</li> <li>Standardization of company cars</li> <li>Strategic sourcing in marketing</li> </ul>

## > (5) Information Technology



### New Group IT structure – Overview



### » Substantial overall IT cost savings effects expected

» Approx. EUR 40m p.a. sustainable cost savings by 2008



## > (5) Information Technology (cont)



### **New Development Unit – Group company off to positive start**

- » **Integration of the five software-development entities of EB Group into a single focused organization**
  - » Spardat (AT), Spordat (SK), development units in CZ, HU and HR
- » **New Development Unit will be fully operational by Q4 2005**
  - » Management team selected and in place
  - » Assignment of second level management completed
  - » Transformation and change program running at full speed
- » **Positive contribution towards overall IT cost targets**
  - » Main cost reduction drivers:
    - Consolidation of the application portfolio
    - Relocation and selective off-shoring
    - Optimization of the make/buy mix
    - Process redesign and cost containment activities

## > (5) Information Technology (cont)



### Group IT Operations – Cost synergy initiative starts Q3 2005

Direct Measurements	Infrastructure	Server consolidation and standardization; Storage management; etc.
	Premises	Resource sharing / pooling; Datacenter consolidation; etc.
	Processes	Introduction of best-practice service-management; Process-standardization and automation; etc.
	Procurement	Higher negotiation power / lower unit prices; Demand-pooling; Advanced capacity panning; etc.
	Management / Strategy	KPIs, Cost- and performance-management; Cost transparency; etc.
Indirect	Group Organization	System & solution reuse; System decommissioning; etc.
	Software Development	System & application audit; Tuning and reduction of number of software systems; etc.

## > (5) Information Technology (cont)



### Decentralized Computing – Group-wide standardization

#### » Project implementation started mid 2005

- » Phased approach throughout the Group to be finalized by 2008
- » Progress to date confirms significant savings potential

#### » Initiative comprises significant Group resources

- » Approx. 500 staff dealing with Decentralized Computing issues
- » Approx. 100,000 devices (desktops, notebooks, printers, etc.) in use

#### » Cost reduction potential through standardization and common service models identified:

- » On-site services
- » Operational services (such as service desk, software distribution services, etc.)
- » Governance services (such as request mgmt, inventory mgmt)
- » Technical support services (such as backup, virus prevention, etc.)

#### » Substantial contribution to overall IT cost savings target

## > (6) Group Performance Model



### Bringing it all together

- » **Group Performance Model initiative achieved its two main objectives**
  - » Creating transparency regarding function content, resource allocation and convergence to common (“best practice”) business models in several areas
  - » Defining Key Performance Indicators (KPIs) to compare efficiency across entities and to allow for harmonized business steering throughout the Group
- » **Unified performance measurement system for EB Group is being developed**
  - » Pilot in Ceska Sporitelna; phased Group roll-out until end 2006
- » **Findings from this transparency initiative already revealed considerable savings potentials for all Group banks**

## > Summing Up



### NGA projects help to support sustainable Group profit growth

2008

#### Revenue enhancement

(1) Group Large Corporates	EUR 25m
(2) Group Card Synergy Project	EUR 45m
(3) Retail 2008	EUR 45m
Structured Investment Products	
Sales Management Techniques	
Consumer Finance	

#### Cost reduction

(4) Group Procurement (P&L effect)	EUR 55m <sup>(1)</sup>
(5) Information Technology	EUR 40m
Software Development	
Group IT Operations	
Decentralized Computing	

**Pretax P&L effect of NGA projects**

**approx. EUR 210m**

(1) Cash savings 2008 are > EUR 80m



### Getting it right in the years to come

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#### » EB's "New Group Architecture" is a multiyear transformation effort

- » Exploiting the growth potential of existing businesses
- » Creating synergies from EB's current client base of more than 12m customers
- » Adapting the organizational structure to reduce complexity of the Group

#### » NGA blueprint comprises two distinct development paths – focusing on highest impact areas

- » Business Architecture: Retail 2008, Large Corps, Cards, Procurement, IT
- » Management Architecture: Group Performance Model, Group Governance, Group Culture

#### » Future activities will focus on consolidating these conversion paths

- » Increased steering through centralized functions (e.g. Group Large Corporates, Procurement)
- » Increased alignment of decentralized business models (e.g. Retail business)
- » Increased cultural alignment ("Erste Bank Group spirit")