Erste Group CEO to present at ESE Conference 2015: Financial supervision in Europe - on the right track?

Prague, 1 October 2015

Today, Erste Group CEO Andreas Treichl addressed the ESE (European Supervisor Education Initiative) Conference hosted by Czech National Bank, in Prague.

In his speech, Andreas Treichl stated that Erste Group is a big supporter of establishing a genuine single European supervision authority as the best solution for removing obstacles that hamper cross border banking. He went on to show why, as long as we do not have all three pillars of the Banking Union in place, a fully-fledged Banking Union is only an illusory project.

Based on Erste's experience in Central and Eastern Europe, Andreas Treichl also advocates that the minimum requirements for eligible liabilities (MREL) should only refer to the minimum capital requirements in order to limit further distortions. He concluded by outlining the challenges ahead for developing a Capital Markets Union that will take at least twenty-thirty years to build, while CEE and Europe at large will in the meantime remain heavily dependent on banking financing.

<u>*On Banking Union*</u>

I am a supporter of the Banking Union, but I am a supporter of the Banking Union out of a very selfish reason - because Erste Group is a cross-border bank and the Banking Union would help us a lot. If I was a Czech central banker, I wouldn't want to be a supporter of the Banking Union and that is, I think, one of the problems that we are facing – from which position you take it – and this we have to change. And in the end I think that we have to come to a common view at one point in time. Otherwise this is a huge problem that the Europeans have: that we have our own interest and we have a common interest, but we don't get on the same track.

- *I do look at the Banking Union in a different way than regulators look at the Banking Union. Regulators look at the Banking Union as three pillars: the Single Supervisory Mechanism (SSM), the Single Resolution Mechanism (SRM) and the European Deposit Guarantee system. And each one is at the heart of the banking union. Let's take a look, the SSM is one third of it, the SRM one third and the deposit guarantee is also one third. I look at it differently.*
- *To me, the Banking Union is a chocolate soufflé and the SSM are the eggs, the SRM is the butter and the deposit is the chocolate. Only if you put the three things together, you have the chocolate soufflé. And eggs are not 1/3 of the chocolate soufflé, eggs are eggs. And to me, the SSM is the SSM and the SRM to me is butter, but it has nothing to do with the chocolate soufflé, because the chocolate soufflé only exists if we have the depository facility, which we don't have. This will take a very long time.*
- *Now if we look at the three components and who is responsible for them, why is the SSM well advanced? Because the SSM is purely a regulatory issue! The SRM*

- *is not anymore a purely regulatory issue, it's a regulatory issue and a political issue, because it already involves some institutions. But who is actually in the end responsible for the resolution? The bodies that are being established at the SRM, which has to act incredibly fast, and all I can say is "Good luck"!*

- *The deposit guarantee scheme, however, is purely political and that's why it's not going to happen. It reflects the deepest problem that Europe has for the moment and that is: if you look at the Eurozone and you look at those countries of the European Union that are not in the Eurozone, they can give you - each of those countries different, but all of them - at least ten very valid reasons why they will not join the Eurozone.*

- *And, bad luck, if you look at the position of the countries that are not in the Eurozone and you look at the intents of those countries, you will find out that the weaker ones would like to join and the stronger ones will not want to join. And if that is not a political problem, then I don't understand politicians.*

On MREL

The SRM is now in a difficult situation. We are now establishing the minimum requirements for eligible liabilities, the MREL. I do think that the draft that is now being prepared by the EBA serves as a basis for the delegated act for the European Commission. And, what will come out of it, my view is, basically an approach that will require two times the capital requirements. So if MREL is purely designed to absorb losses in resolution, after already having gone through recovery by reducing the balance sheet, then buffers should not be part of the determination of the loss absorption amount.

- *Now my view is, out of the system that I represent, is that the finding that arises now is that TLAC banks are actually in a better situation than the small banks like us. Just that we are not so small. We have 17 million clients, we have 200 billion euros in balance sheet, we run 7% of the retail deposits of the main countries in Central and Eastern Europe and we are being treated worse than large investment banks. I don't like that and I don't think that it is well intended. Because one of the problems that we face, for example, in the Czech Republic, where it's not only the case of Erste at Česká spořitelna, but all the banks in the Czech Republic are incredibly well funded. Very few countries in the world have a banking system of loan to deposit ratio of less than 80%. And it's mostly retail deposits. So the granularity is huge. The problem is those retail deposits don't count.*

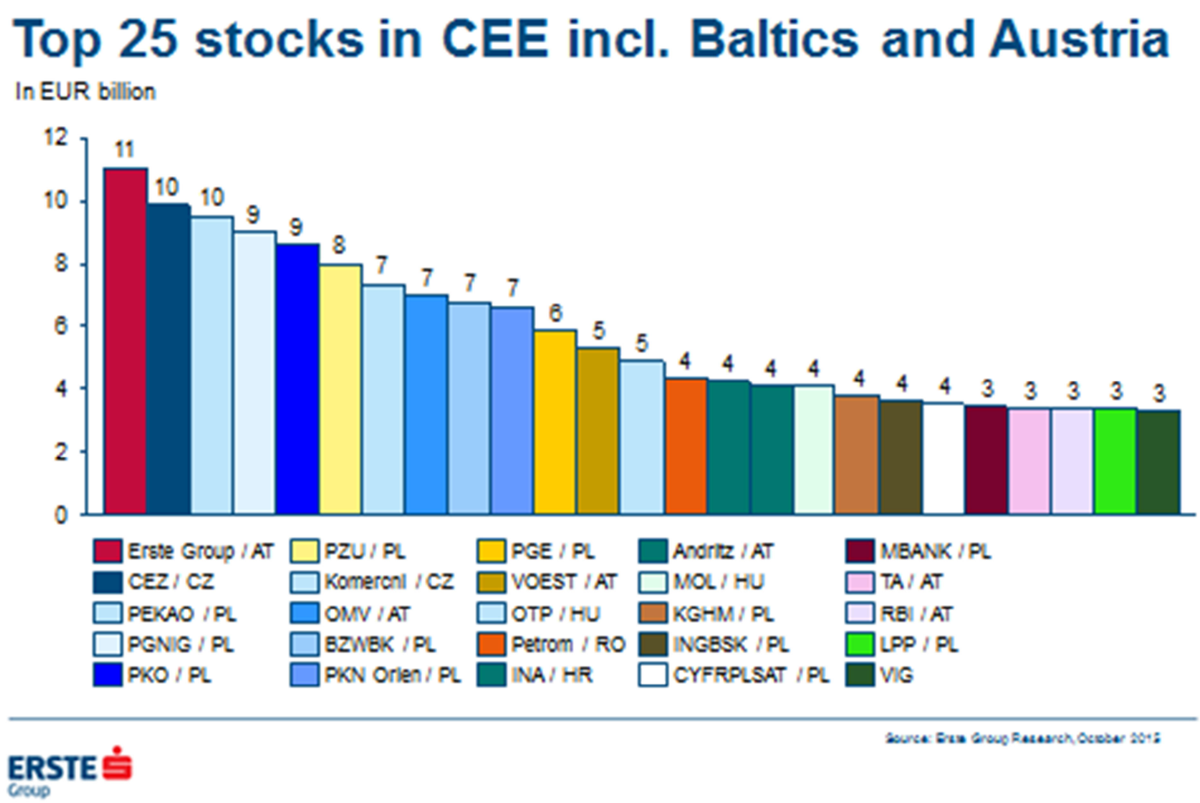
- *So because of MREL, we would be forced to blow up our balance sheet, increase our leverage in order to meet a capital requirement that I think doesn't make us at all a better bank. And this is just one of the examples.*

As Erste is a cross-border banking group, we have an incredibly strong interest in a single set of rules. But I think what you need to understand is "stop looking at us as bankers". We are business people. I run a business and that business happens to be a bank. I am in the business of servicing my clients, if regulators let me have time for that; I am in the business of creating efficiencies and capturing growth to the benefit of my clients, my employees and my shareholders. And I do exactly the same business, but in a different environment, as a carpenter or an aircraft manufacturer. But much more than that, than growth and efficiency, what we need is legal, political and regulatory stability!

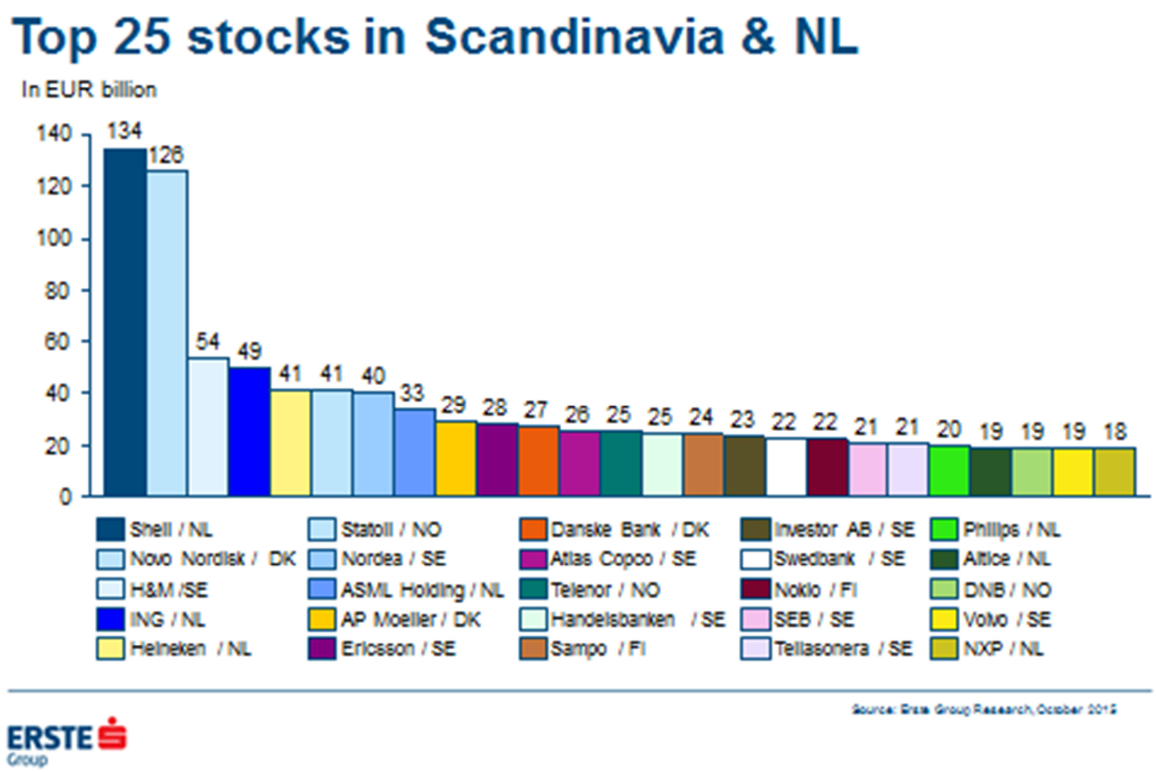
On CMU

And I would like to draw your attention to something that extends past the SSM, but that scares me. And that is the Capital Markets Union, which is now on top of the agenda of the European politicians.

- *I am fully in agreement that we should have a Capital Markets Union. I fully agree. I am very much for crowd-funding and I am very much for securitization and everything else. It would make our life a lot easier.*
- *But with the capital markets union, you see again, how the countries and regions in Europe differ. I want to give you one example that shows the difference - Poland, the Czech Republic, Slovakia, Austria, Hungary, the whole CEE. Erste Group is the largest market company with EUR 11bln in the market capital and you go down to number 25 and you are at EUR 3bln. Those are the 25 largest capital market companies in a region of nearly 100 million people.*



- *[In comparison] Scandinavia and the Netherlands: A region that in terms of population is one third of the region that I am talking about - but it has a capital market activity. The largest company is Shell, but then you will find a lot of companies with market caps that are four times that of Erste Group that I have never heard of.*



- *Beside the big companies, what shall we do with the SMEs in Europe – our backbone for growth? If I suddenly have SMEs in the Czech Republic and in Slovakia and in Austria that instead of 5% own capital are starting with 10% own capital, it is great for my business. Because I can lend them a lot more and they have a much better base to grow. So it's great!*
- *The problem is that it takes at least 20-30 years to build the capital market. And you need politicians who understand that you need the regulations, you need the legislation for it, you need the pension funds for it, you need the life insurance company and you need the retail investors for it. If you move it too fast, you ruin it from the beginning. Regulate it in a way where you can think about how can we, as financial institutions, participate in increasing the capital base of SMEs without involving retail clients and putting them at risk!*

Capital Markets Union is only going to work if we give capital markets time to develop and whether you want it or not, banks need to play a role in that game in Europe.

Thank you very much!