Treasury Confirmation and Settlement Processes

Erste Group Bank AG
Group Treasury Operations

Presentation for OMG Meeting
3rd June 2019
Erste Group at a glance
Customer banking in the eastern part of the EU

- Founded in 1819 as the first Austrian savings bank
- Ever since its founding, Erste Group has been focusing on the real economy
- Today, Erste Group is one of the largest financial services providers in the eastern part of the EU in terms of clients and total assets. Its core activities – besides the traditional strength in serving private individuals and SMEs – include advisory services and support for corporate clients in financing, investment and access to international capital markets, public sector funding and interbank market operations
- Erste Group is strongly committed to offering a comprehensive range of financial products to meet its customer needs

Key financials FY 2018

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Net profit</td>
<td>EUR 1.79 bn</td>
</tr>
<tr>
<td>Total assets</td>
<td>EUR 237 bn</td>
</tr>
<tr>
<td>Total equity</td>
<td>EUR 19 bn</td>
</tr>
<tr>
<td>CET 1 ratio (Basel 3, phased-in)</td>
<td>13.5%</td>
</tr>
<tr>
<td>Loan/deposit ratio</td>
<td>91.8%</td>
</tr>
<tr>
<td>Operating result</td>
<td>EUR 2.73 bn</td>
</tr>
</tbody>
</table>
Erste Group at a glance
Customer banking in the eastern part of the EU

- Over 47,000 employees serve more than 16.2 million customers through 2,507 branches in 7 countries in the eastern part of the EU
- One of the leading financial providers in the eastern part of the EU
- Among the TOP 3 banks in our core markets in AT, CZ, SK, RO, HU and HR
- Leader in digital banking in our home market Austria
**Strategy**

Real customer needs are the reason for our business

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**Strategic Objectives**

<table>
<thead>
<tr>
<th>Customer banking in Central and Eastern Europe</th>
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</thead>
<tbody>
<tr>
<td><strong>Eastern part of EU</strong></td>
</tr>
<tr>
<td><strong>Retail banking</strong></td>
</tr>
<tr>
<td>Focus on local currency mortgage and consumer loans funded by local deposits</td>
</tr>
<tr>
<td>FX loans only in EUR for clients with EUR income (or equivalent) and where funded by local FX deposits (HR &amp; RS)</td>
</tr>
<tr>
<td>Savings products, asset management and pension products</td>
</tr>
<tr>
<td>Expansion of digital banking offering</td>
</tr>
</tbody>
</table>

| **Capital markets** | **Public sector** |
| Focus on customer business, incl. customer-based trading activities | Financing sovereigns and municipalities with focus on infrastructure development in core markets |
| In addition to core markets, presences in Poland, Germany and London with institutional client focus and selected product mix | Any sovereign holdings are only held for market-making, liquidity or balance sheet management reasons |
| Building debt and equity capital markets in CEE | |

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Focus on banks that operate in the core markets

Any bank exposure is only held for liquidity or balance sheet management reasons or to support client business
## Ratings

Erste Group has solid credit ratings

<table>
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<tr>
<th>Rating Agency</th>
<th>Long-term Rating</th>
<th>Outlook</th>
<th>Short-term Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>Moody’s</td>
<td>A2</td>
<td>Positive</td>
<td>P-1</td>
</tr>
<tr>
<td>Standard &amp; Poor’s</td>
<td>A</td>
<td>Positive</td>
<td>A-1</td>
</tr>
<tr>
<td>Fitch</td>
<td>A</td>
<td>Stable</td>
<td>F1</td>
</tr>
</tbody>
</table>

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**Moody’s**

*Long-term rating: A2, Outlook: Positive, Short-term rating: P-1*

**Standard & Poor’s**

*Long-term rating: A, Outlook: Positive, Short-term rating: A-1*

**Fitch**

*Long-term rating: A, Outlook: Stable, Short-term rating: F1*
ERSTE Group Bank AG
• Direct Clearing Member Eurex OTC
• Direct Clearing Member Eurex ETD
• Indirect Clearing Member LCH for IRD
• Indirect Clearing Member ICE for CRD
• Indirect CLS Member
Group Treasury Operations

Settlement Hub for
- Erste Group Bank AG
- Erste Bank der oesterreichischen Sparkassen AG
- 49 local Savings Banks

Dep. 563
Group Treasury OPS
WACLAVSKY Hannes

Treasury OPS Banks
- FX / MM Banks
- Banknotes
- Cash Disposition

TSY OPS Non Banks & Derivatives
- Static Data / Workflow Management
- OTC Derivatives FX/MM Non Banks
- Exchange Traded Derivatives
Calypso

Core Treasury Operations System

- Since 2018: Only Backoffice
- Since 2018: Risk purposes
- Starting with 2008: Front to Back
- Accounting purposes
# Operational Functionalities

<table>
<thead>
<tr>
<th>OTC Derivatives lifecycle handling (EN)</th>
<th>Static data handling (EN)</th>
<th>Processing of online bookings (EN)</th>
<th>Automatic STP approvals (EN)</th>
<th>OTC Settlement (EN)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest calculations (EN)</td>
<td>Host files/ Client reports (EN)</td>
<td>Confirmation (EN)</td>
<td>Dispo/marking (EN)</td>
<td>Central clearing (EN)</td>
</tr>
<tr>
<td>Trade confirmations (EN)</td>
<td>Foreign currency payments (EN)</td>
<td>Record keeping (EN)</td>
<td>Netting and investigations (EN)</td>
<td>Payments via SWIFT (EN)</td>
</tr>
<tr>
<td>Investigations (EN)</td>
<td>Cash bookings (EN)</td>
<td>Archiving (EN)</td>
<td>Clearing and settlement of trades (EN)</td>
<td>Trade lifecycle handling (EN)</td>
</tr>
<tr>
<td>Payment bookings activities (EN)</td>
<td>Setup of fees (EN)</td>
<td>Client static data (EN)</td>
<td>Margin handling (EN)</td>
<td>Manual approvals (EN)</td>
</tr>
</tbody>
</table>
Reconciliation Tools

- Corona (SmartStream Technologies) for reconciliation of confirmations and cash positions
- Misys (Finastra) matching service for reconciliation of confirmations (only NonFinancial counterparties)
- CTC (Gresham) solution used for position reconciliation on ETD side
Confirmation Process

- Nearly the entire FX + MM interbank business is confirmed electronically via Swift.

- On the FX + MM NonFinancial business the exchange the majority of the clients receive their confirmations via email or fax – due to the client structure.

- Confirmations on OTC business as well are exchanged via email or fax, only on the FX Option side the exchange predominantly works via Swift MT305 + MT306.
Robotic Process Automation

In Treasury Operations only some smaller initiatives started in 2019 – due to system consolidations in the last years.

⇒ Replacement of makros
⇒ Capture of trades and lifecycle events for retail clients
⇒ Trade summary requests by external auditors

Main challenges:
Building up the necessary set of skills and establishing a central competence center for digital developments
Questions?

Thank you!