Raiffeisen Bank International

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ALM with ultra-low interest rates

The perspective of an Austrian internationally diversified universal bank

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Geographic Footprint

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Capital

Taxes

...ublic, #5
- ...bn
- ...482,818
- ...Outlets: 128

Poland, #8
- Loans: 9.9 bn
- Customers: 729,455
- Business Outlets: 369

Russia, #10
- Loans: 10.8 bn
- Customers: 2,840,8...
- Business Outlets: 206

Austria, #3
- Loans: 24.3 bn
- Customers: 6,756
- Business Outlets: 3

Belarus, #6
- Loans: 1.0 bn
- Customers: 740,085
- Business Outlets: 96

Hungary, #5
- Loans: 4.9 bn
- Customers: 593,187
- Business Outlets: 117

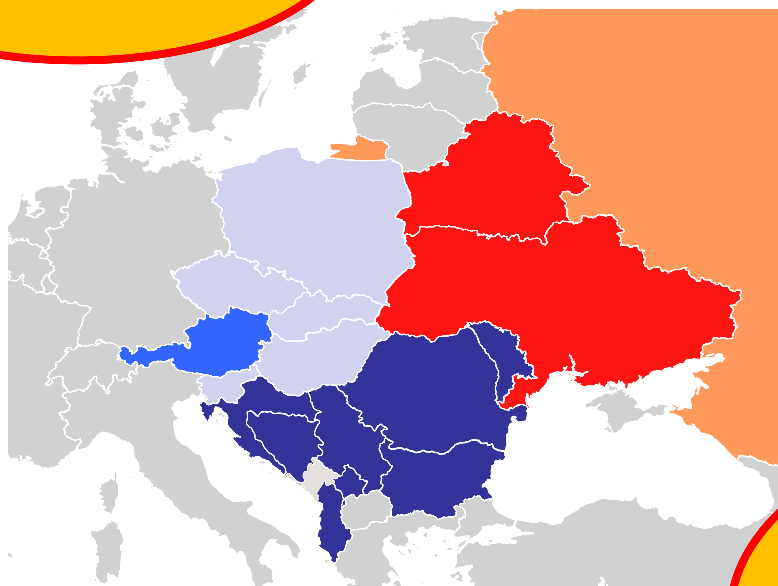
Ukraine, #6
- Loans: 2.9 bn
- Customers: 2,859,750
- Business Outlets: 670

Slovakia, #3
- Loans: 7.4 bn
- Customers: 924,023
- Business Outlets: 184

Romania, #4
- Loans: 4.4 bn
- Customers: 2,049,071
- Business Outlets: 53...

Slovenia, #11
- Loans: 0.9 bn
- Customers: 63,953
- Business Outlets: 14

Bul...



Croatia, #4
- Loans: 3.3 bn
- Customers: 468,071
- Business Outlets: 77

Bosnia a. Herzeg., #2
- Loans: 1.2 bn
- Customers: 50...

Albania, #1
- Loans: 0.9 bn

Kosovo, #1
- Loans: 0.5 bn
- Customers: 270,403
- ...utlets: 54

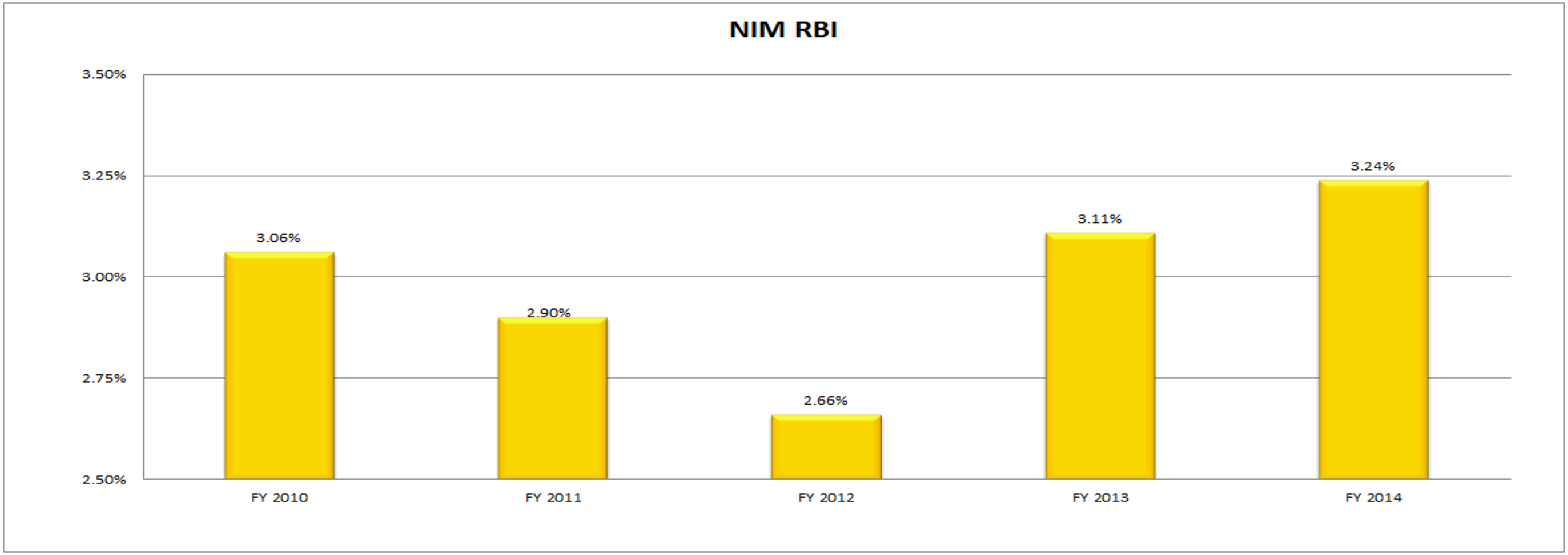
- Leading regional player with CEE presence of over 25 years
- Covering 16 markets (incl. Austria), of which nine are EU members and Serbia has candidate status
- Top 5 market position in 10 countries
- ...rporates

Net Interest Income

Risk Costs

Note: Position based on loans...
Additionally, RBI operates leas...

NIM of RBI



- Ongoing pressure from declining interest rates
- 2011 RBI increased liquidity buffers to prepare for greek turbulences
- In 2012 active measures were taken to bring back NIM

Accounting & NII

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Asset Base

- NIM = NII / Assets
- Standard for Assets: Interest bearing Assets

Derivatives

- Interest part of Cross Currency Swaps (e.g. pay CHF, get EUR) in NII
- Valuation in Trading line
- Both parts may be booked in Trading line

⇨ Distortion of NIM

Drivers of NII /1

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Competition

- Loan Margins ⇩ (Weak growth & hunt for quality)
- Trend for more business in local currency

  ⇨ Local Funding compesses margins on liability side with contamination of existing portfolio

Level of Rates

- With lower rates potential for liability margin ⇩
- Interest on current accounts is low and quasi fixed

  ⇨ contribution with lower rates disappears

  ⇨ The same holds true for Core Equity

B/S Structure

- Products
- Currencies
- Tenors

Liquidity Profile

- Trend for higher liquidity buffers puts pressure on NII
- Smart Assets just mitigate the pressure

Drivers of NII /2

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Capitalisation

- Increased need for AT 1 and Tier 2
- High yielding instruments

NPL´s

- Low Yields normally consequence of low growth
- Risk Costs rise
- Income base shrinks

Interest Risk Position

- Low and flat curve does not invite to take IR Risk

Funds Transfer Pricing

- Deficiencies result in missteering
- Missteering results in wrong pricing of products
- Wrong pricing results c.p. in less income

Austria: Money Market and Deposit Rates

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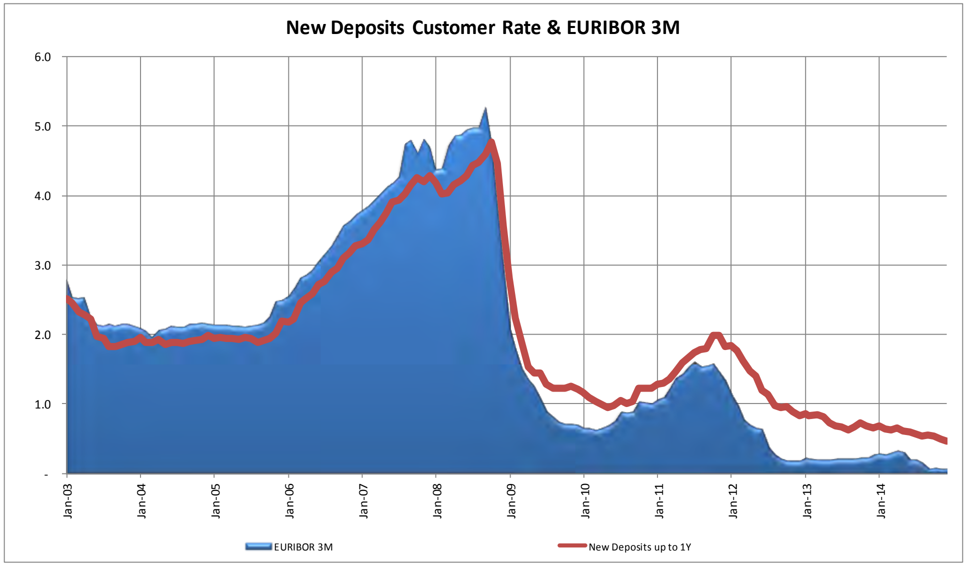
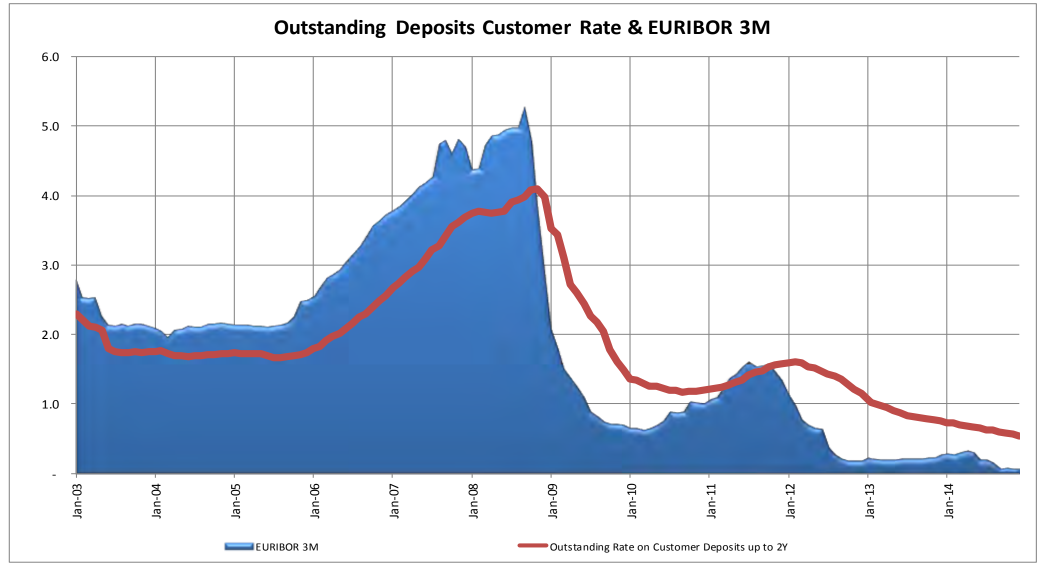
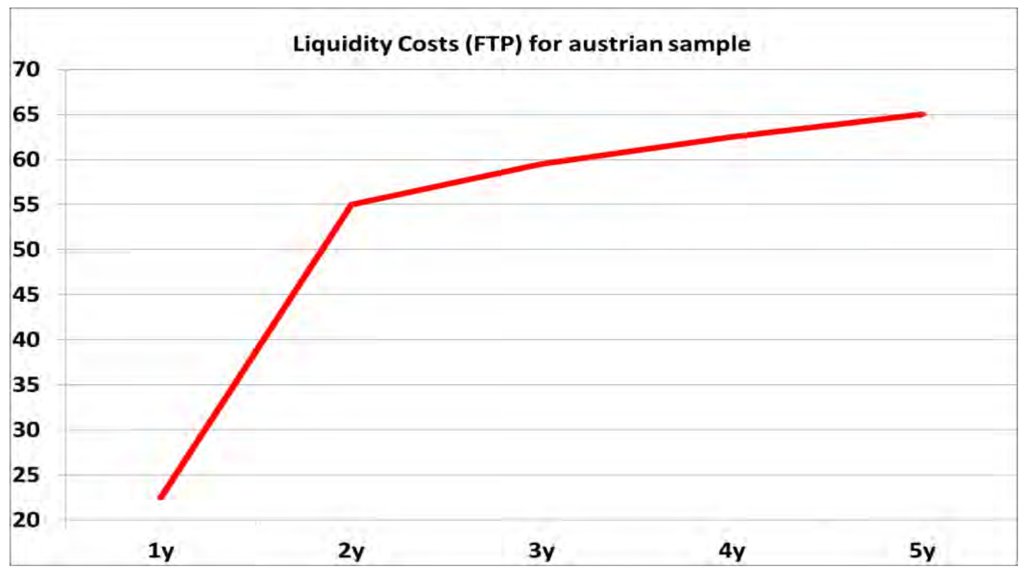




- Elasticity < 1
- Room to manouvre with external rates limited
- Low Loan/Deposit Ratio comes with a price
- Stickiness might relieve the pain
- Pressure worsens with negative rates !



Rates in RBI Network

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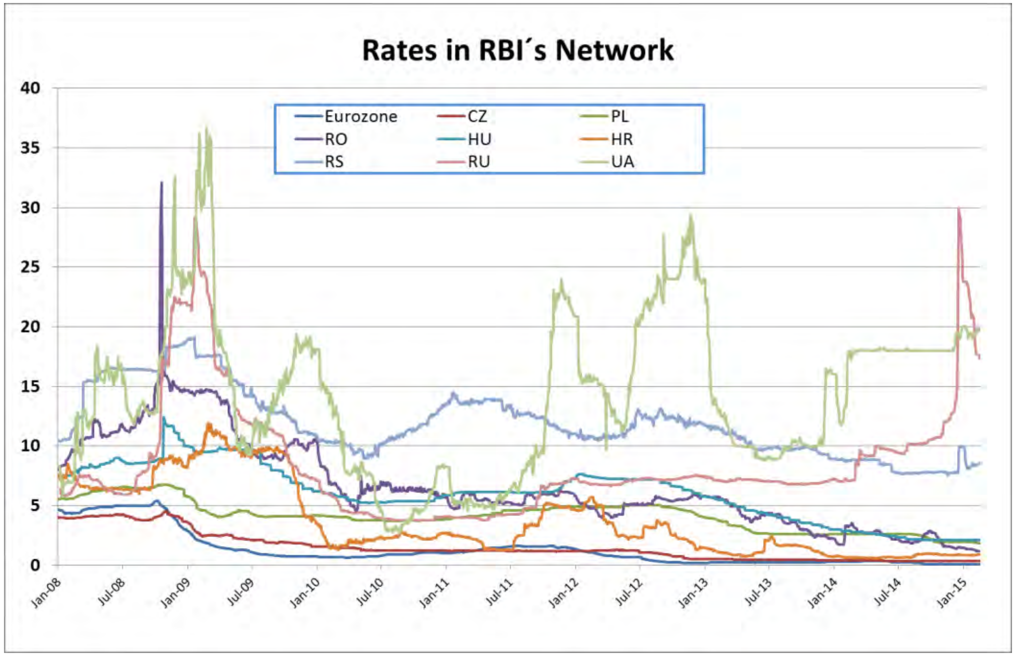

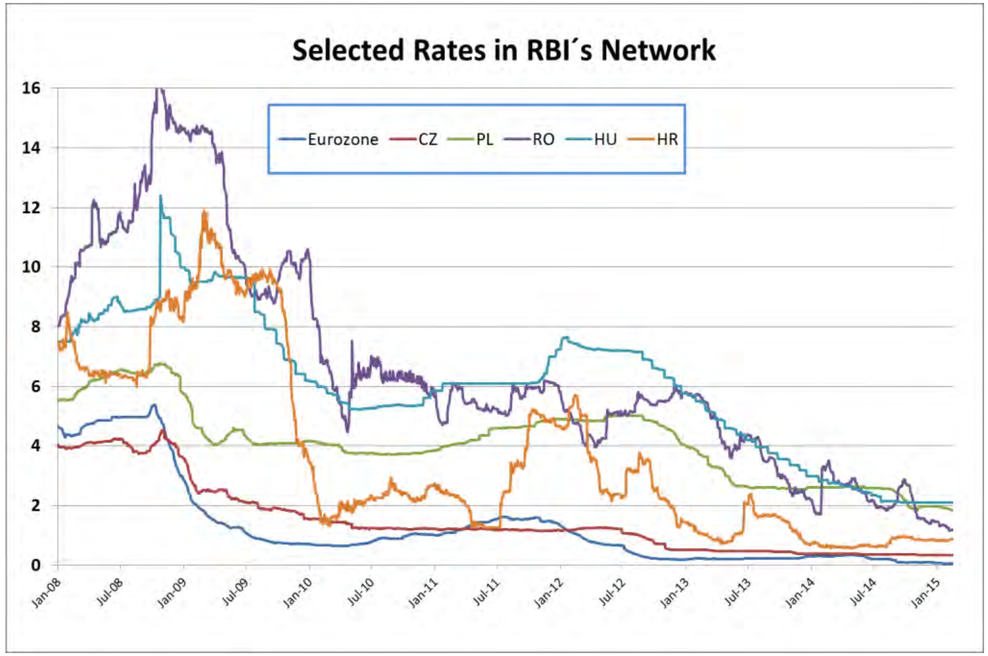

- RBI still has many markets, where primary funds can be raised below reference rates and some fixed liabilities deliver sufficient returns
- In addition sticky portfolios benefit from liquidity costs, which are an add-on to the reference rates
- Volatility in shaky markets are of course a challenge for clients and banks

NIM & Risk

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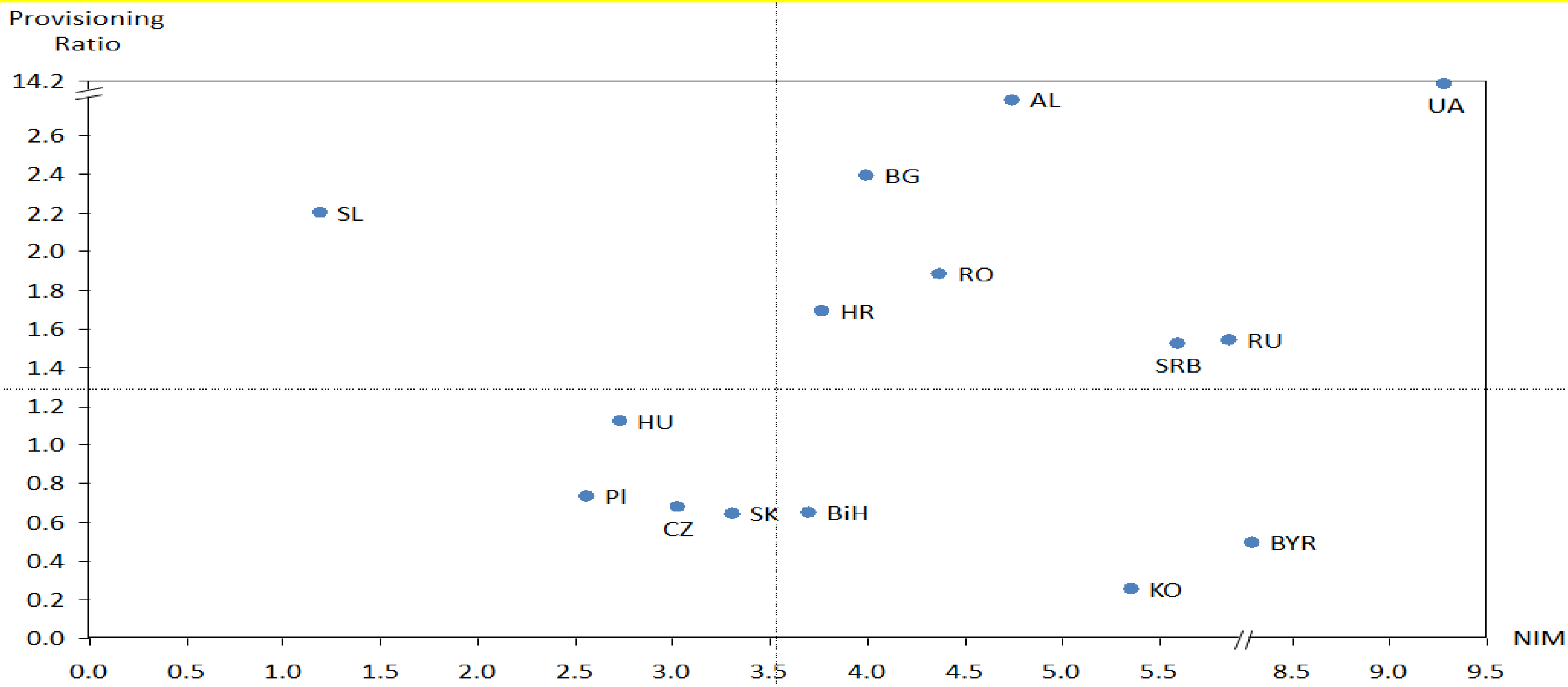
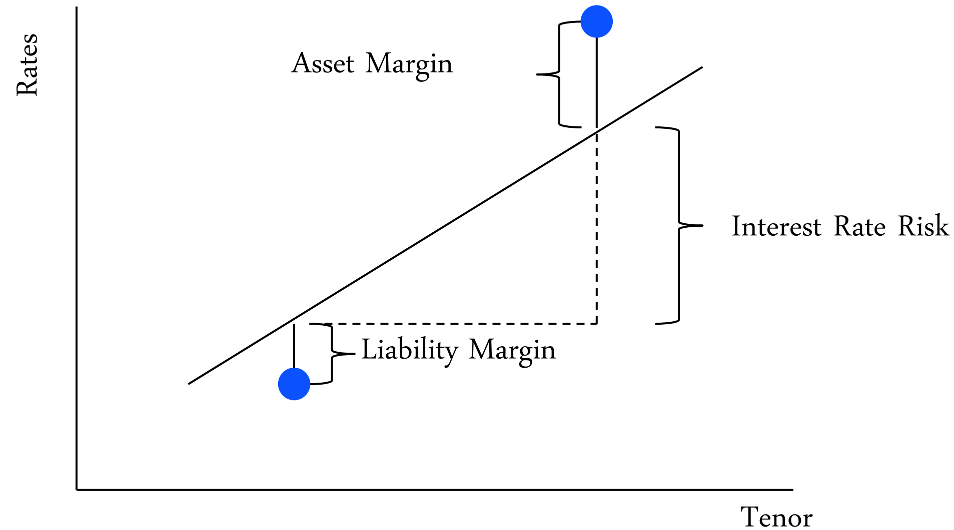


- Data Q1-Q3/14
- UA provisioning 2014 on an exceptional high level
- Correlation clear, but not very high
- Potential for shifts into countries with favorable NIM/Provisionig Ratio limited

Funds Transfer Pricing / 1

Basics

(Banking of the 90ies)



After 2008

- Liquidity Cost were not a big issue until 09/08
- Afterwards costs of Funding increased and became more volatile
- Pass Through by Treasury now vital
- Margins of busines lines depend now on competition & Pricing from Treasury

Senior Spreads for european banks

- Existing Portfolio contaminated
- Pass through to loan business decisive
- Prepayment behaviour of clients can deteriorate NIM
- C.P. spreads might decrease with lower rates <= investors look for more yields
- Bail-in will keep spreads high

Funds Transfer Pricing / 2

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Rules

Article 86

Liquidity risk

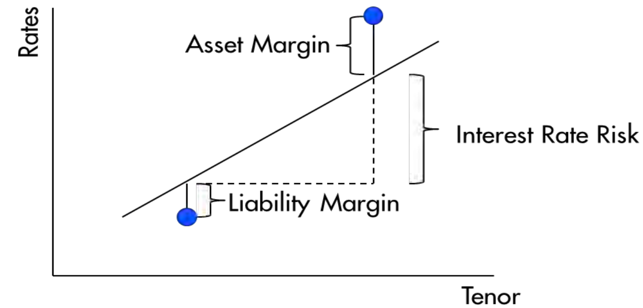
1. Competent authorities shall ensure that institutions have robust strategies, policies, processes and systems for the identification, measurement, management and monitoring of liquidity risk over an appropriate set of time horizons, including intra- day, so as to ensure that institutions maintain adequate levels of liquidity buffers. Those strategies, policies, processes and systems shall be tailored to business lines, currencies, branches and legal entities and **shall include adequate allocation mechanisms of liquidity costs, benefits and risks.**

Potential Breach of Rules

- No alignment of pricing and risk assumptions
- Pricing of optionality (assets & liabilities)
- Costs for Liquidity Buffers
- Wrong stickiness
- Incentives in the FTP
- Wrong discounts for smart assets
- Collateral costs & Off-B/S items not passed over
- ...

Risk due to mispricing and missteering

Potential Battle of Tenors



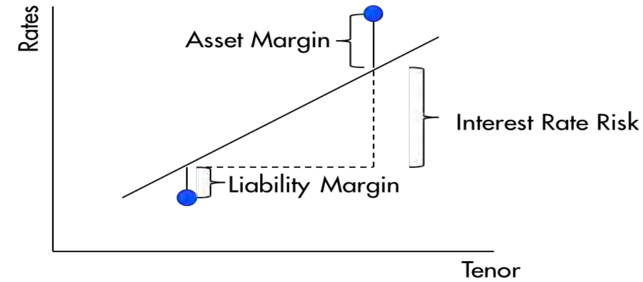
Assets

- Tenors become shorter in order to reduce risk or because clients do not see longer term opportunities
- Tendency to fix rates

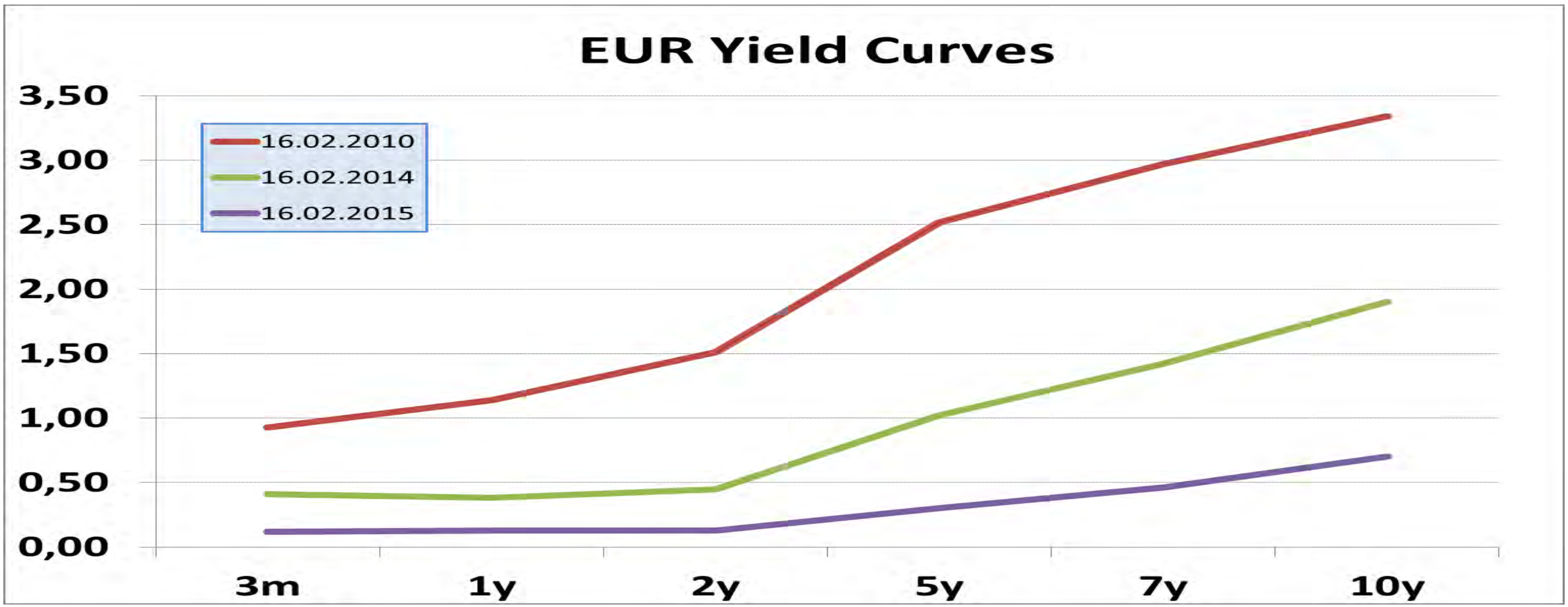
Liabilities

- Tenors become longer because clients want to harvest longer yields with longer maturities
- Tendency to floating rates

Flat Curve and structural contribution



- More difficult to enter into a receiver position
  - Rebound more likely
  - Flatter curve offers less reward for taking the risk



What´s about negative rates

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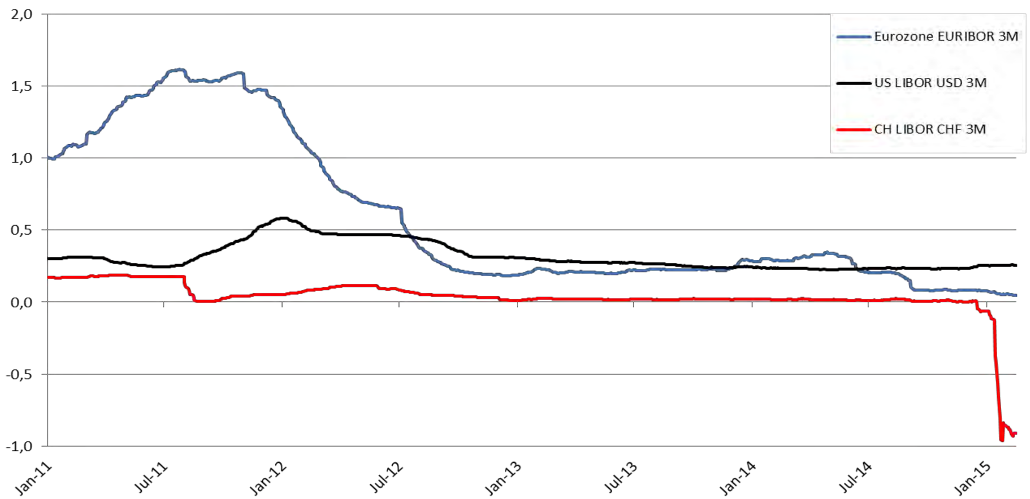
3m rates (EUR, USD, CHF)



Impact of negative rates on P&L depends very much on structure of Assets & Liabilities

Impact on Funding (ceteris paribus)

- No Impact, when CHF Funding with fixed rates
- No impact, when FX position is closed via CCIRS
- Impact likely, when CHF Funding is done by deposits or on a floating rate base or (floor 0) => Toxic

Impact on Assets (ceteris paribus)

- No Impact, when CHF Loans with fixed rates
  => Toxic, if fixed loans are swapped with IRS
- Positive Impact possible, when CHF Loans are floored (reference rate or loan rate)

Visible & potential impacts

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- NIM

  => negative rates increase pressure
- FTP Deficiencies
- Lower spreads trigger early repayments
- IR Risk

  <= building up toxic receiver positions
- Liquidity Costs Risk

  Maturity Transformation by funding longer tenors with shorter liabilities
- Client driven distortion in Tenor Structure on product level

  => can be mitigated by change in product mix

What can a group like RBI do ?

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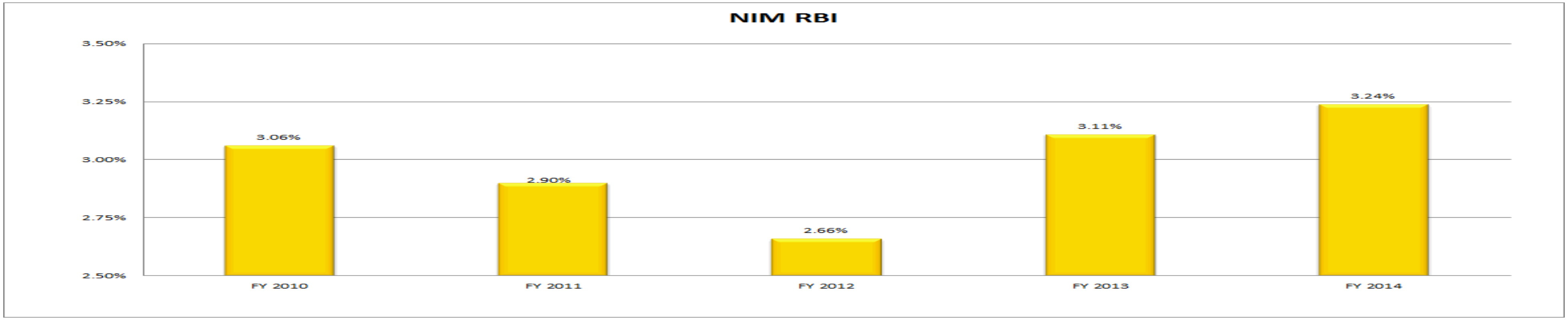
Flexibility

- Change in Currency Structure
- Change in the product structure (liabilities)
  => e.g. less Term & more Current Accounts
- Change in Country Allocation
- Change in Client Structure
  => more Retail & less Corporate



Franchise Value

- Repricing of Deposits less risky regading outflows
- Pricing below peer group
- Higher Stickiness provides longer term liquidity

ANNEX

Pressure from (Total) Capital need

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- Increased Need Structure for Tier 2 and AT1
- Costs for these instruments contribute to NIM decreases