

ISTROBANKA IS AND WILL REMAIN A SLOVAK BANK

INTERVIEW WITH MAG. VOLKER PICHLER, THE CHAIRMAN OF THE BOARD AND GENERAL DIRECTOR OF ISTROBANKA, A. S.

Istrobanka, a.s., has been operating in the Slovak market for 10 years. During this period it has undergone significant development and profiled itself as a universal bank without limitation in the foreign exchange area, with a permit for performing mortgage business and a permit for the brokerage and sale of insurance products. Fundamental changes have occurred also in Istrobanka's shareholders structure. At present, its sole shareholder and 100-percent owner is the Austrian Bank für Arbeit und Wirtschaft AG (BAWAG), registered in Vienna, which has been operating in the Austrian market for 80 years. Istrobanka has thus gained an investor with extensive experience and a development strategy for the future.

• *Istrobanka's new shareholder has an important position in the Austrian financial market. Could you briefly describe this for our readers?*

BAWAG is the third largest banking group in Austria. The Austrian Federation of Trade Unions is a 54-percent owner and the Bayerische Landesbank owns the remaining 46 percent. BAWAG has approximately 1.2 million clients in Austria, 160 branches and 1800 post offices. It is a universal bank, meaning that it is active in the retail, corporate and investment banking sectors. Perhaps the most significant point about the group and its results is given by the fact that it achieved the best ratings of all the Austrian financial institutions in private ownership. BAWAG also has strategic shareholdings in other central European countries. In the Czech Republic this is in Interbanka and in Hungary in MKB, the third largest bank in the country.

• *BAWAG has had a representative office in Slovakia since April 2001. This means that Slovakia and the Slovak banking industry were not unknown to it. What expectations did it come with when applying to purchase Istrobanka and to what extent has it been possible to fulfil these expectations?*

BAWAG has for several years been carefully monitoring the situation in Slovakia, indeed its interest in Slovak banks began roughly two to three years ago. By opening a representative office we wanted to send out a clear signal that we



were not simply monitoring the situation from Vienna, but that we have specific interests. In the framework of privatisation of the banking sector we were interested in several banks. We actively proceeded in the case of Poľnobanka, but were not successful. We repeated our attempt in the case of Istrobanka, where we were very

competent and good applicants, where only Austrian banks competed in the final phase, where here we clearly presented the best offer.

When we became interested in Istrobanka, we saw the following advantages: it is a bank that has not been involved in any scandals, has branches throughout Slovakia, a good name and is known to most people. With the benefit of hindsight we can say that we were not mistaken. We have found all we expected. Of course, not all of this has been positive. As in every other bank in Slovakia, as well as in Istrobanka bad debt problems have emerged. The bank reported a loss of SKK 890 million for the year 2001. The new owner removed this through a capital increase and also resolved problems connected with bad debts. I think that this was the correct solution because it is not possible to take only the positive, without also the negative.

• *With a change of owner the strategy of a bank also usually changes, in particular if the new owner has 80 years of experience in the field. How does this affect the client?*

Our main strategy is clear: Istrobanka is and will continue



to remain a Slovak bank with Slovak employees, it will not be a branch of BAWAG, but an independent Slovak bank within the group.

Istrobanka is very good in the commercial field, where I do not have in mind large international firms, but small and medium-sized Slovak enterprises. In this field it has a very large market share and it is necessary to connect with this. And what are our intentions? Since we are very strong in the commercial field, we want to strengthen in particular our retail banking. Over the course of the eight months of our operation in Slovakia we have introduced two new products. The first is MAXIknižka, a product that was previously unknown in this form in Slovakia and which became literally a bestseller in the banking market. We introduced it on to the market in June and expected that by the end of the year we would manage to achieve a volume of SKK 450 million. At present we have already reached 1.1 billion SKK. That says it all. Clients have understood its advantages, in particular the guaranteed interest level throughout the whole repayment period. The other product – MAXIúver – has been on the market roughly since mid-November. In the space of one week we registered more than 2000 credit applications. It may thus be expected that MAXIúver will be similarly successful as MAXIknižka. We have an expansion strategy not simply in the case of products, but also in the case of business places. Next year we are planning to open three to four new branches, where we have already identified specific places. As for myself I have to say there it is essentially much more fun to open new branches than to close old. I mean that also our employees like this. Istrobanka was for almost two years in the process of privatisation – where uncertainty ruled and motivation was lacking. This all is now in the past. Simply said, we are not going to just change strategy but are going to build a new Istrobanka.

• In 1996 and 1997 Istrobanka was assessed as the third best Slovak bank. You will certainly have ambitions to again as far as possible approach this ranking.

The banking sector in Slovakia at present comprises 20 banks. Istrobanka is ranked somewhere in the middle between 8th and 12th place. Our aim is to position it among the first five banks. We would consider any lower ranking to be unsatisfactory. I must however specify this in more detail. The most important thing for us is not balance sheet value - in this field it would be possible to achieve our ambition in perhaps 1 – 2 years, if a certain number of projects were to be implemented. Our aim is to achieve this position in terms of profitability, or in other words profit per employee, within the space of the coming three to five years. I know that this is a very high target, but it is realistic. The situation has changed. While in 2001 the bank recorded a loss, at the end of 2002 we expect a profit in the amount of approximately 100 million

SKK. Istrobanka has achieved greater capital adequacy, as have the majority of Slovak banks and over the course of several months has through this become a healthy bank. This has of course been achieved with the help of new capital, but Istrobanka's employees played the largest part. We have dealt with bad debts; we have focused strongly on selling new products, and actively approached clients. It is said that each bank is as good as its employees. That over the course of eight months Istrobanka has come to be producing a profit has been due to our employees. Therefore our target is realistic. We want to prove that our employees achieve better results than their colleagues in other banks, and this under the conditions by which we are known in the market. We offer decent prices and creative products, have a new owner, we're not involved in any scandals, we have a good name – come to us and work with us.

• How would you describe the current banking sector in Slovakia and how do you see it developing over the coming 10 years?

The banking sector in Slovakia has seen many changes. Today it is much safer, we have a strict banking act, a good system of securing deposits, functioning banking supervision, and clients have assurance that they will not easily lose their savings. It can be said that in certain areas we have not only achieved the European standard, but have even exceeded it.

As regards the future of the banking sector, I am afraid that I cannot give you a serious answer to this question. Two years ago I would have said that if the rate of globalisation and mergers at that time were to continue, within 10 years' time there would be very few banks. Events this year, in particular the situation in large German banks, which are having a problem finding a strategy, however mean that this trend is unsustainable. Personally, I feel that the era of large mergers has already passed. Certainly we will still witness some mergers also in the Slovak banking sector, but I think that the largest have already occurred. In 10 years' time there will not be 20 banks operating here, but certainly more.

For the current banking market various strategies can be seen as characteristic. Some banks, large, inflexible and bureaucratic companies, must close branches, reduce their number and make redundancies. Istrobanka is a small bank, has better scope for communication, which significantly facilitates its situation in asserting itself on the market. From this aspect I would sum up my idea of the future in one sentence: in 10 years' time there will be more small banks and fewer large banks. But there again I do not exclude the possibility that in two years' time the answer to your question could be quite different.

**Thank you for the interview.
Alica Polóniová**