

**EUROPEAN FINANCIAL  
CONGRESS  
SOPOT, POLAND 2013**



**BANKING SECTOR IN CENTRAL AND  
EASTERN EUROPE**

**JUNE 25, 2013**

** ERNST & YOUNG**  
Quality In Everything We Do

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# AGENDA

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# CENTRAL AND EASTERN EUROPE (CEE) DEFINITION WAS BASED ON CLASSIFICATIONS ISSUED BY RESPECTED INTERNATIONAL INSTITUTIONS

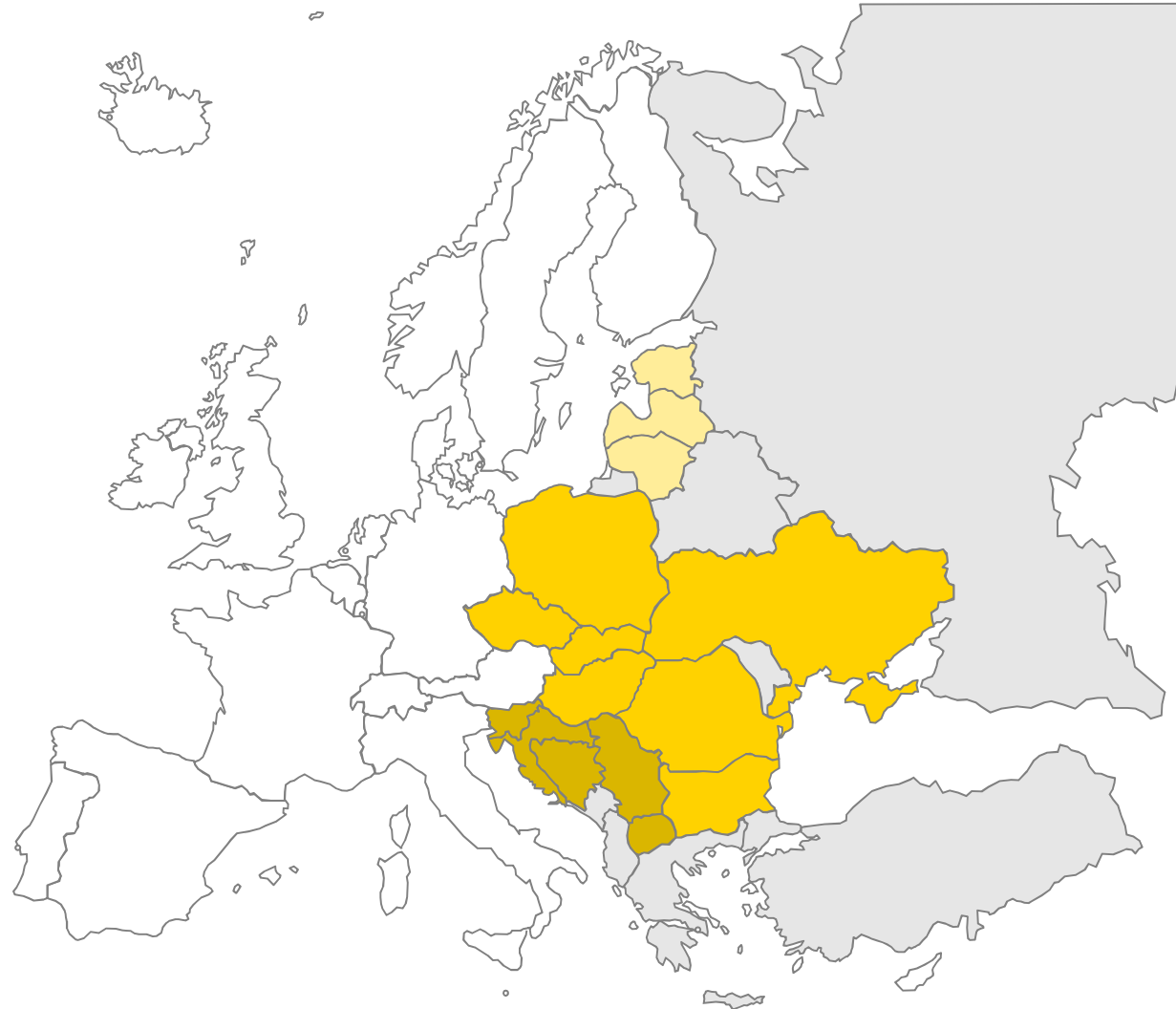
► Countries classified into CEE by Ernst & Young are: Poland, Czech Republic, Slovakia, Hungary, Romania, Bulgaria, Ukraine, Lithuania, Latvia, Estonia, Slovenia, Croatia, Bosnia and Herzegovina, Macedonia, Montenegro, Serbia

► The full list of CEE countries was classified into 3 groups:

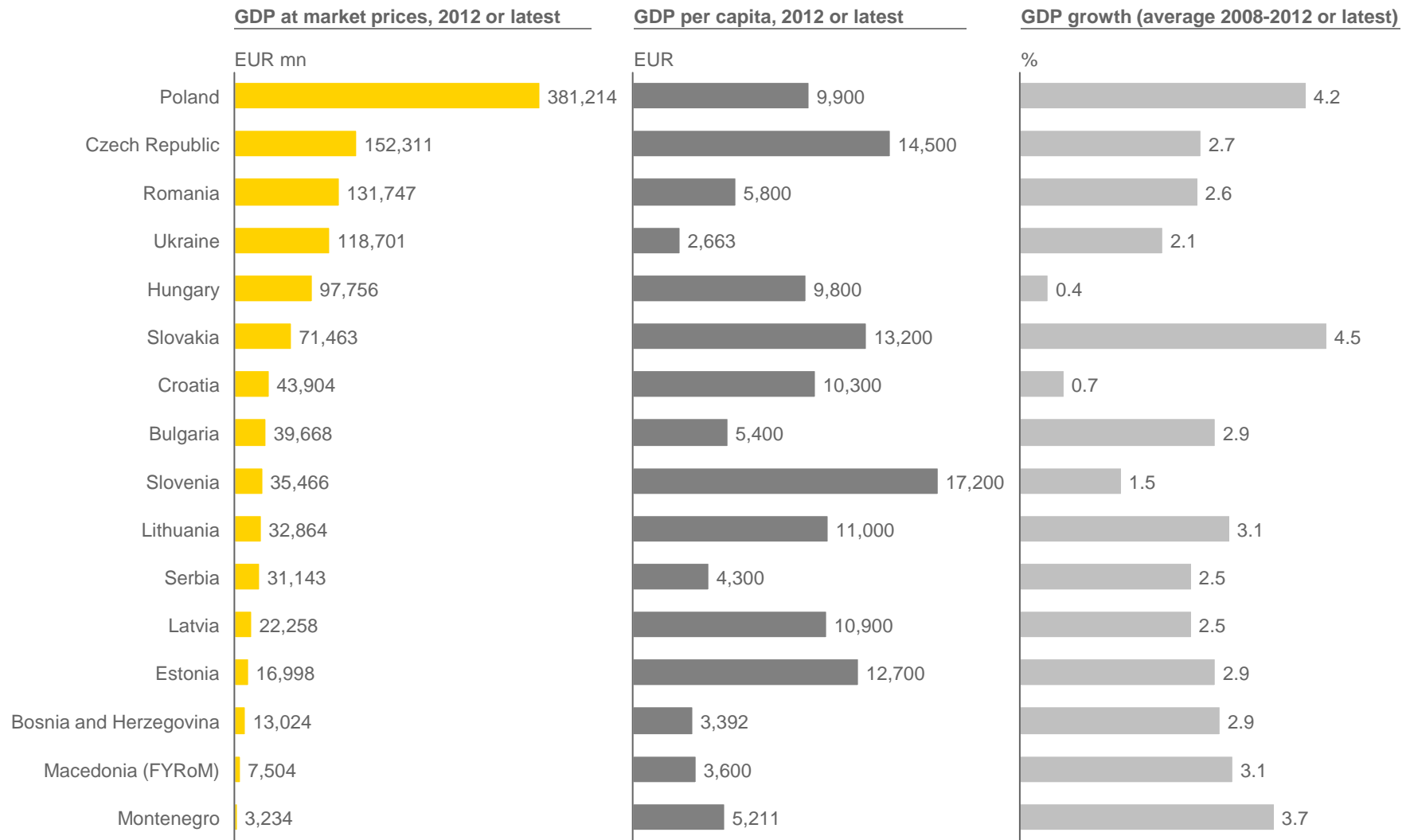
Central European Countries

Baltic States

Balkan Countries



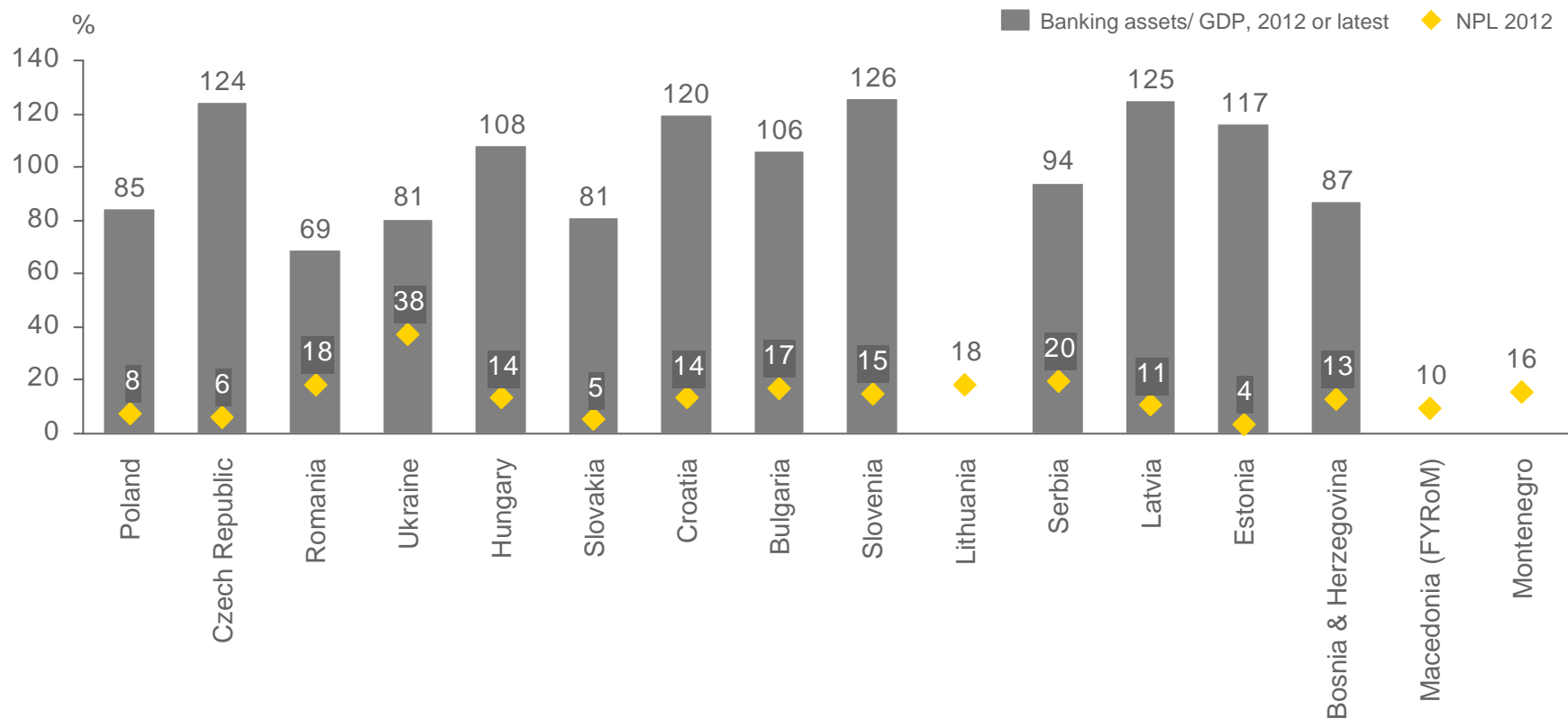
# CEE COUNTRIES ARE NOT HOMOGENEOUS IN TERMS OF MACROECONOMIC CONDITIONS



Source: Eurostat, EY analyses

# OVERALL SIZE AND CONDITION OF THE FINANCIAL SECTOR IN CEE ALSO SEEMS TO VARY SIGNIFICANTLY

Banking assets/GDP in 2012



### Other key observations:

- ▶ High share of FX in loan portfolios
- ▶ ROE levels are on average above typical performance of Western Europe
- ▶ Loan to deposits ratios typically exceed 100%

\*Banking assets data for Lithuania, Macedonia and Montenegro is not available

# FOREIGN PLAYERS DOMINATE THE TOP 5 BANKS IN MOST OF CEE COUNTRIES...

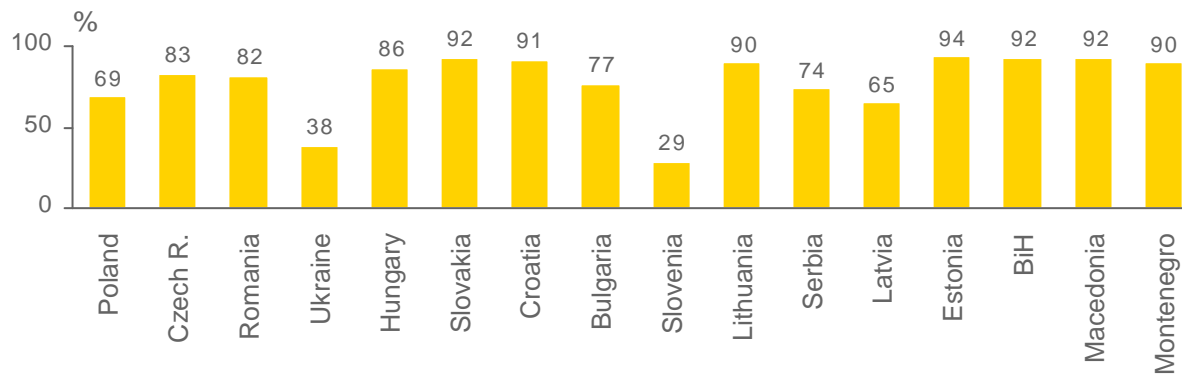


	#1	#2	#3	#4	#5
<b>Poland</b>	PKO Bank Polski	Bank Pekao	Bank Zachodni WBK	BRE Bank	ING Bank Śląski
<b>Czech Republic</b>	CSOB	Ceská Sporitelna	Komerční Banka	UniCredit Bank	Raiffeisenbank
<b>Romania</b>	Banca Comerciala	BRD-Groupe	Banca Transilvania	CEC Bank	UniCredit Tiriac
<b>Ukraine</b>	PrivatBank	Ukreximbank	Oschadbank	Raiffeisen Bank	Prominvestbank
<b>Hungary</b>	OTP Bank	Erste Bank Hungary	K&H	MKB Bank	CIB Bank
<b>Slovakia</b>	Slovenská Sporitelna	VUB	Tatra Banka	CSOB	UniCredit Bank
<b>Croatia</b>	Zagrebanka Banka	PBZ	Erste & Steiermärkische	Raiffeisenbank Austria	Hypo Alpe Adria
<b>Bulgaria</b>	UniCredit Bulbank	DSK Bank	First investment	United Bulgarian Bank	Raiffeisenbank
<b>Slovenia</b>	NLB	NKBM	SEDB	Abanka Vipava	UniCredit Banka
<b>Lithuania</b>	AB SEB Bank	Swedbank AB	AB DNB Bankas	Danske Bank A/S	AB Utkio bankas
<b>Serbia</b>	Banca Intesa	Komercijalna banka	UniCredit	Raiffeisen Bank	Societe Generale
<b>Latvia</b>	SEB Banka	ABLV Bank	DnB NORD Banka	Citadele banka	Rietumu Bank
<b>Estonia</b>	Swedbank AS	AS SEB Pank	Krediidipank	BIGBANK AS	AS LHV Pank
<b>Bosnia &amp; Herzegovina</b>	UniCredit Bank dd	Raiffeisen Bank dd	Hypo Alpe Adria	NLB Razvojna	Intesa Sanpaolo Banka
<b>Macedonia</b>	Komercijalna Banka	STOPANSKA Banka	NLB Tutunska	Ohridska banka	ProCredit Bank

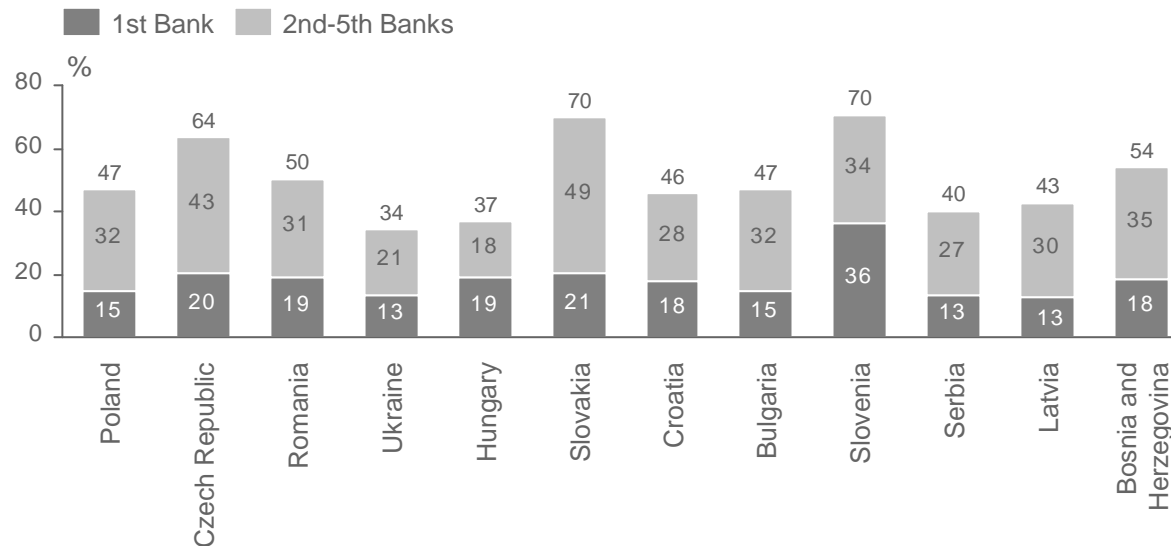
Source: Capital IQ, Business Monitor International

# ...THIS CORRESPONDS TO HIGH FOREIGN CAPITAL SHARE IN TOTAL BANKING ASSETS ACROSS CEE...

Asset share of foreign banks, 2011 or latest



The 5 biggest banks' share of total banking assets, 2011\*



- ▶ As major Western European banks remain committed to their CEE business, ownership structures have not changed much in the CEE in recent years
- ▶ Only in a few currently more challenging markets (Ukraine, Bulgaria, Serbia) there were some shifts in terms of decreasing foreign ownership ratios
- ▶ Concentration of TOP 5 market players varies between different CEE countries and it does not correlate with the share of foreign assets in the banking market

\*Data for Lithuania, Estonia, Montenegro and Macedonia in not available

Source: Capital IQ, Business Monitor International, selected banks annual reports, Raiffeisen CEE Banking Sector Report (May 2013), EY analyses

# ANALYSIS OF THE MAJOR PLAYERS IN THE CEE BANKING MARKET SHOWS VARIOUS STRATEGIC MOVES

Main strategic moves observed across banking sector in CEE (according to Raiffeisen CEE Banking Sector Report, May 2013)

- 1 Market entrance through acquisition**
  - ▶ Sberbank Group\* and Banca Intesa Group seek acquisition opportunities in Poland
  - ▶ PKO Bank Polski declares its will to seek actively for acquisition opportunities in Central Europe\*\*
- 2 Local mergers**
  - ▶ Announcement of subsidiaries merger by UniCredit Group (Czech Republic + Slovakia, Ukraine)
  - ▶ Market consolidation in Poland (Polbank acquired by Raiffeisen Group)
- 3 Cross-border efficiency seeking**
  - ▶ Decision by UniCredit to manage all operations in Baltics from Latvia (closing of branches in Estonia and Lithuania)
- 4 Market exit or business downsizing**
  - ▶ Considered small divestments or sale in Ukraine by: Erste Group, Société Générale Group
  - ▶ Potential restructuring actions in Hungary and Romania by Erste Group

## Other strategic trends & interests:

- 1 Focus on increasing domestic funding**
- 2 Leverage on Mobile and Internet banking sales and communication**
- 3 Improve physical branch channels efficiencies and sales force effectiveness**
- 4 Improve customer experience and focus on high value „person to person“ activities**

\*Source: PAP (October 2012)

\*\*Source: Presentation of the PKO Bank Polski Strategy 2013-2015 (April 2013)



# KEY CHALLENGES FACED BY THE FINANCIAL SECTOR IN CEE IN UPCOMING YEARS

## Key determinants of future strategies in the banking sector across CEE

- 1 Relatively high NPL levels resulting in worsening of profitability and reduced appetite to growth in selected CEE countries
- 2 Domestic funding being a challenge due to low customer savings level
- 3 Economy-of-scale issues in case of smaller CEE countries
- 4 High fragmentation of banking sector in CEE countries

## Other important challenges:

- 1 Macroeconomic slowdown resulting in decreased demand for financing
- 2 Banking union as an additional complexity of compliance requirements due to individual local regulator policies
- 3 Solvency and liquidity requirements imposed by Basel III
- 4 Banking penetration ratio achieving its maturity in more developed CEE countries

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# ***THE FUTURE OF BANKING IN CEE - KEY QUESTIONS***

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**1**

Will some international banks currently present in CEE "deglobalize" and thereby shrink back to their core markets, due to their market and internal challenges?

**2**

Which CEE countries will continue to offer the opportunity to generate an attractive long term return on equity?

**3**

How will the banks ensure sustainable growth in CEE, given increased regulation and relatively high NPL levels?

**4**

Will the remaining multinational CEE banks continue to run their subsidiaries along largely national lines or will the business model evolve to more of a hub and spoke model?

**5**

Will local regulators be interested in a controlled shrinkage of the number of banks in their economies and creating national champions?