November 2020

annually

CEE BANKING SECTOR REPORT 2020

CRISIS & RECOVERY MODE AT THE SAME TIME

Editor: Gunter Deuber

- Stronger credit growth than in previous crisis years
- NPL increase 2020 to 2022 flatter than in GFC
- Russia and Ukraine as "hedge" against decline in CE/SEE earnings
- Drastic loss risks limited, RoE of 5-9% expected in CEE

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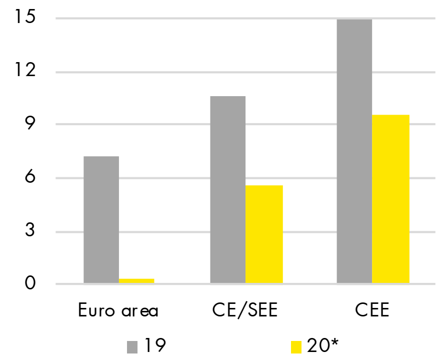
Dear readers and users of the CEE Banking Sector Report 2020!

Similarly, like in 2019, our entire team in CEE and Vienna invested substantive resources to analyse banking sector dynamics in our CEE core region – and this also under challenging COVID-19, home-office, home-schooling and/or lock-down conditions! That said, we would like to thank all our local colleagues: without their valuable contributions and home-grown expertise, an overview of this kind would not be possible. Our regular readership will notice that this time we are publishing our CEE Banking Sector Report late in autumn. This is mainly due to the fact that we have decided for a more reliable analysis approach under current very special COVID-19 conditions. This year we did not only want to consider still record-strong year-end 2019 values, but also the already available data and on-site experience from the 1st COVID-19 wave in spring (incl. various support measures locally) and the following recovery. In addition to our country coverage, we once again documented market shares, balance sheet totals and financials of the leading (Western) cross-border CEE banks. The same holds true for cross-country trends for market shares, business dynamics, asset quality and profitability. We also dealt in a special section with the role of foreign banks and their niche player strategies in Russia & EE markets.

Return on Equity (%)



** Latest available data; for euro area Q2 at 0.01%*
Source: ECB, national sources, RBI/Raiffeisen RESEARCH

As far as the big picture is concerned, we can share the following core views:

- The conditions with which the CEE banking sectors are entering this crisis are extremely good, partly also due to record profitability reached in 2019 as well as a much higher degree of accumulated resilience compared to the situation before the GFC that has hit the CEE banking sectors very hard.

- Courageous support measures of a fiscal, monetary and regulatory nature have made the COVID-19 hit very manageable so far. On top of liquidity support, regulatory forbearance and capital relief measures had been implemented in a swift and pragmatic way.

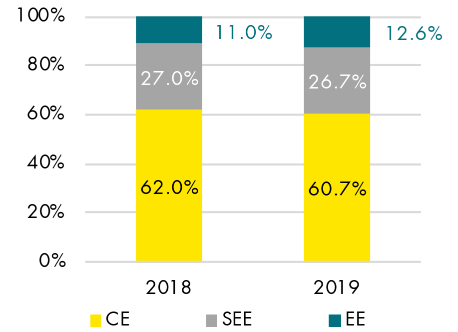
- Credit growth remains above levels we have seen in previous crisis, while asset quality deterioration remained modest so far. However, we still see a risk of a more substantive and creeping asset quality deterioration in 2021 and possibly beyond. The 2nd wave of COVID-19 currently unfolding is inducing additional risks to retail and SME portfolios.

- It will require regulatory acumen to decide on timing and pace of the phase out of prudential reliefs to ward off systemic risks while ensuring uninterrupted credit flow to the real economy.

- Overall, the after-effects of the COVID-19 crisis will keep the CEE banking sectors busy over the next 12-24 months and will certainly exert negative pressure on earnings. Moreover, we arrived at rock-bottom interest rates in CEE in 2020, while this situation may at least stay with us in going into 2022. We expect a profitability drop by 30-50% in 2020 and 2021 compared to a non-COVID scenario.

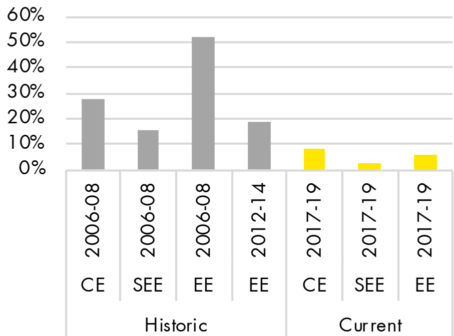
- The market share of Austrian CEE lenders among leading Western CEE banks remained at a level of just over 40% (with Erste, RBI among the three largest Western CEE banks), a reflection of the deep commitment of dedicated Western lenders to the region – something that we think will be once again a key element in overcoming the current COVID-19 crisis in a pan-European approach. Overall regional exposures of Austrian CEE banks are strongly geared towards the CE/SEE region, while RBI is following a niche-player approach in EE markets.

AT CEE banks: Regional allocation*



** Based on aggregated data from local CEE markets for Erste and RBI*
Source: local sources, company data, RBI/Raiffeisen RESEARCH

Historic vs "current" pre-crisis loan growth



Source: national sources, RBI/Raiffeisen RESEARCH

On behalf of the Raiffeisen analyst team
Gunter Deuber and Ruslan Gadeev, RBI Vienna

Key banking sector data CEE countries

Total assets (of GDP)	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Poland	84.8%	82.0%	79.9%	82.3%	82.6%	84.6%	88.8%	88.6%	91.7%	89.3%	89.5%	88.3%
Hungary	122.2%	129.1%	123.6%	123.0%	109.2%	102.8%	106.2%	100.1%	99.3%	96.8%	95.3%	94.0%
Czech Republic	108.0%	107.5%	109.6%	114.7%	117.7%	126.9%	124.9%	120.8%	126.3%	139.9%	137.7%	134.8%
Slovakia	85.4%	83.1%	81.4%	79.5%	80.5%	80.9%	83.4%	86.5%	88.1%	89.2%	88.7%	89.9%
Romania	62.9%	68.7%	72.9%	70.2%	68.2%	64.3%	60.6%	58.5%	56.1%	53.6%	51.0%	50.3%
Bulgaria	100.4%	97.3%	99.9%	95.9%	101.1%	104.6%	101.8%	98.8%	97.8%	96.8%	97.8%	96.2%
Croatia	106.7%	114.4%	121.2%	124.6%	123.4%	122.5%	121.6%	118.1%	112.9%	109.5%	108.8%	108.4%
Serbia	65.9%	76.5%	84.3%	80.3%	82.9%	76.5%	79.5%	79.5%	79.5%	75.7%	78.4%	79.0%
Bosnia a. H.	81.3%	83.2%	81.9%	81.9%	83.6%	86.1%	87.9%	87.3%	87.3%	90.0%	94.4%	95.3%
Albania	77.2%	77.5%	79.9%	86.1%	90.3%	95.2%	92.7%	91.9%	95.6%	93.2%	88.2%	87.9%
Kosovo	46.6%	54.2%	55.8%	55.0%	55.9%	57.4%	57.2%	58.3%	59.9%	62.0%	64.1%	67.2%
Russia	67.9%	75.8%	73.0%	74.6%	79.4%	86.8%	98.2%	99.9%	93.1%	92.5%	90.6%	88.3%
Ukraine	98.2%	104.2%	101.0%	93.2%	90.3%	96.1%	86.0%	79.0%	72.8%	61.7%	53.7%	49.9%
Belarus	48.8%	60.6%	78.3%	94.6%	60.9%	62.1%	61.9%	72.5%	68.3%	63.4%	60.6%	59.4%
CE	101.2%	100.9%	99.4%	101.4%	100.3%	101.7%	103.8%	101.7%	104.3%	105.8%	101.0%	99.6%
CE-3	105.2%	106.6%	104.9%	105.7%	102.5%	103.5%	104.9%	102.5%	104.6%	108.7%	107.2%	106.3%
SEE	106.5%	114.1%	120.9%	124.3%	123.1%	122.2%	121.3%	117.8%	112.6%	109.2%	108.6%	108.2%
EE	69.6%	77.7%	75.5%	75.4%	79.5%	86.6%	96.6%	97.6%	90.8%	89.5%	87.2%	83.1%

Total loans (of GDP)	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Poland	45.3%	46.7%	43.8%	46.4%	44.7%	45.6%	47.1%	48.5%	49.7%	48.1%	48.4%	50.2%
Hungary	59.4%	60.1%	61.1%	59.0%	50.6%	45.3%	41.5%	34.5%	32.8%	32.3%	32.7%	33.3%
Czech Republic	54.0%	53.6%	55.0%	57.3%	58.1%	61.4%	61.1%	60.5%	61.9%	61.1%	62.1%	61.0%
Slovakia	46.8%	50.0%	49.8%	52.2%	52.5%	54.2%	56.6%	59.4%	62.4%	65.2%	67.0%	68.3%
Romania	36.9%	37.9%	39.9%	40.3%	38.5%	34.6%	31.9%	30.9%	29.1%	27.4%	26.6%	25.5%
Bulgaria	72.4%	72.0%	73.0%	70.0%	70.9%	71.4%	66.5%	61.1%	57.9%	55.5%	56.4%	55.9%
Croatia	71.7%	77.5%	84.1%	88.0%	86.8%	87.4%	85.5%	82.2%	75.8%	68.7%	67.6%	66.2%
Serbia	37.4%	41.3%	49.2%	47.7%	49.6%	44.0%	45.1%	44.8%	44.0%	43.0%	42.6%	45.2%
Bosnia and Herzegovina	55.4%	55.2%	55.8%	56.8%	59.3%	59.8%	60.2%	59.0%	57.5%	58.7%	59.4%	59.3%
Albania	22.4%	30.2%	36.7%	39.3%	39.6%	43.5%	43.4%	42.0%	42.7%	40.9%	40.8%	38.7%
Kosovo	30.5%	31.7%	33.1%	35.3%	34.9%	33.9%	33.8%	34.8%	36.7%	39.8%	42.2%	42.8%
Russia	40.0%	41.5%	39.2%	41.7%	44.4%	49.0%	51.7%	52.9%	47.6%	46.0%	46.5%	47.0%
Ukraine	75.4%	78.2%	69.3%	62.1%	58.3%	62.3%	65.9%	51.1%	43.0%	35.6%	31.6%	31.6%
Belarus	34.5%	46.3%	54.5%	53.9%	38.3%	40.7%	40.4%	43.4%	38.0%	36.8%	36.2%	36.8%
Central Europe (CE)	49.4%	50.5%	49.4%	51.2%	49.3%	49.9%	50.3%	50.2%	51.2%	50.4%	51.0%	52.2%
Central Europe-3 (CE-3)	53.4%	54.5%	55.3%	56.2%	53.7%	53.6%	53.0%	51.5%	52.4%	52.9%	53.9%	54.2%
Southeastern Europe (SEE)	71.5%	77.3%	83.9%	87.7%	86.5%	87.1%	85.2%	82.0%	75.6%	68.5%	67.4%	66.0%
Eastern Europe (EE)	42.1%	44.0%	41.6%	43.4%	45.1%	49.6%	52.3%	52.5%	47.0%	45.0%	45.2%	45.6%

Key banking sector data CEE sub-regions

Foreign-owned banks (% of total assets)	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Central Europe (CE)	79.2	76.5	78.3	78.0	76.0	75.8	71.3	69.1	66.7	64.5	64.3	63.3
Central Europe-3 (CE-3)	91.2	90.6	90.6	90.4	90.6	90.1	82.3	75.7	76.2	76.8	76.7	75.1
Southeastern Europe (SEE)	84.4	82.5	81.6	79.7	83.3	82.8	83.3	83.7	83.3	75.8	74.7	73.4
Eastern Europe (EE)*	11.3	9.7	9.9	10.3	9.7	9.1	9.3	8.8	7.9	8.1	7.7	7.9
State-owned banks (% of total assets)												
Central Europe (CE)	10.5	12.4	13.0	13.1	12.6	12.1	12.0	12.8	19.4	20.1	19.4	19.7
Central Europe-3 (CE-3)	2.5	2.7	3.0	3.1	2.9	3.0	5.2	7.0	4.9	4.7	4.4	4.4
Southeastern Europe	4.8	5.5	5.7	6.3	6.2	5.9	6.3	4.7	6.9	6.8	6.8	6.4
Eastern Europe	41.4	43.6	43.6	49.4	50.1	52.3	54.1	54.7	58.0	63.2	69.7	69.3
Profitability (Return on Equity, RoE, %)												
Central Europe (CE)	21.3	15.3	13.9	13.4	12.8	12.7	9.3	9.2	11.6	11.0	10.2	10.4
Central Europe-3 (CE-3)	17.3	14.5	12.3	10.7	9.0	11.6	4.6	10.1	15.3	14.5	13.5	12.8
Southeastern Europe	15.0	4.4	1.5	1.3	-0.9	1.1	-4.6	7.0	9.3	11.0	12.9	11.5
Eastern Europe	12.1	3.7	10.9	15.6	16.4	13.7	6.2	1.1	6.4	7.1	12.7	18.5
NPLs (% of total loans)												
Central Europe (CE)	4.0	6.4	8.3	8.5	9.1	8.9	8.5	7.7	6.5	5.9	5.4	4.9
Central Europe-3 (CE-3)	3.2	5.6	6.8	7.8	8.4	8.5	8.3	7.1	5.2	4.4	3.3	2.5
Southeastern Europe	4.5	8.5	12.4	15.0	17.4	20.0	19.5	16.0	12.4	8.7	6.8	5.3
Eastern Europe	2.5	6.4	6.0	5.3	5.1	4.7	5.8	8.3	8.6	10.3	9.2	9.5

** Based on 100% foreign-owned banks in Russia; Note: CE-3: CZ, HU, SK*
Source: national sources, RBI/Raiffeisen Research

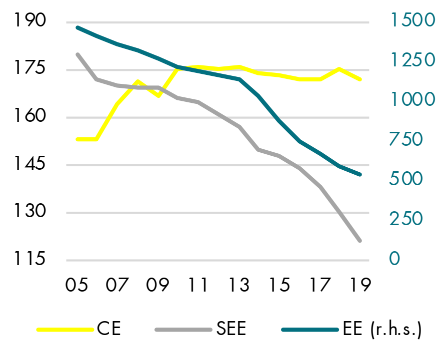
Foreign banks in CEE and market consolidation

The creeping consolidation in CEE banking markets continued in 2019 and early 2020. This holds especially true as some transactions are only just being finalised (e.g. some OTP acquisitions and/or sales) with a focus on the SEE region: For example, the acquisition of Komercijalna Banka (NLB), additional smaller takeovers in Bulgaria, Romania or further consolidation in Albania. Overall, in SEE currently we register some 120 banks operating, down by 50 compared to the situation some 7-8 years ago. In Russia, where we have seen a sweeping consolidation in recent years coming from 834 banks operating some 5 years ago to 440 (as of 2019), a sustainable level of operating banks seems to have been reached for the time being (with "only" 40 players dropping out in 2019). A similar picture of more stable market conditions and less "clean-up"-driven consolidation emerges, with just 2 bank closures in 2019 (to a level of 75 banks operating) in Ukraine. In the CE region, no clear consolidation was visible in 2019 – like in previous years – as the number of banks operating there continues to oscillate around 170. In the short term, we do not expect any significant M&A transactions in the next 3-6 months – with the possible exception of the finalisation of ongoing transactions. In the long term, however, we expect consolidation pressure in CE/SEE to increase further as a number of adverse profit factors well-known from Western European banking markets are now entering the region, such as low interest rates, flatter yield curves and fierce competition with challenger banks.

The market shares of foreign banks in the CEE region remained virtually constant in 2019, after declining in some cases in previous years. Consequently, the three major regional markets (Poland, Romania and Russia) did not experience a further significant decline in the market share of foreign players. Overall, Western banks remain a strong market force in CE/SEE with average market shares in the range of 60-70%, showing still a much higher degree of foreign ownership than most Western European banking markets. Compared to those sizeable accumulated market share, Western CEE banks do follow more niche player strategies in the EE region and Russia in particular (with market shares of Western banks around 6% in case of Belarus or Russia and up to around 17% in Ukraine). The constant market share of just over 6% of Western foreign banks (in 100% ownership) in Russia shows that the relevant banks there can cope well with the circumstances in the short and medium term (see also our Focus on coverage on pages 40/41) – in the long term this may be somewhat more difficult. The market share of Western foreign banks in Ukraine even increased slightly in 2019, for the third year in a row since 2017 – after the sharp market withdrawal before. In some "smaller" regional markets, a loss of market share by foreign banks was evident in 2019, for example in Hungary and Albania. In Albania, consolidation, which was primarily driven by local players, accelerated. In Hungary, a significant consolidation – into a still rather fragmented market – could be imminent in the coming years. It seems that a new local banking champion is being created (cooperation MKB, BB and Takarek). The euro area entry perspective for Croatia and Bulgaria could further increase the pressure for consolidation there in the coming years. On the one hand, earnings pressure will increase the need to consolidate, while on the other hand foreign banks may be also willing to slightly increase their risk appetite.

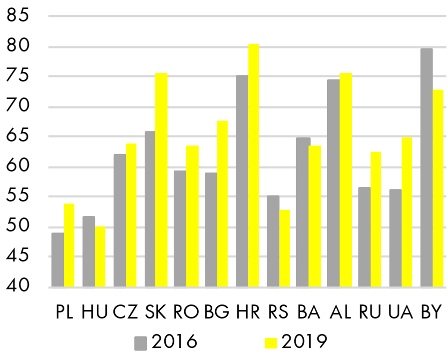
In contrast to previous years, the market shares of state-owned banks in the EE region and Russia did no longer increase significantly in 2019. However, the average market share of the Top-5 banks has increased again in 2019 and now exceeds 60%. This trend was mainly driven by the Russian market, where increasing concentration is becoming apparent. In the CE/SEE banking markets, no clear trend towards concentration was discernible in the last 12-18 months, i.e. the market share of the Top-5 banks did not shift significantly. Nevertheless, some consolidation (either driven by in-market consolidation or by cross-border mergers) can be identified, which could set the course for the coming years. On the one hand, acquisitions of OTP (e.g. in Bulgaria, Serbia, Albania) were completed in 2019 and/or 2020, while OTP in

Number of banks operating



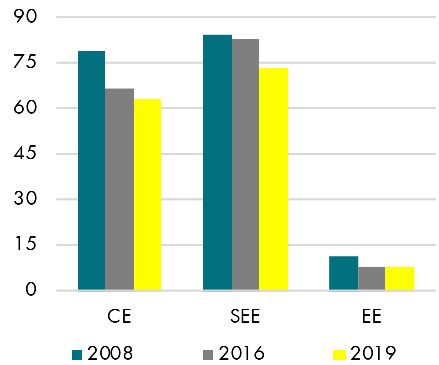
Source: national sources, RBI/Raiffeisen RESEARCH

Market share Top-5 banks (% of total assets)



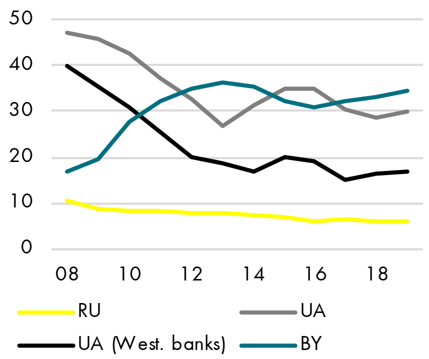
Source: national sources, RBI/Raiffeisen RESEARCH

Market share foreign-owned banks*



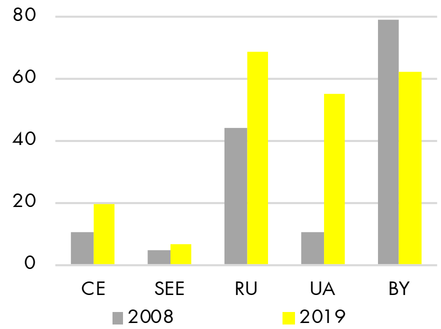
** % of total assets*
Source: national sources, RBI/Raiffeisen RESEARCH

Market share foreign-owned banks*



** % of total assets*
Source: national sources, RBI/Raiffeisen RESEARCH

Market share state-owned banks*

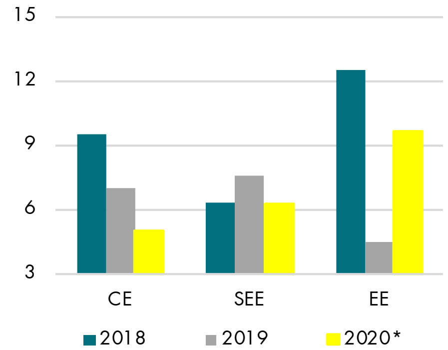


** % of total assets*
Source: national sources, RBI/Raiffeisen RESEARCH

turn sold its Slovakian subsidiary to KBC. This flow of transactions shows the necessity to boost market shares. Furthermore, the NLB acquisition in Serbia may have some direct and indirect consolidation effects (e.g. in Bosnia or other SEE markets with overlapping networks). The most exciting non-fulfilled sizeable transactions in recent months were the cancelled sale of Commerzbank's stake in mBank (fourth largest bank in Poland, worth around EUR 2-3 billion) as well as the cancelled M&A deal between the online service provider Yandex and Tinkoff (worth some EUR 5-6 bn) on the Russian market. Although the latter deal was finally cancelled it underlines the increasing competitive pressure on the digitally highly sophisticated Russian banking market. That said this deal mirrors potentially more upcoming mergers of banks and online services or vice versa that are also conceivable in other CEE markets.

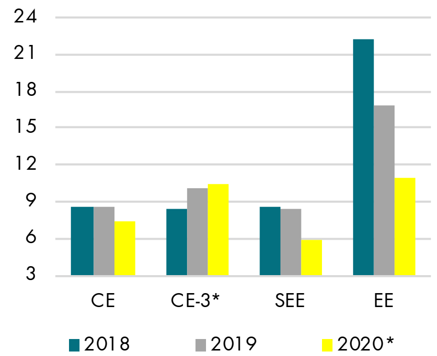
Loan and deposit growth in "normal" and COVID-19 times

Loan growth (% yoy, LCY)



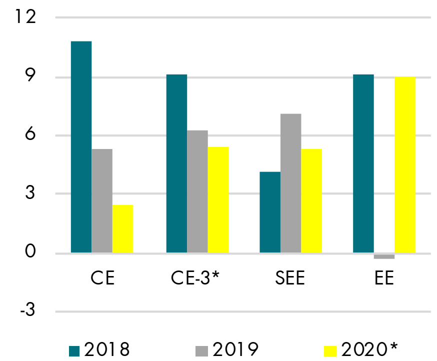
** Latest available data*
Source: national sources, RBI/Raiffeisen RESEARCH

Retail loan growth (% yoy, LCY)



** Latest available data; CE-3: CZ, HU, SK*
Source: national sources, RBI/Raiffeisen RESEARCH

Corporate loan growth (% yoy, LCY)



** Latest available data; CE-3: CZ, HU, SK*
Source: national sources, RBI/Raiffeisen RESEARCH

The banking markets in the three CEE sub-regions (CE, SEE, EE) started the COVID-19 crisis with very different conditions and growth dynamics. In CE, 2019 saw a moderation of credit growth, partly driven by selective regulatory interventions. In addition, the corporate credit cycle here already weakened considerably in 2019. In SEE, credit growth rates in 2019 tended to remain at the 2018 level or even increased slightly, partly driven by solid retail growth but also by growing corporate lending. In the EE markets and in Russia, credit growth in 2019 was rather weak – well below 2018 levels. This development was based on weaker corporate lending and a slowdown in retail business in Russia and Ukraine; in Belarus the sectoral trends were quite different.

The COVID-19 crisis and the support measures that accompanied it have now significantly changed the overall picture in the credit segments and at regional level. Credit growth in H1 2020 was much stronger than in a "classic" macroeconomic and/or macro-financial crisis. This development also reflects a strong turnaround after the first lockdown phase and above all in new retail business, which came to a virtual standstill during the lockdown, in some cases for a short time. In this respect, retail lending in seven CE/SEE countries even outperformed corporate lending in H1 2020; "only" in four CE/SEE countries the relationship was the other way around. In Ukraine, retail lending also performed significantly better than corporate lending. In Russia and Belarus, in contrast, corporate loans increased significantly more in nominal terms, though helped by the depreciation of local currency. The latter countries thus tend to follow the credit growth trend of the euro area (where in H1 2020 corporate loans also grew much faster than retail loans due to bold government and/or central bank support), while we see slightly different patterns in CE/SEE in favour of retail business.

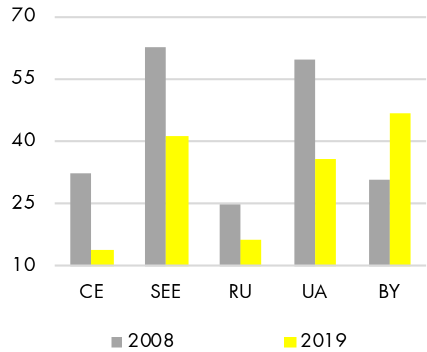
In the light of a strong recovery after the first lockdown phase, credit growth in CE/SEE is currently in the range of 5-7% year-on-year on average, partly above the growth rates of the previous year, which were previously characterised by slowing trends. In some markets, such as Hungary, Serbia or perhaps Albania, even double-digit (!) credit growth rates (in local currency) are possible this year. The same may apply to the Russian market. By comparison, previous crisis years in CEE were characterised by negative values or credit growth rates of 2-4% maximum. There is therefore a high probability that credit growth in 2020 will be several percentage points higher than in previous crisis years. This development reflects comprehensive and diverse support measures.

- Firstly, these figures reflect the effects of government or voluntary moratoria or credit holidays and not just organic growth. We currently see between 10% and 40% of the loan portfolio in selected CEE countries affected by moratoria. The maturities of the moratoria are currently between 3-12 months, and some of them already extend well into 2021. We expect the trend to be more likely to continue with moratoria prolongations. As a result, the maturing process in the loan portfolios will not take place and at the same time, new lending will be stimulated by government guarantee programmes and/or other support measures, which will contribute to high reported credit growth rates.

- Second, lending in some CE/SEE countries has been much more robust than expected. As in Western Europe, this is particularly true for residential real estate lending (e.g. in the Czech Republic, Slovakia or Romania, Croatia and Russia). Lending was supported by ongoing support and subsidy programmes and the rapid reduction of systemic capital buffers, additional capital buffers and/or the removal of micro- or macro-prudential regulations/tightening measures in many countries (e.g. Poland, Czech Republic, Slovakia, Bulgaria). The reduction of bank taxation in Romania at the beginning of the year 2020 also had a positive effect. Not to forget that the special bank taxation scheme in Hungary introduced in 2020 has been rather bank-friendly from a mid- to long-term perspective.
- Thirdly, in many CEE markets, minimum reserve requirements have also been reduced, further regulatory relief has been implemented and/or long-term refinancing transactions supporting the banking sector have been offered. At the same time, guarantee schemes and/or joint credit growth agreements (between the government and the banking sector) support credit growth as well.
- Fourth, fiscal measures (in some SEE countries also supported by IFI support) and/or short-time work schemes are supporting labour markets, which is why we currently expect unemployment rates in 2020 and 2021 to rise by 1 to 1.5 percentage points less than in the aftermath of the GFC; especially in the CE/SEE region. In principle, we consider the macro-financial situation in CEE to be much less procyclical than in the GFC for many reasons. This is positive in the short term and to a certain extent also explains why a comprehensive regional crisis response may not have been necessary in the end.

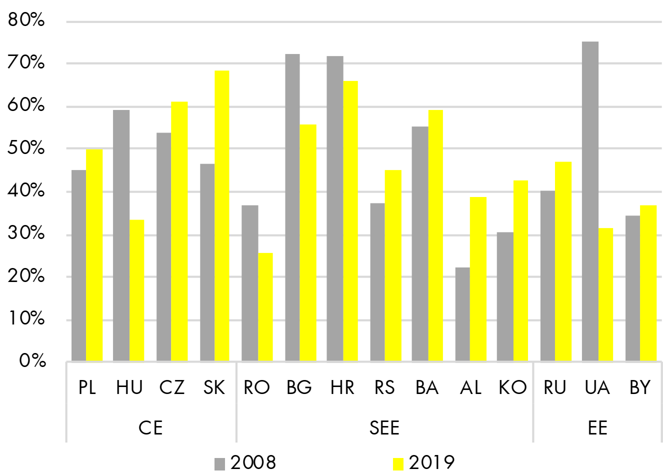
So far so good, but in view of the significantly stronger lending than in "normal" crisis years at present, we do not expect a significant increase in credit growth rates at least in 2021 and perhaps also in 2022, or at most credit growth rates at the lower end of the fundamentally expected ranges. Firstly, we think that labour market weakness may stay with us beyond 2021. Secondly, we think that the quality of loan applications will likely decline going forward. In this context it has to be stressed that the pre-crisis GDP level will only be reached some time in 2021 in the less-hit CEE countries, in hard-hit CEE countries the pre-crisis GDP level might not be reached until 2022 or later (depending also on the hit from the second wave arriving in winter 2020/2021). Moreover, in some CEE markets, a somewhat longer phase of market stagnation (with credit growth rates below nominal GDP growth), mild deleveraging or a move away from high financial intermediation ratios may be imminent. This is necessary to move towards more sustainable financial intermediation ratios once again. On a positive note, the share of FCY loans in the CEE region declined once again significantly in 2019, bringing it close to 10-20% of the total loan portfolio in many of the CE countries and also in Russia. In the SEE region and Ukraine plus Be-

Loans in FCY (% of total)



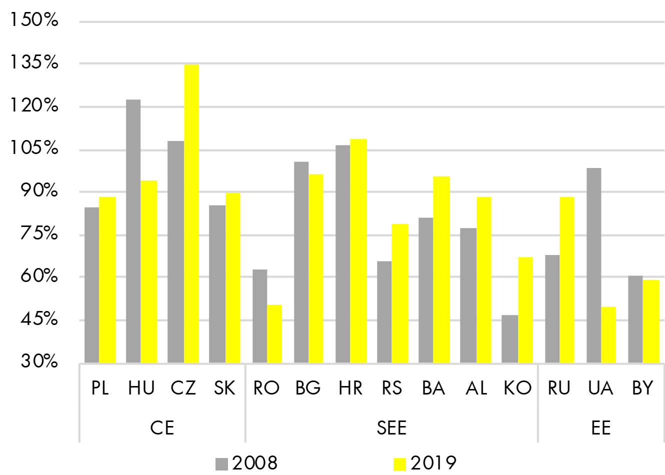
Source: national sources, RBI/Raiffeisen RESEARCH

Loan-to-GDP ratios



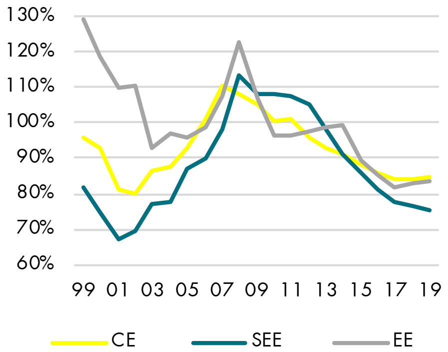
Source: national sources, RBI/Raiffeisen RESEARCH

Asset-to-GDP ratios



Source: national sources, RBI/Raiffeisen RESEARCH

Loan-to-deposit ratios (L/D ratios, %)

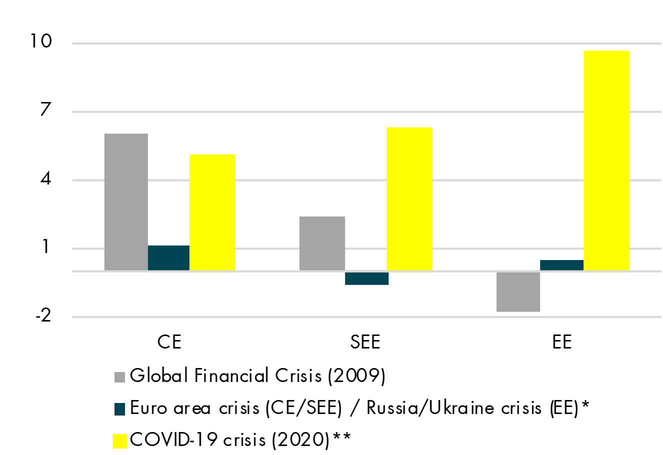


Source: national sources, RBI/Raiffeisen RESEARCH

larus, the figure is still 30-40%. However, with the exception of Belarus, the share of FCY loans is some 20 percentage points lower in all CE/SEE countries and Ukraine than at the beginning of GFC, which should now contribute to a higher degree of asset quality resilience.

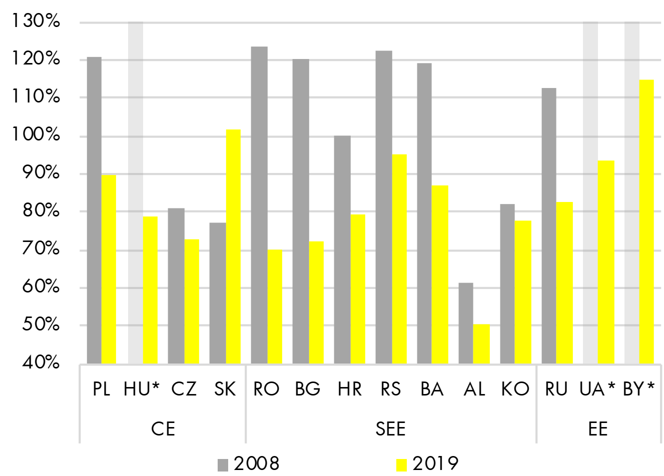
After years of decline or deleveraging in terms of L/D ratios, the trend for L/D ratios in 2019 in most CEE markets was stabilisation or even slight releveraging. This positive trend – from a banking sector perspective – was clearly halted by the COVID-19 crisis. A forced consumption decline in the lockdown phase, the resulting increased propensity to save, some elements of precautionary savings and the resulting increase in deposit inflows led to deposit growth generally exceeding credit growth in almost all CEE banking markets in H1 2020. In some markets there was also an inflow of government deposits. Even if the strong deposit inflows of H1 2020 do not necessarily have to repeat themselves, we believe that L/D ratios in the CEE banking markets will remain at current levels of just below or above 80% on average over the next 1-2 years. Fortunately, although this does not mean that a medium-term balance sheet adjustment will be necessary as in the wake of GFC, the CEE banking sectors will continue to be characterised by a tangible amount of excess liquidity (including the associated pressure on earnings). The long-awaited phase of moderate releveraging is no longer expected in the coming 12-24 months, given the likely slowdown in credit growth and the quality of loan applications. On the deposit side, it is also evident that, given the low interest rate levels in many CEE banking markets, there is a shift from longer-term deposits into short-term deposits.

Loan growth (LCY, % yoy)



** Average LCY loan growth 2012/13 (euro area crisis), 2015/2016 (Russia/Ukraine crisis)*
*** Latest available data*
Source: national sources, RBI/Raiffeisen RESEARCH

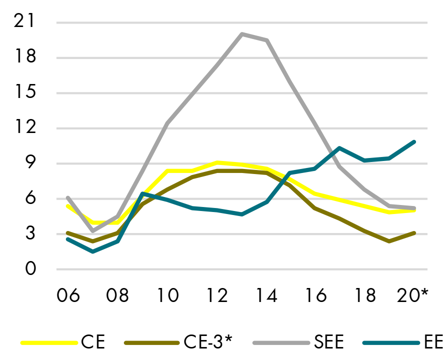
Loan-to-deposit ratios (L/D ratios, %)



** Scale capped, Hungary, Ukraine and Belarus L/D ratio 2008 at 138%, 185% and 171%*
Source: national sources, RBI/Raiffeisen RESEARCH

Profitability and NPLs: Who will be higher the NPL ratio or the Return on Equity?

NPL ratios (% of total loans)

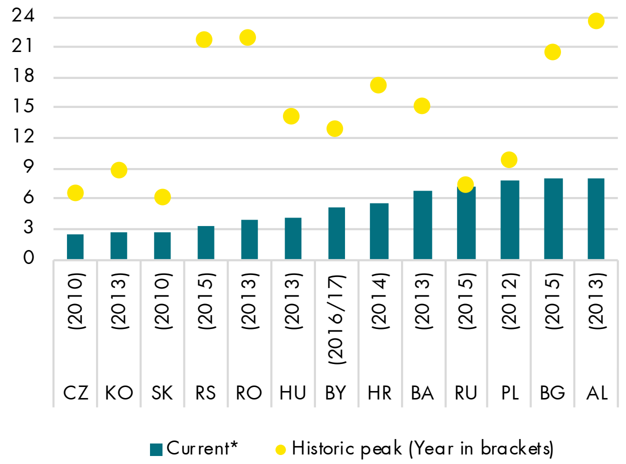


** Latest available data; CE-3: CZ, HU, SK*
Source: national sources, RBI/Raiffeisen RESEARCH

In particular, the CE/SEE banking markets have entered the 2020 crisis year with a very favourable asset quality position. The NPL ratio in CE reached a value of just under 5% at the end of 2019, in the CE-3 markets (Hungary, Slovakia, Czech Republic) even a remarkable 2.5%. In the SEE region, the NPL ratio was 5.9% at the end of 2019. This means that this ratio reached values close to the pre-GFC values at the end of 2019 (4% and 2.5% in CE and CE-3 respectively, and 3-4% in SEE). Only in the EE markets and in Russia has asset quality not recovered to a similar extent in recent years. From an overall solid starting position, increases in NPL ratios in the CEE region were very moderate in the first half of the year 2020, with increases of 10 to 50 basis points. To date, some increases in NPLs in the corporate credit segment in CE/SEE have been observed, if anything. The same is true for Belarus, while in Russia NPLs in the retail and corporate business have risen slightly; in the latter segment, by the way, this was already the case in 2019. Fortunately, the first increases in NPL ratios and the expected further increases are taking place now from multi-year lows, especially in the CE/SEE region. In the light of current developments, we expect NPL ratios in the CE/SEE region to rise to a maximum of between 4-8% in the CE region and 7-10% in the SEE region. This would mean that the increases in the SEE region in particular would be much less dramatic than ten years ago. In CE, the increase in the aggregate could be as strong as ten years ago, but much flatter this time than in the exceptional case of Hungary (where the NPL ratio from 2011-2015 was in the double-digit range). Overall, the imminent asset quality deterioration, especially in CE/SEE, should be less dramatic in terms of NPL ratios and defaults for a number of reasons, and above all flatter over time.

- First, there was no excessive credit growth in the sense of the overall market before the Corona crisis. Credit growth rates were mostly in the (higher) single-digit percentage range. In particular, there was no ruinous competition in the area of FCY lending and sectoral overheating tendencies were counteracted with foresight (e.g. in the Czech Republic, Slovakia, Romania and Russia).
- Second, moratoria, credit holidays and restructuring as well as comprehensive fiscal support measures should significantly flatten the NPL increase. After all, in this crisis we expect a fiscal impulse of 5-10% of GDP in CE/SEE, whereas in GFC it has averaged around 3% of GDP – often followed by a rapid pro-cyclical cut. As outlined above, unemployment rates should therefore also rise less than in the aftermath of the GFC.
- Third, we think that the improvements in the NPL handling framework at national level should lead to a situation where NPL stocks are unlikely to remain on bank balance sheets for much longer. Moreover, experienced NPL investors are now much more familiar with and present in the CEE region than ten years ago.
- Fourth, we do not think that the total loan portfolio will be transferred one-to-one to NPLs under moratoria. This is especially true for the corporate customer segment. Here, the usage of moratoria could be characterised much more by a commercial prudence principle than in the retail sector.

Current NPL ratio vs. historic peak (% of total loans)

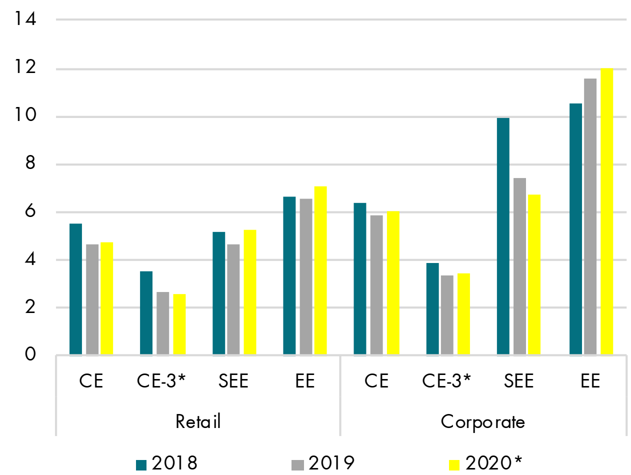


** Latest available data*
Source: national sources, RBI/Raiffeisen RESEARCH

We see the bulk of the expected NPL increase starting in 2021 until the end of the year and possibly still in H1 2022. Much will also depend on how quickly moratoria finally expire, how tax reliefs are treated going forward and at the same time when and if the fiscal impulses also take effect. And here, in our view, the national (re)election calendar must also be considered. Currently, the parliamentary or presidential election calendar fortunately "only" includes the Czech Republic, Bulgaria, Albania and Russia. In one case or another, the election calendar could play a role in the potential decision to extend moratoria.

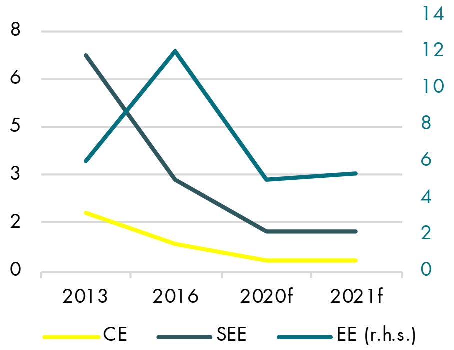
Overall, the CEE banking sectors have started the crisis year 2020 with a remarkable record profit. We estimate the 2019 profit pool in the region at around EUR 45 billion, driven mainly by a strong development in Russia (2019 profit pool EUR 30 billion). The CE/SEE banking sector profit pool only grew slightly in 2019, from an estimated EUR 13 billion in 2018 to EUR 13.5 billion in 2019. This trend in CE/SEE was characterised by already weakening earnings ratios, while the RoE of the CE/SEE banking markets already declined slightly from 10.9% to 10.6%. The banking markets in Hungary, the Czech Republic, Romania, Albania and Kosovo were positive outliers, with RoE

Sectoral NPL ratios (% of total loans)*



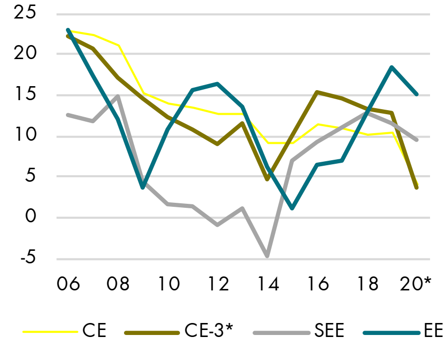
** Latest available data; CE-3: CZ, HU, SK*
Source: national sources, RBI/Raiffeisen RESEARCH

Key rates (%)*



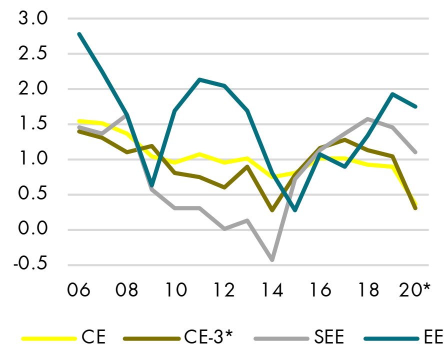
** Latest available data; CE: CZ, HU, PL; SEE: RO, RS; EE: RU, UA*
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Return on Equity (%)



** Latest available data; CE-3: CZ, HU, SK*
Source: national sources, RBI/Raiffeisen RESEARCH

Return on Assets (%)

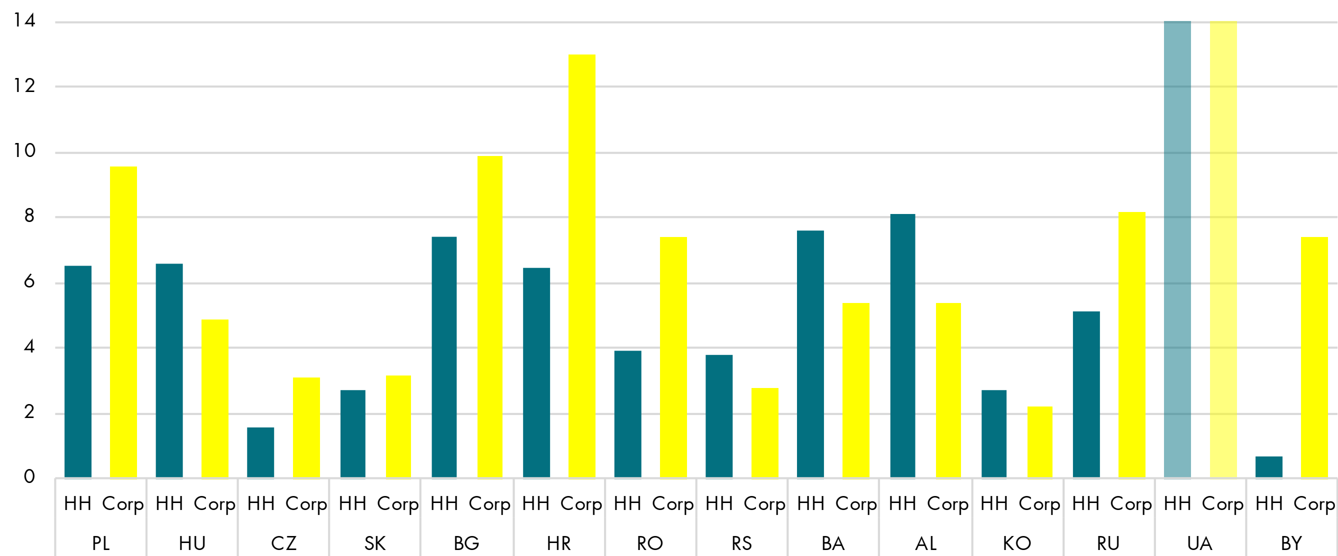


** Latest available data; CE-3: CZ, HU, SK*
Source: national sources, RBI/Raiffeisen RESEARCH

figures in the range of 12/13% to 18%. Overall core markets for Austrian CEE lenders still posted a RoE of around 12% in 2019, slightly down from 13% in 2018. The profitability situation in the EE region in 2019 was and is extremely pleasing with a RoE of 18% – the highest value since 2016 – driven mainly by the banking market in Russia and Ukraine (RoE of 19.7% and 34% in 2019, respectively). In H1 2020, Return on Equity was still around 15% in EE or moderately below the previous year's figures (~14% in Russia, ~26% in Ukraine). In this respect, we believe that a double-digit RoE is possible here in 2020 and that the positive earnings differential between the EE and CE/SEE region could remain at around 9-10 percentage points. In this respect, the EE region could once again become a major revenue driver for some leading CEE banks in 2020, as it was in 2011-2013, when the banking sectors of the CE/SEE region suffered from the double dip recession in the context of the euro area crisis, with a single-digit RoE, while the RoE in the EE region remained double-digit. During the GFC and the Russia/Ukraine crisis, earnings ratios naturally turned in favour of the CE/SEE banking sectors. Regarding "regional crises", we do not think that the challenging political and economic situation in Belarus could have a material impact on the profitability of both large Western European CEE banks (overall and in the EE region) and large Russian banks, in terms of negative earnings ratios at the institution and/or sector level. For Western banks, Belarus is of about the same importance as Albania, while exposures to countries such as Bosnia, Slovenia or Ukraine are twice or three times as high. And also, for Russian banks (with a market share of about 30% in Belarus), the exposures are not material or are below 1% of the domestic market exposure.

With regard to the CE/SEE banking sectors, the slump in profitability in some banking sectors in H1 2020 has already been so drastic that, after earnings declines of 30-50%, we will see Returns on Equity of 4% to a maximum of 9% in 2020. The discernibly challenging earnings situation in many CE/SEE markets is also taking place against the background of slightly weakening key earnings figures, in some cases as early as 2019. For 2021, we continue to expect Return on Equity to be in the single-digit range of 4-8% in most CE/SEE markets, with possibly more downside risks in 2021 than in 2020. Overall, a low double-digit RoE in CEE banking would be still possibly feasible in 2020 and 2021, but only when and if the EE markets and Russia continue to perform. That said, any major portfolio restructuring that may be necessary beyond 2021 could then also weigh on profitability in some hard-hit CE/SEE banking sectors. Negative earnings pressure could be only partially compensated by a further reduction of additional capital buffers where necessary to support credit growth and/or to ensure sustainable profitability. Overall, we see that earnings pressure should increase significantly in the CEE region in the coming years.

Sectoral NPL ratios (% of total loans)*

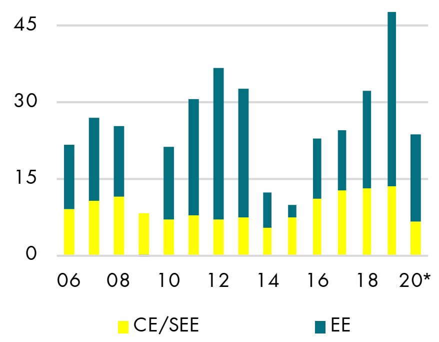


** Latest available data; scale capped, Ukraine sectoral NPL ratios at 21% (HH) and 78.2 (Corp)*
Source: national sources, RBI/Raiffeisen RESEARCH

- First, new historical low interest rates have established themselves in CE/SEE plus the EE countries Russia and Ukraine, partly combined with elements of quantitative easing. Hungary is the only positive exception on the interest rate side. Moreover, a clear shift from long-term deposits to demand deposits is evident. Moratoria and credit holidays will also contribute to a decline in interest income.
- Secondly, the momentum in new business should no longer reach the levels of recent years, which means that the state of excess liquidity – despite a slight easing from current levels – should remain at least at pre-crisis levels for some time.
- Third, the NPL increase (and its reduction) will weigh on earnings prospects. However, except for Poland, there are no longer any substantial legacy risks from earlier phases of foreign currency lending. Therefore, we do not expect large one-off hits on this front.
- Fourthly, in addition to these cyclical drivers, structural earnings pressure should also remain high (competitive pressure from non-banks, massive investment requirements in the digital space, in part exacerbated by the COVID-19 crisis). In this respect, this earnings pressure should at least favour a further creeping consolidation as in the years before the COVID-19 crisis – even if larger M&A transactions are less likely for the time being.

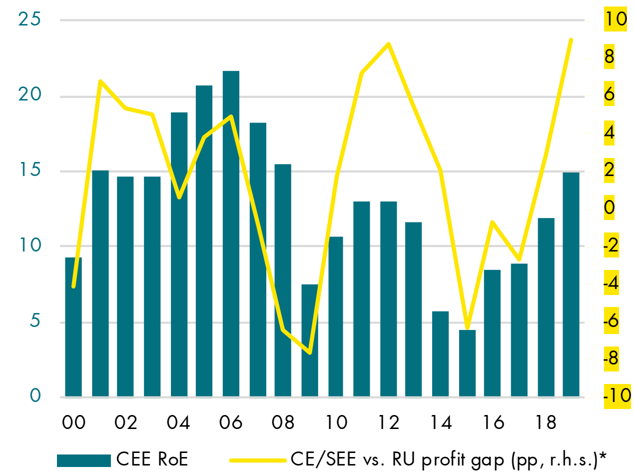
We see (low) double-digit RoE at the banking sector level in 2020 and 2021 only in some selective CEE markets in the realm of the possible, including the Czech Republic, Russia, Ukraine and selective SEE markets such as possibly Romania or Kosovo.

Banking sector profit pool (EUR bn)



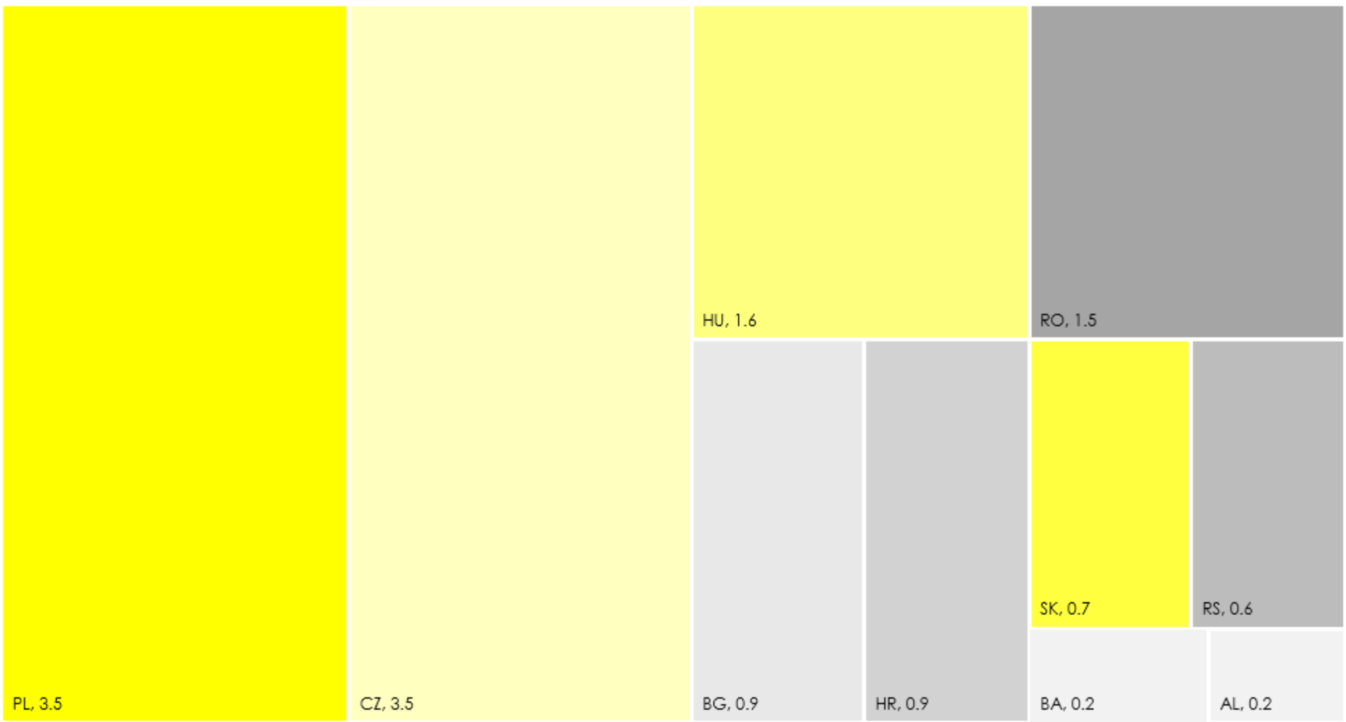
Source: national sources, RBI/Raiffeisen RESEARCH

Russia vs overall CEE profits



** Difference in RoE for CE/SEE vs. Russia (positive number equals higher profitability on the Russian market vs. CE/SEE markets)*
Source: national sources, RBI/Raiffeisen RESEARCH

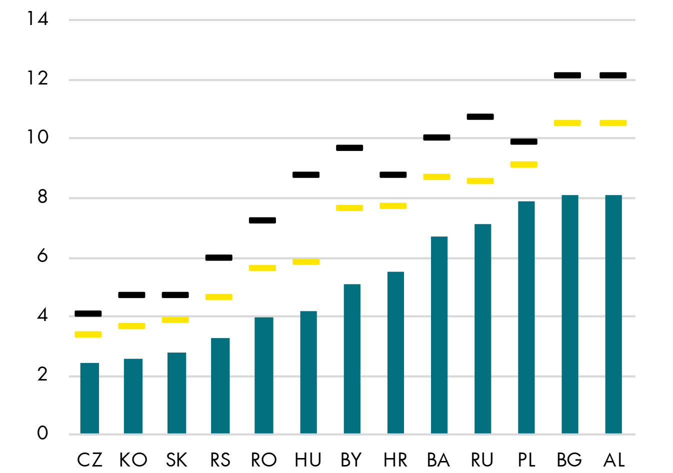
CE/SEE: Banking sector profit pool (EUR bn, 2019), estimates



Source: national sources, RBI/Raiffeisen RESEARCH

Outlook: Many balancing acts before banks, politicians and stakeholders

NPL ratio outlook (% of total loans)*

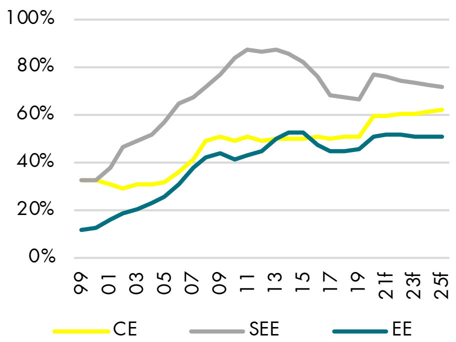


** Latest available data vs expected NPL ratio increase (Min, Max) over the next 12-24 months*
Source: national sources, RBI/Raiffeisen RESEARCH

We currently see the outlook for the CEE banking sectors as being determined by various factors and challenges. After the strong increase in 2020, credit and balance sheet growth should remain rather subdued in 2021 and in some cases probably also in 2022, mostly below the balance sheet and credit growth rates expected in "normal times". Apart from low growth prospects, the profitability prospects in the CEE banking sectors should be additionally burdened by other factors in the coming 12-18 months, above all a rise in risk costs and pressure on margins (e.g. lagging rise in unemployment, expiry of moratoria, extension of moratoria/interest-rate deferrals). In this respect, we currently expect profitability ratios to be at the lower end of the range of expected earnings ratios, especially in 2021. For CEE banks with a broad base in the region, the earnings trend in the three large core markets of the Czech Republic, Romania and Russia (after-tax RoE of 17%! under regulatory accounts in 2019, though helped by the technical effect from implementation of IFRS9 principles) will be decisive, where we currently see more resilience.

However, the second wave of COVID-19 currently taking place in autumn/winter is intensifying the outlook for the banking sector. A second wave may turn more deferred and restructured loans into non-performing loans. This is particularly true for exposures in the SME and consumer finance segments. Moreover, in a longer second wave, political support could become more hesitant and selective, which in turn could negatively impact credit risks and risk costs. In the CEE markets in particular, the medium-term earnings prospects should then also be negatively impacted by the low interest rate environment in 2021, and the ultra-low interest rate landscape in CEE could ease marginally in 2022 at the earliest. This assumption is based on the consideration that coordinated monetary and fiscal policy stimuli at the national and supranational/EU level could ultimately lead to a somewhat more decisive reflation in 2021 and 2022 in the smaller and open economies in CE/SEE – apart from base effects. The same applies to the knock-on effects of the 2020 currency weakness in many CEE markets. In Russia and Ukraine in particular, we expect moderate interest rate hikes again after 2021. On a positive note, it should be emphasised that unconventional monetary policy measures in CE/SEE have not yet achieved such market-distorting effects like in Western Europe and are not expected to achieve them, which is why the yield curves are steeper here or the interest rate spread (key interest rate vs. capital market interest rate) could already have reached its low point. In view of all the uncertainties and risk factors outlined above, we expect lending and total assets to grow by 4-6% (in local currency) in the coming months, coupled with RoE earnings ratios of 5-9% in the CEE banking sector on aggregate.

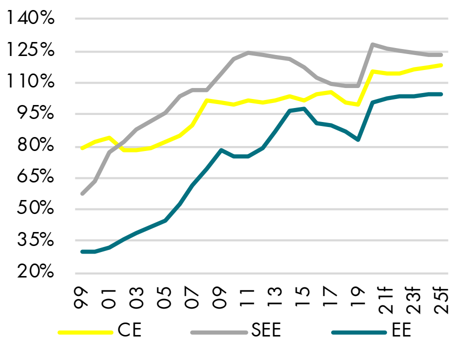
Loan-to-GDP ratios



Source: national sources, RBI/Raiffeisen RESEARCH

There is a favourable funding situation and the regulatory support in liquidity which may support the credit growth outlook. Meanwhile, what can further bring to bear on it is how the authorities manage to accommodate the inevitable step-up in government borrowings, so they do not crowd out the much-needed credit supply to the real economy. Against this backdrop, one can reasonably assume an increase in banks' exposure to respective sovereign risk.

Asset-to-GDP ratios



Source: national sources, RBI/Raiffeisen RESEARCH

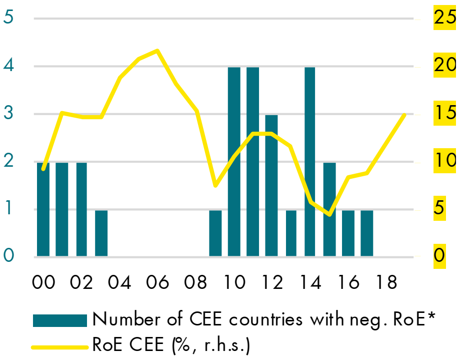
While bracing for potentially more prolonged credit cost pressures, in the post-COVID environment the banks will also have to solve a novel revenue puzzle, namely, to wean themselves off the decent lending margins in some of CEE markets. Similar to the Western European banking realm, this shall give fee income and cross-sell efforts a greater focus, where business scale and development of digital infrastructure are important to successfully navigate the challenge.

On the positive side, customers are currently re-evaluating their approach to banking services and are much more open to digital offers. As we estimated in RBI's CEE Fintech Atlas 2019, the digital penetration of the CEE banking markets should increase massively in 2020 – which implies a further reorientation of the branch networks (reduction plus investments). In this context of digitalisation, we would like to point out once again the particularly competitive situation on the Russian market, where the leading bank is increasingly positioning itself as a technology and lifestyle provider (including corresponding payments). In contrast, competition from neo-banks in the EU banking markets in CE/SEE will certainly increase massively in the coming years in view of the previously outlined increased digital affinity of many customers. Here, it will be important for the leading CEE banks to offer similar services in terms of customer experience and at the same time achieve economies of scale. We also see the potential for established CEE banks to win back customers and market shares from FinTechs and challenger banks, as the lending business is regaining importance alongside payment transactions. In addition, some banks may take the opportunity to acquire customers and technology from FinTechs now operating under more difficult market conditions.

At the policy and regulatory level, it will be crucial in the coming 12-18 months to find meaningful coordinated solutions to important issues such as moratoria, the expiry of moratoria, tax deferrals and home/host-country regulatory issues. The same applies at a political level to national fiscal and/or supranational support programmes (e.g. with regards to the potential extension of support programmes supported by the EU's SURE initiative). Curtailing the regulatory reliefs comprises another important question, which calls for precise timing and proper coordination with other (fiscal) policy measures. Indeed, delaying the recognition of banks' credit losses for too long inhibits the accurate supervisory assessment of systemic risks, while lifting the forbearance early might threaten a credit crunch. It will require deft action by authorities to navigate these confines.

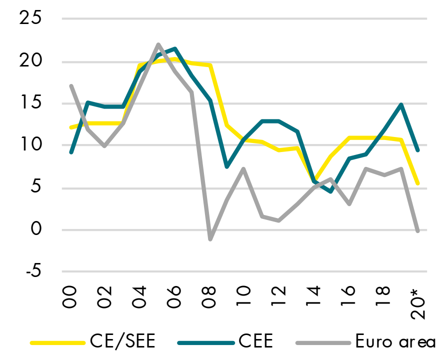
With more predictability at the macro and policy level, we would not rule out that some opportunistic M&A transactions might cross the finish line in the next 12-24 months given the increasing structural earnings pressure sketched previously.

Profitability snapshot



** Out of 14 CEE banking markets*
Source: national sources, RBI/Raiffeisen RESEARCH

Return on Equity (%)



** Latest available data*
Source: ECB, national sources, RBI/Raiffeisen RESEARCH

CEE Banking Sector Outlook Snapshot

	LCY loan growth				FCY loan growth				Profitability (RoE)
	Avg. 2017-19	Avg. 2020-25f	Expected vs. pre-crisis	Local market vs. reg. avg.*	Avg. 2017-19	Avg. 2020-25f	Expected vs. pre-crisis	Local market vs. reg. avg.*	Local market vs. reg. avg.*
Poland	7.2%	5.7%			7.7%	5.6%			
Hungary	10.2%	9.4%			8.6%	6.8%			
Czech Rep.	5.4%	5.4%			7.2%	6.1%			
Slovakia	8.4%	5.0%			8.4%	5.0%			
Romania	6.6%	9.8%			4.6%	8.2%			
Bulgaria	6.8%	4.1%			6.8%	4.1%			
Croatia	-0.1%	3.5%			0.4%	3.3%			
Serbia	7.3%	5.2%			8.8%	5.0%			
Bosnia	6.5%	3.0%			6.5%	3.0%			
Albania	-1.3%	5.3%			2.4%	4.9%			
Russia	8.0%	6.3%			8.9%	1.7%			
Ukraine	2.4%	10.7%			1.7%	6.1%			
Belarus	10.7%	10.3%			8.4%	0.3%			

** Average across all CEE markets*
Source: national sources, RBI/Raiffeisen RESEARCH

Czech Republic

- Mortgage lending remains resilient under COVID-19 circumstances, cut in CCyB helps
- For the second time (2018/2019) most profitable CE banking market in terms of RoE and estimated total profit pool
- Some consolidation transactions did not materialise up to now

Slovakia

- Mortgage lending resilient, but healthy slowdown of retail lending as Slovakia now the CEE banking market with the highest loan-to-GDP ratio (68%)
- Key issue of banking sector taxation not yet finally clarified, but important for medium-term (sustainable) profitability path
- RoE on a downward path since 2016, while RoA remains still fairly stable, cut in CCyB may support profit options

Poland

- Consolidation postponed but not cancelled (cancelled mBank sale)
- Settlement of CHF-loans get traction on a case-by-case basis up to now
- Market environment remains challenging with lowest RoE in CE, even below Slovakia

Western banks in CEE

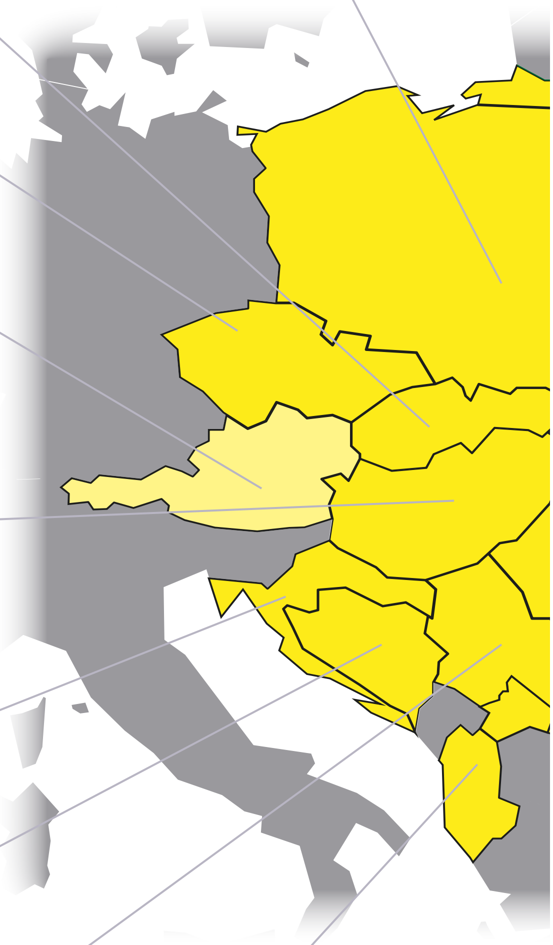
- RBI and Erste remain the Western CEE banks most geared towards the region
- The CEE business at Western CEE banks continues to represent a disproportionately high earnings contribution, even though H1 2020 profitability readings (pre-tax RoE) in their CEE segments mostly slipped outside the cosy double-digit area
- Selective M&A by leading CEE banks, branch network optimisation continues, receiving a boost from COVID-19 crisis

Hungary

- Strong lending even under COVID-19 circumstances, bold central bank support for corporate sector
- Second most profitable CE banking market when looking at KPIs like RoE and RoA, while new local banking champion may emerge and contribute to further consolidation
- Lowest NPL level in CE and among all CEE markets at 2% together with Kosovo, good starting position for expected NPL increase

Croatia

- Decent deleveraging achieved in recent years, loan-to-GDP ratio (2019) 20 percentage points below 2014 peak
- Profit outlook remains challenging in one of the most hard-hit CEE economies in the context of COVID-19 crisis
- Euro area entry prospect may add to market stability (may solve FX mismatches) but will likely eat strongly into profits from mid-term perspective (10-15% of profit pool at risk)



Bosnia

- Foreign players with a market share of 80%+ continue to dominate the market
- Strong focus on retail lending did not backfire up to now and in times of COVID-19 crisis
- Implementation of lending support packages will be key to support positive market dynamic

Serbia

- Market characterised by one M&A benchmark transaction in 2019, overall consolidation underway with 26 banks operating (some 34 ten years ago)
- Further consolidation potential remains, as indicated by modest profitability KPIs
- CHF legacy issue finally solved, which may add to market resilience now

Albania

- SEE market with strongest consolidation trend in recent years, mainly driven by local players
- Market share of foreign-owned banks decreased slightly from high levels in recent years (currently at 70%), while now only 12 banks are operating on the market (16 in 2017)
- Loans in FCY now at slightly below 50%, compared to a share of 70% some ten years ago, a trend which may now add to an increased market resilience

Please note the risk notifications and explanations at the end of this document

Belarus

- Market strongly impacted by hefty BYN devaluation and geopolitical crisis in 2020, some banks temporarily stopped lending activity
- Much awaited privatisation agenda unlikely to play out from a near-term perspective
- Further market development and footprint of foreign banks will depend on settlement of current political crisis (i.e. closer integration with Russia vs. a more independent/ Western turn?)

Ukraine

- Most profitable CEE banking market in 2019, RoE well above 30% (!), but only 25% of 2014-2017 losses recovered on aggregate
- More stable market conditions following hefty restructuring seen in recent years, now 75 operating on the market (some 160-180 five years ago)
- Solid profitability maintained in H1 2020, but mid-term lending slowdown and decisive key rate cuts may constrain profit options

Russia

- Positive earnings momentum maintained in 2019 with RoE at 19.7%, overall market represents over 60% of the CEE banking profit pool
- Consolidation continues on the top-end of the market, while we see strongly increasing competitive pressure in the digital space
- One of the most crisis-experienced regulators support the sectors in COVID-19 times, while mid-term sanction risk is possibly on the rise – once again

Russia: Western banks and their niche player strategies

- For SocGen, UniCredit, RBI & Citi their Russian units remain a pocket of value thanks to selective niche lending strategies – notwithstanding competition and other complexities of the operating environment
- We infer this from the banks' disproportionally high market shares in FX deposits, corporate current accounts turnover, which also highlights service quality, brand recognition and systemic importance
- In H1 2020 major foreign banks posted RoEs in a range of 10-20% on the Russian market

Kosovo

- Together with Hungary at the low point in terms of NPL ratios in CEE at ~2% (year-end 2019), only modest increase to 2.6% in 2020
- Second most profitable CEE banking market after Ukraine in 2019, solid performance maintained in H1 2020 with double digit RoE
- Loan-to-GDP at 43% points to healthy growth prospects on a small but consolidated market (market share of Top-5 banks at 72%, with 10 banks operating on the market)

Bulgaria

- Consolidation continues with market share of five leading banks now at 67% and 10 percentage points higher than five years ago
- Euro area entry prospect may add to market confidence but may eat into profits from mid-term perspective (possibly putting some 10% of profit pool at risk)
- Determined policy response in COVID-19 crisis, incl. cuts to CCyB

Romania

- Macro-outlook and political outlook remain challenging due to erratic policy moves
- On a positive note termination of banking taxation in 2020 supports market – also under COVID-19 circumstances
- Nowadays one of the lowest financial intermediation ratios (loans at 25% of GDP) pointing to long-term growth and convergence potential

Heavy load times three: Banking tax, low rates plus FX legacies

Key economic figures and forecasts

Poland	2019	2020e	2021f
Nominal GDP (EUR bn)	525.3	500.1	528.2
GDP per capita (EUR)	13,833	13,175	13,926
Real GDP (% yoy)	4.2	-4.1	2.8
CPI (avg, % yoy)	2.3	3.3	1.7
Unemploy. rate (avg, %)	5.4	6.6	7.4
EUR/LCY rate (avg)	4.30	4.44	4.40

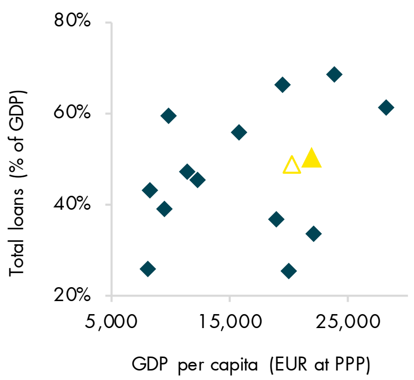
Source: national sources, wiiw, RBI/Raiffeisen RESEARCH

High frequency growth, NPLs and RoE/RoA

Poland	2018	2019	2020*
Loan growth[1]	4.2	2.0	5.6
Retail loans[1]	6.0	6.6	-0.4
Corporate loans[1]	-0.6	-1.3	2.4
NPLs (% of total loans)	7.6	5.5	5.5
Retail loans[2]	6.9	5.9	6.5
Corporate loans[2]	20.4	13.6	13.0
RoE (%)	8.5	9.9	5.6
RoA (%)	1.6	1.2	0.9

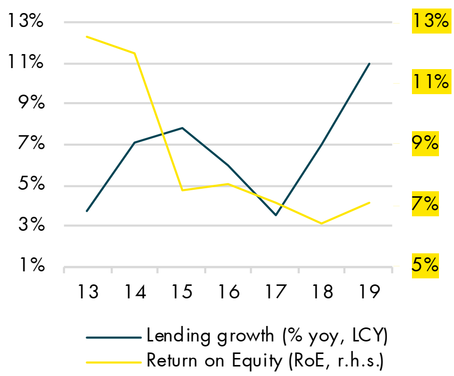
** latest available data*
1) LCY, % yoy; 2) % of total
Source: national sources, RBI/Raiffeisen RESEARCH

Total loans vs. GDP per capita



Data for 2019, yellow triangle shows Poland vs. all other CEE markets in 2019 and 2015 (filled and non-filled triangle)
Source: NBP, national sources, RBI/Raiffeisen RESEARCH

Lending growth & Profitability



Source: NBP, national sources, RBI/Raiffeisen RESEARCH

2019 was a rather good in terms of banking sector performance, profits increased by 9% compared to 2018. The aggregated RoE grew by 0.4pp to 6.9%. Although loan growth slowed compared to 2018, the quality of loans improved. One of major challenges in 2019 was the rise in FX mortgage related lawsuits. A second drag on results was the partial refund of commissions charged for consumer loans which were repaid earlier.

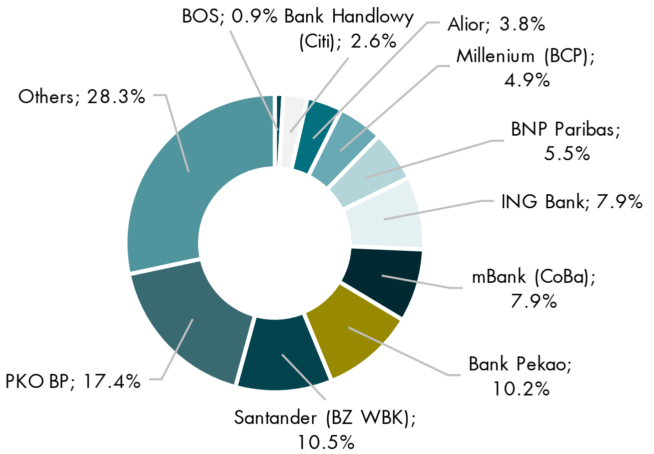
Due to the COVID-19 crisis loan activity dropped in almost all segments (as of end July), in particular credit cards issuance, cash and car loans as well as revolving loans for firms. In the retail segment, only mortgage loans are still posting growth in yoy terms. Already in Q1 banks tightened credit conditions while demand dropped with the slowdown accelerating. Although the 2020 recession will likely prove less severe than initially anticipated it will still be one of historically highest declines in GDP, while 140bp interest rate cuts delivered by the NBP provide a burden to banks as well. End of June the RoE is down to 4.3%, the net result of the sector is almost 52% lower in yoy-terms. Another factor highly affecting the outlook continues to be the FX loan portfolio risk and accelerating court rulings, mostly in favour of customers. The FX loan problem remains a drag on the banking sector performance and will be spread over time due to court rulings made on a case by case basis. These include not only decisions of an annulment of the FX loan but in some cases also a conversion to PLN but with interest still paid in FCY. Consequently, between Q4 19 until Q2 20, Polish banks have built up "collection provisions" in the amount of ~PLN 2 bn related to legal risks based on newly introduced individual assessments about the expected future impact from court rulings (half-year reviews at most banks). Due to the hefty regulatory burden (banking tax alone decreased the RoE by ~1pp in 2019), FX loan risks and now a near-zero interest rate environment (unlikely to change in 2021 and possibly 2022) the banking sector may struggle to improve its standing. This will hamper the scale of post-pandemic rebound in loan activity even though banks announced some easing in loan conditions for Q3 (especially for households) and expect an increase in demand. Loan activity to enterprises was likely dampened by support received from fiscal stimulus programs and may thus rebound in the near term.

Compared to the last 12 months the quality of household loans has only deteriorated slightly (mainly consumer loans) recently, although the impact here may have been delayed and limited by the fiscal support. With that in mind, the situation might worsen once the impact of stimulus wanes, the unemployment rate increases more significantly, and credit holidays expire. In case of the latter there have been two solutions made available: voluntary credit holidays offered by banks to households and firms which at the beginning of September included over 4% of PLN mortgages and 8% of FX loans reaching PLN 35 bn among households and PLN 22 bn for firms. Another solution was the statutory moratorium introduced with a delay compared to banks' offer of credit holidays and available for those who lost their main source of income as a result of the pandemic. So far, this option covers a loan volume worth PLN 0.31 bn. On the asset side with interest rates nearly at 0% the pandemic also resulted in rapid decline in term deposits, as more money is now held on current accounts. Deposits increased by 16% yoy as of end of July mainly spurred by massive inflows from corporate clients, with the L/D ratio declining below 80% from 88% in 2019, thus pointing at even higher over-liquidity position.

Market consolidation slowed down but is likely to continue in the future. Banks with lack of scale and those which have been struggling already prior to COVID-19 could be a subject of market consolidation. Overall, the situation of the banking sector is now a mix of old challenges (FX loans, multiple regulations and charges), current pandemic risk and its impact on economy as well new/current long-term trends, like low interest rates and the digital transition.

Financial analyst: Dorota Strauch, RBI Polish branch for RBI HQ

Market shares (2019, eop)



% of total assets
Source: NBP, financial statements, RBI/Raiffeisen RESEARCH

Key measures to support banking sector

- Key measures to support the banking sector during Covid-19 crisis
- Banking sectors' voluntary moratoria for 3-6m for households and firms. Until September households applied for credit holidays on 425.9 thousand accounts worth PL 35bn. For firms respectively: 65.7 thousand accounts, value of PLN 22bn
- Statutory moratoria introduced at a later stage for those who lost their main source of income due to pandemic. At the beginning of September, it involved 2.9 thousand accounts, value of PLN 0.31 bn
- liquidity of banks and sovereign bond markets supported via repo operations and secondary sovereign bond market purchases incl . bonds with state guarantee
- Termination of Systemic Risk Buffer in March 2020

back to country overview

Key banking sector indicators

Balance sheet data	**2015**	**2016**	**2017**	**2018**	**2019**
Total assets (EUR mn)	374,460	385,746	425,996	440,405	469,759
growth in % yoy	4.5	3.0	10.4	3.4	6.7
in % of GDP	88.6	91.7	89.3	89.5	88.3
Total loans (EUR mn)	204,716	208,920	229,402	238,180	266,956
growth in % yoy	7.8	2.1	9.8	3.8	12.1
in % of GDP	48.5	49.7	48.1	48.4	50.2
Loans to private enterprises (EUR mn)	64,593	67,151	76,461	86,761	90,148
growth in % yoy	8.6	4.0	13.9	13.5	3.9
in % of GDP	15.3	16.0	16.0	17.6	16.9
Loans to households (EUR mn)	138,314	140,340	151,311	164,632	175,026
growth in % yoy	7.1	1.5	7.8	8.8	6.3
in % of GDP	32.7	33.4	31.7	33.5	32.9
Mortgage loans (EUR mn)	86,937	87,871	91,916	98,006	105,415
growth in % yoy	7.4	1.1	4.6	6.6	7.6
in % of GDP	20.6	20.9	19.3	19.9	19.8
Loans in foreign currency (EUR mn)	38,541	36,262	31,370	30,746	29,145
growth in % yoy	2.0	(5.9)	(13.5)	(2.0)	(5.2)
in % of GDP	9.1	8.6	6.6	6.3	5.5
Loans in foreign currency (% of total loans)	19	17	14	13	11
Total deposits (EUR mn)	220,295	232,387	256,628	269,441	298,176
growth in % yoy	9.9	5.5	10.4	5.0	10.7
in % of GDP	52.1	55.2	53.8	54.8	56.1
Deposits from households (EUR mn)	156,218	165,184	182,532	195,071	216,026
growth in % yoy	9.8	5.7	10.5	6.9	10.7
in % of GDP	37.0	39.3	38.3	39.7	40.6
Total loans (% of total deposits)	93	90	89	88	90
Structural information					
Number of banks	65	63	63	63	62
Market share of state-owned banks (% of total assets)	18	32	34	32,5	33
Market share of foreign-owned banks (% of total assets)	61	55	54	54	54
Profitability and efficiency					
Return on Assets (RoA)	0.80	0.80	0.80	0.70	0.75
Return on Equity (RoE)	7.5	7.7	7.1	6.4	7.1
Capital adequacy (% of risk weighted assets)	15.6	17.5	18.0	19.3	19.2
Non-performing loans (% of total loans)	8.2	7.5	7.3	7.3	7.0

Source: NBP, FSA, BFG, RBI/Raiffeisen RESEARCH

Not lower, but higher rates! New banking champion emerging?

Key economic figures and forecasts

Hungary	2019	2020e	2021f
Nominal GDP (EUR bn)	143.8	132.1	139.8
GDP per capita (EUR)	14,739	13,570	14,381
Real GDP (% yoy)	4.6	-5.0	4.0
CPI (avg, % yoy)	3.4	3.6	4.0
Unemploy. rate (avg, %)	3.4	4.6	4.4
EUR/LCY rate (avg)	325.32	348.13	357.40

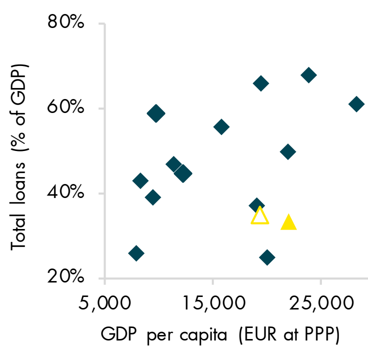
Source: national sources, wiiw, RBI/Raiffeisen RESEARCH

High frequency growth, NPLs and RoE/RoA

Hungary	2018	2019	2020*
Loan growth[1]			
Retail loans[1]	5.8	15.6	17.7
Corporate loans[1]	14.8	11.4	8.6
NPLs (% of total loans)	5.4	4.0	4.2
Retail loans[2]	9.9	6.8	6.6
Corporate loans[2]	5.5	4.2	4.8
RoE (%)	13.4	13.1	0.4
RoA (%)	1.5	1.4	0.0

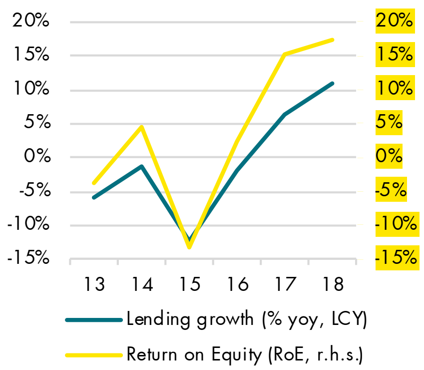
** latest available data*
1) LCY, % yoy; 2) % of total
Source: national sources, RBI/Raiffeisen RESEARCH

Total loans vs. GDP per capita



Data for 2019, yellow triangle shows Hungary vs. all other CEE markets in 2019 and 2015 (filled and non-filled triangle)
Source: MNB, national sources, RBI/Raiffeisen RESEARCH

Lending growth & Profitability



Source: MNB, national sources, RBI/Raiffeisen RESEARCH

In Q2 GDP contracted by 14.5% qoq, while financial services were the only segment of the economy that showed growth. This is due to crisis management measures which place an emphasis on the banking sector, incl. automatic loan repayment moratoria (both corporate and retail loans until end of 2020 with opt-out option) and preferential loan schemes plus guarantees. In September, the government decided to prolong the moratoria for selected clients (i.e. families with children, unemployed, etc.; and SMEs suffering major revenue decline) until mid-2021. Loan stock growth proved to be robust (8.6% yoy in July for corporate loans, 17.7% yoy in retail) even though we estimate that ~40% of clients opted out from loan-repayment moratoria. More than 50% of new retail loans were coming from baby loans (a subsidized loan scheme targeting positive demographics introduced in mid-2019). Still, the strength of the market is described by the fact that despite a massive economic contraction, the new volume of market-based mortgage loans was largely unchanged in the first seven month of 2020 compared to 2019. In contrast new personal loans dropped by 27% yoy in the first seven months. Retail deposits increased by nearly 15% yoy – related to loan repayment moratoria and households' precautionary savings. Retail NPLs have not risen yet, however we estimate that ~5% of clients would have difficulties in repayments when and if moratoria will expire. We expect retail NPLs to touch the 10% level later in 2021.

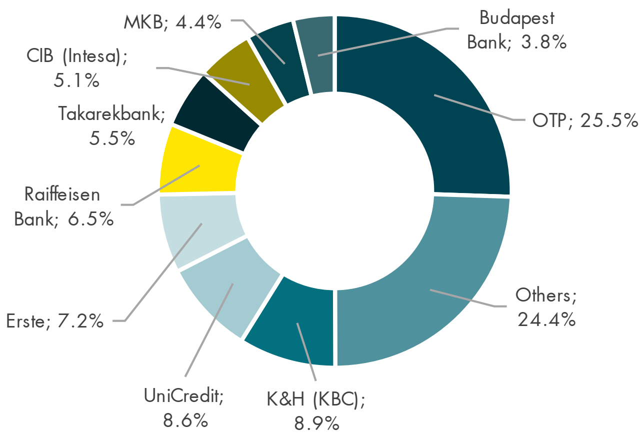
In the corporate sector loan stock peak was reached in March, and there was a continued decline every month in the April-July period. There are some industries where there is an opposite tendency (hotel and catering, IT, machinery, building materials) but there are very different factors behind. New corporate lending dropped by 26% in the first seven month of 2020, despite the armada of preferential loan schemes. The only month when there was a growth registered in new lending was January, and the weakest was post-lockdown June (-57% yoy). However, the MNB-sponsored corporate bond program is a major success and the HUF 160 bn issued in the first seven months of 2020 is cannibalizing bank lending. Corporate deposit growth is substantial (18% yoy in July) while already in Q1 there was a – albeit quite modest - rise in NPLs that is doomed to more rapidly grow in the coming quarters and might reach 8-10% by early 2021.

As far as the regulatory environment is concerned, besides globally utilised measures (i.e. easing capital buffer requirements, boost liquidity, flexible adaptation of macro-, and micro-prudential rules) and the automatically implemented moratoria, the government increased the 2020 banking tax (from HUF 65 bn to HUF 110 bn), though the extra tax can be deducted from the banking tax to be paid in 2021-2025. As far as the interest rate environment is concerned, ironically 2020 brought some positive developments with the necessary adjustments made in monetary policy. As opposed to the super low interest rate environment of the previous period when the 3-month money market rate was on average 0.15% (2017-19), it shot above 1% in April and by now it has stabilized a little above 0.7%. The higher rate environment is a plus for the banks. At the same time lending activity is predominantly linked to various subsidized loan programs – this is unhealthy, and it is questionable whether how the sector would do when these programs ultimately end.

With regards to the consolidation a strategic cooperation is signed with the involvement of MKB, Budapest Bank (BB), and Takarek. The three banks together have 1,9 million clients and their combined total assets reach HUF 5500bn – this would rank the banking conglomerate second after OTP with a nearly 14% market share. The integration of the three banks is a huge challenge and will take years. Up to now it is not fully clear yet what would be the final legal design of the MKB-BB-Takarek trio. However, this conglomerate may become a super-large domestic player that can well utilize its scale in times of squeezed margins.

Financial analyst: Zoltán Török (+36 1 484 4843), Raiffeisen Bank Zrt.

Market shares (2019, eop)



% of total assets
Source: MNB, RBI/Raiffeisen RESEARCH

Key measures to support banking sector

- Increase banking sector liquidity by accepting corporate loans as collateral and cutting the minimum reserve requirement to zero and easing swap-tender criteria
- Support corporate lending activity with the re-launch of the Funding for Growth Scheme
- Prevent fast deterioration of the risk costs with loan repayment moratoria (until 2020 eop, extended for most vulnerable clients until mid-2021)
- Increase of the effective interest rate improves margins and implicitly help profitability

back to country overview

Key banking sector indicators

Balance sheet data	**2015**	**2016**	**2017**	**2018**	**2019**
Total assets (EUR mn)	109,889	113,220	119,766	124,915	133,338
growth in % yoy	(0.0)	3.0	5.8	4.3	6.7
in % of GDP	100.1	99.3	96.8	95.3	94.0
Total loans (EUR mn)	37,896	37,455	39,910	42,830	47,219
growth in % yoy	(11.7)	(1.2)	6.6	7.3	10.2
in % of GDP	34.5	32.8	32.3	32.7	33.3
Loans to private enterprises (EUR mn)	19,001	19,017	20,932	23,222	25,149
growth in % yoy	(11.6)	0.1	10.1	10.9	8.3
in % of GDP	17.3	16.7	16.9	17.7	17.7
Loans to households (EUR mn)	18,795	18,316	18,732	19,154	21,525
growth in % yoy	(12.0)	(2.6)	2.3	2.3	12.4
in % of GDP	17.1	16.1	15.1	14.6	15.2
Mortgage loans (EUR mn)	15,087	13,970	13,609	13,597	13,716
growth in % yoy	(12.7)	(7.4)	(2.6)	(0.1)	0.9
in % of GDP	13.7	12.2	11.0	10.4	9.7
Loans in foreign currency (EUR mn)	8,882	8,259	9,313	9,959	10,939
growth in % yoy	(59.2)	(7.0)	12.8	6.9	9.8
in % of GDP	8.1	7.2	7.5	7.6	7.7
Loans in foreign currency (% of total loans)	23	22	23	23	23
Total deposits (EUR mn)	43,328	46,706	52,497	57,030	59,805
growth in % yoy	7.9	7.8	12.4	8.6	4.9
in % of GDP	39.5	40.9	42.4	43.5	42.2
Deposits from households (EUR mn)	22,519	23,382	25,121	27,641	28,832
growth in % yoy	2.8	3.8	7.4	10.0	4.3
in % of GDP	20.5	20.5	20.3	21.1	20.3
Total loans (% of total deposits)	87	80	76	75	79
Structural information					
Number of banks	35	37	36	35	34
Market share of state-owned banks (% of total assets)	17.9	11.5	10.9	10.2	10.5
Market share of foreign-owned banks (% of total assets)	44	45	45	45	41
Market share of foreign-owned banks (excl. OTP, % of total assets)	24	25	25	25	21
Profitability and efficiency					
Return on Assets (RoA)	0.2	1.5	1.9	1.5	1.2
Return on Equity (RoE)	2.3	15.3	17.4	13.7	11.6
Capital adequacy (% of risk weighted assets)	19.9	21.1	23.2	19.7	16.9
Non-performing loans (% of total loans)	10.6	6.4	5.4	3.4	2.0

Source: MNB, national sources, RBI/Raiffeisen RESEARCH

Swift lending recovery – asset quality hit postponed to 2021

Key economic figures and forecasts

Czech Republic	2019	2020e	2021f
Nominal GDP (EUR bn)	220.5	200.7	211.2
GDP per capita (EUR)	20.701	18.768	19.687
Real GDP (% yoy)	2.3	-7.6	1.0
CPI (avg, % yoy)	2.8	3.3	2.4
Unemploy. rate (avg, %)	2.8	3.8	6.4
EUR/LCY rate (avg)	25.67	26.42	25.62

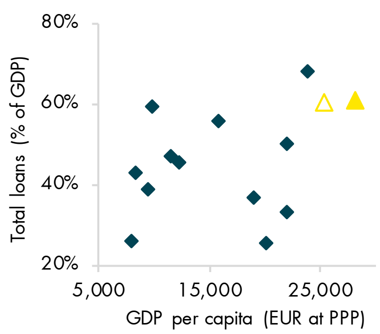
Source: national sources, wiiw, RBI/Raiffeisen RESEARCH

High frequency growth, NPLs and RoE/RoA

Czech Republic	2018	2019	2020*
Loan growth[1]	7.1	4.4	4.4
Retail loans[1]	7.9	6.4	6.5
Corporate loans[1]	5.7	3.7	2.8
NPLs (% of total loans)	3.3	2.5	2.4
Retail loans[2]	2.1	1.6	1.6
Corporate loans[2]	3.6	3.2	3.1
RoE (%)	17.5	18.1	9.5
RoA (%)	1.1	1.2	0.9

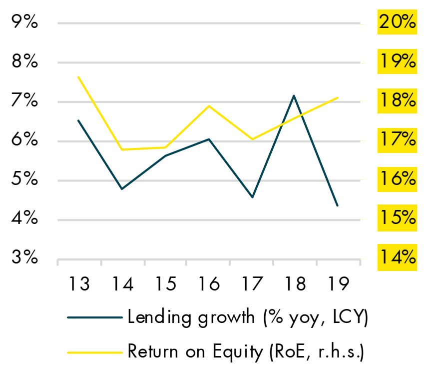
** latest available data*
1) LCY, % yoy; 2) % of total
Source: national sources, RBI/Raiffeisen RESEARCH

Total loans vs. GDP per capita



Data for 2019, yellow triangle shows Czechia vs. all other CEE markets in 2019 and 2015 (filled and non-filled triangle)
Source: CNB, national sources, RBI/Raiffeisen RESEARCH

Lending growth & Profitability



Source: CNB, RBI/Raiffeisen RESEARCH

The COVID-19 crisis hit the Czech banking sector at a time of very promising development. That said the local banking sector enters the recessionary phase of the financial cycle with a robust liquidity and capital position, the latter also boosted by strong profitability. Mortgages and corporate loans still showed very satisfactory growth rates in Q1 2020. In April and May, both corporate and consumer loans experienced a huge drop of demand with the newly granted loans deeply below the long-term average. Following the relaxation of restrictive measures, demand for credit has recovered very quickly. However, both corporate and consumer credit loan growth in H1 2020 remained weaker than a year ago. On the other hand, mortgage lending proved to be a very stable segment with the amount of new loans, granted in two most affected months, remaining at similar or even higher levels than the long-term average. Support measures in the mortgage segment were crucial for this development, i.e. interest rate cuts, easing of regulatory limits for new mortgage applicants (LTV heightened to 90%, cancelled DTI and DSTI limits) as well as a tax relief on purchases of real estate. As a result, the number of new mortgages granted in H1 2020 was by 27% higher than in H1 2019. In this respect, the mortgage market appears to be on a new record at the end of this year.

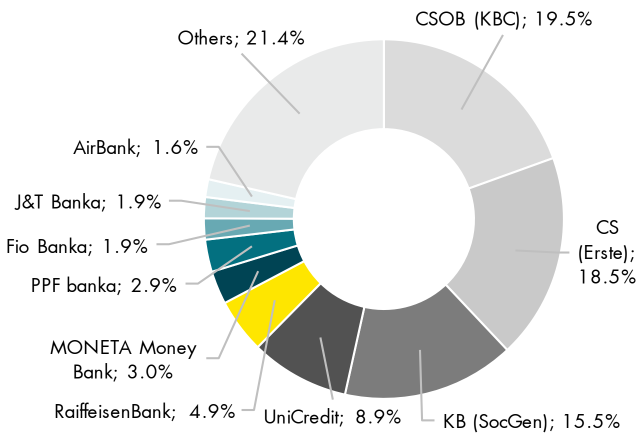
Debtors were supported by a credit moratorium allowing repayments to be postponed for three or six months till the end of October 2020. Almost 348 000 bank clients (representing some 12% of total loans) seized this opportunity. Deferred installments reached CZK 21 bn. More than 60% of deferred installments belong to corporate clients with the highest amount in manufacturing (39%), real estate activities (17%) and wholesale and retail trade (11%). While retail clients did not have to repay either principal or interest, the corporate clients were deferred only by the repayment of the principal and continued to pay interest. Starting of November all clients shall pay their usual repayments. Then an increase of NPLs is expected as some debtors in strongly affected sectors are still facing significant challenges in recovering their business. The current share of NPLs in total loans remains at a low level of 2.4 %, nevertheless banks have started preparing for an asset quality deterioration by increasing provisions. Finally, higher risk costs will also translate into a lower profitability, than we have been used to in previous years. In order to help banks to absorb the increasing risk of credit losses, the CNB decided to reduce the CCyB rate to 0.5% (down from 1.75% and cancelling the planned increase to 2%).

In terms of deposit collection H1 2020 characterized by strong dynamics, with a deposit growth at 14% YTD. More than two-thirds of this growth was due to a huge increase in government savings. Retail clients also accounted for a significant part of the increase in deposits, as they had very limited opportunities to spend. That said further restrictive measures would challenge the up to now still solid development in the local banking sector. Such a scenario will be an additional drag on asset quality and the willingness to draw new loans. Also, the still high level of real estate prices together with a possible slowdown in construction output could finally cause a cooling of the mortgage market currently driving retail banking. And we still see a enough potential for the further growth in retail loans, as the LTD ratio in this segment remains at modest 60%.

After an unsuccessful merger of Moneta Money bank with the AirBank and Home Credit (CZ+SK), Moneta Money bank acquired both Wüstenrot building society and Wüstenrot mortgage bank in 2020. While the building society will operate independently under the name Moneta building society, the mortgage bank will be incorporated into Moneta Money bank till the end of this year. As a result, Moneta Money bank strengthened its position on the mortgage market and entered the market of Home Loan & Savings.

Financial analyst: Lenka Kalivodova, Raiffeisenbank a.s.

Market shares (2019, eop)



% of total assets
Source: CNB, RBI/RaiffeisenRESEARCH

Key measures to support banking sector

- Cut of interest rate to 0.25%
- DTI and DSTI limits for new mortgage were cancelled
- LTV limit for new mortgages heightened to 90%
- CCyB rate cut to 0.5%
- Loan moratorium optional for 3 or 6 months

back to country overview

Key banking sector indicators

Balance sheet data	2015	2016	2017	2018	2019
Total assets (EUR mn)	205,369	222,798	276,564	285,053	299,977
growth in % yoy	5.5	8.5	24.1	3.1	5.2
in % of GDP	120.8	126.3	139.9	137.7	134.8
Total loans (EUR mn)	102,963	109,193	120,811	128,554	135,804
growth in % yoy	8.2	6.0	10.6	6.4	5.6
in % of GDP	60.5	61.9	61.1	62.1	61.0
Loans to private enterprises (EUR mn)	34,078	36,124	40,015	42,001	44,077
growth in % yoy	7.8	6.0	10.8	5.0	4.9
in % of GDP	20.0	20.5	20.2	20.3	19.8
Loans to households (EUR mn)	45,697	49,234	56,265	60,282	64,943
growth in % yoy	10.8	7.7	14.3	7.1	7.7
in % of GDP	26.9	27.9	28.5	29.1	29.2
Mortgage loans (EUR mn)	32,085	34,941	40,547	43,990	48,658
growth in % yoy	11.4	8.9	16.0	8.5	10.6
in % of GDP	18.9	19.8	20.5	21.3	21.9
Loans in foreign currency (EUR mn)	19,234	21,409	22,790	25,419	26,445
growth in % yoy	8.5	11.3	6.5	11.5	4.0
in % of GDP	11.3	12.1	11.5	12.3	11.9
Loans in foreign currency (% of total loans)	19	20	19	20	19
Total deposits (EUR mn)	130,286	139,423	163,239	172,847	186,529
growth in % yoy	5.0	7.0	17.1	5.9	7.9
in % of GDP	76.6	79.0	82.6	83.5	83.8
Deposits from households (EUR mn)	69,625	75,493	85,480	91,747	99,078
growth in % yoy	8.0	8.4	13.2	7.3	8.0
in % of GDP	40.9	42.8	43.3	44.3	44.5
Total loans (% of total deposits)	79	78	74	74	73
Structural information					
Number of banks	46	45	47	50	49
Market share of state-owned banks (% of total assets)	2.2	1.8	1.2	1.1	0.9
Market share of foreign-owned banks (% of total assets)	84	85	87	86	86
Profitability and efficiency					
Return on Assets (RoA)	1.2	1.3	1.1	1.1	1.2
Return on Equity (RoE)	16.8	17.9	17.1	17.6	18.1
Capital adequacy (% of risk weighted assets)	18.4	18.5	19.3	19.6	21.3
Non-performing loans (% of total loans)	6.0	4.9	4.7	3.5	2.6

Source: CNB, RBI/Raiffeisen RESEARCH

Sector weathers Covid-19 - banking taxation or not that is the question

Key economic figures and forecasts

Slovakia	2019	2020e	2021f
Nominal GDP (EUR bn)	94.2	90.1	95.4
GDP per capita (EUR)	17,276	16,504	17,441
Real GDP (% yoy)	2.3	-6.0	5.0
CPI (avg, % yoy)	2.7	2.0	1.5
Unemploy. rate (avg, %)	5.7	7.0	7.1
EUR/LCY rate (avg)	1.00	1.00	1.00

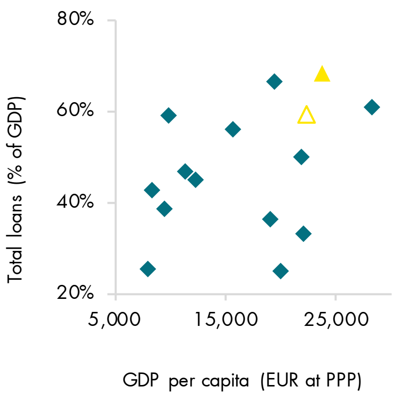
Source: national sources, wiiw, RBI/Raiffeisen RESEARCH

High frequency growth, NPLs and RoE/RoA

Slovakia	2018	2019	2020*
Loan growth[1]	9.2	6.3	5.3
Retail loans[1]	11.8	8.1	7.1
Corporate loans[1]	6.8	3.8	4.7
NPLs (% of total loans)	3.1	2.9	2.8
Retail loans[2]	2.9	2.8	2.7
Corporate loans[2]	3.7	3.3	3.2
RoE (%)	9.2	8.7	1.4
RoA (%)	0.8	0.6	0.1

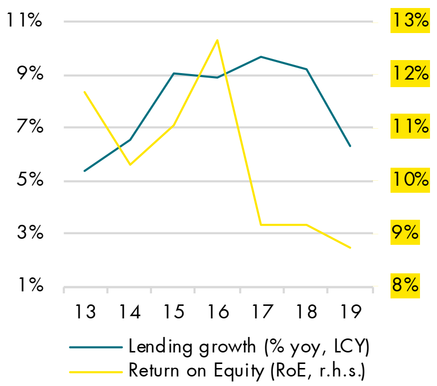
** latest available data*
1) LCY, % yoy; 2) % of total
Source: national sources, RBI/Raiffeisen RESEARCH

Total loans vs. GDP per capita



Data for 2019, yellow triangle shows Slovakia vs. all other CEE markets in 2019 and 2015 (filled and non-filled triangle)
Source: NBS, national sources, RBI/Raiffeisen RESEARCH

Lending growth & Profitability

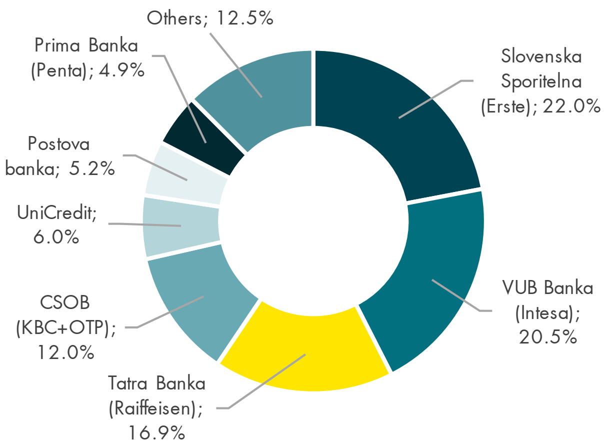


Source: NBS, RBI/Raiffeisen RESEARCH

The Slovak economy decelerated already in H2 2019, nevertheless growth of banking sector balance sheets remained strong. Although the Covid-19 crisis affected the banking sector significantly, the growth dynamic of most products remained solid, partially because of guarantee scheme programs (in the SME segment in particular). The most characteristic trend on the local market for many years is very robust growth of loans to private individuals. Steady double-digit growth for several consecutive years (from 2012 until 2019) was considered by the National Bank of Slovakia as excessive. A series of macro prudential measures has finally caused a moderate deceleration of retail and mortgage lending growth, with strong divergences in both segments. Mortgage lending growth was still in solid territory in H1 2020, while consumer lending has sharply slowed down – even before the Covid-19 crisis. We expect that consumer loans will just moderately recover from negative territory to growth close to 0% in 2021. Mortgage loans have proven to be very resilient even to the sharp recession and rising uncertainty, still posting growth at around 10% yoy. We expected a continuation of strong growth in this segment in 2020, though finally with single digit growth. Corporate loan growth has been underpinned by a state guarantee program for SMEs. We expect that temporarily slower growth in 2020 will again somewhat accelerate mainly on the back of stronger economy growth and reduced uncertainty. Customers deposits have been rising by approx. 5% recently, and we expected somewhat lower dynamics going forward. Nevertheless, banking sector is still in a comfortable liquidity position and used to manage deposits very effectively in a negative interest rate environment – that is likely to stay for the next years to come.
The 2020 recession is already mirrored in a strong increase of net provisioning in the banking sector, while NPLs still remain modest up to now. The NPL ratio remains stable at the 2.8% level up to now, while defaults are positively influenced by a loan moratorium up to 9 months. Tangible effects on the asset quality will be probably more visible in the course of 2021.
In 2020, the key regulatory issue is the future of the bank levy. In late 2019, it was expected to get to 0% in 2021. Instead, the previous government increased it to 0.4% starting in 2020 and extending it indefinitely, pushing the banking sector into an unsustainable profitability situation now and going forward. Due to the pandemic, the new government forgave the payment of the levy in H2 2020 and is expected to abolish it, while we do not have a final confirmation yet. On a positive note the CCyB was swiftly cut from 1.5% to 1%, leaving some room for further cuts if the banking sector standing/profitability would require additional support.
In February 2020, KBC announced to purchase the Slovak OTP franchise. The transaction is already approved by the Antimonopoly Office, approval by the NBS is still outstanding. After the purchase is finalized, OTP is expected to be absorbed into KBC's subsidiary in Slovakia, ČSOB. The transaction adding some 1-2% to the ~10% market share of KBC highlights the need for consolidation and market share to counterbalance negative (structural) earnings pressure.
Apart of the bank levy, the main issue of the Slovak banking sector is the impact of the recession caused by Covid-19. The first wave was very mild in Slovakia from a medical point of view, but this was only possible thanks to strict measures which impacted the whole economy. Numerous measures were introduced both to help existing debtors as well as supporting new credit growth. These measures bet on the assumption, that most of strains in the economy may stem from liquidity issues, not solvency problems. The true situation will only be revealed after the supportive measures will expire in 2021.

Financial analysts: Róbert Prega, Tibor Lörincz, Tatra banka

Market shares (2019, eop)



% of total assets
Source: NBS, financial statements, RBI/Raiffeisen RESEARCH

Key measures to support banking sector

- Moratorium for retail loans up to 9 months
- Moratorium for corporate loans
- Moratorium for leasing contracts up to 6 months
- Government guarantees of new SME loans (multiple programs)
- Moratorium for residential rents
- Memorandum between banks and government to disburse 1.5 bn EUR new loans
- Countercyclical buffer decreased to 1%

back to country overview

Key banking sector indicators

Balance sheet data	2015	2016	2017	2018	2019
Total assets (EUR mn)	67,546	71,351	75,793	80,009	84,677
growth in % yoy	7.7	5.6	6.2	5.6	5.8
in % of GDP	86.5	88.1	89.2	88.7	89.9
Total loans (EUR mn)	46,383	50,499	55,369	60,480	64,320
growth in % yoy	9.0	8.9	9.6	9.2	6.3
in % of GDP	59.4	62.4	65.2	67.0	68.3
Loans to private enterprises (EUR mn)	17,069	17,667	18,908	20,188	20,963
growth in % yoy	5.3	3.5	7.0	6.8	3.8
in % of GDP	21.9	21.8	22.2	22.4	22.3
Loans to households (EUR mn)	24,930	28,421	31,915	35,685	38,587
growth in % yoy	12.7	14.0	12.3	11.8	8.1
in % of GDP	31.9	35.1	37.6	39.6	41.0
Mortgage loans (EUR mn)	19,179	21,925	24,762	27,626	30,331
growth in % yoy	13.7	14.3	12.9	11.6	9.8
in % of GDP	24.6	27.1	29.1	30.6	32.2
Loans in foreign currency (EUR mn)	279	849	871	892	964
growth in % yoy	(56.2)	204.1	2.5	2.5	8.0
in % of GDP	0.4	1.0	1.0	1.0	1.0
Loans in foreign currency (% of total loans)	0.6	1.7	1.6	1.5	1.5
Total deposits (EUR mn)	51,029	53,418	56,381	60,164	63,217
growth in % yoy	9.3	4.7	5.5	6.7	5.1
in % of GDP	65.4	66.0	66.3	66.7	67.1
Deposits from households (EUR mn)	29,439	31,880	33,264	35,403	37,888
growth in % yoy	8.9	8.3	4.3	6.4	7.0
in % of GDP	37.7	39.4	39.1	39.2	40.2
Total loans (% of total deposits)	91	95	98	101	102
Structural information					
Number of banks	27	27	26	27	27
Market share of state-owned banks (% of total assets)	0.8	0.8	0.7	0.7	0.6
Market share of foreign-owned banks (% of total assets)	98.7	98.7	98.9	98.9	98.9
Profitability and efficiency					
Return on Assets (RoA)	1.0	0.8	0.8	0.8	0.8
Return on Equity (RoE)	11.1	12.7	9.2	9.2	8.7
Capital adequacy (% of risk weighted assets)	17.7	17.7	18.8	18.4	18.2
Non-performing loans (% of total loans)	4.9	4.5	3.7	3.1	2.9

Source: NBS, national sources, RBI/Raiffeisen RESEARCH

Sector prepared for ongoing crisis, euro will eat into profits

Key economic figures and forecasts

Croatia	2019	2020e	2021f
Nominal GDP (EUR bn)	53.9	48.9	51.5
GDP per capita (EUR)	13,284	12,099	12,860
Real GDP (% yoy)	2.9	-9.4	5.1
CPI (avg, % yoy)	0.8	0.0	0.9
Unemploy. rate (avg, %)	6.5	7.4	7.2
EUR/LCY rate (avg)	7.42	7.55	7.52

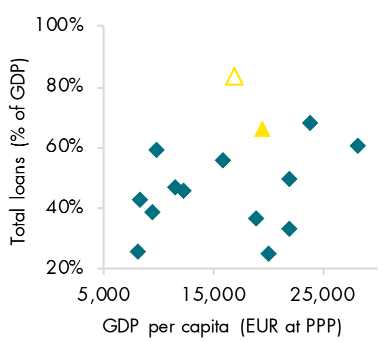
Source: national sources, wiiw, RBI/Raiffeisen RESEARCH

High frequency growth, NPLs and RoE/RoA

Croatia	2018	2019	2020*
Loan growth[1]	4.2	2.0	5.6
Retail loans[1]	6.0	6.6	-0.4
Corporate loans[1]	-0.6	-1.3	2.4
NPLs (% of total loans)	7.6	5.5	5.5
Retail loans[2]	6.9	5.9	6.5
Corporate loans[2]	20.4	13.6	13.0
RoE (%)	8.5	9.9	5.6
RoA (%)	1.6	1.2	0.9

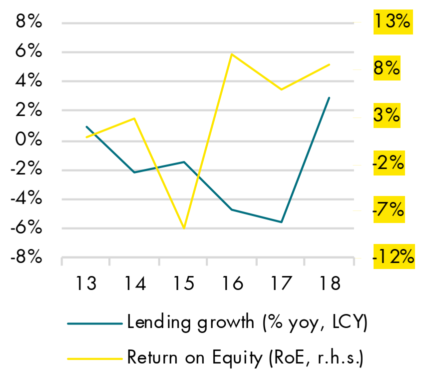
** latest available data*
1) LCY, % yoy; 2) % of total
Source: national sources, RBI/Raiffeisen RESEARCH

Total loans vs. GDP per capita



Data for 2019, yellow triangle shows Croatia vs. all other CEE markets in 2019 and 2015 (filled and non-filled triangle)
Source: CNB, national sources, RBI/Raiffeisen RESEARCH

Lending growth & Profitability

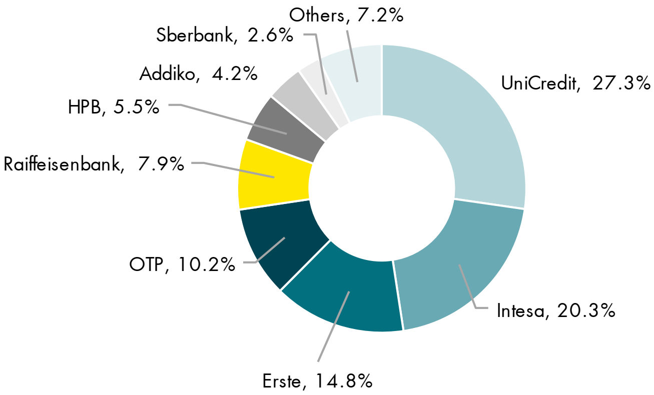


Source: CNB, RBI/Raiffeisen RESEARCH

Due to the forecasted lack of sizeable FCY inflows from tourisms HRK depreciation pressure intensified at the beginning of the spring lockdown. The CNB met increased demand for FCY in a short-term response (re-launch of FX interventions EUR 2.5 bn) and then obtained additional instruments for stabilizing HRK by contracting an FX swap with ECB (EUR 2.0 bn). Meanwhile, FCY reserves returned to pre-intervention levels and the entry into ERM II has ended FX speculations. The CNB also stabilized the demand and price of Croatian sovereign bonds through market interventions (EUR 2.1 bn). Despite reduced budget revenues the government is financially capable to implement measures to help companies in maintaining employment (EUR 1.3 bn), to refinance with EUR 1.9 bn corporate borrowing from the state development bank and other agencies or to postpone the collection of taxes and other levies (EUR 2.0 bn).
At the beginning of lockdown, the CNB lowered reserve requirements from 12% to 9%, releasing liquidity in banks by EUR 1.3 bn. Additional EUR 0.5 bn has been placed through a 5-year LTRO. Further reduction of reserves and LTRO placements are to be expected, stipulated to the achievement of monetary policy goals. Monetary easing created significant excess liquidity in the banking system. The lockdown has not influenced the moderate growth in deposits, while demand for household loans dropped visibly. Banks enabled borrowers to profit from a moratorium (3+3 months) and loan rescheduling. Since employment maintenance measures used for 1/3 of all employees helped to maintained incomes, a moratorium was agreed for only 6% of the portfolio. Consequently, regular repayment of the remaining 94% of loans and reduced requirements for new loans lead to a reduction in the loan portfolio. In contrast, the state program of subsidizing mortgage loans for young people supports household lending. For 2020 and 2021 we forecast a stagnation in the total amount of retail loans.
Demand for investment loans significantly decreased. As the government delayed the repayment of due debts for companies, banks have also offered a moratorium and rescheduling of loans. End of July 29% of the corporate loan portfolio had contracted a moratorium with a tendency to grow over 1/3 of the total portfolio recently. Delayed loan repayments, stagnation in investments and abundant supply of working capital loans have increased the liquidity in corporate segment. Consequently, corporate deposits have also increased. Since introduction of supporting measures, the excess liquidity in banking sector is stabilized at around 9% of GDP. Going forward we expect a moderate increase in demand for working capital financing loans. Hence, the expected growth of corporate loans with stagnant deposits should reduce the excess liquidity somewhat with positive impact on the interest related business in banks.
The long-standing trend of improving asset quality in the loan portfolio has changed in Q2 2020. In the continuation of 2020 and in 2021, we expect an increase in the NPL ratio for the total portfolio from a level of 5.5% up by 1.5 to 2.0 pp. On the equity side, the regulator increased the average CAR above 24% by requesting banks to the retention of profits generated in 2019. We do not expect banks to have a need to use the capital buffers, which the CNB allowed them at the beginning of lockdown. The average RoE in 2020 will probably decrease to a half of the level realized in 2019, where it should remain in 2021 as well. However, the expected profit decrease should not have a significant effect on the overall CAR. From a long-term perspective the euro area entry will add to profitability challenges. Long-term we would expect at least 10-15% of the banking sector profit pool being at risk inside the euro area.
There are 20 banks and one branch of a foreign bank left on the market. Three remaining housing saving banks become uncompetitive in the conditions of consistently low market interest rates and we would expect those banks to merge into other lenders. Mergers between some of the 13 small banks in order to benefit from economy of scale is not excluded either

Financial analyst: Anton Starčević, Raiffeisenbank Austria d.d.

Market shares (2019, eop)



% of total assets
Source: CNB, RBI/Raiffeisen RESEARCH

Key measures to support banking sector

- Minimum reserve requirement rate reduced from 12% to 9%
- 5Y LTRO
- Govt. Bond purchases
- Allowed usage of the LCR buffer beyond regulatory minimum

back to country overview

Key banking sector indicators

Balance sheet data	**2015**	**2016**	**2017**	**2018**	**2019**
Total assets (EUR mn)	52,543	52,440	53,385	56,186	58,287
growth in % yoy	(0.1)	(0.2)	1.8	5.2	3.7
in % of GDP	118.1	112.9	109.5	108.8	108.4
Total loans (EUR mn)	36,593	35,238	33,497	34,907	35,608
growth in % yoy	(1.1)	(3.7)	(4.9)	4.2	2.0
in % of GDP	82.2	75.8	68.7	67.6	66.2
Loans to private enterprises (EUR mn)	10,613	10,438	10,341	10,278	10,142
growth in % yoy	(3.5)	(1.6)	(0.9)	(0.6)	(1.3)
in % of GDP	23.9	22.5	21.2	19.9	18.9
Loans to households (EUR mn)	16,257	15,489	15,794	16,734	17,835
growth in % yoy	(1.2)	(4.7)	2.0	6.0	6.6
in % of GDP	36.5	33.3	32.4	32.4	33.2
Mortgage loans (EUR mn)	8,077	7,233	7,293	7,286	7,970
growth in % yoy	(1.9)	(10.4)	0.8	(0.1)	9.4
in % of GDP	18.2	15.6	15.0	14.1	14.8
Loans in foreign currency (EUR mn)	26,140	23,191	20,674	20,931	19,935
growth in % yoy	(4.1)	(11.3)	(10.9)	1.2	(4.8)
in % of GDP	58.8	49.9	42.4	40.5	37.1
Loans in foreign currency (% of total loans)	71	66	62	60	56
Total deposits (EUR mn)	39,405	39,600	40,633	43,392	45,013
growth in % yoy	5.2	0.5	2.6	6.8	3.7
in % of GDP	88.6	85.2	83.3	84.0	83.7
Deposits from households (EUR mn)	24,596	24,871	25,335	26,722	27,820
growth in % yoy	3.0	1.1	1.9	5.5	4.1
in % of GDP	55.3	53.5	51.9	51.8	51.8
Total loans (% of total deposits)	93	89	82	80	79
Structural information					
Number of banks	28	28	25	21	20
Market share of state-owned banks (% of total assets)	5.3	6.3	6.1	6.2	6.0
Market share of foreign-owned banks (% of total assets)	90	90	90	90	90
Profitability and efficiency					
Return on Assets (RoA)	(1.3)	1.6	1.0	1.4	1.6
Return on Equity (RoE)	(8.8)	9.6	5.9	8.5	9.9
Capital adequacy (% of risk weighted assets)	21.0	22.5	23.2	22.9	23.2
Non-performing loans (% of total loans)	16.6	12.2	8.8	7.6	5.5

Source: CNB, national sources, RBI/Raiffeisen RESEARCH

System in good shape – banking tax abolishment helps

Key economic figures and forecasts

Romania	2019	2020e	2021f
Nominal GDP (EUR bn)	223.3	215.3	227.5
GDP per capita (EUR)	11,440	11,029	11,654
Real GDP (% yoy)	4.1	-5.0	4.2
CPI (avg, % yoy)	3.8	2.8	3.0
Unemploy. rate (avg, %)	3.9	5.3	6.4
EUR/LCY rate (avg)	4.75	4.84	4.94

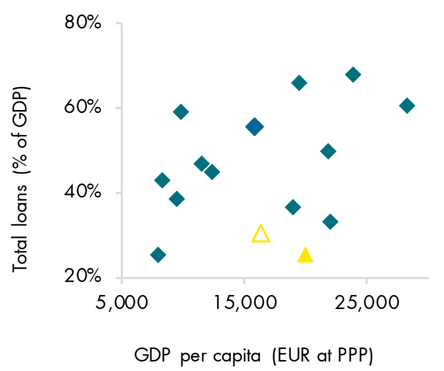
Source: national sources, wiiw, RBI/Raiffeisen RESEARCH

High frequency growth, NPLs and RoE/RoA

Romania	2018	2019	2020*
Loan growth[1]	8.0	6.3	3.9
Retail loans[1]	9.2	7.6	5.5
Corporate loans[1]	6.4	5.8	2.1
NPLs (% of total loans)	5.0	4.1	4.0 (Apr)
Retail loans[2]	4.6	3.8	3.9 (Apr)
Corporate loans[2]	8.5	7.2	7.4 (Apr)
RoE (%)	14.6	12.2	9.8
RoA (%)	1.6	1.3	1.1

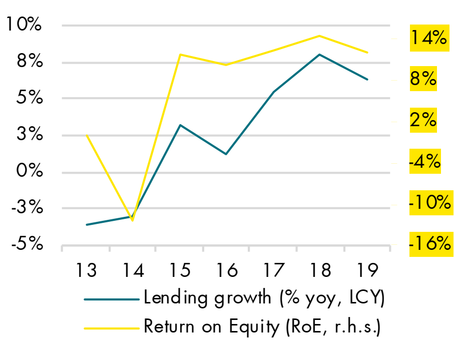
** latest available data*
1) LCY, % yoy; 2) % of total
Source: national sources, RBI/Raiffeisen RESEARCH

Total loans vs. GDP per capita



Data for 2019, yellow triangle shows Romania vs. all other CEE markets in 2019 and 2015 (filled and non-filled triangle)
Source: NBR, national sources, RBI/Raiffeisen RESEARCH

Lending growth & Profitability



Source: NBR, national sources, RBI/Raiffeisen RESEARCH

The lockdown easing resulted in a fast-short-term rebound in economic activity during May-August. Loan growth already slowed down in 2019 (+5.5% assuming a flat EUR/RON for FCY valuations), decelerating from 2018 (+7.9%). Lending lost steam in Q1 2019, following the introduction of a harsh banking levy end of 2018. After undermining prospects for banking, the levy was markedly lowered end of Mar 2019 and cancelled in Jan 2020. In order to safeguard financial stability, in Oct 2018 the NBR decided to lower the maximum level of indebtedness for individual borrowers, which also restrained households' loans advance in 2019 (+7%). Debt-service-to-income ratios for new household loans declined substantially from Oct 2018 (44.9% for consumer loans; 46.6% for housing loans) to April 2020 (36.5% both for consumer and household loans).

During the spring lockdown growth of consumer and corporate loans suffered a hefty setback but rebounded to pre-crisis levels by July. Housing loans showed a resilience to the COVID-19 outbreak (+9.6% yoy Aug). Going forward we expect more moderate dynamics due to the uncertainty surrounding the macroeconomic, employment and disposable income outlook. Going forward households' loans (+3.2% yoy Aug) are likely to increase moderately. Corporate lending is due to receive a boost in H2 2020 and 2021 from state lending programs. Guarantees are approved for loans totalling RON 28 bn (23.7% of outstanding corporate loans) to be advanced by banks to SMEs (RON 20 bn) or to large companies (RON 8 bn). Also, state guarantees covering RON 1 bn are available for factoring. Tax rebates will be provided starting 2021 to companies having their equity above minimum legal thresholds and increasing it, which could boost their bankability. Corporate lending should be also supported by crisis-related programs funded by EIB/EIF. Banks' exposure to the public sector recorded a large increase in 2020 (23.8% of gross assets as of Aug), which suggests limited space for additional gains.

A loan moratorium is valid until end-year for individuals and companies. Individual debt moratorium schemes have been made available by banks. As of 15 June, moratorium requests covered 22% of household and 28% of corporate loans. Debt moratorium schemes and consistent financial support provided by government to employees have limited the NPL surge during the first crisis months (NPLs ratio at 4.35% in Jul, up from 3.94% in Mar). We expect the NPL ratio to move upwards in the coming months/quarters. However, we would expect the NPL ratio to remain far below crisis peaks (22%). Overall, banks are well capitalized (CAR 22.8% in Jun), while NPLs are well covered by provisions (61%).

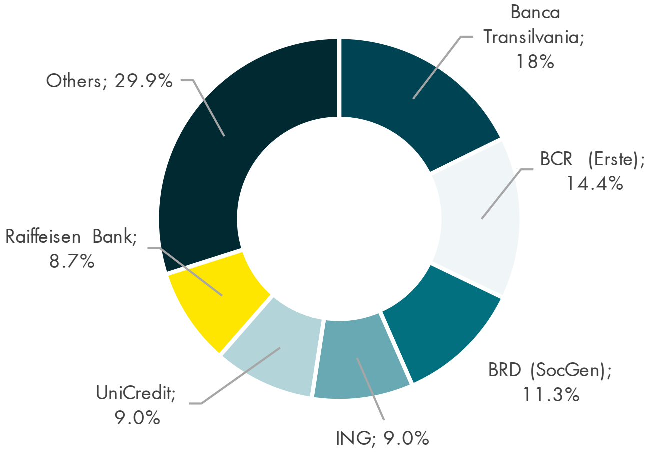
Over the past years, deposits increased faster than loans, keeping the L/D-ratio on a downward trend (68.1% in Aug). Recently, deposits of individuals (+13.2% yoy Aug) and companies (+11.9% yoy Aug) received a boost, while the reliance of banks on foreign funding is low (6.4% of gross assets in Aug, reflecting an orderly deleveraging). Elevated propensity for FCY deposits (37% of deposits in Aug) and limited origination of FCY loans fuelled the expansion of banks' foreign placements (10.5% of gross assets in Aug).

Strong competition and the need to increase efficiency should maintain alive the consolidation process (even though no major mergers/acquisitions are in the pipeline right now). At the beginning of 2020, state-owned bank EximBank completed the acquisition of Banca Romaneasca (majority owned by National Bank of Greece, having a market share of 1.3% end-2019).

A low level of financial intermediation (net banking assets at 46.7% of GDP end-2019) points to a high long-term growth potential – once there is more visibility with regards to the COVID-19 hit. However, legal risks must be discounted as well. The latter had been a concern for the banking community in recent years as several laws with a negative impact on banking have been enforced (datio in solutum law, tax on banking assets, explicit definition of hardship clause in lending contracts with individuals) or are pending (cap on interest rates in lending contracts with individuals).

Financial analyst: Nicolae Covrig, CFA; Raiffeisen BANK S.A.

Market shares (2019, eop)



% of total assets
Source: financial statements, NBR, RBI/Raiffeisen RESEARCH

Key measures to support banking sector

- Moratorium until end 2020 on loan payments for individuals & companies; NBR increased flexibility to help borrowers (delay of loan payments allowed without applying conditions related to level of indebtedness, LTV limit and maximum maturity of consumer credit)
- 100 bp rate cut (1.5% down from 2.5%), corridor defined by interest rates on deposit & credit facilities around policy rate narrowed to ±0.5 pp from ±1.0 pp resulting in larger decline of market rates
- NBR provided liquidity in repo operations and to buy RON T-bonds, to ensure functioning of markets and reduce borrowing costs (private/public sector)
- NBR allowed banks not paying dividends to temporarily use capital buffers and not to comply with minimum liquidity ratio if liquidity reserves are used to support market/economy; NBR postponed deadline for annual contributions to bank resolution fund for 2020 by 3 months, with possibility of extension to up to 6 months and delayed deadlines on resolution planning

back to country overview

Key banking sector indicators

Balance sheet data	2015	2016	2017	2018	2019
Total assets (EUR mn)	92,196	94,476	98,723	104,246	111,643
growth in % yoy	1.9	2.5	4.5	5.6	7.1
in % of GDP	58.5	56.1	53.6	51.0	50.3
Total loans (EUR mn)	48,671	49,091	50,439	54,407	56,453
growth in % yoy	2.3	0.9	2.7	7.9	3.8
in % of GDP	30.9	29.1	27.4	26.6	25.5
Loans to private enterprises (EUR mn)	23,743	22,881	22,739	24,179	24,955
growth in % yoy	(0.7)	(3.6)	(0.6)	6.3	3.2
in % of GDP	15.1	13.6	12.4	11.8	11.3
Loans to households (EUR mn)	23,891	24,922	26,171	28,543	29,971
growth in % yoy	4.7	4.3	5.0	9.1	5.0
in % of GDP	15.2	14.8	14.2	14.0	13.5
Mortgage loans (EUR mn)	11,514	12,903	14,223	15,782	17,018
growth in % yoy	15.4	12.1	10.2	11.0	7.8
in % of GDP	7.3	7.7	7.7	7.7	7.7
Loans in foreign currency (EUR mn)	24,276	21,300	19,098	18,844	18,533
growth in % yoy	(10.2)	(12.3)	(10.3)	(1.3)	(1.6)
in % of GDP	15.4	12.6	10.4	9.2	8.4
Loans in foreign currency (% of total loans)	50	43	38	35	33
Total deposits (EUR mn)	59,386	63,526	68,281	74,091	80,519
growth in % yoy	7.5	7.0	7.5	8.5	8.7
in % of GDP	37.7	37.7	37.1	36.3	36.3
Deposits from households (EUR mn)	32,640	36,146	38,327	42,320	45,995
growth in % yoy	5.3	10.7	6.0	10.4	8.7
in % of GDP	20.7	21.5	20.8	20.7	20.7
Total loans (% of total deposits)	82	77	74	73	70
Structural information					
Number of banks	35	36	34	33	33
Market share of state-owned banks (% of total assets)	8.3	8.2	8.7	8.1	8.2
Market share of foreign-owned banks (% of total assets)	90	91	77	75	74
Profitability and efficiency					
Return on Assets (RoA)	1.2	1.1	1.3	1.6	1.3
Return on Equity (RoE)	11.8	10.4	12.5	14.6	12.2
Capital adequacy (% of risk weighted assets)	19.2	19.7	20.0	20.7	22.0
Non-performing loans (% of total loans)	13.5	9.6	6.4	5.0	4.1

Source: NBR, national sources, RBI/Raiffeisen RESEARCH

Euro ante portas – consolidation & margin pressure as well

Key economic figures and forecasts

Bulgaria	2019	2020e	2021f
Nominal GDP (EUR bn)	60.7	58.8	63.6
GDP per capita (EUR)	8,720	8,491	9,239
Real GDP (% yoy)	3.3	-6.0	4.0
CPI (avg, % yoy)	3.1	2.3	2.9
Unemploy. rate (avg, %)	4.3	7.5	5.9

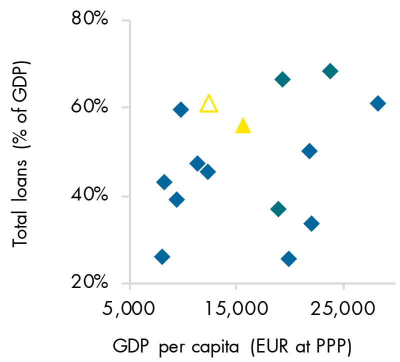
Source: national sources, wiiw, RBI/Raiffeisen RESEARCH

High frequency growth, NPLs and RoE/RoA

Bulgaria	2018	2019	2020*
Loan growth[1]	8.6	8.8	6.1
Retail loans[1]	11.6	9.6	8.2
Corporate loans[1]	7.0	8.4	4.9
NPLs (% of total loans)	7.6	6.5	8.1
Retail loans[2]	8.9	7.3	7.4
Corporate loans[2]	12.4	10.3	9.9
RoE (%)	13.3	11.8	7.1
RoA (%)	1.7	1.5	0.9

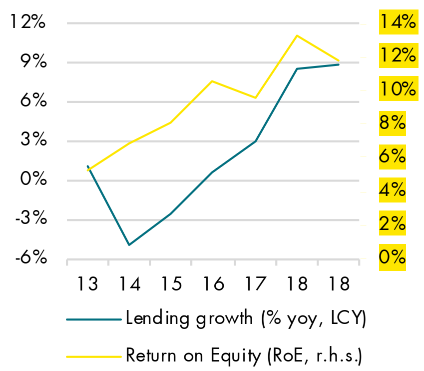
** latest available data*
1) LCY, % yoy; 2) % of total
Source: national sources, RBI/Raiffeisen RESEARCH

Total loans vs. GDP per capita



Data for 2019, yellow triangle shows Bulgaria vs. all other CEE markets in 2019 and 2015 (filled and non-filled triangle)
Source: BNB, national sources, RBI/Raiffeisen RESEARCH

Lending growth & Profitability



Source: BNB, national sources, RBI/Raiffeisen RESEARCH

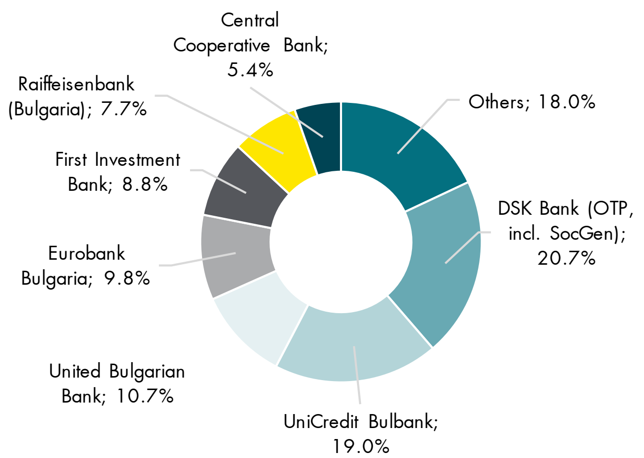
In 2019, real GDP still grew by 3.4% (3.1% for 2018) driven mainly by private consumption, while investments and public consumption remained sluggish. As a result, the growth in loans extended to businesses and households remained relatively high in 2019 (8.8% yoy), as well as the inflow of funds to the banking system (8.6% yoy rise in deposits). Loans to non-financial corporations increased by 8.4% yoy, while those to households flourished by 9.6% yoy out of which housing mortgages had a solid contribution. In 2019 tendencies for an expansion in the banking assets (by BGN 8.6 bn to BGN 114.2 bn) and improvement of their quality sustained. Thus, the share of total non-performing exposures (NPE) continued to decline reaching 6.5% (-1.1pp yoy) as of 2019. In the end, the banking sector reported a net profit of BGN 1.7 bn, with slightly shrinking RoA and RoE ratios of 1.47% and 11.64%, respectively. However, on the macrofront we are now heading for a deep recession in 2020, while some normality seems to remain in place in banking.

To counter the COVID 19 impact the BNB adopted a package of measures to support the stability of the sector worth BGN 9.3 bn, which included: full capitalization of the profit for 2019; cancellation of the increases of the CCyB in 2020 and 2021, with an effect of BGN 0.7 bn; increasing the banking system's liquidity with BGN 7.0 bn by reducing commercial banks' foreign exposures. The BNB approved the draft submitted by the Association of Banks in Bulgaria (ABB) of a Procedure for Deferral and Settlement of Liabilities Payable to Banks and their Subsidiaries. After its approval, the document constitutes a private moratorium within the meaning of the Guidelines of the European Banking Authority on legislative and non-legislative moratoria on loan repayments applied in the light of the COVID-19 crisis. Although real GDP dropped by 4.2% yoy in H1 2020 the banking sector performed relatively well. Corporate loans remained nearly at Dec. 19 levels, households' loans increased by 2.8% (Jun.20/Dec19). Similarly, corporate deposits endured almost at Dec.19 level whereas deposits from households increased by 2.6% (Jun.20/Dec19). As expected, the profit of the sector shrank; however, banks still realized BGN 515.2 mn net profit as of H1 2020 (BGN 917.9 mn as of H1 2019), preserving their stability as NPLs increased moderately to 8.1%. In this period a total of 118 584 applications were filed for liabilities with gross carrying amount of BGN 9.8 bn, of which 98 499 applications for BGN 8.1 bn were approved. Overall, the sector showed a slightly more positive performance than expected in H1 2020. In this regard, we expect weak rise by 0.5% yoy in both corporate loans and deposits in 2020 while on the side of the households' loans and deposits growth rates of 2.5% yoy and 5.5% yoy, respectively, are considered.

In 2019 the ECB conducted a review of assets quality review (AQR) and stress tested six systematically important Bulgarian banks in connection with the country's application for an accession into the banking union and the waiting room of the euro area (ERM II). There is a realistic perspective to finally join the euro area over the next 2 1/2 to 3 years – if local inflationary pressure will be contained. However, mid-term the euro area entry may put some 10% of the profits under significant margin pressure. This outlook is another catalyst for consolidation – already visible in recent years. In 2019 the process of consolidation in the banking industry continued, as DSK Bank (OTP) acquired Societe Generale Expressbank and Piraeus Bank Bulgaria AD was acquired by Eurobank Bulgaria AD. During the year there were no significant changes in the global market shares: the relative share of the locally owned banks decreased to 21.8%, whereas those of subsidiaries and branches of EU lenders increased to 75.0%. Thus, the market share of banks and bank branches from non-EU countries amounted to only 3.2%.

Financial analyst: Emil S. Kalchev; Raiffeisenbank (Bulgaria) EAD

Market shares (2019, eop)



% of total assets
Source: BNB, RBI/Raiffeisen RESEARCH

Key measures to support banking sector

- Entire package of measures of the BNB worth BGN 9.3 bn:
- Full capitalization of the banking system's profit amounting to BGN 1.6 bn
- Cancellation of the increases of the countercyclical capital buffer, scheduled for 2020 and 2021, with an effect of BGN 0.7 bn
- Increasing the banking system's liquidity with BGN 7 bn by reducing commercial banks' foreign exposures

back to country overview

Key banking sector indicators

Balance sheet data	**2015**	**2016**	**2017**	**2018**	**2019**
Total assets (EUR mn)	44,750	47,087	50,008	53,970	58,390
growth in % yoy	2.8	5.2	6.2	7.9	8.2
in % of GDP	98.8	97.8	96.8	97.8	96.2
Total loans (EUR mn)	27,671	27,849	28,675	31,142	33,895
growth in % yoy	(2.6)	0.6	3.0	8.6	8.8
in % of GDP	61.1	57.9	55.5	56.4	55.9
Loans to private enterprises (EUR mn)	18,309	18,351	18,557	19,855	21,525
growth in % yoy	(4.0)	0.2	1.1	7.0	8.4
in % of GDP	40.4	38.1	35.9	36.0	35.5
Loans to households (EUR mn)	9,363	9,497	10,118	11,287	12,370
growth in % yoy	0.1	1.4	6.5	11.6	9.6
in % of GDP	20.7	19.7	19.6	20.5	20.4
Mortgage loans (EUR mn)	4,391	4,485	4,993	5,625	6,385
growth in % yoy	(7.7)	2.1	11.3	12.7	13.5
in % of GDP	9.7	9.3	9.7	10.2	10.5
Loans in foreign currency (EUR mn)	14,041	12,669	11,029	11,291	11,713
growth in % yoy	(13.3)	(9.8)	(12.9)	2.4	3.7
in % of GDP	31.1	26.3	21.3	20.5	19.3
Loans in foreign currency (% of total loans)	51	45	38	36	35
Total deposits (EUR mn)	35,420	37,902	40,088	43,241	46,964
growth in % yoy	8.7	7.0	5.8	7.9	8.6
in % of GDP	78.2	78.8	77.6	78.4	77.4
Deposits from households (EUR mn)	22,705	24,131	25,286	27,294	29,459
growth in % yoy	8.3	6.3	4.8	7.9	7.9
in % of GDP	50.1	50.1	48.9	49.5	48.6
Total loans (% of total deposits)	78	73	72	72	72
Structural information					
Number of banks	28.0	27.0	27.0	25.0	19.0
Market share of state-owned banks (% of total assets)	3.2	3.5	4.1	4.4	4.8
Market share of foreign-owned banks (% of total assets)	76.4	76.5	76.8	76.2	78.2
Profitability and efficiency					
Return on Assets (RoA)	1.05	1.40	1.25	1.66	1.53
Return on Equity (RoE)	8.11	10.60	9.60	13.31	11.81
Capital adequacy (% of risk weighted assets)	22.2	22.2	22.1	20.4	20.2
Non-performing loans (% of total loans)	20.36	18.28	14.8	11.3	9.4

**Total loans exclude exposures to Financial Institutions and Central Banks*
Source: BNB, national sources, RBI/Raiffeisen RESEARCH

Policy-induced growth on 2019 M&A hotspot market

Key economic figures and forecasts

Serbia	2019	2020e	2021f
Nominal GDP (EUR bn)	45.9	46.1	49.4
GDP per capita (EUR)	6,593	6,639	7,145
Real GDP (% yoy)	4.2	-4.0	4.5
CPI (avg, % yoy)	1.9	1.8	2.1
Unemploy. rate (avg, %)	10.5	15.5	13.5
EUR/LCY rate (avg)	117.83	117.70	117.96

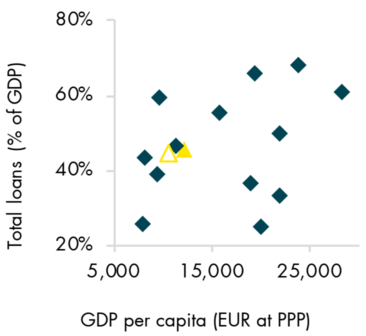
Source: national sources, wiiw, RBI/Raiffeisen RESEARCH

High frequency growth, NPLs and RoE/RoA

Serbia	2018	2019	2020*
Loan growth[1]			
Retail loans[1]	10.5	12.1	12.6
Corporate loans[1]	3.4	13.4	15.9
NPLs (% of total loans)			
Retail loans[2]	4.4	3.9	3.8
Corporate loans[2]	5.2	3.3	2.8
RoE (%)	10.7	9.8	n.a.
RoA (%)	2.1	1.7	n.a.

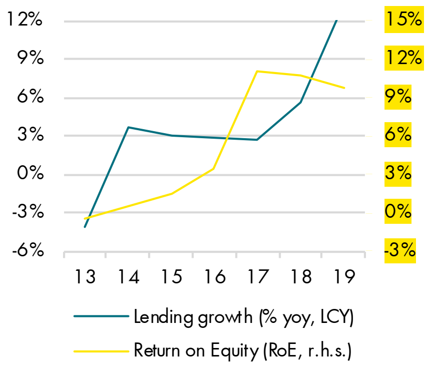
** latest available data*
1) LCY, % yoy; 2) % of total
Source: national sources, RBI/Raiffeisen RESEARCH

Total loans vs. GDP per capita



Data for 2019, yellow triangle shows Serbia vs. all other CEE markets in 2019 and 2015 (filled and non-filled triangle)
Source: NBS, national sources, RBI/Raiffeisen RESEARCH

Lending growth & Profitability



Source: NBS, national sources, RBI/Raiffeisen RESEARCH

Credit growth was boosted by solid GDP growth in 2019 (+4.1%). Total credit activity was somewhat lower (+9.1%) compared with 2018 (+9.8%) due to slowing retail lending. Corporate loans grew by 7.9% (2018: 7.1%), while retail loan growth slowed down to 9.3% in 2019 after 12.5% in 2018. Thanks to credit growth, as well as the strategy of solving non-performing loans, the NPL ratio continued falling to 4.1% in 2019 (2018; 5.7%). The corporate NPL was also declining to 3.3% in 2019 (2018: 5.2%), as well as the retail NPL to 3.9% 2019 (2018: 4.4%).

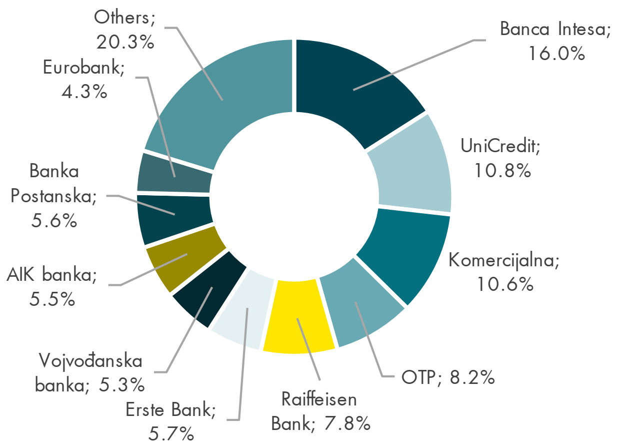
NBS and government brought a set of measures to help banks go through the COVID-19 crisis which broke out in March. One of the important measures is bank's lending with state guarantee attached. The state set aside EUR 2 bn for this purpose and in three months banks approved around EUR 1 bn loans, largely to micro enterprises. Liquidity loans under the guarantee scheme are approved for a period of up to 3 years, including a 9-12 monthd grace period. The maximum amount of the state guaranteed for a covered portfolio is EUR 480 mn. For the time being, supported by crisis measures, lending grew by 13.2% yoy in June and both corporate and retail lending post double digit growth. We expect this trend to continue for the next few months supported by the second government program and NBS measures. Bank's lending with the state guarantee, three-months moratorium and lowered base rate, supported corporate lending surging by 15.9% in June 2020, where the growth was largely investment lending driven. Corporate NLP's bottomed at 2.8% in June, though partially it was debt moratorium supported. The debt moratorium and favorable pricing backed retail lending (June: +12.6%), as retail NPL continued declining to 3.8% in June. The demand dropped in Q2, partially due to the lockdown in spring and employment uncertainties. Bank's expect retail demand recovery in the period ahead amid the government and NBS stimuli measures.

Total deposit growth slowed down significantly in 2019 (+EUR 1.8 bn) compared to 2018 (+EUR 2.7 bn), due to declining deposits from public companies in 2019. Private individuals' deposits marked a record growth in the 2019 (+EUR 1.5 bn) after EUR 1.0 bn of new deposits collected in 2018. Corporate deposits soared by 36.2% in June 2020 (June 19: +16.9%) probably amid the government cash payments of the three minimal wages but also from lending burst, as the deposits dynamics corresponds to the government support. Retail deposits grew at an uninterrupted pace in June (+12.4% yoy) similar to last year (June 19: +10.8%).

The government solved the long-standing problem with mortgage loans indexed to CHF by adopting a special Law according to which the remainder of the debt should be converted into EUR and the converted amount reduced by 38%. The interest rate is limited to 3.4% plus 3M or 6M EURIBOR. The government will bear 15% of the loan principal conversion costs. The long-awaited privatization process of Komercijalna banka was completed at the end of 2019 and Slovenian Nova Ljubljanska Banka (NLB) was ranked as the highest bidder. As concerns the consolidation of the banking industry, OTP bank merged with Societe Generale and changed its name to OTP banka Srbija. Apart from that, we do not expect any important M&A developments on the market in the near-term.

Financial analyst: Ljiljana Grubic, Raiffeisenbank a.d. Serbia

Market shares (2019, eop)



% of total assets
Source: NBS, RBI/Raiffeisen RESEARCH

Key measures to support banking sector

- Moratorium on loan repayments for all borrowers (retail, farmers, entrepreneurs, and companies) which lasted from April until end June
- Moratorium on loan repayments for all borrowers re-introduced for August and September installments (loans, overdrafts, credit cards and leasing).
- Repayment for cash and consumer loans, incl. loans for purchasing vehicles and settling overdraft that were approved before 18 March 2020 can be extended by another two years
- Degree of the residential completeness (in order to qualify for the mortgage loans) has been reduced to 60% from 80% if this is the project financing of other bank and lower if this is the project financing of the Construction directorate of Serbia; tenors of mortgage loans can be extended for max 5 years and the customer can be approved up to RSD 90 ths, 2years cash loans even if it is not bank's client
- Minimal down-payment for mortgage loans was cut to 10% down from 20%

back to country overview

Key banking sector indicators

Balance sheet data	**2015**	**2016**	**2017**	**2018**	**2019**
Total assets (EUR mn)	28,177	29,106	30,378	33,600	36,359
growth in % yoy	3.1	3.3	4.4	10.6	8.2
in % of GDP	79.5	79.5	75.7	78.4	79.0
Total loans (EUR mn)	15,895	16,109	17,255	18,277	20,819
growth in % yoy	2.41	1.35	7.11	5.92	13.91
in % of GDP	44.8	44.0	43.0	42.6	45.2
Loans to private enterprises (EUR mn)	7,951	8,003	8,459	8,750	9,923
growth in % yoy	1.97	0.66	5.69	3.44	13.41
in % of GDP	22.4	21.9	21.1	20.4	21.6
Loans to households (EUR mn)	6,183	6,737	7,598	8,396	9,414
growth in % yoy	4.22	8.96	12.77	10.50	12.13
in % of GDP	17.4	18.4	18.9	19.6	20.5
Mortgage loans (EUR mn)	3,031	3,089	3,196	3,370	3,505
growth in % yoy	1.9	1.9	3.5	5.4	4.0
in % of GDP	8.6	8.4	8.0	7.9	7.6
Loans in foreign currency (EUR mn)	11,265	10,952	11,358	12,070	13,666
growth in % yoy	6.3	(2.8)	3.7	6.3	13.2
in % of GDP	31.8	29.9	28.3	28.1	29.7
Loans in foreign currency (% of total loans)	71	68	66	66	66
Total deposits (EUR mn)	14,787	16,159	17,404	20,109	21,923
growth in % yoy	5.9	9.3	7.7	15.5	9.0
in % of GDP	41.7	44.1	43.4	46.9	47.6
Deposits from households (EUR mn)	9,583	10,189	10,770	11,438	13,255
growth in % yoy	2.9	6.3	5.7	6.2	15.9
in % of GDP	27.0	27.8	26.8	26.7	28.8
Total loans (% of total deposits)	107	100	99	91	95
Structural information					
Number of banks	31	30	29	28	26
Market share of state-owned banks (% of total assets)	17.9	18.1	16.4	16.4	24.3
Market share of foreign-owned banks (% of total assets)	76	76	76	77	76
Profitability and efficiency					
Return on Assets (RoA)	0.3	0.7	2.2	2.1	1.7
Return on Equity (RoE)	1.6	3.4	11.0	10.7	9.8
Capital adequacy (% of risk weighted assets)	20.9	21.8	22.6	22.8	23.4
Non-performing loans (% of total loans)	21.6	17.0	9.8	6.4	4.1

Source: NBS, national sources, IMF, RBI/Raiffeisen RESEARCH

Retail loans as a stabilizer – so far

Key economic figures and forecasts

Bosnia a.H.	2019	2020e	2021f
Nominal GDP (EUR bn)	18.0	17.6	18.5
GDP per capita (EUR)	5,009	5,029	5,301
Real GDP (% yoy)	2.6	-5.2	3.0
CPI (avg, % yoy)	0.6	-0.5	1.3
Unemploy. rate (avg, %)	15.7	17.5	16.3

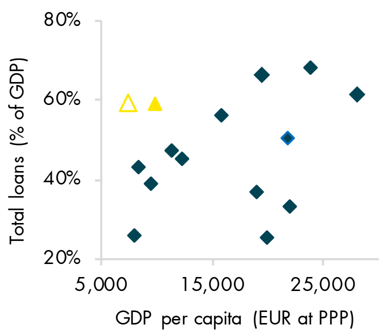
Source: national sources, wiiw, RBI/Raiffeisen RESEARCH

High frequency growth, NPLs and RoE/RoA

Bosnia a.H.	2018	2019	2020*
Loan growth[1]	5.8	6.6	0.9
Retail loans[1]	7.3	7.9	1.5
Corporate loans[1]	3.7	5.4	-1.1
NPLs (% of total loans)	8.8	7.4	6.7
Retail loans[2]	6.5	8.8	7.6
Corporate loans[2]	10.8	5.9	5.4
RoE (%)	9.6	10.4	7.3
RoA (%)	1.3	1.4	0.9

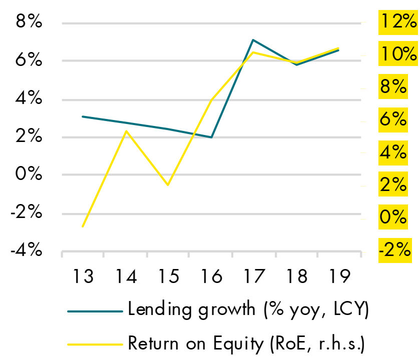
** latest available data*
1) LCY, % yoy; 2) % of total
Source: national sources, RBI/Raiffeisen RESEARCH

Total loans vs. GDP per capita



Data for 2019, yellow triangle shows Bosnia a.H. vs. all other CEE markets in 2019 and 2015 (filled and non-filled triangle)
Source: CBBH, national sources, RBI/Raiffeisen RESEARCH

Lending growth & Profitability



Source: CBBH, RBI/Raiffeisen RESEARCH

In 2019, before the COVID-19 outbreak, the economy decelerated compared to average growth dynamics of previous years. Growth was mainly driven by private consumption, export-oriented sectors already showed first signs of recessionary trends. Despite some cooling down in real sector dynamics, the local banking sector saw vigorous growth in 2019 stronger than in 2017/2018. Total assets grew by 7.8% yoy, reaching a new all-time high of BAM 33.4 bn (95.3% of GDP). Total loans grew by 6.6% yoy driven by tradition in the retail segment (7.9% yoy) and consumer loans. Overall, the loan books advanced further in favour of retail (48.4%) vs. corporate lending (45.3%). That said the retail segment proved to be less sensitive to economic risks up to now and showed a better asset quality performance during recent crisis. With regards to the first impacts of COVID-19 it became obvious that asset and loan growth almost stalled during the initial crisis phase. Overall loan growth managed to remain merely in positive territory with 0.6% yoy in August 2020. Corporate loans declined by –1.4% yoy as of August 2020. Retail lending was also strongly hit, as growth was 2.5 times lower in August 2020 than at the beginning of the year (with 1.1% yoy growth). Loans to the public sector reported a striking acceleration, up by 12.4% yoy (August-2020).

For the full year 2020 we expect a slight rebound of loan growth to ~2% yoy due to slow effectiveness and implementation of Guarantee scheme programs for SMEs&Corporates. If the Guarantee scheme is implemented in Q4 2020 corporate lending is expected to revive again into a positive single-digit area of 2-3% yoy. In 2021 we expect an acceleration of the loan growth up to 4% yoy, with retail lending being at the forefront of expected dynamics (4-5% yoy). In the corporate segment growth is expected to remain in a range of 3.5-4% yoy. Deposit growth remained robust in 2019 (9.5% yoy) driven by steady retail deposit collection. Moreover, we have seen a public sector deposit inflow as the consolidated government reported a surplus for the third year in a row. Corporate deposits also reported a robust 7% yoy growth in 2019. However, COVID-19 crisis also caused substantial slow-down of deposit growth, where we see two times lower growth currently (4.4% yoy).

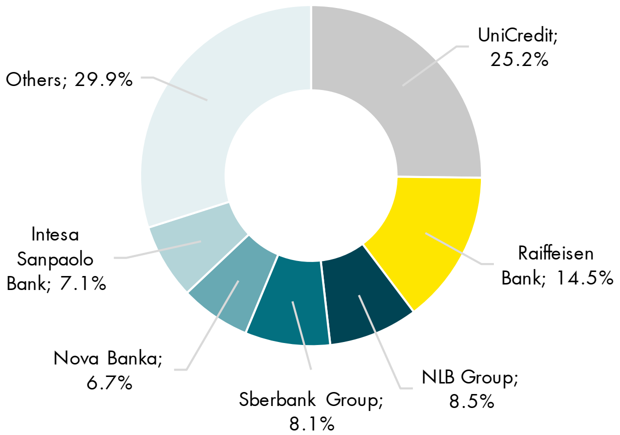
The NPL level bottomed out in Q1 2020 at 6.6%. After the first COVID-19 hit as of Q2 2020 the NPL ratio inched higher (6.7%). We expect the true asset quality deterioration to be visible in H2 2021, following the (likely) expiration of the 2nd wave moratorium introduced early Sep-20. The NPL ratio should remain in a range up to 7% until 2020, in H2 2021 we expect an increase up to 10-12%.

The COVID-19 crisis caused substantive policy responses. Namely, at the entity level banking sector regulators enabled a moratorium as of April 2020 and made it available to the private sector until end of Aug 2020. As of Jul-20 20% of the loan portfolio or EUR 2 bn was under the moratorium (72% requested by legal entities). However, due to inefficient mechanisms and a time-lag of the fiscal response, banking sector regulators decided beginning of Sep-20 to prolong the moratorium. For the 2nd moratorium clients will be able to submit requests until end of Dec-20 and to opt between two options: six-month moratorium or 12 months of grace period. These measures will have a dramatic impact on interest revenues and overall profitability in 2020 and 2021, while in H1 2020 profits were already down by 37%.

The banking sector is highly concentrated and dominated by top 3 banks/groups which hold 50% of assets (UniCredit, Raiffeisen and NLB Group, the top three players since 2014). As of H1 2020, 23 banks are operating on the market, a high level for such a small market. However, in H2 2020 we expect further consolidation to 21 banks operating after the completion of the M&A process of two local banks (ASA banka and Vakufska banka) and by the merger of NLB banka and Komercijalna. We expect a continuation of the consolidation processes in the market in 2021-2022 period.

Financial analyst: Ivona Zametica, Raiffeisen BANK d.d. Bosnia and Herzegovina

Market shares (2019, eop)



% of total assets
Source: CBBH, Raiffeisen RESEARCH

Key measures to support banking sector

- Wave 1: Moratorium for the private sector support – April 2020 until end August 2020
- Relaxation of the maturity and currency miss-match in the banking sector – April 2020
- Wave 2: Prolongation of the moratorium period for additional 6 months and grace period for 12 months from August 2020

back to country overview

Key banking sector indicators

Balance sheet data	**2015**	**2016**	**2017**	**2018**	**2019**
Total assets (EUR mn)	12,754.9	13,343.6	14,440.2	15,828.4	17,067.4
growth in % yoy	3.7	4.6	8.2	9.6	7.8
in % of GDP	87.3	87.3	90.0	94.4	95.3
Total loans (EUR mn)	8,623	8,795	9,419	9,963	10,621
growth in % yoy	2.4	2.0	7.1	5.8	6.6
in % of GDP	59.0	57.5	58.7	59.4	59.3
Loans to private enterprises (EUR mn)	3,793	3,939	4,254	4,409	4,619
growth in % yoy	(0.0)	3.9	8.0	3.6	4.8
in % of GDP	25.9	25.8	26.5	26.3	25.8
Loans to households (EUR mn)	3,980	4,129	4,404	4,725	5,100
growth in % yoy	4.8	3.8	6.7	7.3	7.9
in % of GDP	27.2	27.0	27.5	28.2	28.5
Loans in foreign currency (EUR mn)	5,680	5,372	5,618	5,570	5,512
growth in % yoy	2.1	(5.4)	4.6	(0.8)	(1.0)
in % of GDP	38.9	35.1	35.0	33.2	30.8
Loans in foreign currency (% of total Loans)	65.9	61.1	59.6	55.9	51.9
Total deposits (EUR mn)	8,451	9,076	10,057	11,121	12,179
growth in % yoy	7.5	7.4	10.8	10.6	9.5
in % of GDP	57.8	59.4	62.7	66.4	68.0
Deposits from households (EUR mn)	5,043	5,451	5,763	6,210	6,770
growth in % yoy	9.1	8.1	5.7	7.8	9.0
in % of GDP	34.5	35.7	35.9	37.1	37.8
Total loans (% of total deposits)	102	97	94	90	87
Structural information					
Number of banks	26	23	23	23	23
Market share of state owned banks (% of total assets)	2.9	2.1	1.4	2.4	2.6
Market share of foreign owned banks (% of total assets)	84	86	86	85	84
Profitability and efficiency					
Return on Assets (RoA)	0.3	1.1	1.5	1.3	1.4
Return on Equity (RoE)	2.0	7.3	10.2	9.6	10.4
Capital adequacy (% of risk weighted assets)	14.9	15.8	15.7	17.5	18.0
Non-performing loans (% of total loans)	13.7	11.8	10.0	8.8	7.4

Source: CBBH, RBI/Raiffeisen RESEARCH

Modest COVID-19 shock up to now

Key economic figures and forecasts

Albania	2019	2020e	2021f
Nominal GDP (EUR bn)	13.7	12.7	13.7
GDP per capita (EUR)	4,784	4,446	4,797
Real GDP (% yoy)	2.2	-6.5	5.0
CPI (avg, % yoy)	1.4	2.0	2.3
Unemploy. rate (avg, %)	11.2	14.5	13.0
EUR/LCY rate (avg)	123.02	124.58	123.25

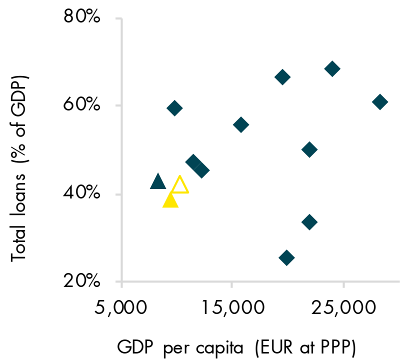
Source: national sources, wiiw, RBI/Raiffeisen RESEARCH

High frequency growth, NPLs and RoE/RoA

Albania	2018	2019	2020*
Loan growth[1]	-3.2	9.3	11.3
Retail loans[1]	3.9	7.8	7.3
Corporate loans[1]	-6.5	10.1	13.2
NPLs (% of total loans)	11.1	8.4	8.1
Retail loans[2]	5.9	4.8	8.1
Corporate loans[2]	12.4	9.9	5.4
RoE (%)	13.0	13.5	9.1
RoA (%)	1.2	1.5	1.0

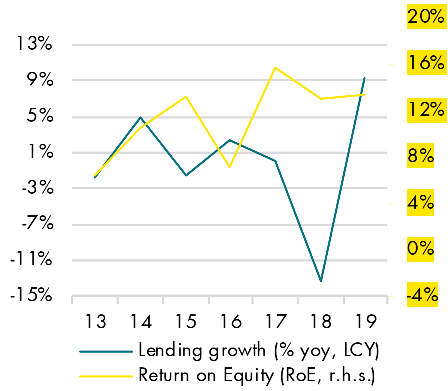
** latest available data*
1) LCY, % yoy; 2) % of total
Source: national sources, RBI/Raiffeisen RESEARCH

Total loans vs. GDP per capita



Data for 2019, yellow triangle shows Albania vs. all other CEE markets in 2019 and 2015 (filled and non-filled triangle)
Source: NBA, national sources, RBI/Raiffeisen RESEARCH

Lending growth & Profitability



Source: NBA, RBI/Raiffeisen RESEARCH

GDP growth almost halved in 2019 (down to 2.2% from 4.1% 2018) due to low energy production from hydropower plants and the earthquake shock in Q4. Now the economy is heading for a deep recession. In 2019, banking assets expanded by 1.6% yoy, notwithstanding regulatory write-offs, while investments in securities had a positive impact (5.1% yoy). Deposits increased by 5.4% yoy. Persistent low interest rates were reflected in a 12.9% yoy growth of current accounts, while term deposits decreased by 0.6% yoy in 2019. When write-offs and FX fluctuations are excluded, banks were active in lending in 2019, posting a loan growth of 9.3% yoy (-3.2% in 2018). Most of the new loans had been issued in the corporate segment (73% of total new loans). In 2019, growth continued to be faster for loans denominated in LCY (9.5% yoy), reflecting expansionary monetary policy and regulation favoring LCY loans. Hence, the share of FCY continued its downtrend to 48.6% of total loans in 2019. Taking into consideration government measures to help the companies overcome the pandemic situation, and the end of lockdown measures with the return of demand for loans, we anticipate the credit growth of 8-9% in 2020. This will be supported by postponement of loan instalments, sovereign guarantees of ~EUR 210 mn and an expected increase of credit demand in H2 2020.

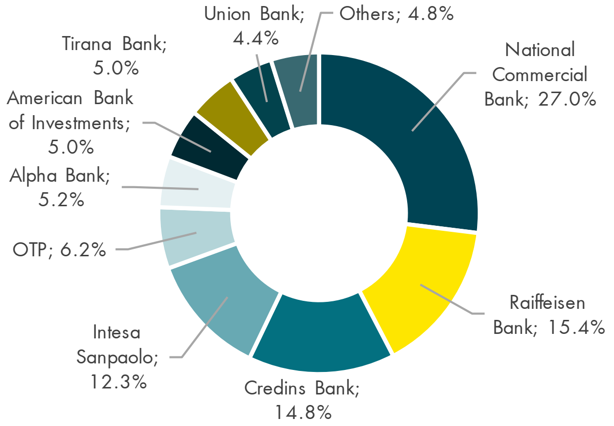
For the first time in ten years, the NPL ratio improved to a single-digit level in 2019. During 2019, the legal framework for implementation of the Tirana Approach Project was enhanced, which encourages out of court collaboration between banks and borrowers in financial difficulty. Furthermore, the regulatory change that obliges banks to remove from their balance sheets loans classified as lost for more than 2 years (from 3 years in previous regulation) is expected to contribute to a further decline of NPL. On the other hand, the pandemic could cause an asset quality deterioration in 2020. So far, a 6-months moratorium to postpone loan instalments has helped to maintain a decent NPL level. About 25,000 customers for a total of EUR 2.0 bn asked for a temporary relief in the second extension in the June-August 2020 period. However, starting from September the moratorium was terminated and normal loan repayments restarted.

Despite the pandemic, even in 2020 the banking sector continued its expansion marking an annual growth of 7.4% yoy (July 2020). Adjusted for written-off loans and FX impacts total loans posted an growth of 11.3% yoy end of July. Loans to enterprises registered a growth of 13.2% yoy in Q2 2020, despite tighter lending standards. The decline of credit demand seems to have been compensated by a guarantee scheme offering favorable conditions to businesses. The NPL ratio stood at 8.1% (end of July 2020) down from 8.2% in March 2020. However, the moratorium in place may not reflect the real NPL figures. The annual growth of total deposits was significant, at 6.4% yoy, also due to lockdown measures in Q2 2020. The banking sector had a good financial performance with a net profit of EUR 163.4 mn in 2019, 8.2% higher than in 2018. It remained healthy with capital adequacy and liquidity ratios significantly above the regulatory requirements. The RoE remained in double-digit territory (13.45%), although the low rates environment continues to put pressure on NII of the banks. In 2020 the banking system was still profitable in Q2 2020 with a total of EUR 59.1 mn net profit.

Consolidation continued in 2019, bringing the number of banks operating to 12. In 2019, most of the shares of Tirana Bank were transferred from Piraeus Bank to Balfin Group (the largest conglomerate in Albania) and shares of SocGen Albania were transferred to OTP Bank. Furthermore, International Commercial Bank (a small Malaysian bank) was fully absorbed by a relatively small local lender (Union Bank and Credit Bank Albania). Consolidation increased the presence of domestic capital in the banking system. Currently, 4 banks operate with local majority shareholders (29.2% of assets).

Financial analyst: Valbona Gjeka, Raiffeisen Bank Sh.a.

Market shares (2019, eop)



% of total assets
Source: NBA, RBI/Raiffeisen RESEARCH

Key measures to support banking sector

- Base rate cut by 50bp to new low 0.5%; overnight lending rate cut by 100 bp to 0.9%. Weekly liquidity injections changed from limited allocations to fix price auctions with unlimited amounts.
- Moratorium to postpone payments of loan instalments without penalties was in place from March 18 to August 31 suspending loans classification and provisioning for this period.
- Banks can restructure loans within 2020 without additional provisioning or downgrades of borrowers' status.
- Albanian gov. debt securities in FCY issued in 2020 will be weighted by 0% (investments of banks in these securities) for RWA calculations; treatment to be applicable till maturity.
- ECB & BoA agreed a repo line to provide EUR liquidity to Albanian financial institutions; BoA will be able to borrow up to EUR 400 mn from ECB; repo line to remain in place until end of June 2021, unless extension is decided.

back to country overview

Key banking sector indicators

Balance sheet data	2015	2016	2017	2018	2019
Total assets (EUR mn)	9,600	10,407	10,871	11,772	12,118
growth in % yoy	4.0	8.4	4.5	8.3	2.9
in % of GDP	91.9	95.6	93.2	88.2	87.9
Total loans (EUR mn)	4,268	4,440	4,520	4,224	4,681
growth in % yoy	0.5	4.0	1.8	(6.5)	10.8
in % of GDP	40.9	40.8	38.7	31.6	34.0
Loans to private enterprises (EUR mn)	2,928	2,980	2,959	2,872	1,477
growth in % yoy	(0.9)	1.8	(0.7)	(2.9)	(48.6)
in % of GDP	28.0	27.4	25.4	21.5	10.7
Loans to households (EUR mn)	1,126	1,247	1,339	1,352	9,275
growth in % yoy	4.1	10.8	7.3	1.0	586.2
in % of GDP	10.8	11.5	11.5	10.1	10.7
Mortgage loans (EUR mn)	773	782	812	743	830
growth in % yoy	(2.9)	1.2	3.8	(8.5)	11.8
in % of GDP	7.4	7.2	7.0	5.6	6.0
Loans in foreign currency (EUR mn)	2,596	2,604	2,572	2,056	2,275
growth in % yoy	(2.0)	0.3	(1.2)	(20.1)	10.7
in % of GDP	65.3	65.6	62.6	55.1	57.1
Loans in foreign currency (% of total credits)	61	59	57	49	49
Total deposits (EUR mn)	8,015	8,561	8,768	8,684	9,275
growth in % yoy	4.8	6.8	2.4	(1.0)	6.8
in % of GDP	76.7	78.6	75.1	65.1	67.3
Deposits from households (EUR mn)	6,822	7,143	7,299	7,361	7,875
growth in % yoy	4.1	4.7	2.2	0.9	7.0
in % of GDP	65.3	65.6	62.6	55.1	57.1
Total loans (% of total deposits)	53	52	52	49	50
Structural information, profitability and efficiency					
Number of banks	16	16	16	14	12
Market share of foreign owned banks (% of total assets)	86	85	78	78	71
Profitability and efficiency					
Return on Assets (RoA)	1.2	0.7	1.5	1.2	13.5
Return on Equity (RoE)	13.2	7.2	15.7	13.0	13.5
Capital adequacy (% of risk weighted assets)	15.7	15.7	16.6	18.2	18.3
Non-performing loans (% of total loans)	18.2	18.3	13.2	11.1	8.4

Source: NBA, national sources, RBI/Raiffeisen RESEARCH

Double-digit growth – even under COVID-19?

Key economic figures and forecasts

Kosovo	2019	2020e	2021f
Nominal GDP (EUR bn)	7.1	6.8	7.2
GDP per capita (EUR)	3959	3743	4014
Real GDP (% yoy)	2.1	-1.2	-3.0
CPI (avg, % yoy)	2.7	0.8	1.7
Unemploy. rate (avg, %)	25.7	31.5	30.5-

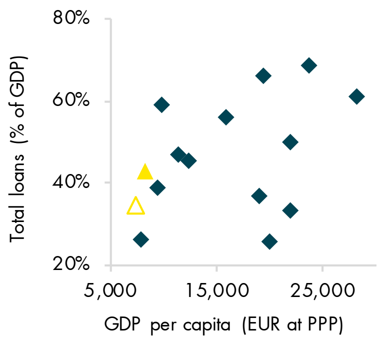
Source: national sources, wiiw, RBI/Raiffeisen RESEARCH

High frequency growth, NPLs and RoE/RoA

Kosovo	2018	2019	2020*
Loan growth[1]	10.9	10.0	6.4
Retail loans[1]	10.8	9.4	6.8
Corporate loans[1]	11.2	10.4	6.3
NPLs (% of total loans)	2.7	2.0	2.6
Retail loans[2]			2.7
Corporate loans[2]			2.2
RoE (%)	20.2	18.9	16.8
RoA (%)	2.5	2.2	1.9

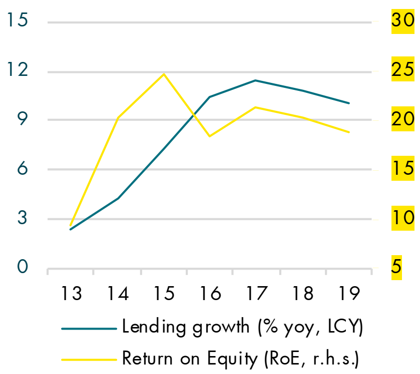
** latest available data*
1) LCY, % yoy; 2) % of total
Source: national sources, RBI/Raiffeisen RESEARCH

Total loans vs. GDP per capita



Data for 2019, yellow triangle shows Kosovo vs. all other CEE markets in 2019 and 2015 (filled and non-filled triangle)
Source: national sources, RBI/Raiffeisen RESEARCH

Lending growth & Profitability



Source: national sources, RBI/Raiffeisen RESEARCH

Kosovo GDP accelerated in 2019, posting an annual growth of 4.94% versus 3.9% in 2018.

Overall, the banking sector expanded significantly in 2019, with an increase in total assets of 13.7% yoy. Double-digit increase of lending and a growth of 22.4% yoy in securities were the main contributors of the assets growth in 2019. Despite the latter's jump, investments in securities make only 11.1% of the total assets reflecting low interest rate environment.

Lending activity continued to mark a double-digit growth for the fourth consecutive year. Nevertheless, the pace of growth dropped to 10.0% yoy in 2019 from 10.9% yoy in 2018. Banks operating in the market have improved lending conditions especially by decreasing loans interest rates (6.51% in average in 2019 vs 6.65% in 2018) and extending loans maturity. Furthermore, good loan quality, sufficient capital and liquidity and banking competition have assisted the lending growth dynamics in 2019.

Loans to households grew stronger than corporate loans (10.4% vs. 9.4% yoy). Still, corporate loans dominate the aggregate sector loan structure with 63.2% of total loans, with the highest growth in manufacturing, mining, construction, and financial sectors. Significant lending support to small and medium-sized enterprises was provided by the Kosovo Credit Guarantee Fund, which provided guaranteed loans of Eur 156.3 mn in 2019, almost double from the value of EUR 87.2 million in 2018. However, expectations for 2020 are that double-digit, high credit growth of 2019 will be difficult to achieve due to changing economic dynamics due to the spread of the COVID-19 pandemic. Still, postponement of loan installments by 3 months for customers impacted from COVID-19 and loan restructuring applications will impact loans growth and NPL level.

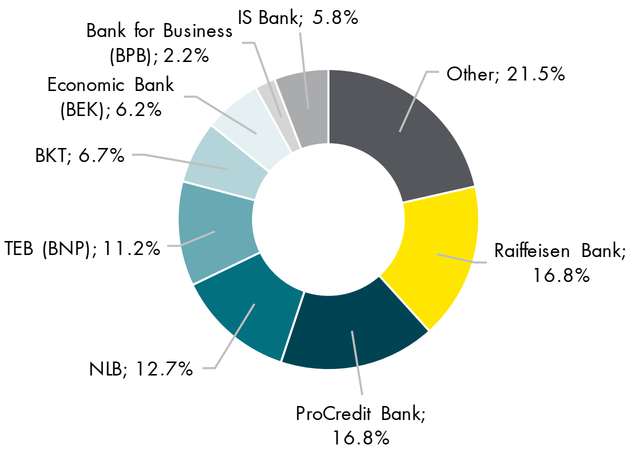
Lending activity of the banking sector continues to be financed by solid growth of deposits. Its volume expanded by 16.2% in 2019. While corporate deposits posted a rather high growth of 19.5% yoy in 2019, retail deposits expanded by 11.8% yoy, accounting for more than 66.6% of total sector deposits. Transferable deposits which make about 61.5% of the total deposits increased by 18.3% yoy while term deposits by 6.8% yoy as deposits interest rates even though in an upward trend (1.5% in average in 2019 vs 1.3% in 2018) remain at low levels compared to as high as 3.4% in 2013.

During 2019 the overall banking sector continued to show sound performance in terms of liquidity, profitability and capital. The level of non-performing loans improved further to a low 2.0% (from 2.7% in 2018) in December 2019, making Kosovo one of the region's countries with the lowest NPL levels. The banking sector's level of capitalization remains high compared to the regulatory requirements, with the capital adequacy ratio at 15.9% in 2019. The banking sector's financial performance remained satisfying with a net profit of EUR 86.2 mn compared to EUR 87 mn in 2018. The RoE remained at a double-digit figure of 18.9%, slightly lower than 20.2% of the previous year.

In 2019, Credins Bank Kosovo, an Albanian bank branch has taken the preliminary approval of the Central Bank of Kosovo to enter the Kosovo market by extending their banking operations in Kosovo. There are 10 operating banks in Kosovo, 8 of which foreign that own about 86.7% of total assets in the banking system.

Financial analyst: Valbona Gjeka, Raiffeisen Bank Sh.a.

Market shares (2019, eop)



% of total assets
Source: national sources, RBI/Raiffeisen RESEARCH

Key measures to support banking sector

- Suspension of loan repayments for businesses and individuals was initially approved from March 16 till April 30 and then extended to 31 August 2020. The last decision was to extend the moratorium till the end of September 2020.
- The CBK will apply regulatory forbearance on loan provisions and capital requirements on reprogrammed loans.

back to country overview

Key banking sector indicators

Balance sheet data	2015	2016	2017	2018	2019
Total assets (EUR mn)	3,385	3,637	3,877	4,184	4,756
growth in % yoy	6.2	7.4	6.6	7.9	13.7
in % of GDP	58.3	59.9	62.0	64.1	67.2
Total loans (EUR mn)	2,020	2,230	2,485	2,756	3,032
growth in % yoy	7.3	10.4	11.4	10.9	10.0
in % of GDP	34.8	36.7	39.8	42.2	42.8
Loans to private enterprises (EUR mn)	1,319	1,429	1,582	1,753	1,917
growth in % yoy	6.3	8.3	10.7	10.8	9.4
in % of GDP	22.7	23.5	25.3	26.8	27.1
Loans to households (EUR mn)	694	797	898	999	1,102
growth in % yoy	9.3	14.7	12.7	11.2	10.4
in % of GDP	12.0	13.1	14.4	15.3	15.6
Total deposits (EUR mn)	2,703	2,898	3,092	3,365	3,908
growth in % yoy	6.5	7.2	6.7	8.8	16.2
in % of GDP	46.5	47.7	49.5	51.5	55.2
Deposits from households (EUR mn)	1,966	2,122	2,167	2,326	2,602
growth in % yoy	6.4	8.0	2.1	7.4	11.8
in % of GDP	33.9	35.0	34.7	35.6	36.8
Total loans (% of total deposits)	75	77	80	81.9	77.6
Structural information, profitability and efficiency					
Number of banks	10	10	10	10	10
Market share of foreign-owned banks (% of total assets)	90	89	88	87	87
Profitability and efficiency					
Return on Assets (RoA)	2.9	2.2	2.6	2.5	2.2
Return on Equity (RoE)	24.6	18.5	21.3	20.2	18.9
Capital adequacy (% of risk weighted assets)	19.0	17.9	18.0	17.0	15.9
Non-performing loans (% of total loans)	6.2	4.9	3.1	2.7	2.0

Source: national sources, RBI/Raiffeisen RESEARCH

Through the initial shock but need to watch further risks

Key economic figures and forecasts

Russia	2019	2020e	2021f
Nominal GDP (EUR bn)	1,519.0	1,287.4	1,297.6
GDP per capita (EUR)	10,352	8,780	8,860
Real GDP (% yoy)	1.3	-4.9	2.8
CPI (avg, % yoy)	4.5	3.1	3.7
Unemploy. rate (avg, %)	4.6	6.5	5.1
EUR/LCY rate (avg)	72.45	81.78	85.49

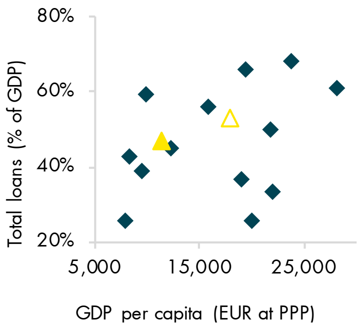
Source: national sources, wiiw, RBI/Raiffeisen RESEARCH

High frequency growth, NPLs and RoE/RoA

Russia	2018	2019	2020*
Loan growth[1]	13.9	6.5	11.0
Retail loans[1]	22.4	18.5	13.2
Corporate loans[1]	10.5	1.2	9.9
NPLs (% of total loans)	6.0	6.6	7.2
Retail loans[2]	5.3	4.4	5.1
Corporate loans[2]	6.3	7.8	8.2
RoE (%)	13.8	19.7	14.2
RoA (%)	1.5	2.2	1.6

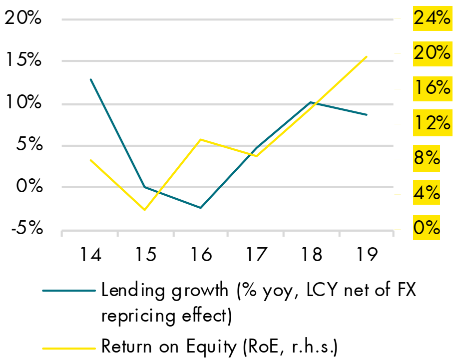
** latest available data*
1) LCY, % yoy; 2) % of total
Source: CBR, RBI/Raiffeisen RESEARCH

Total loans vs. GDP per capita



Data for 2019, yellow triangle shows Russia vs. all other CEE markets in 2019 and 2015 (filled and non-filled triangle)
Source: CBR, national sources, RBI/Raiffeisen RESEARCH

Lending growth & Profitability

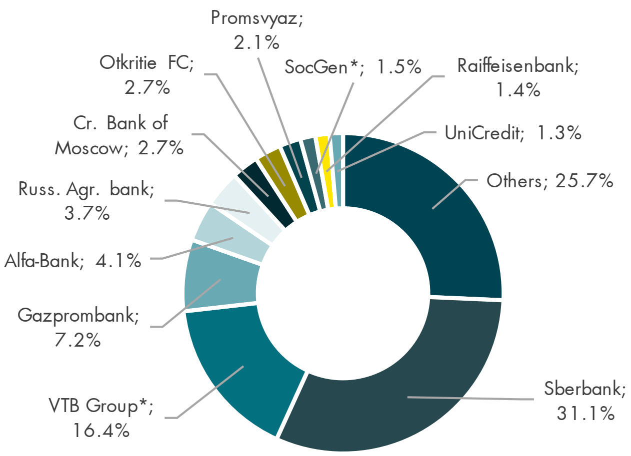


Source: CBR, RBI/Raiffeisen RESEARCH

Fresh crisis experience and homework done after the 2014/15 banking crisis helped Russian banks navigate the 2020 challenges. After years of removal of players with non-viable business models, the sector is going through the COVID aftermath with a stable market structure (69% controlled by state-related players) though some consolidation and voluntary liquidations in the lower tier segment are still taking place. The shock absorbing capacity was notably enhanced with timely regulatory reliefs cushioning the effects of a sharp GDP drop (Q2 -8% yoy) and high FX volatility amid volatile oil/gas markets and returning sanction talk. Peculiarities of the economic structure also allowed moderating the blow despite a modest - by global comparison - fiscal response to the COVID shock (~3% of GDP). With state finances solid, the dominance of large and state-related enterprises made it easier to coordinate support, while the limited size of the lockdown-vulnerable SME segment (~20% of GDP, 8% of loans) and relative resilience of exporters (~22% of loans: oil, gas, metals and mining) trimmed loan losses. From H1 2020 IFRS accounts we infer the average cost of risk increase to 2.1% (H1 2019: 0.6%). With the payment holidays in place the impaired loans rate proved steady (around 7%), however the bloating stock of stage 2 loans (H1 2020: 11%, +3.2pp ytd) revealed mounting problems, presumably within sensitive sectors (SME, transport, real estate, hospitality). Overall, nearly 11% of the portfolio has seen renegotiation since the COVID outbreak. With uneven recovery across industries, we expect credit risk considerations to reign supreme further in H2 2020 and potentially 2021. In the meantime, the transmission of credit losses to the banks' prudential ratios (local GAAP) remains contained, as the CBR rolled over respective regulatory forbearance giving time to fully provide for COVID-restructured exposure till April 2021 (corporate) and July 2021 (retail and SME). Indeed, a cautious exit from the supervisory "safe mode" staves off systemic risks, so the banks can further help dampening the crisis. Notwithstanding the unchanged combined capital buffer requirement (3.5% for SIFIs), the sector's lending capacity was aided through the transition to Basel 3.5 (=lower RWA density) and partial release of capital conserved previously against vigorous retail growth (2019: +18.5% yoy, LCY terms). In the post-COVID environment, the natural tightening of underwriting standards should put a lid on unsecured lending, while the mortgage segment (45% of the retail book) regains traction backed by dedicated subsidies and monetary easing to new all-time lows. The momentum in the corporate credit demand (8M 2020: +5.4% ytd, LCY terms FX-adjusted) is seemingly driven by short-term liquidity needs and might moderate going forward subject to CAPEX plan revision and low yields offered by the (Euro) bond market. We note that the sector maintains a healthy <100% LTD ratio (<70% in FCY), however the liquidity pool (also backed by regulatory facilities) is now increasingly tapped into to shoulder the step-up in government borrowings, which might ultimately hinder credit supply to the real economy until YE 2020. Against this backdrop, in regulatory accounts the sector touched the break-even point in May to then promptly revert to profit, though at lower RoE levels (H1 2020 before tax: 14.2%). Among earnings drivers we note the revival of transactional activity, while the pressure on NIM (~4%) is thus far alleviated by the focus on (higher-rate) LCY lending and reduced allocations to deposit insurance. Having said that, one should not downplay threats to the orderly market recovery, which for Russia comprise not only the second wave of the pandemic but also a resurgence of sanction talk and exposure to potentially deeper economic turmoil in Belarus through local subsidiaries (~USD 9 bn of assets) and cross-border position (USD 4 bn). Among dedicated Western foreign banks, we currently see stable market shares (at 6-7%), but also no signs of increased market appetite and a general satisfaction with current niche player business models.

Financial analyst: Ruslan Gadeev, RBI Vienna

Market shares (2019, eop)



% of total assets
** VTB Group = VTB, BM-Bank, Vozrozhdenie, Zapsibcombank and Sarovbusinessbank; SocGen = Rosbank and Rusfinance*
Source: CBR, RBI/Raiffeisen RESEARCH

Key measures to support banking sector

- Cumulative key rate cut by 175bp to 4.25%; lower deposit insurance rate
- Temporary forbearance on provisions accrual and down-stage migration for COVID-restructured loans (statutory and bank-specific programmes)
- Larger limit (RUB 5 tn) and reduced price (from 0.5% to 0.15%) for the CBR committed liquidity line to back up on the LCR; longer tenors (up to 1y) for standby repo facilities
- For prudential ratios calculus - the rates as of 1 March 2020 can be used for the FX (discontinued as of end-Sep 2020) and securities at FV (through 1 Jan 2021)
- Selective decrease of RW add-ons for mortgage and consumer loans; accelerated transition to Basel 3.5; government-subsidised interest rate for residential mortgages

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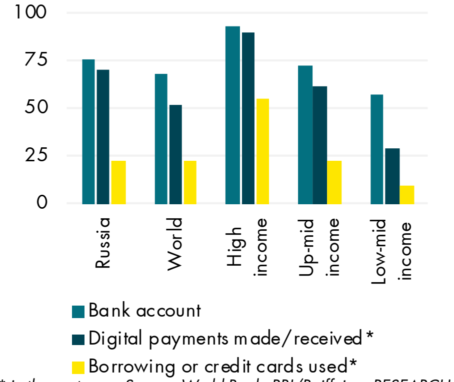
Key banking sector indicators

Balance sheet data	2015	2016	2017	2018	2019
Total assets (EUR mn)	1,041,438	1,254,692	1,237,052	1,184,031	1,392,851
growth in % yoy	(8.3)	20.5	(1.4)	(4.3)	17.6
in % of GDP	99.9	93.1	92.5	90.6	88.3
Total loans (EUR mn)	551,904	641,559	615,190	607,512	741,662
growth in % yoy	(7.7)	16.2	(4.1)	(1.2)	22.1
in % of GDP	52.9	47.6	46.0	46.5	47.0
Loans to private enterprises (EUR mn)	417,843	472,249	438,419	419,979	487,111
growth in % yoy	(3.3)	13.0	(7.2)	(4.2)	16.0
in % of GDP	40.1	35.0	32.8	32.1	30.9
Loans to households (EUR mn)	134,061	169,311	176,772	187,532	254,551
growth in % yoy	(19.1)	26.3	4.4	6.1	35.7
in % of GDP	12.9	12.6	13.2	14.3	16.1
Mortgage loans (EUR mn)	50,647	71,115	77,826	83,420	111,506
growth in % yoy	(5.2)	40.4	9.4	7.2	33.7
in % of GDP	4.9	5.3	5.8	6.4	7.1
Loans in foreign currency (EUR mn)	169,740	154,591	131,882	122,284	121,898
growth in % yoy	14.7	(8.9)	(14.7)	(7.3)	(0.3)
in % of GDP	16.3	11.5	9.9	9.4	7.7
Loans in foreign currency (% of total loans)	31	24	21	20	16
Total deposits (EUR mn)	641,710	773,364	769,477	753,639	898,994
growth in % yoy	2.0	20.5	(0.5)	(2.1)	19.3
in % of GDP	61.5	57.4	57.5	57.7	57.0
Deposits from households (EUR mn)	291,341	379,249	377,357	358,168	440,565
growth in % yoy	7.3	30.2	(0.5)	(5.1)	23.0
in % of GDP	27.9	28.1	28.2	27.4	27.9
Total loans (% of total deposits)	86	83	80	81	82
Structural information					
Number of banks	733	623	561	484	442
Market share of state-owned banks (% of total assets)**	56.3	56.0	61.5	68.0	68.6
Market share of banks over 50% foreign-ownership (% of total assets)*	13.0	12.7	12.3	12.2	9.5
Market share of 100% foreign-owned banks (% of total assets)**	6.9	6.1	6.5	7.3	7.6
Profitability and efficiency					
Return on Assets (RoA %)	0.3	1.2	1.0	1.5	2.2
Return on Equity (RoE %)	2.3	10.3	8.3	13.8	19.7
Capital adequacy (CAR % of risk weighted assets)	12.7	13.1	12.1	12.2	12.3
Non-performing loans (% of total loans to non-financial sector)	7.2	7.0	6.7	6.0	6.6

** As reported by the CBR, ** Raiffeisen RESEARCH estimate; Source: CBR, RBI/Raiffeisen RESEARCH*

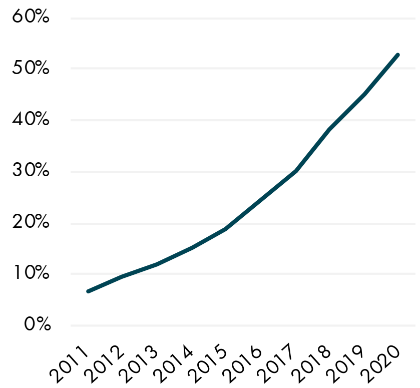
Foreign banks in Russia: Navigating the stiff competition and sanction policies

Financial inclusion index (2017)



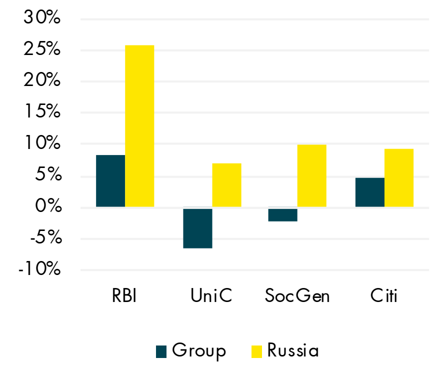
** in the past year; Source: World Bank, RBI/Raiffeisen RESEARCH*

Card payments in Russia*



** as % of household consumption, H1 data for 2020*
Source: CBR, Rosstat, RBI/Raiffeisen RESEARCH

RoE (before tax), H1 2020



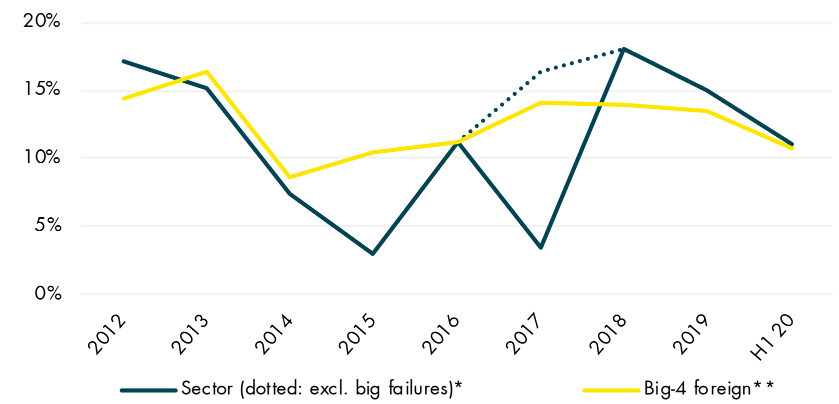
Source: company data, RBI/Raiffeisen RESEARCH

With its allure dented since the activation of sanction policies, Russia nonetheless remains an important banking market for foreign lenders, not only due to its size but also the dynamism in the topical questions of non-cash payments, digital banking and fintech. Moreover, despite the already decent level of financial inclusion achieved commensurate with upper middle-income countries, Russia still offers potential in terms of credit intermediation on the lending side (e.g. mortgages) and adjacent services gaining momentum on the back of the interest rates drifting lower (e.g. the growing brokerage segment). Having said that, the market developments confirm no easy profits amid the toughening competition, where the pressure comes not only from large state banks but also private players, including those seeking to join forces with IT companies. Along the same lines of business constraints goes the sanction topic, which does not seem to promise any reliefs in the near future.

Through the ups and downs, the story of foreign banks in Russia has eventually turned from a string of setbacks to stabilization with the lineup of active players concentrating around most committed groups. Indeed, after some global banks decided to take their chips off the Russian market (including the recent departures of Danske Bank and Morgan Stanley Bank), the exodus sentiment has generally subsided. As of H1 2020, we count roughly 50 active banks controlled by foreign parties jointly holding around 8% of the sector's assets (largely unchanged yoy) with the core formed by subsidiaries of Societe Generale (SocGen), UniCredit, RBI and Citi. For these four Western financial majors, the Russian units remain a pocket of value thanks to their fortitude to maintain selective and niche lending strategies notwithstanding competition and other complexities of the operating environment. The conscious choice for a balanced model and conservative risk appetite served once again well for performance sustainability also during COVID times. Despite their limited size in the sector's context, the foreign lenders can boast good client access, better-quality loan portfolios and well-established position in the deposit market and cash/settlement services – all contributing to decent margins while contained risk costs (somewhat weaker for SocGen and UniCredit).

Having said that, intense rivalry does not leave room for complacency, especially as the COVID pandemic has steered it more into the field of digital banking and fintech, where state-related heavyweights are poised to capitalise on their scale. Thus, the market leader Sberbank has been already investing actively in its ecosystem of digital services (taxi, food delivery, job search, e-commerce, AI, streaming services among others) to eventually confirm the transformation into a tech company even dropping the "bank" suffix from its name as part of the recently launched rebranding. Meanwhile, other players also encroach on this territory. What could have been

Russian banking sector/banks RoE (%)



** top-14 banks forming 77% of the sector's assets; failures: Otkritie FC and PSB; **RBI RU, UniC RU, SocG RU, Citi RU*
Source: banks' IFRS reports, RBI/Raiffeisen RESEARCH

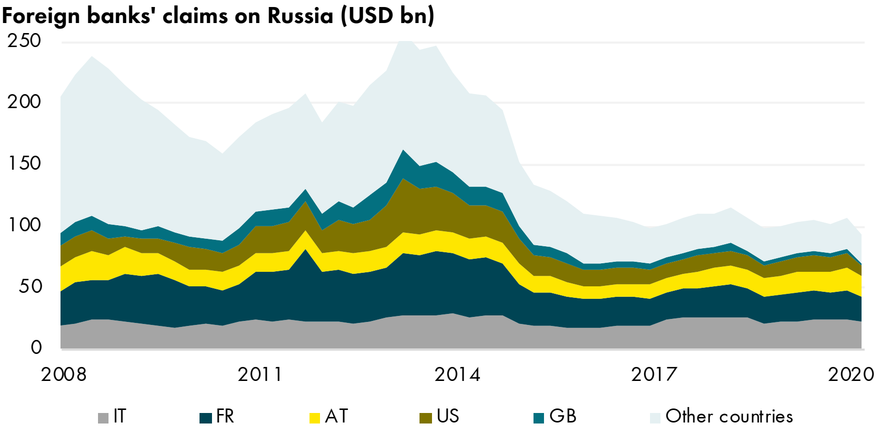
a landmark transaction on that front is a (cancelled) purchase of the leading online-only bank Tinkoff (a top-3 credit card issuer, ~10 mn retail clients) by the local IT giant Yandex, also referred to as the "Russia's Google". Albeit unsuccessful at this stage, the fact of negotiations showed the direction of developments in retail banking, which concerning foreign players should be watched not only by mono-liners (OTP, Home Credit Bank), but also universal banks with an established retail franchise (SocGen, RBI).

Another important dimension of the Russian market that international players must heed is the steady sanctions pressure emanating primarily from the US legislators who maintain a much stricter stance on Russia than their EU counterparts. Essentially, foreign banks active in Russia are not in the crosshairs in the first place, rather they face certain compliance red lines set mainly by means of the (extraterritorial) secondary sanctions tool introduced with the CAATSA law in 2017, which threatens SDN (blocking) curbs for offenders of US punitive measures. While adjusting exposure patterns to this restrictive mode, the dedicated players also have to deal with spurts of volatility in the FX and asset prices caused by the ebb and flow in the sanction talk. We note that although the tensions seem to ratchet up (US elections, Navalny poisoning, Belarus tensions), any harsh US sanctions (e.g. blunt asset freezes of major exporters or state-owned banks) might be still hindered by the alignment with European allies and Russia's importance to global commodity markets. If anything, we would rather see the grip to tighten gradually through "plain" sanctions on individuals/minor entities, a limited "bite" on energy projects or eventual ban on OFZ purchase for US financial institutions. The latter seems a logical extension of the analogous restrictions enacted for Russia's non-RUB sovereign debt (for primary issuance only) in August 2019 and is relevant for invested foreign banks, though the potential revaluation losses should be in general of a limited concern (greater for Citi RU).

On an interesting note, the sanction topic remains to be not only a confine but also an opportunity for foreign players, as they offer a diversification benefit for both corporate and retail customers. In particular, we infer this from the banks' disproportionally high market shares in FX deposits (8M 2020: 10%) and corporate current accounts turnover (~20%), which also highlights service quality, brand recognition and systemic importance (subsidiaries of SocGen, UniCredit and RBI are designated local SIFIs). All in all, the major foreign banks in Russia continue their track record of decent performance on the market which is definitely not a no-brainer with a multitude of economic and non-economic aspects in place.

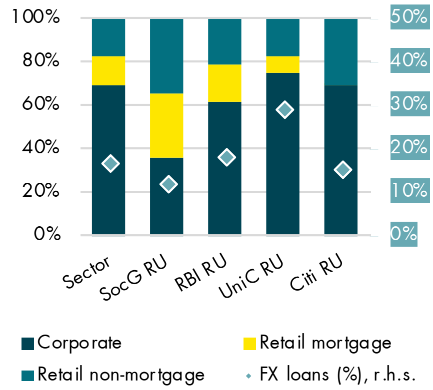
Financial analyst: Ruslan Gadeev, RBI Vienna

Foreign banks' claims on Russia (USD bn)



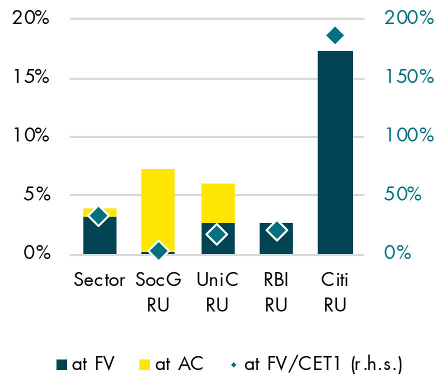
complemented by cross-border claims to form total claims
Source:BIS, RBI/Raiffeisen RESEARCH

Loans structure (2019)



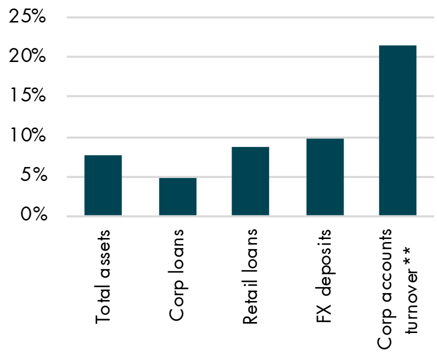
Source: CBR, company data, RBI/Raiffeisen RESEARCH

Government bonds held*



** unencumbered as % of total assets, 8M 2020 local GAAP*
Source: CBR, RBI/Raiffeisen RESEARCH

Foreign banks' market share*



** based on local GAAP accounts, 8M 2020; **non-state entities*
Source: CBR, RBI/Raiffeisen RESEARCH

back to country overview

No record profits anymore – sector to stay profitable in 2020

Key economic figures and forecasts

Ukraine	2019	2020e	2021f
Nominal GDP (EUR bn)	137.4	131.6	131.2
GDP per capita (EUR)	3,282	3,155	3,158
Real GDP (% yoy)	3.2	-6.3	3.8
CPI (avg, % yoy)	7.9	2.9	6.4
Unemploy. rate (avg, %)	8.2	10.0	9.0
EUR/LCY rate (avg)	28.92	29.72	32.67

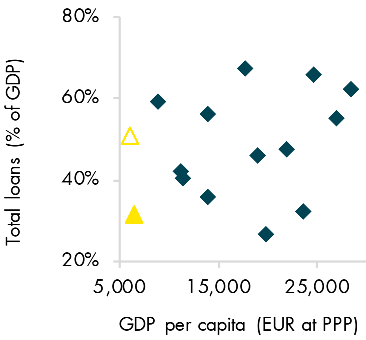
Source: national sources, wiiw, RBI/Raiffeisen RESEARCH

High frequency growth, NPLs and RoE/RoA

Ukraine	2018	2019	2020*
Loan growth[1]	5.6	-9.4	0.4
Retail loans[1]	15.1	5.2	5.7
Corporate loans[1]	3.5	-13.0	-1.3
NPLs (% of total loans)	54.2	50.0	50.2
Retail loans[2]	18.3	21.2	21.2
Corporate loans[2]	81.5	78.3	78.2
RoE (%)	11.9	34.9	26.4
RoA (%)	1.2	4.2	3.1

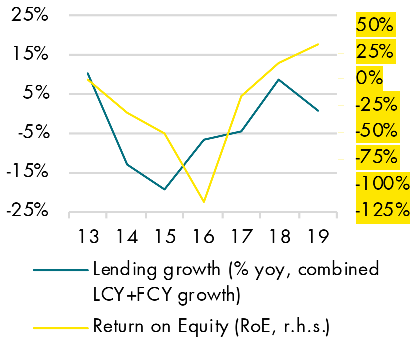
** latest available data*
1) LCY, % yoy; 2) % of total
Source: national sources, RBI/Raiffeisen RESEARCH

Total loans vs. GDP per capita



Data for 2019, yellow triangle shows Ukraine vs. all other CEE markets in 2019 and 2015 (filled and non-filled triangle)
Source: NBU, national sources, RBI/Raiffeisen RESEARCH

Lending growth & Profitability



Source: NBU, RBI/Raiffeisen RESEARCH

The Ukrainian economy was characterized by a significant decline in real GDP in Q2 2020 (-11.4% yoy) after a slight decline in Q1 2020 (-1.3% yoy). Total banking assets as of Aug 2020 amounted to UAH 1.645 bn and increase by 150.1 bn or +10% YTD. The outstanding volume of performing loans in all currencies amounted to UAH 542 bn. Here the volume growth YTD amounts to UAH 12.9 bn or +2.4% YTD, mainly contributed by FX revaluation of the FCY portfolios. The performing LCY portfolio part also increase by +0.3% YTD. Performing loans to individuals increased by UAH 0.3 bn or 0.2% YTD. LCY legal entities performing loan volumes increased by UAH 0.6 bn or 0.3% YTD. The ultra-high share of NPLs (48.1% in July) is a result of credit expansion in the past years, when the standards for assessing the solvency of borrowers were low and the rights of creditors were not sufficiently protected. However, most of them are a burden for state-owned banks, where about 75% of NPLs are concentrated (about 45% at PrivatBank).

On the fiscal front, in 2020, the program of preferential lending to SMEs "5-7-9" was launched, based on partial compensation of interest from the budget. After the introduction of the quarantine, enterprises were able to restructure loans at 0% to 31.03.2021. From the start of the program to mid-September, loans in the amount of 7.8 billion UAH were provided and refinanced. Foreign-owned banks are among the most active participants in the program. The program "5-7-9" will continue in 2021 and as we believe in the medium term. Also, from 2021 it is planned to provide state portfolio guarantees for corporate lending. Numerous scandals with large companies operating in the primary real estate market, lead to a significant limitation of mortgage lending. Therefore, in 2021 Government is planning to launch a program to stimulate mortgage lending at 7%, which also provides for partial compensation of interest from the budget.

In 2020 NBU lowered the key rate by 7.5pp (to 6%), which is a historical minimum. Since spring 2020, the NBU has been using new instruments to maintain banks' long-term liquidity and reduce interest risks: providing long-term refinancing for up to 5 years at a floating rate (linked to the key rate), while also conducting interest rate swap operations. On September 10, the NBU approved the monetary policy framework for 2021. Currently, key monetary policy goals are to ensure more active lending and affordable loans for businesses.

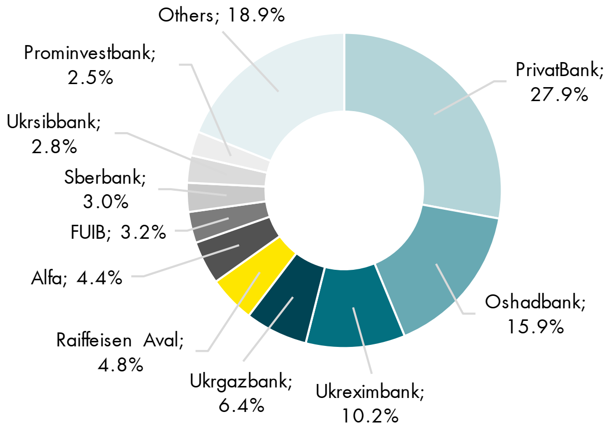
There were no significant changes in the structure of loans, and in July corporate loans amounted to 78.2%, and retail loans to 21.2% of total. At the same time, in July loans to legal entities showed a slight decrease (-1%), while loans to individuals increased by 6%. We expect a slight increase in the segment of corporate lending and the revitalization of mortgage lending in 2021 through the implementation of government programs and reducing interest rates.

Net profit of banks for the seven months of 2020 decreased by 26.3% yoy to UAH 28.4 bn due to a sharp increase in allocations to reserves (+155% yoy). As a result, RoA and RoE have been reduced. At the same time, the cost income ratio slightly improved from 69.9% to 67.4%. We expect that further write-off of NPL to reserves will lead to a decrease in the total profit in the banking system, however, RoA will be in the positive zone, and the share of NPL in the structure of loans will decrease.

On August 25, the NBU declared Arcade Bank (~1% market share) as insolvent. Sanctioned Russian Prominvestbank (12th place on assets) continues to incur significant losses (UAH 720 million for 8 months of 2020) and in the future will either be sold or discontinued.

Financial analysts: Serhii Kolodii, Raiffeisen Bank Aval JSC

Market shares (2019, eop)



% of total assets
Source: NBU, RBI/Raiffeisen RESEARCH

Key measures to support banking sector

- Long-term refinancing for up to 5 years at a floating rate linked to the key rate
- Interest rate swap operations with NBU
- Preferential lending to SMEs "5-7-9", based on partial compensation of interest from the budget
- For 2021 Government is planning to provide state portfolio guarantees for corporate loans and to launch a program to stimulate mortgage lending at 7%, which stipulates partial compensation of interests from the budget

back to country overview

Key banking sector indicators

Balance sheet data	2015	2016	2017	2018	2019
Total assets (EUR mn)	65,399	61,123	54,932	60,245	75,613
growth in % yoy	(31.8)	(6.5)	(10.1)	9.7	25.5
in % of GDP	79.0%	72.8%	61.7%	53.7%	49.9%
Total loans (EUR mn)	42,272	36,101	31,739	35,441	39,082
growth in % yoy	(36.1)	(14.6)	(12.1)	11.7	10.3
in % of GDP	51.1%	43.0%	35.6%	31.6%	25.8%
Loans to private enterprises (EUR mn)	33,604	29,459	25,224	27,567	29,035
growth in % yoy	(34.3)	(12.3)	(14.4)	9.3	5.3
in % of GDP	40.6%	35.1%	28.3%	24.6%	19.1%
Loans to households (EUR mn)	7,109	5,628	5,082	6,180	7,869
growth in % yoy	(45.6)	(20.8)	(9.7)	21.6	27.3
in % of GDP	8.6%	6.7%	5.7%	5.5%	5.2%
Mortgage loans (EUR mn)	2,506	2,120	1,152	1,058	1,149
growth in % yoy	(45.1)	(15.4)	(45.6)	(8.2)	8.6
in % of GDP	3.0%	2.5%	1.3%	0.9%	0.8%
Loans in foreign currency (EUR mn)	24,049	18,297	14,657	14,026	14,089
growth in % yoy	(22.7)	(23.9)	(19.9)	(4.3)	0.4
in % of GDP	29.1%	21.8%	16.5%	12.5%	9.3%
Loans in foreign currency (% of total loans)	57	51	46	40	36
Total deposits (EUR mn)	31,493	30,018	27,777	30,139	41,653
growth in % yoy	(29.8)	(4.7)	(7.5)	8.5	38.2
in % of GDP	38.1%	35.8%	31.2%	26.8%	27.5%
Deposits from households (EUR mn)	16,574	15,116	14,099	15,820	21,984
growth in % yoy	(36.3)	(8.8)	(6.7)	12.2	39.0
in % of GDP	20.0%	18.0%	15.8%	14.1%	14.5%
Total loans (% of total deposits)	134	120	114	118	94
Structural information					
Number of banks	117	96	82	77	75
Market share of state owned banks (% of total assets)	28	51	55	60	55
Market share of foreign-owned banks (% of total assets)	35	35	30	29	30
Market share of Western foreign-owned banks (% of total assets)	20	19	15	16	17
Profitability and efficiency					
Return on Assets (RoA)	(5.5)	(12.6)	(1.9)	1.7	4.3
Return on Equity (RoE)	(51.9)	(116.7)	(15.8)	14.7	33.5
Capital adequacy (% of risk weighted assets)	12.3	12.7	16.1	16.2	15.1
Non-performing loans (% of total loans)*	23.3	26.7	54.5	52.8	48.4
Non-performing loans (% of total loans)**	28.0	30.5	54.5	52.9	48.4

** National Bank of Ukraine*
*** IMF, IFRS-based estimates*
Source: NBU, IMF, national sources, RBI/Raiffeisen RESEARCH

Crisis to hit sector hard, with privatization off the agenda for now

Key economic figures and forecasts

Belarus	2019	2020e	2021f
Nominal GDP (EUR bn)	55.9	47.9	41.4
GDP per capita (EUR)	5,904	5,078	4,412
Real GDP (% yoy)	1.2	-4.5	1.5
CPI (avg, % yoy)	5.6	5.5	6.2
Unemploy. rate (avg, %)	4.0	4.8	4.5
EUR/LCY rate (avg)	2.34	2.82	3.51

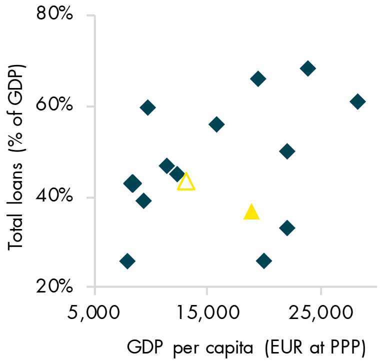
Source: national sources, wiiw, RBI/Raiffeisen RESEARCH

High frequency growth, NPLs and RoE/RoA

Belarus	2018	2019	2020*
Loan growth[1]	13.7	10.2	13.5
Retail loans[1]	28.4	22.1	7.8
Corporate loans[1]	9.2	6.0	15.9
NPLs (% of total loans)	5.0	4.6	5.1
Retail loans[2]	0.5	0.5	0.7
Corporate loans[2]	7.4	6.8	7.4
RoE (%)	10.7	10.9	9.3
RoA (%)	1.6	1.5	1.2

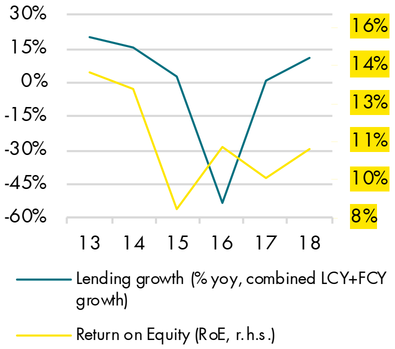
** latest available data*
1) LCY, % yoy; 2) % of total
Source: national sources, RBI/Raiffeisen RESEARCH

Total loans vs. GDP per capita



Data for 2019, yellow triangle shows Berlaus vs. all other CEE markets in 2019 and 2015 (filled and non-filled triangle)
Source: NBRB, national sources, RBI/Raiffeisen RESEARCH

Lending growth & Profitability



Source: NBRB, RBI/Raiffeisen RESEARCH

Since the beginning of 2020, the Belarusian economy has been affected by several shocks, i.e. a substantive recession and strong pressure on the LCY. To top it off, a severe political crisis with material geopolitical and economic/banking impact has broken out. Political instability caused a sharp consumer confidence decline, additional pressure on the LCY and a boost to the already high dollarization. The population and enterprises sharply increased their FCY demand and the National Bank of Belarus (NBB) administratively limited BYN liquidity to avoid FX reserves melting and BYN devaluation. In September rates of 1-day interbank lending reached 25%! End of August NBB suspended overnight loans to banks and sharply increased (to the level of more than 20%) the rate on the remaining support instruments. Since then, the financial market has experienced a severe liquidity deficit. Meanwhile, from one side, the political crisis triggered a sharp increase in demand for FCY from individuals and companies. From another side, companies have an unsatisfied demand for BYN loans.

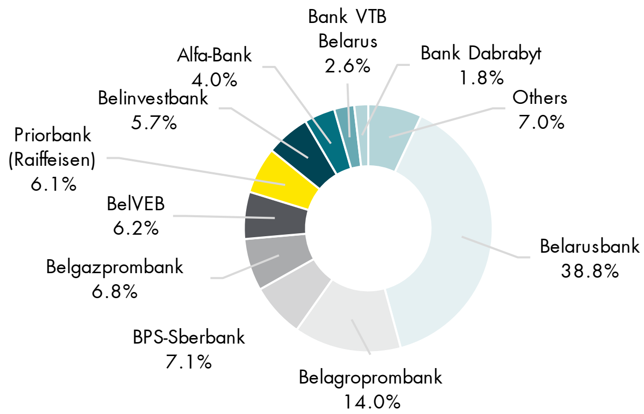
Due to 7M NBB's statistics, from the beginning of 2020 loans have been increased by 11.9% and by 2.6% July to June. However, at the peak of the current crisis some banks stopped lending activities completely. Recently, the situation with BYN liquidity in general has already normalized. The NBB expects that the rates will soon return to single-digit values. Due to our estimation, the NBB's administrative measures are temporary. Thus, the regulator will ease its monetary policy in 2021 the earliest. Apart from that, the NBB could mitigate the money supply restrictions to support state enterprises. Inflation growth under already 25% BYN devaluation against USD will become the key factor of easing or tightening monetary policy. Also, we believe, that the NBB will restore commercial banks' lending to enterprises at the pre-crisis level by the end of 2020 and the beginning of 2021.

As a result of the ongoing crises, the creditworthiness of the population will decrease, while a significant loan portfolio growth has already been accumulated. Thus, we do not expect the same high growth rate of lending in 2020 (no more than 10%) as it used to be in 2018 and 2019 by 28.4% and 22.1% respectively. On the other hand, due to the BYN confidence crises and low rates for FCY deposits, real income drops will keep the growth rates of household deposits in both national and foreign currencies low. The possibility for companies to increase their deposits will be limited, because their financial standing is not conducive for deposits growth. In addition, despite the tight policy of banks, the financial deterioration of enterprises will not allow to improve NPLs, due to restructuring needs at chronically unprofitable enterprises. Therefore, we believe that NPL dynamics will be moderately negative. Due to further uncertainty in the state support to the industrial sector, this forecast is being extended to 2020 and early 2021.

Amid the current economic and political instability, we do not foresee significant structural changes in the banking system from a short-term perspective. State-owned banks have a dominate role and hold 62.3% of total assets, foreign banks with 34.3% share (roughly 30% Russian-owned banks, the rest other foreign-owned banks). Besides, it seems highly unlikely to sell state shares of Belinvestbank and Dabrabyt Bank as announced by the NBB beginning of 2020. However, the ongoing political crisis may finally contribute to a change of ownership structures, depending on concrete crisis settlements incl. Russia. We would not rule out that the market share of Russian-owned banks may increase under certain circumstances (e.g. a potential closer economic/political integration with Russia). Certain organic market share growth at Russian lenders might also be a result of their active (liquidity) support during the ongoing political/economic crisis.

Financial analyst: Olga Zhegulo, Priorbank JSC

Market shares (2019, eop)



% of total assets
Source: NBRB, Raiffeisen RESEARCH

Key measures to support banking sector

- Cut key rate three times from 9% to 7.75%
- In H1 2020, two extra packages of measures aimed at increasing banks' capacity to maintain financial support to the real sector. Banks had more opportunities for additional lending or prolongation of previously issued loans
- Due to limit BYN supply, consequently, to decrease pressure on exchange rate and save FX reserves from melting, the NBB prolonged its suspension of overnight loans to banks till 19.01.2021.

back to country overview

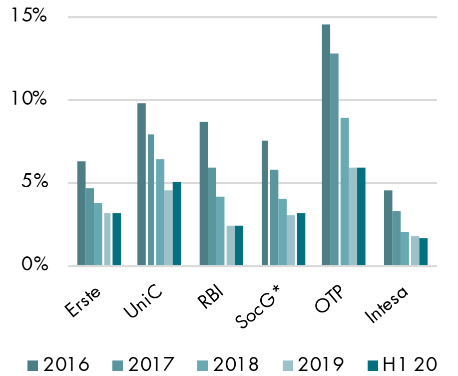
Key banking sector indicators

Balance sheet data	**2015**	**2016**	**2017**	**2018**	**2019**
Total assets (EUR mn)	31,057	31,524	28,310	29,800	33,304
growth in % yoy	(7.3)	1.5	(10.2)	5.3	11.8
in % of GDP	72.5	68.3	63.4	60.6	59.4
Total loans (EUR mn)	18,609	17,531	16,458	17,814	20,639
growth in % yoy	(14.8)	(5.8)	(6.1)	8.2	15.9
in % of GDP	43.4	38.0	36.8	36.2	36.8
Loans to private enterprises (EUR mn)	15,221	14,032	12,623	13,125	14,623
growth in % yoy	(12.8)	(7.8)	(10.0)	4.0	11.4
in % of GDP	35.5	30.4	28.3	26.7	26.1
Loans to households (EUR mn)	3,389	3,499	3,835	4,688	6,016
growth in % yoy	(22.6)	3.3	9.6	22.3	28.3
in % of GDP	7.9	7.6	8.6	9.5	10.7
Mortgage loans (EUR mn)	2,851	2,919	2,758	3,095	3,770
growth in % yoy	(21.1)	2.4	(5.5)	12.2	21.8
in % of GDP	6.7	6.3	6.2	6.3	6.7
Loans in foreign currency (EUR mn)	10,637	9,824	8,358	8,627	9,605
growth in % yoy	(4.2)	(7.7)	(14.9)	3.2	11.3
in % of GDP	24.8	21.3	18.7	17.6	17.1
Loans in foreign currency (% of total loans)	57	56	51	48	47
Total deposits (EUR mn)	14,542	14,644	14,773	15,157	17,983
growth in % yoy	(2.4)	0.7	0.9	2.6	18.6
in % of GDP	33.9	31.7	33.1	30.8	32.1
Deposits from households (EUR mn)	9,494	9,327	8,535	8,965	10,211
growth in % yoy	1.6	(1.8)	(8.5)	5.0	13.9
in % of GDP	22.2	20.2	19.1	18.2	18.2
Total loans (% of total deposits)	128	120	111	118	115
Structural information					
Number of banks	26	24	24	24	24
Market share of state-owned banks (% of total assets)	66	67	65	64	62
Market share of foreign-owned banks (% of total assets)	32	31	32	33	35
Profitability and efficiency					
Return on Assets (RoA)	1.0	1.3	1.4	1.6	1.5
Return on Equity (RoE)	8.4	10.8	9.6	10.7	10.9
Capital adequacy (% of risk weighted assets)	18.7	18.6	18.5	17.7	17.8
Non-performing loans (% of total loans)	6.8	12.8	12.8	5.0	4.6

Source: NBRB, RBI/Raiffeisen RESEARCH

Big European banks in CEE: When geographic diversification is a valid promise

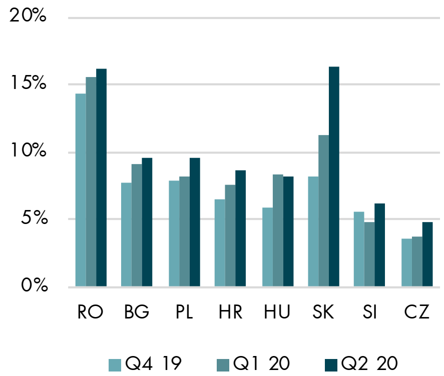
NPL ratio in CEE



** H1 2020 ratio incorporates Q1 2020 data for the Russian unit*
Source: company data, RBI/Raiffeisen RESEARCH

While bearing the same brunt of the COVID pandemic, the CEE markets confirm their balancing power for the performance of large European banks operating in the region. Although none of these markets in isolation can be seen immune to the economic upheavals, as a portfolio they provide the benefit of diversification and greater resilience to the novel crisis, which rests, inter alia, on the difference across the countries in economic structure, credit exposure mix and the level of fiscal and monetary stimulus. The markets further differentiate in terms of statutory loan moratoria applied and the prudential policy response, including the regulatory strictness over dividend payment. Looking at our sample of six European majors (CEE-B6: Erste, UniCredit, RBI, SocGen, OTP and Intesa), even though their H1 2020 profitability readings (pre-tax RoE) in the CEE segment slipped outside the cosy double-digit area (except for RBI), they were still positive and also contrasted favourably with the negative group consolidated results for some names (SocGen, UniCredit). In this regard, the COVID crisis has thus far rehashed the evidence on the importance of CEE business for European heavyweights accentuating its disproportionately high contribution to earnings as compared to the allocated assets.

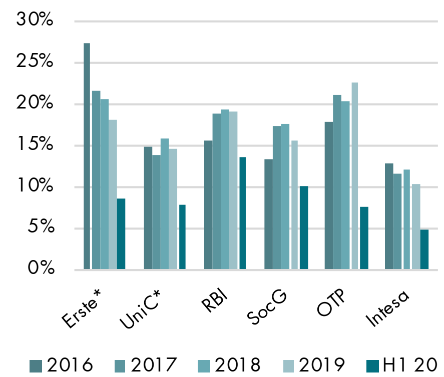
Stage 2 loans in CEE*



** EBA sample comprising top-3 (top-4 for Bulgaria) local banks*
Source: EBA, RBI/Raiffeisen RESEARCH

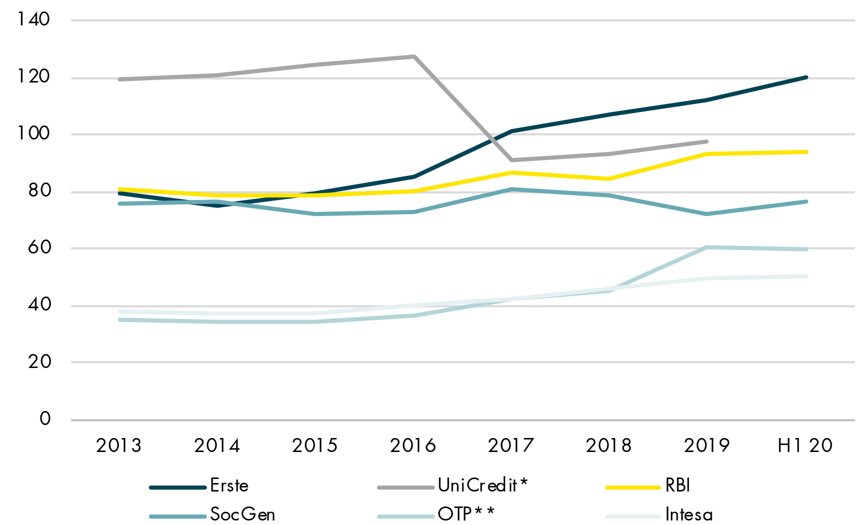
The CEE region is not unique to see the rising risk costs as the chief negative driver flowing mainly through the credit exposure migration to stage 2 category, while the growth of NPLs (stage 3 loans) has been thus far contained by the governments' multi-faceted response, including payment holidays schemes and guarantees. Distinct in vulnerability to the COVID shock, the single CEE countries diverge in macro-scenarios fed into the IFRS 9 assumptions and hence the frontloading of loan provisions, although the general uptrend is there and should remain a topic in the forthcoming months especially when the moratoria regime is curtailed. We note that the post-COVID environment also revealed a shift to lower interest rates (more pronounced in Poland and the Czech Republic apart from the eurozone), which dims somewhat the allure of CEE as a place to earn higher margins. On the other hand, the international players who straddle Western and Eastern European banking worlds retain their advantage of the established intragroup synergies to enhance cross-sell revenues in non-lending services. The foreign banks' dominant market position in many CEE countries should also help navigate the lower-margin environment.

RoE (pre-tax) in CEE



** return on allocated capital*
Source: company data, RBI/Raiffeisen RESEARCH

Total assets in CEE (EUR bn)



** no H1 2020 data for total assets in CEE*
*** H1 2020 figure is adjusted for the sale of Slovakian subsidiary*
Source: company data, RBI/Raiffeisen RESEARCH

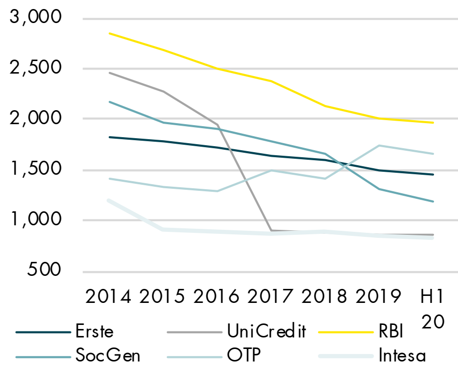
Speaking in EUR terms, on average the pandemic-induced economic contraction derailed CEE-B6 banks from the organic credit growth path, although on the level of total assets they still showed either expansion or stable development in H1 2020. By and large, there was no change in the banks' ranking within our sample, where Erste Group retains its leading position with roughly EUR 120 bn of CEE assets and Intesa closes the list (EUR 50 bn). Among common trends was also the ongoing optimisation of branch networks, further spurred by the coronavirus effects.

After the years 2018/19 jam-packed with M&A deals in CEE involving mainly SocGen (divesting) and OTP (investing), the pipeline has generally cooled off with some transactions put through (OTP sold its Slovakian unit to KBC) but other cancelled (the sale of Garanti Bank Romania by BBVA bid by OTP and Intesa). Meanwhile, some banks do not give up on the idea to pick up market shares in the COVID aftermath. Thus, while exiting Slovakia, OTP keeps an eye open for opportunities to gain scale in its other ten CEE markets of operation outside Hungary. On the back of recent acquisitions – in particular, in Bulgaria, Serbia and Slovenia – the group already increased its non-Hungarian assets to EUR 36 bn which exceeds the size of the core domestic bank (EUR 29 bn). In the meantime, OTP and other foreign lenders might face more intense competition in the Hungarian market, if a prospective alliance of local players MKB, Budapest Bank and Takarek materialises. The rest of the CEE-B6 seem more cautious in risk-taking and do not betray too much of inorganic expansion plans, rather securing their entrenched position or a successful niche strategy in the core markets. In this regard, we note the sustainably high value of subsidiaries in the Czech Republic to Erste (2019: 35% of the group's pre-tax profit) and Russia to RBI (25%). The geographical pattern for other Western European lenders displays a more even distribution, with the total CEE stake in the FY 2019 group consolidated earnings ranging from 11% (Intesa) to 58% (UniCredit). We also find positive that the banks' CEE network units are, as a rule, self-sufficient in funding, including the ones in EU member states subject to MREL regulation and the multiple point-of-entry (MPE) resolution strategy (Erste, RBI).

All in all, the CEE banking markets share the global risks and uncertainty over the depth of the COVID pandemic's second wave and the speed of economic recovery. In some countries this narrative is further compounded by local factors weighing on the banks' performance, be it the lasting FX mortgage topic (Poland) or the banking tax (Poland, Slovakia and Hungary). At the same time, thanks to its heterogeneity the region as a whole produces a more balanced "average" in times of stress. Against this backdrop, we expect the dedicated European players to maintain their commitment to CEE business, which should add stability to the CEE banking sector.

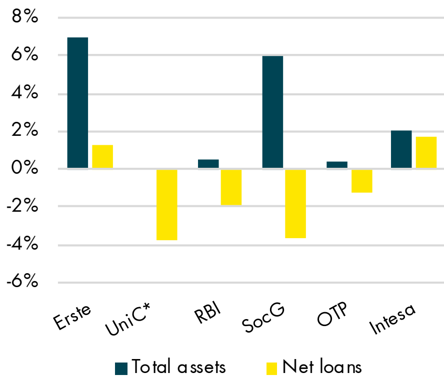
Financial analyst: Ruslan Gadeev, RBI Vienna

Branches in CEE



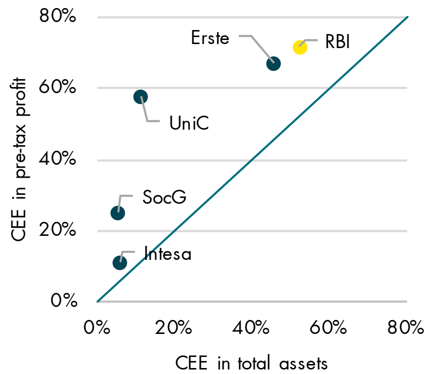
Source: company data, RBI/Raiffeisen RESEARCH

Asset growth in CEE (H1 2020 ytd)



** no H1 2020 data for total assets in CEE*
Source: company data, RBI/Raiffeisen RESEARCH

CEE business in the group (2019)



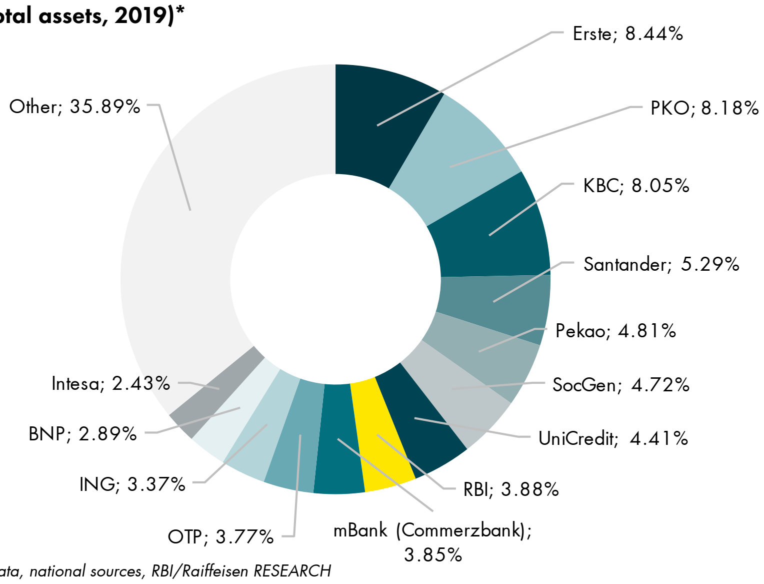
Source: company data, RBI/Raiffeisen RESEARCH

CEE largest banks: Market presence (branches) and network (no. of countries) as of H1 2020

	PL	HU	CZ	SK	SI	BG	RO	HR	AL	RS	ME	BA	KS	MD	RU	BY	UA	No. of countries	Branches
RBI	(1)	72	127	177		147	354	75	78	88		103	47		154	83	453	13*	1958
UniCredit		55	114		21	145	134	114		72		110			87			10	852
SocGen			275				625								290			3	1190
Erste		108	456	222			429	144		90								6	1449
OTP		364		(58)	53	379	94	128	38	218	47			54	135		88	10**	1598
Intesa		64		192	46		32	177	35	155		48		17	28		45	11	839

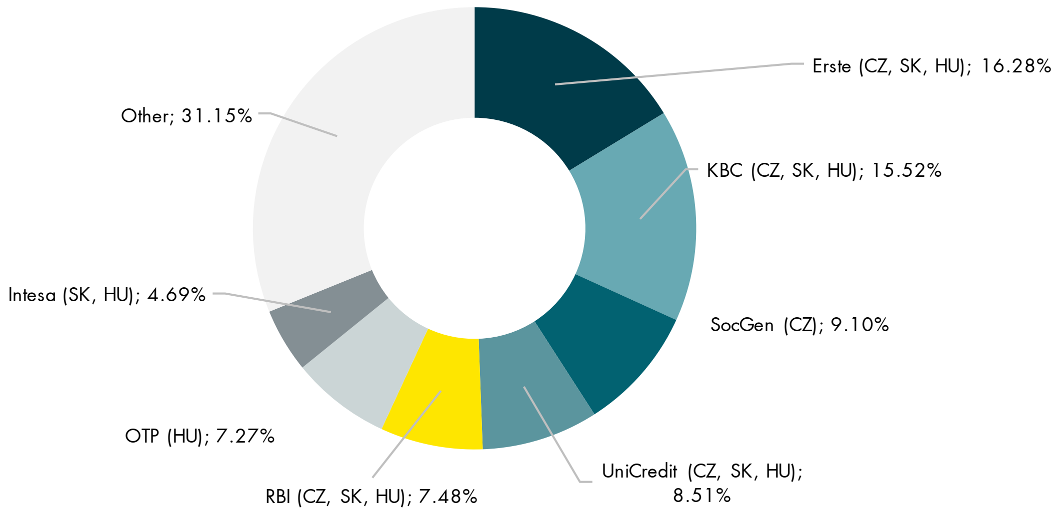
**excl. Poland, **excl. Slovakia; Source: company data, RBI/Raiffeisen RESEARCH*

Major CE-banks (based on total assets, 2019)*



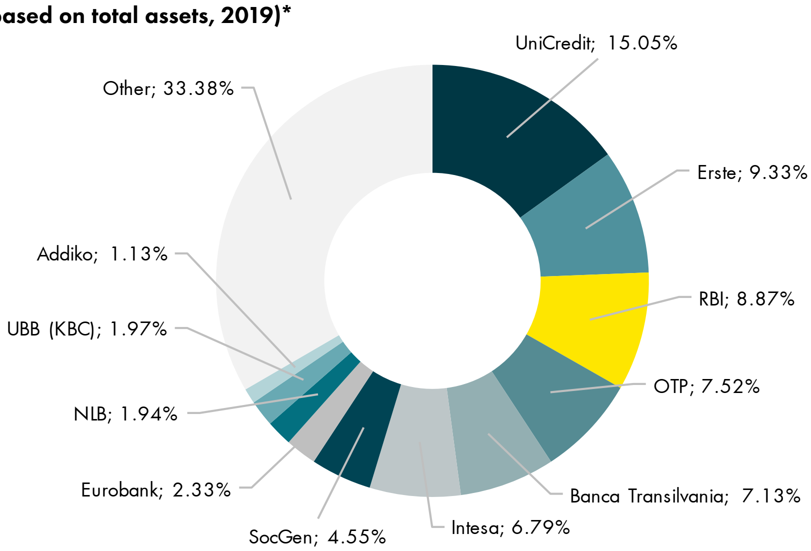
** CE: PL, CZ, SK, HU; Source: company data, national sources, RBI/Raiffeisen RESEARCH*

Major banks in CE-3 countries (based on total assets, countries of presence in brackets, 2019)*



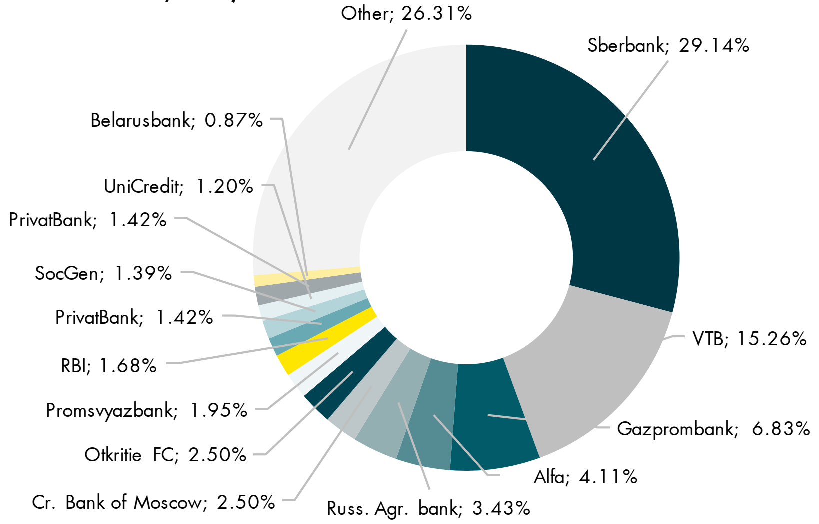
** CE-3: CZ, SK, HU; Source: company data, national sources, RBI/Raiffeisen RESEARCH*

Major SEE-banks (based on total assets, 2019)*



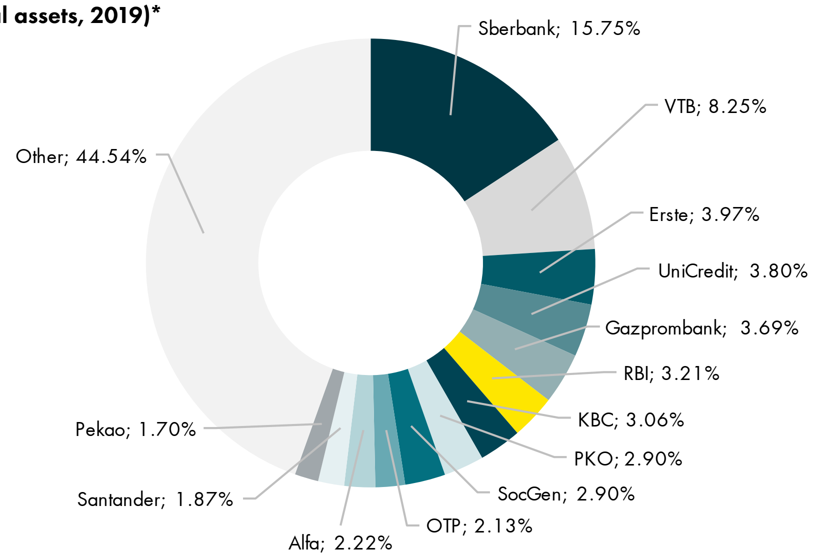
** SEE: RO, BG, HR, RS, BA, AL, KO; Source: company data, national sources, RBI/Raiffeisen RESEARCH*

Major EE-banks (based on total assets, 2019)*



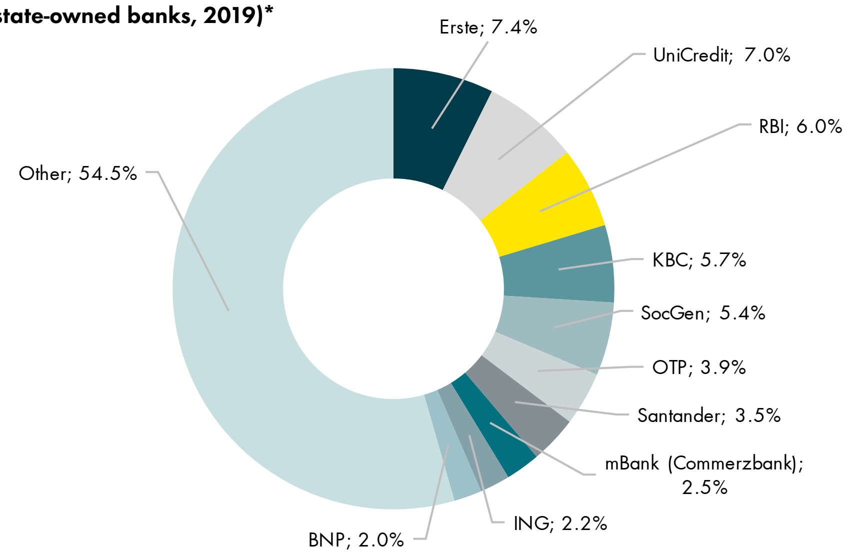
* EE: RU, UA, BY; Source: company data, national sources, RBI/Raiffeisen RESEARCH

Major CEE-banks (based on total assets, 2019)*



* based on CE, SEE, EE countries; Source: company data, national sources, RBI/Raiffeisen RESEARCH

CEE (excl. market-share of state-owned banks, 2019)*



* based on total assets in CE, SEE, EE countries and market share of state-owned banks; Source: company data, national sources, RBI/Raiffeisen RESEARCH

Geographic regions

CE	Central Europe
CEE	Central and Eastern Europe
EA	Euro area
EE	Eastern Europe
SEE	Southeastern Europe

Basic abbreviations

avg	average
bn	billion
bp	basis point(s)
eop	end of period
mn	million
pp	percentage point(s)
r.h.s.	right hand scale (when two scales are used in one chart)
vs.	versus
yoy	year on year

Key economic figures

CAR	Capital adequacy ratio
CET1	Common Equity Tier 1
C/I ratio	Cost income ratio
CoR	Cost of revenue
CT1 ratio	Core Tier 1 ratio
L/D ratio	Loan-to-deposit ratio
LTV ratio	Loan-to-value ratio
NPL	Non-performing loan
NII	Net interest income
NIM	Net interest margin
RoA	Return on Assets
RoE	Return on Equity
RWA	Risk-weighted assets

Other abbreviations

BRRD	Bank Recovery and Resolution Directive
CCyB	Countercyclical Capital Buffer
DGS	Deposit-Guarantee Dchemes (see MREL)
IFRS	International Financial Reporting Standards
M&A	Mergers and acquisitions
MiFID	Markets in Financial Instruments Directive
MREL	Minimum Requirement for Eligible Liabilities
POS	Point of Sales
SME	Small and medium sized enterprises

Currencies

FCY	foreign currency
FX	foreign exchange
LCY	local currency
BYR	Belarusian ruble
CHF	Swiss franc
EUR	Euro
HRK	Croatian kuna
HUF	Hungarian forint
RON	Romanian leu
RUB	Russian ruble
UAH	Ukrainian hryvnia
USD	US dollar

Institutions

BIS	Bank for International Settlement
BNB	Bulgarian National Bank
CBR	Central Bank of Russia
CBBH	Central Bank of Bosnia and Herzegovina
CNB	Czech National Bank | Croatian National Bank
EBRD	European Bank of Reconstruction and Development
ECB	European Central Bank
EU	European Union
IMF	International Monetary Fund
MFI	Monetary Financial Institution
MNB	Magyar Nemzeti Bank (Hungarian National Bank)
NBA	National Bank of Albania
NBP	National Bank of Poland
NBR	National Bank of Romania
NBRB	National Bank of Belarus
NBS	National Bank of Slovakia | National Bank of Serbia
NBU	National Bank of Ukraine
wiiw	Vienna Institute for International Economic Studies

Sources

Company data	includes annual reports, quarterly reports, investor presentations, rating agency data
National data	includes Central bank statistics, other institutions involved in banking sector surveillance, general national statistical data, Financial Stability Reports, IMF country data, ECB data

Risk notifications and explanations

Warnings

- Figures on performance refer to the past. Past performance is not a reliable indicator for future results and the development of a financial instrument, a financial index or a securities service. This is particularly true in cases when the financial instrument, financial index or securities service has been offered for less than 12 months. In particular, this very short comparison period is not a reliable indicator for future results.
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Investment recommendation	Column A Basis: All recommendations for all financial instruments (last 12 months)	Column B Basis: Recommendations for financial instruments of all issuers, for which special services were rendered in the last 12 months
Buy recommendations	53.8%	49.1%
Hold recommendations	39.2%	30.8%
Sell recommendations	11.7%	15.4%

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Intesa Group	3
KBC Group	none
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Societe Generale	7
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