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Banking sector outlook and regulatory developments in the CESEE region

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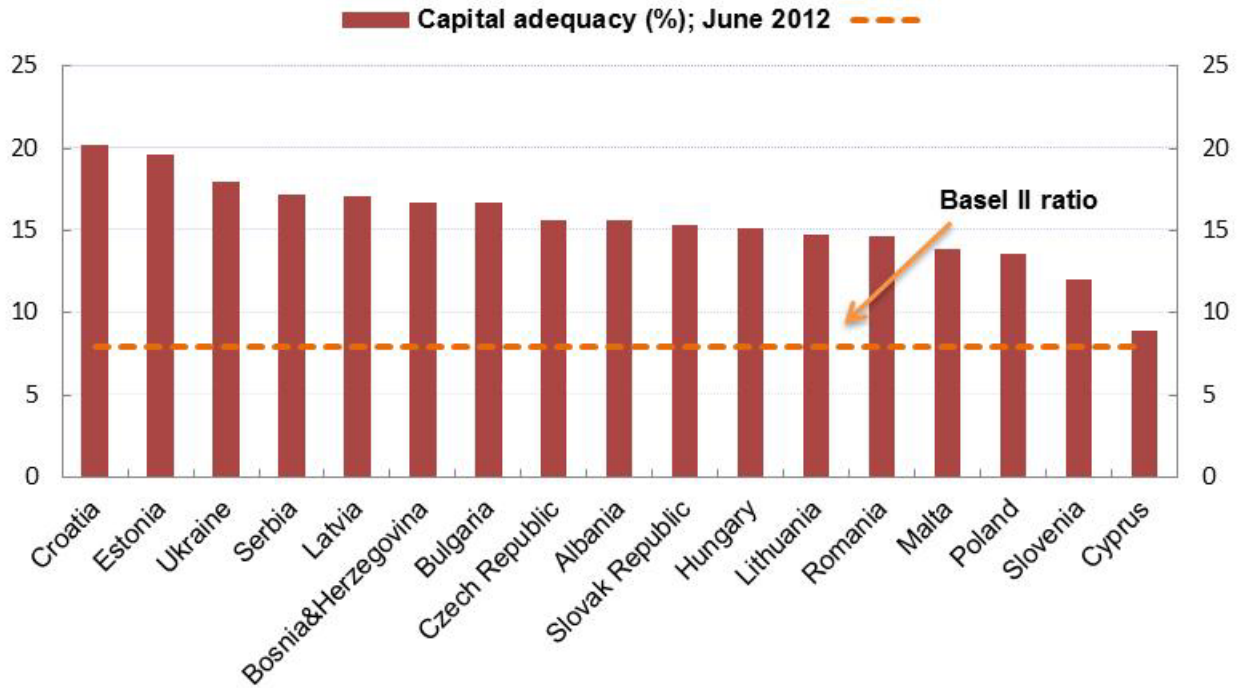
Outline

- **Banking sector developments: capitalisation, asset quality, profitability, funding gap, challenges going forward**

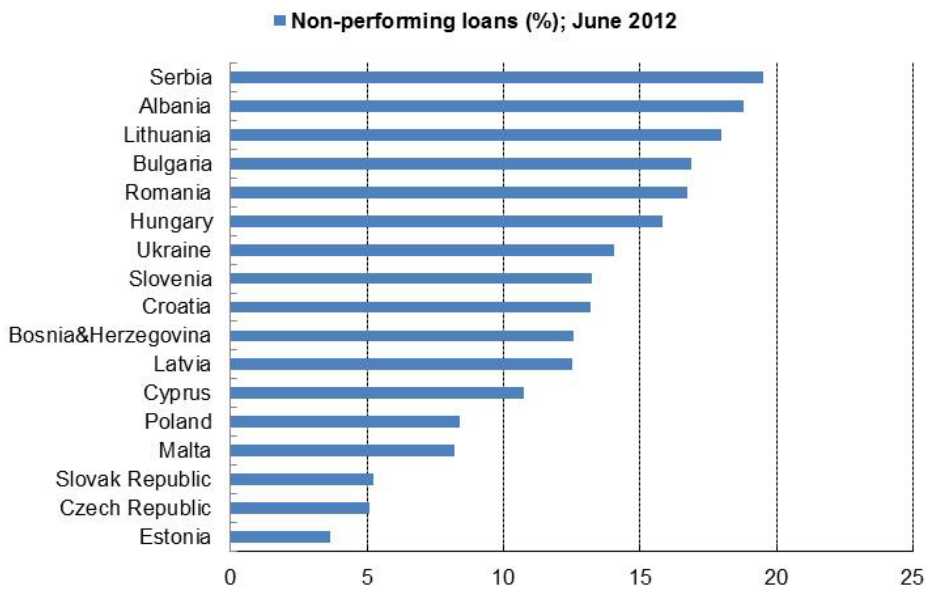
- **Bank strategies and regulatory/prudential developments in Central, Eastern and South Eastern Europe**

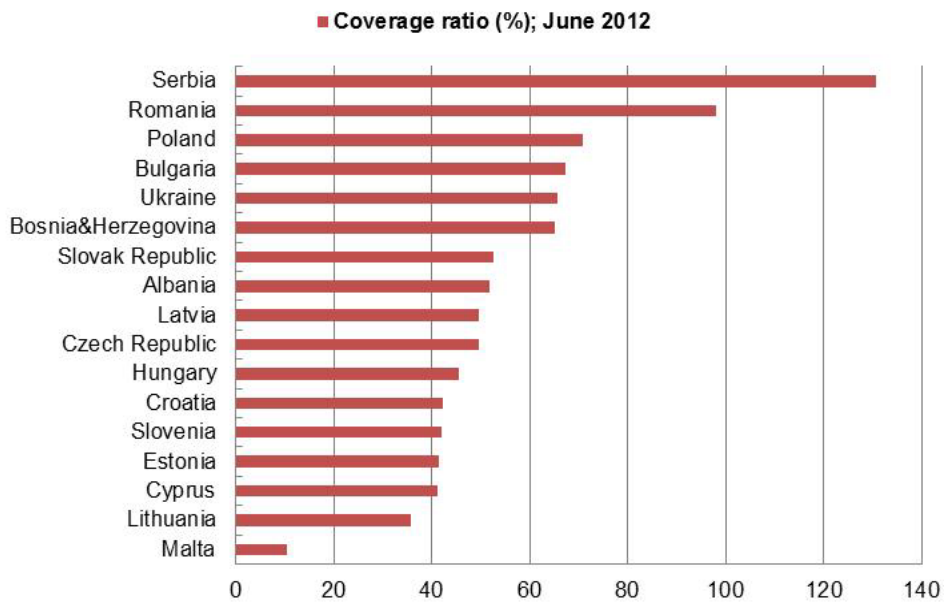
Banking sector capitalisation improved in 2012 compared to 2011 in the majority of the CESEE countries



Source: IMF, national central banks, EC; *Notes*: data for Albania as of 2011; capital adequacy for Serbia and Ukraine calculated according to Basel I definition

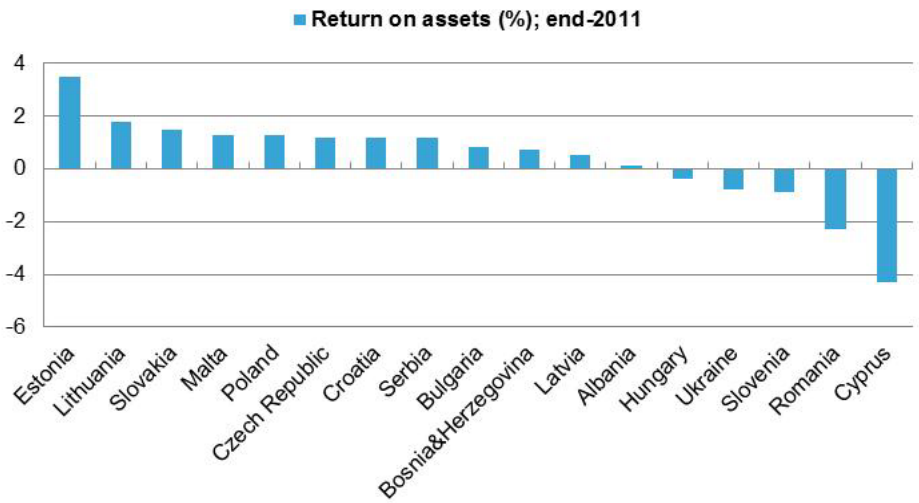
Asset quality remains a major source of vulnerability in several countries in the CESEE region

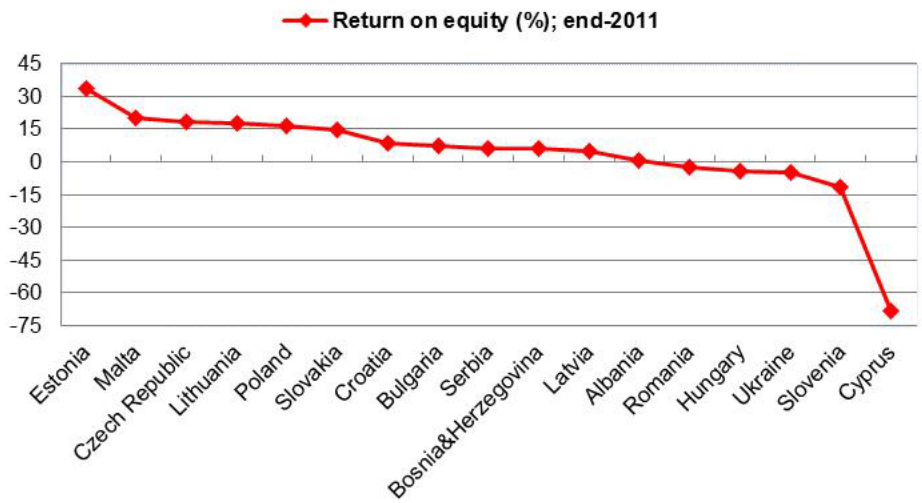




Source: IMF, national central banks, EC; *Notes*: data for Hungary includes overdue loans declared as non-performing before 90 days; for Ukraine NPLs also include doubtful loans; coverage ratio calculated as loan-loss provisions to non-performing loans; for Serbia and Bulgaria specific and generic provisions are taken into account; for Romania the coverage ratio includes prudential filters; data for Serbia and Albania as of end-2011

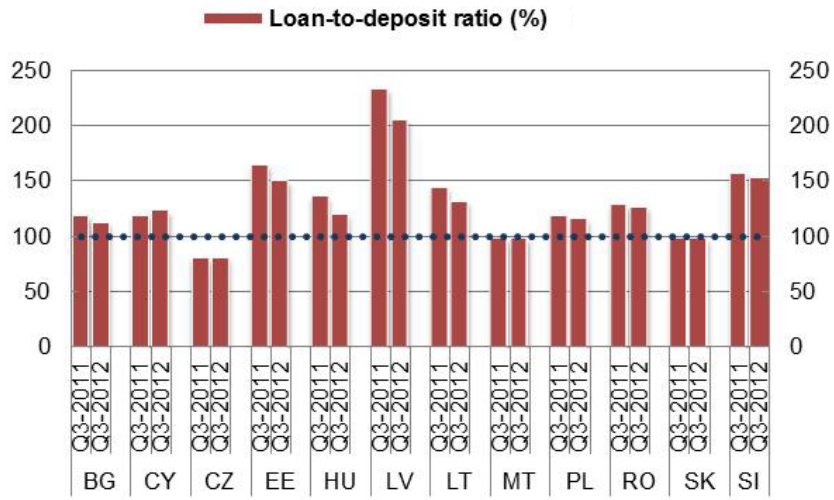
Increase in loan-loss provisions and cost of funding has continued to weigh on banking sector results

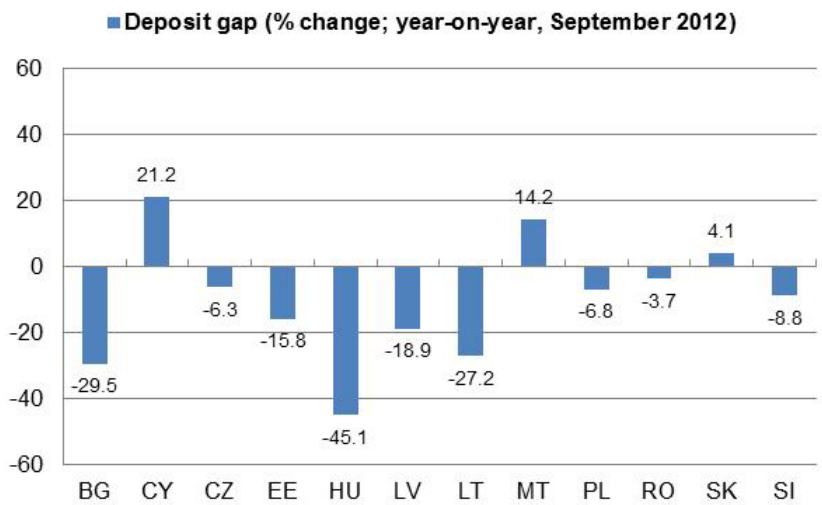




Source: IMF, national central banks, EC; *Notes*: ROA and ROE before taxes and extraordinary items; ROA and ROA after taxes for Albania, Czech Republic, Bosnia & Herzegovina, Bulgaria, Latvia, Lithuania, Poland, Romania, Serbia and Ukraine; ROE excludes branches of foreign banks for Estonia, Lithuania and Poland

Private sector funding gap continued to decline compared to 2011





Source: ECB, Commission services calculations; *Notes*: Loan-to-deposit ratio and deposit gap calculated on the basis of exposure to the private sector (i.e. only corporates and households); deposit gap = (total loans to corporates and households – total corporate and retail deposits)

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Banking sector challenges going forward

- Maintain the capacity of banks to generate profits on the back of the still high funding costs and increasing loan-loss provisions in several countries
- Work-out and resolve the stock of non-performing assets
- Address the pressures associated with the decline in parent bank funding observed in several countries in emerging Europe
- Continue to increase operational efficiency

Banks' strategies (1)

Reduce exposure & focus on core markets

- KBC: sold Warta insurance and Kredyt Bank in PL, keeping core business in CZ and presence in HU
- Erste Group: closing Hungarian Pension Fund arm; increased stake in the Romanian subsidiary BCR

Adjust group structure and increase efficiency

- Most banking groups: plans to reduce operational expenses
- Unicredit: new organisational model by end-2012: move to a regional view in IT, DE, AT, PL; CEE activities separate
- ING: restructuring equity search activities in CEE

Banks' strategies (2)

Consolidate to enhance resilience against the crisis

- **Piraeus: taking over ATE Bank and Geniki Bank**
- **Alpha Bank: taking over Emporiki**
- **NBG and Eurobank: planning a merger and restructuring SEE businesses**

Exploit opportunities to strengthen market presence

- **Swedbank: buying AIB's mortgage portfolio and Hipotēku Banka's commercial businesses in LV**
- **Santander: buying Kredyt Bank in PL to merge with Bank Zachodni WBK**

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Supervisory measures (1)

Sustainability of the cross-border business model

- Early warning indicator (AT) - if new lending by subsidiaries to stable local funding (LTSF) exceeds 110%, further measures to be discussed by supervisory colleges

Crisis management and bank resolution

- Implementation of 2010 Nordic-Baltic MoU
- Advance work on national resolution frameworks

Capital adequacy

- Basel III definition and new threshold (9% CT1)
- Higher risk weights e.g. for mortgage loans

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Supervisory measures (2)

Liquidity

- Advancing Basel III requirements
- Enhanced monitoring of subsidiaries' liquidity position and exposures to parent companies

Responsible lending

- Household loans: limits on LTV, DTI and maturity
- Measures to curb FX lending and protect FX debtors

Profits and taxation

- Dividend restrictions to increase capital buffers
- Bank levies

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Thank you