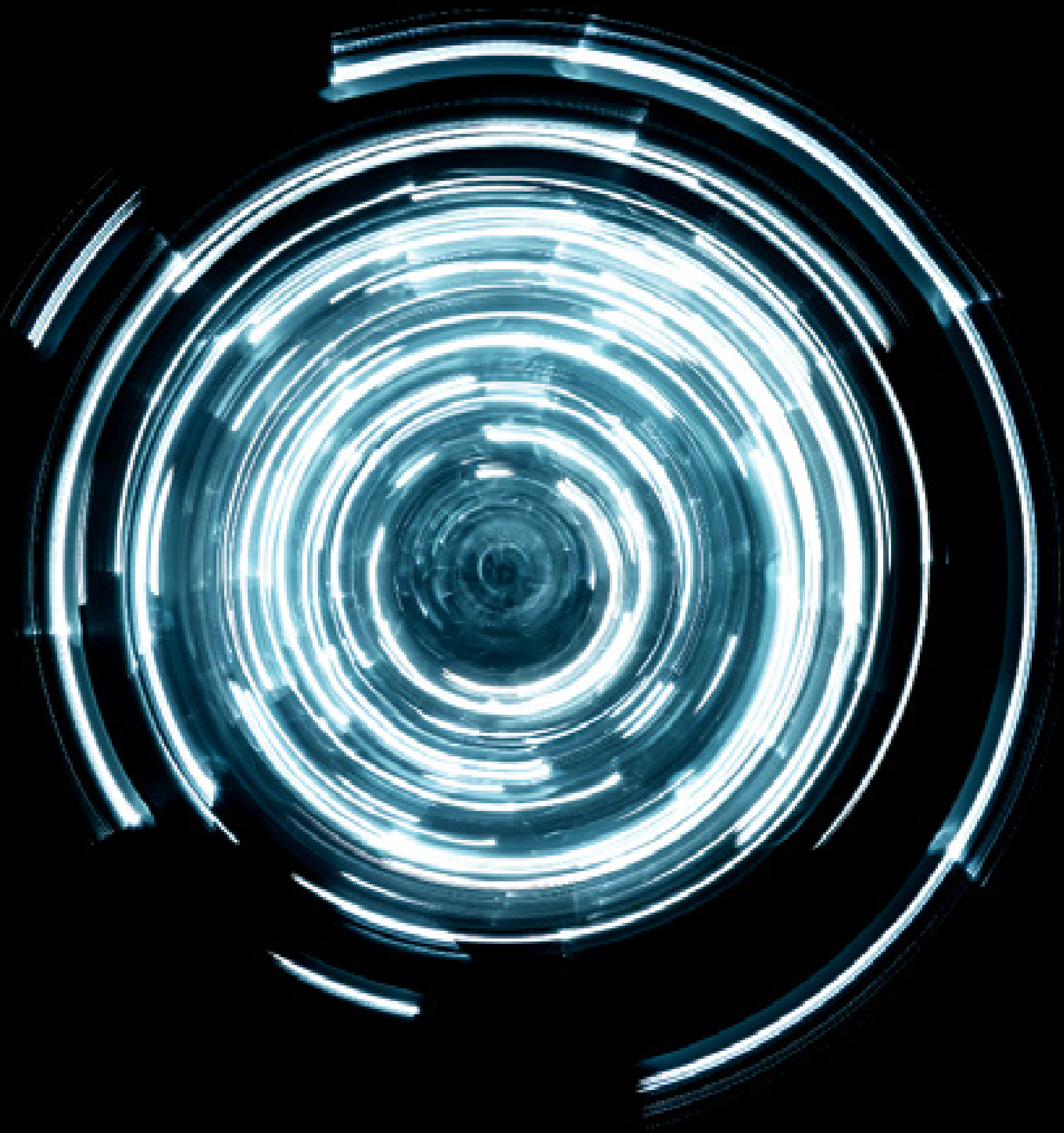
Deloitte.



CEE banks facing challenging times

Economic turbulence to boost consolidation

December 2020

Contents

Foreword

We are happy to hereby release the 3rd edition of our CEE banking M&A study. This year however differs significantly from the former two, as those editions were depicting a well-performing CEE banking sector with positive outlook, fuelled by strong economic performance, while by now CEE banks face massive challenges triggered by the global COVID-19 pandemic. The real damage is to be visible from the 2020 financial figures, however there is no doubt that COVID-19 is having a painful footprint on CEE banking performance.

COVID-19 found the CEE banking sector in a solid condition. Average capital adequacy was 20% in 2019, NPL metrics already relatively low and further melting, with average ROE of 12.7%. These figures are to markedly worsen due to the ongoing turbulence, posing severe challenges to banking managements and shareholders.

Consolidation has already been ongoing in the fragmented CEE banking sector, a number of deals were made in recent years, with non-strategic CEE players exiting or rationalizing, in tandem with strong acquisition appetite from core CEE players. In last year`s foreword we projected that the expected economic softening might put more pressure on less efficient banks. 2020 however is not seeing economic softening, but a massive recession on the back of a global crisis. Amid such sour conditions, weighing heavily on banking profitability and capital positions, smaller and less solid players might not be able to cope with the challenges alone. Robustness, shock absorption capacity, economies of scale and operational efficiency are to become even more vital, where larger, more diversified banking groups might come to a position to selectively acquire other weakened banks.

We have been actively supporting our clients in the recent consolidation, and having liaised with banking executives we see that market players are now waiting to see the real effects of the COVID-19 crisis with the gradual phasing out of moratorium regimes. However the forthcoming period is to uncover the actual damage, which is expected to further spur consolidation in the CEE banking market.

Balázs Bíró
Partner, Regional Financial Services Industry Leader
Financial Advisory

M&A ADVISOR
BY DEAL COUNT
#1
CENTRAL AND EASTERN EUROPE
MERGERMARKET, 2018 & 2019 & H1 2020

#1 M&A advisor in Central Europe pursuant to the number of transactions (Mergermarket, 2006, 2007, 2008, 2009 and 2010, 2018, 2019, 2020H1)

#1 M&A advisor in terms of the 4 biggest advisory firms - Big 4 (Mergermarket, 2006, 2007, 2008, 2009 and 2010, 2018, 2019H1, 2020H1)

Global M&A Advisor Award of the year 2009 by M&A Advisor

#1 Accounting / Due Diligence Firm at the International M&A Awards by M&A Advisor, 2011

Professional Services Firm of the Year (April 2011) Private Equity Awards 2011

Ranked #1 in global consulting by Gartner for the third consecutive year, 2013

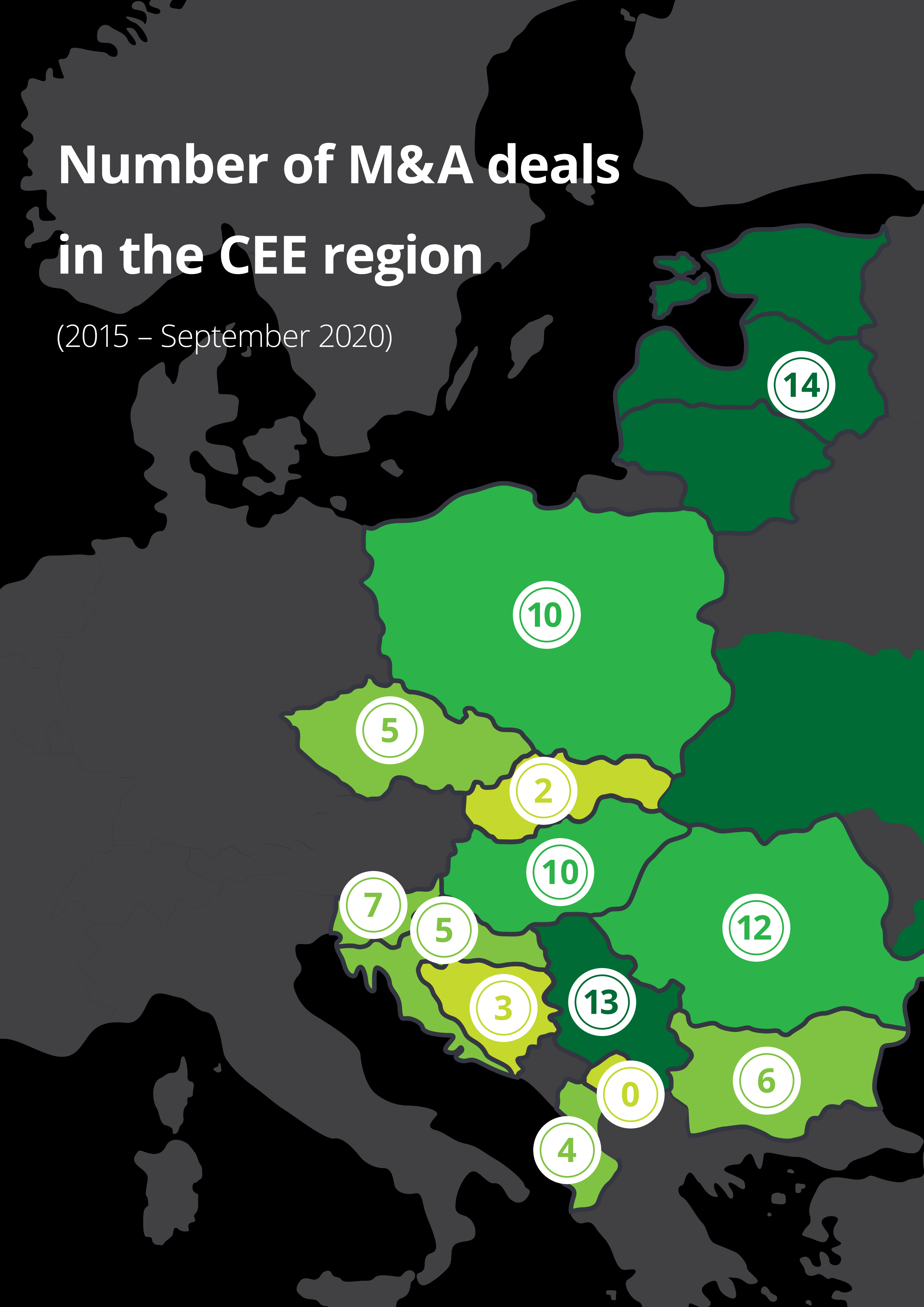
M&A ADVISORY LEAGUE TABLE (2020 H1)

CEE			EUROPE			GLOBAL		
#	**Company name**	**Deal count**	**#**	**Company name**	**Deal count**	**#**	**Company name**	**Deal count**
1	**Deloitte**	**11**	1	**Deloitte**	**117**	1	**Deloitte**	**187**
2	PwC	10	2	PwC	100	2	PwC	166
3	VTB Capital AO	9	3	EY	96	3	KPMG	130
4	EY	8	4	KPMG	95	4	EY	130
5	Citi	4	5	Rothschild & Co	75	5	Goldman Sachs & Co	103
6	UBS Investment Bank	4	6	JPMorgan	53	6	JPMorgan	103
7	KPMG	4	7	Goldman Sachs & Co	41	7	Morgan Stanley	95
8	Clairfield Inernational	3	8	Bank of America	38	8	Rothschild & Co	88
9	SUMMA Advisers	3	9	Morgan Stanley	36	9	Bank of America	85
10	JPMorgan	2	10	Lazard	36	10	Houlihan Lokey	80

Source: Mergermarket Global & Regional M&A Report 1H20

Number of M&A deals in the CEE region

(2015 – September 2020)

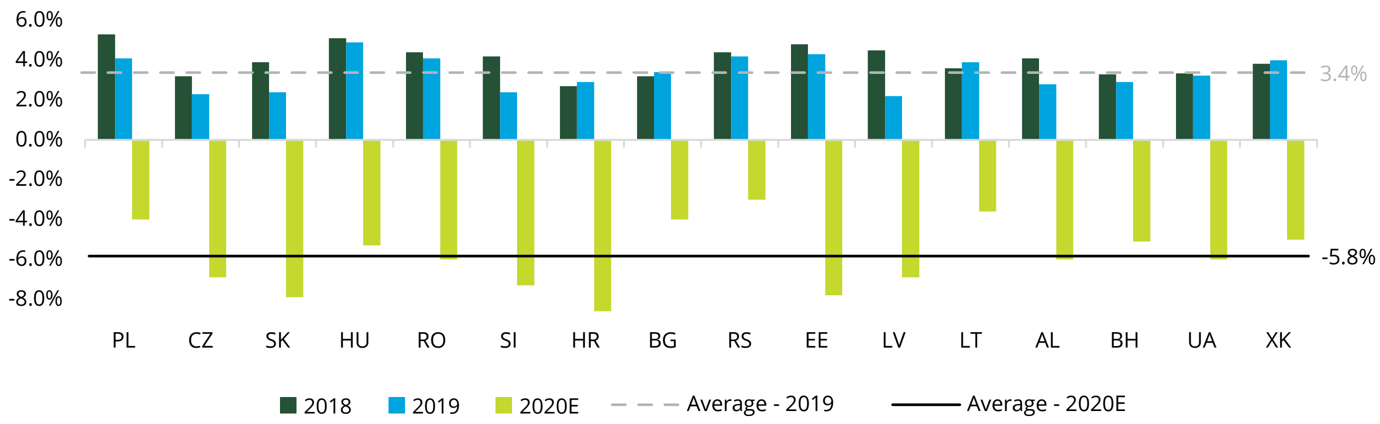


Ukraine	16
Baltic Region	14
Serbia	13
Romania	12
Poland	10
Hungary	10
Slovenia	7
Bulgaria	6
Croatia	5
Czech Republic	5
Albania	5
Bosnia and Herzegovina	3
Slovakia	2
Kosovo	0

CEE macroeconomic overview

The CEE region experienced remarkable economic progress in the past years, with the average real GDP growth rate being above 3% per annum in the last five years. 2019 saw a moderate decrease in average real GDP growth, to 3.4% from 4.0% in 2018. The highest growth rates were achieved in Hungary (4.9%), Estonia (4.3%) and Serbia (4.2%) in 2019. Growth was driven by an increasing domestic demand fuelled by improving labour market conditions and favourable consumer prices across Europe. This period of impressive growth however is to come to a halt in 2020 due to the outbreak of the global COVID-19 pandemic. Economic forecasts predict an average GDP decline of 5.8% in the region with Croatia (-8.6%), Slovakia (-8.2%) and Serbia (-7.2%) experiencing the greatest decrease.

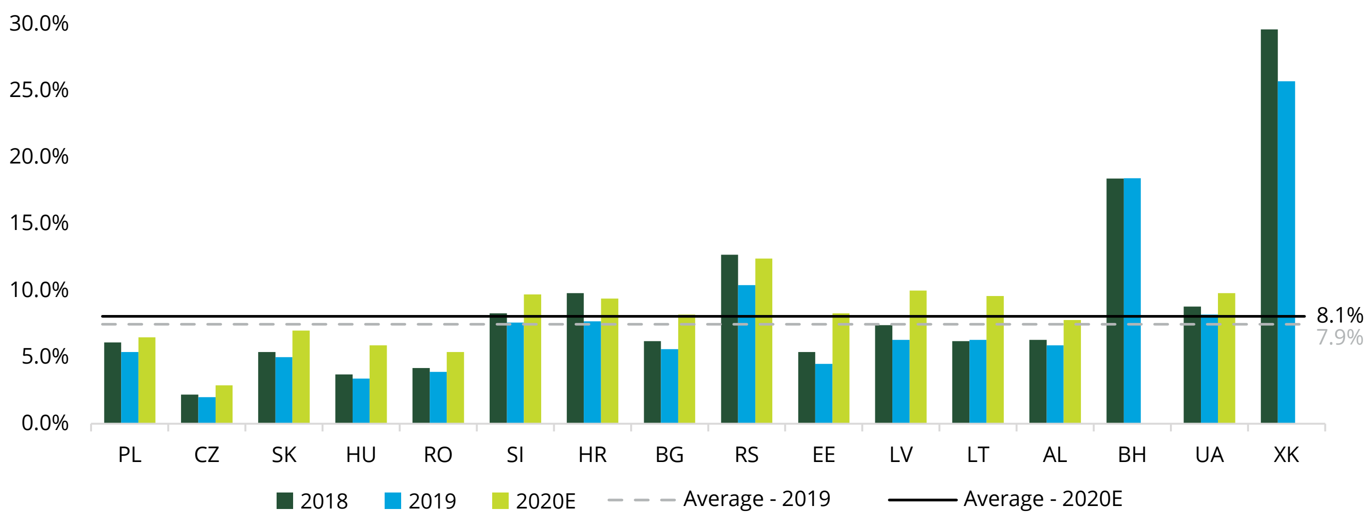
Figure 1. Changes in real GDP, 2018-2020E



Source: EIU, National Banks

On average, the unemployment rate decreased by 0.9% point from 8.8% to 7.9% in 2019 considering all the 16 countries. Kosovo recorded the highest unemployment rate (25.7%) in the region in 2019. In 2020, an average increase of unemployment rate by 1.5% point is expected, with Estonia and Latvia recording highest increase (3.8% and 3.7% points respectively). In 2020 Q3 most countries have already experienced an increase in unemployment rate together with a climbing inflation because of the economic shock and uncertainty due to the coronavirus outbreak.

Figure 2. Unemployment rate, 2018-2020E



Source: EIU, National Banks

Note: expected unepmloyement rate in 2020 for Bosnia and Herzegovina and Kosovo is not available

Banking trends in CEE

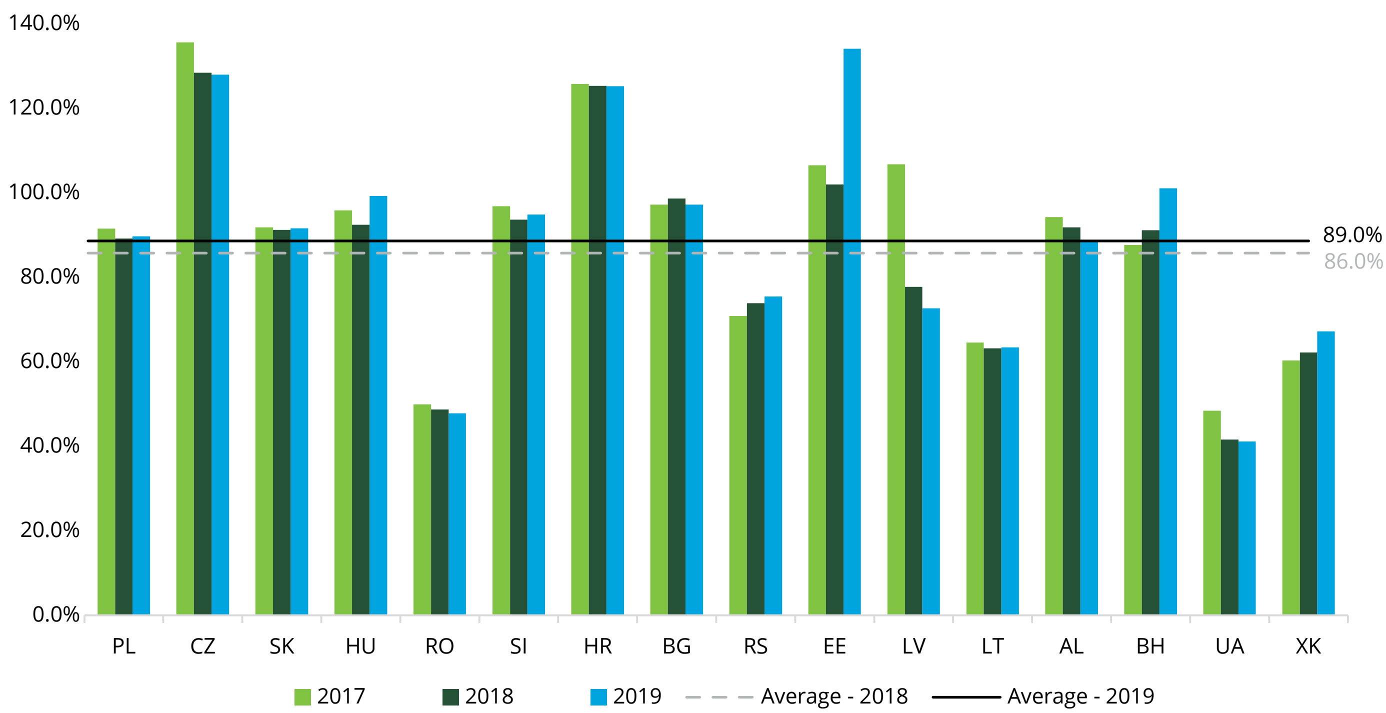
Between 2017 and 2019 banks in the CEE region experienced outstanding years due to the stable macroeconomic environment. However, the COVID-19 pandemic disrupted this favourable upward trend in the first half of 2020, bringing down both profitability and solvency ratios in most of the countries.

In the past few years, asset quality continued its improving trend with decreasing NPL ratios, while profitability ratios increased and capital adequacy remained solid. The increasing lending activity fuelled by a favourable macroeconomic environment resulted in high profits in almost every analysed country.

Total assets grew by 8.6% on average among the analysed countries, reaching EUR 1,503 bn by the end of 2019. The two largest markets, the Polish and Czech banking sectors contributed with EUR 474 bn and EUR 287 bn, respectively.

The CEE region experienced a slightly stronger growth in banking assets than in GDP in 2019, which caused a 3% point increase in the average banking asset penetration ratio to 90%.

Figure 3. Banking Assets to GDP, 2017-2019

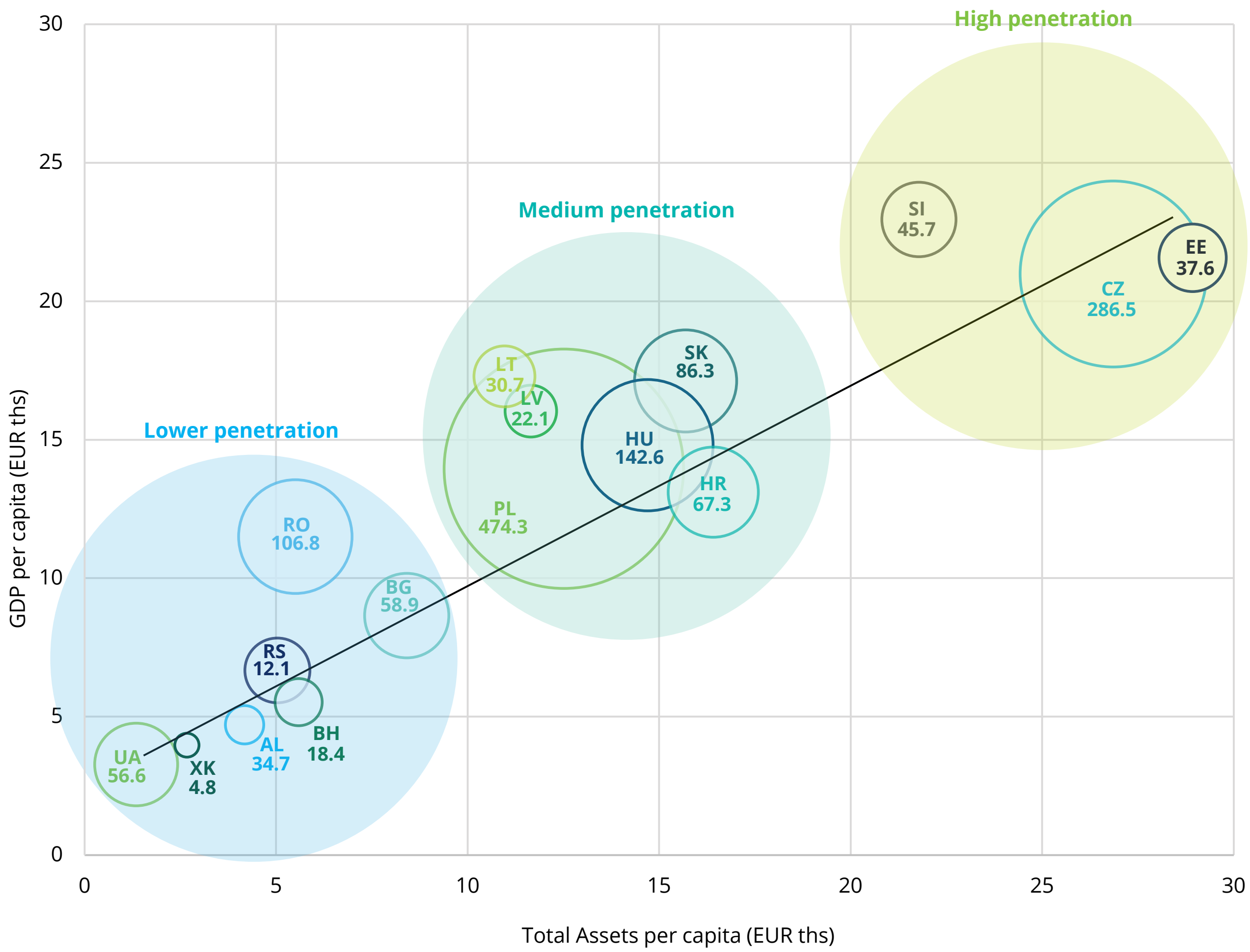


Source: ECB CBD, National banks

The total consolidated assets of the banking sector and the country's nominal GDP shows a strong positive correlation. In terms of banking penetration, the CEE banking sector can be categorized into three major groups. The first group is the lower-penetrated group consisting of Romania, Bulgaria, Serbia, Bosnia and Herzegovina, Albania, Ukraine and Kosovo, for which countries higher potential future growth is expected. Slovakia, Hungary, Poland, Croatia, Lithuania and Latvia belong to the medium-penetrated group, while Slovenia, Czech Republic and Estonia form the high-penetrated group.

In the past years, the analysed countries demonstrated a significant shift towards the high-penetrated direction due to the improving standards of living and expanding banking markets. This is especially true for countries in the in the lower-penetrated group such as Bosnia and Herzegovina, Kosovo and Serbia.

Figure 4. Banking market penetration to GDP per capita, 2019

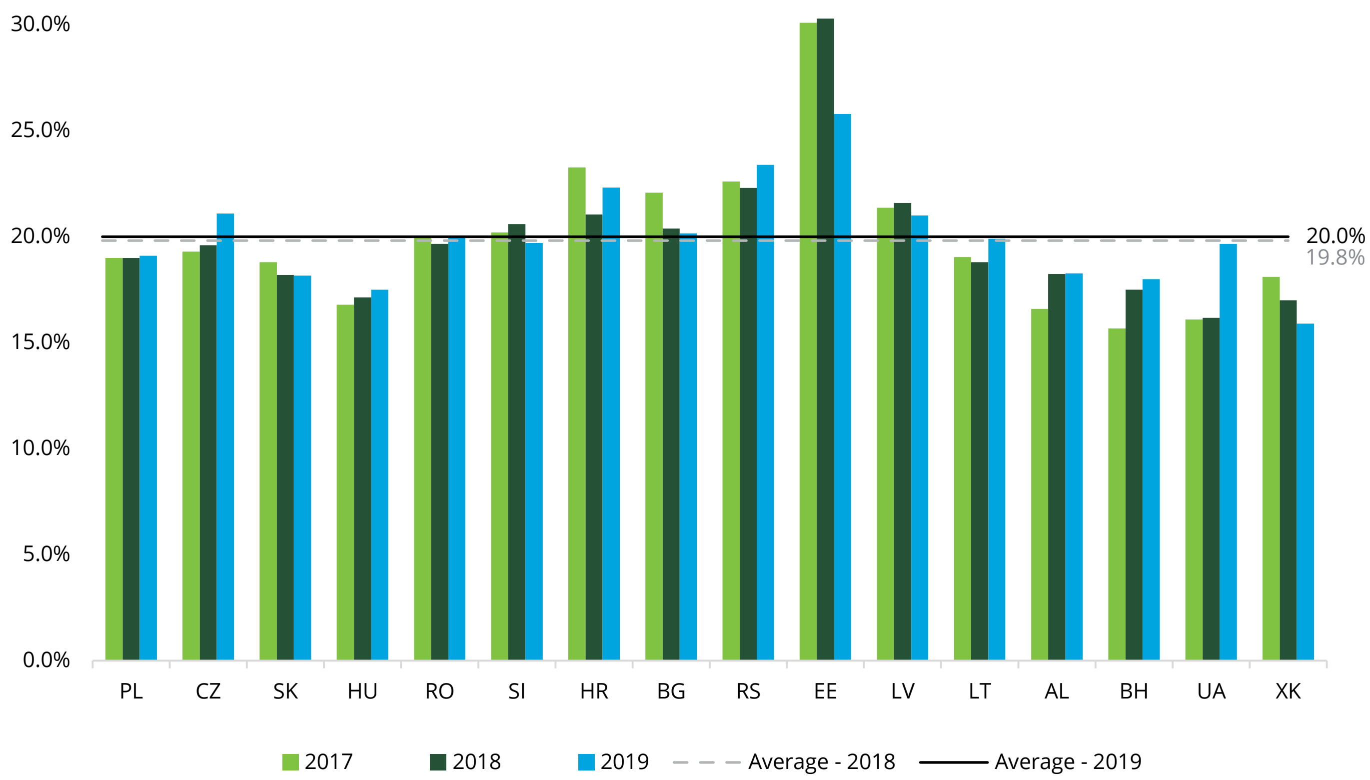


Source: ECB CBD, National banks

Note: Bubble size: total assets volume in 2019 (EUR bn)

Overall, banks' capitalisation were well above the regulatory minimum at the end of 2019, as the capital adequacy ratio (CAR) remained stable at a 20.0% level in 2019 in the CEE region, increasing by 0.2% point compared to 2018. Similarly to 2018 the highest CAR was reached in Estonia with 25.8%, even though it experienced a significant decrease by 4.5% points mostly due to dividend payouts, higher capital requirements for housing loans and the operational change of Luminor, which moved its headquarters to Estonia. In contrast, the highest improvement by 2.5% points in capital adequacy compared to 2018 was achieved by Ukraine (18.7%) due to the high profit reserves. The COVID-19 pandemic is expected to have severe impact on capital adequacy of CEE banks though.

Figure 5. Capital adequacy ratio, 2017-2019

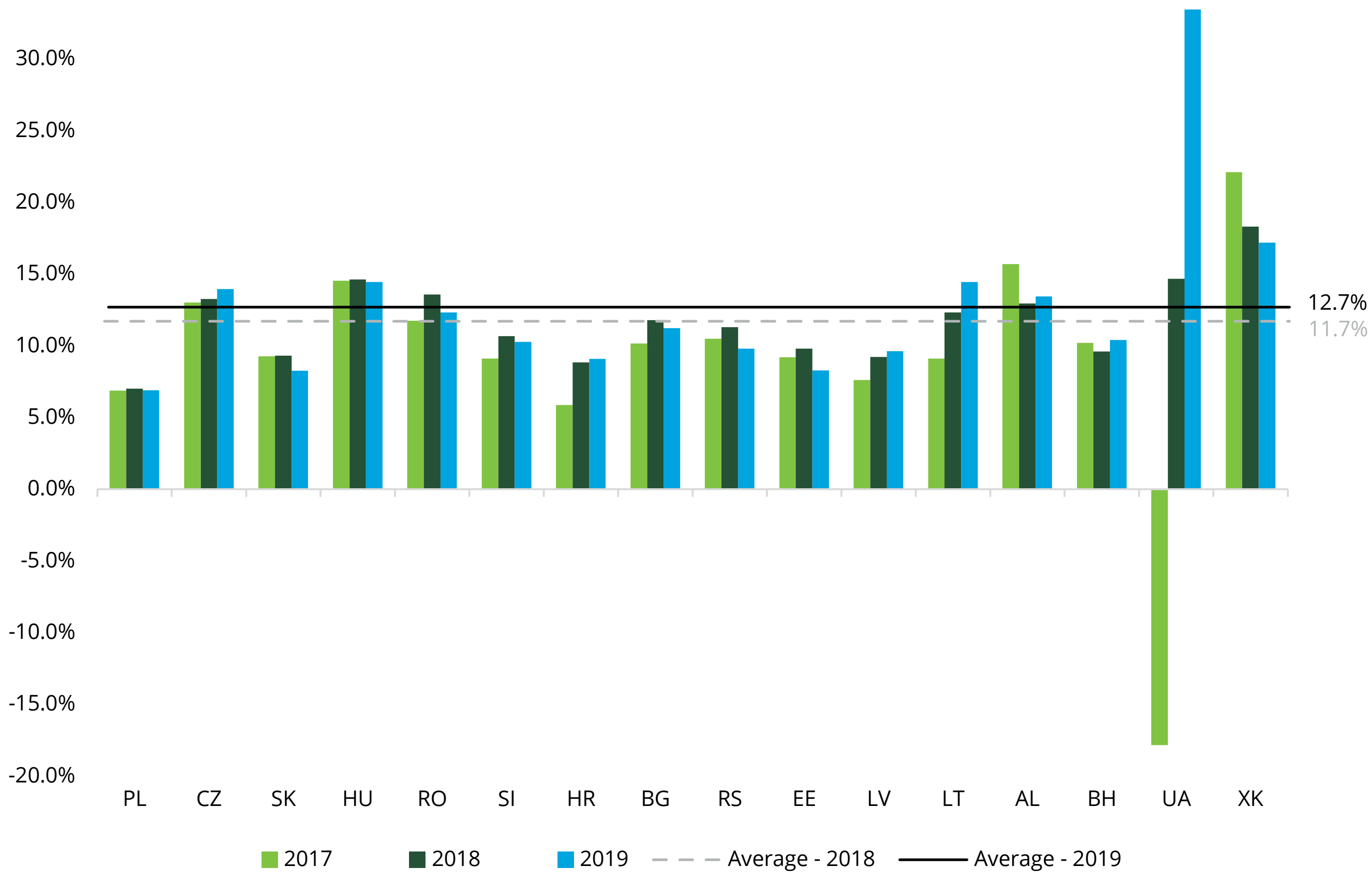


Source: ECB CBD, National banks

The CEE region's average profitability ratios reached new highs in 2019 as ROE stood at 12.7% while ROA at 1.5%. While in majority of the analysed countries the profitability ratios remained on the same level or even slightly decreased, the higher average profitability in the region was mainly achieved by the extreme high ROE of 33.5% reported in Ukraine. Without Ukraine the average ROE of the remaining countries even slightly decreased (0.2% point) compared to 2018. This is mostly due to the lower level of provision release compared to the previous years and the low interest rate environment with thin net interest margins. Nonetheless, the profitability of the region is still relatively high which was supported by robust lending activity, improving asset quality and reversal of provisions in the region. However, the profitability ratios most likely experienced their peak as the negative impacts of the COVID-19 crisis are expected to severely affect the profitability of the regional banking sector in the following years. Banks will need to face the possible deterioration of asset quality, increased level of loan losses as well as a decline in interest, fee and commission income due to the contraction of economic activity.

The Ukrainian record high ROE (33.5%) was a great development after several years of heavy loss generation. The high profitability improvement was mostly due to the increasing credit portfolio, improving asset quality and provisioning at its lowest level in more than a decade. The profitability in Kosovo has slightly decreased in the past few years, but it is still considered second highest in the region with 17.2% in 2019. The decrease in profitability was mainly due to the higher rate of provisioning. The third highest ROE was reported in Lithuania (14.5%) as a result of lower equity amounts, due to the operation change of Luminor Bank.

Figure 6. Return on equity, 2017-2019



Source: ECB CBD, National banks

The expected negative correlation between the ROE and the CIR is not that clearly demonstrated on Figure 7., as relatively high profitability was reported in several countries, despite their higher CIR ratios in 2019. The two main examples for this are Kosovo and Hungary. In Hungary in 2019 the credit demand grew considerably (especially in the household segment due to the prenatal baby support) and the asset quality further improved, which had a significant positive impact on the sector's profitability. However, profits were still partially driven by one-off items, for instance the reversal of provisions which played a declining but still considerable role in the high level of bank profitability, potentially making the sustainability of current profit levels questionable. Generally speaking, it might be challenging for banks to remain competitive in long term with CIR ratios higher than 60%.

Figure 7. ROE and CIR of the respective countries, 2019

Source: ECB CBD, National banks

Note 1: Bubble size: total assets volume in 2019 (EUR bn)

Note 2: For presentation purposes Ukraine is not included with 33.5% ROE and 52.4% CIR.

The overall profitability outlook of the CEE banking segment was stable before the COVID-19 crisis, but the negative impacts of the pandemic can put a pressure on earnings in 2020. The CEE banking sector might be more prepared though to face the challenges of the economic slowdown, than it was in 2008, since the favourable macroeconomic environment in the recent years allowed banks to accumulate solid equity buffers, which was also actively required and monitored by regulators, in tandem with more closely scrutinized risk taking of banks relative to pre-2008 years.

Figure 8. Nr. of countries with presence and ROE of the leading banking groups in the respective countries, 2019

Source: EMIS, Annual reports

Note: Bubble size - total assets volume in 2019 (EUR bn)

The top 15 banking groups in the CEE region have attributed to almost 60% of total assets in the analysed 16 countries. In terms of total assets, the largest banking group in the region remained Erste Group (8.7% market share, presence in 8 countries) followed by KBC Group (7.8% market share, presence in 4 countries) and UniCredit Group (6.5% market share, presence in 9 countries). The Hungarian OTP Group experienced the highest CEE banking asset growth due to its expansive M&A strategy in the recent years. In 2019, OTP acquired the Slovenian, Serbian and Albanian subsidiary of Société Générale, resulting in 5.3% market share and presence in 9 CEE countries. The largest banking groups achieved higher profitability compared to their smaller peers, mainly due to economies of scale, promoting acquisitions and active consolidation in CEE in recent years, which consolidation might even accelerate as profitability and capital effects of the COVID-19 crisis kick in after the phasing out of current moratoria regimes.

Table 1. Ranking of the leading banking groups by total assets in the respective countries, 2019

Rank	Banking Group	PL	CZ	SK	HU	RO	SI	HR	BG	RS	EE	LV	LT	AL	BH	UA	XK	Nr. of countries with presence	Total CEE assets (EUR bn)	Total CEE market shares (%)	Cumulative market shares (%)
1	Erste		2	1	4	2	12	3		6					8			8	114.2	8.7%	8.7%
2	KBC		1	4	2				3									4	102.8	7.8%	16.6%
3	UniCredit		4	5	3	4	5	1	2	3					1			9	85.2	6.5%	23.1%
4	OTP			9	1	8	4	4	1	2				5		9		9	69.5	5.3%	28.4%
5	Raiffeisen		5	3	5	5		5	6	5				2	2	5	1	11	69.2	5.3%	33.7%
6	Société Générale		3			3												2	54.8	4.2%	37.8%
7	Intesa Sanpaolo			2	7	12	6	2		1				4	5	24		9	48.1	3.7%	41.5%
8	Santander	2																1	47.5	3.6%	45.1%
9	Commerzbank	4			15													2	39.3	3.0%	48.1%
10	ING	5														18		2	37.4	2.9%	51.0%
11	Swedbank										2	1	1					3	27.4	2.1%	53.1%
12	BNP Paribas	6														8		2	27.0	2.1%	55.1%
13	BCP	8																1	22.7	1.7%	56.9%
14	SEB										3	2	2					3	19.2	1.5%	58.3%
15	Idea Bank	10				18										25		3	17.3	1.3%	59.7%
16	Luminor Group AB										1							1	13.8	1.1%	60.7%
17	Citibank	11														11		2	13.4	1.0%	61.7%
18	Nova Ljubljanska Banka						1			14					3		3	4	12.6	1.0%	62.7%
19	Sberbank		11		14		9	8		10					4	12		7	11.6	0.9%	63.6%
20	J&T FINANCE		9	7														2	10.0	0.8%	64.3%
21	PPF Group									18								2	9.1	0.7%	65.0%
22	Credit Agricole	14				19				12						10		4	8.6	0.7%	65.7%
23	Eurobank Ergasias								4	9								2	7.2	0.6%	66.2%
24	ProCredit					20			10	11				10	13	14	2	7	5.0	0.4%	66.6%
25	Deutsche Bank	16														34		2	4.7	0.4%	67.0%

TOP 1-5 TOP 6-10 TOP 11-35

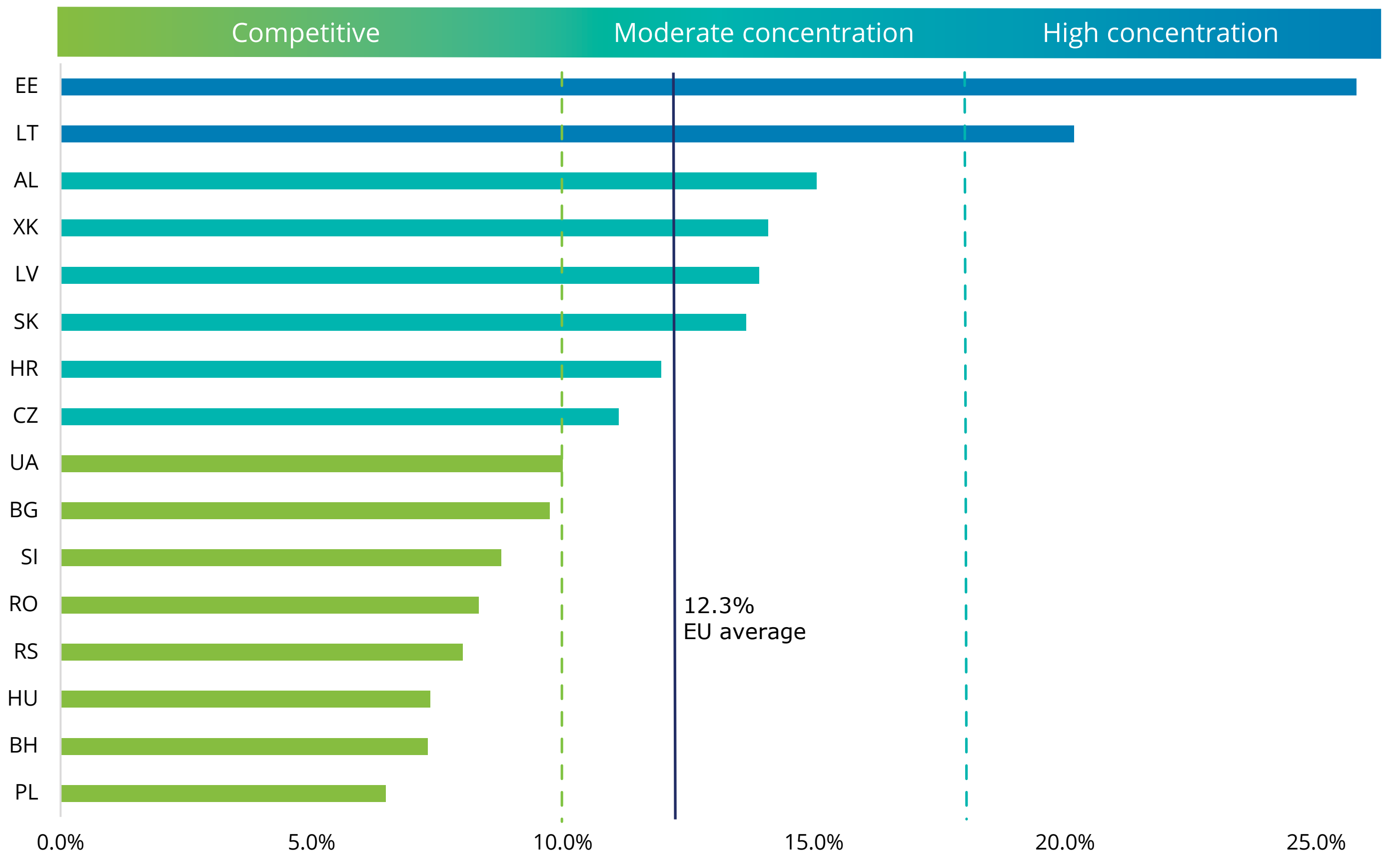
Source: EMIS, Annual reports, Inteliace Research

Overall, the CEE banking sector remained moderately concentrated, as the five largest banking groups held 33% of total assets in the CEE region in 2019. Based on the international benchmark approach of Herfindahl–Hirschman Index (HHI), 2 countries had highly concentrated banking sectors (above 18%), while the banking sector was moderately concentrated in 6 countries and competitive in 8 countries (HHI below 10%).

The most concentrated markets are still in Lithuania and Estonia, where only a few banks are present.

The region's least concentrated banking sectors were in Ukraine, Poland, Bosnia Hercegovina and Hungary, where less than 50% of the total banking assets were held by the five major banks and the HHI did not exceed 7.5%. As cost efficiency and economies of scale is crucial for all market players to compete in a long run we expect the consolidation trend to continue in the following years, even accelerated by the COVID-19 crisis, as smaller, less efficient and robust players might not be able to weather the shock alone amid profitability and capital challenges.

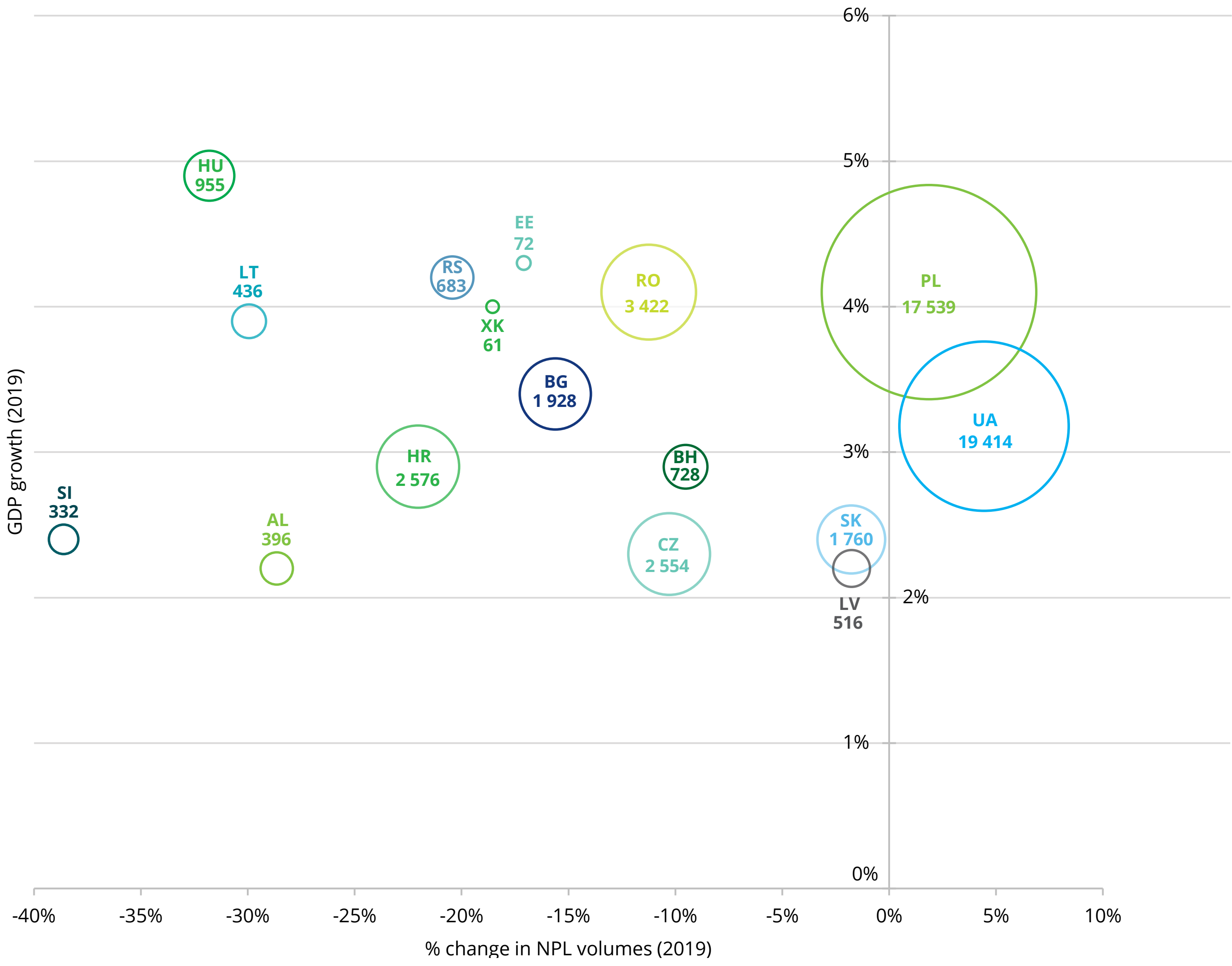
Figure 9. Market concentration by HHI, 2019



Source: ECB CBD, EMIS, Annual Reports, Deloitte calculation
Note: The Herfindahl-Hirschman Index (HHI) is a market competitiveness measure. Higher HHI value indicates higher concentration on the market

Evolution of NPL in the CEE region

Figure 10. Evolution of NPL volumes and GDP, Q4 2018 - Q4 2019

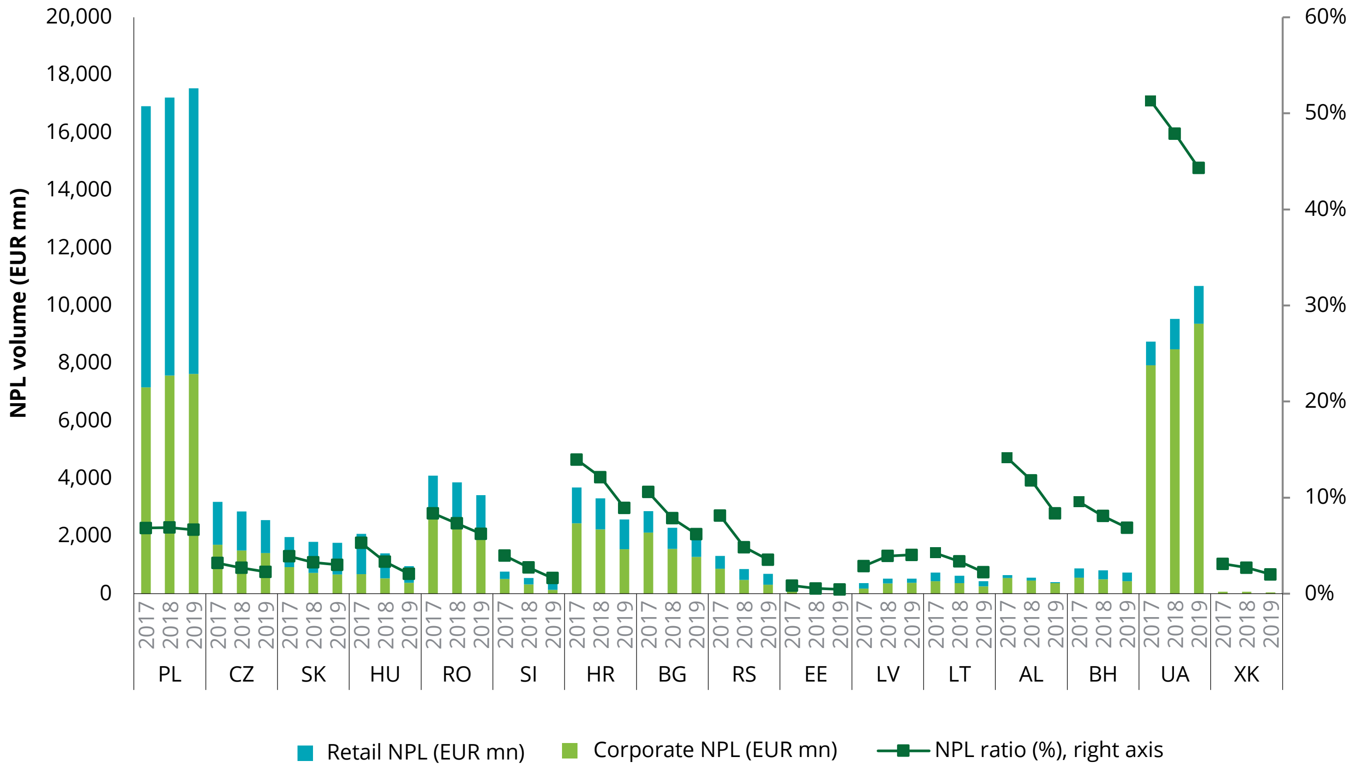


Source: Local national banks, EIU;
Note: Bubble size: Q4 2019 NPL volume (EURmn)

Asset quality has improved significantly in the previous years, which continued in 2019 as well. One of the main reasons behind the decreasing NPL volumes was the economic expansion and the continuous portfolio cleaning activities of the banks, which was also encouraged by the regulatory bodies.

The average total NPL ratio was 7.2% in 2019, 0.75% point lower than in 2018. Retail NPL ratio dropped from 5.2% to 4.6% and the corporate NPL ratio decreased to 10.6% from 11.5%. The highest total NPL ratio in the region was recorded in Ukraine (49.9%) due to the decreasing, but still high corporate NPL volume, which resulted from the severe macroeconomic crisis of 2014-2015. Ukraine's highest NPL ratio was followed from a distance by Croatia with 8.9% and Albania with 8.1%. The lowest total NPL ratio in the region was reported by Estonia (0.4%), Slovenia (1.6%), Hungary (2.0%) and Kosovo (2.0%) in 2019. NPL volume decreased in 14 of the 16 analysed countries, as Poland (1.9%) and Ukraine (12.0%) reported a growth in total NPL volume.

Figure 11. Evolution of key NPL metrics, 2017 - 2019



Source: National banks

The declining trend of NPL ratios was also supported by credit expansion on the back of the stable economic performance, declining unemployment rate and the portfolio cleaning activities of the banks which continued in 2019.

Ukraine and Croatia demonstrated the highest NPL ratios in 2019. Unlike its surrounding countries, Ukraine still had an extremely high NPL ratio of 49.9% and distressed assets of EUR 19 bn at the end of 2019. However, due to the impressive credit expansion the total volume of performing loans has been increasing at a faster pace than the non-performing stock, which led to improving NPL ratio by 4.1% points. The significant NPL volume, which mainly consists of corporate exposure, may attract international investors in the following years, although the market is still relatively untapped.

The second largest NPL ratio was observed in Croatia with 8.9%, which resulted also from the Agrokor crisis, however the country has rebounded from it quite well in the past few years, only in 2019 the NPL ratio improved by 3.2% points compared to 2018 (12.1%).

Similarly, total volume of distressed assets has been slightly increasing in Poland as well, however NPL ratios have improved, due to extensive lending activity.

The most significant drop in NPL ratios apart from Ukraine (4.1% points) and Croatia (3.2% points) can be observed in Albania (3.7% points). The total NPL ratio decreased under 10% in Albania and stood at 8.1% at the end of 2019, mainly due to repayments from cured loans, restructuring measures and write-offs. The lowest NPL ratios in the region were posted in Estonia (0.4%), Slovenia (1.6%) and Kosovo (2.0%).

Overall, the CEE banking sector's NPL ratios stood at historical low levels at the end of 2019, which put the regional banking sector in a relatively favorable position to face the economic challenges triggered by the COVID-19 pandemic.

Most of the governments introduced moratoriums in Q1 2020 to safeguard the economy from the negative impact of COVID-19, which meant the temporarily suspension of the repayments of loan installments. However this could temporarily mask the economic damage incurred by the pandemic, real impacts on the asset quality are expected to be visible in 2021 as the moratorium regimes are phased out.

In line with the current developments and possible future deteoriation of asset quality banks are going to be closely monitored by ECB's Banking Supervision body. Based on ECB's latest Financial

Stability Review (November 2020), asset quality has already started to deteriorate in Q2 2020, as provision inflows into Stage 2 assets have more than doubled due to the changes in credit risk and the drawdowns of off-balance-sheet credit lines. Furhermore, the share of loans under forbearance measures has also started to rise, including the performing loans with modifications in their terms and conditions. However, at the same time the rise in the amount of Stage 3 loans has been moderate. Mainly as a result of the migration of non-financial corporate loans to Stage 2, banks' loan loss provisions significantly increased in early 2020. Based on ECB's estimate, significant banks' loan loss provisions increased to 0.76% of loans (on an annualised basis) in the first two quarters of 2020, more than 2.5 times the level than a year earlier. However, this is still below the peak levels of 1.2-1.4% observed during the financial crisis of 2008-2009.

The outlook of banks' asset quality in the forthcoming period is highly dependent on the combination of economic recovery and continued government support (including short-time work schemes, government transfers and public loan moratoria).
Since the outbreak of the pandemic, the state support policies have been playing a crucial role in stabilising banks' asset quality. Based on the simulation prepared by ECB in its Financial Stability Review (November 2020), without state supports more than 9% of total corporate loans of the eurozone might become distressed by mid-2021. Furthermore, even a premature withdrawal of government supports could lead to sharply increasing default rates.
In general, these public support schemes are expected to be phased out in late 2020 and 2021, which could result in an increase in corporate liquidity difficulties and insolvencies and credit losses going forward.

According to ECB, to prepare for potential deterioration of assets, institutions should have a robust and effective monitoring framework, supported by an adequate data infrastructure, to ensure that information regarding their credit risk exposures, borrowers and collateral is relevant and up to date, and that the external reporting is reliable, complete and up to date. Furthermore, banks have to proactively distinguish viable distressed customers from non-viable ones by using borrower specific debt restructuring and forbearance practices. ECB also encourages the further development of secondary markets for distressed assets, NPL securitization as well as the integrated use of asset management companies. All things considered, the early identification and provisioning of NPLs is likely to contribute to successful resolution and disposal process.

Table 2. NPL volumes and ratios, Q4 2019

Country	Corporate (EUR mn)	Corporate NPL ratio (%)	Retail (EUR mn)	Retail NPL ratio (%)	Total (EUR mn)	Total NPL ratio (%)
Poland	7 623	8.5%	9 916	5.7%	17 539	6.6%
Czech Republic	1 412	3.2%	1 142	1.7%	2 554	2.3%
Slovakia	664	3.5%	1 096	2.8%	1 760	3.0%
Hungary	376	1.5%	579	2.7%	955	2.0%
Romania	2 045	8.2%	1 378	4.6%	3 422	6.2%
Slovenia	134	1.4%	198	1.8%	332	1.6%
Croatia	1 538	13.6%	1 038	5.9%	2 576	8.9%
Bulgaria	1 272	6.8%	656	5.3%	1 928	6.2%
Serbia	314	3.1%	369	4.0%	683	3.5%
Estonia	47	0.6%	25	0.3%	72	0.4%
Latvia	371	5.2%	145	2.6%	516	4.0%
Lithuania	258	2.9%	178	2.1%	436	2.2%
Albania	361	11.3%	35	2.3%	396	8.4%
Bosnia and Herzegovina	427	8.8%	301	5.9%	728	6.9%
Ukraine	9 362	53.5%	1 319	19.9%	10 680	44.3%
Kosovo	48	2.5%	12	1.1%	61	2.0%
Total	**26 253**		**18 387**		**44 640**	

Source: National banks, Deloitte analysis

Note: Estonia NPL ratios is based on DPD 60

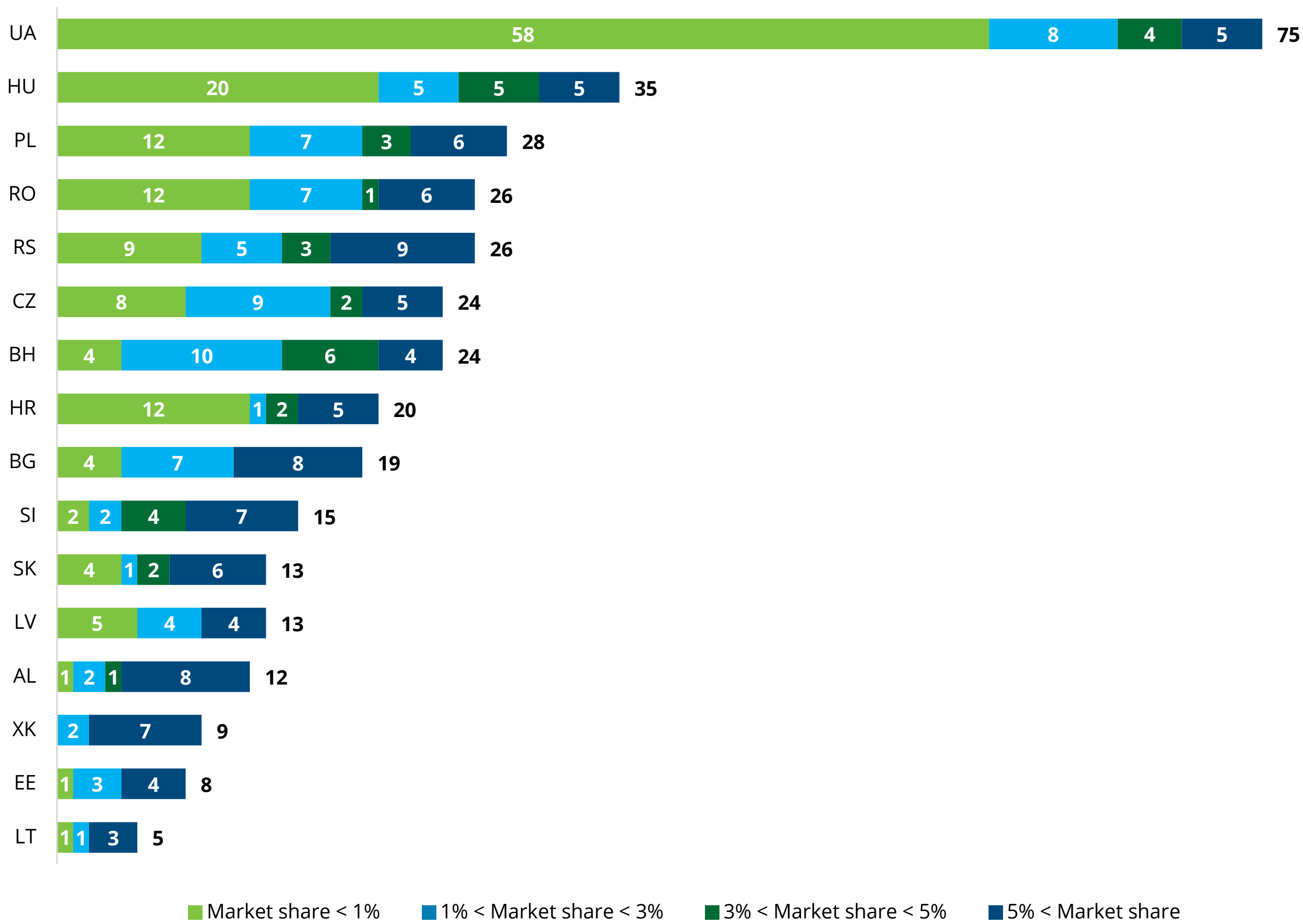
Banking M&A Dynamics in CEE

M&A dealmaking in banking markets of the 16 analysed countries has carried on being active. In 2019, altogether 14 deals were completed, whereas in 2020 up to September, there were 8 completed deals and 6 ongoing ones.

M&A activity in banking markets of the 16 analysed countries has been increasing in 2018-2020 since it hit the bottom in 2017. High deal numbers in 2015-2016 were fuelled by the unfavourable economic situation back then, as less robust banks could not cope with challenges and opted for an exit. The emerge of the COVID-19 crisis might bring about a similar situation, as it is expected to weigh heavily on banking profitability and capital positions, with smaller, less solid players might not being able to cope with such challenges alone. Robustness, shock absorption capacity, economies of scale and operational efficiency might become even more vital, where larger, more diversified banking groups might come to a position to selectively acquire smaller, weakened banks.

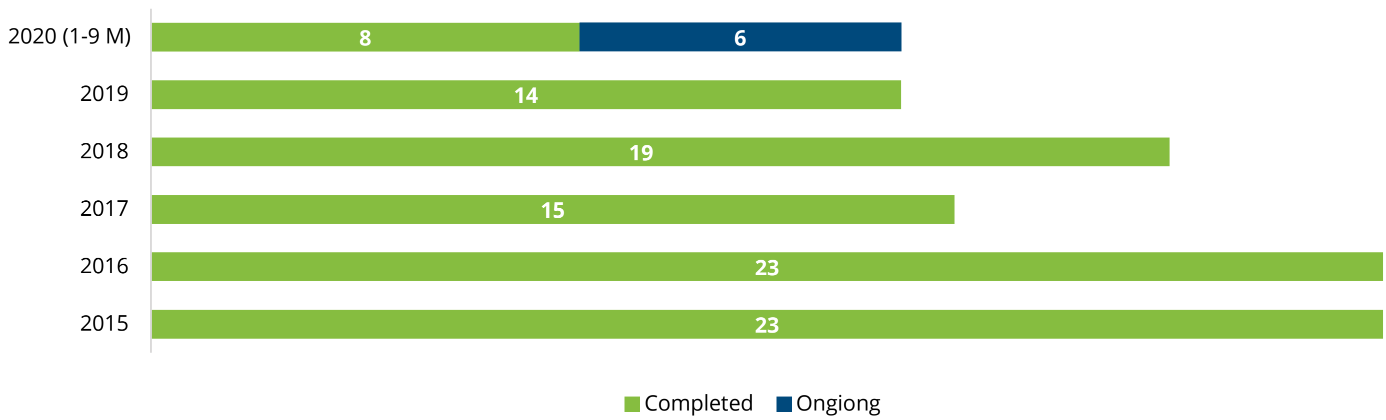
Amid the economic shock where robustness is paramount, the CEE banking sector is still very fragmented with a number of marginal players with practically insignificant market share. Figure 12 highlights banks with lower market share in the respective countries. There are 260 banks in the CEE region with lower than 5%, 227 with lower than 3% and 153 banks with lower than 1% market share. With an economic shock in a fragmented CEE banking landscape with many small players, consolidation is expected to remain a hot topic in the regional banking market in the forthcoming period.

Figure 12. Nr. of banks in the respective countries with lower market share, 2019



Source: EMIS, National Banks, Annual reports, Inteliace Research

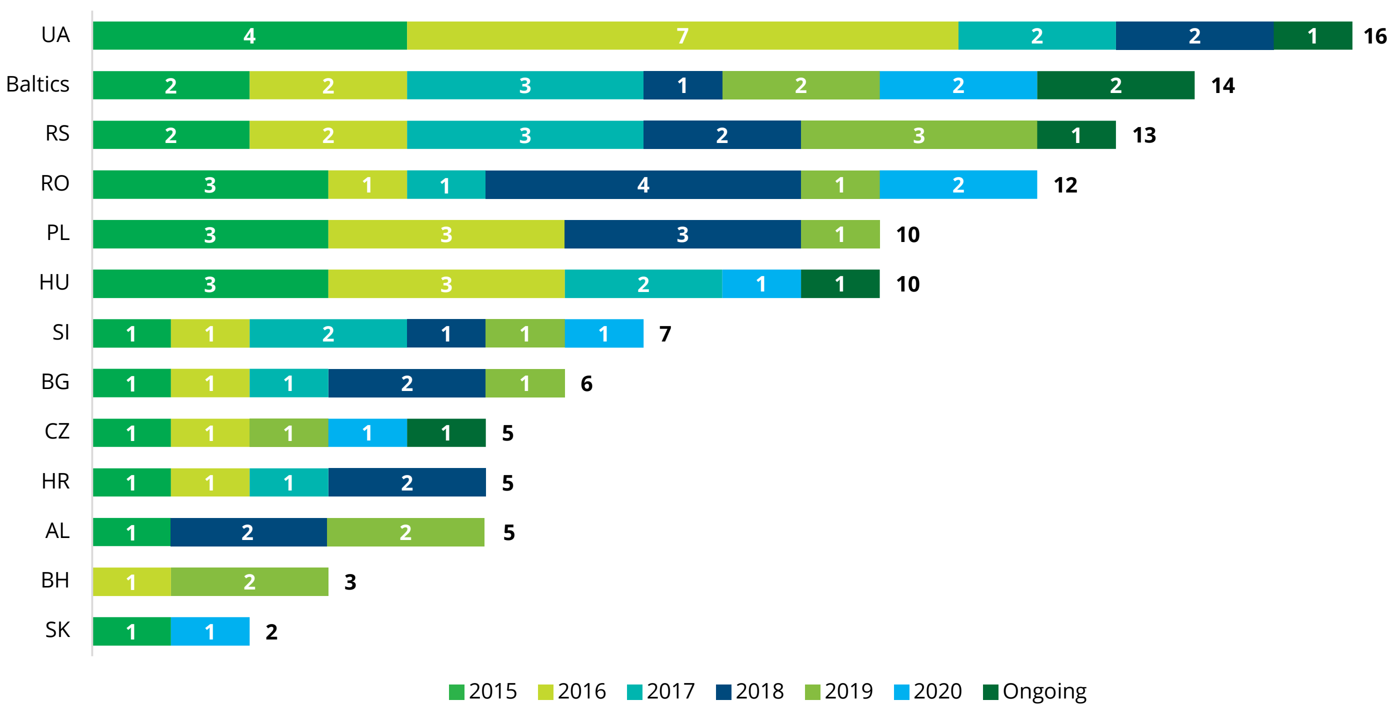
Figure 13. M&A activity by year - Nr. of transactions



Source: Deloitte Intelligence

In terms of number of transactions, the busiest banking M&A markets in CEE were Ukraine, the Baltics, Serbia, Poland and Romania. 16 transactions were completed in Ukraine since 2015 and 1 deal was ongoing at the end of September 2020. In the Baltics, Serbia, Romania and Poland, 12, 12, 12 and 10 transactions were made, respectively, of which two in the Baltics and one in Serbia were still ongoing.

Figure 14. M&A activity by country - Nr. of transactions, 2015 - September 2020



Source: Deloitte Intelligence

The most active buyer in the 16 analysed countries of the region remained the Hungarian OTP* Group with 8 transactions since 2015 in Albania (1), Slovenia (1), Serbia (2), Bulgaria (1), Croatia (1), Romania (1) and in Hungary (1). OTP took advantage of Société Générale's exit from the CEE region, as OTP acquired all banks which were sold by SG except for its Polish subsidiary Euro Bank, which was acquired by BCP-owned Bank Millennium. After multiple acquisitions over the past years, in 2020 OTP was mostly focusing on the post-merger integration of the previously acquired banks. OTP has also appeared on the sell-side, as it sold its Slovakian branch (OTP Banka Slovensko) to KBC in February 2020, since OTP could not increase its market share (1.7%) to a cost efficient level.

The second most active buyer remained the Polish State with 4 acquisitions since 2015, which made its acquisitions via PKO and PZU. However, since 2016, it has slowed down its intense M&A activity, as the Polish State's aggregated market share already reached 40% with 8 fully or majority owned banks. Nevertheless, as the Polish banking system is among the least concentrated ones in the CEE region the economic challenges imposed by COVID-19 might reactivate „re-Polonisation" in the following years.

The third largest deal number can be linked to the Belgian KBC Group with 3 completed deals from which 2 was completed recently in the Czech Republic and Slovakia. The German Bausparkasse Schwaebisch Hall exited the Czech market by selling 45% share in Ceskomoravska stavebni sporitelna (CMSS) to one of the largest banks in the country Ceskoslovenska Obchodni Banka (CSOB), KBC's Czech subsidiary, which could strengthen its position in the domestic housing finance sector via the acquisition. KBC Group could also successfully strengthen its market position in Slovakia by acquiring OTP Banka Slovensko. With the integration of the newly acquired bank, Ceskoslovenska Obchodni Banka (CSOB) will have 11.8% market share in Slovakia.

All the other top buyers announced 2 deals since 2015 and currently there is 1 ongoing announced deal in the market. This ongoing deal is connected to LHV Bank, which acquired the remaining corporate and public sector businesses of Danske Bank in Estonia. Siauliu Bankas also acquired the remaining retail business of Danske Bank in Lithuania. With these transactions, Danske Bank almost completed its withdrawal from the Baltic (and Russian) banking market. The main reason behind the exit was the Danske Bank's money laundering scandal, which arose in 2017-2018.

In the Czech Republic, Moneta Money Bank (before the IPO known as GE Money bank) successfully acquired the building society Wuestenrot stavebni sporitelna and mortgage bank Wuestenrot hypotecni banka. Moneta expects the acquisition to strengthen its market position and annual profitability by significant cost savings. Earlier, Moneta was reported to have unsuccessful negotiations to acquire other banks in the Czech Republic (Air Bank) and in Slovakia (Home Credit).

In Hungary, an unprecedented tripartite merger is ongoing, as the state-owned Budapest Bank, MTB Group and MKB Bank have agreed to form together the second largest banking group in Hungary (behind OTP) with total assets of c. EUR 17 billion. Signing of the deal was announced in late October 2020. Budapest Bank will provide a significant household lending portfolio to the merger that fits well with MKB's corporate lending profile and the savings bank clients of MTB. This transaction is in-line with the consolidation actively promoted by the National Bank of Hungary over the past years, but is still subject to regulatory approval.

The top individual seller in the region was the France-based Société Générale with 6 transactions in Albania (1), Poland (1), Slovenia (1), Serbia (1), Bulgaria (1) and Croatia (1). Société Générale also exited from Moldova and Montenegro, which transactions were completely in line with Société Générale's strategy to exit the CEE banking markets. The French banking group kept only its 2 larger, well-performing branches in the Czech Republic (Komercni Banka) and in Romania (BRD).

The second most active seller of the region was Raiffeisen Bank International and Danske Bank with 5-5 transactions. Raiffeisen exited the Polish and Slovenian markets with 2-2 transactions, in line with its restructuring strategy, whereas Raiffeisen's fifth transaction was the disposal of its 30% stake in its Ukrainian subsidiary to EBRD. Danske Bank's high transaction number was in line with their promulgated strategy to exit the Baltics.

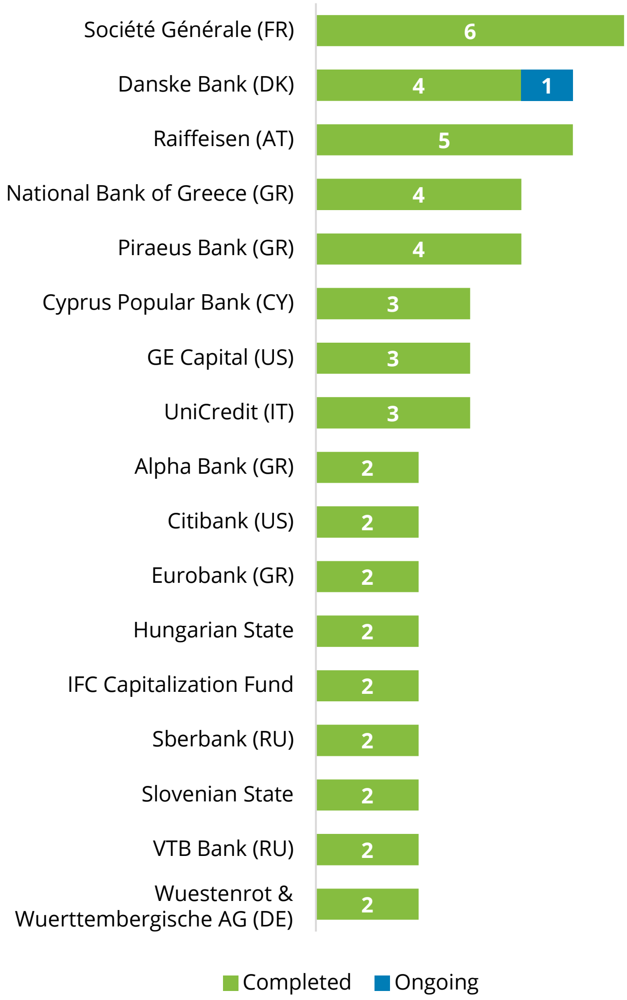
The Slovenian State has also been an active seller in the recent years, as it recently sold Slovenia's third largest bank Abanka to Nova KBM, owned by Apollo Global Management. This transaction is the largest transaction in Slovenian banking industry to date and it will secure Nova KBM's market position as the second largest bank in the country behind NLB.

Based on publicly available information, the Russian Sberbank is planning to dispose its subsidiaries in Hungary and in Serbia. The Russian bank is already in discussions with potential buyers such as Apollo Global Management and the Serbian AIK Banka, which intend to strengthen their regional positions.

* OTP also acquired Société Générale' subsidiary in Moldova and Montenegro in the recent years, however these two countries are not scope of this Study.

Figure 15. Top buyers by the Nr. of transactions, 2015 - September 2020

Figure 16. Top sellers by the Nr. of transactions, 2015 - September 2020



Source: Deloitte Intelligence

As already mentioned above, burdens imposed by the COVID-19 pandemic could further accelerate consolidation in the CEE banking market, as smaller and less robust banks might not be able to cope with profitability and capital challenges alone.

Most recent CEE banking M&A deals from January 2019 to September 2020 are presented in the table below. For deals of 2015 –2018, please refer to deal summary tables of the respective country sections.

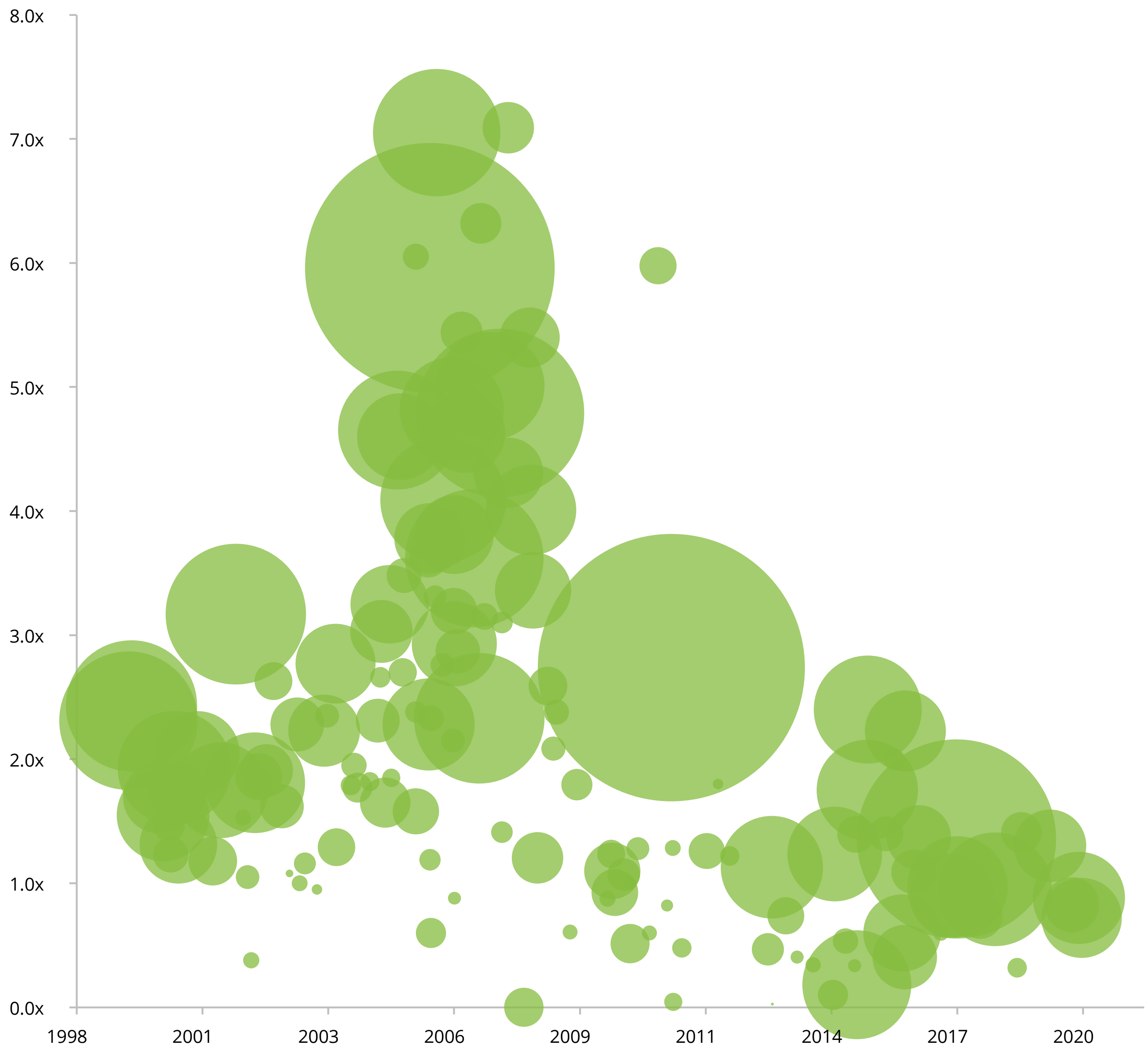
Table 3. List of the most recent banking M&A deals in CEE region, 2019-2020 September

Year	Country	Target	Buyer	% Acquired	Deal Value in EUR mn	Seller
2020*	CZ	Waldviertler Sparkasse Bank - Czech branch	Ceska Sporitelna	100%	n.a.	Waldviertler Sparkasse Bank
	HU	Takarek Group; MKB Bank; Budapest Bank	Three-party merger	~ 100%	n.a.	-
	RS	Komercijalna Banka	Nova Ljubljanska Banka	83%	387	State
	EE	Danske Bank - Corporate and Public sector business	LHV Pank	100%	n.a.	Danske Bank
	LT	Medicinos Bankas	Growmore Asset Management	100%	n.a.	World Fuel Services; Konstantinas Karosas
	UA	First Investment Bank	LLC Energopostavka	50%	n.a.	Private individuals
2020	CZ	Wuestenrot - stavebni sporitelna; Wuestenrot hypotecni banka	Moneta Money Bank	100%	175	Wuestenrot & Wuerttembergische AG
	SK	OTP Banka Slovensko	KBC	100%	n.a.	OTP
	HU	Granit Bank	"Hungarian State; Private investor"	n.a.	12	Share capital increased
	RO	Banca Comerciala Feroviara	Olimpiu Bălaş	63%	n.a.	Valer Blidar
	RO	Banca Romaneasca	Export-Import Bank of Romania	99%	314	National Bank of Greece
	SI	Abanka	Nova Kreditna Banka Maribor	100%	511	Slovenian State
	LT	Danske Bank - Retail business	Siauliu Bankas	100%	108	Danske Bank
	EE, LV, LT,	SIA UniCredit Leasing, SIA UniCredit Insurance Broker	Citadele Bank	100%	n.a.	UniCredit
2019	PL	Euro Bank	Bank Millennium	100%	1 448	Société Générale
	CZ	Ceskomoravska stavebni sporitelna	KBC	45%	240	Bausparkasse Schwaebisch Hall
	RO	Bank Leumi Romania	J.C. Flowers	100%	n.a.	Bank Leumi le-Israel
	SI	SKB banka	OTP	100%	n.a.	Société Générale
	BG	Piraeus Bank Bulgaria	Eurobank	100%	75	Piraeus Bank
	RS	Komercijalna Banka	State	35%	155	EBRD, IFC Capitalization Fund
	RS	Telenor Banka	PPF Group	100%	n.a.	Telenor
	RS	Societe Generale Banka Srbija	OTP	100%	n.a.	Société Générale
	LV	PNB Banka	Private individuals	60%	n.a.	Private individuals
	EE	Danske Bank - Retail business	LHV Pank	100%	410	Danske Bank
	AL	Tirana Bank	Komercijalna Banka and Balfin	99%	57	Piraeus Bank
	AL	Banka Societe Generale Albania	OTP	89%	n.a.	Société Générale
	BH	Pavlovic International Bank	Galens Invest; Pavgord	44%	4	Miroslava Pavlovic; Batagon International AG
	BH	Vakufska Banka	ASA Finance	73%	9	Badeco Adria

Source: Deloitte Intelligence *Closing in progress

As per pricing of banking deals, Figure 17 highlights the evolution of the P/BV ratio of transactions with disclosed deal value since 2000. The peak before and the fall after the financial crisis of 2008 is remarkable. At that time the ratio could even reach 7.0x P/BV, whereas pricings were in a more reasonable 0.5-2.0x range in the last couple of years. Last year's average P/BV of disclosed transactions reached 0.93x, while the corresponding average was 0.74x in the previous year, therefore based on the publicly available data a pricing increase was visible on the back of strong buy side demand and solid banking performance fuelled by the favourable economic background. However, these increased pricing levels still can be considered reasonable, the COVID-19 shock is expected to put a downward pressure on pricings again. Therefore the CEE banking market is still to remain a favourable geography to perform selective acquisitions at reasonable pricing levels. As we see, potential sellers and buyers are both out there in the market.

Figure 17. P/BV evolution of bankig deals in the CEE region, 2000 - September 2020



Source: Deloitte Intelligence

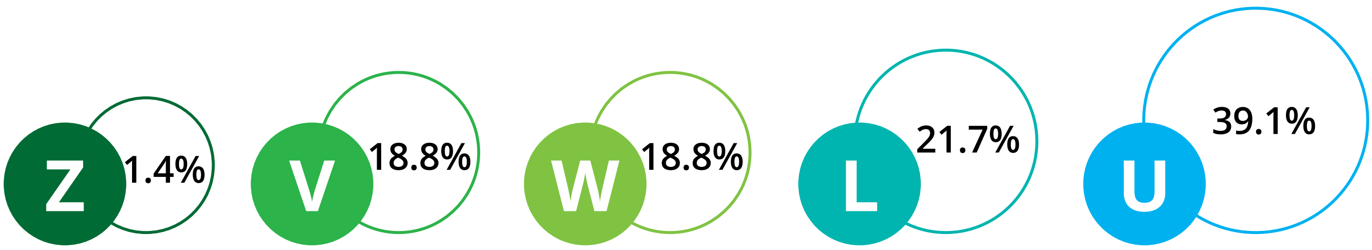
COVID-19 impact on CEE Banking Sector

Highlights of Deloitte's "COVID-19 CEE banking sector impact survey" released in September 2020

The economic downturn due to the emergence of the COVID-19 pandemic in 2020, imposed an unprecedented challenge to all market players, including the banks in the CEE region. To map out the potential impact of COVID-19 on the CEE banks, we have conducted an impact survey in Q3 2020. The survey captures the views of 69 banks' chief risk officers and heads of workout departments across twelve countries in the CEE region. The survey report provides a valuable insight about banks' expectations regarding the real impact of the pandemic, thus in the followings we would like to summarize the most important results of our survey in terms of economic recovery, loan dynamics, asset quality and NPL transactions. You can access our full report on our website.

Economic recovery

According to the survey results, a prolonged economic recovery is expected over the next 12 months. CEE banks were rather pessimistic regarding the economic recovery in the region, as 39.1% of the respondents expect a longer (U shaped) recovery for the upcoming months, whilst a fifth expect an L shaped recovery.



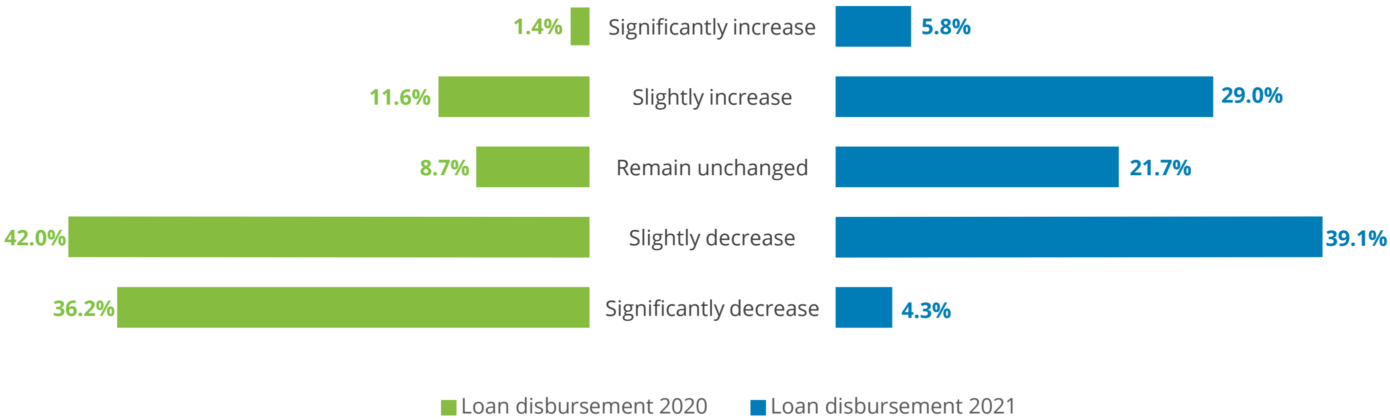
Source: Deloitte Analysis

Loan dynamics

The uncertainty around the severity of the crisis, the length of the recession and measures such as moratorium on loans further increased the ambiguity in case of new loan demand in 2020 and 2021. As a result, new loan disbursements are expected to slightly or significantly decrease in 2020 compared to 2019 thus the vast majority of the banking sector has already reported a declining loan demand especially in tourism and hospitality in Q2 2020. However, lending activity could rebound in 2021, which is attributable to regulatory measures aiming to sustain the lending activity of banks, as it is required to stimulate the real economy to faster recover from the pandemic situation.

Parallel to the decreasing lending activity, credit standards of loans for both retail and corporate segments are expected to tighten somewhat mainly due to the deterioration of economic outlook as well as the elevated credit risk.

Figure 18. I expect that the level of new loan disbursements compared to the previous year will:



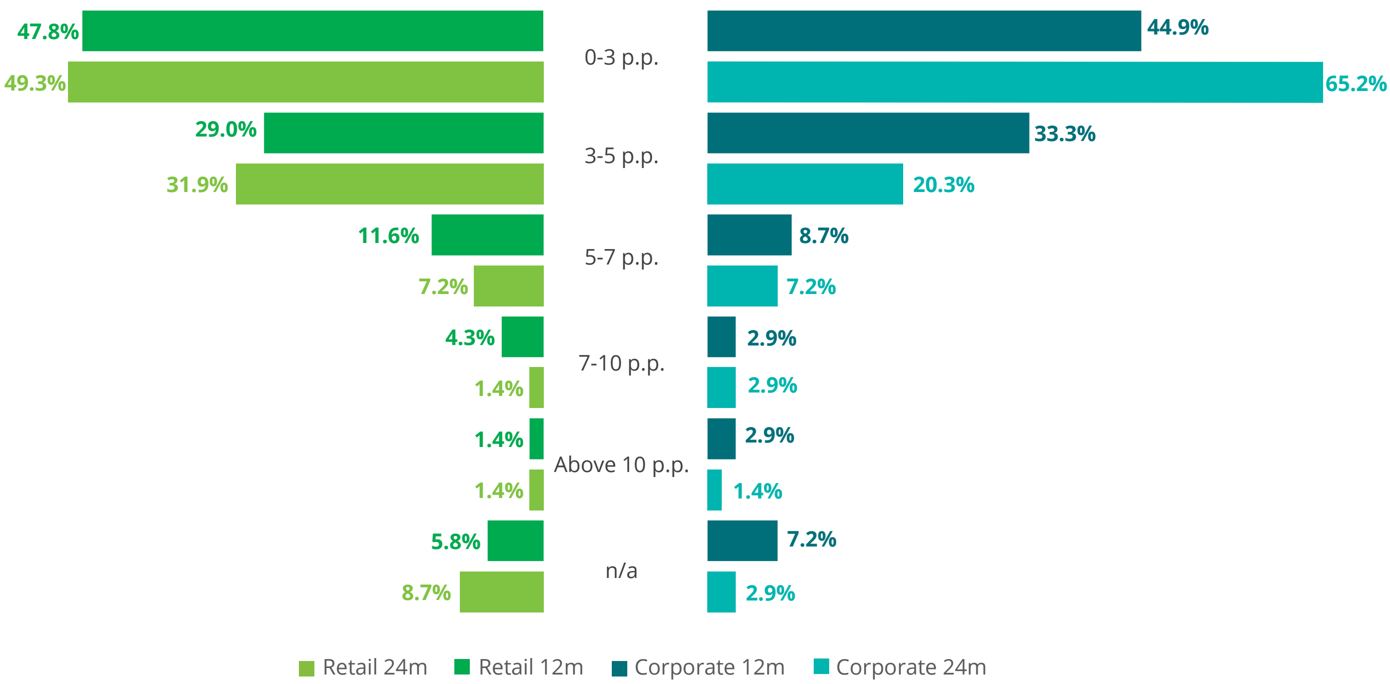
Source: Deloitte Analysis

Asset quality

As the emergence of COVID-19 resulted in deteriorating macroeconomic conditions, the new defaults are likely to increase in the upcoming period. However, there is a high level of uncertainty with respect to the loan repayment behaviour and debt service capacity of borrowers from 2021 onwards when the moratorium relief ceases in most of the countries. The moratorium could to a certain extent mask the real economic damage incurred during the lockdown. As the majority of banks are aware of this, banks have already book additional provisions, for prudential reasons, to prepare for the end of the moratorium.

Based on the survey results, the asset quality is not expected to deteriorate considerably over the next 12 months as almost half of the respondents anticipate the retail NPL ratio to increase by 3% points, whilst two thirds expect the corporate NPL ratio to rise at the same pace. It is anticipated that the inflow of non-performing loans will come mainly from hospitality, transport and storage as well as real estate & construction portfolios.

Figure 19. Over the next 12/24 months, NPL ratio in the retail/corporate segment is going to increase by:



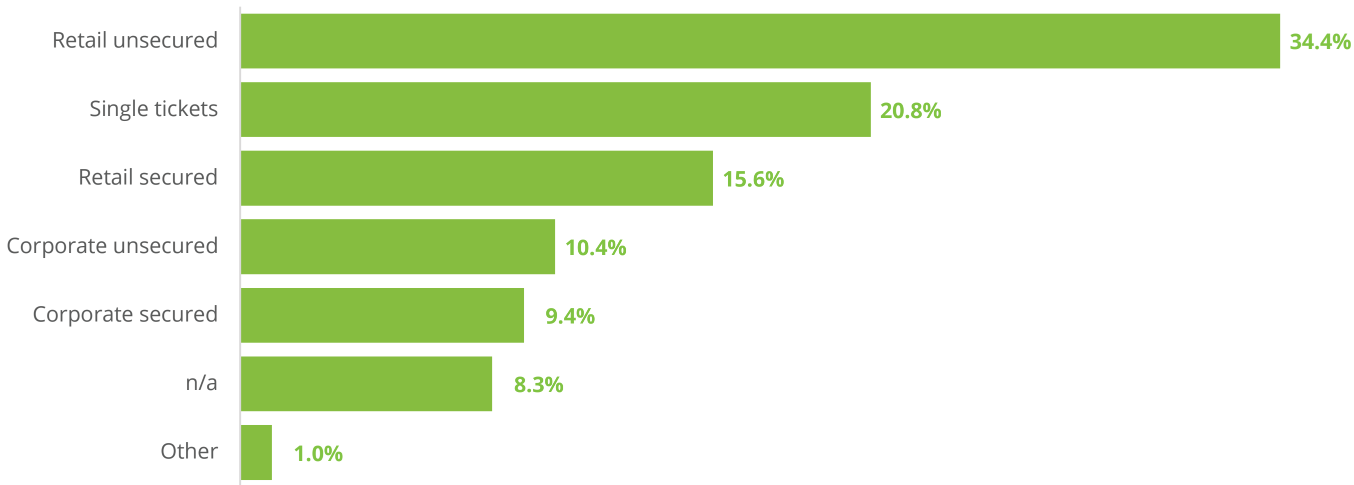
Source: Deloitte Analysis

NPL transactions

Portfolio disposals played a significant role in banks' deleveraging activity in the CEE region over the past years, which trend could continue in the following years based on the survey results.

Almost a quarter of the respondents plan to dispose of non-performing loan portfolios over the next 6 months, whilst more than one-third do not plan any portfolio sales. Retail-unsecured portfolios will dominate the NPL transactions market, with more than one-third of banks expecting to dispose of non-performing loans in the largest amount in the aforementioned asset class. 20% also considers the disposal of corporate single cases. Besides, nearly half of the respondents expect the disposal of non-performing single tickets to increase over the next 12 months.

Figure 20. I expect to dispose assets in the largest amount in the following asset classes:



Source: Deloitte Analysis

Poland

Macroeconomic environment

The Polish economy showed a stable GDP growth between 2016 and 2019. 2019 recorded a real GDP growth of 4.1% driven by strong private consumption and increase in investments. Because of the pandemic, as per current forecasts GDP is to decline by 4.0% in 2020.

Consumer price inflation increased to 2.3% in 2019 from 1.7% in 2018. Before the coronavirus breakout, the inflation increased to 4.7% primarily due to the rise in minimal wage in January 2020 and weakening national currency.

In tandem with the strengthening economy, unemployment rate stood at 5.4% in 2019, down from 6.1% in 2018. However due to the pandemic, it is forecasted to pick up again in 2020.

In 2019, budget deficit increased to 0.7% from previous year's 0.2% together with a decrease of public debt by 2.8% points to 46.0%. Due to the fiscal stimulus package by the government in order to reduce the impact of the lockdown the budget deficit is expected to increase to 9.4% and public debt to 58.4% in 2020.

Macro indicators	2017	2018	2019	2020E	Change 2019-20 (% or % point)	
Nominal GDP (mEUR)	466 901	497 653	528 837	502 027	-5.1%	●
Nominal GDP/capita (EUR)	12 287	13 131	13 953	13 281	-4.8%	●
GDP (% real change pa)	4.9%	5.3%	4.1%	-4.0%	-8.1%	●
Consumer prices (% change pa)	2.0%	1.7%	2.3%	3.0%	0.7%	●
Recorded unemployment (%)	7.3%	6.1%	5.4%	6.5%	1.1%	●
Budget balance (% of GDP)	-1.5%	-0.2%	-0.7%	-9.4%	-8.7%	●
Public debt (% of GDP)	50.6%	48.8%	46.0%	58.4%	12.4%	●

Source: EIU, Eurostat
E - Estimated data for 2020

Banking trends

In 2019, the Polish banking system continues to be resilient to shocks due to the level of accumulated capital, the capital adequacy ratio (CAR) remained stable at 19.1%.

The profitability of the Polish banking sector decreased in the previous years, the ROE and ROA were below the CEE regional average. Potential consolidation in the sector might boost efficiency and profitability.

The banking market expanded in terms of total assets by nearly EUR 30 bn in 2019, reaching over EUR 474 bn. Retail and corporate loan volumes increased by 6.3% and 3.9% in 2019, respectively. This trend could be attributed to the increase in economic prosperity as well as the stable interest rate environment over the past 3 years.

Asset quality of the banks continued to be sound in both the retail and corporate segments with decreasing level of NPLs compared to 2018. Retail NPL ratios decreased by 0.2% point in 2019, however retail NPL volumes increased by 2.8% compared to 2018. Similarly, the corporate segment experienced a 0.2% point decrease in NPL ratio and a 0.7% point increase in NPL volumes compared to 2018 figures.

Banking sector	2017	2018	2019	Change 2018-19 (% or % point)
Total assets (EUR mn)	427 453	443 742	474 291	6.9%
Asset penetration (%)[1]	91.6%	89.2%	89.7%	0.5%
Total equity (EUR mn)	48 782	47 642	48 971	2.8%
Total loans (EUR mn)	247 396	250 136	263 848	5.5%
Loan penetration (%)[2]	53.0%	50.3%	49.9%	-0.4%
Retail loans (EUR mn)	159 814	163 510	173 828	6.3%
Corporate loans (EUR mn)	87 582	86 626	90 019	3.9%
Interest rates				
Lending (%)	4.8%	4.8%	4.8%	0.0%
Deposit (%)	1.5%	1.6%	1.5%	-0.1%
NPL volumes				
Retail NPLs (EUR mn)	9 748	9 646	9 916	2.8%
Corporate NPLs (EUR mn)	7 160	7 572	7 623	0.7%
NPL ratios				
Retail NPL ratio (%)	6.1%	5.9%	5.7%	-0.2%
Corporate NPL ratio (%)	8.2%	8.7%	8.5%	-0.2%
Key ratios				
CAR (%)	19.0%	19.0%	19.1%	0.1%
ROE (%)	6.9%	7.0%	6.9%	-0.1%
ROA (%)	0.8%	0.8%	0.7%	-0.1%
CIR (%)	57.2%	56.7%	56.0%	-0.7%
L/D (%)	93.7%	93.2%	91.9%	-1.3%
FX share of lending (%)	22.2%	22.4%	20.0%	-2.4%
LLP coverage (%)	61.2%	65.2%	66.1%	0.9%

Source: EIU, NBP, ECB CBD [1]Assets penetration = Total assets/Nominal GDP [2]Loans penetration = Total loans/Nominal GDP

Banking market

In 2019, there were 28 locally-licensed banks operating in the Polish banking market, two less than the previous year. Another important part of the Polish financial system is the cooperative market, where more than 500 cooperative banks were present in 2019.

The Polish banking system is among the least concentrated ones in the CEE region. The competitive market's HHI index is 6.5%, while the top five commercial banks' aggregated market share is

As the Polish government consider the banking sector as a strategic economic area, it started its „re-Polonisation" program and acquired substantial positions in the banking sector. Currently, aggregated market share of the Polish State is around 40% with 8 fully or majority owned banks. Beside the state, Polish individuals also possess material positions in the banking market.

List of banks in Poland, 2019 (EUR mn)

Rank 2019	Rank 2018*	YoY change in rank	Institutions	Total Assets	Market share	Equity	Net income	ROA %	ROE %	Major shareholder
1.	1.	●	PKO	74 469	15.7%	9 490	892	1.2%	9.4%	State of Poland
2.	2.	●	Pekao	45 709	9.6%	5 290	523	1.1%	9.9%	State of Poland
3.	3.	●	Santander Bank Polska	42 614	9.0%	5 677	492	1.2%	8.7%	Santander
4.	4.	●	ING BSK	36 144	7.6%	3 549	386	1.1%	10.9%	ING
5.	5.	●	mBank	35 042	7.4%	3 784	228	0.7%	6.0%	Commerzbank
6.	6.	●	BGZ BNP Paribas	25 030	5.3%	2 626	146	0.6%	5.6%	BNP Paribas
7.	7.	●	Bank Gospodarstwa Krajowego	23 634	5.0%	4 387	120	0.5%	2.7%	State of Poland
8.	8.	●	Millennium	22 737	4.8%	2 041	140	0.6%	6.8%	BCP
9.	9.	●	Alior Bank	17 925	3.8%	1 611	67	0.4%	4.2%	State of Poland
10.	10.	●	Getin Noble Bank	12 579	2.7%	598	(151)	-1.2%	-25.3%	Idea Bank
11.	11.	●	Bank Handlowy w Warszawie	12 187	2.6%	1 649	111	0.9%	6.8%	Citibank
12.	12.	●	BPS	6 476	1.4%	195	7	0.1%	3.6%	State of Poland
13.	14.	▲	Pko Bank Hipoteczny	6 402	1.3%	470	21	0.3%	4.5%	State of Poland
14.	15.	▲	Crédit Agricole Bank Polska	5 723	1.2%	669	16	0.3%	2.4%	Credit Agricole
15.	17.	▲	SGB Bank	5 521	1.2%	179	6	0.1%	3.3%	Cooperative Banks
16.	18.	▲	Santander Consumer Bank	4 872	1.0%	761	120	2.5%	15.8%	Santander
17.	13.	▼	Deutsche Bank Polska	4 548	1.0%	595	1	0.0%	0.2%	Deutsche Bank
18.	19.	▲	Bank Ochrony Srodowiska	4 304	0.9%	504	19	0.4%	3.7%	State of Poland
19.	16.	▼	Idea Bank	4 063	0.9%	43	(6)	-0.1%	-13.6%	Idea Bank
20.	20.	●	Mbank Hipoteczny	3 098	0.7%	298	9	0.3%	3.0%	Commerzbank
21.	21.	●	DNB Bank Polska	2 600	0.5%	394	14	0.5%	3.6%	DNB Bank
22.	22.	●	Bank Pocztowy	1 881	0.4%	144	4	0.2%	2.8%	State of Poland
23.	23.	●	Nest Bank	1 719	0.4%	162	(48)	-2.8%	-29.8%	AnaCap
24.	28.	▲	ING Bank Hipoteczny	777	0.2%	63	(0)	0.0%	-0.1%	ING
25.	24.	▼	Toyota Bank Polska	622	0.1%	140	6	0.9%	3.9%	Toyota Kreditbank
26.	26.	●	Pekao Bank Hipoteczny	598	0.1%	66	(9)	-1.5%	-13.4%	Bank Polska Kasa Opieki
27.	25.	▼	Plus Bank	597	0.1%	27	1	0.1%	2.1%	Delas Holding
28.	27.	▼	Mercedes-Benz Bank Polska**	62	0.0%	19	0	0.2%	0.5%	Daimler
			Total	**474 291**	**100%**	**48 971**	**3 377**	**0.7%**	**6.9%**	

Source: Banks' data disclosure, EMIS, NBP * corrected ranking (based on bank list 2019) ** Data from 2018

M&A activity

The Polish banking sector experienced several M&A deals in the previous years. Since 2015, there have been succesful 10 banking deals in the country, out of which 8 were publicly priced. Deals with public pricing had an overall value of around EUR 5.8 bn.

- In 2019, Commerzbank announced to sell its majority stake (69.3%) in mBank. The book value of the Commerzbank's stake is worth around EUR 2.6 bn. In 2020, the transaction was terminated by Commerzbank due to unfavourable market conditions caused by the onset of the COVID-19 crisis.
- In 2019, Idea Bank announced to merge with Getin Noble Bank; both banks are owned by Polish businessman Leszek Czarnecki. As a result of the transaction, the merged entity was aiming to maintain a more favourable financing structure. Idea and Getin planned to benefit from the synergies by consolidating their headquarters and overlapping branches, and integrating IT systems. However, on 31 May 2019 the Polish Financial Supervisory Authority (KNF) has rejected the plan to merge for Idea Bank and Getin Noble Bank, therefore the transaction was terminated.
- In 2019, BCP-owned Millennium Bank acquired 99.79% of Société Générale's Polish subsidiary, Euro Bank. The acquisition was in line with Bank Millennium's strategy to strengthen its position in the consumer lending segment.
- In 2018, EBRD acquired 4.5% stake in Bank BGZ BNP Paribas from Raiffeisen Bank International; via this transaction, Raiffeisen fully exited Poland.
- In 2018, Bank BGZ BNP Paribas agreed to acquire the core bank business of Raiffeisen Bank Polska from Raiffeisen Bank International for EUR 775 mn. The transaction will help Bank BGZ to further strengthen its position in the Polish market, due to the strong distribution network, innovative products platform, and modern central costumer service, which will be provided by the acquisition.
- In 2018, Deutsche Bank sold its retail and private banking business to Bank Zachodni WBK, owned by Santander Group, for a consideration of EUR 305 mn. With the deal, Santander acquired 113 branches, 1 500 employees, and nearly EUR 4,350 bn in assets. The acquisition was aligned with Santander's strategy to enhance its position in the retail segment.
- In 2016, the largest banking acquisition in recent years was the sale of a 32.8% stake of the second largest bank in Poland, Bank Pekao, owned by UniCredit Group, to the state-owned PZU for EUR 2,382 bn.
- In 2016, PZU-controlled Alior Bank agreed to acquire Bank BPH from GE Capital for 360 mn. The transaction was consistent with the strategy of Alior, based on a dynamic organic growth and acquisitions.
- Also in 2016, PZU purchased a 25.3% stake in Alior Bank from an Italian conglomerate for EUR 396 mn. Based on PZU's activity, it is visible that the most active consolidator in the Polish banking market has been the state, in line with its intention to increase domestic ownership in the banking sector.
- In 2015, a UK-based private equity firm, AnaCap Financial Partners, agreed to acquire FM Bank PBP, the Poland-based retail and SME bank, from Abris Capital Partners for an undisclosed consideration.
- In 2015, state-owned PKO agreed to acquire SKOK Wesola, the Poland-based cooperative savings and credit company engaged in providing non-banking financial services and products such as loans and credit, term deposits, current accounts, and other insurance-related transfer services, for an undisclosed consideration.
- In 2015, Alior Bank agreed to acquire a 97.9% stake in Meritum Bank ICB from Innova Capital, WCP Cooperatief UA and EBRD for a consideration of EUR 83.6 mn. The acquisition was expected to help Alior Bank strengthen its position in the high-margin consumer lending business.

List of banking M&A deals in Poland, 2015-2020 Q3

Year	Target	Buyer	% Acquired	Deal Value in EUR mn	Seller
2019	Euro Bank	Bank Millennium	99.8%	1 448	Société Générale
2018	BGZ BNP Paribas	EBRD	4.5%	100	Raiffeisen
2018	Raiffeisen Bank Polska	BNP Paribas	100.0%	775	Raiffeisen
2018	Deutsche Bank Polska	Santander	100.0%	305	Deutsche Bank
2016	Bank Pekao	PZU	32.8%	2 382	UniCredit
2016	Bank BPH	Alior Bank	100.0%	360	GE Capital
2016	Alior Bank	PZU	25.3%	396	Carlo Tassara
2015	Nest Bank	AnaCap Financial Partner	100.0%	n.a.	Abris Capital Partners
2015	SKOK Wesola	PKO	100.0%	n.a.	n.a.
2015	Meritum Bank ICB	Alior Bank	97.9%	84	EBRD; Innova Capital; WCP Cooperatief

Source: Deloitte Intelligence

Impact of COVID-19

The Polish financial system entered into the COVID-19 crisis in a strong position as banks possessed adequate levels of capital over the regulatory capital buffers and since banks retained a substantial part of their profits from recent years.

The Polish banking sector also had a strong liquidity position due to a high surplus of liquid assets which helped the sector cope with the increase in deposit withdrawals in the first months of the crisis. Due to loan moratoriums and lack of loan demand the liquidity became one of the most important factors to handle the COVID situation.

Based on Deloitte's COVID-19 CEE banking sector impact survey, in 2020 Polish CROs expect new loan disbursements to significantly decrease compared to 2019. This is parallel with the National Bank's expectations about the drop in the loan demand from both the corporate and retail segments.

Credit standards for both the corporate and retail segments are expected to tighten due to the COVID-19 crisis especially for households.

Profitability of the banking sector face serious challenges due to COVID-19. These challenges mainly come from the increase of provisioning, the decline of loan volumes, as well as the decline in non-interest margins due to a general reduction in demand for banking services.

The Czech Republic

Macroeconomic environment

In the Czech Republic, real GDP grew by 2.3% in 2019, supported by vigorous domestic demand owing to a tight labour market, strong wage growth and robust fixed capital formation. In 2020 however forecasts expect a slowdown in the private consumption growth, external and domestic demand, therefore a contraction of 6.9% in GDP.

Inflation increased by 0.7% points in 2019, and further increase is expected in 2020.

Consumption was boosted mainly by the low unemployment rate and by growing nominal wages. The unemployment rate decreased further to 2.0% in 2019, however a rise is expected in 2020 due to the coronavirus outbreak.

Despite stable GDP growth in 2019, the budget surplus decreased by 0.6% points. Public debt declined by 1.9% points to 30.2% from 2018 to 2019. However, significant downturn is forecasted in 2020. The budget balance could turn to 6.0% deficit and public debt is also to increase, due to COVID-19.

Macro indicators	2017	2018	2019	2020E	Change 2019-20 (% or % point)
Nominal GDP (EUR mn)	194 133	210 893	223 945	213 565	-4.6%
Nominal GDP/capita (EUR)	18 333	19 849	20 989	19 997	-4.7%
GDP (% real change pa)	5.2%	3.2%	2.3%	-6.9%	-9.2%
Consumer prices (% change pa)	2.5%	2.1%	2.8%	3.3%	0.5%
Recorded unemployment (%)	2.9%	2.2%	2.0%	2.9%	0.9%
Budget balance (% of GDP)	1.5%	0.9%	0.3%	-6.0%	-6.3%
Public debt (% of GDP)	34.2%	32.1%	30.2%	43.1%	12.9%

Source: EIU, Eurostat
E - Estimated data for 2020

Banking trends

The Czech banking sector's capital adequacy further improved in 2019, as the capital accumulation from retained earnings and the decline of aggregated risk weights outpaced the increase of loans and other assets.

The total assets of the domestic banking sector grew by 5.8% in 2019, reaching EUR 287 bn. The asset quality also further improved across the Czech banking sector with decreasing NPL ratios and increasing total loan volume. However, due to the COVID-19 impact, asset quality is expected to deteriorate.

The Czech banks reported all-time high profits in 2019, benefitted also from the relatively high interest rate environment compared to the EU zone. However, due to COVID-19 profitability is expected to decrease in 2020.

Banking sector	2017	2018	2019	Change 2018-19 (% or % point)
Total assets (EUR mn)	263 294	270 770	286 549	5.8%
Asset penetration (%)[1]	135.6%	128.4%	128.0%	-0.4%
Total equity (EUR mn)	21 294	21 720	23 778	9.5%
Total loans (EUR mn)	99 832	105 852	112 757	6.5%
Loan penetration (%)[2]	51.4%	50.2%	50.4%	0.2%
Retail loans (EUR mn)	59 810	63 858	68 680	7.6%
Corporate loans (EUR mn)	40 022	41 994	44 077	5.0%
Interest rates				
Lending (%)	3.6%	3.5%	3.7%	0.2%
Deposit (%)	0.3%	0.3%	0.4%	0.1%
NPL volumes				
Retail NPLs (EUR mn)	1 490	1 347	1 142	-15.2%
Corporate NPLs (EUR mn)	1 693	1 500	1 412	-5.9%
NPL ratios				
Retail NPL ratio (%)	2.5%	2.1%	1.7%	-0.4%
Corporate NPL ratio (%)	4.2%	3.6%	3.2%	-0.4%
Key ratios				
CAR (%)	19.3%	19.6%	21.1%	1.5%
ROE (%)	13.0%	13.3%	13.9%	0.6%
ROA (%)	1.1%	1.1%	1.2%	0.1%
CIR (%)	47.1%	47.0%	47.0%	0.0%
L/D (%)	94.9%	101.9%	103.9%	2.0%
FX share of lending (%)	18.9%	19.8%	19.5%	-0.3%
LLP coverage (%)	51.0%	66.9%	72.4%	5.5%

Source: EIU, CNB, ECB CBD

[1]Assets penetration = Total assets/Nominal GDP

[2]Loans penetration = Total loans/Nominal GDP

Banking market

The number of operating banks increased by one in the past year reaching altogether 24 operating banks excluding the foreign branches at the end of 2019 in the Czech Republic.

The new bank, Trinity Bank emerged from the successful transformation of the Moravský Peněžní Ústav – savings cooperatives to a commercial bank.

The Czech banking industry remained moderately concentrated as 68% of assets are owned by the top 5 largest banks, and all of them is a subsidiary of an international banking group. The Czech banking segment's HHI index reached 11.1%, which is still high compared to its neighbouring countries.

The level of concentration will probably go up as Moneta Money Bank acquired both Wuestenrot's banking entities during the first half of 2020 and shareholders of some small banks or foreign branches are open to discussion.

List of Banks in Czech Republic, 2019 (EUR mn)

Rank 2019	Rank 2018*	YoY change in rank	Institutions	Total Assets	Market share	Equity	Net income	ROA %	ROE %	Major shareholder
1.	2.	▲	Ceskoslovenska Obchodni Banka	57 854	20.2%	3 671	858	1.5%	23.4%	KBC
2.	1.	▼	Ceska Sporitelna	54 852	19.1%	5 165	670	1.2%	13.0%	Erste
3.	3.	●	Komercni Banka	39 808	13.9%	3 865	577	1.4%	14.9%	Société Générale
4.	4.	●	UniCredit	21 751	7.6%	1 177	359	1.7%	30.5%	UniCredit
5.	5.	●	Raiffeisenbank	14 589	5.1%	1 287	163	1.1%	12.7%	Raiffeisen
6.	6.	●	Hypotecni Banka	12 753	4.5%	1 755	95	0.7%	5.4%	KBC
7.	7.	●	PPF Banka	8 932	3.1%	563	81	0.9%	14.5%	PPF Group
8.	8.	●	Moneta Money Bank	8 529	3.0%	1 006	150	1.8%	14.9%	No majority shareholder
9.	9.	●	Ceskomoravska Stavebni Sporitelna	5 802	2.0%	286	38	0.7%	13.3%	KBC
10.	11.	▲	Fio Banka	5 777	2.0%	175	71	1.2%	40.6%	Private Individuals
11.	10.	▼	J&T Banka	5 584	1.9%	787	112	2.0%	14.3%	J&T FINANCE
12.	12.	●	Air Bank	4 673	1.6%	385	60	1.3%	15.5%	Home Credit N.V.
13.	13.	●	Modra Pyramida Stavebni Sporitelna	3 307	1.2%	233	28	0.8%	11.8%	Société Générale
14.	14.	●	Sberbank CZ	3 294	1.1%	364	21	0.6%	5.8%	Sberbank
15.	19.	▲	Banka CREDITAS	2 888	1.0%	174	10	0.4%	5.9%	Private Individuals
16.	15.	▼	Stavebni sporitelna Ceske sporitelny	2 871	1.0%	217	38	1.3%	17.5%	Erste
17.	16.	▼	Raiffeisen Stavebni Sporitelna	2 827	1.0%	197	21	0.7%	10.6%	Raiffeisen
18.	18.	●	Equa Bank	2 503	0.9%	215	17	0.7%	8.0%	Equa Group
19.	17.	▼	Ceska Exportni Banka	1 727	0.6%	282	3	0.1%	0.9%	State of the Czech Republic
20.	20.	●	Wüstenrot Hypotecni Banka	1 678	0.6%	93	5	0.3%	5.5%	Wuestenrot & Wuerttembergische AG
21.	21.	●	Wustenrot - Stavebni Sporitelna	1 403	0.5%	119	17	1.2%	14.3%	Wuestenrot & Wuerttembergische AG
22.	23.	▲	Ceskomoravska Zarucni a Rozvojova Banka	944	0.3%	194	1	0.2%	0.8%	State of the Czech Republic
23.	22.	▼	Expobank CZ	827	0.3%	115	5	0.6%	4.3%	Private Individuals
24.	24.	●	Trinity Bank	637	0.2%	68	2	0.3%	2.9%	Private Individuals
			Total	**286 549**	**100%**	**23 778**	**3 412**	**1.2%**	**13.9%**	

Source: Banks' data disclosure, EMIS, CNB

* corrected ranking (based on bank list 2019)

M&A activity

There have been five bank acquisition deals over the past years in the Czech banking market.

- In 2020, Erste-owned Ceska Sporitelna (CS) signed an agreement regarding takeover of Czech branches of Austrian Waldviertler Sparkasse. The transaction is subject to approval from The Office for the Protection of Competition, CS aims to incorporate business activities of Waldviertel Sparkasse in early 2021.
- In 2020, Wuestenrot & Wuerttembergische AG (a German financial services group) sold its 100% share of two of its banks: Wuestenrot - stavebni sporitelna and Wuestenrot hypotecni banka to Moneta Money Bank. Further integration of Moneta Money Bank and the acquired Wuestenrot companies is expected in the following years. The acquisition materially improves Moneta's market presence in retail banking.
- In 2019, Bausparkasse Schwaebisch Hall (a German mortgage finance and private construction finance provider company) sold its 45% share in Ceskomoravska stavebni sporitelna (CMSS) to one of the market leaders Ceskoslovenska Obchodni Banka (CSOB). As a result of the transaction, KBC's Czech subsidiary, the CSOB strengthened its position in the domestic housing finance sector by fully owning CMSS.
- In 2016, Citibank sold its retail banking operations in 10 countries, including the Czech Republic. This supported Citi's strategic goal to build down operations in non-core markets and focusing on 24 flagship markets with the largest growth potential. Czech retail banking operations were sold to Raiffeisen Bank.
- In 2016, General Electric sold its 100% subsidiary GE Money Bank renamed to Moneta Money Bank via IPO on Prague Stock Exchange. General Electric gradually sold its entire share during 2016.

List of banking M&A deals in the Czech Republic, 2015-2020Q3

Year	Target	Buyer	% Acquired	Deal Value in EUR mn	Seller
2020*	Waldviertler Sparkasse Bank - Czech branch	Ceska Sporitelna	100,0%	n.a.	Waldviertler Sparkasse Bank
2020	Wuestenrot - stavebni sporitelna; Wuestenrot hypotecni banka	Moneta Money Bank	100,0%	175	Wuestenrot & Wuerttembergische AG
2019	Ceskomoravska stavebni sporitelna	KBC	45,0%	240	Bausparkasse Schwaebisch Hall
2016	GE Money Bank	IPO	100,0%	n.a.	GE Capital
2015	Citibank Europe plc (Czech consumer banking business)	Raiffeisen	100,0%	n.a.	Citibank

Source: Deloitte Intelligence *Closing in progress

Impact of COVID-19

The Czech banking sector face the COVID-19 crisis with strong capital, liquidity and profitability positions which could potentially contribute to handle the economic slowdown.

The financial indicators of the Czech financial institutions are expected to be under strong pressure during COVID-19. For example, due to higher provision costs, profitability ratios, inculsing ROE and ROA are expected to decrease.

Economic stabilisation measures and the flexibility in the regulatory frameworks aimed to mitigate the impact of COVID-19 on the sector – among others – in the key area of credit losses. CNB supported the Czech banking sector with the flexible application of IFRS 9 regarding its macroprudential policy to avoid a sudden and sizeable increase in credit losses which would make the lending activity more difficult.

The banking sector's profitability is expected to decrease due to increasing credit losses, which might boost consolidation. Uncertainty regarding future developments therefore requires careful consideration of the possible macroprudential policy response in the area of capitalisation.

The new loan disbursement is expected to slightly decrease in the following year, in parallel the credit standards for both the corporate and retail segments might tighten due to the COVID-19 crisis.

Slovakia

Macroeconomic environment

The Slovak economy expanded by 2.4% in 2019, and showed a stable GDP growth during the last 4 years. Real GDP growth was mainly driven by strong investment, strengthening private consumption and the long-dominant automotive sector. In 2020, the GDP is expected to contract by 7.9% driven by a decline of both domestic and external demand.

Inflation was 3.2% in 2019, and expected to decrease in 2020. Unemployment rate decreased to 5.0% from 11.5% since 2015, and is expected to rise back to around 7.0% in 2020.

In 2019, budget deficit was 1.3% of GDP and it is forecasted to widen to 8.6% in 2020 as the government rolls out fiscal measures to overcome the crisis. As a result, significant growth is projected in public debt, which could reach 63.8% of GDP in 2020.

Macro indicators	2017	2018	2019	2020E	Change 2019-20 (% or % point)
Nominal GDP (EUR mn)	84 500	89 600	94 200	87 300	-7.3%
Nominal GDP/capita (EUR)	15 648	16 291	17 127	15 873	-7.3%
GDP (% real change pa)	3.0%	3.9%	2.4%	-7.9%	-10.3%
Consumer prices (% change pa)	2.1%	2.0%	3.2%	1.8%	-1.4%
Recorded unemployment (%)	7.1%	5.4%	5.0%	7.0%	2.0%
Budget balance (% of GDP)	-1.0%	-1.1%	-1.3%	-8.6%	-7.3%
Public debt (% of GDP)	51.3%	49.5%	48.0%	63.8%	15.8%

Source: EIU, Eurostat
E - Estimated data for 2020

Banking trends

The Slovakian banking sector's capital adequacy ratio remained stable in 2019 at 18.2%, still being among the lowest in the CEE region.

Total assets continued the increasing trend in 2019, reaching EUR 86 bn. The increase of the loan portfolio amounted to 6.5% mainly driven by the expansion of the retail portfolio with 8.0%. In the first half of 2019 the tightening credit standards required by NBS slowed down the loan growth. However, this was followed by a sharp increase in lending in the second half of 2019, which was mainly due to a surge in new housing loans.

The significant improvement of the NPL ratios in 2018 slowed down during 2019, reaching a relatively low level. Retail NPL volume increased by 2.1% in 2019 while the retail NPL ratio decreased by 0.1% points. Corporate NPL volumes decreased by 7.5%, while the decline in corporate NPL ratio amounted to 0.4 % points in 2019.

Profitability of the Slovakian banking sector decreased in 2019, as ROE decreased by 1.0 % point. The profit drop was mainly caused by the decrease in interest rates and margins in the banking sector.

Banking sector	2017	2018	2019	Change 2018-19 (% or % point)
Total assets (EUR mn)	77 632	81 726	86 290	5.6%
Asset penetration (%)[1]	91.9%	91.2%	91.6%	0.4%
Total equity (EUR mn)	8 384	8 620	9 004	4.5%
Total loans (EUR mn)	50 442	55 071	58 651	6.5%
Loan penetration (%)[2]	59.7%	61.5%	62.3%	0.8%
Retail loans (EUR mn)	32 816	36 538	39 460	8.0%
Corporate loans (EUR mn)	17 626	18 533	19 191	3.6%
Interest rates				
Lending (%)	2.4%	2.4%	2.4%	0.0%
Deposit (%)	0.2%	0.2%	0.1%	-0.1%
NPL volumes				
Retail NPLs (EUR mn)	1 043	1 074	1 096	2.1%
Corporate NPLs (EUR mn)	917	718	664	-7.5%
NPL ratios				
Retail NPL ratio (%)	3.2%	2.9%	2.8%	-0.1%
Corporate NPL ratio (%)	5.2%	3.9%	3.5%	-0.4%
Key ratios				
CAR (%)	18.8%	18.2%	18.2%	0.0%
ROE (%)	9.3%	9.3%	8.3%	-1.0%
ROA (%)	0.9%	0.84%	0.76%	0.0%
CIR (%)	57.8%	56.4%	58.0%	1.6%
L/D (%)	96.2%	98.5%	99.1%	0.6%
FX share of lending (%)	0.2%	0.1%	0.1%	0.0%
LLP coverage (%)	74.1%	89.6%	88.8%	-0.8%

Source: EIU, NBS, ECB CBD

[1]Assets penetration = Total assets/Nominal GDP

[2]Loans penetration = Total loans/Nominal GDP

Banking market

13 locally-licensed banks were operating in the Slovakian market at the end of 2019. The banking sector is dominated by the subsidiary of international banking groups, as nearly 75% of the banking assets is owned by Erste, Intesa San Paolo, Raiffeisen, KBC and UniCredit.

Thus concentration of the Slovakian banking sector remained high in 2019, the 5 largest banks owned 75% of the total assets and the HHI reached 13.5%.

List of Banks in Slovakia, 2019 (EUR mn)

Rank 2019	Rank 2018*	YoY change in rank	Institutions	Total Assets	Market share	Equity	Net income	ROA %	ROE %	Major shareholder
1.	1.	●	Slovenska Sporitelna	18 628	21.6%	1 581	174	0.9%	11.0%	Erste
2.	2.	●	Vseobecna Uverova Banka	17 640	20.4%	1 613	120	0.7%	7.4%	Intesa Sanpaolo
3.	3.	●	Tatra Banka	14 323	16.6%	1 176	135	0.9%	11.5%	Raiffeisen
4.	4.	●	Ceskoslovenska Obchodna Banka	8 739	10.1%	806	70	0.8%	8.7%	KBC
5.	5.	●	UniCredit Bank CZ & SK	5 271	6.1%	1 324	39	0.7%	3.0%	UniCredit
6.	6.	●	Postova Banka	4 370	5.1%	643	46	1.1%	7.1%	J&T FINANCE
7.	7.	●	Prima Banka Slovensko	4 179	4.8%	346	17	0.4%	4.9%	Penta Investments
8.	8.	●	Prva Stavebna Sporitelna	3 031	3.5%	259	15	0.5%	6.0%	Schwäbisch Hall. Raiffeisen. Erste
9.	9.	●	OTP Banka Slovensko	1 433	1.7%	115	2	0.2%	2.0%	OTP
10.	10.	●	Privatbanka	768	0.9%	94	9	1.2%	9.6%	Penta Investments
11.	11.	●	Slovenska Zarucna a Rozvojova Banka	488	0.6%	293	1	0.1%	0.2%	State of Slovakia
12.	12.	●	Wustenrot Stavebna Sporitelna	474	0.5%	48	2	0.3%	3.2%	Bausparkasse Wustenrot Aktiengesellschaft
13.	13.	●	Csob Stavebna Sporitelna	239	0.3%	25	1	0.5%	4.6%	KBC
			Total	**86 290**	**100%**	**9 004**	**652**	**0.8%**	**8.3%**	

Source: Banks' data disclosure, EMIS, SNB

* corrected ranking (based on bank list 2019)

M&A activity

Over the past years, there has been two major M&A deals in the Slovak banking sector.

- In 2020, OTP sold its 100% share of its Slovakian branch, OTP Banka Slovensko to KBC. The main reason behind OTP's exit was that OTP Banka Slovensko could not reach efficient economies of scale and therefore deliver the expected financial performance.
- In 2015, 99.5 % stake in Sberbank Slovensko was acquired by Primabanka which is owned by Penta Investments Limited, a private equity firm. This transaction was in line with the international strategy of Sberbank Europe.

List of banking M&A deals in Slovakia, 2015-2020Q3

Year	Target	Buyer	% Acquired	Deal Value in EUR mn	Seller
2020	OTP Banka Slovensko	KBC	100.0%	n.a.	OTP
2015	Sberbank Slovensko	Penta Investments Limited	99.5%	n.a.	Sberbank

Source: Deloitte Intelligence

Impact of COVID-19

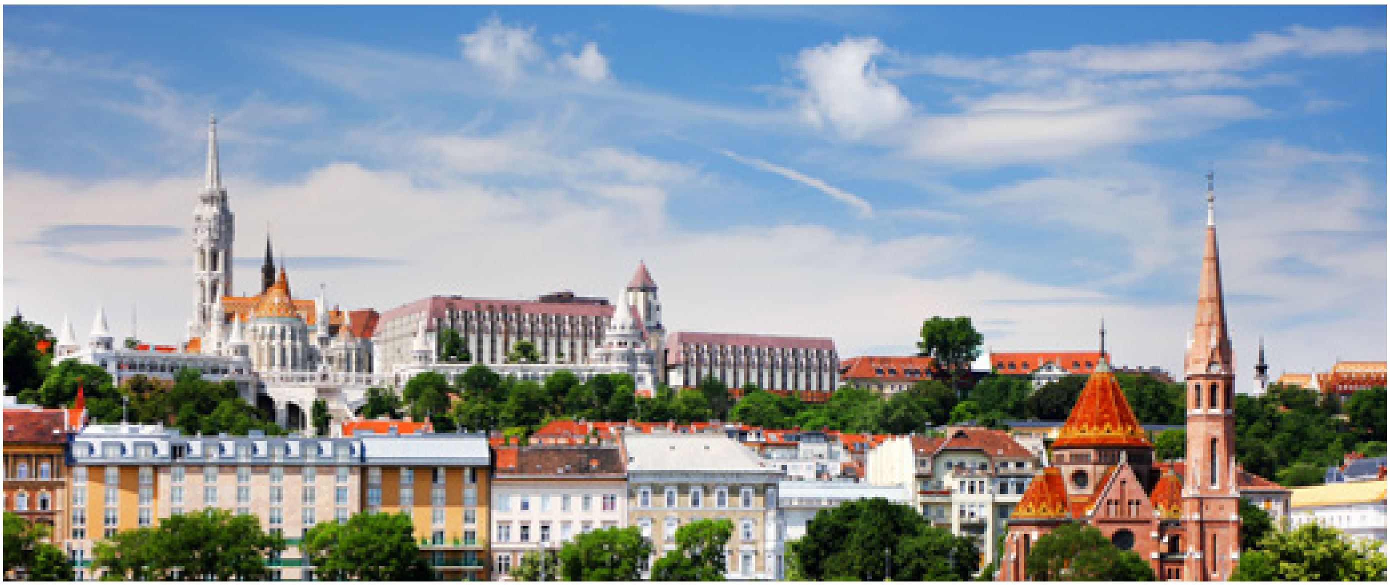
Despite Slovak banks have been severely affected by the COVID-19 pandemic, the banking sector came into the crisis period with solid capital and liquidity positions. The capital adequacy of the banking sector is now almost twice as high as it was at the outset of the previous global economic crisis.

The Slovak banking sector's total asset growth is expected to slow down in 2020 due to the negative impact of COVID-19. However, strong fundamentals and state support should ensure that the sector is resilient against external shocks.

The short term decline in credit demand is expected to decrease the new loan disbursement, while NPL ratios are expected to increase mostly among loans disbursed to SMEs, self-employed and companies in the most affected economic sectors.

The credit standards are also expected to tighten due to the banks' expectations about the future economic developments which forces them to save their current sufficient capital and liquidity positions.

Hungary



Macroeconomic environment

The Hungarian economy experienced solid growth in recent years as real GDP increased by 4.9% in 2019 and 5.1% in 2018. However due to the COVID-19 pandemic crisis GDP growth could contract significantly by 5.3% in 2020.

Consumer prices increased by 3.3% in 2019, the highest since 2015. Inflation is expected to level off in the forthcoming period.

Unemployment rate fell to 3.4% in 2019 from 3.7% in 2018. Besides the decreasing number of unemployed people, labour shortage and the lack of skilled workers remained an issue in most areas of the economy. In 2020, the lockdown and regulations responding the pandemic situation could lead to an increased unemployment rate of 5.9%.

Budget deficit decreased by 0.1% point to 2.1% in 2019, while public debt dropped to 66.4% in 2019 from 70.4% in 2018. Due to COVID-19 related measures and decreasing state revenues budget deficit is forecasted to increase to 5.1% in 2020 and the public debt to 72.3%.

Macro indicators	2017	2018	2019	2020E	Change 2019-20 (% or % point)
Nominal GDP (EUR mn)	125 338	133 563	143 586	133 456	-7.1%
Nominal GDP/capita (EUR)	12 921	13 769	14 803	13 758	-7.1%
GDP (% real change pa)	4.5%	5.1%	4.9%	-5.3%	-10.2%
Consumer prices (% change pa)	2.3%	2.8%	3.3%	2.7%	-0.6%
Recorded unemployment (%)	4.2%	3.7%	3.4%	5.9%	2.5%
Budget balance (% of GDP)	-2.5%	-2.2%	-2.1%	-5.1%	-3.0%
Public debt (% of GDP)	73.0%	70.4%	66.4%	72.3%	5.9%

Source: EIU, Eurostat
E - Estimated data for 2020

Banking trends

Balance sheet of the Hungarian banking sector further increased in 2019 owing to the notable growth in loans granted to both retail and corporate clients. The expansion in loans took place parallel with the strengthening economic fundamentals. Households' credit demand was driven by the Prenatal Baby Support programme, as well as the Home Purchase Subsidy Scheme introduced by the government. Besides, NBH launched its Funding for Growth Scheme Fix (FGS Fix) and Go (FGS Go!) programmes which successfully boosted corporate loan supply.

The capital adequacy ratio continued to improve by 0.4% point reaching 17.5% in 2019. Hungarian banks have reinvested a significant portion of the profits back to their operations resulting in a robust capital position.

The increase in lending activity and decrease of NPLs contributed to the improvement of assets quality to pre-2008 levels. The NPL ratio of the corporate and retail segments fell to 1.5% and 2.7% respectively, which are lowest experienced in the last 15-20 years.

Corporate NPLs decreased by 29.8% while volume in the retail segment decreased by 33.0% in 2019. The material decrease in NPLs is mainly due to the balance sheet cleaning activity in 2019 as the sector sold or wrote off non-performing debts in the amount of c. EUR 0.3 bn.

The average return on equity was 14.6% in 2018 and 14.4% in 2019 thus profitability remained high in EU comparison. Sound profitability was driven by the considerable growth in loan volumes and improvement in asset quality.

Banking sector	2017	2018	2019	Change 2018-19 (% or % point)	
Total assets (EUR mn)	120 108	123 506	142 561	15.4%	
Asset penetration (%)[1]	95.8%	92.5%	99.3%	6.8%	
Total equity (EUR mn)	12 370	13 196	14 925	13.1%	
Total loans (EUR mn)	39 391	42 175	46 578	10.4%	
Loan penetration (%)[2]	31.4%	31.6%	32.4%	0.8%	
Retail loans (EUR mn)	18 563	19 085	21 560	13.0%	
Corporate loans (EUR mn)	20 829	23 089	25 019	8.4%	
Interest rates					
Lending (%)	1.5%	1.5%	1.8%	0.3%	
Deposit (%)	0.1%	0.1%	0.1%	0.0%	
NPL volumes					
Retail NPLs (EUR mn)	1 401	864	579	-33.0%	
Corporate NPLs (EUR mn)	678	536	376	-29.8%	
NPL ratios					
Retail NPL ratio (%)	7.5%	4.5%	2.7%	-1.8%	
Corporate NPL ratio (%)	3.3%	2.3%	1.5%	-0.8%	
Key ratios					
CAR (%)	16.8%	17.1%	17.5%	0.4%	
ROE (%)	14.5%	14.6%	14.4%	-0.2%	
ROA (%)	1.5%	1.6%	1.5%	-0.1%	
CIR (%)	64.4%	63.1%	64.7%	1.6%	
L/D (%)	71.8%	72.7%	75.5%	2.8%	
FX share of lending (%)	23.4%	23.5%	23.4%	-0.1%	
LLP coverage (%)	66.8%	80.3%	n.a.	n.a	n.a

Source: EIU, NBH, ECB CBD

[1]Assets penetration = Total assets/Nominal GDP

[2]Loans penetration = Total loans/Nominal GDP

Banking market

35 licensed credit institutions were operating in Hungary at the end of 2019.

Gránit Bank, a fast-growing bank with a solid digital strategy recently expressed an intention to go public in the upcoming years. It is currently the 20th largest bank in Hungary by total assets. To further strengthen its capital position it has recently agreed with the Hungarian State about a capital investment in the bank.

MTB Group continued the consolidation of the Hungarian savings cooperative market. 5 cooperatives successfully merged under the management of MTB Group leading to the reduction of the locally licensed institutions in Hungary. The group contained 3 credit insitutions by the end of 2019: MTB, which leads the ongoing coopartive integration; Takarékbank, which is a commercial bank; and Takarék Jelzálogbank, which is a mortgage bank.

The Hungarian banking sector is one of the least concentrated in the region, as the top 5 banks own less than 50 percent of the total assets of the sector. OTP Bank dominates in terms of market share with 21.5% market share.

The National Bank of Hungary has been reiterating in the past years, that consolidation would be welcomed in the Hungarian banking sector. In their view 4-5 larger banks would serve the market more efficiently. The recently announced merger of 3 banking groups, Takarék Group, MKB Bank and Budapest Bank is in line with the sought after consolidation. More is expected to come.

List of Banks in Hungary, 2019 (EUR mn)

Rank 2019	Rank 2018*	YoY change in rank	Institutions	Total Assets	Market share	Equity	Net income	ROA %	ROE %	Major shareholder
1.	1.	●	OTP Bank	30 675	21.5%	5 003	594	1.9%	11.9%	OTP
2.	2.	●	Kereskedelmi és Hitelbank	10 753	7.5%	1 080	155	1.4%	14.4%	KBC
3.	3.	●	UniCredit	10 336	7.3%	1 127	151	1.5%	13.4%	UniCredit
4.	4.	●	Erste Bank Hungary	8 659	6.1%	1 172	171	2.0%	14.6%	Erste
5.	5.	●	Raiffeisen Bank	7 842	5.5%	713	63	0.8%	8.9%	Raiffeisen
6.	14.	▲	Takarékbank	6 559	4.6%	374	(30)	-0.5%	-8.1%	Private Individuals
7.	6.	▼	CIB Bank	6 080	4.3%	693	43	0.7%	6.2%	Intesa Sanpaolo
8.	7.	▼	MKB Bank	5 363	3.8%	586	129	2.4%	22.1%	Private Individuals
9.	9.	●	Budapest Bank	4 584	3.2%	488	49	1.1%	10.1%	State of Hungary
10.	8.	▼	Magyar Fejlesztési Bank	4 319	3.0%	669	1	0.0%	0.2%	State of Hungary
11.	10.	▼	OTP Jelzálogbank	4 058	2.8%	255	84	2.1%	32.7%	OTP
12.	12.	●	Magyar Export-Import Bank	3 003	2.1%	554	6	0.2%	1.0%	State of Hungary
13.	11.	▼	MTB	2 465	1.7%	101	26	1.0%	25.2%	Co-operatives
14.	13.	▼	Fundamenta-Lakáskassza	1 933	1.4%	192	22	1.1%	11.2%	Schwäbisch Hall
15.	15.	●	Merkantil Váltó és Vagyonbefekteto Bank	1 487	1.0%	140	25	1.7%	18.1%	OTP
16.	16.	●	OTP Lakástakarékpénztár	1 316	0.9%	108	10	0.7%	9.0%	OTP
17.	17.	●	Sberbank	1 281	0.9%	142	7	0.6%	5.1%	Sberbank
18.	20.	▲	Commerzbank	1 206	0.8%	92	4	0.3%	4.0%	Commerzbank
19.	18.	▼	GRÁNIT Bank	1 205	0.8%	44	4	0.3%	8.1%	Private Individuals
20.	19.	▼	Takarék Jelzálogbank	1 037	0.7%	197	7	0.6%	3.3%	Private Individuals
21.	21.	●	KDB Bank	979	0.7%	62	1	0.1%	1.7%	Korea Development Bank
22.	22.	●	UniCredit Jelzálogbank	821	0.6%	67	8	0.9%	11.5%	UniCredit
23.	23.	●	Bank of China	552	0.4%	50	1	0.1%	1.4%	Bank of China
24.	24.	●	ERSTE Jelzálogbank	545	0.4%	34	2	0.4%	6.0%	Erste
25.	25.	●	MagNet Magyar Közösségi Bank	494	0.3%	45	4	0.9%	9.8%	Fr Invest
26.	29.	▲	ERSTE Lakás-takarékpénztár	465	0.3%	27	1	0.2%	4.0%	Erste
27.	28.	▲	K&H Jelzálogbank	449	0.3%	18	1	0.1%	3.7%	KBC
28.	26.	▼	KELER Központi Értéktár	406	0.3%	73	3	0.8%	4.4%	State of Hungary
29.	27.	▼	Magyar Cetelem Bank	355	0.2%	114	24	6.9%	21.4%	Cetelem
30.	30.	●	DUNA TAKARÉK BANK	265	0.2%	13	(1)	-0.2%	-5.0%	Private Individuals
31.	31.	●	SOPRON BANK BURGENLAND	252	0.2%	26	2	0.8%	7.8%	Communitas Holding
32.	32.	●	Garantiqa Hitelgarancia	183	0.1%	131	3	1.9%	2.6%	MFB
33.	33.	●	Polgári Bank	121	0.1%	10	0	0.2%	2.0%	Private Individuals
34.	34.	●	Agrár-Vállalkozási Hitelgarancia	112	0.1%	106	3	2.8%	3.0%	Private Individuals
35.	35.	●	AEGON Magyarország Lakástakarékpénztár	11	0.0%	8	(4)	-36.4%	-52.5%	AEGON
			Total	**142 561**	**100%**	**14 925**	**2 103**	**1.5%**	**14.4%**	

Source: Banks' data disclosure, EMIS, NBH

* corrected ranking (based on bank list 2019)

M&A activity

In terms of M&A activity the Hungarian market was active in the past few years. The state has been an active buyer as well recently, which is in line with their strategic goal of increased Hungarian ownership in the sector.

Based on the latest publicly available information, the Russian Sberbank is planning to dispose its subsidiaries in Hungary and in Serbia. The Russian bank is already in discussions with potential buyers such as Apollo Global Management and the Serbian AIK Banka, which intend to strengthen their regional positions.

In November 2019, a series of mergers were completed in the Hungarian banking sector. Eleven savings cooperatives and two banks merged to form Takarékbank, which thus became the fifth largest financial institution in the domestic market in terms of its consolidated balance sheet. More than 100 entities were merged in the past ten years to create Takarék Group, which serves 1.1 million clients in Hungary from November.

After multiple attempts to resolve liquidity problems, the National Bank of Hungary initiated the liquidation of NBH at the beginning of 2019. All operations were ceased, depositors were compensated by the Deposit Insurance Fund. Due to NBH's zero positive market share, its bankruptcy posed no danger to financial stability of the sector.

10 deals have been completed since 2015, with deal value being announced in 6 cases, adding up to EUR 1,098 mn.

- In November 2020, the Hungarian State and Sándor Nyúl, supervisory board member of Granit Bank announced to increase share capital in Granit Bank, the largest Hungarian digital bank. The capital increase will be c. EUR 12 mn which will strongly secure the capital structure of the bank to continue its remarkable growth.
- In October 2020, Budapest Bank, Takarek Group and MKB Bank decided on a three-party fusion and signed the shareholder agreement about their integration with the following ownership structure: Hungarian State (owner of Budapest Bank) - 30.35%, MKB Bank - 31.69% and Takarek Group - 37.69%. The three banks together will form Hungary's second largest banking group behind OTP. The banking group's total assets will exceed EUR 16.0 bn. Their total FTE number will exceed 11,000 and the aggregated branch number with nearly 900 units will offer the largest banking coverage in Hungary. The three bank successfully complement each other both in operation and in their loan portfolios. Budapest Bank provides a significant household lending portfolio that fits well with MKB's corporate lending profile and the savings bank clients of Takarek Group. The newly created banking group is planning to expand in the region after the main steps of the three bank's integration is closed.
- In 2017, a 36.5% stake in Granit Bank was acquired by the management team of the Bank from the Hungarian Government in a management buyout transaction for EUR 14.4 mn.
- In 2017, Konzum investment fund manager acquired 49% of the MKB Bank. As of September 2018, Konzum investment fund manager still possesses 49% (35 % via Metis Fund), while the other significant owner is Blue Robin Investments with 33%.
- In 2016, Corvinus - a Hungarian state-owned investment fund - purchased 15% of Erste Bank Hungary, together with EBRD which also acquired 15%, for a total consideration of EUR 247.8 mn.
- In 2016, MKB Bank was privatized, Metis Fund (45%), Blue Robin Investments (45%) and Pannonia Pension Fund (10%) acquired 100% of the Bank from the Hungarian State for a consideration of EUR 118 mn.
- In 2016, AXA sold its Hungarian subsidiary to OTP Bank, in line with its strategy to exit the non-core CEE exposures. The acquisition included the whole operation and all employees of AXA Bank. The deal increased OTP Bank's mortgage portfolio by almost 25%.
- In 2015, Magyar Posta, the Hungarian postal service provider, acquired 49% stake in FHB Bank from FHB Land Credit and Mortgage Bank for a consideration of EUR 90.6 mn. With the transaction, Magyar Posta could increase its market share in the financial sector. Furthermore, the acquisition strengthened the capital position of FHB.
- In 2015, Citibank, in line with its strategy to focus on its core activities, which are institutional and corporate banking, sold its retail banking business to Erste for an undisclosed consideration.
- In 2015, the sale of the SME-focused Budapest Bank was a large deal in the Hungarian banking sector. GE sold the Bank to Corvinus - a Hungarian state-owned investment fund, for EUR 615 mn (the purchase price was set in USD 700 mn).

List of banking M&A deals in Hungary, 2015-2020Q4

Year	Target	Buyer	% Acquired	Deal Value in EUR mn	Seller
2020	Granit Bank	"Hungarian State; Private investor"	n.a.	12	Share capital increased
2020*	"Takarek Group; MKB Bank; Budapest Bank"	Three-party merger	~ 100%	n.a.	-
2017	Granit Bank	Management	36.5%	14	Hungarian State
2017	MKB Bank	Konzum	49.0%	n.a.	Blue Robin Investments; Minerva Capital Fund Management
2016	Erste Bank Hungary	Hungarian State; EBRD	30.0%	248	Erste
2016	MKB Bank	Pannonia Pension Fund; METIS Private Capital Fund; Blue Robin Investments	100.0%	118	Hungarian State
2016	AXA Bank Hungary	OTP	100.0%	n.a.	AXA Bank
2015	FHB Kereskedelmi Bank	Magyar Posta	49.0%	91	FHB Mortgage Bank
2015	Citibank retail business	Erste	100.0%	n.a.	Citibank
2015	Budapest Bank	Hungarian State	100.0%	615	GE Capital

Source: Deloitte Intelligence *In progress

Impact of COVID-19

The Hungarian banking system was found by the pandemic crisis with a strong capital position. The moratorium on loans put in place by the government helps to maintain the liquidity position of companies and households. However, after the expiration of the moratorium (currently set to June 2021) deterioration of asset quality is expected in the vulnerable sectors such as transport and storage, wholesale and retail trade, hospitality and manufacturing.

Based on Deloitte's COVID-19 survey report carried out among banking CROs, the volume of new loan disbursements are expected to decrease significantly as a result of the COVID-19 crisis. Nevertheless, because of the substantial bank reserves built up following the 2008 crisis, the contraction of loan portfolios is expected to be only temporary even if a deep economic downturn occurs.

Owing to the potential rise of non-performing loans, half of the Hungarian banks expect to dispose of non-performing loan portfolios in the next 12 months.

The recovery from the COVID-19 crisis is supported by government and central bank schemes aimed at stimulating lending. The retail segment is supported by the Home Purchase Subsidy Scheme and Prenatal Baby Support programme while the corporate segment is supported by the FGS Fix and FGS Go! program as well as the loan and guarantee programmes of the Hungarian Development Bank.

Romania

Macroeconomic environment

The Romanian economy grew by 4.1% in real terms in 2019. Real GDP growth is mainly due to a large increase in private consumption and investments. As the major trading partners have adverse effect on the economy and export, the Romanian GDP is expected to contract by 6.0% in 2020. The recovery is assumed to be slower than previously expected.

The inflation averaged to 3.8% in 2019. The main reasons behind are the expansive wage policies, the weakness of the national currency, volatile food and energy prices, moreover the increase of several taxes. Despite the fact of the significant shrinking in consumer spending and global energy prices, the inflation is predicted to reach 2.9% in 2020.

Dropping to 3.9% from 5.9% in 2016, the unemployment rate showed continuous improvement in 2019. This improving trend is forecasted to break in 2020 and reach almost the 2016-year level, around 5.4% due to the recession.

Budget deficit widened to 4.6% in 2019 from 2.4% in 2016 and increased slightly compared to the year before. It is expected to expand to 9.6% in 2020 caused by the coronavirus crisis.

In 2019, public debt remained 35.2%, but is expected to climb up in the next years and hit 46.8% in 2020.

Macro indicators	2016	2017	2018	2019	2020E	Change 2019-20 (% or % point)	
Nominal GDP (EUR mn)	170 379	187 746	204 731	223 158	207 010	-7.2%	🔴
Nominal GDP/capita (EUR)	8 605	9 530	10 499	11 503	10 782	-6.3%	🔴
GDP (% real change pa)	4.8%	7.1%	4.4%	4.1%	-6.0%	-10.1%	🔴
Consumer prices (% change pa)	-1.6%	1.3%	4.6%	3.8%	2.9%	-0.9%	🟢
Recorded unemployment (%)	5.9%	4.9%	4.2%	3.9%	5.4%	1.5%	🔴
Budget balance (% of GDP)	-2.4%	-2.8%	-2.9%	-4.6%	-9.6%	-5.0%	🔴
Public debt (% of GDP)	37.3%	35.1%	34.7%	35.2%	46.8%	11.6%	🔴

Source: EIU, Eurostat
E - Estimated data for 2020

Banking trends

The Romanian banking sector presents sufficient level of capital as the CAR remained stable at around 20% over the past 3 years.

The increasing trend of total assets continued in 2019, reaching over EUR 106 bn. Both retail and corporate loan volumes increased but the growth rate fell below the levels seen in 2018. The retail segment remained the main source of growth in terms of banking assets, as the risk adjusted return on the retail loans is higher compared to the corporate loans.

The asset quality also improved in 2019, continuing the positive trend seen over the last years. More than half of the Romanian banks reported declines in the stock and ratio on non-performing loans in 2019.

Despite, the Romanian banking sector's profitability declined in 2019 from its record highs in 2018, it remained relatively high in 2019 mainly due to the continued growth of operating profits as well as the historical low levels of net expected credit losses. The record high profitability in 2018 was due to unique one-offs, such as release of provisions.

Banking sector	2017	2018	2019	Change 2018-19 (% or % point)
Total assets (EUR mn)	93 739	99 751	106 764	7.0%
Asset penetration (%)[1]	49.9%	48.7%	47.8%	-0.9%
Total equity (EUR mn)	9 774	10 745	11 795	9.8%
Total loans (EUR mn)	48 986	52 745	54 884	4.1%
Loan penetration (%)[2]	26.1%	25.8%	24.6%	-1.2%
Retail loans (EUR mn)	26 182	28 545	29 948	4.9%
Corporate loans (EUR mn)	22 804	24 199	24 936	3.0%
Interest rates				
Lending (%)	5.6%	6.8%	7.2%	0.4%
Deposit (%)	0.9%	1.3%	1.8%	0.5%
NPL volumes				
Retail NPLs (EUR mn)	1 489	1 484	1 378	-7.2%
Corporate NPLs (EUR mn)	2 609	2 372	2 045	-13.8%
NPL ratios				
Retail NPL ratio (%)	5.7%	5.2%	4.6%	-0.6%
Corporate NPL ratio (%)	11.4%	9.8%	8.2%	-1.6%
Key ratios				
CAR (%)	20.0%	19.7%	20.0%	0.3%
ROE (%)	11.7%	13.6%	12.3%	-1.3%
ROA (%)	1.3%	1.5%	1.5%	0.0%
CIR (%)	54.9%	53.5%	53.4%	-0.1%
L/D (%)	69.2%	71.7%	72.0%	0.3%
FX share of lending (%)	37.8%	33.7%	32.8%	-0.9%
LLP coverage (%)	71.6%	83.8%	88.6%	4.8%

Source: EIU, NBR, ECB CBD

[1]Assets penetration = Total assets/Nominal GDP

[2]Loans penetration = Total loans/Nominal GDP

Banking market

Romanian banks are predominantly owned by foreign banking groups. Over 70% of banking assets are foreign owned in Romania, showing a high level of connectivity with the European banking system. However, the largest Romanian bank Banca Transilvania is under domestic ownership.

In 2019, the banking sector was comprised of 26 locally licenced banks which was significantly lower than at the beginning of the decade. The Romanian state has a relatively small position with 10% market share in the banking sector by the end of 2019, while non-state actors own almost 90% of the banking assets.

Due to the ongoing consolidation wave in Romania, the concentration of the largest banks is expected to increase which is likely to result in the further reduction in the number of bank offices and staff numbers. Currently the banking market is highly competitive, its HHI is 8.3% and the top five Romanian banks' aggregated market share is below 60%.

List of Banks in Romania, 2019 (EUR mn)

Rank 2019	Rank 2018*	YoY change in rank	Institutions	Total Assets	Market share	Equity	Net income	ROA %	ROE %	Major shareholder
1.	1.	●	Banca Transilvania	18 295	17.1%	1 778	341	1.9%	19.2%	Private Individuals
2.	2.	●	Banca Comerciala Romana	14 948	14.0%	1 738	137	0.9%	7.9%	Erste
3.	3.	●	BRD - Groupe Societe Generale	11 686	10.9%	1 652	322	2.8%	19.5%	Société Générale
4.	4.	●	UniCredit	9 320	8.7%	1 019	121	1.3%	11.9%	UniCredit
5.	5.	●	Raiffeisen Bank	8 972	8.4%	982	164	1.8%	16.7%	Raiffeisen
6.	6.	●	CEC Bank	6 881	6.4%	828	80	1.2%	9.7%	State of Romania
7.	7.	●	Alpha Bank Romania	3 729	3.5%	384	17	0.4%	4.3%	Alpha Bank
8.	8.	●	OTP Bank Romania	2 773	2.6%	339	15	0.5%	4.4%	OTP
9.	9.	●	Garanti Bank	2 273	2.1%	303	23	1.0%	7.7%	G Netherlands
10.	10.	●	Banca de Exp-Imp a României – Eximbank	1 621	1.5%	243	6	0.4%	2.5%	State of Romania
11.	11.	●	Banca Romaneasca	1 387	1.3%	131	(4)	-0.3%	-2.8%	State of Romania
12.	13.	▲	Intesa Sanpaolo Romania	1 376	1.3%	179	12	0.9%	6.7%	Intesa Sanpaolo
13.	14.	▲	Libra Internet Bank	1 367	1.3%	152	24	1.8%	15.9%	NCH
14.	12.	▼	First Bank	1 343	1.3%	151	5	0.4%	3.2%	J.C. Flowers &Co
15.	15.	●	Credit Europe Bank	841	0.8%	175	14	1.6%	7.9%	Credit Europe Bank
16.	16.	●	Patria Bank	668	0.6%	70	1	0.2%	1.6%	Private Individuals
17.	17.	●	BCR Banca pentru Locuinte	555	0.5%	13	(157)	-28.4%	**	Erste
18.	19.	▲	Vista Bank	540	0.5%	67	(4)	-0.7%	-5.7%	Vardinogiannis Group
19.	18.	▼	Idea Bank	495	0.5%	42	3	0.6%	7.5%	Idea Bank
20.	20.	●	Credit Agricole Bank Romania	492	0.5%	39	(2)	-0.5%	-5.9%	Credit Agricole
21.	21.	●	Procredit Bank	377	0.4%	46	(3)	-0.9%	-7.4%	ProCredit
22.	23.	▲	PORSCHE BANK ROMANIA SA	174	0.2%	39	2	1.0%	4.4%	Porsche Bank
23.	25.	▲	Banca Comerciala Feroviara	97	0.1%	6	(2)	-1.7%	-25.6%	Private Individuals
24.	22.	▼	Banca Centrala Cooperatista CREDITCOOP	86	0.1%	13	0	0.2%	1.1%	Lista Membrii Cooperatori
25.	24.	▼	Aedificium Banca Pentru Locuinte	84	0.1%	5	(9)	-11.2%	-198.9%	Raiffeisen
26.	26.	●	Banca Romana De Credite Si Investitii	35	0.0%	6	(2)	-4.6%	-24.9%	Private Individuals
			Total	**106 764**	**100%**	**11 795**	**1 557**	**1.5%**	**12.3%**	

Source: Banks' data disclosure, EMIS, NBR

* corrected ranking (based on bank list 2019)

**Missing data

M&A activity

Romania's banking M&A market has become vivid in the last years, there have been twelve succesful deals over the past years:

- In 2020, Valer Blidar, the majority owner of Banca Comerciala Feroviara sold its 63% stake to Olimpiu Bălaş, a Romanian IT entrepreneur. The transaction was approved by the National Bank of Romania. Olimpiu Bălaş also owns New Business Dimensions, a software company that proposes business intelligence solutions to financial institutions in Romania.

- In 2020, EXIMBANK of Romania acquired 99.28% stake of Banca Romaneasca from National Bank of Greece (a listed Greek financial institution). The acquisition is in line with EXIMBANK's strategy of strengthening the role of state-controlled banks in the Romanian market. This transaction enables EXIMBANK to start retail banking operation in the domestic market. Previously, in July 2017 OTP Bank Romania agreed to acquire a 99.28% stake in Banca Romaneasca from National Bank of Greece, but the transaction was terminated, since the Romanian Central Bank rejected the transaction.

- In 2019, the Israeli Bank Leumi le-Israel sold the Bank Leumi Romania to J.C. Flowers (US investment fund). The deal was beneficial for all parties as J.C. Flowers's aim was to increase and consolidate its presence in the Romanian market; and the Leumi's international strategy was to focus on the commercial banking operations of its US and UK subsidiaries. J.C. Flowers merged the recently purchased bank to the First Bank, its Romanian subsidiary. At the time of the transaction, Bank Leumi Romania owned a network of 15 branches in Romania with 200 employees.

- In 2018, Piraeus Bank agreed with J.C. Flowers (US investment fund) on the sale of its entire shareholding stake in its banking subsidiary in Romania. The agreement is in line with Piraeus Banks's restructuring plan commitments, also with the implementation of the strategic plan of the Group, 'Agenda 2020'. In September 2018, the bank changed its name to First Bank.

- In 2018, Banca Transilvania agreed to acquire a 99.15% stake in Bancpost along with a leasing and a consumer credit provider company from the Greece-based Eurobank Ergasias for EUR 301 mn. The acquisition is in line with the organic growth strategy of Banca Transilvania.

- In 2018, the Greek Vardinogiannis Group acquired a 99.53% stake in Marfin Bank from the Cyprus Popular Bank. Vardinogiannis Group saw a strong potential in the domestic market. Marfin Bank had a 20-year over presence in the local market and had more than 20 branches in the country. In 2019, due to a strategic decision, the name Marfin Bank was changed to Vista Bank.

- In 2018, the Austrian Erste Group acquired a 6.29% stake in Banca Comerciala Romana (BCR) from SIF Oltenia (Romanian investment fund). As a result of the transaction, Erste Group holds 99.88% in BCR. The remaining 0.12% share is held by former BCR employees.

- In 2017, Veneto Banca was absorbed into Intesa Sanpaolo Bank after Intensa Sanpaolo successfully acquired Veneto Banca's Romanian operations. Veneto's assets and branch units significantly improved Intensa Sanpaolo's market presence.

- In 2016, a 54.79% stake in Banca Comerciala Carpatica was acquired by Nextebank. The implied equity value of the transaction was EUR 48.68 mn. Nextebank started a merger between Banca Comerciala Carpatica and itself to create Patria Bank.

- In 2015, UniCredit Bank Austria acquired a large stake in UniCredit Tiriac Bank, providing retail and commercial banking services, from Ion Tiriac, the Romania-based businessman. The transaction was part of the exit option agreed on by both parties, enabling UniCredit Group to increase its stake in the Romanian bank to 95.60%.

- In 2015, OTP Bank Romania, subsidiary of the Hungarian OTP Bank acquired Banca Millennium from the Portugal-based commercial bank, Banco Comercial Portugues, for a cash consideration of EUR 39 mn. This transaction was in line with OTP's strategic goals to strengthen its position in Romania.

- In 2015, Banca Transilvania acquired Volksbank Romania from Oesterreichische Volksbanken, Westdeutsche Genossenschafts-Zentralbank, DZ Bank and BPCE for EUR 711 mn. After the transaction, BT Banca Transilvania fully integrated the new business unit into the existing structure.

List of banking M&A deals in Romania, 2015-2020Q3

Year	Target	Buyer	% Acquired	Deal Value in EUR mn	Seller
2020	Banca Comerciala Feroviara	Olimpiu Bălaş	63.0%	n.a.	Valer Blidar
2020	Banca Romaneasca	Export-Import Bank of Romania	99.3%	314	National Bank of Greece
2019	Bank Leumi Romania	J.C. Flowers	100.0%	n.a.	Bank Leumi le-Israel
2018	Piraeus Bank Romania	J.C. Flowers	100.0%	n.a.	Piraeus Bank
2018	Bancpost	Banca Transilvania	93.8%	301	Eurobank
2018	Marfin Bank	Vardinogiannis Group	99.5%	n.a.	Cyprus Popular Bank
2018	Banca Comerciala Romana	Erste	6.3%	140	SIF Oltenia
2017	Veneto Banca	Intensa Sanpaolo Bank	100.0%	n.a.	Banca Popolare di Vicenza
2016	Banca Comerciala Carpatica	Nextebank	54.8%	27	Banca Comerciala Carpatica
2015	UniCredit Tiriac Bank	UniCredit	45.0%	700	Private individuals
2015	Banca Millennium	OTP	100.0%	39	Banco Comercial Portugues
2015	Volksbank Romania	Banca Transilvania	100.0%	711	Immigon Portfolioabbau; Westdeutsche Genossenschafts-Zentralbank; DZ Bank; BPCE Group

Source: Deloitte Intelligence

Impact of COVID-19

Since the financial crisis of 2008-2009, the Romanian banking sector has been in a relatively strong position compared to the EU average at the onset of the COVID-19 crisis in terms of capital adequacy, liquidity and the coverage of non-performing exposures by provision.

Due to the netagive impact of COVID-19, the National Bank of Romania lowered its benchmark interest rate by 25bps to 1.75% in May 2020, bringing borrowing costs to its lowest level since December 2017. This was the second benchmark interest rate decrease during 2020, the first was from 2.5% to 2%.

The moratorium on loan payment adopted by the Government brings a high level of uncertainty with respect to the loan repayment behaviour of borrowers from 2021 onwards, when the moratorium relief stops. The moratorium could to a certain extent hide, temporarily, the economic damage incurred during the lockdown. Both households and non-financial corporations can apply for the moratorium, however only one in five individual debtors and one in seven non-financial corporations decided to postpone their payements.

Slovenia

Macroeconomic environment

Slovene GDP increased by a solid 4.8% in nominal terms to reach EUR 48.2 bn in 2019. Economic growth was mainly driven by private consumption that was a result of improvements in the labor market. After a strong real GDP growth in the last two years that was supported by a cyclical upswing in the euro zone, the economy entered into a slowdown in 2019 with real GDP growth of 2.4%. In 2020 a 7.3% contraction in real GDP is expected as a result of COVID-19 crisis and negative effect it has on the truism and exports. It is expected for the economy to return to its 2019 size in 2022.

Unemployment rate slightly decreased in 2019 by 0.7% points to 7.6%, which is still relatively high compared to the neighbouring countries.

Slovene Government Budget was for the first time in countries' history balanced in 2017. A surplus of 0.7% and 0.5% respectively was created in 2018 and 2019, primarily due to robust tourism receipts. In 2020 fiscal and financial support packages responding to the coronavirus pandemic are expected to drive a budget deficit of 8.7%. The deficit is expected to reduce in the following years, however is likely to remain negative for the upcoming five years.

Public debt declined significantly by 4.2% points to 65.9% from 2018 to 2019 as the budget balance improved and growth picked up. As a consequence of the emergency government spending, the public debt ratio is forecasted to surge to 91.9% of GDP in 2020.

Macro indicators	2017	2018	2019	2020E	Change 2018-19 (% or % point)	
Nominal GDP (EUR mn)	43 100	46 000	48 200	44 400	-7.9%	🔴
Nominal GDP/capita (EUR)	20 524	21 905	22 952	21 143	-7.9%	🔴
GDP (% real change pa)	5.1%	4.2%	2.4%	-7.3%	-9.7%	🔴
Consumer prices (% change pa)	1.6%	1.9%	1.7%	-0.3%	-2.0%	🟢
Recorded unemployment (%)	9.5%	8.3%	7.6%	9.7%	2.1%	🔴
Budget balance (% of GDP)	0.0%	0.7%	0.5%	-8.7%	-9.2%	🔴
Public debt (% of GDP)	73.9%	70.1%	65.9%	91.9%	26.0%	🔴

Source: EIU, Eurostat

E - Estimated data for 2020

Banking trends

The banking system's capital adequacy rate remained relatively high in 2019, strengthening the capacity to cover losses in potential stress situations, however the variation is significant from bank to bank.

Total assets further increased by 6.2 percent in 2019. At the same time asset quality has been also steadily improving over the past years as NPL ratio decreased from 5.3% in 2017 to 1.4% in 2019 for the corporate segment and from 2.6% in 2017 to 1.8% in 2019 for the retail segment. Loan loss provision on NPLs is relatively high.

Similarly the banking system's exposure to the real estate market remained relatively low in 2019, and the ratio of housing loans to GDP is the lowest in the euro area.

The banking system's high profitability in 2019 was mainly due to net release of impairments and provisions and high non-interest income.

Banking sector	2017	2018	2019	Change 2018-19 (% or % point)	
Total assets (EUR mn)	41 750	43 094	45 745	6.2%	●
Asset penetration (%)[1]	96.9%	93.7%	94.9%	1.2%	●
Total equity (EUR mn)	5 043	5 102	5 367	5.2%	●
Total loans (EUR mn)	19 381	19 867	20 570	3.5%	●
Loan penetration (%)[2]	45.0%	43.2%	42.7%	-0.5%	●
Retail loans (EUR mn)	9 736	10 370	10 981	5.9%	●
Corporate loans (EUR mn)	9 645	9 497	9 589	1.0%	●
Interest rates					
Lending (%)	2.6%	2.4%	2.3%	-0.1%	●
Deposit (%)	0.0%	0.0%	0.0%	0.0%	●
NPL volumes					
Retail NPLs (EUR mn)	253	218	198	-9.2%	●
Corporate NPLs (EUR mn)	511	323	134	-58.4%	●
NPL ratios					
Retail NPL ratio (%)	2.6%	2.1%	1.8%	-0.3%	●
Corporate NPL ratio (%)	5.3%	3.4%	1.4%	-2.0%	●
Key ratios					
CAR (%)	20.2%	20.6%	19.7%	-0.9%	●
ROE (%)	9.1%	10.7%	10.3%	-0.4%	●
ROA (%)	1.1%	1.3%	1.2%	-0.1%	●
CIR (%)	63.7%	59.9%	59.4%	-0.5%	●
L/D (%)	74.7%	73.1%	73.3%	0.2%	●
FX share of lending (%)	3.7%	3.1%	2.4%	-0.7%	●
LLP coverage (%)	71.4%	70.8%	78.2%	7.4%	●

Source: EIU, BSI, ECB CBD

[1]Assets penetration = Total assets/Nominal GDP

[2]Loans penetration = Total loans/Nominal GDP

Banking market

A main characteristic of the banking sector is the high state ownership. Two out of three largest banks in the country were fully or partly state-owned (directly or indirectly), at the end of 2019. This however changed following the takover of Abanka by Nova KBM in February 2020.

15 locally licenced banks were operating in the Slovenian market as of 2019. The banking market is still moderately concentrated as 54% of the total assets are held by the five largest banks, and the HHI is 8.8%.

List of Banks in Slovenia, 2019 (EUR mn)

Rank 2019	Rank 2018*	YoY change in rank	Institutions	Total Assets	Market share	Equity	Net income	ROA %	ROE %	Major shareholder
1.	1.	●	Nova Ljubljanska Banka	9 802	21.4%	1 333	176	1.8%	13.2%	Nova Ljubljanska Banka
2.	2.	●	Nova KBM	5 094	11.1%	782	67	1.3%	8.6%	State of Slovenia
3.	3.	●	Abanka	3 823	8.4%	579	62	1.6%	10.7%	Nova KBM
4.	4.	●	SKB banka	3 365	7.4%	349	54	1.6%	15.5%	OTP
5.	5.	●	UniCredit Banka Slovenija	2 752	6.0%	268	27	1.0%	10.1%	UniCredit
6.	6.	●	Banka Intesa Sanpaolo	2 689	5.9%	302	24	0.9%	7.9%	Intesa Sanpaolo
7.	7.	●	Sid Banka	2 406	5.3%	464	32	1.3%	6.9%	State of Slovenia
8.	8.	●	Gorenjska Banka	1 967	4.3%	236	43	2.2%	18.2%	AIK Banka
9.	9.	●	Sberbank	1 871	4.1%	183	10	0.5%	5.5%	Sberbank
10.	10.	●	Addiko Bank	1 617	3.5%	182	18	1.1%	9.9%	PE Advent
11.	11.	●	Delavska Hranilnica	1 533	3.4%	71	5	0.3%	7.0%	Private Individuals
12.	12.	●	Sparkasse	1 262	2.8%	122	11	0.9%	9.0%	Erste
13.	13.	●	Dbs	1 018	2.2%	63	1	0.1%	1.6%	Kapitalska zadruga
14.	14.	●	Lon	297	0.6%	17	(2)	-0.5%	-9.1%	Private Individuals
15.	15.	●	Primorska Hranilnica	97	0.2%	5	0	0.2%	3.5%	No majority shareholder
			Total	**45 745**	**100%**	**5 367**	**560**	**1.2%**	**10.3%**	

Source: Banks' data disclosure, EMIS, BSI

* corrected ranking (based on bank list 2019)

M&A activity

The Slovenian banking M&A market was active over the past years, with seven announced deals.

- In 2020, the Slovenian Sovereign Holding (Slovenian state-owned asset manager) sold Abanka to NKBM, owned by Apollo Global Management, amid strong investor interest. In September 2020, the banking regulators issued the necessary authorisations for the merger of #3 Abanka and #2 Nova KBM, which is the largest merger in Slovenian banking industry to date.
- In 2019, OTP Bank acquired 99.73% stake in SKB banka Ljubljana, from Société Générale. The acquisition is in line with OTP Bank's acquisition strategy to further strengthen their operations in CEE, of which growth in Slovenia was an important part. The closing was completed in December 2019.
- State-owned Nova Ljubljanska Banka (NLB), the country's largest bank, has lately undergone privatization, which is part of the governmental plan to decrease its ownership in the banking market. The NLB made a successful IPO in 2018. Deutsche Bank has been appointed as the financial advisor of the Slovenian state.
- In 2018, Kylin Prime Group planned to acquire majority stake in Hranilnica Lon to be present in the European market. Until 2019 Q4, Kylin Prime Group bought 27.5% stake in Lon, in two rounds.
- In 2017, Sava sold a 37.6% minority stake in Gorenjska Banka to the Serbian privately owned AIK Banka for an undisclosed consideration. AIK Banka now owns 91.7% of participating shares.
- In 2016, Nova Kreditna Banka Maribor (NKBM) was acquired by a US-based private equity firm, Apollo Global Management and EBRD from the Government of Slovenia for EUR 250 mn. Apollo Global acquired 80%, while EBRD 20% stake in NKBM.
- Raiffeisen exited Slovenia via selling its two Slovenian entities, Raiffeisen Banka (in 2015) and KBS Banka (in 2017). Both entities were acquired by Apollo Global Management through, Biser Bidco and NKBM.

List of banking M&A deals in Slovenia, 2015-2020Q3

Year	Target	Buyer	% Acquired	Deal Value in EUR mn	Seller
2020	Abanka	Nova Kreditna Banka Maribor	100.0%	511	Slovenian State
2019	SKB banka	OTP	99.7%	n.a.	Société Générale
2018	Hranilnica Lon	Kylin Prime Group	27.5%	n.a.	n.a.
2017	Gorenjska Banka	AIK Banka	37.6%	n.a.	Sava
2017	KBS banka	Nova Kreditna Banka Maribor	100.0%	n.a.	Raiffeisen
2016	Nova KBM	Apollo Global Management; EBRD	100.0%	250	Slovenian State
2015	Raiffeisen Banka	Apollo Global Management	100.0%	n.a.	Raiffeisen

Source: Deloitte Intelligence

Impact of COVID-19

The Slovenian banking sector was in a relatively strong position compared to the EU average at the onset of the COVID-19 crisis in terms of capital adequacy, liquidity, NPL ratios and provision coverage of non-performing exposures.

However, systemic, income and credit risks have all increased sharply, as a result of the coronavirus pandemic. Still, the banks' resilience to risks remain high, due to their sound capital and liquidity position, and to the quick and wide-ranging policy measures taken by the national and foreign governments to calm global financial markets and keep the financing conditions in the euro area favourable, according to the Slovenian National Bank.

The government introduced fiscal stimulus packages worth around EUR 7 bn in total, which are nearly 15% of the country's GDP. These packages included state loan guarantees for business, wage subsidies, tax defferals and temporary income support.

In March 2020, the Slovenian government provided a 12 month moratorium on loan repayments for individuals and companies affected by the economic impacts of COVID-19. The Slovenian National Bank reported that in the first two months there were more than 20,000 applicants for the deferral.

The banking industry's profit in the first half of 2020 was a third of the profit recorded in 2019H1, with increased impairment and provisioning costs at almost all domestic banks.

Croatia

Macroeconomic environment

The Croatian economy grew by 2.9% in 2019 mainly driven by private consumption and fixed investments. As the tourism sector was hit hard by the pandemic, the real GDP is expected to contract by 8.6% in 2020 and is expected to return to its 2019 level after 2023.

In July 2020, the European Commission reported that Croatian economy will be among those who will suffer the most severely from consequences of COVID-19, with the tourism sector taking the hardest punch. Croatia is highly dependent on tourism, as it provides around 25% of GDP.

The unemployment rate of 16.5% in 2015 saw a strong improvement of 8.8% points arriving to 7.7% in 2019. Due to the coronavirus pandemic, the unemployment rate is expected to increase to a level of 9.4% in 2020.

Inflation accelerated in 2019 to an average of 1.4% from 0.9% in 2018, mainly driven by rising global oil prices and domestic inflationary pressures from wage increases.

Croatia has been posting budget surpluses since 2017. The budget deficit of 3.3% posted in 2015 turned to a 0.4% budget surplus in 2019. However, it is expected to shift into deficit of 7.2% in 2020 and is likely to gradually recover as the tourism gains strenght. At the same time, public debt fell to 74.6% of GDP at the end of 2018 and despite of the previous expectations it increased to 87.5% in 2019.

Macro indicators	2017	2018	2019	2020E	Change 2019-20 (% or % point)
Nominal GDP (EUR mn)	48 711	51 634	53 745	48 649	-9.5%
Nominal GDP/capita (EUR)	11 598	12 294	13 108	11 866	-9.5%
GDP (% real change pa)	3.1%	2.7%	2.9%	-8.6%	-11.5%
Consumer prices (% change pa)	1.2%	0.9%	1.4%	0.5%	-0.9%
Recorded unemployment (%)	12.4%	9.8%	7.7%	9.4%	1.7%
Budget balance (% of GDP)	0.8%	0.2%	0.4%	-7.2%	-7.6%
Public debt (% of GDP)	77.8%	74.6%	87.5%	89.6%	2.1%

Source: EIU, Eurostat
E - Estimated data for 2020

Banking trends

Capital adequacy ratio is one of the highest in the region with 22.3%. Thus, the banking sector met the economic slowdown due to the COVID-19 pandemic with high levels of capitalisation and liquidity buffers.

In 2019, total assets grew by 4%, reaching EUR 67.3 bn. At the same time, the sector's credit portfolio quality further improved since 2018 as banks are continuously cleaning the NPLs from their balance sheets. The most significant improvement was reported in the corporate segment, as the corporate NPL ratio dropped from 20.5% to 13.6% in 2019.

Following several years of stagnation and contraction, the banking sector posted a stronger growth in credit activity in both 2018 and 2019.

Banking sector	2017	2018	2019	Change 2018-19 (% or % point)	
Total assets (EUR mn)	61 265	64 698	67 306	4.0%	●
Asset penetration (%)[1]	125.8%	125.3%	125.2%	-0.1%	●
Total equity (EUR mn)	8 320	8 634	8 986	4.1%	●
Total loans (EUR mn)	26 390	27 258	28 905	6.0%	●
Loan penetration (%)[2]	54.2%	52.8%	53.8%	1.0%	●
Retail loans (EUR mn)	15 394	16 327	17 639	8.0%	●
Corporate loans (EUR mn)	10 996	10 931	11 266	3.1%	●
Interest rates					
Lending (%)	4.2%	3.5%	2.7%	-0.8%	●
Deposit (%)	0.7%	0.4%	0.2%	-0.2%	●
NPL volumes					
Retail NPLs (EUR mn)	1 241	1 072	1 038	-3.1%	●
Corporate NPLs (EUR mn)	2 443	2 232	1 538	-31.1%	●
NPL ratios					
Retail NPL ratio (%)	8.3%	6.9%	5.9%	-1.0%	●
Corporate NPL ratio (%)	22.2%	20.5%	13.6%	-6.9%	●
Key ratios					
CAR (%)	23.3%	21.1%	22.3%	1.2%	●
ROE (%)	5.9%	8.8%	9.1%	0.3%	●
ROA (%)	0.8%	1.2%	1.2%	0.0%	●
CIR (%)	52.1%	50.7%	50.3%	-0.4%	●
L/D (%)	82.1%	82.1%	82.3%	0.2%	●
FX share of lending (%)	60.9%	59.5%	n.a.	n.a.	n.a.
LLP coverage (%)	70.8%	73.6%	85.2%	11.6%	●

Source: EIU, CNB, ECB CNB

[1]Assets penetration = Total assets/Nominal GDP

[2]Loans penetration = Total loans/Nominal GDP

Banking market

The top five banks possessed 69.6% of the total assets of the banking sector in 2019, and they were all owned by leading European banking groups. The HHI index of the Croatian banking sector was 12.0% in 2019, which is relatively high in the region. The HHI index is also high in the Baltics, Slovakia, Albania and Kosovo.

At the end of 2019, 20 banks were operating in the Croatian market, two less than in 2018. The number of banks has been continuously decreasing in the recent years, as a result of both the active M&A activity, merges and terminated operations.

Altogether, five banks have disappeared from the market in the last 3 years. In 2019, Jadranska Banka and HPB-Stambena stedionica have merged into Hrvatska Poštanska Banka. In 2018, Tesla Savings Bank went bankrupt. In 2018 Primorska Banka and in 2017 Stedbanka terminated their operations.

List of Banks in Croatia, 2019 (EUR mn)

Rank 2019	Rank 2018*	YoY change in rank	Institutions	Total Assets	Market share	Equity	Net income	ROA %	ROE %	Major shareholder
1.	1.	●	Zagrebacka Banka	15 867	23.6%	2 215	211	1.3%	9.5%	UniCredit
2.	2.	●	Privredna Banka Zagreb	11 802	17.5%	1 970	254	2.1%	12.9%	Intesa Sanpaolo
3.	3.	●	Erste&Steiermakische Bank	8 625	12.8%	1 126	102	1.2%	9.0%	Erste
4.	4.	●	OTP Banka Hrvatska	5 941	8.8%	833	78	1.3%	9.4%	OTP
5.	5.	●	Raiffeisenbank Austria Zagreb	4 596	6.8%	573	59	1.3%	10.3%	Raiffeisen
6.	6.	●	Hrvatska Poštanska Banka	3 216	4.8%	318	19	0.6%	5.9%	State of Croatia
7.	7.	●	Addiko Bank	2 424	3.6%	406	21	0.9%	5.2%	PE Advent
8.	8.	●	Sberbank	1 490	2.2%	163	15	1.0%	9.2%	Sberbank
9.	11.	▲	Agram Banka	502	0.7%	55	5	1.0%	9.2%	Jadransko osiguranje
10.	9.	▼	Istarska Kreditna Banka Umag	494	0.7%	45	4	0.8%	9.0%	Intercommerce
11.	10.	▼	Podravska Banka	488	0.7%	64	3	0.6%	4.5%	Generali
12.	12.	●	KentBank	336	0.5%	36	2	0.7%	6.7%	Süzer Holding
13.	14.	▲	Karlovacka Banka	324	0.5%	24	3	0.9%	11.9%	Private Individuals
14.	13.	▼	Croatia Banka	266	0.4%	14	(3)	-1.3%	-23.4%	State of Croatia
15.	15.	●	Partner Banka	257	0.4%	55	5	2.0%	9.2%	Metroholding
16.	16.	●	Imex Banka	211	0.3%	16	0	0.2%	2.8%	Private Individuals
17.	17.	●	Slatinska Banka	202	0.3%	23	1	0.3%	2.6%	Zupic & partneri
18.	18.	●	Banka Kovanica	181	0.3%	18	2	1.1%	11.1%	Cassa di Risparmio della Repubblica di San Marino
19.	19.	●	J&T banka	142	0.2%	17	0	0.1%	0.6%	Validus
20.	20.	●	Samoborska Banka**	70	0.1%	8	0	0.2%	1.7%	Aquae Vivae
			Total	**67 306**	**100%**	**8 986**	**816**	**1.2%**	**9.1%**	

Source: Banks' data disclosure, EMIS, CNB

* corrected ranking (based on bank list 2019)

** total equity and net income from 2018

M&A activity

There have been five major acquisitions in the Croatian banking market over the past years:

- In 2018, Intesa Sanpaolo's Croatian subsidiary, Privredna Banka Zagreb acquired Veneto Banka from the Italian Veneto Banca. The transaction was in line with Intensa Sanpaolo's strategy to expand its presence in Croatia.
- In 2018, state-owned Hrvatska Poštanska Banka (HPB) acquired Jadranska Banka which had financial difficulties. Via the transaction, HPB aimed to achieve higher market efficiency, cost savings and increased customer reach.
- In 2017, OTP Banka Hrvatska acquired Splitska Banka from Société Générale, which significantly strengthened OTP's position in the Croatian market. After the acquisition, OTP is the fourth largest group in the market with 8.8% market share as at the end-2019.
- In 2016, a Croatia-based undisclosed bidder acquired Banca Kovanica, from Cassa di Risparmio Della Repubblica di San Marino and a subsidiary of Banca Carige.
- In 2015, the US-based private equity Advent and EBRD acquired Hypo Group Alpe Adria for EUR 200 mn, in an 80%-20% proportion. The Southeast European Network incorporated banks in five countries, Slovenia, Croatia, Bosnia-Herzegovina, Serbia, and Montenegro. Advent then performed a comprehensive rebranding and introduced the Addiko Bank brand. In July 2019, Addiko made a successful IPO on the Vienna Stock Exchange, valuing Addiko at EUR 312 m.

List of banking M&A deals in Croatia, 2015-2020Q3

Year	Target	Buyer	% Acquired	Deal Value in EUR mn	Seller
2018	Jadranska Banka	Hrvatska Postanska Banka	100.0%	15	Local Agency for Deposit Insurance and Bank Resolution
2018	Veneto Banka	Intesa Sanpaolo	100.0%	20	Veneto Banca
2017	Societe Generale Splitska Banka	OTP	100.0%	n.a.	Société Générale
2016	Banka Kovanica	Undisclosed bidder	100.0%	n.a.	Cassa di Risparmio della Repubblica di San Marino
2015	Addiko Bank	Advent International Corp. (80%); EBRD (20%)	100.0%	200	Heta Asset Resolution

Source: Deloitte Intelligence

Impact of COVID-19

To handle the severe economic consequences of COVID-19 the Croatian National Bank (CNB) implied both monetary and supervisory measures. In the monetary policy field, CNB interviened in the foreign exchange market and instituted currency swap with the ECB. Also it reduced reserve requirement rate from 12% to 9%.

As a supervisor, CNB termporary enabled the financial institutions to operate below the prescribed liquidity coverage ratio.

The banking sector's profit made in 2019 was also retained by the central bank to avoid the deterioration of the banking sector's capital position. Besides, a more flexible approach was applied by CNB enabling the faster procedure of reprogramming to avoid client's credit default.

The improvement of the loan portfolio quality that resulted from the cleaning of non-performing loans from balance sheets and the favourable macroeconomic environment lasted until March 2020, but the trends are likely to reverse in the forthcoming period. Unfavourable economic developments stemming from the COVID-19-induced crisis will halt the trend of marked improvement in bank loan portfolio quality.

Bulgaria

Macroeconomic environment

Bulgaria's real GDP grew steadily, after the slow post-crisis recovery. Bulgarian GDP was up by 8.2% in nominal terms to reach EUR 60.5 bn in 2019 and real GDP grew by 3.4% in 2019. The economic growth was mainly driven by private consumption and real wage growth. The coronavirus pandemic hit the retail, tourism and transport sectors, therefore 4.0% contraction of real GDP is expected in 2020.

Inflation continued to grow in 2019. It increased up to 3.8% from 0.1% in 2016. Stemming form a decline in global energy prices and consumer demand, inflation is estimated to 1.7% in 2020.

Unemployment rate decreased by 0.6% points to 5.6% in 2019, which is below the average rate of 7.3% in the CEE Region. This declining trend is expected to reverse and 8.2% is estimated for 2020.

The budget balance ended with a 1.0% deficit in 2019 due to increasing government consumption and one-off military expenditure. As a consequence of the economic contraction, the targeted budget deficit is 3% in 2020.

Public debt fell by 1.9% points to 20.4% from 22.3% in 2019. In 2020, the debt is expected to increase significantly to 26.8% as government spending increased in order to mitigate the effects of the pandemic.

Macro indicators	2017	2018	2019	2020E	Change 2019-20 (% or % point)
Nominal GDP (EUR mn)	52 198	55 967	60 545	59 510	-1.7%
Nominal GDP/capita (EUR)	7 352	7 995	8 649	8 625	-0.3%
GDP (% real change pa)	3.5%	3.2%	3.4%	-4.0%	-7.4%
Consumer prices (% change pa)	2.8%	2.7%	3.8%	1.7%	-2.1%
Recorded unemployment (%)	6.2%	6.2%	5.6%	8.2%	2.6%
Budget balance (% of GDP)	0.8%	0.1%	-1.0%	-3.0%	-2.0%
Public debt (% of GDP)	25.3%	22.3%	20.4%	26.8%	6.4%

Source: EIU, Eurostat
E - Estimated data for 2020

Banking trends

The Bulgarian banking sector experienced a strong growth after the 2008 crisis in terms of total assets. The main driver of the expansion in 2019 was the increasing amount of disposable income which fosters demand for banking products.

The introduction of the new International Financial Reporting Standard (IFRS 9) in 2018 led to increased provisioning levels in general, which potentially could incentivize NPL sales leading to a further improving asset quality in the sector. The European Central Bank performed an asset quality review (AQR) of the six largest banks of the country in 2019, as a result of which ECB concluded that four banks complied with the specific AQR requirements, but capital shortfall was detected in case of two banks.

In terms of asset quality an improving trend is experienced in the country. Although NPL ratios are still relatively high compared to other CEE countries, they have declined continuously over the last four years amounting to 5.3% in the retail and 6.8% in the corporate segment by the end of 2019. This decrease was also due to a more prudent lending activity.

The high demand for loans from both corporate and retail sides resulted in robust loan disbursements. The demand for funds for working capital and investments along with low interest rates were the major factors behind solid corporate loan volume growth. On the retail side, the lending standards were eased and cost decreased significantly over the last 5 years, which in combination with increasing of purchasing power contributed to the massive growth in both consumer and mortgage loans.

Banking sector	2017	2018	2019	Change 2018-19 (% or % point)
Total assets (EUR mn)	50 734	55 236	58 862	6.6%
Asset penetration (%)[1]	97.2%	98.7%	97.2%	-1.5%
Total equity (EUR mn)	6 581	7 390	7 174	-2.9%
Total loans (EUR mn)	27 073	29 117	31 070	6.7%
Loan penetration (%)[2]	51.9%	52.0%	51.3%	-0.7%
Retail loans (EUR mn)	10 118	11 287	12 370	9.6%
Corporate loans (EUR mn)	16 955	17 830	18 700	4.9%
Interest rates				
Lending (%)	5.4%	4.9%	4.6%	-0.3%
Deposit (%)	0.0%	0.0%	0.0%	0.0%
NPL volumes				
Retail NPLs (EUR mn)	747	733	656	-10.5%
Corporate NPLs (EUR mn)	2 115	1 552	1 272	-18.0%
NPL ratios				
Retail NPL ratio (%)	7.4%	6.5%	5.3%	-1.2%
Corporate NPL ratio (%)	12.5%	8.7%	6.8%	-1.9%
Key ratios				
CAR (%)	22.1%	20.4%	20.2%	-0.2%
ROE (%)	10.2%	11.8%	11.2%	-0.6%
ROA (%)	1.3%	1.6%	1.4%	-0.2%
CIR (%)	45.1%	45.3%	46.8%	1.5%
L/D (%)	72.6%	75.5%	78.0%	2.5%
FX share of lending (%)	39.1%	41.7%	40.6%	-1.1%
LLP coverage (%)	54.3%	61.6%	59.7%	-1.9%

Source: EIU, BNB, ECB CBD

[1]Assets penetration = Total assets/Nominal GDP

[2]Loans penetration = Total loans/Nominal GDP

Banking market

As a result of the acquisition by Eurobank of the Greek-owned Piraeus Bank in 2019, the number of locally licenced banks operating in the country decreased to 19 by 2019 year end.

The banking sector is dominated by subsidiaries of large European banking groups, owning the majority of the total assets.

As the result of Piraeus Bank's exit from the market and also considering the takeover of Société General Expressbank by DSK Bank the banking sector is becoming more and more concentrated aligned with the strategy of the regulator to decrease the number of bank licenses and improve capital base. As at 2019 year end the top five banks own 61.6% of total assets.

List of banks in Bulgaria, 2019 (EUR mn)

Rank 2019	Rank 2018*	YoY change in rank	Institutions	Total Assets	Market share	Equity	Net income	ROA %	ROE %	Major shareholder
1.	1.	●	UniCredit Bulbank	11 064	18.8%	1 480	217	2.0%	14.7%	UniCredit
2.	2.	●	DSK Bank	8 130	13.8%	1 495	126	1.5%	8.4%	OTP
3.	3.	●	UBB	6 224	10.6%	704	79	1.3%	11.2%	KBC
4.	5.	▲	Eurobank Bulgaria	5 719	9.7%	752	108	1.9%	14.3%	Eurobank Ergasias
5.	4.	▼	First Investment Bank	5 141	8.7%	482	66	1.3%	13.7%	Private Individuals
6.	6.	●	Raiffeisenbank	4 509	7.7%	468	67	1.5%	14.4%	Raiffeisen
7.	7.	●	Societe Generale Expressbank	3 243	5.5%	449	54	1.7%	12.0%	OTP
8.	8.	●	Central Cooperative Bank	3 122	5.3%	291	18	0.6%	6.1%	CCB Group
9.	9.	●	Bulgarian Development Bank	1 623	2.8%	407	19	1.2%	4.7%	State of Bulgaria
10.	10.	●	Allianz Bank Bulgaria	1 475	2.5%	120	17	1.1%	14.0%	Allianz
11.	11.	●	ProCredit Bank	1 277	2.2%	133	18	1.4%	13.9%	ProCredit
12.	13.	▲	Municipal Bank	1 046	1.8%	55	1	0.1%	1.1%	Novito Opportunities Fund
13.	12.	▼	Investbank	971	1.6%	96	1	0.1%	1.1%	Festa Holding
14.	15.	▲	BACB	854	1.5%	101	7	0.8%	7.1%	CSIF AD
15.	14.	▼	International Asset Bank	791	1.3%	66	8	1.0%	11.4%	Dynatrade International
16.	16.	●	D Commerce Bank	520	0.9%	70	4	0.8%	5.8%	Fuat Gyuven
17.	17.	●	TBI Bank	448	0.8%	103	18	4.0%	17.3%	No majority shareholder
18.	18.	●	Tokuda Bank	201	0.3%	22	1	0.3%	2.7%	Tokushukai Incorporated
19.	19.	●	Texim Bank	186	0.3%	20	0	0.1%	0.8%	Web Finance Holding AD
			Total	**58 862**	**100%**	**7 174**	**830**	**1.4%**	**11.2%**	

Source: Banks' data disclosure, EMIS, BNB

* corrected ranking (based on bank list 2019)

M&A activity

There have been six major transactions in the Bulgarian banking market over the past years. Since 2019 Q3 there were no additional transactions, however a further consolidation is expected as the concentration of the Bulgarian banking market is relatively low in the region with a 9.7% HHI index.

- In 2019, as a result of the strategic decision of several Greek banks to exit from the Balkan markets, Piraeus Bank sold a 99.8% stake in Piraeus Bank Bulgaria to Eurobank Bulgaria. The deal was completed in July 2019.
- In 2018, OTP Bank signed an agreement to acquire a 99.74% stake in Société Générale Expressbank, the Bulgarian subsidiary of the France-based banking group. The acquisition was closed in January 2019.
- In 2018, the Bulgarian Investbank bought Commercial Bank Victoria from the insolvent Bulgarian Corporate Commercial Bank (Corpbank). As a result of the Transaction, Investbank fully repaid both the loans of CB Victoria and related interest to Corpbank while increasing its capital base to meet regulatory requirements.
- In 2017, Liechtenstein-based Novito Opportunities Fund received regulatory approval to acquire 67.7% stake in Bulgaria's Municipal Bank for a value of EUR 23.3 mn. Municipal Bank was majority owned by the municipality of Sofia and was the 16th largest in the country, with 1.56% market share based on assets in 2016. After the privatization of Municipal Bank, Bulgarian Development Bank remained the only state-owned bank in the country.
- In December 2016, the largest deal took place being part of the outflow of Greek capital from the banking sector. The National Bank of Greece sold its subsidiary, United Bulgarian Bank (UBB) to KBC Group for a consideration of EUR 610 mn. In 2018 UBB merged the KBC's other subsidiary, Cibank and became the third largest financial institution in the local market.
- In 2015, Eurobank agreed to acquire Alpha Bank Bulgaria for an undisclosed consideration. Alpha Bank had 82 branches with EUR 464 mn of assets by then. Postbank aimed to expand both its corporate and retail customer base in the country by executing the deal. The sale was the part of Alpha Bank's strategy to divest from non-core markets.

List of banking M&A deals in Bulgaria, 2015-2020Q3

Year	Target	Buyer	% Acquired	Deal Value in EUR mn	Seller
2019	Piraeus Bank Bulgaria	Eurobank	99.8%	75	Piraeus Bank
2018	Societe Generale Expressbank	OTP	99.7%	n.a.	Société Générale
2018	Commercial Bank Victoria	Investbank	100.0%	n.a.	Corporate Commercial Bank
2017	Municipal Bank	Novito Opportunities Fund	67.7%	23	Municipality of Sofia
2016	United Bulgarian Bank	KBC	99.9%	610	National Bank of Greece
2015	Alpha Bank Bulgaria	Eurobank	100.0%	n.a.	Alpha Bank

Source: Deloitte Intelligence

Impact of COVID-19

The Bulgarian National Bank implemented several measures in order to ease the effects of the pandemic crisis on the banking sector.

The moratorium on loans was introduced which temporarily suspends the repayment of bank loans for customers of commercial banks. An additional EUR 358 million funding was provided to the Bulgarian Development Bank in order to provide up to EUR 800 mn guarantees for bank loans and to provide interest-free consumer loans for citizens on unpaid leave.

Bulgarian National Bank also introduced measures to strengthen the capital and liquidity base of the banks, e.g. eased on the capital adequacy buffer requirements.

Serbia

Macroeconomic environment

Serbia's economic growth accelerated in the previous years. In 2019, GDP increased by 7.3% in nominal terms and by 4.2% in real terms, 0.2% points lower than it was in 2018. The growth was mainly driven by higher public investment and household consumption. A drop of 3% points in real GDP is expected in 2020 due to the depressed activity caused by COVID-19, the growth is forecasted to stabilize at 2.9% in the next few years.

Inflation has been relatively stable since 2015, averaging 1.7% in 2019. In 2020, inflation is anticipated to be around 1.6% as the crisis-related hit to domestic demand and low global oil prices will dampen price growth.

The recorded unemployment rate continued to decrease, it fell from 17.7% in 2015 to 10.4% in 2019, which is considered low compared to other Balkan countries. The lockdown due to the coronavirus will push the unemployment rate to 12.4% in 2020.

Between 2014 and 2017, Serbia achieved an improvement in the government fiscal balance, which in 2017 recorded the first surplus. In 2019, the budget balance turned into a slight deficit again, namely 0.2% of GDP as the government spending was boosted for pre-election.

Public debt has declined in recent years (the government cut it by 1.7% to 52.0% in 2019). The fiscal deficit is expected to increase to about 9% of the GDP and push the public debt back above 60%.

After reporting a GDP increase of 5.1% in Q1 2020, it dropped by 6.4% points in the second quarter of 2020 as a result of COVID–19 pandemic. EBRD's more pessimist estimation is that Serbian GDP for 2020 will decline by 3.5%, while the expectation for 2021 is the increase of GDP for 4.1%.

Macro indicators	2016	2017	2018	2019	2020E	Change 2018-19 (% or % point)
Nominal GDP (EUR mn)	36 607	40 118	42 885	46 012	45 357	-1.4%
Nominal GDP/capita (EUR)	5 156	5 731	6 126	6 668	6 573	-1.4%
GDP (% real change pa)	3.3%	2.0%	4.4%	4.2%	-3.0%	-7.2%
Consumer prices (% change pa)	1.2%	3.2%	2.0%	1.7%	1.6%	-0.1%
Recorded unemployment (%)	15.3%	13.5%	12.7%	10.4%	12.4%	2.0%
Budget balance (% of GDP)	-1.2%	1.1%	0.6%	-0.2%	-9.0%	-8.8%
Public debt (% of GDP)	67.8%	57.9%	53.7%	52.0%	62.0%	10.0%

Source: EIU, Eurostat
E - Estimated data for 2020

Banking trends

The Serbian banking sector reported one of the highest consolidated CAR level in the region with 23.4% in 2019. Furthermore, the liquidity of the Serbian banking sector also remained exceptionally high in 2019, which placed the sector in a favourable position before the pandemic.

Following its record growth of 11% in 2018, the assets of the banking sector continued to increase by 9.6% in 2019. The sector's credit portfolio quality continued to improve as the banks are committed to clean non-performing loans from their balance sheets. Banks reduced their NPLs primarily through sales to third parties, write-offs, and also managed to improve collection.
The NPL ratios decreased in both retail and corporate segments and currently at historical lows at the end of 2019.

Profitability of the banking sector has slightly decreased in 2019. The 1.8% ROA was slightly above the regional average of 1.5%, however the ROE with 9.8% was slightly below the average (12.7%) as the domestic banking sector is highly capitalized.

Banking sector	2017	2018	2019	Change 2018-19 (% or % point)
Total assets (EUR mn)	28 437	31 677	34 730	9.6%
Asset penetration (%)[1]	70.9%	73.9%	75.5%	1.6%
Total equity (EUR mn)	5 630	5 711	5 973	4.6%
Total loans (EUR mn)	16 177	17 772	19 379	9.0%
Loan penetration (%)[2]	40.3%	41.4%	42.1%	0.7%
Retail loans (EUR mn)	7 638	8 508	9 283	9.1%
Corporate loans (EUR mn)	8 539	9 265	10 096	9.0%
Interest rates				
Lending (%)	8.2%	7.7%	7.1%	-0.6%
Deposit (%)	2.8%	2.8%	2.0%	-0.8%
NPL volumes				
Retail NPLs (EUR mn)	447	379	369	-2.6%
Corporate NPLs (EUR mn)	864	480	314	-34.5%
NPL ratios				
Retail NPL ratio (%)	5.9%	4.5%	4.0%	-0.5%
Corporate NPL ratio (%)	10.1%	5.2%	3.1%	-2.1%
Key ratios				
CAR (%)	22.6%	22.3%	23.4%	1.1%
ROE (%)	10.5%	11.3%	9.8%	-1.5%
ROA (%)	2.1%	2.2%	1.8%	-0.4%
CIR (%)	63.2%	62.1%	63.4%	1.3%
L/D (%)	93.5%	90.4%	91.0%	0.6%
FX share of lending (%)	67.5%	68.5%	67.1%	-1.4%
LLP coverage (%)	58.1%	60.2%	61.5%	1.3%

Source: EIU, NBS [1]Assets penetration = Total assets/Nominal GDP [2]Loans penetration = Total loans/Nominal GDP

Banking market

On the Serbian banking market, 26 locally licensed banks operated at the end of 2019, one less than the previous year, as two OTP owned subsidiaries merged in 2019. Serbia's approaching EU membership is expected to make the domestic market more attractive for large financial entities.

On 25 April 2019, OTP's Vojvodjanska banka and OTP Banka Srbija merged. This merger is also a preparation for the merger of OTP Groups's recently purchased subsidiary from Société Générale and its existing assets in the Serbian market. The merger of OTP's banks is expected to be finalized in 2021.

In Serbia the concentration of the banking segment has been moderate in the recent years with, the five largest banks owned the 53.4% of the total assets and the HHI stood at 8.0% at the end of 2019.

List of Banks in Serbia, 2019 (EUR mn)

Rank 2019	Rank 2018*	YoY change in rank	Institutions	Total Assets	Market share	Equity	Net income	ROA %	ROE %	Major shareholder
1.	1.	●	Banca Intesa	5 550	16.0%	851	105	1.9%	12.3%	Intesa Sanpaolo
2.	2.	●	UniCredit Banka	3 755	10.8%	730	70	1.9%	9.6%	UniCredit
3.	3.	●	Komercijalna Banka	3 677	10.6%	645	76	2.1%	11.8%	State of Serbia
4.	4.	●	OTP Banka Srbija	2 854	8.2%	425	38	1.3%	9.1%	OTP
5.	5.	●	Raiffeisen Banka	2 712	7.8%	492	52	1.9%	10.5%	Raiffeisen
6.	8.	▲	Erste Bank	1 968	5.7%	271	23	1.2%	8.4%	Erste
7.	6.	▼	Postal Savings Bank	1 937	5.6%	228	23	1.2%	9.9%	State of Serbia
8.	7.	▼	AIK Banka	1 901	5.5%	487	70	3.7%	14.3%	BDD M&V Investments
9.	10.	▲	Vojvođanska Banka	1 829	5.3%	271	51	2.8%	18.7%	OTP
10.	9.	▼	Eurobank	1 507	4.3%	450	3	0.2%	0.6%	Eurobank Ergasias
11.	11.	●	Sberbank Srbija	1 338	3.9%	215	3	0.2%	1.2%	Sberbank
12.	12.	●	ProCredit Bank	1 085	3.1%	141	6	0.5%	4.1%	ProCredit
13.	14.	▲	Credit Agricole Banka Srbija	1 010	2.9%	105	10	0.9%	9.1%	Credit Agricole
14.	13.	▼	Addiko Bank	806	2.3%	190	9	1.2%	4.9%	Addiko Bank AG
15.	16.	▲	NLB Banka	614	1.8%	73	4	0.7%	5.6%	Nova Ljubljanska Banka
16.	17.	▲	HalkBank	595	1.7%	103	4	0.7%	3.9%	Turkiye Halk Bankasi
17.	15.	▼	Direktna Bank	518	1.5%	88	1	0.3%	1.6%	Private Individuals
18.	21.	▲	JUBMES Banka	170	0.5%	35	2	0.9%	4.5%	No majority shareholder
19.	20.	▲	Mobi Banka	170	0.5%	40	(4)	-2.5%	-10.3%	PPF Group
20.	19.	▼	Opportunity Banka	155	0.4%	31	4	2.5%	12.7%	Opportunity Transformation Investments
21.	22.	▲	Expobank	135	0.4%	32	(2)	-1.7%	-7.0%	Expobank CZ
22.	23.	▲	Srpska Banka	117	0.3%	31	0	0.3%	1.3%	State of Serbia
23.	24.	▲	MTS Banka	106	0.3%	22	0	0.3%	1.3%	State of Serbia
24.	18.	▼	Bank of China Serbia	88	0.3%	16	0	0.3%	1.8%	Bank of China
25.	15.	▼	Api Bank	80	0.2%	12	(2)	-2.5%	-17.0%	VTB Banka
26.	26.	●	Mirabank	54	0.2%	16	(2)	-3.9%	-13.1%	Duingraaf Financial Investments
			Total	**34 730**	**100%**	**5 973**	**585**	**1.8%**	**9.8%**	

Source: Banks' data disclosure, EMIS, NBS

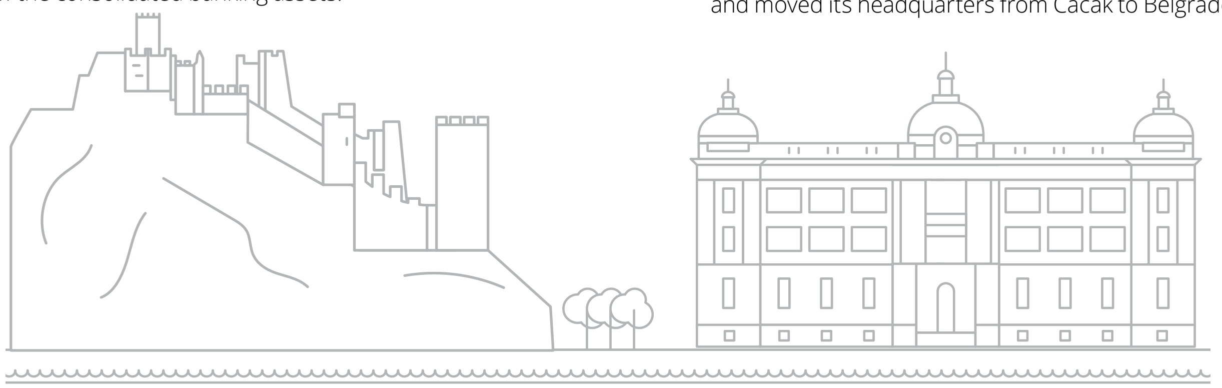
* corrected ranking (based on bank list 2018)

M&A activity

Serbia has been active in M&A in the recent years. There have been 13 major transactions in the Serbian banking sector over the past years, six of them were made publicly for a total of EUR 750 mn.

Based on the latest publicly available information, the Russian Sberbank is planning to dispose its subsidiaries in Hungary and in Serbia. The Russian bank is already in discussions with potential buyers such as Apollo Global Management and the Serbian AIK Banka, which intend to strengthen their regional positions.

- In 2020, Nova Ljubljanska Banka announced the acquisition of 83.23% stake in Komercijalna Banka for EUR 387 mn. The transaction strengthens NLB's presence and its focus on markets in Southeast Europe, consolidating its position as the largest banking group headquartered in the region. The largest foreign subsidiary of the NLB Group will be in Serbia. The closing of the transaction is expected in Q4 2020.
- In 2019, Government of the Republic of Serbia announced the acquisition of a 34.58% stake in Komercijalna Banka from IFC Capitalization Fund (US-based equity and subordinated debt fund) and the European Bank for Reconstruction and Development (UK based project financing firm). As a result of the transaction, the Republic of Serbia owned 83.23% of Komercijalna Banka's shares after the acquisition.
- In 2019, Telenor (Norwegian mobile operator) sold its Serbian bank, the Telenor Banka to PPF (Czech private equity fund). Earlier in 2013, Telenor bought Telenor Banka from KBC. Four years later, in 2017, River Styxx agreed to acquire Telenor Banka, but the transaction was cancelled. In March 2018, PPF acquired mobile operations of Telenor in Serbia, Hungary, Bulgaria and Montenegro with an option to buy Telenor Banka. This option was closed in 2019 by the deal.
- In 2019, the Hungarian OTP Bank bought Société Générale Srbija from its mother company, the French Société Générale. The transaction is in line with OTP Bank's regional strategic plan, to widen its presence and provided services in the region. As a result of the ongoing integration of the three banks owned by OTP Group (OTP Banka Srbija, Vojvodjanska Banka and Société Générale Banka), OTP will become the second largest bank in the domestic market by owning almost 15% of the consolidated banking assets.
- In 2018, the Greek Piraeus Bank sold its Serbian subsidiary to the Serbian Direktna Banka. The final deal value was around EUR 60 mn.
- In 2018, a Russian private investor acquired the Russian VTB Bank's Serbian subsidiary. The private investor's plan was to benefit from the growth potential of the Serbian market including development and supply of new products based on financial technologies.
- In 2017, OTP Banka Srbija, a Serbian subsidiary of the Hungarian OTP Bank, acquired Vojvodjanska Banka from the National Bank of Greece for EUR 125 mn. After the deal, the market share of OTP Bank Srbija increased to 5.3% and it became the 9th largest bank in the country. Vojvodjanska Banka was acquired by NBG for 375 mn EUR from the Serbian state in 2006.
- In 2017, MK Group, a Serbian-based industrial conglomerate, agreed with the Greece-based Alpha Bank on the acquisition of Alpha Bank Serbia ad Belgrade. The transaction was in line with restructuring plan of Alpha Bank.
- In 2017, Marfin Bank Beograd was acquired by the Czech Republic-based Expobank CZ from Cyprus Popular Bank Public Co Ltd., for EUR 14.79 mn. Expobank had a long-term strategy to develop the Marfin Bank.
- In 2016, BNP Paribas' subsidiary, Findomestic Banka Beograd was acquired by Serbian lender Direktna Banka Kragujevac. The acquisition was consistent with the strategy of Direktna Banka to become a leader in the SME segment in Serbia.
- In 2016, a Serbian private investor bought 100% of the KBM Banka from the Slovenian Nova KBM. Post transaction, the bank's name was changed to Direktna Banka.
- In 2015 Advent International, a private equity investor, together with the EBRD acquired Hypo Group Alpe Adria AG, the Southeast European banking network of the former Hypo Alpe Adria Bank International from Heta Asset Resolution AG (Heta), including the Serbian entity.
- In 2015, Cacanska Banka was acquired by the Turkey based Turkiye Halk Bankasi from EBRD for EUR 10.1 mn. After the transaction, the bank changed its name to Halkbank, and moved its headquarters from Čačak to Belgrade.



List of banking M&A deals in Serbia, 2015-2020Q3

Year	Target	Buyer	% Acquired	Deal Value in EUR mn	Seller
2020*	Komercijalna Banka	Nova Ljubljanska Banka	83.2%	387	State
2019	Komercijalna Banka	State	34.6%	155	EBRD, IFC Capitalization Fund
2019	Telenor Banka	PPF Group	100.0%	n.a.	Telenor
2019	Societe Generale Banka Srbija	OTP	100.0%	n.a.	Société Générale
2018	Piraeus Bank	Direktna Banka	100.0%	58	Piraeus Bank
2018	VTB Banka	Private individuals	100.0%	n.a.	VTB Bank
2017	Vojvodjanska Banka	OTP	100.0%	125	National Bank of Greece
2017	Alpha Bank Srbija	MK Group	100.0%	n.a.	Alpha Bank
2017	Marfin Bank	Expobank	100.0%	15	Cyprus Popular Bank
2016	Findomestic Banka	Direktna Banka	100.0%	n.a.	Findomestic Banca
2016	KBM Banka	Private individuals	100.0%	n.a.	Nova KBM
2015	Addiko Bank	"PE Advent (80%); EBRD (20%)"	100.0%	n.a.	Heta Asset Resolution AG
2015	Cacanska Banka	Turkiye Halk Bankasi	76.7%	10	EBRD; State; IFC; Beogradska Banka

Source: Deloitte Intelligence

*Closing in progress

Impact of COVID-19

In 2020, new loan disbursements are expected to slightly increase compared to 2019. Besides, credit standards for the retail segments are expected to tighten due to the COVID-19, while it is expected that they will remain unchanged or tighten slightly for the corporate segment.

The capital adequacy ratio decreased from 23.4% in 2019 to 22.7% by the end of the first half in 2020 due to the economic contraction, however it was still well above the regulatory minimum (8%).

The profitability of the Serbian banking sector has slightly decreased in the first half of 2020, with ROA and ROE standing at 1.4% and 8.4%, respectively.

The decline in NPL levels was mainly accelerated by the loan moratorium introduced in March 2020, which temporarily keeps the ratio at a lower level as long as the moratorium is in force.

Despite the impact of the crisis caused by the COVID-19 pandemic in the first half of 2020, lending has rebounded in the country in Q2 2020. Overall, lending recorded year-on-year growth of 13.9% in late Q2 2020.

Ukraine

Macroeconomic environment

The Ukrainian economy continued to show a growing trend in 2019 as real GDP increased by 3.2% year-on-year. However, as a consequence of the COVID-19 pandemic, the economy is forecasted to contract by 6% in 2020.

Inflation decreased in 2019 reaching 4.1% at 2019 year end and is expected to decrease further in 2020 mainly resulting from the drop in oil prices, the excess supply of food products and the decreased demand for non-essential products.

Recorded unemployment decreased in 2019 to 8.2% compared to 8.8% at 2018 year end, however it is expected to increase back to the pre-2016 level in 2020 as a result of the COVID-19 pandemic.

Public debt decreased further to 50.3% in 2019 compared to 60.9% in 2018. With newly disbursed EU loans in the amount of EUR 1.7 billion to the country (which is mostly to support the economic recovery from the COVID-19 crisis) public debt is expected to increase in 2020.

Macro indicators	2017	2018	2019	2020E	Change 2019-20 (% or % point)	
Nominal GDP (EUR mn)	82 410	103 108	137 335	113 589	-17.3%	●
Nominal GDP/capita (EUR)	2 042	2 431	3 268	2 717	-16.9%	●
GDP (% real change pa)	2.5%	3.3%	3.2%	-6.0%	-9.2%	●
Consumer prices (% change pa)	14.4%	10.9%	4.1%	5.3%	1.2%	●
Recorded unemployment (%)	9.5%	8.8%	8.2%	9.8%	1.6%	●
Budget balance (% of GDP)	-1.5%	-1.6%	-2.0%	-8.7%	-6.7%	●
Public debt (% of GDP)	71.8%	60.9%	50.3%	68.2%	17.9%	●

Source: EIU, Eurostat
E - Estimated data for 2020

Banking trends

Capital adequacy ratio of the banking sector showed relatively large development as CAR increased by 3.5% points in 2019 compared to 2018. The results of the latest asset quality review and stress test of the National Bank of Ukraine in November 2019 showed that there was one bank, the Astra Bank, with insufficient capital levels, however in stressed scenarios 11-18 banks needed additional capital (depending on the scenario).

Although total assets in EUR increased by 31.8% from 2018 to 2019, the increase resulted mostly from the appreciation of the Ukrainian hryvnia (UAH). Valued in local currency, total assets remained approximately at the same level as in 2018 with decreasing lending volumes, but more extensive increase in investments in securities.

In terms of asset quality, despite experiencing significant progress over the last three years, there is still plenty of room for further improvement. The ratio of non-performing loans is high compared to other CEE countries amounting to 19.9% in the retail and to 53.5% in the corporate segment.

The profitability of the banking sector continued to significantly increase in 2019, as after several years of loss generation the banking segment reported positive profit in 2018. In 2019, banks booked sizable profits for the first time record reaching 33.5% ROE, mostly due to the increasing credit portfolio, improving asset quality and provisioning at its lowest level in more than a decade. However, this level of profitability seems unsustainable, as the growth in fee and commission income is expected to decelerate and interest margin is expected to decrease, due to the ongoing monetary policy easing cycle. Furthermore, the COVID-19 crisis has also a negative impact

of the future profitability prospects of the Ukrainian banking sector.

Banking sector	2017	2018	2019	Change 2018-19 (% or % point)	
Total assets (EUR mn)	39 897	42 907	56 561	31.8%	●
Asset penetration (%)[1]	48.4%	41.6%	41.2%	-0.4%	●
Total equity (EUR mn)	4 698	4 886	7 566	54.9%	●
Total loans (EUR mn)	17 067	19 908	24 108	21.1%	●
Loan penetration (%)[2]	20.7%	19.3%	17.6%	-1.7%	●
Retail loans (EUR mn)	3 160	4 427	6 610	49.3%	●
Corporate loans (EUR mn)	13 908	15 481	17 497	13.0%	●
Interest rates					
Lending (%)	16.4%	19.0%	19.7%	0.7%	●
Deposit (%)	9.1%	11.8%	13.6%	1.8%	●
NPL volumes					
Retail NPLs (EUR mn)	829	1 055	1 319	25.0%	●
Corporate NPLs (EUR mn)	7 920	8 477	9 362	10.4%	●
NPL ratios					
Retail NPL ratio (%)	26.2%	23.8%	19.9%	-3.9%	●
Corporate NPL ratio (%)	56.9%	54.8%	53.5%	-1.3%	●
Key ratios					
CAR (%)	16.1%	16.2%	19.7%	3.5%	●
ROE (%)	-17.9%	14.7%	33.5%	18.8%	●
ROA (%)	-2.1%	1.7%	4.3%	2.6%	●
CIR (%)[3]	57.2%	61.2%	52.4%	-8.8%	●
L/D (%)	114.1%	119.1%	95.9%	-23.2%	●
FX share of lending (%)	43.9%	42.8%	53.5%	10.7%	●
LLP coverage (%)	85.2%	90.3%	74.0%	-16.3%	●

Source: EIU, NBU [1]Assets penetration = Total assets/Nominal GDP [2]Loans penetration = Total loans/Nominal GDP [3] Q3 2019

Banking market

In 2019, the number of locally licensed banks in Ukraine decreased by two and reached 75 banks. Despite the large scale consolidation of the sector over the previous years, the market remained one of the least concentrated in the European banking sector, with still a plenty of small banks on the market.

The number of banks decreased by two in 2019. A decrease was due to the merger of Alfa-Bank and Ukrsotsbank, a bank which was previously acquired by Alfa-Bank. The second was due to the declaration of insolvency for Astra Bank which

The largest stakeholder of the domestic banking sector is still the Ukrainian government by an ownership of around 60% which remained stable in the previous years.

The concentration of the Ukrainian banking sector is still the lowest in the CEE region. The HHI is 10.0% and the top 5 bank accounts for nearly 60% of the total market.

Out of the 75 banks only 13 had higher than EUR 1 billion total assets as at 2019 year end. These 13 banks own 84.6% of the market in terms of total assets. As the Ukrainian banking market is still highly fragmented due to the numerous relatively small financial institutions, further consolidation of the market may come in the upcoming years.

List of Banks in Ukraine, 2019 (EUR mn)

Rank 2019	Rank 2018*	YoY change in rank	Institutions	Total Assets	Market share	Equity	Net income	ROA %	ROE %	Major shareholder
1.	1.	●	CB PrivatBank	11 888	21.0%	2 064	1 127	9.5%	54.6%	State of Ukraine
2.	2.	●	State Savings Bank of Ukraine	9 495	16.8%	740	9	0.1%	1.2%	State of Ukraine
3.	3.	●	JSC Ukreximbank	5 311	9.4%	337	2	0.0%	0.7%	State of Ukraine
4.	4.	●	Ukrgasbank	4 517	8.0%	312	45	1.0%	14.3%	State of Ukraine
5.	5.	●	Raiffeisen Bank Aval	3 490	6.2%	493	164	4.7%	33.3%	Raiffeisen
6.	6.	●	Alfa-Bank	2 722	4.8%	322	67	2.4%	20.6%	Abh Ukraine
7.	8.	▲	First Ukrainian International Bank	2 098	3.7%	343	90	4.3%	26.2%	SKM Finance TOV
8.	7.	▼	UkrSibbank	2 017	3.6%	257	89	4.4%	34.8%	BNP Paribas
9.	9.	●	OTP Bank	1 699	3.0%	294	88	5.2%	29.8%	OTP
10.	10.	●	Credit Agrocole Bank	1 336	2.4%	195	60	4.5%	30.6%	Credit Agricole
11.	13.	▲	Citibank	1 188	2.1%	123	76	6.4%	62.1%	Citibank
12.	11.	▼	Sberbank	1 053	1.9%	318	15	1.5%	4.8%	Sberbank
13.	12.	▼	Bank Pivdennyi	1 010	1.8%	107	10	1.0%	9.7%	No majority shareholder
14.	14.	●	Procredit Bank	904	1.6%	149	24	2.7%	16.1%	ProCredit
15.	15.	●	TAScombank	727	1.3%	98	16	2.2%	16.2%	Alkemi Limited
16.	16.	▲	Kredobank	724	1.3%	98	19	2.6%	19.0%	Pko Bank Polski
17.	23.	▲	Universal Bank	674	1.2%	64	18	2.7%	28.6%	Bailikan Limited
18.	18.	●	Ing Bank Ukraine	500	0.9%	162	24	4.9%	15.1%	ING
19.	21.	▲	Bank Vostok	409	0.7%	34	6	1.4%	17.0%	Vostok Kapital
20.	20.	●	Megabank	348	0.6%	28	(5)	-1.4%	-16.7%	No majority shareholder
21.	19.	▼	Bank Credit Dnepr	325	0.6%	45	3	0.8%	5.8%	Brancroft Enterprises Limited
22.	17.	▼	Prominvestbank	269	0.5%	119	9	3.5%	7.8%	State of Ukraine
23.	26.	▲	A-Bank	243	0.4%	35	9	3.6%	25.3%	No majority shareholder
24.	27.	▲	Praveks-bank	219	0.4%	72	(4)	-1.9%	-5.9%	Intesa Sanpaolo
25.	25.	●	MTB Bank	211	0.4%	29	2	1.0%	7.4%	Cyprus Popular Bank Public
26.	29.	▲	Idea Bank	205	0.4%	35	13	6.4%	37.2%	Idea Bank
27.	24.	▼	Industrialbank	149	0.3%	48	0	0.0%	0.2%	No majority shareholder
28.	32.	▲	Globus Bank	149	0.3%	12	2	1.0%	12.6%	Ukrainski Media Tehnolohii TOV
29.	28.	▼	Bank of Investments and Savings	145	0.3%	21	1	0.6%	4.0%	No majority shareholder
30.	37.	▲	Bank Alliance	131	0.2%	19	3	2.6%	17.7%	Private Individuals

31.	33.	▲	Bank Lviv	121	0.2%	14	1	0.5%	4.9%	responsAbility Participations
32.	39.	▲	Akordbank	113	0.2%	10	1	0.9%	9.7%	Volynets Danylo Mefodiyovych
33.	31.	▼	Piraeus Bank	113	0.2%	24	1	0.9%	4.3%	Piraeus Bank
34.	22.	▼	International Investment Bank	110	0.2%	15	2	1.8%	12.9%	Closed-end Non-diversified Corporate Investment Fund Prime Assets Capital
35.	30.	▼	Deutsche Bank	104	0.2%	14	2	1.5%	11.0%	Deutsche Bank
36.	34.	▼	Poltava-bank	96	0.2%	30	4	4.4%	14.1%	Private Individuals
37.	40.	▲	Bank Forward	83	0.1%	14	4	5.2%	31.1%	Russian Standard Bank JSC
38.	36.	▼	Bank Clearing House	83	0.1%	21	1	1.5%	5.7%	No majority shareholder
39.	53.	▲	Bank Sich	80	0.1%	9	1	0.9%	7.9%	Private Individuals
40.	35.	▼	JSCB Arcada	79	0.1%	39	0	0.3%	0.7%	No majority shareholder
41.	51.	▲	Commercial Bank Concord	77	0.1%	10	2	2.4%	17.6%	Private Individuals
42.	38.	▲	SEB Corporate Bank	75	0.1%	23	2	3.2%	10.5%	Skandinaviska Enskilda Banken
43.	43.	●	Radabank	71	0.1%	12	1	2.0%	12.1%	Private Individuals
44.	48.	▲	First Investment Bank	70	0.1%	13	2	2.8%	14.7%	Giner Evgeny Lennorovich
45.	47.	▲	Crystalbank	64	0.1%	11	0	0.4%	2.3%	Private Individuals
46.	41.	▼	CreditWest Bank	63	0.1%	16	1	1.5%	6.0%	Altinbas Holding Anonim Sirketi JSC
47.	44.	▼	Misto Bank	58	0.1%	8	(1)	-1.5%	-10.7%	No majority shareholder
48.	45.	▼	Bank Grant	57	0.1%	22	2	3.7%	9.4%	Private Individuals
49.	50.	▲	Commercial Industrial Bank	55	0.1%	9	1	1.5%	8.5%	Private Individuals
50.	62.	▲	Altbank	51	0.1%	9	0	0.6%	3.2%	No majority shareholder
51.	42.	▼	Credit Europe Bank	51	0.1%	15	2	3.8%	13.1%	Credit Europe Bank
52.	49.	▼	Cominvestbank	47	0.1%	12	(1)	-1.3%	-5.3%	No majority shareholder
53.	46.	▼	Motor-Bank**	46	0.1%	13	1	1.6%	6.1%	Private Individuals
54.	54.	●	Ibox Bank	46	0.1%	9	0	0.4%	2.0%	Private Individuals
55.	57.	▲	Ukrbudinvestbank	44	0.1%	8	0	0.1%	0.6%	Private Individuals
56.	58.	▲	AP BANK**	42	0.1%	13	1	2.1%	6.8%	Private Individuals
57.	75.	▲	RVS BANK	41	0.1%	8	(1)	-3.5%	-16.8%	Private Individuals
58.	59.	▲	Asvio Bank	39	0.1%	17	0	0.3%	0.6%	Private Individuals
59.	60.	▲	Bank Ukrainian Capital	39	0.1%	11	0	0.1%	0.3%	No majority shareholder
60.	55.	▼	Avangard Bank	39	0.1%	13	0	0.9%	2.8%	Westal Holdings
61.	56.	▼	Unex Bank	35	0.1%	11	0	0.9%	3.0%	Vyzain Investments
62.	52.	▼	Bank 3/4	35	0.1%	20	1	1.5%	2.7%	Private Individuals
63.	61.	▼	MetaBank	35	0.1%	12	2	4.3%	12.6%	No majority shareholder
64.	63.	▼	Zemelny Capital	30	0.1%	10	1	2.3%	7.0%	Private Individuals
65.	64.	▼	Policombank	25	0.0%	10	0	0.5%	1.2%	No majority shareholder
66.	68.	▲	Sky Bank	21	0.0%	6	(1)	-5.0%	-17.0%	Private Individuals
67.	65.	▼	Oksi Bank	19	0.0%	8	0	0.1%	0.3%	Private Individuals
68.	67.	▼	Euroroprombank	18	0.0%	10	1	7.4%	14.1%	Private Individuals
69.	66.	▼	Bta Bank	18	0.0%	14	0	2.2%	2.9%	BTA Bank
70.	69.	▼	Bank Familny	16	0.0%	8	0	2.9%	6.2%	Cristela Limited
71.	71.	●	Settlement center	14	0.0%	10	1	3.5%	5.1%	State of Ukraine
72.	70.	▼	Bank Trust-Capital	11	0.0%	9	0	0.5%	0.6%	Private Individuals
73.	74.	▲	Bank Portal	10	0.0%	8	0	2.4%	2.9%	Private Individuals
74.	72.	▼	Alpari Bank	9	0.0%	8	(1)	-5.7%	-6.4%	Private Individuals
75.	73.	▼	Ukrainian Bank for Reconstruction and Development	9	0.0%	7	(0)	-1.7%	-2.1%	BOCE (Hong Kong)
			Total	**56 561**	**100%**	**7 566**	**2 531**	**4%**	**33%**	

Source: Banks' data disclosure, EMIS, NBU

* corrected ranking (based on bank list 2019)

** Data from 2020.08.01.

M&A activity

The Ukrainian banking sector has still an active M&A market with two new deals in 2020 and altogether with 16 acquisitions over the past five years.

- In 2020, LLC Energoposgtavka agreed to acquire 50% stake in First Investment Bank from private individuals. The transaction is subject to regulatory approval.

- In 2020, Dragon Capital together with a private individual planned to acquire Idea Bank, a Ukraine-based retail bank from Getin Holding for a consideration of EUR 53 million. Idea Bank has been present on the market for 21 years. However, the transaction was cancelled due the partied failed to agree on the commercial terms of the agreement as the economic environment changed radically.

- In 2018, the Ukrainian MTB Bank acquired 100% stake of the PJSC Commercial Bank Center.

- In 2018, responsAbility Investments (Swiss private equity company) acquired 51% stake in PJSC JSCB Lviv from a Ukrainian private investor. The acquisition helped Lviv to strengthen its position in the domestic banking sector, with a focus on small and medium businesses and individuals.

- In 2017, the Russian Sbrerbank sold VS Bank to the Ukrainian PJSC Tascombank (subsidiary of Ukrainian TAS Group LLC). VS Bank had more than 400 employees before the transaction.

- In 2017, two Ukrainian private individuals acquired 99.9% stake in PJSC Marfin Bank from the Cyprus Popular Bank Public. Previously the Ukrainian Delta Bank planned to acquire Marfin Bank, but Delta Bank withdrew its proposal due to the unstable geopolitical situation of Ukraine.

- In 2016, the largest bank of the Ukrainain banking sector, the PrivatBank was acquired by the State of Ukraine. The financial crisis of 2014-2015 in Ukraine heavily affected the bank's performance, therefore the government decided to save and re-capitalize the bank to increase the banking sector's stability.

- In 2016, a Ukrainian private investor sold a 92.51% stake in Mikhailovsky Bank to 11 strategic investors. Before selling the Mikhailovsky Bank, it had financial difficulties and a few days after the transaction, the bank was deemed insolvent. Under the agreement of the deal, the seller retained control of the bank through a special purpose vehicle, while ownership of the bank was transferred to some of the past owners, which enabled Mikhailovsky Bank to repay deposits to its customers.

- In 2016, TAS Group (Cypriot project company) acquired Universal Bank from the Greek Eurobank Ergasias. The transaction contributed to the consolidation and stable growth of the Ukrainian banking sector.

- In 2016, the Kazakhstani BTA Bank JSC acquired a 40% stake of PJSC BTA Bank from a Ukrainian private strategic investor. Prior to the transaction, BTA Bank JSC held 49.99 Stake in PJSC BTA Bank, whereas a 50% stake was held by the former private investor. As a result of the deal, BTA Bank JSC has been holding 89.99% stake in PJSC BTA Bank.

- In 2016, a Ukrainian private investor bought a 48.3% stake of Industrialbank. As a result of the deal, at the end of 2016, more than 65% of the Industrialbank was owned by the former private investor (48% directly, 17% indirectly).

- In 2016, The European Bank for Reconstruction and Development (UK based project financing company) acquired approximately 30% stake in the Raiffeisen Bank Aval, JSC (RBA) from the Austrian Raiffeisen Bank International (RBI) via capital increase. Prior to the deal, RBI held 96.2% stake in RBA. EBRD had been interested in investing in RBA since March 2015.

- The Italian UniCredit Group sold 99.41% of Ukrsotsbank to the Luxembourgish ABH Holdings, which is the subsidiary of the Alfa Group Consortium (Russian industrial conglomerate). The purpose of the transaction was to reduce the risk-weighted assets in Ukrsotsbank's portfolio. Prior to the deal, in 2013, two Ukrainian assets of UniCredit Group (Ukrsotsbank PJSC and Ukrsotsbank OJSC) merged to create the renovated Ukrsotsbank. In 2019, the National Bank of Ukraine approved the reorganization of JSC Ukrsotsbank by merging with JSC Alfa-Bank. Together the market share of the merged banking entity reached 4.8% in the Ukrainian banking market.

- In 2015, an undisclosed bidder acquired DV Bank from its Cyprus-based company holding, the DVGroup Limited.

- In 2015, Ukrainian private strategic investors bought 96.6% of Aktsent Bank from the Ukrainian Privatbank.

- In 2015, Ukrainian Business Group Corportion (UBG) acquired PJSC Omega Bank from the Swedish Swedbank. Before the transaction, the Omega was declared insolvent. The transaction was founded by UBG's own funds and 20% (EUR 1.2 mn) of the price went for the acquisition, and 80% (EUR 4.9 mn) went for increasing capital in Omega Bank.

- In 2015, LLC Industrial Innovation Company (Ukrainian investment fund) bought 71% of ARB Radikal Bank. Industrial Innovation was set up by ARB Radikal's top management to acquire the bank.

List of banking M&A deals in Ukraine, 2015-2020Q3

Year	Target	Buyer	% Acquired	Deal Value in EUR mn	Seller
2020*	First Investment Bank	LLC Energopostavka	50.0%	n.a.	Private individuals
2018	Commercial Bank Center	MTB Bank	100.0%	n.a.	n.a.
2018	Lviv	responsAbility Investments	51.0%	n.a.	Private individuals
2017	VS Bank	PJSC Tascombank	100.0%	13	Sberbank
2017	Marfin Bank	Private individuals	99.9%	n.a.	Cyprus Popular Bank
2016	CB PrivatBank	Government of Ukraine	100.0%	n.a.	Private Group
2016	Mikhailovsky Bank	Private individuals	92.5%	n.a.	Private individuals
2016	Universal Bank	TAS Group	100.0%	n.a.	Eurobank
2016	BTA Bank	BTA Bank JSC	40.0%	n.a.	Private individuals
2016	Industrialbank	Private individuals	48.3%	n.a.	Pol Invest Group, Sauslenk-Zaporizhzhya, FINVAL Group, CUVCIF PJSC, NOVA
2016	Raiffeisen Bank Aval	EBRD	30.0%	73	Raiffeisen
2016	Ukrsotsbank	Alfa Group Consortium	99.4%	281	UniCredit
2015	DV Bank	Undisclosed bidder	100.0%	n.a.	DVGroup Limited
2015	Aktsent Bank	Private individuals	96.6%	n.a.	PrivatBank
2015	PAO Omega Bank	Ukrainian Business Group Corporation	100.0%	6	Swedbank
2015	ARB Radikal Bank	OOO Industrial Innovation Company	71.0%	n.a.	n.a.

Source: Deloitte Intelligence *Closing in progress

Impact of COVID-19

According to NBU (National Bank of Ukraine) banks have entered the COVID-19 crisis in relatively good shape as capital adequacy and liquidity levels were much above the minimum regulatory requirements and there were improvements in the NPL metrcis as well, which are still high though.

Main risks imposed by the crisis are declining demand for banking services and failure of loan repayments. NBU assesses that the risk of non-repayment mainly originates from the unsecured consumer segment, where more than 10% of the loans may become non-performing as a consequence of the crisis.

As a longer-term potential consequence of the crisis NBU expects declining interest rates which would result in shrinking net interest margin and decreasing room for earning margins which would imply challenge for banks in keeping up their high profitability.

In order to ease the effects of the COVID-19 crisis NBU implemented several measures: it extended liquidity support facilities for banks, released some of the regulatory requirements (only the minimum CAR remained) and promoted loan restructuring. Also, NBU allowed banks to breach normatives until June 201, but in return as a requirement, banks had to refuse to pay dividends for 2019.

Bosnia and Herzegovina

Macroeconomic environment

Bosnia's economic growth slowed down to 2.9% in 2019, while in the previous years GDP grew by 3.1-3.3% annually in real terms. Household consumption, investments and capital expenditure were the main drivers of the economic growth. As Bosnia's economy is highly dependent on the euro zone, where economic decrease is expected, Bosnia's GDP is also expected to decrease by 5.1% in 2020 due to COVID-19.

After a year of deflation in 2016, inflation was relatively stable in the period of 2017 to 2019 as the change of consumer prices remained under 1.5% annually. Due to the crisis resulting from the pandemic, deflation is expected, which would be primarily driven by the decrease of oil price and economic recession. The deflation forecast is 0.5% in 2020.

Recorded unemployment rate declined continuously in the last four years, dropping to 18.4% in 2019 from 25.4% in 2016. In 2019, budget surplus was 2.0% while public debt decreased further to 38.0% of GDP from 43.7% in 2016. Both indicators are expected to show a negative trend in 2020 as the result of the COVID-19 pandemic.

Macro indicators	2017	2018	2019	2020E	Change 2019-20 (% or % point)
Nominal GDP (EUR mn)	16 497	17 359	18 229	17 205	-5.6%
Nominal GDP/capita (EUR)	4 925	5 229	5 524	5 245	-5.0%
GDP (% real change pa)	3.2%	3.3%	2.9%	-5.1%	-8.0%
Consumer prices (% change pa)	0.8%	1.4%	0.5%	-0.5%	-1.0%
Recorded unemployment (%)	20.5%	18.4%	18.4%	n.a.	n.a.
Budget balance (% of GDP)	1.8%	1.5%	2.0%	-6.0%	-8.0%
Public debt (% of GDP)	40.5%	38.9%	38.0%	43.0%	5.0%

Source: EIU, Eurostat
E - Estimated data for 2020

Banking trends

The consolidated CAR of the banking sector in Bosnia and Herzegovina has been continuously improving in the previous years, reaching 18.0% in 2019. This level of capital adequacy ratio is among the lowest in the region, but still considered good.

The total assets of the banking sector increased by 16.4% to EUR 18.4 bn due to the growth in credit activity and liquid assets. As in previous years, strong growth of domestic deposits contributed to the growth of total assets.

The quality of the loan portfolio continued to slightly improve both in the retail (by 1.0% points) and corporate (by 1.5% points) segments. However, the pace of reclassification of loans into non-performing was more intense than in previous years.

In 2019, the banking sector reported higher profitability ratios than in the previous years. Both ROE and ROA ratios increased in 2019; ROE stood at 10.4%, whilst ROA recorded 1.4%. The profit increase was mainly owing to the stable increase of operative income and the significant decrease in the non-interest expenditures.

Banking sector	2017	2018	2019	Change 2018-19 (% or % point)
Total assets (EUR mn)	14 464	15 828	18 427	16.4%
Asset penetration (%)[1]	87.7%	91.2%	101.1%	9.9%
Total equity (EUR mn)	1 952	2 013	2 135	6.1%
Total loans (EUR mn)	9 228	9 963	10 621	6.6%
Loan penetration (%)[2]	55.9%	57.4%	58.3%	0.9%
Retail loans (EUR mn)	4 423	4 708	5 100	8.3%
Corporate loans (EUR mn)	4 459	4 624	4 874	5.4%
Interest rates				
Lending (%)	4.4%	3.8%	3.3%	-0.5%
Deposit (%)	1.2%	1.0%	0.9%	-0.1%
NPL volumes				
Retail NPLs (EUR mn)	332	306	301	-7.8%
Corporate NPLs (EUR mn)	548	499	427	-9.0%
NPL ratios				
Retail NPL ratio (%)	7.5%	6.5%	5.9%	-1.0%
Corporate NPL ratio (%)	12.3%	10.8%	8.8%	-1.5%
Key ratios				
CAR (%)	15.7%	17.5%	18.0%	0.5%
ROE (%)	10.2%	9.6%	10.4%	0.8%
ROA (%)	1.5%	1.3%	1.4%	0.1%
CIR (%)[3]	56.8%	57.4%	60.3%	2.9%
L/D (%)	95.2%	91.2%	88.7%	-2.5%
FX share of lending (%)	58.9%	55.4%	51.9%	-3.5%
LLP coverage (%)	76.7%	77.4%	77.0%	-0.4%

Source: CBBH [1]Assets penetration = Total assets/Nominal GDP [2]Loans penetration = Total loans/Nominal GDP
[3]CIR calculated for 30 June in an aggregated way - Republika Srpska and Federacija BiH combined

Banking market

24 locally-licensed banks were operating in Bosnia and Herzegovina at the end of 2019. There is a strong presence of international banking groups in the country, the largest banks in the country are subsidiaries of these major European financial groups, such as UniCredit, Raiffeisen and Intesa Sanpaolo.

The Bosnian banking market had a competitive position in 2019. The concentration was relatively low with the five largest domestic banks owning a slightly less than 50% of the total assets and also, the HHI of the segment was 7.3%, which is among the lowest in the CEE region.

The Bosnian banking market is fragmented due to the relatively high number of banks in the country. Some banks have separate legal entities for the Federation of Bosnia and Herzegovina and the Republika Srpska (capital: Banja Luka).

List of Banks in Bosnia Herzegovina, 2019 (EUR mn)

Rank 2019	Rank 2018*	YoY change in rank	Institutions	Total Assets	Market share	Equity	Net income	ROA %	ROE %	Major shareholder
1.	1.	●	UniCredit Bank	3 372	18.3%	436	0	0.0%	0.0%	UniCredit
2.	2.	●	Raiffeisen Bank	2 418	13.1%	288	29	1.2%	10.1%	Raiffeisen
3.	4.	▲	Intesa Sanpaolo Banka	1 198	6.5%	158	0	0.0%	0.1%	Intesa Sanpaolo
4.	3.	▼	Nova Banka. Banja Luka	1 114	6.0%	86	6	0.6%	7.2%	No majority shareholder
5.	5.	●	UniCredit Bank. Banja Luka	850	4.6%	125	15	1.8%	12.0%	UniCredit
6.	6.	●	Sparkasse Bank	808	4.4%	114	12	1.5%	10.5%	Erste
7.	9.	▲	NLB Banka. Banja Luka	774	4.2%	89	17	2.2%	19.1%	Nova Ljubljanska Banka
8.	8.	●	Sberbank BH	762	4.1%	92	5	0.7%	5.4%	Sberbank
9.	12.	▲	Bosna Bank International	645	3.5%	80	6	0.9%	7.5%	Islamic Development Bank
10.	10.	●	NLB Banka	637	3.5%	78	0	0.0%	0.1%	Nova Ljubljanska Banka
11.	11.	●	ZiraatBank BH**	545	3.0%	33	n.a.	n.a.	n.a.	Ziraat Bank
12.	13.	▲	Addiko Bank	505	2.7%	110	4	0.7%	3.4%	Hypo Alpe-Adria-Bank
13.	14.	▲	Sberbank. Banja Luka	477	2.6%	68	4	0.8%	5.7%	Sberbank
14.	15.	▲	Addiko Bank Banja Luka	431	2.3%	82	3	0.8%	4.2%	Hypo Alpe-Adria-Bank
15.	14.	▼	Union Banka	410	2.2%	35	0	0.0%	0.3%	State of Bosnia Herzegovina
16.	17.	▲	ASA Banka	284	1.5%	35	3	1.0%	8.4%	No majority shareholder
17.	16.	▼	ProCredit Bank	283	1.5%	25	(1)	-0.3%	-3.2%	ProCredit
18.	18.	●	Privredna Banka Sarajevo	280	1.5%	30	0	0.0%	0.0%	No majority shareholder
19.	20.	▲	MF Banka	242	1.3%	35	3	1.4%	9.6%	Mkd Mikrofin Doo Banja Luka
20.	19.	▼	Komercijalna Banka	221	1.2%	33	4	1.9%	12.7%	Komercijalna Banka
21.	21.	●	Razvojna Banka Federacije	165	0.9%	87	0	0.1%	0.2%	State of Bosnia Herzegovina
22.	22.	●	Vakufska Banka	164	0.9%	15	0	0.1%	0.6%	ASA Finance
23.	23.	●	Nasa Banka	97	0.5%	13	(0)	-0.1%	-0.5%	No majority shareholder
24.	24.	●	Komercijalno-investiciona Banka	54	0.3%	15	3	6.3%	22.3%	No majority shareholder
			Total	**18 427**	**100%**	**2 135**	**258**	**1.4%**	**10.4%**	

Source: Banks' data disclosure, EMIS, CBBH

* corrected ranking (based on bank list 2018)

**Data for 2020-06-30

M&A activity

The Bosnian banking sector was not active in terms of M&A deals in the past years. There were three major acquisitions in the banking market over the past years in Bosnia-Herzegovina.

- In November 2019, a 73.4% stake in Vakufska Banka was acquired by ASA Group (Bosnian private investment holding). ASA Group bought more than 550 thousand Vakufska Banka shares on the Sarajevo Stock Exchange for EUR 8.8 mn. In 2020, the ASA Group declared to merge two of its banks in Bosnia-Herzegovina, the previously owned ASA Banka and the recently acquired Vakufska Banka.

- Also in 2019, the largest shareholder of Pavlovic International Bank, Miroslava Pavlovic decided to sell all his shares (36.7%) together with the second largest shareholder, who decided to decrease its shares (from 18.6% to 13.0%). The buyer was Galens Invest (22.3%) and Pavgrod International AG (22.0%) and the acquisition price was c. EUR 3.6 mn. The bank also decided to change its name to Naša Banka.

- In 2016, the Bosnian BOR Banka acquired Privredna Banka Sarajevo. Both bank's shareholders approved the transaction. Since the merger, the two banks have been operating under the name of Privedna Banka Sarajevo.

List of banking M&A deals in Bosnia & Herzegovina, 2015-2020Q3

Year	Target	Buyer	% Acquired	Deal Value in EUR mn	Seller
2019	Pavlovic International Bank	Galens Invest; Pavgord	44.3%	4	Miroslava Pavlovic; Batagon International AG
2019	Vakufska Banka	ASA Finance	73.4%	9	Badeco Adria
2016	Privredna Banka Sarajevo	BOR Banka	100.0%	n.a.	n.a.

Source: Deloitte Intelligence

Impact of COVID-19

Due to the COVID-19 crisis, the two banking agencies in the country introduced a six month moratorium on loan repayments for households and non-financial corporations. The moratorium was extended for an additional 6 months in August 2020.

For preparation, Bosnian banks were also prohibited from dividend payments and other bonuses to ensure to deal with an expected fall in loan repayments and to further secure their capital for lending.

Credit standards for both the corporate and retail segments are expected to tighten due to the COVID-19 crisis.

The industries most affected by the onset of the COVID-19 crisis include transport and storage, hospitality, wholesale, real estate and construction.

The full fiscal stimulus packages from the governments of Federation of Bosnia and Herzegovina and the Republic of Srpska are still under development, although the stimulus packages will include increased funding for healthcare and social benefits, tax deferrals and temporary state support to cover the minimum wages for companies most affected by the COVID-19 crisis.

Albania

Macroeconomic environment

Albania's economic growth slowed down to 2.2% in 2019, while in the previous years (2016-2018) GDP grew by 3.3-4.1% annually in real terms. Household consumption and government spending were the primary drivers of the economic growth. As the country's main trade partners in Europe expect to post the highest GDP decrease in Europe, Albania's GDP is also expected to decrease by 6.0% in 2020 due to COVID-19.

The inflation was stable in the previous years as the changes of consumer prices remained under 2.0%. Inflation was primarily driven by food price growth, while prices in major service sectors (medical care, communication, transport) fell annually. The change in consumer prices is estimated to stay below 2.0% in 2020.

Recorded unemployment rate declined continuously in the last four years, dropping to 5.9% in 2019. However, unepmloyement rate is expected to increase in 2020 as a result of the pandemic. In 2019, budget deficit was -1.9% while public debt decreased further to 68.8% of GDP from 73.3% in 2016.

Macro indicators	2017	2018	2019	2020E	Change 2019-20 (% or % point)
Nominal GDP (EUR mn)	11 532	12 822	13 643	12 374	-9.3%
Nominal GDP/capita (EUR)	3 976	4 421	4 705	4 267	-9.3%
GDP (% real change pa)	3.8%	4.1%	2.2%	-6.0%	-8.2%
Consumer prices (% change pa)	2.0%	2.0%	1.4%	1.9%	0.5%
Recorded unemployment (%)	7.6%	6.3%	5.9%	7.8%	1.9%
Budget balance (% of GDP)	-2.0%	-1.6%	-1.9%	-5.6%	-3.7%
Public debt (% of GDP)	71.9%	69.6%	68.8%	81.5%	12.7%

Source: EIU, Eurostat
E - Estimated data for 2020

Banking trends

In 2019, the consolidated capital adequacy has remained at the same level as in 2018 (18.3%). In the past few years, all of the banks' reported CAR was above the current regulatory minimum (12.0%) in the Albanian banking sector.

The total assets of the banking sector increased in 2019, reaching EUR 12.1 bn. Loan activity has slightly increased during 2019, driven by the long-term corporate loans. Furthermore, credit portfolio quality also improved during the year. Correspondingly, the NPL ratio decreased to 8.4%, which is lowest level for over a decade. Main drivers of this improvement were repayments, write-offs and restructurings taken place in the sector.

The Albanian banking sector closed the year with a higher rate of profitability than in the previous year, with ROA and ROE standing at 1.5% and 13.5%, respectively. The financial result was affected by the expansion of profit from financial instruments, outweighting the 4.8% decline of net interest income.

The cost-to-income ratio (CIR) increased significantly due to the massive drop in net interest margin. The Albanian banking sector's CIR reached 80.8% with a 3.8% points increase in 2019.

Banking sector	2017	2018	2019	Change 2018-19 (% or % point)
Total assets (EUR mn)	10 871	11 772	12 118	2.9%
Asset penetration (%)[1]	94.3%	91.8%	88.8%	-3.0%
Total equity (EUR mn)	1 105	1 195	1 267	6.0%
Total loans (EUR mn)	4 520	4 705	4 728	0.5%
Loan penetration (%)[2]	39.2%	36.7%	34.7%	-2.0%
Retail loans (EUR mn)	1 339	1 497	1 534	2.5%
Corporate loans (EUR mn)	3 181	3 208	3 194	-0.5%
Interest rates				
Lending (%)	7.2%	6.8%	6.7%	-0.1%
Deposit (%)	0.8%	0.9%	0.7%	-0.2%
NPL volumes				
Retail NPLs (EUR mn)	102	96	35	-63.7%
Corporate NPLs (EUR mn)	538	459	361	-21.3%
NPL ratios				
Retail NPL ratio (%)	7.6%	6.4%	2.3%	-4.1%
Corporate NPL ratio (%)	16.9%	14.3%	11.3%	-3.0%
Key ratios				
CAR (%)	16.6%	18.2%	18.3%	0.1%
ROE (%)	15.7%	13.0%	13.5%	0.5%
ROA (%)	1.5%	1.2%	1.5%	0.3%
CIR (%)	75.2%	77.0%	80.8%	3.8%
L/D (%)	51.5%	49.2%	46.2%	-3.0%
FX share of lending (%)	56.0%	56.1%	51.2%	-4.9%
LLP coverage (%)	71.7%	65.6%	65.6%	0.0%

Source: AAB, BoA

[1]Assets penetration = Total assets/Nominal GDP

[2]Loans penetration = Total loans/Nominal GDP

Banking market

12 locally-licensed banks were operating in Albania at the end of 2019, 2 less than the previous year. The majority of the sector was owned by international banking groups.

Nevertheless, progress is made in terms of increasing the domestic capital. In 2019, the bank consolidation process, started years ago, was concluded. This process reformed the domestic banking market, where 4 banks with a share of c. 30% in the market, are owned by domestic capital.

In 2019, International Commercial Bank has merged into its parent company Union Bank, while Credit Bank of Albania has voluntarily went under liquidation process in 2019.

At the end of 2019, the Albanian banking sector's concentration was significantly high. The HHI of the segment was 15.1% and the five largest banks owned more than 76% of the consolidated balance sheet.

List of Banks in Albania, 2019 (EUR mn)

Rank 2019	Rank 2018*	YoY change in rank	Institutions	Total Assets	Market share	Equity	Net income	ROA %	ROE %	Major shareholder
1.	1.	●	Banka Kombëtare Tregtare	3 314	27.3%	401	44	1.3%	1.3%	Calik Finansal Hizmetler
2.	2.	●	Raiffeisen Bank Albania	1 834	15.1%	229	23	1.3%	1.3%	Raiffeisen
3.	3.	●	Credins Bank	1 815	15.0%	145	8	0.4%	0.4%	No majority shareholder
4.	4.	●	Intesa Sanpaolo Bank Albania	1 502	12.4%	385	14	0.9%	0.9%	Intesa Sanpaolo
5.	5.	●	OTP Albania	746	6.2%	75	12	1.6%	1.6%	OTP
6.	7.	▲	Alpha Bank Albania	644	5.3%	75	2	0.3%	0.3%	Alpha Bank
7.	6.	▼	American Bank of Investments	639	5.3%	79	6	1.0%	1.0%	Tranzit Finance
8.	8.	●	Tirana Bank	626	5.2%	81	3	0.5%	0.5%	Balfin
9.	9.	●	Union Bank	541	4.5%	44	6	1.2%	1.2%	Unioni Financiar Tirane
10.	10.	●	ProCredit Bank	263	2.2%	25	(6)	-2.4%	-2.4%	ProCredit
11.	11.	●	Fibank Albania	261	2.1%	28	4	1.5%	1.5%	Fibank
12.	12.	●	United Bank of Albania	73	0.6%	12	0	0.1%	0.1%	Islamic Development Bank
			Total	**12 118**	**100%**	**1 267**	**181**	**1.5%**	**13.5%**	

Source: Banks' data disclosure, AAB

* corrected ranking (based on bank list 2018)

M&A activity

There were 5 major acquisitions in the banking market over the past years in Albania.

- In 2019, as a result of the strategic decision of several Greek banks to exit from the Balkan markets, Piraeus Bank sold 98.93% stake in Tirana bank to Balfin (Albania based company engaged in real estate development and retail business) and to the Macedonian Komercijalna Banka.
- In 2019, the Hungarian OTP Bank acquired an 88.89% stake in Banka Société Générale Albania. This deal was part of Société Générale's CEE regional subsidiary divestiture actions. The transaction was valued together with the 99.47% stake of the Bulgarian Société Générale Expressbank (acquired in 2018) and the OTP Bank payed EUR 600 mn altogether.
- In 2018, Union Bank has acquired 100% of voting shares of International Commercial Bank from Swiss-based ICB Financial Group Holdings. The price of the deal was not disclosed. ICB held 0.7% of total assets with a network of six branches and 94 employees.
- In 2018, the Albanian American Bank of Investments acquired Banka NBG Albania from National Bank of Greece (a listed Greek financial institution). Banka NBG Albania owned 26 branches and had total assets of EUR 305.7 mn as of 30 September 2017.
- In 2015, the French Credit Agricole sold its Albanian subsidiary to the Albanian Tranzit Finance for an undisclosed consideration. At the end of 2015, Credit Agricole Albania was renamed American Bank of Investments.

List of banking M&A deals in Albania, 2015-2020Q3

Year	Target	Buyer	% Acquired	Deal Value in EUR mn	Seller
2019	Tirana Bank	Komercijalna Banka and Balfin	98.8%	57	Piraeus Bank
2019	Banka Societe Generale Albania	OTP	88.9%	n.a.	Société Générale
2018	International Commercial Bank	Union Bank	100.0%	n.a.	ICB Financial Group Holdings
2018	Banka NBG Albania	American Bank of Investments	100.0%	25	National Bank of Greece
2015	American Bank of Investments	Tranzit Finance	100.0%	n.a.	Credit Agricole

Source: Deloitte Intelligence

Impact of COVID-19

The pandemic found the banking sector in good financial condition. This financial position is expected to support the banking sector to absorb the possible shocks arising from the effects that pandemic has on the country's economy.

During the pandemic (first half of 2020), the activity of the banking sector expanded by 4% in terms of assets, and by c. 7.0% compared to the same period in the preivous year. The expansion of investments in securities and lending activity contributed to the asset growth.

The banking sector closed the first half of 2020 with profit, however it was c. 32% lower compared to the same period in the previous year. Net interest income and other income were comparable to the previous year, but the increase in expenses for provisions for loans and other financial assets, had a negative impact on the financial result of the banking industry.

In March-June of this year, amid the slowdown in economic activity due to the pandemic, the Bank of Albania undertook some prudential measures and regulatory changes, aimed at easing the financial burden of borrowers, increasing the capacity of banks to withstand the shock and ensuring the continuation of lending activity by the banking sector. These measures consisted of:

a) the issuance of an order, which enables temporary postponement (at the discretion of the lender) of loan instalments of borrowers in financial distress due to the pandemic, initially until the end of May 2020 and then, until the end of August 2020;

b) the adoption of regulatory changes that allow banks to accomodate the need of their clients for the rescheduling of loan instalments without charging them with penalties or without a deterioration of the borrower's credit rating;

c) the suspension, until the end of this year, of the distribution of banks' profits, so that in case of materialization of financial losses, the size of capital will be sufficient to not only absorb this loss, but also to support new lending.

Baltic region - Estonia

Macroeconomic environment

Estonia's economic growth accelerated in the recent years. In 2019, GDP grew by 4.3% in real terms compared to 2018, mainly driven by private consumption (construction, manufacturing, professional, scientific and technical activities) and real wage growth. As Estonia is highly sensitive to the economic cycle of the rest of the EU countries, a downturn of around 7.8% is forecasted in 2020 due to COVID-19.

Following deflation between 2014 and 2016, inflation rebounded to an average of 3.4% in 2017 and 2018, which was mainly due to rising energy and food prices, as well as the introduction of an income tax reform in early 2018 contributing to increasing real wages. In 2019, the consumer price index stood at 2.3%. Due to the crisis caused by the COVID-19 pandemic, the consumer prices are forecasted to stay below the level posted over the year-ago period at the end of 2020, however in the short term the inflation is estimated to average around 2.5%.

Recorded unemployment rate declined continuously in the last four years, dropping to 4.5% in 2019 from 5.8% in 2017, however it is expected to increase over the next year due to the lockdown and social distancing measueres on employment activity. In 2019, budget deficit was -0.3% while public debt remained on the 2018 level of 8.4% of GDP.

Macro indicators	2017	2018	2019	2020E	Change 2019-20 (% or % point)	
Nominal GDP (EUR mn)	23 776	26 036	28 038	25 748	-8.2%	🔴
Nominal GDP/capita (EUR)	18 289	20 028	21 568	19 806	-8.2%	🔴
GDP (% real change pa)	5.7%	4.8%	4.3%	-7.8%	-12.1%	🔴
Consumer prices (% change pa)	3.4%	3.4%	2.3%	-0.4%	-2.7%	🟢
Recorded unemployment (%)	5.8%	5.4%	4.5%	8.3%	3.8%	🔴
Budget balance (% of GDP)	-0.8%	-0.6%	-0.3%	-8.9%	-8.6%	🔴
Public debt (% of GDP)	9.3%	8.4%	8.4%	18.1%	9.7%	🔴

Source: EIU, Eurostat
E - Estimated data for 2020

Banking trends

The consolidated capital adequacy ratio has significantly decreased from 30.3% to 25.8% in 2019, however the CAR of the banking sector still remained the highest in the Baltic and in the CEE region.

Asset quality of the banking sector slightly improved, thus the NPL ratios stood at remarkably low levels in 2019. The LLP coverage also improved significantly reaching almost 50% also contributing to the stability of the banking sector.

The loan dynamics of the Estonian banking market is expected to slow down as the main driver of loan disbursement was housing loans, for which demand fell due to COVID-19.

Luminor Group decided to change its operation in the Baltics and closed down independent branches in Latvia and Lithuania and continue its operations in these countries as foreign branches. This operational change alone significantly increased the total assets and equity of the Estonian banking sector – total assets increased by 41.6%, whilst total equity increased by 30.9%. Due to the the operational change, economic risks of Latvia and Lithuania should be also considered in relation to the Estonian banking sector.

The profitability of the Estonian banking sector decreased in 2019. The main reason behind the decrease was the consolidated asset and equity reports of the Luminor Group which increased the banking sector's total assets and equities, meanwhile the consolidated bracnhes' current profit is lower than the average.

Banking sector	2017	2018	2019	Change 2018-19 (% or % point)
Total assets (EUR mn)	25 325	26 559	37 606	41.6%
Asset penetration (%)[1]	106.5%	102.0%	134.1%	32.1%
Total equity (EUR mn)	3 743	3 826	5 008	30.9%
Total loans (EUR mn)	15 320	16 095	16 691	3.7%
Loan penetration (%)[2]	64.4%	61.8%	59.5%	-2.3%
Retail loans (EUR mn)	8 242	8 765	9 336	6.5%
Corporate loans (EUR mn)	7 078	7 330	7 356	0.3%
Interest rates				
Lending (%)[3]	4.2%	8.4%	8.6%	0.2%
Deposit (%)	0.5%	0.6%	0.7%	0.1%
NPL volumes				
Retail NPLs (EUR mn)	37	33	25	-23.3%
Corporate NPLs (EUR mn)	91	54	47	-13.3%
NPL ratios				
Retail NPL ratio (%)	0.4%	0.4%	0.3%	-0.1%
Corporate NPL ratio (%)	1.3%	0.7%	0.6%	-0.1%
Key ratios				
CAR (%)	30.1%	30.3%	25.8%	-4.5%
ROE (%)	9.2%	9.8%	8.3%	-1.5%
ROA (%)	1.4%	1.4%	1.1%	-0.3%
CIR (%)	46.3%	45.3%	52.5%	7.2%
L/D (%)	89.8%	93.5%	90.0%	-3.5%
FX share of lending (%)	0.7%	0.5%	0.4%	-0.1%
LLP coverage (%)	37.1%	41.8%	49.2%	7.4%

Source: Eesti Pank, ECB CBD [1]Assets penetration = Total assets/Nominal GDP [2]Loans penetration = Total loans/Nominal GDP
[3]Estimated based on the weighted average rate between retail and corporate

Banking market

The Estonian banking sector has reported a HHI of 25.8% and the five largest banks owned more than 90% of the total assets. It remained one of the most concentrated banking sectors in the CEE region.

Restructuring of the Luminor Group increased the structural risk to the Estonian banking system as the Latvian and Lithuanian subsidiaries are converted into branches and later merged into the Estonian head office. This also means that Luminor took over the first place in the Estonian banking sector in 2019.

In 2020 Danske Bank also ceased its operations in Estonia similarly to Versobank due to their serious breaches of legal requirements, especially regarding the prevention of money laundering and combating the financing of terrorism. Both ECB and the Estonian Financial Supervision Authority accused these banks to participate in possibly the greatest money laundering (over EUR 200 bn) in Europe.

List of Banks in Estonia, 2019 (mn EUR)

Rank 2019	Rank 2018*	YoY change in rank	Institutions	Total Assets	Market share	Equity	Net income	ROA %	ROE %	Major shareholder
1.	3.	▲	Luminor**	13 760	36.6%	1 587	31	0.2%	2.0%	Luminor Group AB
2.	1.	▼	Swedbank	10 985	29.2%	1 678	177	1.6%	10.5%	Swedbank
3.	2.	▼	SEB	6 696	17.8%	870	101	1.5%	11.6%	SEB
4.	4.	●	LHV Pank	3 011	8.0%	157	18	0.6%	11.3%	LHV Group
5.	6.	▲	Coop Pank	598	1.6%	76	(0)	-0.1%	-0.4%	Coop Investeeringud
6.	5.	▼	Bigbank	572	1.5%	137	24	4.2%	17.7%	Private Individuals
7.	7.	●	Inbank	459	1.2%	44	7	1.6%	16.6%	No majority shareholder
8.	8.	●	TBB Pank	157	0.4%	27	(0)	-0.2%	-1.2%	Leonarda Invest Aktsiaselts
			Total	**37 606**	**100%**	**5 008**	**421**	**1.1%**	**8.3%**	

Source: Banks' data disclosure, EMIS, Eesti Pank

* corrected ranking (based on bank list 2018)

** consolidated data for the bank's entire Blatic operation

Impact of COVID-19

The new loan disbursements are expected to slightly decrease in the upcoming years, but the Estonian banking sector is anticipated to remain stable as its capital position was the highest
in the CEE region.

Based on Deloitte's COVID-19 CEE banking sector survey, the expectation of the largest banks in Estonia is that NPL ratio in the corporate segment is expected to increase by up to 7% points, while in the retail segment it is anticipated to rise by up to 5% points in the next 12 months.

The industries most affected by the onset of the COVID-19 crisis include hospitality, transport and storage, manufacturing, real estate and construction.

Baltic region - Latvia

Macroeconomic environment

Latvia's economic growth slowed down in 2019 with a 2.2% real GDP growth after a strong upswing in the preceding period between 2017 and 2018. The crisis caused by the pandemic is estimated to lead to a real GDP contraction of 6.9% for the year of 2020.

Following inflation of about 2.2% on average in 2016 to 2017, inflation increased to 2.5% in 2018, followed by a reported inflation of 2.3% in 2019. Inflation is expected to fall to 0.8% in 2020.

Over the past four years, recorded unemployment rate has been falling arriving at 6.3% in 2019, however it is expected to rise to 10.0% in 2020 due to the pandemic.

After a surplus of 0.2% in 2016, budget balance turned negative in 2017 and remained in deficit over 2018 and 2019 as well. Public debt decreased constantly from 2016 arriving at the level of 36.9% of GDP. Both indicators are expected to show a material negative change in 2020 due to COVID-19.

Macro indicators	2017	2018	2019	2020E	Change 2018-19 (% or % point)
Nominal GDP (EUR mn)	26 736	29 040	30 470	28 657	-6.0%
Nominal GDP/capita (EUR)	13 368	15 284	16 037	15 083	-6.0%
GDP (% real change pa)	3.8%	4.5%	2.2%	-6.9%	-9.1%
Consumer prices (% change pa)	2.2%	2.5%	2.3%	0.8%	-1.5%
Recorded unemployment (%)	8.7%	7.4%	6.3%	10.0%	3.7%
Budget balance (% of GDP)	-0.8%	-0.8%	-0.2%	-8.2%	-8.0%
Public debt (% of GDP)	39.3%	37.2%	36.9%	47.4%	10.5%

Source: EIU, Eurostat
E - Estimated data for 2020

Banking trends

Despite the slight decrease of the capital adequacy ratio from 21.6% to 21.0%, Latvia's bank sector remained well-capitalized in 2019.

Total assets of the Latvian banking sector slightly decreased in 2019, following the significant decline in 2018 due to the implemented measures against money laundering and terrorist financing. Also the operational change of Luminor bank from locally licensed bank to foreign branch contributed to decrease the total assets of the banking sector.

The banking sector's consolidated ROE improved in 2019. Profitability was above the average of EU institutions (5.8%).

The overall profitability ratios of the sector improved, but the amount of profit decreased due to the operational changes of Luminor bank.

Banking sector	2017	2018	2019	Change 2018-19 (% or % point)
Total assets (EUR mn)	28 554	22 583	22 134	-2.0%
Asset penetration (%)[1]	106.8%	77.8%	72.6%	-5.2%
Total equity (EUR mn)	3 220	2 893	2 258	-21.9%
Total loans (EUR mn)	12 675	13 395	12 816	-4.3%
Loan penetration (%)[2]	47.4%	46.1%	42.1%	-4.0%
Retail loans (EUR mn)	5 531	5 727	5 682	-0.8%
Corporate loans (EUR mn)	7 144	7 668	7 134	-7.0%
Interest rates				
Lending (%)	2.6%	2.7%	2.5%	-0.2%
Deposit (%)	0.1%	0.1%	0.0%	-0.1%
NPL volumes				
Retail NPLs (EUR mn)	182	177	145	-17.7%
Corporate NPLs (EUR mn)	182	349	371	6.3%
NPL ratios				
Retail NPL ratio (%)	3.3%	3.1%	2.6%	-0.5%
Corporate NPL ratio (%)	2.5%	4.6%	5.2%	0.6%
Key ratios				
CAR (%)	21.4%	21.6%	21.0%	-0.6%
ROE (%)	7.6%	9.2%	9.6%	0.4%
ROA (%)	0.9%	1.2%	1.0%	-0.2%
CIR (%)	58.4%	61.3%	62.4%	1.1%
L/D (%)	60.6%	70.7%	70.7%	0.0%
FX share of lending (%)	8.4%	4.2%	3.5%	-0.7%
LLP coverage (%)	44.2%	40.3%	39.1%	-1.2%

Source: Latvijas Banka, ECB CBD

[1]Assets penetration = Total assets/Nominal GDP

[2]Loans penetration = Total loans/Nominal GDP

Banking market

13 locally licensed banks were operating by the end of 2019 in Latvia. Two major recent changes took place in the banking sector regarding the number of financial institutions. First, Luminor Bank changed its operations in Latvia and currently it operates as a foreign branch of the Estonian entity. Second, PNB Banka ceased its operations, as the bank failed to raise additional capital.

The banking sector remained highly concentrated, as the five largest banks owned more than 70.0% of the total assets and the HHI of the segment was 13.9%.

List of Banks in Latvia, 2019 (EUR mn)

Rank 2019	Rank 2018*	YoY change in rank	Institutions	Total Assets	Market share	Equity	Net income	ROA %	ROE %	Major shareholder
1.	1.	●	Swedbank	5 893	26.6%	855	98	1.7%	11.5%	Swedbank
2.	2.	●	SEB Banka	3 969	17.9%	372	47	1.2%	12.7%	SEB
3.	3.	●	Citadele Banka**	3 743	16.9%	341	37	1.0%	10.7%	RA Citadele Holdings
4.	4.	●	Rietumu Bank	1 719	7.8%	308	19	1.1%	6.0%	Private Individuals
5.	5.	●	BlueOrange Bank	555	2.5%	65	6	1.1%	9.4%	BBG
6.	8.	▲	Regionala investiciju banka	299	1.4%	35	3	1.0%	8.6%	SKY Investment Holding
7.	6.	▼	Rigensis Bank	252	1.1%	78	7	2.8%	9.2%	Private Individuals
8.	7.	▼	Baltic International Bank	241	1.1%	21	(3)	-1.1%	-13.5%	Private Individuals
9.	9.	●	PrivatBank	213	1.0%	31	(7)	-3.3%	-22.2%	PrivatBank
10.	12.	▲	Signet Bank	198	0.9%	17	1	0.4%	4.9%	No majority shareholder
11.	10.	▼	LPB Bank	196	0.9%	28	6	3.2%	22.2%	Mono SIA
12.	11.	▼	Industra Bank (Meridian Trade Bank)	195	0.9%	8	(1)	-0.3%	-7.4%	SIA
13.	13.	●	Expobank	70	0.3%	36	(1)	-1.2%	-2.3%	Private Individuals
			Total	**22 134**	**100%**	**2 258**	**217**	**1.0%**	**9.6%**	

Source: Banks' data disclosure, EMIS, Latvijas Banka, Finance Lativa Association

* corrected ranking (based on bank list 2018)

** consolidated data for the bank's entire Baltic operation

Impact of COVID-19

The level of liquidity remained high among Latvian credit institutions which supports to overcome the consequences of the crisis caused by the COVID-19 pandemic. The pandemic could also lead to shrinking credit institutions' balance sheets, but the large amount of liquid assets will help credit institutions to overcome domestic and global financial turmoil.

The expected deterioration of asset quality due to COVID-19 is expected to have a negative impact on the profitability of the banking sector, and capitalization will also be in the forefront of the strategic agenda.

As the expected increase in unemployment will decrease creditworthiness of borrowers, the volume of non-performing loans is expected to increase which will affect the banking sector's interest income, as well as provisions for non-performing loans.

Baltic region - Lithuania

Macroeconomic environment

In 2019, the real GDP growth was 3.9% mainly driven by strong private consumption as labour market conditions improved in the recent years. Real GDP growth is expected to decline and a contraction of c. 3.6% is estimated in 2020 due to the recession caused by the lockdown imposed by the government to tackle the pandemic. As pandemic restrictions ease, GDP growth is expected to normalize at an average of 3.3%, mainly driven by domestic demand.

After inflation had jumped to 3.7% in 2017, it eased further back to 2.2% in 2019. The inflation is forecasted to reach an average of 1.1% in 2020 and will stay firm over the next years once the global economy strengthens and the oil prices recover.

Recorded unemployment decreased to 6.2% in 2018 from 7.1% in 2017, continuing its downward trend, however it slightly increased by 0.1% to 6.3% in 2019. Despite marginal increase in unemployment rate, wage growth will remain robust and the government's fiscal stimulus will support household income against rising unemployment.

In 2019, budget balance resulted in a positive ratio of 0.3% while the public debt increased significantly by 2.4% points to 36.2%.

Macro indicators	2017	2018	2019	2020E	Change 2019-20 (% or % point)
Nominal GDP (EUR mn)	42 300	45 300	48 400	47 900	-1.0%
Nominal GDP/capita (EUR)	15 107	16 179	17 286	17 741	2.6%
GDP (% real change pa)	4.2%	3.6%	3.9%	-3.6%	-7.5%
Consumer prices (% change pa)	3.7%	2.5%	2.2%	1.1%	-1.1%
Recorded unemployment (%)	7.1%	6.2%	6.3%	9.6%	3.3%
Budget balance (% of GDP)	0.5%	0.6%	0.3%	-4.7%	-5.0%
Public debt (% of GDP)	39.1%	33.8%	36.2%	44.0%	7.8%

Source: EIU, Eurostat
E - Estimated data for 2020

Banking trends

The banking sector's consolidated capital adequacy ratio in Lithuania increased to 19.9% in 2019 primarily due to the continuous decline of the risk-weights applied by major domestic banks.

Total assets of the Lithuanian banking sector increased by 7.2% reaching EUR 30.7 bn in 2019. At the same time, the banks continued to clean their balance sheet from bad loans, which helped them to significantly improve their asset quality, resulting in lower retail and corporate NPL ratios in 2019.

The Lithuanian banking sector's profit decreased in 2019, but the parallel decline of equity resulted in a higher ROE ratio, reaching 14.5%. The current profit structure is more sustainable with margins higher than before the global financial crisis of 2008-2009. Also, the cost efficiency of the sector is steadily high which contributes to high profit ratios.

The amount of total equity decreased mainly due to the operational changes of Luminor Bank transforming its locally licensed Lithuanian branch into a foreign branch.

The dynamics of loan disbursements improved throughout 2019 in line with the country's economic development. However, the lending activity was primarily active in the retail segment, while the corporate segment practically stagnated.

The share of non-performing loans continued to decrease and reached its lowest level since 2008. The NPL ratio in the retail segment (2.1%) was lower than in the corporate segment (2.9%).

Banking sector	2017	2018	2019	Change 2018-19 (% or % point)
Total assets (EUR mn)	27 324	28 620	30 685	7.2%
Asset penetration (%)[1]	64.6%	63.2%	63.4%	0.2%
Total equity (EUR mn)	2 565	2 747	2 113	-23.1%
Total loans (EUR mn)	17 521	18 618	19 447	4.5%
Loan penetration (%)[2]	41.4%	41.1%	40.2%	-0.9%
Retail loans (EUR mn)	9 000	9 736	10 535	8.2%
Corporate loans (EUR mn)	8 521	8 882	8 912	0.3%
Interest rates				
Lending (%)	2.8%	3.2%	3.1%	-0.1%
Deposit (%)	0.3%	0.3%	0.2%	-0.1%
NPL volumes				
Retail NPLs (EUR mn)	307	258	178	-31.2%
Corporate NPLs (EUR mn)	429	364	258	-29.0%
NPL ratios				
Retail NPL ratio (%)	3.7%	3.0%	2.1%	-0.9%
Corporate NPL ratio (%)	5.0%	4.1%	2.9%	-1.2%
Key ratios				
CAR (%)	19.1%	18.8%	19.9%	1.1%
ROE (%)	9.1%	12.3%	14.5%	2.2%
ROA (%)	0.9%	1.2%	1.1%	-0.1%
CIR (%)	48.9%	44.9%	47.0%	2.1%
L/D (%)	78.8%	79.5%	77.2%	-2.3%
FX share of lending (%)	0.5%	0.4%	0.4%	0.0%
LLP coverage (%)	35.1%	34.3%	41.9%	7.6%

Source: Bank of Lithuania, ECB CBD

[1]Assets penetration = Total assets/Nominal GDP

[2]Loans penetration = Total loans/Nominal GDP

Banking market

Altogether, 5 locally-licenced banks were operating in the Lithuanian banking market at the end of 2019, two less than the previous year. With more than 20% HHI, this is a highly concentrated market. The three largest domestic banks owned more than 70.0% of the total assets in 2019.

Two major changes took place in the number of banks. First, Luminor Bank and Citadele Bankas changed their operations in Lithuania and currently they operate as foreign branches. Luminor licensed in Estonia, while Citadele has a license in Latvia.

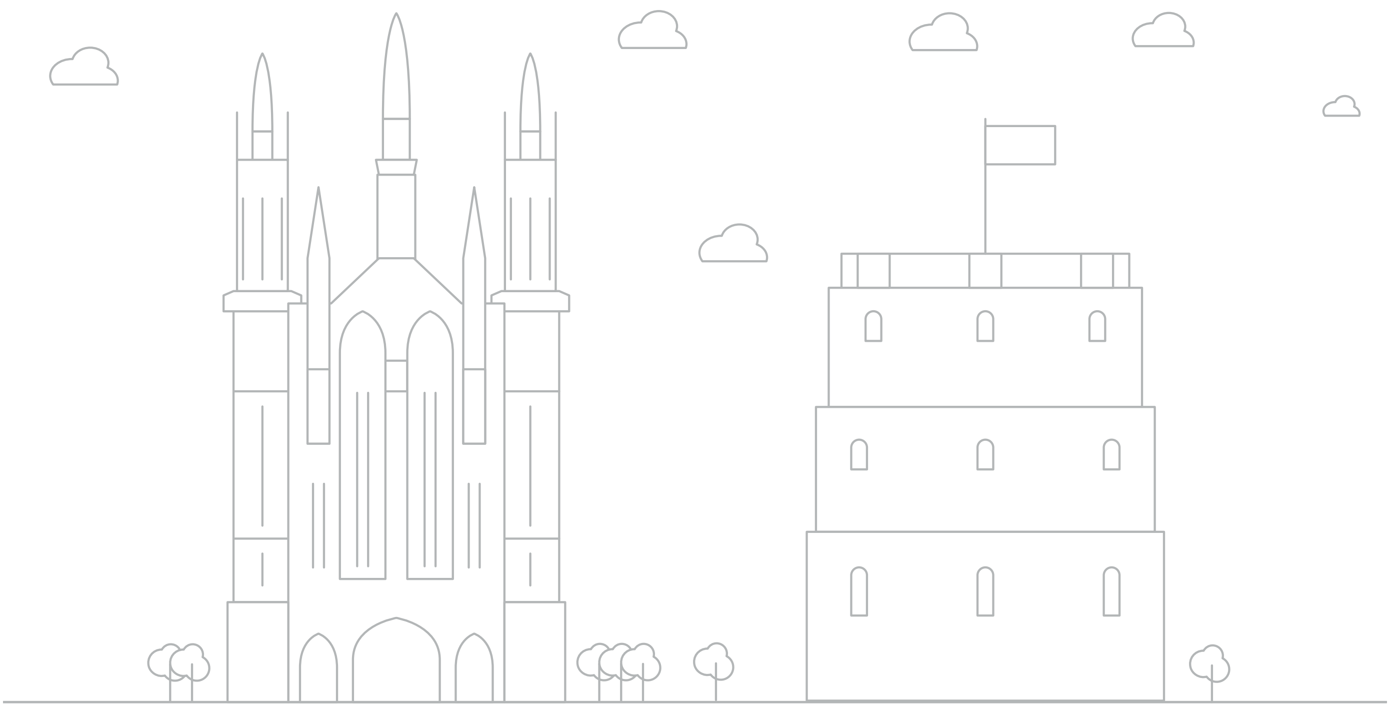
Due to the changes described above, the dependency on the Nordic banks decreased significantly in 2019, however there is still a systematic risk on the Lithuanian banking sector, so a potential shock, especially on the Swedish economy, could still negatively affect the stability of the Lithuanian financial sector.

List of Banks in Lithuania, 2019 (EUR mn)

Rank 2019	Rank 2018*	YoY change in rank	Institutions	Total Assets	Market share	Equity	Net income	ROA %	ROE %	Major shareholder
1,	1,	●	Swedbank	10 526	34.3%	849	108	1.0%	12.7%	Swedbank
2,	2,	●	SEB Bankas	8 541	27.8%	779	118	1.4%	15.1%	SEB
3,	3,	●	Siauliu Bankas	2 470	8.0%	311	53	2.1%	17.1%	EBRD
4,	4,	●	Medicinos Bankas	356	1.2%	35	4	1.1%	11.5%	World Fuel Services; Konstantinas Karosas
5,	5,	●	Lietuvos Centrinės Kredito Unijos	125	0.4%	16	1	0.6%	4.5%	No majority shareholder
			Total	**30 685**	**100%**	**2 113**	**335**	**1.1%**	**14.5%**	

Source: Banks' data disclosure, EMIS, Bank of Lithuania

* corrected ranking (based on bank list 2018)



M&A activity

There have been 14 major acquisitions in the banking market over the past years in the Baltic region.

- In 2020, the Estonian LHV Pank acquired 100% of the Corporate and Public sector business of the Danish Danske Bank's Estonian Branch. By this transaction, Danske Bank almost completed its withdrawal from the Baltic banking market. The main reason behind the withdrawal was Danske Bank's money laundering scandal which arose in 2017-2018.
- In 2020, Growmore Group agreed to acquire Medicinos Bankas UAB, a Lithuania-based commercial bank providing financial services, from Konstantinas Karosas and Western Petroleum Limited, for an undisclosed consideration. The acquisition is subject to customary regulatory approval and has not been completed by the end of 2020 Q3.
- In 2020, Siauliu Bankas acquired 100% of the retail business of the Danish Danske Bank's Lithuanian Branch for EUR 108 mn. The acquisition will enable Siauliu Bankas to gain momentum in the housing financing market by offering attractive credit terms to their clients.
- In 2020, the Latvian Citadele Bankas acquired 100% of SIA UniCredit Leasing and SIA UniCredit Insurance Broker from UniCredit Group. Both companies operate in other Baltic countries; SIA UniCredit Leasing in Estonia and Lithuania, SIA UniCredit Insurance Broker in Estonia.
- In 2019, a group of US and European investors acquired a 60% stake in PNB Banka from a Russian private investor. PNB Banka is the new name of Norvik Banka as of November 2018. Unfortunately, soon after the acquisition, PNB Banka ceased its operations in 2019.
- In 2019, the Estonian LHV Pank acquired the Retail business of the Danish Danske Bank's Estonian Branch. LHV partly financed the transaction from its own funds and issued new bonds and shares to the market. As a result of the deal, the LHV expanded its loan portfolio by 40%, and acquired more than 10,000 private customers.
- In 2018, a consortium led by private equity funds managed by Blackstone acquired a 60% stake in Luminor from Nordea and DNB for EUR 1 bn cash consideration. By the end of 2019, Luminor Group became one of the largest commercial banks in the Baltic region.
- In 2017 Inbank, an Estonia-based bank and Coop Eesti Keskuhistu, an Estonia-based company operating retail stores agreed to acquire 84.7% of AS Eesti Krediidipank commercial bank from VTB Bank OAO, a Russia-based financial service provider. With the acquisition, the new shareholders formed a new bank named Coop Pank. In Coop Pank, 25% is owned by Inbank and 55% by Coop Eesti.
- In 2017, a 56.09% stake in Bank M2M Europe was acquired by Signet Capital Management, SIA Hansalink and SIA Fin.lv, from private individuals for an undisclosed consideration. Signet Capital acquired 25% stake, while SIA Hansalink and SIA Fin.lv got 22.3% and 8.79% stakes in Bank M2M, respectively. The transaction was expected as a great help for Bank M2M to continue with its strategy to provide outstanding services for its clients.
- In 2017, a significant transaction in the Baltic region's banking market was the forming of Luminor, a new banking entity in the Baltics region. Luminor was established via the merger of the Norway-based DNB and the Sweden-based Nordea. The two Nordic banks agreed to combine their banking operations and with this, strengthen their geographic presence and product offering. According to terms of the merger, parties have equal ownership in the new company. Luminor started its operations in October 2017.
- In 2016, the retail banking business of Danske Bank in Latvia and Lithuania was acquired by Swedbank. The acquisition helped the Sweden-based banking group strengthen its market position in the Baltics. The transaction was in line with the strategic plans of Danske Bank, which earlier, in 2015 expressed its intention to concentrate on corporate and private banking in the Baltic countries.
- In 2016 AS LHV Varahaldus, a privately owned Estonian investment manager, and a subsidiary of LHV Group AS, acquired Danske Capital AS from Danske Bank AS, a Denmark-based bank. The acquisition was in line with Danske bank's strategy of selling its asset management company and to continue its operations in corporate and private banking in the Baltic states.
- In 2015 Siauliu Bankas acquired Finasta Bank, from Invalda for EUR 6.7 mn. The transaction helped Siauliu extend its offered services and increase its capital reserves. Invalda's goal was to focus on its core asset management activities.
- In 2015, 75% stake of Citadele Bankas was acquired by a private investor group, from Latvian Privatization Agency. The seller company sold Citadele Bankas on behalf of the state as a part of the privatization of state owned companies. Earlier, in 2010, 25% of the company was acquired by the EBRD.

List of banking M&A deals in the Baltic region, 2015-2020Q3

Year	Country	Target	Buyer	% Acquired	Deal Value in EUR mn	Seller
2020*	EE	Danske Bank - Corporate and Public sector business	LHV Pank	100.0%	n.a.	Danske Bank
2020*	LT	Medicinos Bankas	Growmore Asset Management	100.0%	n.a.	World Fuel Services; Konstantinas Karosas
2020	LT	Danske Bank - Retail business	Siauliu Bankas	100.0%	108	Danske Bank
2020	EE, LV, LT,	SIA UniCredit Leasing, SIA UniCredit Insurance Broker	Citadele Bank	100.0%	n.a.	UniCredit
2019	LV	PNB Banka	Private individuals	60.0%	n.a.	Private individuals
2019	EE	Danske Bank - Retail business	LHV Pank	100.0%	410	Danske Bank
2018	LT	Luminor Group	Blackstone Group	60.0%	1 000	DNB; Nordea
2017	EE	Eesti Krediidipank	Inbank; Coop Eesti Keskuhistu	84.7%	n.a.	VTB Bank
2017	LV	Bank M2M Europe	Signet Capital Management Limited; SIA Hansalink; SIA Fin.lv	56.1%	n.a.	Private individuals
2017	EE, LV, LT	Nordea (Baltic region operations); DNB (Baltic region operations)	Luminor	n.a.	n.a.	DNB; Nordea
2016	LV, LT	Danske Bank - Retail business	Swedbank	100.0%	n.a.	Danske Bank
2016	EE	Danske Capital	AS LHV Varahaldus	100.0%	n.a.	Danske Bank
2015	LT	Finasta Bank	Siauliu Bankas	100.0%	7	Invalda INVL
2015	LV	Citadele Bank	Private individuals	75.0%	74	VAS Privatizacijas agentura

Source: Deloitte Intelligence *Closing in progress

Impact of COVID-19

The credit risk is expected to increase due COVID-19 in the banking system, which will also result in higher risk weights and lower expected profit.

Despite the stable growth in loan disbursement in 2019, a spike in uncertainty triggered by the outbreak of COVID-19 will likely subdue credit growth in 2020.

The Bank of Lithuania has undertaken proactive measures to mitigate the effects of COVID-19. It applied monetary policy, financial stability and consumer protection instruments to support households and businesses hit by the coronavirus. The aim of these tools is to ensure adequate availability of credit for both corporate and retail sectors.

Kosovo

Macroeconomic environment

The Kosovan economy grew by 4.0% in 2019, mainly due to the robust private consumption and the investment growth. The IMF expectation for GDP change in Kosovo is -5.0% for 2020.

2.7% inflation was reported in 2019, which was the result of both the massive domestic demand of import products and the global energy price rises. The inflation is expected to decrease in 2020.

The labour market was improving in 2019 with the continuation of the declining unemployment trend and the average wage rise in the Kosovan economy.

Budget deficit decreased by 0.8% point to 0.4% of the GDP, as a result of economic growth and decreased government spending in 2019. The public debt to GDP ratio increase by 0.6% point reaching 17.5% at the end of 2019.

Both budget deficit and public debt are expected to increase due to the increased government spendings to protect the economy from the COVID-19's negative impacts.

Macro indicators	2017	2018	2019	2020E	Change 2019-20 (% or % point)	
Nominal GDP (EUR mn)	6 414	6 726	7 080	6 726	-5.0%	🔴
Nominal GDP/capita (EUR)	3 567	3 747	3 973	3 774	-5.0%	🔴
GDP (% real change pa)	4.2%	3.8%	4.0%	-5.0%	-9.0%	🔴
Consumer prices (% change pa)	1.5%	1.1%	2.7%	1.3%	-1.4%	🟢
Recorded unemployment (%)	30.5%	29.6%	25.7%	n/a	n/a	⚪
Budget balance (% of GDP)	-0.9%	-1.2%	-0.4%	-6.5%	-6.1%	🔴
Public debt (% of GDP)	16.2%	16.9%	17.5%	18.2%	0.7%	🔴

Source: Kosovo Agency of Statistics, Kosovo Ministry of Finance, IMF

Banking trends

Kosovo's banking sector's consolidated capital adequacy ratio decreased to 15.9% in 2019 primarily due to the accelerated increase of lending in recent years, while the capital of the banks decreased due to higher dividends during 2019.

Total assets of the Kosovan banking sector grew in 2019 by 13.7% to EUR 4.8 bn. At the same time, the banks continued to decrease the level of non-performing loans, improving asset quality metrics. The Kosovan banking sector's asset quality is among the bests in the region.

The profitability of the banking sector has been decreasing for two consecutive years, but it still remained high with a 17.2% ROE ratio.

Banking sector	2017	2018	2019	Change 2018-19 (% or % point)	
Total assets (EUR mn)	3 870	4 186	4 761	13.7%	●
Asset penetration (%)[1]	60.3%	62.2%	67.2%	5.0%	●
Total equity (EUR mn)	471	498	520	4.5%	●
Total loans (EUR mn)	2 486	2 756	3 030	10.0%	●
Loan penetration (%)[2]	38.8%	41.0%	42.8%	1.8%	●
Retail loans (EUR mn)	901	1 001	1 105	10.3%	●
Corporate loans (EUR mn)	1 585	1 754	1 925	9.7%	●
Interest rates					
Lending (%)	6.8%	6.7%	6.5%	-0.2%	●
Deposit (%)	1.0%	1.3%	1.5%	0.2%	●
NPL volumes					
Retail NPLs (EUR mn)	12	12	12	1.2%	●
Corporate NPLs (EUR mn)	65	62	48	-22.3%	●
NPL ratios					
Retail NPL ratio (%)	1.3%	1.2%	1.1%	-0.1%	●
Corporate NPL ratio (%)	4.1%	3.6%	2.5%	-1.1%	●
Key ratios					
CAR (%)	18.1%	17.0%	15.9%	-1.1%	●
ROE (%)	22.1%	18.3%	17.2%	-1.1%	●
ROA (%)	2.8%	2.3%	2.1%	-0.2%	●
CIR (%)	64.6%	65.1%	67.2%	2.1%	●
L/D (%)	80.3%	81.9%	77.6%	-4.3%	●
FX share of lending (%)	0.2%	0.1%	0.1%	0.0%	●
LLP coverage (%)	149.7%	152.1%	163.5%	11.4%	●

Source: Central Bank of Kosovo

[1]Assets penetration = Total assets/Nominal GDP

[2]Loans penetration = Total loans/Nominal GDP

Banking market

9 locally-licenced banks were operating in the Kosovan market at the end of 2019. This resulted in a moderately concentrated market with 14.1% HHI. The five largest domestic banks owned 79.2% of the total assets in 2019.

The Kosovan financial sector is highly dominated by international banking groups. The largest ones are Raiffeisen, ProCredit Group, Nova Ljubljanska Banka and PNB Paribas.

List of Banks in Kosovo, 2019 (EUR mn)

Rank 2019	Rank 2018*	YoY change in rank	Institutions	Total Assets	Market share	Equity	Net income	ROA %	ROE %	Major shareholder
1.	1.	●	Raiffeisen Bank Kosovo	1 021	21.4%	125	20	1.9%	15.8%	Raiffeisen
2.	2.	●	ProCredit Bank	806	16.9%	98	22	2.7%	22.0%	ProCredit
3.	3.	●	NLB Bank	801	16.8%	85	20	2.4%	23.0%	Nova Ljubljanska Banka
4.	4.	●	TEB Bank	604	12.7%	72	15	2.6%	21.4%	BNP Paribas. Çolakoĝlu Group (50-50%)
5.	5.	●	Banka Kombëtare Tregtare	537	11.3%	54	10	1.8%	17.9%	Private Individuals
6.	6.	●	Banka Ekonomike	323	6.8%	33	6	1.7%	16.7%	Private Individuals
7.	7.	●	Bank for Business/Banka për Biznes	297	6.2%	31	6	2.1%	20.4%	Private Individuals
8.	8.	●	Turkiye IS Bankasi	104	2.2%	10	0	0.4%	4.3%	Türkiye IS Bankasi
9.	9.	●	Ziraat Bank	64	1.3%	8	0	0.4%	2.9%	Ziraat Bank
			Total	**4 761**	**100%**	**520**	**100**	**2.1%**	**17.2%**	

Source: Banks' data disclosure, EMIS, BQK, Annual Reports

* corrected ranking (based on bank list 2018)

M&A activity

There have not been major acquisitions in the banking market over the past years in the Kosovan market.

Impact of COVID-19

Based on the Deloitte's COVID-19 CEE banking sector suvey, the expectation of the banking sector in Kosovo is that NPL ratios in both the corporate and retail segments are expected to increase by up to 5% points in the next 12 months.

To limit the banking sector's vulnerability and support debtors, the Central Bank of Kosovo (CBK) enabled the postponement of the loan reimbursements by all borrowers (retail and corporate) that made such request until the end of September 2020. Also CBK temporarily eased provision and capital requirement criteria.

The government also enlarged the capital and intensified energies of the Kosovo Credit Guarantee Fund in order to support SMEs in overcoming the coronavirus crisis through increased efforts in guaranteeing up to 50% of SME loan principal. This meaningfully increased access to finance by businesses.

The previously accelerated lending growth was interrupted by the effects of COVID-19, since both retail and corporate loan disbursements slowed down to 6.3% (corporate) and 6.8% (retail).

In Kosovo the industries most affected by the onset of the COVID-19 crisis include real estate and construction, hospitality, manufacturing, transport and storage.


viva

List of abbreviations

AAB – Albanian Association of Banks

Avg – Average

Bn – Billion

BNB - Bulgarian National Bank

BoA – Bank of Albania

BSI - Bank of Slovenia

BQK – National Bank of Kosovo

Bps – Basis points

C. - Circa

CAR - Capital Adequacy Ratio

CBBH - Central Bank of Bosnia and Herzegovina

CEE – Central and Eastern Europe

CIR - Cost-to-income ratio

CNB – Czech National Bank

COVID19 - Coronavirus disease

CRO – Chief Risk Officer

DPD – Days Past Due

EBRD - European Bank for Reconstruction and Development

ECB - European Central Bank

ECB CBD - European Central Bank Consolidated banking data

e.g. – For example

EIU - Economist Intelligence Unit

EU – European Union

EUR – Euro

FGS – Funding for Growth Scheme

FX - Foreign exchange

GDP - Gross Domestic Product

H1– First half of the year

HHI - Herfindahl–Hirschman-index

HNB - Croatian National Bank

ICU – Investment Capital Ukraine

IFRS9 - International Financial Reporting Standards 9

IMF – International Monetary Fund

IPO –Initital Public Offering

LLP – Loan Loss Provision

Ltd – Limited Liability Company

LTV – Loan-to-value

L/D ratio (L/D) - Loan-to-deposit ratio

Mn – Million

M&A – Mergers and Acquisitions

NBR - National Bank of Romania

NBH - National Bank of Hungary

NBP - National Bank of Poland

NBS - National Bank of Slovakia/National Bank of Serbia

NBU – National Bank of Ukraine

NPL - Non-performing loan

NR. - Number

P/BV – Price to Book Value

Q1 – First quarter of the year

Q2 – Second quarter of the year

Q3 – Third quarter of the year

Q4 – Fourth quarter of the year

ROA - Return on Assets

ROE - Return on Equity

SME - Small and medium-sized enterprises

Ths - Thousand

USD - United States Dollars

YoY – Year-on-Year

In the macroeconomic and banking trends, if the change between the 2019 and 2020E data was larger than 1%, we indicated the direction with red or green colour.

The inflation target was set based on the ECB recommendation (2%), the indicator shows the tightening or growing gap between the actual data and the target.

When analysing the banking market, we excluded the foreign branches from the table, showing the relevant information only for the locally licensed institutions.

Contacts

Financial Industry Leader Central Europe
Andras Fulop
Tel: +36 (1) 428 6937
Email: afulop@deloittece.com

Financial Advisory Managing Partner Central Europe
Balazs Biro
Tel: +36 (1) 428 6865
Email: bbiro@deloittece.com

Albania
Kreshnik Robo
Tel: +35 (54) 451 7922
Email: krobo@deloittece.com

Baltic region
Linas Galvele
Tel: +37 05 2553000
Email: lgalvele@deloittece.com

Bosnia and Herzegovina
Sabina Softić
Tel: +387 (0) 33 277 560
Email: ssoftic@deloittece.com

Bulgaria
Alexander Zahariev
Tel: +359 (2) 802 31 77
Email: azahariev@deloittece.com

Croatia
Jelusic Vedrana
Tel: +385 (1) 235 21 17
Email: vjelusic@deloittece.com

Czech Republic
Pavel Piskacek
Tel: +420 246 042 946
Email: ppiskacek@deloittece.com

Hungary
Balazs Biro
Tel: +36 (1) 428 6865
Email: bbiro@deloittece.com

Albert Marton
Tel: +36 (1) 428 6762
Email: amarton@deloittece.com

Csaba Csomor
Tel: +36 (1) 428 6752
Email: ccsomor@deloittece.com

Attila Nebl
Tel: +36 (1) 428 6243
Email: anebl@deloittece.com

Kosovo
Kreshnik Robo
Tel: +35 (54) 451 7922
Email: krobo@deloittece.com

Poland
Tomasz Ochrymowicz
Tel: +48 (22) 5110456
Email: tochrymowicz@deloittece.com

Romania
Radu Dumitrescu
Tel: +40 (21) 2075 322
Email: rdumitrescu@deloittece.com

Serbia
Darko Stanisavic
Tel: +381 (1) 138 121 34
Email: dstanisavic@deloittece.com

Slovakia
Ivana Lorencovicova
Tel: +421 (2) 582 49 148
Email: ilorencovicova@deloittece.com

Slovenia
Luka Vesnaver
Tel: +386 (1) 307 28 67
Email: lvesnaver@deloittece.com

Ukraine
Dmytro Anufriev
Tel: +380 444 90 9000
Email: danufriev@deloitte.ua

Contributors
Csaba Csomor
Tel: +36 (1) 428 6752
Email: ccsomor@deloittece.com

Attila Nebl
Tel: +36 (1) 428 6243
Email: anebl@deloittece.com

Lorant Palfi
Tel: +36 (1) 428 6776
Email: lpalfi@deloittece.com

Dora Novak
Tel: +36 (1) 428 6222
Email: dornovak@deloittece.com

Robert Amann
Tel: +36 (1) 428 6579
Email: roamann@deloittece.com

Attila Csoma
Tel: +36 (1) 428 6380
Email: acsoma@deloittece.com

Explore all the data
behind the study in Tableau