



CEE banking consolidation perking up

Dealmakers with agenda on both sides

November 2019

Foreword



Leveraging on the success of our NPL study series which provides an overview on non-performing loan markets in 15 countries across CEE and the Baltics, as a leading advisor not only in loan portfolio but banking entity deals as well, last year we decided to introduce a new study on banking M&A dynamics with the same geographical scope, which to our great pleasure was very well received by the market. Therefore, we are hereby issuing the second edition of our CEE banking M&A study.

Performance of the banking industry in the CEE and Baltics continued being reassuring. Capital adequacy ratios in 2018

remained solid with an average over 20% in the 15 countries, NPL ratios and volumes gravitated further to the south, while profitability rose to historically high levels in several countries with an average ROE around 11% and no loss making banking sectors. These positive dynamics were backed by stable economic expansion with an average real GDP growth of 3.9% in 2018, improving labour market conditions and intense lending activity in the region.

Besides ongoing digital transformation, another prevailing trend in the regional banking sector is the consolidation of the banking market, driven by non-core exits on the sell side and acquisitive growth on the buy side by core regional players to increase economies of scale and boost efficiency. Multiple banking sectors in the region are overbanked with a fragmented market structure and a number of banks with low market shares,

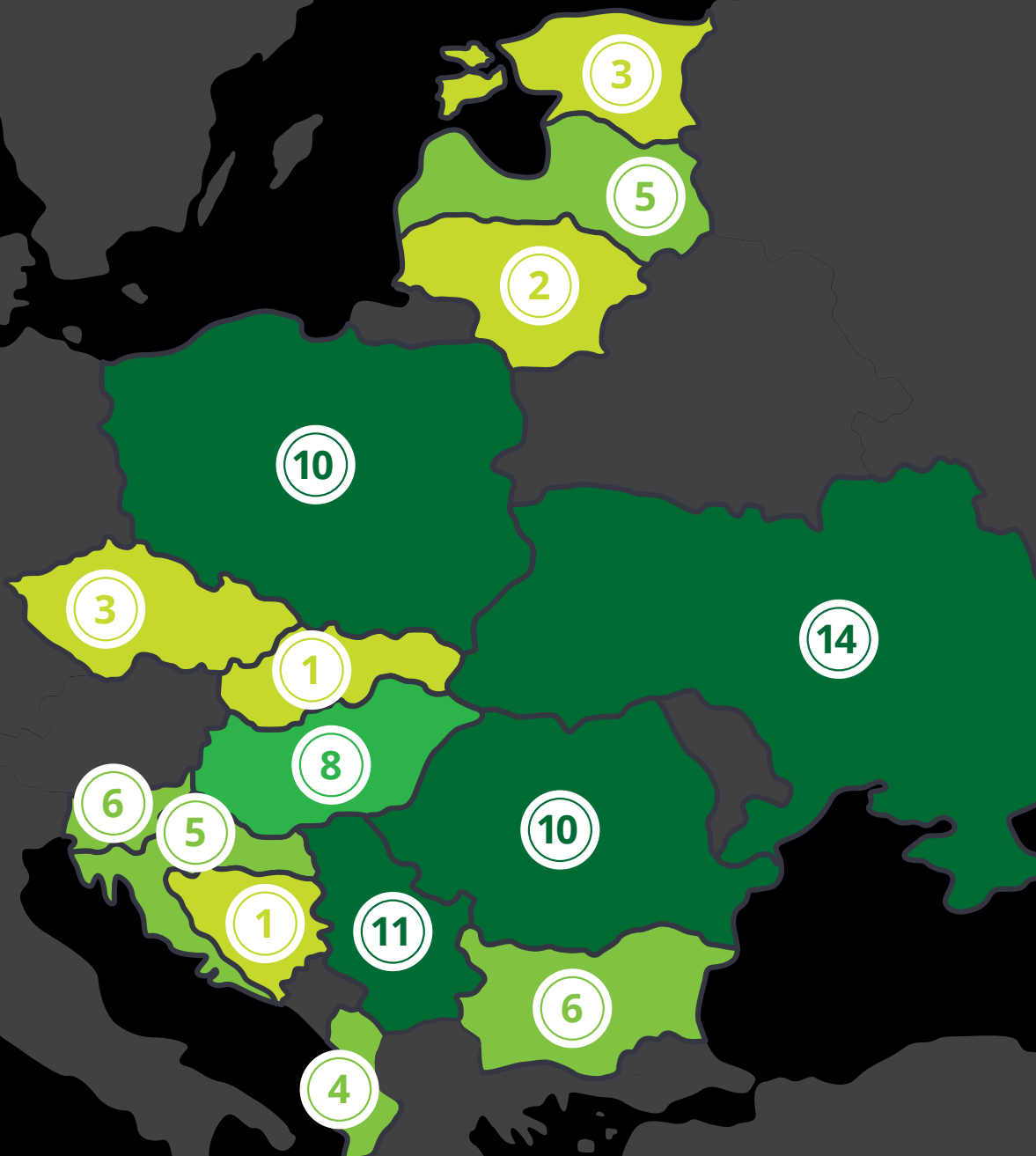
therefore with no efficient economies of scale. The expected economic softening might also put more pressure on less efficient banks. Consolidation seems to be perking up with an increasing number of deals. We have seen many recent deals from the inside, therefore we see that agenda is there on both sides of the deals, and acquirers have solid financial firepower to perform acquisitions. Based on all the above, steady deal flow might be expected in the CEE banking market in the forthcoming period also.

Balázs Bíró

Partner, Regional Financial Services Industry Leader
Financial Advisory

Number of M&A deals in the CEE region

(2015 – September 2019)



A map of Europe is shown in the background, with a dark grey overlay. The countries of Ukraine, Serbia, Poland, Romania, Hungary, Bulgaria, Slovenia, Croatia, Latvia, Albania, Czech Republic, Estonia, Lithuania, Bosnia and Herzegovina, and Slovakia are highlighted in green. A list of these countries and their corresponding values is displayed in the center of the map.

Ukraine	14
Serbia	11
Poland	10
Romania	10
Hungary	8
Bulgaria	6
Slovenia	6
Croatia	5
Latvia	5
Albania	4
Czech Republic	3
Estonia	3
Lithuania	2
Bosnia and Herzegovina	1
Slovakia	1

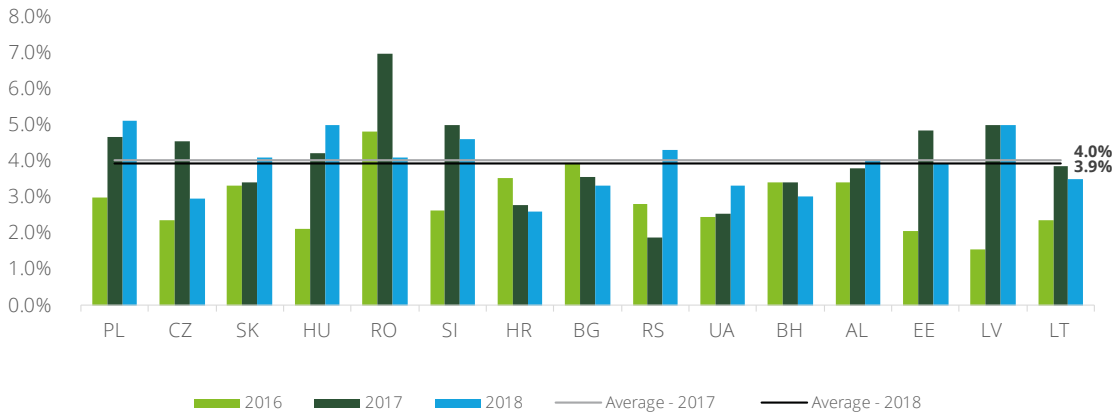
CEE macroeconomic overview

From a macroeconomic perspective, although several strong Western economies have shown signs of an economic downturn recently, the CEE region's economies continued performing well in 2018, practically at the same growth pace as in 2017. However, there are expectations that 2019 might see some economic softening as weaker Western performance is to have its effect in CEE as well.

In 2018, the average real GDP growth was 3.9% in the analysed 15 regional countries. The highest growth rate was reported in Poland (5.1%), Hungary (5.0%) and Latvia (5.0%). The key growth factors in Poland were the strong labour market and the accelerating level of private consumptions. In Hungary, the main GDP growth drivers were the increasing public investments, the advance payments of EU funds,

the negative real interest rates and the depreciating Hungarian currency. While in Latvia, the robust GDP growth was driven by the continuously high domestic demand. Similarly, other countries of the CEE region experienced robust growth in the domestic consumption due to the improving labour market conditions.

Figure 1. Changes in real GDP, 2016 - 2018

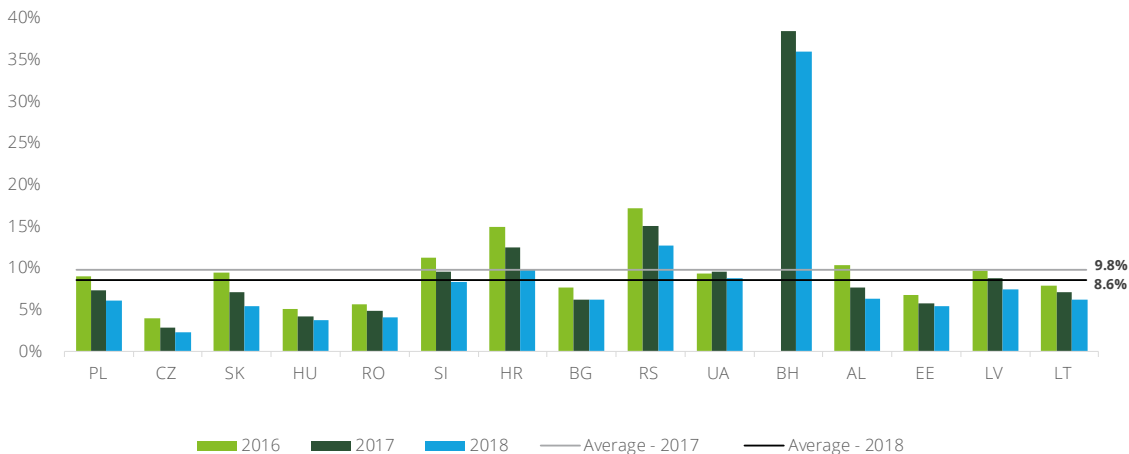


Source: EIU

All the regional countries recorded lower unemployment rate in 2018 than in the previous year. The highest improvement was achieved by Croatia, Serbia and Slovakia with a 2.6-, 2.3- and 1.6-percentage point decline in unemployment rate, respectively.

In the region average unemployment rate decreased by 1.2 percentage point, reaching 8.6%. The region's labour conditions have generally improved with real wage rises in the majority of the countries and the continuation of the decreasing unemployment rate trend.

Figure 2. Unemployment rate, 2016 - 2018



Source: EIU

Banking trends in CEE

The year of 2018, similarly to 2017, was an exceptional year for the regional banking sector. Profitability recovered attractively in the recent years, and the majority of the analysed 15 countries experienced a positive change in consolidated profitability ratios.

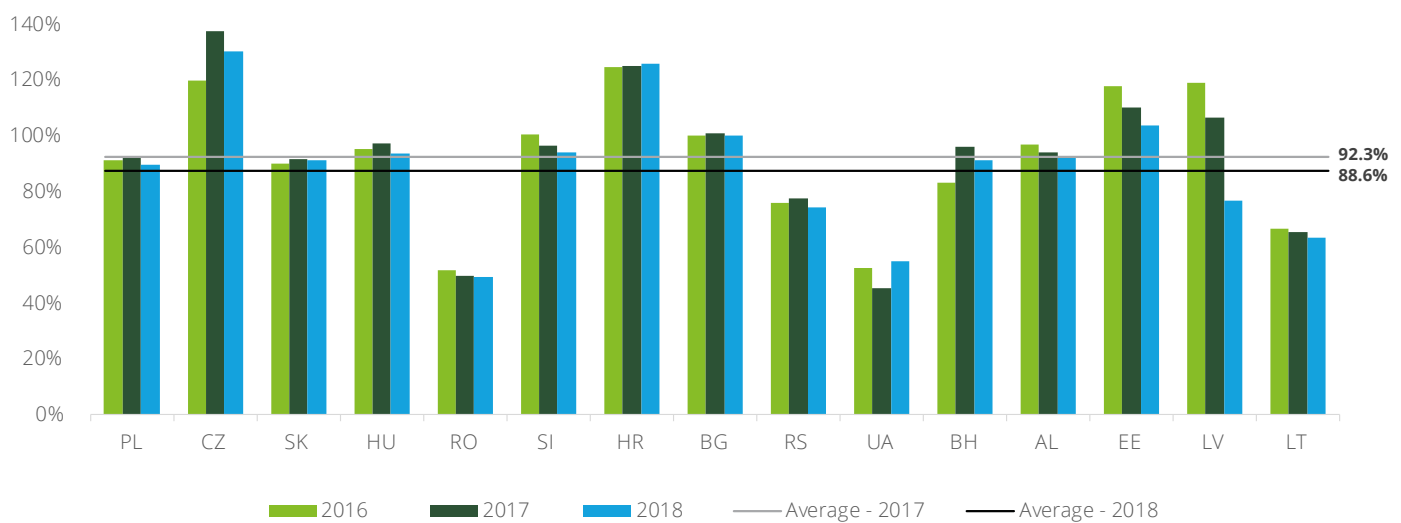
The impact of the economic softening was not experienced in the banking sectors of the CEE region yet, since the profitability ratios remained high, the capital adequacy ratios remained stable, and asset quality

improved with continuously decreasing NPL ratios. Although banks face profitability challenges in the current low interest rate environment, it also helped banks to increase their lending volumes in all of the 15 analysed countries. At the same time, long-term efficiency improvements have become one of the main challenges of the banking sector to improve profitability, for which digitalization is inevitable. Thus, the major banking groups have started to follow the digitalization trends, set their digitalization strategies, and therefore

digital banking transformation is ongoing in the CEE region, which is inevitable for future competitiveness and success of banks.

In 2018, the CEE region experienced a slightly weaker growth in banking assets than in the GDP, which caused an almost four-percentage point decrease in the average asset penetration ratio for the CEE banking sector 88.6, which is not rejoining for the CEE banking market.

Figure 3. Banking assets to GDP, 2016 - 2018

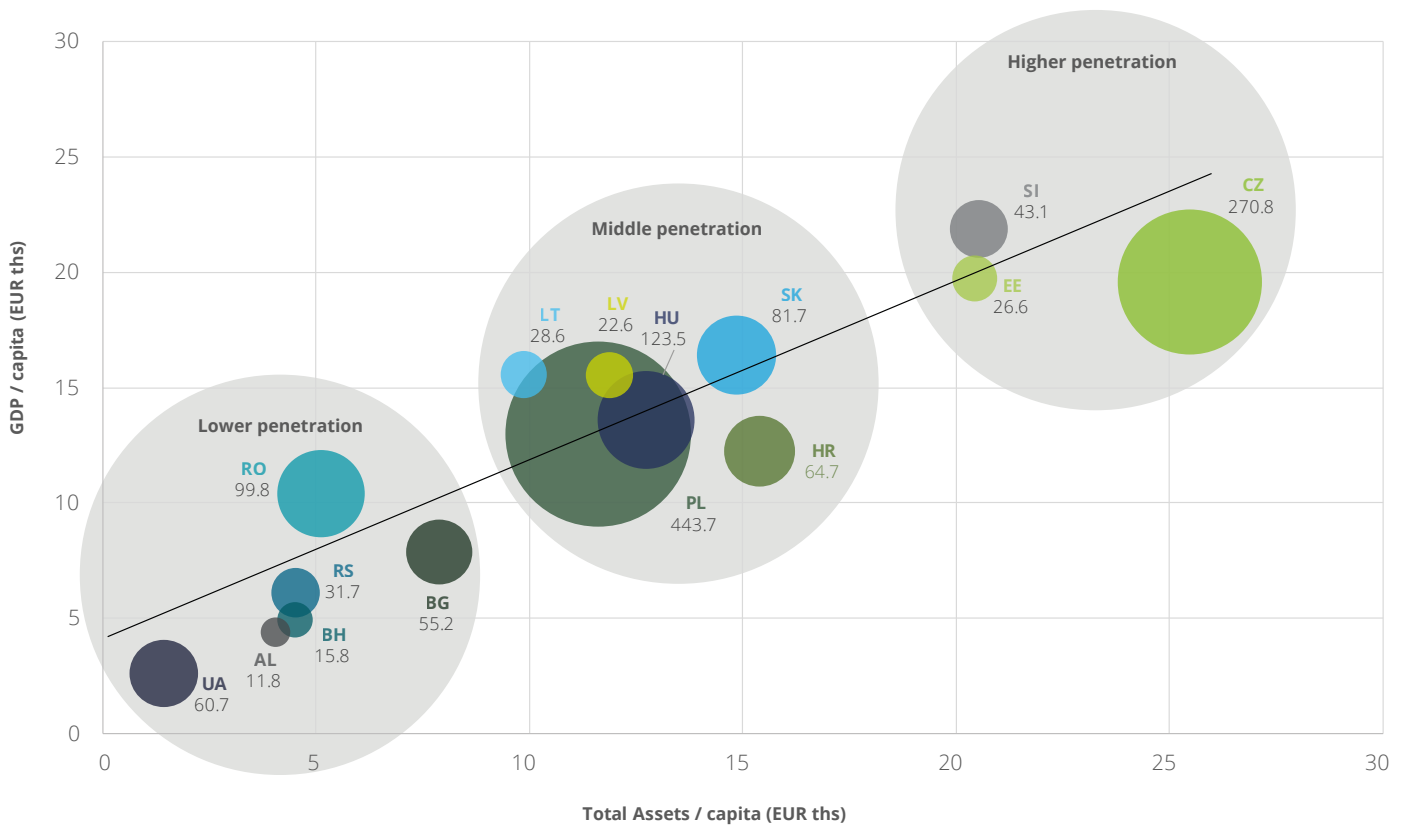


Source: ECB CBD, Eurostat

There is a strong positive correlation between the total consolidated assets of the banking sector and the country's nominal GDP. In terms of banking penetration, the CEE banking sector can be categorized into three major groups. Romania, Bulgaria, Serbia, Bosnia and Herzegovina, Albania and Ukraine belong

to the lower-penetrated group, where higher potential future growth is expected. The medium-penetrated group consists of Slovakia, Hungary, Poland, Croatia, Lithuania and Latvia. Slovenia, Czech Republic and Estonia form the high-penetrated group.

Figure 4. Banking market penetration to GDP per capita, 2018



Source: ECB CBD, EIU, Eurostat

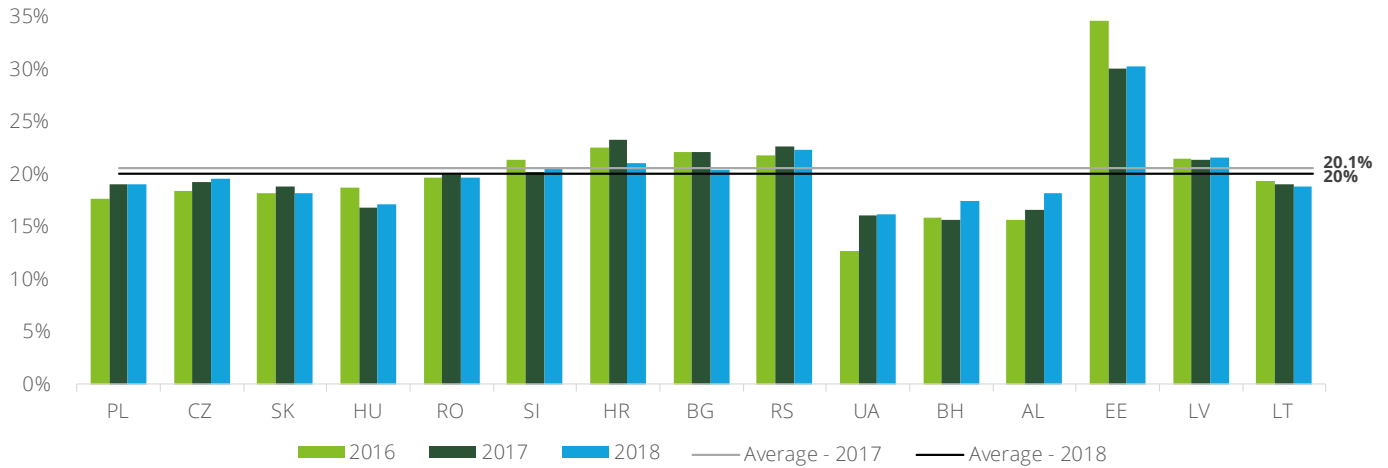
Note: Bubble size: total assets volume in 2018 (EUR bn)

In 2018, the capital adequacy ratio (CAR) remained stable at a 20% level in the CEE region. The highest CAR was reported in Estonia (30%) which was followed by

Serbia (22%) and Latvia (22%) among the 15 analysed countries. The three lowest CARs were recorded in Ukraine, Hungary and Bosnia and Herzegovina with 16.2%,

17.1% and 17.5% respectively. Overall, the capitalization of the CEE banking sector is healthy and well above the regulatory minimum.

Figure 5. Capital adequacy ratio, 2016 - 2018



Source: National Banks

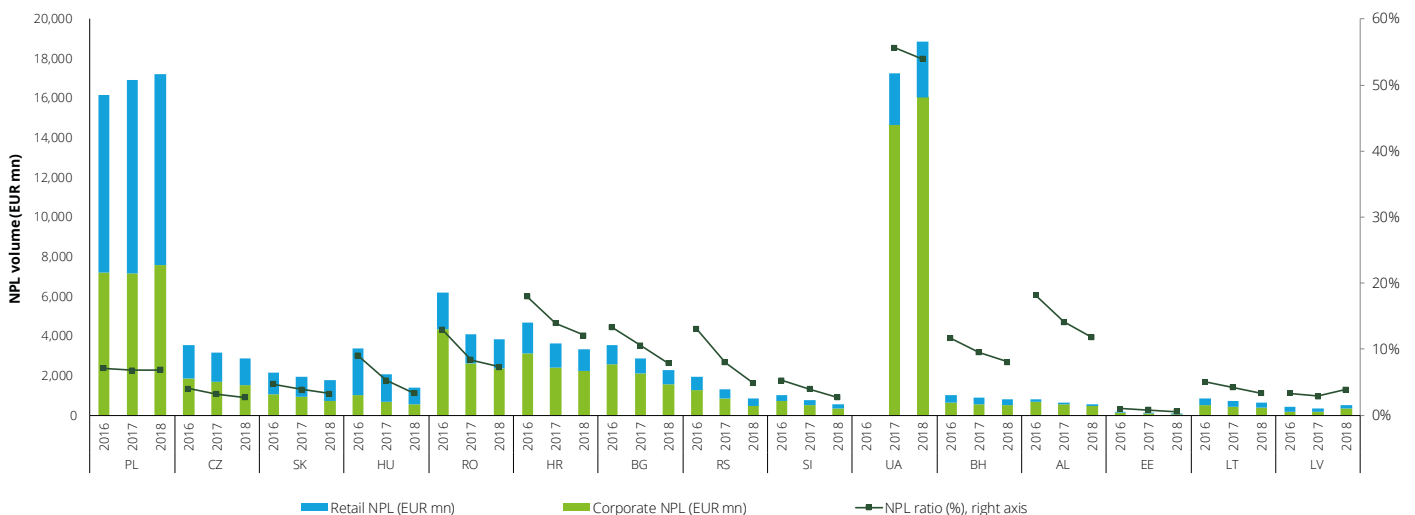
Total assets of the analysed countries grew by 10% on average, reaching EUR 1,200 bn in 2018. The two largest, the Polish and Czech banking sectors contributed with EUR 633 bn. Strong macroeconomic environment was steadily fuelling banking asset growth in 2018.

Asset quality experienced significant development in the previous years and further improved in 2018. The trend of

shrinking NPL ratios continued in the CEE region mostly due to higher cure rate on the back of solid macro conditions, as well as active portfolio cleaning via loan portfolio sales. The average total NPL ratio stood at 7.9% in 2018, 0.6 percentage point lower than in 2017. Retail NPL ratio decreased from 8.3% to 7.0% and the corporate NPL ratio melted from 11.8% to 10.4%. The highest total NPL ratio was reported in Ukraine (54.0%) due to the

shrinking but still robust corporate NPL volume, which was one of the outcome of the severe macroeconomic crisis of 2014-2015. Ukraine's NPL ratio was followed from distance by Croatia (12.1%) and Albania (11.8%). In the CEE region, the lowest total NPL ratio was posted in Estonia (0.5%), Czech Republic (2.7%) and Slovenia (2.7%) in 2018. NPL volume decreased in 13 out of the 15 analysed countries, as Poland and Ukraine reported a growth in total NPL volume.

Figure 6. Evolution of key NPL metrics, 2016 - 2018



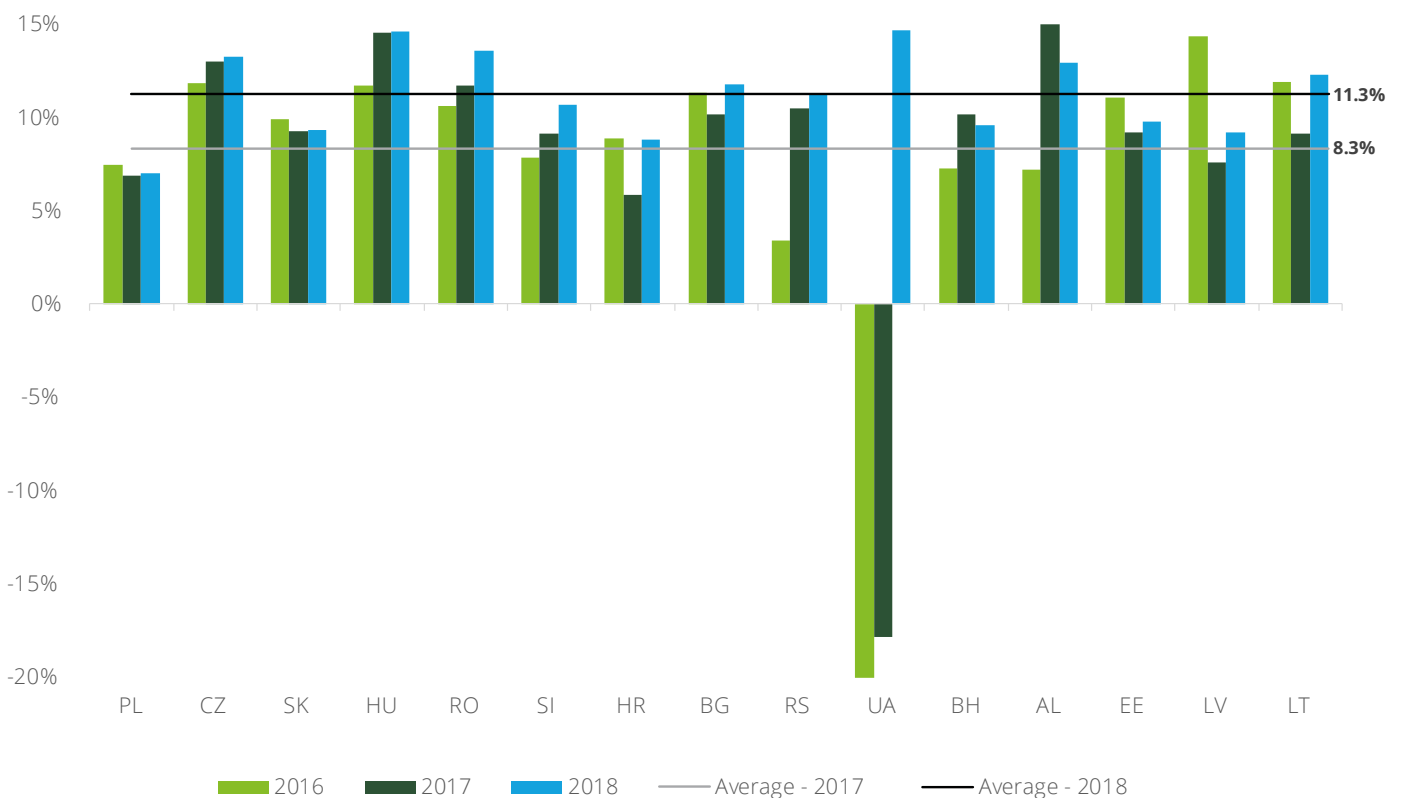
Source: National Banks

Average profitability increased in all of the 15 analysed countries of the CEE region in 2018. The majority of the countries realized a significant growth in their ROE and ROA figures. The CEE region's average ROE

was 11.3% and average ROA was 1.3% in 2018. The main drivers of the improving profitability were the robust lending activity and improving asset quality, as well as reversal of provisions, which is not

expected to support banking profitability in the coming years. Once net cost of risk turns negative again, banking profits might gravitate more to the south.

Figure 7. Return on equity, 2016 - 2018



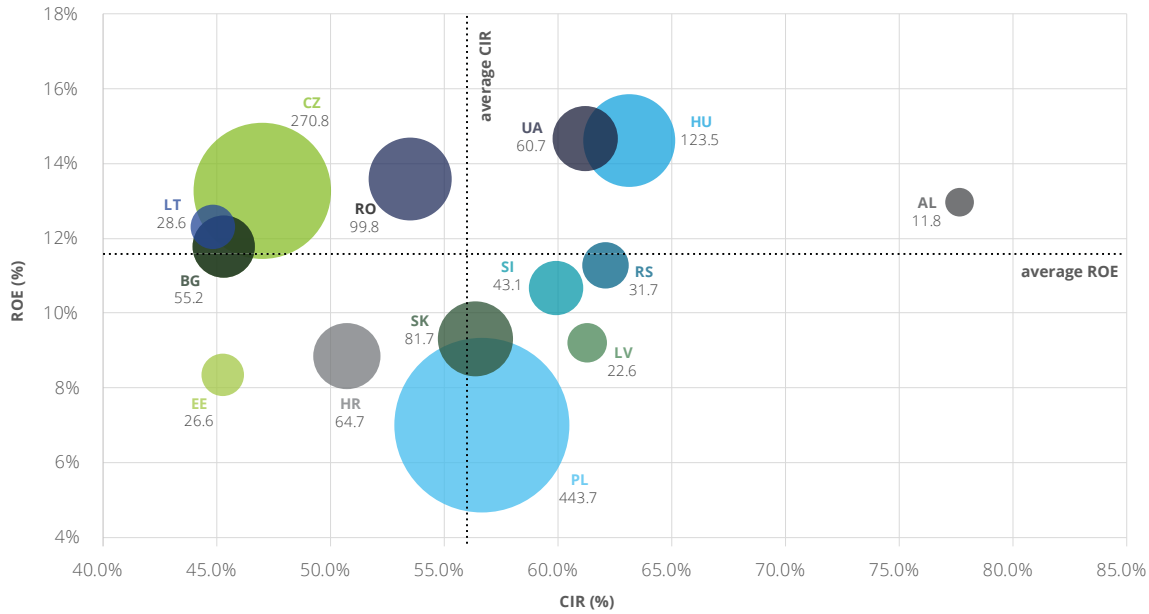
Source: ECB CBD

The logical negative correlation between the ROE and the CIR is not that clearly demonstrated on Figure 8 in the CEE banking market. In several markets despite higher CIR ratios, relatively high profitability was reported in 2018. Generally speaking, for banks with a CIR ratio higher than 60% it might be difficult to be competitive in the long term. The CEE region's highest ROE was reported in Ukraine (14.7%) which was a great development after several years of heavy loss generation. The high

profitability improvement was mainly due to the increasing penetration level of banking services and cashless payment in the domestic market. In 2018, the high profitability of the Hungarian banking market (14.6%) was still partially driven by one-off items like dividend payouts, trading revenues, and reversals of provisions. The third highest ROE was reached in Romania (13.6%) as a result of limited cost of risk and robust increase of the domestic currency loans offered to the private sector.

Overall profitability outlook of the CEE banking segment is stable, and to maintain this positive trend, the major banking groups are focusing on digitalization and cost efficiency in tandem with economies of scale. To improve the latter, banks are opting for acquisitions, boosting regional banking market consolidation.

Figure 8. ROE and CIR of the respective countries, 2018



Source: ECB CBD

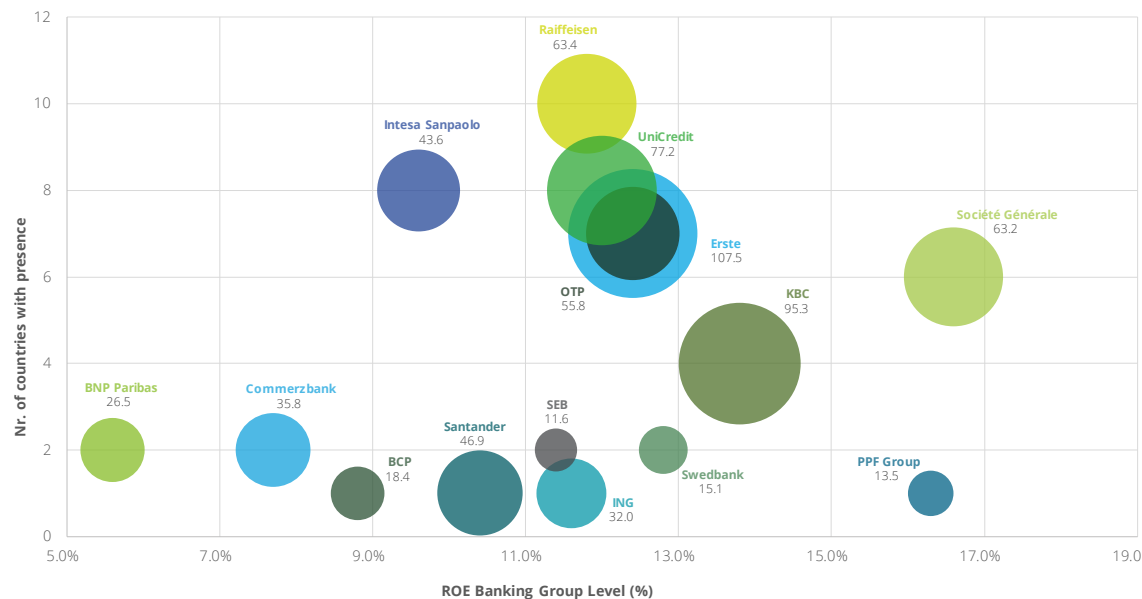
Note: Bubble size: total assets volume in 2018 (EUR bn)

The top 15 banking groups in the CEE region covered almost 60% of the balance sheet total in the analysed 15 countries. The top three banking groups of the region in terms of assets were Erste Group (EUR 107.5 bn, presence in 7 countries),

KBC Group (EUR 95.3 bn, presence in 4 countries) and UniCredit Group (EUR 77.2 bn, presence in 8 countries). The major banking groups achieved higher profitability compared to their smaller peers, also supported by their efficient

economies of scale, which is much talked about recently in the region in relation to the ongoing consolidation. As major core financial groups in the region are active on the buy side, their relative position is strengthening.

Figure 9. Nr. of countries with presence and ROE of the leading banking groups in the respective countries, 2018



Source: EMIS, Annual reports, Inteliace Research

Note: Bubble size: Total CEE assets volume (EUR bn)

Table 1. Ranking of the leading banking groups by total assets in the respective countries, 2018

Rank	Banking Group	AL	BA	BG	CZ	EE	HR	HU	LT	LV	PL	RO	RS	SI	SK	UA	Nr. of countries with presence	Total CEE Assets EUR mn	Total CEE market shares (%)	Cumulative market shares (%)
1	Erste		8		2		3	4				1	7		1		7	107,531	8.84%	8.84%
2	KBC			3	1			2							4		4	95,209	7.83%	16.67%
3	UniCredit		7	2	4		1	3				3	2	3			8	77,214	6.35%	23.01%
4	Raiffeisen	2	2	5	5		5	5				4	4		3	1	10	63,400	5.21%	28.23%
5	Société Générale	5			3						10	2	3	2			6	63,212	5.20%	33.42%
6	OTP			1			4	1				6	5		8	6	7	55,738	4.58%	38.00%
7	Santander										1						1	46,914	3.86%	41.86%
8	Intesa Sanpaolo	4					2	6				9	1	4	2		8	43,677	3.59%	45.45%
9	Commerzbank							11			2						2	35,793	2.94%	48.39%
10	ING										3						1	32,026	2.63%	51.03%
11	BNP Paribas										4				4		2	26,501	2.18%	53.20%
12	Swedbank					1			1	1							3	25,743	2.12%	55.32%
13	BCP										5						1	18,437	1.52%	56.84%
14	SEB					2			2	3							3	17,944	1.48%	58.31%
15	PPF Group				6												1	13,509	1.11%	59.42%
16	Citibank										6					9	2	12,229	1.0%	60.5%
17	DNB								3	2							2	11,484	0.9%	63.7%
18	Sberbank		4		9		7	10					9	6		8	7	10,462	0.9%	61.3%
19	J&T Finance group				8										6		2	9,895	0.8%	62.1%
20	Credit Agricole										8	15	12			7	4	7,403	0.6%	62.7%
21	Eurobank			4													1	5,686	0.5%	64.2%
22	Deutsche Bank										7						2	5,276	0.4%	64.6%
23	Apollo													1			1	4,978	0.4%	65.0%
24	Schwäbisch Hall							9							7		2	4,800	0.4%	65.4%
25	Cooperative Banks										9						1	4,748	0.4%	65.8%

TOP 1-5

TOP 6-10

TOP 11-15

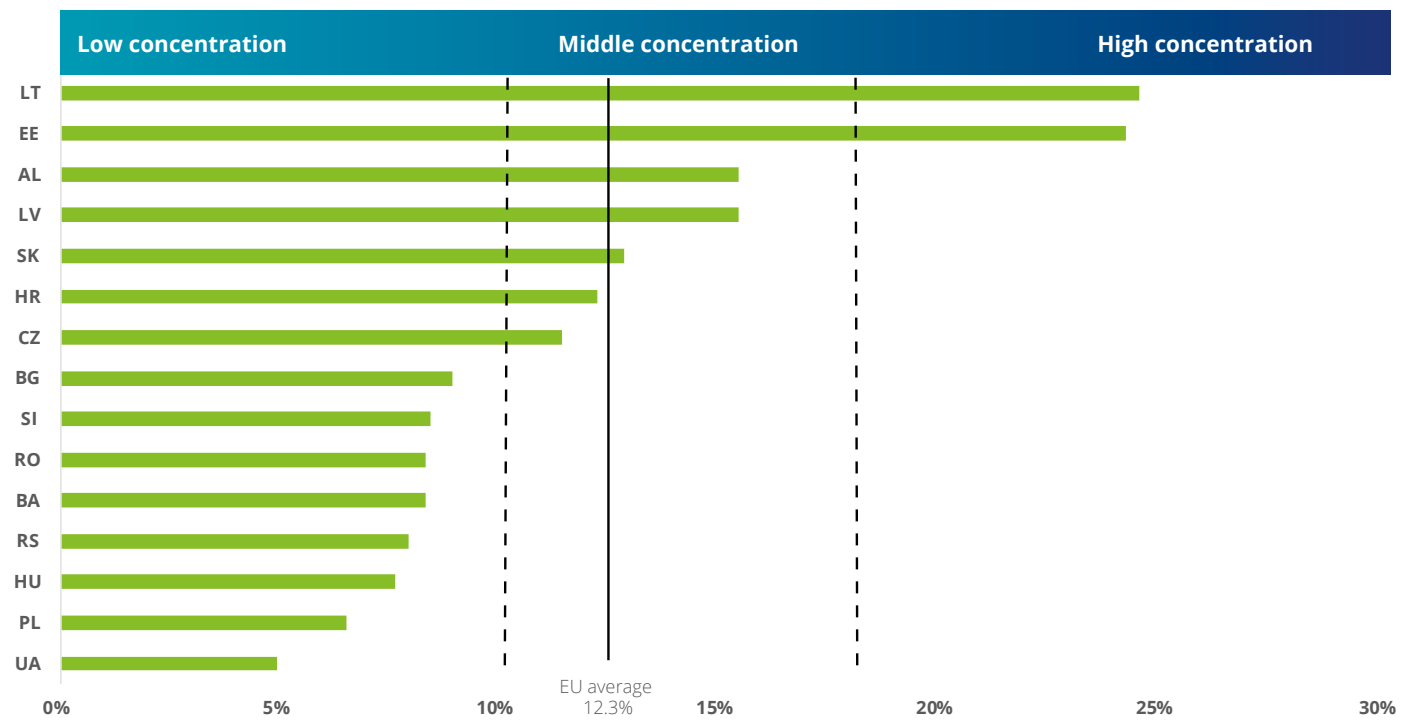
Source: EMIS, Annual reports, Inteliace Research

The CEE banking sector is moderately concentrated. In 2018, the five largest banking groups held 65% of total assets in the CEE region. Based on the international interpretation of the Herfindahl – Hirschman Index (HHI), eight countries had unconcentrated banking sectors (HHI was below 10%), five countries had moderately concentrated banking sectors, and two countries had highly concentrated banking sector (HHI was above 18%) in

the CEE market at the end of 2018. The most concentrated markets are the Lithuanian and the Estonian ones, where respectively only 7 and 8 locally-licensed banks were present at the end of 2018, and more than 85% of the total assets were held by the five largest banks in both countries. At the end of 2018, the region's least concentrated banking sectors were in Ukraine, Poland and Hungary, where less than 50% of the consolidated balance

sheet was held by the five major banks, and the HHI did not exceeded 8%. Fuelled by the stable economic background and current favourable condition of the regional banking sector, core regional banking groups have a solid war chest to do acquisitions and consolidate the respective regional markets; therefore, we expect the consolidation trend to continue in the region, especially in banking markets with lower current concentration.

Figure 10. Market concentration by HHI, 2018



Source: ECB CBD

Note: The Herfindahl-Hirschman Index (HHI) is a market competitiveness measure. Higher HHI value indicates higher concentration in the market

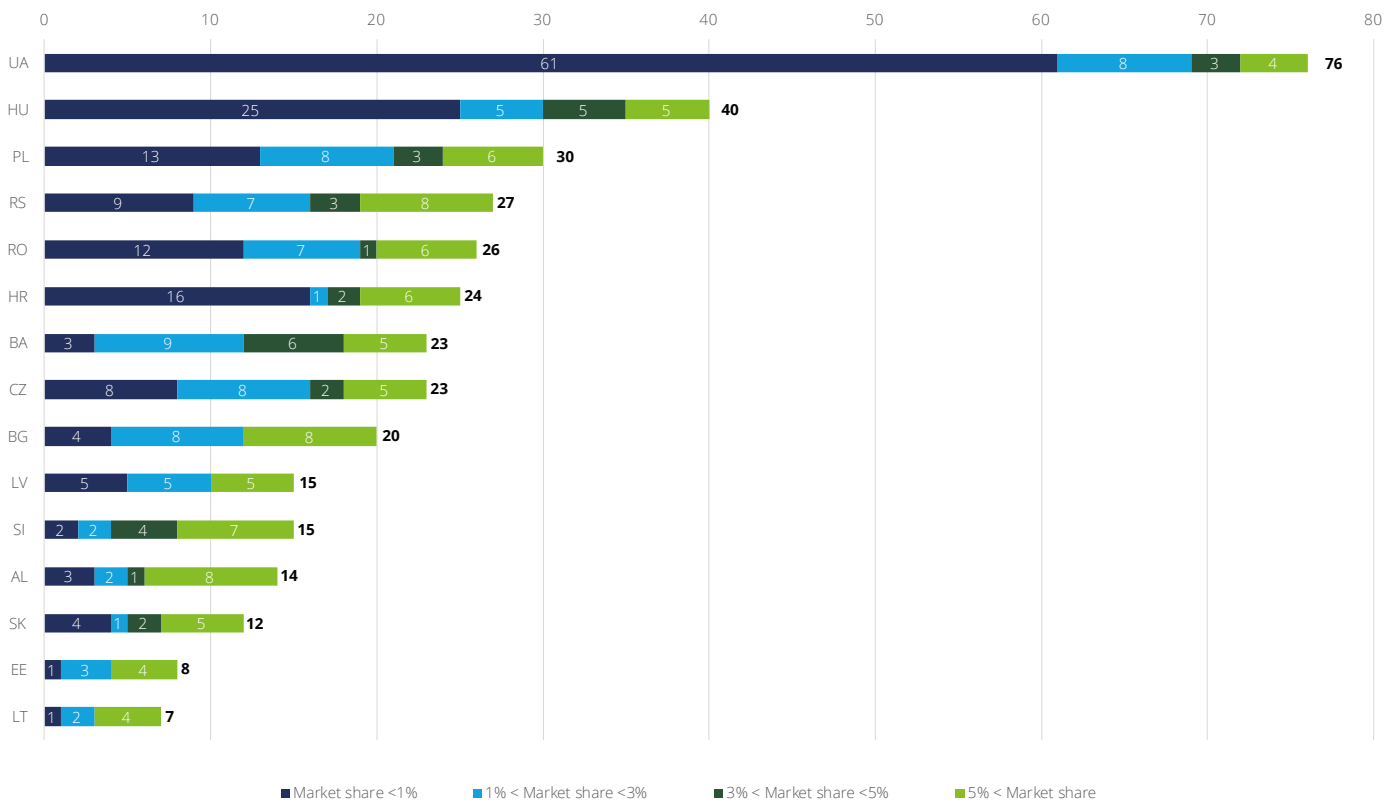
Banking M&A dynamics in CEE

M&A activity in banking markets of the 15 analysed countries has been increasing in 2018-2019 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. In 2019, there were 9 completed deals and 6 ongoing ones as of September 2019, while 2018 saw 16 completed deals. The main reason for the lower number of transactions in the last 2-3 years relative to 2015-2016 was the easing pressure on the banks' profitability due to the stable macroeconomic environment, vivid lending activity, dismantling of non-performing exposure volumes and entailing profitability

improvements, which postponed the imminent need for mergers and acquisitions in the banking sector. At the same time, long-term efficiency improvements and economies of scale have become vital factors in the banking sector, which can potentially be achieved via acquisitions as well as digital transformation, also in cooperation with or investing in FinTech. Acquisitions enable the banks to improve their economies of scale and realize synergies, while through FinTech banks can also improve their operational efficiency in tandem with customer reach and satisfaction. The slowing economic growth in the upcoming years is expected to put the importance of operational efficiency

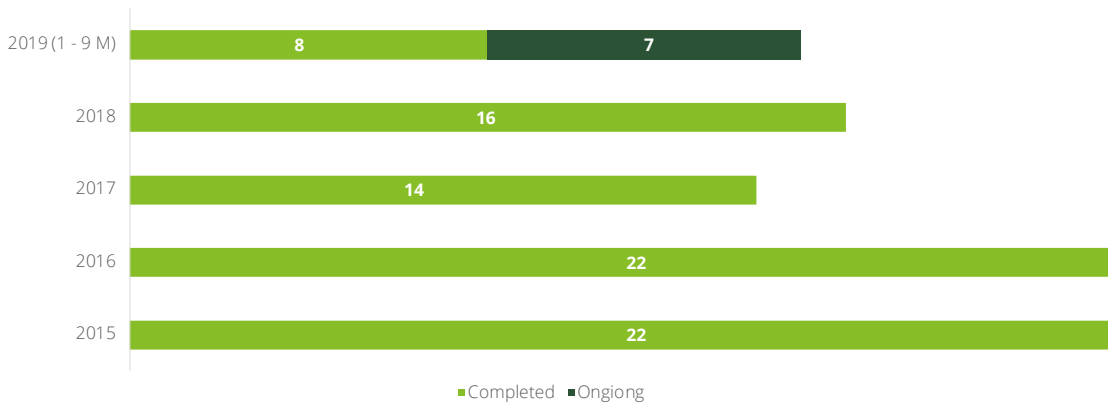
even more into the forefront, since banks with only a few percent market share might not be able to compete successfully in less a favourable macroeconomic environment. The CEE banking sectors are still very fragmented, with a number of banks with marginal market share. Figure 11 highlights banks with lower market share in the respective countries. A number of banks in the CEE banking market have less than 1% or 3% market share, which might not be able to operate profitably in the future amid ongoing consolidation and strengthening consolidators, stringent focus on operational efficiency and digitalization, and a potential economic softening.

Figure 11. Nr. of banks in the respective countries with lower market share, 2018



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

Figure 12. M&A activity by year - Nr. of transactions

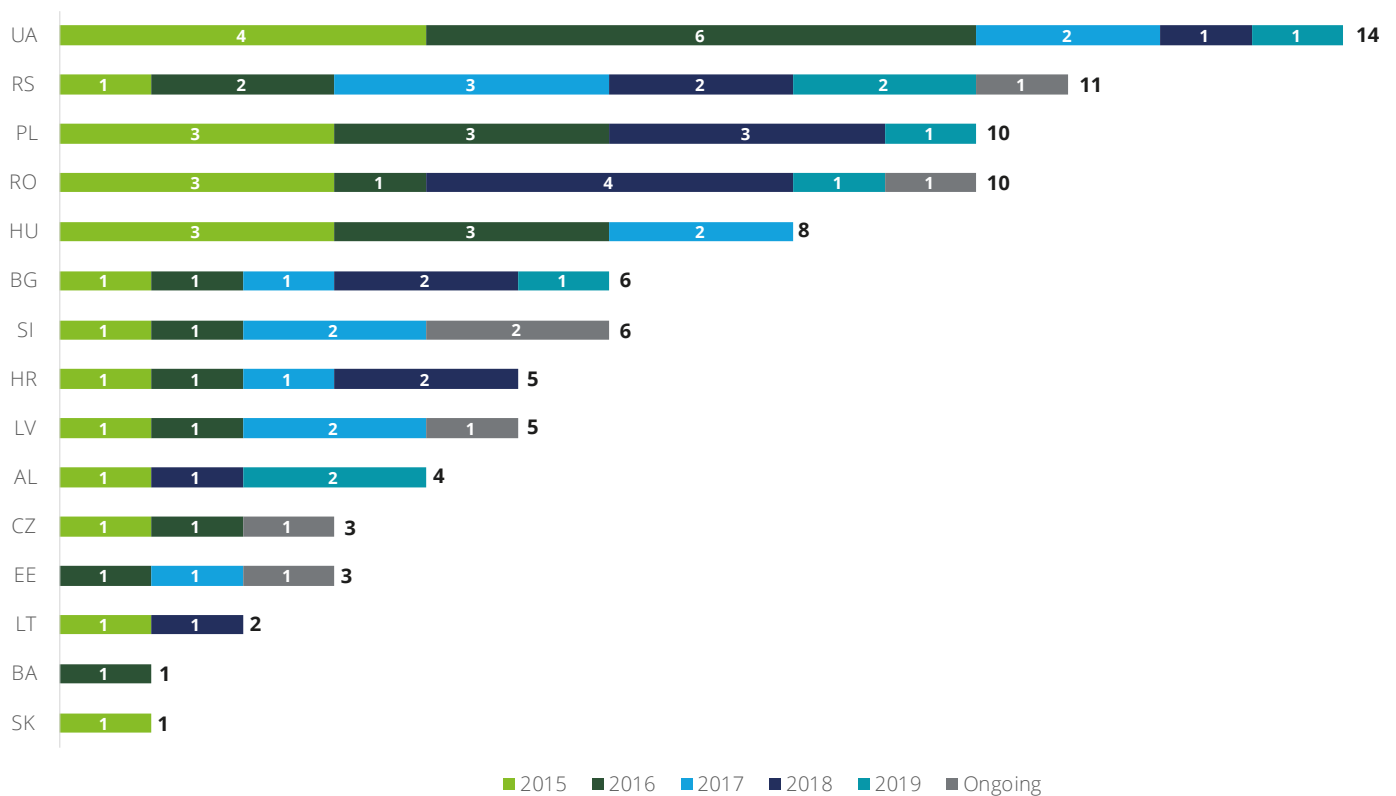


Source: Deloitte Intelligence, September 2019

In terms of number of transactions, the busiest banking M&A markets in CEE were Ukraine, Serbia, Poland and Romania. 14 transactions were completed in Ukraine since 2015 and 1 deal was still ongoing at the

end of September 2019. In Serbia, Poland and Romania, 11, 10 and 10 transactions were made, respectively, of which one in Poland and one in Romania were still ongoing.

Figure 13. M&A activity by country - Nr. of transactions, 2015 - September 2019



Source: Deloitte Intelligence, September 2019

The most active buyer in the 15 analyzed countries of the region was 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's active expansion strategy has been focusing on achieving higher market shares on the respective countries to improve efficiency through economies of scale and cost synergies. OTP took advantage of Société Générale's exit from the CEE region, as OTP acquired all banks which were sold by SG, except for Poland, where Banco Comercial Portugues-owned Bank Millennium acquired SG's Euro Bank. SG sold 6 banks in the analysed 15 countries in the region, while so far kept 2 core, well-performing

banks in the Czech Republic (Komerční banka) and Romania (BRD). The second most active buyer was the Polish state, having made 4 acquisitions since 2015 via PZU and Alior Bank. All the other top buyers announced 2 deals since 2015 and currently there are 3 ongoing deals in the market. As one of the ongoing deals, KBC acquired 45% share in Ceskomoravská stávková spořitelna (CMSS) from Bausparkasse Schwäbisch Hall through its Czech subsidiary Československá obchodní banka (CSOB) to strengthen its position in the domestic housing finance sector. Another ongoing deal is the acquisition of the third largest bank (Abanka) in Slovenia by the second largest bank, Nova KBM, owned by Apollo Global Management.

Apollo has been actively building Addiko in the past years and via the acquisition of Abanka Addiko will be head to head with NLB for the market leading position. Apollo being a private equity, they are expected to exit at some point, when a Slovenian market-leading position comes to the market. Slovenian market leader NLB is undergoing privatization, as Slovenian government sold 65% of formerly fully state-owned NLB through an initial public offering (IPO) in 2018 and the government plans to sell another 10% of the bank by the end 2019. The Slovenian government intends to keep 25% of NLB's shares in order to have a say in key business decisions.

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

Figure 14. Top buyers by the Nr. of transactions, 2015 - September 2019



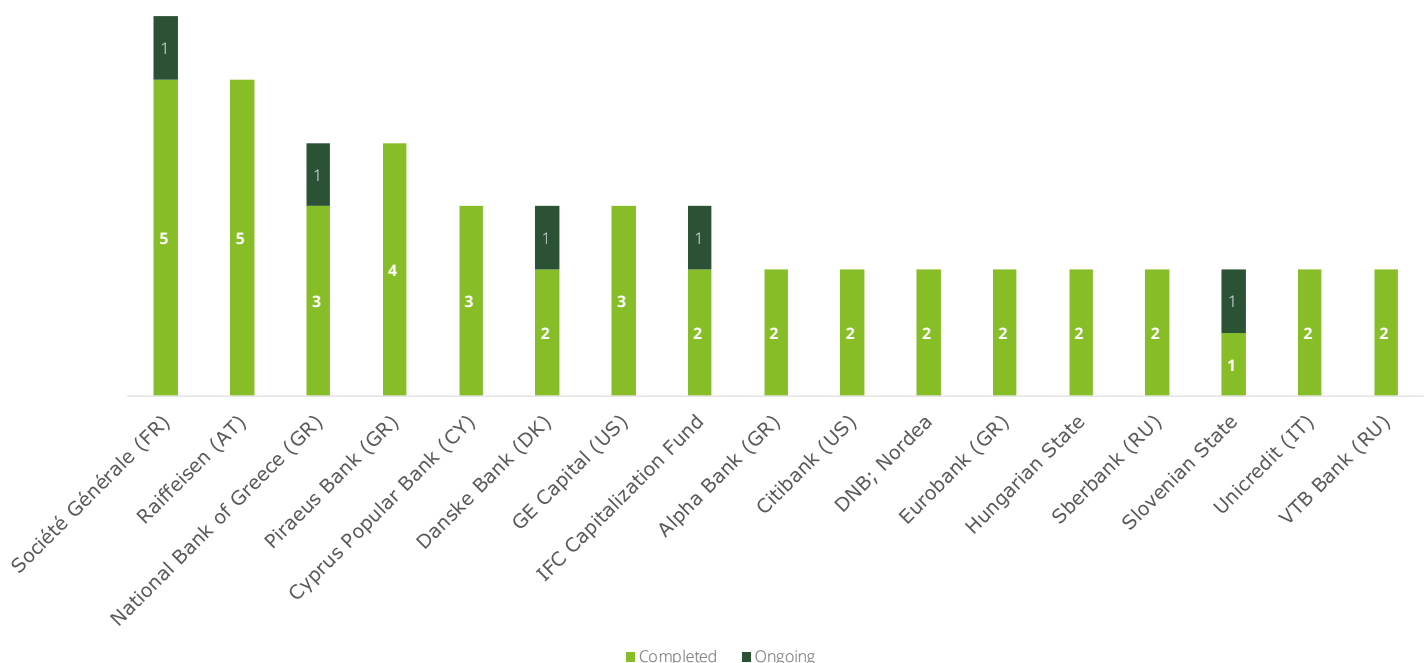
Source: Deloitte Intelligence, September 2019

The top seller of 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). These transactions were in line with Société Générale's strategy to exit the CEE banking markets. The French banking group could only enter several CEE markets via the purchase of smaller banking entities, instead of acquiring large market players, and they were unable to perform material growth in the recent years. With time, it has become clear that long-term sustainability in smaller markets requires economies of scale, which cannot be achieved only through organic growth. The management of Société Générale decided to exit the CEE markets instead of scaling up its operations

to focus on its other markets; however, in the Czech Republic and in Romania they continued their operations, since they have significant market share in these markets. The second most active seller of the region was Raiffeisen Bank International, having exited the Polish and Slovenian markets with 2 transactions each, in line with its restructuring strategy. Raiffeisen's fifth transaction was the disposal of its 30% stake in its Ukrainian subsidiary to EBRD. The highlighted four Greek banks (National Bank of Greece, Piraeus Bank, Alpha Bank and Eurobank) altogether closed 11 transactions since 2015, while the disposal of Banca Romanesca by the National Bank of Greece is still ongoing with the buyer being Romanian state-owned EximBank.

Therefore, the four Greek banks altogether sold 12 banks since 2015, having been the main driver on the sell side of CEE banking M&A activity. Another ongoing major deal is the privatisation of Serbia's second largest bank Komercijalna Banka, as the Serbian government plans to sell its stake. Earlier in 2019, the Serbian government reached an agreement to buy 34.58% of Komercijalna Banka held by EBRD and IFC Capitalization Fund. Following completion of the transaction, Serbia's government will own 83.23% of Komercijalna Banka, which it will be able to offer for sale. Six banks, including Austria's Raiffeisen, Serbia's AIK Banka and Slovenia's NLB, expressed interest in bidding for Komercijalna Banka, and four of them also submitted a non-binding offer.

Figure 15. Top sellers by the Nr. of transactions, 2015 - September 2019



Source: Deloitte Intelligence, September 2018

In the upcoming years, the potentially slowing economic growth can put pressure on the profitability of the banks in the CEE markets, which is expected to drive further consolidation, especially in countries with lower concentration and fragmented market structure. Currently, a large number of

banks is operating with low market share in the CEE market, suggesting no efficient economies of scale and operational efficiency. As already mentioned, two commonly applied steps to tackle these challenges are the consolidation of the markets, as well as focusing on digital

transformation, also in cooperation with or potential investment into FinTech.

Most recent CEE banking M&A deals from 2018 January to 2019 September are presented in the table below. For deals of 2015–2017, please refer to deal summary tables of the respective country sections.

Table 2. List of the most recent banking M&A deals in CEE, 2018 - September 2019

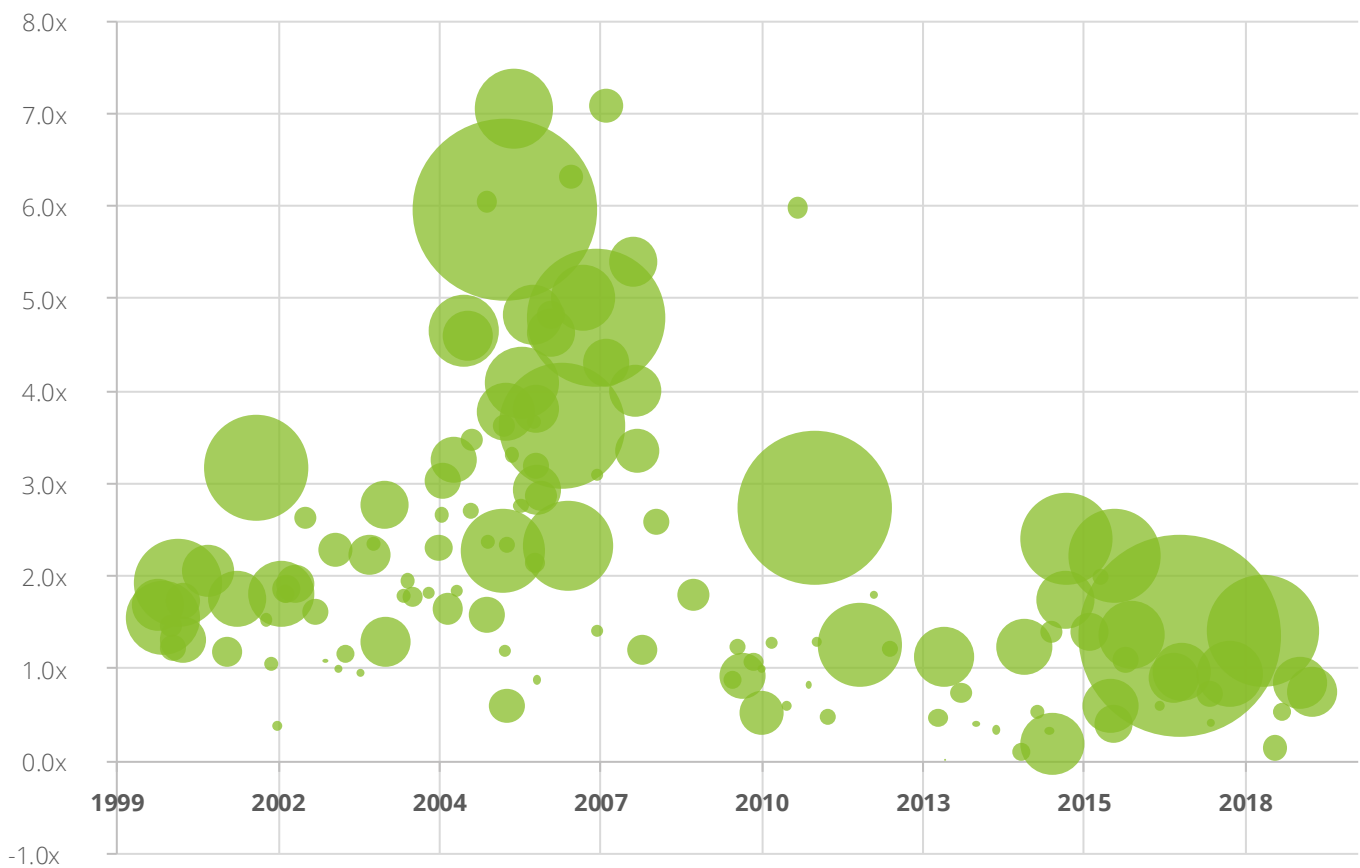
Year	Country	Target	Buyer	% Acquired	Deal Value in EUR mn	Seller
Ongoing	CZ	Ceskomoravska stavebni sporitelna	KBC	45%	240	Bausparkasse Schwaebisch Hall
	EE	Danske Bank	LHV Pank	100%	410	Danske Bank
	LV	PNB Banka	Private individuals	60%	n.a.	Private individuals
	RO	Banca Romaneasca	Export-Import Bank of Romania	99%	314	National Bank of Greece
	RS	Komercijalna Banka	State	35%	155	EBRD, IFC Capitalization Fund
	SI	Abanka	Nova Kreditna Banka Maribor	100%	511	Slovenian State
	SI	SKB banka	OTP	100%	n.a.	Société Générale
2019	AL	Banka Societe Generale Albania	OTP	89%	n.a.	Société Générale
	AL	Tirana Bank	Komercijalna Banka and Balfin	99%	57	Piraeus Bank
	BG	Piraeus Bank Bulgaria	Eurobank	100%	75	Piraeus Bank
	PL	Euro Bank	Bank Millennium	100%	1448	Société Générale
	RO	Bank Leumi Romania	J.C. Flowers	100%	n.a.	Bank Leumi le-Israel
	RS	Societe Generale Banka Srbija	OTP	100%	n.a.	Société Générale
	RS	Telenor Banka	PPF Group	100%	n.a.	Telenor
	UA	Commercial Bank Center	MTB Bank	100%	n.a.	n.a.
2018	AL	Banka NBG Albania	American Bank of Investments	100%	25	National Bank of Greece
	BG	Commercial Bank Victoria	Investbank	100%	n.a.	Corporate Commercial Bank
	BG	Societe Generale Expressbank	OTP	100%	n.a.	Société Générale
	HR	Jadranska Banka	Hrvatska Postanska Banka	100%	15	Local Agency for Deposit Insurance and Bank Resolution
	HR	Veneto Banka	Intesa Sanpaolo	100%	20	Veneto Banca
	LT	Luminor Group	Blackstone Group	60%	1000	DNB; Nordea
	PL	BGZ BNP Paribas	EBRD	5%	100	Raiffeisen
	PL	Deutsche Bank Polska	Santander	100%	305	Deutsche Bank
	PL	Raiffeisen Bank Polska	BNP Paribas	100%	775	Raiffeisen
	RO	Banca Comerciala Romana	Erste	6%	140	SIF Oltenia
	RO	Bancpost	Banca Transilvania	94%	301	Eurobank
	RO	Marfin Bank	Vardinogiannis Group	100%	n.a.	Cyprus Popular Bank
	RO	Piraeus Bank Romania	J.C. Flowers	100%	n.a.	Piraeus Bank
	RS	Piraeus Bank	Direktna Banka	100%	58	Piraeus Bank
	RS	VTB Banka	Private individuals	100%	n.a.	VTB Bank
UA	Lviv	responsAbility Investments	51%	n.a.	Private individuals	

Pricing evolution of the transactions based on the P/BV ratio is fairly informative over time. Surge before and decline after the financial crisis is astonishing. Number of substantial deals also remained limited for a couple of years after the crisis; however, the

market picked up in the past years. In spite of more active recent M&A activity in CEE, pricing levels seem to remain in reasonable ranges. The last year's average P/BV of disclosed transactions was 0.74. Recent pricing trends indicate that the CEE region

might be an attractive ground to acquire banks without having to pay overinflated price levels. In parallel, as explained above, the CEE banking performance has improved significantly in the past years as a result of the improved overall economic landscape.

Figure 16. P/BV evolution of banking deals in the CEE and Baltics, 2000 – September 2019



Source: Deloitte Intelligence, September 2019

Digital transformation, FinTech

As traditional banking revenues are under pressure in the CEE countries due to the record low interest rate environment, beside market consolidation and M&A activity, internal efficiency improvement also came into the focus of banking executives in the region to enhance profitability and gain competitive advantage. In recent years, efficiency improvement has generally aimed at increasing the level of digitalization in banking operations and providing digital solutions to customers to expand customer reach and increase satisfaction.

Based on current market practice, these goals can be achieved mainly in three ways: (i) internal development of digital solutions, (ii) insourcing of IT suppliers and capabilities via direct investment (e.g. acquisition of a software developer) or (iii) partnerships with FinTechs.

FinTech companies, usually defined as software-based businesses providing various financial services, started to appear as a result of transforming customer expectations, a variety of new technological solutions and newly introduced regulations as well. In more mature, Western European

markets, FinTech companies are becoming challengers of traditional banks nowadays and we see an increasing number of new entrants in CEE financial services markets as well. Due to this challenger role, some FinTechs are paving the way in digitalization of financial services; therefore, it is worthwhile to study their operations and business model.

Services provided by FinTech companies can be categorized into 6 main areas: payment services, market provisioning, investment management, deposits and lending, insurance, and capital raising.

Figure 17. Services provided by FinTech companies

Payments

Key drivers:

- Non-traditional payment schemes
- Contactless payment
- Blockchain technology
- Mobile payments

Market Provisioning

Key drivers:

- Process externalisation
- AI / machine learning
- Social sentiment
- Big Data
- Automated data collection

Investment Mgmt.

Key drivers:

- Advanced algorithms
- Cloud computing
- Automated advice & wealth management

Deposits & Lending

Key drivers:

- Peer-2-Peer lending
- Shifting customer preferences
- Evolution of mobile banking

Insurance

Key drivers:

- Connected devices (Autonomous vehicles, wearables and gadgets)
- More accurate data
- Communicating devices

Investment Mgmt.

Key drivers:

- Crowdfunding
- Virtual exchanges & smart contracts
- Alternative due diligence

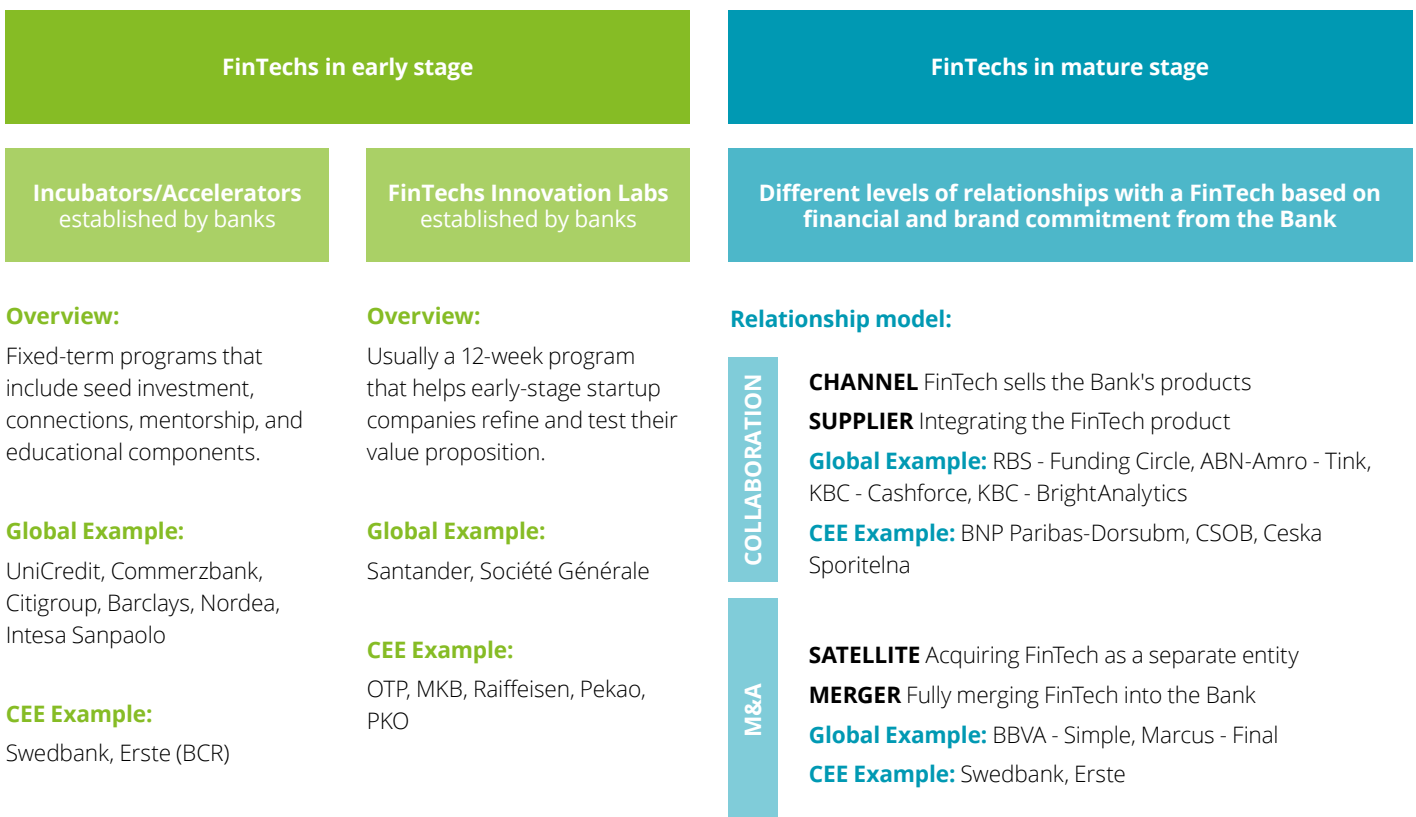
By providing digital solutions in these areas, FinTechs have been successful in defining the direction, shape and pace of innovation, as well as in setting the new standards for customer experience by leveraging on their digital capabilities, the changing regulatory environment and intact customer segments. However, their success is limited globally by customer willingness to switch from incumbent banks and regulatory scrutiny. In the CEE region, specific regulations vary by jurisdiction resulting in a fragmented financial services market, thus local FinTech players usually do not expand their operations across borders, and, except for

payment services and capital raising, larger European FinTech companies have not entered the markets in this region either.

Incumbent banks are considering a number of strategic options in terms of the scope of services provided (niche or extensive) and position in the value chain (e.g. front-end or back-end focus) as a response to the challenges of the digital era, of which cooperation-based, ecosystem models are currently the most attractive ones. Partnerships with FinTech companies can be a key element of this strategy, which a number of banking groups have already started to implement.

Several types of cooperation models exist between banks and FinTech companies globally from early stage incubator programmes to direct investments and acquisitions, mainly initiated by international banking groups. In CEE countries, only a limited number of banks have initiatives of such cooperation, and to a considerably smaller extent compared to Western European benchmarks, as mainly early stage cooperation models prevail, except for a few examples (generally in the Baltic region).

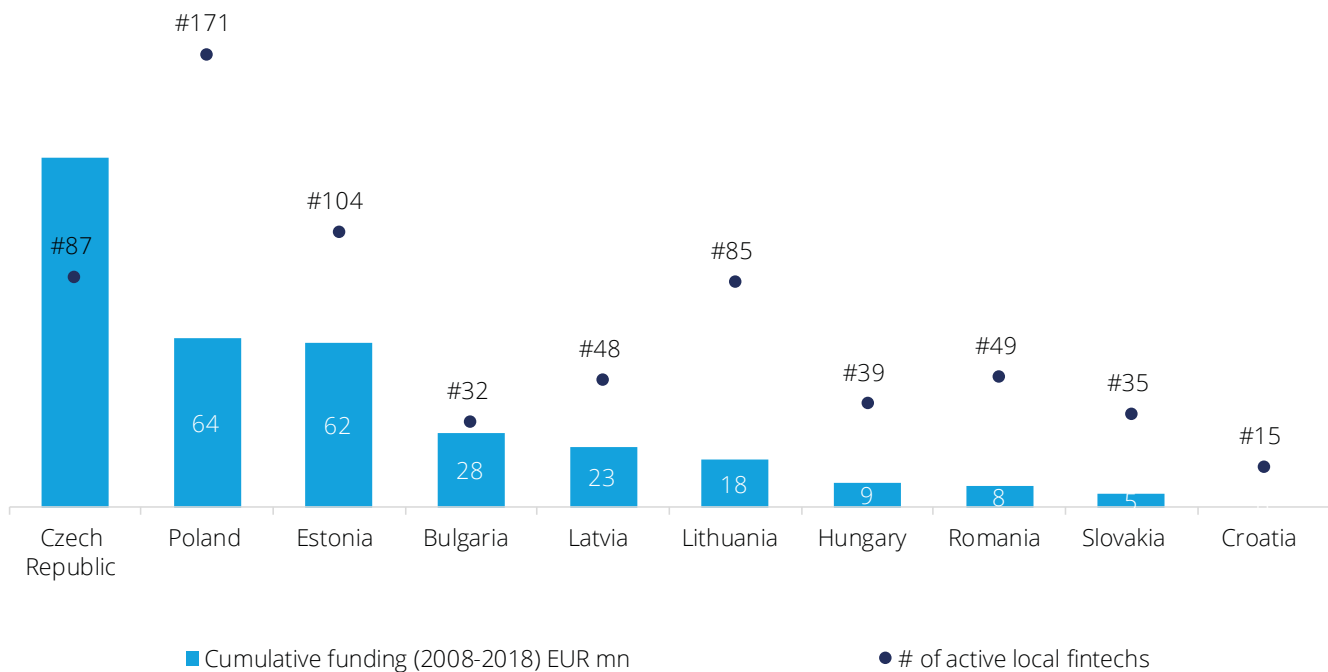
Figure 18. FinTech cooperation models



With respect to direct investments in FinTech companies, in addition to bank established and managed FinTech focused funds, other venture capital and private equity funds are also active in the CEE market, e.g. Enern (Czech Republic, 5 transactions), Hiventures (Hungary, 5 transactions) or 3TS Capital

Partners (Finland, 3 transactions). With all such participants considered, the FinTech market in the CEE has seen a EUR 72 million investment activity in 2018, which has over quadrupled in the past 5 years (EUR 16 million in 2013).

Figure 19. Funding of Fintech companies in the CEE region



Although the investment volumes into FinTech companies have increased in the region by a 35% CAGR between 2013 and 2018, it still accounts for only ca. 0.2% of the total FinTech-related investment activity in Europe. In addition, in terms of geographies, Fintech investments in the CEE are fairly concentrated, with the Czech Republic, Poland and Baltic states covering 74% of all investments made between 2013 and 2018.

Considering the difficulties in terms of scaling local FinTech business, the relatively low volume and high concentration of investment activity, as well as the limited number of partnership initiatives with FinTechs, strong involvement in FinTech-related business has not become a key focus of banks yet. Other alternatives (e.g. banking M&A activity, internal developments) to increase efficiency are currently ranking

higher on the strategic agenda. With assumed convergence to Western European countries, more focus is expected to come on FinTech and related investment activities in the forthcoming years, in tandem with active banking M&A activity.



Country Reports

Poland



Macroeconomic environment

- Polish GDP was following the rising global economic trend in 2018, reaching 5.1% annual GDP growth. Main factors of growth were the strong labour market and the accelerating level of private consumption.
- In 2018, 1.7% inflation was recorded in the Polish economy, mainly as a result of the commodity price-growth in the global markets, which resulted in higher food and energy prices in the domestic environment.
- The trend of decreasing unemployment rate continued in 2018 due to solid economic growth. This situation also contributed to a stronger wage growth and further increase in household wealth in the domestic environment.
- Budget balance was improving in 2018, and at the same time public debt decreased below 50%.

Macro indicators	2016	2017	2018	Change 2017-18 (% or % point)	
Nominal GDP (EUR mn)	425,942	465,605	496,462	6.6%	●
Nominal GDP/capita (EUR)	11,108	12,172	12,996	6.8%	●
GDP (% real change pa)	3.0%	4.7%	5.1%	0.4%	●
Consumer prices (% change pa)	-0.6%	2.0%	1.7%	-0.3%	●
Recorded unemployment (%)	8.9%	7.3%	6.1%	-1.2%	●
Budget balance (% of GDP)	-2.3%	-1.7%	-0.4%	1.3%	●
Public debt (% of GDP)	54.2%	50.6%	48.9%	-1.7%	●

Source: EIU, Eurostat





Banking trends

- The capital position of Polish banks remained stable in 2018. The Polish banking segment has relatively low leverage compared to the EU average.
- Profitability ratios (ROE, ROA) have slightly improved since 2017. In general, the smaller banks achieved below-average profitability ratios and even some of them made losses in 2018. The major factor behind increased profitability was the slight increase in the net interest margin.
- The trend of increasing total assets continued in 2018, reaching almost EUR 450 bn till the end of the year. Asset quality has been stable over the past years in both the retail and corporate segment.

Banking sector	2016	2017	2018	Change 2017-18 (% or % point)	
Total assets (EUR mn)	387,517	427,453	443,742	3.8%	●
Asset penetration (%) ¹	91.0%	91.8%	89.4%	-2.4%	●
Total equity (EUR mn)	41,372	48,782	47,642	-2.3%	●
Total loans (EUR mn)	226,327	247,758	250,217	1.0%	●
Loan penetration (%) ²	53.1%	53.2%	50.4%	-2.8%	●
Retail loans (EUR mn)	148,376	160,048	163,563	2.2%	●
Corporate loans (EUR mn)	77,952	87,710	86,654	-1.2%	●
Interest rates					
Lending (%)	4.7%	4.8%	4.8%	0.0%	●
Deposit (%)	1.6%	1.5%	1.6%	0.1%	●
NPL volumes					
Retail NPLs (EUR mn)	8,983	9,762	9,649	-1.2%	●
Corporate NPLs (EUR mn)	7,182	7,171	7,574	5.6%	●
NPL ratios					
Retail NPL ratio (%)	6.1%	6.1%	5.9%	-0.2%	●
Corporate NPL ratio (%)	9.2%	8.2%	8.7%	0.5%	●
Key ratios					
CAR (%)	17.7%	19.0%	19.0%	0.0%	●
ROE (%)	7.5%	6.9%	7.0%	0.1%	●
ROA (%)	0.8%	0.8%	0.8%	0.0%	●
CIR (%)	57.6%	57.2%	56.7%	-0.5%	●
L/D (%)	93.3%	93.7%	93.3%	-0.4%	●
FX share of lending (%)	28.4%	22.2%	22.4%	0.2%	●
LLP coverage (%)	61.0%	61.2%	65.2%	4.0%	●

Source: EIU, NBP, ECB CBD

¹Assets penetration = Total assets/Nominal GDP

²Loans penetration = Total loans/Nominal GDP



Banking market

- At the end of 2018, 30 locally-licensed banks were operating in Poland. Besides, more than 500 cooperative banks were existing at the end of 2018, which play a secondary role in the Polish financial system.
- Poland's bank environment was still one of the least concentrated in the region by the end of 2018. The sector's HHI was 6.5%, which is the lowest in the Visegrad countries. The five largest banks owned less than 50% of the total assets and made 75% of the bank sector's profit.
- The Polish government is actively supporting the banking sector's „re-Polonisation”, several Western European banks decided or considered selling their Polish units. At the same time, higher profitability of the largest banks could also motivate banking players to increase their economies of scale through potential acquisitions.

List of banks in Poland, 2018 (EUR mn)										
Rank 2018	Rank 2017*	YoY change in ranking	Institutions	Total Assets	Market share	Equity	Net income	ROA %	ROE %	Major shareholder
1.	1.	-	PKO	69,863	15.7%	8,921	783	1.1%	8.8%	State
2.	2.	-	Pekao	42,871	9.7%	5,075	542	1.3%	10.7%	State
3.	3.	-	Santander Bank Polska	42,567	9.6%	5,549	509	1.2%	9.2%	Santander
4.	5.	▲	ING BSK	32,026	7.2%	3,101	358	1.1%	11.5%	ING
5.	4.	▼	mBank	32,011	7.2%	3,529	309	1.0%	8.8%	Commerzbank
6.	7.	▲	BGZ BNP Paribas	24,840	5.6%	2,459	86	0.3%	3.5%	BNP Paribas
7.	6.	▼	Bank Gospodarstwa Krajowego	19,702	4.4%	4,807	122	0.6%	2.5%	State
8.	8.	-	Millennium	18,437	4.2%	1,892	169	0.9%	9.0%	BCP
9.	9.	-	Alior Bank	17,033	3.8%	1,523	172	1.0%	11.3%	State
10.	10.	-	Getin	11,786	2.7%	717	(104)	-0.9%	-14.5%	Private Investor
11.	11.	-	Bank Handlowy w Warszawie	11,452	2.6%	1,630	153	1.3%	9.4%	Citibank
12.	15.	▲	BPS	5,428	1.2%	195	0	0.0%	0.2%	State
13.	12.	▼	Deutsche Bank Polska	5,165	1.2%	1,004	1	0.0%	0.1%	Deutsche Bank
14.	20.	▲	Pko Bank Hipoteczny	5,139	1.2%	590	20	0.4%	3.4%	State
15.	16.	▲	Crédit Agricole Bank Polska	5,123	1.2%	537	17	0.3%	3.2%	Credit Agricole
16.	14.	▼	Idea Bank	4,888	1.1%	54	(379)	-7.7%	-703.8%	Private Investor
17.	17.	-	SGB Bank	4,748	1.1%	191	1	0.0%	0.4%	Cooperative Banks
18.	19.	▲	Santander Consumer Bank	4,347	1.0%	767	131	3.0%	17.1%	Santander
19.	18.	▼	Bank Ochrony Środowiska	4,205	0.9%	483	15	0.4%	3.2%	State
20.	21.	▲	Euro Bank	3,362	0.8%	358	24	0.7%	6.8%	Société Générale
21.	13.	▼	Bank Bph**	3,241	0.7%	643	5	0.2%	0.8%	Alior
22.	22.	-	Mbank Hipoteczny	2,880	0.6%	343	5	0.2%	1.6%	Commerzbank
23.	23.	-	DNB Bank Polska	2,349	0.5%	375	18	0.8%	4.9%	DNB Bank
24.	24.	-	Bank Pocztowy	1,759	0.4%	56	2	0.1%	2.9%	State
25.	25.	-	Nest Bank	1,567	0.4%	195	(10)	-0.6%	-4.9%	AnaCap
26.	27.	▲	Toyota Bank Polska	623	0.1%	141	6	0.9%	3.9%	Toyota Kreditbank
27.	26.	▼	Plus Bank	562	0.1%	9	(11)	-1.9%	-124.0%	Delas Holding
28.	28.	-	Pekao Bank Hipoteczny	562	0.1%	74	1	0.1%	0.8%	State
29.	29.	-	Fca-Group Bank Polska **	274	0.1%	80	2	0.7%	2.5%	Fca Bank
30.	30.	-	Mercedes-Benz Bank Polska **	61	0.0%	10	0	0.2%	1.0%	Daimler
Total				443,742	100%	47,642	3,338	0.8%	7.0%	



M&A activity

Robust M&A activities have been experienced in the Polish banking sector over the past years.

In 2019, Commerzbank announced to sell its majority stake (69.3%) in mBank. Value of the Commerzbank's stake is worth around EUR 2.8 bn. Currently, the transaction is subject to regulatory approvals.

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, in July 2019, the Polish Financial Supervisory Authority rejected the merger saying Idea Bank could not report sufficient capital to guarantee the merged entity's financial soundness.

Since 2015, there have been 10 banking deals in the country, of which 8 were public. Deals with public pricing had an overall value of around EUR 5.8 bn.

- 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 customer 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, 2015-2019Q3

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

The Czech Republic



Macroeconomic environment

- The Czech economic growth was favourable in 2018, the GDP growth reached 2.9%, but the outlook indicates a slowdown due to the weaker global macroeconomic conditions which significantly effects the Czech export growth.
- 2.2% inflation was recorded in the domestic economy in 2018. The major factors of the development of the Czech economy was due to continuous government expenditure and strong household consumption.
- The trend of shrinking unemployment rate has continued in 2018 with a massive wage growth tendency. It also contributed to strengthening the Czech households' purchasing power.
- Government produced a budget surplus in the third year in a row. Public debt to GDP ratio was continuously decreasing in the past years. In 2018, it fell below one third of the annual Czech GDP.

Macro indicators	2016	2017	2018	Change 2017-18 (% or % point)	
Nominal GDP (EUR mn)	176,286	192,147	208,003	8.3%	●
Nominal GDP/capita (EUR)	16,685	18,142	19,572	7.9%	●
GDP (% real change pa)	2.4%	4.5%	2.9%	-1.6%	●
Consumer prices (% change pa)	0.7%	2.4%	2.0%	-0.4%	●
Recorded unemployment (%)	3.9%	2.9%	2.2%	-0.7%	●
Budget balance (% of GDP)	0.7%	1.6%	0.9%	-0.7%	●
Public debt (% of GDP)	36.8%	34.6%	32.5%	-2.1%	●

Source: EIU, Eurostat





Banking trends

- Capital adequacy of the Czech banking segment further improved in 2018.
- Profitability of the Czech banking sector remained high in 2018, due to the rising interest margins of private sector loans.
- After the robust growth of the total assets of the domestic banking sector in 2017, noticeable further progress was recorded in 2018, reaching EUR 270 bn. At the same time, the asset quality across the Czech banking sector is decent and likely to improve further as the sector has reduced its risk exposure due to the decreasing non-performing loan ratio and increasing total loan value.

Banking sector	2016	2017	2018	Change 2017-18 (% or % point)	
Total assets (EUR mn)	211,193	263,294	270,770	2.8%	●
Asset penetration (%) ¹	119.7%	137.4%	130.3%	-7.1%	●
Total equity (EUR mn)	19,668	21,294	21,720	2.0%	●
Total loans (EUR mn)	88,565	99,812	105,848	6.0%	●
Loan penetration (%) ²	50.2%	52.1%	50.9%	-1.2%	●
Retail loans (EUR mn)	52,458	59,798	63,855	6.8%	●
Corporate loans (EUR mn)	36,107	40,014	41,993	4.9%	●
Interest rates					
Lending (%)	3.9%	3.6%	3.5%	-0.1%	●
Deposit (%)	0.4%	0.3%	0.3%	0.0%	●
NPL volumes					
Retail NPLs (EUR mn)	1,679	1,490	1,347	-9.6%	●
Corporate NPLs (EUR mn)	1,862	1,692	1,500	-11.4%	●
NPL ratios					
Retail NPL ratio (%)	3.2%	2.5%	2.1%	-0.4%	●
Corporate NPL ratio (%)	5.2%	4.2%	3.6%	-0.6%	●
Key ratios					
CAR (%)	18.4%	19.3%	19.6%	0.3%	●
ROE (%)	11.9%	13.0%	13.3%	0.3%	●
ROA (%)	1.2%	1.1%	1.1%	0.0%	●
CIR (%)	46.6%	47.1%	47.0%	-0.1%	●
L/D (%)	84.3%	94.9%	101.9%	7.0%	●
FX share of lending (%)	19.6%	18.9%	19.8%	0.9%	●
LLP coverage (%)	54.1%	51.0%	66.9%	15.9%	●

Source: EIU, CNB, ECB CBD

¹Assets penetration = Total assets/Nominal GDP²Loans penetration = Total loans/Nominal GDP



Banking market

- There were altogether 23 operating banks excluding the foreign branches at the end of 2018 in the Czech Republic.
- One of the main characteristics of the banking sector is the solid foreign ownership structure. On the one hand, this is a great benefit as the countless international experience. On the other hand, in periods of financial and banking uncertainty, owners preferably sell off foreign assets first, which could theoretically put the Czech banking sector at risk.
- The Czech banking industry is moderately concentrated, 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 is 11.4, which is the highest among the Visegrad Group (V4).

List of banks in the Czech Republic, 2018 (EUR mn)

Rank 2018	Rank 2017*	YoY change in ranking	Institutions	Total Assets	Market share	Equity	Net income	ROA %	ROE %	Major shareholder
1.	2.	▲	Ceska Sportelna	52,878	19.5%	4,552	583	1.1%	12.8%	Erste
2.	1.	▼	Ceskoslovenska Obchodni Banka	52,553	19.4%	3,282	675	1.3%	20.6%	KBC
3.	3.	-	Komerční Banka	38,931	14.4%	3,604	594	1.5%	16.5%	Société Générale
4.	4.	-	UniCredit	25,661	9.5%	2,860	348	1.4%	12.2%	UniCredit
5.	5.	-	Raiffeisenbank	14,094	5.2%	1,119	131	0.9%	11.7%	Raiffeisen
6.	6.	-	Hypoteční Banka	12,003	4.4%	1,641	92	0.8%	5.6%	KBC
7.	7.	-	PPF Banka	9,141	3.4%	452	86	0.9%	19.0%	PPF Group
8.	8.	-	Moneta Money Bank	8,040	3.0%	1,033	172	2.1%	16.6%	No majority shareholder
9.	9.	-	Ceskomoravská Stavební Sporitelna	5,756	2.1%	333	34	0.6%	10.2%	KBC
10.	10.	-	J&T Banka	5,627	2.1%	728	60	1.1%	8.2%	J&T Finance Group
11.	11.	-	Fio Banka	4,843	1.8%	103	40	0.8%	39.2%	Private individuals
12.	12.	-	Air Bank	4,368	1.6%	301	56	1.3%	18.7%	PPF Group
13.	13.	-	Modra Pyramida Stavební Sporitelna	3,233	1.2%	231	28	0.9%	12.2%	Société Générale
14.	14.	-	Sberbank CZ	3,100	1.1%	338	15	0.5%	4.3%	Sberbank
15.	15.	-	Stavební sporitelna Ceske sporitelny	2,808	1.0%	208	34	1.2%	16.2%	Erste
16.	16.	-	Raiffeisen Stavební Sporitelna	2,684	1.0%	185	20	0.7%	10.9%	Raiffeisen
17.	17.	-	Ceska Exportní Banka	2,233	0.8%	275	14	0.6%	5.0%	State
18.	18.	-	Equa Bank	2,171	0.8%	195	15	0.7%	7.7%	AnaCap
19.	21.	▲	Banka CREDITAS	1,593	0.6%	133	7	0.4%	5.0%	Private individuals
20.	20.	-	Wüstenrot Hypoteční Banka	1,446	0.5%	88	5	0.3%	5.2%	Wüstenrot
21.	19.	▼	Wüstenrot - Stavební Sporitelna	1,378	0.5%	123	12	0.9%	9.6%	Wüstenrot
22.	22.	-	Expobank CZ	968	0.4%	109	8	0.8%	7.2%	Private individuals
23.	23.	-	Ceskomoravská Zárucní a Rozvojová Banka	937	0.3%	189	1	0.1%	0.6%	State
Total				270,770	100%	21,720	2,984	1.1%	13.3%	

Source: Banks' data disclosure, EMIS, CNB

* corrected ranking (based on bank list 2018)



M&A activity

There have been three closed bank acquisitions over the past years in the Czech banking market.

- 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, the KBC's Czech subsidiary, the CSOB will strengthen 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, 2015-2019Q3

Year	Target	Buyer	% Acquired	Deal Value in EUR mn	Seller
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



Slovakia



Macroeconomic environment

- Slovakia has reported a significant economic growth as a result of increasing domestic demand in the investment activities and in consumption figures.
- Inflation grew again in 2018, for the second time since 2013, due to the rising prices in the food and energy markets.
- Employment figures further improved in 2018. Not only was an average wage growth reported, but the unemployment rate also reached an all-time low level in 2018.
- In 2018, the budget deficit was shrinking in the Slovakian economy, and the public debt to GDP ratio was also improving, falling below 50%.

Macro indicators	2016	2017	2018	Change 2017-18 (% or % point)	
Nominal GDP (EUR mn)	81,154	84,985	90,202	6.1%	●
Nominal GDP/capita (EUR)	14,907	15,602	16,400	5.1%	●
GDP (% real change pa)	3.3%	3.4%	4.1%	0.7%	●
Consumer prices (% change pa)	-0.5%	1.4%	2.5%	1.1%	●
Recorded unemployment (%)	9.5%	7.1%	5.4%	-1.7%	●
Budget balance (% of GDP)	-2.2%	-1.0%	-0.7%	0.3%	●
Public debt (% of GDP)	51.8%	50.9%	48.9%	-2.0%	●

Source: EIU, Eurostat





Banking trends

- The Slovakian banking sector's capital adequacy ratio slightly decreased compared to the previous year due to the increasing growth trend in the lending activity.
- In 2018, the total assets of the banking sector improved by 5.3%, exceeding EUR 80 bn.
- Profitability of the Slovakian banking sector remained on the same level as in 2017. The profit was mainly supported by the previous downward trend in lending rates for non-financial corporations. At the same time, as a result of the positive economic development, the average cost due to the credit risk has decreased.

Banking sector	2016	2017	2018	Change 2017-18 (% or % point)	
Total assets (EUR mn)	73,051	77,632	81,726	5.3%	●
Asset penetration (%)¹	90.0%	91.3%	91.1%	-0.2%	●
Total equity (EUR mn)	7,979	8,384	8,620	2.8%	●
Total loans (EUR mn)	45,875	50,442	55,071	9.2%	●
Loan penetration (%)²	56.5%	59.4%	61.4%	2.0%	●
Retail loans (EUR mn)	29,361	32,816	36,538	11.3%	●
Corporate loans (EUR mn)	16,514	17,626	18,533	5.1%	●
Interest rates					
Lending (%)	2.7%	2.4%	2.4%	0.0%	●
Deposit (%)	0.4%	0.2%	0.2%	0.0%	●
NPL volumes					
Retail NPLs (EUR mn)	1,084	1,043	1,074	3.0%	●
Corporate NPLs (EUR mn)	1,077	917	718	-21.7%	●
NPL ratios					
Retail NPL ratio (%)	3.7%	3.2%	2.9%	-0.3%	●
Corporate NPL ratio (%)	6.5%	5.2%	3.9%	-1.3%	●
Key ratios					
CAR (%)	18.2%	18.8%	18.2%	-0.6%	●
ROE (%)	9.9%	9.3%	9.3%	0.0%	●
ROA (%)	0.9%	0.9%	0.8%	-0.1%	●
CIR (%)	54.9%	57.8%	56.4%	-1.4%	●
L/D (%)	90.5%	96.2%	98.5%	2.3%	●
FX share of lending (%)	0.4%	0.2%	0.1%	-0.1%	●
LLP coverage (%)	67.4%	74.1%	89.6%	15.5%	●

Source: EIU, NBS, ECB CBD

¹Assets penetration = Total assets/Nominal GDP

²Loans penetration = Total loans/Nominal GDP



Banking market

- 12 locally-licensed banks were operating in the Slovakian market at the end of 2018. The banking sector was almost fully dominated by foreign-owned banks. The key players in the Slovakian market are the Erste, Intesa San Paolo, Raiffeisen and KBC Groups which held more than two third of the domestic market. This foreign exposure gives the banking sector a quite stable outlook and financial know-how from abroad.
- Concentration of the Slovakian banking segment was quite high in 2018 as well, the 5 largest banks owned 73% of the total assets and the HHI was 12.8%.

List of banks in Slovakia, 2018 (EUR mn)										
Rank 2018	Rank 2017*	YoY change in ranking	Institutions	Total Assets	Market share	Equity	Net income	ROA %	ROE %	Major shareholder
1.	1.	-	Slovenska Sporitelna	17,413	21.3%	1,480	180	1.0%	12.2%	Erste
2.	2.	-	Vseobecna Uverova Banka	16,369	20.0%	1,609	156	1.0%	9.7%	Intesa Sanpaolo
3.	3.	-	Tatra Banka	12,944	15.8%	1,066	110	0.8%	10.3%	Raiffeisen
4.	4.	-	Ceskoslovenska Obchodna Banka	8,507	10.4%	786	53	0.6%	6.8%	KBC
5.	5.	-	Postova Banka	4,268	5.2%	634	50	1.2%	8.0%	J&T Finance group
6.	6.	-	Prima Banka Slovensko	3,600	4.4%	327	22	0.6%	6.7%	Penta Investments
7.	7.	-	Prva Stavebna Sporitelna	3,080	3.8%	243	15	0.5%	6.4%	Schwäbisch Hall
8.	8.	-	OTP Banka Slovensko	1,412	1.7%	112	(4)	-0.3%	-3.6%	OTP
9.	9.	-	Privatbanka	723	0.9%	83	8	1.2%	10.1%	Penta Investments
10.	10.	-	Slovenska Zarucna a Rozvojova Banka	547	0.7%	299	7	1.3%	2.3%	Ministerstvo financií Slovenskej republiky
11.	11.	-	Wustenrot Stavebna Sporitelna	472	0.6%	48	2	0.3%	3.3%	Bausparkasse Wustenrot Aktiengesellschaft
12.	12.	-	Csob Stavebna Sporitelna	251	0.3%	24	1	0.3%	2.7%	KBC
Total				81,726	100%	8,620	802	0.8%	9.3%	

Source: Banks' data disclosure, EMIS, NBS

* corrected ranking (based on bank list 2018)



M&A activity

Over the past years, there has been one major M&A deal in the Slovakian banking sector.

- 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.

- In 2015, ABH Holdings, which was currently investing in several banking groups in Europe, has agreed to acquire Zuno Bank from Raiffeisen Bank International. The acquisition will enlarge the presence of Alfa Banking Group in European markets and increase its technological potential. The acquisition would enable Zuno to further strengthen and grow its business in Slovakia and the Czech Republic. The transaction did not happen finally, as ABH withdrew from the contract with a reason unrelated to the entity for sale.

List of banking M&A deals in Slovakia, 2015-2019Q3

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

Source: Deloitte Intelligence



Hungary



Macroeconomic environment

- The Hungarian economy was growing in 2018; GDP grew by 5%. The main factors of growth were public investments, advance payments of EU funds, negative real interest rates, and the depreciating Hungarian currency (Hungarian forint).
- Inflation in the Hungarian market reached 2.8% in 2018, which is close to the National Bank's 3% target. Consumer price change was mainly driven by rising food and fuel prices.
- Unemployment rate in Hungary further improved in 2018, reaching 3.7%
- Budget deficit was 2.2% in 2018. Public debt ratio to GDP has been continuously decreasing in the previous years, standing at 71% in 2018.

Macro indicators	2016	2017	2018	Change 2017-18 (% or % point)	
Nominal GDP (EUR mn)	113,731	123,495	131,935	6.8%	●
Nominal GDP/capita (EUR)	11,660	12,703	13,602	7.1%	●
GDP (% real change pa)	2.1%	4.2%	5.0%	0.8%	●
Consumer prices (% change pa)	0.4%	2.4%	2.8%	0.4%	●
Recorded unemployment (%)	5.1%	4.2%	3.7%	-0.5%	●
Budget balance (% of GDP)	-1.7%	-2.0%	-2.2%	-0.2%	●
Public debt (% of GDP)	76.1%	73.7%	71.0%	-2.7%	●

Source: EIU, Eurostat





Banking trends

- In 2018, the domestic banks expended their consolidated balance sheet, the amount of both the retail and corporate loans grew on the domestic market due to the stronger economic growth.
- The Hungarian banking segment's capital adequacy ratio improved by 0.3% point compared to 2017, reaching a solid 17.1%.
- Asset quality of banks further improved due to the active lending trend and the decreasing bad loan portfolio. Consequently, the NPL level dropped considerably.
- The Hungarian banking sector generated record high profits in 2017 and in the first half of 2018. The average return on equity for all institutions was 14.5 % in 2017, and 14.6% in 2018. This great result was mainly due to one-off items like dividend payouts, trading revenues and reversal of provisions. Profitability was heterogeneous across the Hungarian industry, majority of the larger institutions posted higher profitability, while smaller ones were somewhat lagging behind. Based on the ECB's estimation, the return on equity without one-offs was around 8% in 2018.

Banking sector	2016	2017	2018	Change 2017-18 (% or % point)	
Total assets (EUR mn)	108,105	120,108	123,506	2.8%	●
Asset penetration (%)¹	95.1%	97.3%	93.6%	-3.7%	●
Total equity (EUR mn)	10,919	12,370	13,196	6.7%	●
Total loans (EUR mn)	37,333	39,416	42,020	6.6%	●
Loan penetration (%)²	32.8%	31.9%	31.8%	-0.1%	●
Retail loans (EUR mn)	18,306	18,574	19,016	2.4%	●
Corporate loans (EUR mn)	19,027	20,842	23,005	10.4%	●
Interest rates					
Lending (%)	2.1%	1.5%	1.5%	0.0%	●
Deposit (%)	0.6%	0.1%	0.1%	0.0%	●
NPL volumes					
Retail NPLs (EUR mn)	2,324	1,402	861	-38.6%	●
Corporate NPLs (EUR mn)	1,029	678	534	-21.3%	●
NPL ratios					
Retail NPL ratio (%)	12.7%	7.5%	4.5%	-3.0%	●
Corporate NPL ratio (%)	5.4%	3.3%	2.3%	-1.0%	●
Key ratios					
CAR (%)	18.7%	16.8%	17.1%	0.3%	●
ROE (%)	11.7%	14.5%	14.6%	0.1%	●
ROA (%)	1.3%	1.5%	1.6%	0.1%	●
CIR (%)	62.6%	64.4%	63.1%	-1.3%	●
L/D (%)	74.5%	71.8%	74.5%	2.7%	●
FX share of lending (%)	22.1%	23.4%	23.5%	0.1%	●
LLP coverage (%)	66.2%	66.8%	80.3%	13.5%	●

Source: EIU, NBH, ECB CBD

¹Assets penetration = Total assets/Nominal GDP

²Loans penetration = Total loans/Nominal GDP



Banking market

- At the end of 2018, 40 locally licensed credit institutions were operating in Hungary.
- 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 domestic banking segment. All of the remaining banks reported less than 5% market share in 2018. Therefore, the HHI index is also considerably low with its 7.6% level.
- OTP Bank excels in terms of market share, possessing 21.4% of the market.
- The National Bank of Hungary recurrently indicates that it would welcome consolidation in the Hungarian banking sector. In their view, 4-5 large banks could efficiently serve the Hungarian market.

List of banks in Hungary, 2018 (EUR mn)										
Rank 2018	Rank 2017*	YoY change in ranking	Institutions	Total Assets	Market share	Equity	Net income	ROA %	ROE %	Major shareholder
1.	1.	-	OTP Bank	26,457	21.4%	4,700	544	2.1%	11.6%	OTP
2.	2.	-	Kereskedelmi és Hitelbank	10,044	8.1%	942	179	1.8%	19.0%	KBC
3.	3.	-	UniCredit	9,490	7.7%	1,046	184	1.9%	17.6%	UniCredit
4.	4.	-	Erste Bank	7,648	6.2%	1,083	180	2.4%	16.6%	Erste
5.	5.	-	Raiffeisen Bank	7,495	6.1%	646	72	1.0%	11.2%	Raiffeisen
6.	7.	▲	CIB Bank	5,917	4.8%	687	45	0.8%	6.5%	Intesa Sanpaolo
7.	6.	▼	MKB Bank	5,781	4.7%	496	79	1.4%	16.0%	PE/VC
8.	8.	-	Magyar Fejlesztési Bank	3,819	3.1%	671	6	0.2%	0.9%	State
9.	10.	▲	BUDAPEST Hitel- és Fejlesztési Bank	3,800	3.1%	454	29	0.8%	6.5%	State
10.	9.	▼	OTP Jelzálogbank	3,761	3.0%	236	86	2.3%	36.5%	OTP
11.	12.	▲	Magyar Takarékszövetkezeti Bank	3,626	2.9%	103	24	0.7%	23.5%	Co-operatives
12.	11.	▼	Magyar Export-Import Bank	3,028	2.5%	479	16	0.5%	3.3%	State
13.	13.	-	Fundamenta-Lakáskassza	1,721	1.4%	184	22	1.3%	11.8%	Schwäbisch Hall
14.	14.	-	Takarék Kereskedelmi Bank	1,692	1.4%	70	6	0.3%	8.2%	Private individuals
15.	15.	-	Merkantil Váltó és Vagyonbefektető Bank	1,261	1.0%	118	25	2.0%	20.9%	OTP
16.	17.	▲	OTP Lakástakarékpénztár	1,200	1.0%	114	11	0.9%	9.4%	OTP
17.	16.	▼	Sberbank	1,138	0.9%	139	4	0.4%	3.1%	Sberbank
18.	18.	-	GRÁNIT Bank	1,101	0.9%	41	3	0.3%	7.8%	Private individuals
19.	19.	-	Takarék Jelzálogbank	1,037	0.8%	187	8	0.8%	4.2%	Private individuals
20.	20.	-	Commerzbank	901	0.7%	92	2	0.3%	2.5%	Commerzbank
21.	22.	▲	KDB Bank	716	0.6%	63	3	0.4%	4.5%	Korea Development Bank
22.	21.	▼	UniCredit Jelzálogbank	685	0.6%	62	2	0.3%	3.3%	UniCredit
23.	23.	-	Bank of China	603	0.5%	51	1	0.2%	1.9%	Bank of China
24.	27.	▲	ERSTE Jelzálogbank	515	0.4%	32	3	0.6%	9.8%	Erste
25.	24.	▼	MagNet Magyar Közösségi Bank	470	0.4%	40	5	1.2%	13.8%	Fr Invest
26.	26.	-	KELER Központi Értéktár	362	0.3%	84	5	1.3%	5.4%	National Bank
27.	25.	▼	Magyar Cetelem Bank	362	0.3%	103	31	8.5%	29.9%	Cetelem
28.	30.	▲	K&H Jelzálogbank	334	0.3%	15	0	0.1%	3.3%	KBC
29.	29.	-	ERSTE Lakás-takarékpénztár	295	0.2%	26	0	0.2%	1.9%	Erste
30.	28.	▼	DUNA TAKARÉK BANK	275	0.2%	14	1	0.2%	3.8%	Private individuals
31.	31.	-	Pannon TakaréK Bank	235	0.2%	16	1	0.4%	5.2%	Private individuals
32.	32.	-	SOPRON BANK BURGENLAND	229	0.2%	25	1	0.6%	5.6%	Communitas Holding
33.	36.	▲	Mohácsi TakaréK Bank	198	0.2%	11	0	0.2%	2.7%	Private individuals
34.	34.	-	Porsche Bank Hungaria	194	0.2%	24	(1)	-0.4%	-3.3%	Porsche Bank
35.	35.	-	Garantiqa Hitelgarancia	168	0.1%	131	2	1.3%	1.6%	MFB
36.	33.	▼	NHB Növekedési Hitel Bank	163	0.1%	10	(0)	-0.2%	-2.5%	Bankkonzult
37.	37.	-	Polgári Bank	120	0.1%	8	0	0.3%	5.3%	Private individuals
38.	38.	-	Agrár-Vállalkozási Hitelgarancia	109	0.1%	104	3	2.5%	2.6%	Private individuals
39.	39.	-	Kinizsi Bank	100	0.1%	9	1	0.9%	10.4%	Private individuals
40.	40.	-	AEGON Magyarország Lakástakarékpénztár	97	0.1%	10	0	0.2%	1.7%	AEGON
Total				123,506	100%	13,196	1,974	1.6%	14.6%	

Source: Banks' data disclosure, EMIS, NBH

* corrected ranking (based on bank list 2018)



M&A activity

The Hungarian banking sector experienced significant M&A activity over the past years. The state has been an active buyer in the recent years, in line with its pronounced strategic goal to increase Hungarian ownership in the banking sector.

In November 2019, a series of mergers are completed in the Hungarian banking segment. 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 Takaré Group, which serves 1.1 million clients in Hungary from November.

As per public articles, the Hungarian state is pondering the sale of Budapest Bank. Multiple players have been reported to be interested, e.g. Takarékbank, MKB Bank, K&H Bank, and Erste Bank. Some articles also mentioned a potential merge of Takarékbank, MKB Bank, and Budapest Bank. As indicated in the table below, the state acquired Budapest Bank for USD 700 mn from GE Capital in 2015.

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

8 deals have been completed in the Hungarian banking since 2015, with deal value being announced in 5 cases, adding up to EUR 1,085 mn.

- 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, 2015-2019Q3

Year	Target	Buyer	% Acquired	Deal Value in EUR mn	Seller
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

Romania



Macroeconomic environment

- In 2018, an economic growth-slowdown was reported in Romania, which caused a moderate GDP growth compared to the previous year. Even so, the Romanian economic growth rate was still above the EU28 average.
- Employment in Romania continued to improve since 2017, in line with the falling unemployment rate trend, which almost reached 4% at the end of 2018.
- Inflation was robustly exceeding the national bank's 2.5% target, so the central bank had to start increasing the interest rates during 2018.
- At the same time, due to the growing budget deficit trend the IMF has also warned Romania that the continuing budget deficits trend might lead to high interest rates, which could negatively affect the investment activity. At the end of 2018, the budget deficit almost reached 3% of the GDP, while the public debt to GDP ratio stayed stable in 2018.

Macro indicators	2016	2017	2018	Change 2017-18 (% or % point)	
Nominal GDP (EUR mn)	170,893	187,940	202,884	8.0%	●
Nominal GDP/capita (EUR)	8,641	9,550	10,404	8.9%	●
GDP (% real change pa)	4.8%	7.0%	4.1%	-2.9%	●
Consumer prices (% change pa)	-1.6%	1.3%	4.6%	3.3%	●
Recorded unemployment (%)	5.6%	4.8%	4.1%	-0.7%	●
Budget balance (% of GDP)	-2.4%	-2.8%	-2.9%	-0.1%	●
Public debt (% of GDP)	37.1%	35.0%	35.0%	0.0%	●

Source: EIU, Eurostat





Banking trends

- Capital adequacy in the Romanian banking sector was still on a sustainable level in 2018, which can help the domestic banking segment to avoid minor losses, and also provide resources for credit growth in the future.
- The Romanian bank sector's total assets grew in 2018 due to robust credit growth in both the retail and corporate segments. The asset quality also improved mainly as a result of the declining NPL ratios.
- The Romanian banking segment's funding structure is relatively strong. In the recent years, domestic funding structure has become common in the market, which helps the sector protect itself from external market shocks.
- Profitability of the Romanian banking sector further improved in 2018 mainly due to the additional cuts in net impairment losses and the high growth rate of the domestic currency (Romanian lei) loans to the private sector. The profitability is concentrated in the sector, as more than 75% of the profit was generated by the 5 largest institutions (by total assets).

Banking sector	2016	2017	2018	Change 2017-18 (% or % point)	
Total assets (EUR mn)	88,202	93,739	99,751	6.4%	●
Asset penetration (%) ¹	51.6%	49.9%	49.2%	-0.7%	●
Total equity (EUR mn)	9,013	9,774	10,745	9.9%	●
Total loans (EUR mn)	47,805	48,974	52,740	7.7%	●
Loan penetration (%) ²	28.0%	26.1%	26.0%	-0.1%	●
Retail loans (EUR mn)	24,922	26,176	28,543	9.0%	●
Corporate loans (EUR mn)	22,883	22,798	24,197	6.1%	●
Interest rates					
Lending (%)	5.7%	5.6%	6.8%	1.2%	●
Deposit (%)	1.1%	0.9%	1.3%	0.4%	●
NPL volumes					
Retail NPLs (EUR mn)	1,841	1,488	1,484	-0.3%	●
Corporate NPLs (EUR mn)	4,345	2,608	2,371	-9.1%	●
NPL ratios					
Retail NPL ratio (%)	7.4%	5.7%	5.2%	-0.5%	●
Corporate NPL ratio (%)	19.0%	11.4%	9.8%	-1.6%	●
Key ratios					
CAR (%)	19.7%	20.0%	19.7%	-0.3%	●
ROE (%)	10.6%	11.7%	13.6%	1.9%	●
ROA (%)	1.1%	1.3%	1.5%	0.2%	●
CIR (%)	52.4%	54.9%	53.5%	-1.4%	●
L/D (%)	68.2%	69.2%	68.2%	-1.0%	●
FX share of lending (%)	43.4%	37.8%	33.7%	-4.1%	●
LLP coverage (%)	65.1%	71.6%	83.8%	12.2%	●



Banking market

- The main characteristics of the domestic banking sector are that the majority of the financial institutions are predominantly owned by foreign banking groups; however, the largest Romanian bank is local.
- In 2018, 27 locally licenced banks were operating in Romania, which was significantly lower than a couple of years ago.
- The Romanian banking sector was moderately concentrated in 2018, as 60% of the assets was possessed by the 5 largest banks and the HHI of the segment was 8.3%.

List of banks in Romania, 2018 (EUR mn)											
Rank 2018	Rank 2017*	YoY change in ranking	Institutions	Total Assets	Market share	Equity	Net income	ROA %	ROE %	Major shareholder	
1.	2.	▲	Banca Transilvania	15,892	15.9%	1,589	262	1.6%	16.5%	Private Individuals	
2.	1.	▼	Banca Comerciala Romana	14,595	14.6%	1,749	209	1.4%	11.9%	Erste	
3.	3.	-	BRD - Groupe Societe Generale	11,597	11.6%	1,571	332	2.9%	21.1%	Société Générale	
4.	4.	-	UniCredit	8,929	9.0%	978	118	1.3%	12.1%	UniCredit	
5.	5.	-	Raiffeisen Bank	8,607	8.6%	882	189	2.2%	21.5%	Raiffeisen	
6.	6.	-	CEC Bank	6,301	6.3%	555	78	1.2%	14.1%	State	
7.	7.	-	Alpha Bank Romania	3,636	3.6%	376	24	0.7%	6.4%	Alpha Bank	
8.	9.	▲	OTP Bank Romania	2,375	2.4%	261	6	0.2%	2.2%	OTP	
9.	8.	▼	Garanti Bank	2,199	2.2%	246	24	1.1%	9.9%	Garanti BBVA	
10.	12.	▲	Banca de Exp-Imp a României – Eximbank	1,548	1.6%	241	24	1.6%	10.1%	State	
11.	11.	-	Banca Romaneasca	1,454	1.5%	138	8	0.6%	5.8%	NBG	
12.	10.	▼	First Bank	1,448	1.5%	129	(8)	-0.5%	-5.9%	J.C. Flowers	
13.	15.	▲	Intesa Sanpaolo Romania	1,219	1.2%	171	7	0.5%	3.9%	Intesa Sanpaolo	
14.	14.	-	Libra Internet Bank	1,172	1.2%	132	21	1.8%	15.6%	NCH	
15.	13.	▼	Credit Europe Bank	931	0.9%	166	13	1.4%	7.6%	Credit Europe	
16.	16.	-	Patria Bank	740	0.7%	68	(0)	0.0%	-0.1%	EAAF	
17.	17.	-	BCR Banca pentru Locuinte	602	0.6%	26	(1)	-0.2%	-4.5%	Erste	
18.	20.	▲	Idea Bank	458	0.5%	35	2	0.4%	5.2%	Sc Getin Holding	
19.	19.	-	Marfin Bank	429	0.4%	62	2	0.5%	3.5%	Vardinogiannis Group	
20.	21.	▲	Credit Agricole Bank Romania	408	0.4%	34	(3)	-0.8%	-9.4%	Credit Agricole	
21.	22.	▲	Procredit Bank	319	0.3%	40	(1)	-0.4%	-2.8%	Procredit	
22.	23.	▲	Banca Centrala Cooperatista CREDITCOOP	283	0.3%	71	1	0.3%	1.3%	Lista Membrii Cooperatori	
23.	24.	▲	Bank Leumi Romania	255	0.3%	41	3	1.3%	8.0%	Bank Leumi	
24.	26.	▲	PORSCHE BANK ROMANIA SA	159	0.2%	37	1	0.3%	1.5%	Porsche Bank	
25.	25.	-	Raiffeisen Banca pentru Locuinte **	134	0.1%	14	(1)	-0.8%	-7.9%	Raiffeisen	
26.	18.	▼	Banca Comerciala Feroviara	119	0.1%	n.a.	0	0.0%	n.a.	Private Individual	
27.	27.	-	Banca Romana De Credite Si Investitii	26	0.0%	8	2	7.4%	23.4%	Private Individual	
Total				99,751	100%	10,745	1,528	1.5%	13.6%		

Source: Banks' data disclosure, EMIS, NBR

* corrected ranking (based on bank list 2018)

** data from 2017



M&A activity

Romania's banking M&A market has become vivid in the last years, there have been 10 major deals over the past years:

- In 2019, EXIMBANK of Romania announced to acquire 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 the J.C. Flowers (US investment fund). The deal was beneficial for all the parties as the J.C. Flowers's aim is to increase and consolidate its presence in the Romanian market; and the Leumi's international strategy is 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 had 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 Bank'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 sees a strong potential in the domestic market. Marfin Bank has a 20-year over presence in the local market and has 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 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, 2015-2019Q3

Year	Target	Buyer	% Acquired	Deal Value in EUR mn	Seller
2019*	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
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

Slovenia



Macroeconomic environment

- Slovenia's economic conditions in 2018 were favourable as GDP growth of 4.6% was significantly above the euro zone average.
- The trend of continuous deflation reversed, and the country reported a 1.9% inflation in 2018.
- Labour market conditions continued to improve with decreasing unemployment rate and steady rise in gross wages.
- In 2018, after several years of budget deficit in the economy, the Slovenian government generated a budget surplus. The ratio of public debt to GDP also decreased below 70%.

Macro indicators	2016	2017	2018	Change 2017-18 (% or % point)	
Nominal GDP (EUR mn)	40,418	43,278	45,948	6.2%	●
Nominal GDP/capita (EUR)	19,451	20,807	21,880	5.2%	●
GDP (% real change pa)	2.6%	5.0%	4.6%	-0.4%	●
Consumer prices (% change pa)	-0.2%	1.5%	1.9%	0.4%	●
Recorded unemployment (%)	11.2%	9.5%	8.3%	-1.2%	●
Budget balance (% of GDP)	-1.9%	0.0%	0.7%	0.7%	●
Public debt (% of GDP)	78.7%	73.4%	69.8%	-3.6%	●

Source: EIU, Eurostat





Banking trends

- The Slovenian banking sector's capital adequacy ratio slightly improved in 2018 compared to the previous year. This was mainly the result of a new regulation, as financial institutions were obliged to reserve extra regulatory capital from their earnings.
- Total assets grew by 3.2 percent in 2018. Asset quality has been also steadily improving over the past years, with decreasing NPL ratios in both the retail and corporate segment.
- Profitability increased in 2018 due to awakening credit. Both ROE and ROA increased during the period by 1.6 and 0.2 percentage point, respectively.

Banking sector	2016	2017	2018	Change 2017-18 (% or % point)	
Total assets (EUR mn)	40,587	41,750	43,094	3.2%	●
Asset penetration (%) ¹	100.4%	96.5%	93.8%	-2.7%	●
Total equity (EUR mn)	4,870	5,043	5,102	1.2%	●
Total loans (EUR mn)	18,865	19,381	19,867	2.5%	●
Loan penetration (%) ²	46.7%	44.8%	43.2%	-1.6%	●
Retail loans (EUR mn)	9,154	9,736	10,370	6.5%	●
Corporate loans (EUR mn)	9,711	9,645	9,497	-1.5%	●
Interest rates					
Lending (%)	2.8%	2.6%	2.4%	-0.2%	●
Deposit (%)	0.1%	0.0%	0.0%	0.0%	●
NPL volumes					
Retail NPLs (EUR mn)	275	253	218	-14.0%	●
Corporate NPLs (EUR mn)	728	511	323	-36.8%	●
NPL ratios					
Retail NPL ratio (%)	3.0%	2.6%	2.1%	-0.5%	●
Corporate NPL ratio (%)	7.5%	5.3%	3.4%	-1.9%	●
Key ratios					
CAR (%)	21.4%	20.2%	20.6%	0.4%	●
ROE (%)	7.8%	9.1%	10.7%	1.6%	●
ROA (%)	1.0%	1.1%	1.3%	0.2%	●
CIR (%)	61.4%	63.7%	59.9%	-3.8%	●
L/D (%)	74.0%	74.7%	74.0%	-0.7%	●
FX share of lending (%)	4.2%	3.7%	3.1%	-0.6%	●
LLP coverage (%)	69.5%	71.4%	70.8%	-0.6%	●

Source: EIU, BSI, ECB CBD

¹Assets penetration = Total assets/Nominal GDP²Loans penetration = Total loans/Nominal GDP



Banking market

- A main characteristic of the banking sector is the low ratio of foreign ownership, which is around 30%. At the end of 2018, two of the three largest banks in the country were state-owned.
- 15 locally licenced banks were operating in the Slovenian market as of the end of 2018. Moderate concentration was visible in the market, as 53% of the total assets are held by the five largest banks of Slovenia, and the HHI is 8.4%.

List of banks in Slovenia, 2018 (EUR mn)

Rank 2018	Rank 2017*	YoY change in ranking	Institutions	Total Assets	Loans	Market share	Equity	Net income	ROA %	ROE %	NPL ratio	NPL vol.	Major shareholder
1.	1.	-	Nova Ljubljanska Banka	8,811	4,006	20.4%	1,295	165	1.9%	12.7%	6.3%	252	State
2.	2.	-	Nova Kbm	4,978	2,545	11.6%	723	76	1.5%	10.4%	4.2%	107	Apollo
3.	3.	-	Abanka	3,729	1,928	8.7%	583	66	1.8%	11.4%	4.6%	89	State
4.	4.	-	Skb	2,747	1,868	6.4%	342	48	1.7%	14.1%	3.4%	64	Société Générale
5.	5.	-	UniCredit Banka Slovenija	2,656	1,924	6.2%	251	11	0.4%	4.4%	3.8%	73	UniCredit
6.	7.	▲	Banka Intesa Sanpaolo	2,596	1,846	6.0%	284	11	0.4%	3.8%	5.5%	102	Intesa Sanpaolo
7.	6.	▼	Sid Banka	2,319	639	5.4%	422	14	0.6%	3.4%	5.6%	36	State
8.	8.	-	Gorenjska Banka	1,832	826	4.3%	205	15	0.8%	7.5%	9.3%	139	AIK Banka
9.	9.	-	Sberbank	1,748	1,191	4.1%	173	8	0.5%	4.7%	9.0%	107	Sberbank
10.	10.	-	Addiko Bank	1,618	1,081	3.8%	174	37	2.3%	21.4%	1.9%	21	Addiko
11.	12.	▲	Delavska Hranilnica	1,351		3.1%	62	4	0.3%	7.0%			Trade unions
12.	11.	▼	Sparkasse	1,223		2.8%	118	8	0.7%	7.0%			Kärntner Sparkasse
13.	13.	-	Dbis	991		2.3%	63	5	0.5%	8.5%			Kapitalska zadruga
14.	14.	-	Lon	264		0.6%	18	0	0.1%	1.8%			Private Individuals
15.	15.	-	Primorska Hranilnica	82		0.2%	4	0	0.2%	3.0%			No majority shareholder
Total				43,094	19,867	100%	5,102	552	1.3%	10.7%	2.7%	541	

Source: Banks' data disclosure, EMIS, BSI

* corrected ranking (based on bank list 2018)





M&A activity

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

- In 2019, the Slovenian Sovereign Holding (Slovenian state-owned asset manager) sold Abanka to NKBM, owned by Apollo Global Management, amid strong investor interest. The 2nd largest bank acquired the 3rd largest, competition clearance is ongoing.
- 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. Closing is in progress.
- State-owned Nova Ljubljanska Banka (NLB), the country's largest bank, is undergoing privatization currently, 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, via Biser Bidco and NKBM.

List of banking M&A deals in Slovenia, 2015-2019Q3

Year	Target	Buyer	% Acquired	Deal Value in EUR mn	Seller
2019*	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

*Closing in progress

Croatia



Macroeconomic environment

- The Croatian economy posted real GDP growth of 2.6% in 2018.
- Inflation slightly increased in 2018 also due to global oil prices in international markets.
- Trend of decreasing unemployment rate continued; however, Croatia still has one of the highest unemployment rate in all EU states.
- Budget balance showed a 0.2% surplus of GDP in 2018. Public debt continued to decrease and dwindled below 75% of GDP, which is still relatively high in CEE comparison.

Macro indicators	2016	2017	2018	Change 2017-18 (% or % point)	
Nominal GDP (EUR mn)	46,640	48,990	51,468	5.1%	●
Nominal GDP/capita (EUR)	11,070	11,694	12,254	4.8%	●
GDP (% real change pa)	3.5%	2.8%	2.6%	-0.2%	●
Consumer prices (% change pa)	-1.1%	1.1%	1.5%	0.4%	●
Recorded unemployment (%)	15.0%	12.4%	9.8%	-2.6%	●
Budget balance (% of GDP)	-0.9%	0.8%	0.2%	-0.6%	●
Public debt (% of GDP)	80.2%	77.8%	74.6%	-3.2%	●

Source: EIU, Eurostat





Banking trends

- Capital adequacy ratio of the banking sector reached 21.1%, which is slightly lower than in 2017, but still one of the highest in the region.
- Total assets grew by 5.6% reaching EUR 64.7 bn. The sector's credit portfolio quality continued to improve as the banks are committed to clean NPL loans from their balance sheets. At the same time, corporate NPL ratio of 20.4% is still relatively high among CEE countries.

- After profitability decreased mainly due to losses related to Agrokor Group in 2017, the Croatian banking sector's profitability recovered in 2018, reaching the relatively high 2016 level. The profitability levels were achieved with remarkably low interest expenses and charges, which leaves tight room for Croatian banks to additionally increase the profitability level.

Banking Sector	2016	2017	2018	Change 2017-18 (% or % point)	
Total assets (EUR mn)	58,082	61,265	64,698	5.6%	●
Asset penetration (%)¹	124.5%	125.1%	125.7%	0.6%	●
Total equity (EUR mn)	8,026	8,320	8,634	3.8%	●
Total loans (EUR mn)	26,019	26,049	27,321	4.9%	●
Loan penetration (%)²	55.8%	53.2%	53.1%	-0.1%	●
Retail loans (EUR mn)	14,986	15,195	16,365	7.7%	●
Corporate loans (EUR mn)	11,033	10,854	10,956	0.9%	●
Interest rates					
Lending (%)	5.0%	4.2%	3.5%	-0.7%	●
Deposit (%)	1.4%	0.7%	0.4%	-0.3%	●
NPL volumes					
Retail NPLs (EUR mn)	1,548	1,225	1,074	-12.3%	●
Corporate NPLs (EUR mn)	3,121	2,411	2,237	-7.2%	●
NPL ratios					
Retail NPL ratio (%)	10.3%	8.1%	6.6%	-1.5%	●
Corporate NPL ratio (%)	28.3%	22.2%	20.4%	-1.8%	●
Key ratios					
CAR (%)	22.5%	23.3%	21.1%	-2.2%	●
ROE (%)	8.9%	5.9%	8.8%	2.9%	●
ROA (%)	1.2%	0.8%	1.2%	0.4%	●
CIR (%)	52.8%	52.1%	50.7%	-1.4%	●
L/D (%)	85.3%	82.1%	85.3%	3.2%	●
FX share of lending (%)	65.0%	60.9%	59.5%	-1.4%	●
LLP coverage (%)	72.3%	70.8%	73.6%	2.8%	●

Source: EIU, HNB, ECB CBD

¹Assets penetration = Total assets/Nominal GDP

²Loans penetration = Total loans/Nominal GDP



Banking market

- Foreign ownership is material in the Croatian banking sector, and concentration is also fairly high. In 2018, the top five banks possessed 70% of the total assets of the sector, all controlled by leading European banking groups. The HHI index of the sector was 12.2% in 2018, which is relatively high in the region.
- In recent years, the number of banks is continuously decreasing, as a result of both the active M&A activity and some institutions' terminated operations. At the end of 2018, 25 banks were operating in the Croatian market.
- Three banks have recently disappeared from the market. In 2018, Tesla Savings Bank went bankrupt. In 2018 Primorska Banka and in 2017 Stedbanka reported to be undergoing winding-up proceedings.

List of banks in Croatia, 2018 (EUR mn)

Rank 2018	Rank 2017*	YoY change in ranking	Institutions	Total Assets	Market share	Equity	Net income	ROA %	ROE %	Major shareholder
1.	1.	-	Zagrebacka Banka	15,319	23.7%	2,222	251	1.6%	11.3%	UniCredit
2.	2.	-	Privredna Banka Zagreb	11,213	17.3%	1,914	187	1.7%	9.8%	Intesa Sanpaolo
3.	3.	-	Erste&Steiermakische Bank	8,310	12.8%	1,056	108	1.3%	10.2%	Erste
4.	7.	▲	OTP Banka Hrvatska	5,686	8.8%	803	30	0.5%	3.7%	OTP
5.	4.	▼	Raiffeisenbank Austria Zagreb	4,414	6.8%	572	30	0.7%	5.2%	Raiffeisen
6.	6.	-	Hrvatska Poštanska Banka	2,823	4.4%	268	20	0.7%	7.6%	State
7.	5.	▼	Addiko Bank	2,486	3.8%	392	23	0.9%	5.9%	PE Advent
8.	8.	-	Sberbank	1,300	2.0%	154	11	0.8%	7.1%	Sberbank
9.	10.	▲	Istarska Kreditna Banka Umag	478	0.7%	42	3	0.7%	7.7%	Intercommerce
10.	11.	▲	Podravska Banka	457	0.7%	60	2	0.4%	2.9%	Generali
11.	9.	▼	Kreditna Banka Zagreb***	418	0.6%	48	3	0.7%	6.3%	Jadransko osiguranje
12.	14.	▲	KentBank	328	0.5%	32	1	0.3%	3.2%	Süzer Holding
13.	12.	▼	Croatia Banka	312	0.5%	18	(3)	-1.1%	-19.2%	State
14.	13.	▼	Karlovačka Banka	306	0.5%	21	2	0.6%	8.4%	Private individuals
15.	18.	▲	PBZ stambena štedionica	264	0.4%	35	1	0.5%	3.6%	PBZ
16.	16.	-	Wüstenrot stambena štedionica	258	0.4%	15	0	0.1%	1.3%	Wüstenrot
17.	17.	-	Partner Banka	251	0.4%	28	2	0.8%	6.7%	Metroholding
18.	15.	▼	Jadranska Banka	226	0.4%	17	(3)	-1.3%	-17.2%	Bank Alpinum
19.	19.	-	Imex Banka	225	0.3%	15	(2)	-0.8%	-12.6%	Private individuals
20.	20.	-	Slatinska Banka	212	0.3%	22	1	0.3%	2.9%	SZAlF
21.	23.	▲	Banka Kovanica	167	0.3%	16	1	0.7%	7.4%	Cassa di Risparmio della Repubblica di San Marino
22.	22.	-	Raiffeisen Stambena štedionica	165	0.3%	14	0	0.3%	3.5%	Raiffeisen
23.	21.	▼	J&T banka	146	0.2%	17	0	0.1%	0.6%	Validus
24.	24.	-	Samoborska Banka	65	0.1%	8	-	0.0%	0.0%	Aquae Vivae
25.	25.	-	HPB-Stambena štedionica**	47	0.1%	6	0	0.1%	0.7%	State
Total				64,698	100%	8,634	763	1.2%	8.8%	

Source: Banks' data disclosure, EMIS, HNB

* corrected ranking (based on bank list 2018)

** data from 2017

*** Kredita Banka Zagreb operates as Agram Banka from 01 January 2019



M&A activity

There have been six 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 Intesa 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.
- 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 a 80%-20% proportion. The Southeast European Network incorporated banks in five countries, Slovenia, Croatia, Bosnia-Herzegovina, Serbia, 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, 2015-2019Q3

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

Bulgaria

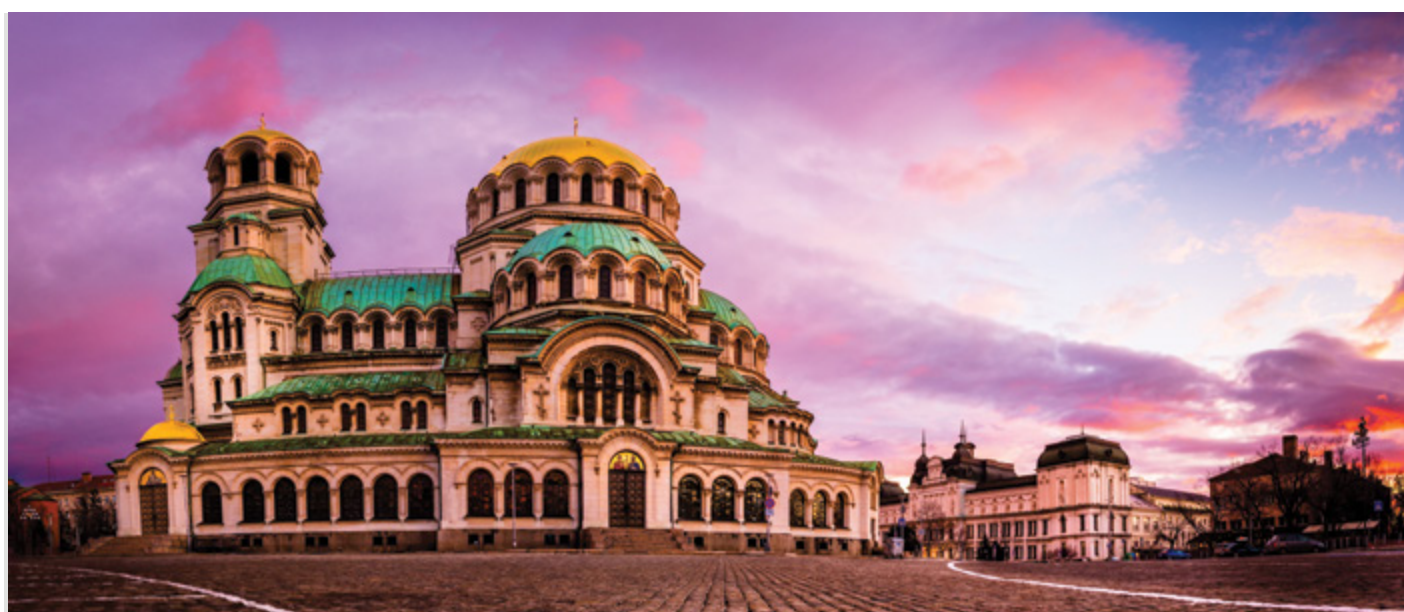


Macroeconomic environment

- In 2018, Bulgaria's macroeconomic imbalances were further reduced, in an environment of robust GDP growth and new employment establishment. The GDP continued to grow by 3.3 % in 2018 due to the growing domestic demand and the recovering trends in exports.
- Inflation continued to increase in 2018, mainly because of the high energy and service prices. The Bulgarian economy has been recovering after slight deflation trend in 2015 and 2016.
- As a result of the continuous efforts made by the authorities to handle the major macroeconomic imbalances, the unemployment rate has been approaching its pre-crisis level.
- The government reached a slight budget surplus in 2018 as a result of prudent fiscal policy approaches like ameliorated tax collection. In 2018, the public debt in the Bulgarian economy also decreased significantly by 2.8% points to 22.6%.

Macro indicators	2016	2017	2018	Change 2017-18 (% or % point)	
Nominal GDP (EUR mn)	48,129	50,430	55,182	9.4%	●
Nominal GDP/capita (EUR)	6,748	7,118	7,883	10.8%	●
GDP (% real change pa)	3.9%	3.6%	3.3%	-0.3%	●
Consumer prices (% change pa)	-0.8%	2.1%	2.8%	0.7%	●
Recorded unemployment (%)	7.7%	6.2%	6.2%	0.0%	●
Budget balance (% of GDP)	1.6%	0.9%	0.1%	-0.8%	●
Public debt (% of GDP)	29.0%	25.4%	22.6%	-2.8%	●

Source: EIU, Eurostat





Banking trends

- In the Bulgarian banking sector, the balance sheet expansion has continued and the assets quality level has further improved. The funding of banks has been driven mostly by a significant increase in deposits.
- As of the beginning of 2018, the new International Financial Reporting Standard (IFRS 9) was introduced in around half of the banks. Following the 2016 asset quality review, the banks were required to present plans to implement IFRS 9. At the same time, numerous important regulatory initiatives have been introduced by the Bulgarian National Bank, with implementation still ongoing in several areas.
- The Bulgarian banking sector not only benefits from high capital adequacy ratios but also from the improved regulatory oversight. These are also contributing to the systemic risk reduction of the banking system.
- Bulgaria still seeks to enter the Eurozone banking union. In July 2018, Bulgaria officially announced its intention to apply for ERM II membership. To address the level of non-performing loans, the central bank intends to implement the European Banking Authority (EBA) guidance. At the same time, Bulgaria announced a set of commitments to improve the economy's resilience in areas of high relevance for a smooth transition for ERM II participation.

Banking Sector	2016	2017	2018	Change 2017-18 (% or % point)	
Total assets (EUR mn)	48,034	50,734	55,236	8.9%	●
Asset penetration (%)¹	99.8%	100.6%	100.1%	-0.5%	●
Total equity (EUR mn)	6,278	6,581	7,390	12.3%	●
Total loans (EUR mn)	26,462	27,072	29,116	7.6%	●
Loan penetration (%)²	55.0%	53.7%	52.8%	-0.9%	●
Retail loans (EUR mn)	9,497	10,118	11,287	11.6%	●
Corporate loans (EUR mn)	16,965	16,955	17,829	5.2%	●
Interest rates					
Lending (%)	6.4%	5.4%	4.9%	-0.5%	●
Deposit (%)	0.2%	0.0%	0.0%	0.0%	●
NPL volumes					
Retail NPLs (EUR mn)	954	747	733	-1.9%	●
Corporate NPLs (EUR mn)	2,569	2,115	1,552	-26.6%	●
NPL ratios					
Retail NPL ratio (%)	10.0%	7.4%	6.5%	-0.9%	●
Corporate NPL ratio (%)	15.1%	12.5%	8.7%	-3.8%	●
Key ratios					
CAR (%)	22.2%	22.1%	20.4%	-1.7%	●
ROE (%)	11.3%	10.2%	11.8%	1.6%	●
ROA (%)	1.5%	1.3%	1.6%	0.3%	●
CIR (%)	42.6%	45.1%	45.3%	0.2%	●
L/D (%)	72.4%	72.6%	75.5%	2.9%	●
FX share of lending (%)	45.5%	39.1%	41.7%	2.6%	●
LLP coverage (%)	54.3%	54.3%	61.6%	7.3%	●



Banking market

- At the end of 2018, 20 locally licenced financial institutions were operating in the country.
- Bulgaria's banking sector is dominated by subsidiaries of large European banking groups, owning the majority of the total assets.
- The Bulgarian banking industry is moderately concentrated, since 55% of the total assets of the Bulgarian banking sector are owned by the 5 largest banks. Likewise, the HHI index of the sector is 8.9%, which approaches the regional average.

List of banks in Bulgaria, 2018 (EUR mn)

Rank 2018	Rank 2017*	YoY change in ranking	Institutions	Total Assets	Market share	Equity	Net income	ROA %	ROE %	Major shareholder
1.	1.	-	UniCredit Bulbank	9,926	18.0%	1,447	220	2.2%	15.2%	UniCredit
2.	2.	-	DSK Bank	7,390	13.4%	1,366	116	1.6%	8.5%	OTP
3.	5.	▲	UBB	5,762	10.4%	709	89	1.5%	12.5%	KBC
4.	3.	▼	First Investment Bank	4,761	8.6%	450	80	1.7%	17.8%	Private individuals
5.	4.	▼	Eurobank Bulgaria	4,196	7.6%	644	85	2.0%	13.3%	Eurobank
6.	6.	-	Raiffeisenbank	3,977	7.2%	466	68	1.7%	14.5%	Raiffeisen
7.	7.	-	Societe Generale Expressbank	3,287	6.0%	401	56	1.7%	14.0%	OTP
8.	8.	-	Central Cooperative Bank	2,871	5.2%	245	17	0.6%	6.9%	CCB Group
9.	11.	▲	Bulgarian Development Bank	1,546	2.8%	401	20	1.3%	4.9%	State
10.	9.	▼	Piraeus Bank Bulgaria	1,489	2.7%	194	4	0.2%	1.9%	Eurobank
11.	10.	▼	Allianz Bank Bulgaria	1,409	2.6%	113	15	1.1%	13.5%	Allianz
12.	13.	▲	ProCredit Bank	1,107	2.0%	122	19	1.8%	15.9%	ProCredit
13.	12.	▼	Investbank	1,084	2.0%	92	12	1.1%	12.8%	Festa Holding
14.	14.	-	Municipal Bank	968	1.8%	49	4	0.4%	7.2%	Novito Opportunities Fund
15.	15.	-	International Asset Bank	736	1.3%	58	5	0.7%	9.0%	Dynatrade International
16.	16.	-	BACB	726	1.3%	94	6	0.9%	6.7%	CSIF
17.	17.	-	D Commerce Bank	426	0.8%	57	5	1.3%	9.3%	Fuat Gyuen
18.	18.	-	TBI Bank	379	0.7%	93	12	3.2%	13.2%	TBI Financial Services
19.	19.	-	Tokuda Bank	206	0.4%	21	(0)	-0.1%	-0.6%	Tokushukai Incorporated
20.	20.	-	Texim Bank	154	0.3%	19	0	0.0%	0.4%	Web Finance Holding
Total				55,236	100.0%	7,390	891	1.6%	11.8%	

Source: Banks' data disclosure, EMIS, BNB

* corrected ranking (based on bank list 2018)



M&A activity

There have been six major transactions in the Bulgarian banking market over the past years.

- 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. Eurobank Bulgaria's goal is to strengthen its position in the domestic market. The deal has recently been approved by the Regulator. 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. Société Générale is selling businesses in the CEE region due to the lack of economics of scale and synergies.
- 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.
- In 2017, Liechtenstein-based Novito Opportunities Fund received regulatory approval to acquire 67.7% stake in Bulgaria's Municipal for a value of EUR 23.3 mn. Municipal Bank 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, the 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, 2015-2019Q3

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	Bulgarian State
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

Serbia



Macroeconomic environment

- In 2018, the Serbian government economy was expanding by 4.3%, which was highest recorded growth in the last decade, and also a robust increase compared to 2017.
- The inflation trend is quite stable in Serbia, in the last few years the reported inflation was around 2%. This stagnating level is high improvement in the economy, as in the post-crisis period, double-digit consumer price growth was common.
- A positive labour market tendency was driving the year 2018, the average wages showed a significant growth, and the unemployment rate declined. However, the reported 12.7% unemployment rate was still one of the highest in the region.
- The Serbian government reported a budget surplus in 2017 after a 10-year period of continuous budget deficit. In 2018, the budget balance narrowed compared to 2017, but it stayed positive.

Macro indicators	2016	2017	2018	Change 2017-18 (% or % point)	
Nominal GDP (EUR mn)	34,617	36,795	42,780	16.3%	●
Nominal GDP/capita (EUR)	4,905	5,237	6,111	16.7%	●
GDP (% real change pa)	2.8%	1.9%	4.3%	2.4%	●
Consumer prices (% change pa)	1.2%	3.2%	2.0%	-1.2%	●
Recorded unemployment (%)	17.2%	15.0%	12.7%	-2.3%	●
Budget balance (% of GDP)	-1.3%	1.1%	0.6%	-0.5%	●
Public debt (% of GDP)	71.9%	61.6%	53.8%	-7.8%	●

Source: EIU, Eurostat





Banking trends

- Consolidated CAR of the banking sector slightly declined, but its absolute level was one of highest in the region with 22.3%. It also surpassed the regulatory minimum significantly, which was lowered to 8% in 2017.
- Profitability of the banking sector further improved in 2018. The 2.1% ROA was above the regional average, however the 11.3% ROE was slightly below average as the domestic banking sector is highly capitalized.
- The balance sheet amount of the banking sector recorded a robust, 11% growth in 2018. At the same time, the improving asset quality tendency continued in 2018, mainly due to the declining non-performing loan quantity.

Banking sector	2016	2017	2018	Change 2017-18 (% or % point)	
Total assets (EUR mn)	26,257	28,540	31,677	11.0%	●
Asset penetration (%)¹	75.9%	77.6%	74.0%	-3.6%	●
Total equity (EUR mn)	5,123	5,588	5,732	2.6%	●
Total loans (EUR mn)	14,978	16,236	17,772	9.5%	●
Loan penetration (%)²	43.3%	44.1%	41.5%	-2.6%	●
Retail loans (EUR mn)	6,798	7,666	8,508	11.0%	●
Corporate loans (EUR mn)	8,180	8,570	9,265	8.1%	●
Interest rates					
Lending (%)	8.5%	8.2%	7.7%	-0.5%	●
Deposit (%)	2.9%	2.8%	2.8%	0.0%	●
NPL volumes					
Retail NPLs (EUR mn)	678	444	380	-14.3%	●
Corporate NPLs (EUR mn)	1,277	858	482	-43.9%	●
NPL ratios					
Retail NPL ratio (%)	10.0%	5.8%	4.5%	-1.3%	●
Corporate NPL ratio (%)	15.6%	10.1%	5.2%	-4.9%	●
Key ratios					
CAR (%)	21.8%	22.6%	22.3%	-0.3%	●
ROE (%)	3.4%	10.5%	11.3%	0.8%	●
ROA (%)	0.7%	2.1%	2.1%	0.0%	●
CIR (%)	67.7%	63.2%	62.1%	-1.1%	●
L/D (%)	92.5%	93.5%	90.4%	-3.1%	●
FX share of lending (%)	69.3%	67.5%	68.5%	1.0%	●
LLP coverage (%)	67.8%	58.1%	60.2%	2.1%	●

Source: EIU, NBS, ECB CBD

¹Asset penetration = Total assets/Nominal GDP

²Loan penetration = Total loans/Nominal GDP



Banking market

- On the Serbian banking market, 27 locally licensed banks were operating in 2018. In the previous period, several transactions were recorded in the market. Moreover, Serbia's approaching EU membership will make the domestic market more attractive for large financial entities.
- Concentration on the banking segment was moderate in Serbia, the five largest banks owned the 53.9% of the total assets and the HHI was 7.9%.

List of banks in Serbia, 2018 (EUR mn)

Rank 2018	Rank 2017*	YoY change in ranking	Institutions	Total Assets	Market share	Equity	Net income	ROA %	ROE %	Major shareholder
1.	1.	-	Banca Intesa	4,832	15.3%	902	107	2.2%	11.8%	Intesa Sanpaolo
2.	3.	▲	UniCredit Banka	3,701	11.7%	658	78	2.1%	11.8%	UniCredit
3.	2.	▼	Komercijalna Banka	3,394	10.7%	572	69	2.0%	12.0%	State
4.	4.	-	Société Générale Banka	2,674	8.4%	374	69	2.6%	18.4%	Société Générale
5.	5.	-	Raiffeisen Banka	2,470	7.8%	490	56	2.3%	11.4%	Raiffeisen
6.	9.	▲	Banka Poštanska	1,862	5.9%	165	19	1.0%	11.4%	State
7.	6.	▼	AIK Banka	1,748	5.5%	476	48	2.7%	10.0%	BDD M&V Investments
8.	7.	▼	Erste Bank	1,717	5.4%	200	25	1.4%	12.3%	Erste
9.	8.	▼	Eurobank	1,434	4.5%	444	19	1.3%	4.3%	Eurobank Ergasias
10.	10.	-	Vojvođanska Banka	1,131	3.6%	148	5	0.4%	3.4%	OTP
11.	11.	-	Sberbank Srbija	1,029	3.2%	209	11	1.1%	5.3%	Sberbank
12.	12.	-	ProCredit Bank	940	3.0%	135	8	0.9%	6.3%	ProCredit
13.	13.	-	Addiko Bank	847	2.7%	181	11	1.3%	6.1%	Addiko
14.	14.	-	Credit Agricole Banka Srbija	837	2.6%	96	6	0.8%	6.6%	Credit Agricole
15.	15.	-	OTP Banka Srbija	741	2.3%	210	3	0.4%	1.4%	OTP
16.	18.	▲	Direktna Bank	503	1.6%	87	52	10.4%	59.9%	Private Individuals
17.	16.	▼	NLB Banka	486	1.5%	68	5	1.1%	7.7%	Nova Ljubljanska Banka
18.	17.	▼	HalkBank	481	1.5%	94	3	0.6%	3.2%	Turkiye Halk Bankasi
19.	27.	▲	Bank of China Serbia	232	0.7%	16	1	0.3%	4.3%	Bank of China
20.	21.	▲	Opportunity Banka	137	0.4%	26	4	2.6%	13.6%	Opportunity Transformation Investments
21.	20.	▼	Telenor Banka	135	0.4%	13	(5)	-3.8%	-40.2%	Telenor
22.	23.	▲	JUBMES Banka	132	0.4%	33	4	3.0%	11.9%	No majority shareholder
23.	19.	▼	Expobank	131	0.4%	33	1	0.9%	3.6%	Expobank CZ
24.	22.	▼	Srpska Banka	109	0.3%	28	0	0.2%	0.6%	State
25.	25.	-	MTS Banka	91	0.3%	21	0	0.1%	0.2%	State
26.	24.	▼	Api Bank	87	0.3%	14	0	0.3%	1.9%	Private Individuals
27.	26.	▼	Mirabank	50	0.2%	18	(3)	-6.0%	-16.7%	Duingraaf Financial Investments
Total				31,677	100.0%	5,732	646	2.1%	11.3%	

Source: Banks' data disclosure, EMIS, NBS

* corrected ranking (based on bank list 2018)



M&A activity

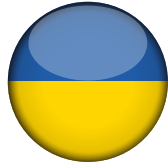
Serbia has been active in M&A in the recent years. There have been 11 major transactions in the Serbian banking sector over the past years, five of them were made publicly for a total of EUR 362.9 mn.

- 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 owns 83.23% of the Komercijalna Banka's shares, which can help it to facilitate the privatization of the Bank under the ongoing privatization process.
- 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 the Société Générale Srbija from its mother company, the French Société Générale. The transaction is in line with the 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 Sebija, Vojvodanska 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 will increase to 5.7% and it will become the 7th largest bank in the country. Divesting foreign portfolios will improve NGB's liquidity and capital position, allowing the reallocation of the resources to the Greek economic recovery. Vojvodjanska Banka was acquired by NGB 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 has 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 SMEs 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, 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, 2015-2019Q3

Year	Target	Buyer	% Acquired	Deal Value in EUR mn	Seller
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	Cacanska Banka	Turkiye Halk Bankasi	76.7%	10	EBRD; State; IFC; Beogradska Banka

Ukraine



Macroeconomic environment

- The Ukrainian economy grew by 3.3% in 2018 due to the increasing household spending and the heavy investment activity in the market.
- Disinflation was reported in the Ukrainian economy in 2018, as the previous year's 14.4% consumer price growth had changed to 10.9%. This was the result of continuous recovery and optimistic outlook regarding financial stability.
- Employment in Ukraine continued to improve in 2018, as a result of the robust wage rises and the shrinking unemployment rate.
- In 2018, the budget balance grew as a result of the declining steel prices, which is one of the most important export commodity of Ukraine. Another factor of the rising budget balance was the ongoing conflict with Russia, which had bad impact on the export activities.

Macro indicators	2016	2017	2018	Change 2017-18 (% or % point)	
Nominal GDP (EUR mn)	83,925	89,055	110,907	24.5%	●
Nominal GDP/capita (EUR)	2,079	2,206	2,614	18.5%	●
GDP (% real change pa)	2.4%	2.5%	3.3%	30.7%	●
Consumer prices (% change pa)	13.9%	14.4%	10.9%	-3.5%	●
Recorded unemployment (%)	9.3%	9.5%	8.8%	-0.7%	●
Budget balance (% of GDP)	-2.9%	-1.5%	-1.6%	-0.1%	●
Public debt (% of GDP)	80.9%	71.8%	60.9%	-10.9%	●

Source: EIU, Eurostat





Banking trends

- Capital adequacy ratio of the banking sector was stable, 0.1% points annual growth was reported in 2018. However, the CAR of some state-owned banks is close to 10%, which is the required minimum level in Ukraine.
- In 2018, the total assets increased in local currency, however due to the volatile Ukrainian hryvnia exchange rate, the total assets of the banking sector is almost on the same level as two years earlier.
- After several years of loss generation, the Ukrainian banking segment reported positive profit in 2018. The sector's ROE reached almost 15% and its ROA extended to 1.7% by the end of 2018.
- Current conditions are quite favourable for the Ukrainian banking sector due to the positive domestic economic outlook. Moreover, the penetration level of the banking services in the local market and the share of the cashless payments have been increasing.

Banking sector	2016	2017	2018	Change 2017-18 (% or % point)	
Total assets (EUR mn)	60,647	54,271	60,704	11.9%	●
Asset penetration (%)¹	52.7%	45.2%	54.7%	9.5%	●
Total equity (EUR mn)	4,356	4,698	4,922	4.8%	●
Total loans (EUR mn)	35,341	31,007	34,941	12.7%	●
Loan penetration (%)²	42.1%	34.8%	31.5%	-3.3%	●
Retail loans (EUR mn)	5,537	4,895	6,152	25.7%	●
Corporate loans (EUR mn)	29,803	26,112	28,701	9.9%	●
Interest rates					
Lending (%)	19.2%	16.4%	19.0%	2.6%	●
Deposit (%)	11.5%	9.1%	11.8%	2.7%	●
NPL volumes					
Retail NPLs (EUR mn)	n.a.	2,619	2,833	8.1%	●
Corporate NPLs (EUR mn)	n.a.	14,631	16,024	9.5%	●
NPL ratios					
Retail NPL ratio (%)	n.a.	53.5%	46.0%	-7.5%	●
Corporate NPL ratio (%)	n.a.	56.0%	55.8%	-0.2%	●
Key ratios					
CAR (%)	12.7%	16.1%	16.2%	0.1%	●
ROE (%)	-128.8%	-17.9%	14.7%	32.6%	●
ROA (%)	-12.6%	-2.1%	1.7%	3.8%	●
CIR (%)	53.5%	57.2%	61.2%	4.0%	●
L/D (%)	120.3%	114.1%	119.1%	5.0%	●
FX share of lending (%)	49.4%	43.9%	42.8%	-1.1%	●
LLP coverage (%)	99.5%	85.2%	90.3%	5.1%	●

Source: EIU, NBU, ECB CBD

Note: Disclosure of NPL volumes and ratios by segments (retail / corporate) is not available until February 2017.

¹Asset penetration = Total assets/Nominal GDP ²Loan penetration = Total loans/Nominal GDP



Banking market

- There were 76 locally licensed banks in Ukraine at the end of 2018. In spite of the outstanding number of entities, in the previous 4 years, more than 80 banks had to close their operations.
- The largest stakeholder of the domestic banking sector is the Ukrainian government by an ownership of around 50%. This situation is a consequence of the nationalization of PrivatBank, the largest financial institution.
- The Ukrainian bank sector is one of the least concentrated in the European market with a 5.1% HHI. Due to the numerous number of financial institutions, at the end of 2018, the five largest banks owned only 43% of the total assets of the domestic banking sector.

List of banks in Ukraine, 2018 (EUR mn)

Rank 2018	Institutions	Total Assets	Market share	Equity	Net income	ROA %	ROE %	Major shareholder
1.	CB PrivatBank	8,893	14.6%	992	363	4.1%	36.6%	State
2.	State Savings Bank of Ukraine	6,882	11.3%	581	4	0.1%	0.7%	State
3.	JSC Ukreximbank	5,074	8.4%	265	25	0.5%	9.5%	State
4.	UkrGasbank	2,597	4.3%	182	24	0.9%	13.1%	State
5.	Raiffeisen Bank Aval	2,496	4.1%	366	158	6.3%	43.2%	Raiffeisen
6.	Alfa-Bank	1,898	3.1%	157	39	2.1%	24.9%	Abh Ukraine
7.	UkrSibbank	1,661	2.7%	212	83	5.0%	39.0%	BNP Paribas
8.	First Ukrainian International Bank	1,574	2.6%	201	63	4.0%	31.6%	SKM Finance TOV
9.	OTP Bank	1,036	1.7%	166	61	5.9%	37.1%	OTP
10.	Credit Agricole Bank	1,034	1.7%	132	46	4.4%	34.4%	Credit Agricole
11.	Sberbank	965	1.6%	149	(237)	-24.5%	-159.5%	Sberbank
12.	Bank Pivdennyi	786	1.3%	79	9	1.1%	11.1%	No majority shareholder
13.	Citibank	777	1.3%	73	44	5.7%	60.6%	Citibank
15.	TAScombank	559	0.9%	68	13	2.4%	19.7%	Alkemi Limited
14.	Procredit Bank	662	1.1%	94	21	3.1%	21.9%	ProCredit Holding
16.	Kredobank	530	0.9%	65	16	3.1%	25.1%	Pko Bank Polski
17.	Ukrsotsbank	508	0.8%	107	(28)	-5.4%	-25.9%	ABH Holdings
18.	Prominvestbank	435	0.7%	87	(105)	-24.2%	-121.2%	State
19.	Ing Bank Ukraine	345	0.6%	129	16	4.6%	12.3%	Ing Bank
20.	Bank Credit Dnepr	317	0.5%	33	(7)	-2.2%	-21.5%	Brancroft Enterprises Limited
21.	Megabank	311	0.5%	31	1	0.4%	3.6%	No majority shareholder
22.	Bank Vostok	296	0.5%	22	4	1.3%	16.7%	Vostok Kapital
23.	International Investment Bank	295	0.5%	11	2	0.7%	18.1%	Closed-end Non-diversified Corporate Investment Fund Prime Assets Capital
24.	Universal Bank	264	0.4%	28	3	1.1%	10.2%	Baillikan Limited
25.	Industrialbank	159	0.3%	40	1	0.4%	1.6%	No majority shareholder
26.	MTB Bank *	158	0.3%	22	1	0.4%	3.0%	Cyprus Popular Bank Public
27.	A-Bank	157	0.3%	33	19	12.3%	59.1%	No majority shareholder
28.	Praveks-bank	142	0.2%	63	(4)	-3.0%	-6.8%	Intesa Sanpaolo
29.	Bank of Investments and Savings	133	0.2%	17	0	0.2%	1.9%	No majority shareholder
30.	Idea Bank	133	0.2%	23	10	7.9%	46.2%	Getin Holding Spolka Akcyjna
31.	Deutsche Bank	111	0.2%	12	1	1.2%	11.6%	Deutsche Bank
32.	Piraeus Bank	86	0.1%	19	2	1.9%	8.4%	Piraeus Bank
33.	Globus Bank	84	0.1%	10	1	0.7%	5.9%	Ukrainski Media Tehnologii TOV
34.	Bank Lviv	76	0.1%	8	(1)	-1.7%	-17.0%	responsAbility Participations

List of banks in Ukraine, 2018 (EUR mn)								
Rank 2018	Institutions	Total Assets	Market share	Equity	Net income	ROA %	ROE %	Major shareholder
35.	Poltava-bank	73	0.1%	23	3	4.0%	12.9%	Private individuals
36.	JSCB Arcada	73	0.1%	30	0	0.4%	1.0%	No majority shareholder
37.	Bank Clearing House	68	0.1%	17	6	8.7%	35.3%	No majority shareholder
38.	Bank Alliance	67	0.1%	13	3	5.2%	27.4%	Private individuals
39.	SEB Corporate Bank	64	0.1%	17	2	3.6%	13.6%	Skandinaviska Enskilda Banken
40.	Akordbank	57	0.1%	8	1	2.3%	16.3%	Volynets Danylo Mefodiyovych
41.	Bank Forward	54	0.1%	8	(5)	-9.4%	-67.7%	Russian Standard Bank JSC
42.	CreditWest Bank	53	0.1%	13	2	3.8%	15.7%	Altinbas Holding Anonim Sirketi JSC
43.	Credit Europe Bank	50	0.1%	11	1	2.5%	11.8%	Credit Europe Bank
44.	Radabank	47	0.1%	9	1	1.2%	6.7%	Private individuals
45.	Misto Bank	46	0.1%	7	(3)	-5.6%	-35.0%	No majority shareholder
46.	Bank Grant	46	0.1%	17	2	4.7%	12.6%	Private individuals
47.	Motor-Bank	45	0.1%	10	1	2.4%	11.2%	Private individuals
48.	Crystalbank	43	0.1%	9	0	0.6%	2.9%	Private individuals
49.	First Investment Bank	42	0.1%	9	2	4.4%	20.0%	Giner Evgeny Lennorovich
50.	Cominvestbank	40	0.1%	10	0	0.5%	2.0%	No majority shareholder
51.	Commercial Industrial Bank	35	0.1%	7	0	1.0%	4.9%	Private individuals
52.	Commercial Bank Concord	33	0.1%	9	0	1.0%	3.5%	Private individuals
53.	Bank 3/4	32	0.1%	17	1	4.5%	8.7%	Private individuals
54.	Bank Sich	30	0.0%	7	0	0.5%	2.4%	Private individuals
55.	Ibox Bank	30	0.0%	7	0	0.0%	0.1%	Private individuals
56.	Avangard Bank	29	0.0%	10	0	1.1%	3.2%	Westal Holdings
57.	Unex Bank	29	0.0%	8	(0)	-1.2%	-4.1%	Vyzain Investments
58.	Ukrbudinvestbank	29	0.0%	7	0	0.9%	3.6%	Private individuals
59.	AP BANK	29	0.0%	10	1	2.6%	7.7%	n.a.
60.	Asvio Bank	28	0.0%	14	2	5.7%	11.3%	Private individuals
61.	Bank Ukrainian Capital	26	0.0%	8	0	1.3%	4.4%	No majority shareholder
62.	MetaBank	25	0.0%	9	1	3.8%	11.2%	No majority shareholder
63.	Altbank	22	0.0%	7	1	2.7%	8.0%	No majority shareholder
64.	Zemelny Capital	21	0.0%	8	1	2.5%	6.8%	Private individuals
65.	Policombank	20	0.0%	8	0	0.1%	0.2%	No majority shareholder
66.	Oksi Bank	18	0.0%	6	(0)	-0.4%	-1.2%	Private individuals
67.	Bta Bank	17	0.0%	12	0	0.9%	1.2%	BTA Bank
68.	Euroroprombank	17	0.0%	7	0	0.6%	1.5%	Private individuals
69.	Sky Bank	16	0.0%	7	(0)	-1.5%	-3.7%	Private individuals
70.	Bank Family	12	0.0%	6	1	5.6%	11.0%	Cristela Limited
71.	Bank Trust-Capital	10	0.0%	8	0	0.5%	0.7%	Private individuals
72.	Settlement center	10	0.0%	8	1	11.9%	14.5%	National Bank of Ukraine
73.	Alpari Bank	8	0.0%	7	(0)	-1.8%	-2.0%	Private individuals
74.	Ukrainian Bank for Reconstruction and Development	7	0.0%	6	0	3.4%	4.0%	BOCE (Hong Kong)
75.	Bank Portal	7	0.0%	7	0	2.7%	2.9%	Private individuals
76.	RVS BANK	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	Private individuals
Total		60,704	100%	4,922	722	1.7%	14.7%	

Source: Banks' data disclosure, EMIS, NBU

* Marfin Bank changed its name to MTB Bank as of March 2018



M&A activity

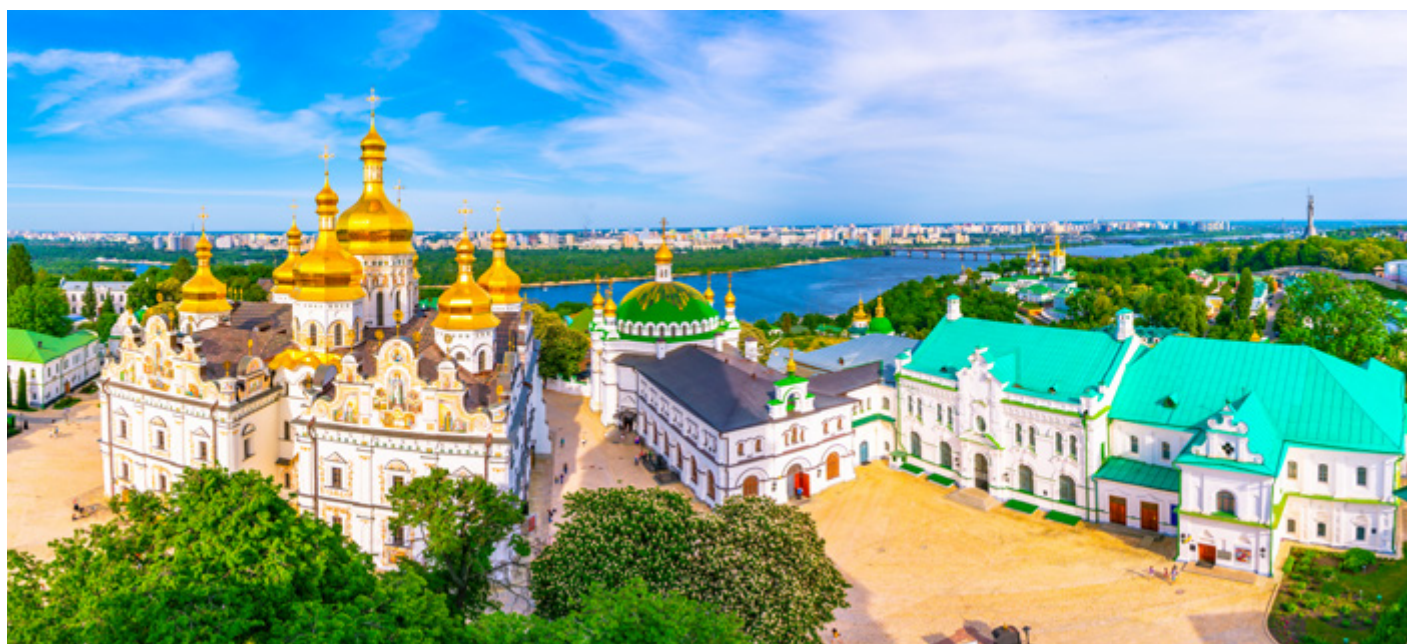
The Ukrainian banking sector experienced significant M&A activity with 14 acquisitions over the past years.

- In 2019, 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 Sberbank 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 2017, the Russian Sberbank planned to sell its Ukrainian subsidiary to the Latvian Norvik Banka (45%) and to a Russian private investor (55%). The national Bank of Ukraine refused the approval of the deal, as the buyers did not provide the necessary information for the transaction to proceed.
- 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 Ukrsootsbank 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 Ukrsootsbank's portfolio. Prior to the deal, in 2013, two Ukrainian assets of UniCredit Group (Ukrsootsbank PJSC and Ukrsootsbank OJSC) merged to create the renovated Ukrsootsbank.
- 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 Corporation (UBG) acquired PAO Omega Bank from the Swedish Swedbank. Before the transaction, the Omega was declared insolvent. The transaction was funded 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, OOO 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.
- In 2015, ES2 Holding Pte (Singaporean consortium of investors) planned to acquire 99.7% of Energobank PJSC from Roylance Services Limited (Cypriot investment holding company, owned by a Ukrainian private investor). In March 2015, ES2 Holding Ltd. has decided to terminate the acquisition of shares in Energobank from Roylance Services Limited.

List of banking M&A deals in Ukraine, 2015-2019Q3

Year	Target	Buyer	% Acquired	Deal Value in EUR mn	Seller
2019	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	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



Bosnia and Herzegovina



Macroeconomic environment

- During the year 2018, the trend of slight recovery in the Bosnian economy had great impact on the country's financial stability.
- In 2018, the inflation reached 1.4% in Bosnia and Herzegovina. The key drivers of the consumer price increase were the higher excise duties on the tobacco and alcohol products and the newly introduced excise duties for the oil related goods.
- The labour market slightly improved compared to 2017, but neither the wages, nor the unemployment rate dropped significantly.
- Public debt slightly increased, but its ratio to the GDP showed the shrinking tendency.

Macro indicators	2016	2017	2018	Change 2017-18 (% or % point)	
Nominal GDP (EUR mn)	16,077	15,050	17,295	14.9%	●
Nominal GDP/capita (EUR)	4,571	4,291	4,941	15.1%	●
GDP (% real change pa)	3.4%	3.4%	3.0%	-11.8%	●
Consumer prices (% change pa)	-1.6%	0.8%	1.4%	0.6%	●
Recorded unemployment (%)	n.a.	38.4%	36.0%	-2.4%	●
Budget balance (% of GDP)	0.4%	2.1%	0.8%	-1.3%	●
Public debt (% of GDP)	43.7%	40.5%	38.9%	-1.6%	●

Source: EIU, Eurostat





Banking trends

- In accordance with the Basel III framework, the legislation regarding to the capital adequacy has changed in Bosnia and Herzegovina, requiring lower regulatory capital. Nonetheless, the consolidated CAR of the banking industry improved in 2018. There was only one small bank which did not meet the regulatory minimum of capital in 2018.
- The total assets of the banking sector grew by 9.2% to EUR 15.8 bn due to the massive growth in domestic deposits and the rising tendency in the loan portfolio. Improvement in the asset quality was also recorded in 2018, mainly due to the falling trend in the non-performing loans.
- In 2018, the country reported still high, but slightly lower profitability ratios than in 2017. The main factor of the minor decrease is the slowing tendency of the robust operating income growth of the previous years, which was the key driver of the banking sector's profitability.

Banking sector	2016	2017	2018	Change 2017-18 (% or % point)	
Total assets (EUR mn)	13,344	14,464	15,794	9.2%	●
Asset penetration (%) ¹	83.0%	96.1%	91.3%	-4.8%	●
Total equity (EUR mn)	3,773	3,817	3,937	3.1%	●
Total loans (EUR mn)	8,605	9,228	9,942	7.7%	●
Loan penetration (%) ²	53.5%	61.3%	57.5%	-3.8%	●
Retail loans (EUR mn)	4,129	4,423	4,698	6.2%	●
Corporate loans (EUR mn)	4,475	4,459	4,614	3.5%	●
Interest rates					
Lending (%)	5.2%	4.4%	3.8%	-0.6%	●
Deposit (%)	1.6%	1.2%	1.0%	-0.2%	●
NPL volumes					
Retail NPLs (EUR mn)	352	332	305	-8.0%	●
Corporate NPLs (EUR mn)	653	548	498	-9.2%	●
NPL ratios					
Retail NPL ratio (%)	8.6%	7.5%	6.5%	-1.0%	●
Corporate NPL ratio (%)	15.3%	12.3%	10.8%	-1.5%	●
Key ratios					
CAR (%)	15.8%	15.7%	17.5%	1.8%	●
ROE (%)	7.3%	10.2%	9.6%	-0.6%	●
ROA (%)	1.1%	1.5%	1.3%	-0.2%	●
CIR (%)	n.a.	n.a.	n.a.	n.a.	n.a.
L/D (%)	98.3%	95.2%	91.2%	-4.0%	●
FX share of lending (%)	59.9%	58.9%	55.4%	-3.5%	●
LLP coverage (%)	74.4%	76.7%	77.4%	0.7%	●

Source: CBBH, ECB CBD ¹Asset penetration = Total assets/Nominal GDP ²Loan penetration = Total loans/Nominal GDP



Banking market

- 23 locally-licensed banks were operating in Bosnia and Herzegovina at the end of 2018. In the last 10 years the number of entities were declining, 10 banks were merged into other financial institutions or closed during this period.
- The country's largest banks are subsidiaries of major European financial groups, like UniCredit, Raiffeisen and Intesa Sanpaolo.
- Concentration on the banking market was relatively low at the end of 2018. The five largest domestic banks owned a slightly more than 50% of the total assets and the HHI of the segment was 8.3%.

List of banks in Bosnia and Herzegovina, 2018 (EUR mn)

Rank 2018	Institutions	Total Assets	Market share	Equity	Net income	ROA %	ROE %	Major shareholder
1.	UniCredit Bank	3,043	19.3%	407	50	1.6%	12.3%	Zagrebacka Banka
2.	Raiffeisen Bank	2,248	14.2%	280	43	1.9%	15.4%	Raiffeisen
3.	Nova Banka	1,121	7.1%	79	5	0.5%	6.5%	Private Individuals
4.	Intesa Sanpaolo Banka	1,054	6.7%	141	19	1.8%	13.5%	Privredna Banka Zagreb
5.	UniCredit Banka	848	5.4%	112	14	1.7%	12.7%	UniCredit
6.	Sparkasse Bank	750	4.7%	118	8	1.1%	6.8%	Erste
7.	Sberbank BH	732	4.6%	89	3	0.5%	3.9%	Sberbank
8.	NLB Banka, Banja Luka	721	4.6%	88	16	2.2%	18.4%	NLB Group
9.	NLB Banka	591	3.7%	77	-	0.0%	0.0%	NLB Group
10.	ZiraatBank BH	519	3.3%	88	0	0.0%	0.0%	T.C. Ziraat Bankasi
11.	Bosna Bank International	511	3.2%	74	5	1.0%	6.8%	Islamic Development Bank
12.	Addiko Bank	454	2.9%	104	4	1.0%	4.3%	Hypo Alpe-Adria-Bank
13.	Sberbank	450	2.8%	64	2	0.4%	3.0%	Sberbank
14.	Addiko Bank	407	2.6%	79	2	0.4%	2.1%	Hypo Alpe-Adria-Bank
15.	ProCredit Bank	255	1.6%	26	0	0.0%	0.1%	Zeitinger Invest
16.	ASA Banka	253	1.6%	32	3	1.1%	8.4%	No majority shareholder
17.	Privredna Banka Sarajevo	248	1.6%	28	0	0.0%	0.0%	No majority shareholder
18.	Komercijalna Banka	235	1.5%	33	1	0.4%	3.1%	Komercijalna Banka
19.	MF Banka	206	1.3%	28	3	1.3%	9.4%	Mkd Mikrofin Doo Banja Luka
20.	Razvojna Banka Federacije	166	1.1%	86	0	0.2%	0.3%	State
21.	Vakufska Banka	157	1.0%	15	1	0.4%	3.7%	Badeco Adria
22.	Pavlovic International Bank *	91	0.6%	17	0	0.0%	0.2%	No majority shareholder
23.	Komercijalno-investiciona Banka	54	0.3%	15	-	0.0%	0.0%	Komercijalna Banka
Total		15,794	100.0%	2,139	205	1.3%	9.6%	

Source: Banks' data disclosure, EMIS, CBBH

* Data from 2017



M&A activity

The Bosnian banking sector was stable in the past years.

In November 2019, a 73.2% 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.

There was one major acquisition in the banking market over the past years in the Bosnia-Herzegovina.

- 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 and Herzegovina, 2015-2019Q3					
Year	Target	Buyer	% Acquired	Deal Value in EUR mn	Seller
2016	Privredna Banka Sarajevo	BOR Banka	100.0%	n.a.	n.a.

Source: Deloitte Intelligence



Albania



Macroeconomic environment

- The Albanian economy grew by 4.0% in 2018, mainly as a result of the upward domestic demand trend. The household consumptions were growing, while the government consumptions were declining in this period.
- In 2018, the reported inflation was 2.0%, similarly to 2017. Due to the minor supply-side shocks and the curbing effect of the appreciation of the Albanian currency (Albanian lek), the consumer prices could not show a higher growth.
- The four-year-long downward trend of unemployment rate continued, reaching 6.3%.
- The budget deficit to GDP narrowed in 2018 due to the consolidation trend in the current Albanian fiscal policy. The public debt to GDP ratio did not change in last year, showing a relatively high, 70% value.

Macro indicators	2016	2017	2018	Change 2017-18 (% or % point)	
Nominal GDP (EUR mn)	10,740	11,576	12,746	10.1%	●
Nominal GDP/capita (EUR)	3,703	3,992	4,395	10.1%	●
GDP (% real change pa)	3.4%	3.8%	4.0%	0.2%	●
Consumer prices (% change pa)	1.3%	2.0%	2.0%	0.0%	●
Recorded unemployment (%)	10.3%	7.6%	6.3%	-1.3%	●
Budget balance (% of GDP)	-1.8%	-2.0%	-1.6%	0.4%	●
Public debt (% of GDP)	72.2%	70.0%	70.1%	0.1%	●

Source: EIU, Eurostat





Banking trends

- In 2018, the consolidated capital adequacy ratio improved by 1.6% points to 18.2%. The continuation of the accelerating trend was the result of the decline in the risk weighted assets and the slightly decreased regulatory capital. In the previous 3.5 years, all of the banks' reported CAR was above 12%, which is the current regulatory minimum in the Albanian banking sector.
- The total assets of the banking sector has been growing in 2018, reaching EUR 11.8 bn. Furthermore, the asset quality has also improved due to the shrinking non-performing loan tendency.
- In 2018, the profitability of the Albanian banking sector slightly decreased not only because of the higher losses from financial instruments, but also because of the impact of the increasing amount of provisions in the banks' balance sheet. The ROE declined by 2.7% points to 13.0% and the ROA dropped by 0.3% points to 1.2%.

Banking sector	2016	2017	2018	Change 2017-18 (% or % point)	
Total assets (EUR mn)	10,407	10,871	11,772	8.3%	●
Asset penetration (%)¹	96.9%	93.9%	92.4%	-1.5%	●
Total equity (EUR mn)	997	1,070	1,074	0.3%	●
Total loans (EUR mn)	4,440	4,520	4,705	4.1%	●
Loan penetration (%)²	41.3%	39.0%	36.9%	-2.1%	●
Retail loans (EUR mn)	1,247	1,339	1,497	11.8%	●
Corporate loans (EUR mn)	3,192	3,181	3,208	0.9%	●
Interest rates					
Lending (%)	5.5%	7.2%	6.8%	-0.4%	●
Deposit (%)	0.8%	0.8%	0.9%	0.1%	●
NPL volumes					
Retail NPLs (EUR mn)	125	102	96	-5.9%	●
Corporate NPLs (EUR mn)	683	538	459	-14.6%	●
NPL ratios					
Retail NPL ratio (%)	10.0%	7.6%	6.4%	-1.2%	●
Corporate NPL ratio (%)	21.4%	16.9%	14.3%	-2.6%	●
Key ratios					
CAR (%)	15.7%	16.6%	18.2%	1.6%	●
ROE (%)	7.2%	15.7%	13.0%	-2.7%	●
ROA (%)	0.7%	1.5%	1.2%	-0.3%	●
CIR (%)	61.2%	71.9%	77.6%	5.7%	●
L/D (%)	51.9%	51.5%	49.2%	-2.3%	●
FX share of lending (%)	59.0%	56.0%	56.1%	0.1%	●
LLP coverage (%)	70.5%	71.7%	65.6%	-6.1%	●

Source: AAB, BoA

¹Asset penetration = Total assets/Nominal GDP

²Loan penetration = Total loans/Nominal GDP



Banking market

- 14 locally-licensed banks were operating in Albania at the end of 2018. The majority of the sector was owned by foreign banking groups.
- At the end of 2018, the Albanian bank sector's concentration was significantly high. The HHI of the segment was 15.4% and the five largest banks owned more than 75% of the consolidated balance sheet.

List of banks in Albania, 2018 (EUR mn)								
Rank 2018	Institutions	Total Assets	Market share	Equity	Net income	ROA %	ROE %	Major shareholder
1.	Banka Kombëtare Tregtare	3,443	29.2%	380	51	1.5%	13.4%	Calik Finansal Hizmetler
2.	Raiffeisen Bank Albania	1,806	15.3%	219	27	1.5%	12.5%	Raiffeisen
3.	Credins Bank	1,570	13.3%	126	3	0.2%	2.5%	No majority shareholder
4.	Intesa Sanpaolo Bank Albania	1,388	11.8%	164	4	0.3%	2.2%	Intesa Sanpaolo
5.	Societe Generale Albania	666	5.7%	58	(5)	-0.7%	-7.8%	Societe Generale
6.	American Bank of Investments	630	5.4%	73	5	0.7%	6.3%	Tranzit Finance
7.	Alpha Bank Albania	625	5.3%	70	(8)	-1.3%	-11.3%	Alpha Bank
8.	Tirana Bank	591	5.0%	103	(13)	-2.2%	-12.9%	Piraeus Bank
9.	Union Bank	416	3.5%	37	4	1.0%	11.6%	Unioni Financiar Tirane
10.	ProCredit Bank	259	2.2%	25	(6)	-2.5%	-25.0%	ProCredit Holding
11.	Fibank Albania	200	1.7%	28	3	1.6%	11.8%	Fibank
12.	International Commercial Bank	83	0.7%	10	(1)	-0.6%	-5.2%	ICB Financial Group Holding
13.	United Bank of Albania	69	0.6%	11	0	0.4%	1.7%	Islamic Development Bank
14.	Credit Bank of Albania	12	0.1%	8	(1)	-4.5%	-6.9%	Private individuals
Total		11,772	100%	1,074	141	1.2%	13.0%	

Source: Banks' data disclosure, EMIS, BoA

* corrected ranking (based on bank list 2018)



M&A activity

There were 4 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 a part of the 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, 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 asset of EUR 305.7m 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, 2015-2019Q3

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	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



Baltic region - Estonia



Macroeconomic environment

- Estonia's nominal GDP raised by 11.5%, driven by private consumption growth. Nonetheless, the real GDP was shrank by 1 % points. It means that although the economy was growing nominally, it is showing a slowing tendency.
- After deflation and almost-zero inflation in 2015 and 2016, the Estonian economy was reporting a 3.4% inflation in 2017. In 2018, the same value, 3.4% was recorded in the domestic market.
- Employment improved in the Estonian market in 2018, due to the gross monthly wage-raises and the declining unemployment rate tendency which has been continuing in 2018.
- Budget deficit was slightly increasing in 2018. At the same time, public debt to GDP was improved by 0.6 % points to 8.4%, which is the lowest among the regional countries.

Macro indicators	2016	2017	2018	Change 2017-18 (% or % point)	
Nominal GDP (EUR mn)	21,098	23,002	25,657	11.5%	●
Nominal GDP/capita (EUR)	16,033	17,484	19,736	12.9%	●
GDP (% real change pa)	2.1%	4.9%	3.9%	-1.0%	●
Consumer prices (% change pa)	0.1%	3.4%	3.4%	0.0%	●
Recorded unemployment (%)	6.8%	5.8%	5.4%	-0.4%	●
Budget balance (% of GDP)	-0.3%	-0.3%	-0.6%	-0.3%	●
Public debt (% of GDP)	9.4%	9.0%	8.4%	-0.6%	●

Source: EIU, Eurostat





Banking trends

- In the Estonian banking sector, the consolidated capital adequacy ratio has slightly improved in 2018. This ratio was the highest in the Baltic region.
- Asset quality of the banking sector was continuously improving in 2018. Compared to the EU average, the Estonian banking segment's liquid assets had larger share in the total assets, which make the domestic banking market less vulnerable to potential minor shocks.
- The trend of accelerating profitability in the Estonian banking sector continued in 2018. The key factors of this improvement were good asset quality, high efficiency, and the interest expenses.

Banking sector	2016	2017	2018	Change 2017-18 (% or % point)	
Total assets (EUR mn)	24,808	25,325	26,559	4.9%	●
Asset penetration (%)¹	117.6%	110.1%	103.5%	-6.6%	●
Total equity (EUR mn)	3,225	3,743	3,826	2.2%	●
Total loans (EUR mn)	15,210	15,320	16,095	5.1%	●
Loan penetration (%)²	72.1%	66.6%	62.7%	-3.9%	●
Retail loans (EUR mn)	7,711	8,242	8,765	6.3%	●
Corporate loans (EUR mn)	7,499	7,078	7,330	3.6%	●
Interest rates					
Lending (%)³	2.2%	2.1%	2.1%	0.0%	●
Deposit (%)	0.4%	0.5%	0.6%	0.1%	●
NPL volumes					
Retail NPLs (EUR mn)	41	37	33	-10.1%	●
Corporate NPLs (EUR mn)	115	91	54	-40.5%	●
NPL ratios					
Retail NPL ratio (%)	0.5%	0.4%	0.4%	0.0%	●
Corporate NPL ratio (%)	1.5%	1.3%	0.7%	-0.6%	●
Key ratios					
CAR (%)	34.6%	30.1%	30.3%	0.2%	●
ROE (%)	11.1%	9.2%	9.8%	0.6%	●
ROA (%)	1.5%	1.4%	1.4%	0.0%	●
CIR (%)	44.5%	46.3%	45.3%	-1.0%	●
L/D (%)	99.0%	89.8%	93.5%	3.7%	●
FX share of lending (%)	0.8%	0.7%	0.5%	-0.2%	●
LLP coverage (%)	61.1%	37.1%	41.8%	4.7%	●

Source: Eesti Pank, ECB CBD

¹Asset penetration = Total assets/Nominal GDP

²Loan penetration = Total loans/Nominal GDP

³Estimated based on the weighted average rate between retail and corporate



Banking market

- Structure of the sector mainly changed in the 2000's, when the number of banks decreased due to the Asian and Russian financial crisis. Since then, the industry has been dominated by foreign-owned companies. The financial system's concentration in the Baltic countries has been continuously high in the previous years. The Estonian banking sector has reported a 24.2% HHI and the five largest banks owned more than 85% of the total assets.
- Restructuring of the Luminor group will increase the structural risk to the Estonian banking segment as the Latvian and Lithuanian subsidiaries are converted into branches and later merged into the Estonian head office.
- In 2018, the ECB withdrawn Versobank's banking authorization in line with the Estonian Financial Supervision Authority's (EFSA) recommendation. EFSA accused Versobank with serious breaches of legal requirements, especially regarding the prevention of money laundering and combating the financing of terrorism.

List of banks in Estonia, 2018 (EUR mn)										
Rank 2018	Rank 2017*	YoY change in ranking	Institutions	Total Assets	Market share	Equity	Net income	ROA %	ROE %	Major shareholder
1.	1.	-	Swedbank	10,577	39.8%	1,713	183	1.7%	10.7%	Swedbank AB
2.	2.	-	SEB	6,379	24.0%	833	86	1.3%	10.3%	SEB AB
3.	3.	-	Luminor	3,853	14.5%	465	41	1.1%	8.8%	Luminor Group AB
4.	4.	-	LHV Pank	1,636	6.2%	114	16	1.0%	13.6%	LHV Group
5.	5.	-	Bigbank	527	2.0%	118	18	3.4%	15.0%	Private individuals
6.	6.	-	Coop Pank	439	1.7%	42	0	0.0%	0.4%	Coop Investeeringud
7.	8.	▲	Inbank	298	1.1%	35	6	2.1%	17.9%	No majority shareholder
8.	7.	▼	Tallinna Aripanga	215	0.8%	27	1	0.7%	5.3%	Leonarda Invest Aktsiaselts
Total				26,559	100.0%	3,826	377	1.4%	9.8%	

Source: Banks' data disclosure, EMIS, Eesti Pank * corrected ranking (based on bank list 2018)

Baltic region - Latvia



Macroeconomic environment

- Latvia has reported a 5% economic growth in 2018, the second year in a row. The key factor of this growth was the robust domestic demand.
- Inflation in Latvia reached 2.5% in 2018, mainly due to the rising commodity prices in the global market.
- Latvia's positive unemployment trend continued in 2018, and the average wages have also slightly increased during this period.
- Latvia reached a budget deficit of 1% of the annual GDP, but based on the forecasts, the country will be able to narrow this gap in the upcoming years. Public debt ratio to GDP has improved by 4.3% points to 35.9%.

Macro indicators	2016	2017	2018	Change 2017-18 (% or % point)	
Nominal GDP (EUR mn)	24,926	26,857	29,524	9.9%	●
Nominal GDP/capita (EUR)	12,653	13,710	15,539	13.3%	●
GDP (% real change pa)	1.5%	5.0%	5.0%	0.0%	●
Consumer prices (% change pa)	0.2%	2.9%	2.5%	-0.4%	●
Recorded unemployment (%)	9.6%	8.7%	7.4%	-1.3%	●
Budget balance (% of GDP)	0.1%	-0.5%	-1.0%	-0.5%	●
Public debt (% of GDP)	40.5%	40.3%	35.9%	-4.4%	●

Source: EIU, Eurostat





Banking trends

- Latvia's bank sector was well-capitalized in 2018, and its capital adequacy ratio was above the CEE average. In 2018, the CAR slightly improved from 21.4% to 21.6%. The total capital of the bank sector mainly consists of higher quality capital and its share is continuously increasing.
- The Latvian bank sector's total assets have decreased significantly by more than 20% in 2018, and its liquid assets to total assets ratio has also dropped by 5.6% points to 31.8%. The main reasons behind the huge decline are the declining money laundering and terrorist financing risk tolerance in the market and the implementation of new measures regarding to these risks. The Anti-Money Laundering and Counter-Terrorism Financing risk mitigation was still ongoing at the end of 2018, as reviewing the entire domestic and cross-border client activities is costly and time-consuming.
- The banking sector's consolidated earnings ratios improved in the period due to the shrinking of net provision costs and the impact of the implementation of the new Latvian tax reform.

Banking sector	2016	2017	2018	Change 2017-18 (% or % point)	
Total assets (EUR mn)	29,676	28,554	22,583	-20.9%	●
Asset penetration (%) ¹	119.1%	106.3%	76.5%	-29.8%	●
Total equity (EUR mn)	2,993	3,220	2,893	-10.2%	●
Total loans (EUR mn)	13,525	12,675	13,395	5.7%	●
Loan penetration (%) ²	54.3%	47.2%	45.4%	-1.8%	●
Retail loans (EUR mn)	5,581	5,531	5,727	3.6%	●
Corporate loans (EUR mn)	7,943	7,144	7,668	7.3%	●
Interest rates					
Lending (%)	2.6%	2.6%	2.7%	0.1%	●
Deposit (%)	0.0%	0.1%	0.1%	0.0%	●
NPL volumes					
Retail NPLs (EUR mn) ³	275	182	177	n.a.	n.a.
Corporate NPLs (EUR mn) ³	172	182	349	n.a.	n.a.
NPL ratios					
Retail NPL ratio (%) ³	4.9%	3.3%	3.1%	n.a.	n.a.
Corporate NPL ratio (%) ³	2.2%	2.5%	4.6%	n.a.	n.a.
Key ratios					
CAR (%)	21.5%	21.4%	21.6%	0.2%	●
ROE (%)	14.3%	7.6%	9.2%	1.6%	●
ROA (%)	1.5%	0.9%	1.2%	0.3%	●
CIR (%)	47.8%	58.4%	61.3%	2.9%	●
L/D (%)	62.4%	60.6%	62.4%	1.8%	●
FX share of lending (%)	12.5%	8.4%	4.2%	-4.2%	●
LLP coverage (%)	46.3%	44.2%	40.3%	-3.9%	●

Source: Latvijas Banka, ECB CBD

¹Asset penetration = Total assets/Nominal GDP

²Loan penetration = Total loans/Nominal GDP



Banking market

- 15 locally licensed banks were operating at the end of 2018 in Latvia. At the beginning of 2018, the third largest bank (based on 2017 Q4 data), the ABLV Bank, announced its voluntary liquidation due to its accusations of money laundering by the United States Department of the Treasury.
- Remaining bank sector's concentration was still robust, as the five largest banks owned four fifth of the total assets and the HHI of the segment was 15.4%.

List of banks in Latvia, 2018 (EUR mn)										
Rank 2018	Rank 2017*	YoY change in ranking	Institutions	Total Assets	Market share	Equity	Net income	ROA %	ROE %	Major shareholder
1.	1.	-	Swedbank	5,835	25.8%	805	111	1.9%	13.8%	Swedbank
2.	2.	-	Luminor	4,692	20.8%	547	44	0.9%	8.1%	DNB & Nordea Bank
3.	3.	-	SEB Banka	3,706	16.4%	371	46	1.2%	12.4%	SEB
4.	5.	▲	Citadele Bank	2,330	10.3%	268	33	1.4%	12.3%	Ripplewood Holdings
5.	4.	▼	Rietumu Bank	1,546	6.8%	470	34	2.2%	7.2%	Private individuals
6.	6.	-	PNB Banka**	577	2.6%	49	(5)	-0.9%	-10.4%	Private individuals
7.	7.	-	BlueOrange Bank	479	2.1%	66	7	1.5%	11.2%	BBG
8.	10.	▲	Rigensis Bank	456	2.0%	66	3	0.7%	4.5%	Private individuals
9.	8.	▼	Baltic International Bank	287	1.3%	25	(0)	-0.1%	-1.2%	Private individuals
10.	9.	▼	Reģionālā investīciju banka	283	1.3%	33	6	2.2%	18.9%	No majority shareholder
11.	13.	▲	PrivatBank	201	0.9%	40	(4)	-2.1%	-10.5%	PrivatBank
12.	12.	-	LPB Bank (Latvijas pasta banka)	197	0.9%	31	6	2.8%	18.2%	Mono SIA
13.	11.	▼	Meridian Trade Bank	185	0.8%	10	2	0.8%	15.0%	Private individuals
14.	15.	▲	Signet Bank	139	0.6%	16	1	0.4%	3.7%	No majority shareholder
15.	14.	▼	Expobank	82	0.4%	37	0	0.4%	0.9%	Private individuals
Total				22,583	100.0%	2,893	266	1.2%	9.2%	

Source: Banks' data disclosure, EMIS, Latvijas Banka

* corrected ranking (based on bank list 2018)

** Norvik Banka changed its name to PNB Banka as of November 2018

Baltic region - Lithuania



Macroeconomic environment

- The Lithuanian economy was growing by 3.5% in 2018, mainly due to the robust private consumption and the EU fund-based investment growth.
- 2.5% inflation was reported in 2018, which was the result of both the massive domestic demand and the global energy price rises.
- The labour market was improving in 2018 due to the continuation of the declining unemployment trend and the average wage rise in the Lithuanian economy.
- Budget surplus has been growing by 0.2% points to 0.7% of the GDP, as a result of economic growth and excise duty increase in 2018. The trend of declining public debt to GDP continued reaching 34.2% at the end of 2018.

Macro indicators	2016	2017	2018	Change 2017-18 (% or % point)	
Nominal GDP (EUR mn)	38,668	41,857	45,114	7.8%	●
Nominal GDP/capita (EUR)	13,296	14,483	15,556	7.4%	●
GDP (% real change pa)	2.3%	3.9%	3.5%	-0.4%	●
Consumer prices (% change pa)	0.7%	3.7%	2.5%	-1.2%	●
Recorded unemployment (%)	7.9%	7.1%	6.2%	-0.9%	●
Budget balance (% of GDP)	0.3%	0.5%	0.7%	0.2%	●
Public debt (% of GDP)	40.1%	36.5%	34.2%	-2.3%	●

Source: EIU, Eurostat





Banking trends

- Lithuania's banking sector's consolidated capital adequacy ratio declined to 18.8% in 2018; primarily due to the decline in the major domestic banks' applied risk-weights to housing loans. Conversely, the capital adequacy ratios of smaller banks improved in the period.
- Total assets of the Lithuanian banking sector were grew in 2018 by 4.7% to EUR 28.6 bn. At the same time, the banks continued to decrease their bad loan portfolios, which helped them further improve their asset quality.
- Lithuania reported an all-time high profit since the financial crisis in 2018, which resulted in a robust growth of the ROE ratio, reaching 12.3%. The high profitability was mainly due the robust lending activity and high interest rates.

Banking sector	2016	2017	2018	Change 2017-18 (% or % point)	
Total assets (EUR mn)	25,754	27,324	28,620	4.7%	●
Asset penetration (%)¹	66.6%	65.3%	63.4%	-1.9%	●
Total equity (EUR mn)	2,222	2,565	2,747	7.1%	●
Total loans (EUR mn)	16,685	17,521	18,618	6.3%	●
Loan penetration (%)²	43.1%	41.9%	41.3%	-0.6%	●
Retail loans (EUR mn)	8,382	9,000	9,736	8.2%	●
Corporate loans (EUR mn)	8,303	8,521	8,882	4.2%	●
Interest rates					
Lending (%)	2.8%	2.8%	3.2%	0.4%	●
Deposit (%)	0.2%	0.3%	0.3%	0.0%	●
NPL volumes					
Retail NPLs (EUR mn)	317	307	258	-15.8%	●
Corporate NPLs (EUR mn)	519	429	364	-15.2%	●
NPL ratios					
Retail NPL ratio (%)	3.8%	3.7%	3.0%	-0.7%	●
Corporate NPL ratio (%)	6.3%	5.0%	4.1%	-0.9%	●
Key ratios					
CAR (%)	19.4%	19.1%	18.8%	-0.3%	●
ROE (%)	11.9%	9.1%	12.3%	3.2%	●
ROA (%)	1.0%	0.9%	1.2%	0.3%	●
CIR (%)	47.7%	48.9%	44.9%	-4.0%	●
L/D (%)	82.3%	78.8%	82.3%	3.5%	●
FX share of lending (%)	0.7%	0.5%	0.4%	-0.1%	●
LLP coverage (%)	35.7%	35.1%	34.3%	-0.8%	●

Source: Bank of Lithuania, ECB CBD ¹Asset penetration = Total assets/Nominal GDP ²Loan penetration = Total loans/Nominal GDP



Banking market

- 7 locally-licensed banks were operating in the Lithuanian market at the end of 2018. This resulted in a highly concentrated market with an almost 25% HHI, which is the highest among the examined countries. The five largest domestic banks owned 93.3% of the total assets in 2018.
- Additionally, there is a high systematic risk on the Lithuanian banking sector, as the Lithuanian financial sector is dominated by Nordic banks, so a potential shock, especially on the Swedish economy could result in huge chaotic situation in the Lithuanian financial sector.

List of banks in Lithuania, 2018 (EUR mn)

Rank 2018	Rank 2017*	YoY change in ranking	Institutions	Total Assets	Market share	Equity	Net income	ROA %	ROE %	Major shareholder
1.	1.	-	Swedbank	9,331	32.6%	808	106	1.1%	13.1%	Swedbank
2.	2.	-	SEB Bankas	7,860	27.5%	767	104	1.3%	13.5%	SEB
3.	3.	-	Luminor Bank	6,792	23.7%	756	43	0.6%	5.7%	DNB
4.	4.	-	Siauliu Bankas	2,222	7.8%	269	53	2.4%	19.7%	EBRD
5.	5.	-	Citadele Bankas	492	1.7%	55	4	0.8%	7.2%	Citadele Banka
6.	6.	-	Medicinos Bankas	328	1.1%	31	2	0.7%	8.0%	Saulius Karosas
7.	7.	-	Lietuvos Centrinės Kredito Unijos	135	0.5%	16	0	0.1%	0.8%	n.a.
Total				28,620	100%	2,747	338	1.2%	12.3%	

Source: EMIS, LNB, Annual reports, Inteliace Research





M&A activity in the Baltic region

There have been 10 major acquisitions in the banking market over the past years in the Baltic region.

- 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.
- In 2019, the Estonian LHV Pank acquired the total private loan portfolio 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. Nordea and Blackstone also entered in to the forward sale agreement of Nordea's remaining 20% stake at a fixed valuation of 0.9x P/ BV. The transaction is inter alia subject to customary regulatory approvals, and is expected to close during H1 2019. In case of successful closure, the new owner plans to focus on further developing Luminor bank, a strong stand-alone bank in the Baltics, and might look at IPO within next 5 years as potential option for exit.
- In 2017 Inbank, an Estonia-based bank and Coop Eesti Keskühistu, 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 Bank was acquired by a private investor group, from Latvian Privatization Agency. The seller company sold Citadele Bank 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.

In Lithuania, due to the credit union reform that came into effect 31 December 2017, credit unions either have to merge into groups and form central credit unions, or become individual specialized banks. Such a bank will differ from traditional banks in a lower capital requirement (EUR 1 mn instead of EUR 5 mn); however, authorities will not allow them to provide investment services. This legislation might lead to an increase in the number of relatively smaller M&A transactions in the banking industry.

List of banking M&A deals in the Baltic region, 2015-2019Q3

Country	Year	Target	Buyer	% Acquired	Deal Value in EUR mn	Seller
LV	2019*	PNB Banka	Private individuals	60.0%	n.a.	Private individuals
EE	2019*	Danske Bank	LHV Pank	100.0%	410	Danske Bank
LT	2018	Luminor Group	Blackstone Group	60.0%	1,000	DNB; Nordea
EE	2017	Eesti Krediidipank	Inbank; Coop Eesti Keskuhistu	84.7%	n.a.	VTB Bank
LV	2017	Bank M2M Europe	Signet Capital Management Limited; SIA Hansalink; SIA Fin.lv	56.1%	n.a.	Private individuals
LV, LT, EE	2017	Nordea (Baltic region operations); DNB (Baltic region operations)	Luminor	n.a.	n.a.	DNB; Nordea
LV, LT	2016	Danske Bank	Swedbank	100.0%	n.a.	Danske Bank
EE	2016	Danske Capital	AS LHV Varahaldus	100.0%	n.a.	Danske Bank
LT	2015	Finasta Bank	Siauliu Bankas	100.0%	7	Invalda INVL
LV	2015	Citadele Bank	Private individuals	75.0%	74	VAS Privatizācijas agentūra

Source: Deloitte Intelligence

*Closing in progress



List of abbreviations

AAB – Albanian Association of Banks	ECB CBD - European Central Bank Consolidated banking data	M&A – Mergers and Acquisitions
Avg – Average	EIU - Economist Intelligence Unit	NBR - National Bank of Romania
bn – Billion	EU – European Union	NBH - National Bank of Hungary
BNB - Bulgarian National Bank	EUR – Euro	NBP - National Bank of Poland
BoA – Bank of Albania	FX - Foreign exchange	NBS - National Bank of Slovakia/National Bank of Serbia
BSI - Bank of Slovenia	GDP - Gross Domestic Product	NBU – National Bank of Ukraine
CAR - Capital Adequacy Ratio	HHI - Herfindahl–Hirschman-index	NPL - Non-performing loan
CBBH - Central Bank of Bosnia and Herzegovina	HNB - Croatian National Bank	NR - Number
CEE – Central and Eastern Europe	ICU – Investment Capital Ukraine	P/BV – Price to Book Value
CIR - Cost-to-income ratio	IMF – International Monetary Fund	ROA - Return on Assets
CNB – Czech National Bank	LLP – Loan Loss Provision	ROE - Return on Equity
EBRD - European Bank for Reconstruction and Development	LTV – Loan-to-value	SME - Small and medium-sized enterprises
ECB - European Central Bank	L/D ratio (L/D) - Loan-to-deposit ratio	USD - United States Dollars
	mn – Million	YoY – Year-on-Year

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Notes



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