CEE Banks: Semi-Annual Review and Outlook

Special Report

Figure 1

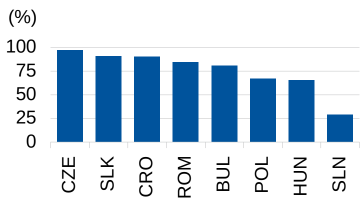
Ratings and Outlooks

Country	BSI[a]	VR category[b]	Sector Outlook
POL	C	bbb	Stable
CZE	C	bbb	Stable
SLK	C	bbb	Stable
HUN	D	bb	Negative
BUL	D	bb	Stable
ROM	D	bb	Stable
SLN	D	bb	Negative
CRO	D	bb	Stable

[a] The Banking System Indicator (BSI) measures intrinsic banking system quality on a scale from A (very high) to E (very low)
[b] Based on weighted average of Viability Ratings (VRs) assigned in the sector
Source: Fitch

Figure 2

Foreign Ownership



% of assets owned by foreign banks at end-2010
Source: National banks, Fitch

Related Research

Global Economic Outlook (June 2011)
EM Banking System Datawatch (June 2011)
Global Bank Rating Trends Q111 (May 2011)
Macro-Prudential Risk Monitor (June 2011)
Key Drivers for Bank Ratings in CEE3 (January 2011)
Hungarian FX Mortgage Measures: Playing for Time (June 2011)

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Subdued Economic Recovery: The economic recovery has been relatively subdued across Central and Eastern Europe (CEE), and is progressing slowly. Fitch Ratings forecasts annual GDP growth in the 2%-4% range in most countries in the region in 2011-2012. Growth has been largely export-driven, with domestic demand weak and unemployment remaining high.

Moderate Credit Growth: Loan growth has been close to zero in real terms in 2011 to date, as in 2010, reflecting both limited customer demand and a tightening of banks' underwriting standards across virtually all customer and product classes. In the long term, Fitch expects credit growth in CEE to run moderately ahead of nominal GDP expansion, given currently low penetration. This should result in more balanced growth compared to the pre-crisis period. However, the agency expects no significant pick up in loan growth before 2012 at the earliest.

A Two-Tier CEE: Fitch views the standalone credit profiles of most Czech, Slovak and Polish banks as being significantly better than those in Bulgaria, Croatia, Romania, Hungary and Slovenia. This reflects the former markets' stronger funding profiles, lower FX lending, better asset quality and generally higher levels of economic development. Polish, Czech and Slovak banks mostly reach investment-grade ratings on a standalone basis (see Figure 1), with the Viability Ratings of the majority of lenders in the other five markets in the 'bb' range.

Asset Quality Still Weak: Problem loans appear to have peaked in H210-H111 in the 6%-7% range in Poland, the Czech Republic and Slovakia, and lower provisions are now supporting improved performance. However, NPL ratios are in, or close to, double digits in the other markets and still rising, albeit at a slower pace than in 2009-2010. Fitch expects NPLs to peak in Romania, Bulgaria and Croatia towards the end of 2011, but in Slovenia and Hungary probably only in 2012. Consumer loans and real estate/construction exposures are the main problem areas.

Some Funding/Capital Improvements: Capitalisation and funding profiles have improved since the onset of the crisis due to deleveraging, but capital is still tight in Slovenia and loans/deposits ratios are elevated in Slovenia and Hungary. The prevalence of FX lending has barely changed, despite regulatory restrictions on new FX loans, and remains high in Croatia, Hungary, Romania and Bulgaria.

Parent Banks Supportive: Parent banks have provided support to CEE subsidiaries when needed, although Fitch expects further, non-disruptive, bank sales in the region as foreign owners reassess strategy. In the agency's view, M&A activity is most likely in Poland (due to low consolidation and weaknesses at some parent banks), Bulgaria and Romania (if Greek banks decide to exit) and Slovenia (reflecting limited foreign ownership at present and the moderate ability of some owners to provide support).

Exposed to Euro-Zone Crisis: CEE banks, including Greek bank subsidiaries in Bulgaria and Romania, have little direct exposure to Greece and the rest of the EU periphery. However, CEE banks' second-order exposure to an escalation of the euro area crisis is considerable. This results, in particular, from a possible growth slowdown in core EU markets (the main destination for CEE exports), more limited capital/funding availability for CEE subsidiaries should European parent banks retrench further, and potential weakness in CEE currencies (in particular the PLN and the HUF) against the CHF if the EUR weakens.

CEE Banking Systems: Key Credit Metrics

Figure 3

Fitch's Assessments

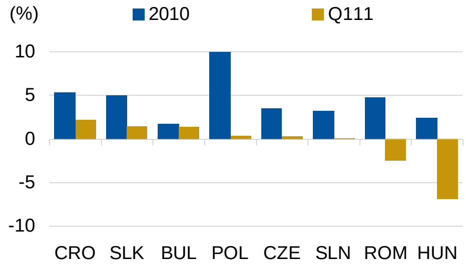
	POL	CZE	SLK	HUN	BUL	ROM	SLN	CRO
Asset quality	Average	Average	Average	Weak	Weak	Weak	Weak	Weak
Trend	●	●	●	↓	↓	↓	↓	↓
Profitability	Average	Average	Average	Weak	Average	Weak	Weak	Average
Trend	↑	↑	↑	●	●	↑	●	●
Capitalisation	Average	Strong	Average	Average	Average	Average	Weak	Average
Trend	↑	↑	●	●	↑	●	●	●
Funding	Average	Strong	Strong	Weak	Average	Average	Weak	Average
Trend	●	●	●	●	●	●	●	●

Source: Fitch

Lending and Asset Quality

Figure 4

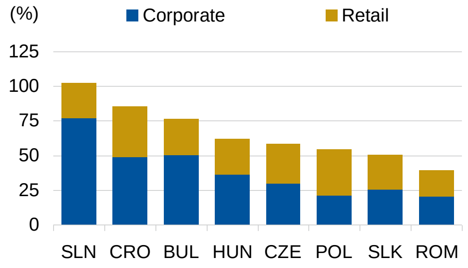
Loan Growth



Nominal growth. Q111 not annualised
Source: National banks and bank regulators, Fitch

Figure 5

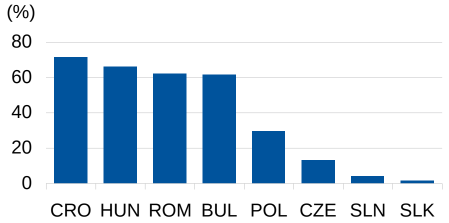
Loans/GDP



End-Q111 loans divided by 2010 GDP
Source: National banks and bank regulators, Fitch

Figure 6

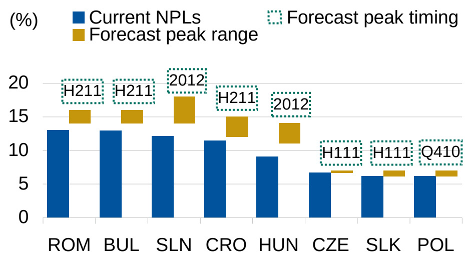
Foreign Currency Loans/ Total Loans



End-Q111 data except SLN (end-2010)
Source: National banks and bank regulators, Fitch

Figure 7

NPLs/ Total Loans

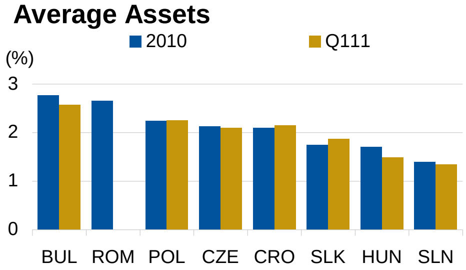


End-Q111 data. 90 days overdue for all markets except CZE (bottom 3 of 5 regulatory categories)
Source: National banks and bank regulators, Fitch

Profitability

Figure 8

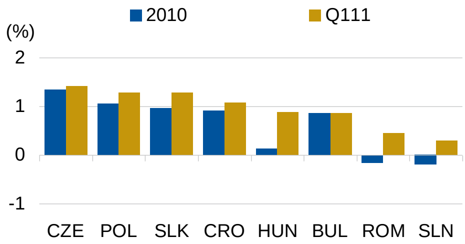
Pre-Impairment Profit/ Average Assets



Q111 data is annualised, Q111 not available for ROM
Source: National banks and bank regulators, Fitch

Figure 9

Return on Average Assets

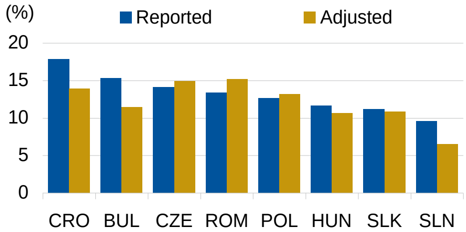


Q111 data is annualised
Source: National banks and bank regulators, Fitch

Capitalisation

Figure 10

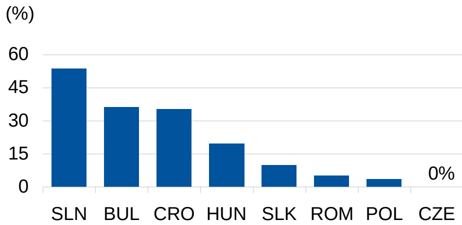
Tier 1 Capital/Risk-Weighted Assets



End-Q111 data except for ROM (end-H110). Adjusted ratio indicates impact of 80% NPL reserve coverage
Source: National banks and bank regulators, Fitch

Figure 11

Non-Performing Loans Less Loan Impairment Reserves/Equity

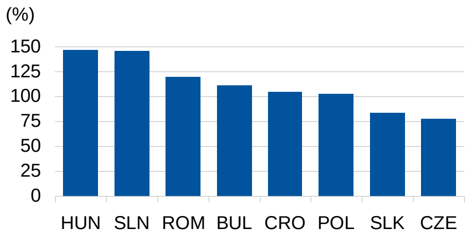


End-Q111 data, CZE data in Figures 10/11 is based on reported full coverage of loans 90 days overdue
Source: National banks and bank regulators, Fitch

Funding

Figure 12

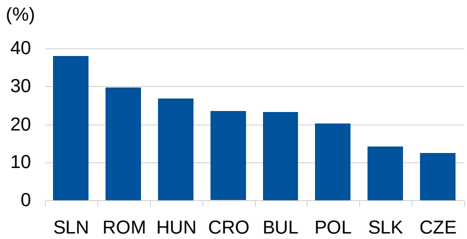
Gross Loans/Customer Funding



End-Q111 data
Source: National banks and bank regulators, Fitch

Figure 13

Foreign Funding/Liabilities



End-Q111 data except BUL, CRO, SLN (end-2010), ROM (end-H110)
Source: National banks and bank regulators, Fitch

Poland

Moderate Structural Imbalances, Supportive Operating Environment

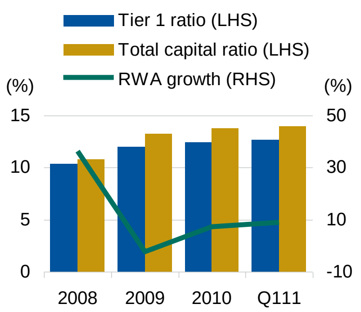
The outlook for the Polish banking sector remains stable, albeit with a moderately positive bias. Polish banks have withstood the global financial crisis without major disruptions to their performance or liquidity, and Fitch expects further improvement in profitability, driven by better revenue and lower risk charges. Structural imbalances exist, mainly in terms of foreign-currency lending and some dependence on foreign funding. However, these are moderate compared with some other banking sectors in the region, and are mitigated by the sound performance of FX mortgages during the crisis, unbroken access to currency swaps and solid capitalisation.

The operating environment remains supportive of the banking sector. GDP growth was around 4.5% in Q111, and Fitch expects an expansion of 4.2% in 2011 followed by 4.0% in 2012. Inflationary pressures have prompted the Monetary Policy Council to raise the base interest rate by 100bp (to 4.5%) already this year, and further hikes cannot be ruled out later in 2011. Higher interest rates should support bank revenues, through wider lending margins, however this positive effect may be neutralised by growing price competition for deposits, partly related to the weakening of the local currency against the CHF.

Changes in regulations that have come into force in 2010 and early 2011 relating to credit risk management, as well as those planned for 2012 relating to capital (see below), are likely to have a negative impact on business growth, but should help prevent the build-up of systemic risk.

Figure 14

Capitalisation



Source: Polish FSA, Fitch

Moderate Loan Growth, Tougher Competition?

There were long-awaited signs of a recovery in corporate lending in H111. However, overall loan growth in 2011 is expected to be moderate, as the two major drivers of growth in 2010 lose steam. Firstly, changes in banking regulations and in government-sponsored programmes for first-time home buyers are likely to materially reduce the number of eligible borrowers and/or limit their acceptable borrowing capacity. Secondly, the government is determined to limit the growth of indebtedness in the public sector, which was a driver of increased non-retail lending in 2010.

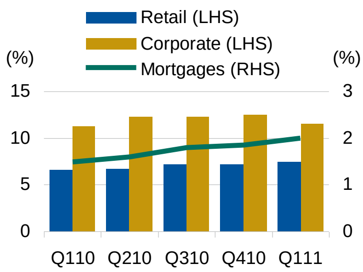
Concurrently, competition is likely to intensify, with strong players building up their market share through acquisitions (Santander, Raiffeisen) and others targeting aggressive organic growth (Alior, Getin, Nordea). This may result in further compression of lending margins in some market segments, while a prolonged weakness of the PLN against the CHF may lead to stronger price competition for local deposits. The combination of these two factors is likely to reduce the positive impact of the higher interest rate environment on interest margins.

Asset Quality Has Stabilised, Capitalisation is Sound

Aggregate loan impairment ratios peaked in H210, and asset quality stabilised further in Q111, driven by lower delinquencies in the corporate segment. It is likely that NPL ratios in consumer lending peaked in early 2011; however, the quality of mortgage loans is slowly deteriorating, reflecting a seasoning of the portfolio. On-balance-sheet impaired loan ratios are quite high in Poland in part due to very slow write-off policies, with a significant proportion of reported NPLs relating to pre-crisis exposures. Loans more than 90 days overdue were 80% covered with specific provisions (90% including IBNR provisions) at end-Q111.

Figure 15

Impaired Loans by Segments



Source: Polish FSA, Fitch

The sector's capitalisation has improved since the onset of the crisis, supported by positive earnings, slow loan growth and equity injections into some of the weaker capitalised banks. Capital ratios ticked up further in Q111 (Tier 1 ratio to 12.6%), and the Tier 2 component of regulatory capital remains moderate. With around 30% of total loans denominated in foreign currency, the capitalisation of the Polish banking system is quite sensitive to exchange rate fluctuations. Fitch regards the increase in risk weighting of foreign-currency retail loans (to

100% from 75% from 30 June 2012) as appropriate, although the agency estimates that this will shave 70-80bp off the sector capital ratio (up to 140bp at more active FX mortgage lenders), and will also increase the sensitivity of capital ratios to exchange rate changes in the future.

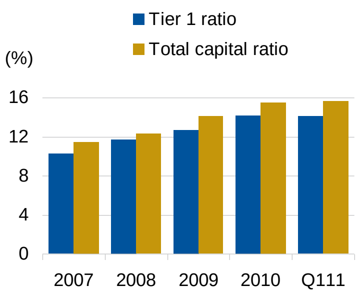
Czech Republic

Sound Fundamentals, Cycle Turning Favourable

The outlook for the Czech banking system is stable, reflecting the sector's healthy fundamentals, which have proved resilient through the global crisis, and the economy's positive, albeit moderate, growth prospects. The banking system is customer funded, well capitalised and without any marked structural imbalances, while foreign ownership supports confidence and provides a reliable source of liquidity and solvency support in case of need. As NPLs peak, and economic growth picks up, performance should improve further.

Figure 16

Capital Adequacy



Source: Czech National Bank, Fitch

Moderate Economic Growth, But Forecast to Pick Up

The highly open nature of the Czech economy exposes it to trends in global trade and the growth dynamics of its major trading partners, in particular Germany. The economy has returned to growth after a 4.1% contraction in 2009, and Fitch forecasts an expansion of 2.3% in 2011 on the back of strengthening export demand.

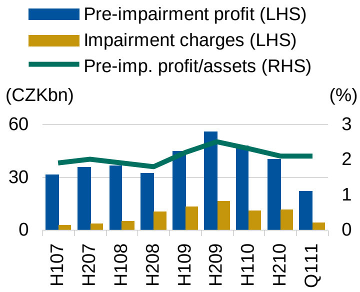
However, domestic demand has failed to pick up, suggesting that the recovery has yet to gain strong momentum, constraining banking activity. The agency expects GDP growth of 2% in 2012, as fiscal consolidation measures will continue to weigh on private consumption, rising to 3% in 2013. The inflation outlook remains benign (Fitch forecasts it to average 2% in 2011 and 2.7% in 2012-2013), with price pressures mitigated by CZK appreciation and still relatively weak domestic demand.

A Healthy Sector Balance Sheet

The sector's Tier 1 capital adequacy ratio was a strong 14.1% at end-Q111, having gained 100bp or more each year in 2008-2010. This was achieved on the back of moderate loan growth and solid earnings, and despite regular large dividend payouts. Fitch believes that capitalisation is currently comfortable, given asset quality stabilisation and limited growth prospects, a view supported by the recent capital stress tests of the Czech National Bank, which suggested that banks could withstand significant shocks without breaching regulatory capital requirements.

Figure 17

Performance



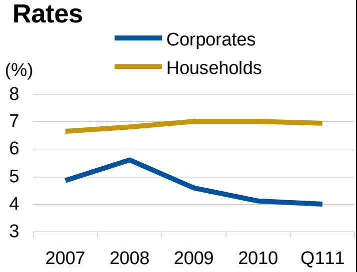
Source: Czech National Bank, Fitch

Future capitalisation trends will largely depend on parent banks' approaches to capital management, with Czech subsidiary earnings set to remain sound. Profitability is good and generally held up during the crisis, despite the slowdown in lending, falling market interest rates and higher credit risk costs. Return on average equity hovered between 15% and 20% during 2007-2010, and net profit grew by 7.5% in Q111 yoy, driven by lower loss provisioning. Fitch expects results for 2011 to be largely consistent with 2010 trends, with the constraint of moderate loan growth offset by a normalisation of credit costs.

Sector liquidity is ample, with the loans/deposits ratio at a healthy 78% at end-Q111, and net loans account for just under half of total assets.

Figure 18

Average Loan Interest Rates



Source: Czech National Bank

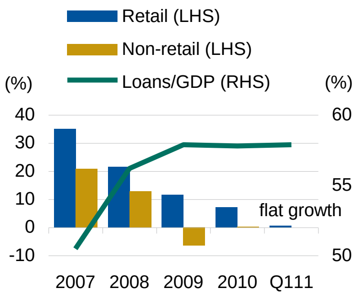
Some Growth in Retail Lending, Corporate Credit Flat

Loan growth has been limited (0.2% in Q111, 3.5% in 2010), and Fitch expects only a moderate pick-up in 2011-2012. Demand for credit in the corporate segment has remained largely subdued but is returning gradually, mostly from exporters. Retail lending has been slightly more active, with 7% growth in 2010 and 0.5% in Q111, mostly driven by mortgages and reflective of banks' attempts to maintain profitability.

Residential property prices showed some signs of recovery in H111, in part reflecting reduced construction volumes, after a more moderate fall in 2010 compared with 2009. However, still

Figure 19

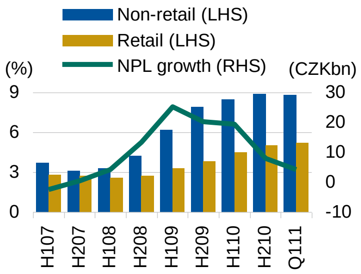
Lending Growth



Source: Czech National Bank, Fitch

Figure 20

NPLs as % of Loans



Source: Czech National Bank, Fitch

low nominal wage growth and significant unemployment (which Fitch expects to remain at around 7% in 2011) are likely to constrain retail loan demand. Overall, the agency expects future loan growth to be largely defined by the strength of the recovering economy, although the sort of rapid growth seen pre-crisis is not expected in the foreseeable future.

Loan Impairment Likely to Have Peaked in H111

The pace of deterioration in asset quality has slowed down since mid-2010, with impaired loans (defined as the bottom three of five regulatory categories) up just marginally to 6.6% of loans in Q111 from 6.5% at end-2010 (end-H110: 6.2%; end-2009: 5.4%). This trend suggests that the banking sector has been approaching a peak in loan impairment, and further stabilisation in asset quality can be expected. NPLs have remained lower than in most other CEE markets, supported by somewhat lower volatility of economic performance, lower leverage in the economy and moderate foreign-currency lending (13% of loans at end-Q111).

Corporate impaired loans (8.8% at end-Q111) have been driven mainly by the construction, manufacturing and transport segments, while retail problem exposures of 5.2% mostly reflect arrears in consumer finance portfolios. The loan loss reserves/impaired loans ratio was a moderate 59% at end-Q111, reflecting significant reliance on collateral, with relatively high recovery rates achieved over the last two years. However, according to central bank data, coverage of NPLs (loans past due by more than 90 days) by loan loss reserves exceeded 100%. Sector average loan/value ratios for housing mortgages remained at a comfortable 56% (end-2008: 43%).

Slovakia

Traditional Banking Model in a Growing Economy

The Slovak banking system is dominated by the subsidiaries of large foreign banks. A traditional banking model with a low loans/deposits ratio and a granular deposit base helped the banks withstand the global financial crisis without significant funding constraints. Financial indicators are solid, and stress tests carried out by the central bank indicate that banks can cope with severe shocks.

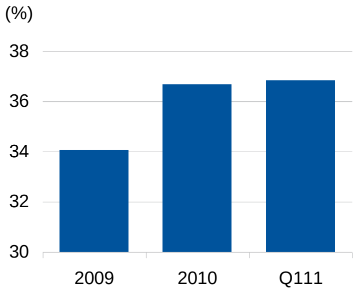
The Slovak economy has continued to recover in 2011 and Fitch forecasts 3.4% GDP growth this year and 4.1% in 2012, among the strongest performances in the EU. After a deep recession in 2009, the upturn reflects improving fundamentals and a surge in exports, benefiting from a revival in global demand.

Performance Recovering, Lending Balanced

Annualised profits in Q111 suggest potential 36% net income growth in 2011, with ROAE reaching 13% in the quarter. This followed a doubling of the banking sector's bottom line in 2010, driven mainly by much lower loan impairment charges (LICs), although provisioning still remains high compared with its pre-crisis level.

Figure 21

Mortgages/ Gross Loans



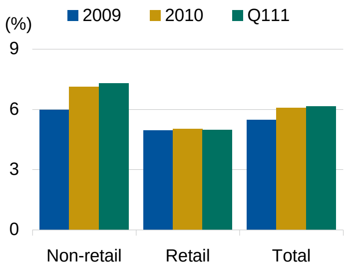
Source: National Bank of Slovakia, Fitch

Lending is almost equally split between retail and corporate loans. Mortgage loans were up 13% in 2010 and were the driver of overall moderate sector loan growth, whereas other retail and corporate lending segments were relatively stagnant. However, overall loan growth was negligible in Q111. Residential property prices were 17% lower at end-2010 compared with their peak level in mid-2008, but prices had already started to pick up in H210, partly reflecting higher sales volumes.

The negligible share of foreign-currency loans, following the adoption of the euro in 2009, is considered a key strength. Euro membership also gives banks access to European Central Bank (ECB) funding in case of need, which is another advantage relative to most CEE peers.

Figure 22

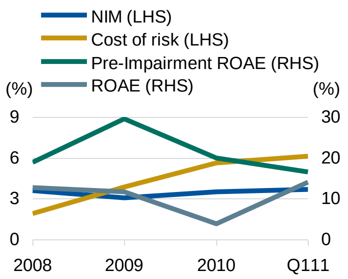
NPLs/ Total Loans



Source: National Bank of Slovakia, Fitch

Figure 23

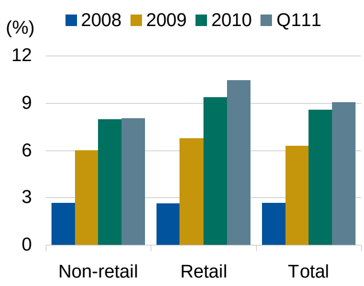
Performance



Source: Hungarian FSA, Fitch

Figure 24

NPLs/ Total Loans



Source: Hungarian FSA, Fitch

NPLs Appear to Have Peaked, But Commercial Real Estate Exposures a Risk

Asset quality worsened following the sharp downturn in 2009, but the NPL ratio remained broadly flat in Q111, and appeared to have peaked at 6.2% at end-Q111 (end-2009: 5.5%). The corporate segment was the main driver of rising NPLs, with a ratio of 7.3%, compared with 5% in retail. In Fitch's view, the commercial real estate and construction sectors remain fragile, but the agency expects further gradual recovery in NPL metrics, aided by both economic growth and gradually higher loan volumes.

The system's total capital ratio stood at 12.6% at end-Q111, which is viewed as sound given the stable operating environment and satisfactory reserve coverage of NPLs (74% at end-Q111). Fitch does not expect loan growth to run significantly ahead of the sector's ROAE in the near term, suggesting that capitalisation is unlikely to come under pressure.

Hungary

Another Challenging Year for the Sector

2011 is proving to be another challenging year for the Hungarian banking sector. As in 2010, weak asset quality, the bank levy and the relatively slow recovery of the economy (reflected in moderate demand for new credit) continue to drag on banks' performance. Fitch forecasts GDP growth of 2.8% in 2011, accelerating to 3.2% in 2012.

Bad debts have not yet peaked, and Fitch only expects this to happen in 2012 at a level of 11%-14%, although the inflow of NPLs should slow down during 2011. Foreign currency mortgages (75% of all mortgages, mainly CHF) and exposures to the struggling construction/real estate industry continue to be the biggest drags on asset quality in the retail and corporate books, respectively. Fitch notes that reported asset quality metrics are somewhat flattered by loan restructuring. At end-Q111, NPLs represented 9% of gross loans (end-2010: 8.5%; 2009: 6.3%), while overdue (up to 90 days) restructured loans totalled about 2%. A further 4% of loans have been restructured but are not currently in arrears.

Revenue generation continues to be depressed by a lull in new disbursements of loans in both the retail and corporate segments. The bank levy further erodes profitability and reduces internal capital generation, which in turn drags on lending capacity and the ability to attract funding and capital from parent banks. Aggregate sector results were barely positive in 2010, although a sharp drop in impairment charges (potentially not sustainable for the full year, in Fitch's view) supported profitability in Q111.

Mortgage Relief Programme Unlikely to Have Long-Term Benefits

In May 2011, the government, in cooperation with the Banking Association, announced a relief programme for troubled retail borrowers with foreign currency mortgages. However, Fitch is of the opinion that the measures, in particular the temporary fixing of conversion rates used to determine the size of HUF instalments on foreign currency loans, are unlikely to have a material, long-term positive impact on households' ability to service their debt, or on banks' efforts to improve the performance of their portfolios. The agency believes that the measures will likely simply postpone the resolution of problems with household indebtedness and bank asset quality, and in some scenarios could actually accentuate them.

The moratorium on evictions has also complicated and materially prolonged banks' efforts to clean up their balance sheets. Fitch believes that the lifting of the moratorium (as of 1 July 2011) is unlikely to revive the currently inert housing market because of the low quotas imposed on collateral sales. Please refer to the comment cited on the front page of this report for more details on Fitch's view of the mortgage relief programme.

Moderate Capitalisation, High Reliance on Parent Funding

Capitalisation is only moderate given the sector's high risk profile, in particular the large proportion of loans denominated in foreign currency (about two-thirds at end-Q111). At end-

Q111, the aggregate Tier 1 ratio had strengthened to 11.7% from 10.8% at end-2009 and 9.1% at end-2008 as a result of deleveraging and still positive earnings. However, this was boosted by the higher ratio at the largest bank (OTP), and most banks are operating with a somewhat lower margin of safety. Reserve coverage of already recognised NPLs was a reasonable 68% at end-Q111.

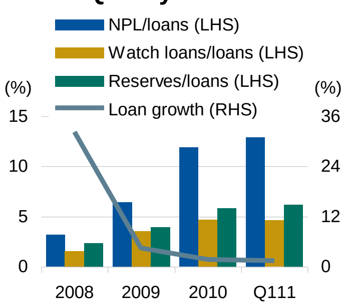
Reliance on wholesale funding (predominantly sourced from owners) is high, but Fitch believes that refinancing risk is low as the majority of parent banks confirmed their commitment to the Hungarian market last year after the introduction of the bank levy. At end-Q111, the system's loans/deposits ratio improved marginally to a still high 146%, reflecting a contraction of the loan book, driven by HUF appreciation against the CHF.

Bulgaria

NPLs Still to Peak, But Capital/Liquidity Positions Generally Sound

Figure 25

Asset Quality



Source: Bulgarian National Bank, Fitch

NPLs have still not peaked in Bulgaria, despite the stabilisation of the economy in 2010. However, the system's sound capitalisation and its moderate reliance on non-deposit funding should ensure that most banks have sufficient buffers to withstand any further deterioration. A Greek default would give rise to significant potential risks, but Fitch's base-case expectation is that this would not lead to significant instability in the banking system.

Bulgaria returned to growth in 2010 (0.2%), and Fitch forecasts that GDP will expand by 3.0% in 2011 and 3.8% in 2012. However, as in much of CEE, the recovery has been export-driven, with domestic demand still contracting in Q111 and unemployment rising to 12% at end-Q111 from 10% at end-2010. The currency board has kept the exchange rate stable through the crisis, significantly reducing risks from the high level of FX lending (62% at end-Q111).

Significant Tail Risk From Potential Greek Default

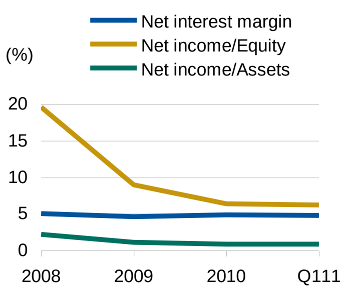
Greek banks own 28% of Bulgarian banking assets (equivalent to about 29% of GDP), and includes three of the largest banks in the country (see Figure 28). Importantly, these banks do not seem to have any material direct exposure to Greek sovereign debt or to Greece more generally. However, they are significantly reliant on parent institutions for both senior and subordinated funding (in total, an average of 30% of liabilities at end-2010 came from parent banks), and their asset quality deterioration has generally been more severe than for the sector as a whole, potentially making additional capital injections necessary.

Fitch's base-case expectation is that a Greek sovereign and/or bank default would not lead Greek banks to withdraw funding from their Bulgarian and other CEE subsidiaries. Nor would the Bulgarian subsidiaries in such a scenario likely to be subject to debilitating deposit runs. However, such risks cannot be entirely ruled out, and sales by Greek banks of their subsidiaries and/or delays in providing subsidiaries with necessary capital injections are possible.

Asset Quality Under Pressure, Lending Market Subdued

Figure 26

Performance



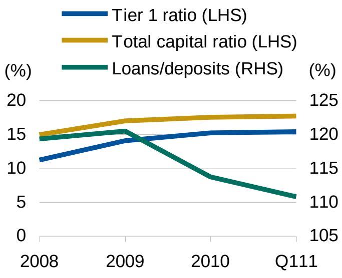
Source: Bulgarian National Bank, Fitch

NPLs increased further to 12.9% at end-Q111, from 11.9% at end-2010, after a significant increase during 2010 (end-H110: 9.5%; end-2009: 6.4%). Fitch expects NPLs to continue to increase from the Q111 level, albeit at a decreasing pace, with a peak of 14%-16% reached in H211. Reserve coverage of NPLs is now moderate (48% at end-Q111), with banks relying to a great extent on collateral held against loans, which is sensitive to valuation assumptions, in Fitch's view. The sector's solid capitalisation (Tier 1 ratio: 15.4%; Total capital ratio: 17.7% at end-Q111) provides a significant buffer to absorb losses, but further capital injections may still be needed at some banks if the economy remains sluggish and loan recoveries weak.

Loan growth has been very limited since the onset of the crisis, and remained so in Q111, with the sector portfolio up just 1.4%. Corporate and mortgage lending reported small increases, while consumer loans continued to decline marginally. Corporate loan demand currently relates

Figure 27

Capital and Funding



Source: Bulgarian National Bank, Fitch

mainly to working capital facilities rather than investment. What loan growth there has been has been generated mainly by smaller banks in the sector, with larger institutions so far continuing to de-leverage.

Profitability Under Pressure, Funding Balanced

Profitability has been under pressure from high loan impairment charges, despite the reduction in reserve coverage, as these consumed 63% of pre-impairment profit in Q111 (66% in 2010). Lower funding costs (from declining deposit rates) have compensated for weaker interest income on loans, supporting pre-impairment profitability.

The loans/deposits ratio moderated to 111% at end-Q111 from 121% at end-2009, reflecting further moderate deleveraging in the economy. Customer deposits now account for 76% of liabilities, with banks' sizeable equity bases also helping to fund loan books.

Figure 28

Greek Banks' Presence in Bulgaria

Entity	Parent Bank	Assets (EURbn)	% of Sector Assets	Ranking	% of Sector Deposits
United Bulgarian Bank (subsidiary, 'B+'/RWN)	National Bank of Greece ('B−'/RWN)	3.85	10.1	3	9.3
Eurobank EFG Bulgaria (subsidiary)	EFG Eurobank Egrasias S.A. ('B−'/RWN)	3.24	8.5	5	10.1
Piraeus Bank Bulgaria (subsidiary)	Piraeus Bank ('B−'/RWN)	2.06	5.4	7	2.8
Alpha Bank S.A. (branch)	Alpha Bank ('B−'/RWN)	1.03	2.7	10	1.9
Emporiki Bank Bulgaria (subsidiary)	Emporiki	0.28	0.7	21	0.4
Total for Greek subsidiaries/branches		**10.46**	**27.6**		**24.6**

Source: Bulgarian National Bank, adapted by Fitch

Romania

Signs of Economic Recovery in 2011 After Prolonged Recession

The Romanian economy is showing signs of recovery after a prolonged recession, which should support an improvement in the performance of the banking sector. GDP registered 1.7% growth yoy in Q111, mainly helped by a pick-up in industrial activity and exports, and Fitch expects 1.5% growth in 2011, followed by 3.5% in 2012. Unlike most of the CEE region, Romania remained in recession in 2010 (when GDP fell by 1.3%, after a 7.1% contraction in 2009) as the government's austerity programme, involving a 25% cut in public-sector wages, was implemented on the back of the global crisis.

A new precautionary stand-by agreement with the IMF and the EU was signed in March 2011, and Fitch's base-case scenario is that Romania will continue to meet agreed policy targets, which should help maintain market confidence in the economy and put growth back on to a more sustainable path. In July 2011, Fitch upgraded Romania's Long-Term Foreign-Currency IDR to 'BBB−' from 'BB+'.

Risk Exposure to Potential Greek Default

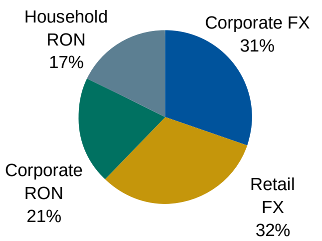
There are seven Greek banks operating in Romania, owning a 16% share of banking assets according to National Bank of Romania (NBR) data at end-H110. The largest Greek bank (Alpha Bank) had around a 6% market share of assets at end-2010.

According to an IMF review report on Romania dated June 2011, Greek subsidiaries are better capitalised than the system average, their liquidity position remains in line with that of the rest of the system, and there have been no indications of adverse movements in deposits. The NBR is also reportedly ready to provide liquidity support should developments limit some banks' access to the interbank market. In addition, solid capital buffers in banks, tight banking supervision and healthy NBR reserves mitigate the risks.

Figure 29

Loan Book

End-Q111



Source: National Bank of Romania, Fitch

Fitch's base-case expectation is that a Greek sovereign and/or bank default would not lead Greek banks to withdraw funding from their CEE subsidiaries, nor would the Romanian subsidiaries in such a scenario, like their Bulgarian counterparts, be subject to debilitating deposit runs. However, such risks cannot be entirely discounted given considerable uncertainty surrounding developments at the parent institutions.

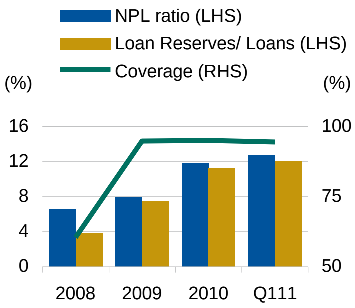
Asset Quality Has Suffered, But NPLs Should Peak Around Year-End

The contraction in Romania's economy has negatively affected the banking system's asset quality. NPLs increased to 13% of total loans at end-April 2011, from 11.9% at end-2010 and 7.9% at end-2009, while doubtful and loss category loans, according to the NBR's definition, reached 22.4% (end-2010: 20.8%, end-2009: 15.8%). In Fitch's opinion, stabilising and then improving asset quality is the main challenge currently facing Romanian banks; the agency expects NPLs to peak around end-2011, but at a relatively high level (Fitch forecasts 14%-16%) compared with most CEE peers.

Lending in Romania is still dominated by foreign-currency loans, which accounted for 64% of retail lending and 60% of corporate exposures at end-Q111. Depreciation of the RON against the EUR was limited during the crisis, and Fitch does not expect this to change in the near term; however, in case of a sharp drop in the local currency, both asset quality and capital ratios could come under significant pressure.

Figure 30

Asset Quality



Source: National Bank of Romania, Fitch

The credit environment has been significantly dampened by weak industrial activity and subdued consumption dynamics since end-2008, and real loan growth was negative in both 2009 and 2010. Mortgage loans are an exception to this trend (up 18% in 2010 in EUR terms), supported by government guarantees offered under the "First Home" programme, which is continuing during 2011.

The NBR has taken measures to stimulate lending activity. The policy rate has been kept at a historically low level (6.25%) since June 2010, and the reserve requirement for FX-denominated liabilities was reduced again in April 2011, to 20% from 25%, to free up liquidity. Fitch expects to see positive real loan growth (net of inflation and exchange rate movements) in 2011, driven by the pick-up in economic activity and a supportive policy stance.

Profitable Again in Q111, Capital is Adequate

The banking system returned to profitability in Q111, albeit with a still weak ROAE of 5%, and Fitch expects positive net income for 2011. The main driver of the improvement was a reduction in LICs, which had rendered the sector loss-making in 2010 and absorbed virtually all pre-provision profit in 2009. Margins have improved markedly (by 100bp in 2010) due to an easing of deposit costs.

Fitch views system capitalisation as currently adequate, given the sector's regulatory capital ratio of 14.8% at end-Q111, almost full (95%) reserve coverage of NPLs and the agency's expectation of positive economic growth and a peak in loan impairments towards year-end. However, capital adequacy remains highly dependent on the performance of the economy and the RON.

Slovenia

2011 Another Difficult Year for Slovenian Banks

2011 is likely to prove another difficult year for Slovenian banks, in Fitch's view. The agency expects asset quality to deteriorate further, following another jump in the NPL ratio in Q111, while performance is likely to remain weak due to high impairment charges, increasing funding costs and flat loan growth. Fitch also notes that the sector faces significant refinancing risk due to banks' high reliance on wholesale funding, while relatively low foreign ownership of the system makes external support less reliable.

NPLs Increasing, Asset Quality Vulnerable

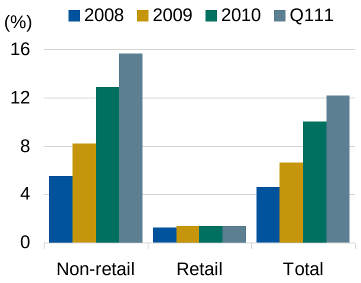
In Fitch's view, NPLs have yet to peak, having risen to 12.1% at end-Q111 from 10% at end-2010 (end-2009: 6.6%), and a turnaround is unlikely in 2011. The agency cautiously anticipates NPLs peaking in the range of 14%-16% during 2012. The pace of NPL recognition should slow in H211 compared with H111/2010, as most large problem corporate exposures, notably in the construction and holdings sectors, appear to have already been identified. However, Fitch believes that the sector's asset quality remains vulnerable for a number of reasons.

First, corporate sector leverage in Slovenia is elevated, with the corporate loans/GDP ratio more than double those of most CEE peers (see Figure 5). Many of the largest borrowers, most notably construction/holding companies, are highly indebted, and their ability to service loans is unlikely to benefit quickly from the economy's return to growth (Fitch forecasts GDP to expand by 1.8% in 2011 and 2.2% in 2012). Second, with only moderate foreign ownership, Fitch views banks' risk management and corporate governance as weaker than in most other CEE markets, and believes there is greater risk around reported asset quality and related-party lending numbers. Third, problem assets outside of banks' loan books are significant, particularly equity stakes in local corporates and investment properties, which have been foreclosed against problem loans.

Corporate NPLs have unsurprisingly been the main driver of asset quality deterioration in Slovenia during the crisis, with NPLs in the non-retail sector reaching around 15.5% at end-Q111 (end-2010: 12.8%; end-2009: 8.2%). In contrast, the quality of lending to households has proven stable to date (NPLs of just 1.5% at end-Q111).

Figure 31

NPLs/ Total Loans



Source: National Bank of Slovenia, Fitch

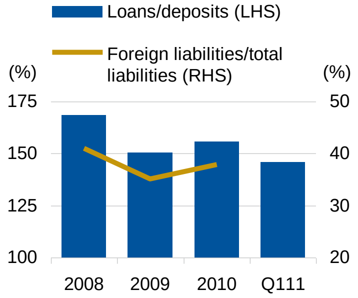
High Dependence on Wholesale Funding, ECB Access Mitigates Refinancing Risk

Dependence on wholesale funding is significant, with the system's loans/deposits ratio still at 146% at end-Q111 (albeit down from 168% at end-2008). The sector faces sizeable foreign debt repayments in 2011 and 2012. At end-February 2011, the amount of liabilities falling due in 12 and 24 months totalled EUR3.8bn and EUR5.2bn, respectively, representing around 8% and 11% of system liabilities. However, banks are maintaining significant liquidity buffers, which could be used in part to repay maturing debt.

Furthermore, banks benefit from access to ECB funding, if required, due to the country's EUR adoption. In addition, banks are taking steps to reduce their exposure to wholesale funding and to avoid refinancing spikes at a time when the market could be overcrowded, by pre-financing liabilities falling due and also deleveraging their balance sheets to a certain extent. Long-term funding continues to be sourced in part through international financial institutions and the Slovene Export and Development Bank.

Figure 32

Funding Structure



Source: National Bank of Slovenia, Fitch

Weak Profitability, Tight Capital

Profitability has been weak since the onset of the crisis, driven by high impairment charges and modest margins. The sector result was marginally positive in Q111 (ROAE: 3.6%), having been pushed into negative territory in 2010 by a loss at the largest bank, Nova Ljubljanska Banka (NLB; 'A−'/Stable). Growth prospects are weak due to the slow recovery of the Slovenian economy, and provisioning charges are likely to remain high. Furthermore, margins are likely to tighten further due to rising funding costs as a result of increasing competition for retail deposits and turbulence in the euro zone.

Capital ratios are the lowest in CEE, with a sector Tier 1 ratio of 9.6% at end-Q111 (up slightly from 9% at end-2010 due to a capital increase of EUR250m at NLB). Fitch views capital as tight given weak and vulnerable asset quality, modest reserve coverage of NPLs (50% at end-Q111), high single-name concentrations and weak internal capital generation.

NLB and Nova Kreditna Banka Maribor ('BBB+'/Stable), Slovenia's second-largest bank, both raised new equity in H111. At end-H111, NLB announced plans to raise a further EUR250m following a request from the National Bank to improve its capital adequacy. In the agency's view, the system represents a more significant contingent liability for the sovereign than elsewhere in the region, given lower foreign ownership than in other CEE countries and state control of the two largest banks. NLB only just passed the July 2011 EU bank stress test, underlining the need for the planned further equity increase.

Croatia

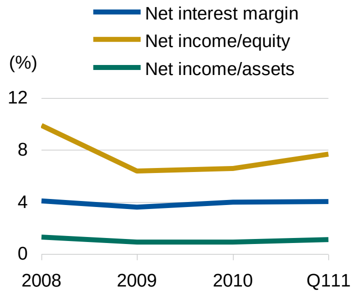
Sluggish Economy Delays Recovery of Banking Sector

Croatia's economy has yet to return to growth as GDP declined by 1.2% in 2010 and 0.8% in Q111. Croatia has been unable to benefit from trade partners' strong economic performance (mainly Germany), due to its narrow export base and loss of market share.

Fitch forecasts subdued growth of around 1.5% for 2011 (2012: 2.3%), with the strong tourist season expected to support an increase in activity in H211. Fitch expects banking sector NPLs to peak in 2011 at around 12%-15%, but believes a marked improvement in asset quality and system performance is unlikely in the near term, given the still sluggish economy.

Figure 33

Performance



Source: Croatian National Bank, Fitch

Monetary Policy Stimulus to Support Lending

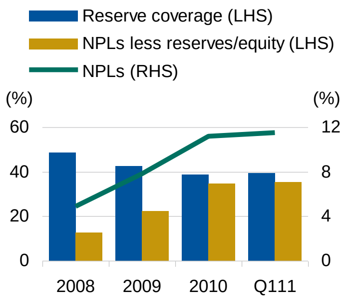
In order to improve domestic financing terms and accelerate the recovery of bank lending, the Croatian National Bank (CNB) continued its policy of supporting high HRK liquidity in the banking system in H111 by lowering the foreign assets/liabilities ratio to 17% from 20% in March 2011. The policy move resulted in the release of approximately EUR850m of liquidity to banks, which in turn is expected to increase lending to export-oriented sectors. Conversely, no recovery is expected in retail lending due to low demand, reflecting already quite high penetration (the retail loans/GDP ratio is the highest in the CEE region) and the relatively high unemployment rate.

Moderate Provisioning Has Supported Profitability

Asset quality continued to deteriorate marginally in Q111, with NPLs reaching 11.5% (end-2010: 11.2%; end-2009: 7.8%). Fitch expects loan impairments to increase further as portfolios continue to season amid a weak economic recovery, reaching a peak by year-end. The very high proportion of foreign-currency loans (72% at end-Q111) is a significant source of contingent credit risk, but the CNB has maintained the HRK's stability relative to the EUR.

Figure 34

Asset Quality



Source: Croatian National Bank, Fitch

Moderate loan growth and favourable rate dynamics supported pre-impairment results in 2010 and Q111. However, the key driver of the sector's positive net income has been moderate provisioning against NPLs, with coverage standing at just 39% at end-Q111. Impairment charges are likely to remain significant in 2011 and into 2012 as a strong economic recovery is unlikely.

Banks are soundly capitalised, although the sector Tier 1 ratio of 17.9% at end-Q111 overstates the margin of safety given moderate reserve coverage. Adjusting for the reserve level, capitalisation does not stand out relative to other CEE markets (see Figure 10). Fitch does not expect capitalisation to weaken noticeably in the short term given that loan impairment should peak and loan growth is unlikely to be strong.

Annex: Banking System Data

Bulgaria (BGNm)

Date	End-Q111	End-2010	End-2009	End-2008	End-2007
Assets and loans					
Assets	74,225.7	73,725.7	70,867.9	69,560.5	59,089.5
Assets (USDbn)	53,565.5	50.4	53.7	50.1	44.4
Gross loans	54,095.1	53,353.6	52,449.0	50,189.6	37,950.8
O/w non-retail	35,550.4	34,774.9	33,784.9	32,832.5	24,978.4
O/w retail	18,544.7	18,578.7	18,664.1	17,357.1	12,972.4
O/w foreign currency	33,334.6	32,958.3	30,757.8	28,698.4	19,190.0
Loan impairment reserve	3,329.2	3,092.6	2,073.8	1,169.8	992.7
Net loans	50,765.9	50,261.0	50,375.2	49,019.8	36,958.1
Funding and capital					
Customer deposits	48,833.2	46,932.6	43,533.3	42,055.0	39,137.7
O/w non-retail	20,128.4	18,895.3	18,696.3	19,887.4	20,151.2
O/w retail	28,704.8	28,037.4	24,837.0	22,167.6	18,986.5
O/w foreign currency	24,464.3	23,675.0	23,600.2	21,126.2	19,635.6
Equity	10,151.5	10,032.3	9,456.6	7,930.9	6,208.5
Tier 1 regulatory capital	7,874.7	7,762.5	7,674.5	5,914.6	4,518.5
Total regulatory capital	9,055.4	8,906.9	9,318.2	7,874.3	5,775.9
Risk weighted assets	51,267.0	50,896.6	54,700.0	53,007.0	41,760.0
Income statement					
Net interest income	721.5	2,917.2	2,847.0	2,787.6	2,171.6
Total operating revenues	950.7	3,932.3	3,785.4	3,737.8	3,103.9
Operating expenses	474.2	1,929.3	1,923.2	1,878.1	1,496.6
Pre-impairment operating profit	476.5	2,003.0	1,862.2	1,859.7	1,607.3
Impairment charges	298.6	1,316.7	1,040.4	330.4	344.5
Net income	157.3	616.7	780.2	1,386.7	1,143.6
Ratios: Lending and asset quality					
Assets/GDP	105.3	104.6	110.2	104.2	104.5
Gross loans/GDP	76.7	75.7	81.6	75.2	67.1
Net loans/assets	68.4	68.2	71.1	70.5	62.5
Retail loans/gross loans	34.3	34.8	35.6	34.6	34.2
Foreign currency loans/gross loans	61.6	61.8	58.6	57.2	50.6
Impaired loans/gross loans	12.9	11.9	6.3	3.2	2.4
Reserve coverage of impaired loans	47.6	48.3	63.1	73.6	106.9
Ratios: Funding					
Customer deposits/GDP	69.3	66.6	67.7	63.0	69.2
Gross loans/customer deposits	110.8	113.7	120.5	119.3	97.0
Customer deposits/liabilities	76.2	73.7	70.9	68.2	74.0
Retail/total customer deposits	58.8	59.7	57.1	52.7	48.5
Foreign funding/total liabilities	-	23.3	27.7	30.3	23.3
Ratios: Capitalisation					
Equity/assets	13.7	13.6	13.3	11.4	10.5
Tier 1 capital/risk weighted assets	15.4	15.3	14.0	11.2	10.8
Total capital/risk weighted assets	17.7	17.5	17.0	14.9	13.8
Ratios: Income statement					
Net interest income/ave. earning assets	4.7	4.9	4.6	5.0	-
Operating expenses/operating revenues	49.9	49.1	50.8	50.2	48.2
Pre-impairment profit/ave assets	2.6	2.8	2.7	2.9	-
Loan impairment charges/ave loans	1.6	1.8	1.5	0.5	0.6
Return on average assets	0.9	0.9	1.1	2.2	-
Return on average equity	6.2	6.3	9.0	19.6	-
Ratios: Sector structure					
Number of banks	30	30	30	30	30
State-owned banks/sector	3.2	3.2	2.4	2.1	2.1
Foreign-owned banks/sector	79.8	80.7	84.2	83.9	82.3
Privately-owned banks/sector	17.0	16.1	13.4	14.0	15.6
Five largest banks/sector	53.9	54.5	58.0	57.1	56.5

Source: National banks and bank regulators, Fitch calculations

Croatia (HRKm)

Date	End-Q111	End-2010	End-2009	End-2008
Assets and loans				
Assets	389,805.0	391,088.1	378,215.9	369,955.1
Assets (USDbn)	74,962.5	70,849.3	74,160.0	71,145.2
Gross loans	280,909.7	274,942.8	261,018.0	252,575.3
O/w non-retail	161,442.0	153,540.9	143,214.6	129,934.9
O/w retail	119,467.7	121,401.9	117,803.4	122,640.4
O/w foreign currency	201,304.6	196,541.6	183,514.4	161,128.2
Loan impairment reserve	12,637.4	11,959.7	8,620.0	6,076.0
Net loans	272,367.7	267,100.8	252,308.4	246,499.3
Funding and capital				
Customer deposits	269,112.8	269,178.0	256,680.4	194,628.0
O/w non-retail	51,211.4	54,397.6	52,391.6	58,696.7
O/w retail	152,588.4	152,558.7	141,092.2	135,931.3
O/w foreign currency	184,689.2	186,031.5	173,824.3	147,926.0
Equity	55,359.2	54,375.0	52,554.1	49,913.1
Tier 1 regulatory capital	51,136.2	50,764.9	48,456.7	48,126.3
Total regulatory capital	54,779.9	54,434.1	52,556.6	48,928.5
Risk weighted assets	286,356.1	289,697.2	315,936.6	316,904.1
Income statement				
Net interest income	2,853.4	10,963.5	9,545.1	9,952.8
Total operating revenues	3,977.5	15,651.7	15,286.0	14,363.8
Operating expenses	1,883.3	7,574.4	7,546.9	7,525.8
Pre-impairment operating profit	2,094.2	8,077.3	7,739.1	6,838.0
Impairment charges	834.2	3,713.6	3,514.6	1,095.7
Net income	1,053.0	3,510.9	3,286.7	4,618.3
Ratios: Lending and asset quality				
Assets/GDP	118.4	118.8	120.4	108.1
Gross loans/GDP	85.4	83.5	83.1	73.8
Net loans/assets	69.9	68.3	66.7	66.6
Retail loans/gross loans	42.5	44.2	45.1	48.6
Foreign currency loans/gross loans	71.7	71.5	70.3	63.8
Impaired loans/gross loans	11.5	11.2	7.8	4.9
Reserve coverage of impaired loans	39.3	38.8	42.5	48.7
Ratios: Funding				
Customer deposits/GDP	81.8	81.8	81.7	56.9
Gross loans/customer deposits	104.4	102.1	101.7	129.8
Customer deposits/liabilities	80.5	79.9	78.8	60.8
Retail/total customer deposits	56.7	56.7	55.0	69.8
Foreign funding/total liabilities	-	23.4	24.0	23.3
Ratios: Capitalisation				
Equity/assets	14.2	13.9	13.9	13.5
Tier 1 capital/risk weighted assets	17.9	17.5	15.3	15.2
Total capital/risk weighted assets	19.1	18.8	16.6	15.4
Ratios: Income statement				
Net interest income/ave. earning assets	4.0	4.0	3.6	4.1
Operating expenses/operating revenues	47.3	48.4	49.4	52.4
Pre-impairment profit/ave assets	2.1	2.1	2.1	1.9
Loan impairment charges/ave loans	0.9	0.9	0.9	0.3
Return on average assets	1.1	0.9	0.9	1.3
Return on average equity	7.7	6.6	6.4	9.9
Ratios: Sector structure				
Number of banks	34	34	34	34
State-owned banks/sector	-	4.3	4.2	4.5
Foreign-owned banks/sector	-	90.3	90.3	90.6
Privately-owned banks/sector	-	5.4	4.9	4.9
Five largest banks/sector	75.4	75.3	-	-

Source: National banks and bank regulators, Fitch calculations

Czech Republic (CZKm)

Date	End-Q111	End-2010	End-2009	End-2008	End-2007
Assets and loans					
Assets	4,236,833.5	4,184,933.3	4,086,318.7	4,041,585.9	3,612,137.2
Assets (USDbn)	245.3	223.3	219.3	208.9	199,565.6
Gross loans	2,179,796.7	2,174,751.1	2,102,083.8	2,075,687.4	1,783,987.7
O/w non-retail	1,113,668.1	1,114,190.4	1,111,744.0	1,188,645.4	1,054,213.3
O/w retail	1,066,128.6	1,060,560.7	990,339.8	887,042.0	729,774.4
O/w Foreign Currency	284,119.7	299,228.6	281,983.1	291,816.2	230,291.7
Loan impairment reserve	86,435.2	83,563.0	69,206.9	48,322.3	35,824.3
Net loans	2,093,361.5	2,091,188.1	2,032,876.9	2,027,365.1	1,748,163.4
Funding and capital					
Customer deposits	2,808,315.4	2,788,697.8	2,698,236.0	2,566,916.0	2,369,009.0
O/w non-retail	1,124,332.3	1,123,805.3	1,108,823.8	1,092,723.8	1,048,031.5
O/w retail	1,683,983.1	1,664,892.5	1,589,412.2	1,474,192.2	1,320,977.5
O/w foreign currency	264,347.1	243,048.5	240,751.0	265,803.6	259,245.8
Equity	369,081.6	355,021.2	327,878.6	300,858.6	265,675.6
Tier 1 regulatory capital	266,284.0	263,422.0	237,595.0	219,859.0	190,429.0
Total regulatory capital	294,344.0	289,352.0	264,736.0	230,852.0	211,961.0
Risk weighted assets	1,886,312.5	1,865,175.0	1,875,625.0	1,873,425.0	1,835,175.0
Income statement					
Net interest income	27,164.0	105,457.0	103,299.0	98,043.0	84,698.0
Total operating revenues	39,704.0	157,410.0	168,375.0	138,023.0	134,392.0
Operating expenses	17,592.0	69,262.0	67,856.0	69,021.0	67,577.0
Pre-impairment operating profit	22,112.0	88,148.0	100,519.0	69,002.0	66,815.0
Impairment charges	4,107.0	22,377.0	29,825.0	15,221.0	6,525.0
Net income	14,794.0	55,666.0	59,715.0	45,703.0	46,987.0
Ratios: Lending and asset quality					
Assets/GDP	112.5	111.1	112.6	109.4	102.2
Gross loans/GDP	57.9	57.8	57.9	56.2	50.5
Net loans/assets	49.4	50.0	49.7	50.2	48.4
Retail loans/gross loans	48.9	48.8	47.1	42.7	40.9
Foreign currency loans/gross loans	13.0	13.8	13.4	14.1	12.9
Impaired loans/gross loans	6.7	6.6	5.4	3.3	2.9
Reserve coverage of impaired loans	59.4	58.0	60.7	70.3	69.9
Ratios: Funding					
Customer deposits/GDP	74.6	74.1	74.4	69.5	67.0
Gross loans/customer deposits	77.6	78.0	77.9	80.9	75.3
Customer deposits/liabilities	72.6	72.8	71.8	68.6	70.8
Retail/total customer deposits	60.0	59.7	58.9	57.4	55.8
Foreign funding/total liabilities	12.4	13.3	13.0	16.2	13.0
Ratios: Capitalisation					
Equity/assets	8.7	8.5	8.0	7.4	7.4
Tier 1 capital/risk weighted assets	14.1	14.1	12.7	11.7	10.4
Total capital/risk weighted assets	15.6	15.5	14.1	12.3	11.5
Ratios: Income statement					
Net interest income/ave. earning assets	2.8	2.8	2.8	2.9	2.8
Operating expenses/operating revenues	44.3	44.0	40.3	50.0	50.3
Pre-impairment profit/ave assets	2.1	2.1	2.5	1.8	2.0
Loan impairment charges/ave loans	0.4	0.5	0.7	0.4	0.2
Return on average assets	1.4	1.3	1.5	1.2	1.4
Return on average equity	16.3	16.3	19.0	16.1	18.6
Ratios: Sector structure					
Number of banks	41	41	39	37	37
State-owned banks/sector	-	-	1.7	1.9	-
Foreign-owned banks/sector	97.0	97.0	97.3	97.1	97.6
Privately-owned banks/sector	-	-	1.0	1.0	-
Five largest banks/sector	63.4	62.5	62.5	62.1	-

Sources: National banks and bank regulators, Fitch calculations

Hungary (HUFbn)

Date	End-Q111	End-2010	End-2009	End-2008	End-2007
Assets and loans					
Assets	27,554.2	28,157.3	28,996.4	29,177.9	24,375.7
Assets (USDbn)	147.4	135.3	154.2	155.3	141.2
Gross loans	16,817.4	18,073.2	17,657.5	18,880.4	15,398.0
O/w non-retail	9,710.8	10,449.1	10,660.1	11,595.1	9,920.8
O/w retail	7,106.6	7,624.1	6,997.4	7,285.3	5,477.2
O/w foreign currency	11,100.5	12,453.2	12,265.4	13,261.5	9,472.0
Loan impairment reserve	1,028.6	1,019.7	678.9	355.8	251.7
Net loans	15,788.8	17,053.5	16,978.6	18,524.6	15,146.3
Funding and capital					
Customer deposits	11,523.2	11,603.9	11,936.1	12,214.0	10,745.9
O/w non-retail	5,361.4	5,417.0	5,396.8	5,919.3	5,325.6
O/w retail	6,161.8	6,186.9	6,539.3	6,294.7	5,420.3
O/w foreign currency	3,019.0	2,964.1	3,081.4	3,051.3	-
Equity	2,505.7	2,468.3	2,396.1	2,185.2	2,003.7
Tier 1 regulatory capital	1,937.9	1,961.1	1,882.8	1,713.6	1,418.1
Total regulatory capital	2,292.3	2,314.0	2,291.4	2,106.9	1,875.3
Risk weighted assets	16,612.6	17,379.0	17,466.3	18,752.6	16,170.1
Income statement					
Net interest income	240.0	938.7	823.1	877.4	765.6
Total operating revenues	241.7	1,085.5	1,298.3	1,053.1	1,085.9
Operating expenses	138.5	598.6	621.9	657.7	590.7
Pre-impairment operating profit	103.2	486.9	676.4	395.4	495.2
Impairment charges	15.9	393.6	408.7	129.0	102.2
Net income	61.5	38.5	209.1	236.6	324.6
Ratios: Lending and asset quality					
Assets/GDP	101.6	103.8	111.1	109.6	95.7
Gross loans/GDP	62.0	66.6	67.7	70.9	60.4
Net loans/assets	57.3	60.6	58.6	63.5	62.1
Retail loans/gross loans	42.3	42.2	39.6	38.6	35.6
Foreign currency loans/gross loans	66.0	68.9	69.5	70.2	61.5
Impaired loans/gross loans	9.0	8.5	6.3	2.6	-
Reserve coverage of impaired loans	67.7	66.0	61.3	71.4	-
Ratios: funding					
Customer deposits/GDP	42.5	42.8	45.7	45.9	42.2
Gross loans/customer deposits	145.9	155.8	147.9	154.6	143.3
Customer deposits/liabilities	46.0	45.2	44.9	45.2	48.0
Retail/total customer deposits	53.5	53.3	54.8	51.5	50.4
Foreign funding/total liabilities	26.9	28.3	27.4	29.0	23.8
Ratios: Capitalisation					
Equity/assets	9.1	8.8	8.3	7.5	8.2
Tier 1 capital/risk weighted assets	11.7	11.3	10.8	9.1	8.8
Total capital/risk weighted assets	13.8	13.3	13.1	11.2	11.6
Ratios: Income statement					
Net interest income/ave. earning assets	3.7	3.5	3.1	3.6	3.8
Operating expenses/operating revenues	57.3	55.1	47.9	62.5	54.4
Pre-impairment profit/ave assets	1.5	1.7	2.3	1.5	2.2
Loan impairment charges/ave loans	0.7	2.0	2.1	0.8	0.7
Return on average assets	0.9	0.1	0.7	0.9	1.4
Return on average equity	9.9	1.6	9.1	11.3	17.5
Ratios: Sector structure					
Number of banks	36	35	35	36	38
State-owned banks/sector	-	-	-	-	-
Foreign-owned banks/sector[a]	65	-	-	-	-
Privately owned banks/sector	-	-	-	-	-
Five largest banks/sector	-	62.6	63.6	59.8	-

[a] Includes ownership by foreign banks; ie, does not include OTP

Source: Hungarian FSA (data for credit institutions operating as joint-stock companies), Fitch calculations

Poland (PLNm)

Date	End-Q111	End-2010	End-2009	End-2008	End-2007
Assets and loans					
Assets	1,192,690.7	1,153,964.9	1,053,213.6	1,024,939.1	776,737.6
Assets (USDbn)	422.5	389.9	369.5	346.1	319.0
Gross loans	785,831.9	783,446.7	712,925.3	645,176.4	473,795.3
O/w non-retail	308,387.0	307,705.0	295,323.0	272,771.5	215,812.8
O/w retail	477,444.9	475,741.7	417,602.3	372,404.8	257,982.4
O/w foreign currency	232,456.2	235,141.4	212,198.2	210,603.3	112,204.6
Loan impairment reserve	39,307.4	37,553.9	25,875.8	16,488.9	15,621.1
Net loans	746,524.6	745,892.8	687,049.5	628,687.5	458,174.2
Funding and capital					
Customer deposits	763,921.1	734,516.5	668,730.9	588,839.7	489,658.9
O/w non-retail	334,162.5	316,599.5	287,434.9	256,924.3	226,857.3
O/w retail	429,758.6	417,917.0	381,295.9	331,915.3	262,801.6
O/w foreign currency	60,751.0	63,641.4	58,174.8	56,157.2	58,112.7
Equity	118,011.5	116,216.3	103,800.1	88,271.9	75,254.3
Tier 1 regulatory capital	94,032.2	90,446.1	81,154.8	71,966.4	60,002.8
Total regulatory capital	103,997.7	100,545.9	90,063.0	74,999.2	61,764.6
Risk weighted assets	743,426.8	727,677.5	677,845.5	694,416.3	509,050.0
Income statement					
Net interest income	8,167.4	30,837.6	26,376.1	29,946.0	24,339.5
Total operating revenues	13,776.7	53,468.2	50,305.3	50,492.2	43,282.6
Operating expenses	7,177.1	28,770.3	28,092.5	28,075.8	24,868.8
Pre-impairment operating profit	6,599.6	24,697.9	22,212.8	22,416.4	18,413.8
Impairment charges	1,960.5	10,218.6	12,096.5	5,230.5	1,713.0
Net income	3,762.3	11,672.6	8,282.4	13,934.1	13,642.0
Ratios: Lending and asset quality					
Assets/GDP	82.8	81.6	78.5	80.5	66.0
Gross loans/GDP	54.6	55.4	53.1	50.7	40.3
Net loans/assets	62.6	64.6	65.2	61.3	59.0
Retail loans/gross loans	60.8	60.7	58.6	57.7	54.5
Foreign currency loans/gross loans	29.6	30.0	29.8	32.6	23.7
Impaired loans/gross loans[a]	7.8	7.8	7.1	4.1	4.8
Reserve coverage of impaired loans[a]	63.8	61.3	51.1	61.7	68.9
Ratios: Funding					
Customer deposits/GDP	53.0	51.9	49.8	46.3	41.6
Gross loans/customer deposits	102.9	106.7	106.6	109.6	96.8
Customer deposits/liabilities	71.1	70.8	70.4	62.9	69.8
Retail/total customer deposits	56.3	56.9	57.0	56.4	53.7
Foreign funding/total liabilities	20.2	20.7	20.1	17.1	11.8
Ratios: Capitalisation					
Equity/assets	9.9	10.1	9.9	8.6	9.7
Tier 1 capital/risk weighted assets	12.6	12.4	12.0	10.4	11.8
Total capital/risk weighted assets	14.0	13.8	13.3	10.8	12.1
Ratios: Income statement					
Net interest income/ave. earning assets	2.9	2.9	2.7	3.7	3.7
Operating expenses/operating revenues	52.1	53.8	55.8	55.6	57.5
Pre-impairment profit/ave assets	2.2	2.2	2.1	2.5	2.6
Loan impairment charges/ave loans	0.7	0.9	1.1	0.5	0.2
Return on average assets	1.3	1.1	0.8	1.5	1.9
Return on average equity	12.8	10.6	8.6	17.0	19.3
Ratios: Sector structure					
Number of banks	644	645	643	649	645
State-owned banks/sector	-	-	20.9	17.6	18.7
Foreign-owned banks/sector	65.4	66.8	68.6	73.5	72.4
Privately-owned banks/sector	-	-	10.5	8.9	9.0
Five largest banks/sector	43.7	43.9	44.2	45.3	47.6

[a] Since Q110, the Polish FSA has started to report 90-day overdue loans (NPLs) for the sector. In this report, Fitch uses NPL numbers to compare asset quality to other markets at end-Q111. However, the impaired loan numbers above are based on a broader definition of problem exposures.
Source: National banks and bank regulators, Fitch calculations

Romania (RONm)

Date	End-Q111	End-2010	End-2009	End-2008	End-2007
Assets and loans					
Assets	305,290.8	317,361.3	305,200.2	296,182.6	238,237.2
Assets (USDbn)	111,387.5	99,036.1	103,947.5	104,658.2	97,239.7
Gross loans	203,956.4	209,298.2	199,887.1	198,055.7	148,180.8
O/w non-retail	105,923.0	107,198.6	99,670.9	98,851.1	76,673.1
O/w retail	98,033.4	102,099.6	100,216.2	99,204.6	71,507.7
O/w foreign currency	126,949.1	131,947.0	120,157.4	114,421.5	80,467.8
Loan impairment reserve	24,478.7	23,558.9	14,952.6	7,586.8	3,635.7
Net loans	179,477.7	185,739.3	184,934.5	190,468.9	144,545.1
Funding and capital					
Customer deposits	171,404.8	177,438.7	167,742.0	151,371.9	129,058.0
O/w non-retail	66,919.8	73,424.1	70,437.0	68,492.9	61,743.0
O/w retail	104,485.0	104,014.6	97,305.0	82,879.0	67,315.0
O/w foreign currency	61,081.0	63,949.3	65,051.0	52,627.8	41,407.0
Equity	28,295.4	29,121.3	26,970.3	27,375.6	25,791.6
Tier 1 regulatory capital	24,162.8	24,497.8	21,379.2	21,724.2	14,657.4
Total regulatory capital	-	-	-	-	-
Risk weighted assets	-	-	-	-	-
Income statement					
Net interest income	-	13,301.6	10,259.5	8,825.4	6,325.4
Total operating revenues	-	22,622.6	22,935.3	20,443.5	21,901.9
Operating expenses	-	14,373.0	14,395.3	11,220.6	16,734.9
Pre-impairment operating profit	-	8,249.6	8,540.0	9,222.9	5,167.0
Impairment charges	-	8,415.8	7,362.4	3,856.5	2,208.5
Net income	350.2	-480.3	801.8	4,450.5	2,423.3
Ratios: Lending and asset quality					
Assets/GDP	58.4	60.7	62.1	58.8	57.7
Gross loans/GDP	39.0	40.0	40.7	39.3	35.9
Net loans/assets	58.8	58.5	60.6	64.3	60.7
Retail loans/gross loans	48.1	48.8	50.1	50.1	48.3
Foreign currency loans/gross loans	62.2	63.0	60.1	57.8	54.3
Impaired loans/gross loans	12.7	11.9	7.9	6.3	3.9
Reserve coverage of impaired loans	94.4	95.0	94.8	60.2	62.6
Ratios: Funding					
Customer deposits/GDP	-	33.9	34.1	30.0	31.3
Gross loans/customer deposits	119.0	118.0	119.2	130.8	114.8
Customer deposits/liabilities	61.9	61.6	60.3	56.3	60.7
Retail/total customer deposits	61.0	58.6	58.0	54.8	52.2
Foreign funding/total liabilities	-	-	28.8	33.8	31.7
Ratios: Capitalisation					
Equity/assets	9.3	9.2	8.8	9.2	10.8
Tier 1 capital/risk-weighted assets	-	-	-	-	-
Total capital/risk-weighted assets	14.8	14.7	14.0	13.8	13.8
Ratios: Income statement					
Net interest income/ave. Earning assets	-	5.8	4.8	4.9	5.0
Operating expenses/operating revenues	-	63.5	62.8	54.9	76.4
Pre-impairment profit/ave assets	-	2.7	2.8	3.5	2.6
Loan impairment charges/ave loans	-	2.7	2.4	1.3	0.9
Return on average assets	0.5	-0.2	0.3	1.7	1.2
Return on average equity	4.9	-1.7	3.0	16.7	10.5
Ratios: Sector structure					
Number of banks	32	32	31	32	31
State-owned banks/sector	-	7.9	7.9	5.6	5.7
Foreign-owned banks/sector	-	84.1	84.3	87.6	87.3
Privately-owned banks/sector	-	7.9	7.8	6.8	7.0
Five largest banks/sector	-	56.8	56.7	57.7	59.4

Sources: National banks and bank regulators, Fitch calculations

Slovakia (EURm)

Date	End-Q111	End-2010	End-2009
Assets and loans			
Assets	55,088.9	54,695.0	53,011.0
Assets (USDbn)	77.1	73.1	76.4
Gross loans	33,087.6	32,631.0	31,090.0
O/w non-retail	16,703.6	16,279.2	16,340.1
O/w retail	16,383.9	16,351.8	14,749.9
O/w foreign currency	496.1	542.4	619.1
Loan impairment reserve	1,499.2	1,463.4	1,317.9
Net loans	31,588.3	31,167.6	29,772.1
Funding and capital			
Customer deposits	39,690.2	39,401.2	37,587.7
O/w non-retail	15,635.9	15,650.5	15,070.9
O/w retail	24,054.3	23,750.7	22,516.8
O/w foreign currency	24,623.5	1,557.5	23,029.9
Equity	5,388.2	5,314.5	5,077.4
Tier 1 regulatory capital	-	-	-
Total regulatory capital	4,337.6	4,355.1	4,186.0
Risk weighted assets	34,558.2	33,080.3	33,300.0
Income statement			
Net interest income	437.4	1,680.0	1,562.4
Total operating revenues	544.1	2,071.1	1,910.2
Operating expenses	287.3	1,129.9	1,143.1
Pre-impairment operating profit	256.9	941.2	767.1
Impairment charges	37.8	277.7	426.5
Net income	174.7	513.9	250.1
Ratios: Lending and asset quality			
Assets/GDP	83.6	83.0	83.7
Gross loans/GDP	50.2	49.5	49.1
Net loans/assets	57.3	57.0	56.2
Retail loans/gross loans	49.5	50.1	47.4
Foreign currency loans/gross loans	1.5	1.7	2.0
Impaired loans/gross loans	6.2	6.1	5.5
Reserve coverage of impaired loans	73.6	73.8	77.3
Ratios: Funding			
Customer deposits/GDP	60.2	59.8	59.4
Gross loans/customer deposits	83.4	82.8	82.7
Customer deposits/liabilities	79.9	79.8	78.4
Retail/total customer deposits	60.6	60.3	59.9
Foreign funding/total liabilities	14.2	13.6	12.2
Ratios: Capitalisation			
Equity/assets	9.8	9.7	9.6
Tier 1 capital/risk weighted assets	-	-	-
Total capital/risk weighted assets	12.6	13.2	12.6
Ratios: Income statement			
Net interest income/ave. earning assets	3.4	3.3	-
Operating expenses/operating revenues	52.8	54.6	59.8
Pre-impairment profit/ave assets	1.9	1.7	-
Loan impairment charges/ave loans	0.3	0.5	0.8
Return on average assets	1.3	1.0	n/a
Return on average equity	13.1	9.9	-
Ratios: Sector structure			
Number of banks	14	14	15
State-owned banks/sector	-	-	-
Foreign-owned banks/sector	-	-	-
Privately-owned banks/sector	-	-	-
Five largest banks/sector	-	-	-

Source: National banks and bank regulators, Fitch calculations. Slovakia adopted the euro as of 2009.

Slovenia (EURm)

Date	End-Q111	End-2010	End-2009	End-2008
Assets and loans				
Assets	51,742.8	50,323.8	51,612.0	47,628.0
Assets (USDbn)	73.5	67.3	74.3	67.0
Gross Loans	36,615.2	36,612.5	35,469.4	34,700.4
O/w non-retail	-	27,607.3	27,294.5	27,068.2
O/w retail	-	9,005.2	8,174.8	7,632.2
O/w foreign currency	-	1,481.0	1,635.6	2,023.8
Loan impairment reserve	2,230.0	2,166.9	1,559.6	1,170.7
Net loans	34,385.3	34,445.5	33,909.7	33,529.8
Funding and capital				
Customer deposits	25,113.3	23,507.0	23,570.0	20,612.0
O/w non-retail	-	9,215.0	9,769.0	7,402.0
O/w retail	-	14,292.0	13,801.0	13,210.0
O/w foreign currency	-	485.3	450.2	485.1
Equity	4,129.2	4,121.8	4,295.0	3,996.0
Tier 1 regulatory capital	3,847.9	3,586.9	3,704.1	3,484.8
Total regulatory capital	4,740.1	4,498.8	4,590.5	4,453.0
Risk weighted assets	40,189.8	39,821.8	39,700.4	38,051.0
Income statement				
Net interest income	260.1	1,038.2	932.2	944.6
Total operating revenues	352.8	1,476.2	1,425.3	1,360.2
Operating expenses	181.6	765.9	765.2	776.0
Pre-impairment operating profit	171.2	710.3	660.1	584.2
Impairment charges	126.2	809.7	499.6	277.9
Net income	36.7	-98.1	121.8	247.7
Ratios: Lending and asset quality				
Assets/GDP	144.6	140.6	145.9	127.7
Gross loans/GDP	102.3	102.3	100.2	93.0
Net loans/assets	66.5	68.4	65.7	70.4
Retail loans/gross loans	-	24.6	23.0	22.0
Foreign currency loans/gross loans	-	4.0	4.6	5.8
Impaired loans/gross loans	12.1	10.0	6.6	4.6
Reserve coverage of impaired loans	50.2	59.0	66.3	73.9
Ratios: Funding				
Customer deposits/GDP	70.2	65.7	66.6	55.3
Gross loans/customer deposits	145.8	155.8	150.5	168.4
Customer deposits/liabilities	52.7	50.9	49.8	47.2
Retail/total customer deposits	-	60.8	58.6	64.1
Foreign funding/total liabilities	-	37.9	35.1	41.1
Ratios: Capitalisation				
Equity/assets	8.0	8.2	8.3	8.4
Tier 1 capital/risk weighted assets	9.6	9.0	9.3	9.2
Total capital/risk weighted assets	11.8	11.3	11.6	11.7
Ratios: Income statement				
Net interest income/ave. Earning assets	2.1	2.1	2.1	8.9
Operating expenses/operating revenues	51.5	51.9	53.7	57.1
Pre-impairment profit/ave assets	1.3	1.4	1.4	5.2
Loan impairment charges/ave loans	1.0	1.6	1.0	2.5
Return on average assets	0.3	-0.2	0.3	2.2
Return on average equity	3.6	-2.3	3.1	26.2
Ratios: Sector structure				
Number of banks	-	20	-	-
State-owned banks/sector	-	46.4	-	-
Foreign-owned banks/sector	-	28.7	-	-
Privately-owned banks/sector	-	24.9	-	-
Five largest banks/sector	-	58.7	59.7	59.5

Source: National banks and bank regulators, Fitch calculations

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