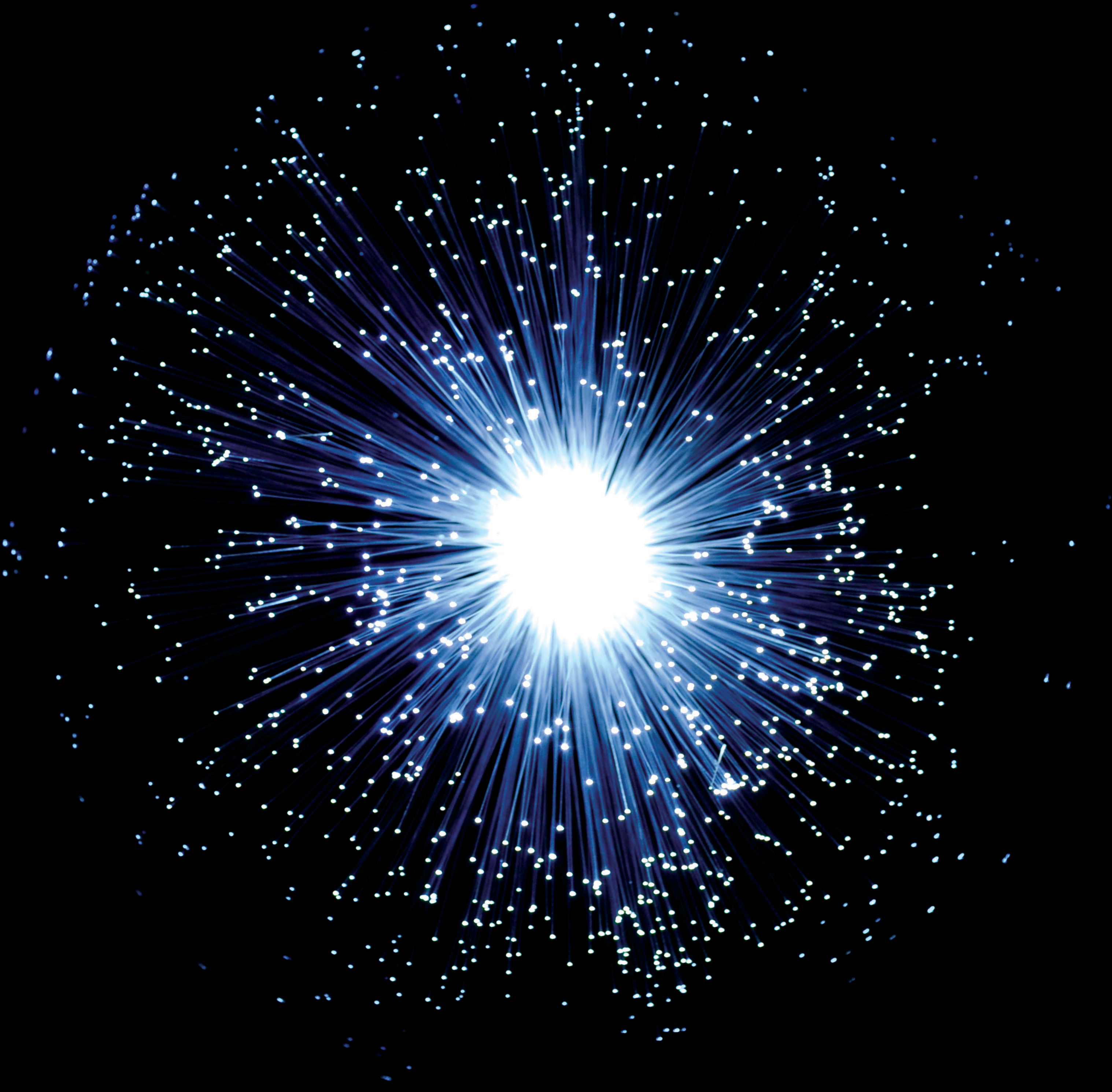


CEE NPL markets in full swing

A record year in 2016

January 2017

Contents

Foreword

In our 2015 study we reported 2014 as a turnaround year for NPLs in the CEE region given the NPL volumes started to decrease. Sale of non-performing loan portfolios further increased in 2016 compared to 2014 and 2015 due to the increasing NPL investors' interest for the CEE region and the greater willingness by banks to dispose of portfolios. Although investors turned their interest towards retail mortgages as well, servicing capacity is still a concern for many investors. Based on our expectations for 2017, NPL transaction activity will level off or possibly further increase as NPL investors become more comfortable with the region.

The improvement of economic conditions is the main catalyst for non-performing loan sales in the region covered in this study. The real estate markets in the CEE region are recovering and are on an improving trend which is also an important indicator from an investor's perspective. The improving property markets have increased the market value of the collaterals securing NPL loans which has translated into higher recovery rates.

NPL management is one of the top priorities of regulators and local authorities in countries impacted by high NPL volumes. Strategies and recommendations have been developed by the regulators and local authorities in order to attempt to reduce NPL volumes and improve debt sale market conditions. Given the improvements of the regulatory environment, NPL investors are more likely to enter into new countries in the region moving forward.

The legal and insolvency framework of a country largely impacts the loan's recovery rates. The recovery rate is the percentage of the distressed loan's face value which can be recovered by a bank or a NPL investor. As traditional in-court and collateral enforcement proceedings are generally lengthy and costly, forbearance can be an alternative tool to help individuals and viable businesses to recover from financial difficulties and achieve a sustainable payment plan.

The role of restructuring is likely to grow in the forthcoming years which will help further NPL reductions. It should be noted though that NPL ratios in the region moving forward will be impacted by whether forborne loans could stay healthy on a long term basis or whether they will enter default again.

Although, the portfolio quality of leading banking groups in the region are improving, some of the significant NPL portfolios are still booked in the parent banks' balance sheets. In these cases the subsidiaries' portfolios in the region do not reflect the actual NPL related problems.

In 2015, banking groups also improved provisioning for NPLs which further reduced the pricing gap between banks and NPL investors and helped to increase the number of completed transactions during 2016.

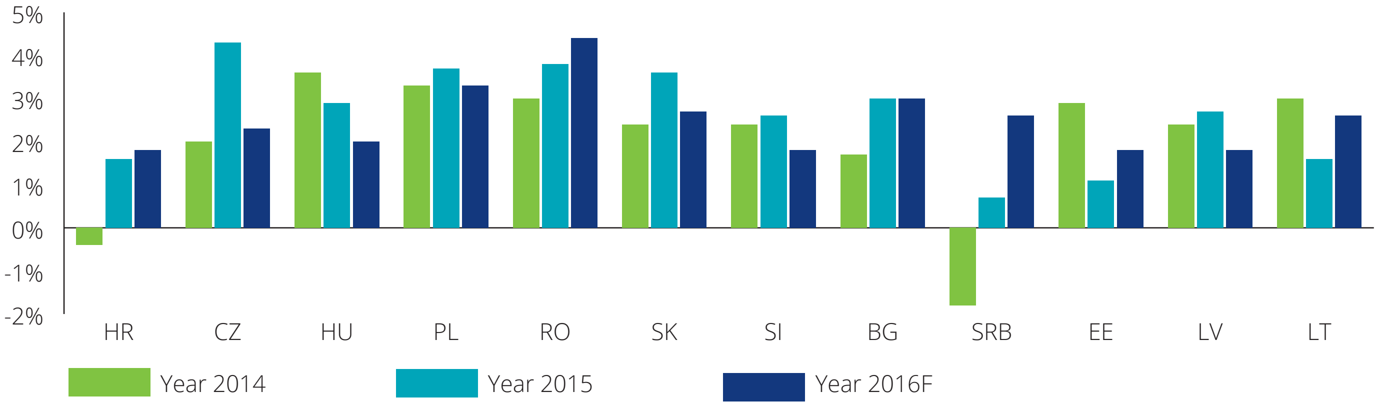
In our 2016 study we cover three additional countries, Estonia, Latvia and Lithuania. In addition, the 5th edition of the NPL study includes further analysis on forborne loan ratios, provision coverage ratios of NPLs and average interest rates on loans and deposits.

Balázs Bíró

Partner, Central European leader of Portfolio Lead Advisory Services

Macro overview

Figure 1. Changes in real GDP, 2014-2016 (Forecast)



Source: Local national banks, EIU

Real GDP improved in 2015 for all of the twelve countries [1] (Figure 1.) examined in this report. In 2014 Serbia was hit by a severe flood, however the economy recovered from this decline and reached a real GDP growth of 0.7% in 2015. Croatia also recovered from multiple years of consecutive recession to post a real GDP gain of 1.6% in 2015. In most of the countries, GDP growth was spurred by domestic demand and international trade. Average GDP growth was 2.0% in 2014 and 2.6% in 2015. This is an upward trend and a remarkable recovery compared to the 2012 average across all countries which was a decrease of 0.3% of GDP. EIU's forecast for 2016 is still optimistic for all countries with average growth of 2.5%.

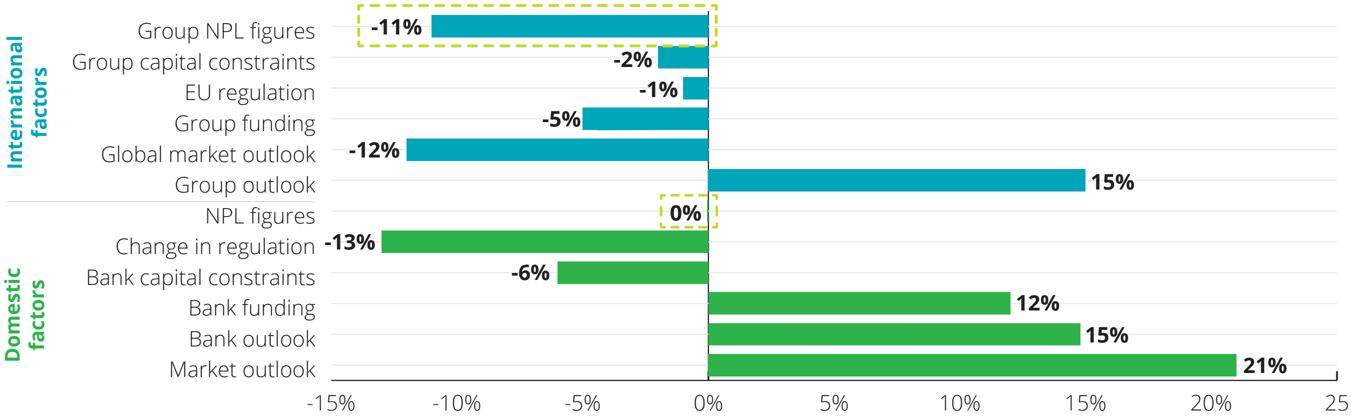
The improved economic conditions in the past few years made the CEE region attractive for distressed investors, who have increased their activity in the region. This improved investor interest was matched by an increased willingness of banks to sell their NPL portfolios. There has also been an increased attention of local regulators to enhance portfolio cleaning in the banking sector and thus speed up lending activity. A growing number of NPL transactions have been completed and many other distressed loan deals are currently ongoing. In 2015, EUR 4.3bn of transactions were completed. Year to date transaction to October 2016 were EUR 5.2bn and there was also EUR 5.4bn of transaction which were ongoing.

"The improvement of economic conditions in 2015, coupled with an increase in provisioning following the AQR exercises in several of the CESEE countries, has served as a catalyst for NPL sales in the region. ... Distressed asset investors have focused on the CESEE region as potential yields are attractive on the back of an economic recovery and given that more deals being offered in the market."

(EBRD, NPL resolution: prerequisites for loan portfolios sales in the CESEE region, 2016)

1 CEE countries: Poland, Czech Republic, Slovakia, Hungary, Croatia, Romania, Slovenia, Bulgaria, Serbia
Baltic countries: Estonia, Latvia, Lithuania
Otherwise not stated, the twelve countries cover all the countries mentioned above.

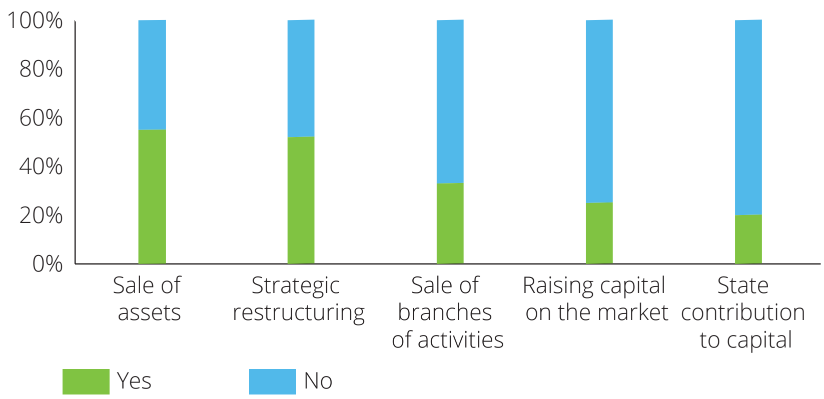
Figure 2. Factors contributing to supply conditions in the credit market
(net percentage: positive figures refer to a positive contribution to credit supply)



Source: H1 2016 CESEE Bank Lending Survey of the European Investment Bank

Figure 2. shows that the magnitude of the NPL problem has decreased over the past years in the CEE region according to the EIB's CESEE Bank Lending Survey for H1 2016, however it is still a significant adverse factor on credit supply which would further propel economic growth. International factors have been decreasing over time, however global market outlook, group NPL figures and group funding are still exerting a meaningful negative effect on credit supply. Banking group NPL figures as an impediment of new lending with negative 11% practically remained unchanged compared to negative 12% in H1 2015 (Figure 2). The most significant negative domestic factors are the change in regulatory environment and the capital constraints. In 2015, NPL figures also had an important adverse effect in credit supply conditions with negative 15%, but in the first half of 2016 the impact is considered to be nil.

Figure 3. Strategic options to increase capital ratio



Source: H1 2016 CESEE Bank Lending Survey of the European Investment Bank

According to the EIB's CESEE Bank Lending Survey for H1 2016 (covering 14 countries, 15 international groups, 86 local banks and approximately 50% of the regional banking assets), cross-border banking groups are attempting to increase their capital ratio mostly through strategic restructuring and asset sales. Figure 3. shows that removing the impediments from NPL transfers should be still one of the most important issue on regulators' agendas. Although, the sale of assets is still the most common option to increase the capital ratio, only 55% of banks surveyed indicated their intention to dispose of assets compared to 75% of banks in the previous year. The role of strategic restructuring was almost as important as asset sales in H1 2016.

NPL resolution

Countries in the CESEE region are still experiencing high levels of NPL ratios (although some countries saw considerable decrease in NPL ratios in 2015), hindering banks' lending and restraining economic growth. According to the EBRD, NPL resolution is still an urgent issue, and it should be based on three pillars:

Enhanced prudential oversight to provide incentives for banks to write-off or restructure impaired loans

Reforms to enhance effective out-of-court restructuring frameworks and improved access to debtor information

Development of distressed debt markets by improving market conditions and infrastructure

It should be noted that although NPL resolution is primarily the task of the affected banks, it requires a broader and concentrated action by governments, local regulators and international financial institutions as well.

"The IMF's research shows that the degree of concern about the overall judicial system is generally higher than the degree of concern about corporate and personal insolvency."

(EBRD, Non-performing loans: Addressing Legal and Regulatory Impediments, 2016)

Banks have two options to tackle NPLs, either deal with them internally, which has higher resource demand, or dispose of them to clean up the portfolio of bad debts. The disposal of NPLs is typically considered to be more efficient as it allows banks to address their resources from NPL management and allow them to focus on their primary activity in which they have competitive advantage.

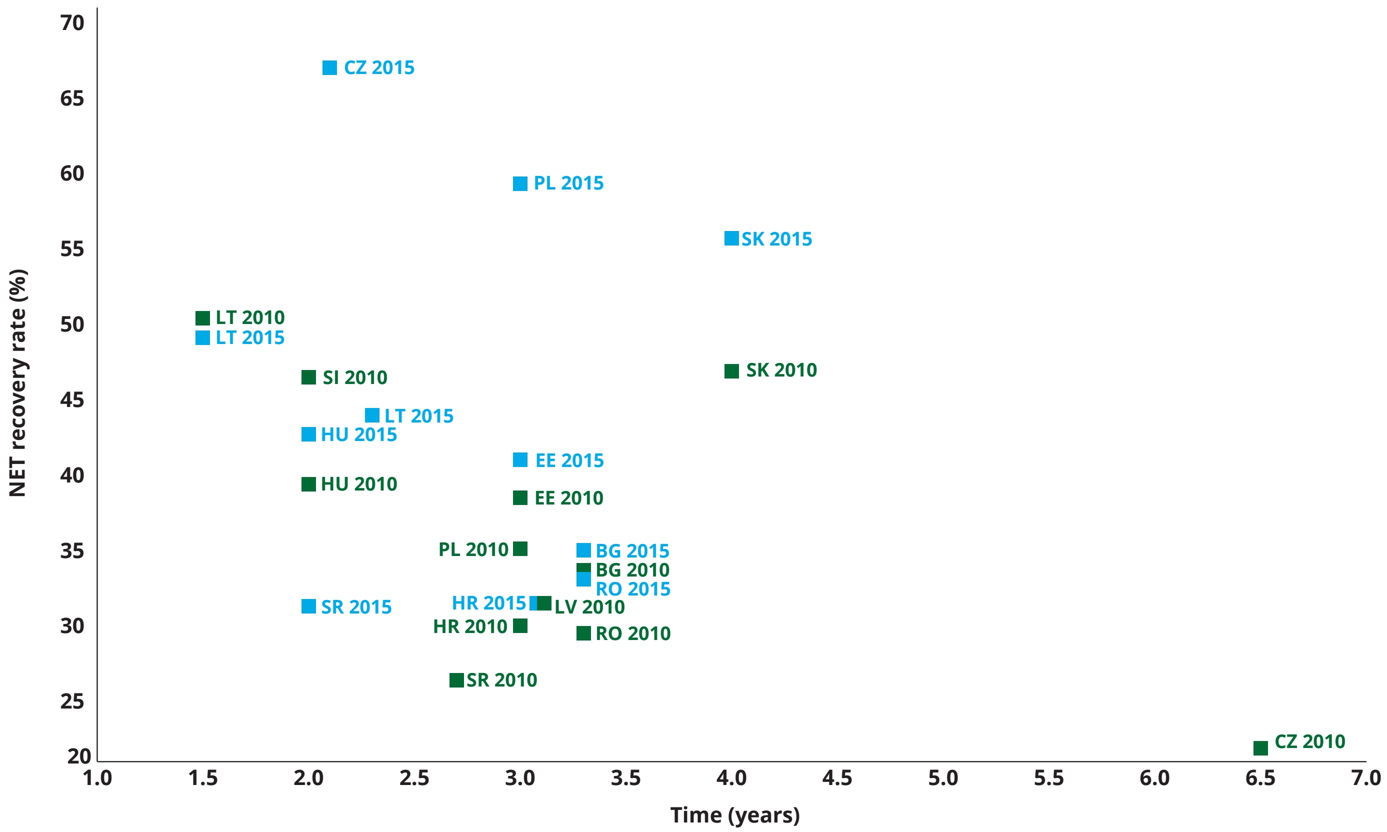
However, there are some significant impediments which impact the resolution of NPLs. There are several obstacles which discourage investors to enter the CEE region, such as the underdeveloped legal system, as well as the slow and inefficient enforcement and insolvency frameworks. All of these impact how investors price NPL portfolios and whether investors want to invest in certain markets. According to the EBRD, the four main examples of impediments on NPL resolution are licensing, civil procedure, contract law and data protection.

For example, the Hungarian judicial system allows NPL transfers only to those entities, which possess a license for providing financial services. In civil procedure in Serbia, existing litigations have to be finished before the NPL is sold, or the buyer of such a loan will eventually lose the litigation. Data protection hinders investors to conduct deep and appropriate due diligence, helping them evaluate potential investments.

Tax impediments are also among the identified issues regarding NPL resolution. The two key tax-related impediments are the ability to take tax deductions for write-offs and provisions and the ability to utilize losses in the future. Recently Serbia and Croatia confirmed that there should be some changes in tax regimes to incentivize NPL resolution. It seems that various jurisdictions are moving towards NPL resolution via favorable tax regimes. It should be noted that most jurisdictions allow tax deductions, however the conditions that need to be met can add complexities to the process. Therefore, from this perspective the pain of making provisions could be somewhat eased for banks if related tax deductions could be realized more easily.

Development of net recovery conditions

Figure 4. Development of recovery conditions, 2010-2015



Source: World Bank
Note: SI 2015 is not displayed for illustrative reasons, as its net recovery rate is 88.2% (time data is 0.8 years).

There was no significant improvement in the net recovery [2] rate timing between 2014 and 2015. Figure 4. presents that Slovenia was the only exception, where the net recovery period decreased from 2 years to 0.8 years. The net recovery rate in 2015 was the highest in Slovenia at 88.2% and with a time period of 0.8 years, the second highest in the Czech Republic with 66% and 2.1 years followed by Poland with 58.3% and 3 years. The lowest expected recovery rate in 2015 was reported in Serbia at 30.3%. The three countries from the Baltic area are similar regarding this indicator, Latvia registered the highest recovery rate at 48.1%, followed by Lithuania at 42.8% and Estonia at 40.0%, however the recovery period varies between 1.5 and 3 years. The average recovery rate in the Baltics was 43.6% in 2015, with an average recovery period of 2.2 years. The countries with the most improved recovery rate between 2010 and 2015 was the Czech Republic with an impressive 45.1%, followed by Slovenia and Poland with 42.7% and 24.2% respectively.

2 Recovery rate is a function of the time, cost and outcome of insolvency proceedings against a local company. The recovery rate is recorded as cents on the dollar recovered by secured creditors through judicial reorganization, liquidation or debt enforcement (foreclosure or receivership) proceedings.

Out-of-court restructuring, a potential option for remediation

As already mentioned, recovery rates are strongly impacted by the legal and insolvency framework of the country. In general, formal bankruptcy and insolvency proceedings are relatively lengthy and costly which distressed investors take into consideration when pricing the portfolio. Investors also have substantially higher return expectations than banks. The duration of insolvency procedures is an important indicator of expected recovery as recovery rates generally decrease with time and costs also add up over time. Out-of-court restructuring can be an optional tool to achieve higher recovery rates.

"One of the major impediments to a reliable and fast insolvency procedure is the slow process and significant work-overload of the judicial system in most countries, especially in those with high NPL ratios."

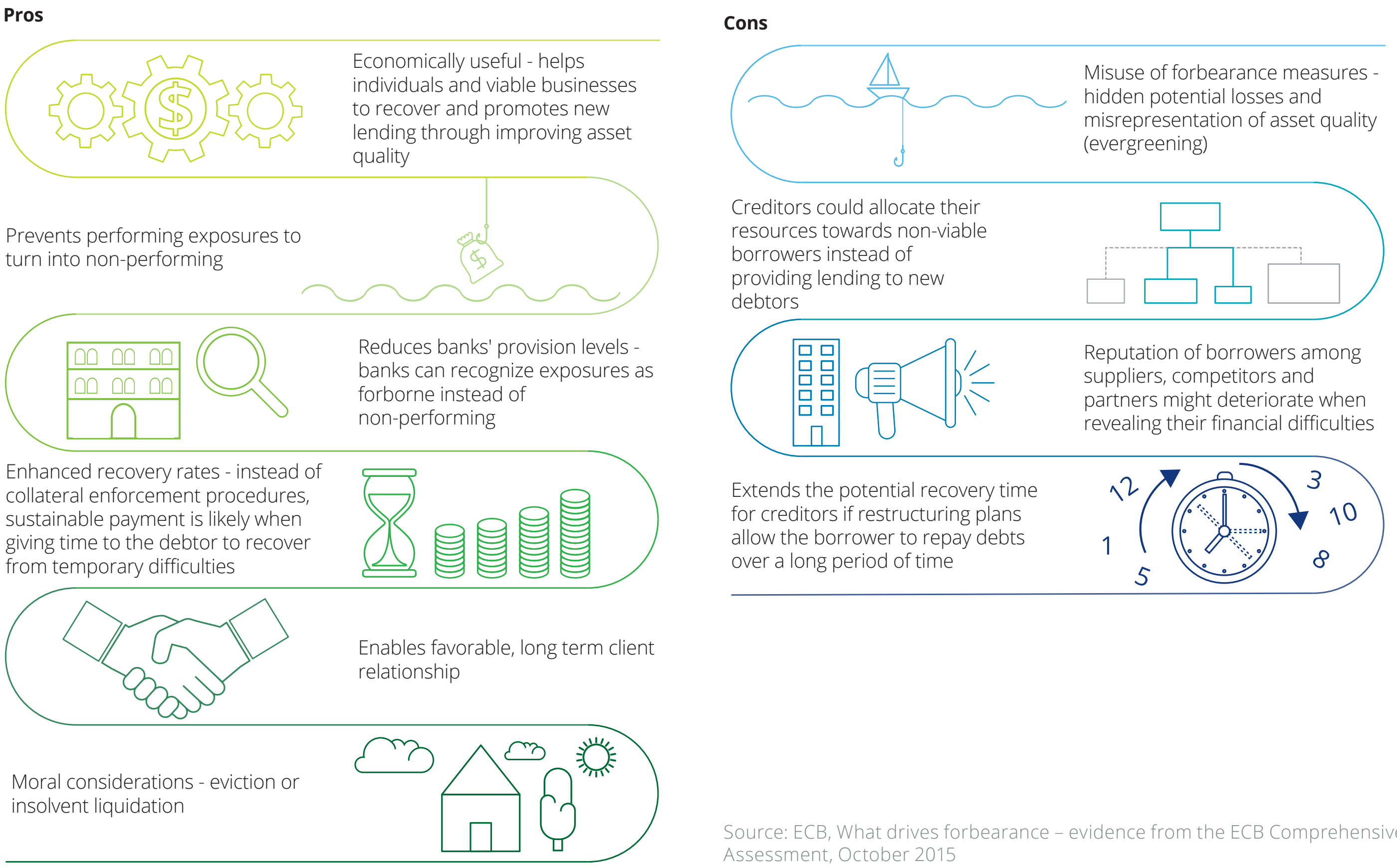
(EBA, EBA report on the dynamics and drivers on non-performing exposures in the EU banking sector, 2016)

Banks have also been active in dealing with distressed borrowers by initiating forbearance measures. These measures can be either short-term (e.g. reduced payments, grace period, etc.) or long-term (e.g. extension of maturity, rescheduled repayments, interest rate reduction, etc.) and have the ultimate aim to help borrowers recover from financial difficulties and achieve sustainable payments. Measures are considered as an alternative to traditional in-court and collateral enforcement proceedings and it seems to be a possible tool for NPL resolution. Restructuring procedures have moved to the regulators` and policy makers' agendas recently and regulators started to develop guidelines and best practices for household and corporate out-of-court restructuring measures. The ECB has recently launched a public consultation on guidance for non-performing loans and the Hungarian National Bank published its recommendation for the management of retail mortgage loans and is expected to issue a guideline for corporate out-of-court restructuring as well. In the framework of the NPL Resolution Strategy, the Serbian government and its working group identified out-of-court restructuring as a key area for efficient and coordinated corporate workouts. For this reason, amendments will be concluded on the already existing Consensual Financial Restructuring (CFR) Law in Serbia. Croatia adopted the New Bankruptcy Law in June 2015 aiming to shorten the long bankruptcy periods and to strengthen creditors' control over the bankruptcy process. Both of these new laws came into effect in 2016. Many countries in the CESEE region have already implemented their own approaches to corporate restructuring,[3] mainly based on the INSOL[1] principles given they are considered a benchmark for distressed debt management. INSOL International published eight principles aiming to set guidelines for multi-creditor workout and restructuring proceedings in jurisdictions with developed insolvency laws.

In general, these guidelines and recommendations are voluntary and non-binding, however they likely to have a significant impact on banks' strategies when tackling non-performing loans given they are supported by central banks, regulators and banking associations. Also, it needs to be noted that restructuring/forbearance is not a new tool in NPL resolution and has its well-known drawbacks (e.g. evergreening when banks postpone impairment related losses), although the additional flexibility expected to be provided by out-of-court processes is expected to enhance the efficiency of restructuring procedures.

3 International Association of Restructuring, Insolvency & Bankruptcy Professionals, Statement of principles for a global approach to multi-creditor workouts

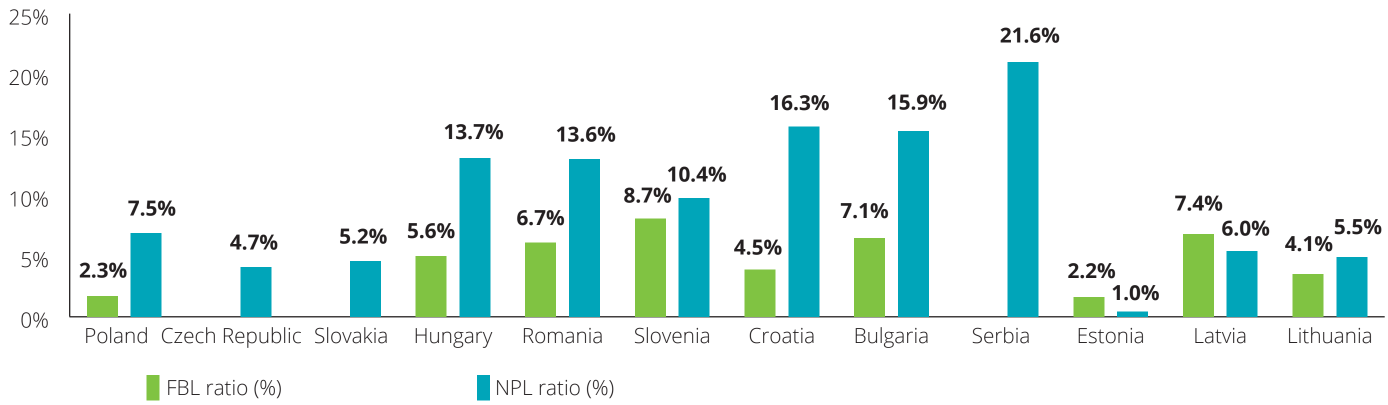
Advantages and disadvantages of restructuring measures



Source: ECB, What drives forbearance – evidence from the ECB Comprehensive Assessment, October 2015

The comparison of FBL (forborne loans) and NPL ratios (Figure 5.) shows that in all countries for which data is available (with the only exception of Latvia) NPL ratios exceeded FBL ratios in 2015. The average FBL ratio of countries for which data is available was 5.4% as of end-2015 whereas the average NPL ratio was 10.1% as of end-2015. The reason behind this tendency is the slow improvement of restructuring processes caused mainly by inefficient legal and insolvency proceedings in the region. An upward trend is expected in the forthcoming years as guidelines on out-of-court restructuring will come into force. It should be noted though that high level of forborne loans could undermine the trust in the banking sector as it increases uncertainty about the banks' assets through potential misrepresentation of asset quality. In addition, historic market experience indicates that a high proportion of restructured loans turned NPL again, as a long term solution could not be achieved via the applied restructuring measures. Therefore, expected future developments in the field of restructuring (e.g. via out-of-court procedures) are awaited to provide an answer if restructured loan volumes are to be treated as quasi NPLs as the majority of borrowers default again.

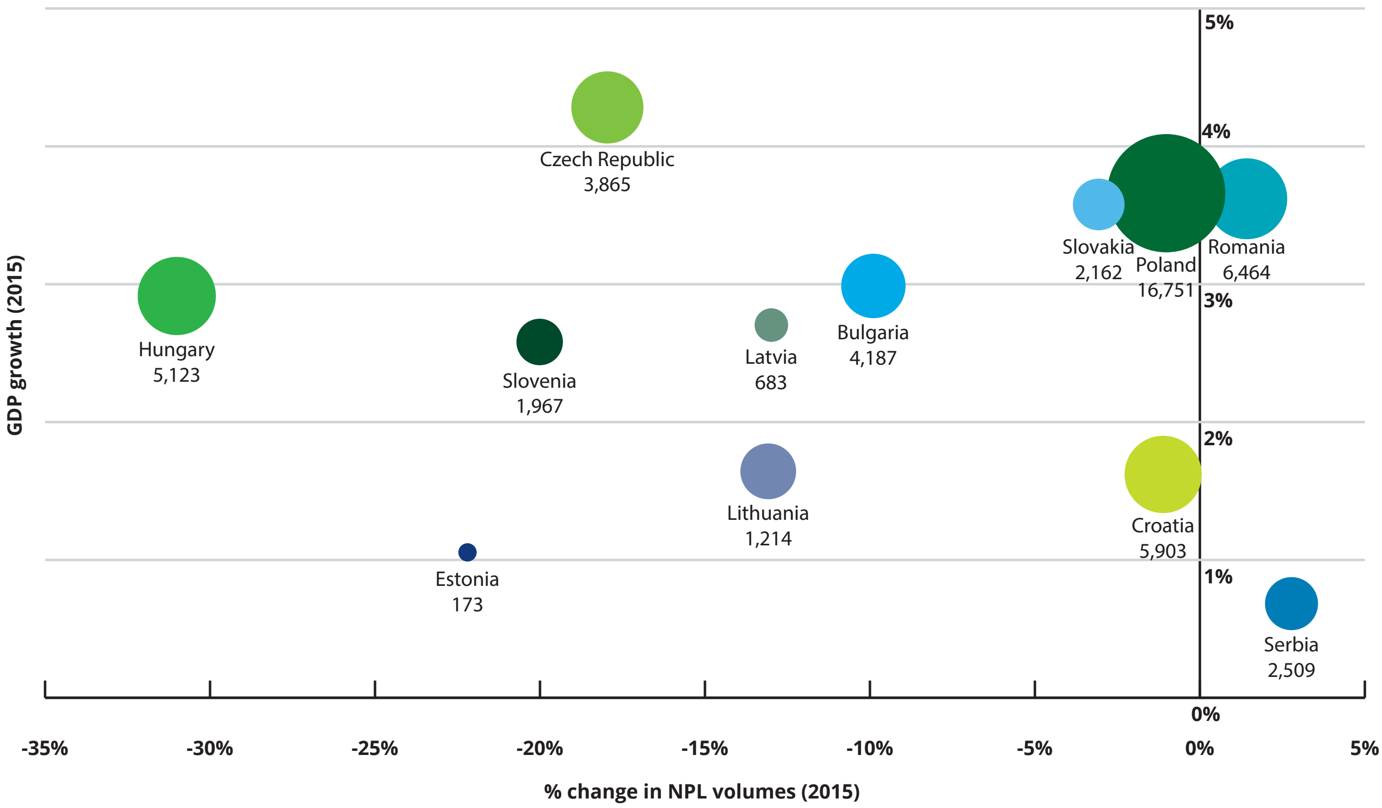
Figure 5. NPL and FBL ratios, Q4 2015



Source: National banks, ECB CBD
Note: FBL ratios of the Czech Republic, Slovakia and Serbia are not disclosed

NPL metrics summary

Figure 6. Evolution of NPL volumes and GDP, Q4 2014 - Q4 2015

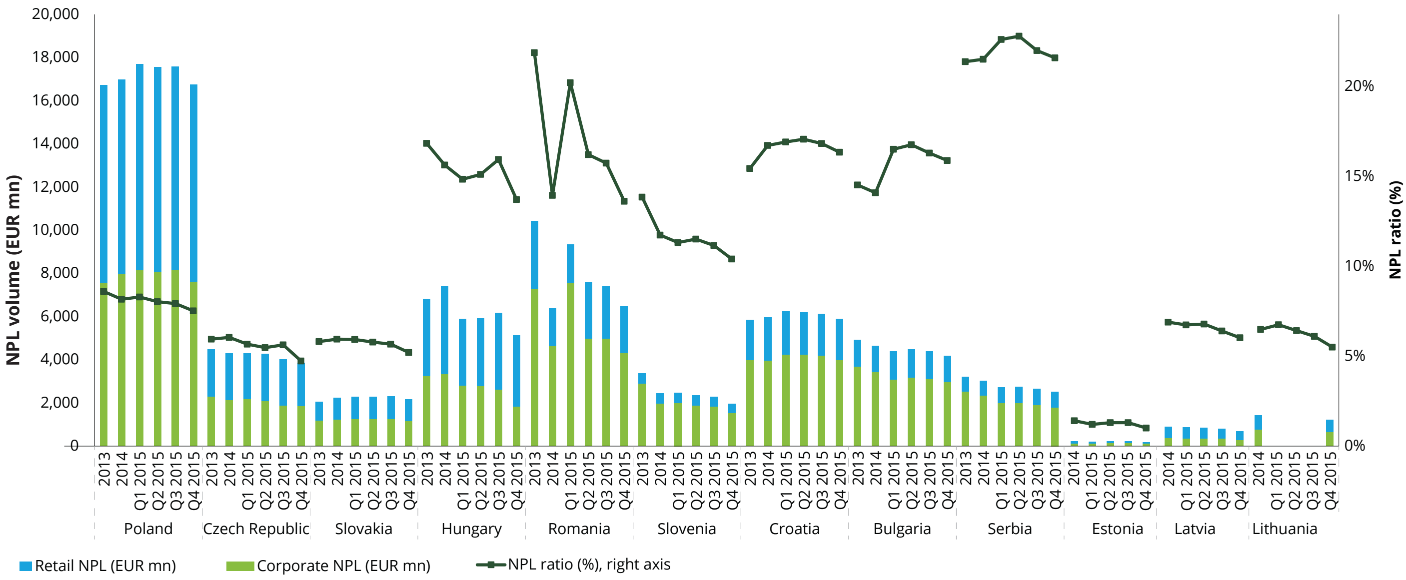


Source: Local national banks, EIU
Notes: Bubble size: Q4 2015 NPL volume (EURmn)

After a turnaround year in 2014 when total NPL volume for the nine CEE countries covered in the study published in 2015 fell for the first time since 2011, total NPL volume experienced a further decline from EUR 52.3bn in 2014 to EUR 48.9bn in 2015. This decrease in 2015 was mainly driven by Hungary and Slovenia where NPL stocks reduced by 31% and 20% respectively.

In contrast to the previous year when Poland, Slovakia and Croatia had positive NPL growth, in 2015 all three countries experienced a reduction in NPL volume. In 2015, only Serbia and Romania reported positive NPL growth of 2.7% and 1%, respectively. As already highlighted in the macro overview section, all analyzed countries achieved positive real GDP growth in 2015. As a result, most of the countries are concentrated in the positive GDP and negative NPL growth segment of the chart (Figure 6.). Our study this year also involves the three Baltic states. These are relatively healthy countries from NPL perspectives and including their figures, total NPL volume amounted to EUR 51.0bn at the end of 2015.

Figure 7. Evolution of key NPL metrics, 2013 - Q4 2015



Source: National Banks, Deloitte analysis
North region: PL, CZ, SK, EE, LV, LT; South region: HU, RO, SI, HR, BG, SRB

The North-South divergence is still visible in Figure 7. Total NPL ratios are significantly lower in Poland, the Czech Republic, Slovakia, Estonia, Latvia and Lithuania than in the other six countries. The levels of non-performing loans in these six Northern countries are between 5-10%, however in the six Southern countries including Hungary, Romania, Slovenia, Croatia, Bulgaria and Serbia the levels are between 10-22%. Both the CEE and the Baltic region have experienced a downward trend in total NPL ratios recently, with Romania being an exception due to NPL methodology calculation changes from 2014 to 2015. A further downward trend is awaited for the forthcoming years in a number of countries as well due to improving economic performance and the increased interest from NPL investors to purchase portfolios from banks.

The most significant changes compared to 2014 were observed in Hungary and Serbia, where corporate NPL ratios fell by 5.9% and 7.3% points respectively. The decline in Hungary is largely related to a transfer of CRE NPLs from MKB Bank to the Resolution Fund established by the Hungarian state at the end of 2015. The NPL Resolution Strategy was implemented by banks in Serbia in 2015, aiming to initiate improved portfolio cleaning and to decrease the overall NPL volume.

In the retail segment, NPL ratios remained relatively unchanged or slightly increased compared to 2014 indicating that debt sales markets are less attractive in this segment mainly due to reputational considerations related to mortgage NPLs, and regulators are still looking for adequate measures to tackle the problem.

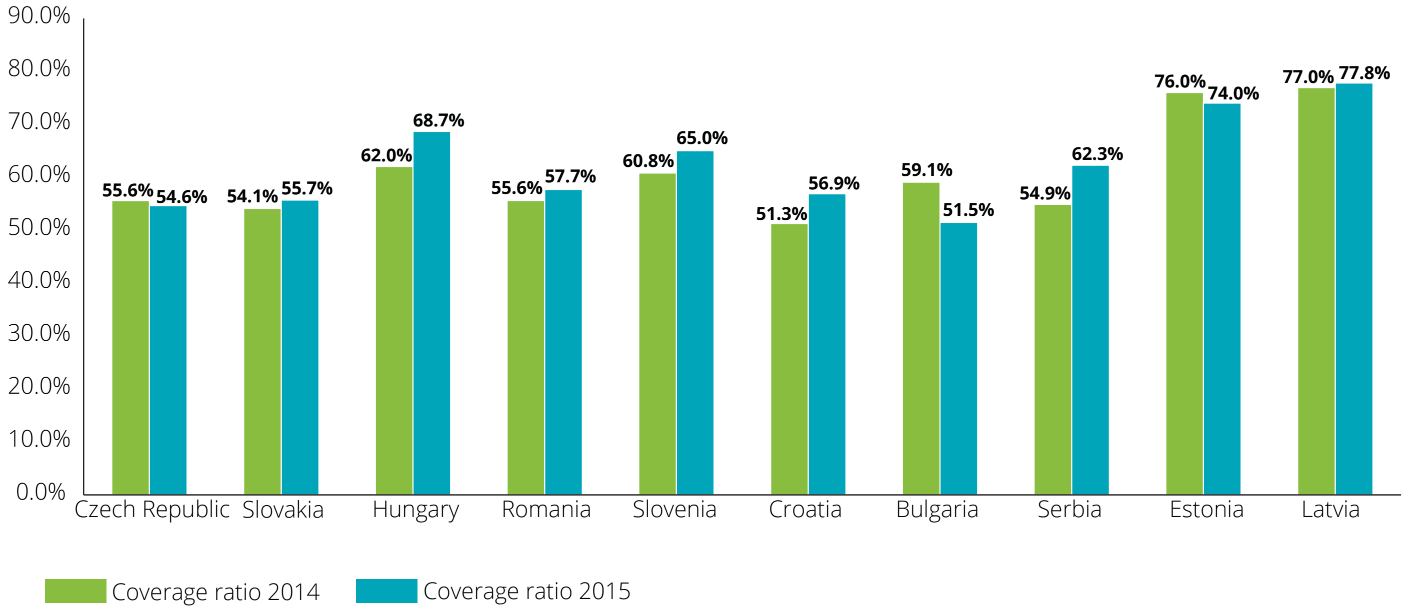
Table 1. NPL volumes and ratios, Q4 2015

Country	Corporate (EUR mn)	Corporate NPL ratio (%)	Retail (EUR mn)	Retail NPL ratio (%)	Total (EUR mn)	Total NPL ratio (%)
Poland	7,626	10.0%	9,125	6.2%	16,751	7.5%
Czech Republic	1,871	5.7%	1,994	4.1%	3,865	4.7%
Slovakia	1,155	7.4%	1,007	3.9%	2,162	5.2%
Hungary	1,832	9.8%	3,291	17.7%	5,123	13.7%
Romania	4,293	26.2%	2,171	9.1%	6,464	13.6%
Slovenia	1,550	15.4%	416	4.7%	1,967	10.4%
Croatia	3,982	30.1%	1,920	12.2%	5,903	16.3%
Bulgaria	2,972	17.5%	1,215	13.0%	4,187	15.9%
Serbia	1,778	21.7%	731	11.7%	2,509	21.6%
Estonia	106	2.1%	66	0.9%	173	1.0%
Latvia	278	4.0%	405	7.6%	683	6.0%
Lithuania	640	8.4%	574	7.4%	1,214	5.5%
Total	**28,085**		**22,915**		**51,000**	

Source: National banks, Deloitte analysis
Note: Estonia NPL ratio is based on DPD 60

The provision coverage ratio of NPLs is also an important risk indicator. Banks' coverage ratios were substantially influenced by regulatory measures like the ECB`s AQR in 2014. Amongst the countries for which a ratio was available, the coverage ratio varied between 52% and 78%, as Figure 8. shows. Although there was no significant differences amongst the Northern and Southern countries, only the Baltic states reported coverage ratios above 70%. In Hungary, Slovenia and Serbia coverage ratios were 69%, 65% and 62% respectively. In general, coverage ratios grew slightly from 2014 to 2015, however in the Czech Republic and Bulgaria coverage ratios declined slightly. The coverage ratio is an important indicator with regard to the willingness of banks to sell NPLs as a higher provisioning reduces the pricing gap between banks and investors. The pricing gap is considered one of the main impediments to the NPL transaction taking place.

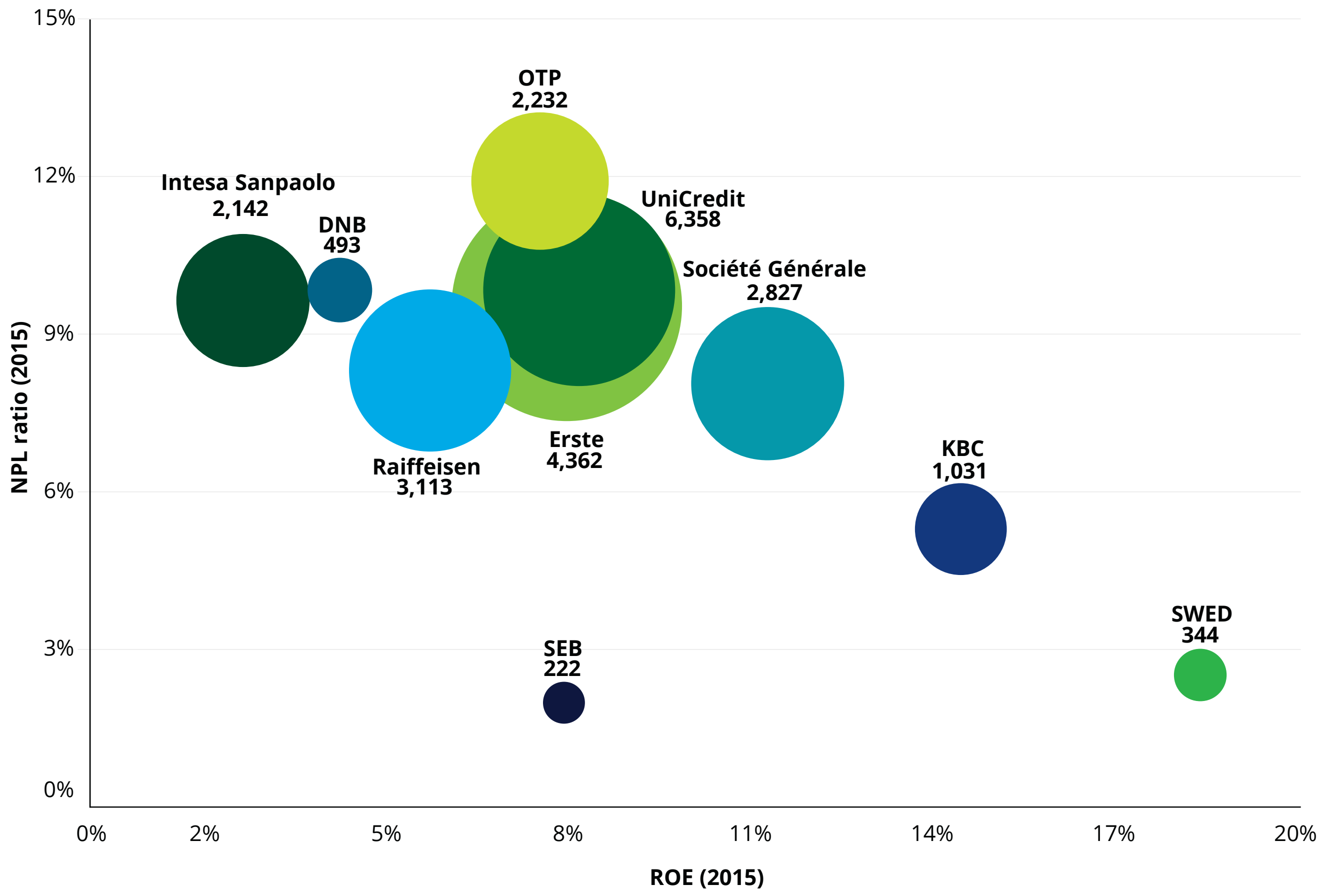
Figure 8. Evolution of coverage ratios, Q4 2014 - Q4 2015



Source: National banks, ECB CBD
Note: Coverage ratio of Poland and Lithuania for 2014-2015 is not disclosed

Figure 9. shows ROE and NPL data for the ten leading banking groups in the CEE and Baltic region. However, it should be noted that NPL metrics are not disclosed in the Baltic states, only impaired loan metrics are available. The ROE of OTP Group, Intesa Sanpaolo and the Erste Group improved considerably in 2015 compared to 2014. Regarding NPL ratios, banking groups did not report significant improvements, although most of the groups had NPL ratios of 8-10%. However, KBC, SWED and SEB reported substantially lower NPL and impaired loan ratios of c. 2-5%. As more countries are observed in this Deloitte study compared to last year, the leading position - the lowest NPL ratio and the highest ROE - from KBC was taken by a Nordic banking group SWED with ROE of 18.3% and NPL ratio of 2.5%. This is mainly attributable to the geographies of its subsidiaries as most of the assets are in Baltic countries where impaired loan ratios are the lowest and ROEs are among the highest in the examined countries. KBC preserved its outstanding indicators with a ROE of 14.4% and a NPL ratio of 5.3%. This is also due to geographic reasons since most of KBC's assets are located in the Czech Republic and Slovakia where the NPL ratios are significantly lower compared to the Southern CEE countries.

Figure 9. NPL ratio, ROE and NPL volumes of leading bank groups in CEE and Baltic (EUR mn)



Source: Banks' data disclosure, ECB CBD, ISI Emerging Markets, Deloitte analysis
Notes: Bubble size: Q4 2015, NPL volume (EUR mn)
SWED, SEB, DNB metrics are based on impaired loans as no NPL metrics are available

Table 2. shows the loan volumes and NPL metrics of the subsidiaries of the largest banking groups in the CEE and Baltic region. The total NPL volume amounted to EUR 22bn in the nine countries and 23bn in the twelve in 2015, indicating a fall in NPL volumes by approximately EUR 4bn compared to 2014. Regarding NPL ratios, 64% of all the top ten banks in CEE had NPL ratios above 10%, and 42% - of banks - have NPL ratios that exceeded 15%. Excluding Poland, Czech Republic, and Slovakia from the analysis, where banks have less of an NPL problem and focusing on the remaining 6 Southern countries it is clear NPLs are a much larger issue. In the 6 Southern countries 92% of the top ten banks had NPL ratio above 10% and 63% above 15%. Also, the median NPL ratio level for the nine countries was 13.5% in 2015, however for the six Southern countries it was 16.6%, which is 0.8% point higher than in the previous year. Four subsidiaries of the largest banking groups recorded NPL volumes over EUR 1bn in 2015, namely UniCredit`s Pekao in Poland, Erste`s BCR and Société Générale`s BRD in Romania as well as UniCredit`s Zagrebacka Banka in Croatia. Given that volumes shown in Table 2. are based on year-end 2015 annual reports, some of the banking groups could significantly decrease their NPL volumes due to active portfolio cleaning in 2016.

Table 2. NPL ratios and volumes in subsidiaries of major banking groups in CEE and the Baltic region

UniCredit subsidiaries in CEE (2015, EUR mn)

	Bank name	Loans	NPL %	NPL vol.
PL	Pekao	30,021	6.3%	1,891
CZ	UniCredit CZ & SK	12,559	4.5%	570
HR	Zagrebacka Banka	7,636	16.6%	1,268
BG	UniCredit Bulbank	5,185	15.8%	819
HU	UniCredit Bank Hungary	3,540	17.6%	623
RO	Unicredit Tiriac	4,344	14.4%	626
SI	UniCredit Banka	1,870	16.6%	310
SRB	UniCredit Banka	1,489	16.9%	251
	Total	**66,643**	**9.5%**	**6,358**

Société Générale subsidiaries in CEE (2015, EUR mn)

	Bank name	Loans	NPL %	NPL vol.
CZ	Komercní Banka	18,233	2.8%	511
RO	BRD	6,700	17.1%	1,146
HR	Splitska Banka	2,433	11.1%	270
SI	SKB Banka	1,926	11.6%	223
BG	Soc. Gén. Expressbank	1,773	10.0%	177
SRB	Société Générale Banka	1,553	18.4%	286
PL	Eurobank	2,472	8.7%	215
	Total	**35,089**	**8.1%**	**2,827**

Erste Group subsidiaries in CEE (2015, EUR mn)

	Bank name	Loans	NPL %	NPL vol.
CZ	Ceska Sporitelna	17,181	4.1%	704
SK	Slovenska Sporitelna	9,484	3.5%	331
RO	BCR	8,426	20.2%	1,702
HR	Erste & Steiermarkische	5,084	16.8%	853
HU	Erste Bank Hungary	3,498	18.7%	654
SRB	Erste Bank	662	17.8%	118
	Total	**44,335**	**9.8%**	**4,362**

OTP Group subsidiaries in CEE (2015, EUR mn)

	Bank name	Loans	NPL %	NPL vol.
HU	OTP Hungary	7,578	12.1%	917
BG	DSK Bank	3,668	14.9%	546
HU	OTP Jelzálogbank	3,167	4.3%	135
HR	Otp Banka Hrvatska	1,422	13.1%	186
SK	OTP Banka Slovensko	1,198	9.1%	109
RO	OTP Bank Romania	1,466	16.7%	245
SRB	OTP Bank Srbja	240	39.3%	94
	Total	**18,737**	**11.9%**	**2,232**

KBC subsidiaries in CEE (2015, EUR mn)

	Bank name	Loans	NPL %	NPL vol.
CZ	CSOB Group	9,478	3.6%	345
HU	K&H	3,589	13.3%	477
SK	Ceskoslovenska Obchodna	5,589	3.7%	208
CZ	Hypotechni Banka	n/a	n/a	n/a
CZ	Českomoravská Stavební	n/a	n/a	n/a
BG	Cibank	821	n/a	n/a
	Total	**19,476**	**5.3%**	**1,031**

Intesa Sanpaolo subsidiaries in CEE (2015, EUR mn)

	Bank name	Loans	NPL %	NPL vol.
SK	VUB	8,918	4.9%	437
HR	Privredna Banka Zagreb	5,183	13.5%	700
HU	CIB	3,462	16.8%	582
SRB	Banca Intesa	2,269	9.1%	206
RO	Intesa Sanpaolo Romania	760	n/a	n/a
SI	Banka Koper	1,624	13.3%	216
	Total	**22,216**	**9.6%**	**2,142**

Raiffeisen subsidiaries in CEE (2015, EUR mn)

	Bank name	Loans	NPL %	NPL vol.
PL	Raiffeisen Bank	8,315	7.9%	657
SK	Tatra Banka	8,144	4.2%	342
CZ	Raiffeisen Bank	7,095	4.7%	333
HU	Raiffeisen Bank	3,419	19.7%	674
RO	Raiffeisen Bank	4,472	6.7%	300
HR	Raiffeisenbank Austria	2,626	17.4%	456
BG	Raiffeisen Bank	1,960	11.0%	216
SRB	Raiffeisen Banka	1,098	12.3%	135
SI	Raiffeisen Bank	340	n/a	n/a
	Total	**37,470**	**8.3%**	**3,113**

Swedbank subsidiaries in Baltic (2015, EUR mn)

	Bank name	Loans	NPL %	NPL vol.
EE	SWED	6,526	2.0%	130
LV	Swedbank	3,132	3.6%	112
LT	Swedbank, AB	4,028	2.5%	102
	Total	**13,685**	**2.5%**	**344**

DNB subsidiaries in Baltic (2015, EUR mn)

	Bank name	Loans	NPL %	NPL vol.
EE	DNB	547	4.5%	25
LV	DNB banka	1,576	13.9%	220
LT	AB DNB bankas	2,892	8.6%	249
	Total	**5,016**	**9.8%**	**493**

SEB subsidiaries in Baltic (2015, EUR mn)

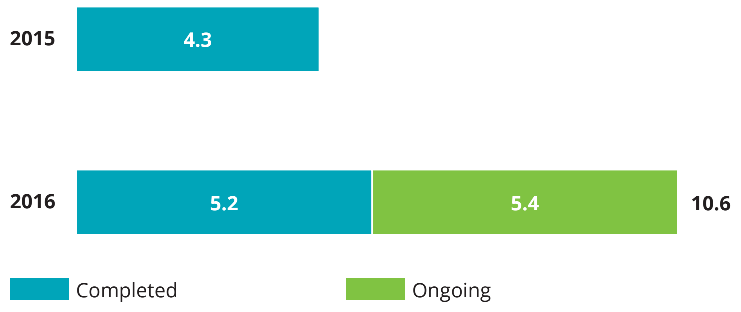
	Bank name	Loans	NPL %	NPL vol.
EE	SEB	4,125	0.5%	23
LV	SEB banka	2,462	2.5%	63
LT	AB SEB bankas	4,589	3.0%	137
	Total	**11,177**	**2.0%**	**222**

Source: Banks' data disclosure, ECB CBD, ISI Emerging Markets, Deloitte analysis
Note: NPL % and NPL volume for Swedbank, DNB and Skandinaviska Enskilda Banken subsidiaries are based on impaired loans

Recent transactions

The NPL market gained momentum in 2015 and year to date October 2016, both the number and value of the completed transactions were slightly over 2015's level, as Figure 10 shows. It should be noted, the volume of ongoing transactions in October 2016 amounted to EUR 5.4bn. In 2015, selected completed deals in the CEE region amounted to EUR 4.3bn, whereas completed transactions in 2016 up to October were EUR 5.2bn. The total face value of completed and ongoing deals amounted to EUR 10.6bn in 2016. Please note that all charts are based on available deal information, therefore the actual market activity might differ.

Figure 10. Activity by year - CEE (EUR bn)

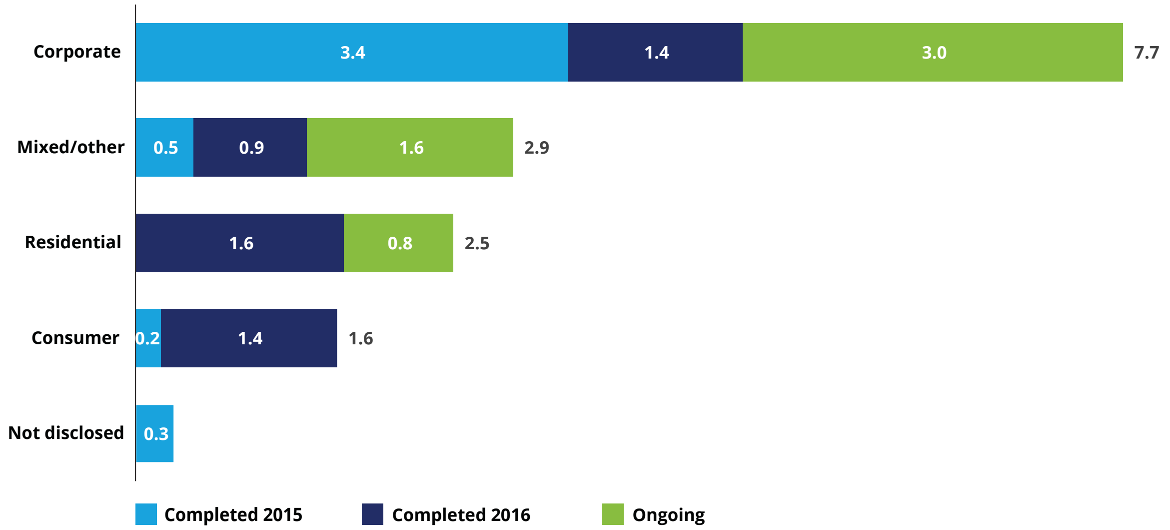


Source: Deloitte Intelligence, October 2016

As deal flow has been increasing, a greater number of NPL investors have entered the region which has resulted in enhanced market activity. In 2016, NPL investors showed a growing interest for retail mortgage portfolios in certain countries and this tendency is also expected in 2017. Transacted corporate portfolios amounted to EUR 4.8bn in 2015 and up to October 2016, whereas both residential portfolios and consumer loans to EUR 1.6bn. The geographical distribution, completed deal volumes were the highest in Romania (37%) and Hungary (24%), followed by Poland (11%) and Slovenia (9%). (Figure 12.)

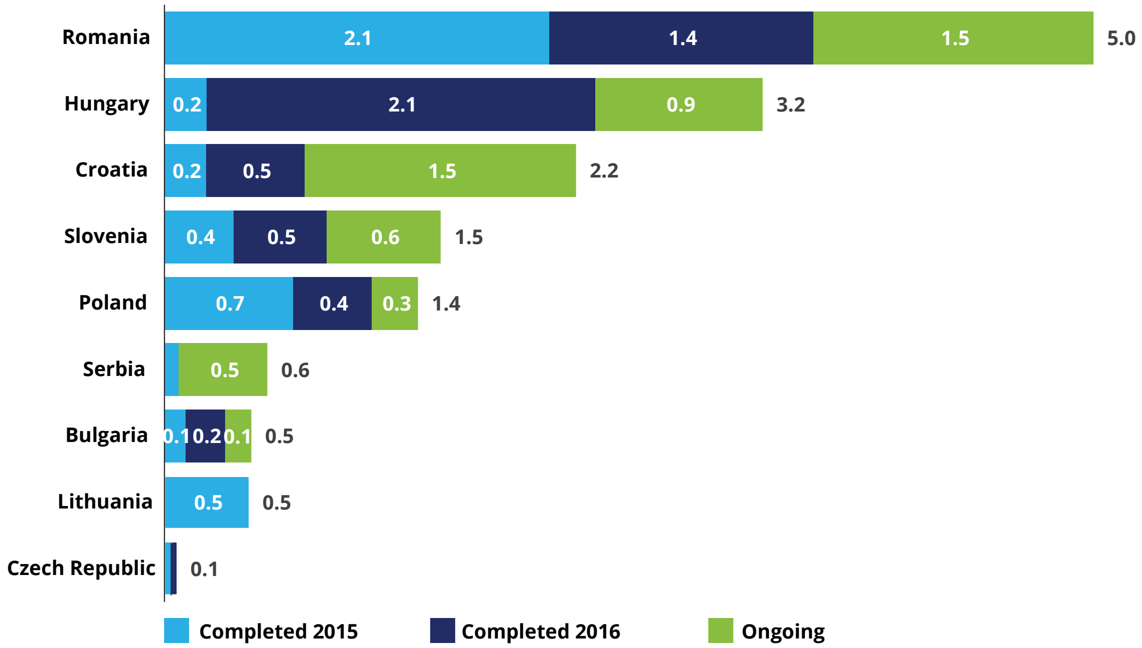
The size of ongoing transactions is remarkable. Currently, there are significant number of ongoing transactions in the CEE region mainly with a focus on Hungary and Croatia. The total value of the ongoing deals is EUR 5.4bn. Out of the ongoing transactions, EUR 3.0bn is related to corporate portfolios, EUR 0.8bn residential and there are also mixed portfolios for sale with a face value of EUR 1.6bn. Regarding the distribution of portfolio size Croatia and Romania are leading in terms of deal value with both EUR 1.5bn followed by Hungary with EUR 0.9bn. (Figure 12.)

Figure 11. Activity by asset class - CEE, 2015 - 2016 (EUR bn)



Source: Deloitte Intelligence, October 2016

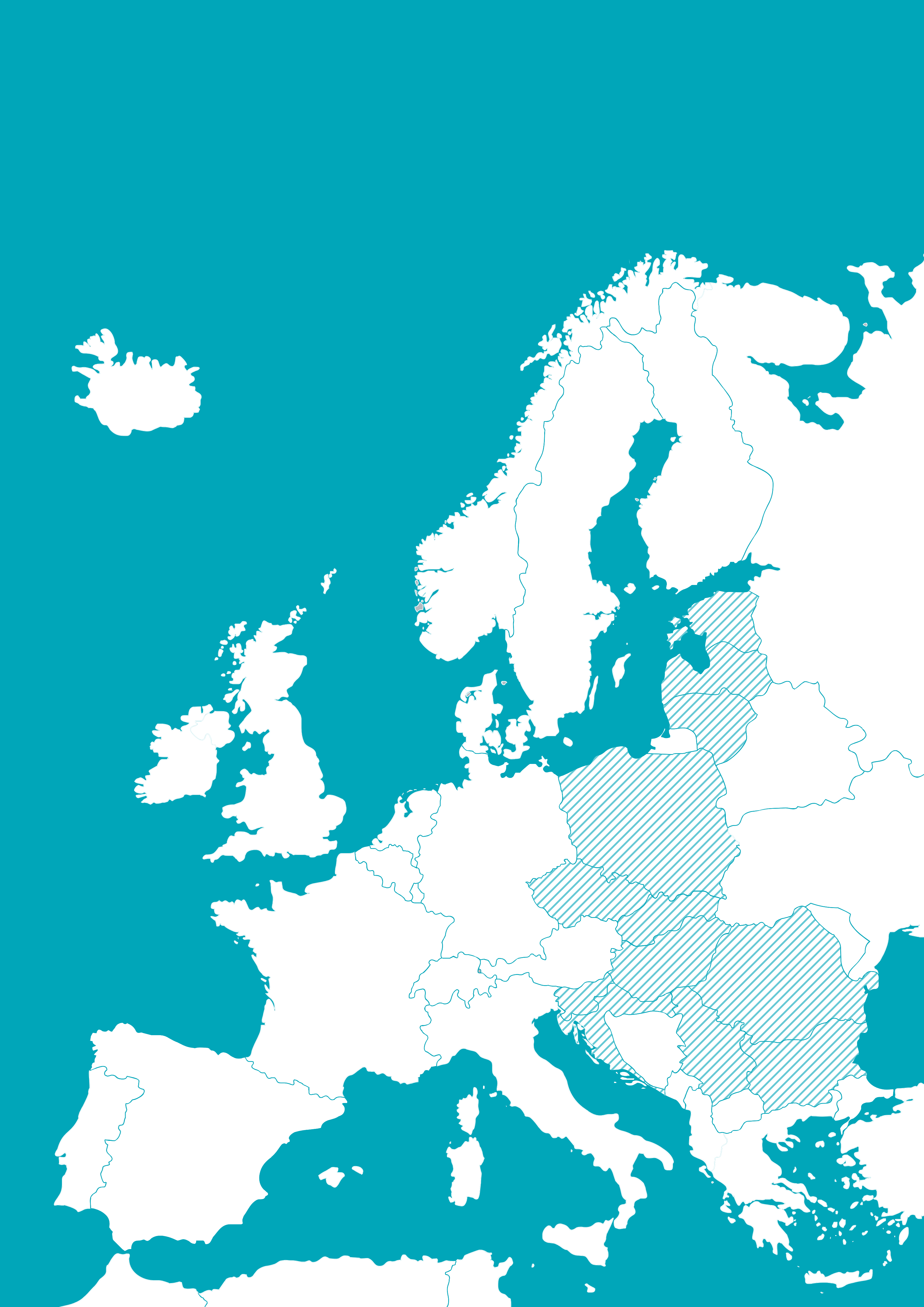
Figure 12. Activity by country - CEE, 2015 - 2016 (EUR bn)



Source: Deloitte Intelligence, October 2016

"The disposal process needs to be well-organised, and underpinned by good quality data. Most transactions closed were executed through a competitive auction process managed by an adviser with experience in NPL sales. The auction process gives some reassurance to the seller that bid prices are being potentially maximised, offering also the opportunity to different investors to bid on the assets in a fair, competitive way."

(EBRD, NPL resolution: prerequisites for loan portfolios sales in the CESEE region, 2016)



Poland

The total NPL ratio of the Polish banking sector was 7.5% at the end of 2015 which a reduction of 0.7% point compared to 2014. The decrease indicates the improvement of loan portfolio quality and the activity of the debt sales market.

Macro	**2014**	**2015**	**Change (% point)**
GDP (% real change pa)	3.3%	3.7%	0.5%
Consumer prices (% change pa)	0.1%	-1.0%	-1.1%
Recorded unemployment (%)	12.3%	10.5%	-1.8%
Budget balance (% of GDP)	-1.7%	-2.4%	-0.7%
Public debt (% of GDP)	43.9%	45.0%	1.1%

Banking sector	**2014**	**2015**	**Change (% or % point)**
Retail loans (PLN mn)	585,933	624,560	6.6%
Corporate loans (PLN mn)	300,886	325,960	8.3%
Interest rates			
Lending (%)	6.3%	4.9%	-1.3%
Deposit (%)	2.5%	1.9%	-0.5%
NPL volumes			
Retail NPLs (PLN mn)	38,306	38,906	1.6%
Corporate NPLs (PLN mn)	34,080	32,517	-4.6%
NPL ratios			
Retail NPL ratio (%)	6.5%	6.2%	-0.3%
Corporate NPL ratio (%)	11.3%	10.0%	-1.3%
Key ratios			
CAR (%)	15.0%	15.6%	0.6%
ROE (%)	9.5%	7.7%	-1.8%
ROA (%)	1.0%	0.8%	-0.2%
CIR (%)	52.9%	60.2%	7.3%
L/D (%)	104.8%	102.5%	-2.3%
FX share of lending (%)	31.0%	29.0%	-2.0%
FBL ratio (%)	2.3%	2.3%	0.0%
Coverage ratio (%)	n/a	n/a	n/a

Source: EIU, NBP, ECB CBD

Key metrics in Poland

After real GDP growth of 3.3% in 2014, growth increased to 3.7% in 2015. Despite growing domestic demand, stagnant consumer prices of 2014 turned into deflation of 1% in 2015 which was mainly caused by a reduction of global energy prices. Recorded unemployment improved from 12.3% to 10.5%, with expectations of a further downward trend in the forthcoming period. Both the budget deficit and public debt increased moderately in 2015, by 0.7% point and 1.1% point respectively.

Both the retail and corporate lending posted substantial growth in 2014 and this upward trend continued in 2015 with a growth of 6.6% and 8.3%. The strong growth of credit demand was mainly driven by low interest rates, steady economic growth and improvements in the labour market. The increase in retail loans resulted mostly from the growth of consumer lending, while the volume of housing loans decreased further. According to NBP's Financial Stability Report, the threat of bankruptcies in the corporate segment also decreased and the value of credit losses seemed to stabilize. Forecasts suggest further lending expansion and a more moderate pace. However, a drop in bank profitability could impede credit supply in the forthcoming years.

The volume of retail non-performing loans increased by 1.6% in 2015, however in the corporate NPL volumes decreased by 4.6%. Retail and corporate NPL ratios decreased slightly by 0.3% point and 1.3% point, to a more manageable level. According to NBP, the improvement in the quality of residential mortgages was largely due to the better conditions in the labour market, the sale of non-performing assets and a recovery in repayment.

The CAR of the Polish banking sector grew slightly by 0.6% point to 15.6% in 2015. This level remains the lowest in the region and could decrease further due to future deterioration of the banking sector's profitability. The profitability of the financial sector was positive in 2015 and although ROE decreased by 1.8% point to 7.7%, the ROA also decreased by 0.2% point to 0.8%. Profitability of the Polish banking sector was adversely affected by the consequences of the bankruptcy of SK Bank. The cost of the covering guaranteed deposits from the Guaranteed Deposit Protection Fund was borne by the banking sector which amounted to nearly EUR 470mn. Although, negative effects of the aforementioned measures were partly offset by the accelerated lending activity. Current levels of profitability indicate an average profitability among the twelve examined countries. The profitability of the sector is expected to further decrease in 2016 because of higher contributions to the Bank Guarantee Fund and a new contribution to the Borrower Support Fund. Furthermore, a new tax on some financial institutions was introduced in 2016. Regular contribution rate to Bank Guarantee Fund increased in 2016 by 2.9% (0.246% from 0.239% of RWA, which may cause increase < PLN 100mn in nominal terms). Net profits of the sector for January-August of 2016 are practically identical as for January-August 2015. CIR increased from 52.9% to 60.2% in 2015, largely because of the decrease in interest and non-interest margins, and the rise in operating costs. Despite lending growth in the retail and corporate segments, L/D gravitated towards the self-financing 100% by 2.3% points.

Top players in the Polish banking sector

#	Bank (2015, EUR mn)	Assets	Loans	Equity	Net Profit	ROA	ROE	NPL ratio	NPL vol.	Major owner
1	PKO	61,570	41,420	7,091	603	1.0%	8.5%	7.1%	2,939	State
2	Pekao	38,897	30,021	5,349	537	1.4%	10.0%	6.3%	1,891	UniCredit
3	BZ WBK	29,445	19,030	4,390	412	1.4%	9.4%	7.3%	1,389	Santander
4	mBank	27,876	18,693	2,803	298	1.1%	10.6%	5.7%	1,066	Commerzbank
5	ING BSK	24,899	16,668	2,460	268	1.1%	10.9%	2.6%	433	ING
6	Getin Noble	16,785	11,848	1,138	0	0.0%	0.0%	13.5%	1,598	Leszek Czarnecki
7	Millennium	15,503	9,718	1,476	191	1.2%	12.9%	4.8%	465	BCP
8	BGŻ BNP Paribas	14,786	9,807	1,446	2	0.0%	0.1%	7.6%	745	BNP Paribas Group
9	Raiffeisen Bank	13,181	8,315	1,466	38	0.3%	2.6%	7.9%	657	Raiffeisen
10	Bank Handlowy	11,602	3,578	1,591	145	1.2%	9.1%	3.2%	115	Citibank
	Banking sector total	**376,356**	**222,923**	**40,976**	**3,173**	**0.8%**	**7.7%**	**7.5%**	**16,751**	

Source: Banks' data disclosure, NBP, ECB CBD, ISI Emerging Markets

The total NPL ratio of the Polish banking sector was 7.5% as of end-2015. The NPL ratio was the sixth lowest ratio in the CEE region. From the top ten banks Raiffeisen, BGZ BNP Paribas and Millenium had NPL ratios above the sector's average with 7.9%, 7.6% and 13.5% respectively. The lowest NPL ratio was posted by ING BSK with a level of 2.6%, followed by Bank Handlowy with 3.2%. In 2015, none of the top 10 banks were loss-making, with the majority having ROE around 10% other than Getin, BGZ and Raiffeisen. Apart from Poland, only the Czech Republic, Estonia and Lithuania experienced positive ROE ratios for all top ten banks. Regarding asset concentration, Poland had the lowest rates across the top banks. The top three, five and ten banks holding 34.5%, 48.5% and 67.6% of the total assets. PKO was by far the largest with 16.4% market share, followed by Pekao (10.3%) and BZ WBK (7.8%). Equity concentration is a bit higher than asset concentration, however Poland still has the lowest concentration with 41.8%, 60.2% and 79.0% respectively compared to other countries in the study. The ownership of the top ten banks was dominated by international banking groups, however the market leader PKO is owned by the state, and Getin Noble is also controlled domestically, owned by the Polish investor Leszek Czarnecki.

The Polish bank M&A market has been active in 2014 and 2015. Alior Bank announced in April 2016 they will acquire a majority stake in non-mortgage sector (87.23%) in BPH Bank from GE Group, mortgage business remains in GE. Alior is expected to pay EUR 288mn for the stake. PKO is said to be bidding jointly with Alior Bank to acquire Raiffeisen Polbank, and ING BSK might also be interested. The Polish insurer PZU was also expected to bid for Raiffeisen Polbank, however it seems to withdraw and bid rather on Unicredit`s Pekao, which is also for sale. This is in accordance with the Polish government's aim of gradually decreasing the market share of foreign-owned banks, the so called "repolonization" of banks. UniCredit has already sold a 10% stake in Pekao for PLN 3.3bn in 2016 in order to bolster capital levels. This reduced the share of the Italian banking group ownership in Pekao to 40.1%. BGZ BNP Paribas purchased Sygma Bank for EUR 200mn at the end of 2015, the operational merger and IT migration is expected to be completed by the end of 2016.

Project Sunset, the sale of a non-performing consumer portfolio was completed in January 2016 at a face value of EUR 427mn.

Czech Republic

Asset quality improved in 2015 compared to 2014, as both retail and corporate NPL volumes declined significantly by 7.3% and 12.6% respectively.

Macro	2014	2015	Change (% point)
GDP (% real change pa)	2.0%	4.3%	2.3%
Consumer prices (% change pa)	0.4%	0.3%	-0.1%
Recorded unemployment (%)	7.7%	6.5%	-1.2%
Budget balance (% of GDP)	-1.9%	-0.4%	1.5%
Public debt (% of GDP)	43.3%	41.1%	-2.2%

Banking sector	2014	2015	Change (% or % point)
Retail loans (CZK mn)	1,228,149	1,323,657	7.8%
Corporate loans (CZK mn)	874,855	883,898	1.0%
Interest rates			
Lending (%)	4.6%	4.3%	-0.4%
Deposit (%)	0.7%	0.5%	-0.2%
NPL volumes			
Retail NPLs (CZK mn)	58,116	53,873	-7.3%
Corporate NPLs (CZK mn)	57,873	50,559	-12.6%
NPL ratios			
Retail NPL ratio (%)	4.7%	4.1%	-0.6%
Corporate NPL ratio (%)	6.6%	5.7%	-0.9%
Key ratios			
CAR (%)	17.8%	18.4%	0.6%
ROE (%)	16.6%	16.3%	-0.3%
ROA (%)	1.7%	1.7%	0.0%
CIR (%)	47.7%	48.6%	0.9%
L/D (%)	76.7%	79.0%	2.3%
FX share of lending (%)	19.0%	19.0%	0.0%
FBL ratio (%)	n/a	n/a	n/a
Coverage ratio (%)	55.6%	54.6%	-1.0%

Source: EIU, CNB, ECB CBD

Key metrics in the Czech Republic

After a real GDP growth of 2% in 2014, 2015 saw an accelerated real GDP growth of 4.3%, the highest in the region. The growth was mainly fueled by domestic factors, such as easy monetary conditions and government investments. Despite economic growth, consumer prices only increased by 0.3% in 2015, thus deflationary woes are still present. The unemployment rate declined by 1.2% point to 6.5%, which is the second lowest in the region. The budget deficit contracted by 1.5% point to 0.4%, while public debt also decreased by 2.2% points to 41.1%.

The increase in total bank loans was triggered by low interest rates and improving economic conditions. Retail loans grew considerably by 7.8%, whereas corporate loans also increased by a moderate 1%. Simultaneously, asset quality also improved in 2015 compared to 2014, as both retail and corporate NPL volumes declined significantly by 7.3% and 12.6%, respectively. NPL ratios also decreased further in 2015, with corporate NPL ratio melting from 6.6% to 5.7%, and retail NPL ratio from 4.7% to 4.1%. This tendency is attributable to the growth in total loans and the decline in NPL volumes, mainly due to write-offs. The corporate NPL ratio is the lowest in the Czech Republic among the CEE countries, while retail NPL ratio is the second lowest compared to the CEE countries. Although economic and lending conditions are favorable, the Czech National Bank is examining possible threats and introduces regulations according to them, such as recommendations regarding loan-to-value limits or a countercyclical capital buffer (CCB), which will be introduced from 2017 at a level of 0.5% of total risk exposures located in the Czech Republic. As banks are operating in relatively low interest rate environment, their profitability is squeezed by these low margins, thus they tend to focus more on increasing volumes. This heated up lending might lead to a rise in NPL metrics in the long/mid-term future.

The capitalization of the Czech banking sector improved further in 2015, indicated by a CAR standing at 18.4%. In alignment with previous years, profitability of the Czech banking sector outstands among the twelve countries in the study, with a ROE of 16.3% and a ROA of 1.7%. It should be noted though that low interest rate environment exerted some downward pressure on interest margins and net profit from fees and commissions also shrank in 2015. The profit was positively affected by the revaluation of financial assets held for trading. The cost/income ratio increased slightly to 48.6%, which is still the third highest operating efficiency in the region, somewhat behind Bulgaria and Latvia. L/D ratio grew by 2.3% points on the back of increased loan volumes in the overall sector, but it is still one of the lowest among the twelve countries of the study. Furthermore, in the low base rate environment financing from deposits is cheaper than financing by the parent companies. The FX share of lending remained unchanged compared to 2014, at a fairly low level of 19%. Coverage ratio decreased by 1.0% point to 54.6%, leaving room for more provision coverage to be built up.

Top players in the Czech banking sector

#	Bank (2015, EUR mn)	Assets	Loans	Equity	Net Profit	ROA	ROE	NPL ratio	NPL vol.	Major owner
1	CSOB	34,445	9,478	3,061	547	1.6%	17.9%	3.6%	345	KBC Group
2	Ceska Sporitelna	33,352	17,181	4,268	523	1.6%	12.3%	4.1%	704	Erste
3	Komercní Banka	30,919	18,233	3,453	460	1.5%	13.3%	2.8%	511	Société Générale S. A.
4	UniCredit Bank CZ & SK	15,838	12,559	1,702	146	0.9%	8.6%	4.5%	570	UniCredit
5	Raiffeisen Bank	9,115	7,095	903	94	1.0%	10.4%	4.7%	333	Raiffeisen
6	Hypotechni Banka	8,741	n/a	1,245	111	1.3%	8.9%	n/a	n/a	KBC
7	Českomoravská Stavební	5,670	n/a	361	41	0.7%	11.4%	n/a	n/a	KBC
8	GE Money Bank	5,198	4,013	961	151	2.9%	15.7%	11.7%	469	GE Capital
9	ING Bank	4,589	n/a	FB	33	0.7%	n/a	n/a	n/a	ING
10	PPF Banka	3,815	1,008	273	48	1.3%	17.6%	17.0%	171	PPF Group N.V.
	Banking sector total	**199,240**	**81,692**	**20,427**	**3,330**	**1.7%**	**16.3%**	**4.7%**	**3,865**	

Source: Banks' data disclosure, CNB, ECB CBD, ISI Emerging Markets
FB: foreign branch

There were changes in the top ten in 2015 compared to 2014 based on total assets. CSOB and Komercní Banka switched places, with CSOB taking the market leader position from the third place last year. Also, CMZRB`s tenth place was taken by PPF Banka in 2015. Asset quality is outstanding in regional comparison, NPL ratios of banks in the top ten are under 5%, the only exceptions being GE Money Bank and PPF Banka, with 11.7% and 17.0% respectively. Asset concentration of the top three, five and ten banks is around the average of the region with 49.5%, 62.1% and 76.1% respectively. Equity concentration is slightly below the regional average, with the top three, five and ten banks amounting to 52.8%, 65.5% and 79.4% of total equity of the banking sector respectively. There is a significant gap between the first three market players compared to the other banks regarding their market share: CSOB has 17.3%, Ceska Sporitelna has 16.7%, and Komercní Banka has 15.5%, whereas the fourth largest Unicredit has only 7.9% of the total market. Nine out of the top ten banks have foreign owners, only the tenth largest PPF Banka is in domestic control, owned by the individual investor Petr Kellner.

Czech and Slovak consumer debt market

EUR bn	Portfolios offered for sale*	Average prices
2015	0.6	21%
2014	0.2	19%

*face value
Source: Kruk

The Czech and Slovakian debt sales markets seemed to be treated together, as the markets in the two countries have similar characteristics. Nominal value of consumer debt offered for sale more than doubled from 2014 (EUR 0.23bn) to 2015 (EUR 0.59bn) with average sales price increasing slightly from 19% to 21%. Market participants expect to have further growth for the upcoming years. Average sell prices are higher compared to relevant data of the Romanian and Polish debt sales markets.

Regarding the major NPL portfolio transactions, in September 2015 Citibank sold a combined corporate and consumer portfolio to Raiffeisen, with a confidential face value. Additionally, there was a transaction at face value of EUR 20mn in July 2015.

Raiffeisen Bank completed the acquisition of Citibank's consumer business operations in March 2016.

Slovakia

Growth in retail (12.4%) and corporate (9.0%) lending in the Slovakian banking sector is the highest among the twelve countries in the study, total NPL ratio with 5.2% was the second lowest among the 12 CEE countries examined.

Macro	2014	2015	Change (% point)
GDP (% real change pa)	2.4%	3.6%	1.2%
Consumer prices (% change pa)	-0.1%	-0.3%	-0.2%
Recorded unemployment (%)	12.8%	11.5%	-1.3%
Budget balance (% of GDP)	-2.9%	-3.0%	-0.1%
Public debt (% of GDP)	57.0%	52.9%	-4.1%

Banking sector	2014	2015	Change (% or % point)
Retail loans (EUR mn)	23,036	25,893	12.4%
Corporate loans (EUR mn)	14,389	15,685	9.0%
Interest rates			
Lending (%)	3.2%	2.8%	-0.4%
Deposit (%)	0.7%	0.4%	-0.2%
NPL volumes			
Retail NPLs (EUR mn)	995	1,007	1.2%
Corporate NPLs (EUR mn)	1,230	1,155	-6.1%
NPL ratios			
Retail NPL ratio (%)	4.3%	3.9%	-0.4%
Corporate NPL ratio (%)	8.5%	7.4%	-1.1%
Key ratios			
CAR (%)	17.4%	17.7%	0.3%
ROE (%)	10.3%	11.4%	1.1%
ROA (%)	1.2%	1.3%	0.1%
CIR (%)	56.6%	55.0%	-1.6%
L/D (%)	91.1%	90.9%	-0.2%
FX share of lending (%)	0.9%	0.6%	-0.3%
FBL ratio (%)	n/a	n/a	n/a
Coverage ratio (%)	54.1%	55.7%	1.6%

Source: EIU, NBS, ECB CBD

Key metrics in Slovakia

External and internal economic developments were favorable for Slovakia in 2015, however GDP growth was driven mainly by domestic factors. The GDP growth was 3.6%, which is slightly above the average level in the region. Although real wages increased on the back of domestic economic growth in 2015, the additional disposable income could not trigger price increase in Slovakia, resulting in prolonged deflation. Recorded unemployment rate decreased by 1.3% point to 11.5%, which is around the average of the region. The budget deficit stood at 3% in 2015, exactly the level of the Maastricht criterion. The public debt decreased by 4.1% points to 52.9%, which is considered a manageable level.

Growth in retail and corporate lending in the Slovakian banking sector is the highest among the twelve countries in the study, with 12.4% for retail loans and with 9.0% for corporate loans. This substantial expansion was driven by several factors, such as low interest rates, growing real wages, decreasing unemployment as well as strengthening competition in the banking sector. Both housing and consumer loan volumes increased markedly in the retail segment, by 13.5% and 16.0% respectively. Having these trends in retail and also in corporate lending, the Slovakian banking sector might face deteriorating asset quality in the future. Total loan volumes are driven by retail loans, standing for 62% (EUR 25.9bn) of total loans in 2015. The NPL volumes in the retail sector grew slightly by 1.2%, however corporate NPL volume dropped by 6.1%. The increase in retail NPL volumes is due mainly to the steady 12.4% growth in retail lending in 2015 and 2014 also saw a 12.2% increase. NPL ratios slightly decreased in both the retail and corporate segments, by 0.4% point and 1.1% point respectively. The total NPL ratio with 5.2% was the second lowest behind Czech Republic with 4.7% and retail NPL ratio with 3.9% is the lowest among the 12 CEE countries examined.

The CAR and the CIR ratio changed positively compared to the previous year on the back of improving profitability and efficiency. Profitability of the banking sector was affected positively by the reduction of bank levy, although contributions to the Deposit Protection Fund increased. A new type of contribution was also introduced in 2015, banks are required to fulfill payments to the Resolution Fund. This contribution is based on the size of an institution and also depends on the risk portfolio. As a result of the aforementioned factors, the growth in lending and lower credit risk costs, ROE rose by 1.1% point to 11.4% whereas ROA remained practically unchanged relative to 2014, standing at 1.3% in 2015. Although volume of outstanding loans increased, the L/D ratio decreased by a moderate 0.2% point due to the growth in both retail and corporate deposits. FX share of lending is not an issue, since the euro is the national currency.

Top players in the Slovak banking sector

#	Bank (2015, EUR mn)	Assets	Loans	Equity	Net Profit	ROA	ROE	NPL ratio	NPL vol.	Major owner
1	Slovenska Sporitelna	13,980	9,484	1,539	186	1.3%	12.1%	3.5%	331	Erste
2	VUB	12,055	8,918	1,323	130	1.1%	9.8%	4.9%	437	Intesa Sanpaolo
3	Tatra Banka	10,997	8,144	950	115	1.0%	12.1%	4.2%	342	Raiffeisen
4	Ceskoslovenska Obchodna	6,737	5,589	672	71	1.1%	10.6%	3.7%	208	KBC
5	UniCredit CZ & SK *	4,400	n/a	FB	40	0.9%	n/a	n/a	n/a	UniCredit
6	Postova Banka	4,174	2,066	601	54	1.3%	9.0%	n/a	n/a	J&T Finance
7	Prva Stavebna Sporitelna	2,720	2,081	240	22	0.8%	9.2%	4.5%	93	Schwäbisch Hall
8	Prima Banka Slovensko	2,036	n/a	134	5	0.2%	3.7%	n/a	n/a	Penta Investments
9	Sberbank Slovensko	1,841	n/a	193	-19	-1.0%	-9.8%	n/a	n/a	Sberbank
10	OTP Banka Slovensko	1,435	1,198	114	2	0.1%	1.8%	9.1%	109	OTP Bank Nyrt.
	Banking sector total	**67,353**	**41,578**	**7,491**	**854**	**1.3%**	**11.4%**	**5.2%**	**2,162**	

* UniCredit SK was merged into UniCredit CZ, thus it performs banking activities as a foreign branch now
Source: Banks' data disclosure, NBS, ECB CBD, ISI Emerging Markets
FB: foreign branch

The average NPL ratio for the Slovakian banking sector came down to 5.2% in 2015 from 5.9% in 2014, and only OTP Banka Slovensko's NPL ratio exceeded the average among the top 10 banks with 9.1%. Overall NPL volume of the banking sector is EUR 2.2bn. All banks in the top 10 were profitable in 2015, only Sberbank Slovensko posted a ROE of negative 9.8%. Stavebna Sporitelna and Tatra Banka both achieved ROE of 12.1%, outperforming the already enviable 11.4% market average. The asset concentration in Slovakia is the third highest in the region: the top three, five and ten banks account for 55%, 71.5% and 89.6% respectively. The equity concentration is around the average compared to the regional peers, the top three, six and ten banks hold 50.9%, 67.9% and 77% of total equity respectively. There is a significant gap between the top three and other banks in the top ten regarding their asset value, Stavebna Sporitelna, VUB and Tatra Banka are the largest ones with asset values higher than EUR 10bn, followed by Ceskoslovenska Obchodna in the fourth place with EUR 6.7bn. With regards to the ownership structure, the Slovakian banking sector is dominated by foreign banking groups, as of year-end 2015 only Postova Banka out of the top ten banks was owned by a domestic investment group, J&T Finance. In addition, in July 2016, the Czech Republic based Penta Investments became the major owner of Sberbank Slovensko, with a stake of 99.5%.

Czech and Slovak consumer debt market

EUR bn	Portfolios offered for sale*	Average prices
2015	0.6	21%
2014	0.2	19%

*face value
Source: Kruk

The Czech and Slovakian debt sales markets seemed to be treated together, as the markets in the two countries have similar characteristics. The nominal value of consumer loans offered for sale in the countries more than doubled between 2014 and 2015 and amounted to EUR 0.6bn in 2015. Similar to previous years, transactions were completed at a higher average price compared to Romania and Poland, due mainly to higher achievable recovery rates, as well as the limited supply stemming from lower NPL volumes. As per NPL transactions, no major deal took place recently in the Slovak market.

Hungary

Hungary recorded a significant decline in corporate NPL ratio in 2015 mainly attributable to a one-off transaction in the framework of the separation of MKB's non-performing commercial real estate portfolio. The resolution of non-performing mortgage loans in the retail segment is still the greatest challenge regulators may face.

Macro	2014	2015	Change (% point)
GDP (% real change pa)	3.6%	2.9%	-0.7%
Consumer prices (% change pa)	-0.2%	-0.1%	0.1%
Recorded unemployment (%)	7.9%	6.8%	-1.0%
Budget balance (% of GDP)	-2.8%	-2.0%	0.8%
Public debt (% of GDP)	76.9%	75.3%	-1.6%

Banking sector	2014	2015	Change (% or % point)
Retail loans (HUF bn)	6,724	5,884	-12.5%
Corporate loans (HUF bn)	6,760	5,929	-12.3%
Interest rates			
Lending (%)	4.4%	2.9%	-1.5%
Deposit (%)	1.8%	1.1%	-0.7%
NPL volumes			
Retail NPLs (HUF bn)	1,289	1,040	-19.4%
Corporate NPLs (HUF bn)	1,056	579	-45.2%
NPL ratios			
Retail NPL ratio (%)	19.2%	17.7%	-1.5%
Corporate NPL ratio (%)	15.6%	9.8%	-5.9%
Key ratios			
CAR (%)	17.0%	18.6%	1.6%
ROE (%)	-17.5%	0.3%	17.8%
ROA (%)	-1.6%	0.03%	1.6%
CIR (%)	65.7%	87.3%	21.6%
L/D (%)	107.0%	87.5%	-19.5%
FX share of lending (%)	51.0%	23.0%	-28.0%
FBL ratio (%)	7.2%	5.6%	-1.6%
Coverage ratio (%)	62.0%	68.7%	6.6%

Source: EIU, NBH, ECB CBD

Key metrics in Hungary

Hungary's economic growth continued in 2015, however at a slower pace. The 2.9% growth was spurred by domestic consumption and net export. Minor level of deflation of 0.1% did not curb domestic spending. Future growth expectations are mainly dependent on economic performance of foreign trading partners. The unemployment decreased by 1% point achieving 6.8%, which is well below the regional average. The budget deficit decreased to 2.0%, under the Maastricht criterion. Public debt decreased by 1.6% point in 2015 to 75.3%, which is still the fourth highest in the region.

The volume of loans both in retail and corporate segment plummeted by a significant 12.5% and 12.3% respectively. However, due to low interest rate environment and the second phase of Funding for Growth Scheme (FGS) which ended at end-2015, SME lending grew by 3.6% in 2015. Although SME lending is recovering, lending for large enterprises shrank by 4.3% compared to 2014. MNB launched its Market-based Lending Scheme (MLS) in 2016 which is expected to ignite market-based corporate lending, mainly in the SME sector. MLS ensured HUF 800bn for banks to provide funding for SME lending purposes. Driven by the conversion of FX mortgage loans to HUF on the basis of the Settlement Act in February and March 2015, as well as the conversion of FX auto and personal loans to HUF at end-2015, retail loan volume decreased considerably. This was attributable to the fact that preferential FX rates were used for the conversion, and former unfairly charged unilateral interest rate hikes and FX spreads were reimbursed to existing customers in the form of outstanding principal decreases. Although disbursement of new housing loans gained some momentum in 2015, retail loans still decreased mainly due to effects of the Settlement Act.

The considerable decline in corporate NPL ratio is mainly attributable to a one-off transaction completed at end-2015 and described below, whilst retail NPL ratio posted a slight decrease of 1.5% point compared to 2014 and with 17.7% is the highest value among the twelve analyzed countries. The resolution of non-performing mortgage loans in the retail segment is still the greatest challenge regulators may face. Nevertheless, MNB identified some potential measures to tackle the problem. With the purchases of debtors' real estates by Hungarian National Asset Management Inc. (HNAM), app. HUF 90bn non-performing mortgage-based receivables were removed from banks' balance sheets, this being the main contributing factor to the retail NPL volume decrease in 2015. A granular analysis of mortgage loans conducted by the MNB in 2015 revealed there are restructuring reserves in non-performing mortgage loan portfolios. Thus, MNB published a recommendation in March 2016 with guidelines to restore the distressed debtors' sustainable repayment. The expiry of the eviction moratorium in March 2016 and recent positive developments of the real estate market in Hungary may also give an impetus to portfolio cleaning in the retail segment.

Although the banking sectors' corporate NPL volume decreased significantly in 2015, the improvement resulted mostly from the separation of MKB's non-performing commercial real estate portfolio, as well as write-downs. In the framework of the resolution of MKB, app. HUF 210bn of CRE non-performing loans were taken over by the Resolution Asset Manager. Besides this one-off non-market transaction in 2015, larger ticket single name deals were also completed in 2015. However, a pick up is experienced in 2016 in the Hungarian corporate debt sales market due to improving CRE market conditions and the purchases of the Hungarian Restructuring and Debt Management Company (MARK). After the European Commission had approved the CRE portfolio acquisition methodology of MARK, the asset manager initiated a three-month registration period in March 2016 in its asset purchase programme. Twenty-three financial institutions registered to the programme with a gross exposure exceeding HUF 300bn. Although, according to available market intelligence, willingness of financial institutions to cooperate with MARK could be undermined as banks cannot optimize through portfolio selection. In addition, due to the revive of the NPL market activity several banks sale their portfolios to NPL investors in the market. The handling of multi-creditor loans could be another impediment. The systemic risk capital buffer (SRB) which will enter into effect as of 1 January 2017 may also give a stimulus to distressed project loan disposals as it will increase creditors' capital requirement. Furthermore, it aims to increase banks' resilience to shocks. The SRB rate will be determined on an institution level, depending on the exposure of domestic distressed CRE project loans and the commercial properties for sale.

Out-of-court restructuring could be an alternative to tackle non-performing loans in the corporate sector. This tool may help viable businesses to recover from temporary liquidity-related difficulties. It is advantageous for both the lender and the borrower as it is less expensive and shorter than a formal in-court proceeding like enforcement or bankruptcy. Thus, MNB is about to issue a recommendation on the best practices in handling distressed debtors at end-2016.

Regarding key performance indicators of the Hungarian banking sector, there were notable improvements in most of the fields. The capital adequacy ratio grew by 1.6% point to a solid 18.6% level, and after huge losses mostly due to the Settlement Act in 2014, 2015 was a turning point for the banking sector's profitability. ROE and ROA increased by 17.8% points and by 1.6% point respectively and turned slightly positive. Further improvement of the profitability is expected due to gradual bank tax reductions. FX share of lending declined by 28% points due to the conversion of FX mortgage loans in Q1 2015 and auto and personal loans at end-2015. Driven by the increasing stock of deposits in both the retail and corporate sectors and the decrease in loan volume, L/D ratio fell well under 100% in 2015, thus the banking sector achieved self-funding position in 2015. CIR increased significantly by 21.6% points, mainly due to the decreasing net interest income stemming from the substantial decline of loan volumes.

Top players in the Hungarian banking sector

#	Bank (2015, EUR mn)	Assets	Loans	Equity	Net Profit	ROA	ROE	NPL ratio	NPL vol.	Major owner
1	OTP	22,458	7,578	3,428	157	0.7%	4.6%	12.1%	917	OTP
2	UniCredit	8,575	3,540	790	122	1.4%	15.4%	17.6%	623	UniCredit
3	K&H	8,251	3,589	669	102	1.2%	15.2%	13.3%	477	KBC
4	MKB	6,249	3,254	380	-205	-3.3%	-53.9%	29.6%	962	State
5	Raiffeisen	6,221	3,419	495	33	0.5%	6.7%	19.7%	674	Raiffeisen
6	Erste	5,959	3,498	520	-65	-1.1%	-12.5%	18.7%	654	Erste
7	CIB	5,303	3,462	468	-127	-2.4%	-27.1%	16.8%	582	Intesa Sanpaolo
8	Magyar Fejlesztési Bank	4,159	1,453	652	-2	0.0%	-0.3%	n/a	n/a	State
9	OTP Jelzálogbank	3,450	3,167	259	60	1.7%	23.2%	4.3%	135	OTP
10	Budapest Bank	3,050	1,912	368	5	0.2%	1.4%	14.0%	268	State
	Banking sector total	**102,639**	**37,386**	**9,075**	**29**	**0.0%**	**0.3%**	**13.7%**	**5,123**	

Source: Banks' data disclosure, NBH, ECB CBD, ISI Emerging Markets

The total NPL ratio of the Hungarian banking sector decreased by 3.7% points to 13.7% in 2015, which is around the average level in the region. OTP Jelzálogbank (OTP's mortgage bank) reported the lowest NPL ratio with 4.3%, whilst MKB posted the highest with 29.6%. OTP's NPL ratio with 12.1% remained under the country average, whilst banks like Raiffeisen, Erste and CIB having been active in project financing recorded significantly higher NPL ratios of 19.7%, 18.7% and 16.8% respectively. Despite substantial decreases in NPL ratios at multiple banks in 2015, majority of top ten banks had NPL ratios well above 10%, leaving much room for further portfolio cleaning. The profitability of the top ten banks shows a diverse picture. Six out of the top ten banks reported positive ROE, whilst four were loss-making in 2015. Due to a decrease in the amount of loans, Erste reported a sharp decrease in the interest income in 2015 compared to the previous year, whilst operating costs slightly increased. With regards to CIB's profitability, net interest income decreased significantly driven by the shrinking loan stock. MKB posted the biggest losses with ROE of negative 53.9% and OTP Jelzálogbank the highest profitability with ROE of 23.2%. The overall profitability of the Hungarian banking sector was under the average in the region, however it should be noted that parent banks' profitability improved, their capital adequacies were stable, therefore they could provide proper support to Hungarian subsidiaries in case of need. The asset concentration for the top three, five and ten banks was under the average of the region, with 38.3%, 44.3% and 65.7% market shares respectively. OTP carries on being the undisputed market leader with a market share of 21.9%, followed by UniCredit (8.4%) and K&H (8%), the latter two switching ranks in 2015. The equity concentration showed a similar picture to asset concentration, with the top three, five and ten banks having 53.9%, 63.5% and 88.5% share respectively, in line with the average level of regional peers. As of year-end 2015, five out of the top 10 banks are foreign-owned and five are controlled domestically. Market leader OTP, being a listed entity, is owned by various private individuals and corporate entities, but controlled from Hungary. MKB, Magyar Fejlesztési Bank (MFB) and Budapest Bank were owned by the state as of year-end 2015. MKB was sold to an international investor consortium in June 2016, namely to Blue Robin Investments (45%), METIS Private Equity Fund (45%) and Pannónia Pension Fund (10%). MFB is a special purpose state-owned bank, while Budapest Bank's privatization is scheduled for late 2016 or early 2017 via an IPO or trade sale. The state also acquired a 15% stake in Erste Bank Hungary in August 2016, with EBRD also buying 15% share. In February 2016, OTP agreed to acquire AXA Bank Hungary's domestic banking operations. The integration process was completed at end-2016. Already back in 2015, Erste acquired the Hungarian retail and credit card portfolio of Citibank. The gross book value of completed portfolio transactions exceeded EUR 2bn in Hungary during 2015 and 2016, of which AXA Bank's residential portfolio amounted to EUR 1bn. Besides this, Lombard Lízing Group with a gross portfolio of c. EUR 300mn was sold, and CIB sold a corporate portfolio as well. As of autumn 2016, multiple loan portfolios (both PL, NPL corporate and retail mortgage as well) are out in the Hungarian market, with a number of interested parties, including both distressed debt investors and core banking players.

Romania

The Romanian banking sector turned heavily profitable in 2015 with ROE of 11.3%. Although, Romanian banks removed a considerable amount of non-performing corporate loans from their balance sheets in 2014, the volume of sales almost halved in 2015.

Macro	2014	2015	Change (% point)
GDP (% real change pa)	3.0%	3.8%	0.8%
Consumer prices (% change pa)	1.1%	-0.6%	-1.7%
Recorded unemployment (%)	6.8%	6.8%	0.0%
Budget balance (% of GDP)	-1.7%	-1.4%	0.3%
Public debt (% of GDP)	39.8%	38.4%	-1.4%

Banking sector	2014	2015	Change (% or % point)
Retail loans (RON mn)	102,117	107,953	5.7%
Corporate loans (RON mn)	105,468	106,006	0.5%
Interest rates			
Lending (%)	8.5%	6.8%	-1.7%
Deposit (%)	3.0%	1.9%	-1.1%
NPL volumes			
Retail NPLs (RON mn)	7,918	9,823	n/a
Corporate NPLs (RON mn)	19,694	27,971	n/a
NPL ratios			
Retail NPL ratio (%)	7.8%	9.1%	n/a
Corporate NPL ratio (%)	18.7%	26.2%	n/a
Key ratios			
CAR (%)	17.6%	17.5%	-0.1%
ROE (%)	-12.5%	11.3%	23.7%
ROA (%)	-1.2%	1.2%	2.3%
CIR (%)	54.9%	58.5%	3.6%
L/D (%)	90.5%	85.8%	-4.7%
FX share of lending (%)	58.0%	49.0%	-9.0%
FBL ratio (%)	8.9%	6.7%	-2.2%
Coverage ratio (%)	55.6%	57.7%	2.1%

2014 and 2015 levels of NPL ratios and volumes are not comparable since ratios for 2014 were calculated based on the previous methodology used by the NBR.
Source: EIU, NBR, ECB CBD

Key metrics in Romania

The Romanian economy grew steadily in 2015 by 3.8%, surpassing the previous year's growth by 0.8% point. Economic growth was fueled mainly by domestic consumption, partly by investments. Although consumption grew, consumer prices turned into a deflation of 0.6%. The unemployment remained unchanged compared to 2014 at a quite low level of 6.8% in international comparison, however structural vulnerability and youth unemployment were still on agenda. The budget deficit decreased to 1.4%, well under the Maastricht criterion. The public debt decreased by 1.4% point and arrived to 38.4%, a manageable level.

The Romanian banking sector witnessed a slight growth in corporate loans by 0.5%, and a significant one in the retail segment by 5.7%. Both corporate and retail loan increase was solely driven by lending in local currency. Although the sale of non-performing corporate loans continued in 2015, the volume of sales almost halved compared to the previous year. According to NBR's Financial Stability Report (FSR, April 2016), the sales of loans amounted to RON 3.3bn in 2015, the same figure was RON 6.2bn in 2014. 54% of the disposed loans were classified as non-performing in 2015, whereas the rate was even higher in 2014 with 77%. The share of consumer loans in retail lending stock decreased further in 2015, as banks' sales of non-performing retail loans were dominated by these type of exposures. Retail loan rise was a consequence of low lending rates and the upswing in consumption. Further growth in lending is forecasted, banks are expected to tighten credit conditions with regard to housing loans though. In 2015 the amount of non-performing retail loans was RON 9.8bn, and RON 27.9bn for corporate loans. The retail NPL ratio was 9.1% in 2015, while for corporate it was 26.2%. The write-offs were dominated by non-mortgage consumer loans and foreign currency loans in 2015. 2014 and 2015 levels of NPL ratios and volumes presented in the above table are not comparable since ratios for 2014 were calculated based on the previous methodology used by the NBR.

The profitability of the Romanian banking sector was positively affected by the revival of domestic currency lending also backed by better macroeconomic outlook, improving asset quality and consequently by the decrease in loan loss provision charges. After a huge fall in net profits in 2014 due to accelerated write-offs and NPL disposals, the sector turned heavily profitable in 2015 with ROE of 11.3%, which means a considerable improvement of 23.7% points compared to 2014. ROA also improved with a significant 2.3% points. Although the banking sector made significant profits in 2015, CAR decreased by 0.1% point to a still stable 17.5%. Cost to income ratio also changed to a negative direction, increased by 3.6% points to 58.5%. Despite lending growth in both retail and corporate segments, L/D ratio decreased by 4.7% points, implying healthy deposit dynamics. FX share of lending fell by 9.0% points, which is attributable to perked-up national currency lending.

FBL ratio dropped by 2.2% points in 2015. According to NBR, Romanian banks are committed to support borrowers with payment difficulties to recover. Corporates accounted for the majority of the restructured loans (70%) and 81% of total restructured loans are non-performing. Coverage ratio of NPLs grew slightly by 2.1% point in 2015.

Top players in the Romanian banking sector

#	Bank (2015, EUR mn)	Assets	Loans	Equity	Net Profit	ROA	ROE	NPL ratio	NPL vol.	Major owner
1	BCR	13,143	8,426	1,520	213	1.6%	14.0%	20.2%	1,702	Erste Group
2	BRD	10,874	6,700	1,074	98	0.9%	9.1%	17.1%	1,146	Société Générale
3	Banca Transilvania	10,474	6,364	1,068	534	5.1%	50.0%	9.7%	617	Private
4	Raiffeisen	6,950	4,472	843	22	0.3%	2.6%	6.7%	300	Raiffeisen
5	Unicredit Tiriac	6,767	4,344	624	49	0.7%	7.9%	14.4%	626	UniCredit
6	CEC Bank	6,086	2,965	369	2	0.0%	0.5%	17.5%	519	State
7	ING	5,166	n/a	FB	n/a	n/a	n/a	n/a	n/a	ING
8	Alpha Bank	3,317	2,792	419	-18	-0.5%	-4.3%	16.4%	458	Alpha Bank
9	Bancpost	2,517	n/a	279	8	0.3%	2.9%	16.6%	n/a	Eurobank Ergasias SA
10	Garanti Bank	2,118	n/a	163	13	0.6%	8.0%	n/a	n/a	Turkiye Garanti Bankasi AS
	Banking sector total	**84,546**	**47,497**	**8,632**	**975**	**1.2%**	**11.3%**	**13.6%**	**6,464**	

Source: Banks' data disclosure, NBR, ECB CBD, ISI Emerging Markets
FB: foreign branch

As Volksbank was acquired by Banca Transilvania in April 2015 for a transaction price of EUR 81mn, it got out of the list of the top ten players, and Garanti Bank climbed up to the tenth place. Profitability of the overall banking sector was the fourth highest in the region in terms of ROE. From the top ten banks only Alpha Bank incurred losses, ROE was negative 4.3%. Banca Transilvania's extraordinary ROE of 50.0% can be attributed to the acquisition of Volksbank, the difference between price paid and the value of incorporating the bank. Romanian banks removed a considerable amount of non-performing loans from their balance sheets in 2014-2015 and as a result total NPL ratio was 13.6% in 2015, which is around the average of the region. The market leader BCR and the second largest BRD had NPL ratios of 20.2% and 17.1%, indicating much room for further portfolio cleaning. The asset concentration of the Romanian banking sector was around the average level of the region, with market shares of the top three, five and ten banks of 40.8%, 57% and 79.7% respectively. Equity concentration was a bit lower than the regional average, with 42.4%, 59.4% and 73.7% respectively. Net profit concentration though was really high, the top three market players had 86.6% of the sector's overall profit. Major owners of the top ten banks are mainly international banking groups, only CEC Bank is in state ownership and Banca Transilvania is controlled by individuals and legal entities, the shareholders with foreign capital were dominant at end-2015. The presence of Greek banks (Alpha Bank, Eurobank) is also strong among the top 10 players.

Eurobank Ergasias is currently focusing on divestment opportunities in the region and considering to decrease its stake in its Romanian subsidiary, Bancpost, by attracting minority equity investors. The Greek banking group is also expected to take stricter measures to resolve problems in connection with accumulated NPLs. Nextebank S.A. has agreed to acquire 54.79% stake in Banca Comerciala Carpatica S.A in January 2016.

Romanian consumer and mortgage-backed debt market

PLN bn	Portfolios offered for sale*	Average prices
2015	2.5	11%
2014	2.2	11%

*face value
Source: Kruk

The debt sales market started to grow thanks to the measures made by the government. Portfolios offered for sale grew from PLN 2.2bn (EUR 0.5bn) to PLN 2.5bn (EUR 0.6bn) in one year. As for pricing data, average prices for retail loan portfolios did not change between 2014 and 2015. Average prices were lower than the average prices in Poland, the Czech Republic and in Slovakia.

BCR and Veneto Banca are having ongoing deals for residential and mixed portfolio in face value of EUR 400mn and EUR 1,030mn respectively. Romania was the most active market regarding NPL deals in the region. In October 2015, BCR completed a deal with DB APS IFC in value of EUR 1,200mn and in May 2016 Bancpost with Kruk and IFC in value of EUR 597mn.

Slovenia

NPL volumes plummeted significantly in the retail segment by 10.4% and by 21.7% in the corporate segment, additionally multiple privatizations are happening as Apollo Global Management in tandem with EBRD acquired NKBM from the state in 2016 and NLB is also to be privatized via an IPO by the end of 2017.

Macro	2014	2015	Change (% point)
GDP (% real change pa)	2.4%	2.6%	0.2%
Consumer prices (% change pa)	0.4%	-0.7%	-1.1%
Recorded unemployment (%)	9.6%	9.0%	-0.6%
Budget balance (% of GDP)	-4.9%	-3.0%	1.9%
Public debt (% of GDP)	80.9%	83.7%	2.8%

Banking sector	2014	2015	Change (% or % point)
Retail loans (EUR mn)	8,762	8,856	1.1%
Corporate loans (EUR mn)	11,191	10,068	-10.0%
Interest rates			
Lending (%)	5.0%	3.5%	-1.5%
Deposit (%)	0.8%	0.2%	-0.6%
NPL volumes			
Retail NPLs (EUR mn)	464	416	-10.4%
Corporate NPLs (EUR mn)	1,981	1,550	-21.7%
NPL ratios			
Retail NPL ratio (%)	5.3%	4.7%	-0.6%
Corporate NPL ratio (%)	17.7%	15.4%	-2.3%
Key ratios			
CAR (%)	15.8%	18.8%	3.0%
ROE (%)	-2.7%	3.5%	6.2%
ROA (%)	-0.3%	0.4%	0.7%
CIR (%)	58.2%	61.0%	2.8%
L/D (%)	107.0%	94.4%	-12.6%
FX share of lending (%)	0.0%	0.0%	0.0%
FBL ratio (%)	9.7%	8.7%	-1.0%
Coverage ratio (%)	60.8%	65.0%	4.2%

Source: EIU, BSI, ECB CBD

Key metrics in Slovenia

Slovenia's real GDP grew by 2.6% in 2015, which is practically the same rate as in 2014. The growth was fueled by exports and recovery in household consumption. Weak recovery of private sector investments and decreasing governmental investments could not contribute to GDP growth. The consumer prices decreased by 1.1% point, resulting in deflation in 2015 after a tepid inflation in 2014. The unemployment rate decreased by 0.6% point to 9.0%, which is the third highest in the region. The budget deficit contracted from 4.9% to 3.0%. The public debt increased by 2.8% points arriving to 83.7%, making Slovenia one of the most indebted countries in the region.

The banking sector is still under recovery in Slovenia. Retail loan volumes increased by 1.1%, due to the appetite of banks for household lending, however corporate loans decreased by a significant 10%. At the same time, increase in corporate loan demand is expected in the forthcoming periods. Managing non-performing loans was still a challenge for the Slovenian banking sector in 2015. The most common method was restructuring through maturity extension or interest rate change, or of course write-offs. Restructuring measures were the most successful among manufacturing and large companies. We should note that although the quality of the overall loan portfolio of the Slovenian banking sector improved, record NPL ratios were experienced among SMEs. NPL volumes plummeted in the retail segment by 10.4% and by 21.7% in the corporate segment. BAMC still played a great role in cleaning the banking portfolios from bad debts, and open market NPL deals also took place. Retail and corporate NPL ratios also decreased by 0.6% point and 2.3% points respectively.

Key performance indicators of the banking sector showed improvement in 2015. The CAR increased by a notable 3% points, arriving to a solid 18.8%. The profitability improved markedly and turned positive, with ROE and ROA increasing by 6.2% and 0.7% points respectively, still mirroring weak profitability though. FX share of lending is not relevant as the official currency is the euro. The cost-to-income ratio increased by 2.8% points to 61.0%, which is above the average of the region. L/D declined by 12.6% points to 94.4%, now reflecting a self-financing banking sector.

The FBL ratio decreased slightly by 1.0% point, according to this 8.7% of the loans were restructured in 2015. Coverage ratio was relatively high with 65.0% in 2015.

Top players in the Slovenian banking sector

#	Bank (2015, EUR mn)	Assets	Loans	Equity	Net Profit	ROA	ROE	NPL ratio	NPL vol.	Major owner
1	NLB	8,706	5,021	1,242	44	0.5%	3.5%	16.8%	844	State
2	Abanka	3,828	2,160	548	42	1.1%	7.7%	15.2%	328	State
3	NKBM	3,563	1,965	607	34	1.0%	5.6%	22.4%	440	State
4	SID Banka	3,198	805	364	10	0.3%	2.7%	14.8%	119	State
5	SKB Banka	2,561	1,926	358	34	1.3%	9.5%	11.6%	223	Société Générale
6	UniCredit Banka	2,545	1,870	256	10	0.4%	3.9%	16.6%	310	UniCredit
7	Banka Koper	2,272	1,624	286	12	0.5%	4.2%	13.3%	216	Intesa Sanpaolo
8	Sberbank Banka	1,902	1,277	168	-3	-0.2%	-1.8%	17.6%	225	Sberbank
9	Gorenjska Banka	1,451	872	184	3	0.2%	1.6%	17.3%	151	Sava, d.d.
10	Addiko Bank	1,344	n/a	98	-52	-3.9%	-53.1%	n/a	n/a	Advent
	Banking sector total	**40,421**	**18,924**	**4,592**	**161**	**0.4%**	**3.5%**	**10.4%**	**1,967**	

Source: Banks' data disclosure, BSI, ECB CBD, ISI Emerging Markets

The overall NPL ratio of the banking sector was 10.4% in 2015, which is under the average in the region, however all of the top ten banks reported NPL ratios above 10%. Market leading NLB had NPL ratio of 16.8% in 2015, Abanka reported 15.2% while NKBM posted a worrisome 22.4%. Profitability of the sector was around the average of the twelve countries, with ROE of 3.5% and ROA of 0.4%. Two banks of the top ten market players made losses in 2015, Sberbank Banka posted a ROE of negative 1.8%, while Advent`s Addiko Bank lost more than half of its equity due to post-acquisition measures such as the conversion of the CHF portfolio and additional provisions. Regarding asset concentration, the top three, five and ten banks possessed 39.8%, 54.1% and 77.6% market share respectively. The equity concentration was greater than the regional average, with the top three, five and ten banks having 52.2%, 67.9% and 89.5%. The net profit concentration was quite high: top three banks made 74.6% of the total net profit of the banking sector. State ownership is determining in the Slovenian banking sector, however, multiple privatizations are happening. As the first step, Apollo Global Management in tandem with EBRD acquired NKBM from the state in 2016. Additionally, NLB is also to be privatized via an IPO by the end of 2017. Abanka's merger with Banka Celje finished in October 2015, the privatization of the merged entity is targeted for 2017. In June 2016, Apollo Global Management also acquired Raiffeisen Banka, the 16th largest player in the Slovene market with total assets of EUR 0.7bn as of year-end 2015.

Regarding major NPL transactions, in June 2015 York Capital acquired a corporate portfolio from DUTB/Bawag with a gross book value of EUR 156mn. Also in 2015, BAML acquired a corporate portfolio from DUTB with a confidential gross book value. In July 2016, NLB sold a corporate (gross book value of EUR 396mn) and a retail (gross book value of EUR 104mn) portfolio to undisclosed buyers. There are also ongoing deals, a corporate portfolio with EUR 500mn gross book value is being sold by an undisclosed seller, while a leasing portfolio with EUR 90mn gross book value is also marketed by NLB.

Croatia

NPL volumes changed significantly in the retail segment falling by 4.1%, although corporate NPL volumes grew by 0.7%.

Macro	2014	2015	Change (% point)
GDP (% real change pa)	-0.4%	1.6%	2.0%
Consumer prices (% change pa)	-0.2%	-0.5%	-0.3%
Recorded unemployment (%)	17.3%	17.4%	0.1%
Budget balance (% of GDP)	-5.7%	-3.2%	2.5%
Public debt (% of GDP)	85.1%	86.7%	1.6%

Banking sector	2014	2015	Change (% or % point)
Retail loans (HRK mn)	126,454	120,427	-4.8%
Corporate loans (HRK mn)	98,402	101,022	2.7%
Interest rates			
Lending (%)	6.3%	5.8%	-0.5%
Deposit (%)	3.5%	3.2%	-0.3%
NPL volumes			
Retail NPLs (HRK mn)	15,301	14,668	-4.1%
Corporate NPLs (HRK mn)	30,209	30,418	0.7%
NPL ratios			
Retail NPL ratio (%)	12.1%	12.2%	0.1%
Corporate NPL ratio (%)	30.7%	30.1%	-0.6%
Key ratios			
CAR (%)	21.4%	21.0%	-0.4%
ROE (%)	3.6%	-6.8%	-10.4%
ROA (%)	0.5%	-0.9%	-1.4%
CIR (%)	53.2%	57.6%	4.4%
L/D (%)	98.7%	92.9%	-5.8%
FX share of lending (%)	74.0%	71.0%	-3.0%
FBL ratio (%)	5.5%	4.5%	-1.0%
Coverage ratio (%)	51.3%	56.9%	5.6%

Source: EIU, HNB, ECB CBD

Key metrics in Croatia

After several years of recession, the Croatian economy started to recover in 2015, propelled mostly by the export sector. After a contraction of 0.4% in 2014, real GDP increased by 1.6% in 2015, which is still below the regional average though. Despite economic growth, deflation continued at a higher pace, posting a drop of 0.3% point to negative 0.5% in 2015. With regards to the unemployment rate, Croatia saw a slight 0.1% point deterioration in 2015 arriving to 17.4%, which is the second-highest unemployment rate behind Serbia among the analyzed countries. The budget deficit narrowed to 3.2%, whereas level of public debt further increased to 86.7%, posting the highest figure in the region.

Risk to financial stability remained high due to structural imbalances: growing public and external debt make Croatia sensitive to interest rate changes. As a result, risk premium of the economy is higher than those of peers in the region. This extra risk premium makes funding expensive for banks, and as a consequence loan financing is expensive as well. Average interest rate of lending was 5.8% in 2015 which is above the average level for the twelve countries with 5.1%. The average interest rate of deposits with 3.2% was also well above the regional average (1.2%). A great deal of the financing of corporate segment is provided by external creditors, particularly among private non-financial corporations in foreign ownership. However, due to good business performance, corporations managed to decrease their external indebtedness during 2015.

Despite improving macroeconomic conditions lending activity was still weak in 2015. The retail loan stock decreased by 4.8%, whilst the volume of corporate loans started to rise in 2015, posting a moderate increase of 2.7%. However, the quality of retail loan portfolio improved due to write-offs and sales of non-performing assets. NPL volumes changed significantly in the retail segment, fell by 4.1%, although corporate NPL volumes grew by 0.7%. Having peaked in 2014, retail NPL ratio practically remained unchanged at 12.2% in 2015 posting the third highest rate in the region, whereas corporate NPL ratio melted by 0.6% point to 30.1%, still being the highest among the twelve countries of the study. To be able to tackle the problem of high NPL volumes the government announced changes in legislation to allow tax-deductibility for write-offs. This could provide a trigger to the debt sales market as well through the reduction of the pricing gap between buyers and sellers and the improvement of asset quality.

Looking at key performance indicators of the Croatian banking sector, the picture is fairly bleak, having substantially negative ROE and ROA, increasing CIR, but at least solid capitalization with CAR of 21.0%. The Act on Amendments to the Consumer Credit Act came into effect at the end of September 2015 with the statutory conversion of CHF-denominated loans to euros. The new law affected adversely the profitability of the banking sector and resulted in negative profitability ratios. Consequently, profitability of the sector deteriorated dramatically in 2015 compared to 2014. ROE turned negative decreasing by 10.4% points, while ROA also shed by 1.4% point arriving to negative 0.9%. Croatia is the only country in this survey with negative profitability in 2015. HNB decided to take measures after the HRK depreciated by 20% against the CHF in early 2015. The Croatian government obliged creditors to convert the CHF loans to euros, the conversion rate was the historical FX-rate at the time of the loan disbursement. Negative FX differences were borne by credit institutions, entailing heavy losses. The impact is estimated to amount to HRK 7.3bn or the total three-year pre-tax profit of the banking sector in 2012, 2013 and 2014. Meanwhile CIR increased by 4.4% points to 57.6%, which is still below the regional average. Due to fragile lending activity L/D ratio decreased by 5.8% points to 92.9%.

The provision coverage of non-performing loans continued to grow in 2015 by 5.6% points due to the ageing of existing non-performing loans. Ratio of forborne exposures dropped relatively significantly, by 1% point.

Top players in the Croatian banking sector

#	Bank (2015, EUR mn)	Assets	Loans	Equity	Net Profit	ROA	ROE	NPL ratio	NPL vol.	Major owner
1	Zagrebacka Banka	13,878	7,636	1,890	-87	-0.6%	-4.6%	16.6%	1,268	UniCredit
2	Privredna Banka Zagreb	9,130	5,183	1,426	27	0.3%	1.9%	13.5%	700	Intesa Sanpaolo
3	Erste & Steiermarkische	7,724	5,084	727	-163	-2.1%	-22.4%	16.8%	853	Erste
4	Raiffeisenbank Austria	4,085	2,626	485	-41	-1.0%	-8.5%	17.4%	456	Raiffeisen
5	Splitska Banka	3,544	2,433	423	20	0.6%	4.7%	11.1%	270	Société Générale
6	Addiko Bank	3,346	4,779	271	-322	-9.6%	-118.8%	11.0%	526	Advent
7	Hrvatska Postanska Banka	2,319	1,617	201	17	0.7%	8.5%	26.7%	431	State
8	Otp Banka Hrvatska	2,079	1,422	204	-20	-1.0%	-9.8%	13.1%	186	OTP
9	Sberbank	1,275	n/a	143	-32	-2.5%	-22.4%	n/a	n/a	Sberbank
10	Kreditna Banka	454	233	37	1	0.2%	3.0%	n/a	n/a	Croatian citizens
	Banking sector total	**57,589**	**28,993**	**7,234**	**-492**	**-0.9%**	**-6.8%**	**16.3%**	**5,903**	

Source: Banks' data disclosure, HNB, ECB CBD, ISI Emerging Markets

Due to frail economic performance, the banking sector in Croatia with its 16.3% NPL ratio posted the second highest total rate in the region behind Serbia with 21.6%. However, the corporate NPL ratio of 30.1% is the highest in the region. There is room for improvements regarding NPL metrics, as there was no bank among the top ten market players with NPL ratio lower than 10%, while Hrvatska Postanska Banka is afflicted by an NPL ratio of 26.7%. Stemming from heavy losses due to the mandatory FX conversion, the banking sector as a whole reported a net loss of EUR 492mn in 2015, whereas 2014 saw a net profit of EUR 284mn. The asset concentration was the second highest in the CEE countries behind Slovakia. The top three, five and ten market players had 53.4%, 66.6% and 83.1% market shares, respectively. The equity concentration is the highest in the region with 55.9%, 68.4% and 80.3% shares of the top three, five and ten payers, respectively. High concentration is driven by the fact that there is a considerable gap between the top three and other banks in terms of both assets and equity. The Croatian banking sector is dominated by foreign banks, as only the state-owned Hrvatska Postanska Banka and Kreditna Banka are controlled domestically in the top 10, with the remaining eight banks being in foreign ownership.

EBRD signed an agreement in June 2015 for the sale of its 20.8% stake in Privredna Banka Zagreb to Intesa Sanpaolo. National Bank of Croatia reported sale of non-performing loans in both corporate and retail segments to be growing, which indeed needs to be in the forefront of the strategic agenda, bearing in mind current high NPL metrics. The sale of non-performing loans was attributed to market deals in contrast to previous years when disposals were limited chiefly to affiliated enterprises. Market participants also perceive that the Croatian debt sales market has perked up, with multiple deals happening. In March 2016, a deal was completed on a corporate portfolio with a gross book value of EUR 200mn. In 2015, a corporate and SME portfolio was sold by Erste to B2 Holding with a gross book value of EUR 217mn. Based on historic data suggesting that non-performing loans are sold under net book values, we expect additional losses to be booked by banks related to these NPL transactions, however, balance sheets will be gradually cleaned from soured debt exposures. Many ongoing transactions are reported in Croatia in 2016 with corporate and CRE portfolios, in most cases the seller is HETA Asset Resolution, the biggest one has face value of EUR 800mn.

Bulgaria

NPL ratios improved in both retail and corporate segments with 0.2% point and 2.5% points respectively. However, corporate NPL ratio is still the fourth highest among the twelve countries of the study.

Macro	2014	2015	Change (% point)
GDP (% real change pa)	1.7%	3.0%	1.3%
Consumer prices (% change pa)	-1.4%	-0.1%	1.3%
Recorded unemployment (%)	11.2%	10.1%	-1.1%
Budget balance (% of GDP)	-3.7%	-2.9%	0.8%
Public debt (% of GDP)	27.4%	26.7%	-0.7%

Banking sector	2014	2015	Change (% or % point)
Retail loans (EUR mn)	9,145	9,363	2.4%
Corporate loans (EUR mn)	17,160	17,019	-0.8%
Interest rates			
Lending (%)	8.3%	7.5%	-0.8%
Deposit (%)	1.7%	0.6%	-1.0%
NPL volumes			
Retail NPLs (EUR mn)	1,211	1,215	0.3%
Corporate NPLs (EUR mn)	3,438	2,972	-13.5%
NPL ratios			
Retail NPL ratio (%)	13.2%	13.0%	-0.2%
Corporate NPL ratio (%)	20.0%	17.5%	-2.5%
Key ratios			
CAR (%)	21.9%	22.2%	0.3%
ROE (%)	7.2%	8.0%	0.8%
ROA (%)	0.9%	1.0%	0.1%
CIR (%)	48.8%	47.5%	-1.3%
L/D (%)	87.3%	78.1%	-9.2%
FX share of lending (%)	57.0%	51.0%	-6.0%
FBL ratio (%)	7.0%	7.1%	0.1%
Coverage ratio (%)	59.1%	51.5%	-7.6%

Source: EIU, BNB, ECB CBD

Key metrics in Bulgaria

Bulgaria's real GDP grew by 3.0% in 2015, 1.3% point up from 1.7% growth in 2014. In the first half of the year GDP growth was fueled by exports, a slowdown was experienced in the second half of the year though. Weakening growth is expected for 2016, as there are uncertainties regarding the economic performance of Bulgaria`s trading partners, on whom Bulgaria is highly dependent. Consumer prices decreased further in 2015, still having a deflationary effect due to low international oil prices and tepid domestic demand, at a more moderate pace though. According to forecasts, the earliest to expect inflationary environment in Bulgaria is 2017. The unemployment rate decreased which is expected to continue in the upcoming years as well. The budget deficit shrank by 0.8% point, arriving slightly under the Maastricht criterion with 2.9%. Public debt decreased by 0.7% point to 26.7%, posting the second lowest level among the twelve analyzed countries behind Estonia with 9.7%.

Deposits of non-financial corporations and households continued rising in 2015 being the main source of funding. Due to the lack of investment alternatives lending contracted in 2015 in the corporate sector by 0.8%, however retail loan volumes grew by 2.4% on the back of economic recovery. Growth in retail credit demand was mainly driven by consumer loans and to a lesser extent by loans for house purchase. Credit risk remained the main risk factor in the Bulgarian banking sector in 2015. Measures were taken to mitigate credit risk in the balance sheet by selling loans and reviewing credit risk assessment methodologies. At the same time, these measures resulted in the reduction of total credit portfolio and the increase of NPL volumes.

The retail NPL volumes increased by a slight 0.3%, however in the corporate sector NPL volumes decreased by a substantial 13.5%, mainly due to NPL disposals from balance sheets. NPL ratios improved in both segments: retail and corporate NPL ratios decreased by 0.2% point and 2.5% points respectively. This improvement notwithstanding, corporate NPL ratio is still the fourth highest among the twelve countries of the study.

Bulgaria's banking sector performance was reassuring in 2015, with improving key performance indicators. The capital adequacy ratio improved by a slight 0.3% point to a robust 22.2% level mostly due to tightening capital requirements regulations on credit institutions with Greek equity. Profitability of the sector was also positive: ROE increased by 1.0% point to 8.1%, while ROA rose 0.1% point to 1.0%. Although banks recorded lower interest income in 2015 compared to 2014, this decline was offset by lower interest expenditures. CIR improved by 1.3% point, however L/D ratio declined due to the increase in deposits and anemic lending by 9.1% points to 78.1%, might not reflecting a healthy balance sheet structure. FX share of lending also decreased by 6.0% points.

The decline in corporate non-performing loan volumes resulted in a decrease of the NPL provision coverage ratio from 59.1% in 2014 to 51.5% in 2015. The level of restructured loans practically remained unchanged at 7.1%.

Top players in the Bulgarian banking sector

#	Bank (2015, EUR mn)	Assets	Loans	Equity	Net Profit	ROA	ROE	NPL ratio	NPL vol.	Major owner
1	UniCredit Bulbank	8,880	5,185	1,282	148	1.7%	11.5%	15.8%	819	UniCredit
2	DSK Bank	5,676	3,668	810	156	2.7%	19.3%	14.9%	546	OTP
3	First Investment Bank	4,438	3,045	381	6	0.1%	1.6%	15.4%	467	Private
4	United Bulgarian Bank	3,354	2,527	633	35	1.0%	5.5%	28.1%	710	NBG
5	Raiffeisen Bank	3,298	1,960	461	31	0.9%	6.7%	11.0%	216	Raiffeisen
6	Eurobank Bulgaria Postbank	2,945	2,253	470	50	1.7%	10.6%	18.6%	418	Eurobankgroup
7	Soc. Gén. Expressbank	2,696	1,773	299	38	1.4%	12.7%	10.0%	177	Société Générale
8	Central Cooperative Bank	2,373	1,067	195	4	0.2%	2.1%	2.8%*	30	CCB Group
9	Piraeus Bank	1,463	1,020	231	-69	-4.7%	-29.9%	29.0%	295	Piraeus Bank S.A.
10	CIBANK	1,374	821	150	14	1.0%	9.3%	n/a	n/a	KBC
	Banking sector total	**45,490**	**26,381**	**5,922**	**474**	**1.0%**	**8.0%**	**15.9%**	**4,187**	

*2014 data
Source: Banks' data disclosure, BNB, ECB CBD, ISI Emerging Markets

The active involvement of the Bulgarian National Bank contributed to the stabilization of the banking system. Aiming the improvement of asset quality, the regulator conducted an asset quality review (AQR) and stress test (ST) in 2015-2016 with the involvement of external consultants on the basis of the law of the Recovery and Resolution of Credit Institutions and Investment Firms. BNB published the results of the AQR and Stress test in August 2016. The AQR covered all 22 banks licensed by the BNB but the 6 foreign bank branches were out of scope. The aggregate adjustments owing to the AQR amounted to BGN 665mn which represents 1.3% of risk-weighted assets. The impact of the adjustments need to be reflected in banks' 2016 financial statements. The banking sector as a whole, and all individual banks are expected to remain well capitalized after the adjustments. Results of the ST also suggest that the capital position of Bulgarian banks is solid and they are capable of absorbing possible shocks.

After the collapse of Corporate Commercial Bank in 2014, under the aforementioned law BNB also took responsibility for bank resolution. A Bank Resolution Fund (BRF) was established in 2015 to finance the bailout of stressed institutions. The main sources of BRF are annual bank contributions which amounted to BGN 82.2mn in 2015.

Given the significant presence of Greek-owned banks (NBG, Eurobank, Piraeus) in Bulgaria, the regulatory oversight of the foreign subsidiaries and branches is of outmost importance. As a result, BNB introduced certain measures to mitigate potential risk coming from Greece, inter alia more stringent liquidity and capital requirements and monitoring of activities.

There was only one change in the top 10 list in 2015, CIBANK replaced Alpha Bank. Alpha Bank Bulgaria was acquired by Postbank, the transaction was completed in March 2016. The sale is in line with Alpha Bank's strategy of divesting from non-core markets. Total NPL ratio for the Bulgarian banking sector is the third highest among the twelve countries of the study. NPL ratios of the top 3 market players are around 15%, well in line with the 15.9% ratio of the overall sector. By far the highest NPL ratios are posted by Greek-owned banks, with NBG`s United Bulgarian Bank reporting a worrisome 28.1%, in tandem with Piraeus with its 29.0%. Profitability of the Bulgarian banking sector was the sixth best among the analyzed twelve countries with ROE of 8%, and net profit of EUR 474mn. The two market leaders, UniCredit Bulbank and DSK Bank achieved solid ROEs of 11.5% and 19.3%, respectively, while Eurobank Bulgaria Postbank and Société Générale Expressbank could also realize ROEs above 10%. Piraeus Bank posted a disastrous ROE of negative 29.9%, mainly due to additional provisions for credit risk, as well as NPL disposals and write-offs. The asset concentration of the top three, five and ten banks was among the average of the twelve countries of the study with 41.8%, 56.4% and 80.2% respectively. The net profit concentration is quite high in Bulgaria, as top three players achieved 65.3% of the total profit of the banking sector. The equity concentration is 41.8% for the top three, 60.2% for the top five and 79% for the top ten banks, with this distribution Bulgaria being slightly under the average of the analyzed geographies. Regarding the ownership structure of Bulgarian banks, foreign entities dominate the market, with only First Investment Bank being in local private ownership, while Central Cooperative Bank is possessed by the state-owned CCB Group.

In February 2016, Postbank sold a consumer portfolio to EOS with a gross book value of EUR 143mn. HETA Asset Resolution also continued deleveraging in Bulgaria, the sale of a corporate portfolio with a gross book value of EUR 130mn is in progress currently. Results of the AQR along with the government's measures for the resolution of NPL problems may provide a stimulus for further asset disposals.

Serbia

Although corporate NPL volumes dropped extremely by 24.2%, in the retail segment NPLs grew by 5.7% in 2015.

Macro	2014	2015	Change (% point)
GDP (% real change pa)	-1.8%	0.7%	2.5%
Consumer prices (% change pa)	3.6%	1.5%	-2.1%
Recorded unemployment (%)	22.8%	19.3%	-3.5%
Budget balance (% of GDP)	-6.6%	-3.8%	2.8%
Public debt (% of GDP)	71.0%	77.0%	6.0%

Banking sector	2014	2015	Change (% or % point)
Retail loans (EUR mn)	6,037	6,264	3.8%
Corporate loans (EUR mn)	8,085	8,189	1.3%
Interest rates			
Lending (%)	14.8%	11.0%	-3.8%
Deposit (%)	6.8%	3.2%	-3.6%
NPL volumes			
Retail NPLs (EUR mn)	692	731	5.7%
Corporate NPLs (EUR mn)	2,344	1,778	-24.2%
NPL ratios			
Retail NPL ratio (%)	11.5%	11.7%	0.2%
Corporate NPL ratio (%)	29.0%	21.7%	-7.3%
Key ratios			
CAR (%)	20.4%	20.9%	0.5%
ROE (%)	0.6%	1.6%	1.0%
ROA (%)	0.1%	0.3%	0.2%
CIR (%)	64.3%	62.2%	-2.1%
L/D (%)	110.8%	107.5%	-3.3%
FX share of lending (%)	69.0%	71.0%	2.0%
FBL ratio (%)	n/a	n/a	n/a
Coverage ratio (%)	54.9%	62.3%	7.4%

Source: EIU, NBS, ECB CBD

Key metrics in Serbia

GDP growth was 0.7% in 2015, 2.5% points higher than in 2014, with Serbia recovering from recession. This growth was led by a powerful upswing in investments and net exports. Consumer prices grew, however with a smaller rate than in 2014, inflation was 1.5%, which is under the tolerated level. Recorded unemployment was 19.3%, which is the highest among the twelve countries, however still lower than in 2014 with 22.8%. The budget deficit narrowed to 3.8%, reaching the lowest rate since 2008. The public debt level increased by 6% points to 77% from 71%, with the high share of FX denominated debt causing significant currency risk. Due to macroeconomic improvements risk premium declined for Serbia though.

Regarding lending activity of the Serbian banking sector both the retail and corporate segments grew somewhat, by 3.8% and 1.3% respectively due to macroeconomic development and low interest rate environment. Retail NPL volumes increased by a considerable 5.7%, while corporate NPL volume plummeted by 24.2% due to write-offs, loan assignments and other restructuring activities. The NPL Resolution Strategy was adopted in August 2015 in order to remove the legislative, tax and administrative obstacles from NPL resolution and to enhance faster NPL volume decrease. Consequently, corporate NPL ratio decreased markedly by 7.3% points, still standing at a worrisome 21.7%. Retail NPL ratio climbed by 0.2% point to 11.7%.

As per key performance indicators, CAR improved further by a slight 0.5% point to a robust 20.9% ROE and ROA also inched higher by 1.0% point and 0.2% point respectively, but they still reflect weak profitability. Although cost to income ratio could contract by 2.1% points, it is still above the average of the twelve countries of 57.9%. With L/D ratio decreasing by 3.3% points, the Serbian banking sector is gravitating towards self-financing. The FX share of lending grew by 2% points to 71% which is considered to be a high risk for the overall sector. The coverage ratio of non-performing loans improved with a considerable 7.4%.

Top players in the Serbian banking sector

#	Bank (2015, EUR mn)	Assets	Loans	Equity	Net Profit	ROA	ROE	NPL ratio	NPL vol.	Major owner
1	Banca Intesa	4,011	2,269	942	71	1.8%	7.5%	9.1%	206	Intesa Sanpaolo
2	Komercijalna Banka	3,222	1,795	505	-52	-1.6%	-10.3%	n/a	n/a	State, EBRD, IFC
3	UniCredit Banka	2,535	1,489	505	52	2.1%	10.3%	16.9%	251	UniCredit
4	Raiffeisen Banka	1,927	1,098	453	36	1.9%	7.9%	12.3%	135	Raiffeisen
5	Société Générale Banka	1,895	1,553	301	17	0.9%	5.6%	18.4%	286	Société Générale
6	AIK Banka	1,472	927	431	28	1.9%	6.5%	28.4%	263	MK Group
7	Eurobank	1,156	881	386	24	2.1%	6.2%	n/a	n/a	Eurobank Ergasias
8	Banka Poštanska	1,068	n/a	145	3	0.3%	2.1%	n/a	n/a	State
9	Vojvođanska Banka	989	643	162	0.3	0.0%	0.2%	19.2%	123	NBG Group
10	Erste Bank	966	662	132	10	1.0%	7.6%	17.8%	118	Erste
	Banking sector total	**25,153**	**14,453**	**5,109**	**83**	**0.3%**	**1.6%**	**21.6%**	**2,509**	

Source: Banks' data disclosure, NBS, ECB CBD, ISI Emerging Markets

The total NPL ratio is the highest in the CEE region in Serbia with 21.6%. NPL ratios of individual banks show a mixed picture: market leading Banca Intesa had 9.1% in 2015, however none of the other banks among the top ten could post an NPL ratio below 10%. AIK Bank had the highest NPL ratio with 28.4%, but multiple other banks in the top ten also have NPL ratios close to 20%. There is room for further improvement regarding profitability, as Serbia had the third lowest ROE with 1.6%, only Hungary and Croatia experienced lower values with 0.3% and negative 6.8%, respectively. At the same time, only one bank out of the top ten was loss-making in 2015, the second largest player Komercijalna Banka made losses of EUR 52mn, implying ROE of a significant negative 10.3%. The asset concentration for the top three, five and ten banks was 38.8%, 54% and 76.5% respectively, indicating an average concentration among the examined countries. The market leader Banca Intesa had 15.9% market share, while the second and third largest Komercijalna Banka and UniCredit Banka possessed 12.8% and 10.1%, respectively. Equity concentration was 38.2%, 53% and 77.5%, which was the lowest among the twelve countries. The ownership structure of the Serbian banking sector is dominated by international banking groups, however Komercijalna Banka and Banka Postanska are state-owned. Regarding expected M&A activities during 2016, Komercijalna Banka indicated interest to acquire banks or portfolios, with the intention to strengthen their position in the market and boost value before going under the privatization process scheduled for 2017. Komercijalna Banka's main shareholders are the state with 41.7%, EBRD with 24.4% and IFC with 10%.

Vojvodjanska Banka, owned by National Bank of Greece, was among the bidders to acquire Eurobank, however finally NBG decided to rather explore an equity participation and remain active in the market, than selling the Balkan assets. Regarding major NPL transactions, in September 2015 APS acquired a consumer portfolio with a gross book value of EUR 24mn from Erste Bank Novi Sad, in July 2015 a confidential buyer from Banca Intesa a corporate SME portfolio for EUR 35mn. Additionally, there is an ongoing confidential deal with gross book value of EUR 150mn for a mixed asset portfolio.

Estonia

Portfolio quality in the Estonian banking sector excels among the twelve analyzed countries, with NPL ratio of 0.9% in the retail segment, and 2.1% in the corporate segment, being by far the lowest among the twelve countries of the study.

Macro	2014	2015	Change (% point)
GDP (% real change pa)	2.9%	1.1%	-1.8%
Consumer prices (% change pa)	-0.1%	-0.5%	-0.4%
Recorded unemployment (%)	7.3%	6.2%	-1.1%
Budget balance (% of GDP)	0.8%	0.4%	-0.4%
Public debt (% of GDP)	10.4%	9.7%	-0.6%

Banking sector	2014	2015	Change (% or % point)
Retail loans (EUR mn)	7,055	7,331	3.9%
Corporate loans (EUR mn)	6,560	6,933	5.7%
Interest rates			
Lending (%)	4.8%	4.5%	-0.3%
Deposit (%)	0.5%	0.5%	0.0%
NPL volumes			
Retail NPLs (EUR mn)	96	66	-31.1%
Corporate NPLs (EUR mn)	127	106	-15.9%
NPL ratios			
Retail NPL ratio (%)	1.4%	0.9%	-0.5%
Corporate NPL ratio (%)	1.9%	2.1%	0.2%
Key ratios			
CAR (%)	42.0%	35.0%	-7.0%
ROE (%)	10.2%	6.6%	-3.6%
ROA (%)	1.3%	0.8%	-0.5%
CIR (%)	n/a	n/a	n/a
L/D (%)	100.0%	104.0%	4.0%
FX share of lending (%)	1.0%	0.7%	-0.3%
FBL ratio (%)	2.6%	2.2%	-0.4%
Coverage ratio (%)	76.0%	74.0%	-2.0%

Source: EIU, Eesti Pank, ECB CBD
Note: NPL volumes and ratios are based on DPD 60

Key metrics in Estonia

Estonia's real GDP grew by 1.1% in 2015, which is 1.8% point lower than in 2014. This slowdown of the economy was attributable to weakening export demand from the Nordic countries. Further growth is uncertain due to sluggish investments and vulnerability to economic risks coming from Nordic countries, which increased in the past years. Consumer prices decreased by 0.5% in 2015, spurring the Central Bank to introduce measurements to defy deflation and turn the country back to inflation in line with its targets. The unemployment receded by 1.2% point to a manageable 6.2%, and wages also increased significantly. The budget balance indicates an enviable surplus, and public debt is under 10%, the lowest among the twelve countries listed in the report.

Retail loans grew by 3.9%, which growth was fueled mainly by housing loans in 2015. To mitigate future risks Central Bank of Estonia introduced 85% limit to the LTV ratio from March 2015. Corporate loan volumes increased by 5.7%, propelled by the industry sector.

The portfolio quality in the Estonian banking sector excels among the twelve analyzed countries, with NPL ratio of 0.9% in the retail segment, and 2.1% in the corporate segment, being by far the lowest among the twelve countries of the study, especially as only the 60 days past due stock is published a retail-corporate breakdown, as noted above below the table. The retail NPL volume amounted to a limited EUR 66mn in 2015, while the corporate NPL volume was EUR 106mn. In addition, NPL volumes even contracted in 2015 due to significant loan quality improvements in both the retail and corporate segments.

Key performance indicators still depict a healthy banking sector, however, some deterioration was visible in 2015. The capital adequacy ratio fell by 7.0% points, still standing at a robust 35% though. The fall was due to Swedbank's extraordinary dividend payouts from profits earned earlier. ROE shed 3.6% points arriving to 6.6%, so the sector as a whole remained profitable. ROA decreased slightly by 0.5% point. The loan to deposit ratio grew by 4.0% points and exceeded the 100% level. The FX share of lending is not relevant having the euro as the national currency. Forborne loan ratio melted by 0.4% point, indicating that the relative volume of restructured loans to total loans decreased slightly in 2015 compared to 2014. Although coverage ratio of the non-performing loans receded by 2.0% points, current coverage ratio of 74% is still prudent in regional comparison.

Top players in the Estonian banking sector

#	Bank (2015, EUR mn)	Assets	Loans	Equity	Net Profit	ROA	ROE	Impaired loan ratio	Impaired loan vol.	Major owner
1	Swedbank	9,187	6,526	1,530	462	5.0%	30.2%	2.0%	130	Swedbank AB
2	SEB	5,057	4,125	743	63	1.2%	8.5%	0.5%	23	Skandinaviska Enskilda Banken AB
3	Nordea	3,522	2,778	FB	47	1.3%	FB	FB	FB	Nordea Bank AB
4	Danske	1,895	1,388	FB	12	0.6%	FB	FB	FB	Danske Bank Group
5	LHV	737	415	59	8	1.1%	14.1%	1.8%	7	LHV Group
6	DNB	727	547	103	3	0.4%	2.9%	4.5%	25	DNB Bank ASA
7	BIG BANK	416	349	94	11	2.6%	11.4%	18.9%	66	BIG BANK Group
8	Versobank	354	30	17	5	1.3%	28.0%	4.6%	1	UKRSELHOSPROM
9	Krediidipank	305	155	28	3	0.8%	8.9%	3.8%	6	Bank of Moscow
10	Pohjola	256	234	FB	-1	-0.3%	FB	FB	FB	OP Financial Group
	Banking sector total	**22,972**	**14,264**	**2,756**	**182**	**0.8%**	**6.6%**	**1.0%**	**173**	

Source: Banks' data disclosure, Eesti Pank, ECB CBD, ISI Emerging Markets
Note: Individual banks' loan volumes and ratios are impaired, banking sector total loan volume and ratio are 60 days past due
FB: foreign branch

The table shows that the Estonian banking sector is in a good shape. The sector's total return on equity was 6.6%, however most of the banks in the top ten achieved much higher profitability. The market leader SWED Bank had an extraordinary ROE of 30.2%, followed by Versobank with 28.0%. Only Pohjola Bank made losses in 2015, a very limited EUR 1 million. We hereby note that banks in the three Baltic states (Estonia, Latvia and Lithuania) do not report NPL ratios and volumes, only impaired loan metrics. Therefore, we presented impaired loan ratios and volumes in the tables on individual banks, which are not comparable with NPL metrics presented in case of the other nine countries in the study. The difference is that while NPL metrics refer to loans over 90 DPD, impaired loan metrics include all loans to which any impairment was made. The available impaired loan ratios of the top ten banks were all below 5%, expect for Big Bank with its 18.9%. There are four banks with assets above EUR 1bn, with significant gaps among them. SWED Bank is the undisputed market leader with 40.0% market share, followed by SEB, Nordea and Danske with 22.0%, 15.3% and 8.3%, respectively. The equity concentration is distorted by three banks out of the top ten not disclosing equity numbers.

The ownership structure of the top ten Estonian banks is dominated by foreign, especially by Nordic banking groups. LHV Group is one of the biggest domestic financial group, however UKRSELHOSPROM is a Ukrainian agro-industrial company.

LHV Varahaldus completed the acquisition of Danske Capital in May 2016. Swedish financial group Nordea and Norwegian DNB announced their agreement to combine their Baltic operations in asset value of EUR13bn. The deal is expected to close in the second quarter of 2017.

Latvia

Non-performing loan volumes dropped significantly in both the retail and corporate segments, with 23.2% points and 25.8% points respectively in 2015, although from a relatively low base.

Macro	2014	2015	Change (% point)
GDP (% real change pa)	2.4%	2.7%	0.3%
Consumer prices (% change pa)	0.6%	0.2%	-0.4%
Recorded unemployment (%)	10.9%	9.9%	-1.0%
Budget balance (% of GDP)	-1.6%	-1.3%	0.3%
Public debt (% of GDP)	40.8%	36.4%	-4.4%

Banking sector	2014	2015	Change (% or % point)
Retail loans (EUR mn)	5,793	5,594	-3.4%
Corporate loans (EUR mn)	7,873	7,874	0.0%
Interest rates			
Lending (%)	4.6%	4.5%	-0.1%
Deposit (%)	0.1%	0.0%	-0.1%
NPL volumes			
Retail NPLs (EUR mn)	527	405	-23.2%
Corporate NPLs (EUR mn)	374	278	-25.8%
NPL ratios			
Retail NPL ratio (%)	9.5%	7.6%	-1.9%
Corporate NPL ratio (%)	5.4%	4.0%	-1.4%
Key ratios			
CAR (%)	20.9%	22.4%	1.5%
ROE (%)	11.1%	12.5%	1.4%
ROA (%)	1.1%	1.3%	0.2%
CIR (%)	49.7%	47.5%	-2.2%
L/D (%)	66.1%	63.1%	-3.0%
FX share of lending (%)	13.0%	13.8%	0.8%
FBL ratio (%)	8.0%	7.4%	-0.6%
Coverage ratio (%)	77.0%	77.8%	0.8%

Source: EIU, Bank of Latvia, ECB CBD

Key metrics in Latvia

Latvia's real GDP grew by 2.7% in 2015, 0.4% point higher than in 2014. Its trade shrank significantly with Russia, thus risks stemming from these trade channels decreased. However, delays in absorption of EU funds and investment development uncertainties still pose risks. Despite rising wages, inflation remained muted and further decreased to 0.2%, fairly close to deflation. Recorded unemployment shed 1% point, still being around 10%, a slow decrease is anticipated for the forthcoming years though. The budget deficit contracted slightly by 0.3% point, arriving to a manageable 1.3% level. The public debt was the third lowest among the twelve countries with 36.4%, 4.4% points lower than in 2014.

Retail loan volumes dropped by 3.4% due to low demand, and also lending institutions' cautiousness. Corporate loan volume came to a standstill due to insufficient equity and collateral of non-financial corporations and lack of positive credit history. Non-performing loan volumes dropped significantly in both the retail and corporate segments, with 23.2% points and 25.8% points respectively. The decrease in the retail segment was mainly attributable to the improvement of creditworthiness of households by rising salaries, growing employment and low inflation. Retail and corporate NPL ratios both melted, by 1.9% point and 1.4% point respectively, arriving to levels of 7.6% and 4.0%.

Key performance indicators mirror a healthy banking sector. The CAR grew further by 1.5% point, reaching a robust 22.4% level. The profitability improved from already enviable levels, with ROE and ROA arriving to 12.5% and 1.3%. CIR melted to 47.5%, which is the lowest among the twelve countries in tandem with Bulgaria. The loan to deposit ratio was also the lowest in the region with 63.1% in 2015, implying a less penetrated credit market with significant future lending potentials. The share of FX lending at 13.8% is by far the lowest among the CEE countries, however, meaningfully higher compared to the two other Baltic states. The FBL ratio decreased slightly by 0.6% point, showing that 7.4% of total gross loans had been restructured. NPL coverage ratio stood at 77.8% in 2015, a cautious level.

Top players in the Latvian banking sector

#	Bank (2015, EUR mn)	Assets	Loans	Equity	Net Profit	ROA	ROE	Impaired loan ratio	Impaired loan vol.	Major owner
1	Swedbank	5,428	3,132	1,195	131	2.4%	10.9%	3.6%	112	Swedbank Group
2	ABLV Bank	4,928	897	281	69	1.4%	24.5%	5.6%	50	Oļegs Fiļs
3	Rietumu Banka	3,786	1,243	433	72	1.9%	16.7%	22.7%	283	State
4	SEB banka	3,526	2,462	452	31	0.9%	7.0%	2.5%	63	Skandinaviska Enskilda Banken
5	Nordea Bank AB Latvijas filiāle	2,697	FB	FB	FB	FB	FB	FB	FB	Nordea Bank AB
6	Citadele banka	2,409	1,057	209	20	0.8%	9.3%	11.0%	116	State
7	DNB banka	2,202	1,576	279	12	0.5%	4.2%	13.9%	220	DNB Bank ASA
8	NORVIK BANKA	1,006	288	87	-10	-1.0%	-11.9%	51.5%	148	Private
9	Baltikums Bank	753	77	55	7	1.0%	13.5%	4.2%	3	Private
10	Reģionālā investīciju banka	636	104	35	-2	-0.2%	-4.5%	58.2%	61	Pivdennyi Bank UA
	Banking sector total	**31,933**	**13,468**	**3,339**	**417**	**1.3%**	**12.5%**	**6.0%**	**683**	

Source: Banks' data disclosure, Bank of Latvia, ECB CBD, ISI Emerging Markets
Note: Individual banks' loan volumes and ratios are impaired, banking sector total loan volume and ratio are 90 days past due
FB: foreign branch

The impaired loan ratios vary among the top ten market players in Latvia. The average NPL ratio was 6% in 2015, with leading banks mainly around the average level, but also multiple with considerably higher rates. The top three market players had 3.6%, 5.6% and 22.7% impaired loan ratios. Highest profitability, with ROE above 10%, was achieved by the top three players, Swedbank, ABLV Bank and Rietumu Banka, while the ninth Baltikums Bank also posted ROE of 13.5% in 2015. Two banks made losses, Norvik Banka and Regionala Investiciju banka, with ROE of negative 11.9% and negative 4.5%, respectively. The asset concentration was lower compared to the other twelve banking sectors, for the top three, five and ten banks it was 44.3%, 63.8% and 85.7% shares respectively. The equity concentration was the third highest among the twelve examined countries, 57.3% for the top three, 77% for the top six (without the foreign branch of Nordea Bank) and 90.6% for the top nine. The net profit concentration was quite high regarding the other countries, 65.1% of total net profit was generated by the top three players.

The ownership structure of the top ten banks was dominated by Nordic banking groups, however other investment groups and private individuals also among the top ten's owners.

Citadele banka and its shareholders decided to launch an IPO to raise capital from international investors to fund the bank's growth strategy and create an optimal capital structure. The decision was made in October 2015, since then the IPO was postponed due to unfavorable market conditions and pricing environment. This IPO would be the first in Latvia in 11 years. Swedbank AB completed the acquisition of the retail banking businesses of Danske Bank in Lithuania and Latvia in June 2016.

Lithuania

The overall loan portfolio quality improved significantly with NPL volumes fell by 13.7% in the retail and 15.9% in the corporate segment.

Macro	2014	2015	Change (% point)
GDP (% real change pa)	3.0%	1.6%	-1.4%
Consumer prices (% change pa)	0.2%	-0.7%	-0.9%
Recorded unemployment (%)	10.7%	9.1%	-1.6%
Budget balance (% of GDP)	-0.7%	-0.2%	0.5%
Public debt (% of GDP)	42.5%	45.2%	2.8%

Banking sector	2014	2015	Change (% or % point)
Retail loans (EUR mn)	7,381	7,751	5.0%
Corporate loans (EUR mn)	7,390	7,625	3.2%
Interest rates			
Lending (%)	3.5%	3.0%	-0.5%
Deposit (%)	0.5%	0.3%	-0.3%
NPL volumes			
Retail NPLs (EUR mn)	664	574	-13.7%
Corporate NPLs (EUR mn)	761	640	-15.9%
NPL ratios			
Retail NPL ratio (%)	9.0%	7.4%	-1.6%
Corporate NPL ratio (%)	10.3%	8.4%	-1.9%
Key ratios			
CAR (%)	21.3%	24.9%	3.6%
ROE (%)	8.1%	9.0%	0.9%
ROA (%)	0.8%	1.0%	0.2%
CIR (%)	53.5%	52.7%	-0.8%
L/D (%)	96.7%	94.0%	-2.7%
FX share of lending (%)	72.8%	0.9%	-71.9%
FBL ratio (%)	5.3%	4.1%	-1.2%
Coverage ratio (%)	n/a	n/a	n/a

Source: EIU, Bank of Lithuania ECB CBD

Key metrics in Lithuania

GDP growth in Lithuania halved from 2014 to 2015, decreasing from 3.0% to 1.6%. Economic growth was driven by domestic demand which is expected to remain the key factor in growth in 2016-2017 as well. Investments also grew fueled mainly by EU funds. Tepid inflation of 2014 turned into a 0.7% deflation in 2015. Recorded unemployment decreased by a considerable 1.6% point to 9.1%, due to shrinking labor force and growing number of jobs. The budget balance was still slightly in

deficit, however improved from –negative 0.7% to negative 0.2% between 2014 and 2015. The public debt increased by 2.8% points to 45.2%, it was still below the average of the twelve regional countries though.

Both retail and corporate loans increased by 5.0% and 3.2% respectively. Loan growth in the corporate segment was propelled by the energy, transportation and agricultural sectors. NPL volumes dropped in both the retail and corporate segments, by 13.7% and 15.9%, respectively. Decrease in retail NPL volumes derived from the improvement of debtors' financial health and write-offs. Corporate NPL volume decrease was driven by the construction, real estate and transportation sectors, and similarly to the retail segment, it was due to improved debt service performance and also write-offs.

In alignment with decreasing NPL volumes, both retail and corporate NPL ratios receded, to 7.4% and 8.4%, which levels are considered manageable.

Key performance ratios show a healthy picture of the Lithuanian banking sector. The CAR improved by 3.6% points to a robust 24.9%, indicating strong shock absorbing capacity. Profitability ratios reflect solid performance, with ROE of 9.0% and ROA of 1.0%. Although profitability is suitable currently, similarly to the majority of regional banking sectors, low interest rate environment puts severe pressure on revenues and therefore poses one of the largest risks on banking operations in the forthcoming years. The CIR reduced moderately to 52.7%, which is slightly under the average of the twelve countries. The L/D ratio dwindled by 2.7% points and arrived to a healthy 94.0% level. The extreme drop in FX share of lending was attributable to the change of the national currency: Lithuania introduced the euro from 1st of January 2015. FBL ratio melted by 1.2% points to 4.1%.

Top players in the Lithuanian banking sector

#	Bank (2015, EUR mn)	Assets	Loans	Equity	Net Profit	ROA	ROE	Impaired loan ratio	Impaired loan vol.	Major owner
1	AB SEB bankas	6,868	4,589	800	62	0.9%	7.8%	3.0%	137	Skandinaviska Enskilda Banken AB
2	Swedbank, AB	6,646	4,028	1,120	113	1.7%	10.1%	2.5%	102	Swedbank AB
3	AB DNB bankas	3,911	2,892	459	20	0.5%	4.4%	8.6%	249	DNB Bank ASA
4	AB Šiaulių bankas	1,658	852	133	21	1.3%	16.0%	7.0%	60	EBRD
5	AB Citadele bankas	406	205	47	3	0.8%	7.2%	5.6%	11	Ripplewood Advisors LLC
6	UAB Medicinos bankas	247	149	26	1	0.4%	4.0%	15.5%	23	Saulius Karosas
	Banking sector total	**22,365**	**15,376**	**2,592**	**232**	**1.0%**	**9.0%**	**5.5%**	**1,214**	

Source: Banks' data disclosure, Bank of Lithuania, ECB CBD, ISI Emerging Markets
Note: Individual banks' loan volumes and ratios are impaired, banking sector total loan volume and ratio are 90 days past due
FB: foreign branch

Four out of the top ten banks in Lithuania are foreign branches, with mother banks not providing information about their Lithuanian activities separately. These banks are Nordea Bank, Danske Bank, OP Corporate Bankand Svenska Handelsbanken. All the top six banks achieved positive ROE, with Swedbank and AB Siaulių Bankas even exceeding the 10% level. Impaired loan ratios of the top six ranged from 2.5% to 8.6%, except for UAB Medicinos bankas with its 15.5% ratio.

The ownership structure of the top ten banks was mainly dominated by Nordic banking groups, however, AB Siaulių Bankas is owned by EBRD, AB „Citadele" Bankas is controlled by the private equity fund Ripplewood Advisors and UAB Medicinos bankas is owned by a private investor.

Regarding NPL transactions Baltic region is moderately active, however Snoras sold a corporate and retail portfolio to Deutsche Bank for EUR 450mn in July 2015.

List of abbreviations

AQR - Asset Quality Review

BAMC - Bank Asset Management Company

BG - Bulgaria

bn – Billion

BNB - Bulgarian National Bank

BRF – Bank Resolution Fund

BSI - Bank of Slovenia

CAR - Capital Adequacy Ratio

CCB – Countercyclical Capital Buffer

CEE – Central and Eastern Europe

CESEE - Central, Eastern and Southeastern Europe

CFR – Consensual Financial Restructuring

CHF - Swiss Franc

CIR - Cost-to-income ratio

CNB – Czech National Bank

CRE - Commercial real estate

CZ - Czech Republic

CZK - Czech crown

DPD - Days past due

EBA – European Banking Authority

EBRD - European Bank for Reconstruction and Development

ECB - European Central Bank

ECB CBD - European Central Bank Consolidated banking data

EE - Estonia

EIB - European Investment Bank

EIU - Economist Intelligence Unit

EUR – Euro

FBL – Forborne loan

FGS - Funding for Growth Scheme

FX - Foreign exchange

GDP - Gross Domestic Product

HNAM – Hungarian National Asset Management Inc.

HNB - Croatian National Bank

HR - Croatia

HRK - Croatian kuna

HU - Hungary

HUF - Hungarian forint

IMF – International Monetary Fund

INSOL – International Association of Restructuring, Insolvency & Bankruptcy Professionals

LT – Lithuania

LTV – Loan-to-value

LV - Latvia

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

MARK - Hungarian Restructuring and Debt Management Company

MLS – Market-based Lending Scheme

mn – Million

M&A - Mergers and Acquisitions

NBR - National Bank of Romania

NBH - National Bank of Hungary

NBP - National Bank of Poland

NBS - National Bank of Slovakia/National Bank of Serbia

NPE – Non-performing exposure

NPL - Non-performing loan

PL – Performing loan

PL – Poland

PLN - Polish zloty

RO – Romania

ROA - Return on Assets

ROE - Return on Equity

RON - Romanian leu

SI – Slovenia

SK – Slovakia

SME - Small and medium-sized enterprises

SNB - Swiss National Bank

SRB – Serbia

SRB – Systemic Risk Buffer

SSM – Single Supervisory Mechanism

ST – Stress test

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Notes