VI Bank Lending Survey in CESEE

Autumn 2015

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Vienna Initiative Full Forum

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Agenda

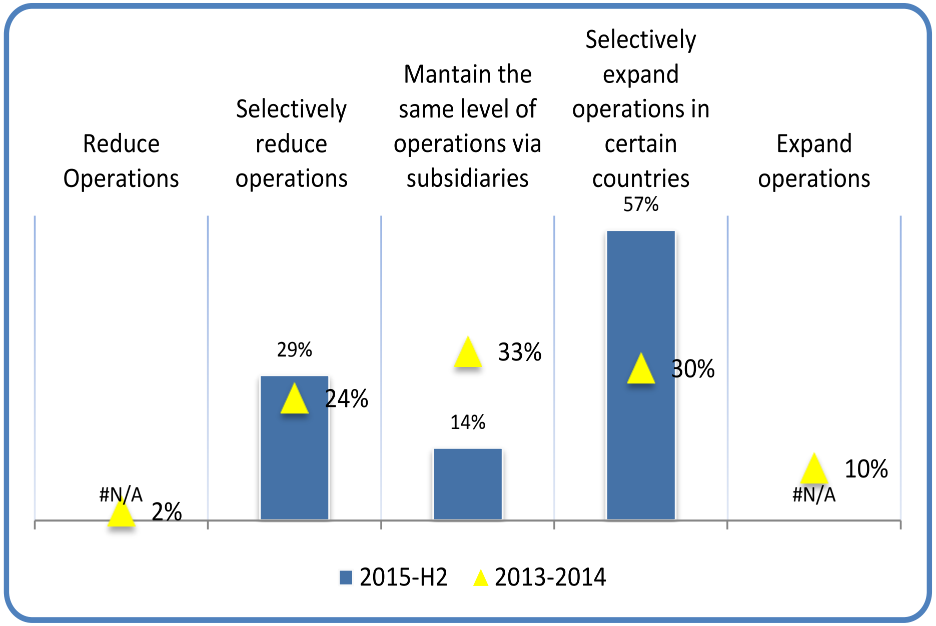
- Groups' level strategies, positioning and assessment of the regional markets
- Lending conditions landscape – overall region
- Conclusions – key findings

European Investment Bank

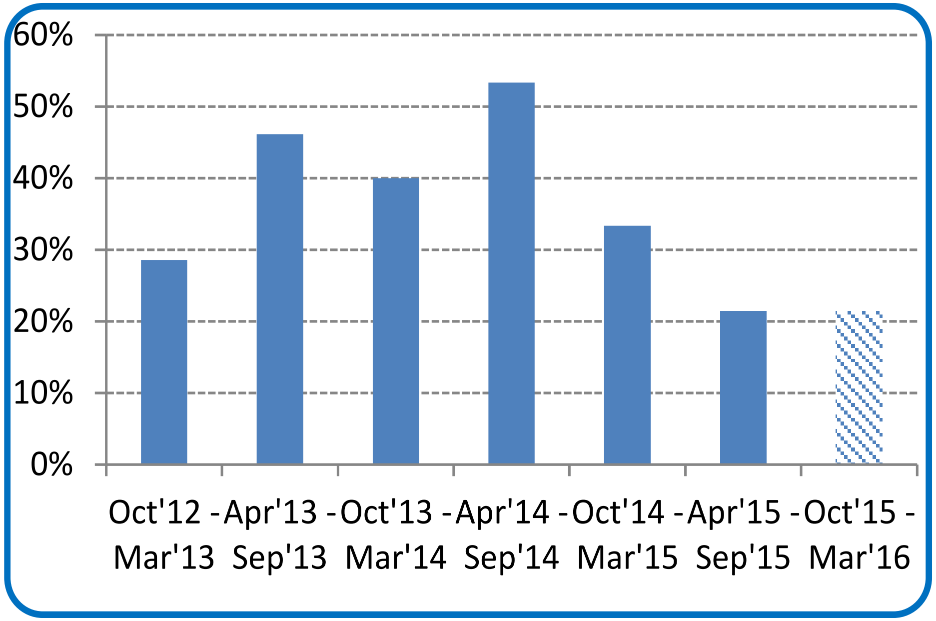
Commitment to the region persists and increased polarisation on expansion/reduction of operations

- Selective/discriminating approach - an increasing number of Groups (almost 60%) signal selective expansion, while a persistent number of Groups reports intentions to reduce operations
- Aggregate CESEE remains a still profitable strategy with roughly 80% of the Groups indicating returns at least as high as Group average

Groups' intensions on aggregate operations in CESEE



ROA of your CESEE operations - % of responses with ROA lower of overall group ROA



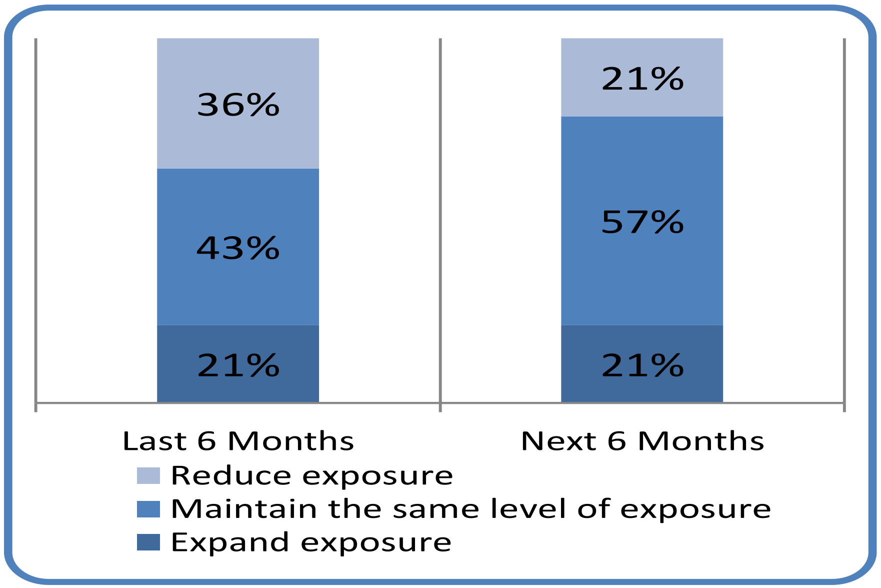
Question: Longer-term strategic approach (beyond 12 months): Looking at operations via subsidiaries in CESEE, your group intends to…

Question: Profitability of the strategy in the CESEE region: is ROA of your CESEE operations higher/lower/equal to that for the overall group?

Group: exposure to CESEE in a nutshell

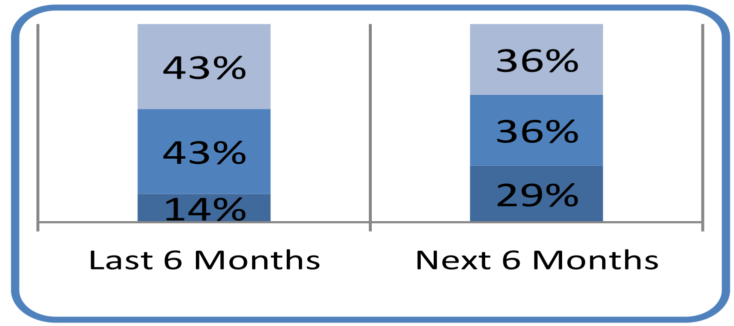
- The trend in aggregate cross border exposures has been negative
- Little more than 1/3 of Groups still signals reductions in exposure
  - Only intra-group transfers continued to decrease in net terms
- The general speed of decreases have been decelerating and it is tentatively expected to level off

Groups' total exposure to CESEE

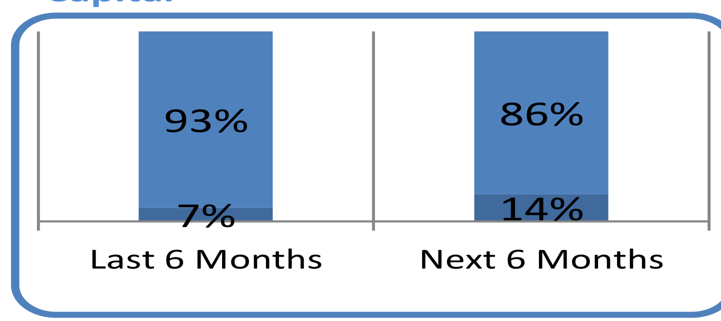


Exposure to subsidiaries

Intra-group funding



Capital

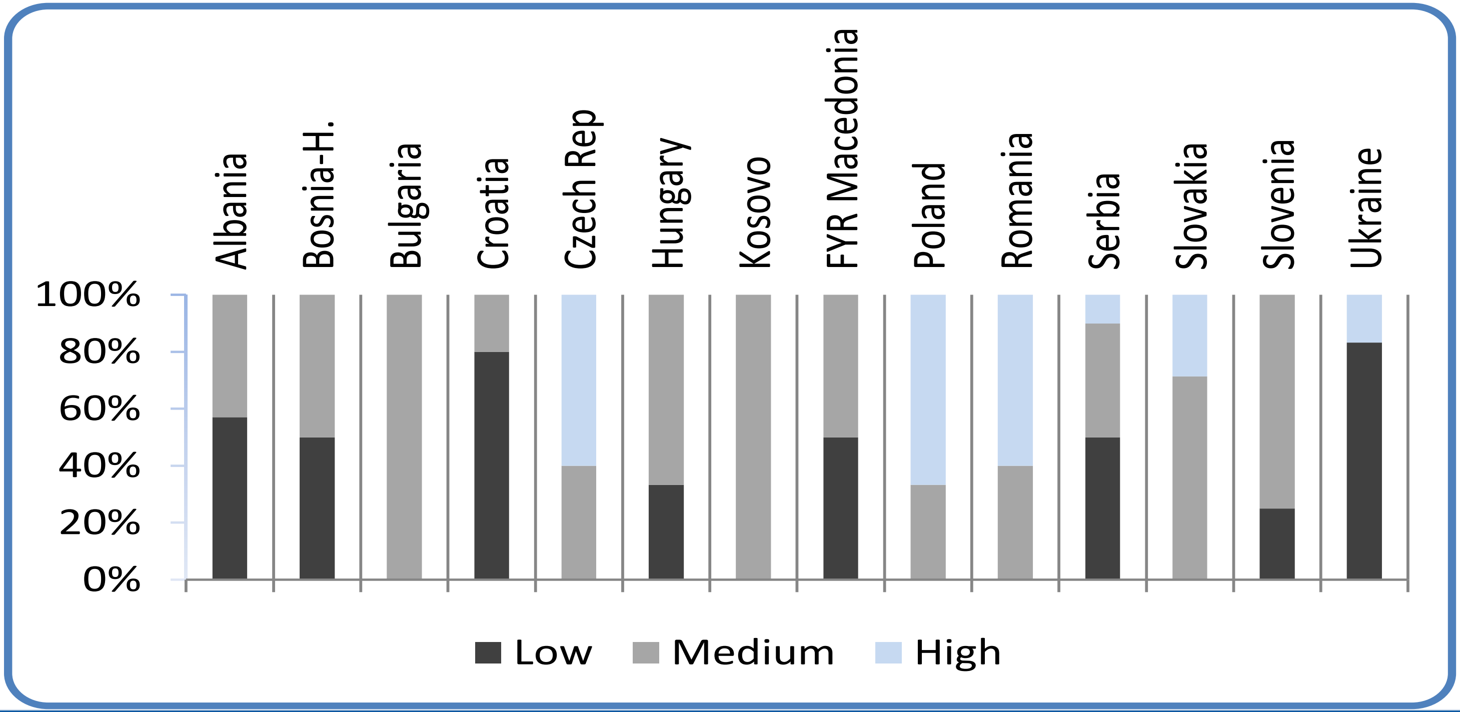


Question: Group's exposure to CESEE: Concerning cross-border operations to CESEE countries, your group did/intends to…

Groups: market satisfaction varies across countries…

- Not all players satisfied with their positioning in each single market
- Differences in perceived market potential – still low potential signaled in Albania, Bosnia-Herzegovina, Croatia, FYR Macedonia, Hungary, Serbia, Ukraine, and marginally in Slovenia

Assessed market potential

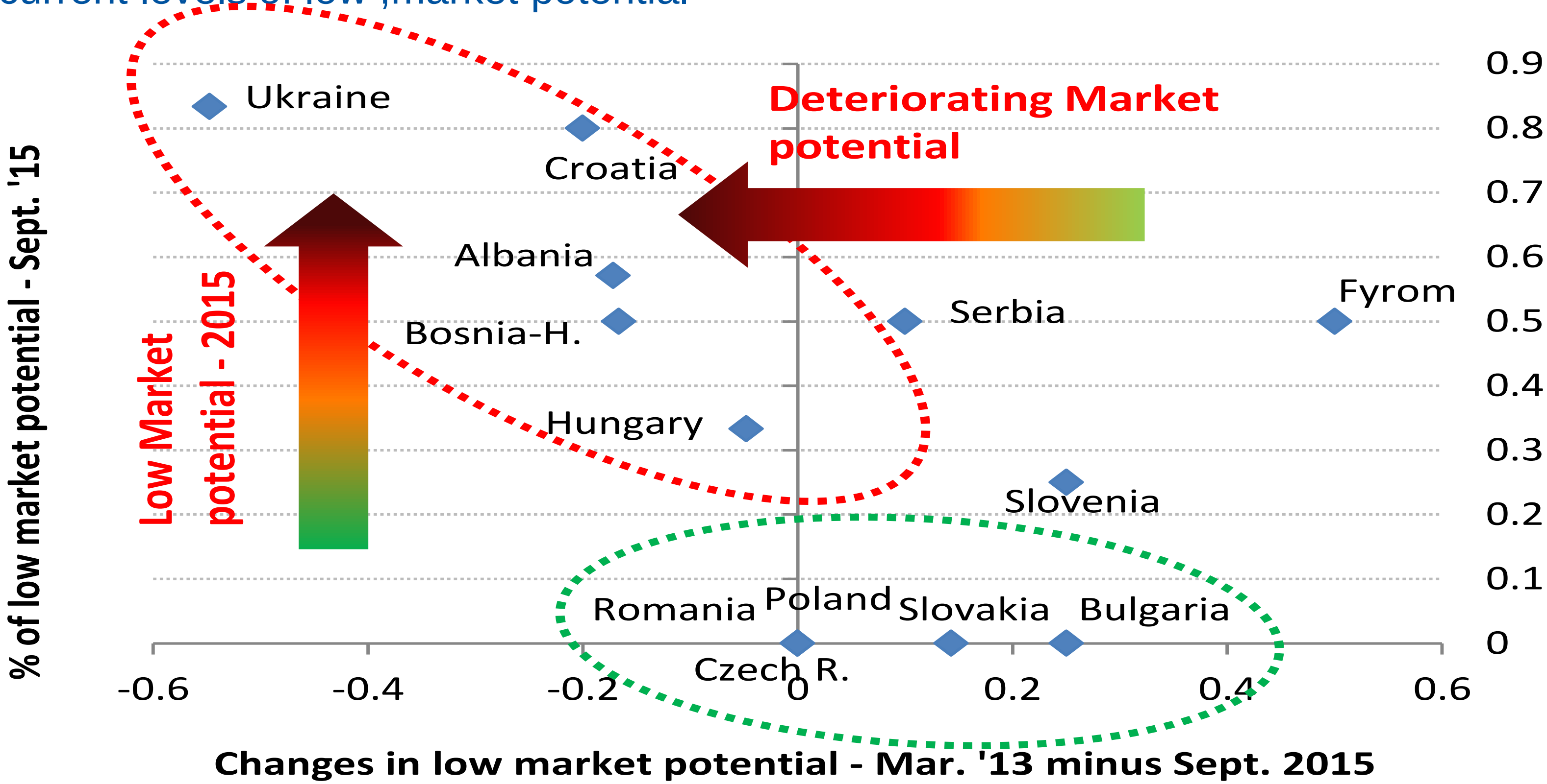


Question: How do you assess in each country the market potential and positioning

…however markets seem to be on a different phase of transition

- Ukraine, Croatia, Albania, Bosnia-Herzegovina and Hungary seem to have been transitioning to lower prospects/market potential
- Poland, Slovakia, Czech Republic, Romania and partially Bulgaria stable

Transition matrix – changes in low market potential benchmarked against current levels of low ,market potential



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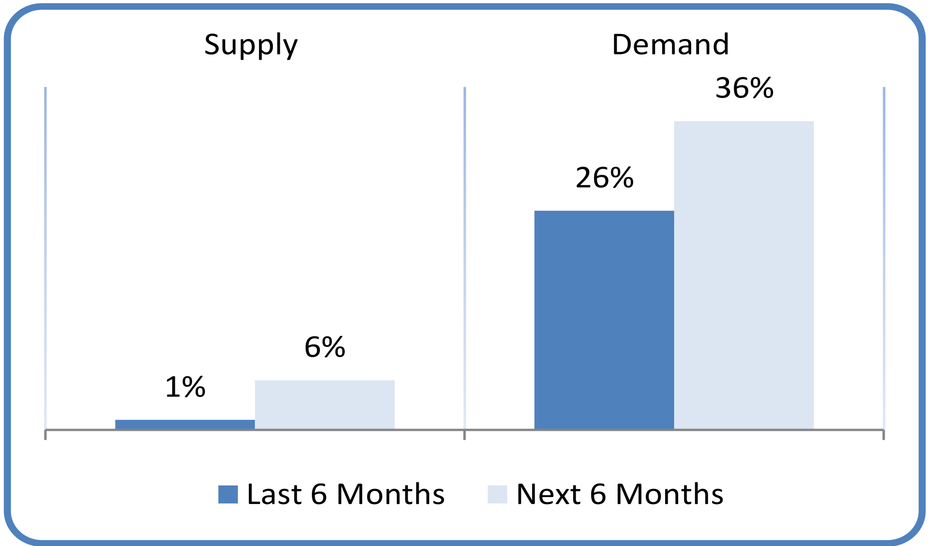
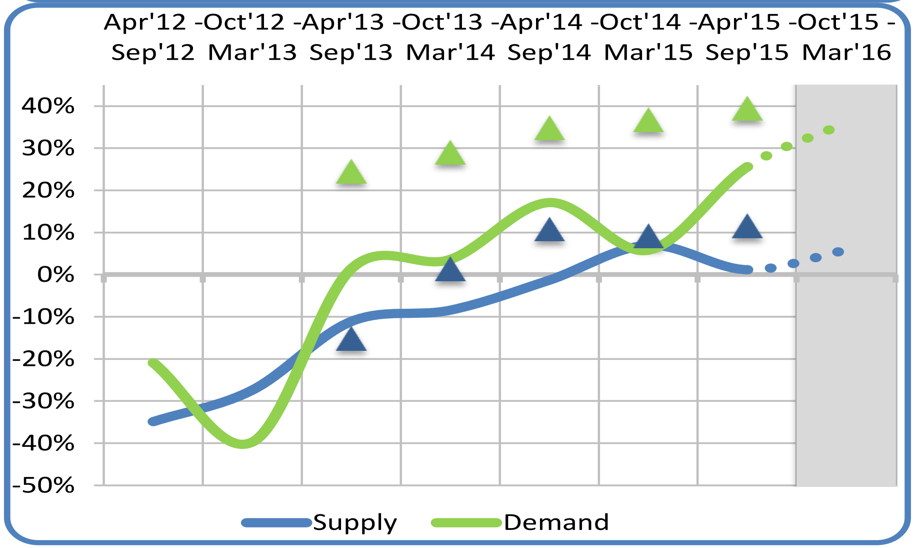
Subsidiaries – constraints for lending

- Demand has been more robust than an easing in supply conditions :
  - Past 6M: supply basically neutral, while demand was positive (rather in line with expectations)
  - Next 6M: demand expected to increase further, supply to mildly ease
  - Comparing past expectations versus actual: banks get improvements

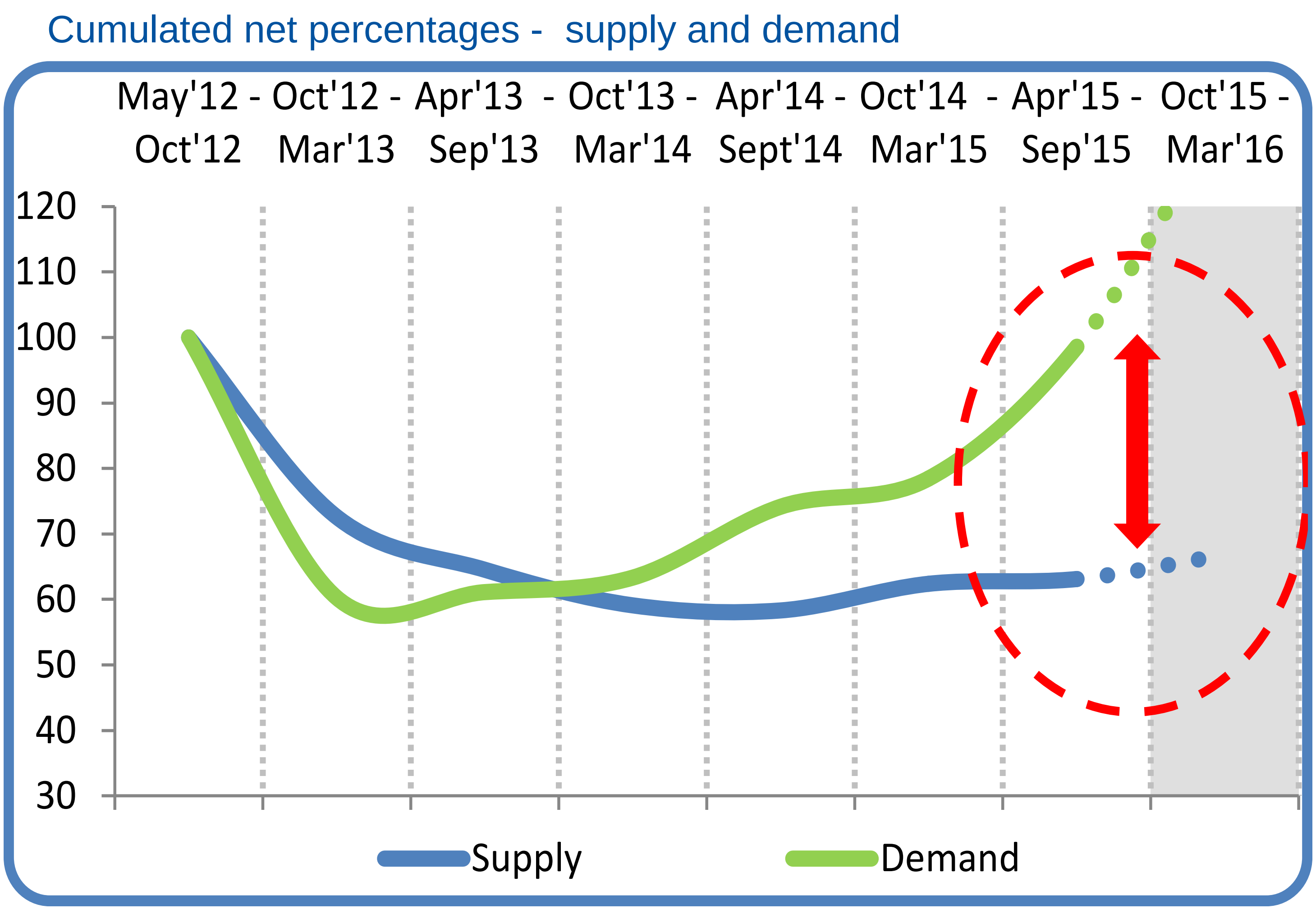
Demand and supply conditions; *net percentages* - positive figures refer to increasing (easing) demand (supply)





Questions: Credit Supply: bank's (local subsidiary)'s credit standards applied when assessing credit applications (eased, unchanged, tightened); Credit Demand: demand for loans or credit lines to enterprises and households (increased, stable, decreased). Net percentages; positive figures refer to increasing (easing) demand (supply) (triangles refer to expectations derived from previous runs of the survey, lines report actual values and dotted lines expectations in the last run of the survey)

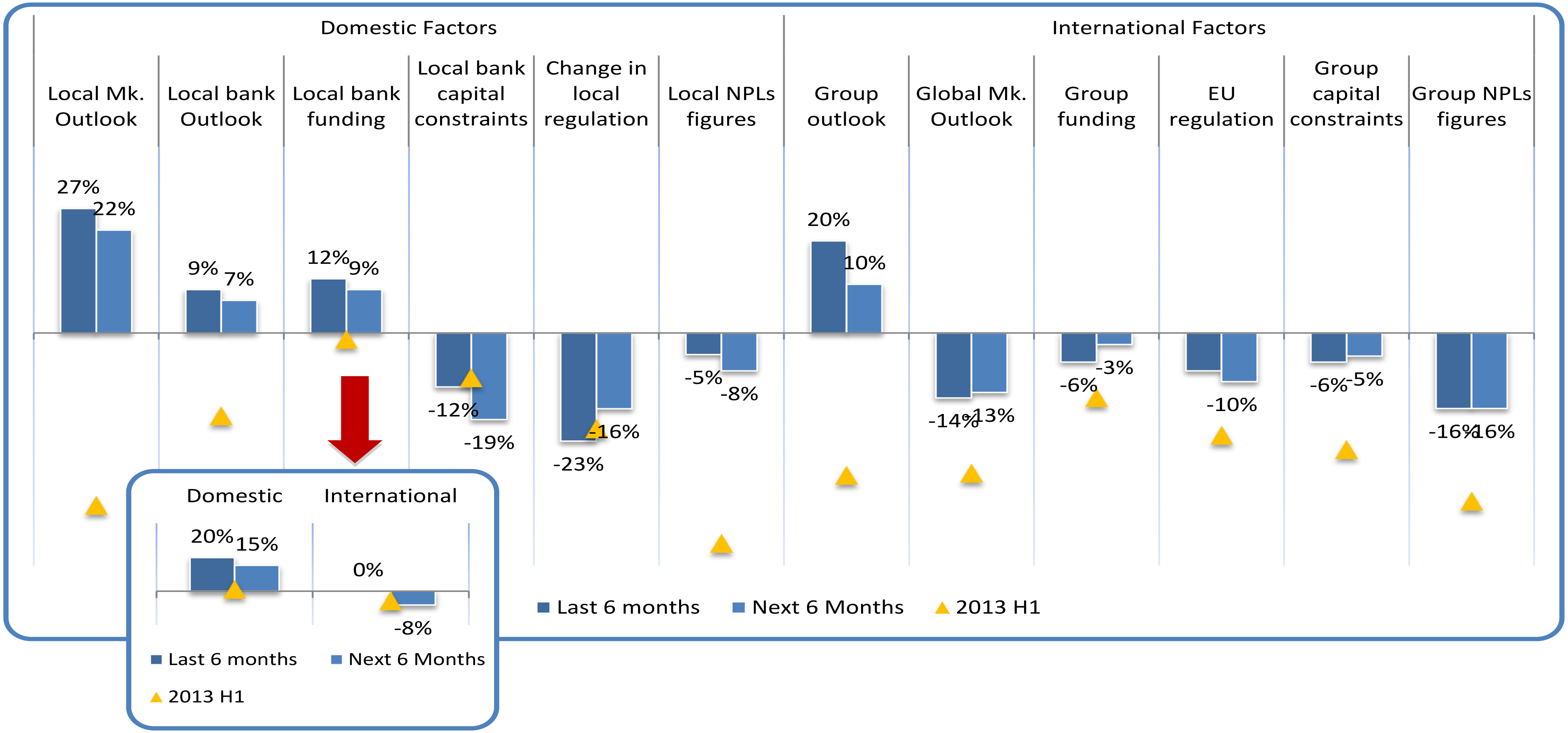
Cumulated demand and supply dynamics – increasing GAP



Questions: Credit Supply: bank's (local subsidiary)'s credit standards applied when assessing credit applications (options: eased, unchanged, tightened); Credit Demand: demand for loans or credit lines to enterprises and households (options: increased, stable, decreased)

Subsidiaries – credit quality, capital constraints and regulation (domestic and international) remain the main drag on supply conditions

Net percentages; positive figures indicate a positive contribution to supply conditions



Question: Factors affecting your bank's credit standards (credit supply). Have the following domestic and international factors contributed to tightening (easing) your credit standards over the past six months, and do you expect them to contribute to tightening (easing) your credit standards over the next six months?

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Subsidiaries – factors affecting demand

- Demand strengthening across the board - inventories and working capital, debt restructuring, HH consumption driven demand as previously detected – on top fixed investments and housing market prospects started to exert a positive role

Supply-Demand and gaps for segments

- Supply still subdued for SMEs, large corp. and housing purchases
  - However, taking into account demand conditions for loans, <u>SMEs are heavily constrained generating a persistent gap</u>

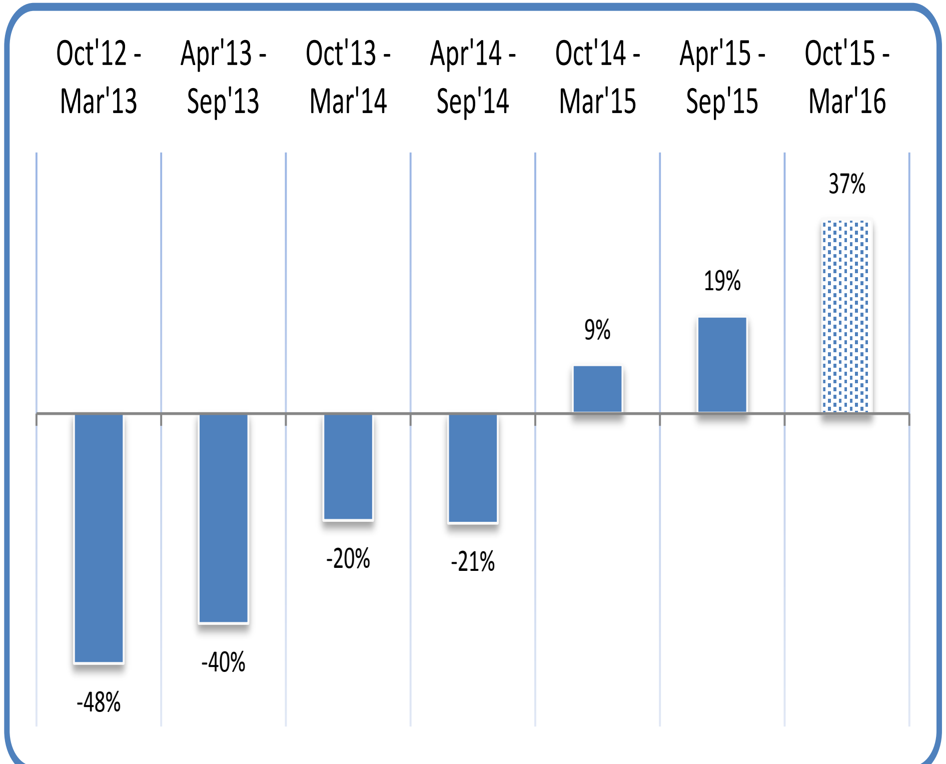
Terms and conditions on loan supply

- SMEs are seriously constrained – score low in any dimension
  - Particularly looking at collateral requirements and maturity extensions

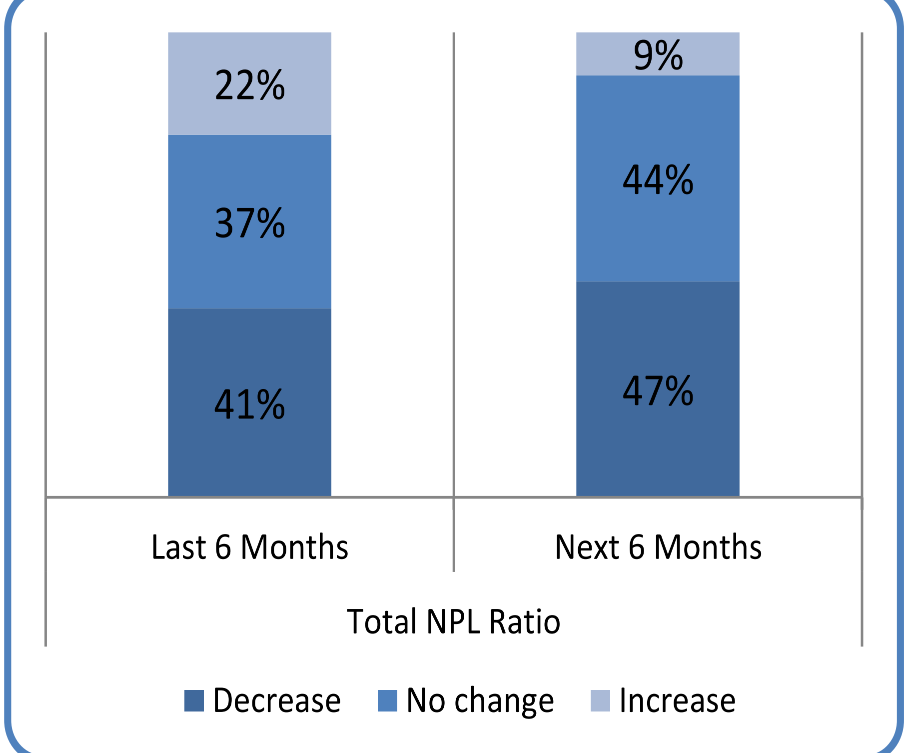
Subsidiaries – NPLs / Credit quality

- NPL ratios reached a turning point – and started to be perceived on a mildly decreasing trend in net terms. However the stock of NPLs is still very high and perceived as a fundamental obstacle to new origination
- All in all, NPLs still increased for roughly 20% of banks over the last 6 months (down from a 60% in early 2013)

Net percentages – negative figures indicate an increasing NPLs ratio



NPL ratio – responses as % of total



Question: Has the gross non-performing loans ratio in your local subsidiary/branch (excluding extraordinary operations) been increasing / stable /decreasing?

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Key results

- Group level restructuring continues and deleveraging still expected but more limited than in the past
- Selective/discriminating approach to the region - an increasing number of Groups signal selective expansion, while a persistent number of Groups reports intentions to selectively reduce operations
- Substantial revisions to market prospects/potential continue

Key results

- Demand conditions were in positive territory whilst supply still lagging behind generating a persistent gap
- Capital constraints, credit quality and regulation (both domestic and international) remain key a impediment to supply with being among the most constrained
- NPLs stocks remain very high and a drag on banking activity/performance – regional NPLs ratios started to trend downward for an increasing and significant number of banks – however this is differentiated across countries

Thank you

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http://www.bei.org/