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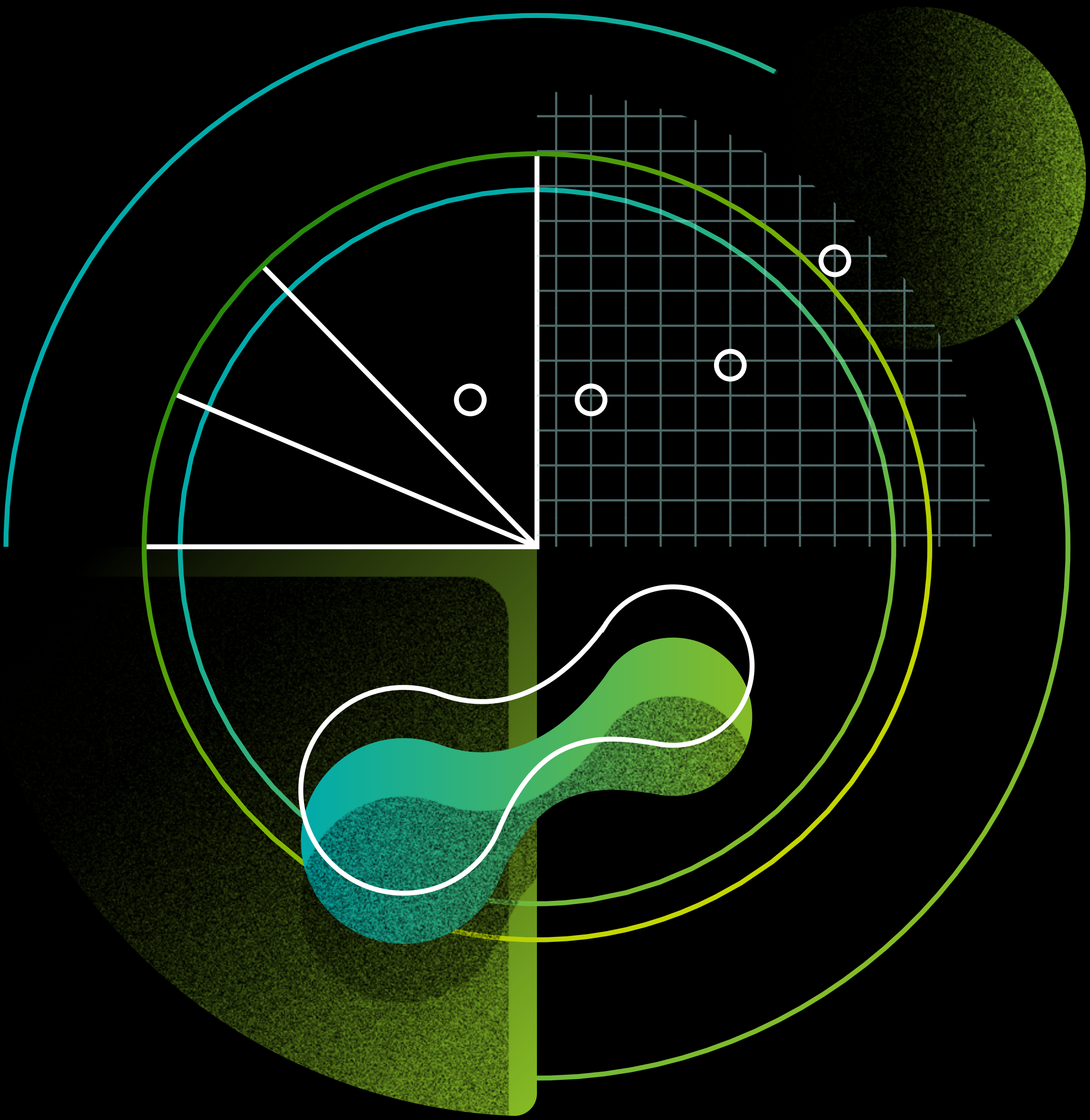
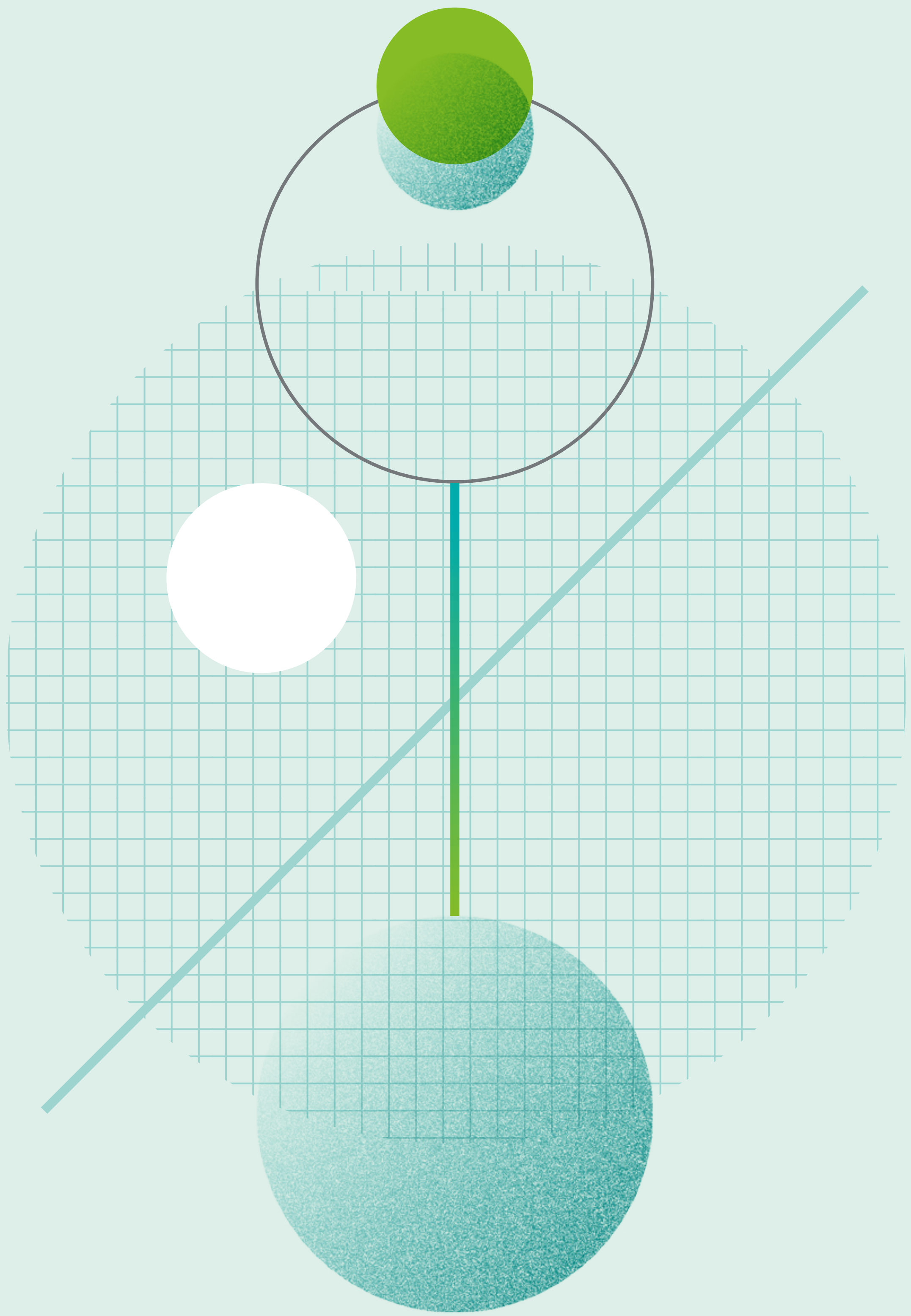


CEE banks steering through the pandemic

Accelerated consolidation triggered by COVID-19 turbulence



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FOREWORD

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We are happy to hereby release the 4th edition of our CEE banking M&A study. The main factor shaping the CEE banking trends in the previous year was the COVID-19 pandemic which challenged the CEE banking sector unprecedently since the 2008 financial crisis. Despite last year's alarming prognoses the CEE banking sector showed resilience with solid capital positions and relatively stable asset quality, however close monitoring is to be performed with the phasing out of moratorium schemes. Furthermore, the pandemic did not retract the CEE region's M&A activity, on the contrary, the highest number of banking M&A deals were reported in 2020 since 2016.

In spite of the negative impact of COVID-19 the capital adequacy ratio of the CEE banks further improved by 1.8% points to 22.1%, also driven by the halted dividend payments. Owing to the solid capital position, the CEE banking sector managed to maintain robust lending activity and still profitable operations with an average ROE of 8.3% and ROA of 0.9%. At the beginning of 2020, the banking sector anticipated a significant asset quality deterioration, thus recorded additional provisions to mitigate expected losses. Nevertheless, the COVID-19 pandemic has not yet had a significant negative impact on asset quality, therefore the average risk cost started to return to the pre-covid levels, easing the downward pressure on profitability.

Consolidation has already been onging in the fragmented CEE banking sector, a number of deals were made in recent years, with non-strategic CEE players exiting or rationalizing, in tandem with strong acquisition appetite from core CEE players. In last year`s foreword we projected that the recession triggered by COVID-19 was to put more pressure on less efficient banks as amid expected sour conditions, smaller and less solid players might not be able to cope with the challenges alone. Such expectations materialized, as the M&A activity reached the 2016 peak level in 2020 again. Regarding the future, robustness, shock absorption capacity, economies of scale and operational efficiency will continue to be of paramount importance, where larger, more diversified banking groups might come to a position to selectively acquire other weakened banks.

We have been actively supporting our clients in the recent consolidation momentum in 2020 and 2021. Therefore having seen a number of deals from the inside, and having liaised with banking executives we expect consolidation of the CEE banking market to remain a hot topic in the forthcoming years as well.

TABLE 1. SUMMARY OF KEY FIGURES BETWEEN 2019 AND 2020

COUNTRY	TOTAL ASSETS (EUR BN)				TOTAL LOANS (EUR BN)				TOTAL EQUITY (EUR BN)			
	2019	2020	CHANGE 2019-20 (% OR % POINT)		2019	2020	CHANGE 2019-20 (% OR % POINT)		2019	2020	CHANGE 2019-20 (% OR % POINT)	
Poland	474.3	515.3	8.6%	🟢	263.8	246.9	-6.4%	🔴	49.0	48.9	-0.1%	🔴
Czech Republic	286.5	300.9	5.0%	🟢	112.8	113.8	0.9%	🟢	23.8	24.9	4.8%	🟢
Slovakia	86.3	93.4	8.3%	🟢	58.7	61.5	4.9%	🟢	9.0	9.6	6.5%	🟢
Hungary	142.6	156.2	9.6%	🟢	46.6	48.2	3.5%	🟢	14.9	14.5	-2.9%	🔴
Romania	106.8	117.8	10.4%	🟢	54.9	56.6	3.1%	🟢	11.8	12.9	9.4%	🟢
Slovenia	45.7	53.3	16.6%	🟢	20.6	20.4	-1.0%	🔴	5.4	5.5	2.8%	🟢
Croatia	67.3	70.3	4.5%	🟢	29.3	30.1	2.5%	🟢	9.0	9.3	3.1%	🟢
Bulgaria	58.9	64.1	8.9%	🟢	31.1	32.7	5.2%	🟢	7.2	8.1	12.5%	🟢
Serbia	34.7	39.2	12.8%	🟢	19.4	21.3	9.8%	🟢	6.0	6.1	2.1%	🟢
Estonia	37.6	44.9	19.3%	🟢	16.6	17.4	4.8%	🟢	5.0	5.1	1.4%	🟢
Latvia	22.1	24.3	9.8%	🟢	12.8	12.4	-3.3%	🔴	2.3	2.4	7.9%	🟢
Lithuania	30.7	37.7	22.7%	🟢	19.4	18.9	-3.0%	🔴	2.1	2.4	15.1%	🟢
Albania	12.1	12.8	5.5%	🟢	4.7	4.9	4.1%	🟢	1.3	1.3	4.4%	🟢
Bosnia and Herzegovina	18.4	17.3	-6.2%	🔴	10.6	10.4	-2.0%	🔴	2.1	2.2	3.6%	🟢
Ukraine	56.6	52.5	-7.2%	🔴	24.1	18.1	-25.0%	🔴	7.6	6.0	-20.3%	🔴
Kosova	4.8	5.4	12.4%	🟢	3.0	3.2	6.8%	🟢	0.5	0.6	17.5%	🟢
Total	1,485.4	1,605.4	8.1%		728.4	716.7	-1.6%		156.8	159.9	1.9%	

COUNTRY	ROE (%)				ROA (%)				CIR (%)			
	2019	2020	CHANGE 2019-20 (% OR % POINT)		2019	2020	CHANGE 2019-20 (% OR % POINT)		2019	2020	CHANGE 2019-20 (% OR % POINT)	
Poland	6.9%	3.1%	-3.8%	🔴	0.7%	0.3%	-0.4%	🔴	56.0%	54.2%	-1.8%	🟢
Czech Republic	13.9%	6.7%	-7.2%	🔴	1.2%	0.6%	-0.6%	🔴	47.0%	49.6%	2.6%	🔴
Slovakia	8.3%	5.3%	-3.0%	🔴	0.8%	0.5%	-0.3%	🔴	58.0%	59.7%	1.7%	🔴
Hungary	14.4%	7.6%	-6.8%	🔴	1.5%	0.7%	-0.8%	🔴	64.7%	61.0%	-3.8%	🟢
Romania	12.3%	9.0%	-3.3%	🔴	1.5%	1.0%	-0.4%	🔴	53.4%	51.4%	-2.0%	🟢
Slovenia	10.3%	11.3%	1.0%	🟢	1.2%	1.2%	0.0%	⚪	59.4%	59.5%	0.1%	🔴
Croatia	9.1%	4.7%	-4.4%	🔴	1.2%	0.6%	-0.6%	🔴	50.3%	51.5%	1.2%	🔴
Bulgaria	11.2%	4.9%	-6.3%	🔴	1.4%	0.6%	-0.8%	🔴	46.8%	47.2%	0.4%	🔴
Serbia	9.8%	6.5%	-3.3%	🔴	1.8%	1.1%	-0.7%	🔴	63.4%	66.3%	2.9%	🔴
Estonia	8.3%	7.4%	-0.9%	🔴	1.1%	0.8%	-0.3%	🔴	52.5%	52.6%	0.1%	🔴
Latvia	9.6%	5.2%	-4.4%	🔴	1.0%	0.6%	-0.4%	🔴	62.4%	64.5%	2.1%	🔴
Lithuania	14.5%	10.0%	-4.4%	🔴	1.1%	0.7%	-0.3%	🔴	47.0%	48.6%	1.6%	🔴
Albania	13.5%	11.6%	-1.8%	🔴	1.5%	1.4%	-0.1%	🔴	80.8%	79.3%	-1.6%	🟢
Bosnia and Herzegovina	10.4%	6.0%	-4.4%	🔴	1.4%	0.8%	-0.6%	🔴	60.3%	58.4%	-1.9%	🟢
Ukraine	33.5%	19.2%	-14.2%	🔴	4.3%	2.4%	-1.8%	🔴	52.4%	55.5%	3.1%	🔴
Kosova	17.2%	14.0%	-3.2%	🔴	2.1%	1.6%	-0.5%	🔴	67.2%	58.2%	-9.0%	🟢
Average	12.7%	8.3%	-4.4%		1.5%	0.9%	-0.5%		57.6%	57.3%	-0.3%	

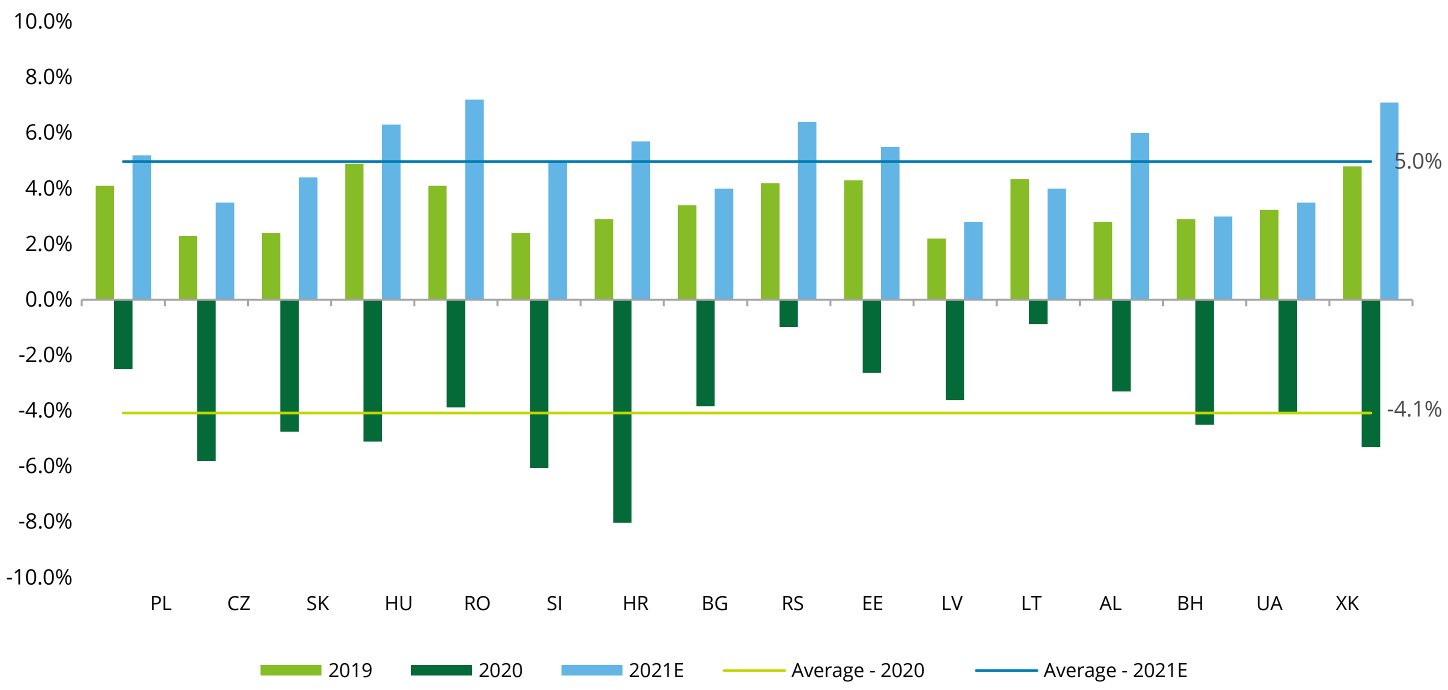
COUNTRY	RETAIL NPL RATIO (%)				CORPORATE NPL RATIO (%)				TOTAL NPL RATIO (%)			
	2019	2020	CHANGE 2019-20 (% OR % POINT)		2019	2020	CHANGE 2019-20 (% OR % POINT)		2019	2020	CHANGE 2019-20 (% OR % POINT)	
Poland	5.7%	6.1%	0.3%	🔴	8.5%	9.0%	0.6%	🔴	6.6%	7.0%	0.4%	🔴
Czech Republic	1.7%	1.7%	0.1%	🔴	3.2%	4.2%	0.9%	🔴	2.3%	2.6%	0.4%	🔴
Slovakia	2.8%	2.4%	-0.4%	🟢	3.5%	3.3%	-0.1%	🟢	3.0%	2.7%	-0.3%	🟢
Hungary	2.7%	2.4%	-0.3%	🟢	1.5%	1.5%	0.0%	⚪	2.0%	1.9%	-0.1%	🟢
Romania	4.6%	5.9%	1.3%	🔴	8.2%	11.1%	2.9%	🔴	6.2%	8.3%	2.0%	🔴
Slovenia	1.8%	1.7%	-0.1%	🟢	1.4%	1.3%	-0.1%	🟢	1.6%	1.5%	-0.1%	🟢
Croatia	5.9%	7.1%	1.2%	🔴	13.6%	12.5%	-1.2%	🟢	8.9%	9.2%	0.3%	🔴
Bulgaria	5.3%	4.6%	-0.7%	🟢	6.8%	5.3%	-1.5%	🟢	6.2%	5.0%	-1.2%	🟢
Serbia	4.0%	3.6%	-0.4%	🟢	3.1%	3.1%	-0.0%	🟢	3.5%	3.3%	-0.2%	🟢
Estonia	0.3%	0.3%	0.0%	⚪	0.6%	0.6%	-0.1%	🟢	0.4%	0.4%	0.0%	⚪
Latvia	2.6%	1.8%	-0.7%	🟢	5.2%	3.5%	-1.7%	🟢	4.0%	2.7%	-1.3%	🟢
Lithuania	2.1%	1.9%	-0.2%	🟢	2.9%	3.5%	0.6%	🔴	2.2%	2.5%	0.3%	🔴
Albania	2.3%	5.5%	3.3%	🔴	11.3%	9.9%	-1.5%	🟢	8.4%	8.4%	0.1%	🔴
Bosnia and Herzegovina	5.9%	5.8%	-0.1%	🟢	8.8%	6.5%	-2.3%	🟢	6.9%	5.5%	-1.4%	🟢
Ukraine	19.9%	14.4%	-5.6%	🟢	53.5%	49.6%	-3.9%	🟢	44.3%	39.8%	-4.5%	🟢
Kosova	1.1%	1.4%	0.3%	🔴	2.5%	3.3%	0.8%	🔴	2.0%	2.7%	0.7%	🔴
Average	4.3%	4.2%	-0.1%		8.4%	8.0%	-0.4%		6.8%	6.5%	-0.3%	

COUNTRY	CAR (%)				FX SHARE OF LENDING (%)				LLP COVERAGE (%)			
	2019	2020	CHANGE 2019-20 (% OR % POINT)		2019	2020	CHANGE 2019-20 (% OR % POINT)		2019	2020	CHANGE 2019-20 (% OR % POINT)	
Poland	19.1%	20.7%	1.6%	🟢	20.0%	20.6%	0.6%	🔴	66.1%	72.1%	6.0%	🟢
Czech Republic	21.1%	24.4%	3.3%	🟢	19.5%	20.1%	0.6%	🔴	72.4%	81.3%	8.8%	🟢
Slovakia	18.2%	19.7%	1.5%	🟢	0.1%	0.1%	0.0%	⚪	88.8%	99.0%	10.1%	🟢
Hungary	17.5%	19.3%	1.8%	🟢	23.4%	21.7%	-1.7%	🟢	n.a.	n.a.	n.a.	n.a.
Romania	20.0%	25.1%	5.1%	🟢	32.8%	29.7%	-3.2%	🟢	88.6%	107.5%	18.9%	🟢
Slovenia	20.1%	20.4%	0.3%	🟢	2.4%	2.1%	-0.3%	🟢	78.2%	83.1%	4.9%	🟢
Croatia	22.3%	25.6%	3.3%	🟢	n.a.	n.a.	n.a.	n.a.	85.2%	84.0%	-1.2%	🔴
Bulgaria	20.2%	22.6%	2.5%	🟢	40.6%	n.a.	n.a.	n.a.	59.7%	64.8%	5.1%	🟢
Serbia	23.4%	22.4%	-1.0%	🔴	67.1%	69.5%	2.4%	🔴	61.5%	59.0%	-2.5%	🔴
Estonia	25.8%	25.7%	-0.1%	🔴	0.4%	0.4%	-0.0%	⚪	49.2%	57.4%	8.2%	🟢
Latvia	21.0%	26.8%	5.8%	🟢	3.5%	2.7%	-0.8%	🟢	39.1%	41.8%	2.7%	🟢
Lithuania	23.7%	24.0%	0.3%	🟢	0.4%	0.3%	-0.1%	🟢	41.9%	47.7%	5.8%	🟢
Albania	18.3%	18.4%	0.1%	🟢	51.2%	50.7%	-0.5%	🟢	65.6%	65.2%	-0.4%	🔴
Bosnia and Herzegovina	18.0%	19.2%	1.2%	🟢	51.9%	51.4%	-0.5%	🟢	77.0%	78.4%	1.4%	🟢
Ukraine	19.7%	22.0%	2.3%	🟢	53.5%	53.3%	-0.2%	🟢	166.1%	145.4%	-20.8%	🔴
Kosova	15.9%	16.5%	0.6%	🟢	0.1%	0.0%	-0.1%	🟢	163.5%	141.4%	-22.1%	🔴
Average	20.3%	22.1%	1.8%		24.5%	23.0%	-1.4%		80.2%	81.9%	1.7%	

CEE MACROECONOMIC OVERVIEW

Prior to the COVID-19 pandemic the CEE region experienced a notable economic growth, since the average real GDP growth rate was above 3% per annum between 2015 and 2019. In 2020, the economic impact of the COVID-19 pandemic reversed the positive trend, leading to an average real GDP decline of 4.1% across the region. The economic slowdown was also fuelled by governmental measurements introduced to reduce the pressure on the domestic healthcare systems including, amongst other things, curfews, temporary bans of public events, store closures and travel restrictions. The largest downturns were recorded in the Croatian (-8.0%), Slovenian (-6.1%) and Czech (-5.8%) economies, while the most resilient countries were Lithuania (-0.9%), Serbia (-1.0%), and Poland (-2.7%). Also, the CEE region performed better than the initial economic forecasts predicted last year due to introduced expansionary fiscal policies by local governments, as the former average real GDP prediction was -5.8% (according to EIU forecasts), whereas the actual figure stood at -4.1% by the end of 2020. The economic outlook of the region is promising, as the average real GDP growth rate is forecast to be 5.0% in 2021, however, new coronavirus variants could jeopardize the economic recovery of the region.

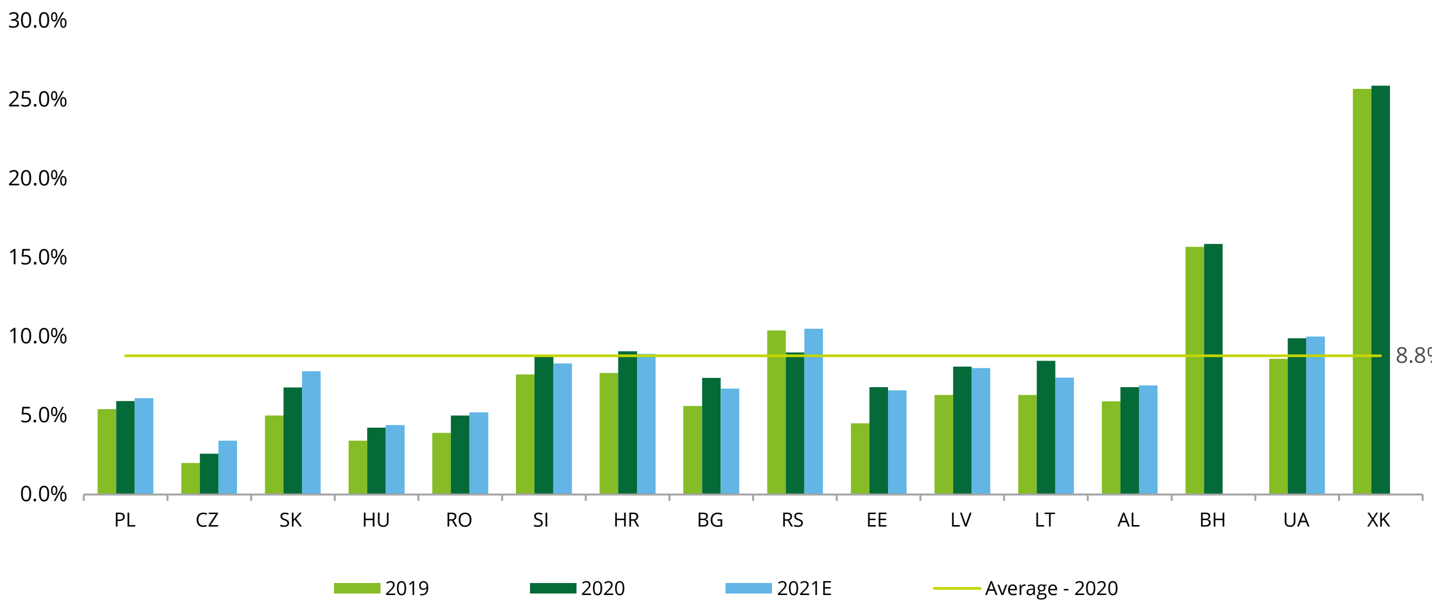
Figure 1. Changes in real GDP, 2019-2021E



Source: EIU, National banks

Many economic sectors were impacted adversely as a result of the COVID-19 outbreak, such as transport, culture and HoReCa segments. Despite of the economic downturn in many sectors and long-lasting lockdowns, the average unemployment rate rose moderately in 2020 by 1.1% point to 8.8% in the analyzed 16 countries. The seemingly moderate growth of unemployment was attributable to the governmental support programs that were aimed to mitigate the economic impacts of the COVID-19 pandemic. As a result of such programs the budget balance ratios turned into deficit and public debt soared across the region as Figure 3 implies. The average unemployment rate is forecasted to remain stable in 2021 in the region.

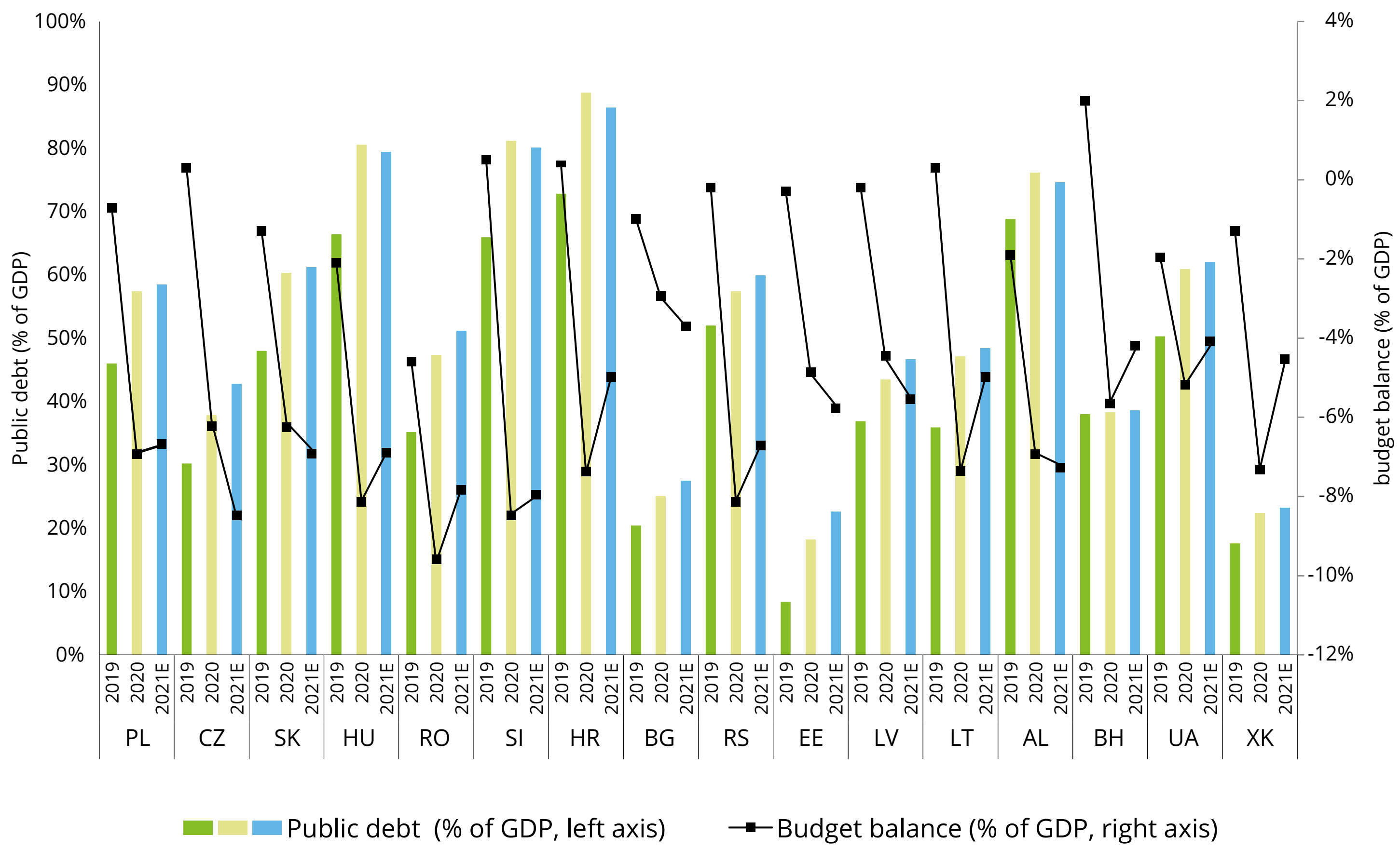
Figure 2. Unemployment rate, 2019-2021E



Source: EIU, National banks

Note: expected unepmloyment rate in 2021 for Bosnia and Herzegovina and Kosova is not available

Figure 3. Budget balance (% of GDP) and Public debt (% of GDP), 2019-2021E



Source: EIU, National banks

BANKING TRENDS IN CEE

The main factor shaping the CEE banking trends in 2020 was the COVID-19 pandemic. Prior to the year of the COVID-19 outbreak, the banking sector of the CEE region experienced steadily improving indicators, which was attributable to the healthy macroeconomic factors. Most notably, pivotal indicators such as revenue growth, profitability, asset quality and capital adequacy have all been improving in recent years across the region. However, in 2020 the pandemic challenged the CEE banking sector unprecedently since the 2008 financial crisis.

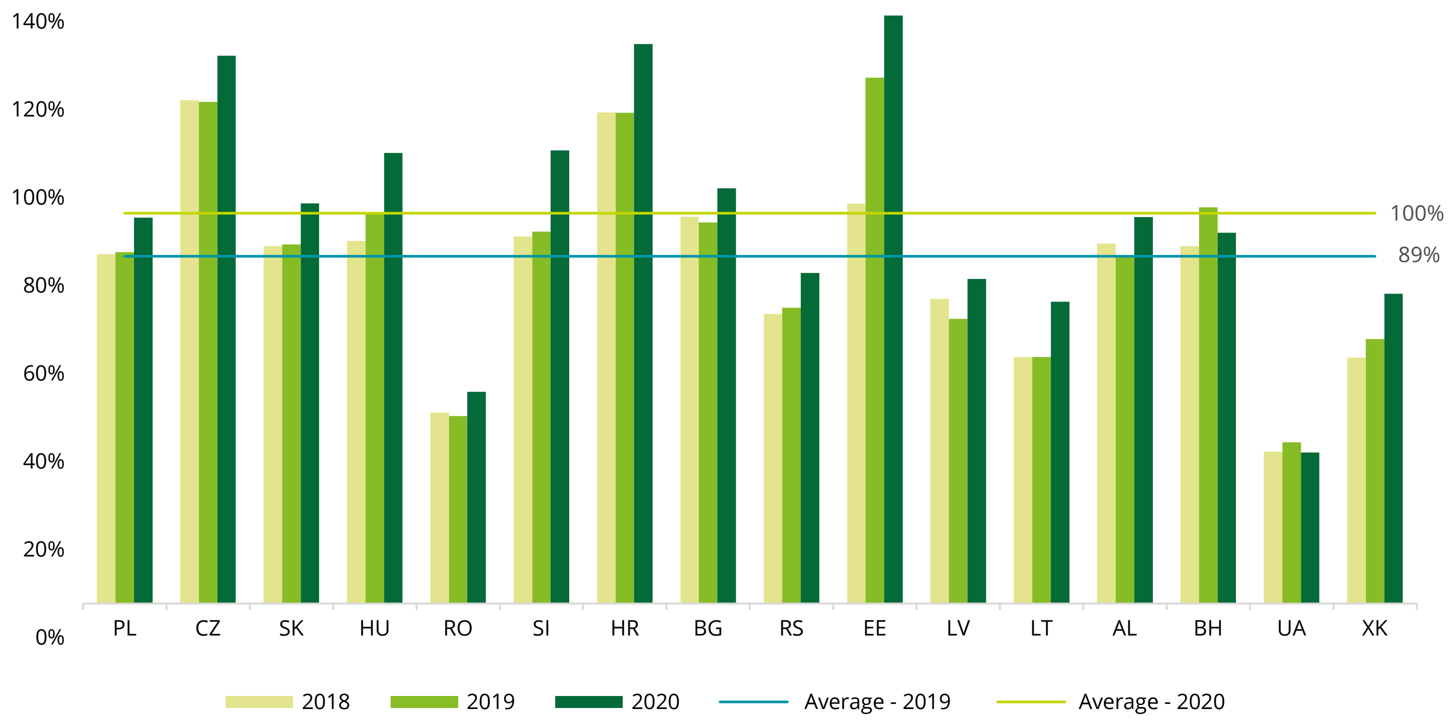
Nevertheless, prior to the pandemic the CEE banking sector was in a more stable position than it was before the 2008 financial crisis. The accumulated equity buffers as a consequence of the solid performance in recent years, tighter monitoring and closely scrutinized risk taking by the regulators all contributed to the relatively high resilience of the CEE banking sector during 2020.

The total balance sheet of the banking sector grew by 6.8% and reached EUR 1,605 bn by the end of 2020 in the 16 analysed countries.

The three largest banking sectors (Polish, Czech and Hungarian) accounted for over 60% of the total assets in the CEE region. The dynamics of total assets was also backed by the introduced moratorium measures and other supportive actions introduced by domestic governments and national banks. The support packages were aimed to boost the economies by offering favourable lending opportunities for businesses and households that consequently increased the total loan volumes in most of the observed countries combined with the deferred payments due to the moratoriums. The growth of total assets continued in the CEE region with an average of 5.7% in 2021 H1 according to ECB data in tandem with the economic recovery of the region.

The increasing asset volume of the banking sector, in tandem with the decreasing GDPs, resulted in record levels of asset penetration across the region. The average banking asset penetration ratio increased by 11% points from 2019 to 100% in 2020.

Figure 4. Banking Assets to GDP, 2018 - 2020



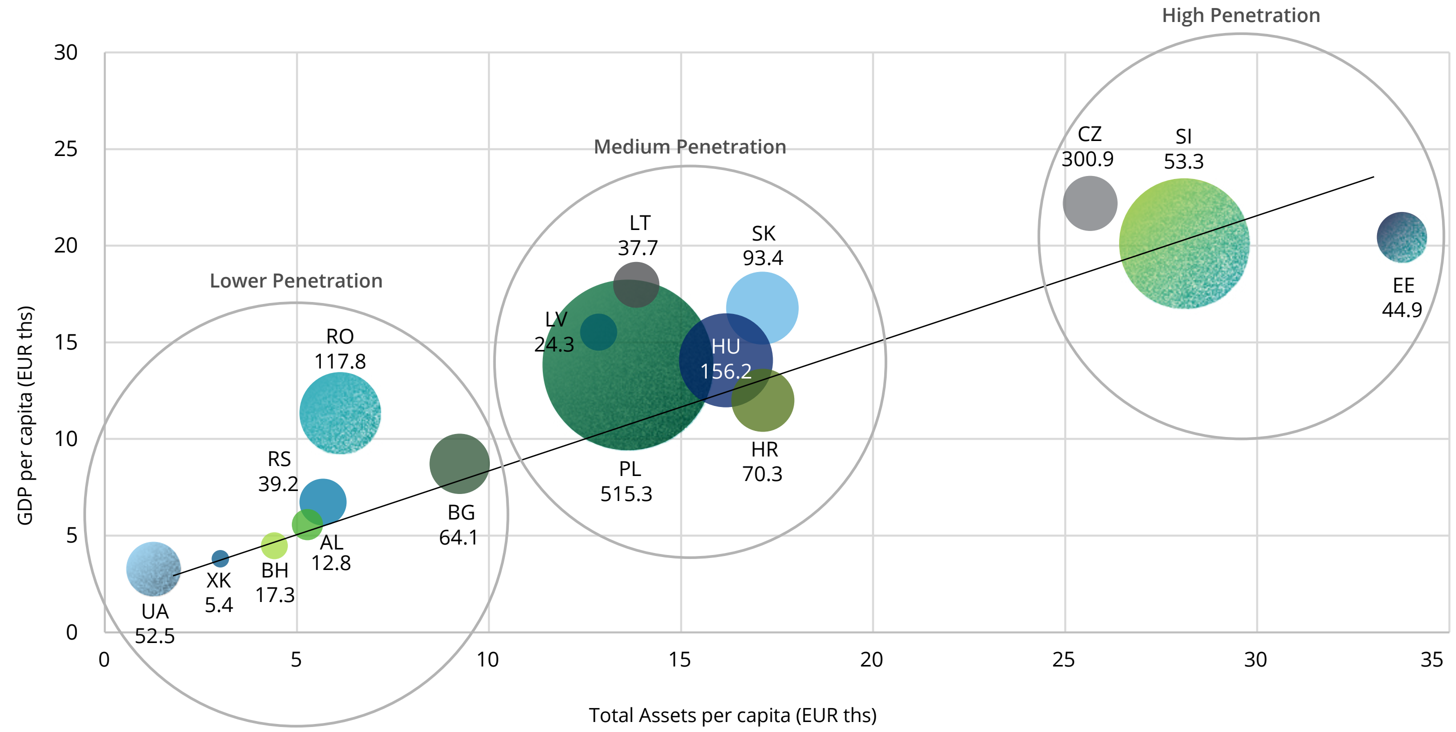
Source: ECB CBD, National banks

1. excluding non-EU countries, non-annualized figures

There is a strong positive correlation between banking asset penetration and the respective country's GDP per capita. The countries in the CEE region can be categorized into three distinct groups sorted on their levels of asset penetration. The first group is the lower-penetrated group consisting of Romania, Bulgaria, Serbia, Bosnia and Herzegovina, Albania, Ukraine and Kosova, thus for these countries higher potential future growth is expected. Slovakia, Hungary, Poland, Croatia, Lithuania and Latvia belong to the medium-penetrated group, while Slovenia, Czech Republic and Estonia form the high-penetrated group.

In the past years, the analysed countries demonstrated a significant shift towards the highly-penetrated direction due to improving standards of living and expanding banking markets.

Figure 5. Banking market penetration to GDP per capita, 2020



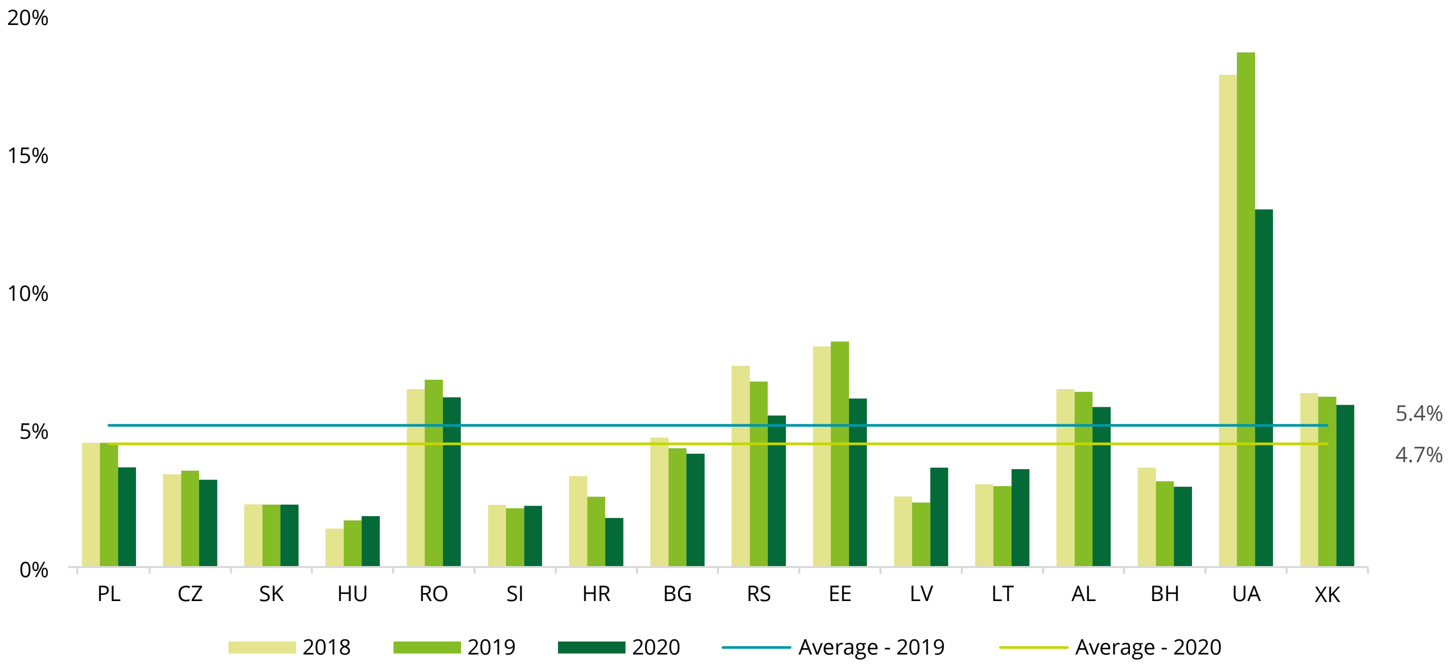
EIU, ECB CBD, National banks

Note: Bubble size represents total asset volume in 2020 (EUR bn)

The average lending interest rate in the region, reflecting lower policy rates and governmental support, dropped from 5.4% in 2019 to 4.7% in 2020 resulting in an increased lending activity. The lower cost of credit available in the market not only stimulated economic activity, but also increased inflationary pressures.

National banks have already started to handle the climbing price levels with monetary tightening in 2021 resulting in increasing government bond yields, which will probably result in an upward momentum in the average lending rates as well.

Figure 6. Lending rate, 2018-2020



Source: ECB CBD, National banks

Despite last year's doubtful prognoses and the negative impacts of the COVID-19 pandemic, the average capital adequacy ratio improved by 1.8% points from at the end of 2019 to 22.1% at the end of 2020 in the CEE region. The increase of capital adequacy ratios was primarily driven by regulatory restrictions on dividend payments as a response to the pandemic, whilst, contrary to expectations at the outset of the pandemic, banking sectors remained profitable. Owing to the solid capital position, the banking sector managed to maintain lending and thus support the economic recovery. The highest capital adequacy ratios were reported in Latvia (26.8%), Estonia (25.7%) and Croatia (25.6%), respectively. Estonia is one of the two countries besides Serbia where the capital adequacy ratio decreased compared to at the end of 2019 but still remained at a sound a level. According to the European Banking Authority's risk dashboard as of 2021 H1 the average capital adequacy ratio of the EU member CEE banks remained at the year-end's solid level.

Figure 7. Capital adequacy ratio, 2018-2020

Source: ECB CBD, National banks

The effects of the COVID-19 crisis had a negative impact on the profitability of the CEE banking sector. Average ROE decreased by 4.4% points to 8.3% and average ROA decreased by 0.6% point to 0.9% between 2019 and 2020. The main drivers behind the deterioration of the profitability ratios were the prolonged period of low interest rates and decreased level of net interest income, as well as the increased level of loan loss provisioning. In countries such as Poland, the Czech Republic, Hungary, Croatia, Bulgaria and Latvia profitability ratios almost halved in comparison to 2019. The only market where banks managed to improve their profitability was the Slovenian with an increase of 1% point in ROE to 11.3% in 2020 from 2019. However, the improvement was due to one-off items and the impacts of the coronavirus are likely to negatively affect the profitability of the Slovenian banking sector in the medium-term. Similarly to 2019, the two highest profitability ratios were reported in Ukraine (19.2%) and Kosova (14.0%), respectively. The profitability of the Ukrainian banking sector went through a steady development in recent years as the profitability indicators were negative until 2017, while by the end of 2019 it was one of the most profitable in the CEE region. The high profitability is primarily attributable to the significantly improving asset quality in recent years, as the aggregate average NPL ratio decreased from 10.1% at the end of 2017 to 6.5% at the end of 2020. Also, the lending rate in Ukraine was almost 10% points higher in 2020 than the 4.7% CEE average. The profitability of the Kosovan banking sector is still the 2nd highest in the CEE region, although it has been experiencing a downward trend in the past 4 years and is not expected to reach its 2017 record level in the near term. The higher profitability ratio of the Kosovan banking sector is also driven by the undercapitalization of the sector, since the capital adequacy ratio is the lowest (16.5%) in Kosova among the CEE countries (average 22.1%).

The profitability of the CEE banking sector is expected to follow the national economies` trends in recovery, as has been evident from banks' interim financial performances during 2021. According to ECB data the EU member CEE countries' ROE recovered by 1-5% points on average compared to the 2020 based on 2021 H1 data. However, despite the promising interim results a possible future deterioration in the quality of assets remains a significant risk to the profitability of the sector as government support schemes are unwound at a time of uncertainty with new variants to the COVID-19 virus.

In 2020, despite of the challenges of the COVID-19 pandemic, asset quality indicators remained relatively stable as national banks introduced moratoriums to support households and businesses. As the moratoriums are phasing out banks may face a deterioration in asset quality, impacting profitability ratios, however according to the EBA risk dashboard 2021 H1 data the total NPL ratio has remained stable in the EU member CEE countries.

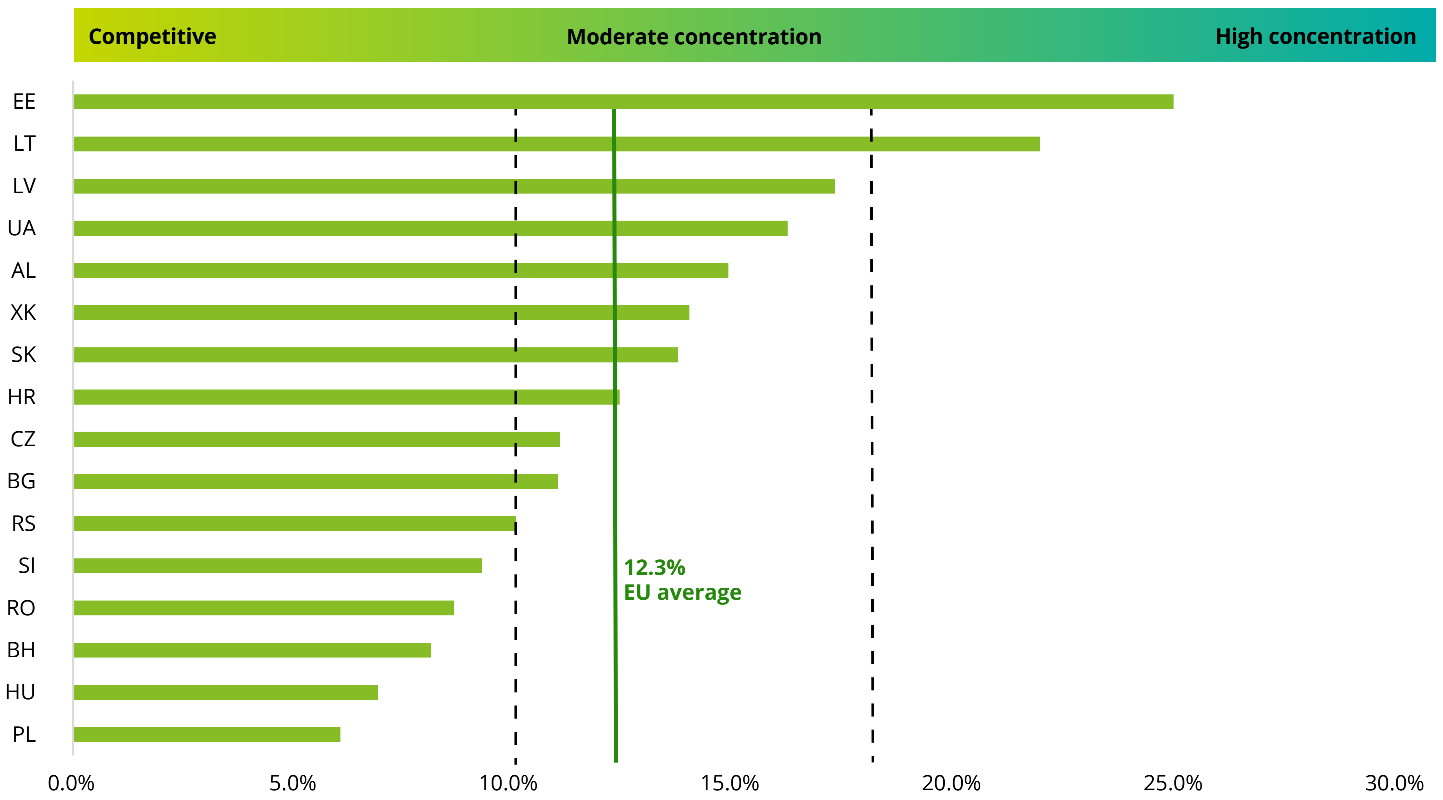
Figure 8. Return on equity, 2018-2020

Source: ECB CBD, National banks

Based on the Herfindahl–Hirschman Index (HHI)[2], two countries had highly concentrated banking sectors (HHI above 18%), while the banking sector was moderately concentrated in 8 countries (HHI between 10% and 18%) and competitive in 6 countries (HHI below 10%). The most concentrated markets remained Estonia and Lithuania, respectively. However concentration of the Lithuanian banking sector is expected to decrease in the medium-term, as the newly licensed banks will strengthen their market positions.

The least concentrated banking sectors of the CEE region were Poland and Hungary in 2020, where the consolidated total assets of the top five banks did not exceed 50% and the HHI indicator was less than 7.5%. Consequently, ongoing and future consolidation is expected in these markets as smaller, less robust market players might not be able to tackle the challenges of the post-COVID-19 era. For example, the new entity after the completion of the ongoing tripartite merger in the Hungarian market will become the second largest banking group in the country, further boosting the concentration. Based on the reported figures in 2020, the concentration of the top five banks in the Hungarian banking market would increase from 46.4% to 54.4%, placing the sector from the competitive to the moderately concentrated category. Another instance of the ongoing consolidation is the OTP Group Nova KBM transaction in the Slovenian market, where after the completion of the deal the top 5 banks will account for 61.5% from 56% of the market share according to the figures in 2020.

Figure 9. Market concentration by HHI in the respective countries, 2020

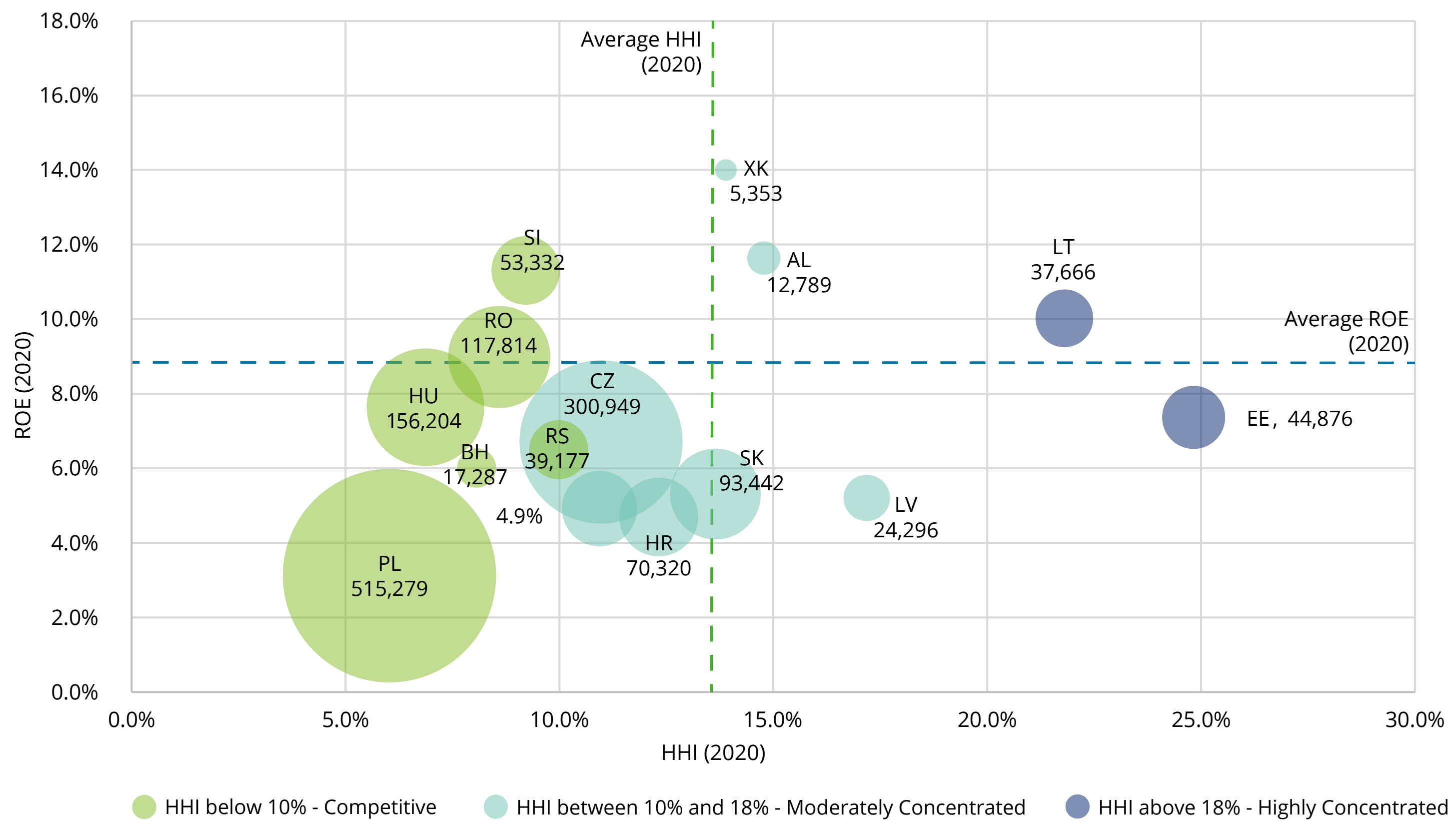


Source: ECB CBD, EMIS, Annual Reports, Deloitte calculation

There is an expected positive correlation between the ROE and the Herfindahl–Hirschman Index, meaning that on markets where the concentration is higher the banking sector is anticipated to be more profitable and cost-efficient. According to figure 10, the average ROE based on the HHI index concentration was 7.3%, 7.5%, and 8.7% in the competitive, moderately concentrated, and highly concentrated markets in 2020. The most significant outliers in the region are Kosova and Ukraine, because the concentration is moderate in both countries, but the profitability is the highest among the CEE countries with a ROE of 14.0% 19.2% respectively.

2. HHI indices in the study are presented in percentage form, to compute the nominal HHI values the percentages should be multiplied by 10,000, the categories were determined as per international standards.

Figure 10. ROE and HHI of the analysed countries, 2020



Source: ECB CBD, National banks

Note1: Bubble size: total assets volume in 2020 (EUR mn)
Note2: Ukrainian 19.2% ROE is excluded from the figure
Note3: The Herfindahl-Hirschman Index (HHI) is a market competitiveness measure. Higher HHI value indicates higher concentration on the market

Despite the challenges posed by the COVID-19 pandemic, the market position of the largest banking groups remained stable in 2020. The consolidated asset volume of the top 15 largest banking groups accounted for over 60% of the total assets in the CEE region at the end of 2020.

Regarding the top 5 largest banking groups in terms of total assets, there was one change compared to the previous year, as RBI (5.5% market share, present in 11 countries) overtook OTP (5.1% market share, present in 8 countries) at the 4th spot. The position of the top 3 spots remained unchanged with Erste Group (8.8% market share, present in 8 countries) leading the CEE market, followed by KBC Group (8.0% market share, present in 4 countries) and UniCredit Group (6.6% market share, present in 9 countries). Worth to mention that the Polish State is still a key player in the CEE banking landscape. The total asset of the Polish State is more than 50% larger than the total assets of Erste Group in the CEE region.

Further changes will be evident in 2021 and 2022 as RBI has strengthen its position in the Czech Republic with its recent acquisition of Equa Bank from AnaCap and deposit customers from ING, whilst it is the process of acquiring Crédit Agricole in Serbia and disposing of its subsidiary in Bulgaria to KBC. OTP Group will most likely challenge for the podium positions again, after completion of its recent transactions such as the Nova KBM acquisition in Slovenia and Alpha Bank in Albania.

TABLE 2. RANKING OF THE LEADING BANKING GROUPS BY TOTAL ASSETS IN THE RESPECTIVE COUNTRIES, 2020

RANK	BANKING GROUP	PL	CZ	SK	HU	RO	SI	HR	BG	RS	EE	LV	LT	AL	BH	UA	XK	NR. OF COUNTRIES WITH PRESENCE	NR. OF COUNTRIES WITH TOP 5 PRESENCE
1	Erste		2	1	5	2	10	3		7					8			8	5
2	KBC		1	4	3				3									4	4
3	UniCredit		4	5	4	5	4	1	1	4					1			9	9
4	Raiffeisen		5	3	6	4		5	6	5				3	2	5	1	11	9
5	OTP				1	8	3	4	2	2				5		9		8	6
6	Société Générale		3			3												2	2
7	Intesa Sanpaolo			2	7	14	5	2		1				4	5	24		9	6
8	Santander	2																1	1
9	Commerzbank	4			15													2	1
10	ING	5														20		2	1
11	Swedbank										2	1	1					3	3
12	BNP Paribas	7														8		2	0
13	SEB										3	3	2					3	3
14	BCP	8																1	0
15	MBH				2													1	1
16	Nova Ljubljanska Banka						1			3					3		3	4	4
17	Luminor Group AB										1							1	1
18	Citibank	10														14		2	0
19	Sberbank		11		14		8	8		10					4	13		7	1
20	J&T FINANCE		9	7														2	0
21	Credit Agricole	12				19				11						10		4	0
22	Apollo Global Management						2											1	1
23	Eurobank Ergasias								4	9								2	1
24	PPF Group		8							16								2	0
25	ProCredit					20			10	12				9	13	15	2	7	1
26	Addiko Bank AG						9	7		13					7			4	0

TOP 1-5 TOP 6-10 TOP 11-20

Source: EMIS, Annual reports, Inteliace Research

Note: Banks owned by states or private individuals, or banks that have no majority shareholders are excluded from the ranking, but their consolidated balance sheet is considered in the market share calculation.

TABLE 3. SUMMARY OF KEY METRICES OF THE LEADING BANKING GROUPS IN 2020

BANKING GROUP		TOTAL CEE ASSETS (EUR BN)	TOTAL CEE MARKET SHARES (%)	CUMULATIVE MARKET SHARES (%)	TOTAL CEE ROE (%)	MARKET CAP. (EUR BN)	P/BV (2021E)	CET1 FL (%)
Erste	1	121.5	8.8%	8.8%	6.4%	15.4	0.9	14.4
KBC	2	109.9	7.9%	16.7%	7.9%	30.1	1.4	17.5
UniCredit	3	91.5	6.6%	23.3%	7.0%	24.1	0.4	16.1
Raiffeisen	4	76.2	5.5%	28.8%	11.9%	7.1	0.6	13.3
OTP	5	70.4	5.1%	33.9%	7.4%	14.5	1.7	15.9
Top 5		469.5	33.9%	33.9%	8.1%			
Société Générale	6	57.7	4.2%	38.0%	7.6%	22.3	0.4	13.4
Intesa Sanpaolo	7	51.5	3.7%	41.8%	5.3%	46.3	0.8	14.9
Santander	8	49.0	3.5%	45.3%	3.7%	52.9	0.6	12.1
Commerzbank	9	41.2	3.0%	48.3%	0.6%	6.9	0.3	13.4
ING	10	40.5	2.9%	51.2%	13.8%	45.8	0.8	15.7
Top 10		709.5	51.2%	51.2%	7.2%			
Swedbank	11	35.8	2.6%	53.8%	10.0%	18.8	1.33	18.5
BNP Paribas	12	27.8	2.0%	55.8%	9.8%	67.1	0.62	12.9
SEB	13	21.8	1.6%	57.3%	10.8%	26.1	1.62	21
BCP	14	21.3	1.5%	58.9%	0.2%	2.0	0.32	11.7
MBH	15	21.3	1.5%	60.4%	-0.0%	n/a	n/a	n/a
Top 15		837.5	60.4%	60.4%	6.8%			
Nova Ljubljanska Banka	16	17.9	1.3%	61.7%	7.0%	1.4	0.7	14.7
Luminor Group AB	17	14.9	1.1%	62.8%	2.0%	n/a	n/a	n/a
Citibank	18	14.4	1.0%	63.8%	9.1%	120.9	0.8	11.8
Sberbank	19	11.9	0.9%	64.7%	7.1%	87.6	1.3	14
J&T FINANCE	20	10.8	0.8%	65.5%	5.7%	n/a	n/a	n/a
Top 20		907.3	65.5%	65.5%	6.7%			
Credit Agricole	21	9.4	0.7%	66.1%	7.0%	36.2	0.6	12.6
Apollo Global Management	22	9.2	0.7%	66.8%	21.1%	n/a	n/a	n/a
Eurobank Ergasias	23	7.9	0.6%	67.4%	6.5%	3.2	0.6	13.2
PPF Group	24	6.7	0.5%	67.8%	6.1%	n/a	n/a	n/a
ProCredit	25	5.7	0.4%	68.3%	12.3%	n/a	n/a	n/a
Top 25		946.2	68.3%	68.3%	7.5%			

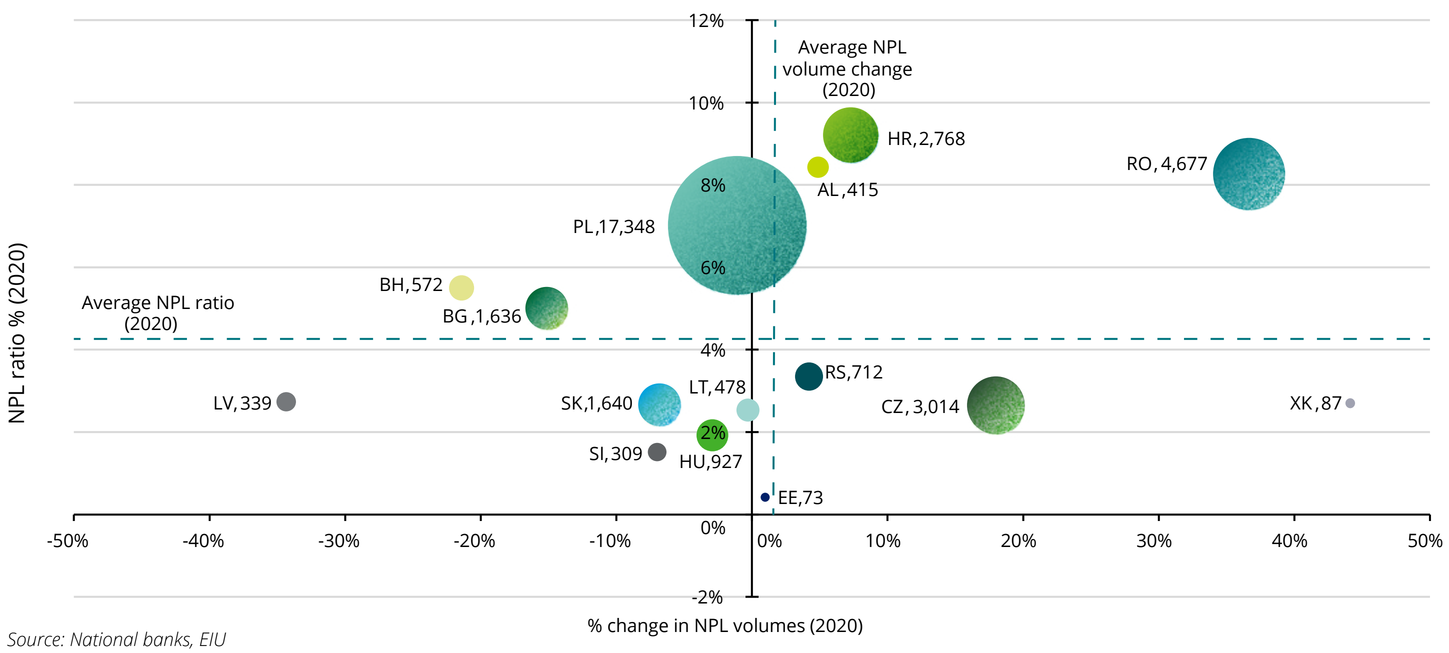
Source: EMIS, Annual reports, Inteliace Research, Refinitiv Eikon, Addiko Bank

Compared to 2019, the concentration of the CEE banking sector slightly increased in 2020, because the five largest banking groups attributed for 34.1% of the total assets at the end of 2020 in contrast to the 33.7% ratio at the end of 2019. Overall, the average market share of the top 5 banks across the individual countries in the CEE region increased from 65% at the end of 2019 to 67% at the end of 2020. The increase in concentration shows that economies of scale ensure higher resilience against external factors, such as the COVID-19 pandemic. Further, the largest banking groups maintained higher profitability levels in 2020 compared to the smaller banks in the CEE region.

EVOLUTION OF NPL METRICS IN THE CEE REGION

The pressure of the COVID-19 pandemic did not put an end to the improving asset quality of the CEE region. However, from a closer look the situation is more nuanced as the drivers behind the improving asset quality significantly changed in 2020. Before the COVID-19 pandemic the decreasing NPL volumes were attributable to the supporting macroeconomic environment and to the portfolio cleaning activities of banks in the region fuelled by the strong demand from financial investors. In contrast by 2020, the seemingly improving asset quality became misleading as the indicators were primarily driven by other external factors, such as moratoriums, fiscal stimulus packages and monetary and risk policy easing.

Figure 11. Evolution of NPL volumes and GDP, Q4 2019 - Q4 2020



Source: National banks, EIU

Note1: Ukrainian 39.8% NPL ratio is excluded from the figure and from the average trend lines
Note2: Bubble size represents total NPL volume at the end of 2020 (EUR mn)

Overall, the level of the NPL volume continued to improve in 2020 as the aggregate NPL volume decreased by 5.5% at the end of 2020 compared to the end of 2019. However, after excluding Ukraine from the list the aggregate NPL volume shows an increase of 3% in 2020 compared to 2019. Further the dispersion between the changes of total NPL volumes among the CEE countries was much higher in 2020 compared to 2019, because the introduced financial aid measures differed in each country affecting greatly the quality indicators. The volume of NPLs decreased in 9 out of the 16 analysed markets, the largest decline in volumes were reported in Latvia (-34.3%), Ukraine (-32.6%), and Bosnia and Herzegovina (-21.4%).

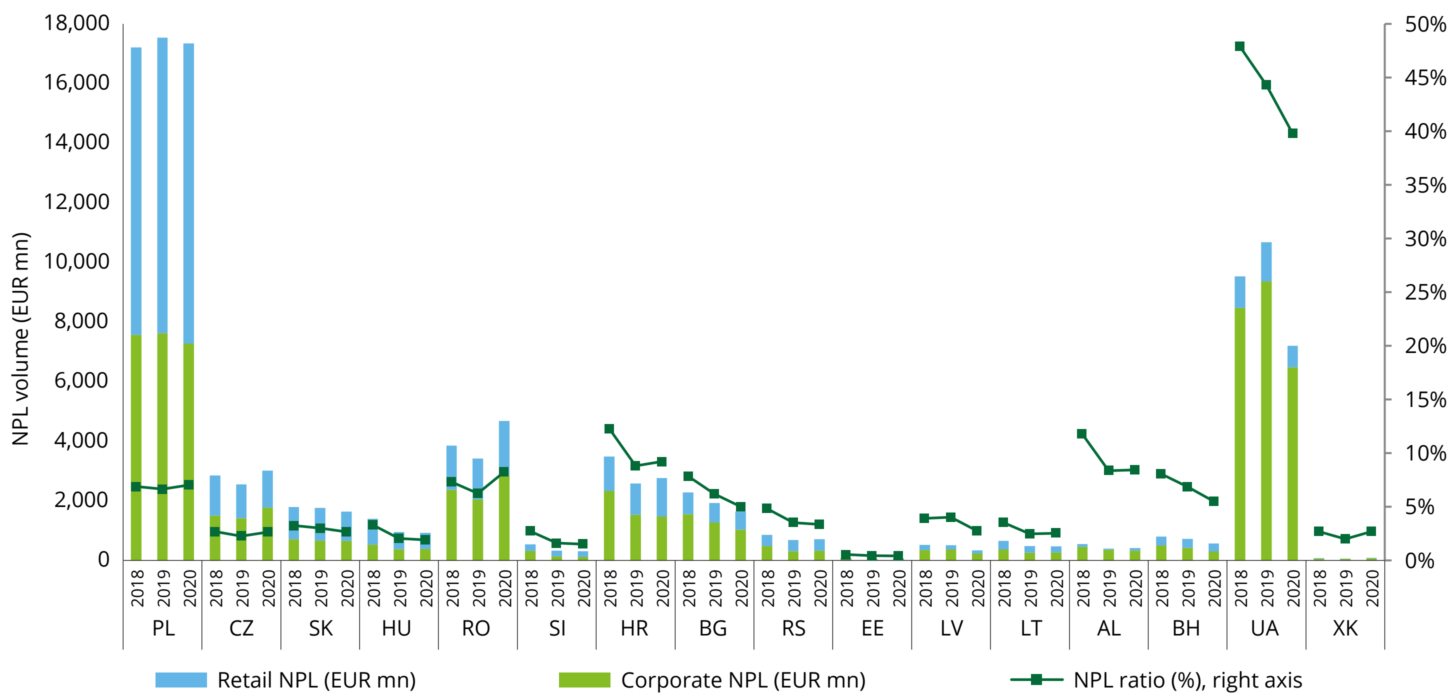
On the other hand, in some countries the trends were the opposite as NPL volumes increased substantially in Kosova (44.1%), Romania (36.7%), and in the Czech Republic (18.0%) between 2019 and 2020.

To get a more complete view on the state of the asset quality in the region the NPL ratio needs to be taken into consideration as well. The tendency is almost identical with that of the total NPL volumes as the average total NPL ratio decreased in 9 out of the 16 analysed countries. Overall, the average total NPL ratio decreased from 6.8% (4.3%)[3] at the end of 2019 to 6.5% (4.3%) at the end of 2020.

3. Figures in brackets exclude the Ukrainian NPL ratios

The NPL ratio in the corporate segment fell from 8.4% (5.4%) at the end of 2019 to 8.0% (5.2%) at the end of 2020 and the NPL ratio in the retail segment abated from 4.3% (3.2%) at the end of 2019 to 4.2% (3.5%) at the end of 2020. The Ukrainian NPL portfolio is still recovering from the severe macroeconomic crisis that hit the country between 2014 and 2015. Therefore, the highest total NPL ratio at the end of 2020 was recorded in Ukraine with 39.8%, which is primarily driven by the corporate NPL portfolio. The corporate NPL ratio of Ukraine was 49.6%, while the CEE average without the Ukrainian figures was 5.2%. Following the NPL ratio of Ukraine, the highest figures were reported in Croatia (9.2%), and in Albania (8.4%). Both in Croatia and Albania the higher total NPL ratio was driven by the increasing NPL ratios in the retail segments, as more households became insolvent during 2020, however the NPL ratio improved in the corporate segment in both countries. The best performing banking sectors in terms of asset quality at the end of 2020 were the Estonian, (0.4%), the Slovenian (1.5%), and the Hungarian (1.9%).

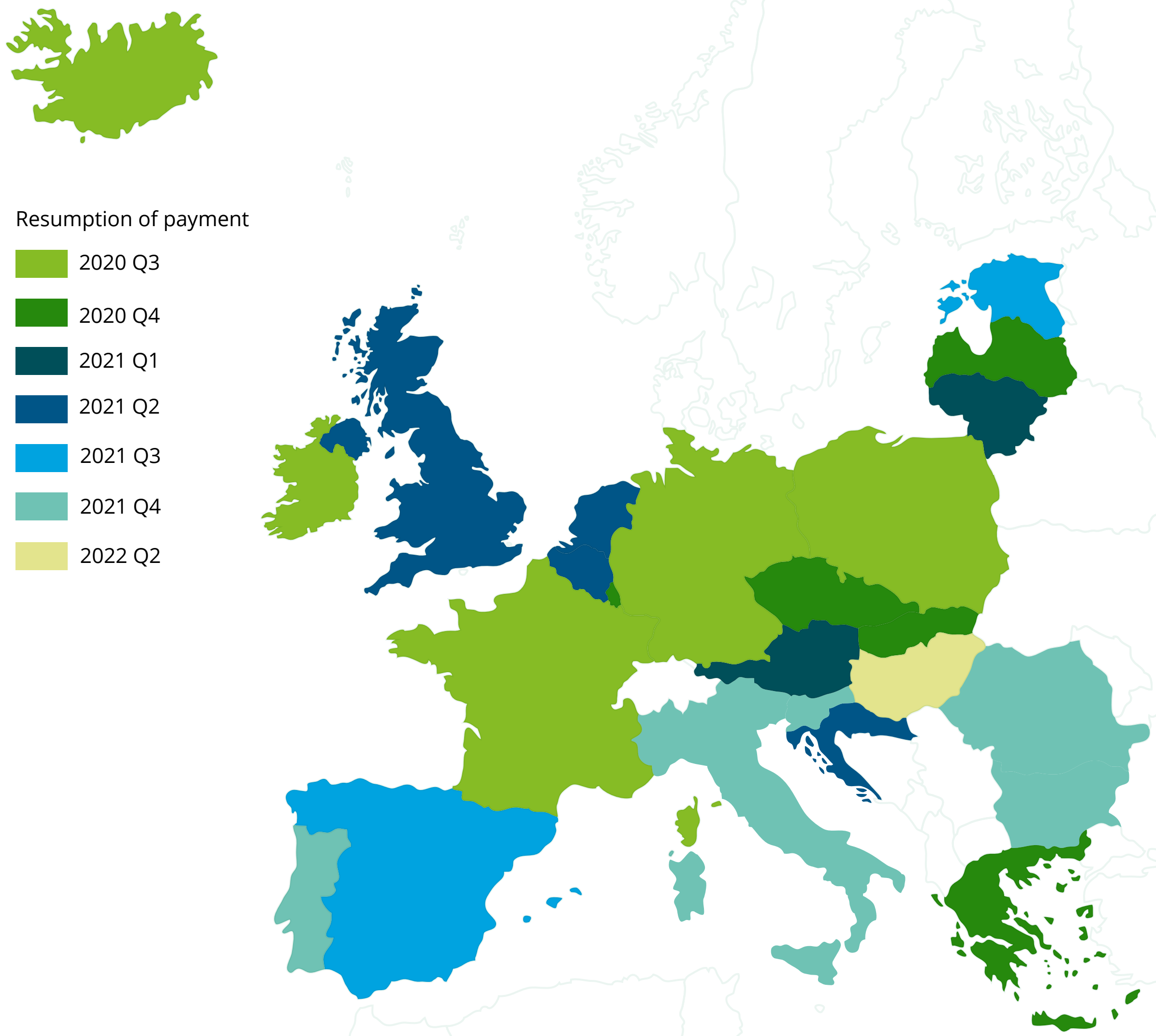
Figure 12. Evolution of key NPL metrics, 2018 - 2020



Source: National banks

The moratorium measure affects the volume of non-performing exposures as it prevents insolvency, and due to regulatory easing the deferment of the payments did not result in an automatic deterioration of the credit rating and the DPD figures. Consequently, the currently visible NPL levels need to be observed with high caution. Moreover, due to the deferred payments the level of the total loan volume is also higher resulting in a lower NPL ratio. Nevertheless, the introduction of moratoriums was not the only instrument of national banks and governments to preserve financial stability. Fiscal stimulus packages and monetary policy easing both contributed to the increase in lending activity across the CEE countries resulting in higher total loan volumes. At the end of 2020 the CEE countries started to phase out the moratorium measures in with the following illustration.

ILLUSTRATION 1: RESTART OF REPAYMENTS AFTER MORATORIUM AMONG THE EU MEMBER COUNTRIES

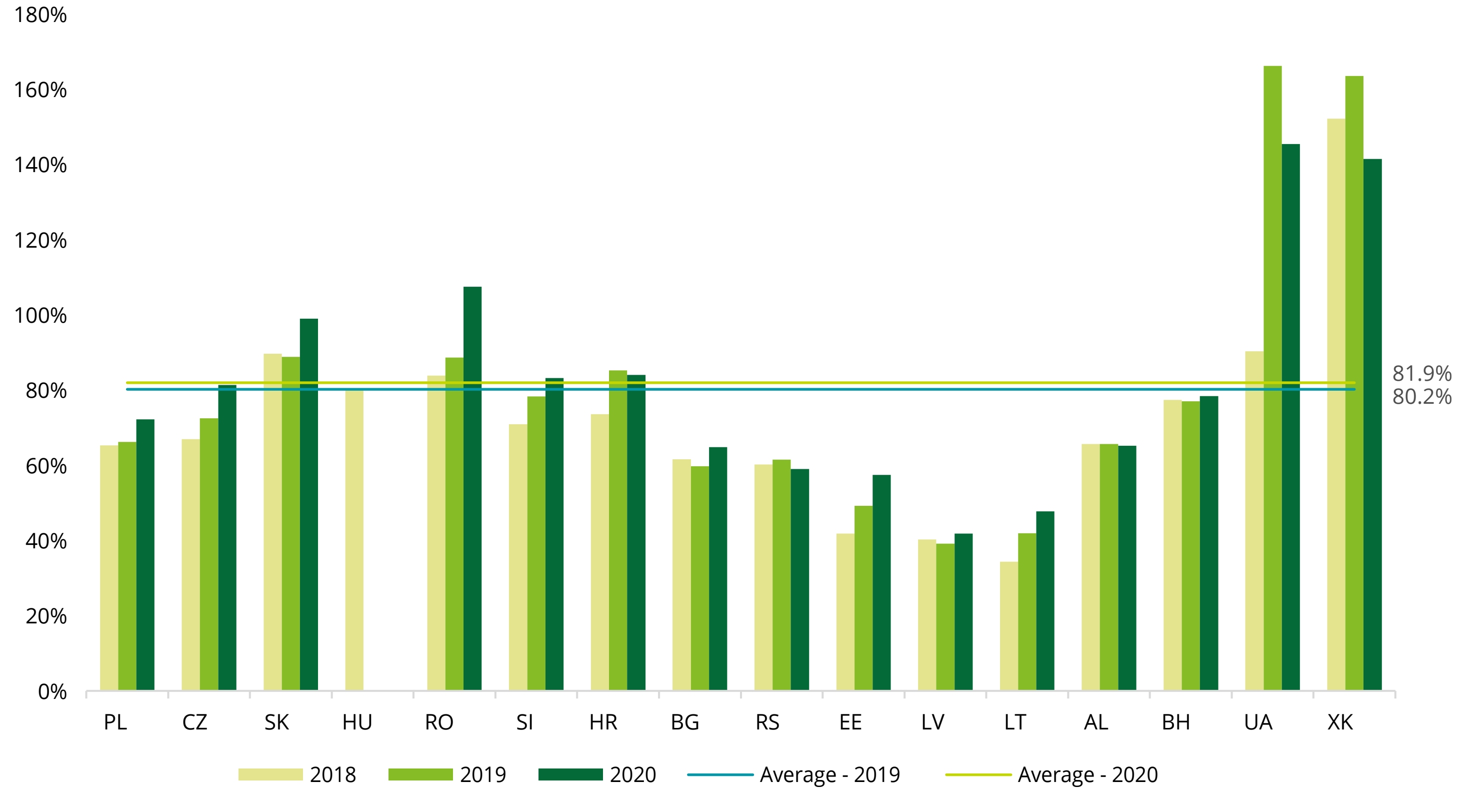


Source: National Central Banks

According to an analysis of the European Central Bank[4], NPL ratios start to increase approximately 4 years after corporate indicators worsened, and 2 years after debt-to-asset ratios increased. Ergo, the projection of the ECB is that the corporate NPL ratio in the region could start an increasing trend over the next years. Especially, in segments such as transport, culture, and HoReCa, which were the most crippled by the impacts of the COVID-19 pandemic, where the NPL ratio have already shown the first signs of deterioration. However, on an overall level, the average total NPL ratio has remained stable in the EU member CEE countries as of 2021 H1.

Taking into account the negative economic outlook driven by the pandemic and the slowing economy, banks started to increase their loan loss provision coverage in 2020. Figure 13 shows that the average LLP coverage increased from 80.2% at the end of 2019 to 81.9% at the end of2020. Note that loan loss provisioning ratio is extraordinarily high in Ukraine and Kosovo, and without their ratios considered, the average LLP coverage growth is more substantial in the region, as the LLP coverage increased by 5.2% points to 72.4% between the end of 2019 and the end of 2020. The highest increases in loan loss provisioning between the end of 2019 and the end of 2020 were reported in Romania (18.9%), Slovakia (10.1%), and the Czech Republic (8.8%). 2 out of the 3 largest growths of NPL volumes were also reported in Romania (36.7%) and the Czech Republic (18.0%). The significantly higher loan loss provisions at the end 2020 compared to the end of 2019 translated into the increase of cost of risk. Figure 14 implies that the average cost of risk in the analyzed 11 EU countries increased by 0.4% point to 1.1% between 2019 and 2020. Such higher cost of risk attributed to the deteriorating profitability ratios across the CEE region, however during the course of 2021 H1 the risk cost returned to its previous level easing the downward pressure on the profitability.

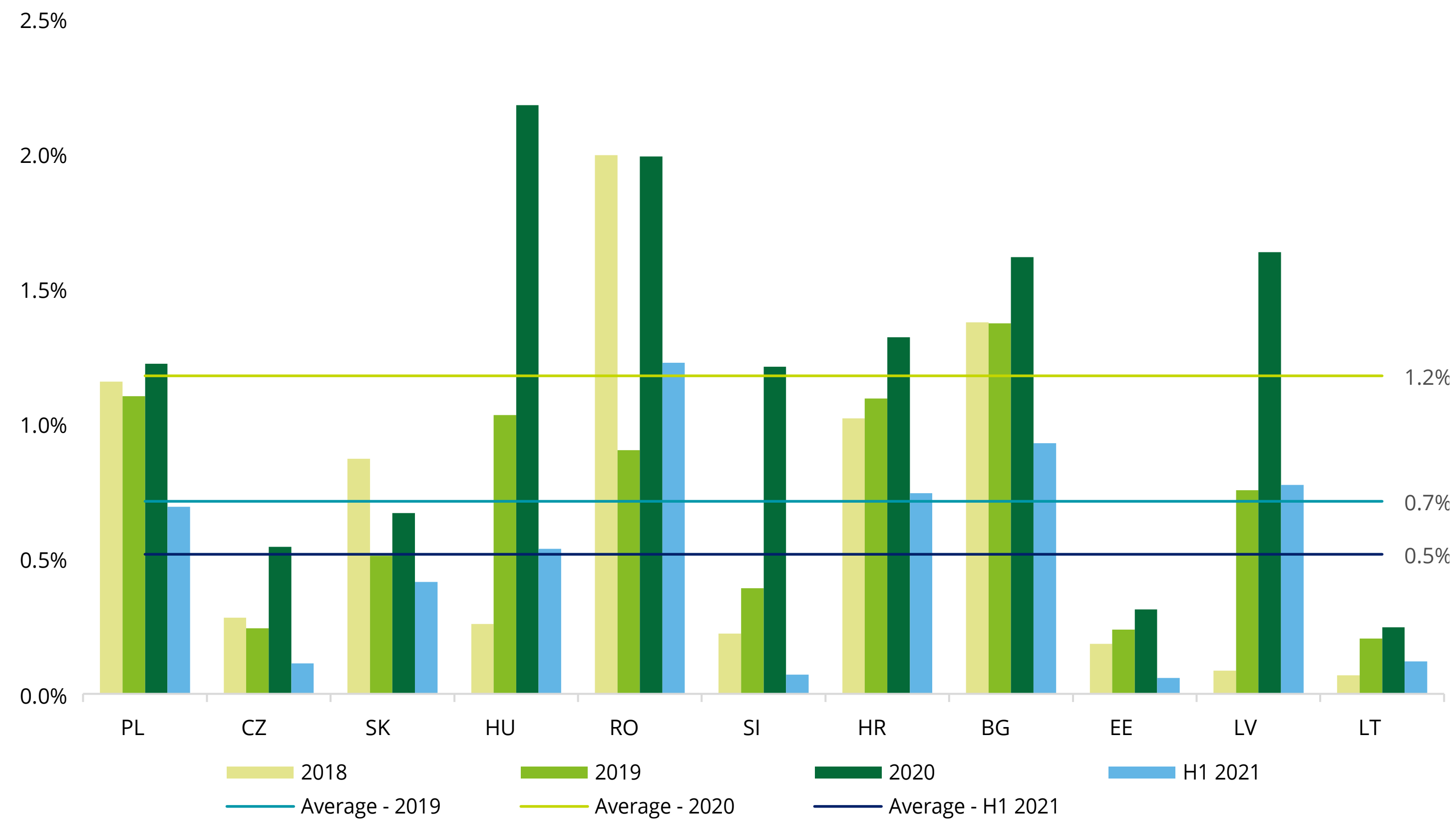
Figure 13. Loan Loss Provision Coverage, 2018-2020



Source: ECB CBD, National banks

Note: Hungarian LLP coverage figures are not available between 2019-2020, the value of the ratio as of 2021 H1 is 99.9%.

Figure 14. Cost of Risk (excluding non-EU countries), 2018-2021 H1



Source: EBA

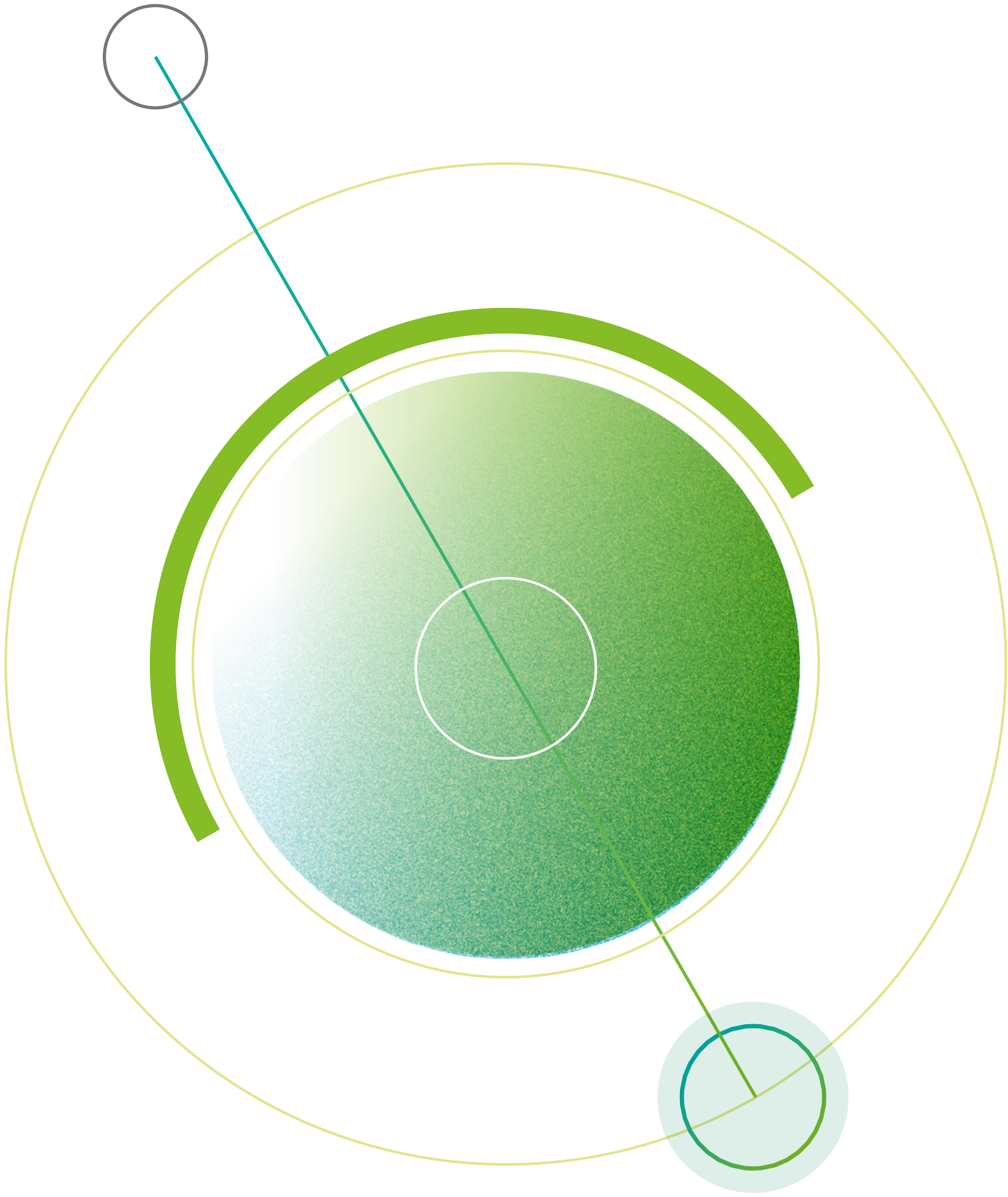
To sum up, reported CEE NPL ratios at the end of 2020 were lower relative to the historical low levels reported at the end of 2019. However, current NPL metrics are distorted by the introduced governmental measures to ease the financial impact of the COVID-19 crisis.

Therefore, banks cannot loosen their focus as the out phasing of moratoriums and the increased inflationary pressure are expected to pose threats on asset quality indicators for the medium-term.

TABLE 4. NPL VOLUMES AND RATIOS - Q4 2020

COUNTRY	CORPORATE (EUR MN)	CORPORATE NPL RATIO (%)	RETAIL (EUR MN)	RETAIL NPL RATIO (%)	TOTAL (EUR MN)	TOTAL NPL RATIO (%)
Poland	7,276	9.0%	10,072	6.1%	17,348	7.0%
Czech Republic	1,776	4.2%	1,238	1.7%	3,014	2.6%
Slovakia	652	3.3%	988	2.4%	1,640	2.7%
Hungary	386	1.5%	541	2.4%	927	1.9%
Romania	2,857	11.1%	1,819	5.9%	4,677	8.3%
Slovenia	122	1.3%	187	1.7%	309	1.5%
Croatia	1,476	12.5%	1,293	7.1%	2,768	9.2%
Bulgaria	1,029	5.3%	607	4.6%	1,636	5.0%
Serbia	332	3.1%	381	3.6%	712	3.3%
Estonia	43	0.6%	30	0.3%	73	0.4%
Latvia	235	3.5%	104	1.8%	339	2.7%
Lithuania	270	3.5%	208	1.9%	478	2.5%
Albania	326	9.9%	89	5.5%	415	8.4%
Bosnia and Herzegovina	303	6.5%	269	5.8%	572	5.5%
Ukraine	6,478	49.6%	721	14.4%	7,198	39.8%
Kosova	71	3.3%	17	1.4%	87	2.7%
Total	23,631	8.0%	18,563	4.2%	42,194	6.5%

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



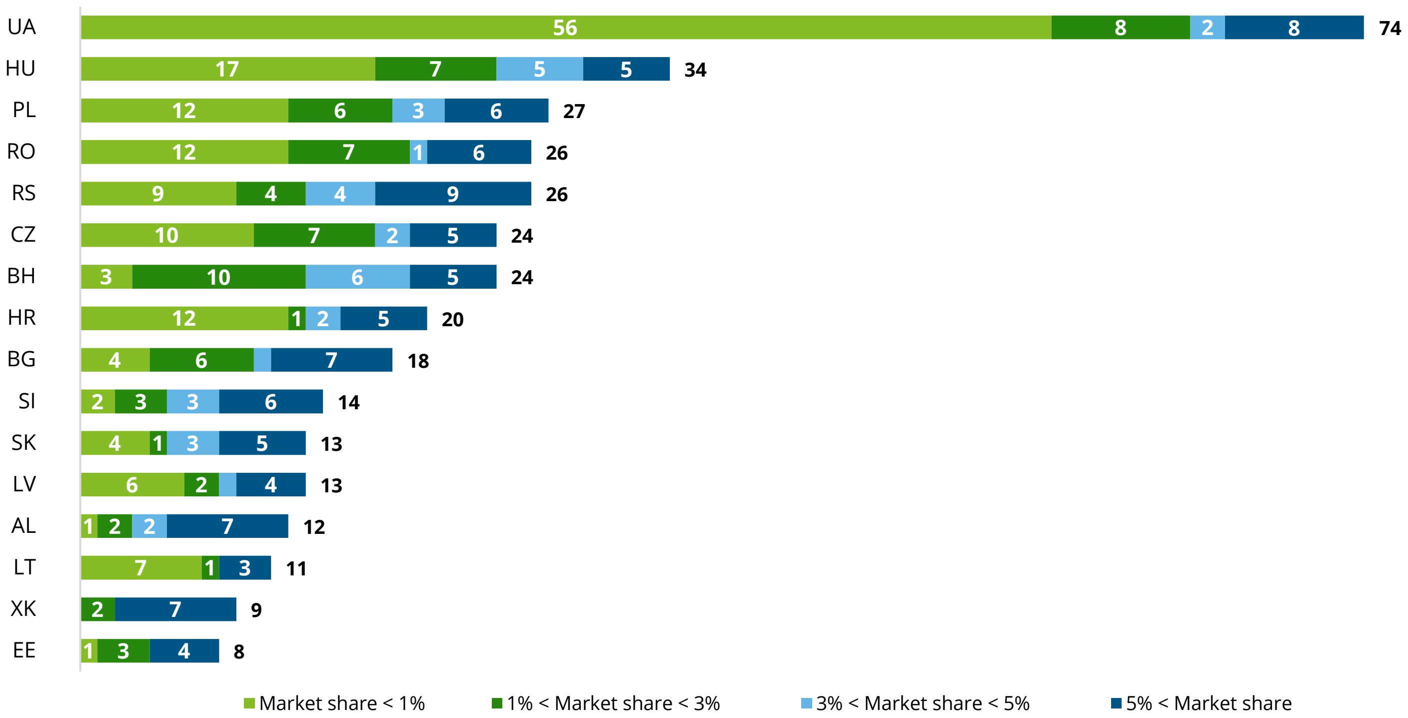
BANKING M&A DYNAMICS IN CEE

The impacts of the COVID-19 pandemic did not retract the CEE region's M&A activity, on the contrary, the highest number of banking M&A deals were reported in 2020 since 2016. In total, 18 deals were closed in 2020 and 4 deals are still ongoing. As of the end of November 2021, 20 deals were reported of which 7 are already closed and 13 are signed and to be closed.

The record number of banking M&A deals closed in the region back in 2015-2016 were driven by the unfavorable outlook, as smaller players were unable to tackle the obstacles caused by economic factors. Consequently, a higher activity was observable at the M&A markets, as smaller banks has become suitable acquisition targets. A similar trend is noticeable in the current M&A trends, as regional banks faced new challenges due to the COVID-19 outbreak. Profitability was hit, therefore less robust banks with lower capitalization levels were more vulnerable. Such banks became ideal acquisition targets for larger, more diversified banking groups with better economies of scale and operational efficiency. The acquisitions of smaller, weakened banks and the need for consolidation brought back the M&A activity to the 2015-2016 level in 2020 in the CEE region.

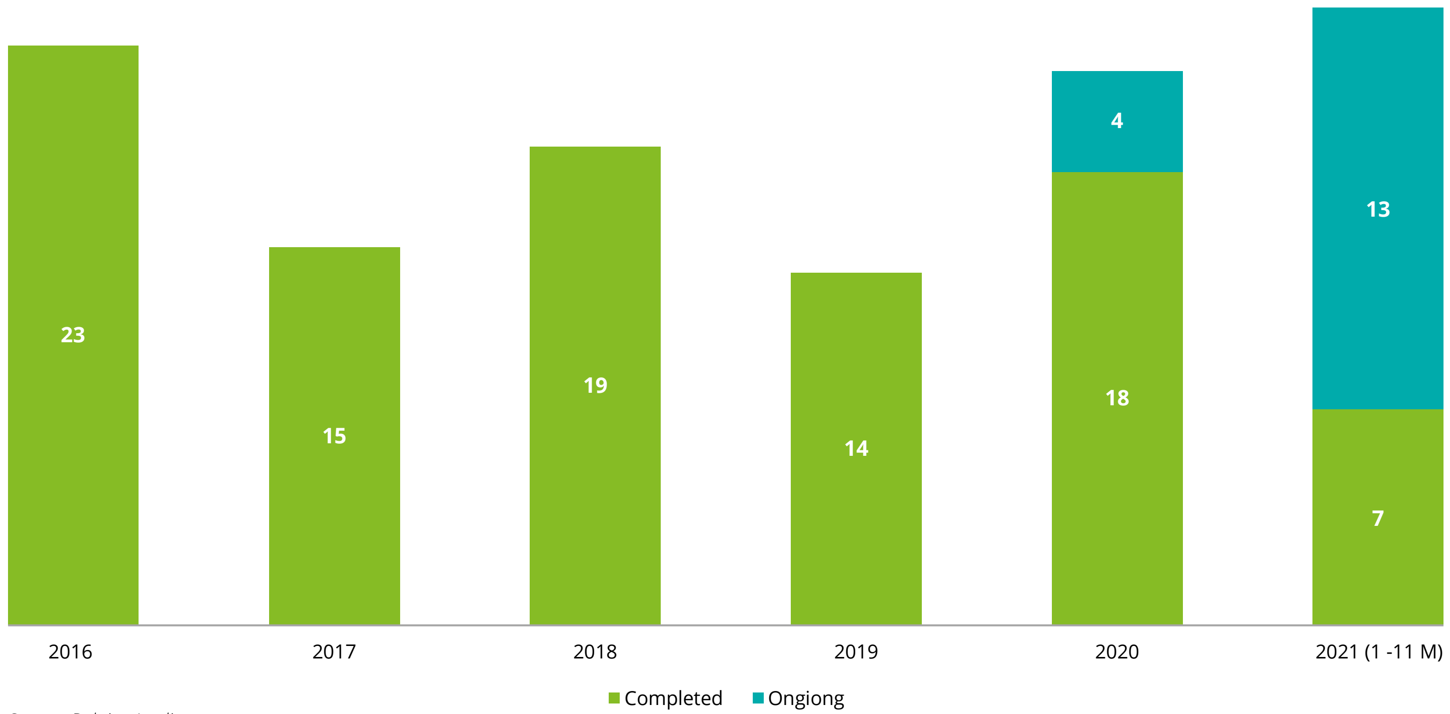
The previously described trend is also fueled by the still highly fragmented structure of the region's banking market. Figure 15 highlights banks` market share in the respective countries. Out of the 353 banks in the CEE region, there are 156 banks with a smaller than 1% market share and 261 banks with a smaller than 5% market share that adds up close to 75% of all the banks in the region. Thus, despite the intense M&A activity in recent years, the region's banking sector is still considered to be highly fragmented with many small players targeting only some regional markets within their respective countries. Consequently, further consolidation is to be anticipated in the short- and medium-term in the regional banking market.

Figure 15. Nr. of banks in the respective countries with lower market share, 2020



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

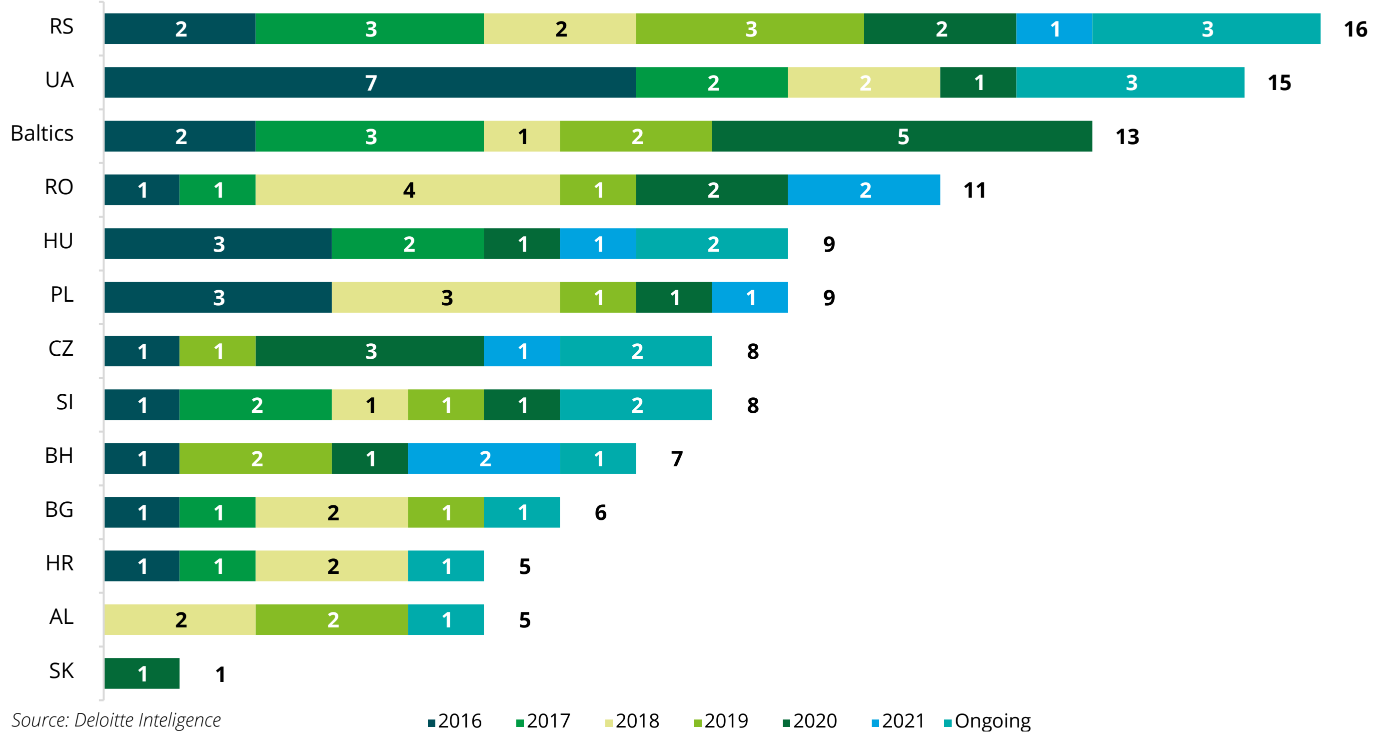
Figure 16. M&A activity by year - Nr. of transactions, 2016 - November 2021



Source: Deloitte Inteligence

Figure 16 and Figure 17 show the M&A activity by year in the CEE region. On the country level, Serbia was the busiest M&A market in the CEE region with 16 completed or ongoing transactions by the end of November 2021 from 2016. The second and third busiest M&A markets were the Ukrainian and Baltic markets with 15 and 13 completed or ongoing transaction between 2016 and November 2021, respectively. The M&A market was relatively active in the Czech Republic as well, with 3 newly announced transactions in 2021.

Figure 17. M&A activity by country - Nr. of transactions, 2016 - November 2021



Source: Deloitte Inteligence

Figure 18 shows the most active buyers in the CEE market between 2016 and November 2021. The most active buyer in the 16 analysed country was the Hungarian OTP Group with 7 completed transactions since 2016 in Albania (1), Bulgaria (1), Croatia (1), Hungary (1), Serbia (2), Slovenia (1) and with 2 ongoing transactions in Albania (1), and in Slovenia (1). After the successful regional expansion in recent years, OTP is engaged in the post-merger integration of the acquired banks. In addition, in 2021, OTP announced the acquisition of the Slovenian Nova KBM for EUR 900 mn. The seller is the US-based Apollo Global Management fund that set its foot in Slovenia with the acquisition of Nova KBM in 2015 from the Republic of Slovenia. Nova KBM subsequently acquired Raiffeisen Banka in 2016 and Abanka in 2020. The successful closure of the current transaction in Slovenia is a top priority for OTP Group, as after the completion of the deal the new entity will become the largest banking group in the Slovenian market. Most recently, OTP Group announced the acquisition of Alpha Bank in Albania for a disclosed price of EUR 55 mn, equating to 0.7x book value. Alpha Bank is the second acquisition of OTP in Albania, after the purchase of the Albanian branch of Société Générale in 2019. Following the closure of the deal, the market share of OTP in Albania will almost double and exceed 10% based on the figures reported at the end of 2020. The current deals are part of OTP Group's medium-term strategy of becoming an even more significant player in the CEE landscape.

In November 2021, new developments were announced around Sberbank`s long rumoured exit from the CEE region. As per the current agreement, the agreed acquiror of the 5 affected subsidiaries (Croatia, Hungary, Serbia, Slovenia and Bosnia-Herzegovina) are various entities forming part of the Serbia MK Group, including AIK Banka, which places the Serbia-based group to the second position after OTP Group on the most active buyers list with 5 acquisitions[5]. However, the closing of the transactions is pending multiple regulatory approvals. Despite of the transaction, Sberbank is not planning to completely withdraw from the CEE region, as it intends to keep its Czech unit, Sberbank CZ, which remains a subsidiary of the Vienna based Sberbank Europe.

The third most active buyers during the observed period were the Austria-based RBI Bank and the Belgian KBC Group. RBI completed 2 transactions in the Czech Republic and has 2 ongoing transactions in the Czech Republic (1) and in Serbia (1). In 2020, RBI was the 4th largest bank in Serbia, while its target, Crédit Agricole was the 12th in terms of assets. After the completion of the acquisition, the new entity could have the potential to become the 2nd largest player in the Serbian market. In the Czech market, RBI started an aggressive expansion in recent years. By acquiring Equa Bank from AnaCap and entering into a referral agreement for deposit customers of the retail branch of ING, RBI can strengthen its position and compete with the largest players in the Czech Republic. ING plans to continue its operation in the Czech market by keeping its wholesale business.

The Belgian KBC Group completed 3 deals in recent years in the Czech Republic (1), Bulgaria (1), Slovakia (1), and has one ongoing deal in Bulgaria. Currently KBC is the market leader in the Czech market in terms of total assets. KBC also increased its market share in the Slovakian market by acquiring OTP Banka Slovensko, the Slovakian subsidiary of OTP Group. Most recently, KBC Group announced the acquisition of Raiffeisen Bank Bulgaria for EUR 1.0 bn. The expansion is in line with the strategy of KBC of having "critical mass" in each of the four CEE markets in which it is present. After the integration of RBI Bank to UBB, which is the current Bulgarian subsidiary of KBC and the 3rd largest bank in the country, the new entity will compete for the largest banking group position in Bulgaria with OTP and UniCredit. The reported P/BV multiple of the transaction is 1.6x, which is considerably higher than the circa 1.0x average in recent years in the CEE region, reflecting the quality and synergy potential of the Raiffeisen franchise.

The fourth most active buyer was the Polish state with 3 acquisitions in 2016. Since then, the Polish state has slowed-down its intense acquisition strategy, but might reactivate the "re-Polonisation" as a response to manage the challenges imposed by the COVID-19 pandemic.

The rest of the most active buyers have 2 completed or ongoing transactions. Moneta Money Bank (before the IPO known as GE Money bank) has also been an active player of the Czech market in recent years. The bank took-over the building society Wuestenrot - Stavební Spořitelna and the mortgage bank Wuestenrot Hypotecni Banka in 2020.

The objective of the transaction was to increase the market share and the profitability of the bank. Furthermore, the potential merger of Moneta Money Bank and Air Bank / Home Credit Czech Republic could challenge the 3 largest banking groups in the Czech Republic and could further boost the ongoing consolidation. The two sides have already agreed on terms to combine their lending assets, pending approval from Moneta Money Bank's shareholders, regulatory approvals and Moneta Money completing an increase in share capital. Upon the merger, Moneta's customer base is expected to grow by more than 70% and the new entity would be the first dominant player in the Czech market that is not an affiliate of any Western European bank.

The US-based private equity firm J.C. Flowers entered the CEE banking market by acquiring Piraeus Bank in Romania in 2018. The fund is focusing on high-growth potential markets and is investing exclusively in the financial services industry. After the transaction Piraeus Bank was renamed to First Bank. In 2019, J.C Flowers continued its Romanian expansion and acquired Bank Leumi. Shortly after, Bank Leumi was integrated to First Bank, which is currently the 12th largest bank in Romania.

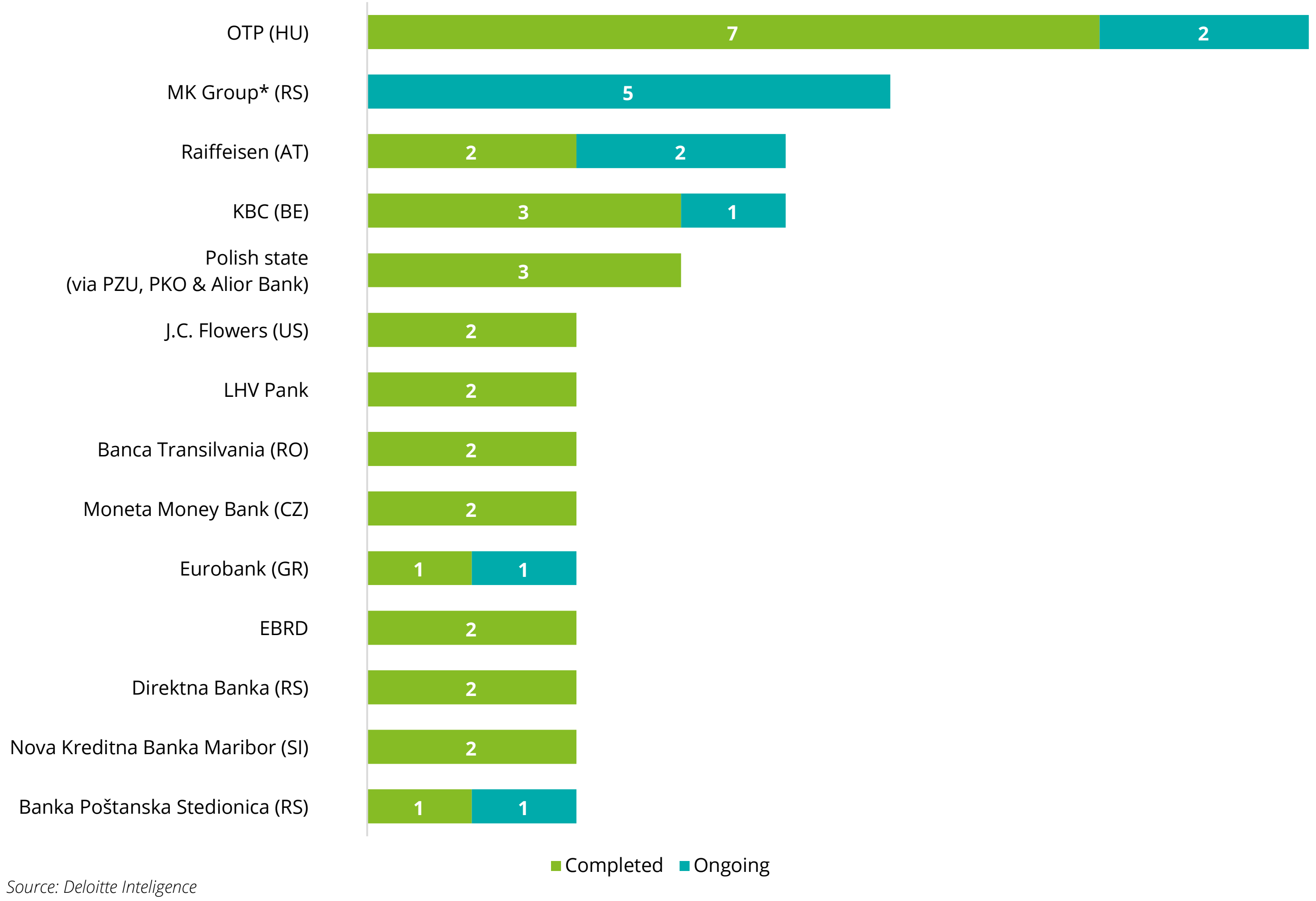
By the end of 2020, LHV Pank finished the acquisition of the remaining corporate and public sector businesses of Danske Bank in Estonia. In Serbia, Direktna Banka acquired Findomestic Banka in 2016 and Piraeus Bank in 2018. Despite of the acquisitions, Direktna remained a relatively small player in the Serbian market with a market share of 2%. The further consolidation on the Serbian banking market continues as Eurobank Ergasias SA announced the acquisition of Direktna Banka AD in a partial cash and share transaction that will result in Direktna Banka's shareholders retaining a 30% shareholding in the enlarged entity.

The closing is expected to take place in the last quarter of 2021, following the regulatory and supervisory approvals. After the successful integration of Direktna, the new bank could compete with the top 5 banks in Serbia. In recent years, Nova KBM substantially strengthened its #2 position in the Slovenian banking market with the acquisition of Raiffeisen Banka in 2016 and Abanka in 2020. The successful expansion prepared Nova KBM to become an ideal target for OTP Group. The next member on the most active buyer list is Banca Transilvania, which acquired Idea Bank Romania in 2021. With the acquisition, Banca Transilvania further strengthened its position as the leading commercial bank in the Romanian market. Banka Poštanska Stedionica is closing the list with 2 transactions in 2021. The Serbia-state owned bank strengthened its domestic position by acquiring MTS Banka, which major shareholder was Telekom Srbija. In addition, Banka Poštanska Stedionica started its international expansion by acquiring Komercijalna Banka Banjaluka in Bosnia and Herzegovina in the province of Republika Srpska. The goal of the transaction is to increase the financial trust of the citizens of Republika Srpska towards Serbia. Note that the Slovenian NLB acquired Komercijalna Banka Banjaluka in 2020.

The unprecedented tripartite merger in Hungary is still ongoing among Budapest Bank, MTB Group and MKB Bank. After the integration, the new bank could become the second largest banking group in Hungary. Signing of the deal was announced in October 2020, closing took place in December 2020, but the integration process of the three banks is communicated to be closed by 2023. This transaction is in-line with the consolidation actively promoted by the National Bank of Hungary over the past years.

5. The sale of the five subsidiaries were made in one joint transaction, however because it affected 5 CEE countries it is presented as five separate transactions in the activity league tables.

Figure 18. Top buyers by the Nr. of transactions, 2016 - November 2021



Source: Deloitte Inteligence

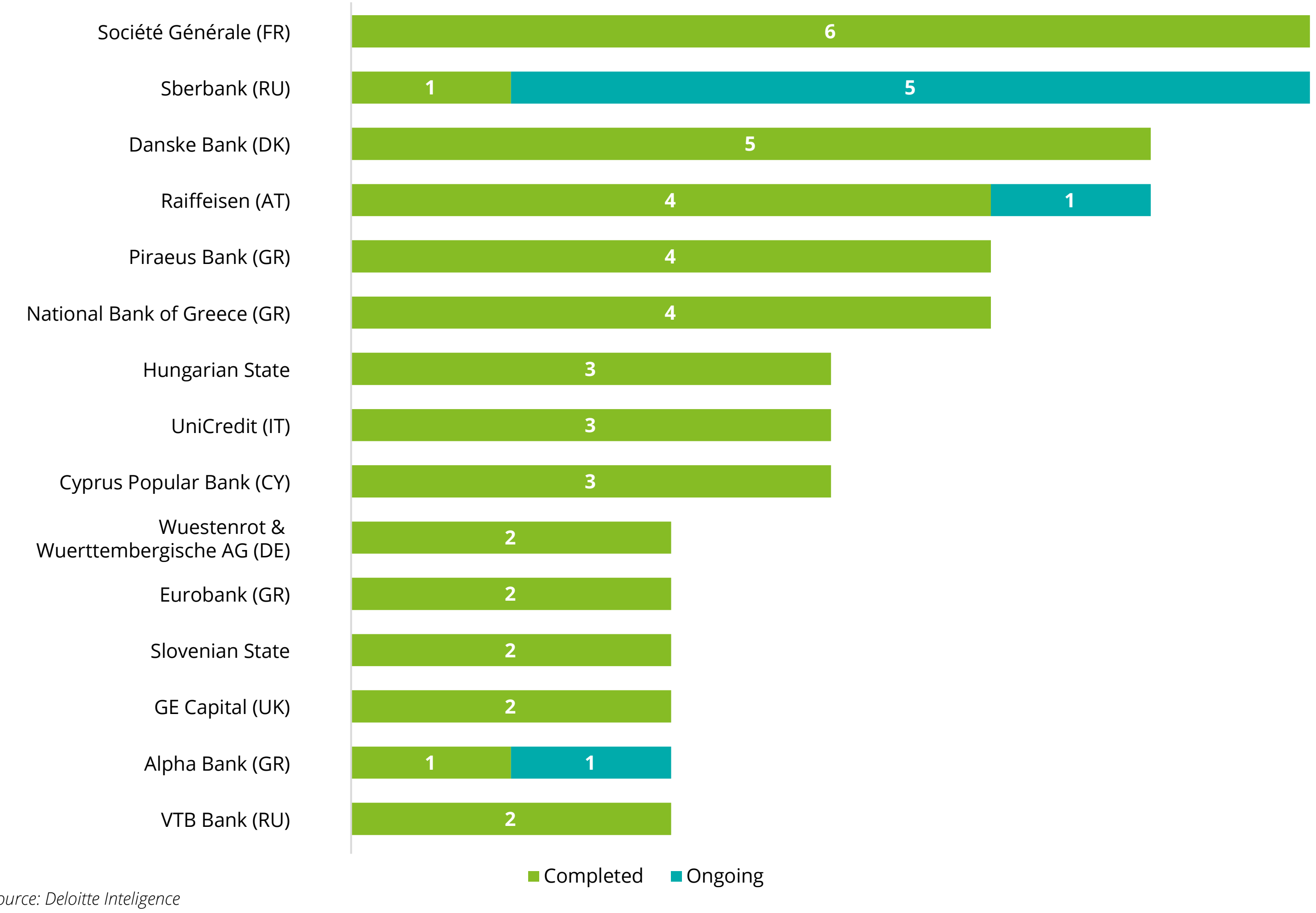
Note: Group MK includes: AIK Banka a.d. Beograd, Gorenjska Banka d.d., Kranj, Agri, Europe Cyprus Limited

Figure 19 presents the most active sellers in the CEE region between 2016 and September 2021. The most active seller in the region was the France-based Société Générale with 6 transactions in Albania (1), Croatia (1), Poland (1), Slovenia (1), Serbia (1), and Bulgaria (1). In the past years, Société Générale decided to exit some CEE banking markets, as long-term sustainability could not have been achieved through organic growth alone and larger targets for further expansion were not available. The French banking group kept only its 2 larger, well-performing subsidiaries in the Czech Republic (Komercni Banka) and in Romania (BRD). OTP Group took over 4 out of the 5 sold Société Générale subsidiaries in the recent years.

With 5 completed or ongoing transactions, Danske Bank and RBI were also active sellers during the observed period. After the money laundering scandal between 2017-2018, Danske Bank was forced to leave the Baltic region. The listed transactions are in line with the exit of Danske Bank from the Baltics. RBI exited the Polish market with the sale of Raiffeisen Polbank to BGZ BNP Paribas Polska. Also, RBI left the Slovenian market with the sale of Raiffeisen Banka in 2016 and currently is in the process of selling Raiffeisenbank in Bulgaria to KBC Group.

Another active seller in the CEE region was the Greece-based Piraeus Bank. The bank disposed 4 of its subsidiaries in Bulgaria (1), Albania (1), Romania (1), and Serbia (1). The exit from these markets is in accordance with the restructuring plan commitments made to the European Commission and with the implementation of the strategic plan of Piraeus Bank. The group is one of the largest banks in Greece and aims to strengthen its domestic position after downsizing its international portfolio. National Bank of Greece finalized 4 transactions as well during the observed period, also a result of its restructuring commitments to the European Commission. The bank exited the Romanian (2020), Albanian (2018), Serbian (2017), and Bulgarian (2016) markets with the disposals of Banca Romaneasca, Banka NBG Albania, Vojvodjanska Banka, and UBB, respectively. National Bank of Greece's only remaining subsidiary in the region is Stopanska Banka in North Macedonia.

Figure 19. Top sellers by the Nr. of transactions, 2016 - November 2021



Source: Deloitte Inteligence

To conclude, the COVID-19 pandemic further accelerated the ongoing consolidation in the CEE markets. Between 2020 and 2021, the regional M&A activity reached the 2015-2016 peak level again. However, the CEE banking landscape is still fragmented with many smaller players. Therefore, in order to improve operational efficiency and economies of scale, banks are expected to seek further M&A opportunities. Consequently, a strong deal flow and further consolidation is anticipated in the CEE region.

In addition, the expansionary strategy of the large banking groups such as Erste, KBC, OTP and RBI is likely to set the foundation of the regional M&A activity in the upcoming years.

Most recent CEE banking M&A deals from January 2020 to November 2021 are presented in the table below. For deals of 2015 –2019, please refer to deal summary tables of the respective country sections.

TABLE 5. LIST OF THE MOST RECENT BANKING M&A DEALS IN CEE 2020 - NOVEMBER 2021

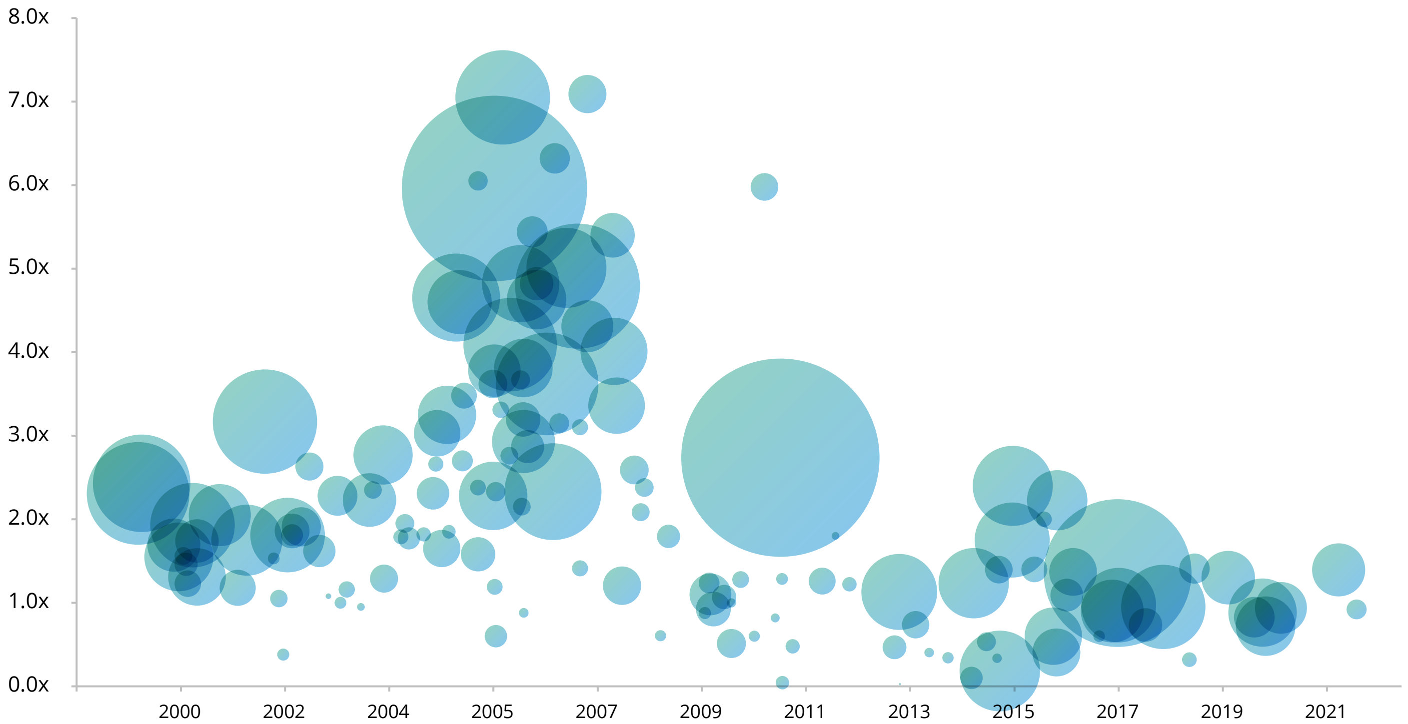
YEAR	COUNTRY	TARGET	BUYER	% ACQUIRED	DEAL VALUE IN EUR MN	SELLER
2021*	CZ	ING Group NV (retail banking operations in Czech Republic)	Raiffeisen Bank International AG	100%	n.a.	ING Group NV
	CZ	Moneta Money Bank	PPF Group N.V.	28%	435	n/a
	HU	Sberbank	AIK Banka a.d. Beograd, Gorenjska Banka d.d., Kranj, Agri Europe Cyprus Limited	100%	n.a.	Sberbank
	SI	Sberbank	AIK Banka a.d. Beograd, Gorenjska Banka d.d., Kranj, Agri Europe Cyprus Limited	100%	n.a.	Sberbank
	SI	Nova KBM	OTP	100%	900	Apollo Global Management, LLC; The European Bank for Reconstruction and Development
	HR	Sberbank	AIK Banka a.d. Beograd, Gorenjska Banka d.d., Kranj, Agri Europe Cyprus Limited	100%	n.a.	Sberbank
	BG	Raiffeisen Bank	KBC	100%	1015	Raiffeisen
	RS	Sberbank Srbija	AIK Banka a.d. Beograd, Gorenjska Banka d.d., Kranj, Agri Europe Cyprus Limited	100%	n.a.	Sberbank
	RS	Credit Agricole Srbija A.D.	Raiffeisen Bank International AG	100%	n.a.	Credit Agricole SA
	RS	Direktna Banka AD	Eurobank Ergasias SA	100%	n.a.	Private Individuals
	AL	Alpha Bank Albania	OTP	100%	55	Alpha Bank
	BH	Sberbank, Banja Luka	AIK Banka a.d. Beograd, Gorenjska Banka d.d., Kranj, Agri Europe Cyprus Limited	100%	n.a.	Sberbank
	BH	Komercijalna Banka Banja Luka	Banka Poštanska Stedionica	n.a.	n.a.	Nova Ljubljanska Banka
2021	PL	Idea Bank SA (Certain assets and liabilities)	Bank Pekao SA	100%	n.a.	Idea Bank SA
	CZ	Equa Bank a.s.	Raiffeisen Bank International AG	100%	n.a.	AnaCap Financial Partners Limited
	HU	Sopron Bank	MagNet bank	100%	n.a.	Hypo-Bank Burgenland AG
	RO	Idea Bank Romania	Banca Transilvania S.A.	100%	43	Getin Holding SA
	RO	Credit Agricole Bank Romania S.A.	Vista Bank (Romania) SA	100%	n.a.	Credit Agricole Bank
	RS	MTS Banka	Banka Postanska Stedionica	90%	n.a.	Telekom Srbija
	BH	Nova Banka Banja Luka	MG Mind	99%	n.a.	n.a.
2020*	HU	Takarek Group; MKB Bank; Budapest Bank	Three-party merger	~ 100%	n.a.	-
	UA	BTA Bank	Mikalai Varabei (Private Investor)	50%	n.a.	BTA Bank JSC
	UA	Prominvestbank	Luregio Limited	100%	n.a.	State Development Corporation VEB.RF
	UA	First Investment Bank	LLC Energopostavka	50%	n.a.	Private individuals
2020	PL	Bank Spółdzielczy w Przemkowie	SGB-Bank SA	100%	n.a.	n.a.
	CZ	Raiffeisen Stavební Spořitelna	Raiffeisen Bank International AG	90%	n.a.	Raiffeisen Bausparkassen Holding GmbH
	CZ	Waldviertler Sparkasse Bank - Czech branch	Ceska Spořitelna	100%	n.a.	Waldviertler Sparkasse Bank
	CZ	Wuestenrot - Stavební Spořitelna; Wuestenrot Hypotecni Banka	Moneta Money Bank	100%	175	Wuestenrot & Wuerttembergische AG
	SK	OTP Banka Slovensko	KBC	100%	n.a.	OTP
	HU	Granit Bank	Hungarian State; Private investor	n.a.	12	Share capital increased
	RO	Banca Comerciala Feroviara	Olimpiu Bălaş	63%	n.a.	Valer Blidar
	RO	Banca Romaneasca	Export-Import Bank of Romania	99%	314	National Bank of Greece
	SI	Abanka	Nova KBM	100%	511	Slovenian State
	RS	Opportunity Banka JSC Novi Sad	GLS Gemeinschaftsbank eG; Umweltbank AG; Triodos Investment Management B.V.	78%	n.a.	Opportunity International

YEAR	COUNTRY	TARGET	BUYER	% ACQUIRED	DEAL VALUE IN EUR MN	SELLER
2020	RS	Komercijalna Banka	Nova Ljubljanska Banka	83%	387	State
	EE	Inbank Liising AS	Finora Capital AS	100.0%	n.a.	Inbank AS
	EE	Danske Bank - Corporate and Public sector business	LHV Pank	100.0%	n.a.	Danske Bank
	LT	Medicinos Bankas	Growmore Asset Management	100.0%	n.a.	World Fuel Services; Konstantinas Karosas
	LT	Danske Bank - Retail business	Siauliu Bankas	100%	108	Danske Bank
	EE, LV, LT,	SIA UniCredit Leasing, SIA UniCredit Insurance Broker	Citadele Bank	100.0%	n.a.	UniCredit
	BH	Komercijalna Banka Banja Luka	Nova Ljubljanska Banka	n.a.	n.a.	n.a.
	UA	JSC Bank Credit Dnepr	Development Construction Holding Ltd.	100%	n.a.	Private individual

Source: Deloitte Inteligence
**Ongoing*

As per pricing of banking deals, Figure 18 highlights the evolution of the P/BV ratio of transactions with disclosed deal value since 2000. The peak before and the fall after the financial crisis of 2008 is remarkable. At that time the ratio could even reach 7.0x P/BV, whereas pricings were in a more reasonable 0.5-2.0x range in the last couple of years. In 2021, the average P/BV of disclosed transactions reached 0.97x, while the corresponding average was 0.93x in the previous year, therefore based on the publicly available data there was a slight increase in pricing. The economic turbulence further increased the number of transactions because smaller players could not cope with the challenges imposed by the pandemic. To conclude, the CEE banking market is still to remain a favourable geography to perform selective acquisitions at reasonable pricing levels. As we see, potential sellers and buyers are both out there in the market and deals are being done.

Figure 20. P/BV evolution of bankig deals in the CEE region, 2000 - November 2021



Source: Deloitte calculations

ESG AND SUSTAINABLE FINANCE

DRIVERS OF ESG AND SUSTAINABLE FINANCE IN FSI

The sustainability revolution is arriving faster than expected. There is increasing pressure from multiple stakeholders, which drives sustainability transformation in banks. What are these forces?

First, there is political and regulatory pressure. To meet Paris agreement target and make the EU climate neutral by 2050, Europe needs between hundreds of billions of euros annual investment over the next decade. Banks and sustainable finance is being given a crucial role by policy makers and standard setters to bridge this investment gap.

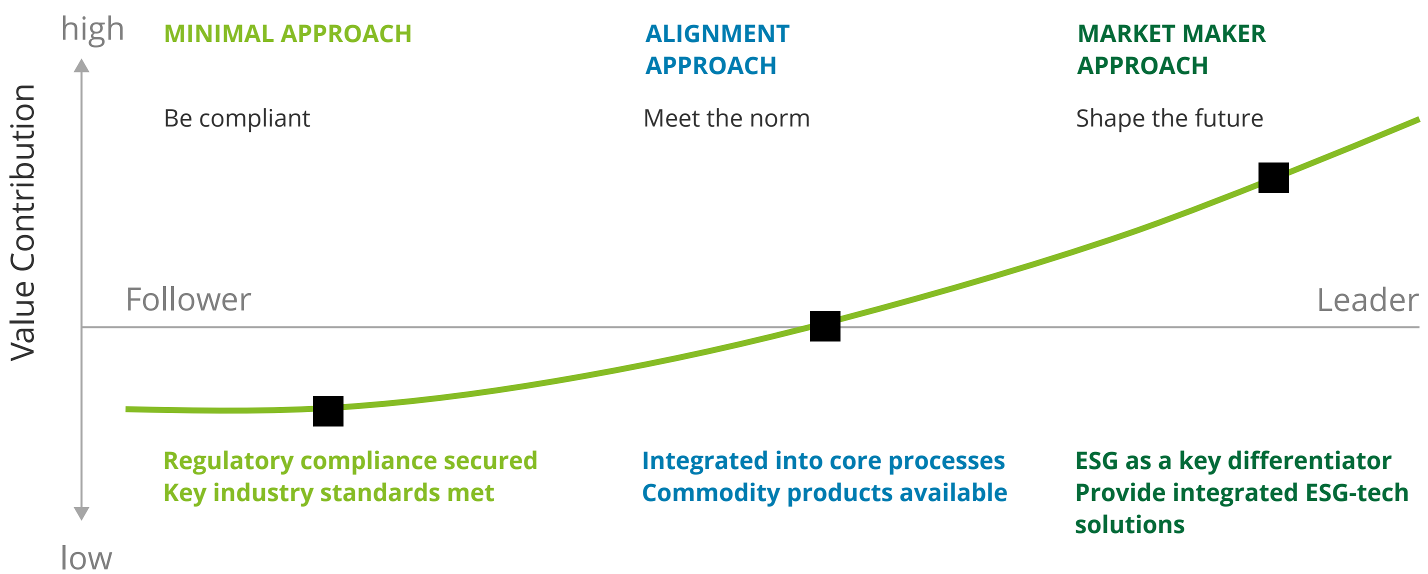
Second, there is customer behaviour and demand. Sustainable finance has been growing exponentially over the last few years and the development is expected to accelerate over the coming years. A growing number of investors take ESG criteria into account when making their investment decisions and debt products are also becoming more and more common not just in Western Europe but in CEE markets as well.

Third, there is market pressure. In a revolution started by Blackrock amongst others, HSBC, Goldman Sachs and many other G-SIBs are on the forefront with commitments to achieve net zero in their own supply chain over the next decade, improve their disclosures, take their fair share of financing the sustainable investment gap and bring sustainable finance into the mainstream.

As a result, the vast majority of large banks articulated a clear statement on their sustainability targets and measures, roughly half of them are publishing relevant KPIs, most of them have established a Chief Sustainability Officer (CSO) function and treat ESG as an opportunity to shape the future, rather than just achieve minimum compliance. While this sustainability transformation is admittedly somewhat slower in CEE, it is already shaping the local banks' change agenda.

Over time, especially as transition risks will start intensify due to political pressure, and physical risks may become apparent even more than today, ESG risks will start shaping the M&A landscape, just like credit risk has been shaping it over the past decades.

Figure 21. Strategic ESG choices in banking



Source: Deloitte

POLITICAL AND REGULATORY PRESSURE IS INCREASING

Standard setters and regulators have maintained a relentless focus on ESG over the past years. Below we are providing highlights summary of those initiatives that considerably shaped the CEE banking landscape in 2021.

Figure 22. Strategic ESG choices in banking

CLASSIFICATION

- EU Taxonomy of environmentally sustainable activities

PRODUCTS

- EU Action plan on Financing Sustainable Growth
- Principles for Responsible Investment (PRI)
- Green Bond Standard
- EU Ecolabel Retail Financial Products

BENCHMARKS

- EU Climate Transition Benchmark / Paris-aligned Benchmark

RISKS

- CFTC Report Impacts of climate risk to US financial markets
- ECB Guide on climate-related and environmental risks
- EBA Action Plan Sustainable Finance esp. risk management
- EBA Guidelines on Loan Origination and Monitoring

DISCLOSURE

- TCFD Recommendations
- EU SFDR Regulation on sustainability related disclosures
- SEC Recommendation Relating to ESG Disclosure
- EU Amendments to existing MiFID II, UCITS and AIFMD

Source: Deloitte

LENDING AND CREDIT RISK MANAGEMENT IS LEADING THE WAY

The EBA Guidelines on Loan Origination and Monitoring contain two important requirements. First, they require embedding the assessment of ESG risks within the credit lifecycle. For example, for SME and corporate exposures the EBA suggests using ESG risk heat maps, and for high risk borrowers requires more intensive analysis of ESG risks, such as greenhouse gas emissions as well as the sustainability transition affecting the borrower's financial position. Second, the guidelines de facto require the implementation of the Loan Markets Association (LMA) Green Loan Principles (GLP) for those banks that are offering, or wish to offer green loans.

Across all areas of risk and regulatory scrutiny, it is lending and credit risk where banks have made the most progress in terms of integrating ESG risks, focusing primarily on Climate and Environmental (C&E) risks across the risk management framework, credit lifecycle, products and pricing, as well as collateral valuations. The credit portfolios with the most progress sit on the opposite ends of the spectrum – typically specialised lending for corporates in renewable energy or real estate and energy-efficient mortgages for retail clients.

The guidelines are already in effect from 30th June 2021 for newly originated loans with a gradual phase-in by 30th June 2024. And while national competent authorities are expected to apply proportionality, the implementation of the requirements will require significant effort from CEE banks.

Figure 23. Loan origination and monitoring processes affected by ESG risks

Source: Deloitte

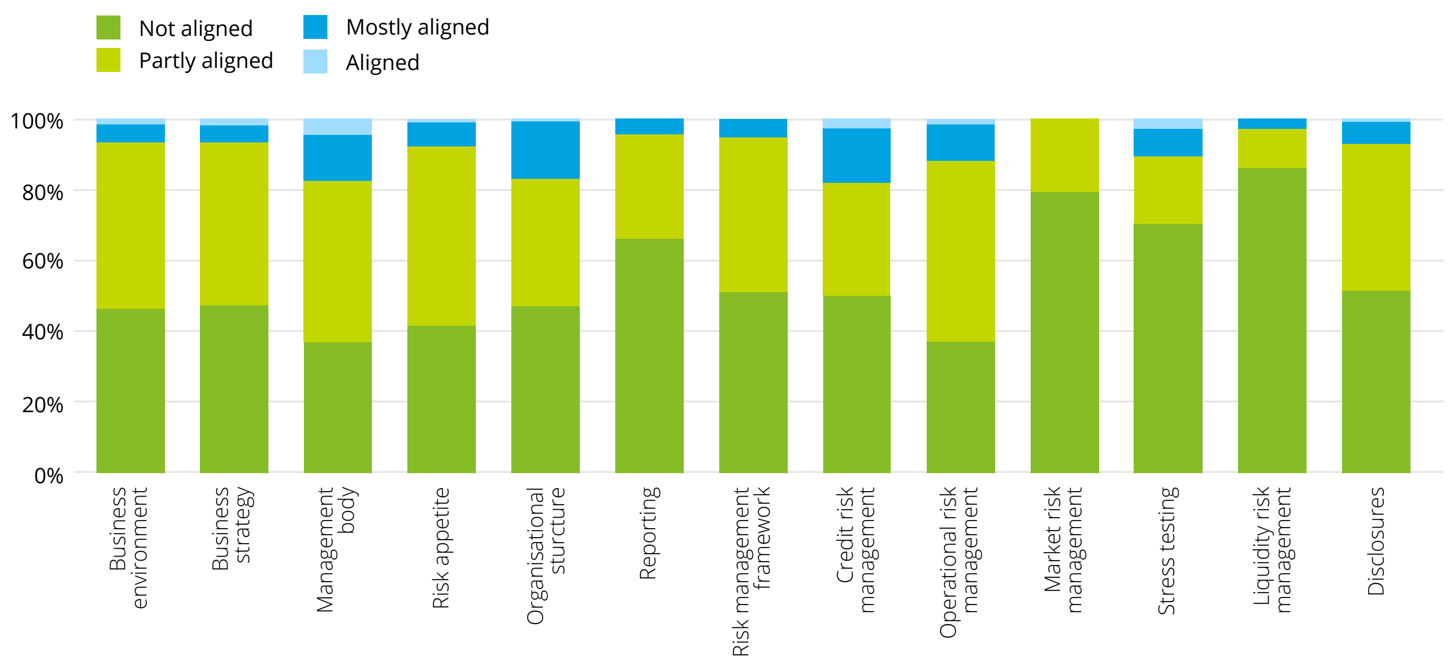
ECB FOCUS ON CLIMATE AND ENVIRONMENTAL RISK IS INTENSIFYING

Parallel to the EBA's efforts, the ECB has published its Guide on Climate-related and Environmental (C&E) Risks, which is directly applicable to the significant banks within the Banking Union countries of CEE. However, the guide has also served as inspiration for a number of national competent authorities when setting their C&E risk management expectations outside the non-Banking Union. The guide comprises of four sections across business models, governance and risk appetite, risk management as well as disclosures, articulating 13 expectations altogether. Over the course of 2021, the ECB performed an assessment covering 112 institutions and came to the conclusion that none of them are currently fully aligned to any of the 13 expectations. With regards to the quality of institutions plans to meet expectations, results were broadly evenly distributed between inadequate and adequate. Main trends in current practices and implementation plans

- Implementation has started, but focus so far has been on qualitative elements such as governance and policies rather than quantitative elements like integration into ICAAP and ILAAP.
- Management body, risk appetite and operational risk are the best developed, while internal reporting, market and liquidity risk management, as well as stress testing are the least developed
- The lack of available data is the biggest hurdle to come across, however, the ECB is clear that they believe that insufficient effort has been made be institutions in this space

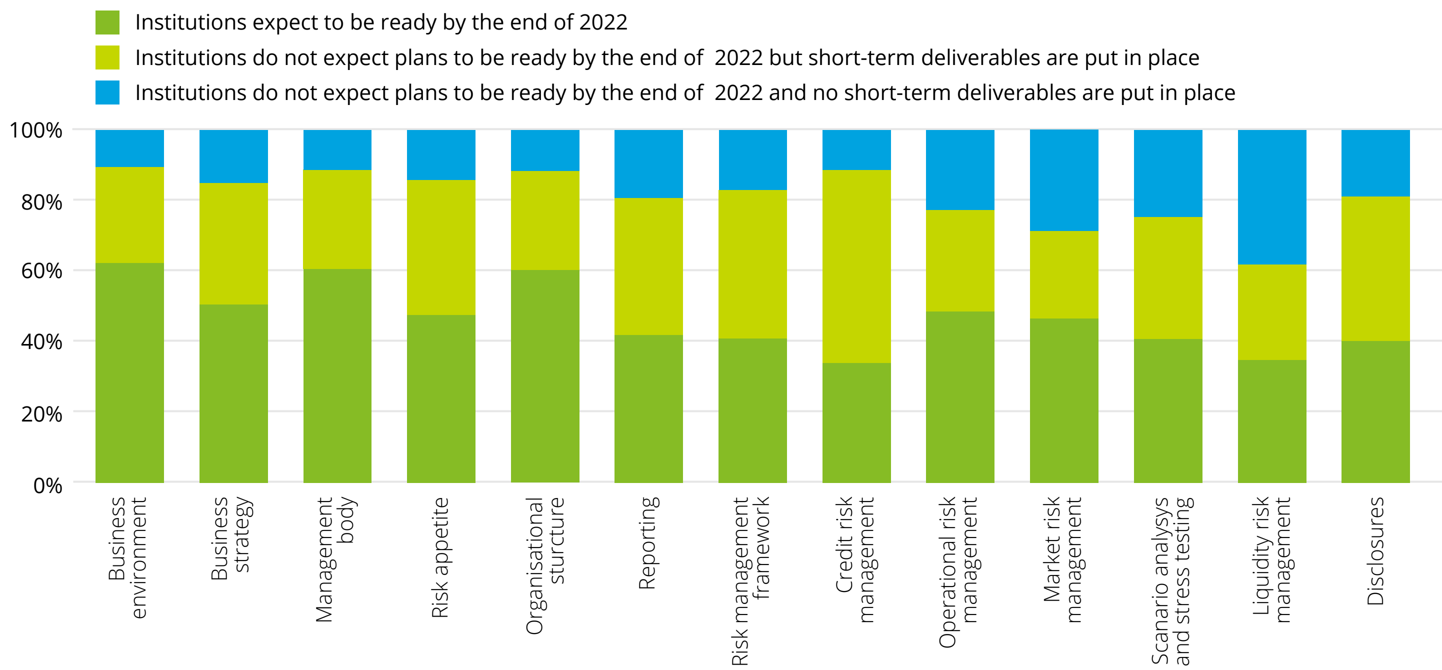
The ECB is incorporating the C&E assessment in the upcoming SREP exercise in 2022. They also state that those institutions that will not have completed their plans by the end of 2022 may not be able to soundly, effectively and comprehensively manage C&E risks that they are exposed to. All this means that significant institutions need to act fast, taking a strategic approach to methodology and data gaps.

Figure 24. Institutions' alignment with the 13 supervisory expectations set out in the ECB's guide



Source: ECB

Figure 25. The timeliness of institutions' plans across the 13 supervisory expectations set out in the ECB's Guide



Source: ECB

THE 2022 ECB CLIMATE STRESS TEST IS KICKING OFF NOW

The 2022 bottom-up climate risk stress test is an exploratory exercise. One of its main objectives is to enhance the capacity of both banks and supervisors to assess climate risk. In this context, the quality assurance process also serves to enhance the supervisory understanding of what climate-relevant data banks have available and the limitations when assessing climate-related risks, to identify best practices and to ensure that banks follow the instructions as set out in the methodology document. The exercise will be conducted from March 2022 to July 2022.

In order to assess the vulnerability of banks regarding climate risks ECB considers three modules to allow for qualitative and quantitative assessments of different depth. Module 1 consists of a qualitative questionnaire, Module 2 consists of two metrics on income and financed emissions and Module 3 is a bottom-up stress test on transition and physical risks. The main features of Module 3 are summarized below:

SCENARIOS	One plus three scenarios • One short term three-year disorderly transition scenario • Three long terms scenarios: orderly transition; disorderly transition; hot house world
PHYSICAL RISK IMPACT	Physical risk impact on some variables provided by ECB • ECB/ NGFS provide the impact of physical risk captured in variables such as house price projections
BALANCE SHEET ASSUMPTION	Both static and dynamic balance sheet assumptions • Static balance sheet for the short-term scenario • Dynamic balance sheet for the long-term scenarios
TIME HORIZON	Starting point is 31st December 2021 and the time horizon covers 2022-2050 • Short term scenario 2022 -2025 • Long term scenarios 2022 – 2050
BOTTOM-UP OUTPUT BREAKDOWN	10-year intervals • Corporates split by Nomenclature of Economic Activities (NACE) codes • Mortgages split by Energy Performance Certificate (EPC) categories • Country level results for EU countries and aggregated for Non-EU countries

As mentioned, the 2022 climate stress test is an exploratory exercise, and therefore unlikely to result in additional capital requirements on the short term. However, it is aimed at accelerating data-driven approaches to measure climate risk and coupled up with the recently launched EBA consultation on the Pillar 3 disclosure of climate risks it will eventually provide investors much needed quantitative information on climate risks to aid investment decisions.

Figure 26. ECB climate stress test modules overview

MODULE | **ECB ASSESSMENT OF CLIMATE RISKS**

01

QUALITATIVE QUESTIONNAIRE

O Qualitative assessment of climate risk stress testing framework

S Overall 77 questions subdivided into 11 sections e.g. governance, strategy, risk (methods, integration etc.), data planning, audit

02

CLIMATE RISK METRICS

O Quantitative : Assess income from & exposure to CO_2 intensive sectors; analytical / data capabilities re climate risk

S Determine two predefined metrics on main banks income and financed GHG emissions for selected NACE sectors

03

BOTTOM-UP STRESS TEST PROJECTIONS

O Quantitative assessment of financial losses under different scenarios

S From a defined starting point consider different scenarios for transition and physical risks at various time horizons; assesment methodology is tried to be adapted to EBA EU-wide stress test templates

Source: Deloitte

O Objective **S** Setup

CUSTOMER BEHAVIOUR IS CHANGING AND DEMAND FOR SUSTAINABLE FINANCE IS GROWING

Sustainable finance can be broadly understood as financing and related institutional and market arrangements that contribute to the achievement of sustainable, balanced and inclusive growth, through supporting directly and indirectly the framework of the Sustainable Development Goals. To meet Paris target and make EU climate- neutral by 2050, Europe needs between €175 to €290 billion in additional yearly investment in the next decade.

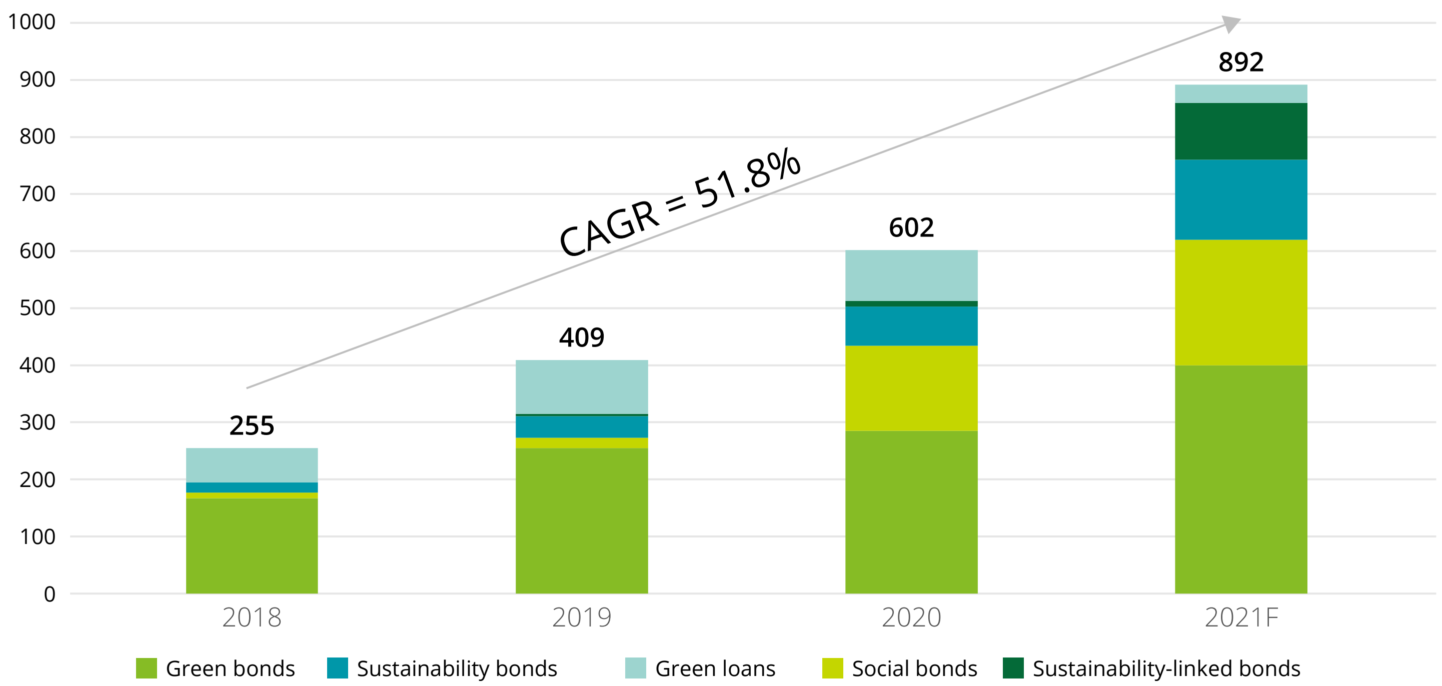
Sustainable finance has been growing exponentially over the last few years and the development is expected to accelerate over the coming years. The market is dominated by the following product types:

- G **Green bonds & green loans** – financing environmental or climate projects
- S **Social bonds** – financing social projects
- G S **Sustainability bonds** – financing a combination of green and social projects
- G S KPI **Sustainability-linked bonds** – performance (e.g. rate) can fluctuate depending on the achievement of predetermined sustainability targets

The market standards behind these products are the International Capital Markets Association's and the Loan Markets Association's relevant product principles, which coupled up with the developing EU taxonomy create an EU-wide standard definition of green. Furthermore, the EU taxonomy will also form the basis of the EBA's Green Asset Ratio (GAR), which will be the main publicly disclosed KPI for banks to show the alignment of their balance sheets with the taxonomy. The Green Supporting Factor (GSF) however, which could lower capital requirements for green loans remains a heavily debated concept with no EU-wide decision in sight. There is, however, precedent to CEE banking authorities having already introduced green capital benefits, such as the Hungarian National Bank's retail mortgage and corporate green capital benefit programme.

Sustainable debt market growth has been driven by green bonds in the corporate Energy, Real Estate and Transportation sectors within Europe so far, with energy-efficient mortgages also growing. The market is diversifying and a broader range of sustainable finance options are becoming accessible to corporate, SME and retail clients.

Figure 27. Global sustainable debt issuance, 2018-2021F



Source: The Green Bond and ESG Chartbook (UniCredit, 2021)

MARKET PRESSURE IS MOUNTING

So far we have covered a wide array of banking regulatory initiatives primarily in the C&E risk space, as well as the growing sustainable finance market fuelled by policy to address the EU's sustainable funding gap. Given the relentless and growing focus on the ESG area, including an array of standards and regulations not detailed in this publication, we believe that the sustainability revolution is unstoppable and ultimately sustainable banks' shareholders will be better off.

However, this is a point difficult to prove on a short time horizon, when most environmental, social and governance efforts really only pay dividends on the long run. A collaborative research effort by the European Investment Bank (EIB), the Global Alliance for Banking on Values (GABV), Deloitte and KKS Advisors* covering the top 100 banks globally finds that commercial banks with good performance on material ESG issues outperform those with poor performance on the same issues.

When assessing the relationship between a banks' performance on ESG issues and their financial performance, not all ESG issues matter equally. Typically, the issues considered as material are through the impact of banks' client activities (e.g. Scope 3 greenhouse gas emissions). However, direct operational impacts are typically less material for banks when compared to other industries such as Electricity and Gas or Manufacturing (e.g. Scope 1 and 2 greenhouse gas emissions).

The study concludes that the top materiality portfolio outperforms the bottom materiality portfolio by 2.65% in average risk-adjusted returns, Overall, this suggests that material ESG issues are promising signals for informing M&A decisions based on ESG performance.

As of today, about half of significant banks consider ESG in their client credit due diligence process – it is time that M&A due diligence processes also follow suit.

Figure 28. Material ESG issues for commercial banks

ACCESS AND AFFORDABILITY

- Diversified deposit base and strong credit portfolio leading to lower cost of capital
- Reputational benefits from concepts such as financial inclusion (e.g. community development, small business growth) leading to higher valuation of the banks' intangible assets

LIFECYCLE IMPACTS OF PRODUCTS AND SERVICES

- Borrowers with low ESG risk profiles can have heightened credit risk. In such instances, interest income could decrease, and the balance sheet would weaken due to the high risk associated with loans and collaterals. In the long-term, this could negatively affect a bank's credit rating, default risk and its cost of capital

LABOUR PRACTICES

- High standards in the workplace attracting and retaining a strong workforce, which in turn enhance operational efficiency by reducing turnover and improving the quality of customer care, which is then able to help gain a larger client base
- Improved reputation stemming from fair workplace practices can increase shareholder value

BUSINESS ETHICS

- Regulatory non-compliance could not only harm a bank's reputation, but also lead to costly contingent liabilities and reduced business activities
- Failure to comply with regulations and good practices could deteriorate a bank's credit rating, increase its cost of capital, and reduce shareholder value

DATA SECURITY AND CUSTOMER PRIVACY

- Potential accidents and breaches can lead to detrimental contingent liabilities, including fines
- Reputational damage associated with such breaches could also decrease the value of the bank's intangibles and the riskier profile would result in a higher cost of capital

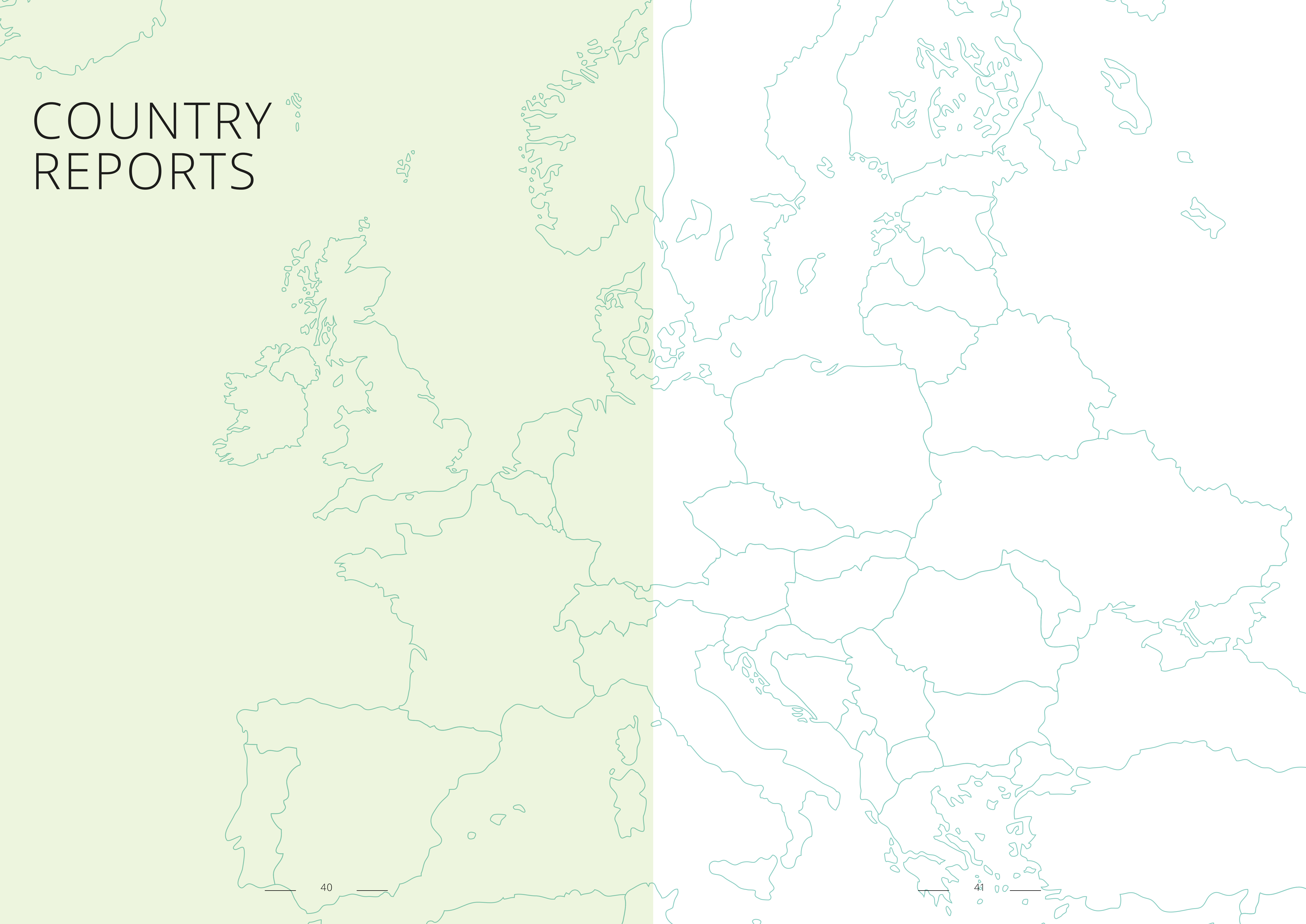
SYSTEMIC RISK MANAGEMENT

- An adequately managed capital base improves credit rating and lowers cost of capital
- Banks involved in litigations and external oversight due to regulatory non-compliance have to face costly contingent liabilities and reputational costs. As a result of lower value of intangible assets, market share and firm value can significantly decrease

Source: EIB, GABV, Deloitte and KKS

Note: *Driving value creation through ESG practices | Deloitte

COUNTRY REPORTS



POLAND

MACROECONOMIC ENVIRONMENT

The Polish real GDP decreased by 6.6 % points to -2.5% in 2020 mostly due to the negative impact of the COVID-19 pandemic. The decline in Polish gross domestic product was part of a global phenomenon. As a result of the lockdown policy, the world economy experienced the most severe recession after World War II. The blockade imposed on the economy during the pandemic resulted in the collapse of small businesses, rising unemployment, difficulties with importing goods, which translated into an increase in prices - especially of raw materials, as well as delays and interruptions in supplies. As a result of these negative changes, banks recognized a significantly higher ECL than in previous periods. The pandemic also resulted in lowering interest rates, which translated into significantly lower interest income of banks on loan products based on variable interest rates. Due to the availability of vaccines, the economic situation is improving and the estimated real GDP growth for 2021 is 5.2%.

Rising inflation is another post-pandemic economic effect in Poland. Consumer prices increased by 1.1% points to 3.4% compared to the prior year. As in the other EU countries, the increasing inflation was mainly driven by the rising prices of fuels, energy and food as well as low interest rate environment. The forecasted CPI for 2021 is 4.7% (increase by another 1.3% points). Expectations are that a high inflation will lower consumption growth, and rising interest rates will increase the costs of loans (and banks' revenues).

In recent years the unemployment rate was following a downward trend. In order to mitigate the impact of the pandemic the Polish government monetarily supported the workplace preservation, however, the unemployment rate still increased by 0.5% points to 5.9% in 2020 compared to 2019 (due to the pandemic). Forecasted rate for 2021 is 6.1%.

The central budget deficit increased significantly from -0.7% in 2019 to -6.9% in 2020, which was mainly driven by the government's anti-crisis measures aiming to mitigate the economic slowdown and increase the domestic demand. The forecasted deficit level for the end of 2021 is -6.7%. As a result of higher budget deficit, public debt increased significantly as well by 11.4% points to 57.4%. The estimated public debt as of the end of 2021 is 58.4%. High public debt may force governments to raise taxes and cut public spending.

MACRO INDICATORS	2018	2019	2020	2021E	CHANGE 2019-20 (% OR % POINT)
Nominal GDP (mEUR)	497,653	528,837	523,423	558,758	-1.0%
Nominal GDP/capita (EUR)	13,131	13,953	13,829	14,782	-0.9%
EURPLN exchange rate	4.30	4.26	4.56	n.a.	7.1%
GDP (% real change pa)	5.3%	4.1%	-2.5%	5.2%	-6.6%
Consumer prices (% change pa)	1.7%	2.3%	3.4%	4.7%	1.1%
Recorded unemployment (%)	6.1%	5.4%	5.9%	6.1%	0.5%
Budget balance (% of GDP)	-0.2%	-0.7%	-6.9%	-6.7%	-6.2%
Public debt (% of GDP)	48.8%	46.0%	57.4%	58.4%	11.4%

Source: EIU
E - Estimated data for 2021

BANKING TRENDS

- Poland's share in the CEE region measured by the ratio of bank assets in Poland to total bank assets in the region - has not changed recently and fluctuates between 33% and 34%.

- In Poland, the consolidation of the sector continues, and the number of banks is decreasing. The total value of assets of the largest banks in Poland increased by 9% last year and amounted to EUR 515 billion.

- Based on the banking sector's yearly report for 2020 prepared by the Polish Financial Supervision Authority:

  - The net financial result achieved in 2020 amounted to PLN 931.5 million (EUR 202.5 million) and was lower than in 2019, by 93.3% i.e., by PLN 12,874.7 million (EUR 3,001.4 million).

  - At the end of December 2020, PLN 142.0 billion of loans was covered by moratoria. By the end of 2020, moratoria for the amount of PLN 127.8 billion expired, and there is still to be paid PLN 14.2 billion. 69.4% of loans with moratoria expired in Q1 2021, and subsequent 20.7% of loans with moratoria expired in Q2 2021. Banks reported PLN 26.7 million of economic loss due to granted moratoria.

  - The moratoria are most affected by COVID-19 pandemic (in particular, wholesale and retail trade and market service real estate and industrial processing). As at the end of December 2020, banks granted PLN 18.5 billion of covered loans under public guarantee schemes.

  - In 2020, the capital position of the banking sector remained stable. The value of the sector's own funds at the end of 2020 amounted to PLN 231.9 billion (+ 10.2% y / y). The TCR ratio at the end of 2020 for the entire banking sector was 20.7% (+1.7 pp y / y).

  - Banks in 2020, as a result of changes in financial markets due to the COVID-19 pandemic, systematically lowered interest rates on both term deposits for households (from the average interest rate on the market 1.19% in January to 0.25% in December) and for enterprises (from the average level of interest rates on the market 0.95% in January to 0.01% in December). The highest rates were offered by branches of credit institutions.

- One of the key challenges of the sector remains the significant increase in the number of portfolio-related lawsuits (regarding mortgage loans denominated in Swiss franc), following the judgment of the European Court of Justice of 3 October 2019 in case C-260/18, resulting in the need to increase in ECL (expected credit loss) that significantly lowered the banks' financial result.

- Gross carrying amount of the portfolio of mortgage loans at the end of 2020 amounted to PLN 462.7 billion (and their number was 2.4 million). Compared to the end of 2019 there was an increase in both values, respectively by 7.0% from PLN 432.2 billion and by 3.0% from 2.3 million. 74.2% gross book value of the mortgage loan portfolio was PLN, 20.9% - loans in Swiss francs.

COVID-19 IMPACT

- There has been a significant slowdown in lending since the pandemic outbreak, which also affected the profitability of the banking sector as Polish banks recorded much lower profits compared to the previous year.
- The outbreak of the pandemic was also factored into the way banks assessed credit risk. The greatest growth in impairment losses occurred in the first half of 2020, while subsequent quarters experienced a decreasing value of provisions for credit risk.
- The coronavirus pandemic in Europe presents risks for the Polish financial sector, although the economy is expected to rebound real GDP in Poland up to 5.2% in 2021 after a significant fall to -2.5% in 2020. The loosening of reserve requirements, as well as government–provided loan guarantees and fiscal support measures, will help to mitigate losses faced by financial firms.
- Low interest environment aimed to stimulate the economic activity to minimize the impact of global health uncertainty cut the earnings of the banks in Poland, mainly due to the low interest rates which negatively influenced decreasing interest income.

BANKING SECTOR	2018	2019	2020	CHANGE 2019-20 (% OR % POINT)
Total assets (EUR mn)	443,742	474,291	515,279	8.6%
Asset penetration (%)[1]	89.2%	89.7%	98.4%	9.8%
Total equity (EUR mn)	47,642	48,971	48,907	-0.1%
Total loans (EUR mn)	250,136	263,848	246,943	-6.4%
Loan penetration (%)[2]	50.3%	49.9%	47.2%	-5.4%
Retail loans (EUR mn)	163,510	173,828	166,469	-4.2%
Corporate loans (EUR mn)	86,626	90,019	80,474	-10.6%
Interest rates				
Lending (%)	4.8%	4.8%	3.8%	-1.0%
Deposit (%)	1.6%	1.5%	0.9%	-0.6%
NPL volumes				
Retail NPLs (EUR mn)	9,646	9,916	10,072	1.6%
Corporate NPLs (EUR mn)	7,572	7,623	7,276	-4.5%
NPL ratios				
Retail NPL ratio (%)	5.9%	5.7%	6.1%	0.4%
Corporate NPL ratio (%)	8.7%	8.5%	9.0%	0.5%
Key ratios				
CAR (%)	19.0%	19.1%	20.7%	1.6%
ROE (%)	7.0%	6.9%	3.1%	-3.8%
ROA (%)	0.8%	0.7%	0.3%	-0.4%
CIR (%)	56.7%	56.0%	54.2%	-1.8%
L/D (%)	93.2%	91.9%	80.3%	-11.6%
FX share of lending (%)	22.4%	20.0%	20.6%	0.6%
LLP coverage (%)	65.2%	66.1%	72.1%	6.0%

Source: EIU, NBP, ECB CBD | 1. Asset penetration = Total assets/Nominal GDP | 2. Loan penetration = Total loans/Nominal GDP

BANKING MARKET

- In 2020, there were officially 27 commercial banks operating in the Polish banking market, one less than previous year. On 31 December 2020, the Bank Guarantee Fund initiated a resolution of Idea Bank SA, which was taken over by Bank Pekao on 3 January 2021. There were also 36 branches of credit institutions.
- Another important part of the Polish financial system is the cooperative banks segment, where 530 cooperative banks were present in 2020.
- The Polish banking system remains among the most competitive ones in the CEE region. The top five commercial banks' aggregated market share amounted to 47%% in 2020.
- Most of the banking capital is held by foreign investors (43.6%), the remaining shares are the state treasury (30.2%), state development bank - Bank Gospodarstwa Krajowego (14%) and Polish private capital (12.2%).

LIST OF BANKS IN POLAND IN 2020 (EUR MN OR %)

RANK 2020	RANK 2019	YOY	INSTITUTIONS (2020, EUR MN)	TOTAL ASSETS	MARKET SHARE	EQUITY	NET INCOME	ROA	ROE	MAJOR SHAREHOLDER
1.	1.	●	PKO	74,765	14.5%	8,359	(662)	-0.9%	-7.9%	State of Poland
2.	2.	●	Pekao	48,771	9.5%	5,405	247	0.5%	4.6%	State of Poland
3.	3.	●	Santander Bank Polska	44,551	8.6%	5,576	162	0.4%	2.9%	Santander
4.	4.	●	ING BSK	39,247	7.6%	3,981	546	1.4%	13.7%	ING
5.	5.	●	mBank	37,273	7.2%	3,568	21	0.1%	0.6%	Commerzbank
6.	7.	▲	Bank Gospodarstwa Krajowego	35,156	6.8%	5,236	69	0.2%	1.3%	State of Poland
7.	6.	▼	BGZ BNP Paribas	25,065	4.9%	2,612	164	0.7%	6.3%	BNP Paribas
8.	8.	●	Millennium	21,277	4.1%	1,938	4	0.0%	0.2%	BCP
9.	9.	●	Alior Bank	16,959	3.3%	1,442	(71)	-0.4%	-4.9%	State of Poland
10.	11.	▲	Bank Handlowy w Warszawie	13,297	2.6%	1,648	35	0.3%	2.1%	Citibank
11.	10.	▼	Getin Noble Bank	10,855	2.1%	435	(128)	-1.2%	-29.3%	Leszek Czarnecki
12.	12.	●	BPS	6,360	1.2%	182	2	0.0%	1.1%	State of Poland
13.	13.	●	Pko Bank Hipoteczny	5,989	1.2%	459	18	0.3%	3.9%	PKO
14.	14.	●	Crédit Agricole Bank Polska	5,702	1.1%	603	(23)	-0.4%	-3.8%	Credit Agricole
15.	15.	●	SGB Bank	5,466	1.1%	169	2	0.0%	1.0%	Cooperative Banks
16.	16.	●	Santander Consumer Bank	4,474	0.9%	775	71	1.6%	9.2%	Santander
17.	18.	▲	Bank Ochrony Srodowiska	4,452	0.9%	419	(68)	-1.5%	-16.2%	State of Poland
18.	17.	▼	Deutsche Bank Polska	3,728	0.7%	478	(79)	-2.1%	-16.4%	Deutsche Bank
19.	20.	▲	Mbank Hipoteczny	2,822	0.5%	283	1	0.0%	0.4%	Commerzbank
20.	21.	▲	DNB Bank Polska	2,632	0.5%	380	12	0.5%	3.2%	DNB Bank
21.	22.	▲	Bank Pocztowy	2,011	0.4%	139	(2)	-0.1%	-1.4%	State of Poland
22.	23.	▲	Nest Bank	1,711	0.3%	127	(30)	-1.7%	-23.4%	AnaCap
23.	27.	▲	Plus Bank	1,255	0.2%	295	(30)	-2.4%	-10.1%	Delas Holding
24.	24.	●	ING Bank Hipoteczny	826	0.2%	100	4	0.5%	4.5%	ING
25.	25.	●	Toyota Bank Polska	665	0.1%	137	5	0.8%	3.8%	Toyota Kreditbank
26.	26.	●	Pekao Bank Hipoteczny	602	0.1%	58	(3)	-0.5%	-4.8%	Bank Polska Kasa Opieki
27.	28.	▲	Mercedes-Benz Bank Polska*	20	0.0%	18	0	0.5%	0.5%	Daimler
			Total	515,279	100%	48,907	1,528	0.3%	3.1%	

*Source: Banks' data disclosure, EMIS, NBP | *data from 2018*

M&A ACTIVITY

The Polish banking sector experienced several M&A deals in the previous years. Since 2015, there have been successful 12 banking deals in the country, out of which 8 were publicly priced. Deals with public pricing had an overall value of around EUR 5.8 bn.

- In 2021, Idea Bank was taken over by Poland's second biggest-lender, Bank Pekao. The takeover was engineered by the Poland's Bank Guarantee Fund in order to support the stability in the Polish Financial System. Pekao acquired some of Idea Banks' assets and liabilities excluding corporate bonds.

- In 2020, SGB Bank acquired 100% percentage of Bank Spółdzielczy w Przemkowie, which was placed under compulsory restructuring by Poland's Bank Guarantee Fund.

- In 2019, Commerzbank announced to sell its majority stake (69.3%) in mBank. The book value of the Commerzbank's stake is worth around EUR 2.6 bn. In 2020, the transaction was terminated by Commerzbank due to unfavorable market conditions caused by the onset of the COVID-19 crisis.

- In 2019, BCP-owned Millennium Bank acquired 99.79% of Société Générale's Polish subsidiary, Euro Bank. The acquisition was in line with Bank Millennium's strategy to strengthen its position in the consumer lending segment.

- In 2018, EBRD acquired 4.5% stake in Bank BGZ BNP Paribas from Raiffeisen Bank International: via this transaction, Raiffeisen fully exited Poland.

- In 2018, Bank BGZ BNP Paribas agreed to acquire the core bank business of Raiffeisen Bank Polska from Raiffeisen Bank International for EUR 775 mn. The transaction will help Bank BGZ to further strengthen its position in the Polish market, due to the strong distribution network, innovative products platform, and modern central costumer service, which will be provided by the acquisition.

- In 2018, Deutsche Bank sold its retail and private banking business to Bank Zachodni WBK, owned by Santander Group, for a consideration of EUR 305 mn. With the deal, Santander acquired 113 branches, 1500 employees, and nearly EUR 4,350 bn in assets. The acquisition was aligned with Santander's strategy to enhance its position in the retail segment.

- In 2016, the largest banking acquisition in recent years was the sale of a 32.8% stake of the second largest bank in Poland, Bank Pekao, owned by UniCredit Group, to the state-owned PZU for EUR 2,382 bn.

- In 2016, PZU-controlled Alior Bank agreed to acquire Bank BPH from GE Capital for 360 mn. The transaction was consistent with the strategy of Alior, based on a dynamic organic growth and acquisitions.

- Also in 2016, PZU purchased a 25.3% stake in Alior Bank from an Italian conglomerate for EUR 396 mn. Based on PZU's activity, it is visible that the most active consolidator in the Polish banking market has been the state, in line with its intention to increase domestic ownership in the banking sector.

- In 2015, a UK-based private equity firm, AnaCap Financial Partners, agreed to acquire FM Bank PBP, the Poland-based retail and SME bank, from Abris Capital Partners for an undisclosed consideration.

- In 2015, state-owned PKO agreed to acquire SKOK Wesoła, the Poland-based cooperative savings and credit company engaged in providing non-banking financial services and products such as loans and credit, term deposits, current accounts, and other insurance-related transfer services, for an undisclosed consideration.

- In 2015, Alior Bank agreed to acquire a 97.9% stake in Meritum Bank ICB from Innova Capital, WCP Cooperatief UA and EBRD for a consideration of EUR 83.6 mn.

LIST OF BANKING M&A DEALS IN POLAND 2015 - NOVEMBER 2021

YEAR	TARGET	BUYER	% ACQUIRED	DEAL VALUE IN EUR MN	SELLER
2021	Idea Bank SA (Certain assets and liabilities)	Bank Pekao SA	100.0%	n.a.	Idea Bank SA
2020	Bank Spółdzielczy w Przemkowie	SGB-Bank SA	100.0%	n.a.	n.a.
2019	Euro Bank	Bank Millennium	99.8%	1,448	Société Générale
2018	BGZ BNP Paribas	EBRD	4.5%	100	Raiffeisen
2018	Raiffeisen Bank Polska	BNP Paribas	100.0%	775	Raiffeisen
2018	Deutsche Bank Polska	Santander	100.0%	305	Deutsche Bank
2016	Bank Pekao	PZU	32.8%	2,382	UniCredit
2016	Bank BPH	Alior Bank	100.0%	360	GE Capital
2016	Alior Bank	PZU	25.3%	396	Carlo Tassara
2015	Nest Bank	AnaCap Financial Partner	100.0%	n.a.	Abris Capital Partners
2015	SKOK Wesola	PKO	100.0%	n.a.	n.a.
2015	Meritum Bank ICB	Alior Bank	97.9%	84	EBRD; Innova Capital; WCP Cooperatief

Source: Deloitte Intelligence

THE CZECH REPUBLIC

MACROECONOMIC ENVIRONMENT

- Due to the COVID-19 pandemic the real GDP of the Czech Republic contracted by 5.8% in 2020. This was mainly caused by the sharp decline in domestic household consumption and corporate investment activity. However, the negative impacts of the pandemic were mitigated to a substantial extent by expansionary fiscal policy and a net export balance. In 2021, it is expected that the domestic economic activity is going to slowly increase with a real GDP growth of 3.5%.

- Inflation further increased by 0.4% points in 2020. In 2021, there is still a high risk of increasing inflation pressure, thus CNB has started to gradually, but decisively increase the monetary policy interest rates.

- 2020 was characterized by a weaker wage growth and increasing unemployment rate due to the COVID-19 restrictions. In 2021, the unemployment rate is expected to slightly further increase, even with the continuous employment support programmes introduced by the government.

- Due to the expansionary fiscal policy in 2020, the slight budget surplus (0.3%) in 2019 turned into a significant deficit (-6.1%), which could even reach -8.5% by 2021. Simultaneously, the public debt significantly increased by 7.6% points in 2020, and this trend is expected to continue in 2021 as well.

MACRO INDICATORS	2018	2019	2020	2021E	CHANGE 2019-20 (% OR % POINT)	
Nominal GDP (mEUR)	210,893	223,945	215,347	239,085	-3.8%	●
Nominal GDP/capita (EUR)	19,849	20,989	20,109	22,303	-4.2%	●
EURCZK exchange rate	25.72	25.41	26.24	n.a.	3.3%	●
GDP (% real change pa)	3.2%	2.3%	-5.8%	3.5%	-8.1%	●
Consumer prices (% change pa)	2.1%	2.8%	3.2%	2.7%	0.4%	●
Recorded unemployment (%)	2.2%	2.0%	2.6%	3.4%	0.6%	●
Budget balance (% of GDP)	0.9%	0.3%	-6.1%	-8.5%	-6.4%	●
Public debt (% of GDP)	32.1%	30.2%	37.8%	42.8%	7.6%	●

Source: EIU
E - Estimated data for 2021

BANKING TRENDS

- Despite the economic downturn in 2020, the domestic banking sector could further improve its capital adequacy in 2020. The capital adequacy ratio increased by 3.3% points to 24.4%, mainly due to the increase in capital from retained earnings related to the restrictions on dividend payments.

- The total assets of the domestic banking sector further increased by 5% in 2020, reaching EUR 300 bn. The deterioration in the macroeconomic conditions led to higher provisioning of the banks, but the NPL ratios only moderately increased. This growth in NPL was mainly driven by non-financial corporations and consumer credit.

- After all-time high profits in 2019, the profitability of the Czech banking sector fell significantly in 2020. The profit of the banks nearly halved and reached the lowest level since 2008. The decline in profit was mainly attributable to the high impairment losses and decline in net interest income.

COVID-19 IMPACT

- The expansionary fiscal policies significantly helped to mitigate the negative impact of COVID-19, thus the Czech banking sector maintained its resilience.

- The Czech banking sector faced the adverse shocks of the pandemic with strong capital, liquidity and profitability positions which helped to handle the economic slowdown.

- In 2020, the CNB lowered the countercyclical capital buffer to support banks in lending to corporations and households even during the pandemic.

- The volumes of new housing and mortgage loans reached record high levels in 2020, even the declining economic activity and the worsening labour market could not stop this upward trend.

BANKING SECTOR	2018	2019	2020	CHANGE 2019-20 (% OR % POINT)	
Total assets (EUR mn)	270,770	286,549	300,949	5.0%	
Asset penetration (%)[1]	128.4%	128.0%	139.8%	9.2%	
Total equity (EUR mn)	21,720	23,778	24,915	4.8%	
Total loans (EUR mn)	105,852	112,757	113,766	0.9%	
Loan penetration (%)[2]	50.2%	50.4%	52.8%	4.9%	
Retail loans (EUR mn)	63,858	68,680	70,971	3.3%	
Corporate loans (EUR mn)	41,994	44,077	42,795	-2.9%	
Interest rates					
Lending (%)	3.5%	3.7%	3.3%	-0.4%	
Deposit (%)	0.3%	0.4%	0.3%	-0.1%	
NPL volumes					
Retail NPLs (EUR mn)	1,347	1,142	1,238	5.0%	
Corporate NPLs (EUR mn)	1,500	1,412	1,776	5.0%	
NPL ratios					
Retail NPL ratio (%)	2.1%	1.7%	1.7%	0.0%	
Corporate NPL ratio (%)	3.6%	3.2%	4.2%	1.0%	
Key ratios					
CAR (%)	19.6%	21.1%	24.4%	3.3%	
ROE (%)	13.3%	13.9%	6.7%	-7.2%	
ROA (%)	1.1%	1.2%	0.6%	-0.6%	
CIR (%)	47.0%	47.0%	49.6%	2.6%	
L/D (%)	101.9%	103.9%	102.1%	-1.8%	
FX share of lending (%)	19.8%	19.5%	20.1%	0.6%	
LLP coverage (%)	66.9%	72.4%	81.3%	8.9%	

Source: EIU, CNB, ECB CBD | 1. Asset penetration = Total assets/Nominal GDP | 2. Loan penetration = Total loans/Nominal GDP

BANKING MARKET

- The Czech banking sector had altogether 24 operating banks at the end of 2020.
- The Czech banking industry is relatively concentrated as 74% of assets are owned by the top 5 largest banks, which are all subsidiaries of international banking groups. The Czech banking segment's HHI index reached 10.9% in 2020, which is slightly lower than in the previous year, but is still relatively high compared to the neighbouring countries.
- The level of concentration is expected to reach a higher level, as Wuestenrot entities were acquired by Moneta Money Bank in the first half of 2020. Wuestenrot Hypoteční Banka was integrated in Moneta Money Bank and Wuestenrot – Stavební Spořitelna was renamed to Moneta Stavební Spořitelna. Subsequently, Raiffeisen Bank, the 5th largest bank in the country, acquired Equa Bank and the retail banking operations of ING in the Czech Republic. Furthermore, the potential merger of PPF Group (representing by Air Bank) and Moneta Money Bank could further boost the consolidation in the country.

LIST OF BANKS IN THE CZECH REPUBLIC IN 2020 (EUR MN OR %)

RANK 2020	RANK 2019	YOY	INSTITUTIONS	TOTAL ASSETS	MARKET SHARE	EQUITY	NET INCOME	ROA	ROE	MAJOR SHAREHOLDER
1.	1.	●	Ceskoslovenska Obchodni Banka	60,826	20.2%	4,000	435	0.7%	10.9%	KBC
2.	2.	●	Ceska Spořitelna	55,976	18.6%	5,410	335	0.6%	6.2%	Erste
3.	3.	●	Komercni Banka	41,665	13.8%	4,008	262	0.6%	6.5%	Société Générale
4.	4.	●	UniCredit	24,713	8.2%	3,145	197	0.8%	6.3%	UniCredit
5.	5.	●	Raiffeisenbank	15,662	5.2%	1,347	81	0.5%	6.0%	Raiffeisen
6.	6.	●	Hypotecni Banka	13,203	4.4%	1,794	59	0.4%	3.3%	KBC
7.	8.	▲	Moneta Money Bank	9,261	3.1%	1,045	69	0.7%	6.6%	No majority shareholder
8.	10.	▲	Fio Banka	6,955	2.3%	213	25	0.4%	11.8%	Private Individuals
9.	7.	▼	PPF Banka	6,468	2.1%	588	43	0.7%	7.3%	PPF Group
10.	11.	▲	J&T Banka	6,334	2.1%	796	40	0.6%	5.0%	J&T FINANCE
11.	9.	▼	Ceskomoravska Stavební Spořitelna	5,709	1.9%	266	19	0.3%	7.1%	KBC
12.	12.	●	Air Bank	5,212	1.7%	424	51	1.0%	12.0%	Home Credit N.V.
13.	14.	▲	Sberbank CZ	3,406	1.1%	352	0.7	0.0%	0.2%	Sberbank
14.	13.	▼	Modra Pyramida Stavební Spořitelna	3,403	1.1%	238	12	0.4%	5.1%	Société Générale
15.	17.	▲	Raiffeisen Stavební Spořitelna	2,870	1.0%	199	8	0.3%	4.1%	Raiffeisen
16.	16.	●	Stavební Spořitelna Ceske sporitelny	2,815	0.9%	239	29	1.0%	12.1%	Erste
17.	18.	▲	Equa Bank	2,798	0.9%	215	7	0.3%	3.5%	Equa Group
18.	15.	▼	Banka CREDITAS	2,542	0.8%	173	4	0.2%	2.5%	Private Individuals
19.	19.	●	Ceska Exportni Banka	1,571	0.5%	279	6	0.4%	2.2%	State of the Czech Republic
20.	20.	●	Wuestenrot Hypotecni Banka	1,507	0.5%	94	6	0.4%	5.9%	Moneta Money Bank
21.	21.	●	Moneta Stavební Spořitelna	1,286	0.4%	100	17	1.3%	17.0%	Moneta Money Bank
22.	22.	●	Ceskomoravska Zarucni a Rozvojova Banka	944	0.3%	194	1	0.2%	0.8%	State of the Czech Republic
23.	24.	▲	Trinity Bank	667	0.2%	70	2	0.3%	3.3%	Private Individuals
24.	23.	▼	Expobank CZ	614	0.2%	103	(8)	-1.3%	-8.0%	Private Individuals
			Total	300,949	100%	24,915	1,734	0.6%	6.7%	

Source: Banks' data disclosure, EMIS, CNB

M&A ACTIVITY

One of the largest and most significant deal of the recent years in the Czech Republic could be the PPF and Moneta deal. The companies have agreed on terms to combine their Czech lending assets, creating a new challenger to the country's biggest banks. Under the signed deal, Moneta is supposed to buy Air Bank and other assets from PPF, such as the Czech and Slovak units of global consumer lender Home Credit and peer-to-peer lender Benxy. After the deal Moneta's customer base is expected to grow by more than 70% in the combined group, challenging the country's current third-largest banking group Komercni Banka. This new entity would be the first dominant player on the Czech market that is not an affiliate of any western European bank.

There have been nine announced bank acquisition deals over the past years in the Czech banking market:

- Raiffeisen Bank International has agreed to acquire the retail banking operations of ING Group NV. ING will remain present on the Czech banking market as a provider of wholesale banking products. This transaction is in line with ING's strategy of focusing on the corporate segment. The transaction is currently subject to regulatory approval.

- AnaCap Financial Partners sold its stake in Equa bank to Raiffeisen Bank's Czech subsidiary Raiffeisenbank a.s. The acquisition was in line with Raiffeisen Bank's strategy to strengthen its presence in the Czech market. Equa bank was expected to merge with Raiffeisenbank, allowing the realization of synergies. The transaction was closed in the second quarter of 2021.

- PPF Group N.V. acquired 28.4% stake in, Moneta Money Bank, the listed provider of banking and financial services for individuals and SMEs.

- In 2020 (December 1st), Raiffeisen Bausparkassen Holding GmbH sold its 90% share in Raiffeisen Stavební Spořitelna to Raiffaisenbank a.s.

- In 2020, Erste-owned Ceska Spořitelna (CS) signed an agreement regarding the takeover of the Czech branches of Austrian Waldviertler Sparkasse.

- In 2020, Wuestenrot & Wuerttembergische AG (a German financial services group) sold its 100% share of two of its banks: Wuestenrot – Stavební Spořitelna and Wuestenrot Hypotecni Banka to Moneta Money Bank. The acquisition materially improved Moneta's market presence in retail banking.

- In 2019, Bausparkasse Schwaebisch Hall (a German mortgage finance and private construction finance provider company) sold its 45% share in Ceskomoravska Stavebni Spořitelna (CMSS) to one of the market leaders Ceskoslovenska Obchodni Banka (CSOB). As a result of the transaction, KBC's Czech subsidiary, the CSOB strengthened its position in the domestic housing finance sector by fully owning CMSS.

- In 2016, Citibank sold its retail banking operations in 10 countries, including the Czech Republic. This supported Citi's strategic goal to build down operations in non-core markets and focusing on 24 flagship markets with the largest growth potential. Czech retail banking operations were sold to Raiffeisen Bank.

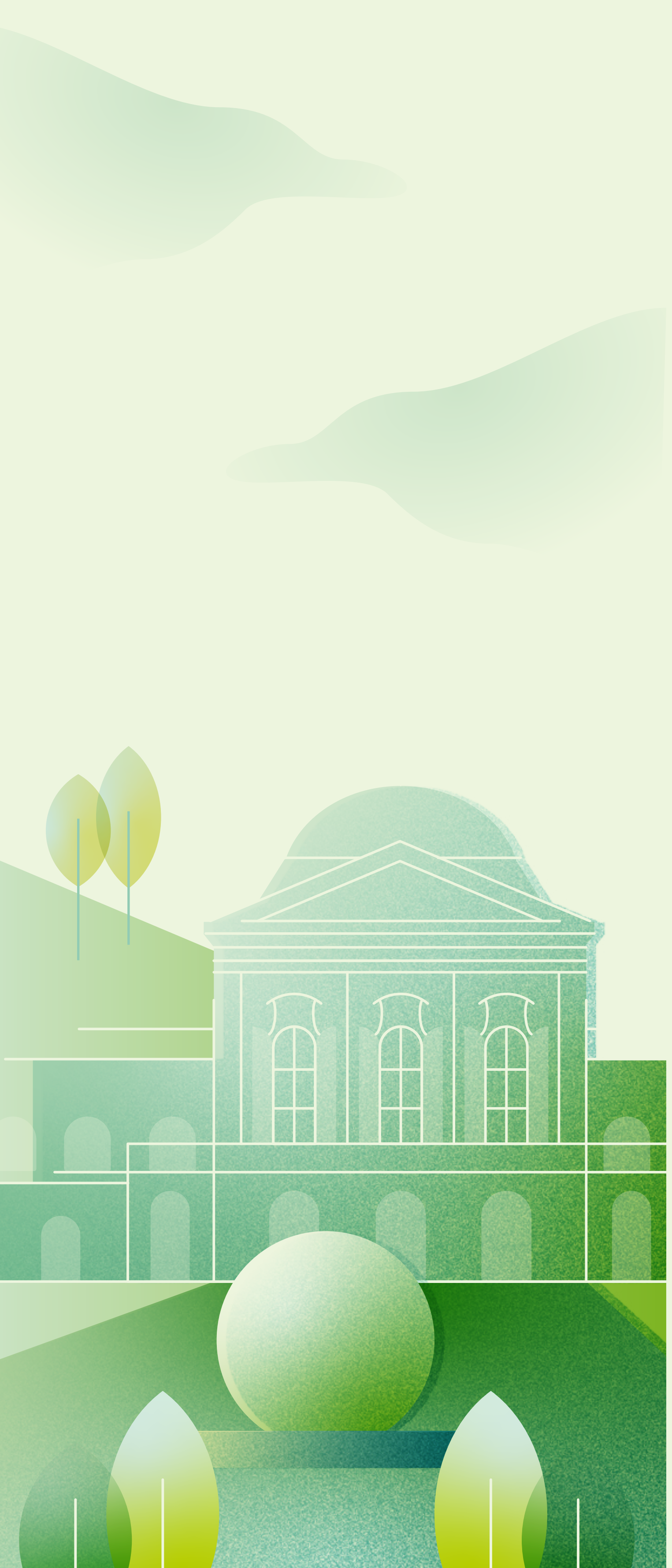
- In 2016, General Electric sold its 100% subsidiary GE Money Bank renamed to Moneta Money Bank via IPO on Prague Stock Exchange. General Electric gradually sold its entire share during 2016.

LIST OF BANKING M&A DEALS IN THE CZECH REPUBLIC 2015 - NOVEMBER 2021

YEAR	TARGET	BUYER	% ACQUIRED	DEAL VALUE IN EUR MN	SELLER
2021*	ING Group NV (retail banking operations in Czech Republic)	Raiffeisen Bank International AG	100.0%	n.a.	ING Group NV
2021*	Moneta Money Bank	PPF Group N.V.	28.4%	435	n.a.
2021	Equa Bank a.s.	Raiffeisen Bank International AG	100.0%	n.a.	AnaCap Financial Partners Limited
2020	Raiffeisen Stavební Spořitelna	Raiffeisen Bank International AG	90.0%	n.a.	Raiffeisen Bausparkassen Holding GmbH
2020	Waldviertler Sparkasse Bank - Czech branch	Ceska Spořitelna	100.0%	n.a.	Waldviertler Sparkasse Bank
2020	Wuestenrot - Stavební Spořitelna; Wuestenrot Hypotecni Banka	Moneta Money Bank	100.0%	175	Wuestenrot & Wuerttembergische AG
2019	Ceskomoravska Stavební Spořitelna	KBC	45.0%	240	Bausparkasse Schwaebisch Hall
2016	GE Money Bank	IPO	100.0%	n.a.	GE Capital
2015	Citibank Europe plc (Czech consumer banking business)	Raiffeisen Bank International AG	100.0%	n.a.	Citibank

Source: Deloitte Intelligence
**Ongoing*

SLOVAKIA



MACROECONOMIC ENVIRONMENT

- Following the steady paced growth of recent years, the Slovak economy shrinked by 4.8% in real terms in 2020, because of the imposed restrictive measures against COVID-19. However, the economic contraction in 2020 was more moderate than projected at the outset of the crisis, and some key sectors recovered quicker than anticipated. The real GDP growth before 2020 was mainly driven by strong investment, strengthening private consumption and the long-dominant automotive sector. The forecasted growth rate of the real GDP is expected to return to the pre-COVID levels in 2021, and the nominal GDP amount is projected to exceed the 2019 levels by the end of 2021.

- The inflation reached 2.0% in 2020 and is not expected to significantly change in 2021. The unemployment rate increased by 1.8 % points because of the negative effect of the imposed COVID-19 measures.

- The Slovakian government similarly to other countries in the region increased their spending to stimulate the economy and provide financial aid to decrease the negative economic effects of the COVID-19 pandemic. In line with the increased spending the budget deficit increased by 4.8 % points in 2020 and is expected to remain at this level in 2021. As a result of the increased spending and the decreased nominal GDP the level of public debt reached 60.3% in 2020, resulting in 12.3 % points increase compared to 2019.

MACRO INDICATORS	2018	2019	2020	2021E	CHANGE 2019-20 (% OR % POINT)
Nominal GDP (mEUR)	89,600	94,200	91,555	99,600	-2.8%
Nominal GDP/capita (EUR)	16,291	17,127	16,770	18,238	-2.1%
GDP (% real change pa)	3.9%	2.4%	-4.8%	4.4%	-7.2%
Consumer prices (% change pa)	2.0%	3.2%	2.0%	2.1%	-1.2%
Recorded unemployment (%)	5.4%	5.0%	6.8%	7.8%	1.8%
Budget balance (% of GDP)	-1.1%	-1.3%	-6.1%	-6.8%	-4.8%
Public debt (% of GDP)	49.5%	48.0%	60.3%	61.2%	12.3%

Source: EIU
E - Estimated data for 2021

BANKING TRENDS

- The Slovakian banking sector's capital adequacy ratio improved by 1.5% points in 2020 resulting in a 19.7% ratio despite the COVID-19 restrictions. Utilizing the stable capital position, the bank sector was able to support the domestic economy with continuous credit supply. Moreover, the financial sector was one of the main contributors to the economic recovery.

- The total asset volume increased by a significant 8.3% in 2020. During the first wave of coronavirus infections the corporate lending was only temporarily slowed down, while during the second wave the level of lending was slightly above the pre-coronavirus level. The housing loan market remained stable during the crisis. However, the consumer lending segment was negatively hit by the coronavirus pandemic.

- The banking sector's ROE decreased by 3.0 % points in 2020, mainly due to the strict loan loss provisioning policy implemented by the banks.

COVID-19 IMPACT

- The public loan guarantee schemes introduced by the government greatly supported the Slovakian corporations. In some periods these subsidised loans accounted for half of the new business volume.

- Despite the pandemic situation the NPL ratios decreased both in the corporate and retail segments. However, this slight improvement could be associated with the statutory loan moratiora that could temporarily mask the actual damage that restrictions could have caused to the economy. Around 6.1% of households had a post-moratorium repayment difficulties.

BANKING SECTOR	2018	2019	2020	CHANGE 2019-20 (% OR % POINT)
Total assets (EUR mn)	81,726	86,290	93,442	8.3%
Asset penetration (%)[1]	91.2%	91.6%	102.1%	11.4%
Total equity (EUR mn)	8,620	9,004	9,592	6.5%
Total loans (EUR mn)	55,071	58,651	61,503	4.9%
Loan penetration (%)[2]	61.5%	62.3%	67.2%	7.9%
Retail loans (EUR mn)	36,538	39,460	41,887	6.1%
Corporate loans (EUR mn)	18,533	19,191	19,616	2.2%
Interest rates				
Lending (%)	2.4%	2.4%	2.4%	0.0%
Deposit (%)	0.2%	0.1%	0.1%	0.0%
NPL volumes				
Retail NPLs (EUR mn)	1,074	1,096	988	-9.8%
Corporate NPLs (EUR mn)	718	664	652	-1.9%
NPL ratios				
Retail NPL ratio (%)	2.9%	2.8%	2.4%	-0.4%
Corporate NPL ratio (%)	3.9%	3.5%	3.3%	-0.2%
Key ratios				
CAR (%)	18.2%	18.2%	19.7%	1.5%
ROE (%)	9.3%	8.3%	5.3%	-3.0%
ROA (%)	0.84%	0.76%	0.49%	-0.3%
CIR (%)	56.4%	58.0%	59.7%	1.7%
L/D (%)	98.5%	99.1%	95.4%	-3.7%
FX share of lending (%)	0.1%	0.1%	0.1%	0.0%
LLP coverage (%)	89.6%	88.8%	99.0%	10.2%

Source: EIU, NBS, ECB CBD | 1. Asset penetration = Total assets/Nominal GDP | 2. Loan penetration = Total loans/Nominal GDP

BANKING MARKET

- 13 banks and 15 branches of foreign banks were operating in the Slovakian market at the end of 2020. The banking sector is dominated by the subsidiary of big international banking groups such as Erste, Intesa Sanpaolo, Raiffeisen, KBC and UniCredit, and nearly 75% of the banking assets owned by these foreign groups. This foreign exposure gives the banking sector a quite stable outlook and financial know-how from abroad.
- The concentration of the Slovakian banking sector remained high in 2020 as the 5 largest banks owned 75% of the total assets and the HHI reached 13.6%.

LIST OF BANKS IN SLOVAKIA IN 2020 (EUR MN OR %)

RANK 2020	RANK 2019	YOY	INSTITUTIONS	TOTAL ASSETS	MARKET SHARE	EQUITY	NET INCOME	ROA	ROE	MAJOR SHAREHOLDER
1.	1.		Slovenska Sporitelna	20,748	22.2%	1,760	115	0.6%	6.5%	Erste
2.	2.		Vseobecna Uverova Banka	18,741	20.1%	1,693	85	0.5%	5.0%	Intesa Sanpaolo
3.	3.		Tatra Banka	15,492	16.6%	1,280	106	0.7%	8.3%	Raiffeisen
4.	4.		Ceskoslovenska Obchodna Banka	9,433	10.1%	860	51	0.5%	5.9%	KBC
5.	5.		UniCredit Bank CZ & SK	5,378	5.8%	n.a.	65	1.2%	3.0%	UniCredit
6.	7.	▲	Prima Banka Slovensko	4,531	4.8%	364	18	0.4%	4.8%	Penta Investments
7.	6.	▼	Postova Banka	4,438	4.7%	687	44	1.0%	6.5%	J&T FINANCE
8.	8.		Prva Stavebna Sporitelna	2,984	3.2%	267	8	0.3%	3.1%	Schwäbisch Hall, Raiffeisen, Erste
9.	9.		OTP Banka Slovensko	1,422	1.5%	105	(10)	-0.7%	-9.1%	KBC
10.	10.		Privatbanka	712	0.8%	100	6	0.9%	6.2%	Penta Investments
11.	11.		Slovenska Zarucna a Rozvojova Banka	550	0.6%	343	0	0.1%	0.1%	State of Slovakia
12.	12.		Wustenrot Stavebna Sporitelna	444	0.5%	48	1	0.2%	1.5%	Bausparkasse Wustenrot Aktiengesellschaft
13.	13.		Csob Stavebna Sporitelna	209	0.2%	26	1	0.4%	3.2%	KBC
			Total	93,442	100%	9,592	458	0.5%	5.3%	

Source: Banks' data disclosure, EMIS, NBS

M&A ACTIVITY

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

- In 2020, OTP sold its 100% share of its Slovakian branch, OTP Banka Slovensko to KBC. Further integration of KBC and the acquired OTP Banka Slovensko is expected in the following years. The main reason behind the sell was that OTP Banka Slovensko could not reach a substantial growth rate and therefore its market share remained low in the country. Also, the bank mostly made a net loss in past years.
- In 2015, 99.5 % stake in Sberbank Slovensko was acquired by Primabanka which is owned by Penta Investments Limited, a private equity firm. This transaction was in line with the international strategy of Sberbank Europe.

LIST OF BANKING M&A DEALS IN SLOVAKIA 2015 - NOVEMBER 2021

YEAR	TARGET	BUYER	% ACQUIRED	DEAL VALUE IN EUR MN	SELLER
2020	OTP Banka Slovensko	KBC	100.0%	n.a.	OTP
2015	Sberbank Slovensko	Penta Investments Limited	99.5%	n.a.	Sberbank

Source: Deloitte Intelligence

HUNGARY

MACROECONOMIC ENVIRONMENT

- In the past 5 years before the COVID-19 pandemic the Hungarian economy experienced a 4.1% average growth rate in terms of real GDP. However, as the negative consequence of the pandemic, the GDP growth rate contracted by 10% points and reached -5.1% in 2020, which was worse than the -4.1% CEE average. However, the real GDP is forecasted to increase by 6.3% in 2021 due to the increasing consumer demand boosted by easing restriction measures.

- Consumer prices increased by 3.3% in 2020 similarly to the year before. Inflation is expected to further increase to 4.2% (above the 3% target inflation rate set by the Hungarian National Bank) in 2021 driven by the recovering domestic demand, increasing energy prices and depreciation of the Forint.

- Unemployment rate increased by 0.8 % point to 4.2% in 2020 due to the resctrictions imposed to curb the spread of COVID-19.

- Budget deficit increased by 6.0 % points to 8.1% in 2020, owing to to the stimulus measures adopted by the government to mitigate the negative impact of the pandemic.

- Public debt climbed to 80.5% from 66.4% in 2020, in line with the increased budget deficit. The ratio is expected to remain on the same level in 2021.

MACRO INDICATORS	2018	2019	2020	2021E	CHANGE 2019-20 (% OR % POINT)
Nominal GDP (mEUR)	133,563	143,586	135,872	150,352	-5.4%
Nominal GDP/capita (EUR)	13,769	14,803	14,065	15,606	-5.0%
EURHUF exchange rate	320.98	330.53	363.89	n.a.	10.1%
GDP (% real change pa)	5.1%	4.9%	-5.1%	6.3%	-10.0%
Consumer prices (% change pa)	2.8%	3.3%	3.3%	4.2%	0.0%
Recorded unemployment (%)	3.7%	3.4%	4.2%	4.4%	0.8%
Budget balance (% of GDP)	-2.2%	-2.1%	-8.1%	-6.9%	-6.0%
Public debt (% of GDP)	70.4%	66.4%	80.5%	79.4%	14.1%

Source: EIU
E - Estimated data for 2021

BANKING TRENDS

- Balance sheet of the Hungarian banking sector further increased in 2020 by 9.6%. Both the retail and the corporate loan portfolio grew despite the recession caused by the pandemic. However, the lending activity was strongly supported by the central bank, government credit schemes and the imposed moratorium measures.

- The capital adequacy ratio continued to improve by 1.8% points reaching 19.3% in 2020. Hungarian banks have reinvested a significant portion of their profit resulting in a robust capital position as the central bank prohibited dividend payments from March 2020 until the end of 2021.

- Corporate NPL ratio remained unchanged at 1.5%, while retail NPL ratio somewhat decreased to 2.4% in 2020, however the level of the ratios do not provide a clear picture of the quality and risk level of the loan portfolio, as the imposed moratorium prevents the borrowers from defaulting on their debts. Based on debtor chatacteristics, financial situation and participation in the moratorium, 12% of the corporate and 10% of the retail portfolio can be considered as high-risk portfolio according to the National Bank of Hungary.

- Due to the rising risk costs the banking sector's profitability deterorirated significantly, in 2020 ROE was 7.6% ROA was 0.7% which means a 6.8% points and a 0.8% points decrease to the corresponding 2019 figure respectively.

COVID-19 IMPACT

- The Hungarian banking system faced the pandemic crisis with a strong capital and liquidity position, and during 2020 the level of both ratios improved resulting in a more robust shock-absorbing capacity, and ability to provide the necessary funds to relaunch the economy.

- The imposed moratorium measures by the government helped companies and households to maintain their liquidity position. The moratorium is expected to remain in place until the middle of 2022. In June 2020 48% of the corporate portfolio and 54% of the retail portfolio was under moratorium. In September 2021, this rate decreased to 21% in the corporate, and 33% in the retail segment.

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

- New loan disbursement surpassed even the level of 2019 in both retail and corporate segments in 2020. Personal loan disbursements were hit the hardest by the COVID-19 crisis.

BANKING SECTOR	2018	2019	2020	CHANGE 2019-20 (% OR % POINT)	
Total assets (EUR mn)	123,506	142,561	156,204	9.6%	
Asset penetration (%)[1]	92.5%	99.3%	115.0%	15.8%	
Total equity (EUR mn)	13,196	14,925	14,498	-2.9%	
Total loans (EUR mn)	42,175	46,578	48,220	3.5%	
Loan penetration (%)[2]	31.6%	32.4%	35.5%	9.4%	
Retail loans (EUR mn)	19,085	21,560	22,537	4.5%	
Corporate loans (EUR mn)	23,089	25,019	25,683	2.7%	
Interest rates					
Lending (%)	1.5%	1.8%	2.0%	0.2%	
Deposit (%)	0.1%	0.1%	0.5%	0.4%	
NPL volumes					
Retail NPLs (EUR mn)	864	579	541	-6.4%	
Corporate NPLs (EUR mn)	536	376	386	2.5%	
NPL ratios					
Retail NPL ratio (%)	4.5%	2.7%	2.4%	-0.3%	
Corporate NPL ratio (%)	2.3%	1.5%	1.5%	0.0%	
Key ratios					
CAR (%)	17.1%	17.5%	19.3%	1.8%	
ROE (%)	14.6%	14.4%	7.6%	-6.8%	
ROA (%)	1.6%	1.5%	0.7%	-0.8%	
CIR (%)	63.1%	64.7%	61.0%	-3.7%	
L/D (%)	72.7%	75.5%	74.4%	-1.1%	
FX share of lending (%)	23.5%	23.4%	21.7%	-1.7%	
LLP coverage (%)	80.3%	n.a.	n.a	n/a	n/a

Source: EIU, NBH, ECB CBD | 1. Asset penetration = Total assets/Nominal GDP | 2. Loan penetration = Total loans/Nominal GDP

BANKING MARKET

- 34 licensed credit institutions were operating in Hungary at the end of 2020.
- Gránit Bank, a fast-growing bank with a clear digital strategy recently expressed an intention to go public in the upcoming years. It is currently the 17th largest bank in Hungary by total assets. To further strengthen its capital position it has agreed with the Hungarian State about a HUF 4.3 bn capital investment in the bank in 2020.
- The Hungarian banking sector is one of the least concentrated in the region, as the top 5 banks own less than 50 percent of the total assets of the sector. OTP Bank dominates in terms of market share with 19.6% market share.
- The National Bank of Hungary has been reiterating in the past years, that consolidation would be welcomed in the Hungarian banking sector. In their view 4-5 larger banks would serve the market more efficiently. The industry shaping merger of 3 banking groups, Takarék Group, MKB Bank and Budapest Bank which started in 2020 is in line with the sought after consolidation. More is expected to come.

LIST OF BANKS IN HUNGARY (EUR MN OR %)

RANK 2020	RANK 2019	YOY	INSTITUTIONS	TOTAL ASSETS	MARKET SHARE	EQUITY	NET INCOME	ROA	ROE	MAJOR SHAREHOLDER
1.	1.	●	OTP Bank	30,549	19.6%	4,597	253	0.8%	5.5%	OTP
2.	2.	●	Kereskedelmi és Hitelbank	12,096	7.7%	1,063	89	0.7%	8.4%	KBC
3.	3.	●	UniCredit	11,185	7.2%	1,013	88	0.8%	8.6%	UniCredit
4.	4.	●	Erste Bank Hungary	9,917	6.3%	1,110	52	0.5%	4.7%	Erste
5.	5.	●	Raiffeisen Bank	8,762	5.6%	667	40	0.5%	6.0%	Raiffeisen
6.	6.	●	Takarékbank	7,682	4.9%	308	(30)	-0.4%	-9.6%	Private Individuals
7.	8.	▲	MKB Bank	7,648	4.9%	556	17	0.2%	3.1%	Private Individuals
8.	7.	▼	CIB Bank	6,616	4.2%	660	32	0.5%	4.8%	Intesa Sanpaolo
9.	9.	●	Budapest Bank	5,941	3.8%	453	12	0.2%	2.6%	State of Hungary
10.	10.	●	Magyar Fejlesztési Bank	5,666	3.6%	995	(24)	-0.4%	-2.4%	State of Hungary
11.	11.	●	OTP Jelzálogbank	4,347	2.8%	217	(15)	-0.3%	-6.8%	OTP
12.	13.	▲	MTB	4,028	2.6%	87	10	0.2%	11.2%	Co-operatives
13.	12.	▼	Magyar Export-Import Bank	3,542	2.3%	622	(28)	-0.8%	-4.5%	State of Hungary
14.	14.	●	Fundamenta-Lakáskassza	1,907	1.2%	174	6	0.3%	3.6%	Schwäbisch Hall
15.	20.	▲	Takarék Jelzálogbank	1,677	1.1%	183	6	0.4%	3.6%	Private Individuals
16.	15.	▼	Merkantil Váltó és Vagyonbefekteto Bank	1,672	1.1%	142	16	1.0%	11.2%	OTP
17.	19.	▲	GRÁNIT Bank	1,571	1.0%	65	5	0.3%	7.0%	Private Individuals
18.	17.	▼	Sberbank	1,400	0.9%	125	(3)	-0.2%	-2.5%	Sberbank
19.	16.	▼	OTP Lakástakarékpénztár	1,301	0.8%	98	9	0.7%	9.0%	OTP
20.	18.	▼	Commerzbank	1,082	0.7%	83	1	0.1%	0.8%	Commerzbank
21.	21.	●	KDB Bank	888	0.6%	83	(13)	-1.4%	-15.4%	Korea Development Bank
22.	22.	●	UniCredit Jelzálogbank	836	0.5%	57	4	0.4%	6.5%	UniCredit
23.	23.	●	Bank of China	695	0.4%	47	2	0.3%	4.7%	Bank of China
24.	25.	▲	MagNet Magyar Közösségi Bank	690	0.4%	41	0	0.0%	0.6%	Fr Invest
25.	24.	▼	ERSTE Jelzálogbank	549	0.4%	33	2	0.4%	6.2%	Erste
26.	26.	●	ERSTE Lakás-takarékpénztár	479	0.3%	27	3	0.6%	10.6%	Erste
27.	27.	●	K&H Jelzálogbank	421	0.3%	17	1	0.2%	5.6%	KBC
28.	29.	▲	Magyar Cetelem Bank	308	0.2%	114	11	3.6%	9.8%	Cetelem
29.	31.	▲	SOPRON BANK BURGENLAND	294	0.2%	27	1	0.2%	2.4%	Communitas Holding
30.	30.	●	DUNA TAKARÉK BANK	269	0.2%	12	0	0.1%	1.8%	Private Individuals
31.	28.	▼	KELER Központi Értéktár	261	0.2%	69	3	1.1%	4.2%	State of Hungary
32.	32.	●	Garantiqa Hitelgarancia	212	0.1%	152	6	3.0%	4.2%	MFB
33.	33.	●	Polgári Bank	132	0.1%	8	(0)	-0.3%	-4.8%	Private Individuals
34.	34.	●	Agrár-Vállalkozási Hitelgarancia	105	0.1%	97	1	1.4%	1.5%	Private Individuals
			Total	156,204	100%	14,498	1,106	0.7%	7.6%	

Source: Banks' data disclosure, EMIS, NBH

M&A ACTIVITY

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

In 2021, Commerzbank announced to exit the Hungarian market as part of its restructuring plan. The Hungarian subsidiary of Commerzbank could be worth around EUR 100mn. The currently interested parties in the acquisition are all present in the Hungarian market and either part of an international banking groups (Raiffeisen, Erste) or Hungarian based banks (OTP, Granit Bank).

In Hungary 12 deals have been done since 2015, with deal value being announced in 6 cases, adding up to EUR 1.1 bn:

- In late 2021, Sberbank announced the disposal of several CEE entities in order to focus on key markets, including the Bosnian, Croatian, Hungarian, Serbian and Slovenian subsidiaries. The deal was signed with AIK Banka a.d. Beograd, Gorenjska Banka d.d., Kranj and Agri Europe Cyprus Limited. The deal is expected to close in 2022, however it is still subject to regulatory approval.

- In October 2021, Hypo-Bank Burgenland agreed to sell 100% of its stake in Sopron Bank to MagNet Bank. After the closure, MagNet Bank might double its market share and realize signficant synergies. The finalization of the deal is due to the approval of the Hungarian National Bank.

- In November 2020, the Hungarian State and Sándor Nyúl, supervisory board member of Granit Bank announced to increase share capital in Granit Bank, the largest Hungarian digital bank. The capital increase will be c. EUR 12 mn which will strongly secure the capital structure of the bank to continue its remarkable growth. The Hungarian State (through a venture capital fund) holds 7%, while Sándor Nyúl holds 3% of the shares following the transaction.

- In October 2020, Budapest Bank, Takarek Group and MKB Bank decided on a three-party fusion and signed the shareholder agreement about their integration with the following ownership structure: Hungarian State (owner of Budapest Bank) - 30.35%, MKB Bank - 31.69% and Takarek Group - 37.69%. The three banks together will form Hungary's second largest banking group behind OTP. The banking group's total assets will exceed EUR 16.0 bn. Their total FTE number will exceed 11,000 and the aggregated branch number with nearly 900 units will offer the largest banking coverage in Hungary. The three bank successfully complement each other both in operation and in their loan portfolios. Budapest Bank provides a significant household lending portfolio that fits well with MKB's corporate lending profile and the savings bank clients of Takarek Group. The newly created banking group is planning to expand in the region after the main steps of the three bank's integration is closed. As per information published by Magyar Bankholding, the combined entity is assumed to be worth more than 740 Billion HUF. In the next phase of the integration, MKB Bank and Budapest Bank will merge by the second quarter of 2022. Then, the fusion will be completed by the integration of Takarek Group by the middle of 2023.

- In 2017, a 36.5% stake in Granit Bank was acquired by the management team of the Bank from the Hungarian Government in a management buyout transaction for EUR 14.4 mn.

- In 2017, Konzum investment fund manager acquired 49% of the MKB Bank. As of September 2018, Konzum investment fund manager still possesses 49% (35 % via Metis Fund), while the other significant owner is Blue Robin Investments with 33%.

- In 2016, Corvinus - a Hungarian state-owned investment fund - purchased 15% of Erste Bank Hungary, together with EBRD which also acquired 15%, for a total consideration of EUR 247.8 mn.

- In 2016, MKB Bank was privatized, Metis Fund (45%), Blue Robin Investments (45%) and Pannonia Pension Fund (10%) acquired 100% of the Bank from the Hungarian State for a consideration of EUR 118 mn.

- In 2016, AXA sold its Hungarian subsidiary to OTP Bank, in line with its strategy to exit the non-core CEE exposures. The acquisition included the whole operation and all employees of AXA Bank. The deal increased OTP Bank's mortgage portfolio by almost 25%.

- In 2015, Magyar Posta, the Hungarian postal service provider, acquired 49% stake in FHB Bank from FHB Land Credit and Mortgage Bank for a consideration of EUR 90.6 mn. With the transaction, Magyar Posta could increase its market share in the financial sector. Furthermore, the acquisition strengthened the capital position of FHB.

- In 2015, Citibank, in line with its strategy to focus on its core activities, which are institutional and corporate banking, sold its retail banking business to Erste for an undisclosed consideration.

- In 2015, the sale of the SME-focused Budapest Bank was a large deal in the Hungarian banking sector. GE sold the Bank to Corvinus - a Hungarian state-owned investment fund, for EUR 615 mn (the purchase price was set in USD 700 mn).

LIST OF BANKING M&A DEALS IN HUNGARY 2015 - NOVEMBER 2021

YEAR	TARGET	BUYER	% ACQUIRED	DEAL VALUE IN EUR MN	SELLER
2021*	Sberbank	AIK Banka a.d. Beograd, Gorenjska Banka d.d., Kranj, Agri Europe Cyprus Limited	100.0%	n.a.	Sberbank
2021*	Sopron Bank	MagNet bank	100.0%	n.a.	Hypo-Bank Burgenland AG
2020	Granit Bank	Hungarian State; Private investor	10.1%	12	Share capital increased
2020*	Takarek Group; MKB Bank; Budapest Bank	Three-party merger	~ 100%	n.a.	n.a.
2017	Granit Bank	Management	36.5%	14	Hungarian State
2017	MKB Bank	Konzum	49.0%	n.a.	Blue Robin Investments; Minerva Capital Fund Management
2016	Erste Bank Hungary	Hungarian State; EBRD	30.0%	248	Erste
2016	MKB Bank	Pannonia Pension Fund; METIS Private Capital Fund; Blue Robin Investments	100.0%	118	Hungarian State
2016	AXA Bank Hungary	OTP	100.0%	n.a.	AXA Bank
2015	FHB Kereskedelmi Bank	Magyar Posta	49.0%	91	FHB Mortgage Bank
2015	Citibank retail business	Erste	100.0%	n.a.	Citibank
2015	Budapest Bank	Hungarian State	100.0%	615	GE Capital

Source: Deloitte Intelligence
**Ongoing*

ROMANIA

MACROECONOMIC ENVIRONMENT

- The Romanian GDP decreased by 3.9% in real terms in 2020, due to the significant impact of the global pandemic and the accompanying lockdowns. However, the contraction was lower than the previously anticipated 6.0%. The real GDP is set to bounce back to an even higher level than it was in 2019 with a 7.2% growth rate in real terms, the main driver being the recovering domestic demand.

- The inflation reached 2.6% in 2020 and the annual inflation is expected to average 3.9% in 2021, owing mainly to the further liberalisation of the household electricity market and the increasing global inflation pressure.

- The unemployment rate showed continuous improvement until 2019, when it reached its bottom with 3.9%. This improving trend came to a halt in 2020 and the level of the ratio reached 5.0% due to the recession and it is not expected to recover in 2021 either.

- In 2020 the budget deficit widened to 9.7% from 4.6% caused by the financial stimulus packages introduced to tackle the negative economic effects of the coronavirus crisis. The fiscal stimulus was targeting the preservation of workplaces and funds to ensure the financing and investment needs of the companies. The deficit is forecasted to decrease by 1.9% points in 2021.

- The public debt left the relatively steady level of the recent years, and climbed up to 47.3% in 2020, posting the steepest uptrend over the past 9 years. It is expected to further increase to 51.1% in 2021.

MACRO INDICATORS	2018	2019	2020	2021E	CHANGE 2019-20 (% OR % POINT)	
Nominal GDP (mEUR)	204,731	223,158	218,182	233,333	-2.2%	●
Nominal GDP/capita (EUR)	10,499	11,503	11,341	12,197	-1.4%	●
EURRON exchange rate	4.66	4.78	4.87	n.a.	1.8%	●
GDP (% real change pa)	4.4%	4.1%	-3.9%	7.2%	-8.0%	●
Consumer prices (% change pa)	4.6%	3.8%	2.6%	3.9%	-1.2%	●
Recorded unemployment (%)	4.2%	3.9%	5.0%	5.2%	1.1%	●
Budget balance (% of GDP)	-2.9%	-4.6%	-9.7%	-7.8%	-5.1%	●
Public debt (% of GDP)	34.7%	35.2%	47.3%	51.1%	12.1%	●

Source: EIU
E - Estimated data for 2021

BANKING TRENDS

- The Romanian banking sector presented sufficient level of capital as the CAR remained stable at around 20% over past years. The ratio further increased to 25.1% in 2020 placing the Romanian banking sector above the European average.

- The aggregate balance sheet continued to increase after the onset of the pandemic, under the influence of high saving rates. The nominal annual growth rate of bank assets exceeded 10% as of March 2020 (11.6% in March 2021), bringing the balance sheet up to EUR 117.9 bn. Households remained the main liquidity provider for the banking sector, the deposits of this sector is accounting for 42.5% of the aggregate liabilities.

- Solvency and liquidity indicators, financial results, and the leverage ratio stood at levels close to or slightly higher than European averages, providing a good shock absorption capacity. Moreover, asset quality indicators place the Romanian banking sector in the intermediate risk bucket.

- In 2020, the overall banking sector profitability dropped by 20.7% in terms of net profit and 3.3% points in terms of ROE. The contraction in real sector activity caused by the COVID-19 pandemic led to an increase in impairment losses, which significantly eroded operating profitability. However, the market share of loss-making banks remained relatively low (4.6%).

COVID-19 IMPACT

- Since the financial crisis of 2008-2009, the Romanian banking sector has been in a relatively strong position compared to the EU average and entered to the COVID-19 crisis with a relative strong shock absorbing capacity.

- Due to the netagive impact of COVID-19, the National Bank of Romania gradually lowered its benchmark interest rate from 2.5% in March 2020 to 1.25% in January 2021. In June 2021 the reference interest rate increased by 25 bps to 1.5%

- Recourse to the moratorium was significant, in terms of both the number of debtors and the volume of the loans, as 12.7% of the total loan volume was under moratorium. Nonetheless, at the end of March 2021, the deadline for grace periods had expired for 97 percent of the affected exposures resulting in a slightly higher NPL ratio. The NPL ratio for non-financial corporations that benefited from the suspension of loan repayment was 12.3% in March 2021, compared to 5.2% for the companies that did not resort to moratoria, while for households it equalled to 7.4% and to 3.1%, respectively. Asset quality is expected to further deteriorate due to economic uncertainties and to the prospects for higher default rates associated with loan portfolios.

BANKING SECTOR	2018	2019	2020	CHANGE 2019-20 (% OR % POINT)	
Total assets (EUR mn)	99,751	106,764	117,814	10.4%	●
Asset penetration (%)[1]	48.7%	47.8%	54.0%	12.9%	●
Total equity (EUR mn)	10,745	11,795	12,901	9.4%	●
Total loans (EUR mn)	52,745	54,884	56,577	3.1%	●
Loan penetration (%)[2]	25.8%	24.6%	25.9%	5.4%	●
Retail loans (EUR mn)	28,545	29,948	30,835	3.0%	●
Corporate loans (EUR mn)	24,199	24,936	25,742	3.2%	●
Interest rates					
Lending (%)	6.8%	7.2%	6.5%	-0.7%	●
Deposit (%)	1.3%	1.8%	1.9%	0.1%	●
NPL volumes					
Retail NPLs (EUR mn)	1,484	1,378	1,819	32.1%	●
Corporate NPLs (EUR mn)	2,372	2,045	2,857	39.7%	●
NPL ratios					
Retail NPL ratio (%)	5.2%	4.6%	5.9%	1.3%	●
Corporate NPL ratio (%)	9.8%	8.2%	11.1%	2.9%	●
Key ratios					
CAR (%)	19.7%	20.0%	25.1%	5.1%	●
ROE (%)	13.6%	12.3%	9.0%	-3.3%	●
ROA (%)	1.5%	1.5%	1.0%	-0.5%	●
CIR (%)	53.5%	53.4%	51.4%	-2.0%	●
L/D (%)	71.7%	72.0%	67.6%	-4.4%	●
FX share of lending (%)	33.7%	32.8%	29.7%	-3.1%	●
LLP coverage (%)	83.8%	88.6%	107.5%	18.9%	●

Source: EIU, NBR, ECB CBD | 1. Asset penetration = Total assets/Nominal GDP | 2. Loan penetration = Total loans/Nominal GDP

BANKING MARKET

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

- In 2020, the banking sector was comprised of 26 locally licenced banks, which was significantly lower than at the beginning of the decade. The Romanian state has a relatively small position with 10% market share in the banking sector by the end of 2020.

- Romania has a significantly smaller financial sector than other EU countries. Finance and insurance activities accounted for just 2.4% of GDP in 2020, compared to the 4% EU average.

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

LIST OF BANKS IN ROMANIA IN 2020 (EUR MN OR %)

RANK 2020	RANK 2019	YOY	INSTITUTIONS	TOTAL ASSETS	MARKET SHARE	EQUITY	NET INCOME	ROA	ROE	MAJOR SHAREHOLDER
1.	1.	●	Banca Transilvania	21,230	18.0%	1,956	246	1.2%	12.6%	Private Individuals
2.	2.	●	Banca Comerciala Romana	16,338	13.9%	1,880	174	1.1%	9.3%	Erste
3.	3.	●	BRD - Groupe Societe Generale	12,660	10.7%	1,946	196	1.5%	10.1%	Société Générale
4.	5.	▲	Raiffeisen Bank	10,534	8.9%	1,104	132	1.3%	12.0%	Raiffeisen
5.	4.	▼	UniCredit	9,335	7.9%	1,101	83	0.9%	7.5%	UniCredit
6.	6.	●	CEC Bank	8,473	7.2%	921	69	0.8%	7.5%	State of Romania
7.	7.	●	Alpha Bank Romania	3,679	3.1%	349	16	0.4%	4.6%	Alpha Bank
8.	8.	●	OTP Bank Romania	3,040	2.6%	n/a	5	0.2%	n.a.	OTP
9.	10.	▲	Banca de Exp-Imp a României – Eximbank	2,423	2.1%	249	3	0.1%	1.2%	State of Romania
10.	9.	▼	Garanti Bank	2,342	2.0%	n.a.	n.a.	n.a.	n.a.	G Netherlands
11.	13.	▲	Libra Internet Bank	1,503	1.3%	157	8	0.5%	5.1%	NCH
12.	14.	▲	First Bank	1,502	1.3%	155	(17)	-1.1%	-11.0%	J.C. Flowers &Co
13.	11.	▼	Banca Romaneasca	1,328	1.1%	132	2	0.2%	1.5%	State of Romania
14.	12.	▼	Intesa Sanpaolo Romania	1,327	1.1%	180	2	0.2%	1.1%	Intesa Sanpaolo
15.	15.	●	Credit Europe Bank	852	0.7%	172	(4)	-0.5%	-2.3%	Credit Europe Bank
16.	18.	▲	Vista Bank	708	0.6%	66	-	0.0%	0.0%	Vardinogiannis Group
17.	16.	▼	Patria Bank	705	0.6%	71	1	0.1%	1.4%	Private Individuals
18.	19.	▲	Idea Bank	585	0.5%	48	3	0.6%	7.3%	Idea Bank
19.	20.	▲	Credit Agricole Bank Romania	536	0.5%	40	(2)	-0.3%	-4.2%	Credit Agricole
20.	21.	▲	Procredit Bank	435	0.4%	41	(5)	-1.1%	-11.7%	ProCredit
21.	17.	▼	BCR Banca pentru Locuinte	384	0.3%	12	(0)	-0.1%	-3.8%	Erste
22.	24.	▲	Banca Centrala Cooperatista CREDITCOOP	303	0.3%	70	1	0.3%	1.4%	Lista Membrii Cooperatori
23.	22.	▼	PORSCHE BANK ROMANIA SA	188	0.2%	38	(0)	-0.0%	-0.1%	Porsche Bank
24.	26.	▲	Banca Romana De Credite Si Investitii	128	0.1%	11	(2)	-1.6%	-18.7%	Private Individuals
25.	23.	▼	TechVentures Bank	106	0.1%	7	(4)	-3.4%	-53.5%	Private Individuals
26.	25.	▼	Aedificium Banca Pentru Locuinte	59	0.1%	(2)	(10)	-16.3%	417.7%	Raiffeisen
			Total	117,814	100%	12,901	1,191	1.0%	9.0%	

Source: Banks' data disclosure, EMIS, NBR

M&A ACTIVITY

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

- In 2021, 100% shares of Idea Bank has been acquired by Banca Transilvania S.A for 43 mEUR from Getin Holding SA. The transaction was completed in Q3 2021.

- In 2021, the French banking group Credit Agricole Bank sold 100% shares of its subsidiary (Credit Agricole Bank Romania S.A.) to Vista Bank which is owned by a Greek business conglomerate, Vardinogiannis Group.

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

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

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

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

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

- In 2018, the Greek Vardinogiannis Group acquired a 99.53% stake in Marfin Bank from the Cyprus Popular Bank. Vardinogiannis Group saw a strong potential in the domestic market. Marfin Bank had a 20-year over presence in the local market and had more than 30 branches in the country. In 2019, due to a strategic decision, the name Marfin Bank was changed to Vista Bank.

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

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

- In 2016, a 54.79% stake in Banca Comerciala Carpatica was acquired by Nextebank. The implied equity value of the transaction was EUR 26.68 mn. Nextebank started a merger between Banca Comerciala Carpatica and itself to create Patria Bank.

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

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

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

LIST OF BANKING M&A DEALS IN ROMANIA 2015 - NOVEMBER 2021

YEAR	TARGET	BUYER	% ACQUIRED	DEAL VALUE IN EUR MN	SELLER
2021*	Idea Bank Romania	Banca Transilvania S.A.	100.0%	43	Getin Holding SA
2021	Credit Agricole Bank Romania S.A.	Vista Bank (Romania) SA	100.0%	n.a.	Credit Agricole Bank
2020	Banca Comerciala Feroviara	Olimpiu Bălaş	63.0%	n.a.	Valer Blidar
2020	Banca Romaneasca	Export-Import Bank of Romania	99.3%	314	National Bank of Greece
2019	Bank Leumi Romania	J.C. Flowers	100.0%	n.a.	Bank Leumi le-Israel
2018	Piraeus Bank Romania	J.C. Flowers	100.0%	n.a.	Piraeus Bank
2018	Bancpost	Banca Transilvania	93.8%	301	Eurobank
2018	Marfin Bank	Vardinogiannis Group	99.5%	n.a.	Cyprus Popular Bank
2018	Banca Comerciala Romana	Erste	6.3%	140	SIF Oltenia
2017	Veneto Banca	Intensa Sanpaolo Bank	100.0%	n.a.	Banca Popolare di Vicenza
2016	Banca Comerciala Carpatica	Nextebank	54.8%	27	Banca Comerciala Carpatica
2015	UniCredit Tiriac Bank	UniCredit	45.0%	700	Private individuals
2015	Banca Millennium	OTP	100.0%	39	Banco Comercial Portugues
2015	Volksbank Romania	Banca Transilvania	100.0%	711	Immigon Portfolioabbau; Westdeutsche Genossenschafts-Zentralbank; DZ Bank; BPCE Group

Source: Deloitte Intelligence
**Ongoing*

SLOVENIA

MACROECONOMIC ENVIRONMENT

- Slovenia has experienced one of the most significant declines in the economy since the global financial crisis because of the COVID-19 pandemic, resulting in a 4.3% nominal GDP decrease from 2019 to 2020. However, economic recovery is expected to exceed pre-covid levels due to the introduced government measures and vaccination programme. The government also plans to restart its investment cycle to boost the economy with the use of the EU Recovery Fund.

- The labour market has been also hit by the coronavirus as unemployment rate increased by 1.1% points from 7.6% to 8.7% despite the introduced measures to protect jobs, e.g. wage compensation, crisis bonus, relief from the payment of social security contribution etc.

- Consumer prices have fallen by 2% points for the first time in 4 years, reaching 0.3% deflation level, as households have delayed significant purchases amid an uncertain economic environment.

- The fiscal measures introduced by the government totalling ca. EUR 7 billion were aimed at securing jobs and keeping companies alive, leading to an increase in public debt of more than 15.2% points in 2020.

MACRO INDICATORS	2018	2019	2020	2021E	CHANGE 2019-20 (% OR % POINT)	
Nominal GDP (mEUR)	46,000	48,200	46,135	49,200	-4.3%	●
Nominal GDP/capita (EUR)	21,905	22,952	22,192	23,665	-3.3%	●
GDP (% real change pa)	4.2%	2.4%	-6.1%	5.0%	-8.5%	●
Consumer prices (% change pa)	1.9%	1.7%	-0.3%	1.5%	-2.0%	●
Recorded unemployment (%)	8.3%	7.6%	8.7%	8.3%	1.1%	●
Budget balance (% of GDP)	0.7%	0.5%	-8.4%	-8.0%	-8.9%	●
Public debt (% of GDP)	70.1%	65.9%	81.1%	80.1%	15.2%	●

Source: EIU
E - Estimated data for 2021

BANKING TRENDS

- Total assets of the Slovenian banking sector have shown a 16.6% growth in 2020 despite the decrease of total loans, mainly as a result of an increase in bank reserves at the central bank.

- Regardless of COVID-19, the banking system remained resilient and showed a stable capital position as CAR increased by 0.3% points in 2020.

- The sector has been one of the most profitable in the euro area and second among the analyzed eurozone countries in 2020 with an average ROE of 11.3% mainly due to one-off events. However, the development of net interest margin shows a downward trend as the previous release of impairments and provisions, which improved the profitability of the banking system is expected to reverse due to the pandemic. The trend of increasing bank reserves could also push the net margins down in the short run.

- Slovenian banks have reduced the level of non-performing loans in their portfolio over the past 5 years, making the banking system more resilient to the pandemic and economic slowdown compared to other euro area countries. However, the moratorium also caused uncertainty, as SMEs were most likely to be affected by the pandemic and previously they accounted for 35% of the NPLs. The approved number of moratoriums in Slovenia was also twice as much as the EU average.

COVID-19 IMPACT

- Systematic risk remains high in the banking sector after the outbreak of COVID-19, however, the increase in credit risk due to the introduced government measures did not translate into an increase of non-performing exposures.

- Credit activity was also impacted by the pandemic as demand was lower compared to previous years due to economic uncertainty and the tightening of credit standards.

- Moratorium was introduced in March 2020 resulting in a 12 months deferral on capital and interest payment on loans. The share of loans covered by moratorium accounted for 14%.

BANKING SECTOR	2018	2019	2020	CHANGE 2019-20 (% OR % POINT)
Total assets (EUR mn)	43,094	45,745	53,332	16.6%
Asset penetration (%)[1]	93.7%	94.9%	115.6%	21.8%
Total equity (EUR mn)	5,102	5,367	5,516	2.8%
Total loans (EUR mn)	19,867	20,568	20,360	-1.0%
Loan penetration (%)[2]	43.2%	42.7%	44.1%	3.4%
Retail loans (EUR mn)	10,370	10,981	10,997	0.1%
Corporate loans (EUR mn)	9,497	9,587	9,363	-2.3%
Interest rates				
Lending (%)	2.4%	2.3%	2.3%	0.0%
Deposit (%)	0.0%	0.0%	-0.0%	0.0%
NPL volumes				
Retail NPLs (EUR mn)	218	198	187	-5.4%
Corporate NPLs (EUR mn)	323	134	122	-9.3%
NPL ratios				
Retail NPL ratio (%)	2.1%	1.8%	1.7%	-0.1%
Corporate NPL ratio (%)	3.4%	1.4%	1.3%	-0.1%
Key ratios				
CAR (%)	20.6%	20.1%	20.4%	0.3%
ROE (%)	10.7%	10.3%	11.3%	1.0%
ROA (%)	1.3%	1.224%	1.190%	0.0%
CIR (%)	59.9%	59.4%	59.5%	0.1%
L/D (%)	73.1%	73.3%	66.6%	-6.7%
FX share of lending (%)	3.1%	2.4%	2.1%	-0.3%
LLP coverage (%)	70.8%	78.2%	83.1%	4.9%

Source: EIU, BSI, ECB CBD | 1. Asset penetration = Total assets/Nominal GDP | 2. Loan penetration = Total loans/Nominal GDP

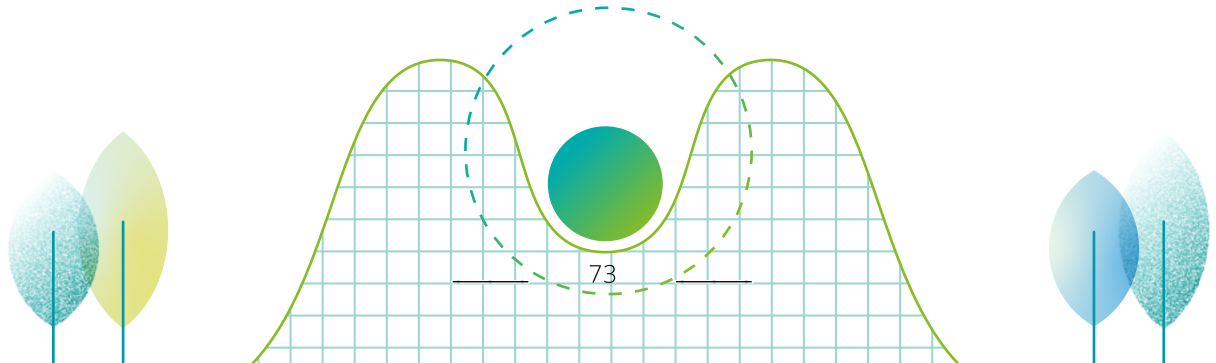
BANKING MARKET

- There were 14 licensed banks and saving banks in Slovenia as of 2020. Previously the Slovenian state had significant ownership in the banking system, but after the sale of Nova KBM to Apollo Asset Management and Abanka to Nova KBM, it gradually decreased. At the end of 2020, the Slovenian state still had 25% ownership in the largest bank, Nova Ljubljanska Banka.
- Total assets of Nova KBM have nearly doubled from EUR 5bn to EUR 9.1bn due to the successful merger of Abanka on 1 September 2020.
- The ownership structure of Addiko bank has changed as the previous owner (PE Advent) carried out a successful IPO on the Vienna Stock Exchange valuing EUR 312mn.
- OTP will become the market leader in 2021 after the acquisition of the second-largest bank Nova KBM. OTP has already owned the third-largest bank SKB.
- The banking market was moderately concentrated in 2020 as the top five banks accounted for 56% of the total assets with a 9.2% HHI.

LIST OF BANKS IN SLOVENIA IN 2020 (EUR MN OR %)

RANK 2020	RANK 2019	YOY	INSTITUTIONS	TOTAL ASSETS	MARKET SHARE	EQUITY	NET INCOME	ROA	ROE	MAJOR SHAREHOLDER
1.	1.	●	Nova Ljubljanska Banka	11,027	20.7%	1,451	114	1.0%	7.9%	Nova Ljubljanska Banka
2.	2.	●	Nova KBM	9,176	17.2%	990	209	2.3%	21.1%	Apollo Global Management
3.	4.	▲	SKB banka	3,645	6.8%	390	35	1.0%	9.0%	OTP
4.	5.	▲	UniCredit Banka Slovenija	3,094	5.8%	280	14	0.5%	5.0%	UniCredit
5.	6.	▲	Banka Intesa Sanpaolo	2,945	5.5%	317	13	0.4%	4.1%	Intesa Sanpaolo
6.	7.	▲	Sid Banka	2,907	5.5%	476	8	0.3%	1.7%	State of Slovenia
7.	8.	▲	Gorenjska Banka	2,137	4.0%	218	22	1.0%	10.1%	AIK Banka
8.	11.	▲	Delavska Hranilnica	1,840	3.5%	80	5	0.3%	6.3%	Private Individuals
9.	9.	●	Sberbank	1,839	3.4%	184	1	0.1%	0.5%	Sberbank
10.	10.	●	Addiko Bank	1,449	2.7%	105	(10)	-0.7%	-9.5%	Addiko Bank AG
11.	12.	▲	Sparkasse	1,294	2.4%	124	3	0.2%	2.5%	Erste
12.	13.	▲	Dezelna Banka Slovenije	1,045	2.0%	68	5	0.5%	7.4%	Kd Group d.d.
13.	14.	▲	Hranilnica Lon	295	0.6%	21	(1)	-0.4%	-5.9%	Kylian Prime Group
14.	15.	▲	Primorska Hranilnica	131	0.2%	7	0	0.2%	3.2%	No majority shareholder
			Total	53,332	100%	5,516	634	1.2%	11.3%	

Source: Banks' data disclosure, EMIS, BSI



M&A ACTIVITY

The Slovenian banking sector has experienced an active M&A market over the past 6 years, with nine announced deals.

- In late 2021, Sberbank announced the disposal of several CEE entities in order to focus on key markets, including the Bosnian, Croatian, Hungarian, Serbian and Slovenian subsidiaries. The deal was signed with AIK Banka a.d. Beograd, Gorenjska Banka d.d., Kranj and Agri Europe Cyprus Limited. The deal is expected to close in 2022, however it is still subject to regulatory approval. Gorenjska Banka is also owned by AIK Banka. The potential merger of Gorenjska Banka and the newly acquired Sberbank would create the third largest banking group on the Slovenian market.

- In 2021, OTP Bank Hungary has acquired 100% stake in Nova KBM from Apollo Asset Management (80%) and EBRD (20%) for approximately EUR 900mn.
The transaction is expected to close by the second quarter of 2022, making OTP the market leader in Slovenia.

- In 2020, the Slovenian Sovereign Holding (Slovenian state-owned asset manager) sold Abanka to NKBM, owned by Apollo Global Management, amid strong investor interest. In September 2020, the banking regulators issued the necessary authorizations for the merger of #3 Abanka and #2 Nova KBM, which was the largest merger in Slovenian banking industry to date.

- In 2019, OTP Bank acquired 99.73% stake in SKB banka Ljubljana, from Société Générale. The acquisition was in line with OTP Bank's acquisition strategy to further strengthen their operations in CEE, of which growth in Slovenia was an important part. The closing was completed in December 2019.

- State-owned Nova Ljubljanska Banka (NLB), the country's largest bank, has lately undergone privatization, which is part of the governmental plan to decrease its ownership in the banking market. The NLB made a successful IPO in 2018. Deutsche Bank was appointed as the financial advisor of the Slovenian state.

- In 2018, Kylin Prime Group acquired majority stake in Hranilnica Lon to be present in the European market. Until 2019 Q4, Kylin Prime Group bought 27.5% stake in Lon, in two rounds.

- In 2017, Sava sold a 37.6% minority stake in Gorenjska Banka to the Serbian privately owned AIK Banka for an undisclosed consideration.

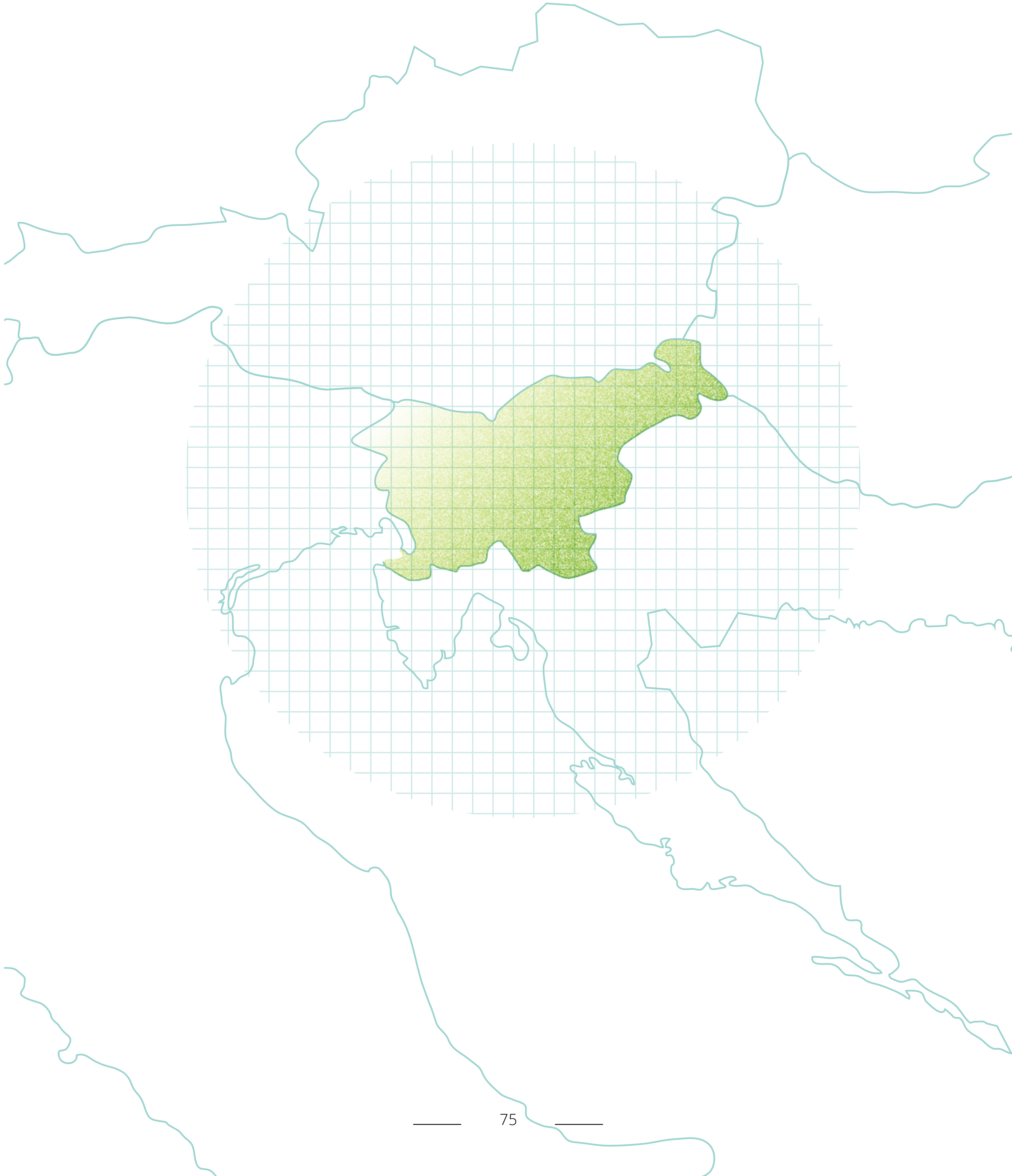
- In 2016, Nova Kreditna Banka Maribor (NKBM) was acquired by a US-based private equity firm, Apollo Global Management, and EBRD from the Government of Slovenia for EUR 250 mn. Apollo Global acquired 80%, while EBRD 20% stake in NKBM.

- Raiffeisen exited Slovenia via selling its two Slovenian entities, Raiffeisen Banka (in 2015) and KBS Banka (in 2017). Both entities were acquired by Apollo Global Management through, Biser Bidco and NKBM.

LIST OF BANKING M&A DEALS IN SLOVENIA 2015 - NOVEMBER 2021

YEAR	TARGET	BUYER	% ACQUIRED	DEAL VALUE IN EUR MN	SELLER
2021*	Sberbank	AIK Banka a.d. Beograd, Gorenjska Banka d.d., Kranj, Agri Europe Cyprus Limited	100.0%	n.a.	Sberbank
2021*	Nova KBM	OTP	100.0%	900	Apollo Global Management, LLC; The European Bank for Reconstruction and Development
2020	Abanka	Nova KBM	100.0%	511	Slovenian State
2019	SKB banka	OTP	99.7%	n.a.	Société Générale
2018	Hranilnica Lon	Kylin Prime Group	27.5%	n.a.	n.a.
2017	Gorenjska Banka	AIK Banka	37.6%	n.a.	Sava
2017	KBS banka	Nova KBM	100.0%	n.a.	Raiffeisen
2016	Nova KBM	Apollo Global Management; EBRD	100.0%	250	Slovenian State
2015	Raiffeisen Banka	Apollo Global Management	100.0%	n.a.	Raiffeisen

Source: Deloitte Intelligence
**Ongoing*



CROATIA

MACROECONOMIC ENVIRONMENT

- The Croatian economic activity sharply fell in 2020 by 8.0% points in terms of real GDP, mainly due to the drop in exports of services, personal consumption and tourism, even though exports of goods and investments remained relatively resilient to the economic shocks. The real economic activity and the consumer confidence remained below the pre-crisis level even in the first half of 2021, but real GDP growth is expected to bounce back to a relatively high 5.7%.

- Croatia's inflation slowed to 0.2% in 2020 from 1.4%, due to the decreasing consumer prices in the transport sector. However, in 2021 there is an increased inflationary pressure that could lead to the highest inflation rate in the past years.

- Due to the extensive fiscal support that aimed the job preservation, the rise in unemployment rate was relatively small compared to the economic shock that hit the country. In 2021, the unemployment rate is expected to slightly decrease to 8.9%, but it is likely to remain above the pre-crisis levels.

- Because of the introduced government support measures and unfavourable economic conditions, the public finances deteriorated in 2020. The budget surplus of 0.4% posted in 2019 turned to a 7.4% budget deficit in 2020. At the same time, public debt also increased to 88.7% in 2020, which is the highest level of public debt in GDP of all CEE countries. The public finances are expected to gradually recover as the tourism gains strength in 2021.

MACRO INDICATORS	2018	2019	2020	2021E	CHANGE 2019-20 (% OR % POINT)	
Nominal GDP (mEUR)	51,634	53,745	49,259	52,956	-8.3%	●
Nominal GDP/capita (EUR)	12,294	13,108	11,999	12,973	-8.5%	●
EURHRK exchange rate	7.42	7.44	7.54	n.a.	1.3%	●
GDP (% real change pa)	2.7%	2.9%	-8.0%	5.7%	-10.9%	●
Consumer prices (% change pa)	0.9%	1.4%	0.2%	1.6%	-1.2%	●
Recorded unemployment (%)	9.8%	7.7%	9.1%	8.9%	1.4%	●
Budget balance (% of GDP)	0.2%	0.4%	-7.4%	-5.0%	-7.8%	●
Public debt (% of GDP)	74.6%	72.8%	88.7%	86.4%	15.9%	●

Source: EIU
E - Estimated data for 2021

BANKING TRENDS

- Capital adequacy ratio was one of the highest (22.3%) in the region before the crisis and it further improved (25.6%) by the end of 2020, mainly due to the lower average risk weights and retained earnings.

- In 2020, total assets grew by 4.5%, reaching EUR 70.3 bn. The Croatian banking sector entered the pandemic with a historically low share of NPLs, which only moderately rose in 2020. The corporate segment's NPL ratio could even slightly improve, mostly due to granted loan moratoriums and the favourable regulatory treatment.

- The profitability of the Croatian banking sector fell significantly in 2020. The fall in interest rates and the increased level of impairment losses together halved bank profits and consequently reduced profitability indicators.

COVID-19 IMPACT

- To handle the severe economic consequences of COVID-19 the Croatian National Bank (CNB) implied both monetary and supervisory measures. For instance, the banking sector's profit was retained by CNB to avoid the deterioration of the banking sector's capital position, which led to high capitalisation of the banks in 2020.

- Although the expansionary fiscal policy substantially mitigated the negative impact of the pandemic and prevented any significant materialisation of risks to financial stability, it has raised concerns about the sustainability of public debt. On the other hand, a premature withdrawal of fiscal measures might lead to a considerable increase in the number bankruptcies.

BANKING SECTOR	2018	2019	2020	CHANGE 2019-20 (% OR % POINT)	
Total assets (EUR mn)	64,698	67,306	70,320	4.5%	●
Asset penetration (%)[1]	125.3%	125.2%	142.8%	17.6%	●
Total equity (EUR mn)	8,634	8,986	9,263	3.1%	●
Total loans (EUR mn)	28,393	29,311	30,056	2.5%	●
Loan penetration (%)[2]	55.0%	54.5%	61.0%	6.5%	●
Retail loans (EUR mn)	16,962	18,050	18,231	1.0%	●
Corporate loans (EUR mn)	11,432	11,262	11,826	5.0%	●
Interest rates					
Lending (%)	3.5%	2.7%	1.9%	-0.8%	●
Deposit (%)	0.4%	0.2%	0.1%	-0.1%	●
NPL volumes					
Retail NPLs (EUR mn)	1,152	1,043	1,293	23.9%	●
Corporate NPLs (EUR mn)	2,335	1,537	1,476	-4.0%	●
NPL ratios					
Retail NPL ratio (%)	6.8%	5.8%	7.1%	1.3%	●
Corporate NPL ratio (%)	20.4%	13.7%	12.5%	-1.2%	●
Key ratios					
CAR (%)	21.1%	22.3%	25.6%	3.3%	●
ROE (%)	8.8%	9.1%	4.7%	-4.4%	●
ROA (%)	1.2%	1.2%	0.6%	-0.6%	●
CIR (%)	50.7%	50.3%	51.5%	1.2%	●
L/D (%)	82.1%	82.3%	78.8%	-3.5%	●
FX share of lending (%)	59.5%	n.a.	n.a.	n.a.	n.a.
LLP coverage (%)	73.6%	85.2%	84.0%	-1.2%	●

Source: EIU, HNB, ECB CBD | 1. Asset penetration = Total assets/Nominal GDP | 2. Loan penetration = Total loans/Nominal GDP

BANKING MARKET

- The top five banks, which are all affiliates of leading European banking groups, possessed 70.9% of the total assets of the banking sector in 2020. The HHI index of the Croatian banking sector remained relatively high at the level of 12.3% in 2020.

- At the end of 2020, 20 banks were operating in the Croatian market, similarly to 2019. The number of banks has been continuously decreasing in the recent years, but the consolidation has slowed down in 2020.

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

LIST OF BANKS IN CROATIA IN 2020 (EUR MN OR %)

RANK 2020	RANK 2019	YOY	INSTITUTIONS	TOTAL ASSETS	MARKET SHARE	EQUITY	NET INCOME	ROA	ROE	MAJOR SHAREHOLDER
1.	1.	●	Zagrebacka Banka	16,523	23.5%	2,260	98	0.6%	4.3%	UniCredit
2.	2.	●	Privredna Banka Zagreb	12,733	18.1%	2,063	108	0.9%	5.3%	Intesa Sanpaolo
3.	3.	●	Erste&Steiermakische Bank	9,714	13.8%	1,159	52	0.5%	4.5%	Erste
4.	4.	●	OTP Banka Hrvatska	5,978	8.5%	762	33	0.6%	4.3%	OTP
5.	5.	●	Raiffeisenbank Austria Zagreb	4,922	7.0%	615	17	0.3%	2.8%	Raiffeisen
6.	6.	●	Hrvatska Poštanska Banka	3,316	4.7%	313	19	0.6%	6.0%	State of Croatia
7.	7.	●	Addiko Bank	2,338	3.3%	339	12	0.5%	3.5%	Addiko Bank AG
8.	8.	●	Sberbank	1,464	2.1%	166	15	1.0%	9.0%	Sberbank
9.	10.	▲	Istarska Kreditna Banka Umag	512	0.7%	48	4	0.8%	8.5%	Intercommerce
10.	9.	▼	Agram Banka	504	0.7%	57	3	0.5%	4.7%	Adriatic Osiguranje D.D.
11.	11.	●	Podravska Banka	488	0.7%	63	3	0.6%	4.5%	Generali
12.	12.	●	KentBank	387	0.6%	41	0.8	0.2%	1.9%	Süzer Holding
13.	13.	●	Karlovacka Banka	340	0.5%	25	4	1.1%	15.3%	Private Individuals
14.	15.	▲	Partner Banka	257	0.4%	55	5	2.0%	9.2%	Metroholding
15.	14.	▼	Croatia Banka	255	0.4%	15	1	0.3%	4.4%	State of Croatia
16.	17.	▲	Slatinska Banka	199	0.3%	22	0	0.1%	0.8%	Urban Capital ingatlankezelo
17.	16.	▼	Imex Banka	190	0.3%	16	0	0.2%	2.6%	Private Individuals
18.	18.	●	Banka Kovanica	181	0.3%	19	2	0.8%	8.0%	Cassa di Risparmio della Repubblica di San Marino
19.	19.	●	J&T banka	139	0.2%	15	(2)	-1.6%	-14.3%	J&T Banka A.S.
20.	20.	●	Samoborska Banka*	69	0.1%	8	0	0.2%	1.8%	Aquae Vivae
			Total	70,320	100%	9,263	433	0.6%	4.7%	

Source: Banks' data disclosure, EMIS, HNB
** total assets, total equity and net income from 2019*

M&A ACTIVITY

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

- In late 2021, Sberbank announced the disposal of several CEE entities in order to focus on key markets, including the Bosnian, Croatian, Hungarian, Serbian and Slovenian subsidiaries. The deal was signed with AIK Banka a.d. Beograd, Gorenjska Banka d.d., Kranj and Agri Europe Cyprus Limited. The deal is expected to close in 2022, however it is still subject to regulatory approval.

- In 2018, Intesa Sanpaolo's Croatian subsidiary, Privredna Banka Zagreb acquired Veneto Banka from the Italian Veneto Banca. The transaction was in line with Intensa Sanpaolo's strategy to expand its presence in Croatia.

- In 2018, state-owned Hrvatska Poštanska Banka (HPB) acquired Jadranska Banka which had financial difficulties. Via the transaction, HPB aimed to achieve higher market efficiency, cost savings and increased customer reach.

- In 2017, OTP Banka Hrvatska acquired Splitska Banka from Société Générale, which significantly strengthened OTP's position in the Croatian market. After the acquisition, OTP became the fourth largest group in the market with 8.8% market share at the end of 2019.

- In 2016, a Croatia-based undisclosed bidder acquired Banca Kovanica, from Cassa di Risparmio Della Repubblica di San Marino and a subsidiary of Banca Carige.

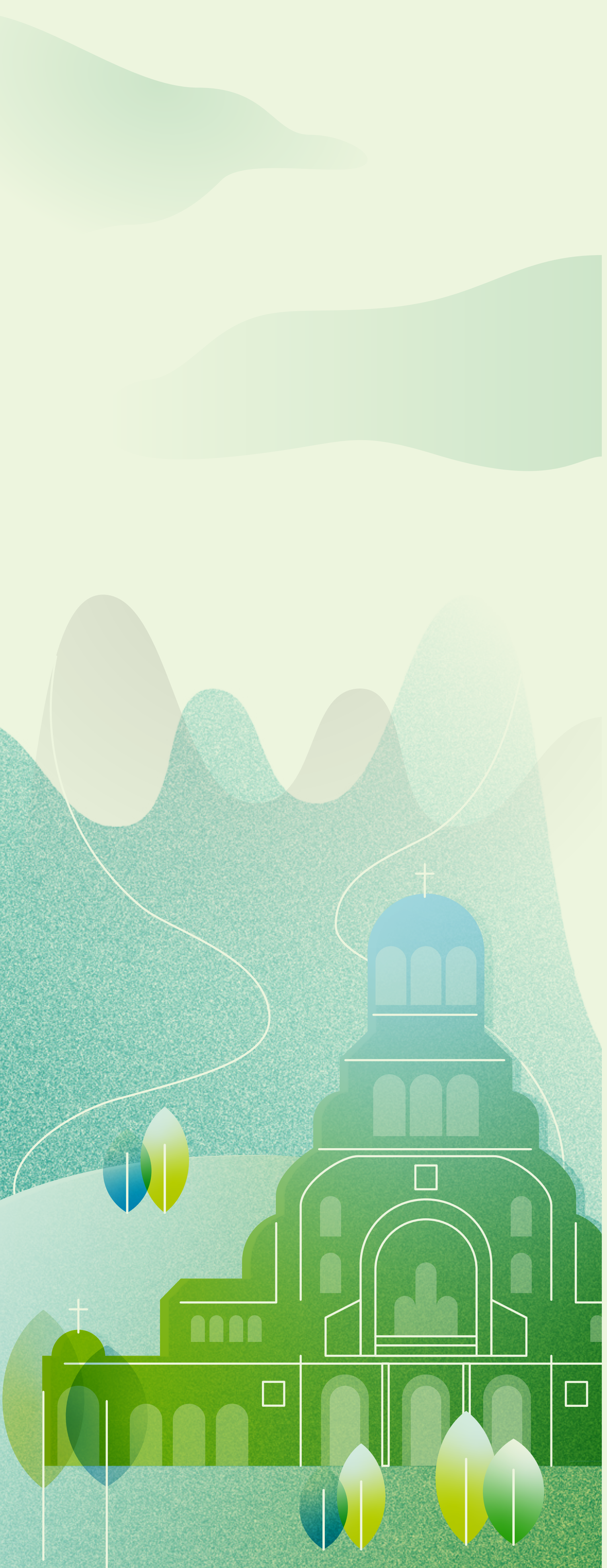
- In 2015, the US-based private equity Advent and EBRD acquired Hypo Group Alpe Adria for EUR 200 mn, in an 80%-20% proportion. The Southeast European Network incorporated banks in five countries, Slovenia, Croatia, Bosnia-Herzegovina, Serbia, and Montenegro. Advent then performed a comprehensive rebranding and introduced the Addiko Bank brand. In July 2019, Addiko made a successful IPO on the Vienna Stock Exchange, valuing Addiko at EUR 312mn.

LIST OF BANKING M&A DEALS IN CROATIA 2015 - NOVEMBER 2021

YEAR	TARGET	BUYER	% ACQUIRED	DEAL VALUE IN EUR MN	SELLER
2021*	Sberbank	AIK Banka a.d. Beograd, Gorenjska Banka d.d., Kranj, Agri Europe Cyprus Limited	100.0%	n.a.	Sberbank
2018	Jadranska Banka	Hrvatska Postanska Banka	100.0%	15	Local Agency for Deposit Insurance and Bank Resolution
2018	Veneto Banka	Intesa Sanpaolo	100.0%	20	Veneto Banca
2017	Societe Generale Splitska Banka	OTP	100.0%	n.a.	Société Générale
2016	Banka Kovanica	Undisclosed bidder	100.0%	n.a.	Cassa di Risparmio della Repubblica di San Marino
2015	Addiko Bank	Advent International Corp. (80%); EBRD (20%)	100.0%	200	Heta Asset Resolution

Source: Deloitte Intelligence
**Ongoing*

BULGARIA



MACROECONOMIC ENVIRONMENT

- The Bulgarian economy grew with a steady pace until the outbreak of COVID-19 in 2020, driven by private consumption, rising employment, decreasing consumer credit rates and government spending. Although the global health crisis had a significant negative impact on the Bulgarian economy in the first half of 2020, the economy started to recover in the 3rd and 4th quarter of the year resulting in an overall 3.8% decrease in the real GDP.

- In 2019 there was a 3.8% inflation in the Bulgarian economy driven by mainly the increasing price of a group of services, food and energy products. The level of the average price change decreased by 2.1% point to 1.7% in 2020 due to the negative effects of the containment measures and the weaker household demand.

- Unemployment rate increased by 1.8% points to 7.4% last year, which is above the average 7.2% unemployment rate of the European Union. The deterioration of the ratio is mainly caused by the imposed restrictive measures mostly affecting a group of the services sector and the processing industry.

- Despite the government measures initiated to cope with the economic consequences of COVID-19 the budget deficit remained at 3%, while the level of the public debt remained on a low 25% level.

MACRO INDICATORS	2018	2019	2020	2021E	CHANGE 2019-20 (% OR % POINT)
Nominal GDP (mEUR)	55,967	60,545	60,513	66,214	-0.1%
Nominal GDP/capita (EUR)	7,995	8,649	8,718	9,607	0.8%
EURBGN exchange rate	1.96	1.96	1.96	1.96	0.0%
GDP (% real change pa)	3.2%	3.4%	-3.8%	4.0%	-7.2%
Consumer prices (% change pa)	2.7%	3.8%	1.7%	2.6%	-2.1%
Recorded unemployment (%)	6.2%	5.6%	7.4%	6.7%	1.8%
Budget balance (% of GDP)	0.1%	-1.0%	-3.0%	-3.7%	-2.0%
Public debt (% of GDP)	22.3%	20.4%	25.0%	27.5%	4.6%

Source: EIU
E - Estimated data for 2021

BANKING TRENDS

- Bulgarian banking sector has grown steadily in the last years and this trend did not change in 2020 despite the negative effects of the coronavirus crisis. The total asset volume increased by 8.9% in 2020, however the total loan volume increased by only 5.2%.

- The banking system in Bulgaria faced this economic challenge in a good shape, with a solid capital (22.6% capital adequacy ratio in 2020, 2.4%-point increase) and liquidity position ensuring business continuity and operational reliability of the Bulgarian banks.

- Prior to pandemic, new measures have been adapted to improve asset quality and capital adequacy of the banking sectors. The introduction of the new International Financial Reporting Standard (IFRS 9) in 2018 led to increased provisioning levels in general, which potentially could incentivize NPL sales leading to a further improving asset quality in the sector. The European Central Bank performed an asset quality review (AQR) of selected six banks including the largest 4 of the country in 2019. Following the assessment ECB concluded that four banks complied with the specific AQR requirements, but capital shortfall was detected in case of two banks, which were addressed by mid-2020.

- The COVID-19 crisis significantly worsened the Bulgarian banking system's profitability since the sector's ROA and ROE decreased by 0.8 and 6.3 % point in 2020 respectively. The profitability was affected by the introduced more restrictive risk assessments, tighter lending standards. Moreover, the prolonged period of low interest rates also had a negative impact on the sector's profitability according to the National Bank of Bulgaria.

COVID-19 IMPACT

- The sectors resilience was improved by the imposed buffer building measures of the Bulgarian National Bank, which was further strengthened by the measures adopted on 12 March 2020 by the BNB Governing Council to improve the bank's capital and liquidity position, including profit capitalization of credit institutions, imposition of individual and aggregate limits on banks' foreign exposures in order to reduce credit risk and concentration risk in bank balance sheets. However, on 19 March the BNB Governing Council decided to remove planned increases in the countercyclical capital buffer.

- A non-legislative moratorium on loan repayments was proposed by the Association of Banks in Bulgaria (ABB) and approved on 9 April by the BNB Governing Council. The moratorium on loan repayments gave credit institutions the possibility to allow borrowers affected by the crisis to apply for deferred payments avoiding reductions of obligations and automatic reclassification of loans falling within the moratorium scope of forborne or non-performing loans. Initially, application of loan repayment moratorium was first imposed by the end of 2020 but then prolonged by the end of Q1 2021 with a tail of 9 months to applicants, giving banks flexibility until the end of 2021.

- NPL ratios in the retail and non-financial corporate sector continued to improve in 2020 by 0.7 and 1.5-% point respectively, resulting in a 4.6% NPL ratio for the retail segment and in a 5.3% for the corporate segment. However, the level of the ratios is biased by the introduced moratorium measures, which hides the potential accumulation of credit risk in banks portfolios.

BANKING SECTOR	2018	2019	2020	CHANGE 2019-20 (% OR % POINT)
Total assets (EUR mn)	55,236	58,862	64,095	8.9%
Asset penetration (%)[1]	98.7%	97.2%	105.9%	8.7%
Total equity (EUR mn)	7,390	7,174	8,071	12.5%
Total loans (EUR mn)	29,117	31,070	32,684	5.2%
Loan penetration (%)[2]	52.0%	51.3%	54.0%	2.7%
Retail loans (EUR mn)	11,287	12,370	13,233	7.0%
Corporate loans (EUR mn)	17,830	18,700	19,451	4.0%
Interest rates				
Lending (%)	4.9%	4.6%	4.3%	-0.3%
Deposit (%)	0.0%	0.0%	0.0%	0.0%
NPL volumes				
Retail NPLs (EUR mn)	733	656	607	-7.4%
Corporate NPLs (EUR mn)	1,552	1,272	1,029	-19.1%
NPL ratios				
Retail NPL ratio (%)	6.5%	5.3%	4.6%	-0.7%
Corporate NPL ratio (%)	8.7%	6.8%	5.3%	-1.5%
Key ratios				
CAR (%)	20.4%	20.2%	22.6%	2.4%
ROE (%)	11.8%	11.2%	4.9%	-6.3%
ROA (%)	1.6%	1.4%	0.6%	-0.8%
CIR (%)	45.3%	46.8%	47.2%	0.4%
L/D (%)	75.5%	78.0%	69.7%	-8.3%
FX share of lending (%)	41.7%	40.6%	0.0%	-40.6%
LLP coverage (%)	61.6%	59.7%	64.8%	5.1%

Source: EIU, BNB, ECB CBD | 1. Asset penetration = Total assets/Nominal GDP | 2. Loan penetration = Total loans/Nominal GDP

BANKING MARKET

- The Bulgarian bank market consists of 18 domestic licensed banks and is dominated by local subsidiaries of large regional banks such as UniCredit, OTP and KBC. The top 3 aforementioned players are accounting for c. 48% of the total Bulgarian bank sector in terms of total assets.

- The consolidation trend continued in 2019 with the acquisition of Société General Expressbank by DSK Bank (local subsidiary of OTP) and of Piraeus Bank Bulgaria by Eurobank Bulgaria.

Owing to these transactions the domestic banking sector became more concentrated by the end of 2020, which is in line with the long-term goal of the Bulgarian National Bank to reduce the number of commercial banks in the market.

LIST OF BANKS IN BULGARIA IN 2020 (EUR MN OR %)

RANK 2020	RANK 2019	YOY	INSTITUTIONS	TOTAL ASSETS	MARKET SHARE	EQUITY	NET INCOME	ROA	ROE	MAJOR SHAREHOLDER
1.	1.	●	UniCredit Bulbank	12,326	19.2%	1,573	115	0.9%	7.3%	UniCredit
2.	2.	●	DSK Bank	11,664	18.2%	1,627	98	0.8%	6.0%	OTP
3.	3.	●	UBB	6,543	10.2%	756	56	0.9%	7.4%	KBC
4.	4.	●	Eurobank Bulgaria	6,189	9.7%	830	78	1.3%	9.4%	Eurobank Ergasias
5.	5.	●	First Investment Bank	5,513	8.6%	602	20	0.4%	3.3%	Private Individuals
6.	6.	●	Raiffeisenbank	4,921	7.7%	497	29	0.6%	5.8%	Raiffeisen
7.	8.	▲	Central Cooperative Bank	3,396	5.3%	298	10	0.3%	3.5%	CCB Group
8.	9.	▲	Bulgarian Development Bank	2,049	3.2%	768	(53)	-2.6%	-7.0%	State of Bulgaria
9.	10.	▲	Allianz Bank Bulgaria	1,680	2.6%	125	4	0.3%	3.4%	Allianz
10.	11.	▲	ProCredit Bank	1,493	2.3%	151	17	1.2%	11.5%	ProCredit
11.	13.	▲	Investbank	1,125	1.8%	126	1	0.1%	0.9%	Festa Holding
12.	12.	●	Municipal Bank	1,052	1.6%	62	5	0.4%	7.5%	Novito Opportunities Fund
13.	14.	▲	BACB	956	1.5%	107	6	0.6%	5.5%	CSIF AD
14.	15.	▲	International Asset Bank	911	1.4%	73	7	1.0%	11.4%	Dynatrade International
15.	16.	▲	D Commerce Bank	594	0.9%	74	4	0.6%	5.2%	Fuat Gyuven
16.	17.	▲	TBI Bank	525	0.8%	111	7	1.3%	6.3%	No majority shareholder
17.	19.	▲	Texim Bank	237	0.4%	20	0	0.0%	0.4%	Web Finance Holding AD
18.	18.	●	Tokuda Bank	203	0.3%	22	(0)	-0.0%	-0.4%	Tokushukai Incorporated
			Total	64,095	100%	8,071	410	0.6%	4.9%	

Source: Banks' data disclosure, EMIS, BNB

M&A ACTIVITY

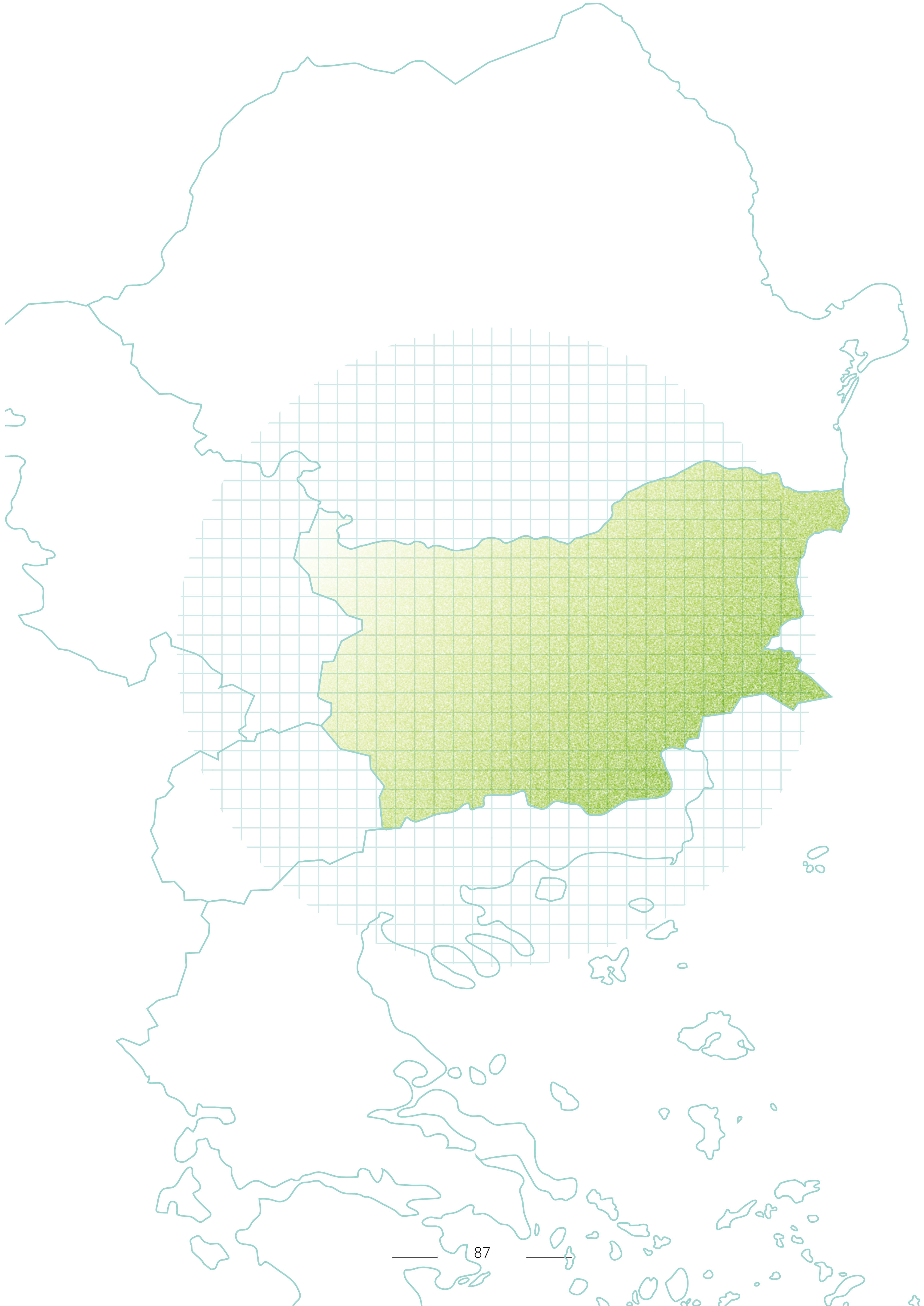
Since 2015, there had been seven major transactions in the Bulgarian banking market. Although there can be further acquisitions in the future, HHI has already reached 10% and the banking market become moderately concentrated.

- In the end of 2021, KBC Group announced the takeover of Raiffeisen Bank Bulgaria. In 2009, KBC defined the Bulgarian banking sector as one of its core markets. Currently, KBC is present in Bulgaria through UBB, which is the 3rd largest bank in the country in terms of total assets. After the integration of Raiffeisen Bank, KBC will be very close to compete for the top 2 positions in Bulgaria. The closure of the transaction is expected in mid-2022 and is due to regulatory approval.
- In 2019, as a result of the strategic decision of several Greek banks to exit from the Balkan markets, Piraeus Bank sold a 99.8% stake in Piraeus Bank Bulgaria to Eurobank Bulgaria. The deal was completed in July 2019.
- In 2018, OTP Bank signed an agreement to acquire a 99.74% stake in Société Générale Expressbank, the Bulgarian subsidiary of the France-based banking group. The acquisition was closed in January 2019.
- In 2018, the Bulgarian Investbank bought Commercial Bank Victoria (CB Victoria) from the insolvent Corporate Commercial Bank (Corpbank). As a result of the transaction, Investbank fully repaid both the loans of CB Victoria and related interest to Corpbank while the subsequent merger with CB Victoria increased its capital base to meet the post-AQR regulatory requirements.
- In 2017, Liechtenstein-based Novito Opportunities Fund received regulatory approval to acquire 67.7% stake in Bulgaria's Municipal Bank for a value of EUR 23.3 mn. Municipal Bank was majority owned by the municipality of Sofia and was the 16th largest in the country, with 1.56% market share based on assets in 2016. After the privatization of Municipal Bank, Bulgarian Development Bank remained the only state-owned bank in the country.
- In December 2016, the largest ever banking deal took place as part of the outflow of Greek capital from the banking sector. The National Bank of Greece sold its subsidiary, United Bulgarian Bank (UBB) to KBC Group for a consideration of EUR 610 mn. In 2018 UBB merged the KBC's other subsidiary, Cibank and became the third largest financial institution in the local market.
- In 2015, Eurobank agreed to acquire Alpha Bank Bulgaria for an undisclosed consideration. Alpha Bank had 82 branches with EUR 464 mn of assets by then. Postbank aimed to expand both its corporate and retail customer base in the country by executing the deal. The sale was the part of Alpha Bank's strategy to divest from non-core markets.

LIST OF BANKING M&A DEALS IN BULGARIA 2015 - NOVEMBER 2021

YEAR	TARGET	BUYER	% ACQUIRED	DEAL VALUE IN EUR MN	SELLER
2021*	Raiffeisen Bank	KBC	100.0%	1,015	Raiffeisen
2019	Piraeus Bank Bulgaria	Eurobank	99.8%	75	Piraeus Bank
2018	Societe Generale Expressbank	OTP	99.7%	n.a.	Société Générale
2018	Commercial Bank Victoria	Investbank	100.0%	n.a.	Corporate Commercial Bank
2017	Municipal Bank	Novito Opportunities Fund	67.7%	23	Municipality of Sofia
2016	United Bulgarian Bank	KBC	99.9%	610	National Bank of Greece
2015	Alpha Bank Bulgaria	Eurobank	100.0%	n.a.	Alpha Bank

Source: Deloitte Intelligence
**Ongoing*



SERBIA

MACROECONOMIC ENVIRONMENT

- Serbia's economic growth accelerated during the years preceding the pandemic. In 2020, GDP increased by 1.0% in nominal terms and decreased by 5.2% in real terms compared to 2020. The decrease was mainly driven by the lower contribution from activites, which were hit the hardest by the pandemic, e.g. transport, tourism, catering, recreation and culture and construction.

- The GDP has reached its pre-crisis level already in Q1 2021. Furthermore, in 2021, a growth of 6% points in real GDP is expected, due to the growth of net exports, consumption and higher planned government capital expenditure.

- Despite the continuously growing wages and employment rates, inflation has been relatively stable since 2016, averaging 1.6% in 2020.

- The recorded unemployment rate continued to decrease in 2020. The indicator fell from 12.7% in 2018 to 9.0% in 2020, which is considered low compared to other Balkan countries. Despite the challenges imposed by the pandemic, a single-digit unemployment rate was achieved.

- Between 2014 and 2017, Serbia achieved an improvement in the government fiscal balance, which in 2017 recorded the first surplus. In 2019, the budget balance turned into a slight deficit again. In 2020, this deficit became even larger, namely 8.1% of the GDP. The deficit is the result of the large-scale assistance package to corporates and to households to mitigate the negative effects of the pandemic. Public debt has also increased in 2020 by 5.4%, in contrast to recent years' continuous decrease.

MACRO INDICATORS	2018	2019	2020	2021E	CHANGE 2019-20 (% OR % POINT)
Nominal GDP (mEUR)	42,885	46,012	46,463	50,833	1.0%
Nominal GDP/capita (EUR)	6,126	6,668	6,735	7,405	1.0%
EURRSD exchange rate	118.19	117.59	117.58	n.a.	-0.0%
GDP (% real change pa)	4.4%	4.2%	-1.0%	6.4%	-5.2%
Consumer prices (% change pa)	2.0%	1.7%	1.6%	2.8%	-0.1%
Recorded unemployment (%)	12.7%	10.4%	9.0%	10.5%	-1.4%
Budget balance (% of GDP)	0.6%	-0.2%	-8.1%	-6.7%	-7.9%
Public debt (% of GDP)	53.7%	52.0%	57.4%	59.9%	5.4%

Source: EIU
E - Estimated data for 2021

BANKING TRENDS

- The Serbian banking sector managed to keep its stable capitalization and liquidity levels in 2020. Regarding both indicators, the Serbian banking sector outperformed the region's average in 2020. The reported consolidated CAR level of 2020 reached 22.4%.

- The assets of the banking sector achieved a growth record of 12.8% in 2020, which has surpassed the previous record of 11% in 2018. In order to preserve the asset quality, The Serbian Government introduced the NPL Resolution Programme between 2018 and 2020. For instance, moratorium was introduced in March 2020. The programme yielded favorable results; NPL ratios further decreased in 2020 compared to 2019 in both the retail and corporate sectors.

- Lending activity rose in 2020 as a consequence of monetary policy easing. Lending in the corporate sector was driven by the so-called Guarantee Scheme loans, which is backed up by NBS. In the retail sector cash and housing loans were the most dominant categories. NBS introduced measures to ease access to housing loans for households. Corporate and retail loan volumes increased by 6.0% and 13.9%, respectively.

- Profitability of the banking sector has slightly decreased in 2020. The 1.1% ROA was slightly above the regional average of 0.8%. However, the 6.5% ROE was slightly below the 7.7% regional average as the domestic banking sector is highly capitalized.

COVID-19 IMPACT

- As a consequence of the measures introduced by the National Bank of Serbia to mitigate the impacts of the pandemic, the Serbian banking sector managed to maintain its stable status that characterized the sector pre-pandemic. Moratorium and easing of lending both attributed to stabilize the key indicators at the pre-pandemic levels.

BANKING SECTOR	2018	2019	2020	CHANGE 2019-20 (% OR % POINT)	
Total assets (EUR mn)	31,677	34,730	39,177	12.8%	●
Asset penetration (%)[1]	73.9%	75.5%	84.3%	11.7%	●
Total equity (EUR mn)	5,711	5,973	6,098	2.1%	●
Total loans (EUR mn)	17,772	19,379	21,269	9.8%	●
Loan penetration (%)[2]	41.4%	42.1%	45.8%	8.7%	●
Retail loans (EUR mn)	8,508	9,283	10,571	13.9%	●
Corporate loans (EUR mn)	9,265	10,096	10,698	6.0%	●
Interest rates					
Lending (%)	7.7%	7.1%	5.8%	-1.3%	●
Deposit (%)	2.8%	2.0%	1.5%	-0.5%	●
NPL volumes					
Retail NPLs (EUR mn)	379	369	381	3.0%	●
Corporate NPLs (EUR mn)	480	314	332	5.6%	●
NPL ratios					
Retail NPL ratio (%)	4.5%	4.0%	3.6%	-0.4%	●
Corporate NPL ratio (%)	5.2%	3.1%	3.1%	0.0%	●
Key ratios					
CAR (%)	22.3%	23.4%	22.4%	-1.0%	●
ROE (%)	11.3%	9.8%	6.5%	-3.3%	●
ROA (%)	2.2%	1.8%	1.1%	-0.7%	●
CIR (%)	62.1%	63.4%	66.3%	2.9%	●
L/D (%)	90.4%	91.0%	80.4%	-10.6%	●
FX share of lending (%)	68.5%	67.1%	69.5%	2.4%	●
LLP coverage (%)	60.2%	61.5%	59.0%	-2.5%	●

Source: EIU, NBS, ECB CBD | 1. Asset penetration = Total assets/Nominal GDP | 2. Loan penetration = Total loans/Nominal GDP

BANKING MARKET

- On the Serbian banking market, 26 locally licensed banks operated at the end of 2020 (same number of banks as the previous year). Serbia's approaching EU membership is expected to make the domestic market more attractive for large financial entities.
- In Serbia the concentration of the banking segment has been moderate in the recent years with the HHI of 7.5% and as the five largest banks owned 59.2% of the total assets.
- The foreign exposure in the ownership structure of the banking sector in terms of net assets was significant. 86% of net assets is owned by foreign-based banks, while domestic private banks and state-owned banks accounted for 7% each.

LIST OF BANKS IN SERBIA IN 2020 (EUR MN OR %)

RANK 2020	RANK 2019	YOY	INSTITUTIONS	TOTAL ASSETS	MARKET SHARE	EQUITY	NET INCOME	ROA	ROE	MAJOR SHAREHOLDER
1.	1.	●	Banca Intesa	6,100	17.6%	927	81	1.3%	8.7%	Intesa Sanpaolo
2.	2.	●	UniCredit Banka	4,138	11.9%	705	45	1.1%	6.4%	UniCredit
3.	3.	●	Komercijalna Banka	3,907	11.3%	630	25	0.6%	4.0%	Nova Ljubljanska Banka
4.	5.	▲	Raiffeisen Banka	3,212	9.2%	541	47	1.5%	8.7%	Raiffeisen
5.	4.	▼	OTP Banka Srbija	3,197	9.2%	443	65	2.0%	14.7%	OTP
6.	7.	▲	Postal Savings Bank	2,472	7.1%	225	22	0.9%	9.8%	State of Serbia
7.	6.	▼	Erste Bank	2,441	7.0%	280	11	0.5%	4.0%	Erste
8.	9.	▲	Vojvođanska Banka	2,034	5.9%	261	(10)	-0.5%	-3.8%	OTP
9.	8.	▼	AIK Banka	1,998	5.8%	452	83	4.2%	18.5%	BDD M&V Investments
10.	10.	●	Eurobank	1,669	4.8%	457	6	0.4%	1.4%	Eurobank Ergasias
11.	11.	●	Sberbank Srbija	1,348	3.9%	218	3	0.2%	1.5%	Sberbank
12.	13.	▲	Credit Agricole Banka Srbija	1,294	3.7%	117	7	0.6%	6.3%	Credit Agricole
13.	12.	▼	ProCredit Bank	1,263	3.6%	147	6	0.5%	4.0%	ProCredit
14.	14.	●	Addiko Bank	863	2.5%	194	5	0.5%	2.4%	Addiko Bank AG
15.	16.	▲	HalkBank	723	2.1%	106	5	0.6%	4.2%	Turkiye Halk Bankasi
16.	15.	▼	NLB Banka	687	2.0%	75	3	0.4%	3.4%	Nova Ljubljanska Banka
17.	17.	●	Direktna Bank	511	1.5%	94	6	1.1%	6.0%	Private Individuals
18.	19.	▲	Mobi Banka	205	0.6%	35	(5)	-2.4%	-14.1%	PPF Group
19.	18.	▼	JUBMES Banka	201	0.6%	34	0	0.0%	0.3%	No majority shareholder
20.	20.	●	Opportunity Banka	190	0.5%	33	2	1.1%	6.3%	Opportunity Transformation Investments
21.	21.	●	Expobank	138	0.4%	29	(2)	-1.6%	-7.4%	Expobank CZ
22.	23.	▲	MTS Banka	122	0.4%	20	(1)	-1.1%	-6.7%	State of Serbia
23.	22.	▼	Srpska Banka	117	0.3%	31	0	0.3%	1.3%	State of Serbia
24.	24.	●	Bank of China Serbia	110	0.3%	15	(1)	-1.3%	-9.9%	Bank of China
25.	25.	●	Api Bank	88	0.3%	17	(4)	-4.0%	-21.1%	VTB Banka
26.	26.	●	Mirabank	53	0.2%	15	(2)	-3.4%	-12.3%	Duingraaf Financial Investments
			Total	34,730	100%	5,973	585	1.8%	9.8%	

Source: Banks' data disclosure, EMIS, NBS

M&A ACTIVITY

Serbia has been active in M&A in the recent years. There have been 18 major transactions in the Serbian banking sector over the past years, six of them were made publicly for a total of EUR 750 mn.:

- In late 2021, Sberbank announced the disposal of several CEE entities in order to focus on key markets, including the Bosnian, Croatian, Hungarian, Serbian and Slovenian subsidiaries. The deal was signed with AIK Banka a.d. Beograd, Gorenjska Banka d.d., Kranj and Agri Europe Cyprus Limited. The deal is expected to close in 2022, however it is still subject to regulatory approval.

- MTS Banka received the approval by the Serbian competition authority of its integration into the state-owned Banka Postanska Stedionica in 2021. Previously, MTS Banka was fully owned by state-owned Telekom Srbija. After the merger, the Serbian state will control 70.5% of Banka Postanska Stedionica, 17.94% will be owned by Posta Srbije, and 10.08% will remain in the hands of Telekom Srbija.

- In 2021, Raiffeisen Bank International, has acquired all shares in the Serbian subsidiary of Credit Agricole, a French rival, for an undisclosed fee. Successful closing of the transaction is subject to inter alia obtaining regulatory approvals. The acquisition of Credit Agricole Srbija is expected to have an impact on RBI's CET1 ratio of approx. 16 bps. The final impact is dependent on completion accounts at closing, which is expected by the end of Q1 2022.

- Eurobank Ergasias SA, has agreed to acquire Direktna Banka AD for an undisclosed consideration. Direktna will be merged with Eurobank a.d. Beograd. The deal is subject to regulatory, supervisory authorities and customary closing conditions and is expected to completed by last quarter of 2021. The combined bank will have total assets in excess of EUR 2bn, total equity above EUR 300m.

- In 2020, a consortium, consisting of Germany-based GLS Gemeinschaftsbank eG and Umweltbank AG, and Netherands-based Triodos Investment Management B.V. announced the acquisition of 78% stake in Opportunity Banka JSC Novi Sad. Opportunity Transformation Investments Inc. reduced its holding in Opportunity banka JSC Novi Sad from 100% to 22%. UmweltBank and GLS Gemeinschaftsbank holds respective stakes of 30% and 19.99% in Opportunity banka, while Triodos Investment Management's two entities (Triodos Sicav II Fund and Triodos Fair Share Fund) each own a 14% stake. Terms of the transaction were not disclosed.

- In 2020, Nova Ljubljanska Banka announced the acquisition of 83.23% stake in Komercijalna Banka for EUR 387 mn. The transaction strengthens NLB's presence and its focus on markets in Southeast Europe, consolidating its position as the largest banking group headquartered in the region. The largest foreign subsidiary of the NLB Group will be in Serbia. The closing of the transaction was at the end of 2020.

- In 2019, Government of the Republic of Serbia announced the acquisition of a 34.58% stake in Komercijalna Banka from IFC Capitalization Fund (US-based equity and subordinated debt fund) and the European Bank for Reconstruction and Development (UK based project financing firm). As a result of the transaction, the Republic of Serbia owned 83.23% of Komercijalna Banka's shares after the acquisition.

- In 2019, Telenor (Norwegian mobile operator) sold its Serbian bank, the Telenor Banka to PPF (Czech private equity fund). Earlier in 2013, Telenor bought Telenor Banka from KBC. Four years later, in 2017, River Styxx agreed to acquire Telenor Banka, but the transaction was cancelled. In March 2018, PPF acquired mobile operations of Telenor in Serbia, Hungary, Bulgaria and Montenegro with an option to buy Telenor Banka. This option was closed in 2019 by the deal.

- In 2019, the Hungarian OTP Bank bought Société Générale Srbija from its mother company, the French Société Générale. The transaction is in line with OTP Bank's regional strategic plan, to widen its presence and provided services in the region. As a result of the ongoing integration of the three banks owned by OTP Group (OTP Banka Srbija, Vojvodjanska Banka and Société Générale Banka), OTP will become the second largest bank in the domestic market by owning almost 15% of the consolidated banking assets.

- In 2018, the Greek Piraeus Bank sold its Serbian subsidiary to the Serbian Direktna Banka. The final deal value was around EUR 60 mn.

- In 2018, a Russian private investor acquired the Russian VTB Bank's Serbian subsidiary. The private investor's plan was to benefit from the growth potential of the Serbian market including development and supply of new products based on financial technologies.

- In 2017, OTP Banka Srbija, a Serbian subsidiary of the Hungarian OTP Bank, acquired Vojvodjanska Banka from the National Bank of Greece for EUR 125 mn. After the deal, the market share of OTP Bank Srbija increased to 5.3% and it became the 9th largest bank in the country. Vojvodjanska Banka was acquired by NBG for 375 mn EUR from the Serbian state in 2006. The integration of Vojvodjanska Banka started in 2019 and was completely finished in 2021.

- In 2017, MK Group, a Serbian-based industrial conglomerate, agreed with the Greece-based Alpha Bank on the acquisition of Alpha Bank Serbia ad Belgrade. The transaction was in line with restructuring plan of Alpha Bank.

- In 2017, Marfin Bank Beograd was acquired by the Czech Republic-based Expobank CZ from Cyprus Popular Bank Public Co Ltd., for EUR 14.79 mn. Expobank had a long-term strategy to develop the Marfin Bank.

- In 2016, BNP Paribas' subsidiary, Findomestic Banka Beograd was acquired by Serbian lender Direktna Banka Kragujevac. The acquisition was consistent with the strategy of Direktna Banka to become a leader in the SME segment in Serbia.

- In 2016, a Serbian private investor bought 100% of the KBM Banka from the Slovenian Nova KBM. Post transaction, the bank's name was changed to Direktna Banka.

- In 2015 Advent International, a private equity investor, together with the EBRD acquired Hypo Group Alpe Adria AG, the Southeast European banking network of the former Hypo Alpe Adria Bank International from Heta Asset Resolution AG (Heta), including the Serbian entity.

- In 2015, Cacanska Banka was acquired by the Turkey based Turkiye Halk Bankasi from EBRD for EUR 10.1 mn. After the transaction, the bank changed its name to Halkbank, and moved its headquarters from Čačak to Belgrade.

LIST OF BANKING M&A DEALS IN SERBIA 2015 - NOVEMBER 2021

YEAR	TARGET	BUYER	% ACQUIRED	DEAL VALUE IN EUR MN	SELLER
2021*	Sberbank Srbija	AIK Banka a.d. Beograd, Gorenjska Banka d.d., Kranj, Agri Europe Cyprus Limited	100.0%	n.a.	Sberbank
2021*	Credit Agricole Srbija A.D.	Raiffeisen Bank International AG	100.0%	n.a.	Credit Agricole SA
2021*	Direktna Banka AD	Eurobank Ergasias SA	100.0%	n.a.	Private Individuals
2021	MTS Banka	Banka Postanska Stedionica	89.9%	n.a.	Telekom Srbija
2020	Opportunity Banka JSC Novi Sad	GLS Gemeinschaftsbank eG; Umweltbank AG; Triodos Investment Management B.V.	78.0%	n.a.	Opportunity International
2020	Komercijalna Banka	Nova Ljubljanska Banka	83.2%	387	State
2019	Komercijalna Banka	State	34.6%	155	EBRD, IFC Capitalization Fund
2019	Telenor Banka	PPF Group	100.0%	n.a.	Telenor
2019	Societe Generale Banka Srbija	OTP	100.0%	n.a.	Société Générale
2018	Piraeus Bank	Direktna Banka	100.0%	58	Piraeus Bank
2018	VTB Banka	Private individuals	100.0%	n.a.	VTB Bank
2017	Vojvodjanska Banka	OTP	100.0%	125	National Bank of Greece
2017	Alpha Bank Srbija	MK Group	100.0%	n.a.	Alpha Bank
2017	Marfin Bank	Expobank	100.0%	15	Cyprus Popular Bank
2016	Findomestic Banka	Direktna Banka	100.0%	n.a.	Findomestic Banca
2016	KBM Banka	Private individuals	100.0%	n.a.	Nova KBM
2015	Addiko Bank	PE Advent (80%); EBRD (20%)	100.0%	n.a.	Heta Asset Resolution AG
2015	Cacanska Banka	Turkiye Halk Bankasi	76.7%	10	EBRD; State; IFC; Beogradska Banka

Source: Deloitte Intelligence
**Ongoing*

UKRAINE

MACROECONOMIC ENVIRONMENT

- Ukrainian real GDP contracted by 7.2% points in 2020 compared to 2019 due to lower demand of goods and services caused by the COVID-19 pandemic. However, a fast-paced recovery is expected by the end of 2021, driven mainly by the increasing consumer demand.
- In 2020, the Ukrainian inflation increased by 0.9% compared to 2019 and reached 5%. The slow growth of inflation was attributable to the impacts of the COVID-19 pandemic, as quarantine restrictions slowed down the consumption and the economic activity. Parallel with the global trends, in 2021 the inflationary pressure is expected to accelerate in Ukraine as well, resulting in 9.6% inflation levels.
- Recorded unemployment rate increased to 9.9% by the end of 2020. The increased unemployment rate is primarily the result of quarantine measurements launched by the Ukrainian government.
- The Ukrainian government introduced fiscal stimulus package to mitigate the negative effects of the global pandemic. Consequently, the level of budget deficit soared to 5.2% in 2020. Simultaneously, the level of public debt increased by 10.5% points in 2020 compared to the previous year and stood at 60.8%.

MACRO INDICATORS	2018	2019	2020	2021E	CHANGE 2019-20 (% OR % POINT)
Nominal GDP (mEUR)	110,715	137,282	136,226	n.a	-0.8%
Nominal GDP/capita (EUR)	2,626	3,276	3,276	n.a	-0.0%
EURUAH exchange rate	31.71	26.42	34.74	n.a.	31.5%
GDP (% real change pa)	3.3%	3.2%	-4.0%	3.5%	-7.2%
Consumer prices (% change pa)	9.8%	4.1%	5.0%	9.6%	0.9%
Recorded unemployment (%)	9.1%	8.6%	9.9%	10.0%	1.3%
Budget balance (% of GDP)	-1.7%	-2.0%	-5.2%	-4.2%	-3.2%
Public debt (% of GDP)	60.9%	50.3%	60.8%	62.0%	10.5%

Source: EIU
E - Estimated data for 2021

BANKING TRENDS

- The consolidated CAR of the Ukrainian banking sector has been continuously improving during the previous years, reaching 22% in 2020. This level of capital adequacy ratio corresponds to the CEE regional average. Although the global pandemic made a negative impact on the economy of Ukraine, the banking system remained resilient.
- The total assets of the Ukrainian banking sector decreased by -7.2% in 2020 compared to the previous year, driven by the significant decrease of outstanding retail and corporate loans. As the Ukrainian banking system possesses a large amount of FX exposure, the depreciation of the Ukrainian Hryvnia resulted in additional decrease in total assets.
- Despite of the significant deterioration of macroeconomic conditions and strong contraction of economic activity, the quality of the total loan portfolio continued to slightly improve in both the retail (by -5.5% points) and corporate (by -3.9% points) segments. The ratio of NPLs is high compared to other countries in the region, with ratios of 14.4% in the retail and 49.6% in the corporate segment.
- ROE decreased by 14.3% points to 19.2%, while ROA decreased by 1.9% points to 2.4%. Despite of the significant deterioration, the banking sector's profitability indicators are still among the highest in the CEE region. The indicators are driven by the extensive growth in net interest, net fee and commission income.

COVID-19 IMPACT

The fiscal and monetary policy introduced several measurements in order to cope with the contraction of the economy and to stabilize the economy in Ukraine:

- Parliament of Ukraine approved state guarantees for banking lending worth US$ 180 million.
- Parliament passed a law that established mandatory restructurings of FX loans.
- Government of Ukraine launched fiscal stimulus, e.g. tax deferrals, one-off financial grant of UAH 8,000 (US$ 280) to employees who lost their income throughout 2020 and write-off of tax debts not higher than UAH 3,060.

BANKING SECTOR	2018	2019	2020	CHANGE 2019-20 (% OR % POINT)
Total assets (EUR mn)	42,874	56,517	52,472	-7.2%
Asset penetration (%)1	38.7%	41.2%	38.5%	-6.4%
Total equity (EUR mn)	4,886	7,566	6,029	-20.3%
Total loans (EUR mn)	19,908	24,108	18,078	-25.0%
Loan penetration (%)2	18.0%	17.6%	13.3%	-24.4%
Retail loans (EUR mn)	4,427	6,610	5,008	-24.2%
Corporate loans (EUR mn)	15,481	17,497	13,070	-25.3%
Interest rates				
Lending (%)	18.8%	19.7%	13.7%	-6.0%
Deposit (%)	12.8%	13.6%	5.9%	-7.7%
NPL volumes				
Retail NPLs (EUR mn)	1,055	1,319	721	-45.3%
Corporate NPLs (EUR mn)	8,477	9,362	6,478	-30.8%
NPL ratios				
Retail NPL ratio (%)	23.8%	19.9%	14.4%	-5.5%
Corporate NPL ratio (%)	54.8%	53.5%	49.6%	-3.9%
Key ratios				
CAR (%)	16.2%	19.7%	22.0%	2.3%
ROE (%)	14.7%	33.5%	19.2%	-14.3%
ROA (%)	1.7%	4.3%	2.4%	-1.9%
CIR (%)	61.2%	52.4%	55.5%	3.1%
L/D (%)	119.2%	95.9%	70.5%	-25.4%
FX share of lending (%)	42.8%	53.5%	53.3%	-0.2%
LLP coverage (%)	90.3%	45.6%	38.0%	-7.6%

Source: EIU, NBU, ECB CBD | 1. Asset penetration = Total assets/Nominal GDP | 2. Loan penetration = Total loans/Nominal GDP

BANKING MARKET

- In 2020, there were 74 banks locally licensed banks in Ukraine, one less than the previous year. Despite the large-scale consolidation of the sector over the previous years, the market remained one of the least concentrated in the European banking sector with a plenty of small banks on the market.
- The number of banks decreased by one in 2020, as the National Bank of Ukraine decided to revoke license and start the liquidation of JSC Bank Arcada due to insolvency, as its capital ratios declined below the regulated levels. Most of the clients of the bank were fully compensated by the Ukrainian deposit guarantee fund for their deposits.
- The concentration of the Ukrainian banking sector is still one of the lowest in the CEE region. The HHI is 16.1% and the top 5 banks accounted for nearly 77% of the total market in 2020.
- Out of the 74 banks only 15 had higher than EUR 1 billion total assets by the end of 2020. These 15 banks own 95.6% of the market in terms of total assets. As the Ukrainian banking market is still highly fragmented due to the numerous relatively small financial institutions, further consolidation of the market may come in the upcoming years.
- Currently, the TOP 4 Ukrainian banks are state-owned. According to the Strategic Principles for Reforming the State-owned Banking Sector, one of the main goals for the Ukrainian Ministry of Finance regarding state owned banks is to decrease the share of state-owned banks on the market below 25% by 2025.

LIST OF BANKS IN UKRAINE IN 2020 (EUR MN OR %)

RANK 2020	RANK 2019	YOY	INSTITUTIONS	TOTAL ASSETS	MARKET SHARE	EQUITY	NET INCOME	ROA	ROE	MAJOR SHAREHOLDER
1.	1.	●	CB PrivatBank	14,661	27.9%	2,039	2,359	16.1%	115.7%	State of Ukraine
2.	2.	●	State Savings Bank of Ukraine	8,931	17.0%	833	264	3.0%	31.7%	State of Ukraine
3.	3.	●	JSC Ukreximbank	7,294	13.9%	379	-521	-7.1%	-137.6%	State of Ukraine
4.	4.	●	Ukrgasbank	5,406	10.3%	325	51	0.9%	15.6%	State of Ukraine
5.	5.	●	Raiffeisen Bank Aval	4,226	8.1%	488	380	9.0%	77.8%	Raiffeisen
6.	6.	●	Alfa-Bank	3,694	7.0%	367	113	3.1%	30.7%	Abh Ukraine
7.	7.	●	First Ukrainian International Bank	2,852	5.4%	368	246	8.6%	66.7%	SKM Finance TOV
8.	8.	●	UkrSibbank	2,748	5.2%	306	122	4.4%	39.8%	BNP Paribas
9.	9.	●	OTP Bank	2,234	4.3%	363	162	7.2%	44.6%	OTP
10.	10.	●	Credit Agrocole Bank	1,910	3.6%	231	86	4.5%	37.4%	Credit Agricole
11.	13.	▲	Bank Pivdennyi	1,371	2.6%	119	29	2.1%	24.6%	No majority shareholder
12.	17.	▲	Universal Bank	1,285	2.4%	99	59	4.6%	60.0%	Bailikan Limited
13.	12.	▼	Sberbank	1,134	2.2%	356	87	7.7%	24.4%	Sberbank
14.	11.	▼	Citibank	1,055	2.0%	95	124	11.8%	130.5%	Citibank
15.	14.	▼	Procredit Bank	1,028	2.0%	144	51	4.9%	35.2%	ProCredit
16.	16.	●	Kredobank	956	1.8%	118	50	5.2%	41.9%	Pko Bank Polski
17.	15.	▼	TAScombank	909	1.7%	112	34	3.7%	30.3%	Alkemi Limited
18.	19.	▲	Bank Vostok	618	1.2%	39	14	2.3%	35.6%	Vostok Kapital
19.	21.	▲	Bank Credit Dnepr	494	0.9%	55	24	4.8%	42.4%	Brancroft Enterprises Limited
20.	18.	▼	Ing Bank Ukraine	437	0.8%	150	35	8.1%	23.5%	ING
21.	20.	▼	Megabank	375	0.7%	34	2	0.6%	6.6%	No majority shareholder
22.	23.	▲	A-Bank	350	0.7%	48	31	8.9%	64.6%	No majority shareholder
23.	25.	▲	MTB Bank	321	0.6%	33	9	2.9%	28.8%	Cyprus Popular Bank Public
24.	24.	●	Praveks-bank	290	0.6%	65	-17	-5.9%	-26.4%	Intesa Sanpaolo
25.	30.	▲	Bank Alliance	279	0.5%	22	8	2.8%	35.7%	Private Individuals
26.	22.	▼	Prominvestbank	268	0.5%	103	-42	-15.7%	-40.7%	State of Ukraine
27.	32.	▲	Akordbank	245	0.5%	12	1	0.4%	8.1%	Volynets Danylo Mefodiyovych
28.	28.	●	Globus Bank	204	0.4%	19	10	5.0%	53.7%	Ukrainski Media Tehnolohii TOV
29.	26.	▼	Idea Bank	193	0.4%	35	21	10.9%	59.4%	Idea Bank

RANK 2020	RANK 2019	YOY	INSTITUTIONS (2020, EUR MN)	TOTAL ASSETS	MARKET SHARE	EQUITY	NET INCOME	ROA	ROE	MAJOR SHAREHOLDER
30.	31.	▲	Bank Lviv	189	0.4%	16	3	1.7%	20.1%	responsAbility Participations
31.	39.	▲	Bank Sich	180	0.3%	9	2	1.1%	23.9%	Private Individuals
32.	27.	▼	Industrialbank	163	0.3%	48	0	0.2%	0.6%	No majority shareholder
33.	35.	▲	Deutsche Bank	161	0.3%	14	0	0.1%	0.9%	Deutsche Bank
34.	33.	▼	Piraeus Bank	155	0.3%	25	1	0.7%	4.7%	Piraeus Bank
35.	29.	▼	Bank of Investments and Savings	153	0.3%	23	3	2.1%	14.5%	No majority shareholder
36.	42.	▲	SEB Corporate Bank	129	0.2%	24	3	2.4%	12.6%	Skandinaviska Enskilda Banken
37.	36.	▼	Poltava-bank	122	0.2%	31	6	4.8%	18.7%	Private Individuals
38.	49.	▲	Commercial Industrial Bank	118	0.2%	11	4	3.3%	35.8%	Private Individuals
39.	34.	▼	International Investment Bank	113	0.2%	16	1	0.6%	4.3%	Closed-end Non-diversified Corporate Investment Fund Prime Assets Capital
40.	38.	▼	Bank Clearing House	110	0.2%	24	4	3.4%	16.0%	No majority shareholder
41.	43.	▲	Radabank	109	0.2%	13	3	2.4%	20.4%	Private Individuals
42.	45.	▲	Crystalbank	109	0.2%	11	1	1.1%	10.8%	Private Individuals
43.	41.	▼	Commercial Bank Concord	104	0.2%	13	5	5.0%	41.4%	Private Individuals
44.	37.	▼	Bank Forward	94	0.2%	14	0	0.1%	0.7%	Russian Standard Bank JSC
45.	57.	▲	RVS BANK	88	0.2%	10	4	4.5%	40.4%	Private Individuals
46.	46.	●	CreditWest Bank	78	0.1%	17	2	2.4%	11.2%	Altinbas Holding Anonim Sirketi JSC
47.	54.	▲	Ibox Bank	77	0.1%	14	10	13.6%	74.4%	Private Individuals
48.	60.	▲	Avangard Bank	74	0.1%	9	1	1.3%	10.4%	Westal Holdings
49.	55.	▲	Ukrbudinvestbank	73	0.1%	9	1	1.7%	14.2%	Private Individuals
50.	48.	▼	Bank Grant	73	0.1%	23	4	5.6%	17.9%	Private Individuals
51.	53.	▲	Motor-Bank**	71	0.1%	12	1	1.3%	7.8%	Private Individuals
52.	44.	▼	First Investment Bank	68	0.1%	14	1	1.4%	7.2%	Giner Evgeny Lennorovich
53.	56.	▲	AP BANK**	65	0.1%	13	0	0.1%	0.5%	Private Individuals
54.	50.	▼	Altbank	60	0.1%	9	0	0.6%	3.7%	No majority shareholder
55.	58.	▲	Asvio Bank	54	0.1%	17	0	0.7%	2.3%	Private Individuals
56.	62.	▲	Bank 3/4	52	0.1%	21	2	3.9%	9.7%	Private Individuals
57.	52.	▼	Cominvestbank	50	0.1%	12	0	0.1%	0.5%	No majority shareholder
58.	47.	▼	Misto Bank	47	0.1%	8	0	0.9%	5.3%	No majority shareholder
59.	59.	●	Bank Ukrainian Capital	47	0.1%	9	0	0.3%	1.3%	No majority shareholder
60.	63.	▲	MetaBank	41	0.1%	14	4	8.6%	26.2%	No majority shareholder
61.	66.	▲	Sky Bank	41	0.1%	7	3	7.4%	41.8%	Private Individuals
62.	51.	▼	Credit Europe Bank	34	0.1%	16	3	7.5%	16.2%	Credit Europe Bank
63.	64.	▲	Zemelny Capital	34	0.1%	9	-3	-8.0%	-31.2%	Private Individuals

RANK 2020	RANK 2019	YOY	INSTITUTIONS	TOTAL ASSETS	MARKET SHARE	EQUITY	NET INCOME	ROA	ROE	MAJOR SHAREHOLDER
64.	65.	▲	Policombank	31	0.1%	10	0	1.5%	4.6%	No majority shareholder
65.	61.	▼	Unex Bank	30	0.1%	9	-3	-11.4%	-37.3%	Vyzain Investments
66.	67.	▲	Oksi Bank	26	0.1%	8	-	0.0%	0.0%	Private Individuals
67.	68.	▲	Europrombank	19	0.0%	11	3	14.8%	25.9%	Private Individuals
68.	70.	▲	Bank Familny	18	0.0%	8	0	1.4%	3.3%	Cristela Limited
69.	69.	●	Bta Bank	18	0.0%	10	-9	-52.1%	-95.1%	BTA Bank
70.	75.	▲	Ukrainian Bank for Reconstruction and Development	17	0.0%	7	-2	-11.5%	-30.0%	BOCE (Hong Kong)
71.	71.	●	Settlement center	15	0.0%	10	0	1.3%	1.9%	State of Ukraine6
72.	72.	●	Bank Trust-Capital	15	0.0%	9	0	0.1%	0.1%	Private Individuals
73.	73.	●	Bank Portal	11	0.0%	8	0	1.7%	2.2%	Private Individuals
74.	74.	●	Alpari Bank	9	0.0%	8	-1	-7.5%	-8.9%	Private Individuals
			Total	52,472	100%	6,029	1,159	2%	19%	

Source: Banks' data disclosure, EMIS, NBU
*** Data from 2020.08.01.*

M&A ACTIVITY

The Ukrainian banking sector has still an active M&A market with five deals in 2020 and altogether with 19 acquisitions over the past six years.

- In 2020, Kazakhstan-based BTA Bank sold 50% of its Ukrainian subsidiary to Mikalai Varabei, a private investor.
- In 2020, Prominvestbank was acquired by Cyprus-based Luregio Limited owned by private investors from VEB, Russia.
- In 2020, Development Construction Holding acquired JSC Bank Credit Dnepr 100% of shares from private individuals.
- In 2020, LLC Energoposgtavka agreed to acquire 50% stake in First Investment Bank from private individuals.
- In 2020, Dragon Capital together with a private individual planned to acquire Idea Bank, a Ukraine-based retail bank from Getin Holding for a consideration of EUR 53 million. Idea Bank has been present on the market for 21 years. However, the transaction was cancelled due the parties failed to agree on the commercial terms of the agreement as the economic environment changed radically.
- In 2018, the Ukrainian MTB Bank acquired 100% stake of the PJSC Commercial Bank Center.
- In 2018, responsAbility Investments (Swiss private equity company) acquired 51% stake in PJSC JSCB Lviv from a Ukrainian private investor. The acquisition helped Lviv to strengthen its position in the domestic banking sector, with a focus on small and medium businesses and individuals.
- In 2017, the Russian Sbrerbank sold VS Bank to the Ukrainian PJSC Tascombank (subsidiary of Ukrainian TAS Group LLC). VS Bank had more than 400 employees before the transaction.
- In 2017, two Ukrainian private individuals acquired 99.9% stake in PJSC Marfin Bank from the Cyprus Popular Bank Public.
- In 2016, the largest bank of the Ukrainain banking sector, the PrivatBank was nationalized by the State of Ukraine. The financial crisis of 2014-2015 in Ukraine heavily affected the bank's performance, therefore the government decided to save and re-capitalize the bank to increase the banking sector's stability.
- In 2016, a Ukrainian private investor sold a 92.51% stake in Mikhailovsky Bank to 11 strategic investors. Before selling the Mikhailovsky Bank, it had financial difficulties and a few days after the transaction, the bank was deemed insolvent. Under the agreement of the deal, the seller retained control of the bank through a special purpose vehicle.
- In 2016, TAS Group (Cypriot project company) acquired Universal Bank from the Greek Eurobank Ergasias. The transaction contributed to the consolidation and stable growth of the Ukrainian banking sector.
- In 2016, the Kazakhstani BTA Bank JSC acquired a 40% stake of PJSC BTA Bank from a Ukrainian private strategic investor. Prior to the transaction, BTA Bank JSC held 49.99 Stake in PJSC BTA Bank, whereas a 50% stake was held by the former private investor. As a result of the deal, BTA Bank JSC has been holding 89.99% stake in PJSC BTA Bank.
- In 2016, a Ukrainian private investor bought a 48.3% stake of Industrialbank. As a result of the deal, at the end of 2016, more than 65% of the Industrialbank was owned by the former private investor (48% directly, 17% indirectly).
- In 2016, The European Bank for Reconstruction and Development (UK based project financing company) acquired approximately 30% stake in the Raiffeisen Bank Aval, JSC (RBA) from the Austrian Raiffeisen Bank International (RBI) via capital increase. Prior to the deal, RBI held 96.2% stake in RBA. EBRD had been interested in investing in RBA since March 2015.
- The Italian UniCredit Group sold 99.41% of Ukrsotsbank to the Luxembourgish ABH Holdings, which is the subsidiary of the Alfa Group Consortium (Russian industrial conglomerate). The purpose of the transaction was to reduce the risk-weighted assets in Ukrsotsbank's portfolio. Prior to the deal, in 2013, two Ukrainian assets of UniCredit Group (Ukrsotsbank PJSC and Ukrsotsbank OJSC) merged to create the renovated Ukrsotsbank. In 2019, the National Bank of Ukraine approved the reorganization of JSC Ukrsotsbank by merging with JSC Alfa-Bank. Together the market share of the merged banking entity reached 4.8% in the Ukrainian banking market.
- In 2015, an undisclosed bidder acquired DV Bank from its Cyprus-based company holding, the DVGroup Limited.
- In 2015, Ukrainian private strategic investors bought 96.6% of Aktsent Bank from the Ukrainian Privatbank.
- In 2015, Ukrainian Business Group Corportion (UBG) acquired PJSC Omega Bank from the Swedish Swedbank. Before the transaction, the Omega was declared insolvent. The transaction was founded by UBG's own funds and 20% (EUR 1.2 mn) of the price went for the acquisition, and 80% (EUR 4.9 mn) went for increasing capital in Omega Bank.
- In 2015, LLC Industrial Innovation Company (Ukrainian investment fund) bought 71% of ARB Radikal Bank. Industrial Innovation was set up by ARB Radikal's top management to acquire the bank.

LIST OF BANKING M&A DEALS IN UKRAINE 2015 - NOVEMBER 2021

YEAR	TARGET	BUYER	% ACQUIRED	DEAL VALUE IN EUR MN	SELLER
2020*	BTA Bank	Mikalai Varabei (Private Investor)	50.0%	n.a.	BTA Bank JSC
2020*	Prominvestbank	Luregio Limited	100.0%	n.a.	State Development Corporation VEB.RF
2020	JSC Bank Credit Dnepr	Development Construction Holding Ltd.	100.0%	n.a.	Private individual
2020*	First Investment Bank	LLC Energopostavka	50.0%	n.a.	Private individuals
2018	Commercial Bank Center	MTB Bank	100.0%	n.a.	n.a.
2018	Lviv	responsAbility Investments	51.0%	n.a.	Private individuals
2017	VS Bank	PJSC Tascombank	100.0%	13	Sberbank
2017	Marfin Bank	Private individuals	99.9%	n.a.	Cyprus Popular Bank
2016	CB PrivatBank	Government of Ukraine	100.0%	n.a.	Private Group
2016	Mikhailovsky Bank	Private individuals	92.5%	n.a.	Private individuals
2016	Universal Bank	TAS Group	100.0%	n.a.	Eurobank
2016	BTA Bank	BTA Bank JSC	40.0%	n.a.	Private individuals
2016	Industrialbank	Private individuals	48.3%	n.a.	Pol Invest Group, Sauslenk-Zaporizhzhya, FINVAL Group, CUVCIF PJSC, NOVA
2016	Raiffeisen Bank Aval	EBRD	30.0%	73	Raiffeisen
2016	Ukrsotsbank	Alfa Group Consortium	99.4%	281	UniCredit
2015	DV Bank	Undisclosed bidder	100.0%	n.a.	DVGroup Limited
2015	Aktsent Bank	Private individuals	96.6%	n.a.	PrivatBank
2015	PAO Omega Bank	Ukrainian Business Group Corporation	100.0%	6	Swedbank
2015	ARB Radikal Bank	OOO Industrial Innovation Company	71.0%	n.a.	n.a.

Source: Deloitte Intelligence
**Ongoing*

BOSNIA AND HERCEGOVINA

MACROECONOMIC ENVIRONMENT

- Global COVID-19 pandemic caused a significant shock for the economy of Bosnia and Herzegovina in 2020 and the real GDP declined by -4.5% compared to prior year. Bosnia and Herzegovina mitigated economic consequences of the pandemic like most of the CEE countries, with the introduction of extremely expansionary fiscal policy.
- Consumer prices in Bosnia and Herzegovina experienced a significant drop in 2020 reaching -1.1% deflation level, which was mainly driven by three factors during 2020: lower household consumption of services, falling energy prices (especially oil prices) and negative balance of payment position. However, inflation is expected to pick up in 2021 to 1.2% mainly due to increase in energy prices.
- After several years of budget surplus, budget balance turned into a 5.6% deficit while the public debt also increased in 2020. Both indicators showed negative trend because of the expansionary fiscal policy aimed to mitigate the negative consequences of the pandemic.

MACRO INDICATORS	2018	2019	2020	2021E	CHANGE 2019-20 (% OR % POINT)
Nominal GDP (mEUR)	17,359	18,229	18,273	18,945	0.2%
Nominal GDP/capita (EUR)	5,229	5,524	5,571	5,776	0.9%
EURBAM exchange rate	1.96	1.96	1.96	1.96	0.0%
GDP (% real change pa)	3.3%	2.9%	-4.5%	3.0%	-7.4%
Consumer prices (% change pa)	1.4%	0.5%	-1.1%	1.2%	-1.6%
Recorded unemployment (%)	18.4%	15.7%	15.9%	n.a	0.2%
Budget balance (% of GDP)	1.5%	2.0%	-5.6%	-4.3%	-7.6%
Public debt (% of GDP)	38.9%	38.0%	38.3%	38.6%	0.3%

Source: EIU, World Bank
E - Estimated data for 2021

BANKING TRENDS

- The consolidated CAR of the banking sector in Bosnia and Herzegovina has been continuously improving in the previous years, reaching 19.2% in 2020. Despite the negative consequences of the global pandemic the Bosnian banking system remained well-capitalized, mainly due to the growth in capital from retained earnings related to the restrictions on dividend payments.
- The total assets of the Bosnian banking sector decreased by 6.2% in 2020 to 17.287 bn EUR mainly due to the shrinking outstanding retail and corporate loan volumes.
- Despite the significant fall of macroeconomic conditions and strong contraction of economic activity, the quality of the total loan portfolio continued to slightly improve both in the retail (by -0.1% points) and in the corporate (by -2.3% points) segments.
- Banks in Bosnia and Herzegovina experienced a significant drop in profitability during 2020 comparing to prior years, due to the increasing impairment losses and declining net interest income. As a result, both ROE and ROA profitability ratios decreased in 2020 by 4.4% points and 0.6% points, respectively.

COVID-19 IMPACT

Due to COVID-19 pandemic the fiscal policy introduced several measurements in order to cope with the contraction of the economy and to stabilize the economy in Bosnia and Herzegovina:

- Banking agencies approved the moratoria application on loan in both retail and corporate segments throughout 2020.
- Annual dividend payments were cancelled and/or postponed for the duration of the global health uncertainty to stabilize the capital positions of the banks.
- Government of Bosnia and Herzegovina launched fiscal stimulus, e.g. tax deferrals, payment of minimum wage to all employees affected by the lockdown measures and increased funding for healthcare and social benefits.

BANKING SECTOR	2018	2019	2020	CHANGE 2019-20 (% OR % POINT)
Total assets (EUR mn)	15,828	18,427	17,287	-6.2%
Asset penetration (%)[1]	91.2%	101.1%	94.6%	-6.4%
Total equity (EUR mn)	2,013	2,135	2,211	3.6%
Total loans (EUR mn)	9,963	10,621	10,404	-2.0%
Loan penetration (%)[2]	57.4%	58.3%	56.9%	-2.3%
Retail loans (EUR mn)	4,708	5,100	4,639	-9.0%
Corporate loans (EUR mn)	4,624	4,874	4,665	-4.3%
Interest rates				
Lending (%)	3.8%	3.3%	3.1%	-0.2%
Deposit (%)	1.0%	0.9%	0.8%	-0.1%
NPL volumes				
Retail NPLs (EUR mn)	306	301	269	-10.6%
Corporate NPLs (EUR mn)	499	427	303	-29.1%
NPL ratios				
Retail NPL ratio (%)	6.5%	5.9%	5.8%	-0.1%
Corporate NPL ratio (%)	10.8%	8.8%	6.5%	-2.3%
Key ratios				
CAR (%)	17.5%	18.0%	19.2%	1.2%
ROE (%)	9.6%	10.4%	6.0%	-4.4%
ROA (%)	1.3%	1.4%	0.8%	-0.6%
CIR (%)	57.4%	60.3%	58.4%	-1.9%
L/D (%)	91.2%	88.7%	81.4%	-7.3%
FX share of lending (%)	55.4%	51.9%	51.4%	-0.5%
LLP coverage (%)	77.4%	77.0%	78.4%	1.4%

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

BANKING MARKET

- 24 locally-licensed banks were operating in Bosnia and Herzegovina at the end of 2020. There is a strong presence of international banking groups in the country. The largest banks in the country are subsidiaries of these major European financial groups, such as UniCredit, Raiffeisen and Intesa Sanpaolo.
- The Bosnian banking market's concentration was relatively low with the five largest domestic banks owning slightly more than 50% of the total assets. The HHI of the banking market reached 8.1%, which is among the lowest in the CEE region.
- The Bosnian banking market is highly fragmented as some banks have separate legal entities for the Federation of Bosnia and Herzegovina and for the Republika Srpska (capital: Banja Luka).

LIST OF BANKS IN BOSNIA AND HERZEGOVINA IN 2020 (EUR MN OR %)

RANK 2020	RANK 2019	YOY	INSTITUTIONS	TOTAL ASSETS	MARKET SHARE	EQUITY	NET INCOME	ROA	ROE	MAJOR SHAREHOLDER
1.	1.	●	UniCredit Bank	3,119	18.0%	469	38	1.2%	8.1%	UniCredit
2.	2.	●	Raiffeisen Bank	2,510	14.5%	294	23	0.9%	7.8%	Raiffeisen
3.	3.	●	Intesa Sanpaolo Banka	1,191	6.9%	164	17	1.5%	10.6%	Intesa Sanpaolo
4.	4.	▲	Nova Banka, Banja Luka	1,185	6.9%	94	6	0.5%	6.4%	No majority shareholder
5.	6.	▼	Sparkasse Bank	872	5.0%	114	8	0.9%	7.0%	Erste
6.	5.	●	UniCredit Bank, Banja Luka	848	4.9%	114	8	0.9%	7.0%	UniCredit
7.	7.	●	NLB Banka, Banja Luka	795	4.6%	98	11	1.4%	11.2%	Nova Ljubljanska Banka
8.	8.	●	Sberbank BH	778	4.5%	95	4	0.5%	4.2%	Sberbank
9.	9.	●	Bosna Bank International	669	3.9%	75	3	0.4%	4.0%	Islamic Development Bank
10.	10.	●	NLB Banka	647	3.7%	90	6	0.9%	6.6%	Nova Ljubljanska Banka
11.	11.	●	ZiraatBank BH	554	3.2%	33	1	n.a.	n.a.	Ziraat Bank
12.	12.	●	Addiko Bank	517	3.0%	101	(7)	-1.3%	-6.6%	Addiko Bank AG
13.	13.	●	Sberbank, Banja Luka	486	2.8%	64	2	0.5%	3.8%	Sberbank
14.	15.	▲	Union Banka	449	2.6%	33	(2)	-0.4%	-6.1%	State of Bosnia Herzegovina
15.	14.	▼	Addiko Bank Banja Luka	419	2.4%	76	(4)	-1.0%	-5.4%	Addiko Bank AG
16.	16.	●	ASA Banka	328	1.9%	32	2	0.6%	6.5%	No majority shareholder
17.	17.	●	ProCredit Bank	311	1.8%	22	0	0.1%	1.2%	ProCredit
18.	18.	●	Privredna Banka Sarajevo	294	1.7%	24	2	0.8%	9.9%	No majority shareholder
19.	19.	●	MF Banka	265	1.5%	35	2	0.9%	6.4%	Mkd Mikrofin Doo Banja Luka
20.	20.	●	Komercijalna Banka	221	1.3%	33	4	1.9%	12.7%	Komercijalna Banka
21.	21.	●	Razvojna Banka Federacije	184	1.1%	87	0	0.1%	0.2%	State of Bosnia Herzegovina
22.	22.	●	Vakufska Banka	151	0.9%	12	1	0.6%	8.3%	ASA Finance
23.	23.	●	Nasa Banka*	98	0.6%	9	(0)	-0.1%	-0.7%	No majority shareholder
24.	24.	●	Komercijalno-investiciona Banka	57	0.3%	15	(0)	-0.1%	-0.2%	No majority shareholder
			Total	17,287	100%	2,211	131	0.8%	6.0%	

Source: Banks' data disclosure, EMIS, CBBH
** non-audited financial statement from 2020 August*

M&A ACTIVITY

There were seven major acquisitions in the banking market over the past years in Bosnia and Herzegovina.

- In late 2021, Sberbank announced the disposal of several CEE entities in order to focus on key markets, including the Bosnian, Croatian, Hungarian, Serbian and Slovenian subsidiaries. The deal was signed with AIK Banka a.d. Beograd, Gorenjska Banka d.d., Kranj and Agri Europe Cyprus Limited. The deal is expected to close in 2022, however it is still subject to regulatory approval.

- In Q3 2021, Serbian state-owned Banka Poštanska Stedionica signed an agreement on the purchase of Komercijalna Banka a.d. Banjaluka with Komercijalna Banka Beograd – NLB Group. After approval process by regulatory bodies, transaction will be concluded on Banja Luka Stock Exchange when the price will be disclosed.

- At the end of 2018, a 20.8% stake in Nova Banka Banja Luka was acquired by MG Mind (Bosnian private Company). During 2019 - 2020, MG Mind constantly was increasing ownership in Nova Banka. During 2020 MG Mind finished process of takeover of shares in accordance with Takeover Law. MG Mind is owner 99.1% of Nova Banka at the end of October 2021 and squeeze out is in progress. MG Mind is majority owner of several companies: Mrkonjić putevi – road maintenance, Tržnica Banja Luka and Merkur Banja Luka: real estate, Čistoća Banja Luka – waste management company, etc.

- Slovenian NLB acquired Komercijalna Banka Banja Luka in late 2020 (as part of acquisition of Serbian Komercijalna Banka).

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

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

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

LIST OF BANKING M&A DEALS IN BOSNIA AND HERZEGOVINA 2015 - NOVEMBER 2021

YEAR	TARGET	BUYER	% ACQUIRED	DEAL VALUE IN EUR MN	SELLER
2021*	Sberbank, Banja Luka	AIK Banka a.d. Beograd, Gorenjska Banka d.d., Kranj, Agri Europe Cyprus Limited	100.0%	n.a.	Sberbank
2021	Nova Banka Banja Luka	MG Mind	99.1%	n.a.	n.a.
2021*	Komercijalna Banka Banja Luka	Banka Poštanska Stedionica	n.a.	n.a.	Nova Ljubljanska Banka
2020	Komercijalna Banka Banja Luka	Nova Ljubljanska Banka	n.a.	n.a.	n.a.
2019	Pavlovic International Bank	Galens Invest; Pavgord	44.3%	4	Miroslava Pavlovic; Batagon International AG
2019	Vakufska Banka	ASA Finance	73.4%	9	Badeco Adria
2016	Privredna Banka Sarajevo	BOR Banka	100.0%	n.a.	n.a.

Source: Deloitte Intelligence
**Ongoing*

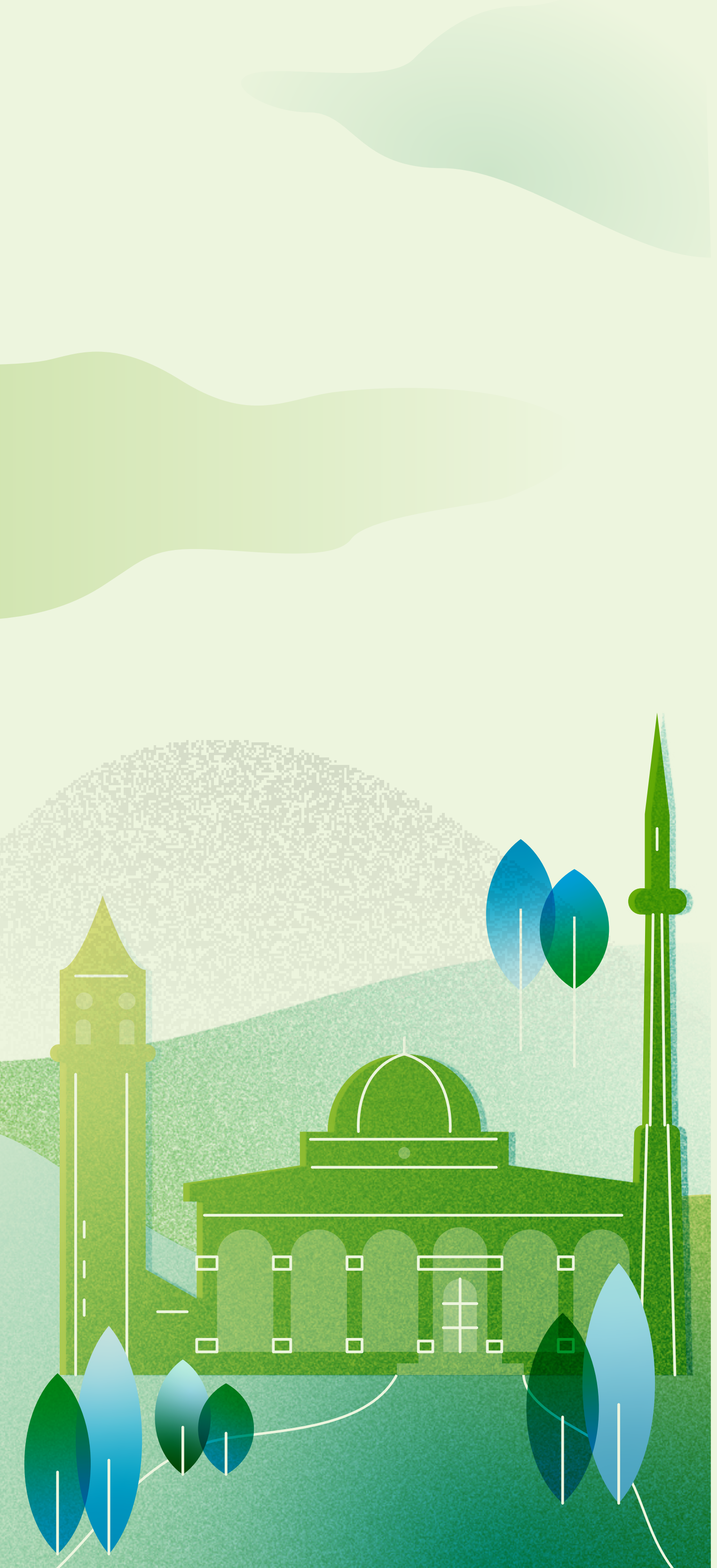
ALBANIA

MACROECONOMIC ENVIRONMENT

- The outbreak of the COVID-19 pandemic hit the Albanian economy, resulting in a real GDP drop of 3.3% in 2020. Since then, the economy recovered strongly from the COVID-19 crisis, with real GDP growing by 5.5% in the first quarter and by 17.9% in the second quarter of 2021 on the respective year-earlier period. A growth of 6% full year is expected, up from 5.5% previously.

- Annual consumer price inflation was 2.5% in the end of third quarter of 2021, the fastest annual inflation rate since early 2017, mainly driven by higher prices for transport, and food and non-alcoholic beverages. In the coming months and into 2022 elevated global food and energy prices will continue to exert inflationary pressures in Albania. Average full-year inflation rate is expected to be 2% in 2021 and could accelerate to 2.6% in 2022 as a weakening currency, recovering consumer demand and higher global oil prices underpin price rises.

- Spending was below budget in the first nine months of 2021, and revenue outperformed expectations on the back of higher than budgeted tax revenue and social security contributions. This led to a smaller than expected 2021 fiscal deficit. As in 2020, the authorities will finance the 2021 deficit mainly from domestic and foreign borrowing.



MACRO INDICATORS	2018	2019	2020	2021E	CHANGE 2019-20 (% OR % POINT)
Nominal GDP (mEUR)	12,822	13,643	12,968	12,654	-5.0%
Nominal GDP/capita (EUR)	4,421	4,705	4,472	4,409	-5.0%
EURALL exchange rate	123.42	121.77	123.70	122.57	1.6%
GDP (% real change pa)	4.1%	2.2%	-3.3%	6.0%	-5.5%
Consumer prices (% change pa)	2.0%	1.4%	1.6%	2.0%	0.2%
Recorded unemployment (%)	6.3%	5.9%	6.8%	6.9%	0.9%
Budget balance (% of GDP)	-1.6%	-1.9%	-6.9%	-7.2%	-5.0%
Public debt (% of GDP)	69.6%	68.8%	76.1%	74.6%	7.3%

Source: EIU
E - Estimated data for 2021

BANKING TRENDS

- The capitalisation level of the Albanian banking sector remained stable also during the third quarter of 2021. The capital adequacy ratio decreased from 18.4% to 17.9%. The decline is mainly caused by the increase in risk-weighted assets and by the lack of growth of regulatory capital requirements.

- Despite the negative impacts of the pandemic, total assets expanded by 7.5% reaching EUR 13.7 bn. Moreover, lending activity moderately increased as well compared to the 2020 level. As per data published in 2020, the volume of NPL loans almost tripled in the retail segment, resulting in a 5.5% retail NPL ratio, which is 3.2% points increase compared to the previous year. At the same time, the corporate NPL ratio slightly decreased. From January to August 2021, share of non-performing loans (NPLs) in total decreased by 0.1% points m/m to 7.0%. Despite the end of the loan moratorium, the projections for an increase in the non-performing loans (NPLs) have not materialised for the time being. Some increase in the NPLs could take place in the medium term, as the sustained pandemic and economic uncertainties might hamper borrowers' capacity to regularly pay their due loan instalments.

- The profitability of the Albanian banking sector moderately increased in 2021, reaching 12% ROE levels, mainly due to the low comparison base from 2020 and the expiration of the loan moratorium and the accelerating lending.

COVID-19 IMPACT

- Overall, the Albanian banking sector was resilient against the economic challenges caused by the COVID-19 pandemic. The effective crisis management is attributable to the good financial condition of the banking sector prior to the pandemic and to the quick reaction and measures undertaken by the authorities.

- Nonetheless, banks must prepare for the pressure caused by the uncertainties related to the pandemic in future. Banks might face increased risk regarding the quality of their credit portfolios and should actively monitor their capital positions.

BANKING SECTOR	2018	2019	2020	CHANGE 2019-20 (% OR % POINT)
Total assets (EUR mn)	11,772	12,118	12,789	5.5%
Asset penetration (%)[1]	91.8%	88.8%	98.6%	11.0%
Total equity (EUR mn)	1,195	1,267	1,323	4.4%
Total loans (EUR mn)	4,705	4,728	4,922	4.1%
Loan penetration (%)[2]	36.7%	34.7%	38.0%	9.5%
Retail loans (EUR mn)	1,497	1,534	1,613	5.1%
Corporate loans (EUR mn)	3,208	3,194	3,309	3.6%
Interest rates				
Lending (%)	6.8%	6.7%	6.1%	-0.6%
Deposit (%)	0.9%	0.7%	0.4%	-0.3%
NPL volumes				
Retail NPLs (EUR mn)	96	35	89	156.2%
Corporate NPLs (EUR mn)	459	361	326	-9.7%
NPL ratios				
Retail NPL ratio (%)	6.4%	2.3%	5.5%	3.2%
Corporate NPL ratio (%)	14.3%	11.3%	9.9%	-1.4%
Key ratios				
CAR (%)	18.2%	18.3%	18.4%	0.1%
ROE (%)	13.0%	13.5%	11.6%	-1.9%
ROA (%)	1.2%	1.5%	1.4%	-0.1%
CIR (%)	77.0%	80.8%	79.3%	-1.5%
L/D (%)	49.2%	46.2%	47.3%	1.1%
FX share of lending (%)	56.1%	51.2%	50.7%	-0.5%
LLP coverage (%)	65.6%	65.6%	65.2%	-0.4%

Source: EIU, AAB, BoA | 1. Asset penetration = Total assets/Nominal GDP | 2. Loan penetration = Total loans/Nominal GDP

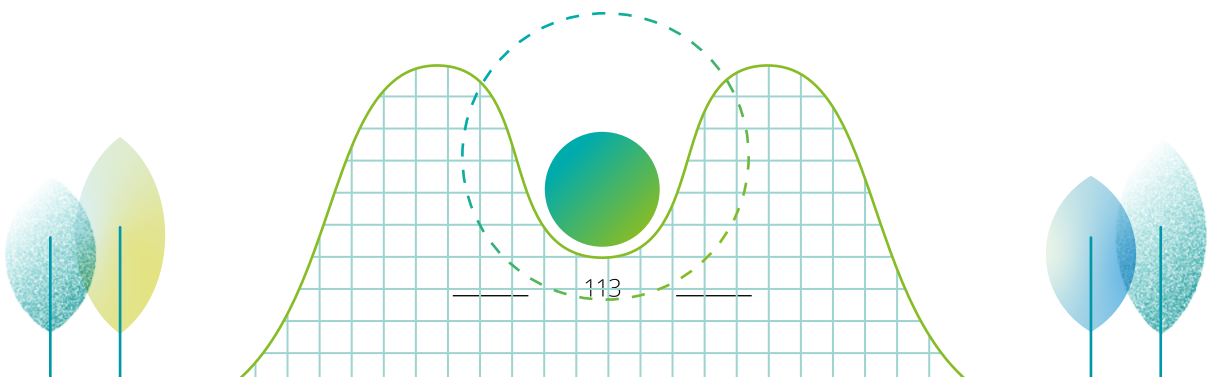
BANKING MARKET

- Similarly to 2019 there were 12 operating banks in the market in 2020, of which the majority was owned by international banking groups.
- A notable change on the banking market in Albania is that Credins Bank overtook Raiffeisen Bank Albania and secured its second position on the list of banks in terms of total assets. Still, Banka Kombetare Tregtare (BKT) remains the largest among them in terms of assets.
- Similarly to the previous years, the Albanian banking sector remained highly concentrated. The five largest banks accounted for around 76% of the consolidated balance sheet.

LIST OF BANKS IN ALBANIA IN 2020 (EUR MN OR %)

RANK 2020	RANK 2019	YOY	INSTITUTIONS	TOTAL ASSETS	MARKET SHARE	EQUITY	NET INCOME	ROA	ROE	MAJOR SHAREHOLDER
1.	1.	●	Banka Kombëtare Tregtare	3,403	26.6%	395	50	1.5%	1.5%	Calik Finansal Hizmetler
2.	3.	▲	Credins Bank	1,997	15.6%	152	9	0.5%	0.5%	No majority shareholder
3.	2.	▼	Raiffeisen Bank Albania	1,917	15.0%	238	12	0.6%	0.6%	Raiffeisen
4.	4.	●	Intesa Sanpaolo Bank Albania	1,571	12.3%	186	10	0.6%	0.6%	Intesa Sanpaolo
5.	5.	●	OTP Albania	781	6.1%	83	12	1.5%	1.5%	OTP
6.	7.	▲	American Bank of Investments	704	5.5%	83	10	1.4%	1.4%	Tranzit Finance
7.	8.	▲	Tirana Bank	682	5.3%	81	5	0.7%	0.7%	Pireus Bank
8.	6.	▼	Alpha Bank Albania	622	4.9%	73	1	0.1%	0.1%	Alpha Bank
9.	9.	●	Union Bank	581	4.5%	47	4	0.7%	0.7%	Unioni Financiar Tirane
10.	10.	●	ProCredit Bank	287	2.2%	26	(4)	-1.2%	-1.2%	ProCredit
11.	11.	●	Fibank Albania	277	2.2%	29	1	0.5%	0.5%	Fibank
12.	12.	●	United Bank of Albania	79	0.6%	10	(0)	-0.6%	-0.6%	Islamic Development Bank
			Total	12,789	100%	1,323	175	1.4%	11.6%	

Source: Banks' data disclosure, AAB



M&A ACTIVITY

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

- In 2019, as a result of the strategic decision of several Greek banks to exit from the Balkan markets, Piraeus Bank sold 98.93% stake in Tirana bank to Balfin (Albania based company engaged in real estate development and retail business) and to the Macedonian Komercijalna Banka.

- In 2019, the Hungarian OTP Bank acquired an 88.89% stake in Banka Société Générale Albania. This deal was a part of the Société Générale's CEE regional subsidiary divestiture actions. The transaction was valued together with the 99.47% stake of the Bulgarian Société Générale Expressbank (acquired in 2018) and the OTP Bank payed EUR 600 mn altogether.

- In 2018, Union Bank has acquired 100% of voting shares of International Commercial Bank from Swiss-based ICB Financial Group Holdings. The price of the deal was not disclosed. ICBank held 0.7% of total assets with a network of six branches and 94 employees.

- In 2018, the Albanian American Bank of Investments acquired Banka NBG Albania from National Bank of Greece (a listed Greek financial institution). Banka NBG Albania owned 26 branches and had total asset of EUR 305.7m as of 30 September 2017.

- In 2015, the French Credit Agricole sold its Albanian subsidiary to the Albanian Tranzit Finance for an undisclosed consideration. At the end of 2015, Credit Agricole Albania was renamed American Bank of Investments.

LIST OF BANKING M&A DEALS IN ALBANIA 2015 - NOVEMBER 2021

YEAR	TARGET	BUYER	% ACQUIRED	DEAL VALUE IN EUR MN	SELLER
2021*	Alpha Bank Albania	OTP	100.0%	55	Alpha Bank
2019	Tirana Bank	Komercijalna Banka and Balfin	98.8%	57	Piraeus Bank
2019	Banka Societe Generale Albania	OTP	88.9%	n.a.	Société Générale
2018	International Commercial Bank	Union Bank	100.0%	n.a.	ICB Financial Group Holdings
2018	Banka NBG Albania	American Bank of Investments	100.0%	25	National Bank of Greece
2015	American Bank of Investments	Tranzit Finance	100.0%	n.a.	Credit Agricole

Source: Deloitte Intelligence
**Ongoing*

BALTIC REGION

ESTONIA

MACROECONOMIC ENVIRONMENT

- Estonia's economic growth has accelerated in recent years, but due to the pandemic, the upward trend stopped in 2020 and GDP fell by 2.6% in real terms. As a result of the easing restrictive measures introduced by the government, real GDP is projected to grow by 5.5% in 2021 exceeding the pre-Covid levels.

- Following a deflation period, inflation rebounded to an average of 3.4% in 2018, which was mainly due to rising energy and food prices, as well as the introduction of an income tax reform in early 2018 contributing to increasing real wages. In 2019, consumer price inflation stood at 2.3%, however due to the COVID-19 crisis the deflationary environment returned and the consumer

- prices decreased by 0.4% in 2020. In 2021, inflation is expected to return to a level of 2.4%, mainly due to the increasing electricity prices.

- Historically declining recorded unemployment rate bounced back in 2020 to 6.8%, because of the lockdown and social distancing measures. Unemployment rate is not expected to recover in 2021.

- In 2020, the budget deficit was 4.9%, while government debt rose to 18.2% as a result of government fiscal measures to mitigate the economic downturn caused by the pandemic. Both rates are projected to deteriorate in 2021, although they will remain low by international standards.

MACRO INDICATORS	2018	2019	2020	2021E	CHANGE 2019-20 (% OR % POINT)	
Nominal GDP (mEUR)	26,036	28,038	27,167	29,337	-3.1%	●
Nominal GDP/capita (EUR)	20,028	21,568	20,442	22,091	-5.2%	●
GDP (% real change pa)	4.8%	4.3%	-2.6%	5.5%	-6.9%	●
Consumer prices (% change pa)	3.4%	2.3%	-0.4%	2.4%	-2.7%	●
Recorded unemployment (%)	5.4%	4.5%	6.8%	6.6%	2.3%	●
Budget balance (% of GDP)	-0.6%	-0.3%	-4.9%	-5.7%	-4.6%	●
Public debt (% of GDP)	8.4%	8.4%	18.2%	22.6%	9.8%	●

Source: EIU
E - Estimated data for 2021

BANKING TRENDS

- Despite of the negative effects of COVID-19 capital adequacy ratio remained at a stable level in 2020 with 25.7%. The CAR ratio of Estonia is still one of the highest in the Baltic and in the CEE region.

- NPL ratio stood at a remarkably low level in 2019 and 2020 both in the corporate and retail segments. The LLP coverage also improved significantly in 2020 reaching 57.4%, also contributing to the stability of the banking sector.

- Loan dynamics of the Estonian banking market improved despite of COVID-19, as loan disbursements increased both in the corporate and retail segments in 2020 by 4.4% and 5.1%, respectively.

- Deposit level of Estonian households and companies increased significantly in 2020 causing the loan-to-deposit ratio to fall to its lowest level in the decade to 76.7%. The large growth in deposits has reduced the need for the banks to fund themselves from other sources.

- Profitability of the Estonian banking sector declined in 2020, mainly as a consequence of increased provisioning and decline in interest margins on new loans, resulting in a ROE of 7.4% and ROA of 0.8% in 2020.

COVID-19 IMPACT

- Banks of Estonia introduced moratoria of 3-12 months during the first wave of the pandemic, for which there was strong demand. In June 2020, grace periods affected ca.19% of the corporate loan portfolio and ca.5% of the household portfolio. By end of the 2020, grace periods affected only ca.3% of the corporate loan portfolio and ca.2% of the household portfolio.

- Industries hit by the onset of the COVID-19 crisis included tourism, accommodation, catering, transport and commercial real estate.

- Loan losses of the banks were affected mostly by the real estate sector. Although the real estate sector has not yet seen any systemic difficulties, that could change quickly if the crisis were to deepen.

BANKING SECTOR	2018	2019	2020	CHANGE 2019-20 (% OR % POINT)
Total assets (EUR mn)	26,559	37,606	44,876	19.3%
Asset penetration (%)[1]	102.0%	134.1%	165.2%	23.2%
Total equity (EUR mn)	3,826	5,008	5,077	1.4%
Total loans (EUR mn)	16,095	16,622	17,419	4.8%
Loan penetration (%)[2]	61.8%	59.3%	64.1%	8.2%
Retail loans (EUR mn)	8,765	9,336	9,814	5.1%
Corporate loans (EUR mn)	7,330	7,286	7,605	4.4%
Interest rates				
Lending (%)	8.4%	8.6%	6.4%	-2.2%
Deposit (%)	0.6%	0.7%	0.7%	0.0%
NPL volumes				
Retail NPLs (EUR mn)	33	25	30	18.6%
Corporate NPLs (EUR mn)	54	47	43	-8.5%
NPL ratios				
Retail NPL ratio (%)	0.4%	0.3%	0.3%	0.0%
Corporate NPL ratio (%)	0.7%	0.6%	0.6%	0.0%
Key ratios				
CAR (%)	30.3%	25.8%	25.7%	-0.1%
ROE (%)	9.8%	8.3%	7.4%	-0.9%
ROA (%)	1.4%	1.1%	0.8%	-0.3%
CIR (%)	45.3%	52.5%	52.6%	0.1%
L/D (%)	93.5%	90.0%	76.7%	-13.3%
FX share of lending (%)	0.5%	0.4%	0.4%	0.0%
LLP coverage (%)	41.8%	49.2%	57.4%	8.2%

Source: EIU, Eesti Pank, ECB CBD | 1. Asset penetration = Total assets/Nominal GDP | 2. Loan penetration = Total loans/Nominal GDP

BANKING MARKET

- In the Estonian banking sector the four largest banks own more than 90% of the total assets, as such it remains one of the most concentrated banking sectors in the CEE region.
- Due to the restructuring of the Luminor Group, the structural risk increased in the Estonian banking system as the Latvian and Lithuanian subsidiaries were converted into branches and later merged into the Estonian head office.
- In 2020 Danske Bank also ceased its operations in Estonia similarly to Versobank due to their serious breaches of legal requirements, especially regarding the prevention of money laundering and combating the financing of terrorism. Both ECB and the Estonian Financial Supervision Authority accused these banks of participating in possibly the greatest money laundering (over EUR 200 bn) in Europe.
- In the Estonian banking sector, equity makes up a rather large share of the aggregated balance sheet with 11% at the end of 2020, most of which is undistributed profit. The reason for this is the nature of the country's income tax system, under which banks had to pay income tax only when distributing profit.

LIST OF BANKS IN ESTONIA IN 2020 (EUR MN OR %)

RANK 2020	RANK 2019	YOY	INSTITUTIONS	TOTAL ASSETS	MARKET SHARE	EQUITY	NET INCOME	ROA	ROE	MAJOR SHAREHOLDER
1.	1.		Luminor*	14,924	33.3%	1,665	33	0.2%	2.0%	Luminor Group AB
2.	2.		Swedbank	14,064	31.3%	1,663	188	1.6%	10.5%	Swedbank
3.	3.		SEB	7,322	16.3%	875	105	1.5%	11.6%	SEB
4.	4.		LHV Pank	4,920	11.0%	198	31	0.6%	11.3%	LHV Group
5.	5.		Coop Pank	869	1.9%	98	7	-0.1%	-0.4%	Coop Investeeringud
6.	6.		Bigbank	756	1.7%	152	22	4.2%	17.7%	Private Individuals
7.	7.		Inbank	490	1.1%	61	6	1.6%	16.6%	No majority shareholder
8.	8.		TBB Pank	147	0.3%	23	(4)	-0.2%	-1.2%	Leonarda Invest Aktsiaselts
			Total	44,876	100%	5,077	380	0.8%	7.4%	

Source: Banks' data disclosure, EMIS, Eesti Pank
** consolidated data for the bank's entire Baltic operation*

BALTIC REGION

LATVIA

MACROECONOMIC ENVIRONMENT

- Global COVID-19 pandemic caused a significant shock for the economy in 2020, but due to the expansionary fiscal policy of the Latvian government the economy only shrank in real terms by a relatively small 3.6% compared to prior year.

- After several years of stable inflation in Latvia, it dropped to 0.2% points by 2020. This decline in inflation was mainly driven by the low energy prices and declining demand for goods and services.

- In 2020, unemployment rate increased by 1.8 % points to 8.1% due to the negative impact of the global pandemic. Latvian government extended its unemployment assistance benefit until late autumn 2021 focusing on workplace preservation.

- After a slight surplus in 2016, the budget balance turned into a deficit in 2017 and remained negative ever since. Public debt has been decreasing constantly from 2016 reaching its lowest point of 36.9% in 2019. Public debt increased by 6.6 while and deficit budget deficit widened by 4.3% points in 2020, mainly due to the expansionary fiscal policy that was introduced to mitigate the negative impact of the pandemic.

MACRO INDICATORS	2018	2019	2020	2021E	CHANGE 2019-20 (% OR % POINT)	
Nominal GDP (mEUR)	29,040	30,470	29,337	30,883	-3.7%	●
Nominal GDP/capita (EUR)	15,284	16,037	15,522	16,418	-3.2%	●
GDP (% real change pa)	4.5%	2.2%	-3.6%	2.8%	-5.8%	●
Consumer prices (% change pa)	2.5%	2.3%	0.2%	1.7%	-2.1%	●
Recorded unemployment (%)	7.4%	6.3%	8.1%	8.0%	1.8%	●
Budget balance (% of GDP)	-0.8%	-0.2%	-4.5%	-5.5%	-4.3%	●
Public debt (% of GDP)	37.2%	36.9%	43.5%	46.7%	6.6%	●

Source: EIU
E - Estimated data for 2021

BANKING TRENDS

- In the recent years, Latvian banking system remained well-capitalized. Despite the economic shock caused by the pandemic, the capital adequacy ratio could further improve in 2020 by 5.8% points to 26.8%, mainly due to the increase in capital from retained earnings related to the restrictions on dividend payments.

- Total assets of the Latvian banking sector increased significantly by 9.8% by the end of 2020. However, the total loan volume slightly decreased by 3.3% compared to the end of 2019. Despite the fall in GDP, the asset quality of the banking sector could improve, as banks gradually write-off the NPLs accumulated during the previous periods. Both the retail and corporate NPL ratios decreased in 2020.

- The profitability of the Latvian banks significantly declined amid the COVID-19 pandemic, as ROE and ROA decreased by -4.4% and -0.4% respectively. However, most of the banks concluded the year 2020 with profit, which was the result of the government support measures, the swift response of supervisory authorities and the carefulness of credit institutions.

COVID-19 IMPACT

- Accommodative monetary policy, loan moratoria and extensive government support measures mitigated the effect of the pandemic on the Latvian economy and significantly reduced the transmission of the shock to the financial sector.

- Government support actions, including employment preservation measures, had a significant role in maintaining consumer sentiment and economic activity in Latvia.

BANKING SECTOR	2018	2019	2020	CHANGE 2019-20 (% OR % POINT)
Total assets (EUR mn)	22,583	22,134	24,296	9.8%
Asset penetration (%)[1]	77.8%	72.6%	82.8%	14.0%
Total equity (EUR mn)	2,893	2,258	2,436	7.9%
Total loans (EUR mn)	13,395	12,816	12,390	-3.3%
Loan penetration (%)[2]	46.1%	42.1%	42.2%	0.4%
Retail loans (EUR mn)	5,727	5,682	5,698	0.3%
Corporate loans (EUR mn)	7,668	7,134	6,692	-6.2%
Interest rates				
Lending (%)	2.7%	2.5%	3.8%	1.3%
Deposit (%)	0.1%	0.0%	0.0%	0.0%
NPL volumes				
Retail NPLs (EUR mn)	177	145	104	-28.5%
Corporate NPLs (EUR mn)	349	371	235	-36.6%
NPL ratios				
Retail NPL ratio (%)	3.1%	2.6%	1.8%	-0.8%
Corporate NPL ratio (%)	4.6%	5.2%	3.5%	-1.7%
Key ratios				
CAR (%)	21.6%	21.0%	26.8%	5.8%
ROE (%)	9.2%	9.6%	5.2%	-4.4%
ROA (%)	1.2%	1.0%	0.6%	-0.4%
CIR (%)	61.3%	62.4%	64.5%	2.1%
L/D (%)	70.7%	70.7%	63.5%	-7.2%
FX share of lending (%)	4.2%	3.5%	2.7%	-0.8%
LLP coverage (%)	40.3%	39.1%	41.8%	2.7%

Source: EIU, Latvijas Banka, ECB CBD | 1. Asset penetration = Total assets/Nominal GDP | 2. Loan penetration = Total loans/Nominal GDP

BANKING MARKET

- 13 locally licensed banks were operating by the end of 2020 in Latvia. Two major recent changes took place in the banking sector regarding the number of financial institutions. First, Luminor Bank changed its operations in Latvia and currently it operates as a foreign branch of the Estonian entity. Second, PNB Banka ceased its operations, as the bank failed to raise additional capital.
- The banking sector remained highly concentrated, as the five largest banks owned more than 77.0% of the total assets and the HHI of the segment was 17.2%.

LIST OF BANKS IN LATVIA IN 2020 (EUR MN OR %)

RANK 2020	RANK 2019	YOY	INSTITUTIONS	TOTAL ASSETS	MARKET SHARE	EQUITY	NET INCOME	ROA	ROE	MAJOR SHAREHOLDER
1.	1.	●	Swedbank	7,764	32.0%	931	75	1.0%	8.1%	Swedbank
2.	3.	▲	Citadele Banka*	4,432	18.2%	318	(5)	-0.1%	-1.5%	RA Citadele Holdings
3.	2.	▼	SEB Banka	4,288	17.7%	409	36	0.8%	8.8%	SEB
4.	4.	●	Rietumu Bank	1,479	6.1%	297	18	1.2%	6.1%	Private Individuals
5.	5.	●	BlueOrange Bank	742	3.1%	71	5	0.7%	6.9%	BBG
6.	7.	▲	Rigensis Bank	323	1.3%	76	3	0.8%	3.5%	Private Individuals
7.	6.	▼	Regionala investiciju banka	273	1.1%	36	1	0.3%	2.2%	SKY Investment Holding
8.	11.	▲	LPB Bank	240	1.0%	32	4	1.5%	11.3%	Mono SIA
9.	8.	▼	Baltic International Bank	226	0.9%	25	(1)	-0.6%	-6.0%	Private Individuals
10.	10.	●	Signet Bank	224	0.9%	18	2	0.7%	9.0%	No majority shareholder
11.	12.	▲	Industra Bank (Meridian Trade Bank)	164	0.7%	13	(4)	-2.2%	-27.2%	SIA
12.	9.	▼	PrivatBank	153	0.6%	31	(14)	-8.9%	-43.3%	PrivatBank
13.	13.	●	Expobank	62	0.3%	36	(1)	-1.6%	-2.7%	Private Individuals
			Total	24,296	100%	2,436	127	0.6%	5.2%	

Source: Banks' data disclosure, EMIS, Latvijas Banka, Finance Latvia Association
** consolidated data for the bank's entire Blatic operation*

BALTIC REGION

LITHUANIA

MACROECONOMIC ENVIRONMENT

Due to the Lithuanian government's successful fiscal and monetary response to the COVID-19 pandemic, the country's economy was among the best in the EU in 2020. In terms of real GDP, the economy shrank by 0.9% in 2020, well below the expected economic contraction. By the end of the first quarter of 2021, the real GDP exceeded the level a year earlier, indicating a positive outlook for the Lithuanian economy in the post-pandemic period.

Consumer prices continued to further decrease from 2.2% in 2019 to 1.1% in 2020. However, due to the anticipated rapid recovery of the Lithuanian economy after the pandemic, inflation rate is expected to reach 3.3% in 2021. The rising inflation is further driven by increasing global energy products and industrial goods prices.

Unemployment rate rose by 2.2% points between 2019 and 2020. Despite the declining trend in the unemployment rate in recent years, the challenges of the pandemic increased the vulnerability of certain sectors of the economy.

As a result of the extensive stimulus package introduced by the government to address the challenges of the COVID-19 pandemic, the budget balance reached a deficit of 7.4% in 2020. As a consequence of the increased government spending, public debt reached a 5 year peak of 47.1% in 2020.

MACRO INDICATORS	2018	2019	2020	2021E	CHANGE 2019-20 (% OR % POINT)
Nominal GDP (mEUR)	45,491	48,809	48,930	53,200	0.2%
Nominal GDP/capita (EUR)	16,247	17,432	17,974	19,777	3.1%
GDP (% real change pa)	3.9%	4.3%	-0.9%	4.0%	-5.2%
Consumer prices (% change pa)	2.5%	2.2%	1.1%	3.3%	-1.1%
Recorded unemployment (%)	6.2%	6.3%	8.5%	7.4%	2.2%
Budget balance (% of GDP)	0.6%	0.3%	-7.4%	-5.0%	-7.7%
Public debt (% of GDP)	33.7%	35.9%	47.1%	48.4%	11.2%

Source: EIU
E - Estimated data for 2021

BANKING TRENDS

- The capital adequacy ratio of the Lithuanian banking sector kept its upward trend and increased from 23.7% to 24.0% between 2019 and 2020, primarily driven by the halted dividend payments of banks as a response to the COVID-19 pandemic.

- In terms of total assets, the Lithuanian banking sector grew by 22.7% between 2019 and 2020, reaching EUR 37.7 bn. The performance of non-performing loan portfolios was twofold in 2020. The retail NPL ratio further improved and reached 1.86% in 2020 from 2.1% in 2019. The current NPL ratio is the lowest since 2008. However, the corporate NPL ratio increased by 0.6% to 3.5% in 2020, mainly due to one off items.

- The deterioration of asset quality has led to increasing provisioning costs which further reduced the profitability of the banking sector, with both ROE and ROA ratios declining in 2020 compared to 2019. Profitability was partly driven by the declining volume of the banking sector's corporate loan portfolio, which resulted in lower level of interest income. However, the Lithuanian banking sector was still the second most profitable among the analysed EU countries with ROE of 10.0% and ROA 0.7% in 2020.

- Similarly to the previous years' trends, lending activity increased in the retail segment by 6.1% from 2019 to 2020. The increase is partly the consequence of the higher engagement of households in real estate purchases. On the other hand, the volume of the corporate loan portfolio declined by 13.8% from 2019 to 2020.

- The increase of household and corporate deposits contributed to the higher liquidity of the banking sector. As a consequence, loan to deposit ratio decreased significantly by 13.9% points in 2020.

COVID-19 IMPACT

- Contrary to prior expectations, the Lithuanian banking sector showed strong resistance to the impacts of the COVID-19 pandemic. After the initial shock, Lithuanian banks managed to secure their stable positions. The results are partly attributable to the proactive measures of the Bank of Lithuania that applied supportive instruments to aid household and businesses.

- Notably, performance indicators such as capital adequacy ratio or liquidity ratios further advanced in 2020 in comparison to 2019. The Lithuanian banking sector is currently waiting for the post-pandemic period from a favorable position.

BANKING SECTOR	2018	2019	2020	CHANGE 2019-20 (% OR % POINT)
Total assets (EUR mn)	28,620	30,685	37,666	22.7%
Asset penetration (%)[1]	62.9%	62.9%	77.0%	22.4%
Total equity (EUR mn)	2,747	2,113	2,431	15.1%
Total loans (EUR mn)	18,618	19,447	18,859	-3.0%
Loan penetration (%)[2]	40.9%	39.8%	38.5%	-3.3%
Retail loans (EUR mn)	9,736	10,535	11,179	6.1%
Corporate loans (EUR mn)	8,882	8,912	7,680	-13.8%
Interest rates				
Lending (%)	3.2%	3.1%	3.8%	0.7%
Deposit (%)	0.3%	0.2%	0.3%	0.1%
NPL volumes				
Retail NPLs (EUR mn)	292	221	208	-6.0%
Corporate NPLs (EUR mn)	364	258	270	4.6%
NPL ratios				
Retail NPL ratio (%)	3.0%	2.1%	1.9%	-0.2%
Corporate NPL ratio (%)	4.1%	2.9%	3.5%	0.6%
Key ratios				
CAR (%)	18.6%	23.7%	24.0%	0.3%
ROE (%)	12.3%	14.5%	10.0%	-4.5%
ROA (%)	1.2%	1.1%	0.7%	-0.4%
CIR (%)	44.9%	47.0%	48.6%	1.6%
L/D (%)	79.5%	77.2%	63.3%	-13.9%
FX share of lending (%)	0.4%	0.4%	0.3%	-0.1%
LLP coverage (%)	34.3%	41.9%	47.7%	5.8%

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

BANKING MARKET

- In comparison to 2019, there was no change in the number of banks operating in the Lithuanian banking market. Currently, there are 11 locally-licenced banks in Lithuania.
- In the period of 2018-2021, six new banks started their operations and 2 more were granted licenses in 2020 (UAB SME digital financing bank and Crius LT UAB). Newly established banks as at the end of 2020 held 0.9% of the market share in terms of assets. Currently there are another 6 applications for a specialized banking license pending the review by the Bank of Lithuania and European Central Bank. After the Brexit, lot of FinTech banks chose Lithuania as the centre of their operation.
- The market is highly concentrated as the three largest domestic banks accounted for over 72% of the total assets in 2020.

LIST OF BANKS IN LITHUANIA IN 2020 (EUR MN OR %)

RANK 2020	RANK 2019	YOY	INSTITUTIONS	TOTAL ASSETS	MARKET SHARE	EQUITY	NET INCOME	ROA	ROE	MAJOR SHAREHOLDER
1.	1.		Swedbank	13,981	37.1%	939	90	0.6%	9.6%	Swedbank
2.	2.		SEB Bankas	10,236	27.2%	873	93	0.9%	10.7%	SEB
3.	3.		Siauliu Bankas	2,988	7.9%	356	43	1.4%	12.1%	EBRD
4.	4.		Medicinos Bankas	390	1.0%	35	4	1.0%	11.1%	Konstantinas Karosas
5.	5.		Lietuvos Centrinės Kredito Unijos	203	0.5%	17	1	0.4%	4.4%	No majority shareholder
6.	6.		Revolut Bank UAB	86	0.2%	n.a.	n.a.	n.a.	n.a.	n.a.
7.	7.		AB Mano bankas	79	0.2%	n.a.	n.a.	n.a.	n.a.	n.a.
8.	8.		UAB GF bankas	74	0.2%	n.a.	n.a.	n.a.	n.a.	n.a.
9.	9.		European Merchant Bank UAB	50	0.1%	n.a.	n.a.	n.a.	n.a.	n.a.
10.	10.		PayRay Bank, UAB	43	0.1%	n.a.	n.a.	n.a.	n.a.	n.a.
11.	11.		AB Fjord Bank	5	0.0%	n.a.	n.a.	n.a.	n.a.	n.a.
			Total	37,666	100%	2,431	279	0.7%	10.0%	

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

M&A ACTIVITY

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

- In 2020, the Estonian LHV Pank acquired 100% of the Corporate and Public sector business of the Danish Danske Bank's Estonian Branch. By this transaction, Danske Bank almost completed its withdrawal from the Baltic (and Russian) banking market. The main reason behind the withdrawal was the Danske Bank's money laundering scandal which arose in 2017-2018.

- In 2020, Growmore Group has agreed to acquire Medicinos Bankas UAB, a Lithuania-based commercial bank providing financial services from Konstantinas Karosas and Western Petroleum Limited, for an undisclosed consideration.

- In 2020, the Latvian Siauliu Bankas acquired 100% of the Retail business of the Danish Danske Bank's Lithuanian Branch for EUR 108 mn. The acquisition will enable Siauliu to gain momentum in the housing financing market, and become an active player in the mortgage market by offering attractive credit terms to our clients.

- In 2020, the Latvian Citadele Bankas acquired 100% of SIA UniCredit Leasing and SIA UniCredit Insurance Broker from UniCredit Group (Italian financial services company). Both companies operate in other Baltic countries; SIA UniCredit Leasing in Estonia and Lithuania, SIA UniCredit Insurance Broker in Estonia.

- In 2019, a group of US and European investors acquired a 60% stake in PNB Banka from a Russian private investor. PNB Banka is the new name of Norvik Banka as of November 2018. Unfortunately, soon after the acquisition, PNB Banka ceased its operations in 2019.

- In 2019, the Estonian LHV Pank acquired the Retail business of the Danish Danske Bank's Estonian Branch. LHV partly financed the transaction from its own funds and issued new bonds and shares to the market. As a result of the deal, the LHV expanded its loan portfolio by 40%, and acquired more than 10,000 private customers.

- In 2018, a consortium led by private equity funds managed by Blackstone acquired a 60% stake in Luminor from Nordea and DNB for EUR 1 bn cash consideration. Nordea and Blackstone also entered in to the forward sale agreement of Nordea's remaining 20% stake at a fixed valuation of 0.9x P/BV.

- The transaction is inter alia subject to customary regulatory approvals, and is expected to close during H1 2019. In case of successful closure, the new owner plans to focus on further developing Luminor bank, a strong stand-alone bank in the Baltics, and might look at IPO within next 5 years as potential option for exit.

- In 2017 Inbank, an Estonia-based bank and Coop Eesti Keskuhistu, an Estonia-based company operating retail stores agreed to acquire 84.7% of AS Eesti Krediidipank commercial bank from VTB Bank OAO, a Russia-based financial service provider. With the acquisition, the new shareholders formed a new bank named Coop Pank. In Coop Pank, 25% is owned by Inbank and 55% by Coop Eesti.

- In 2017, a 56.09% stake in Bank M2M Europe was acquired by Signet Capital Management, SIA Hansalink and SIA Fin.lv, from private individuals for an undisclosed consideration. Signet Capital acquired 25% stake, while SIA Hansalink and SIA Fin.lv got 22.3% and 8.79% stakes in Bank M2M, respectively. The transaction was expected as a great help for Bank M2M to continue with its strategy to provide outstanding services for its clients.

- In 2017, a significant transaction in the Baltic region's banking market was the forming of Luminor, a new banking entity in the Baltics region. Luminor was established via the merger of the Norway-based DNB and the Sweden-based Nordea. The two Nordic banks agreed to combine their banking operations and with this, strengthen their geographic presence and product offering. According to terms of the merger, parties have equal ownership in the new company. Luminor started its operations in October 2017.

- In 2016, the retail banking business of Danske Bank in Latvia and Lithuania was acquired by Swedbank. The acquisition helped the Sweden-based banking group strengthen its market position in the Baltics. The transaction was in line with the strategic plans of Danske Bank, which earlier, in 2015 expressed its intention to concentrate on corporate and private banking in the Baltic countries.

- In 2016 AS LHV Varahaldus, a privately owned Estonian investment manager, and a subsidiary of LHV Group AS, acquired Danske Capital AS from Danske Bank AS, a Denmark-based bank. The acquisition was in line with Danske bank's strategy of selling its asset management company and to continue its operations in corporate and private banking in the Baltic states.

- In 2015 Siauliu Bankas acquired Finasta Bank, from Invalda for EUR 6.7 mn. The transaction helped Siauliu extend its offered services and increase its capital reserves. Invalda's goal was to focus on its core asset management activities.

- In 2015, 75% stake of Citadele Bankas was acquired by a private investor group, from Latvian Privatization Agency. The seller company sold Citadele Bankas on behalf of the state as a part of the privatization of state owned companies. Earlier, in 2010, 25% of the company was acquired by the EBRD.

LIST OF BANKING M&A DEALS IN THE BALTIC REGION 2015 - NOVEMBER 2021

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

Source: Deloitte Intelligence

KOSOVA

MACROECONOMIC ENVIRONMENT

- Despite of the upward trend in recent years, the Kosovan economy declined by -5.3% in 2020, mainly due to the impact of the pandemic. The expectation for real GDP change in Kosova is 7.1% for 2021.
- 0.2% inflation was reported in 2020, which was the result of both economic contraction caused by COVID-19 and the falling price of energy. The inflation is expected higher in 2021.
- The labour market declined in 2020 due to the global economic uncertainty, which made an impact on the unemployment rate by increasing it with 0.2% points to 25.9%.
- Budget deficit widened by 6.0% points to 7.3% of the GDP, as a result of increased government spending to cope with the economic contraction in 2020. The public debt to GDP ratio increased by 4.8% points reaching 22.4% at the end of 2020. Although budget deficit is expected to improve in 2021, public debt to GDP ratio is expected to remain on growing trend at 23.2% by the end of 2021.

MACRO INDICATORS	2018	2019	2020	2021E	CHANGE 2019-20 (% OR % POINT)	
Nominal GDP (mEUR)	6,672	7,056	6,772	7,368	-4.0%	●
Nominal GDP/capita (EUR)	3,715	3,959	3,772	4,134	-4.7%	●
GDP (% real change pa)	3.4%	4.8%	-5.3%	7.1%	-10.1%	●
Consumer prices (% change pa)	1.1%	2.7%	0.2%	3.5%	-2.5%	●
Recorded unemployment (%)	29.5%	25.7%	25.9%	n/a	0.2%	●
Budget balance (% of GDP)	-1.2%	-1.3%	-7.3%	-4.6%	-6.0%	●
Public debt (% of GDP)	17.0%	17.6%	22.4%	23.2%	4.8%	●

Source: EIU, Kosova Ministry of Finance, Kosova Agency of Statistics, IMF

BANKING TRENDS

- Kosova's banking sector's consolidated capital adequacy ratio increased to 16.5% in 2020; primarily due to the accelerated increase of capital in the banking system of Kosova in recent years, while the increase of risk weighted assets of the banks in 2020 was four times slower than the previous years.
- Total assets of the Kosovan banking sector rose by 12.4% to EUR 5.4 bn in 2020. Although, non-performing loans increased in both segments due to the pandemic situation, the Kosovan banking sector's asset quality is among the best in the region in relative terms.
- The profitability of the banking sector of Kosova has been decreasing for three years, but it remained relatively high with a 14% ROE ratio. The decrease of profitability is due to the increase of lower generated profits, which is a consequence of higher growth in expenses compared to revenues. Kosova has still the highest LLP coverage ratio among the examined countries.

COVID-19 IMPACT

- National Bank of Kosova placed moratoria on loan instalment payments for clients who have financial difficulties due to the global uncertainty.
- Temporary ban was also issued by CBK on the pay out of dividends in order to maintain solvency of the banking system for further provisioning and possible credit losses.
- Government of Kosova issued a fiscal stimulus package in order to cope with the economic consequences of the global pandemic in 2020.

BANKING SECTOR	2018	2019	2020	CHANGE 2019-20 (% OR % POINT)
Total assets (EUR mn)	4,186	4,761	5,353	12.4%
Asset penetration (%)[1]	62.7%	67.5%	79.1%	17.2%
Total equity (EUR mn)	498	520	611	17.5%
Total loans (EUR mn)	2,756	3,030	3,235	6.8%
Loan penetration (%)[2]	41.3%	42.9%	47.8%	11.2%
Retail loans (EUR mn)	1,001	1,105	1,180	6.8%
Corporate loans (EUR mn)	1,754	1,925	2,055	6.7%
Interest rates				
Lending (%)	6.7%	6.5%	6.2%	-0.3%
Deposit (%)	1.3%	1.5%	1.5%	0.0%
NPL volumes				
Retail NPLs (EUR mn)	12	12	17	35.9%
Corporate NPLs (EUR mn)	62	48	71	46.2%
NPL ratios				
Retail NPL ratio (%)	1.2%	1.1%	1.4%	0.3%
Corporate NPL ratio (%)	3.6%	2.5%	3.3%	0.8%
Key ratios				
CAR (%)	17.0%	15.9%	16.5%	0.6%
ROE (%)	18.3%	17.2%	14.0%	-3.2%
ROA (%)	2.3%	2.1%	1.6%	-0.5%
CIR (%)	65.1%	67.2%	58.2%	-9.0%
L/D (%)	81.9%	77.6%	74.5%	-3.1%
FX share of lending (%)	0.1%	0.1%	0.0%	-0.1%
LLP coverage (%)	152.1%	163.5%	141.4%	-22.1%

Source: Central Bank of Kosova | 1. Asset penetration = Total assets/Nominal GDP | 2. Loan penetration = Total loans/Nominal GDP

BANKING MARKET

- 10 locally-licenced banks were operating in the Kosovan market at the end of 2020. In 2020 the Executive Board of Central Bank of Kosova approved to Credins Bank Kosova the licence as a bank in the Republic of Kosova.
- The Kosovan banking market is a moderately concentrated with a 13.9% HHI. The five largest domestic banks owned 79% of the total assets in 2020.
- The Kosovan financial sector is highly dominated by international banking groups. The largest ones are Raiffeisen, ProCredit Group, Nova Ljubljanska Banka and PNB Paribas. This foreign exposure gives the banking sector a quite stable outlook and financial know-how from abroad.

LIST OF BANKS IN KOSOVA IN 2020 (EUR MN OR %)

RANK 2020	RANK 2019	YOY	INSTITUTIONS	TOTAL ASSETS	MARKET SHARE	EQUITY	NET INCOME	ROA	ROE	MAJOR SHAREHOLDER
1.	1.	●	Raiffeisen Bank Kosovo	1,116	20.8%	144	17	1.5%	11.6%	Raiffeisen
2.	2.	●	ProCredit Bank	900	16.8%	111	13	1.5%	11.9%	ProCredit
3.	3.	●	NLB Bank	879	16.4%	98	13	1.5%	13.6%	Nova Ljubljanska Banka
4.	5.	▲	Banka Kombëtare Tregtare	672	12.5%	86	13	2.0%	15.6%	Private Individuals
5.	4.	▼	TEB Bank	662	12.4%	74	11	1.6%	14.3%	Bkt
6.	6.	●	Banka Ekonomike	368	6.9%	33	4	1.0%	11.1%	Private Individuals
7.	7.	●	Bank for Business/Banka për Biznes	335	6.3%	36	5	1.3%	12.6%	Private Individuals
8.	8.	●	Turkiye IS Bankasi	103	1.9%	12	2	1.5%	12.5%	Türkiye IS Bankasi
9.	9.	●	Ziraat Bank	76	1.4%	9	1	1.3%	11.3%	Ziraat Bank
10.	10.	●	Credins	12	0.2%	8	(0)	-2.6%	-4.0%	Banka Credins SH.A
			Total	5,353	100%	611	86	1.6%	14.0%	

Source: Banks' data disclosure, EMIS, Central Bank of Kosova, Annual Reports

M&A ACTIVITY

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

LIST OF ABBREVIATIONS

AAB – Albanian Association of Banks
Avg – Average
Bn – Billion
BNB – Bulgarian National Bank
BoA – Bank of Albania
BSI – Bank of Slovenia
BQK – National Bank of Kosovo
Bps – Basis points
C. – Circa
CAR – Capital Adequacy Ratio
CBBH – Central Bank of Bosnia and Herzegovina
CEE – Central and Eastern Europe
CIR – Cost-to-income ratio
CNB – Czech National Bank
COVID19 - Coronavirus disease
CRO – Chief Risk Officer
DPD – Days Past Due
EBRD – European Bank for Reconstruction and Development
ECB – European Central Bank
ECB CBD – European Central Bank Consolidated banking data
e.g. – For example
EIU – Economist Intelligence Unit
EU – European Union
EUR – Euro
FGS – Funding for Growth Scheme
FX – Foreign exchange
GDP – Gross Domestic Product
H1– First half of the year
HHI – Herfindahl–Hirschman-index
HNB – Croatian National Bank
ICU – Investment Capital Ukraine
IFRS9 – International Financial Reporting Standards 9
IMF – International Monetary Fund
IPO –Initital Public Offering
LLP – Loan Loss Provision
Ltd – Limited Liability Company
LTV – Loan-to-value
L/D ratio (L/D) - Loan-to-deposit ratio
Mn – Million
M&A – Mergers and Acquisitions
NBR – National Bank of Romania
NBH – National Bank of Hungary
NBP – National Bank of Poland
NBS – National Bank of Slovakia/National Bank of Serbia
NBU – National Bank of Ukraine
NPL – Non-performing loan
NR. – Number
P/BV – Price to Book Value
Q1 – First quarter of the year
Q2 – Second quarter of the year
Q3 – Third quarter of the year
Q4 – Fourth quarter of the year
ROA – Return on Assets
ROE – Return on Equity
SME – Small and medium-sized enterprises
Ths – Thousand
USD – United States Dollars
YoY – Year-on-Year

Disclaimer

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

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

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EXPLORE ALL THE DATA BEHIND THE STUDY IN TABLEAU