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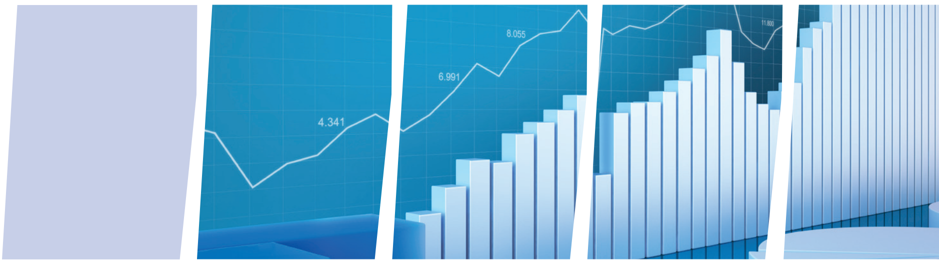

CESEE Bank Lending Survey

H1-2015

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The mission of the EIB's Economics Department is to provide economic analyses and studies to support the Bank in its operations and in its positioning, strategy and policy. The Department, a team of 30 economists and assistants, is headed by Debora Revoltella, Director of Economics.

CESEE Bank Lending Survey – H1 2015

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This survey was developed in the context of the Vienna Initiative. The results were discussed and approved by the Vienna Initiative Steering Committee and initially presented at an aggregate level in the Vienna Initiative Deleveraging and Credit Monitoring Report. The EIB designed, conducted and administered the survey.
The EIB wishes to thank the banks for their contribution and participation in the survey. Last but not least, it wishes to thank all Vienna Initiative members and Steering Committee members for their comments and support in developing the survey.

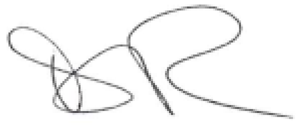
Table of Contents

FOREWORD

The last fifteen years have witnessed many significant developments in the banking sector in Central Europe and South Eastern Europe (CESEE). From the late 1990s until 2008, the CESEE banking sector experienced an accelerated pattern of growth. A large number of international banks invested in the region and contributed to an inflow of capital and new banking practices. Lending growth was extraordinarily high, helping to close the region's financial penetration gap. On the flipside, it led to a build-up of imbalances and risks. The global financial crisis and EU sovereign debt crisis put a halt to the credit boom. Despite increased scarcity of capital and funding, the international banks' active in CESEE have remained committed to their CESEE growth strategy.

The Vienna Initiative was crucial at the peak of the crisis. International banks formally undertook to provide capital and funding where needed to their subsidiaries, thus averting the risk of a disordered deleveraging. As the first acute phase of the crisis has faded, the CESEE banking sector continues to reshape. While there is still evidence of a financial penetration gap, a new banking model is emerging, with international banks calling for greater independence for their subsidiaries and a more balanced funding model, based on domestic resources. At the same time the recovery in lending has been slow, reflecting a mixture of demand and supply factors. Moreover, the international banks operating in the region have started to be more selective with regard to their CESEE strategies, clearly discriminating between countries and committing only to those markets that clearly offer long-term opportunities. Some of the international players have been subject to substantial restructuring at group level, with associated requests to reassess their own international position.

The Vienna Initiative (now known as "VI 2.0") has – via the Deleveraging and Credit Monitor – been monitoring the international banks' deleveraging process and related constraints on lending activity since the second quarter of 2012. In this context the EIB developed the CESEE Bank Lending Survey, which has been conducted on a semi-annual basis since October 2012 and investigates the strategies of international banks operating in CESEE as well as market conditions and market expectations, as perceived by the local subsidiaries/local banks. The survey seeks to disentangle the effects of demand and supply factors on credit developments, as well as the impact of national and international factors on demand and supply conditions. Results are key, to properly define policy actions. The latest administration of the survey was finalised in April 2015.



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Survey Description

Key statistics

- Developed in the context of the Vienna Initiative (VI) 2.0 as an additional instrument to monitor:
    - cross-border banks' deleveraging in CESEE
    - the determinants/constraints influencing credit growth in CESEE
    - market expectations of future developments.
- Target groups: international banks active in CESEE interviewed at group level and local banks/local subsidiaries of these groups interviewed at single-entity level:
    - 15 international groups
    - 90 local banks/subsidiaries.
- Average coverage: 50% of regional banking assets.
- Countries covered: Albania, Bosnia-Herzegovina, Bulgaria, Croatia, the Czech Republic, Estonia, Hungary, Macedonia, Poland, Romania, Serbia, Slovakia, Slovenia and Ukraine[1].
- Periodicity: semi-annual (Sep/Oct and Mar/Apr). The first survey was conducted in October 2012.

The CESEE Bank Lending Survey – technical note

The CESEE Bank Lending Survey was developed in the context of the Vienna Initiative 2.0 and has been endorsed by the various institutions participating in VI 2.0 as an instrument to:

- contribute to the monitoring of cross-border banking activities and deleveraging in CESEE;
- better understand the determinants/constraints influencing credit growth in CESEE;
- to gain some forward-looking insights into cross-border banks' strategies and market expectations regarding local financial conditions.

Taking into account the unique nature of the regional banking sector, with a large proportion of banks being foreign-owned, the survey investigates both the strategies of international banks active in CESEE and the market conditions and market expectations as perceived by the local subsidiaries/local banks. To that end, the survey covers the major international banks operating in CESEE and their subsidiaries in the region. At the same time, to gain a full understanding of local market conditions, an effort has been made to also include in the survey the relevant domestic players in a specific local market.

Given these features, the survey is a unique instrument for monitoring banking

[1] Details for Estonia, Macedonia, Slovenia and Ukraine are not presented on a stand-alone basis, due to the relatively low coverage in terms of market share and/or number of banks.

sector trends and challenges in CESEE. It complements domestic bank lending surveys by adding the value of comparability across countries and the unique feature of specifically addressing the parent/subsidiary nexus. It also complements information derived from BIS data concerning cross-border banks' exposure.

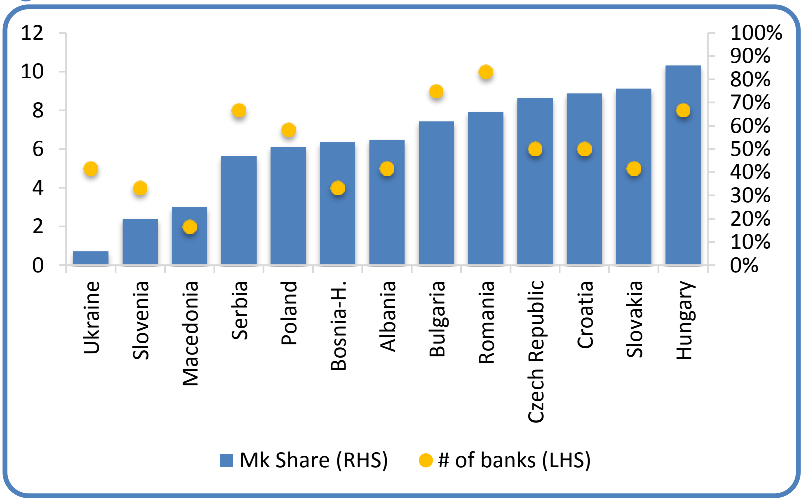
The survey is administered by the European Investment Bank, under a confidentiality agreement with the individual participating banks. It is addressed to senior officials of the banks involved and is conducted on a semi-annual basis in February/March and September. The first survey was carried out in September/October 2012. Most of the questions have a backward and a forward-looking component, covering the six months before and expectations over the following six months.

In terms of coverage, the latest survey involved 15 international groups operating in CESEE and 90 local subsidiaries/independent domestic players. It is highly representative of international groups active in CESEE and also of local market conditions, as it relates on average to 50% of local banking assets.

The countries currently included in the survey are: Albania, Bosnia-Herzegovina, Bulgaria, Croatia, the Czech Republic, Estonia, Hungary, Macedonia, Poland, Romania, Serbia, Slovakia, Slovenia and Ukraine. The coverage varies by country – Figure 1 presents the percentage of assets covered in each country and number of banks included.

The detailed survey questionnaire is contained in the annex. The survey is divided into two sections, the first addressed to international groups, the second to domestic banks/subsidiaries of international groups.

Figure 1: Market share and number of banks



Source: EIB – CESEE Bank Lending Survey.

The first section investigates international banks' strategies, restructuring plans, access to funding and deleveraging at the global and group level. It includes questions on the long-term strategic approaches adopted for CESEE, the level of profitability of CESEE operations and the groups' exposure to the CESEE region.

The second part of the survey is addressed to domestic/subsidiary banks operating in the CESEE region and investigates the main determinants of local banking conditions. Among the supply conditions, attention is given to credit standards and credit terms and conditions, as well as to the various factors that may be responsible for changes to them. Credit standards are the internal guidelines or criteria that guide a bank's loan policy. The terms and conditions of a loan refer to the specific obligations included in a loan contract, such as the interest rate, collateral requirements and maturity. The survey includes a set of questions assessing the underlying factors affecting the bank’s credit standards. Factors are clustered into domestic and international components. Examples of local factors are the local market outlook, local bank outlook and local bank access to funding, changes in local regulation, local bank capital constraints and local bank NPLs (non-performing loans). Among the international factors, the survey includes the group outlook and global market outlook but also EU regulation, group capital constraints and group NPLs.

Demand for loans is also investigated in terms of loan applications. Among the elements that may affect loan demand, various factors relating to financing needs in both the household and enterprise sectors are examined. For the enterprise sector, the survey includes fixed investment, inventories and working capital, corporate restructuring and debt restructuring. For the household sector, the survey considers the effects of housing market prospects, consumer confidence and non-housing-related consumption expenditure.

Most of the questions concerning demand and supply are classified according to two borrower sectors: households and enterprises. Further breakdowns are also considered. For example, the survey investigates developments in the SME and large corporate segments as well as different types of credit lines and loans in the household sector (e.g. consumer credit and loans for house purchases). In addition, maturity and currency dimensions are also explored.

The survey includes specific questions on credit quality and the funding conditions for banks in CESEE. Specifically it includes questions on NPL ratio developments, providing a breakdown between the retail and corporate subsectors. The survey investigates aggregate access to funding as well as funding conditions for an extensive list of funding sources. These include intra-group funding, retail and corporate funding, funding from international financial institutions (IFIs) and wholesale funding.

Most of the responses are illustrated in the following chapters of this report as net percentages, i.e. the percentage of positives minus negatives (excluding the neutral responses). For example, the percentage difference between responses reporting an increase in demand for loans and responses reporting a decrease – irrespective of the size of the increase or decrease. This is an oft-cited indicator, which has a barometer function. It helps to detect potential drifts and tendencies in the panel of respondents. Answers are not weighted by the size of the participating banks.

Regional Overview

1. Summary – *Both demand and supply conditions for credit have improved over the last six months; international banks continue differentiate and reassess their strategies across CESEE countries*

International groups' views:

- **Global strategies:** Cross-border banking groups continued to restructure at the group level, raising capital primarily from sales of assets and with no resort to capital provision from the state. Deleveraging at the group level continues; however, it is expected to decelerate compared to the past two years; access to funding continues to become easier.

- **Commitment to CESEE**: Cross-border banks continue to discriminate in their country-by-country strategies within the CESEE region, while operations remain profitable and relevant to the groups' global strategies. An increasing number of groups (roughly 55 percent) expect to expand operations, while around 30 percent may reduce operations in the region. Roughly 50 percent of the groups signal that they have been reducing their total exposure to the region (primarily by reducing intra-group funding), while only little less than 30 percent expect to continue to do so. The profitability of CESEE operations is gradually climbing back. Banks are continuing to reassess the potential of some of the region's markets in light of differing profitability and market-positioning stances.

Subsidiaries' / local banks' views:

- Banks report a mild **increase in credit demand** and an **easing of supply conditions**. Both supply and demand are expected to improve in the next six months.
- Aggregate **credit supply** conditions eased almost across the board for the first time over the past six months and are expected gradually to ease further. NPLs and regulation, at both the national and international level, remain the most cited factors constraining credit supply.
- **Demand for loans** improved marginally across the board, marking the fourth consecutive semester of improvement. This demand was not only for debt restructuring and working capital, but demand for investments also began to improve mildly.
- **Access to funding:** Funding conditions are fairly favourable, with all sources of funding being positive. Local bank funding continues to play a predominant role, substituting for decreased intra-group funding.
- Aggregate **NPL figures** did not deteriorate further, signalling that a turning point may now have been reached, while NPL levels remain a key concern for the region's banks. Corporate and retail NPL ratios for the region as a whole are expected to decrease gradually.

2. Results of the Bank Lending Survey:

2.1 Parent banks

1. **Deleveraging at the group is still ongoing, however it is expected to decelerate more than in the past two years; restructuring continues at the same pace and has been mainly affected by the sale of assets; access to funding remains largely on an easing trend.** Cross-border banking groups continue to be engaged in various forms of restructuring to increase their group capital ratios, and they expect this process to continue (Figure 1). Capital was raised primarily through the sales of assets and partially by sales of branches, and there was no resort to capital provision from the state. This pattern changed only slightly compared to two years ago (H1:2013), at which time some capital contribution from the state was also envisaged. A smaller, but still significant, set of banking groups continued to raise capital on the market, as reported in the previous releases of the survey. Looking at the next six months, contributions to balance sheet strengthening are again expected to come mainly from sales of assets, but an increase in sales of branches should make a contribution. Capital market activities are expected to play a still positive but more limited role, while no government injections of capital are foreseen. Deleveraging at the group

Figure 1: Strategic operations to increase capital ratio – see question A.Q1 – questionnaire in the Annex

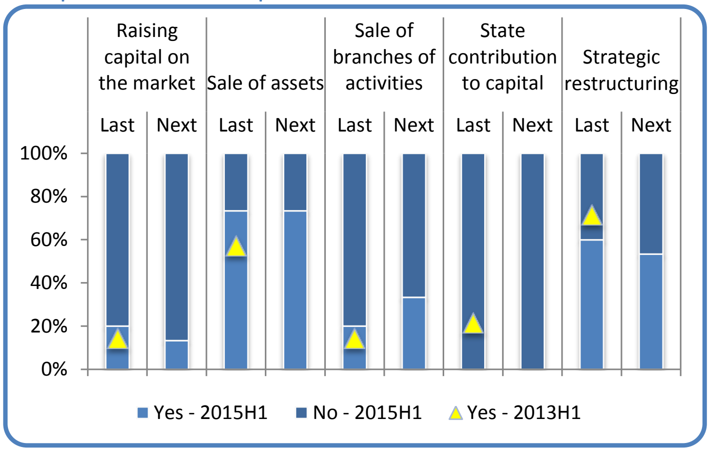
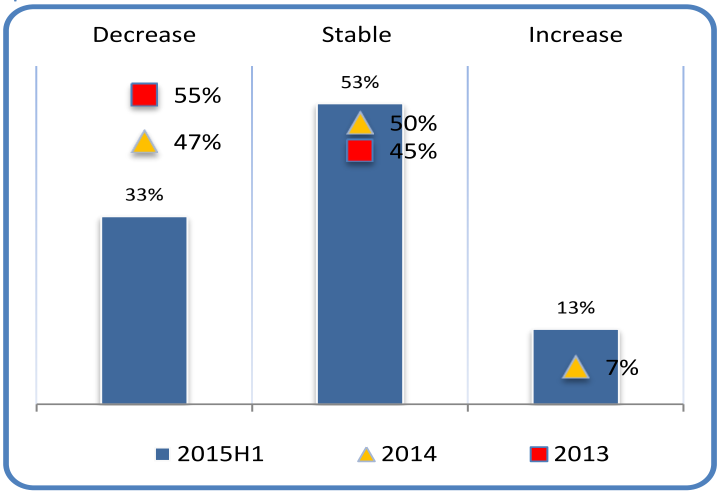


Figure 2: Deleveraging: loan-to-deposit ratio (expectations over the next 6 months) – see question A.Q3 – questionnaire in the Annex

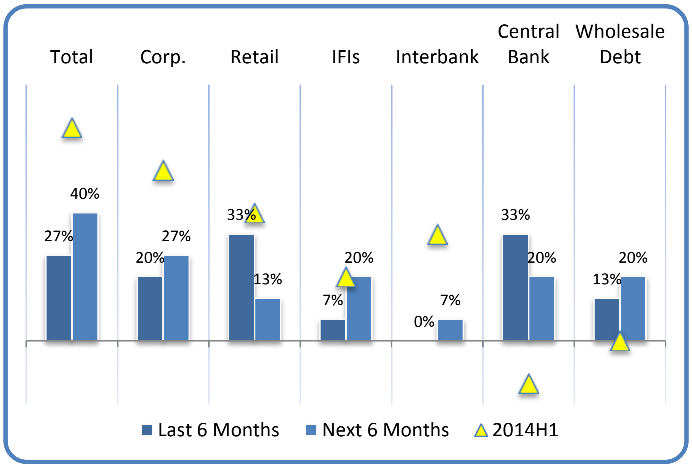


Source: EIB – CESEE Bank Lending Survey.

level (Figure 2) is continuing. However only a third of the groups now expect a decrease in their group-level loan-to-deposit (LTD) ratios, well below the average survey outcomes recorded in 2013 and 2014. These results show a generally improving picture, whereby an increasing number of groups report a stable or even increasing LTD ratio.

2. **Group-level funding conditions continued to improve** (Figure 3), **although the extent of the improvement was smaller than a year ago.** This mainly reflects a relatively smaller improvement in corporate and retail funding. On the other hand, wholesale debt funding has been increasing compared to a year ago; the size of this segment, however, remains relatively small. The interbank market did not constitute an additional positive source of funding over the past six months and is not expected to contribute much to overall funding conditions. Banks increased their recourse to central bank financing rather substantially compared to a year ago. This is most probably due to the phasing in of ECB extraordinary monetary easing measures, encompassing long-term liquidity operations as well as comprehensive purchases of assets. Looking at the next six months, funding conditions are expected to remain fairly relaxed. Access to funding is expected to pick up further, as more funding is projected, primarily from corporates, IFIs and wholesale debt. In addition, central bank funding is expected to continue to play its recent positive role.

Figure 3: Access to funding conditions – *net percentages; positive values indicate increased access to funding* – see question A.Q2 – questionnaire in the Annex

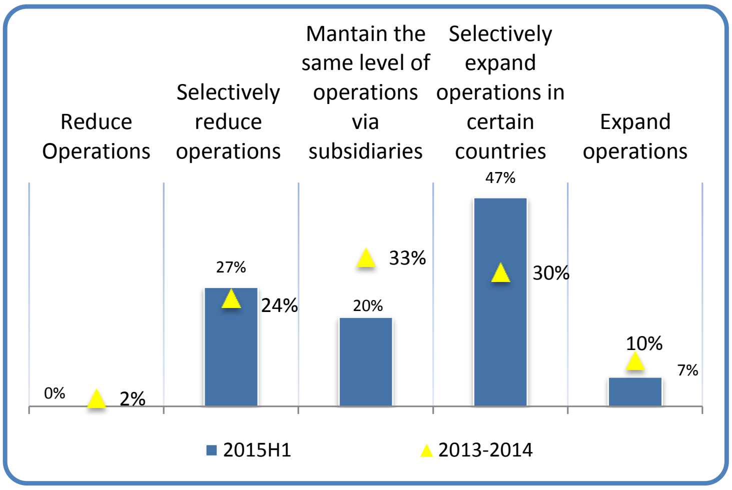


Source: EIB – CESEE Bank Lending Survey.

3. **Cross-border banks are reassessing their country strategies and continue to discriminate among their countries of operation in CESEE; at the same time an increasing number of banking groups are signalling their intention to expand operations selectively over the next year (Figure 4).** Operations in the CESEE region remain profitable and thus an important part of the global strategies of a large majority of the international groups operating there.

Moreover, an increasing number of groups report profitability for CESEE operations as higher than overall group performance. Specifically, more than 80 percent of groups expect profitability in CESEE (measured by return on assets) to outperform the profitability of the group as a whole. This is a relatively new trend, which emerged over the past six months. While cross-border banking groups continue to discriminate in terms of the countries in which they operate (Figure 4) as they reassess their country-by-country strategies, they are also increasingly signalling their intentions to expand operations selectively in the region. Roughly 55 percent of the groups expected to expand their operations (or expand them selectively), up from an average of 40 percent for 2013-2014, while 27 percent indicate they may selectively reduce operations over the next twelve months. In addition, market potential and positioning continue to differ significantly across countries (Annex A.5 and A.6). The assessment of market prospects is consistent with the results reported in the September 2014 survey release. Surveyed banks see the market potential (Annex A.9 for data on low market potential) as being low or having deteriorated in Albania, FYR Macedonia, Hungary and Ukraine. In the other countries of the region, relatively few banks see poor prospects, while most see reasonable market potential. In terms of market positioning, most banks in the majority of markets remain comfortable with the scale of their operations. However, weak positioning is frequently seen as combined with limited market potential. Surveyed banks find their positions in Hungary in the weak or niche category (Annex A.10 for data on weak positioning), and this is also the case in Slovenia, FYR Macedonia, Romania and Serbia, while in Ukraine this is now true for above 80 percent of surveyed banks. This assessment is also generally reflected in the assessed profitability of markets in terms of ROA (adjusted for cost of risk) and ROE (adjusted for cost of equity) where prospects are seen to be quite differentiated from one country to another (Annex A.7 and A.8). Low profitability is associated with operations in Albania, Slovenia, Croatia and Ukraine. Also Serbia, Romania and FYR Macedonia are described as relatively poorly performing markets.

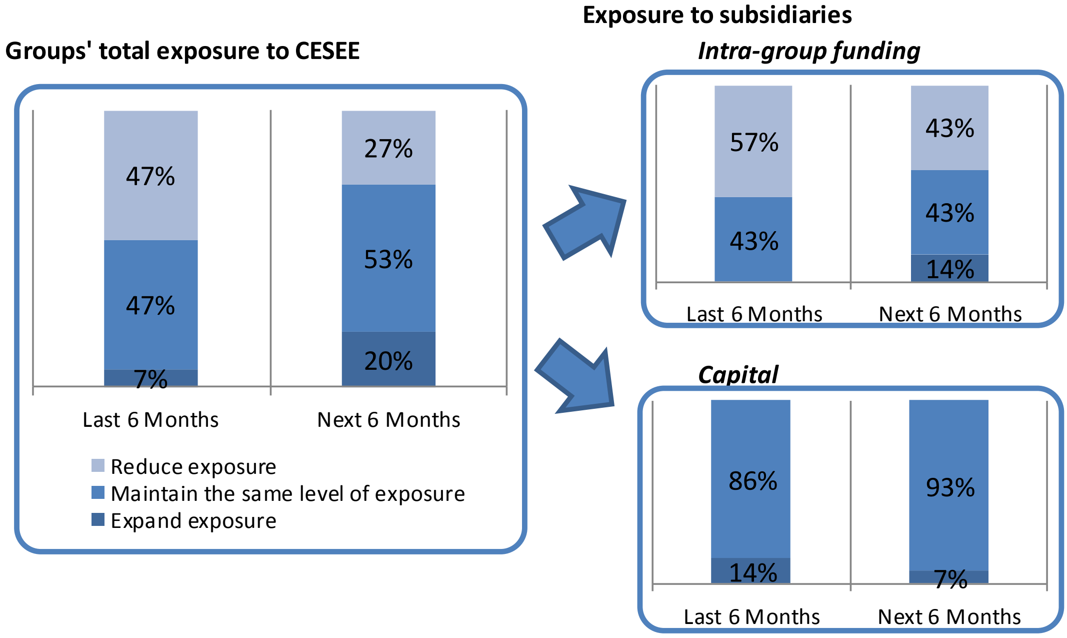
Figure 4: Group-level long-term strategies (beyond 12 months) in CESEE – see question A.Q4 – questionnaire in the Annex



Source: EIB – CESEE Bank Lending Survey.

4. **As already highlighted in the previous release of the survey, slightly less than half the groups continued to reduce their total exposure to the region. On the contrary, groups expect substantial stabilisation of exposure and even an increase over the next six months.** Almost all the decrease in exposure to the CESEE region arose from reduced intra-group funding to subsidiaries. This process is expected to continue over the next six months, although at a slower pace (Figure 5). For the first time in two years, a few groups expect to increase intra-group funding of their CESEE subsidiaries. This is a tentative signal of stabilisation. The past (and current) negative trend in intra-group funding may have been influenced by the relatively weak local aggregate demand, although other factors, including regulations affecting parent companies, may have also played a part. On the other hand, all parent banks report that they maintained their capital exposure to their subsidiaries, or even increased it. Moreover, they expect to continue to do so. On balance, increasing capital exposures have partially compensated for decreased intra-group funding. In addition, the survey detected that the expansionary monetary policy operations announced by the ECB (TLTROs and asset purchase programmes) may continue to have a positive impact on groups' exposures to the CESEE region over the next six months. The positive impact is expected to be primarily on cross-border lending to clients located in CESEE and booked on the balance sheet of the parent company; intra-group funding exposure and capital exposure levels are expected to remain broadly unaffected.

Figure 5: Groups' total exposure to CESEE – Cross-border operations involving CESEE countries – see questions A.Q7 – questionnaire in the Annex

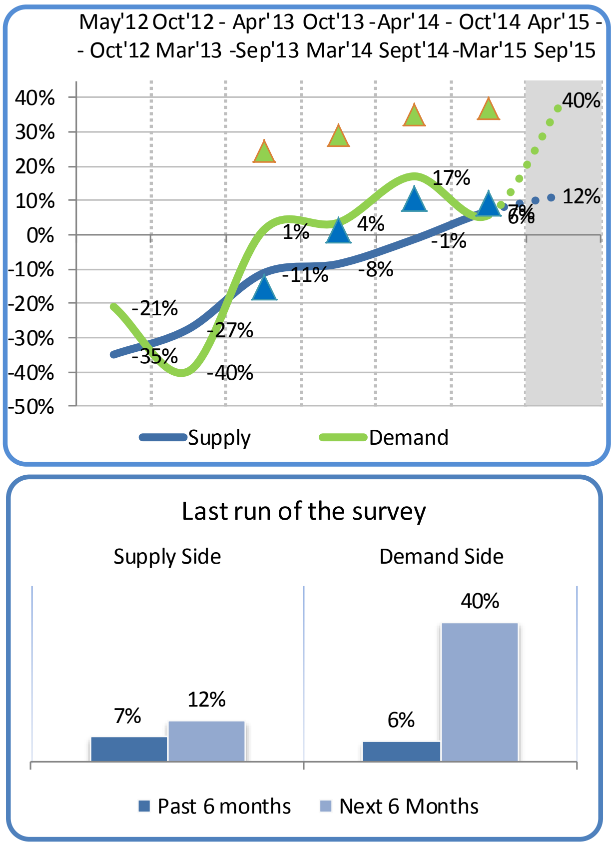


Source: EIB – CESEE Bank Lending Survey.

2.2 Local banks/subsidiaries

1. **CESEE subsidiaries and local banks report a small increase in demand for credit and some easing in supply conditions over the past six months. Both demand and supply are expected to continue to improve during the next six months.** In the last six months, **demand** for loans and credit lines has improved slightly (Figure 6); however the improvement was well below expectations. This marks the fourth consecutive semester with a mildly positive increase in credit demand. For the first time all factors influencing demand have contributed positively. Debt restructuring and working capital requirements (see Annex A.1) accounted for most of the demand stemming from enterprises. For the first time since the survey was launched in 2012, the contribution to demand conditions from investments also started to pick up marginally. Contributions to demand from housing-related and non-housing-related consumption also turned positive. Looking ahead, demand is expected to continue to increase. However, it should be noted that expectations have been consistently overoptimistic in the recent past (see green triangles in Figure 6). Therefore the expected improvement may be exaggerated, particularly taking into account the lacklustre macroeconomic outlook. **Supply** conditions started to ease over the past six months, in contrast to the tightening pattern still clearly observed a year ago. Across the client spectrum, supply conditions (credit standards) continued to ease for consumer credit (see Annex A.3), as already highlighted in the March and September 2014 releases of the survey.

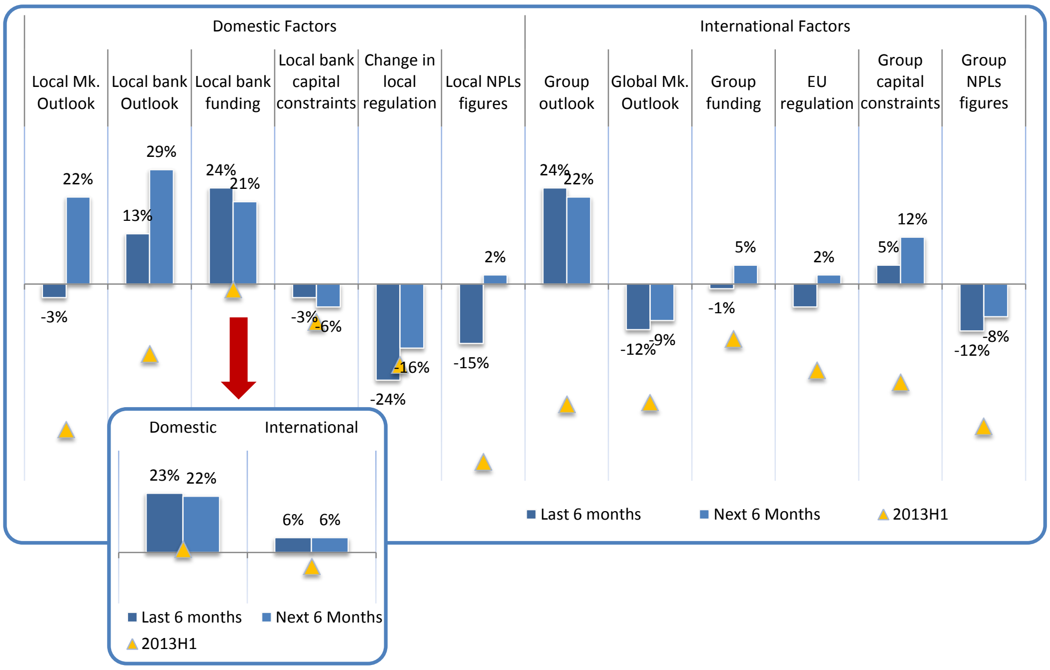
Figure 6: Total supply and demand, past and expected development – *net percentages;* positive figures refer to increasing (easing) demand (supply) (triangles refer to expectations derived from previous runs of the survey, lines report actual values and dotted lines expectations in the last run of the survey) – see questions B.Q1 and B.Q5 – questionnaire in the Annex



Source: EIB – CESEE Bank Lending Survey.

For the first time, supply conditions for SMEs and large corporates started to ease. In the period ahead, banks expect a pick-up in credit **demand** and a further gradual easing of **supply** conditions. Debt restructuring, working capital, consumer confidence, housing and non-housing-related expenditures are all expected to make a positive contribution to demand. Credit demand from enterprises (including SMEs) is also expected to be robust (see Annex A.2). Aggregate supply conditions are expected to ease. Roughly a year ago, a tentative easing was coming from short-term maturities and consumer credit only. This time, an easing of supply conditions seems to be broader-based, except for loans for house purchases (see Annex A.3). General terms and conditions for loan supply to the corporate market segment started to ease over the past six months, as expected in last year's release of the survey; however, collateral requirements tightened still further. A cumulated index, built on the demand and supply changes reported in Figure 6, hints at a gap between demand and supply situations, where growing optimism on the demand side was frustrated by a slow improvement of conditions on the supply side

Figure 7. Factors contributing to supply conditions (credit standards) – (*net percentage*; positive figures refer to a positive contribution to supply) – see question B.Q4 – questionnaire in the Annex

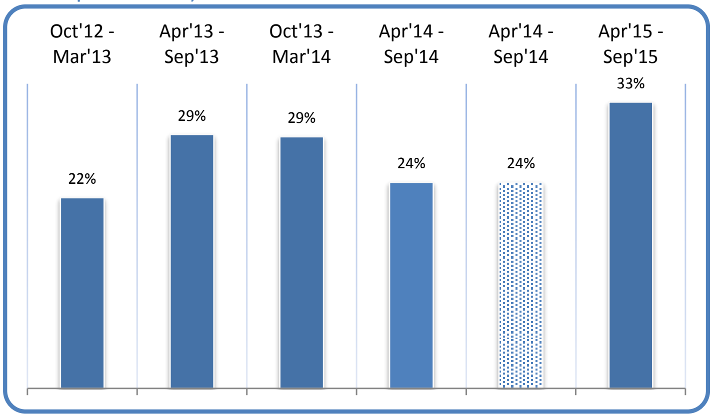


Source: EIB – CESEE Bank Lending Survey.

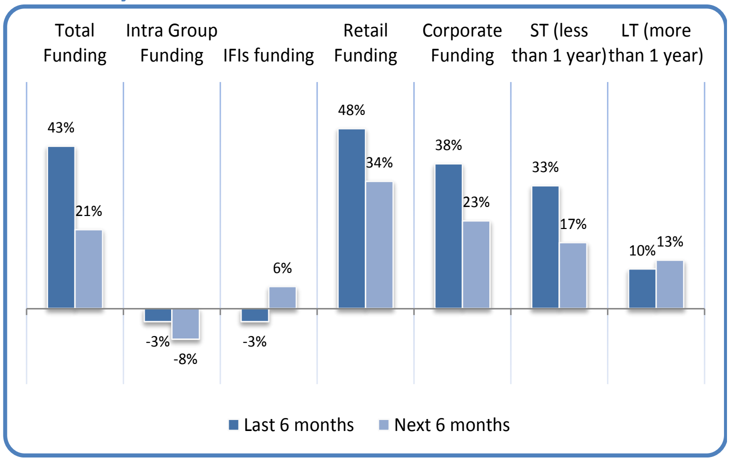
2. **NPLs and the regulatory environment, at both the domestic and group levels, are the main factors still adversely affecting supply conditions.** Few international and domestic factors are still actively limiting supply developments (Figure 7). The number of limiting factors has been decreasing over time since this survey started. Figure 7 shows that almost all domestic and international factors were adversely affecting supply conditions in the first half of 2013. However, the last release shows that only NPLs and the regulatory environment remained constraining elements. As in the previous surveys, access to domestic funding does not appear to be a constraint, while international funding continued to ease. A smaller set of international factors is now playing a constraining role compared to the September 2014 survey. EU regulation and group-wide NPL levels are mentioned as having a negative effect on credit conditions, as well as the global market outlook. The latter deteriorated compared to the September release, probably in relation to increased geopolitical and economic tensions in the neighbouring region. At the domestic level, changes in local regulation and NPLs at the subsidiary level are the main constraining factors. Local bank capital constraints are still a mild limiting factor. On the other hand, local market and bank outlook, as well as funding, now make a positive contribution.

Figure 8. Access to funding by CESEE subsidiaries – (*net percentage*; positive figures refer to an easing of access to funding) – see question B.Q9 – questionnaire in the Annex

A. Trend in total funding conditions - (shaded bar - expectations)



B. Breakdown of funding conditions – results from latest survey

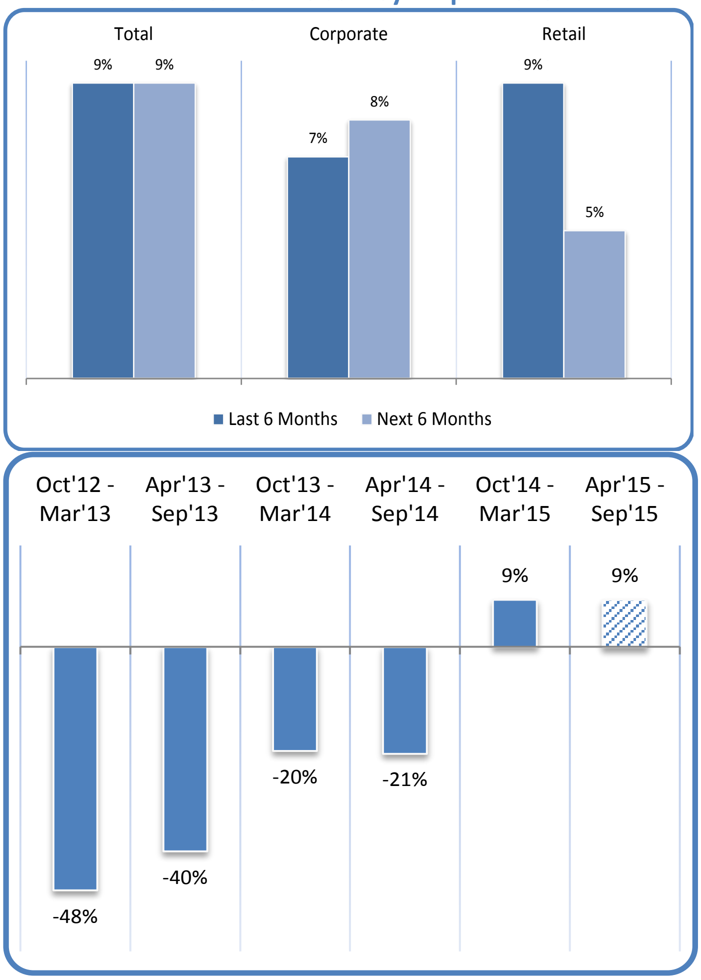


Source: EIB – CESEE Bank Lending Survey.

3. **CESEE funding conditions continued to be rather favourable, with several sources showing positive access to funding.** Easy access to retail and corporate deposits supports a positive outlook (Figure 8). In addition, CESEE subsidiaries report easier access to short-term funding as making a positive contribution to overall funding activities. Longer-term funding conditions also continued to improve, although at a slower pace. This may contribute to a reduction of maturity mismatches and help boost banks' long-term funding ratios. Subsidiaries indicate that access to international and intra-group funding remained limited during the past six months, thus confirming the continuous downward trend and also reaffirming banks' expectations as reported in the September 2014 survey release. This is consistent with the information provided by the parent banks, where a majority of groups also indicated that they were reducing their lending exposure to the region (see Figure 5) primarily via lower intra-group funding.

Figure 9: Non-performing loan ratios – (*net percentage*; negative figures indicate increasing NPL ratios) – see question B.Q8 – questionnaire in the Annex

Last run of the survey – April 2015



Source: EIB – CESEE Bank Lending Survey.

4. **Credit quality has started to improve, and is expected to continue to improve slightly over the next six months.** The speed of deterioration in NPLs ratios has been slowing down over time, as already pointed out in the September 2014 survey release. Over the past six months, and for the first time, aggregate regional NPL ratios recorded an improvement (Figure 9). In absolute terms, the share of subsidiaries indicating an increase in their NPL ratios over the past six months fell to 30 percent (down from the 50 percent

indicated in the September 2014 survey release). All in all, the share of subsidiaries indicating either a stabilisation or decline in their NPL ratios increased. It currently stands at 70 percent and is expected to increase to 80 percent, while around 20 percent of banks continue to expect an increase in NPLs over the next six months (down from 30 percent in the September 2014 survey release). NPL ratios for both corporate and retail segments are expected to decrease, providing more positive signals than in September 2014.

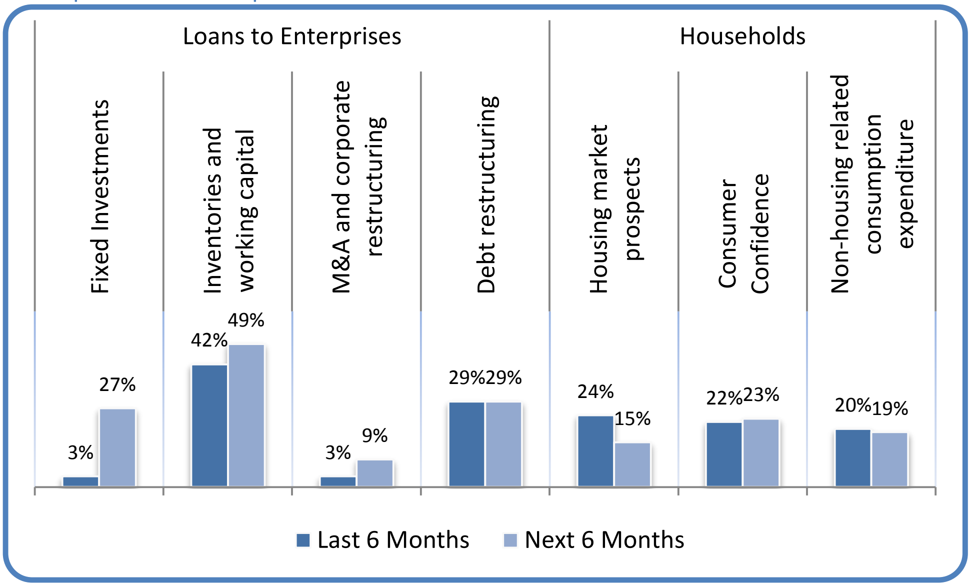
5. **Overall the survey shows an improved regional environment for lending, but continues to highlights risks.** Aggregate credit demand conditions turned positive across the board. However the pick-up seems to be rather limited and weak. Supply conditions eased over the past six months; however collateral requirements are still rather tight. NPLs levels remain a drag on the supply of credit, while NPL ratios started to decrease and are expected to continue to do so over the next six months. Initiatives to tackle the stock of NPLs therefore remain a high priority on the policy agenda. The resolution of NPLs is key to engineering the resumption of a healthy flow of credit to the economy to support the soft recovery on the demand side of the market.

Annex

a. Supporting charts

A.1 Factors affecting demand for credit

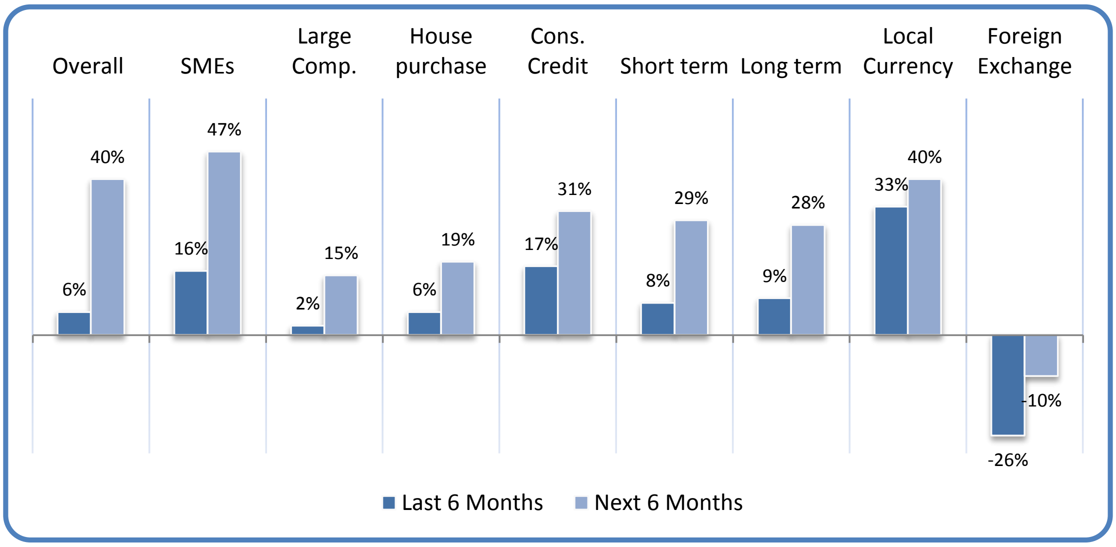
(net percentages; positive values indicate a positive contribution to demand conditions) – see question B.Q7 – questionnaire in the Annex



Source: EIB – CESEE Bank Lending Survey.

A.2 Demand for loans or credit lines – client breakdown

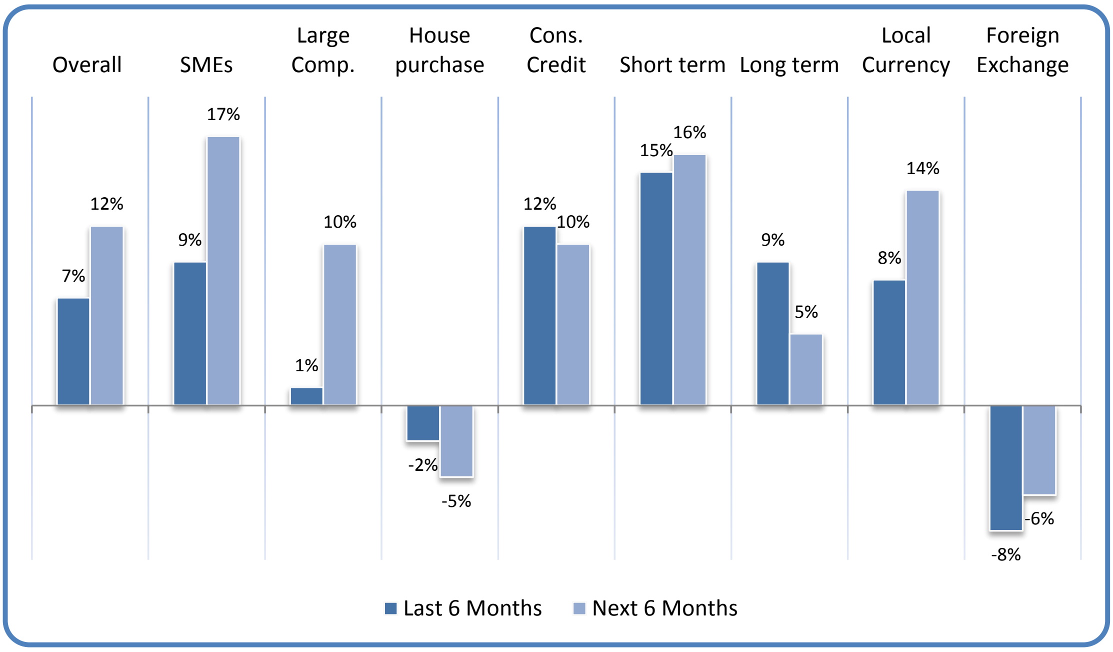
(net percentages; positive values indicate increasing demand) – see question B.Q5 – questionnaire in the Annex



Source: EIB – CESEE Bank Lending Survey.

A.3 Credit supply (credit standards) – client breakdown

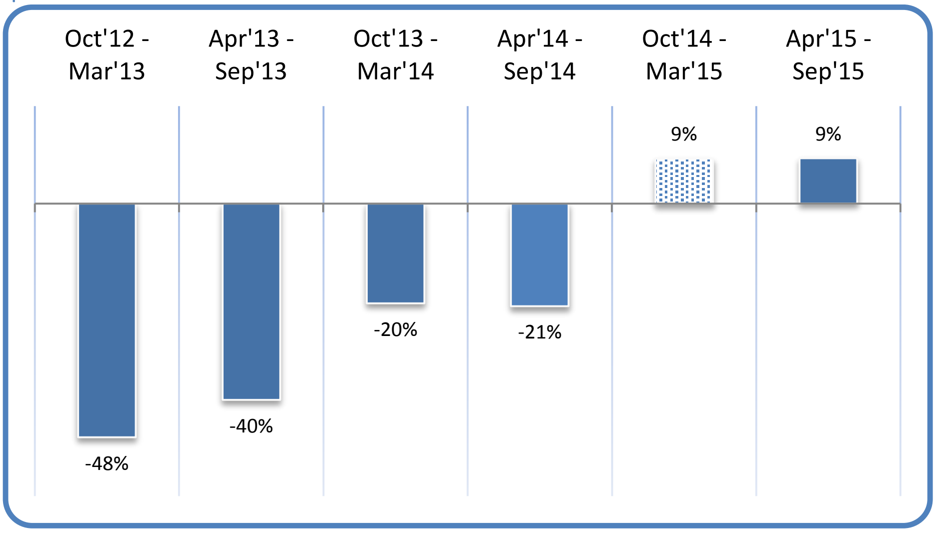
(net percentages; positive values indicate an easing supply) – see question B.Q1 – questionnaire in the Annex



Source: EIB – CESEE Bank Lending Survey.

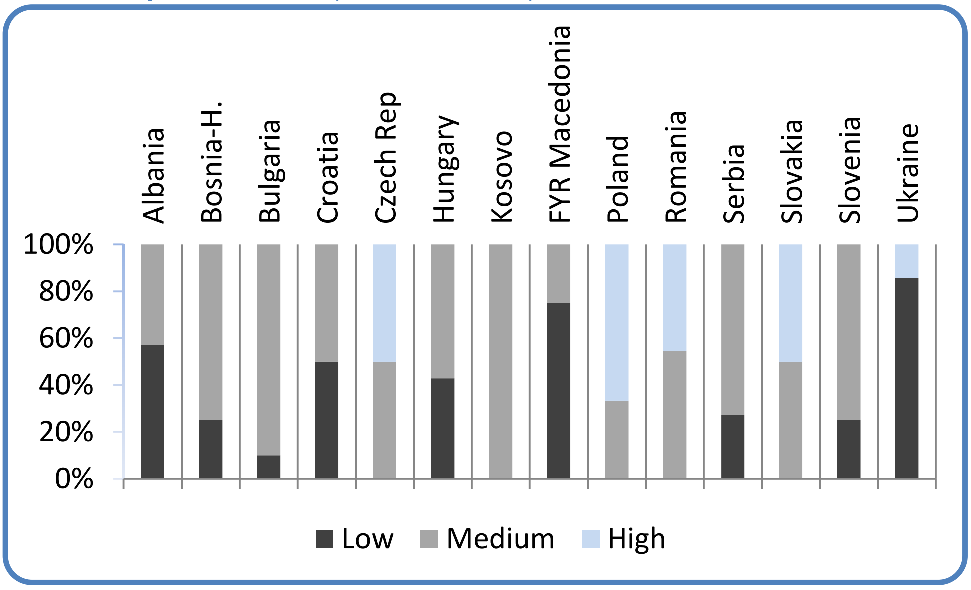
A.4 NPL trend line

(net percentages; negative values indicate increasing NPL ratios) – see question B.Q8 – questionnaire in the Annex



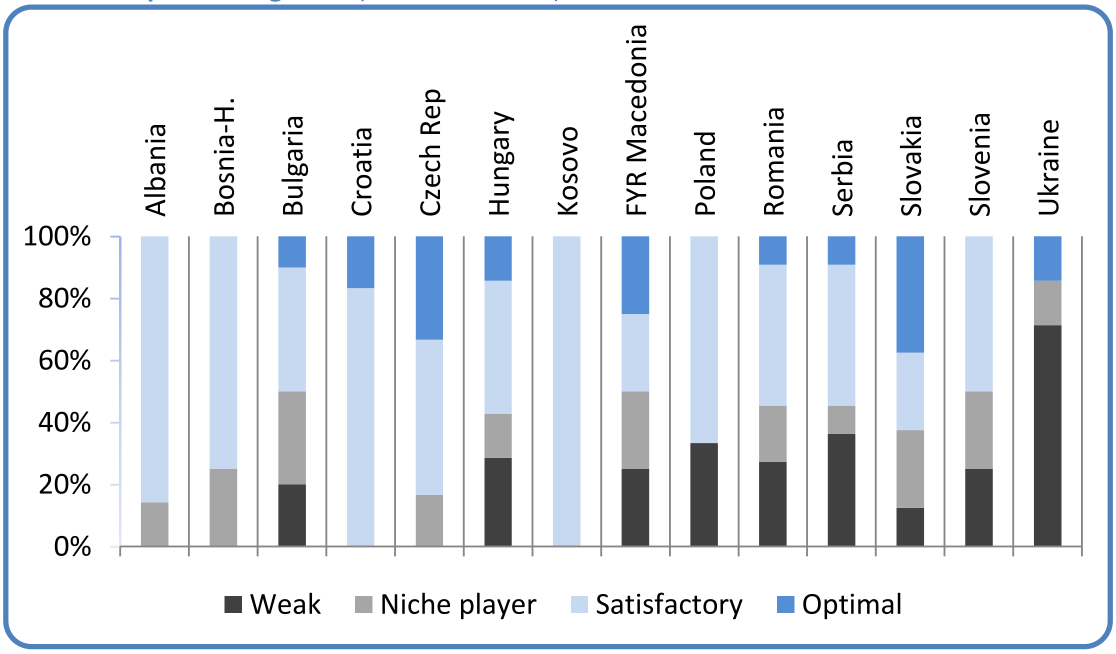
Source: EIB – CESEE Bank Lending Survey.

A.5 Market potential – see question A.Q15 – questionnaire in the Annex



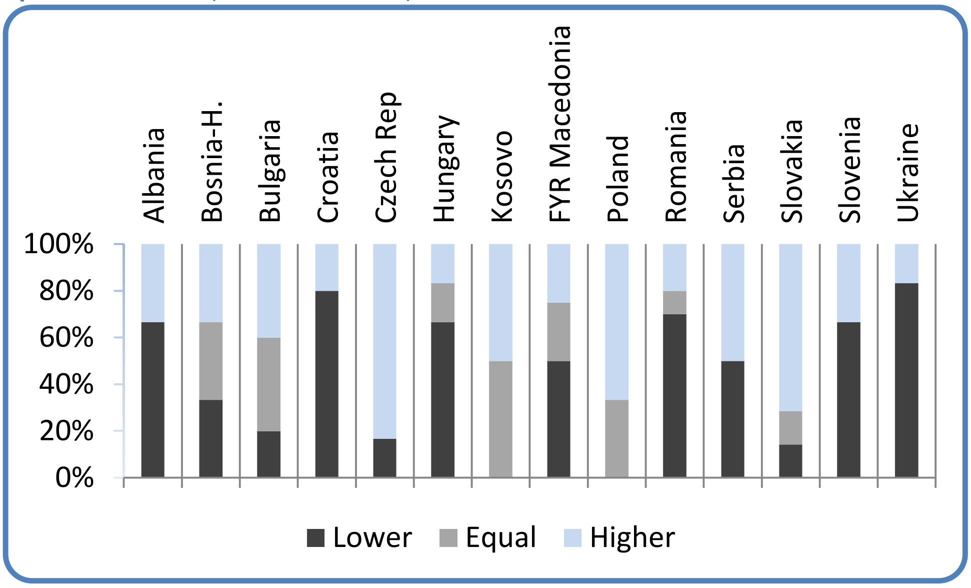
Source: EIB – CESEE Bank Lending Survey.

A.6 Market positioning – see question A.Q15 – questionnaire in the Annex



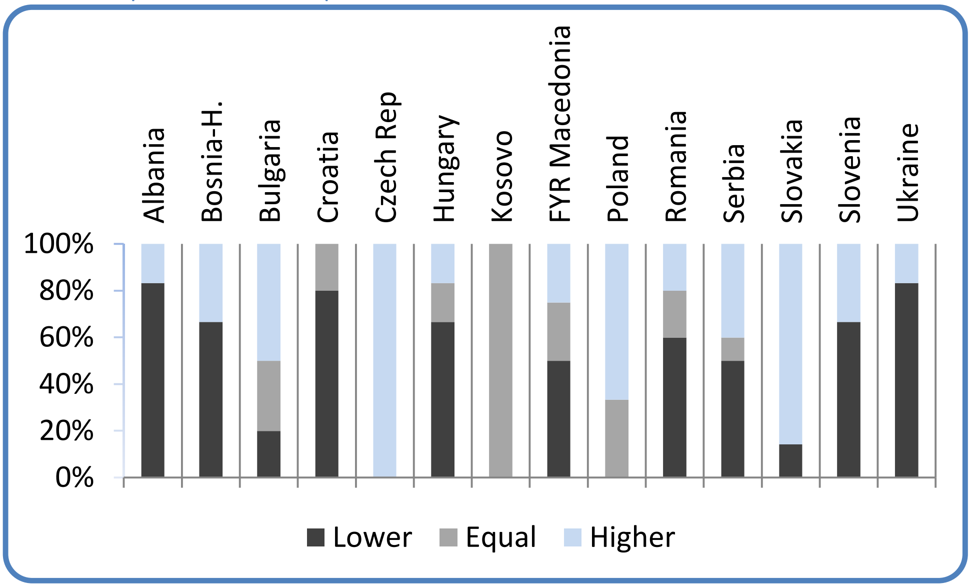
Source: EIB – CESEE Bank Lending Survey.

A.7 Return on assets (adjusted for cost of risk) compared to overall group operations – see question A.Q15 – questionnaire in the Annex



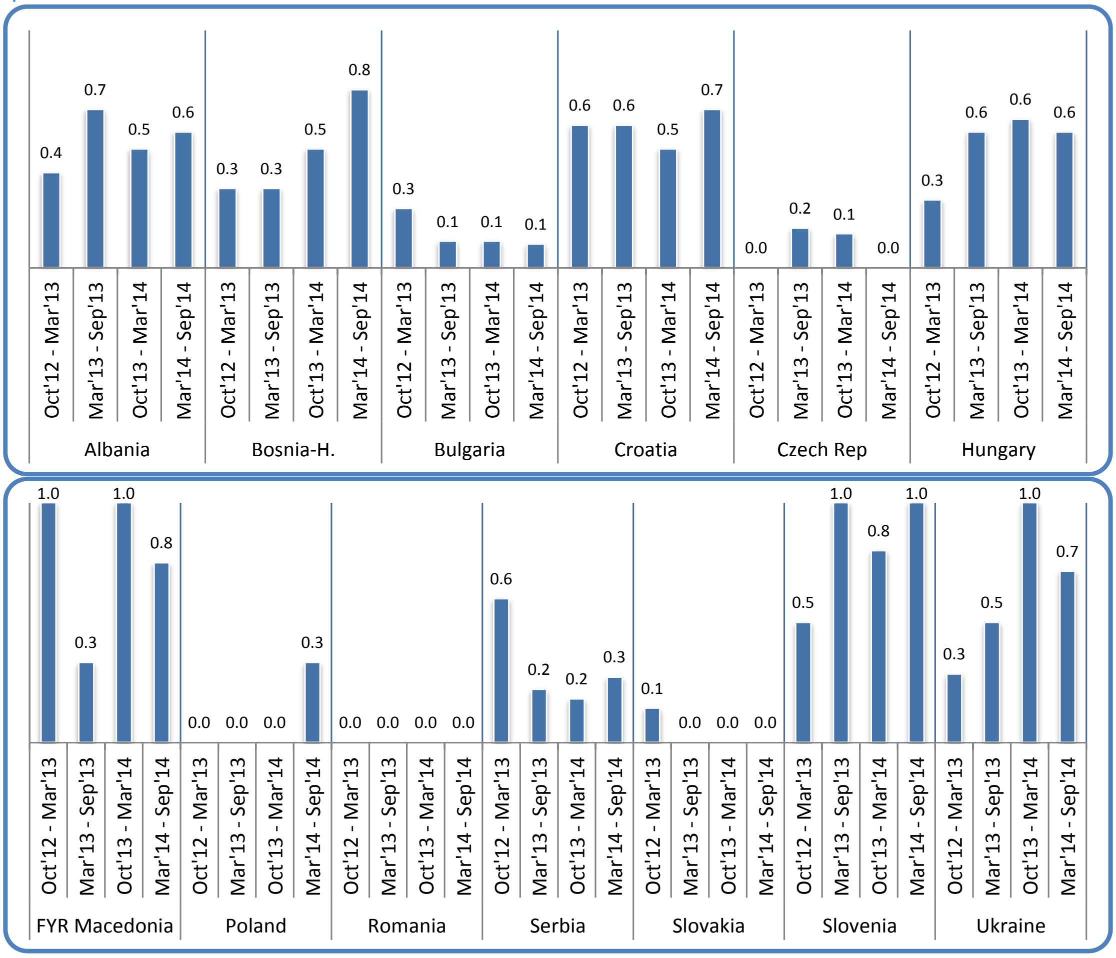
Source: EIB – CESEE Bank Lending Survey.

A.8 Return on equity (adjusted for cost of equity) compared to overall group ROE – see question A.Q15 – questionnaire in the Annex



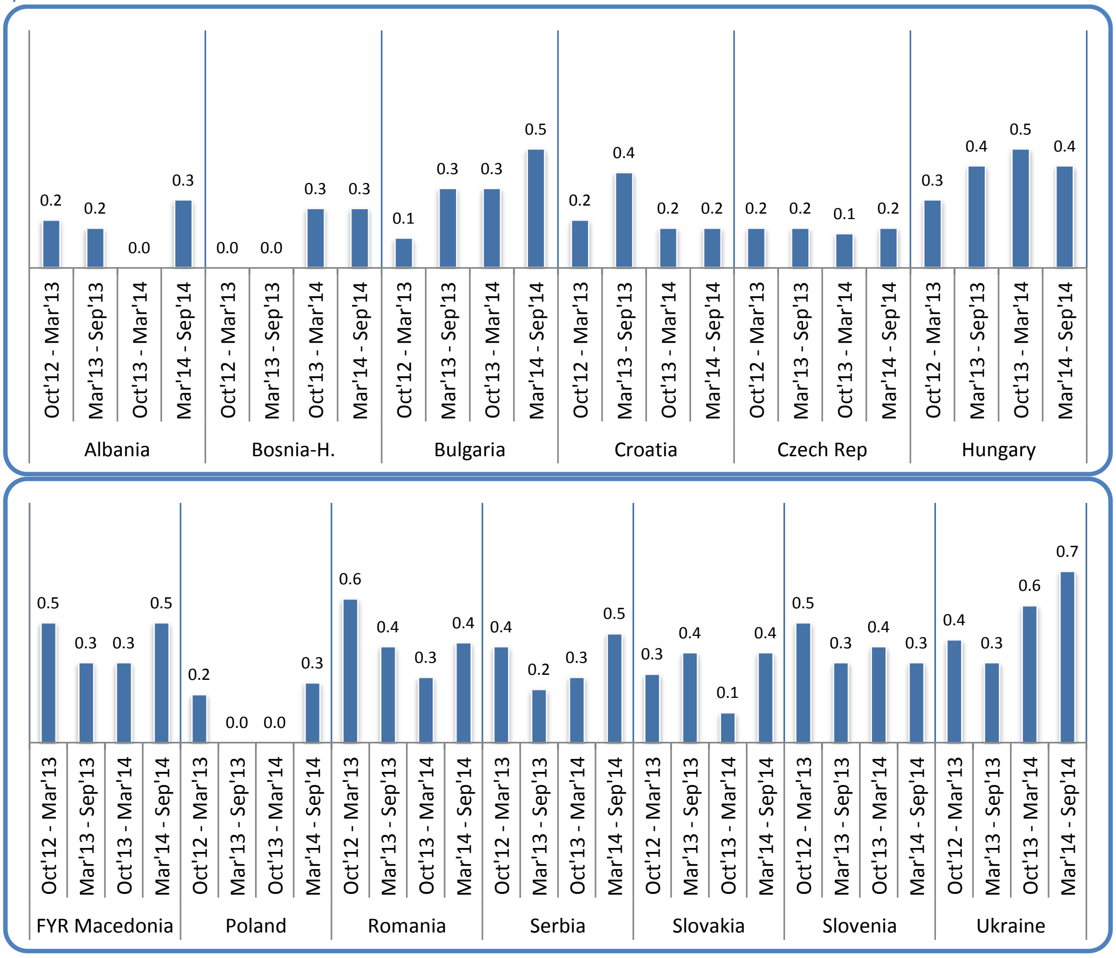
Source: EIB – CESEE Bank Lending Survey.

A.9 Share (%) of parent banks indicating a "low" market potential – see question A.Q15 – questionnaire in the Annex



Source: EIB – CESEE Bank Lending Survey.

A.10 Share (%) of parent banks indicating a "weak/niche" positioning – see question A.Q15 – questionnaire in the Annex



Source: EIB – CESEE Bank Lending Survey.

Albania

1. Key statistics[2]

- Number of banks/subsidiaries participating in the survey: six
- Approximate share of assets covered (as proportion of total assets): 54 percent (Q2 2014)
- Current level of NPLs as proportion of total loans: 22.8 percent (Q4 2014)
- Latest credit growth (yoy): 3.1 percent (Q4 2014)
- Loan-to-deposit ratio: 54.7 percent (end of June 2014)
- CAR: 16.8 percent (Q4 2014)

2. Key messages – *Economic recovery has shown a gradual firming with accelerating credit growth and still high but decreasing NPLs.*

International groups' views:

- **Group strategies**: A majority of banking groups operating in Albania continued to engage in sales of assets at the global level. A higher proportion of those groups engaged in restructuring processes compared to all the groups in the region.
- **Group assessment of positioning and market potential**: Albania is still considered as a country with a relatively low market potential. Returns on equity and assets are lower than the CESEE average; however, operational profitability has improved.

Subsidiaries' views:

- **Subsidiaries** operating in Albania report that despite a tightening of the overall credit standards, demand continued to increase.
- **Credit supply conditions** kept tightening only for the corporate sector, and especially for SMEs. Households benefited from alleviated supply conditions for both mortgage and consumption loans. Supply conditions are expected to ease further in the near future but only for large companies and short term contracts.
- **Demand for loans** kept improving and this at a higher pace than in the CESEE region. This trend is expected to continue, mainly thanks to the corporate sector and more particularly SMEs.
- **Access to funding** remained constant in the context of revived lending growth. Funding coming from central bank and local currency sources increased once again and corporate funding played an increasing role in access to funding lately. Access to IFIs and long-term funding kept deteriorating.
- **NPL figures** improved for the first time since this survey was launched in 2013, and this at a higher pace than the CESEE average. Further improvements are expected for the retail segment while no change is anticipated for the corporate sector on this key issue for the Albanian banking sector.

[2] Sources: The Bank of Albania and European Commission.

3. Relevant macroeconomic and banking conditions[3]

- **Growth:** Despite a contraction registered during the second quarter of the year (-0.7 percent), the Albanian economy grew by 1.9 percent in 2014, a stronger pace than a year earlier. Mainly driven by private domestic demand, economic growth is expected to strengthen in the coming years, reaching 3 percent in 2015 and 3.5 percent in 2016.
- **Unemployment:** In 2014 the unemployment rate reached 17.9 percent. The labour market constantly suffers from high prevalence of long-term unemployment and large gender differences in labour force participation.
- **Inflation:** Headline inflation was estimated at 1.9 percent in the first quarter of 2015. After being on a decreasing trend for three years, inflation is expected to move back to the lower bound of the inflation target range set by the Bank of Albania, reaching on average 2 percent in 2015.
- **External and public sector balance:** In 2014 the current account deficit increased by 25.7 percent compared to the previous year, as a result of lower export figures. As a consequence, the current account deficit reached 12.9 percent of GDP in 2014, a 2.2 percentage points increase from 2013. Public debt registered a significant increase and is expected to stand at 71.3 percent of GDP in 2014, compared to 64.9 percent a year earlier. The fiscal deficit reached 5.1 percent of GDP in 2014, compared with a 6.5 percent target.
- **Banking sector:** Credit growth hovered around zero in 2014 (+0.2% year-on-year) but the second part of the year marked the end of the downward trend, with credit growth reaching 3.1% year-on-year during the last quarter of 2014. Bank of Albania's decision to cut the key interest rate to a historic low of 2 percent in January 2015 is expected to bring further support to credit growth. Recent data are already pointing into this direction (+2.4 percent in January and +3 percent in February 2015). Despite a slight decrease, the level of capitalisation for the entire banking sector (CAR 16.8 percent Q4 2014) still exceeds the required minimum. The loan-to-deposit ratio stood at 54.7 percent in June 2014, compared to 55.3% at the end of 2013 and 57.9 % a year earlier. Over the entire 2014, NPLs remained at a similar level (23.9 percent) than in 2013 (24 percent). However, NPLs decreased in the fourth quarter to 22.8 percent of all loans, compared to the peak of 24.9 percent recorded in the previous quarter, putting an end to the upward trend followed over the last five years. Nevertheless, the stock of NPLs remains the major constraint on Albanian banks.
- **Rating:** Albania is currently rated B1 stable by Moody's and B by S&P with an outlook recently upgraded to positive from stable.

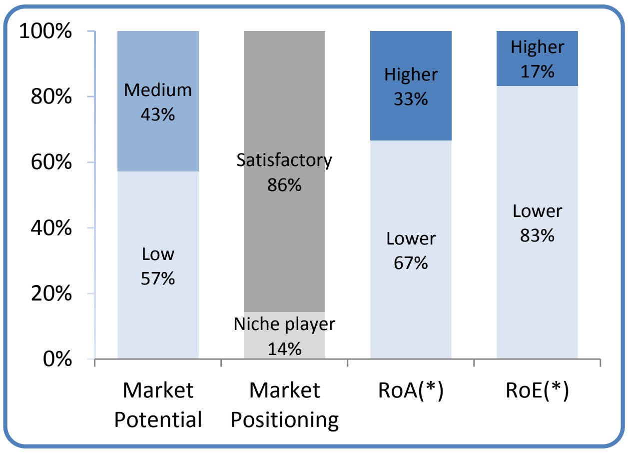
[3] Sources for the macroeconomic data: European Commission and Institute of Statistics (Albania). Sources for the banking data: European Commission and Bank of Albania.

4. Results of the Bank Lending Survey:

4.1 Parent banks[4]

1. The majority of parent banks operating in Albania report their leverage to have stabilized (as in September 2014 release), with only a third of them indicating the need to further decrease their group-wide loan-to-deposit ratios. A significant proportion of groups operating in Albania engaged in restructuring processes including raising capital, selling assets or implementing strategic restructuring. Compared to the previous survey, a lower number of groups are willing to raise additional capital from the market but a higher proportion of them expects to raise capital selling branches of activities and carrying out strategic restructuring over the next six months. Once again, none of the groups expect capital contributions from the state.

Figure 1. Market potential and positioning, ROE and ROA – see question A.Q15



Source: EIB – CESEE Bank Lending Survey.
(*) Return on assets (adjusted for cost of risk) compared to overall group operations; Return on equity (adjusted for cost of equity) compared to overall group ROE.

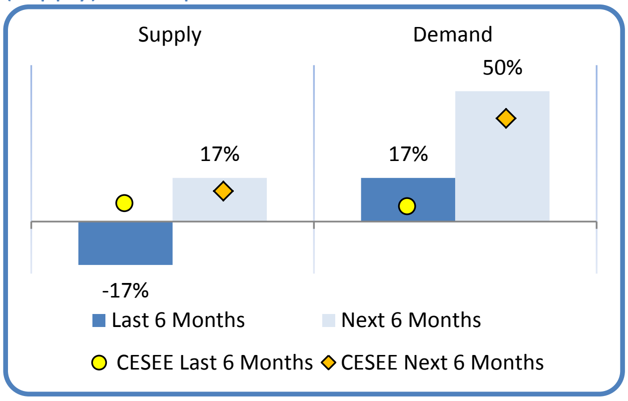
2. Albania is still perceived as a market with medium to low potential. However the majority of parent banks view their market positioning as satisfactory (Figure 1). A significant majority of parent banks still indicates lower return on assets and on equity in Albania compared to overall group operations; however, this quota is lower than in the previous release of the survey. Fifty percent of the groups operating in Albania still report that they intend to selectively reduce their operations in the region. This percentage is higher than for the whole set of groups included in the survey. To the contrary, only a third of them intends to selectively expand operations.

[4] In this subsection results refer to the views of parent banks. Results on market positioning and potential refer to questions addressing behaviours within a specific market whilst the other data (e.g. restructuring strategies, ROA, etc.) are derived results. These are obtained by filtering out from the parents' views for the CESEE region as a whole the views of those parents effectively operating in a particular country. This makes it possible to assess whether there is a divergent attitude of a sub-group of parents operating in a specific country.

4.2 Local banks/subsidiaries

1. Credit supply conditions continued to tighten in Albania in the last six months, whereas the results for the aggregate CESEE region reported an easing in credit standards. However, Albanian banks are expected to ease their credit standards in the coming six months. On the demand side, the Albanian banks have seen a continuation of the already improvement detected in the previous release. Demand conditions have eased and they are expected to rebound more markedly in the coming months. The magnitude of the expected improvement is higher than in the aggregate CESEE region (Figure 2).

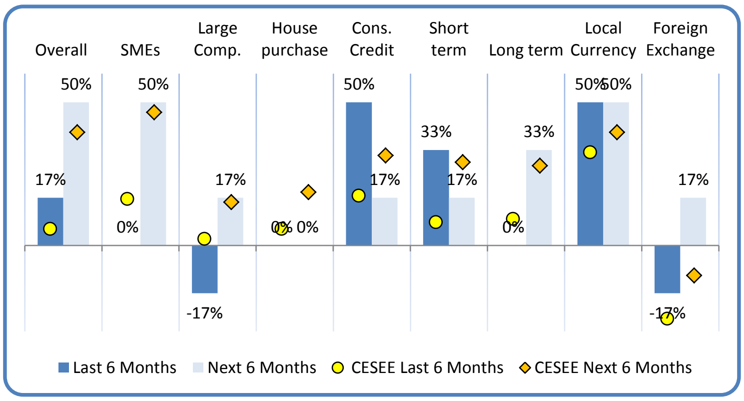
Figure 2: Credit supply (credit standards) and demand conditions – *net percentages;* positive figures refer to an increasing (easing) demand (supply) – see questions B.Q1 and B.Q5



Source: EIB – CESEE Bank Lending Survey.

2. Against the background of a stronger economic activity in the second half of 2014, the demand for loan applications has been improving at a higher pace than in the aggregate CESEE region and this trend is expected to continue over the next six months (Figure 3). Demand has been driven by consumer credit during the last six months while the corporate sector, and more particularly SMEs, are expected to be the main drivers over the next six months. Demand for long term financing is expected to be the main driver while demand for short term financing will keep growing but at a slower pace.

Figure 3. Demand components - (*net percentages*; positive figures refer to increasing demand) – see question B.Q5

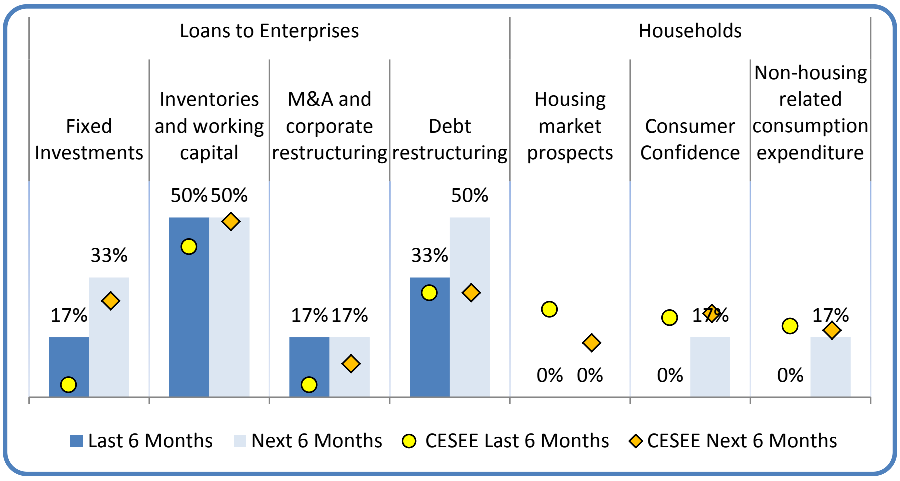


Source: EIB – CESEE Bank Lending Survey.

3. Demand from enterprises should be driven by the same components as for the region. Debt restructuring is expected to be more important for Albanian companies than for the region. In the context of a sluggish housing market, consumer confidence and non-housing related consumption expenditure will be the main

factors contributing to demand from households, even if none of them contributed positively during the last six months (Figure 4).

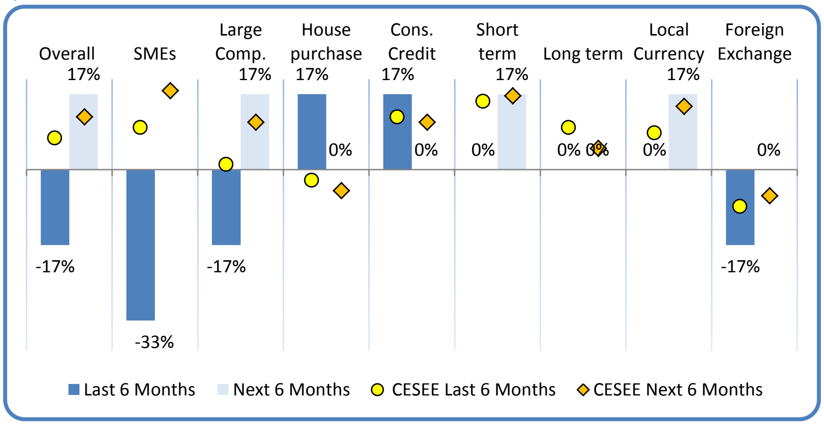
Figure 4. Factors contributing to demand conditions – (*net percentage*; positive figures refer to a positive contribution to demand) – see question B.Q7



Source: EIB – CESEE Bank Lending Survey.

4. The overall supply components deteriorated in the last six months due to a tightening of credit standards for the corporate sector, and especially SMEs (Figure 5). However, in a context of decreasing share of NPLs, an improvement is expected over the next six months but only for large corporate. Supply conditions should remain stable for Albanian SMEs while they are expected to further ease at the regional level. Households benefited from eased supply conditions for both mortgage and consumption loans, which are expected to remain unchanged over the next six months. Supply conditions in the long and short term segment have been stable and are expected to remain unchanged for the former and to increase at the same pace as for the region for the latter.

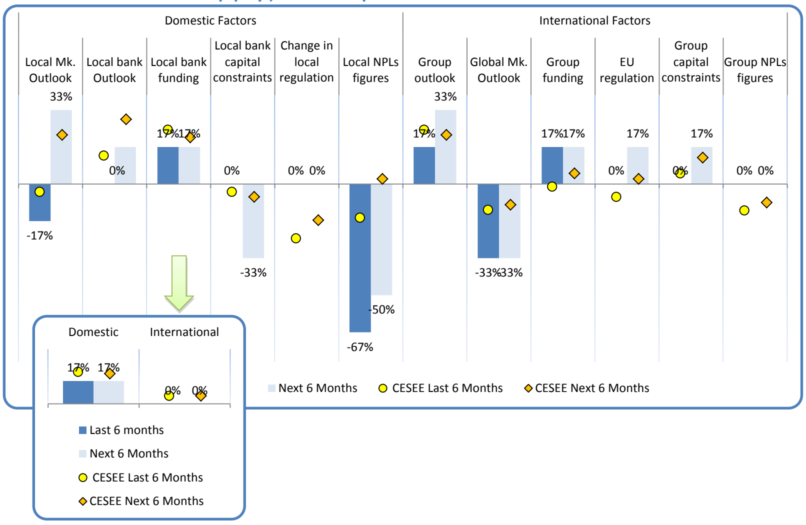
Figure 5. Supply components – credit standards (*net percentages*; positive figures refer to a positive contribution to supply) – see question B.Q1



Source: EIB – CESEE Bank Lending Survey.

5. Domestic and international factors affected credit supply conditions and it is expected to remain the same over the next six months. Despite an overall positive contribution to supply conditions from domestic factors, the high levels of NPLs have been and will remain the biggest brakes on the domestic market (Figure 6). On the other hand, local market outlook, which was one of the negative contributors during the last six months, is expected to improve and will contribute the most to ease supply conditions in the near future. On the international side, global market outlook contributed to neutralize the overall impact of other positive international factors. This is expected to remain the same over the next six months.

Figure 6. Factors contributing to supply conditions (credit standards) – (*net percentage*; positive figures refer to a positive contribution to supply) – see question B.Q4



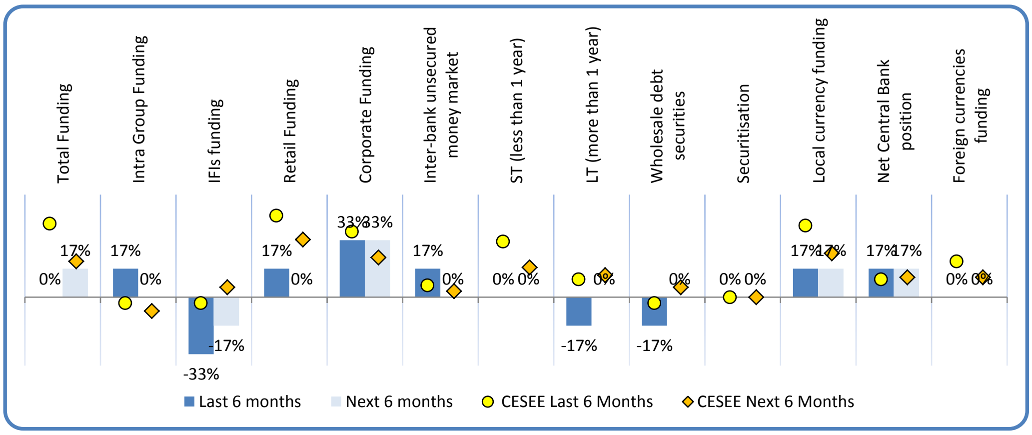
Source: EIB – CESEE Bank Lending Survey.

6. Although the demand from SMEs has been described as stable over the past six months, supply conditions tightened further in this segment thus not supporting a further improvement of access to credit for SMEs. Collateral requirements have been and may remain an important obstacle for banks to supply funding to SMEs. However, Albanian banks' margin over interbank rate will keep contributing to ease credit supply more particularly to SMEs. This is a possible sign of a successful monetary policy transmission at work as a consequence of loose monetary policy - with the key interest rate of the Bank of Albania to a historic low. At the same time, loan size limits are expected once again to be increased for the corporate sector, more particularly for SMEs.

7. In a context of revived credit growth, subsidiaries have not suffered from increasing funding problems since access to funding remained stable in the last six months, while it has been increasing at the regional level (Figure 7). However past trend of continuously increasing access to funding levelled-off. To the contrary, central bank and local currency funding kept increasing, though at a slower pace as reported in the previous release of the survey. Increase in corporate funding accelerated but still at a slightly slower pace than for the

aggregate CESEE region. Once again, IFI and long-term financing have been limited and also, funding through wholesale debt securities has also been reduced. In the near future, total funding is expected to increase mainly thanks to corporate funding.

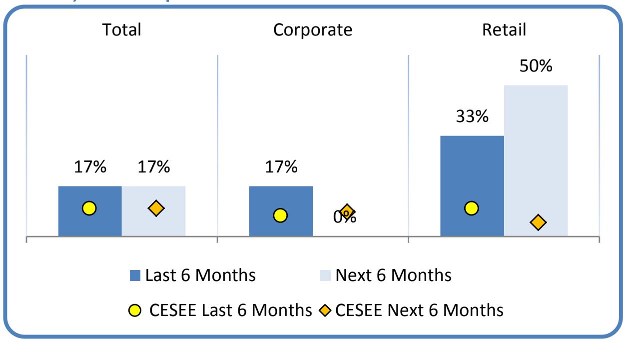
Figure 7: Access to funding – (*net percentage*; positive figures indicate increasing access to funding) – see question B.Q9



Source: EIB – CESEE Bank Lending Survey.

8. For the first time, Albanian banks reported that NPL figures have improved over the last 6 months (Figure 8). This improvement, observed in both corporate and retail segments, has even been higher than the CESEE average and it is expected to be of a similar magnitude over the next six months. These results are coherent with the recent aggregate figures that show a decrease in the fraction of NPLs and they indicate that further improvements are to be expected. However, this improvement is only expected on the retail segment while no further change is anticipated for the corporate sector.

Figure 8: Non-performing loan ratios – (*net percentage*; negative figures indicate increasing NPL ratios) – see question B.Q8



Source: EIB – CESEE Bank Lending Survey.

Bosnia-Herzegovina

1. Key statistics[5]

- Number of banks/subsidiaries participating in the survey: four
- Approximate share of assets covered (as proportion of total assets): 50 percent
- Current level of NPLs as proportion of total loans: 14 percent (Q4 2014)
- Latest credit growth (yoy): 3.3 percent (Q4 2014)
- Loan-to-deposit ratio: 111 percent in Q4 2014
- CAR: 17 percent (September 2014)

2. Key messages – *Supply easing while demand conditions still weak; NPLs also started to decelerate*

International groups' views:

- **Group strategies**: Most of the parent banks operating in Bosnia-Herzegovina report that their deleveraging process has stabilized. Although a small group of banks still signals some deleveraging activity. Few Groups active in Bosnia-Herzegovina signal that they plan to raise additional capital on the market in the coming months while they are as keen in selling assets and/or branches

- **Group assessment of positioning and market potential**: Contrary to the past releases of the survey, only a minority of parent banks view Bosnia-Herzegovina as a market with a relatively low potential. However Groups' profitability continues to underperform Groups' overall performance for a significant share of parent banks operating in Bosnia-Herzegovina.

Subsidiaries'/local banks' views:

- Credit growth remains positive primarily sustained by an **easing in supply conditions** whilst aggregate **demand for credit** remained **limited**. Credit conditions are predicted to ease on both the supply and demand sides.
- **Credit supply** has eased over the last six months and it is expected to continue to do so. The largest positive effects are to be found in consumer credit and short-term lending in general.
- **Demand for loans** has been deteriorating over the last six months. Nevertheless, it is expected to ease in the near future. It deteriorated in the corporate segment while households increased their demand for credit lines.
- **Access to funding:** Subsidiaries in Bosnia-Herzegovina report that their access to funding has generally improved, mainly driven by IFIs and retail funding.
- **NPL figures** have improved over the last six months.

[5] Sources: European Commission, Central Bank of Bosnia and Herzegovina and IMF.

3. Relevant macroeconomic and banking conditions[6]

- **Growth:** The economy grew in 2013 and this continued into 2014. Despite the slump of economic activity in the second quarter mainly due to the spring floods, real growth significantly accelerated in the fourth quarter of 2014 to 2.4% y-o-y, mainly as a result of stronger private consumption.

- **Unemployment:** Unemployment is a major problem for the Bosnian economy, amounting to over 43.8 percent in January 2015. Around two thirds of unemployment is long term. The youth unemployment rate has been hovering around 60 percent over the recent past.
- **Inflation:** In 2014 the average annual CPI slipped further into negative territory to -0.9%, down from -0.1% in 2013 and remained broadly unchanged on average in the first two months in 2015 (-0.8%).

- **External and public sector balance:** The current account deficit remained rather large in 2014 settling around 7.6% of GDP. The trade deficit remained broadly unchanged as a percentage of GDP. In January-February 2015 imports growth turned negative and export activity continued to be positive but considerably declined to 2.6% y-o-y. Net FDI inflows in October-December 2014 posted a substantial increase and edged up to 3.1% of GDP. However they are still at a low level and heavily biased towards other investments. The fiscal deficit amounted to 1.8% of GDP in 2014. Foreign public debt reached 30% of GDP, in the fourth quarter compared to 28.2% of GDP in 2013.

- **Banking sector:** The profitability of the banking sector decreased slightly in 2014. Return-on-assets and return-on-equity ratios were lower than 1 percent and between 3 and 4 percent, respectively. Banks remain well capitalized, with the capital-adequacy ratio at 17 percent. The proportion of NPLs has deteriorated in the first two quarters of 2014 to reach 16.1 percent of total loans in September 2014. However it ameliorated toward the end of the year settling at 14 percent. The loan-to-deposit ratio has stabilised to 111 percent, halting the downward trend. The average credit growth has been modest at roughly 3.3 percent in the fourth quarter of 2014. This increase in lending activity was primarily driven by the household segment whilst corporate lending remained stagnant.
- **Rating:** Bosnia is currently rated by Moody's (B3) and S&P (B, stable).

[6] Sources for the macroeconomic data: European Commission and Central Bank of Bosnia and Herzegovina (CBBH). Sources for the banking data: European Commission and CBBH data.

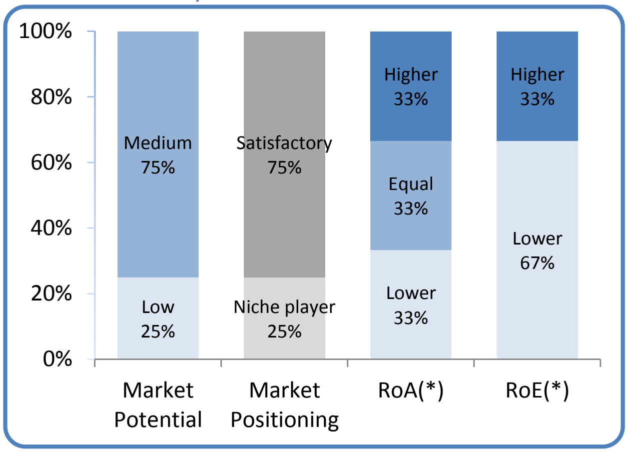
4. Results of the Bank Lending Survey:

4.1 Parent banks[7]

1. Most of the parent banks operating in Bosnia-Herzegovina report that their deleveraging process has stabilized. Although a smaller group of banks still signals some deleveraging activity contrary to the results embedded in the two previous releases of the survey. Few Groups active in Bosnia-Herzegovina signal to have plans to raise additional capital on the market in the coming months in line with the regional trend. Moreover these Groups are as keen in selling assets and/or branches as the overall set of group operating in the whole region. Also a share of groups similar to the whole region signals plans to strategically restructure operations.

2. Contrary to the past releases of the survey, only a minority of parent banks view Bosnia-Herzegovina as a market with a relatively low potential. Also the Groups' market positioning in Bosnia-Herzegovina has continued to improve, with roughly 75% parent banks reporting a satisfactory positioning. However Groups' profitability continues to underperform Groups' overall performance for a significant share of parent banks operating in Bosnia-Herzegovina (Figure 1). This may still be a long tailed effect derived from the spring floods of 2014.

Figure 1. Market potential and positioning, ROE and ROA – see question A.Q15



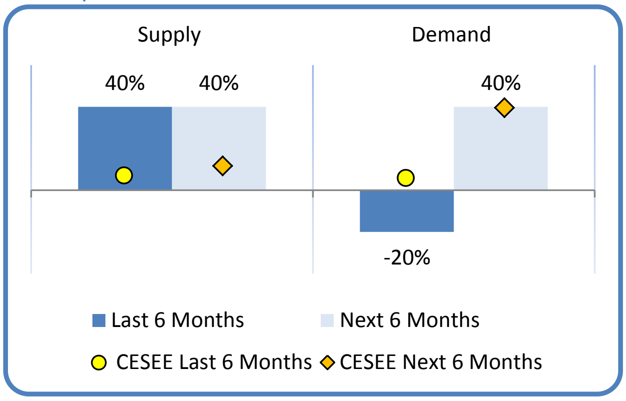
Source: EIB – CESEE Bank Lending Survey.
(*) Return on assets (adjusted for cost of risk) compared to overall group operations; return on equity (adjusted for cost of equity) compared to overall group ROE.

[7] In this subsection results refer to the views of parent banks. Results on market positioning and potential refer to questions addressing behaviours within a specific market, whilst the other data (e.g. restructuring strategies, ROA, etc.) are derived results. These are obtained by filtering out from the parents' views for the CESEE region as a whole the views of those parents effectively operating in a particular country. This makes it possible to assess whether there is a divergent attitude of a sub-group of parents operating in a specific country.

4.2 Local banks/subsidiaries

1. Subsidiaries operating in Bosnia-Herzegovina report easing supply conditions whilst demand conditions have still been contracting over the last six months. Supply conditions are in line with what was expected in the September 2014 survey. To the contrary demand conditions surprised to the downside. Demand conditions have been weaker than in the overall CESEE region. However, the poor performance of credit conditions is likely to be a temporary phenomenon, as both supply and demand are expected to rebound markedly in the coming six months (Figure 2).

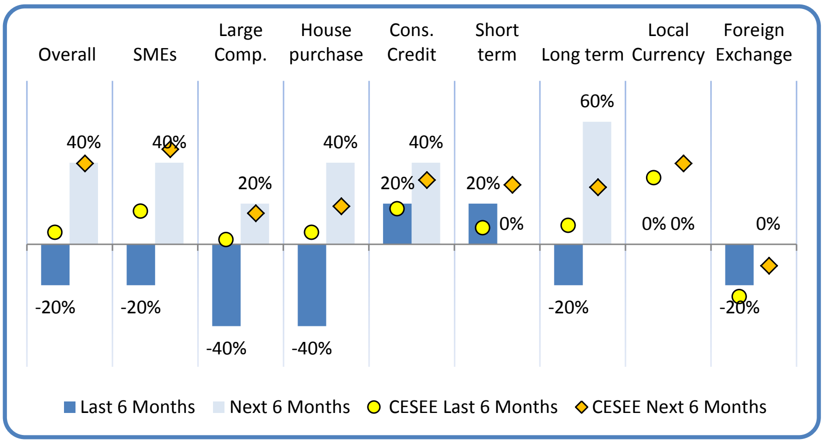
Figure 2: Credit supply (credit standards) and demand conditions – *net percentages;* positive figures refer to increasing (easing) demand (supply) – see questions B.Q1 and B.Q5



Source: EIB – CESEE Bank Lending Survey.

2. Subsidiaries report a decrease of demand in almost all market segments. Only for short-term lending and consumer credit segment demand conditions improved somewhat in line with the overall CESEE region over the last six months (Figure 3). Nevertheless, demand is expected to ease across the board in the coming months. The largest improvement in demand is expected to come from SMEs, mortgages demand and generally long term lending.

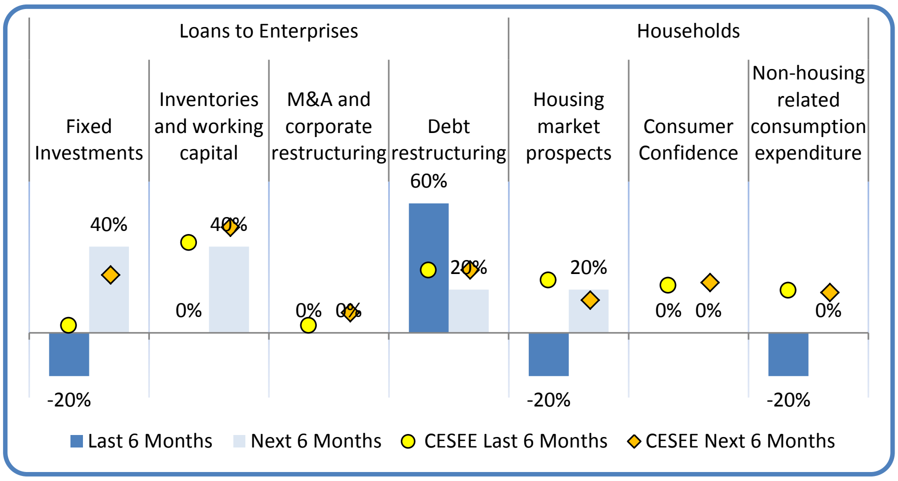
Figure 3. Demand components - (*net percentages*; positive figures refer to increasing demand) – see question B.Q5



Source: EIB – CESEE Bank Lending Survey.

3. The only positive contributor to corporates demand came from debt restructuring over the past six months whilst demand for investment

Figure 4. Factors contributing to demand conditions – (*net percentage*; positive figures refer to a positive contribution to demand) – see question B.Q7

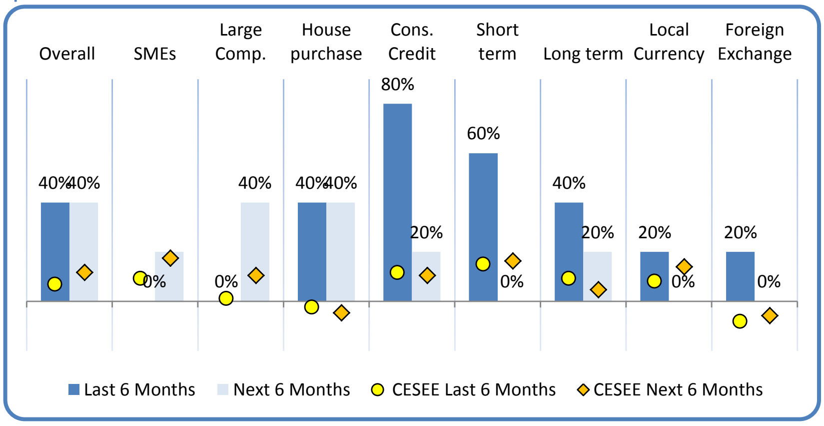


Source: EIB – CESEE Bank Lending Survey.

purposes still remained rather weak. The latter still has the biggest negative impact on corporate demand. Household demand components have also negatively contributed to overall demand both in the housing and non-housing segments (Figure 4). Subsidiaries expect an improvement in corporate credit demand in the coming months, mostly coming from investments and working capital. To the contrary household factors are not expected to exert a significant positive contribution to overall demand conditions, except for housing market prospects.

4. Supply conditions (credit standards) have been easing more robustly than in the overall CESEE region over the past six months. The easing in credit standards primarily was extended to the household sector and mainly on consumer credit (Figure 5). Credit standards on mortgages also eased over the past six months. The easing in these two segments was stronger than in the overall CESEE region. Supply conditions are also expected to ease in the corporate sector roughly in line with the CESEE region over the next six months while credit standards in the household segment are primarily expected to stabilise. As a result the last six months positive developments have been mainly driven by an easing in standards for the household segment while the next six months easing is expected to be driven by easing credit conditions on the corporate side.

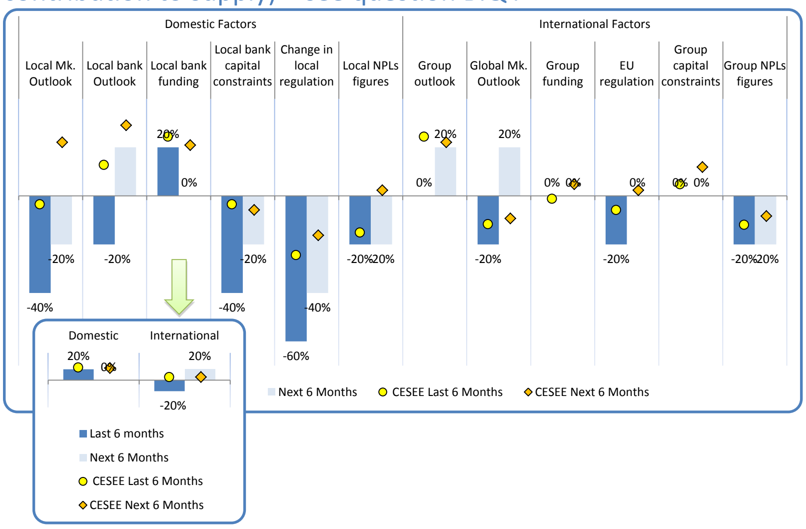
Figure 5. Supply components – credit standards (*net percentages*; positive figures refer to a positive contribution to supply) – see question B.Q1



Source: EIB – CESEE Bank Lending Survey.

5. Both domestic and international factors affected supply conditions. Among the former, local market outlook, local bank capital constraints, regulatory changes and NPL figures were the major obstacles to credit supply. All these factors are expected to have similar negative supply effects in the

Figure 6. Factors contributing to supply conditions (credit standards) – (*net percentage*; positive figures refer to a positive contribution to supply) – see question B.Q4



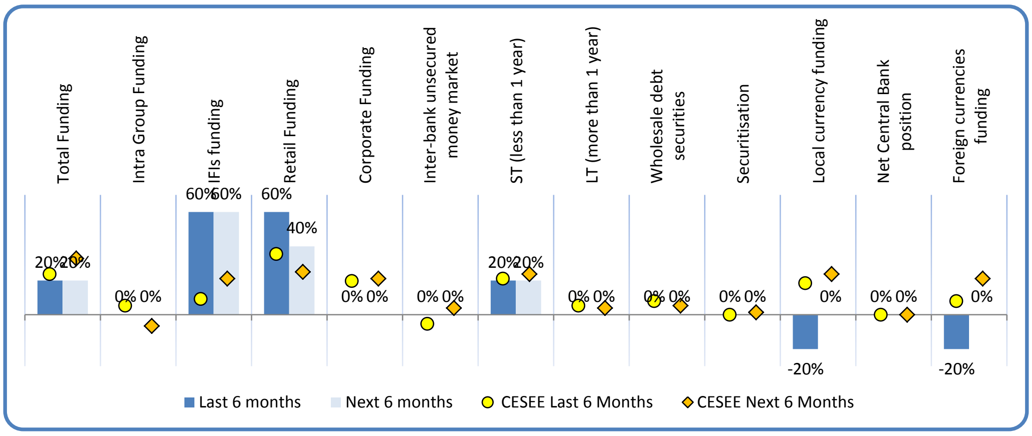
Source: EIB – CESEE Bank Lending Survey.

coming months (Figure 6). Local bank funding has continued to alleviate supply conditions as in the previous release of the survey; however this effect is predicted to disappear in the next 6 months. As far as international factors are concerned, the largest supply constraints come from poor global market outlook, EU regulations and group wide NPLs. However only group-wide NPL figures are expected to have negative impact on credit supply in Bosnia-Herzegovina in the coming months.

6. Credit supply conditions for SMEs did not ameliorate (as already expected in the previous release of the survey). To the contrary they are expected to marginally ease in the coming months. Credit demand from the SME sector has been declining over the last six months but it is expected to rebound in the near future. The terms and conditions for loan approvals are going to tighten for SMEs in terms of collateral requirements, average loan size and margins over the interbank interest rate.

7. Subsidiaries in Bosnia-Herzegovina report that their access to funding has generally improved in line with CESEE average. Banks have observed very positive funding contributions from IFI and retail funding over the last six months. Both sources are expected to continue to improve in the near future, particularly funding from IFIs. In terms of the term structure, we can observe an easier access to the short-term funding, in line with the regional trend (Figure 7).

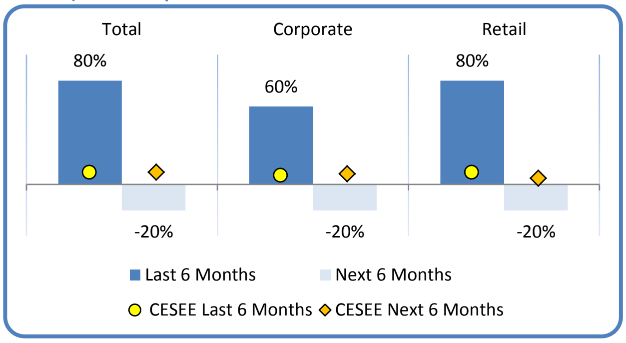
Figure 7: Access to funding – (*net percentage*; positive figures indicate increasing access to funding) – see question B.Q9



Source: EIB – CESEE Bank Lending Survey.

8. Continuing on a trend already detected in the previous release of the survey, NPL ratios have been decreasing over the past six months. This decrease has been evenly spread between retail and corporate NPLs (Figure 8). This is in line also with the NPLs statistics for late 2014. This decrease has outperformed the expectations from the September 2014 survey. However the situation is expected to deteriorate in the next six months, with banks expecting deterioration in NPL ratios.

Figure 8: Non-performing loan ratios – (*net percentage*; negative figures indicate increasing NPL ratios) – see question B.Q8



Source: EIB – CESEE Bank Lending Survey.

Bulgaria

1. Key statistics[8,9]

- Number of banks/subsidiaries participating in the survey: ten
- Approximate share of assets covered (as proportion of total assets): 62 percent
- Current level of NPLs as proportion of total loans: 16.7 percent (December 2014)
- Latest credit growth (March 2015 relative to November 2014): -0.8 percent
- Loan-to-deposit ratio: 100 percent (March 2015)
- CAR: 22 percent (December 2014)

2. Key messages – *Demand for investment loans is still low; domestic funding conditions have markedly improved; asset composition continues to shift to high-liquidity, low-return assets.*

International groups' views:

- **Group strategies**: The restructuring efforts of parent banks operating in Bulgaria have been in line with the full sample of parents included in the survey.
- **Group assessment of positioning and market potential**: Divergence of views about the market outlook in Bulgaria is more pronounced than the regional average. There is a substantial improvement in groups' assessments of subsidiaries' profitability, with net 50 per cent of respondents seeing profitability above their group's average.

Subsidiaries'/local banks' views:

- **Credit supply** conditions have slightly improved and are expected to continue to do so in the near future due to both domestic and international factors. Like in the previous survey round, local bank and group NPLs are seen as major constraints on supply conditions. Over the next six months EU regulation and group NPLs are expected to be a significant constraint on credit supply.
- **Credit demand** has been broadly stagnant. By institutional sector, decline in consumer-loan demand was largely offset by higher demand for corporate and mortgage loans. In the next six months, loan demand is expected to pick up modestly in all sectors. Loans for fixed investment have remained a drag on loan demand.
- **Access to funding** improved over the past six months due to strong domestic retail and corporate funding and is expected to improve further, despite the negative impact of intra-group funding.
- **NPL figures** have improved substantially over the past six months and are expected to keep on improving in the near future.

[8] Sources: Bulgarian National Bank.
[9] Do not include Corporate Commercial Bank group data.

3. Relevant macroeconomic and banking conditions[10]

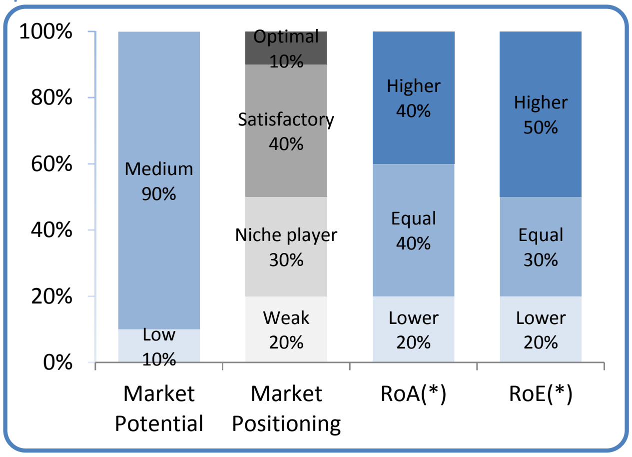
- **Output:** GDP growth accelerated to 0.9 percent in 2015 Q1 relative to 2014 Q4. It was largely driven by net exports. Relative to 2014 Q1, the rate of growth of GDP increased to 2 per cent. Both domestic demand and net exports contributed to this increase. These positive developments notwithstanding, EC projects average annual growth to be 1 percent in 2015 and 1.3 percent in 2016, as demand is expected to remain weak against a backdrop of fiscal consolidation and negative demographic developments.
- **Unemployment:** The unemployment rate in Bulgaria appears to have peaked at around 13 percent in 2013 and stood at 10.6 per cent in 2015 Q1. The employment rate increased 1.2 percentage points in 2015 Q1 relative to 2014 Q1. Further recovery of the labour market, however is expected to remain modest in 2015-16.
- **Inflation:** Deflation that started in middle 2013 appears to have subsided, as prices rose 0.2 percent in April 2015, relative to December 2014. Annual change of HIPC still remains negative and is expected to move closer to zero by the end of 2015.
- **External and public sector balance:** General government debt jumped up sharply in 2014 by 9.3 percentage points, relative to 2013, as general government budget deficit worsened by 2.2 percentage points and additional debt to address banking sector turmoil was issued. The deficit is projected to remain high at about 3 % of GDP in 2015 and 2016. Despite this increase, general government gross debt is still low at 27.6 % in 2014. It is expected to exceed 30 % of GDP by 2016.
- **Banking sector:** Return on equity at the end of 2014 was at 7.15 percent. The profitability of Bulgarian banks is hindered by a declining share of loans and a rising share of lower-interest bearing assets: At the end of 2014 the ratio of liquid, low-return assets was 30 percent. A high ratio of non-performing loans (NPL) of about 16.7 percent still imposes large, albeit declining, costs on the banking system. NPLs are well provisioned and the regulator estimates that the banking system could absorb even higher NPL ratios without major negative consequences for the system as a whole. The receivership of Corporate Commercial Bank (CCB) and its local subsidiary, Victoria Bank, and the subsequent bankruptcy of CCB, have not caused lasting negative spillovers in the banking system. Another bank that suffered mass withdrawals, First Investment Bank, was stabilised with liquidity support from the government that was renewed at the end of 2014.
- **Rating:** Bulgaria is rated BBB- by Fitch, Baa2 by Moody's and BB+ by S&P.

[10] Sources for the macroeconomic data: European Commission. Sources for the banking data: European Commission and Bulgarian National Bank data.

4. Results of the Bank Lending Survey:

4.1 Parent banks[11]

Figure 1. Market potential and positioning – see question A.Q15



Source: EIB – CESEE Bank Lending Survey.
(*) Return on assets (adjusted for cost of risk) compared to overall group operations; return on equity (adjusted for cost of equity) compared to overall group ROE.

1. Parent banks operating in Bulgaria continued to restructure their businesses at the global level over the past six months and expect to continue doing so over the next six months. Six out of ten banking groups with operations in Bulgaria plan to implement strategic restructuring measures over the next six months and 20 percent intend to raise capital on the market. These figures are broadly the same for the full sample of parent banks included in the survey.

2. The restructuring of parent banks continues to have an impact on operations in the CESEE region. For instance, about a quarter of these banks intend to reduce operations selectively, while nearly half of them intend to expand operations selectively. This divergence of views is even bigger in Bulgaria, where 40 percent intend to selectively reduce operations and 40 percent intend to expand selectively. Such a divergence is underlined by two additional facts. First, no parent bank with operations in Bulgaria assesses the local market potential as high (Figure 1, first bar). Second, eight out of ten parent banks report that risk-adjusted returns from their operations in Bulgaria are higher or equal to those for group operations as a whole (Figure 1, last two bars).

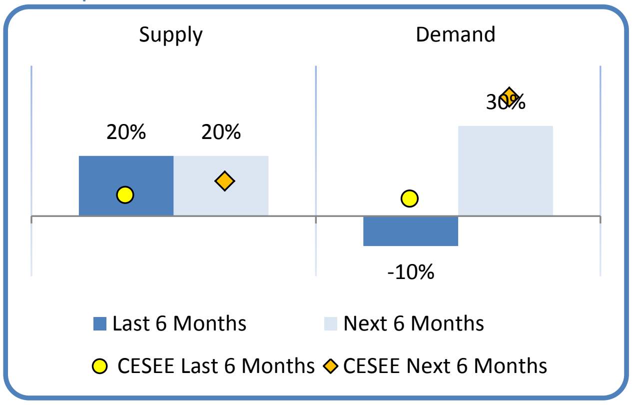
3. Parent banks operating in Bulgaria have continued to reduce total exposure to their subsidiaries and in particular intra-group funding, while conditions of this funding, most notably pricing, have been easing.

[11] In this subsection results refer to the views of parent banks. Results on market positioning and potential refer to questions addressing behaviours within a specific market, whilst the other data (e.g. restructuring strategies, ROA, etc.) are derived results. These are obtained by filtering out from the parents' views for the CESEE region as a whole the views of those parents effectively operating in a particular country. This makes it possible to assess whether there is a divergent attitude of a sub-group of parents operating in a specific country.

4.2 Local banks/subsidiaries

1. Supply conditions (credit standards) are seen as slightly better than previous rounds both over the past six months and in the near future. Aggregate demand for loans and credit lines was seen to be marginally declining by subsidiaries, while it is expected to increase somewhat in the near future (Figure 2). Demand and supply conditions in Bulgaria are expected to be broadly in line with those in the region.

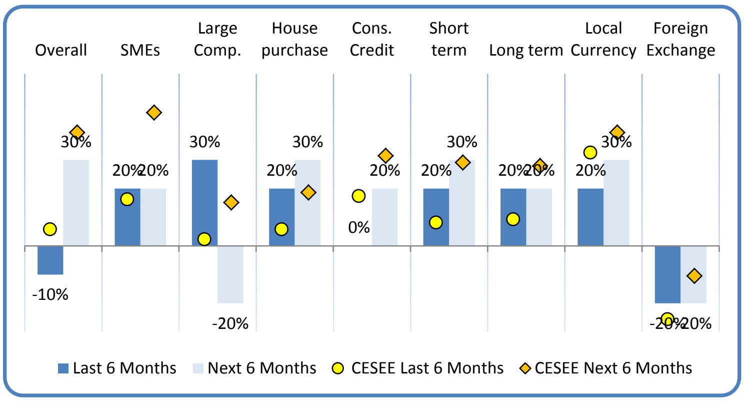
Figure 2: Credit supply (credit standards) and demand conditions – *net percentages;* positive figures refer to increasing (easing) demand (supply) – see questions B.Q1 and B.Q5



Source: EIB – CESEE Bank Lending Survey.

2. Stagnating credit demand in Bulgaria is mostly seen in consumer credit, whereas demand in the corporate sector and for mortgage loans is seen as increasing by some of foreign banks' subsidiaries in Bulgaria (see Figure 3). A net 20 percent of banks reported increasing demand from SMEs and for housing loans, while a net 30 percent sees demand from large corporates as increasing. The modest increases are equally spread between short and long e maturities. Expectations for increasing credit demand over the next six months are increasingly positive across sectors with the exception of credit demand for large corporates, where a net 20 percent of banks expect a decline.

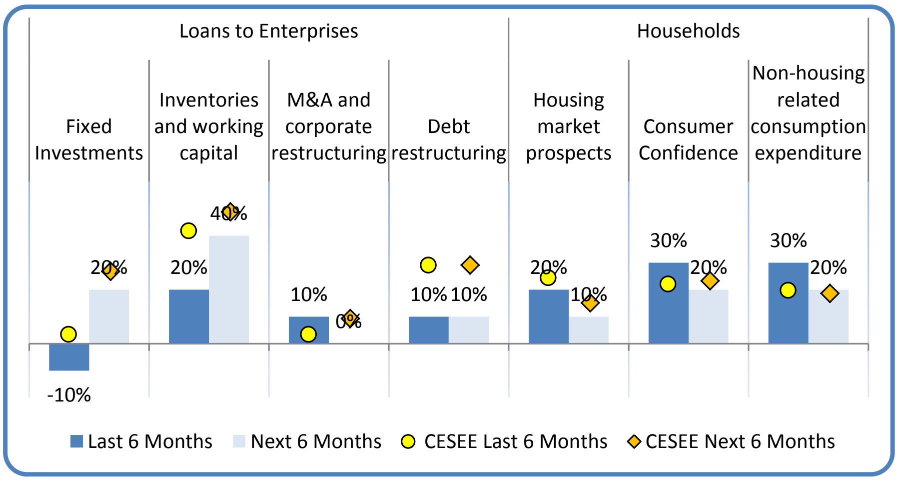
Figure 3. Demand components - (*net percentages*; positive figures refer to increasing demand) – see question B.Q5



Source: EIB – CESEE Bank Lending Survey.

3. Demand for loans for fixed investment continued to be a drag on demand as in the preceding survey rounds, while it slightly picked up for loans for working capital (Figure 4). These developments are broadly consistent with those in the rest of the CESEE region. Household demand factors are seen as improving. Looking ahead, credit demand for fixed investment and working capital is expected to increase in Bulgaria in line with developments across the region. Factors behind household credit demand are expected to continue improving.

Figure 4. Factors contributing to demand conditions – (*net percentage*; positive figures refer to a positive contribution to demand) – see question B.Q7

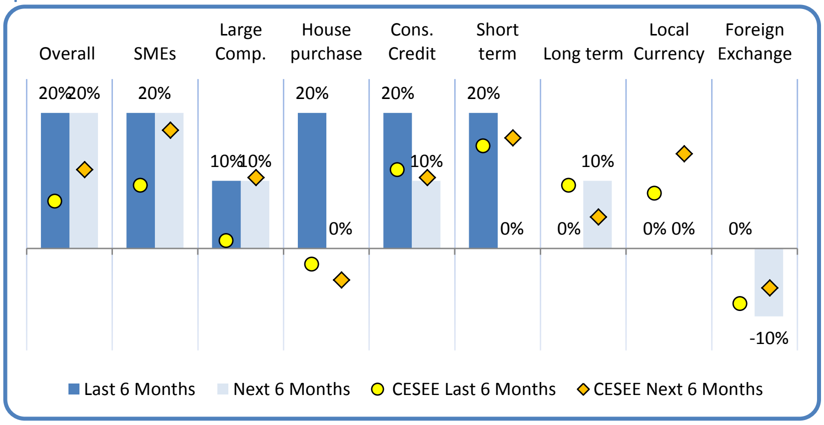


Source: EIB – CESEE Bank Lending Survey.

4. Overall supply (credit standards) improved slightly over the past six months in Bulgaria and in excess of average supply conditions in the CESEE region (Figure 5). Approximately a similar increase in aggregate credit standards is expected over the next six months, both for corporates and for households. Across maturities, credit standards on long-term loans are expected to be slightly better. Overall supply in Bulgaria is expected to improve more than the CESEE average due to better than average conditions on the local funding market (Figure 6). Narrower bank margins and conditions and terms, other than maturity, collateral and loan-size, are seen as the most important components of easing credit conditions over the next six months.

5. Improvement in supply conditions was driven largely by better domestic conditions on bank funding and by group outlook (Figure 6). As in the previous round of the survey, both local and group NPL figures affected negatively supply conditions. Looking ahead, the negative contributions from group NPLs are expected to remain, while developments in local NPLs are expected to contribute positively on credit supply conditions. As in the previous round, EU and local

Figure 5. Supply components – credit standards (*net percentages*; positive figures refer to a positive contribution to supply) – see question B.Q1

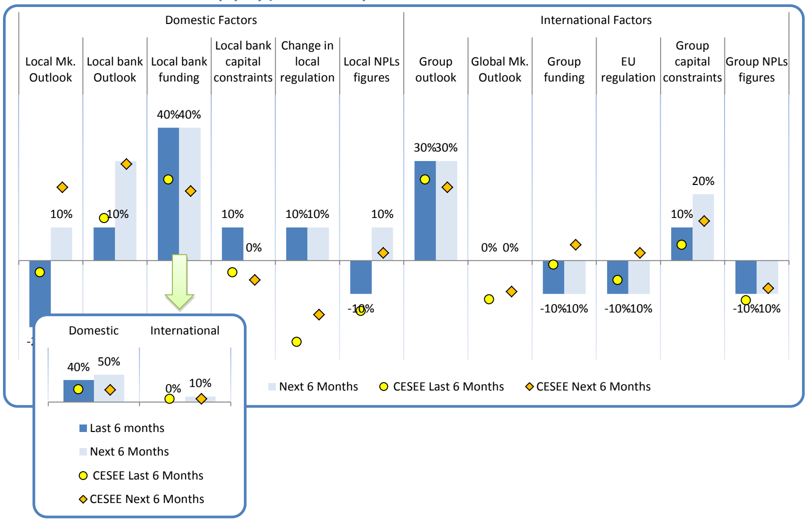


Source: EIB – CESEE Bank Lending Survey.

regulation are expected to have opposite effects on credit supply, with changes in local regulations expected to produce positive effects.

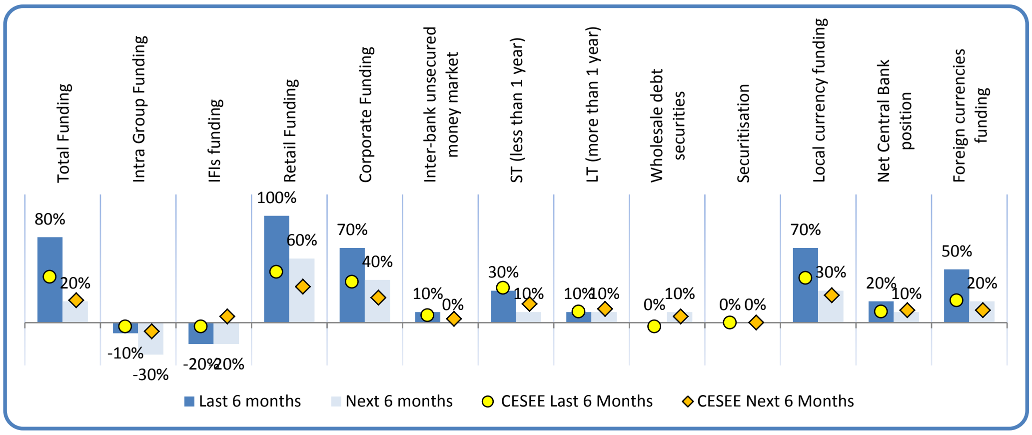
6. Overall credit supply conditions for SMEs have not changed much over the past six months. Positive developments of narrowing bank margins and in other terms and conditions were largely offset by tightening of collateral requirements. Changes in credit demand from SMEs were perceived as positive and broadly in line with the regional average. This improvement is expected to continue over the next six months, but well below the expected regional average. Supply conditions are also expected to improve on the back of narrower bank margins, average loan size and other terms and conditions.

Figure 6. Factors contributing to supply conditions (credit standards) – (*net percentage*; positive figures refer to a positive contribution to supply) – see question B.Q4



Source: EIB – CESEE Bank Lending Survey.

Figure 7: Access to funding – (*net percentage*; positive figures indicate increasing access to funding) – see question B.Q9



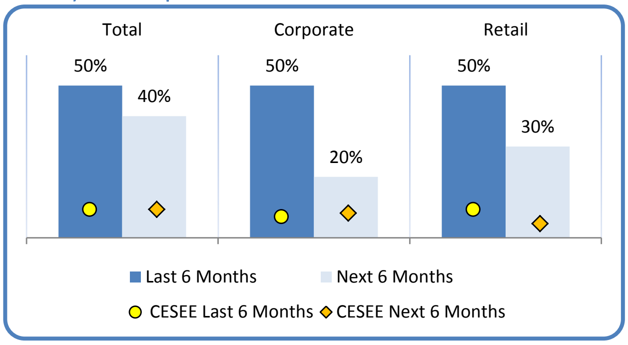
Source: EIB – CESEE Bank Lending Survey.

7. Access to funding has improved for 8 out of 10 banks during the past six months, well above the CESEE regional average. Retail and corporate deposits in both

local and foreign currency have contributed the most to the improved access (Figure 7). Massive withdrawals of funds from CCB bank group may have been deposited with subsidiaries and may have contributed to this substantial improvement. This may be partly correct, but it should be noted that retail and corporate deposits made a similar contribution during the previous two rounds of the survey. Looking ahead, access to funding is expected to improve further, albeit much less, driven by the same underlying factors.

8. NPL ratios are reported to have declined for a net 50 percent of respondents over the past six months, in both the corporate and retail sector (Figure 8). This is well above regional averages. On average, NPLs are expected to continue improving over the next six months.

Figure 8: Non-performing loan ratios – (*net percentage*; negative figures indicate increasing NPL ratios) – see question B.Q8



Source: EIB – CESEE Bank Lending Survey.

Croatia

1. Key statistics[12]

- Number of banks/subsidiaries participating in the survey: five
- Approximate share of assets covered (as proportion of total assets): 75 percent
- Current level of NPLs as proportion of total loans: 17.2% percent (Q3 2014)
- Latest credit growth (yoy): -2.6% (Q4 2014)
- Loan-to-deposit ratio: 94 percent (Q4 2014)
- CAR: 21.4 percent (Q4 2014)

2. Key messages - *Prolonged economic contraction severely limits financial intermediation.*

International groups' views:

- **Group strategies**: Global groups operating in Croatia are in line the overall sample of international banks included in the survey. They are somewhat less likely to engage in raising capital over the next six months.
- **Group assessment of positioning and market potential:** Parent banks operating in Croatia are strongly committed to the CESEE region, and typically they expect to selectively expand their operations in the area over the coming months. As to their view on the Croatian market, half of the groups reporting low market potential. Many parent groups also see returns on assets and equity to be below group levels. Nevertheless the large majority of groups are satisfied with their current market positioning.

Subsidiaries'/local banks' views:

- Croatian banks report that while **credit demand decreased and supply eased marginally** in the last 6 months, they expect a reversal.
- **Credit supply** conditions eased somewhat, but are expected to tighten again. The main positive influences on supply standards were an increasing funding from IFIS and an improving group-level outlook. In the period ahead, most domestic elements will continue to be limiting factors.
- **Demand for loans** Overall demand for loans has been slightly declining. Lack of consumer confidence and unfavourable housing market conditions have been a drag over the last months. A slight improvement in credit demand is expected.
- **Access to funding:** Funding conditions have been improving, with IFI and retail funding having a positive effect.
- **NPL figures:** All subsidiaries continue to report increasing NPLs, but the deterioration of credit quality is expected to slow down in the corporate sector.

[12] Sources: Croatian National Bank and Unicredit/Bank Austria.

3. Relevant macroeconomic and banking conditions[13]

- **Growth**: Croatia's economy continued to contract in 2014. Real GDP growth amounted to -0.4% in 2014 indicating a mild improvement compared to 2013 (-0.9%). Growth has been mainly lessened by a weak domestic demand, whereas net exports had a positive contribution. Growth is expected to pick up albeit at a slow pace.
- **Unemployment**: The unemployment rate is high – about 17.3 percent in 2014. It is expected to decrease only marginally the next two years.
- **Inflation**: The harmonised index of consumer prices increased only by 0.3 percent in 2014, and is expected to remain close to zero in 2015 due to subdued demand.
- **External and public sector balance:** Low domestic demand resulted in a current account surplus of 0.6 percent of GDP in 2014, which is expected to increase further to 2 percent in 2015. On the fiscal side, however consolidation is slow. In 2015 the deficit is expected to remain close to the 2014 level (5.7 percent of GDP). In 2015 and 2016, public debt is forecast to rise further to above 90% of GDP mainly as a result of underlying deficit trends.
- **Banking sector:** The Croatian banking sector has been relatively resilient to the country's deep economic recession. Banks are highly capitalised (CAR 21.4 percent in Q4 2014). Total assets of the banking sector in Croatia stood at 134.3% of GDP in 2014. The loans-to-deposit ratio has gradually declined since 2012. Portfolio quality has been deteriorating, and NPLs are relatively high at above 17 percent. Lending growth have been negative since mid-2012, and total credit is still contracting (-2.6 percent in Q4 2014). Partly as a consequence of the sluggish economy and the resulting low demand for credit, non-resident funding of the banking system had declined. The loan to deposit ratio is well below 100 percent. Growth in domestic deposits, however, particularly from households, has been positive and has been gradually replacing foreign funding, and supporting the deleveraging process. Besides the recession, the key challenges for the banks include a) the increasing involvement of the government in the banking sector, such as the measures taken in response to the appreciation of the Swiss franc, b) the share of debt held by domestic institutional investors and c) risks stemming from a change in the kuna-euro exchange rate due to a large proportion of private debt denominated in euro.
- **Rating:** Croatia is currently rated by Moody's (Ba1), Fitch (BB) and S&P (BB).

[13] Sources for the macroeconomic data: European Commission. Sources for the banking data: European Commission and Unicredit/Bank Austria based on CNB data.

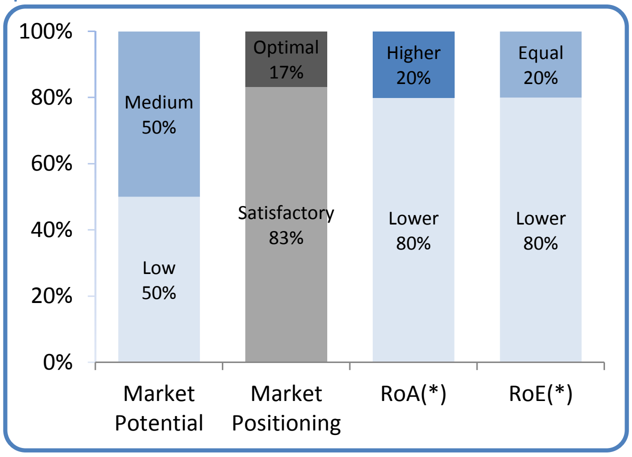
4. Results from the Bank Lending Survey:

4.1 Parent banks[14]

1. Parent banks operating in Croatia generally share their view on global operations with the overall sample of international banks included in the survey. They are somewhat less likely to engage in raising capital over the next six months.

2. Relative to the full sample, parent banks operating in Croatia are more strongly committed to the CESEE region, and typically they expect to selectively expand their operations in the region over the coming months. Although the banking groups report a slight improvement in the market prospects in Croatia, still half of the respondents view Croatia's market potential as low (Figure 1). The overwhelming majority of the banks describe the profitability (i.e., ROE and ROA) of Croatian operations as lower than that of the overall group operations, even when corrected for the cost of risk and cost of equity. These views are counterbalanced by a more positive outlook on groups' positioning in the market. Two thirds of the parent banks consider their current market positioning to be satisfactory, and 17 percent assess their positioning as optimal.

Figure 1. Market potential and positioning – see question A.Q15



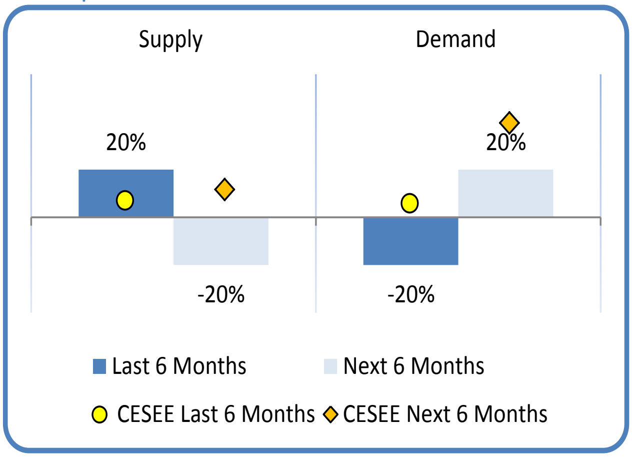
Source: EIB – CESEE Bank Lending Survey.
(*) Return on assets (adjusted for cost of risk) compared to overall group operations; return on equity (adjusted for cost of equity) compared to overall group ROE.

[14] In this subsection results refer to the views of parent banks. Results on market positioning and potential refer to questions addressing behaviours within a specific market, whilst the other data (e.g. restructuring strategies, ROA, etc.) are derived results. These are obtained by filtering out from the parents' views for the CESEE region as a whole the views of those parents effectively operating in a particular country. This makes it possible to assess whether there is a divergent attitude of a sub-group of parents operating in a specific country.

4.2 Local banks/subsidiaries

1. Subsidiaries operating in Croatia reported a decrease in the demand for loans over the past six months, whereas the CESEE region reported a marginal increase on average. Supply conditions have been improving marginally over the past six months (Figure 2). However a reversal is expected on both sides over the next six months, with a slight increase in demand – in line with the expectations for the whole region –, and a similarly small tightening in credit supply.

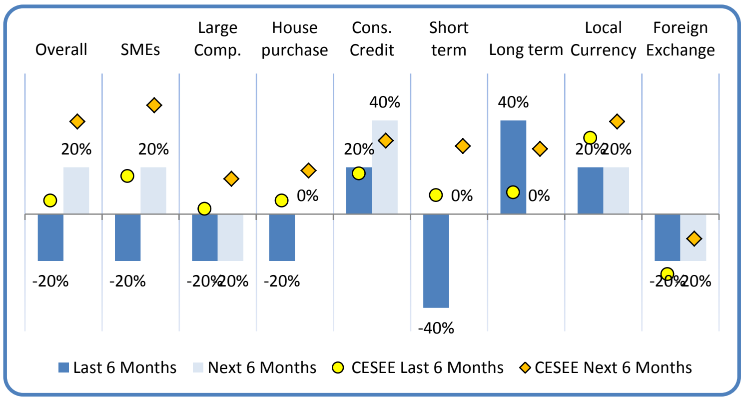
Figure 2: Credit supply (credit standards) and demand conditions – *net percentages;* positive figures refer to increasing (easing) demand (supply) – see questions B.Q1 and B.Q5



Source: EIB – CESEE Bank Lending Survey.

2. Overall demand for loans has been declining. In the corporate segment, credit demand from both SMEs and large companies has also contracted in the last six month (Figure 3). The decline in demand is likely to continue to remain in the wholesale segment. To the contrary it is expected to pick up somewhat for SMEs in the coming months. Demand for short-term loans was weaker than for longer term financing. Within the household segment, consumer credit is the area that has seen some activity, and demand here is expected to strengthen. A shift from foreign to local currency-denominated credit can be observed in Croatia as elsewhere in the CESEE region.

Figure 3. Demand components - (*net percentages*; positive figures refer to increasing demand) – see question B.Q5

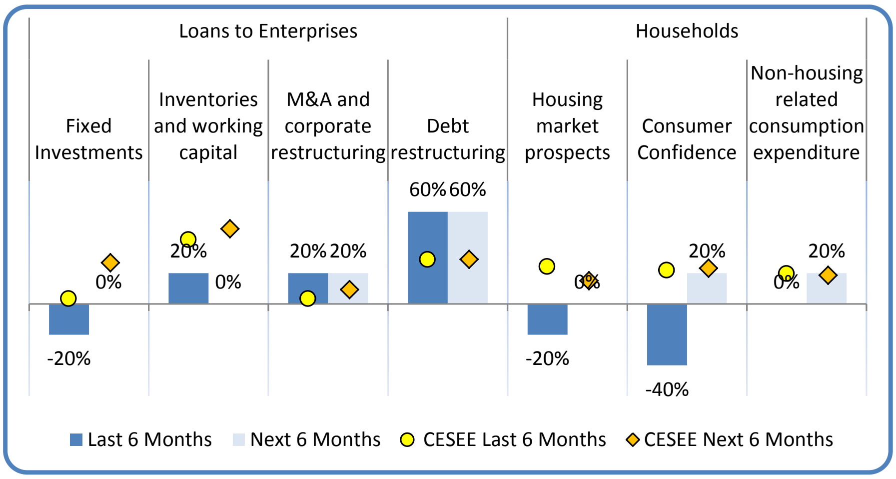


Source: EIB – CESEE Bank Lending Survey.

3. As for the factors behind credit demand, lack of consumer confidence and unfavourable housing market conditions have been a drag over the last few months, whereas debt restructuring in the corporate sector has contributed positively (Figure 4). Consumer confidence is expected to recover slightly over the next six months, in line with the CESEE region. Debt restructuring and, to a

lesser extent, corporate M&A activity are expected to support credit demand by the corporate sector in the period ahead.

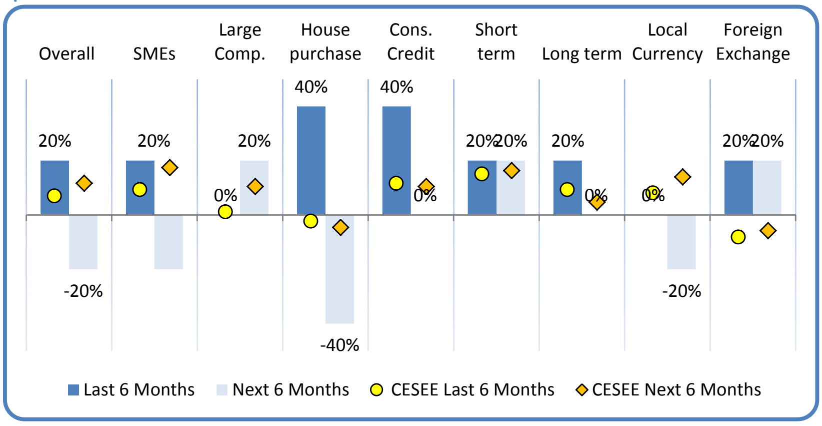
Figure 4. Factors contributing to demand conditions – (*net percentage*; positive figures refer to a positive contribution to demand) – see question B.Q7



Source: EIB – CESEE Bank Lending Survey.

4. Credit supply components have been slightly easing on balance over the past six months (Figure 5). There has been a pronounced loosening of credit standards for households – both for housing loans and consumer finance, and a smaller scale easing for SMEs. Credit standards for both short-term and long-term lending have been easing. Over the next six months, a reversal (e.g. tightening) is expected in most segments, with the exception of credit extended to large corporates where some easing in the standards is projected.

Figure 5. Supply components – credit standards (*net percentages*; positive figures refer to a positive contribution to supply) – see question B.Q1

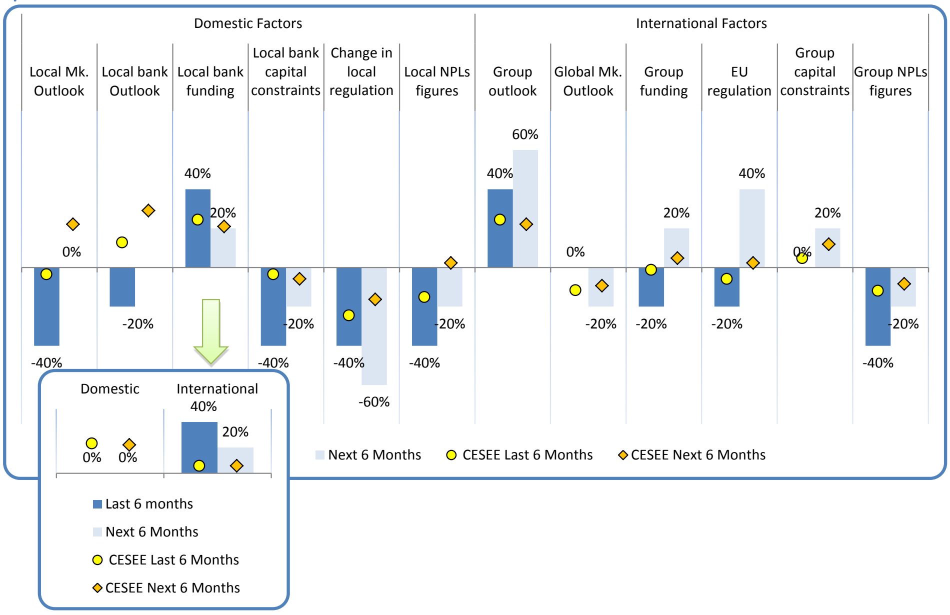


Source: EIB – CESEE Bank Lending Survey.

5. Many domestic factors (including NPLs, capital constraints and local regulation) contributed negatively to credit supply conditions in Croatia, with the exception of local bank funding from international – possibly IFI – sources (Figure 6). Among international factors, the outlook for parent groups was a significant positive factor, while group NPLs, EU regulations and group funding has been a drag on credit supply. In the period ahead, most domestic factors are expected

to be mainly restrictive. The funding of local subsidiaries is expected to remain the only slightly positive element, and a further deterioration in the domestic regulatory environment is expected. On the international side, improvements and positive contributions are projected for group funding and for the EU regulatory framework.

Figure 6. Factors contributing to supply conditions (credit standards) – (*net percentage*; positive figures refer to a positive contribution to supply) – see question B.Q4

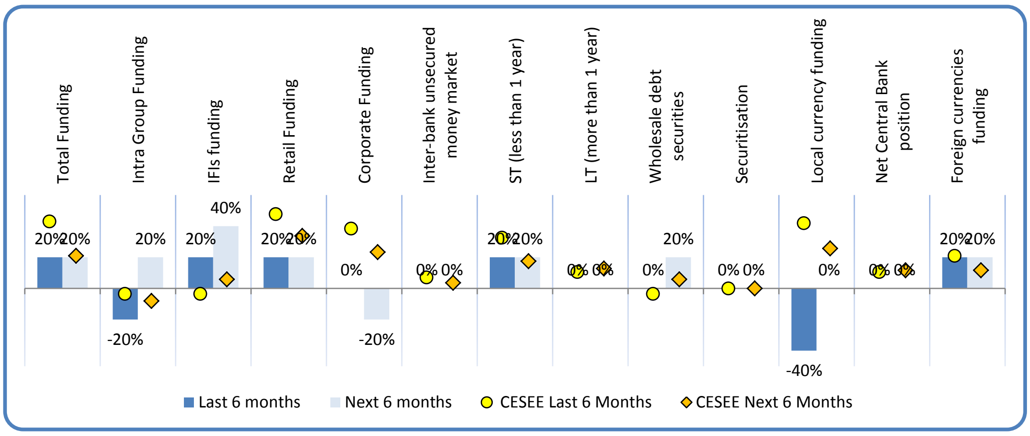


Source: EIB – CESEE Bank Lending Survey.

6. Subsidiaries in Croatia have reported an easing of credit standards for SMEs for the second time in a row. However, this is not expected to continue over the next six months – on the contrary, standards are projected to tighten. On the other hand, demand for credit from SMEs is expected to mildly pick up over the next six months. Collateral requirements requested to SMEs have been tightening significantly over the last years, and they are expected to become even tighter looking ahead.

7. The overall funding situation of subsidiaries has improved somewhat over the last six months, primarily from increased retail and IFIs funding (Figure 7). IFIs funding is expected to exert a positive effect over the next six months. Intra-group funding exerted a negative contribution in the past, but is expected to improve.

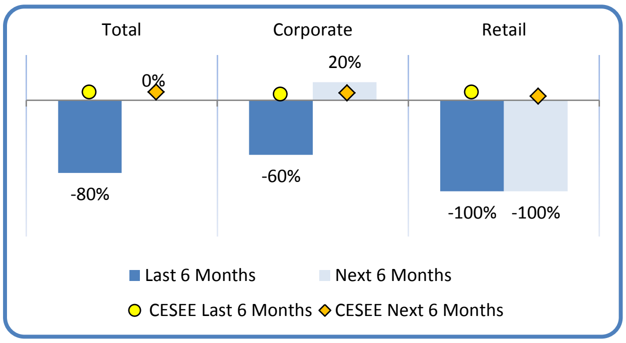
Figure 7: Access to funding – (*net percentage*; positive figures indicate increasing access to funding) – see question B.Q9



Source: EIB – CESEE Bank Lending Survey.

8. With regard to NPLs, the prolonged economic recession continues to weigh on banks' expectations, and the trend highlighted in the previous releases of the survey continued. All subsidiaries state that NPLs rose over the past six months in retail segment, and the majority has the same view for the corporate segment. All subsidiaries think that in the retail segment NPLs will rise further in the next six months (Figure 8). However, on the positive note, expectations about corporate NPLs have finally started to marginally improve.

Figure 8: Non-performing loan ratios – (*net percentage*; negative figures indicate increasing NPL ratios) – see question B.Q8



Source: EIB – CESEE Bank Lending Survey.

Czech Republic

1. Key statistics[15]

- Number of banks/subsidiaries participating in the survey: five
- Approximate share of assets covered (as proportion of total assets): 70%
- Current level of NPLs as proportion of total loans: 6% (February 2015)
- Latest credit growth (yoy): 5.2% (February 2015)
- Loan-to-deposit ratio: 76% (February 2015)
- CAR: 17.2% (December 2014)

2. Key messages – *Perceived as a high-potential banking market with economic and credit market recovery under way.*

International groups' views:

- **Group strategies**: Unlike in the previous survey round the majority of international banks operating in the Czech Republic are planning to undertake some restructuring at group level. They present a more positive view in terms of group deleveraging than the overall sample of banks included in the survey.
- **Group assessment of positioning and market potential**: A majority of groups operating in the Czech Republic record higher profitability in CESEE than at the overall group level. Hence, they are also very much inclined to expand operations in the CESEE region. They are satisfied with their positioning in the Czech market, and all of them regard the Czech Republic as having medium or high market potential.

Subsidiaries'/local banks' views:

- **Credit supply:** Unlike in the CESEE region as a whole supply conditions eased significantly over the last six months, particularly in the corporate sector. The improvement was driven by domestic factors such as local market and bank outlook, bank funding and NPL figures. The easing trend is expected to continue in the next months, again mainly in the SME and large corporate segments.
- **Credit demand:** Sharply divergent to developments in the CESSE as a whole, credit demand in the Czech Republic increased over the last six months and will continue to do so, driven by the corporate sector, particularly SMEs.
- **Access to funding:** Subsidiaries indicated an overall significantly improved access to funding on the back of retail, corporate and IFI funding. Access to funding is expected to further improve, though less pronounced than so far, driven particularly by corporate and retail funding.
- **NPL figures:** Both corporate and retail NPL ratios decreased noticeably over the last six months and the trend should continue in the next two quarters.

[15] Sources: The Czech National Bank.

Relevant macroeconomic and banking conditions[16]

- **Growth:** After two years of contraction the Czech economy returned to growth in 2014 (2%). In fact, growth has been strengthening since mid-2013. The rebound was driven by domestic demand factors, particularly fixed capital investment and household consumption, while the contribution of net exports was rather contained and deteriorating compared to previous years. The European Commission estimates real GDP to rise by 2.5% in 2015 and 2.6% in 2016, slightly above potential and EU average. The economic expansion will be driven by strengthening domestic demand, particularly investment whilst a neutral net exports contribution is forecast in 2015.
- **Unemployment:** Unemployment increased from below 5% pre-crisis to approximately 7% in 2013 and dropped significantly by almost a percentage point in 2014. However, further decline is expected to be only very gradual in the medium-term on the back of a strengthening economy. While unemployment is relatively low by EU standards some disadvantaged groups would need more attention.
- **Inflation:** Despite CNB's exchange rate interventions the HICP rate averaged 0.4% in 2014, partly due to reductions in regulated prices at the beginning of the year. The substantial decline in oil prices in recent months is forecast to put downward pressure on inflation also in the medium term, although tighter labour market conditions and an expansionary monetary policy should counteract. HICP inflation is thus forecast to average 0.8% in 2015 and to rise to 1.4% in 2016, still well below the inflation target of 2%.
- **External and public sector balance:** The current account is posting a slight deficit which is expected to shrink in the medium term on the back of the weaker koruna, accelerating growth of main trading partners and increasing absorption of EU funds. As a result of fiscal consolidation budget deficit came down from 5.5% in 2009 to 1.3% of GDP in the last two years. In 2015 the fiscal stance is expected to slightly ease with the deficit increasing to around 2% of GDP before improving to 1.5% of GDP in 2016. Public debt fell to around 44% in 2014 and is projected to gradually rise to around 45% in 2016.
- **Banking sector:** The capital adequacy ratio of the banking sector (more than 17% end-2014) comfortably exceeds the regulatory minimum. NPLs hover around 6%, which is low compared with the rest of the region. The loan-to-deposit ratio (76% in February 2015) is very low in relation to the rest of the region. Credit growth is well below the pre-crisis level, albeit still positive (around 5% in early 2015), with retail loans increasing at a slightly higher rate than corporate loans.
- **Rating:** The Czech Republic is currently rated A1 by Moody's, A+ by Fitch and AA- by S&P.

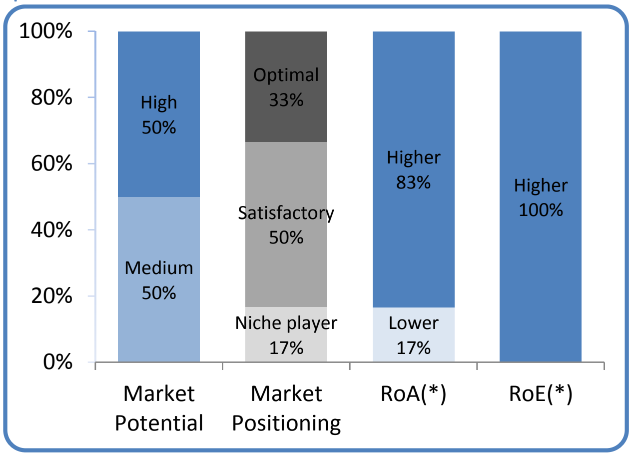
[16] Sources for the macroeconomic data: European Commission and the IMF. Sources for the banking data: European Commission and Czech National Bank.

3. Results of the Bank Lending Survey:

3.1 Parent banks[17]

1. Banks operating in the Czech Republic maintain a more favourable view in several respects than the overall sample of groups in the survey. Although the share of parent banks which are considering the sale of assets at the global level in the next six months has increased from 50% to 60%, it is still well below the 75% in the overall sample. The parent bank's view on other strategic operations is mixed. No bank is planning to raise capital on the market or take it from the government. Yet 20% of parent banks are planning to sell branches and even 60% want to undertake some strategic restructuring at the global level. In contrast, parent banks operating in the Czech Republic do not envisage any deleveraging as all banks expect their loan-to-deposit ratio to remain stable (80%) or increase (20%) over the next six months.

Figure 1. Market potential and positioning – see question A.Q15



Source: EIB – CESEE Bank Lending Survey.

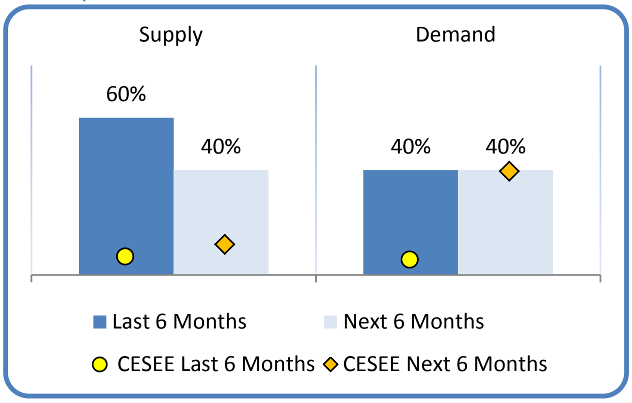
2. Groups operating in the Czech Republic remain strongly committed to the region as 80% of them intend to expand operations while none plans to reduce their regional activity. Three of five parent banks operating in the Czech Republic reported higher profitability in CESEE than at group level in the last six months. Moreover, 80% of banks expect either an unchanged or increasing contribution of activities in CESEE to the group level return-on-assets ratio over the next six months. A large majority of parent banks (83%) consider their market positioning optimal or satisfactory and all surveyed banks believe their market potential is medium-to-high (Figure 1).

[17] In this subsection results refer to the views of parent banks. Results on market positioning and potential refer to questions addressing behaviours within a specific market whilst the other data (e.g. restructuring strategies, ROA, etc.) are derived results. These are obtained by filtering out from the parents' views for the CESEE region as a whole the views of those parents effectively operating in a particular country. This makes it possible to assess whether there is a divergent attitude of a sub-group of parents operating in a specific country.

3.2 Local banks/subsidiaries

1. Outperforming strongly the CESEE average and also expectations voiced in the last survey, subsidiaries operating in the Czech Republic reported significant easing in supply conditions over the last six months. In the next half a year supply is expected to increase markedly more in the Czech Republic than in the CESEE region (Figure 2). Also demand strengthened noticeably in the Czech Republic in the last six months unlike in the CESEE region. Looking forward, demand is expected to further pick up in the Czech Republic in line with the CESEE average.

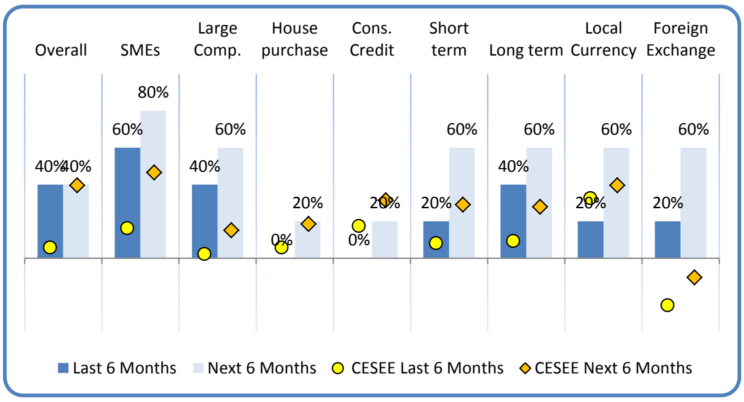
Figure 2: Credit supply (credit standards) and demand conditions – *net percentages;* positive figures refer to increasing (easing) demand (supply) – see questions B.Q1 and B.Q5



Source: EIB – CESEE Bank Lending Survey.

2. Sharply divergent to developments in the CESSE as a whole, credit demand in the Czech Republic increased over the last six months thanks to the corporate sector, particularly SMEs. In contrast, households' demand for mortgage and consumer loans stagnated. Looking ahead, a significant majority of banks expect a further increase in overall demand for credit in both local and foreign currencies at all maturities. The continued demand recovery will again be driven particularly by SMEs and to a lesser extent large companies. Consumer credit and demand for house purchase loans should only moderately pick up in line with other peer countries (Figure 3).

Figure 3. Demand components - (*net percentages*; positive figures refer to increasing demand) – see question B.Q5

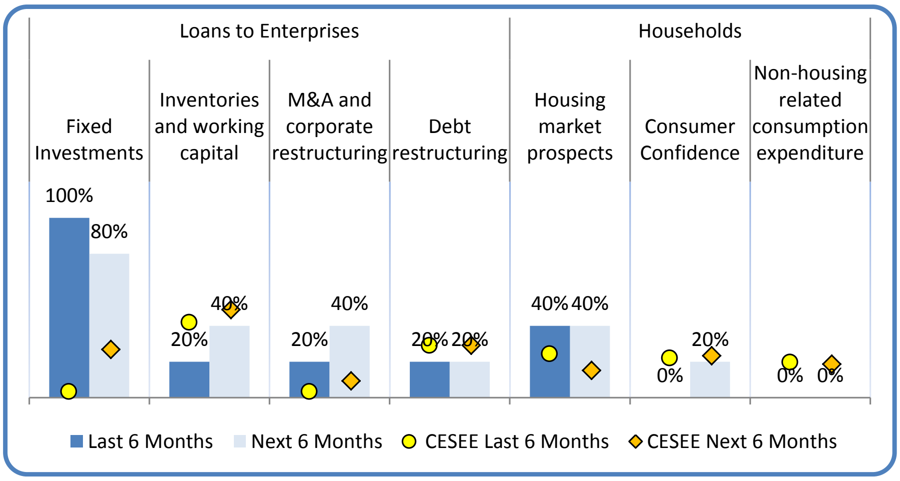


Source: EIB – CESEE Bank Lending Survey.

3. While all business needs contributed positively to the rising demand in the corporate segment in the last six months, the most decisive factor was financing need for fixed investment. This survey result thus very much confirms the revival of investment as the major driver of GDP growth observed in the macroeconomic data. Looking ahead, a very similar demand composition is expected also in the next six months. In the household segment, demand was

supported particularly by favourable housing market prospects. The latter will remain the major driving force in the months to come, way stronger than in the CESEE aggregate (Figure 4). Improving consumer confidence is expected to contribute to a growing credit demand of households in line with peer countries.

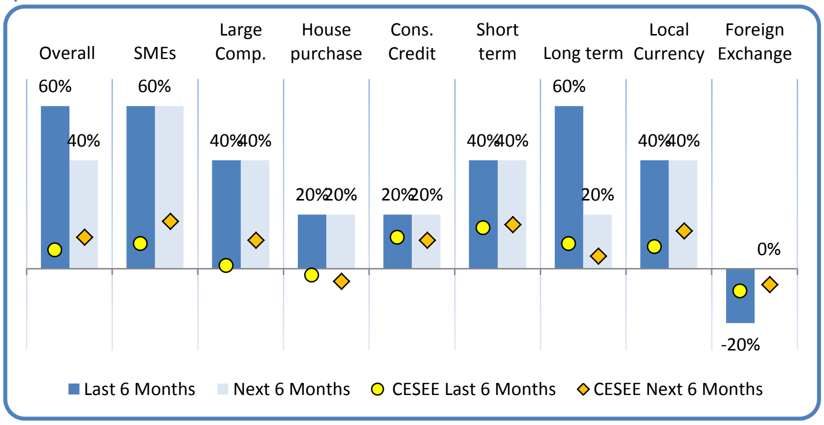
Figure 4. Factors contributing to demand conditions – (*net percentage*; positive figures refer to a positive contribution to demand) – see question B.Q7



Source: EIB – CESEE Bank Lending Survey.

4. Unlike in the CESEE region as a whole supply conditions eased significantly in the Czech Republic over the last two quarters. Subsidiaries operating in the Czech Republic expect this trend to continue over the next six months, primarily in the SME and, to a lesser extent, large corporate segments. The loosening of credit standards in these two segments should be significantly more pronounced in the Czech Republic than in the CESEE region as a whole (Figure 5) thus matching the developments on the demand side.

Figure 5. Supply components – credit standards (*net percentages*; positive figures refer to a positive contribution to supply) – see question B.Q1

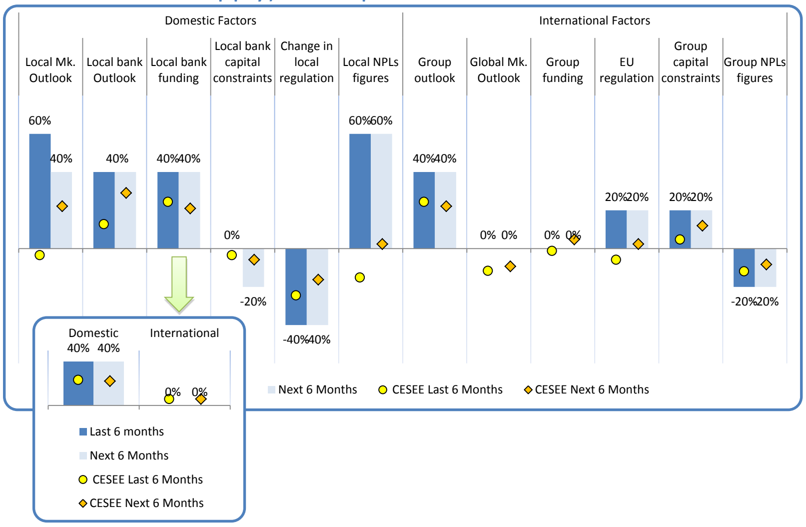


Source: EIB – CESEE Bank Lending Survey.

5. Overall, while international factors made rather neutral contributions to supply conditions over the last six months domestic factors exercised a strong positive impact. In the case of the latter, local market and bank outlook, bank funding and NPL figures pointed toward the easing of credit standards, whilst changes in local regulation contributed to a tightening of supply conditions. A similar trend is expected to continue over the next six months. As regards international factors, the easing effect of EU

regulation and group outlook and capital constraints will be counteracted by a supply dampening effect of group NPLs (Figure 6).

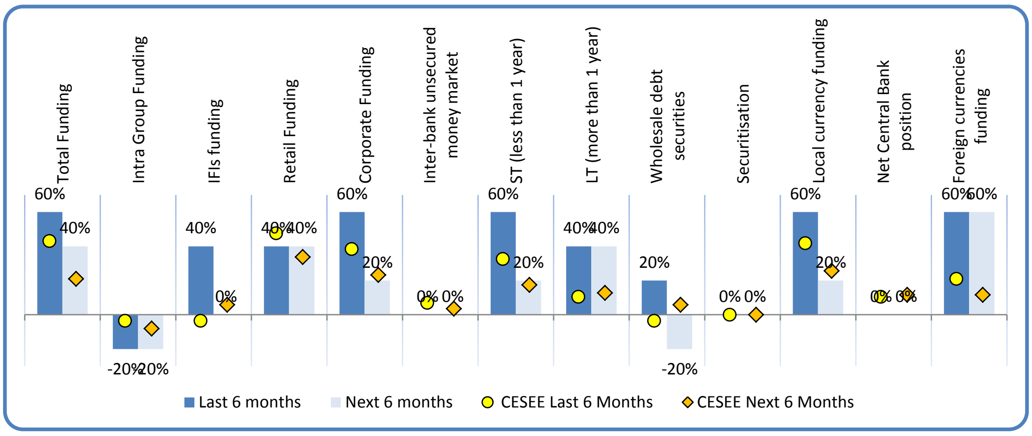
Figure 6. Factors contributing to supply conditions (credit standards) – (*net percentage*; positive figures refer to a positive contribution to supply) – see question B.Q4



Source: EIB – CESEE Bank Lending Survey.

6. As regards SMEs - in line with the strengthening demand - banks on balance reported also quite a significant easing of credit supply conditions in the last six months. This was a rather divergent development to the broadly stagnating market in the CESEE region. Looking ahead, the trend is expected to continue with an even stronger boost on the demand side than so far in the Czech Republic and a more muted market recovery in the CESEE. Moreover, there are some differences regarding the components of credit standards. Specifically, interest rate margins in the Czech Republic are expected to drive a loosening of credit supply. In contrast, in the CESEE region as a whole the softer easing of credit conditions will be primarily reflected in the average loan size.

Figure 7: Access to funding – (*net percentage*; positive figures indicate increasing access to funding) – see question B.Q9

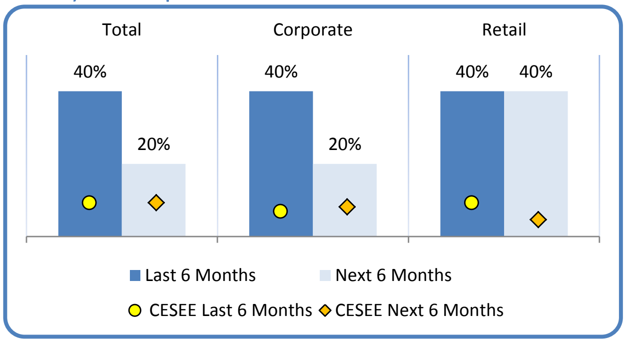


Source: EIB – CESEE Bank Lending Survey.

7. With a loan-to-deposit ratio well below 100 percent, Czech banks generally had no pressing need to rely on intra-group funding to support credit growth. Nevertheless, subsidiaries reported an overall significantly improved access to funding on the back of retail, corporate and IFI funding, despite some deterioration in intra-group funding. Moreover, access to financing is expected to ease further in the next six months. While the easing will be less pronounced than in the past half a year, reportedly it will be more significant than in the rest of the CESEE region. In line with the peers, the improvement in the Czech Republic will be driven particularly by corporate and retail funding (Figure 7).

8. Both corporate and retail NPL ratios decreased noticeably over the last six months and the trend should continue in the next two quarters, particularly in the retail sector and to a lesser extent in the corporate sector. Also in the CESEE region NPL ratios improved in both segments, although at a much slower pace than in the Czech Republic, and a moderate improvement is expected to continue in the months to come.

Figure 8: Non-performing loan ratios – (*net percentage*; negative figures indicate increasing NPL ratios) – see question B.Q8



Source: EIB – CESEE Bank Lending Survey.

Hungary

1. Key statistics[18]

- Number of local banks/subsidiaries participating in the survey: five
- Approximate share of assets covered (as proportion of total assets): 85 percent
- Current level of NPLs as proportion of total loans: 15.6 percent (Q4 2014)
- Latest credit growth, yoy: -1.4 percent (Q4 2014)
- Loan-to-deposit ratio: 98 percent (Q3 2014)
- CAR: 17.8 percent (Q4 2014)

2. Key messages - *Low profitability decreases the attractiveness of the Hungarian market, while no impediments to supply and demand are detected at this stage.*

International groups' views:

- **Group strategies**: Banking groups operating in Hungary are somewhat less likely to conduct strategic restructuring operations or to raise capital at the global level over the next six months than the overall sample population. They are also somewhat less likely to sell assets at the global level relative to the full sample of international bank groups. Only 20 percent of the respondents envisage further deleveraging of their global operations.
- **Group assessment of positioning and market potential**: Groups operating in Hungary remain committed to the CESEE region but see only medium-to-low potential in the Hungarian market. 70 percent of them consider the profitability of their Hungarian operations lower than the overall group's activities.

Subsidiaries'/local banks' views:

- Hungarian banks report further **improvements in demand for credit** and a **similar**, relatively positive outlook for **credit supply conditions**.
- **Credit supply** expectations are more optimistic than the CESEE average. Credit has been particularly accessible for SMEs, the sector targeted by the central bank's Funding for Growth initiative. Looking ahead, banks expect further easing of credit conditions for both corporates and households.
- **Credit demand** has been further increasing in line with the strong rebound in economic activity after a prolonged recession and is expected to remain high.
- **Access to funding** from most sources has improved somewhat, but the central bank's funding scheme plays a pivotal role in generating the optimistic credit supply expectations.
- **NPL figures** have already been improving in the corporate segment, and similar developments are expected for households, too.

[18] Sources: National Bank of Hungary, IMF, European Commission and Unicredit/Bank Austria.

3. Relevant macroeconomic and banking conditions[19]

- **Output:** Real GDP growth reached 3.6% in 2014, well above expectations, putting Hungary among the higher performing economies in the EU. This surge was mainly due to domestic demand, which contributed to growth by 4 percentage points. Demand was fuelled by the absorption of EU funds, and the central bank's subsidised SME lending programme ('Funding for Growth'). Net exports, had a small negative contribution to the increase of output.
- **Unemployment:** In 2014, unemployment decreased to a low of 7.7%. With economic growth, job creation in the private sector continued, but employment growth was also supported by extensive public works and the rising number of cross-border workers.
- **Inflation:** Inflation in 2014 turned out to be 0%, and stood at -0.6% in March 2015. This is due to subdued imported inflation, low food prices, regulated energy price cuts and while inflation expectations were declining. In the second half of 2015, inflation is expected to turn positive as these effects diminish and the inflation for the year as a whole will be close to zero.
- **External and public sector balance:** Hungary's government's deficit in 2014 amounted to 2.6% of GDP. Given the adopted budget, the 2015 deficit is forecasted at 2.5% of GDP. Looking ahead, positive risks are related to recent measures to combat VAT avoidance as well as to the realisation of asset sales. On the negative side, financial corrections related to EU-funded projects may turn out higher than planned. The current account is in surplus, amounting to 4.4 percent of GDP in 2014, and expected to increase further.
- **Banking sector:** The banking system was again making losses on average in 2014. Bank P&Ls are still heavily impacted by loan losses and various policy measures, such as the bank levy and transaction tax. Profits in 2014 were heavily hit by the government's bailout and compensation program for households with FX loans: as a consequence the banking system as a whole accumulated a net loss of around EUR 1.5bn. Despite the large-scale losses accumulated since the beginning of the crisis, capitalisation is adequate – CAR was at 17.9 percent in 2014 – mainly due to the subsequent recapitalisations by the foreign strategic owners. State ownership in the sector increased recently through a series of exits by foreign owners. Deleveraging and withdrawal of parent funding has been ongoing since the outbreak of the crisis. As a consequence, the loan-to-deposit ratio fell from its early 2009 peak of 162 percent to below 100 percent by the end of 2014. The central bank's Funding for Growth initiative was intended to provide the corporate sector with cheap funding, and it managed to stop the decline in corporate credit by end 2014. Credit flow to households is still negative.
- **Rating:** Hungary's rating is BB+ (Fitch), Ba1 (Moody's) and BB (S&P).

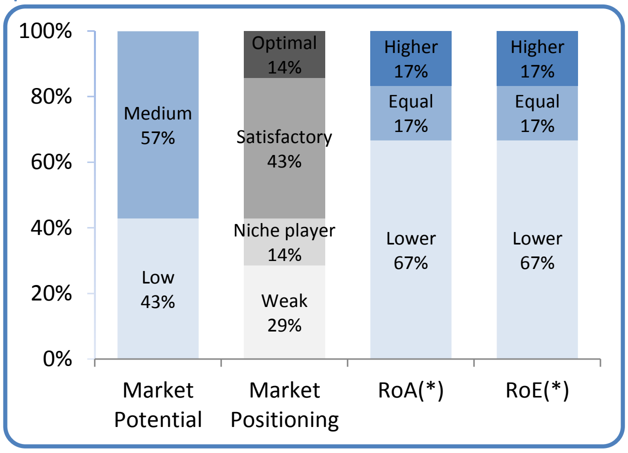
[19] Sources for the macroeconomic data: European Commission. Sources for the banking data: European Commission, Unicredit/Bank Austria and Raiffeisen Research based on NBH data.

4. Results of the Bank Lending Survey:

4.1 Parent banks[20]

1. Banking groups operating in Hungary do not differ significantly on average from the overall sample of parent banks in terms of their global strategies. They are somewhat less likely to conduct strategic restructuring operations or to raise capital over the next six months. They are also somewhat less likely to sell assets at the global level relative to the full sample of international bank groups. As for deleveraging, they are less likely to reduce their current loan-to-deposit ratios at the global level in the near future, with only 20 percent of groups still expecting such a decrease.

Figure 1. Market potential and positioning – see question A.Q15



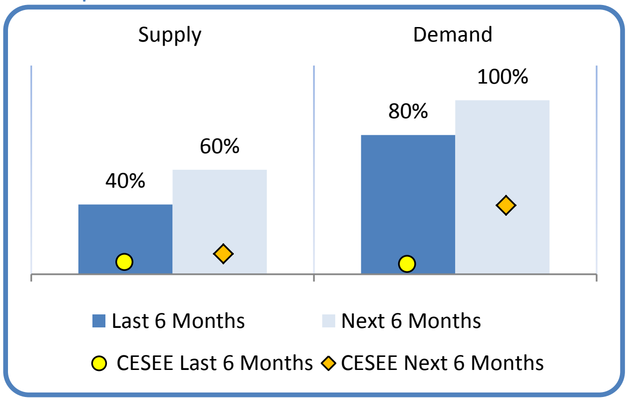
Source: EIB – CESEE Bank Lending Survey
(*) Return on assets (adjusted for cost of risk) compared to overall group operations; return on equity (adjusted for cost of equity) compared to overall group ROE.

2. Groups operating in Hungary remain committed to their operations in the CESEE region. However the prospects for the Hungarian market are described as being rather gloomy. About 43 percent of respondents still believe that the potential of the Hungarian market is 'low' (Figure 1). This is a slight improvement relative to the survey results from H2 2014, but still indicates that the parents' view of the Hungarian banking market is less favourable than their perception of the other Visegrad 4 countries (Czech Republic, Poland and Slovakia). In addition, parents also stress that the profitability of the Hungarian operations dropped quite dramatically, with roughly 70 percent reporting risk-adjusted returns on assets and equity in Hungary as being significantly lower than the overall group levels. This is most likely a result of the latest round of government interventions related to the conversion of FX mortgages and the associated compensation scheme for households, which imposed further losses on banks. As to market positioning, about half the parents believe it to be satisfactory or optimal.

[20] In this subsection the results refer to the views of parent banks. Results on market positioning and potential refer to questions about behaviour within a specific market, while the other data (e.g. restructuring strategies, ROA, etc.) are derived results. These are obtained by filtering out from the parents' views for the CESEE region as a whole the views of those parents effectively operating in a particular country. This makes it possible to assess whether there is a divergent attitude of a sub-group of parents operating in a particular country.

4.2 Local banks/subsidiaries

Figure 2: Credit supply (credit standards) and demand conditions – *net percentages;* positive figures refer to increasing (easing) demand (supply) – see questions B.Q1 and B.Q5

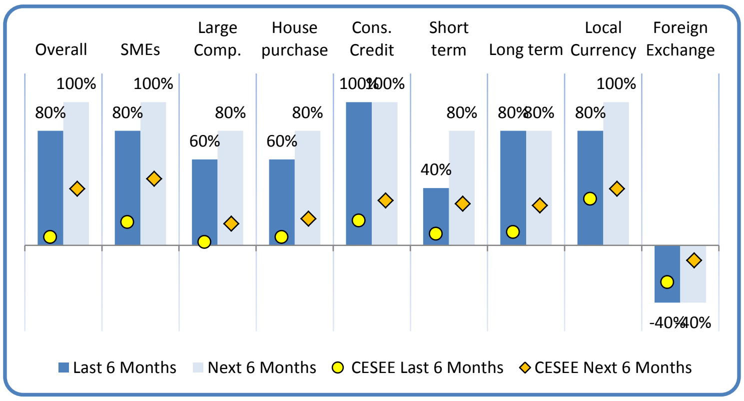


Source: EIB – CESEE Bank Lending Survey.

1. Banks in Hungary reported a further increase in overall demand for credit. This is against the background of increases already detected in the previous survey release. The survey data also indicate an easing of credit standards, although at a somewhat smaller scale. Both credit supply and demand exceed the overall CESEE results (Figure 2) and they are expected to continue to do so over the next six months.

2. Financial institutions have faced significant demand for credit across the board, and they expect it to increase even further over the next six months. The strong and increasing demand for credit may be due to the pick-up in economic activity that followed several years of recession. Also, in case of households, the impact of the conversion of FX mortgages and the associated compensation from the banks increased the expectations for future disposable income. As a result, loans from households also continued to increase, with demand for loans for house purchase being described as more buoyant than in the CESEE region. The replacement of foreign currency loans with borrowing in HUF is also visible (Figure 3), with a protracted sharp contraction in the demand for foreign currency denominated products.

Figure 3. Demand components (*net percentages*; positive figures refer to increasing demand) – see question B.Q4

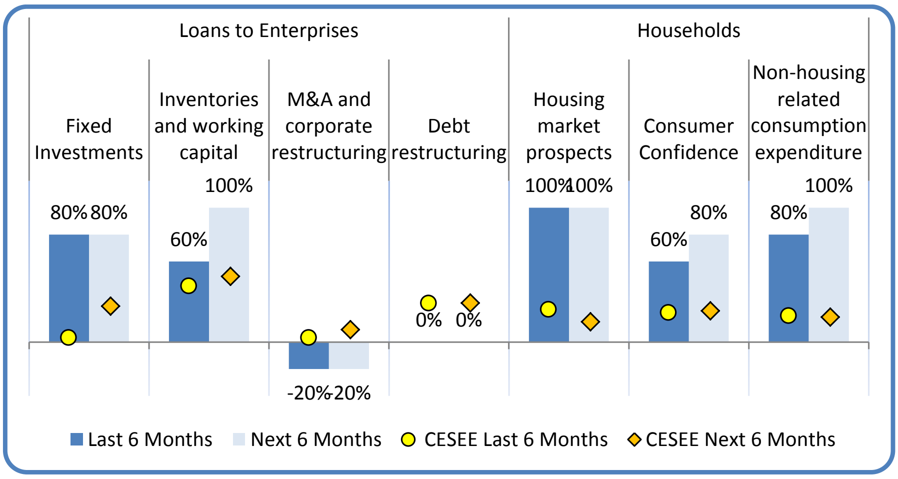


Source: EIB – CESEE Bank Lending Survey.

3. For corporates, both working capital financing and fixed investment contributed positively to increased demand. For households, housing market prospects are an important factor (the property market in Budapest has become highly buoyant over

the last months). However, consumer confidence also improved and played a strong role in credit demand (Figure 4). Looking ahead, the same factors continue to play a positive role.

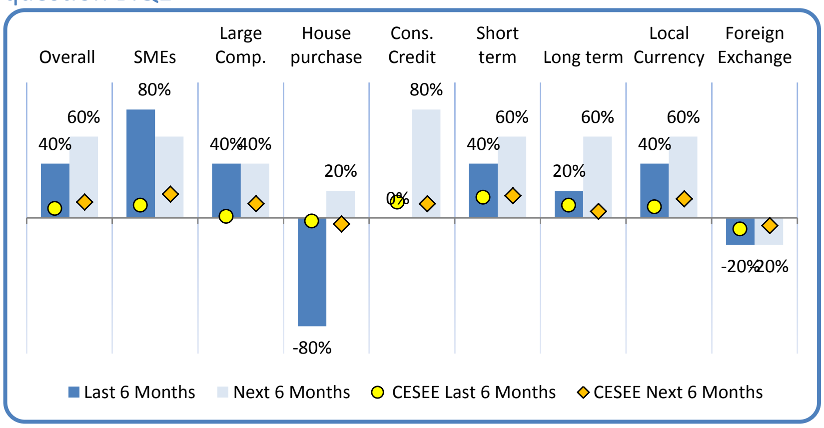
Figure 4. Factors contributing to demand conditions – (*net percentage*; positive figures refer to a positive contribution to demand) – see question B.Q7



Source: EIB – CESEE Bank Lending Survey.

4. A marked easing in credit supply has been observed across the corporate segment in the last six months. The retail sector, and housing loans in particular, have been facing tighter conditions, possibly due to the government's FX mortgage conversion and compensation measures. Looking ahead, banks expect further easing of credit supply to corporates and households (Figure 5). The overall dynamics of credit supply conditions are significantly above the CESEE average.

Figure 5. Supply components – credit standards (*net percentages*; positive figures refer to a positive contribution to supply) – see question B.Q1



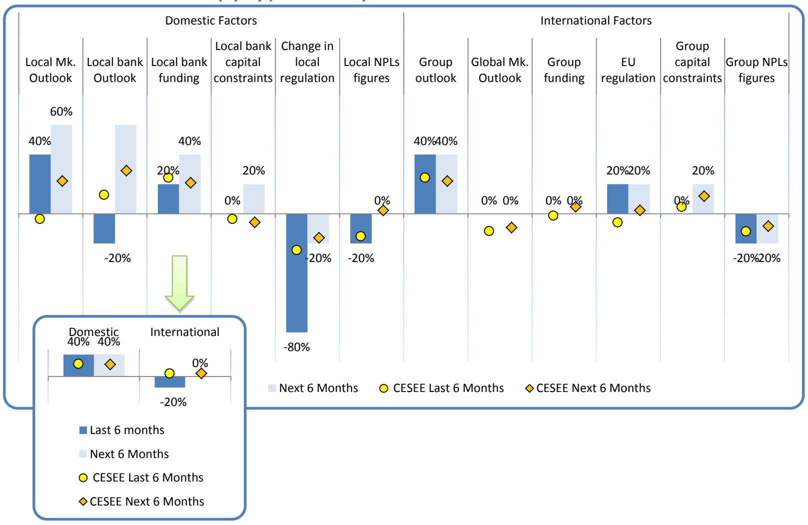
Source: EIB – CESEE Bank Lending Survey.

5. The significant monetary easing has strongly influenced supply developments. It was achieved through a series of cuts in the policy rate by the central bank and through unconventional measures, such as the successive phases of the Funding for Growth programme, providing subsidised funding to SMEs and mid-

caps. Banks see most components of credit supply – loan size, maturity, collateral requirements – having been eased in particular. All in all, Hungarian banks report a marked improvement in customer's access to short and long-term finance and expect this trend to continue.

6. International factors had on average a rather neutral impact on supply conditions. On one hand, group outlook, and – to a lesser extent – the EU regulatory environment is expected to support credit supply. On the other hand, group NPL figures still continue to be somewhat of a drag for certain banks, and it is not likely to change in the next six months (Figure 6). As for the domestic components, unpredictability of local regulation has been a key concern in Hungary – not surprisingly – possibly due to FX loan conversion and compensation programme and its impact on bank profitability. Looking ahead, however, financial institutions expect a relative consolidation of the regulatory framework. For the next six months, banks are also optimistic about the local outlook, funding and capital constraints, more than their regional peers. As to domestic NPLs, Hungarian banks' expectations remain neutral, in line with the rest of CESEE.

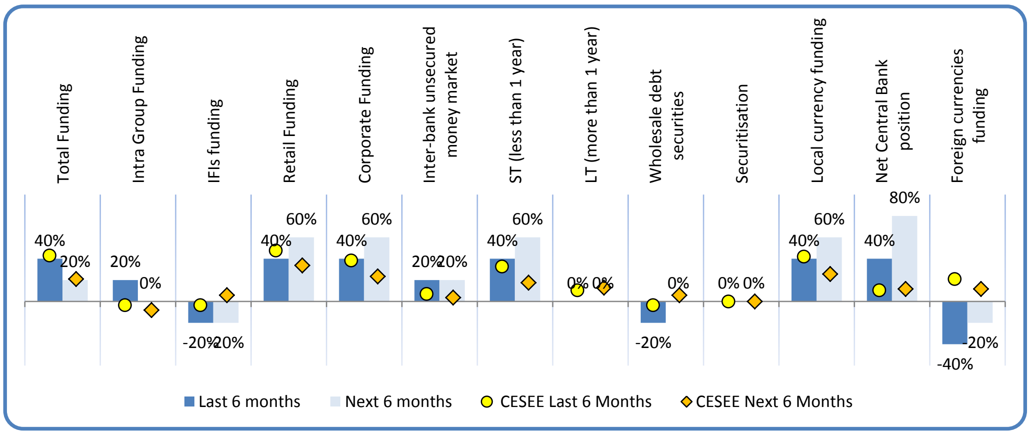
Figure 6. Factors contributing to supply conditions (credit standards) – (*net percentage*; positive figures refer to a positive contribution to supply) – see question B.Q4



Source: EIB – CESEE Bank Lending Survey.

7. The SME sector recorded a rather pronounced easing in the conditions for credit supply. This is chiefly a result of the Hungarian central bank's Funding for Growth programme targeted mainly at SMEs and mid-caps. The programme has been further extended and broadened in February 2015, targeting the higher-risk segment of the SME sector as well. Unlike the original framework, the new 'Funding for Growth +' programme allows the partial transfer of the credit risk to the central bank. Due to the existence of these initiatives, the banking system was mostly able to match the increasing demand in this segment, and this is expected to continue, given that actual disbursements are still well below the total approved amount of the central bank facility.

Figure 7: Access to funding – (*net percentage*; positive figures indicate increasing access to funding) – see question B.Q9

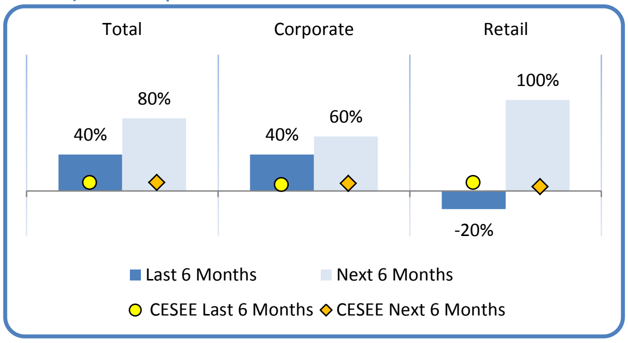


Source: EIB – CESEE Bank Lending Survey.

8. While more optimistic about credit supply, Hungarian subsidiaries and local banks are more in line with their CESEE peers about funding conditions, although when looking into the next 6 months, they are slightly more optimistic (Figure 7). As to access to central bank funding, Hungarian banks, naturally, are more significantly positive than other financial institutions in the region. The large-scale reliance on the generous Funding for Growth programme can also explain the apparent difference highly optimistic the credit supply projection and more neutral funding outlook, as the programme may be used to address eventual shortfalls in funding if needed.

9. NPL ratios have been perceived to improve in the corporate sector over the past six months. NPL ratios are expected to show more pronounced improvements over the next six months (Figure 8). The particularly positive outlook for NPLs in the retail sector is likely to be a reflection of the compulsory conversion of the FX-denominated mortgages, as this measure removed one of the key vulnerabilities of the banks' portfolio – at a significant one-off cost borne by the financial institutions.

Figure 8: Non-performing loan ratios – (*net percentage*; negative figures indicate increasing NPL ratios) – see question B.Q8



Source: EIB – CESEE Bank Lending Survey.

Kosovo

1. Key statistics[21]

- Number of local banks/subsidiaries participating in the survey: four
- Approximate share of assets covered (as proportion of total assets): 78.5%
- Current level of NPLs as proportion of total loans: 8.6% (January 2015)
- Latest credit growth (yoy): 3.8% (January 2015)
- Loan-to-deposit ratio: 73.1% (January 2015)
- CAR: 18% (January 2015)

2. Key messages – *Despite continuing deleveraging credit supply conditions have been easing and credit demand is expected to pick up soon*

International groups' views:

- **Group strategies**: Banking groups operating in Kosovo are somewhat less likely to conduct strategic restructuring at the global level than the full sample of banks included in the survey. However, each interviewed banking group plans to continue selling assets at the global level and every second parent bank expects a further deleveraging.
- **Group assessment of positioning and market potential**: Groups operating in Kosovo remain committed to the CESEE region and see a medium potential in the Kosovar market. The profitability of the Kosovar operations is for parent banks comparable and partially better than the groups' other activities, although this view might be to a large extent driven by the exceptionally positive last year.

Subsidiaries'/local banks' views:

- While the overall **credit demand** has rather stagnated so far a strong revival is expected in the next six months. The development of individual demand components is in line with the strengthening private consumption and subdued investment observed on the macro level.
- **Credit supply** developments in Kosovo are significantly more positive than the rather stagnant credit conditions in the CESEE region. A marked easing in credit supply has been observed across all market segments but large corporates in the last six months. Banks expect further easing of access to finance for SMEs and households.
- **Access to funding** has not been a major concern over the last months thanks to short-term retail funding and inter-bank money market. Looking ahead, access to funding is expected to stay broadly stable.
- **NPL figures** increased over the last period and are expected to continue rising in the months to come.

[21] Sources: Central Bank of the Republic of Kosovo.

3. Relevant macroeconomic and banking conditions[22]

- **Growth:** Economic growth in Kosovo has been positive in every year of the post-crisis period, averaging 3.5% during 2009–13. In 2014 growth is expected to have decelerated slightly (to around 3%). This is because the strengthening private consumption in the wake of pre-election public wage increases and rising remittances was counteracted by weak investments and a negative contribution of net exports. A medium-term outlook foresees a moderately robust GDP growth on account of strengthening household consumption fuelled by rising remittances and firming credit growth.

- **Unemployment:** Although unemployment has gone down significantly from some 45% in 2009 it remains high (around 30%) even by regional standards. Moreover, it is even more elevated among women (around 40%) and youth (more than 55%). This is particularly worrisome as Kosovo is the youngest country in Europe with more than 50% of the population below 25 years old, suggesting considerable development impacts in the medium term. Widespread unemployment and gloomy job perspectives have contributed to an increased exodus of Kosovars to the EU lately.

- **Inflation:** Kosovo has adopted the euro as a sole legal tender and with it the record of low inflation coming out at less than 1% in 2014. Moreover, price dynamics decelerated in the course of 2014 to almost zero in the final quarter of 2014 and turned negative in early 2015, particularly on the back of falling energy prices.

- **External and public sector balance:** Kosovo's economy is based largely on low-value-added sectors heavily boosted by remittances which fuel domestic demand. Such an economic structure naturally results in rather large current account deficits (around 7% in 2014), which are projected to further rise in the medium term. In contrast, Kosovo's fiscal situation is quite favourable. The general government fiscal deficit averaged slightly above 2% in the period 2009-13 and the general government debt level, while gradually increasing, stands at some 12% of GDP.

- **Banking sector:** The banking sector has become more or less fully developed within the last decade. Banks are well-capitalized, liquid and profitable and have proven resilient to the deterioration in the external environment. The loan-to-deposit ratio - though subject to some seasonal volatility - hovers around 75%. The capital adequacy ratio amounts to around 17%, well above the regulatory minimum. Despite some increase, NPLs are at less than 9% of total loans – rather low by regional standards. Credit growth is moderate but positive, with retail loans increasing at a significantly higher rate than corporate loans.

- **Rating:** Kosovo is not rated by the major rating agencies.

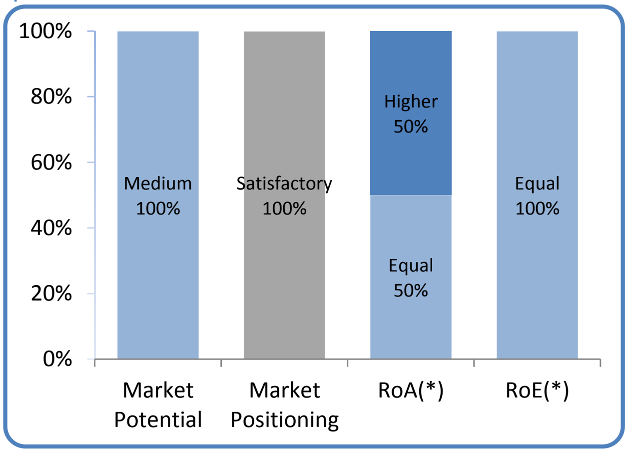
[22] Sources for the macroeconomic data: Central Bank of the Republic of Kosovo, World Bank, IMF. Sources for the banking data: Central Bank of the Republic of Kosovo.

4. Results of the Bank Lending Survey:

4.1 Parent banks[23]

3. Banking groups operating in Kosovo differ only slightly on average from the overall sample of parent banks in terms of their global strategies. While they are somewhat less likely to conduct strategic restructuring operations, every second parent bank operating in Kosovo plans to raise capital over the next six months (compared to roughly 13% in the overall sample). However, as opposed to 75% in the entire sample each interviewed banking group plans to continue selling assets at the global level as in the last six months. Moreover, every second parent bank expects a further deleveraging in the near future at the global level while only every third bank in the whole set of international bank groups intends to decrease its loan-to-deposit ratio.

Figure 1. Market potential and positioning – see question A.Q15



Source: EIB – CESEE Bank Lending Survey
(*) Return on assets (adjusted for cost of risk) compared to overall group operations; return on equity (adjusted for cost of equity) compared to overall group ROE.

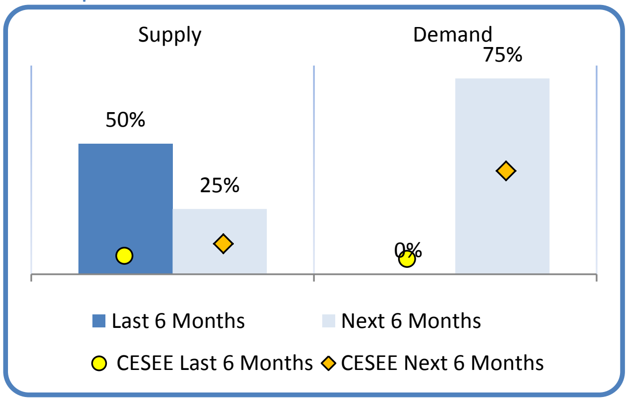
4. Groups operating in Kosovo remain committed to their activities as they signal their intentions of either maintaining or even selectively expanding operations in the region. This corresponds to their relatively flattering view on the prospects for the Kosovar market. All respondents assess the potential of the market in Kosovo as 'medium' (Figure 1) which is much more favourable than their perception of the other Western Balkan countries. The profitability of the Kosovar operations is for parent banks comparable to or, with regard to risk-adjusted returns on assets, even significantly better than the overall group levels. However, this view might be to a large extent driven by the exceptionally positive last year in which profits of the banking sector nearly doubled compared to 2013. This was mainly due to a strong drop in expenditures on the back of lower provisions and funding costs. However, this trend is unlikely to continue. As to market positioning, all parents believe it to be satisfactory.

[23] In this subsection the results refer to the views of parent banks. Results on market positioning and potential refer to questions about behaviour within a specific market, while the other data (e.g. restructuring strategies, ROA, etc.) are derived results. These are obtained by filtering out from the parents' views for the CESEE region as a whole the views of those parents effectively operating in a particular country. This makes it possible to assess whether there is a divergent attitude of a sub-group of parents operating in a particular country.

4.2 Local banks/subsidiaries

10. While Kosovar subsidiaries generally reported stagnating overall demand for credit over the last six months broadly in line with the overall CESEE results, a strong revival in demand is expected for Kosovo in the months to come. On the supply side, developments in Kosovo are significantly more positive than the rather stagnant credit conditions in the CESEE region. In Kosovo survey participants indicated a rather pronounced easing of credit standards in the last six months which is projected to continue, though at a slower pace (Figure 2).

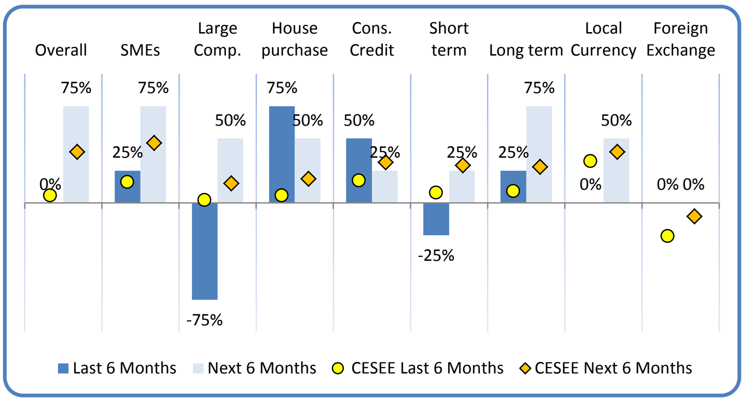
Figure 2: Credit supply (credit standards) and demand conditions – *net percentages;* positive figures refer to increasing (easing) demand (supply) – see questions B.Q1 and B.Q5



Source: EIB – CESEE Bank Lending Survey.

11. The development of individual demand segments is in line with the strengthening private consumption and subdued investment activity observed at the macro level. On the one hand, financial institutions have faced – in contrast to a broad stagnation in the CESEE region - significant demand for consumer credit and particularly mortgages. While this trend is expected to continue in Kosovo at a slightly lower pace, household credit demand should gradually recover also in the CESEE region. On the other hand, as regards the corporate sector, a slightly strengthening credit demand from SMEs was strongly counteracted by negative developments in the large-corporates-segment. However, looking ahead demand in the corporate sector is expected to rebound strongly in the next six months, particularly in the SME segment (Figure 3).

Figure 3. Demand components (*net percentages*; positive figures refer to increasing demand) – see question B.Q5

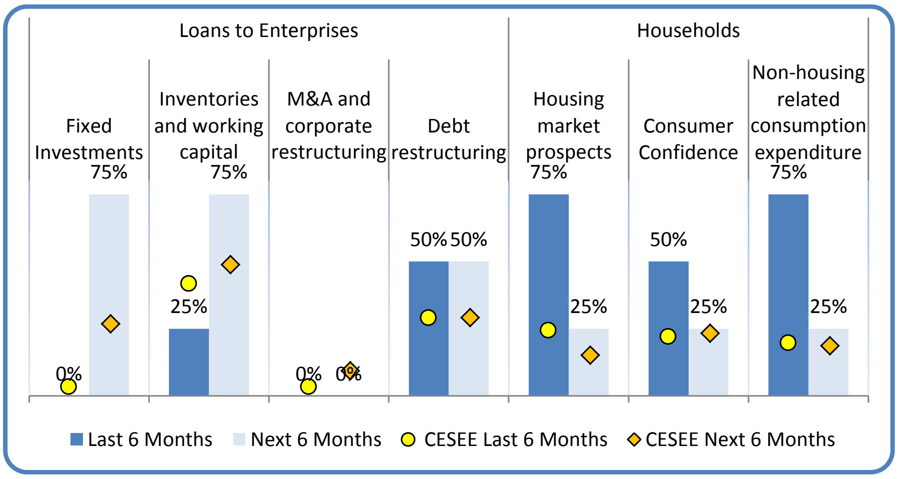


Source: EIB – CESEE Bank Lending Survey.

12. As for the factors behind credit demand, in the household sector demand was boosted by all factors, i.e. by rising consumer confidence and particularly by improved housing market prospects and non-housing related expenditures. In the corporate sector debt restructuring and to a lesser extent inventories and working capital contributed positively to demand increases (Figure 4). Looking

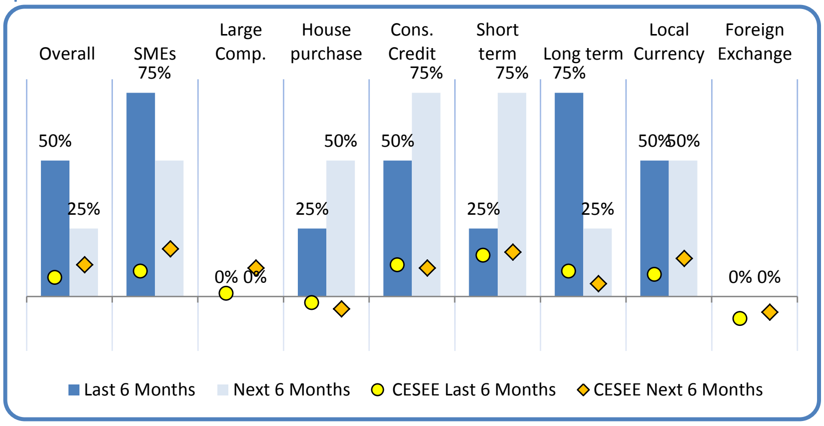
ahead, in the household segment all factors will continue to play a role but less strongly than over the last six months. As regards the corporate sector, while demand will be further driven by debt restructuring other factors such as investments, inventories and working capital are expected to substantially contribute positively.

Figure 4. Factors contributing to demand conditions – (*net percentage*; positive figures refer to a positive contribution to demand) – see question B.Q5



Source: EIB – CESEE Bank Lending Survey.

Figure 5. Supply components – credit standards (*net percentages*; positive figures refer to a positive contribution to supply) – see question B.Q1



Source: EIB – CESEE Bank Lending Survey.

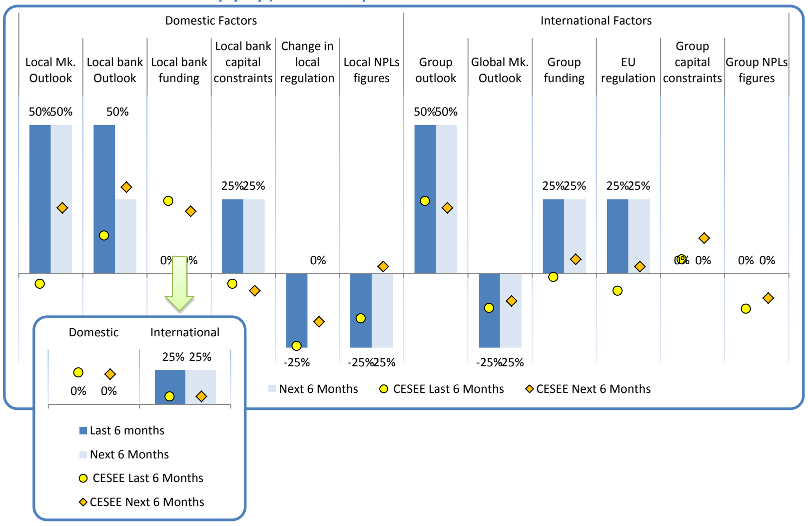
13. A marked easing in credit supply has been observed across all market segments but large corporates in the last six months. Banks expect further, though somewhat weaker easing of access to finance for SMEs and a significant acceleration of credit conditions loosening for households (Figure 5). The overall dynamics of credit supply conditions are significantly above the CESEE average. Banks see maturity and pricing having been eased in particular. In this regard Kosovar banks report a marked improvement in customer's access to long-term finance and expect this trend to slow down but to continue. These developments reflect the fact that while banks have been pursuing for various reasons a rather conservative strategy so far, they have started leaving their comfort zone and easing their lending standards in search for a more sustainable

profit path. Therefore, 2014 saw the strongest increase in credit activity in the last three years while average credit interest rates have dropped to record lows.

14. Unlike the results for the CESEE region as a whole, some international factors had an overall positive impact on supply conditions in the last six months. Notably it was EU regulation, group funding conditions and group outlook which outweighed the adverse global market outlook (Figure 6) and the picture is not expected to change in the months to come. As for the domestic components, while credit standards benefited from local market and bank outlook as well as easing local bank constraints, unpredictability of local regulation and increasing NPL figures weighed negatively. Broadly the same pattern is expected to continue over the next six months, although the contribution of local bank outlook will be somewhat less pronounced and changes in local regulation should have no impact.

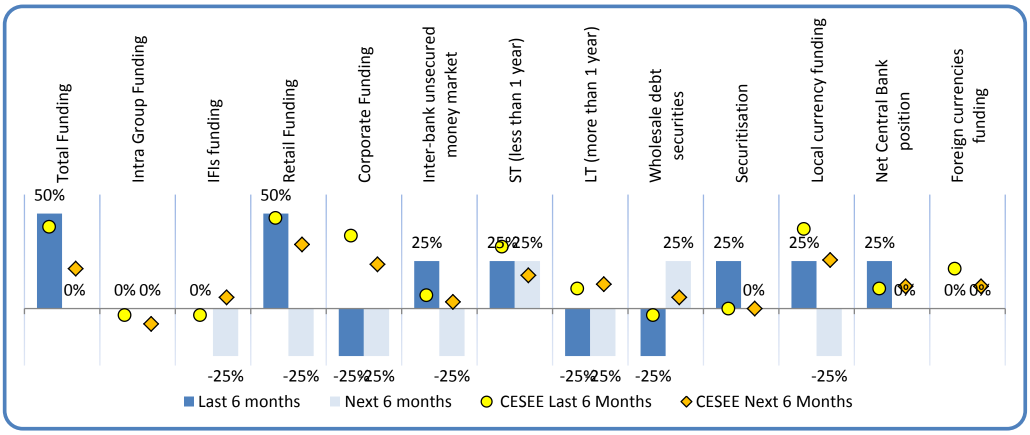
15. In contrast to the broadly stagnating supply conditions for SMEs in the CESEE as a whole, in Kosovo the SME sector recorded a pronounced easing in credit supply in the period under review. Reportedly banks try to reach out to SMEs, especially those for which access to financing has been particularly difficult and the conditions almost prohibitively unfavourable such as start-ups, agricultural companies and businesses run by women. Against this background, banks have been training entrepreneurs how to provide relevant documentation and in case of credits below EUR 50 000 banks send credit officers who themselves collect necessary data on the ground.

Figure 6. Factors contributing to supply conditions (credit standards) – (*net percentage*; positive figures refer to a positive contribution to supply) – see question B.Q4



Source: EIB – CESEE Bank Lending Survey.

Figure 7: Access to funding – (*net percentage*; positive figures indicate increasing access to funding) – see question B.Q9

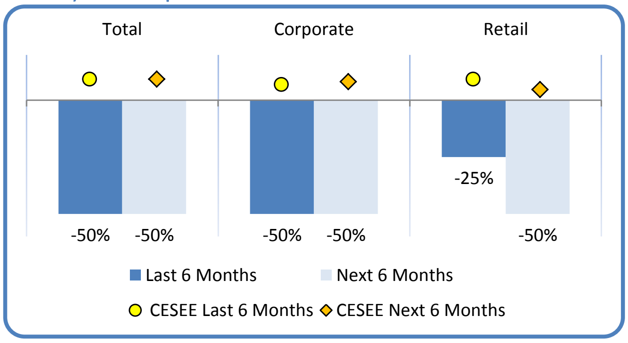


Source: EIB – CESEE Bank Lending Survey.

16. Similar to their CESEE peers, also for Kosovar subsidiaries and local banks total funding has not been a major concern (Figure 7) over the last months thanks to short-term retail funding and inter-bank money market which have eased significantly. Looking ahead, access to funding is expected to stay broadly stable.

17. NPL ratios in the retail and to a lesser extent corporate sector increased over the past six months while remained broadly stable in most other CESEE countries (Figure 8). The credit quality is expected to deteriorate further over the next six months in both sectors. It has to born in mind that NPLs, although low by regional standards, in general impair banks' lending business. This is because in case of default it is difficult for banks to sell the collateral not only for slow legal processes but reportedly also for cultural reasons[24]. Therefore, a gradual deterioration in asset quality, particularly in the construction sector, poses one of the few risks to the generally healthy financial sector.

Figure 8: Non-performing loan ratios – (*net percentage*; negative figures indicate increasing NPL ratios) – see question B.Q8



Source: EIB – CESEE Bank Lending Survey.

[24] Since Kosovo is a very small country anecdotal evidence suggests that people are reluctant to buy property that a neighbour is selling.

Poland

1. Key statistics[25]

- Number of banks/subsidiaries participating in the survey: six
- Approximate share of assets covered (as proportion of total assets): 50 percent
- Current level of NPLs as proportion of total loans: 8.3 percent (Q3 2014)
- Latest credit growth, yoy: 5.5 percent (Q2 2014)
- Loan-to-deposit ratio: 101.4 percent (November 2014)
- CAR: 14.9 percent (Q3 2014)

2. Key messages – *A highly attractive market, with strongly increasing demand for loans but somewhat slower improvement in supply conditions.*

International groups' views:

- **Group strategies**: Groups operating in Poland tend to view their global operations generally in line with the overall set of groups included in the survey. In addition they seem to be less inclined to deleveraging at the global level.
- **Group assessment of positioning and market potential**: Groups operating in Poland show a strong commitment to the region and are likely maintain their CESEE operations. Parent banks consider the Polish market to be among the most attractive within CESEE, and they have revised their assessment of Poland's market potential upwards relative the last survey release. Risk-adjusted returns on equity and assets are believed to be among the highest in the region, and groups seem to be relatively satisfied with their current market positioning.

Subsidiaries'/local banks' views:

- Polish banks report that **credit demand has been increasing** significantly whilst **supply conditions are lagging somewhat behind**.
- **Credit supply** conditions have slightly improved and are expected to ease further in most segments. Supply is expected to improve in all segments except for housing finance, where the conditions are unlikely to match the expected increase in demand. On the corporate side, the increasing propensity to borrow is matched only partially by the supply side.
- **Demand for loans** increased sharply and is expected to continue to increase significantly across all segments over the coming months.
- **Access to funding:** Polish banks have not reported funding problems. They experienced a strong inflow of corporate and retail deposits.
- **NPL figures** have improved for the corporates, and deteriorated for the household segment.

[25] Sources: The National Bank of Poland, Unicredit/Bank Austria and Raiffeisen Research

3. Relevant macroeconomic and banking conditions[26]

- **Growth:** Poland's GDP grew by 3.4% in 2014 despite a negative external environment (Russia-Ukraine conflict). Growth was driven by domestic demand, while net exports had a small negative contribution. Investment rose by 9.2%, mainly in the form of capacity building by the private sector amid favourable financing conditions. Private consumption also contributed to economic growth as consumer sentiment has been improving on the back of higher disposable incomes.

- **Unemployment:** In parallel with the recovery, unemployment in Poland improved from its 2013 level of 10.4% to around 9% in 2014. A further decline is expected for 2015.

- **Inflation:** Consumer prices were stable in 2014: inflation on a HICP basis amounted to a mere 0.1 %. The price level is expected to decrease somewhat in 2015 as a result of falling energy and food prices.

- **External and public sector balance:** The current account deficit contracted dramatically from 2012 to 2013, and it is expected to remain at around 1—2 % of GDP over the next years. On the fiscal side, Poland achieved a deficit of 3.2% in 2014, compared to 4 percent of 2013. The improvement was to a large extent driven by the partial reversal of the 1999 systemic pension reform. The general government deficit is projected to reach 2.8% of GDP in 2015. On the expenditure side, higher indexation of low-income pensions and the cost of restructuring of the mining sector will partially offset expenditure savings in other areas, such as the continued partial freeze of public wages. As to public debt, the general government debt-to-GDP ratio has fallen from 55.7% in 2013 to 50.1% in 2014 due to the transfer of assets accumulated in private pension funds.

- **Banking sector:** The Polish banking system weathered the financial crisis well and remains profitable, well capitalised and liquid. The CAR in Q3 2014 stood at 14.9 percent, while ROE in Q1 2014 was 12.2 percent. Polish banks' average NPL ratio of 8.3 percent is still low relative to other CESEE countries. The orderly withdrawal of parent funding, reflected in the decline in the loan-to-deposit ratio, was offset by increasing domestic funding. As a result, the credit flow remained consistently positive, declining to roughly 2.5 percent in 2013 and more robust growth resumed in 2014. Regulatory action has contained foreign currency mortgage lending in Poland, but more than half of mortgages are still denominated in foreign currency, creating a potential vulnerability for the banking system.

- **Rating:** Poland is currently rated A- (positive) by S&P, A2 (stable) by Moody's and A- (stable) by Fitch.

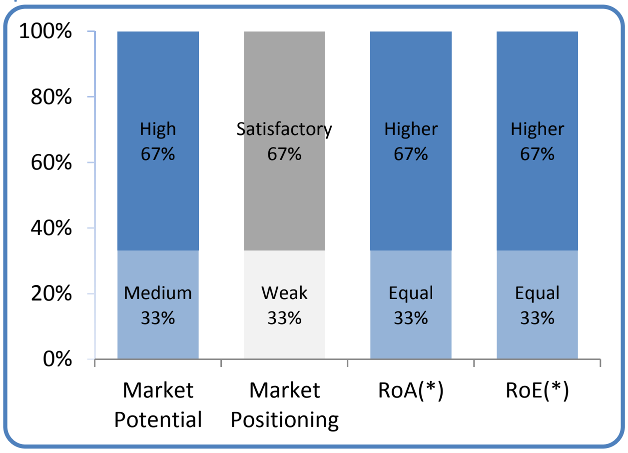
[26] Sources for the macroeconomic data: European Commission. Sources for the banking data: European Commission and Unicredit/Bank Austria based on NBP data.

4. Results of the Bank Lending Survey:

4.1 Parent banks[27]

1. Groups operating in Poland tend to see their global operations in line with the overall set of groups included in the survey. In addition they seem to be somewhat less inclined to deleveraging. Two-third of the groups active in Poland signal that they intend to maintain a stable loan-to-deposit ratio over the next six months.

Figure 1. Market potential and positioning – see question A.Q15



Source: EIB – CESEE Bank Lending Survey.
(*) Return on assets (adjusted for cost of risk) compared to overall group operations; return on equity (adjusted for cost of equity) compared to overall group ROE.

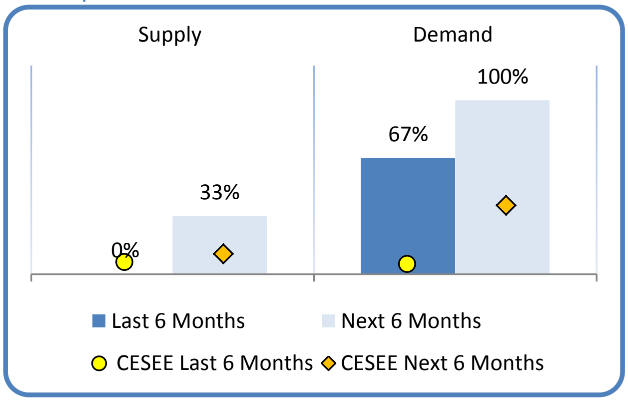
2. Parent banks operating in Poland show a strong commitment towards the region and are less likely to reduce – and more likely to maintain – their CESEE operations relative to the full sample. This is in line with the findings of the previous editions of our survey. In addition, the majority of groups operating in Poland still consider their CESEE operations to be more profitable than their group's global operations. Parent banks consider the Polish market to be the most attractive within CESEE, confirming the results of the previous surveys. Two-third of the groups operating in Poland find that the country's market potential is high, while the rest of the participants finf it medium. This represents a an improvement compared to theH2 2014 edition of the survey. Risk-adjusted returns on equity and assets are also believed to be among the highest in the region. Overall, parent banks operating in Poland seem to be relatively satisfied with their current market positioning (Figure 1).

[27] In this subsection results refer to the views of parent banks. Results on market positioning and potential refer to questions addressing behaviour within a specific market, whilst the other data (e.g. restructuring strategies, ROA, etc.) are derived results. These are obtained by filtering out from the parents' views for the CESEE region as a whole the views of those parents effectively operating in a particular country. This makes it possible to assess whether there is a divergent attitude of a sub-group of parents operating in a specific country.

4.2 Local banks/subsidiaries

1. The robust economic growth – driven by domestic demand – is reflected in the general view of Polish banks on future credit activity. Credit demand has been already strong in the last six months, and it is likely to accelerate over the next half-year by more than the CESEE average. Credit supply has still been neutral, in line with the CESEE region as a whole, but it is expected to ease when looking ahead (Figure 2).

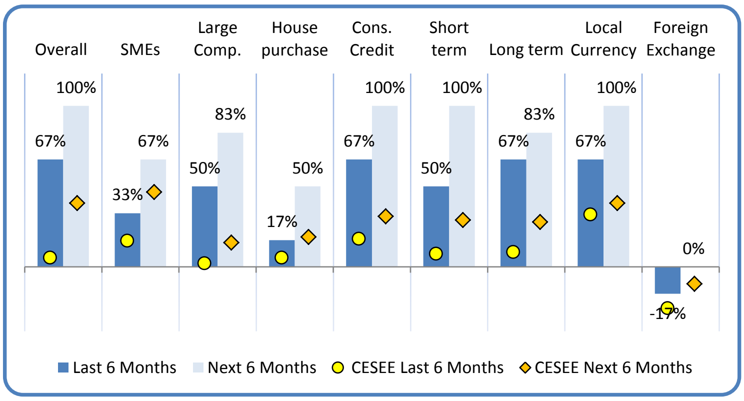
Figure 2: Credit supply (credit standards) and demand conditions – *net percentages;* positive figures refer to increasing (easing) demand (supply) – see questions B.Q1 and B.Q5



Source: EIB – CESEE Bank Lending Survey.

2. Demand for credit picked up across the whole spectrum of products and segments over the last six months, both in the corporate and in the retail segments. The reported increase has been much higher than the aggregate CESEE rebound. Looking ahead, financial institutions expect to face an even higher demand for credit across the board from all type of clients, maturities and loan types, with FX lending being an exception. The depicted trend in demand signals that the turning point in the demand already seen in the two previous rounds of our survey is solid and broad-based. Possibly as a reflection to the strengthening of the Swiss franc earlier this year, the survey now shows relatively low demand for foreign currency-denominated lending compared to the past. Such loans have been an important source of vulnerability in CESEE in the past, especially in the case of loans granted to households or SMEs without offsetting incomes in foreign currency (Figure 3).

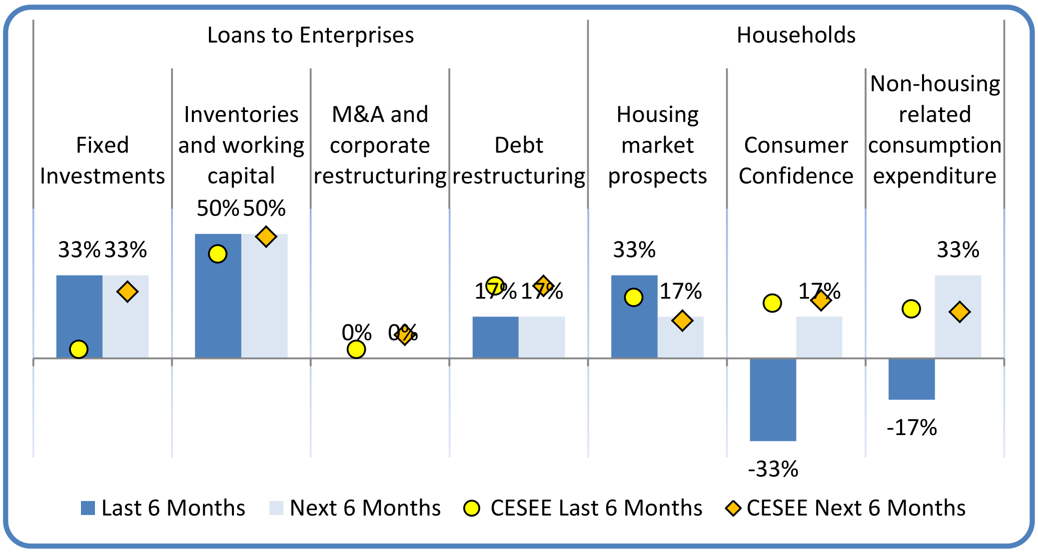
Figure 3. Demand components - (*net percentages*; positive figures refer to increasing demand) – see question B.Q5



Source: EIB – CESEE Bank Lending Survey.

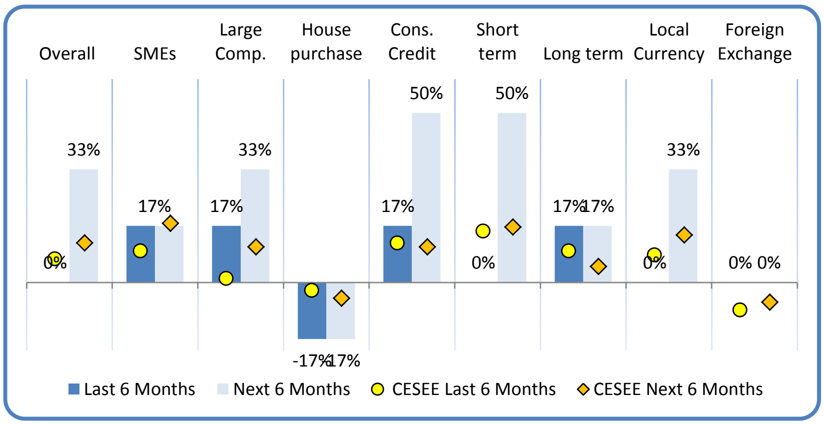
3. The individual factors contributing to credit demand provide mainly positive signals in Poland, and they are broadly similar and other economies within the CESEE region (Figure 4). In contrast to the CESEE aggregate, however, investments in Poland have been contributing positively to increases in demand over the past six months already. Working capital finance as well as debt restructuring have been and are expected to remain important drivers of corporate credit demand. Household credit demand so far have been largely driven by housing-related factors, whereas in the next six month consumption-related factors are also expected to contribute to credit demand.

Figure 4. Factors contributing to demand conditions – (*net percentage*; positive figures refer to a positive contribution to demand) – see question B.Q7



Source: EIB – CESEE Bank Lending Survey.

Figure 5. Supply components – credit standards (*net percentages*; positive figures refer to a positive contribution to supply) – see question B.Q1



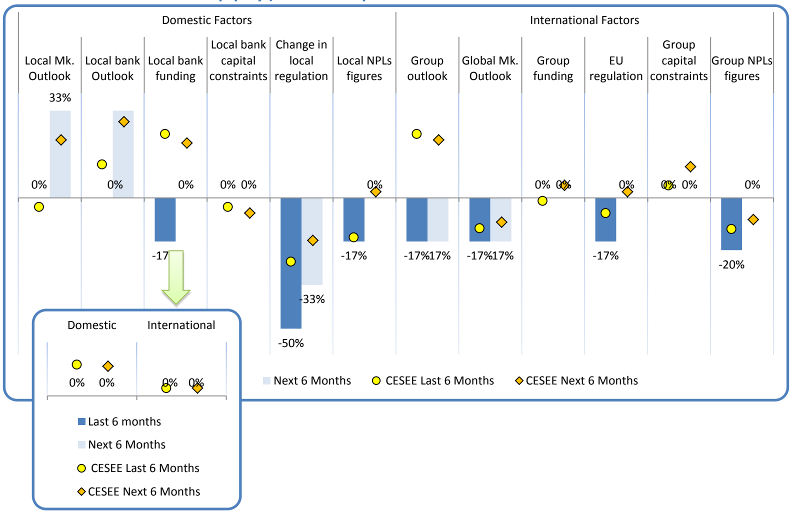
Source: EIB – CESEE Bank Lending Survey.

4. Credit supply conditions are also expected to ease in most segments, but to a lesser extent than demand conditions. As for households, the supply of consumer credit is expected to increase further, while for housing finance, the conditions are becoming more tight. This may be related to an increased risk perception about FX-denominated mortgages – although the survey reveals a neutral stance

towards foreign currency lending by the banks. On the corporate side, the increasing propensity to borrow is matched only partially by the supply side. This is particularly true for longer maturities (Figure 5).

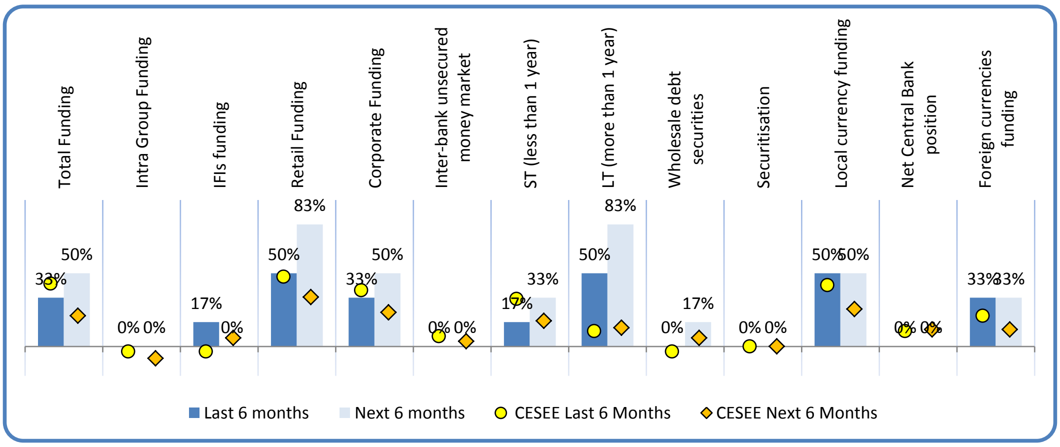
5. Similarly to their CESEE peers, Polish banks see international factors as broadly neutral. They report the group outlook, the EU regulation and the group NPLs being somewhat contractionary in the past, however, most of these are not reflected in the forward-looking assessment (Figure 6). Among the domestic factors local regulatory changes have been considered as a severe impediment to credit supply over the past six months, and this is expected to continue. This factor is stronger on the Polish market compared to the CESEE region. Local market and bank outlook are expected to exercise a positive contribution on supply. NPLs are expected to be neutral with respect to supply conditions, in line with the CESEE region.

Figure 6. Factors contributing to supply conditions (credit standards) – (*net percentage*; positive figures refer to a positive contribution to supply) – see question B.Q4



Source: EIB – CESEE Bank Lending Survey.

Figure 7: Access to funding – (*net percentage*; positive figures indicate increasing access to funding) – see question B.Q9



Source: EIB – CESEE Bank Lending Survey

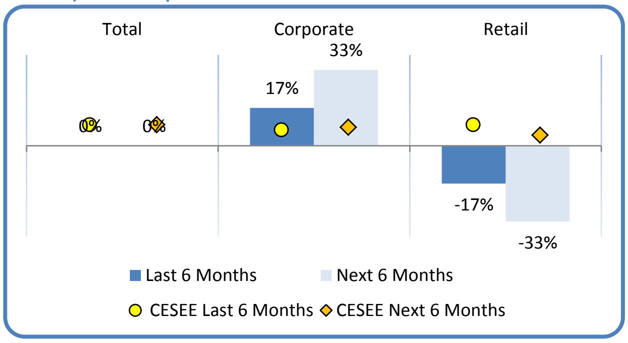
6. SMEs faced similar credit conditions than the corporate sector as a whole. However, the easing of supply constraints is unlikely to have fully matched the strong rebound in SME credit demand. In addition, some terms and conditions

of lending has been tightened in the segment – collateral requirements in particular.

7. Funding has been easing already, and it is expected to ease further (Figure 7). Banks indicate that they experienced strong inflows in the form of retail and corporate deposits, and they expect to see even stronger inflows for the next six months. The increased access to funding covered the full maturity spectrum, but a particularly large increase was evident at the long end of the maturity curve. Intra-group funding was neutral, despite parent bank's highly positive assessment of the Polish market. Banks also increased their foreign currency funding.

8. NPL figures in Poland have been described as improving in the corporate segment and still deteriorating for the household segment. This may be related to losses on FX denominated loans after the strengthening of the Swiss franc. Asset quality in the household segment is expected to deteriorate further over the next six months, while improvement is expected for corporate exposures (Figure 8).

Figure 8: Non-performing loan ratios – (*net percentage*; negative figures indicate increasing NPL ratios) – see question B.Q8



Source: EIB – CESEE Bank Lending Survey.

Romania

1. Key statistics[28]

- Number of banks/subsidiaries participating in the survey: eleven
- Approximate share of assets covered (as proportion of total assets): 66%
- Current level of NPLs as proportion of total loans: 14% (December 2014)
- Latest credit growth (yoy): 0.3% (March 2015)
- Loan-to-deposit ratio: 91.4% (December 2014)
- CAR: 17.3% (December 2014)

2. Key messages – *Demand developments should turn positive soon*

International groups' views:

- **Group strategies**: Banking groups operating in Romania do not differ significantly in terms of their global strategies from the pool of parent banks in the survey. Banking groups in Romania are equally likely to sell branches of activities and to deleverage, while they are only marginally more likely to restructure their operations and to sell assets in the period ahead.
- **Group assessment of positioning and market potential**: Despite comparably low profitability, groups operating in Romania have a positive view of Romania's market potential. A majority of banking groups active in Romania still consider their market positioning as satisfactory, although there has been a sharp decline in this figure in the last year. The majority of groups remain – if somewhat more tentative in their assessment than the overall sample – committed to the region.

Subsidiaries'/local banks' views:

- **Credit supply** conditions rather stagnated and **credit demand** deteriorated over the past six months. In the next six months, however, the trend is expected to turn.
- **Credit supply:** In line with developments in the CESEE as a whole, banks expect credit standards to ease a little in Romania in the next six months, primarily in the segment of SME loans. The positive contribution of domestic factors, which dominated in the last six months, is expected to weaken particularly due to a less positive effect of local bank funding.
- **Credit demand:** The main drivers of corporate credit demand were inventories and working capital while on the household side all factors contributed positively.
- **Access to funding:** While the subsidiaries' funding situation improved in the last six months particularly due to retail and corporate funding, it is expected to stay stable in the months to come.
- **NPL figures:** Credit quality has stagnated, but should improve in coming months.

[28] Sources: The National Bank of Romania, Unicredit/Bank Austria and Raiffeisen Research.

3. Relevant macroeconomic and banking conditions[29]

- **Growth:** Following feeble growth in the first half of 2014, economic activity picked up in the second half of the year. In sum, GDP growth decelerated from 3.4% in 2013 to 2.8% in 2014. Private consumption boosted by rising real wages, declining unemployment and improving consumer confidence was the main growth driver, with further support coming from public consumption. GDP growth is expected to stay unchanged in 2014 and accelerate to 3.3% in 2016 on the back of strengthening domestic demand.

- **Unemployment:** The unemployment rate dropped from 7.1% in 2013 to 6.8% in 2014 and the gradual decline is expected to continue to 6.4% in 2016. However, while unemployment is relatively low and contained it is mostly due to persistently low activity rates.

- **Inflation:** Annual inflation (HICP) came in at 1.4% in 2014 mainly reflecting some VAT cuts, negative output gap, good harvest and lower global energy prices. Inflation has continued to decelerate at the beginning of 2015 and remains considerably below the central bank's inflation target band of 2.5% +/- 1 percentage point (CPI). Moreover, inflation is forecast to fall further to just 0.2% (HICP) in 2015 and remain at a moderate level (0.9%) in 2016. Against this background, the central bank has continued its monetary policy easing.

- **External and public sector balance:** Romania's current account deficit dropped from 4.7% of GDP in 2012 to 0.5% of GDP in 2014 and is expected to increase only gradually this year and next. Fiscal consolidation has continued under the umbrella of the EU-IMF precautionary assistance programme. The fiscal deficit thus amounted to 1.5% of GDP in 2014 (down from 6.6% in 2010). It should stay broadly unchanged this year and sharply deteriorate to 3.5% of GDP in 2016 due to a significant fiscal loosening recently adopted by the government.

- **Banking sector:** After a particularly poor year in 2012, banks' profitability turned slightly positive in 2013 and strengthened in 2014 although it deteriorated again towards the end of the year. The banking sector continues to maintain adequate capital and liquidity buffers (CAR: 17.3% in December 2014). However, foreign parent banks continue withdrawing funds, though at a slower pace. This implies that banks in Romania are gradually changing their funding structure towards lei. Following a comprehensive action plan of the central bank and EU-wide methodological changes, asset quality has improved significantly (NPLs dropped by about 8% percentage points to 14% in December 2014). However, the bank balance sheet repair is still incomplete. The still high, though falling share of FX loans (about 55%) remains the largest risk for the sector.

- **Rating:** Romania is rated by Moody's (Baa3), Fitch (BBB-) and S&P (BB+).

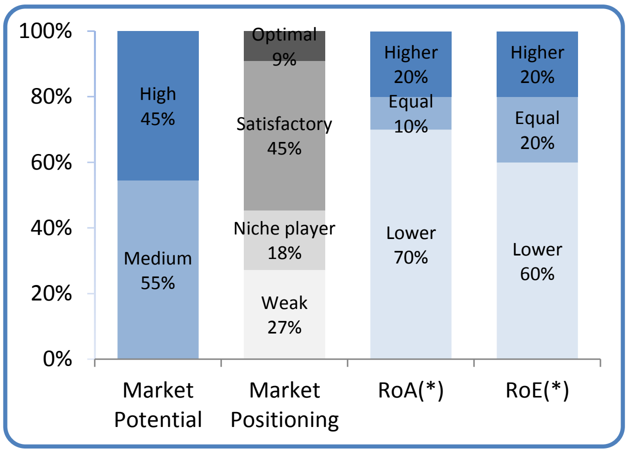
[29] Sources for the macroeconomic data: European Commission. Sources for the banking data: European Commission, Unicredit/Bank Austria and IMF.

4. Results of the Bank Lending Survey:

4.1 Parent banks[30]

1. Banking groups operating in Romania do not differ significantly in terms of their global strategies from the pool of parent banks in the survey. While they are equally likely to sell branches of activities, in Romania they are slightly more likely to restructure their operations in general and to sell assets. However, the differences are very small. Also deleveraging activities in Romania correspond roughly to the overall sample.

Figure 1. Market potential and positioning – see question A.Q13



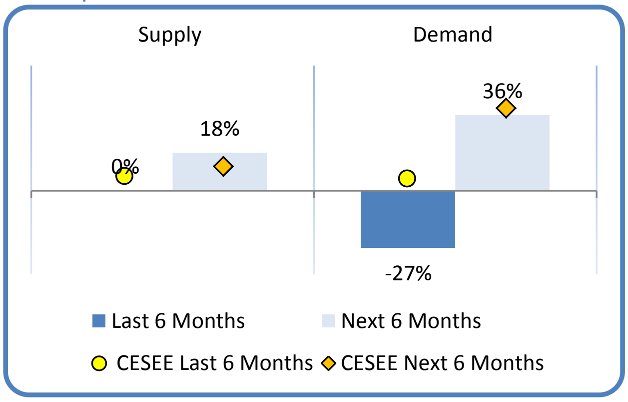
Source: EIB – CESEE Bank Lending Survey.

2. Parent banks operating in Romania have a fairly positive view of the Romanian market: all believe that market potential is 'high,' or at least 'medium' (Figure 1). However, the share of banks which consider their market positioning as 'optimal'/'satisfactory,' has dropped from 73% a year ago to currently 54%. This deterioration in satisfaction with their market position may be related to subpar profitability. For the past six months, about 70% of parent banks active in Romania report lower profitability compared to their overall group profitability (Figure 1). This is a significantly higher proportion than for the CESEE region as a whole. Therefore, when it comes to plans about future activities, the picture differs somewhat from that in the CESEE region as a whole. On the one hand, the share of banks which want to expand (at least selectively) their operations amount to 54% both in Romania and CESEE as a whole. On the other hand, however, in CESEE one fifth of banks plan to maintain their operations in the region as opposed to only 9% of banks active in Romania. Moreover, 36% operating in Romania plan to reduce their operations selectively in the long run, a significantly higher share than 27% in CESEE as a whole.

[30] In this subsection results refer to the views of parent banks. Results on market positioning and potential refer to questions addressing behaviours within a specific market, while the other data (e.g. restructuring strategies, ROA, etc.) are derived results. These are obtained by filtering out from the parents' views for the CESEE region as a whole the views of those parents effectively operating in a particular country. This makes it possible to assess whether there is a divergent attitude of a sub-group of parents operating in a specific country.

4.2 Local banks/subsidiaries

Figure 2: Credit supply (credit standards) and demand conditions – *net percentages;* positive figures refer to increasing (easing) demand (supply) – see questions B.Q1 and B.Q5

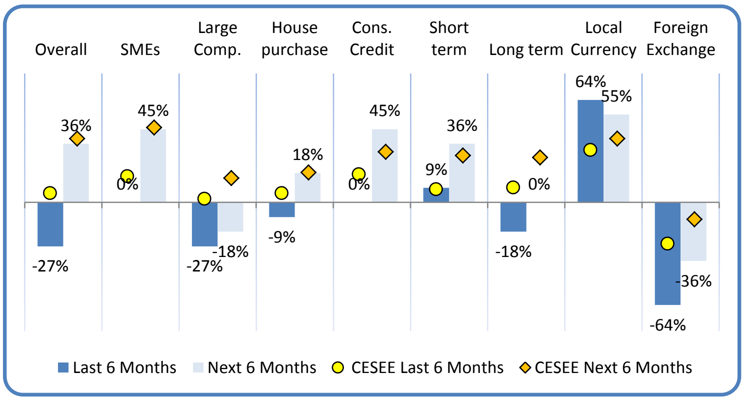


Source: EIB – CESEE Bank Lending Survey.

1. A majority of subsidiaries operating in Romania reported a decrease in aggregate demand for loans over the past six months. Over the next six months, however, the trend is expected to turn, and demand should increase mirroring similar developments at the CESEE level. As for credit supply, the subsidiaries reported that supply conditions stagnated in the past six months and should only hesitantly improve over the coming six months, just in line with the CESEE region (Figure 2).

2. Credit demand has declined particularly due to long-term loans to large corporates and to a lesser extent due to falling demand for mortgages (Figure 3), while other segments have stagnated. In terms of currency denomination clients have been strongly asking for loans in local currency while demand for FX loans has dramatically weakened. This trend is expected to continue in the months to come. Overall, over the next six months demand should pick up quite significantly particularly on the back of SME loans and consumer credit with rather shorter maturities. In contrast, demand for bank lending from large companies is expected to weaken further. The expected demand development is thus broadly in line with the CESEE aggregate, although there demand on the side of large corporates should somewhat improve.

Figure 3. Demand components - (*net percentages*; positive figures refer to increasing demand) – see question B.Q5

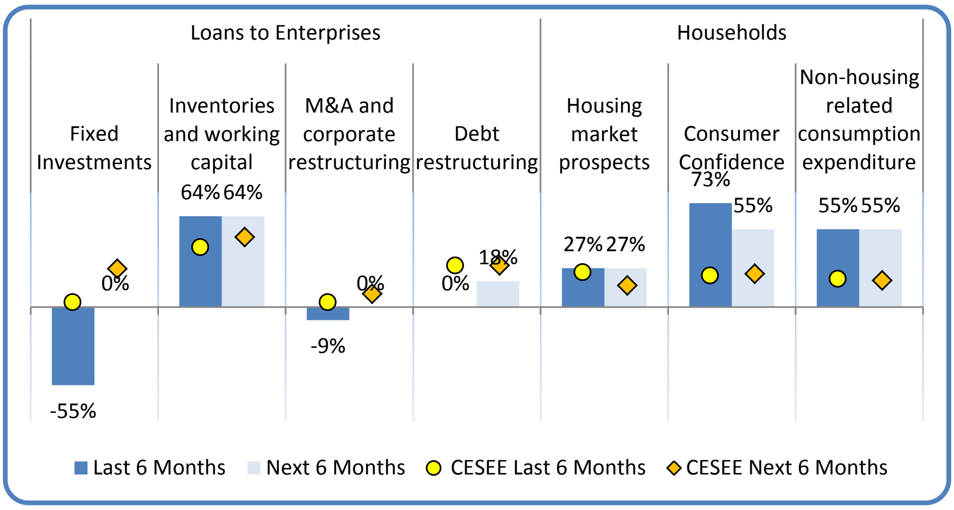


Source: EIB – CESEE Bank Lending Survey.

3. Credit demand coming from enterprises has been particularly supported by inventories and working capital (Figure 4). In contrast, demand for loans to finance fixed investment fell noticeably in the last six months. On the household side, all factors (housing market prospects, non-housing-related consumption expenditure and particularly consumer confidence) contributed positively to the

demand for loans. The pattern of the last six months is expected to continue in the next half a year across all demand drivers with one notable exception. Fixed investments will no longer put a drag on credit demand but will rather make a neutral contribution.

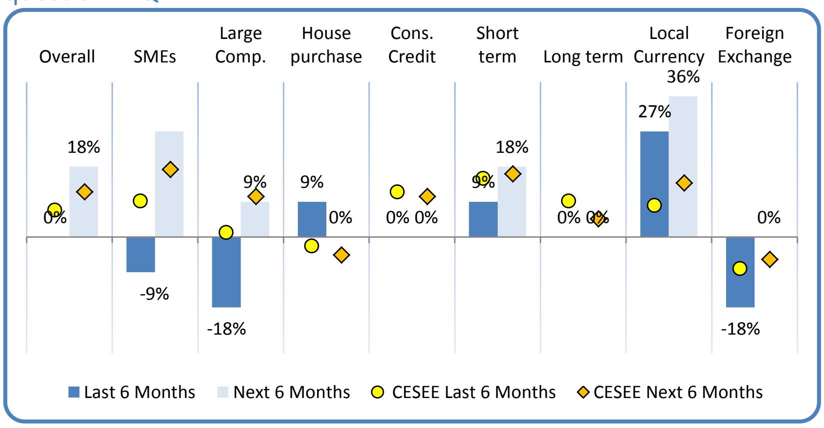
Figure 4. Factors contributing to demand conditions – (*net percentage*; positive figures refer to a positive contribution to demand) – see question B.Q7



Source: EIB – CESEE Bank Lending Survey.

4. In contrast to expectations voiced six months ago supply conditions in Romania did not ease but rather stagnated over the past six months. This was due to the fact that the easing trend in the realm of mortgages was outweighed by tightening credit conditions in the corporate sector. It is also interesting to note that credit standards for FX loans have tightened significantly, which to some extent explains the decrease in demand for loans denominated in foreign currency. Looking ahead, in line with developments in the CESEE as a whole,

Figure 5. Supply components – credit standards (*net percentage*; positive figures refer to a positive contribution to supply) – see question B.Q1

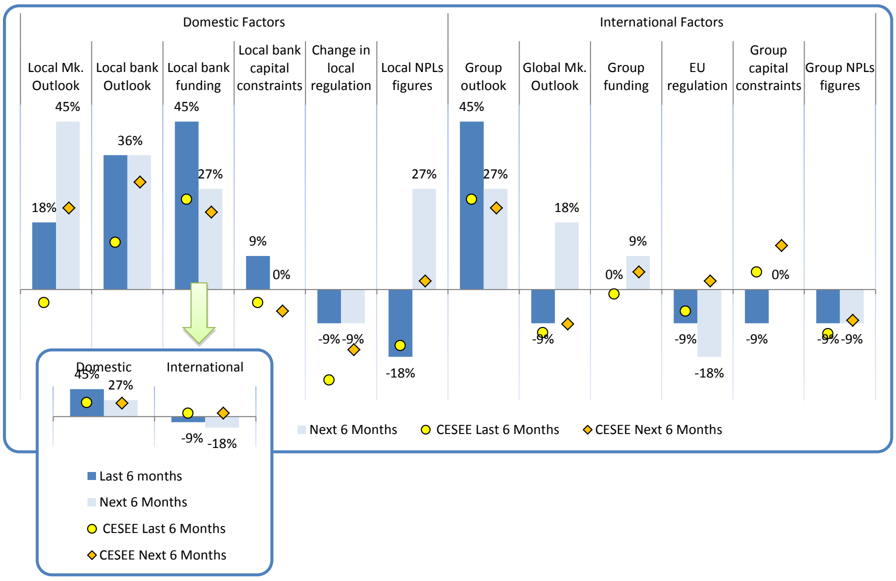


Source: EIB – CESEE Bank Lending Survey.

credit standards are set to ease a little in the next six months, primarily in the segment of SME loans (Figure 5). The credit easing will affect only local currency lending.

5. Both domestic and international factors played a role in determining supply conditions in the last six months, although the latter only marginally (Figure 6). Among the domestic factors, tightening pressures on credit standards exerted by local regulation and NPLs were more than offset by the other factors, particularly local bank funding and outlook. Among the international factors, the easing effect exerted by group outlook was counteracted by most other factors. Looking ahead, the picture is likely to remain broadly unchanged. However, the positive contribution of domestic factors is expected to weaken particularly due to a less positive effect of local bank funding.

Figure 6. Factors contributing to supply conditions (credit standards) – (*net percentage*; positive figures refer to a positive contribution to supply) – see question B.Q4



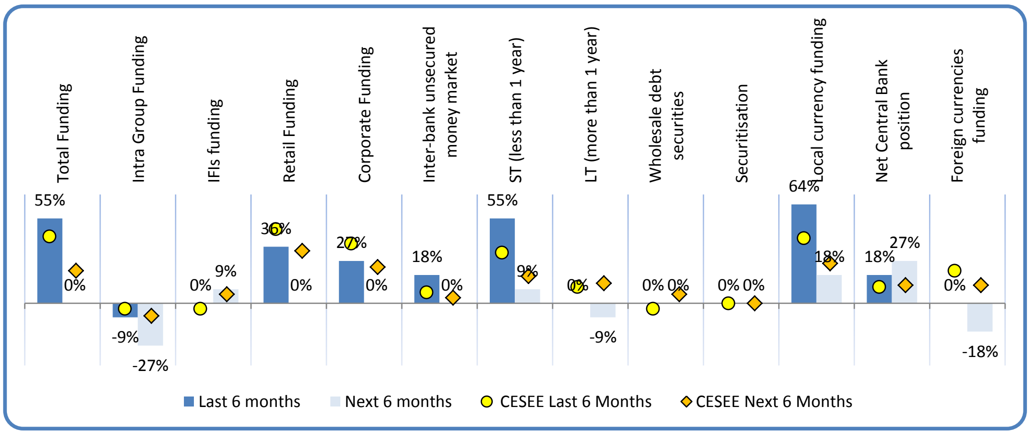
Source: EIB – CESEE Bank Lending Survey.

6. In the SME segment supply conditions deteriorated slightly whilst credit demand stagnated over the last six months. Looking ahead, supply conditions are set to ease for the SME sector in Romania, even to a larger extent than in the CESEE region as a whole. Also demand is expected to pick up rather strongly quite in line with the CESEE aggregate. Margins charged on SME loans have recently gone down slightly while the average loan size has marginally increased. Looking ahead, broadly in line with the CESEE aggregate almost all supply conditions for the SME segment in Romania are expected to ease, particularly the size of the average loan.

Subsidiaries' access to funding has improved significantly in Romania over the past six months, in line with the dynamics at the CESEE regional level. This has been driven primarily by improvements in retail and corporate funding, and to a smaller extent inter-bank money market (Figure 7). Despite an expected slight negative contribution of intra-group funding, overall, access to funding is expected to stay unchanged over the next six months.

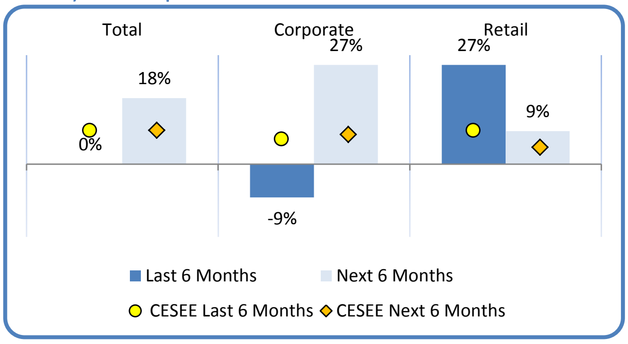
7. NPL ratios are reported to have remained rather stable over the past six months

Figure 7: Access to Funding – (*net percentage*; positive figures indicate increasing access to funding) – see question B.Q9



Source: EIB – CESEE Bank Lending Survey.

Figure 8: Non-performing loan ratios – (*net percentage*; negative figures indicate increasing NPL ratios) – see question B.Q8



Source: EIB – CESEE Bank Lending Survey.

– as some deterioration in the corporate sector was counteracted by a more pronounced improvement in the retail sector (Figure 8). While NPLs are expected to decrease in both segments over the next six months, particularly the credit quality of corporate loans is expected to improve significantly. For the CESEE as a whole a similar development is expected, although the NPL decline in the corporate segment is likely to be much less pronounced than in Romania.

Serbia

1. Key statistics[31]

- Number of banks/subsidiaries participating in the survey: ten
- Approximate share of assets covered (as proportion of total assets): 50%
- Current level of NPLs as proportion of total loans: 22.6% (March 2015)
- Latest credit growth (yoy): 2%[32] (March 2015)
- Loan-to-deposit ratio: 103.6% (March 2015)
- CAR: 20.3% (March 2015)

2. Key messages – *Improved local bank outlook and funding conditions, along with better loan portfolio quality led to easing of supply conditions, particularly for consumer credits.*

International groups' views:

- **Group strategies**: Cross-border banks operating in Serbia continue their deleveraging, report strategic restructuring plans and expect sales of assets at the global level in line with the whole sample of international banks.
- **Group assessment of positioning and market potential**: Groups show somewhat decreased intentions to reduce operations in CESEE region. Market potential and positioning have remained about the same in Serbia as in September 2014 survey. About half of the parent banks are satisfied with their current market positioning and large number of them assesses the Serbia's market potential as medium. Half of the groups describe the market as providing lower returns than overall groups' operations.

Subsidiaries'/local banks' views:

- **Credit supply** has eased over the past six months. Easing supply conditions are mainly driven by local bank outlook, local bank funding and group outlook. On the other hand, the local market outlook was the key factor limiting the credit growth. Credit standards are expected to turn neutral over the next six months.
- **Demand for loans** continued to increase and is expected to follow this trend. Working capital and debt restructuring were the main positive contributors to credit demand conditions.
- **Access to funding:** Banks report access to funding as being on an easing trend and expect it to continue to ease. However, IFIs funding has become more limited.
- **NPL figures** have improved considerably, in line with the expectations and are expected to continue so in the next six months.

[31] Sources: National Bank of Serbia.

[32] Exluding exchange rate effect.

3. Relevant macroeconomic and banking conditions[33]

- **Growth:** After the recovery process in 2013 following the contraction in 2012, the economy went into recession again in 2014 due to weak domestic and external demand, increased uncertainty and heavy floods. Private consumption and gross fixed capital formation continued to decline. As a result, real GDP contraction amounted to 1.8 percent in 2014. However, the rate of contraction slowed across sectors in the fourth quarter of 2014 with some sectors experiencing positive growth. Real GDP is forecast to contract by roughly 0.3 percent in 2015.
- **Unemployment:** Unemployment continued to remain high, however down to 18.9 percent in 2014 from 22.1 percent a year before, according to the Labour Force Survey. The employment rate continued to contract. Real wages have been volatile and declined in the first quarter compared to the previous year, given fiscal consolidation measures and particularly lower wages in the public sector.
- **Inflation:** Headline inflation was 1.8 percent yoy in April 2015, and well below the Central Bank target. Weak domestic demand, fall in oil prices and deflationary processes in some partner countries are the main factors behind the subdued inflation developments.
- **External and public sector balance:** The current account deficit continued to fall in 2015. Given the relatively favourable external environment, growth of exports of goods turned positive in December and continued to increase in the first quarter of 2015. Public debt has been increasing and stood at 74 percent of GDP at end-March 2015. The fiscal deficit has widened to 6.7 percent in 2014, however contracted in the first quarter of 2015.
- **Banking sector:** Starting from early 2014, the banking system has been showing signs of recovery after several months of contraction. Bank lending activity recorded annual growth rate of credit of 2 percent in March 2015. Banking sector profitability has been improving as well. The system registered positive returns on assets and equity in 2014 and increased further in March 2015, while still remaining below average pre-crisis profitability levels. The level of capitalisation for the entire banking sector (CAR 20.3 percent end-March 2015) exceeds the regulatory minimum of 12 percent. NPLs remain high at 22.6 percent (March 2015) and increased from 21.5 percent at the end-2014. The loan-to-deposit ratio for the banking sector is around 100%.
- **Rating:** Serbia is currently rated by Moody's (B1, stable), S&P (BB-, negative) and Fitch (B+, stable).

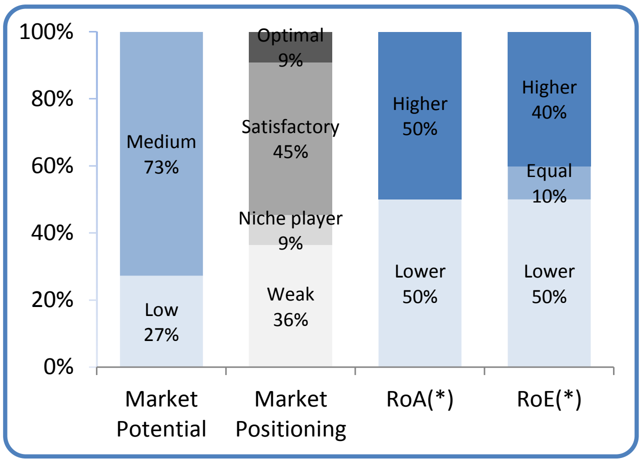
[33] Sources for the data: European Commission and National Bank of Serbia.

4. Results of the Bank Lending Survey:

4.1 Parent banks[34]

1. The views of the parent banks operating in Serbia are in line with the overall sample of parents included in the survey, reporting similar intentions on strategic restructuring plans, as well as on current and expected sales of assets to increase their capital ratios at the global level. Groups operating in Serbia have also expressed the same likelihood of raising capital on the market as the whole set of groups included in the survey. Roughly 50 percent of the groups expect their loan-to-deposit ratio to remain stable, whilst 40 percent expect it to decrease over the next six months. This is in line with the aggregate expectations of all international banks included in the survey.

Figure 1. Market potential and positioning – see question A.Q15



Source: EIB – CESEE Bank Lending Survey.
(*) Return on assets (adjusted for cost of risk) compared to overall group operations; return on equity (adjusted for cost of equity) compared to overall group ROE.

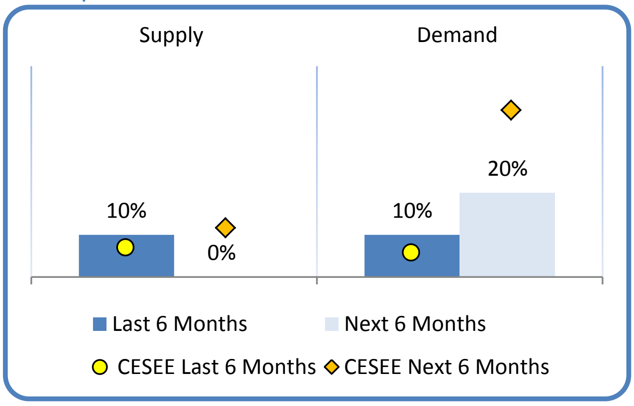
2. Groups operating in Serbia show slightly higher intentions to reduce operations in CESEE compared to other groups operating in the CESEE region as a whole. However, compared to the September 2014 release, less parent banks indicate that profits are lower in the region than in the overall group. The profitability of groups operating in Serbia is expected to be similar to the full sample of groups operating in the region. Roughly 55 percent of the banks operating in Serbia are fairly satisfied with their current market positioning and 73 percent regard the Serbian market's potential as medium. Last but not least, 50 percent of the groups describe the market as having lower returns (i.e., ROA and ROE adjusted for the cost of capital and cost of equity) than the groups' global operations (Figure 1).

[34] In this subsection results refer to the views of parent banks. Results on market positioning and potential refer to questions addressing behaviours within a specific market, whilst the other data (e.g. restructuring strategies, ROA, etc.) are derived results. These are obtained by filtering out from the parents' views for the CESEE region as a whole the views of those parents effectively operating in a particular country. This makes it possible to assess whether there is a divergent attitude of a sub-group of parents operating in a specific country.

4.2 Local banks/subsidiaries

1. In contrast to previous releases of the survey, credit standards were described to be on an easing trend in line with the CESEE aggregate (Figure 2). Along with the easing supply conditions, demand for loans was reported to be increasing as well. Over the next six months demand conditions are expected to continue to increase, albeit at lower levels than the CESEE aggregate, while supply is expected to take a neutral stance. This contrasts with an expected easing of credit standards at the CESEE level.

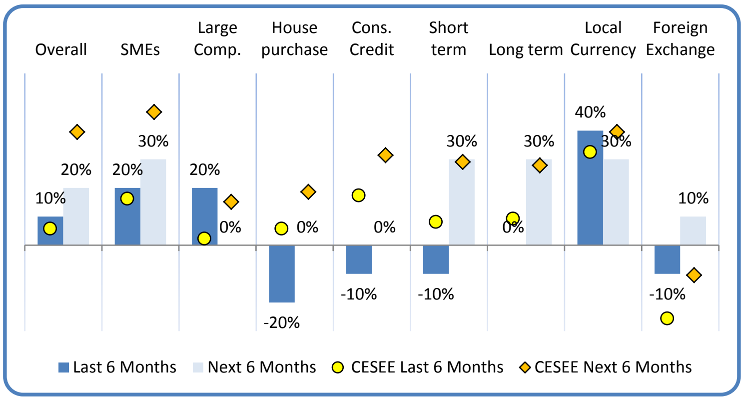
Figure 2: Credit supply (credit standards) and demand conditions – *net percentages;* positive figures refer to increasing (easing) demand (supply) – see questions B.Q1 and B.Q5



Source: EIB – CESEE Bank Lending Survey.

2. Demand for loans continued to increase (Figure 3), in line with the expectations embedded in the September 2014 survey. Demand has been strong from corporates (including SMEs), while the household segments registered a decline. In contrast to an expected increase in demand for loans in the CESEE region, demand is anticipated to remain neutral in Serbia across different products, except for SMEs. Demand from SMEs is envisaged to rebound robustly, albeit below the CESEE level. This will be the main driver of the expected mildly positive growth in aggregate demand for loans. Demand for loans of various maturities is expected to increase over the next six months in line with the CESEE region. Particularly, demand for local currency loans has been strong over the past year and is expected to continue increasing over the next six months.

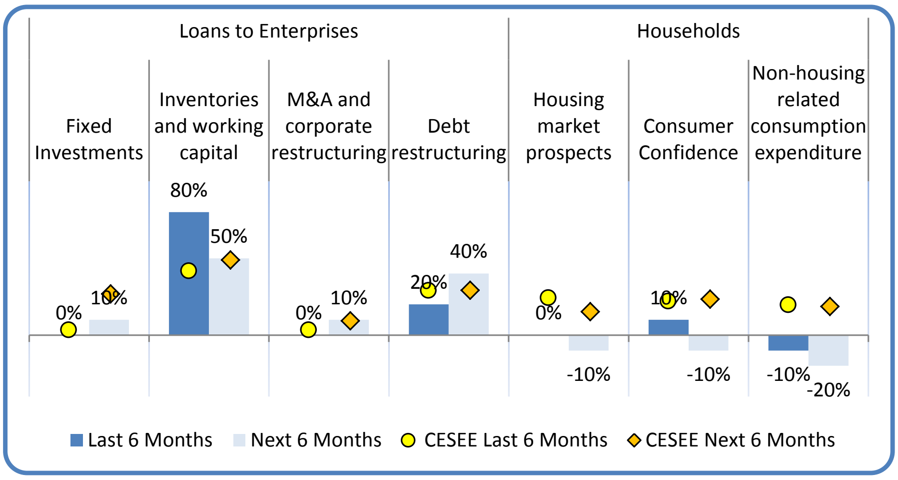
Figure 3. Demand components - (*net percentages*; positive figures refer to increasing demand) – see question B.Q5



Source: EIB – CESEE Bank Lending Survey.

3. Figure 4 shows that working capital and debt restructuring were the main positive contributors to demand conditions over the past six months. Demand factors from households have been neutral. Looking ahead, along with working capital and debt restructuring, marginal positive contributions are expected from fixed investments and corporate restructuring. Contrary to the CESEE region, demand from households is envisaged to be negative.

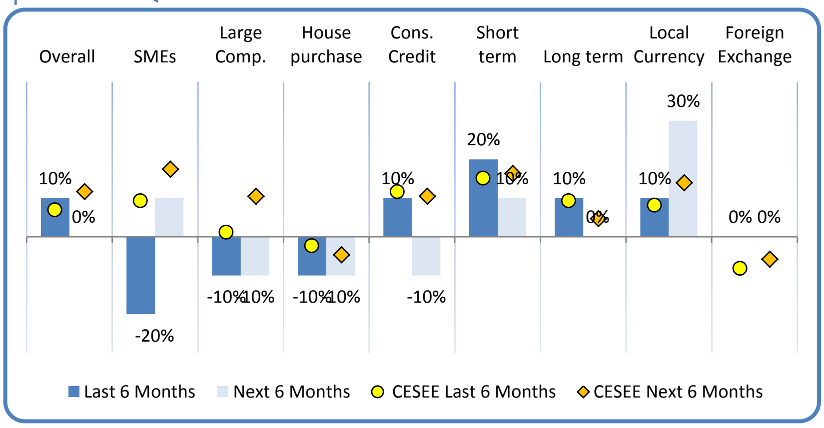
Figure 4. Factors contributing to demand conditions – (*net percentage*; positive figures refer to a positive contribution to demand) – see question B.Q7



Source: EIB – CESEE Bank Lending Survey.

4. Credit standards have eased over the past six months (Figure 5) for the first time since the introduction of the inception of the survey in 2012. This was in line with the expectations recorded in the previous release of the survey. Easing of credit standards were reported for consumer credit, while other sectors registered tightening (notably the SMEs segment). Easing of credit standards were recorded across various maturities, and particularly for short term loans. Credit

Figure 5. Supply components – credit standards (*net percentages*; positive figures refer to a positive contribution to supply) – see question B.Q1

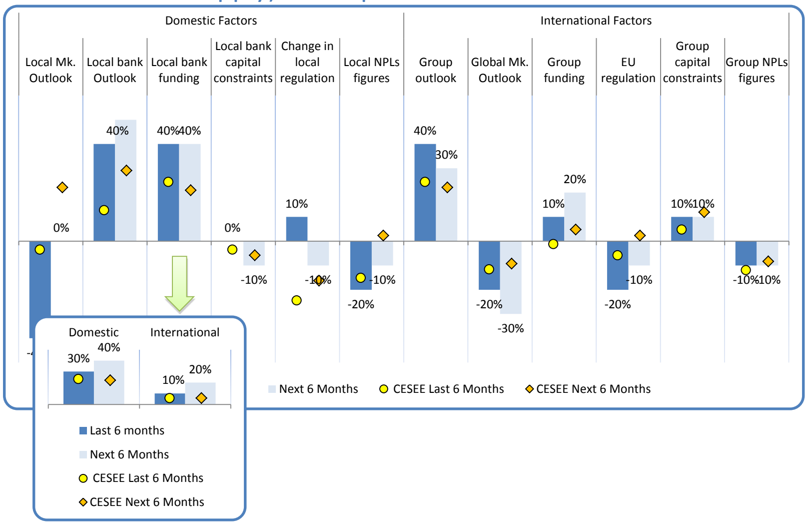


Source: EIB – CESEE Bank Lending Survey.

standards are expected to stay neutral over the next six months in contrast to an easing trend expected for the broad CESEE region. Supply conditions are expected to tighten further for large corporates and house purchases. Terms and conditions are expected to return to a tightening phase for the consumer segment.

5. Both domestic and international factors have played a role in determining credit supply conditions in Serbia (Figure 6). Domestic factors seem to have had a more prominent role in supporting supply expansions than the international factors. Local bank outlook and funding, along with group outlook were the key factors encouraging an easing in credit supply conditions, even to a more pronounced extent than for the CESEE region. On the other hand, local market outlook and NPL figures were the main domestic constraining factors, however to a lesser degree than indicated in the September 2014 release. Although still remaining a constraint, local NPLs have been reported to have had a considerably less limiting impact over the last six months compared to the previous survey results. At the group level, global market outlook, EU regulations and group NPLs are mentioned to have had a negative effect on credit supply conditions over the past six months. Over the next six months, the effects of local bank capital constraints and change in local regulation are expected to turn marginally negative. The other factors are expected to continue to exercise a similar impact as in the past six months on supply conditions.

Figure 6. Factors contributing to supply conditions (credit standards) – (*net percentage*; positive figures refer to a positive contribution to supply) – see question B.Q4

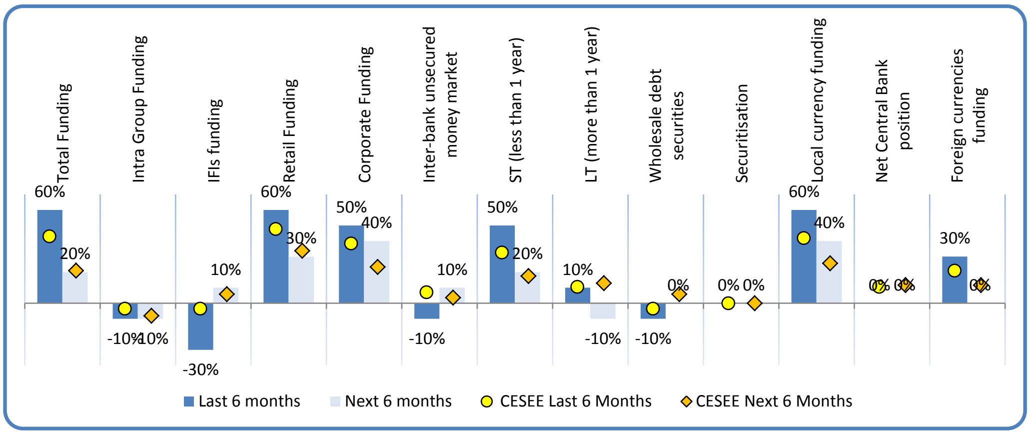


Source: EIB – CESEE Bank Lending Survey.

6. With regard to the SME segment, supply (credit standards) continues to be in a tightening phase, whilst demand for loans has been rebounding rather sharply over the past six months. Looking ahead, demand is expected to continue expanding, however at a slower pace than for the CESEE region. Over the next six months, the credit standards are expected to ease for SMEs, however they are anticipated to remain more restrictive than in the CESEE region. In particular

collateral requirements for SMEs continued to tighten in Serbia over the past six months and are expected to continue to do so over the next six months.

Figure 7: Access to Funding – (*net percentage*; positive figures indicate increasing access to funding) – see question B.Q9

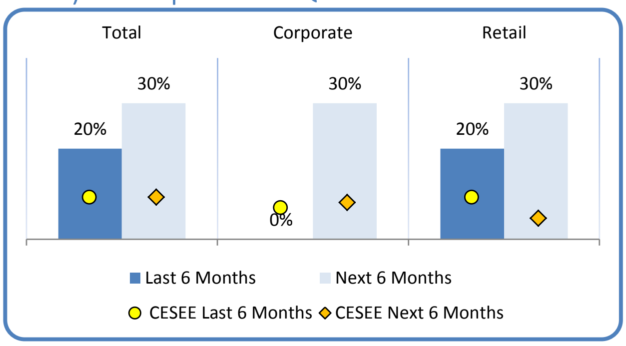


Source: EIB – CESEE Bank Lending Survey.

7. Access to funding has been on an easing trend and contributed to easing supply credit supply conditions. Funding improved across various range of products and segments (Figure 7). However, IFIs funding, intra group funding, inter-bank and wholesale debt securities recorded mild declines. Looking ahead, funding conditions are still described as easing, in line with the CESEE aggregate. IFIs funding and inter-bank money market resources are expected to become marginally positive contributors to the total funding. However, long-term funding is expected to be reduced over the next six months.

8. Aggregate NPL figures improved considerably over the past six months, in line with the recorded expectations in the September 2014 release. This broke the negative trend indicated in past surveys. Improvement was driven primarily by NPLs in the retail sector (Figure 8). Further improvement in NPLs is expected over the next six months both in the corporate and retail sectors.

Figure 8: Non-performing loan ratios – (*net percentage*; negative figures indicate increasing NPL ratios) – see question B.Q8



Source: EIB – CESEE Bank Lending Survey.

Slovakia

1. Key statistics[35]

- Number of banks/subsidiaries participating in the survey: six
- Approximate share of assets covered (as proportion of total assets): 75 percent
- Current level of NPLs as proportion of total loans: 4.9% (February 2015)
- Latest credit growth (yoy): 5.5% (February 2015)
- Loan-to-deposit ratio: 94% (February 2015)
- CAR: 17.5% (December 2014)

2. Key messages – *Credit demand rebounding while supply conditions have deteriorated, particularly for households*

International groups' views:

- **Group strategies**: While banking groups operating in Slovakia remain generally more positive concerning their group strategies than the overall sample of banks included in the survey, they have been carrying out some strategic operations to raise capital. The majority of banks do not plan further deleveraging.
- **Group assessment of positioning and market potential**: Parent banks operating in Slovakia remain strongly committed to the CESEE region, in which all banks see medium or high market potential. More than 80% of banks expect higher profitability in Slovakia than average for the group's operations. Parent banks are generally satisfied with their current positioning in the market.

Subsidiaries'/local banks' views:

- **Credit supply** conditions in Slovakia deteriorated over the last six months on the back of significantly tightened credit standards for house purchases. This contrasts with the overall CESEE region, where credit standards remained broadly stable. Credit standards development in Slovakia was supported by most domestic factors the sum of which outweighed the deep damper exercised by changes in local regulation. Credit conditions are expected to be loosened somewhat in the corporate sector both in Slovakia and in CESEE. In the latter also consumer credits should become better available.
- **Demand for loans** increased significantly in Slovakia driven by all market segments. Looking ahead, the increase in demand is expected to continue, although at a slower pace, driven by the corporate sector.
- **Access to funding:** The overall funding situation of subsidiaries improved in the last six months on account of better access to basically all funding means apart from intra group funding, both short- and long-term.
- **NPL figures** reportedly improved somewhat over the last six months due to developments in the corporate sector and the trend is expected to continue.

[35] Sources: National Bank of Slovakia, European Commission and Unicredit/Bank Austria based on NBS data.

3. Relevant macroeconomic and banking conditions[36]

- **Growth:** After real GDP growth had been continuously slowing down since the recovery started in 2010 it rebounded to 2.4% in 2014. This year the economy is expected to expand at a similar pace while growth will accelerate to more than 3% in 2016. In contrast to the last two years economic expansion in 2014 was powered by strengthening domestic demand while the contribution of net exports slightly counteracted due to low export demand. Following three years of consecutive decline private consumption picked up by more than 2% in 2014 owing to growing disposable income, low inflation as well as recovering labour market and consumer confidence. In a similar vein, after two years of contraction gross fixed capital formation expanded by nearly 6% driven by strong rebound of capital investment. Looking ahead, a similar, unbalanced growth pattern is expected for this year and the next as growth will be driven predominantly by firming domestic demand.
- **Unemployment:** The unemployment rate has stabilised at above 14% in recent years. As structural factors such as gaps in education and lack of mobility have a negative effect on labour market developments, the unemployment rate is forecast to decrease only gradually to just under 13% over the medium term in line with the economic recovery.
- **Inflation:** As a result of weak economic activity, declining energy prices and moderating growth of food prices, inflation dropped from 3.7% in 2012 to 0.1 below zero in 2014. Inflation has hovered at or slightly below zero since the beginning of 2014 and the fall has intensified in early 2015 with inflation at -0.6% in February going deeper into the negative territory than ever before. The accelerated and higher than expected decline in the overall price level reflected decreases in food and energy prices. Inflation is projected to slowly increase over the coming years, driven by a pick-up in the prices of services mirroring the recovery in domestic demand.
- **External and public sector balance:** In 2012 the current account turned into a surplus which gradually increased to 1.1% in 2014 and is expected to persist in the medium term. The budget deficit was reduced from 7.5% of GDP in 2010 to 2.8% of GDP in 2013. While the deficit deteriorated somewhat in 2014 (2.9% of GDP) it should go down to 2.6% in 2016. Public debt was just below 55% in 2013 and is forecast to increase marginally in the medium term.
- **Banking sector:** The banking sector is well capitalised (CAR at 17.5% end-2014). NPLs are relatively low (4.9% in February 2015), although up from 2.5% in 2007. The loan-to-deposit ratio stood at 94% in February 2015, up from 72% in 2006. Lending growth has been moderate in the last few years and the gradual pick-up has suffered a set-back since the summer 2014.

[36] Sources for the macroeconomic data: European Commission and IMF. Sources for the banking data: European Commission, National Bank of Slovakia and Unicredit/Bank Austria based on NBS data.

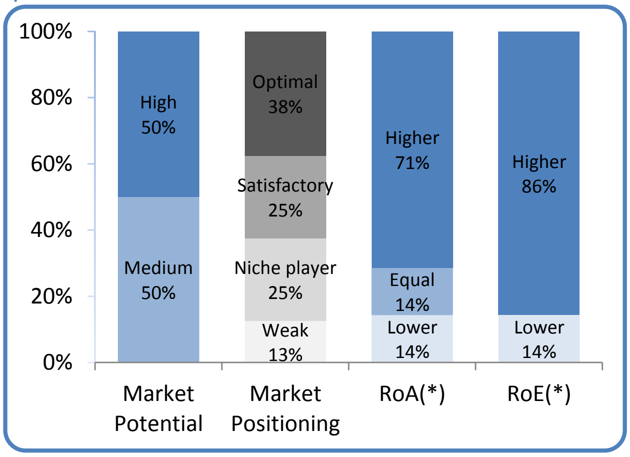
- **Rating:** Slovakia is currently rated by Moody's (A2), Fitch (A+) and S&P (A).

4. Results of the Bank Lending Survey:

4.1 Parent banks[37]

1. Parent banks operating in Slovakia remain somewhat more positive than the overall sample of groups included in the survey. To raise capital, parent banks operating in Slovakia have been carrying out some strategic operations and are planning to continue doing this in the months to come. Two thirds of banks have been selling assets, half of the banks have undertaken some strategic restructuring and one bank has sold branches. Overall, banks do not expect further deleveraging at the group level, with a vast majority of them expecting the loan-to-deposit ratio to stay either stable (67%) or even increase (17%). This is a more favourable view than in the overall sample, where 67% of banks forecast a stable loan-to-deposit ratio and 13% plan to raise it.

Figure 1. Market potential and positioning – see question A.Q15



Source: EIB – CESEE Bank Lending Survey.

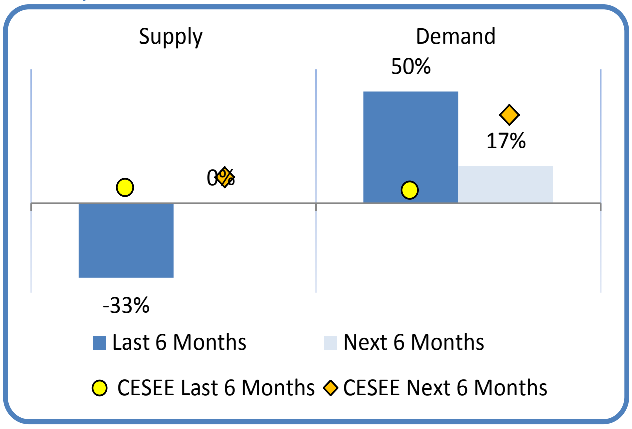
2. Parent banks operating in Slovakia remain strongly committed to the region, with none of them planning to reduce operations and more than 80% intending to expand business. Two thirds of banks reported higher profitability in the CESEE region than at the group level compared to 40% in the last survey. Better still, even more than 80% expect higher profitability in the CESEE region in the next six months which is a dramatic improvement in expectations compared to the last survey (60%). Parent banks are satisfied with their market positioning in Slovakia. Hence, 38% of respondents find their positioning optimal and 25% satisfactory (Figure 1). Moreover, banks' positive view about market potential has further improved. Not only reports each bank either medium or high potential but the share of banks reporting high potential has increased from 38% last time to 50% in this round (Figure 1).

[37] In this subsection results refer to the views of parent banks. Results on market positioning and potential refer to questions addressing behaviours within a specific market, whilst the other data (e.g. restructuring strategies, ROA, etc.) are derived results. These are obtained by filtering out from the parents' views for the CESEE region as a whole the views of those parents effectively operating in a particular country. This makes it possible to assess whether there is a divergent attitude of a sub-group of parents operating in a specific country.

4.2 Local banks/subsidiaries

1. The development of the credit market was rather uneven. While subsidiaries operating in Slovakia reported a relatively strongly increasing demand, supply conditions tightened noticeably over the last six months. This is a rather divergent development on both sides of the market to the CESEE region as whole where both supply and demand remained broadly stable. Looking ahead, the increase in demand is expected to continue, although to a smaller extent than so far and in the CESEE region. Broadly in line with CESEE peers supply in Slovakia is predicted to stay neutral (Figure 2).

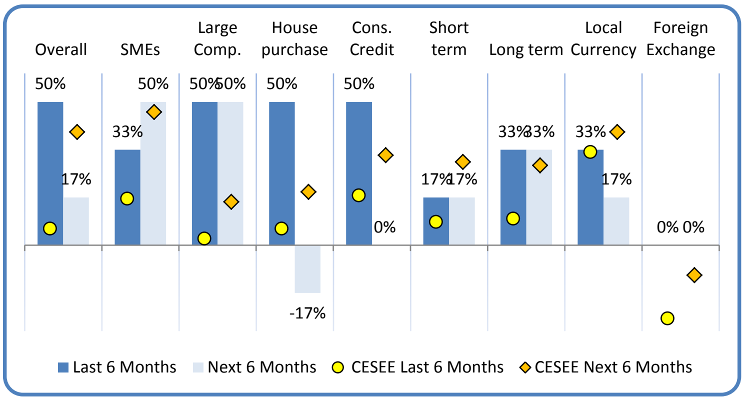
Figure 2: Credit supply (credit standards) and demand conditions – *net percentages;* positive figures refer to increasing (easing) demand (supply) – see questions B.Q1 and B.Q5



Source: EIB – CESEE Bank Lending Survey.

2. The increase in overall demand was driven by all market segments. In terms of maturity and currency denomination, banks reported an increase in demand for short-term and particularly for long-term loans in local currency. Looking ahead, the improvement in demand in the corporate sector is expected to continue and even accelerate in the SME segment. In contrast, a significant cooling-down in retail banking is projected, particularly with regard to mortgages. In the CESEE region as a whole the revival in demand will be relatively broadly distributed across all categories with the strongest contribution from SMEs and consumer credits (Figure 3).

Figure 3. Demand components - (*net percentages*; positive figures refer to increasing demand) – see question B.Q5

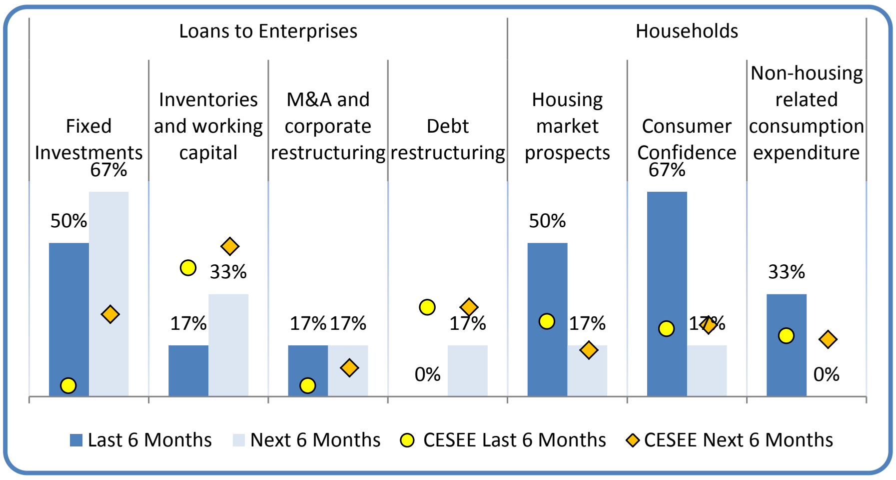


Source: EIB – CESEE Bank Lending Survey.

3. When it comes to the corporate segment, while fixed investment, inventories and working capital, as well as M&A and corporate restructuring contributed positively, debt restructuring made a neutral contribution to demand over the last six months. Over the coming period all categories are expected to contribute

to the credit demand boost, predominantly fixed investments followed by inventories and working capital. In the household segment all factors contributed strongly to the support of credit demand, particularly the growing consumer confidence and improving housing market prospects. These two factors are expected to drive households' credit demand also in the six months ahead, although to a significantly lesser extent. The overall outlook for credit demand in Slovakia is broadly in line with the CESEE region. However, while credit demand for fixed investments is going to be much stronger in Slovakia than in CESEE peers, in the latter - unlike in Slovakia - non-housing consumption expenditures should play a significant role (Figure 4).

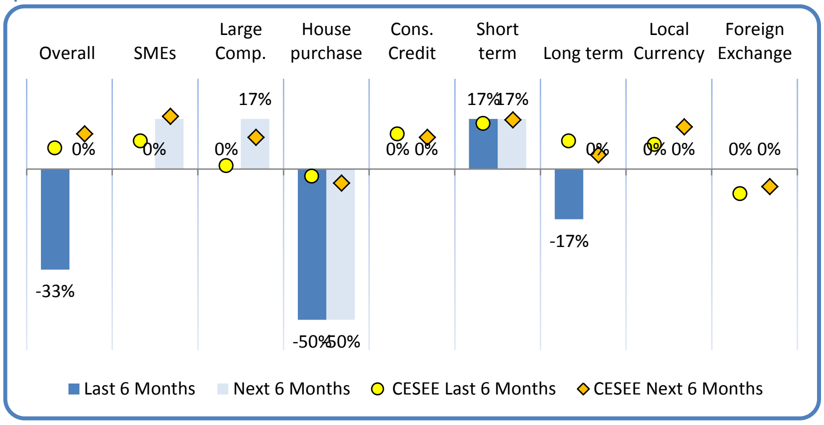
Figure 4. Factors contributing to demand conditions – (*net percentage*; positive figures refer to a positive contribution to demand) – see question B.Q7



Source: EIB – CESEE Bank Lending Survey.

4. Supply conditions deteriorated on the back of significantly tightened credit standards for house purchases. For other credit categories supply conditions stayed unchanged. This contrasts with the overall CESEE region, where credit standards remained broadly stable over the last six months apart from some slight easing in the SME and consumer credit segments. A very similar development is expected in the CESEE region also in the upcoming half-year, with possibly some stronger easing in the

Figure 5. Supply components – credit standards (*net percentages*; positive figures refer to a positive contribution to supply) – see question B.Q1

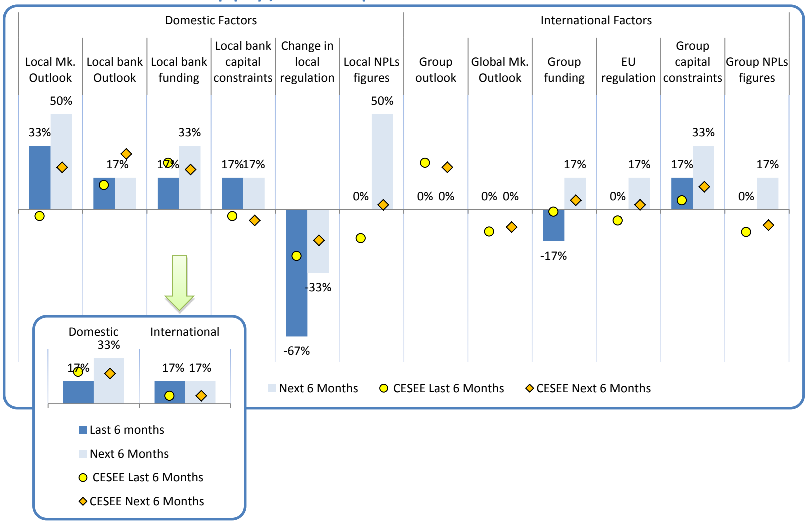


Source: EIB – CESEE Bank Lending Survey.

corporate sector. In Slovakia credit conditions are expected to be loosened slightly in the corporate sector (Figure 5).

5. In the last six months, standards for credit supply were supported by most domestic factors apart from the changes in local regulation. However, overall, the deep damper of the latter was outweighed by the sum of relatively moderate positive contributions of all other factors. When it comes to international factors, while most made a neutral contribution to supply conditions, the negative impact of group funding was counteracted by an easing effect of group capital constraints. Over the six months to come, supply conditions should further ease thanks to almost all domestic factors, particularly local market outlook and NPL figures as well as local bank funding. The tightening effect of local regulation changes will persist but will be smaller. Among international factors, the supply easing effect of group capital constraints will strengthen and will be, unlike in the last half-year, supported also by loosening EU regulation, improving group NPL figures and group funding (Figure 6).

Figure 6. Factors contributing to supply conditions (credit standards) – (*net percentage*; positive figures refer to a positive contribution to supply) – see question B.Q4

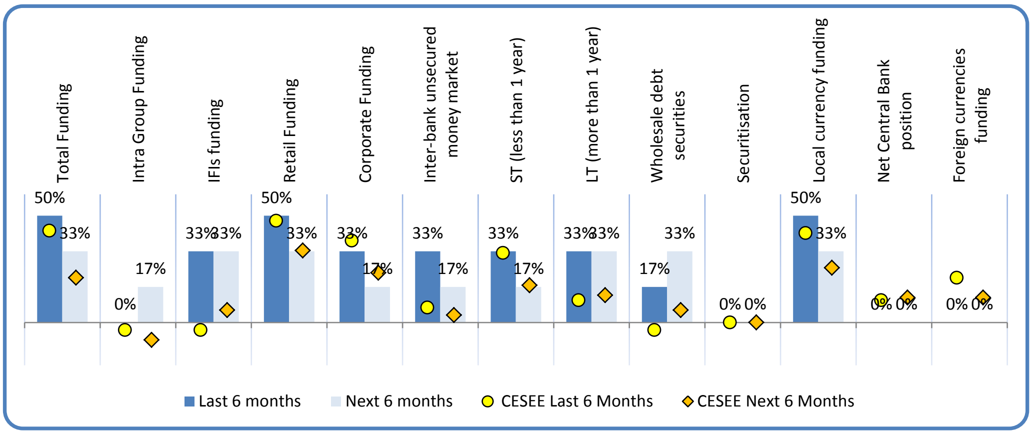


Source: EIB – CESEE Bank Lending Survey.

6. As regards credit to SMEs, the developments were quite uneven on both sides of the market. The strengthening demand side faced rather unchanged credit standards over the last six months. Looking ahead, while demand is expected to continue increasing, supply conditions should relax somewhat as tighter collateral requirements will be outweighed by lower interest rate margins and bigger volumes. This will be broadly in line with developments in the CESEE region as a whole.

7. The overall funding situation of subsidiaries improved in the last six months on account of better access to basically all funding means apart from intra group funding, both short- and long-term. Looking ahead, access to funding is expected to ease further on the back of positive developments of all funding sources (Figure 7).

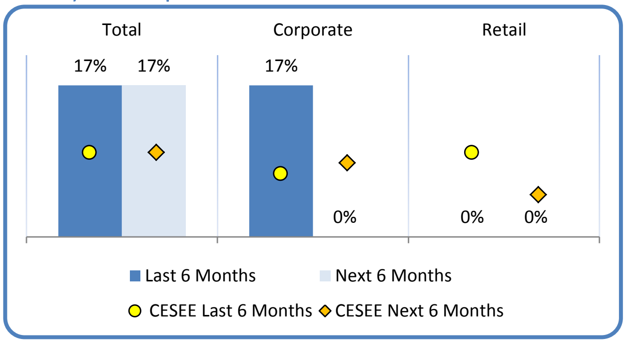
Figure 7: Access to funding – (*net percentage*; positive figures indicate increasing access to funding) – see question B.Q9



Source: EIB – CESEE Bank Lending Survey.

8. NPL ratios reportedly improved somewhat over the last six months, due to developments in the corporate sector. The trend is expected to continue. For the CESEE region as a whole a thin majority of banks expect a further improvement in NPLs both in the corporate and retail sectors in the next six months (Figure 8).

Figure 8: Non-performing loan ratios – (*net percentage*; negative figures indicate increasing NPL ratios) – see question B.Q8



Source: EIB – CESEE Bank Lending Survey.

The Questionnaire

The questionnaire is divided into two parts:

- **Part A addressed to parent banks**

- **Part B addressed to local / subsidiary banks**

PART A

A.Q1 - Strategic operations: Has your group conducted strategic operations to increase the capital ratio and/or will conduct strategic operations? If yes, which type?		
	LAST 6 months	**NEXT** 6 months
Strategic restructuring		
Sale of assets		
Sale of branches of activities		
Raising capital on the market		
State contribution to capital		

A.Q2 - Group funding: Group's access to funding...		
	*...How has it changed over the **LAST** six months?*	*...How do you expect it to change over the **NEXT** six months?*
Total		
Retail (deposits and bond to clients)		
Corporate (deposits and bond to clients)		
Interbank market		
IFIs		
Wholesale debt securities		
Loans or credit lines from the Central Bank		
Securitisation		
Short-term funding (any source)		
Long-term funding (any source)		

A.Q3 - Deleveraging —over the next six months, do you expect the loan-to-deposit ratio of your group to...		

A.Q4 - Longer term strategic approach (beyond 12 months)**: Looking at operations via subsidiaries in CESEE, your group intends to...**		

A.Q5 - Profitability of the strategy in CESEE region: the contribution of activities in CESEE in total ROA of the Group is/will…		
	LAST 6 months	**NEXT** 6 months

A.Q6 - Profitability of the strategy in CESEE region: ROA of your CESEE operations is higher/lower/equal of that for the overall group…		
	LAST 6 months	**NEXT** 6 months

A.Q7 - Group total exposure to CESEE: Concerning cross-border operations to CESEE countries, your group did/intends to…		
	LAST 6 months	**NEXT** 6 months
Total Exposure		
Exposure to Subsidiaries - intra-group funding		
Exposure to Subsidiaries - capital		
Direct cross border lending to domestic clients, booked in the BS of the parent company		
MFIs - funding to banks not part of the group, booked in the BS of the parent		

A.Q8 - ECB measures:

1) Did you have access (as a group) to the ECB announced TLTROs?	
2) If answered yes to 1), did you withdraw the full amounts allowed by your (group) collateral or only partially?	
3) Was the access to the two initial TLTROs able to satisfy your demand for long-term liquidity at group level?	
4) Did you utilize the TLTROs to (multiple yes or no are possible)…	
…fund non-financial corporates lending growth in jurisdictions where TLTROs access is available?	
…indirectly fund non-financial corporates lending growth in jurisdictions where TLTROs access is NOT available (e.g. via intra-group funding)?	
…fund the investment/acquisition of bonds?	

A.Q10 - How have the TLTROs impacted on your Group external exposure? How do you expect them to impact?

	LAST 6 months	**NEXT** 6 months
Total Exposure to Emerging Markets		
Total Exposure to CESEE region		
of which:		
Exposure to CESEE Subsidiaries - intra-group funding		
Direct cross border lending to CESEE domestic clients, booked in the BS of the parent company		
MFIs - funding to CESEE banks not part of the group, booked in the BS of the parent		

A.Q11 - How do the asset purchase programs (incuding public sector bonds) impact on your Group external exposure? How do you expect them to impact?

	LAST 6 months	**NEXT** 6 months
Total Exposure to Emerging Markets		
Total Exposure to CESEE region		
of which:		
Exposure to CESEE Subsidiaries - intra-group funding		
Direct cross border lending to CESEE domestic clients, booked in the BS of the parent company		
MFIs - funding to CESEE banks not part of the group, booked in the BS of the parent		

A.Q12 - How have other ECB measures (e.g. negative depo rate, stop to SMP sterilisation) affected your Group external exposure? How do you expect them to impact?

	LAST 6 months	**NEXT** 6 months
Total Exposure to Emerging Markets		
Total Exposure to CESEE region		
of which:		
Exposure to CESEE Subsidiaries - intra-group funding		
Direct cross border lending to CESEE domestic clients, booked in the BS of the parent company		
MFIs - funding to CESEE banks not part of the group, booked in the BS of the parent		

A.Q13 - Conditions of your funding to your own subsidiaries in CESEE…

	*…How have they changed over the **LAST** six months?*	*…How do you expect them to change over the **NEXT** six months?*
Overall		
Pricing		
Maturity		

A.Q15 How do you assess in each country…						
Country	…market potential	…your subsidiary current positioning	…Return on assets (adjusted for cost of risk)	…Return on assets (adjusted for cost of risk) compared to overall Group operations	…Return on equity (adjusted for cost of equity)	…Return on equity (adjusted for cost of equity) compared to overall Group ROE
Albania						
Bosnia-H.						
Bulgaria						
Croatia						
Czech Republic						
Estonia						
Hungary						
Kosovo						
Latvia						
Lithuania						
Macedonia						
Poland						
Romania						
Serbia						
Slovakia						
Slovenia						
Ukraine						

PART B

B.Q1 - Credit Supply: bank's (local subsidiary)**'s credit standards applied when assessing credit applications…**		
	…How have they changed over the last six months?	…How do you expect them to change over the next six months?
Overall		
Loans to small and medium-sized enterprises		
Loans to large enterprises		
Loans to households for house purchase		
Consumer credit (other than loans for house purchase)		
Short-term loans		
Long-term loans		
Local Currency		
Foreign Currency		

B.Q2 - Credit Supply: bank's (local subsidiary)'s approval rate for loan applications…

	…How has it changed over the last six months?	…How do you expect it to change over the next six months?
Overall		
Loans to small and medium-sized enterprises		
Loans to large enterprises		
Loans to households for house purchase		
Consumer credit (other than loans for house purchase)		
Short-term loans		
Long-term loans		
Local Currency		
Foreign Currency		

B.Q3 - Credit supply: have bank's conditions and terms (e.g. maturity, pricing, size of average loan, etc.) **for approving loans or credit lines changed/will they change?...**

OVER the LAST 6 months

	Overall	**Loans to SMEs**	**Loans to large companies**	**Loans to households for house purchase**	**Consumer credit** (other than loans for house purchase)
A) Your bank's margin on average loan (wider margin = --, narrower margin = ++)					
B) Size of the average loan or credit line					
C) Maturity					
D) Non-interest rate charges					
E) Collateral requirements					

OVER the NEXT 6 months

	Overall	**Loans to SMEs**	**Loans to large companies**	**Loans to households for house purchase**	**Consumer credit** (other than loans for house purchase)
A) Your bank's margin on average loan (wider margin = --, narrower margin = ++)					
B) Size of the average loan or credit line					
C) Maturity					
D) Non-interest rate charges					
E) Collateral requirements					

B.Q4 - Factors affecting your bank's credit standards (credit supply).
Have the following domestic and international factors contributed to tighten (ease) your credit standards over the past six months, and do you expect them to contribute to tighten (ease) your credit standards over the next six months?

	Over the **LAST** six months	Over the **NEXT** six months
Impact on credit standards		
***A) Domestic Factors -** affecting your subsidiary*		
i) Local market outlook		
ii) Local bank outlook		
iii) Local banks access to total funding		
iii.a) of which: domestic		
iii.b) of which: international/intra-group		
iv) Local bank capital constraints		
v) Change in local regulation		
vi) Competition		
vii) Credit quality (NPLs)		
viii) Bank's liquidity position		
ix) Risk on collateral demanded		
***B) International Factors** - affecting your subsidiary*		
i) Group Company outlook		
ii) Global market outlook		
iii) Overall group access to funding		
iv) EU Regulation		
v) Group capital constraints		
vi) Global Competition		
vii) Credit quality (NPLs)		

B.Q5 - Loan Applications: Demand for loans or credit lines to enterprises and households (to your local subsidiary/branch)…

	…How has it changed over the last six months?	*…How do you expect it to change over the next six months?*
Overall		
Loans to small and medium-sized enterprises		
Loans to large enterprises		
Loans to households for house purchase		
Consumer credit (other than loans for house purchase)		
Short-term loans		
Long-term loans		
Local Currency		
Foreign Currency		

B.Q6 - Has the quality of the Loan Applications changed / Do you expect it to change?

	…How has it changed over the last six months?	*…How do you expect it to change over the next six months?*
Overall		
Applications from small and medium-sized enterprises		
Applications from large enterprises		
Applications from households for house purchase		
Applications for consumer credit (other than loans for house purchase)		
Applications for short-term loans		
Applications for long-term loans		
Applications for Local Currency		
Applications for Foreign Currency		

B.Q7 - Factors affecting clients' demand for loan applications...

...Loans or credit lines to enterprises

A) Financing needs	*...How have they changed over the last six months?*	*...How do you expect them to change over the next six months?*
Fixed Investments		
Inventories and working capital		
M&A and corporate restructuring		
Debt restructuring		

...Loans to Household

A) Financing needs		
Housing market prospects		
Consumer Confidence		
Non-housing related consumption expenditure		

B.Q8 - Gross non-performing loans ratio in your local subsidiary/branch (excluding extraordinary operations)…

	…Has the non-performing loans ratio changed over the last six months?	*…How do you expect the non-performing loans ratio to change over the next six months?*
Total		
Retail		
Corporate		

B.Q9 - In terms of funding: has access to funding of your local subsidiary/branch changed over the past six months, or do you expect it to change over the next six months?

	Over the **LAST** six months	Over the **NEXT** six months
A) Total funding		
A.1) Intra Group Funding		
A.2) IFIs (international financial institutions) **funding**		
A.3) Retail funding (deposits and bonds to clients)		
A.4) Corporate funding (deposits and bonds to clients)		
A.5) Inter-bank unsecured money market		
A.6) Wholesale debt securities		
A.7) Securitisation		
A.8) Net Central Bank position		
B.1) Local currency funding		
B.2) Short term (less than 1 year)		
C.1) Long term (more than 1 year)		
C.2) Foreign currencies funding		

B.Q10 - How have the following factors affected your local subsidiary funding conditions over the past six months, and do you expect this to change over the next six months?

	Over the **PAST** six months	Over the **NEXT** six months
A) Exposure to sovereign debt		
B) Indirect exposure (via Group company) to sovereign debt		
C) Value and availability of eligible collateral for repo transactions		
D) Intra-group funding restrictions (e.g. company specific rules and home/host regulatory rules)		
G) Rating of Group residence country		
H) Rating of Parent company		
I) Rating of Subsidiary		
J) Capital ratio of your subsidiary		
K) Capital ratio of your parent		

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