2014 Outlook: CEE Banks

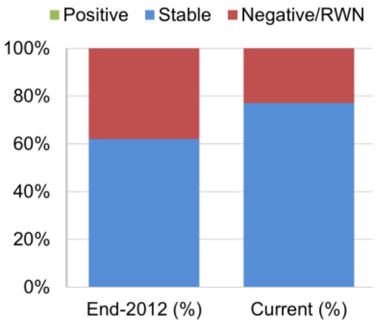
Fragile Recovery, Asset-Quality Issues Persist

Outlook Report

Rating Outlook

STABLE

(2013: STABLE)



Source: Fitch

Sector Outlook

STABLE

(2013:STABLE)

Country	Rating Outlook	Sector Outlook
POL	Stable	Stable
CZE	Stable	Stable
SLK	Stable	Stable
HUN	Stable	Negative
BUL	Stable	Stable
ROM	Stable	Negative
SLN	Negative	Stable
CRO	Negative	Stable

Source: Fitch

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Rating Stability for Most: The overall rating outlook for banks in central and eastern Europe (CEE) is stable. Slovenia aside, Negative Outlooks are not concentrated by country and are limited to a few cases of support-driven IDRs where subsidiaries share Negative Outlooks with parent banks. All IDRs driven by Viability Ratings (VRs) are on Stable Outlook, including some where a subsidiary's Long-Term IDR is equal to or higher than the parent's.

Environment Stable but Weak: The overall sector outlook remains stable but bleak as economic recoveries are still fragile and asset-quality issues persist in some weaker markets. The balance of risks remains negative in Hungary and Romania, and Fitch expects some adverse trends to continue in Bulgaria and Croatia, while Polish, Czech and Slovak banks should again outperform regional peers. Key sector metrics may stabilise following the recapitalisation exercise in Slovenia.

Support-Linked Ratings Mostly Parent Driven: Most CEE banks' Long-Term IDRs reflect potential support from parents, with Outlooks aligned accordingly. However, lower sovereign ratings in Bulgaria, Romania (both BBB−), Hungary and Croatia (both BB+) mean bank IDRs are often capped at Country Ceilings, and banks' Stable Outlooks reflect those on sovereigns.

VR-Driven Ratings Reflect Sector: All the Long-Term IDRs driven by VRs rather than support have the same Outlooks as their respective domestic sector, except for Romania, where the only VR-driven rating has a Stable Outlook. Three Polish banks have VR-driven Long-Term IDRs at the same level as or higher than their western European parents.

Weak Growth, Margins Low: Loan growth has picked up slightly in countries that proved more resilient in the 2008-2009 crisis (Poland, Czech Republic and Slovakia), but is still nonexistent in other parts of CEE. Margins are under pressure across the region from the low interest rate environment, partly mitigated by weaker competition in some markets. Fitch expects growth to be strongly linked to still fragile economic recoveries, and margins to stay low throughout 2014.

NPLs Drag on Business: Fitch expects any improvement in asset-quality trends across the region in 2014 to be slow, and the stock of non-performing loans (NPLs) to remain high. Large stocks of NPLs tie up available funding and management resources, increase risk aversion and restrict new business. CEE banks and sovereigns are trying to address the problem in various ways, most radically in Slovenia, where the NPL problem is greatest, and a large portion of impaired assets is to be transferred to a "bad bank".

Balance-Sheet Weaknesses Addressed: CEE banks' funding is gradually improving, with more domestic customer deposit focus and foreign-currency funding needs reduced. Capital positions have generally been strengthened, where needed, and are mostly at least adequate.

Outlook Sensitivities

Parent/Sovereign Rating Changes: CEE bank IDRs could be downgraded if their parent IDRs come under pressure due to weakening eurozone economies or potential revisions of Support Rating Floors. Upgrades or Positive Outlooks are unlikely for most support-driven ratings, unless triggered by corresponding actions on lower-rated CEE sovereigns.

VRs, Sector Outlooks: IDR changes due to changes in VRs would most likely coincide with changes in respective sector outlooks. Progress with the clean-up of Slovenian bank balance sheets could generate moderate rating upside.

CEE Banking Systems: Key Credit Metrics

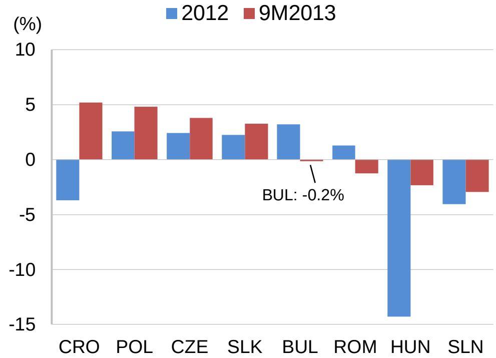
Figure 1
Fitch's Assessments

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

Source: Fitch

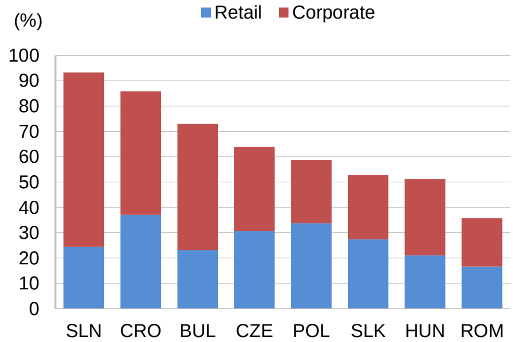
Lending and Asset Quality

Figure 2
Loan Growth



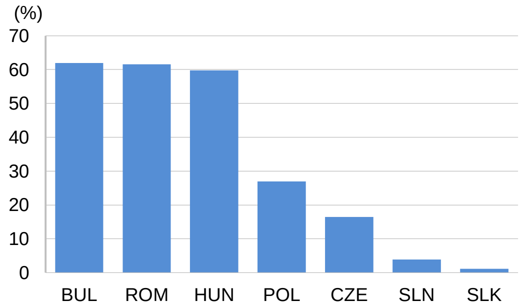
Nominal growth, 9M2013 not annualised; SLN: Fitch estimate
Source: National banks and bank regulators, Fitch

Figure 3
Loans/GDP



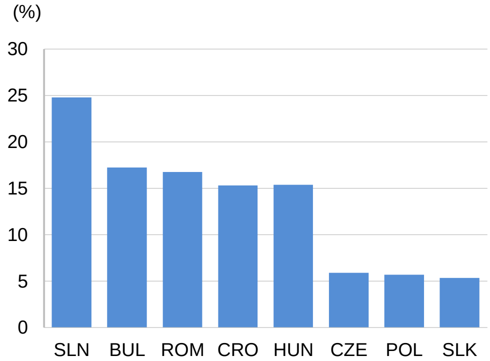
End-9M13 loans divided by 2013F GDP; CRO, SLN: 1H13
Source: National banks and bank regulators, Fitch

Figure 4
Foreign-Currency Loans/Total Loans



End-9M13 data, SLN: 1H13
Source: National banks and bank regulators, Fitch

Figure 5
Impaired Loans/Total loans



End-9M13 data. 90 days overdue for all markets except CZE (bottom 3 of 5 regulatory categories), SLK, SLN: Fitch estimate
Source: National banks and bank regulators, Fitch

Related Research

EM Banking System Datawatch (December 2013)
Global Quarterly Bank Rating Trends Q313 (November 2013)
Global Economic Outlook (December 2013)
Macro-Prudential Risk Monitor (October 2013)

Other Outlooks

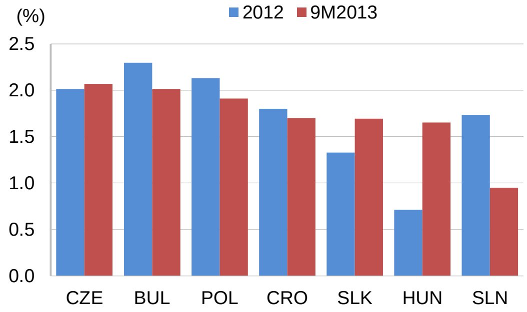
www.fitchratings.com/outlooks

Related Criteria

Global Financial Institutions Rating Criteria (August 2012)

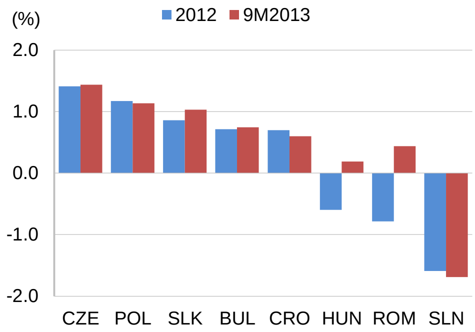
Profitability

Figure 6
Pre-Impairment Profit/Avg. Assets



9M13 data is annualised
Source: National banks and bank regulators, Fitch

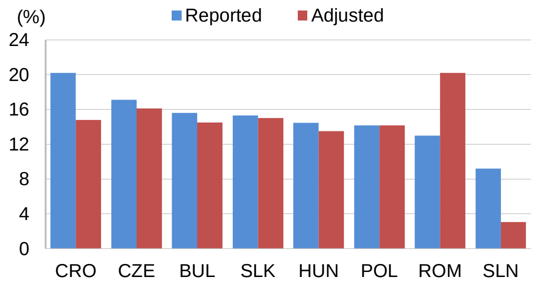
Figure 7
Return on Average Assets



9M13 data is annualised
Source: National banks and bank regulators, Fitch

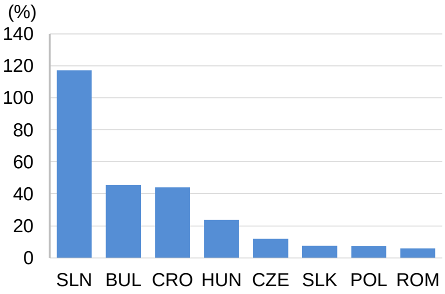
Capitalisation

Figure 8
Tier I Capital/Risk-Weighted Assets



End-9M13 data, SLK: 1H13. Adjusted ratio indicates impact of 80% NPL reserve coverage; ROM, BUL take account of additional prudential reserves used in calculation of regulatory capital ratios; SLN, ROM: Fitch estimate,
Source: National banks and bank regulators, Fitch

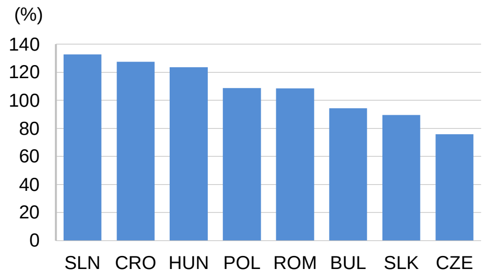
Figure 9
Unreserved NPLs/Equity



End-9M13 data, SLN: Fitch estimate; ROM, BUL do not take account of additional prudential reserves used in calculation of regulatory capital ratios;
Source: National banks and bank regulators, Fitch

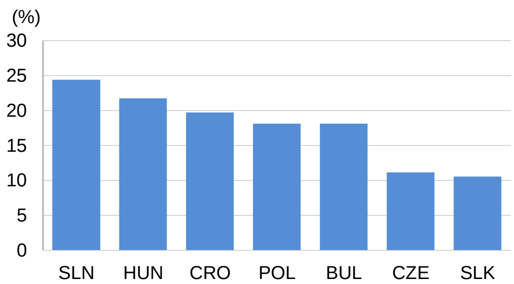
Funding

Figure 10
Gross loans/Customer Funding



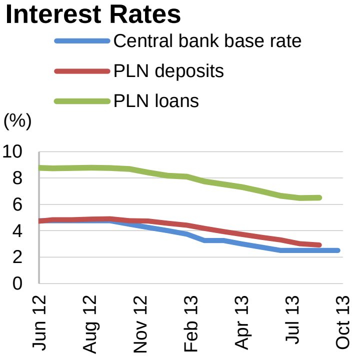
End-9M13, SLN: Fitch estimate
Source: National banks and bank regulators, Fitch

Figure 11
Foreign Funding/Total Liabilities



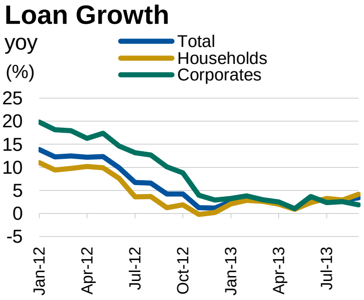
End-9M13 data; BUL, SLN: 1H13
Source: National banks and bank regulators, Fitch

Figure 12



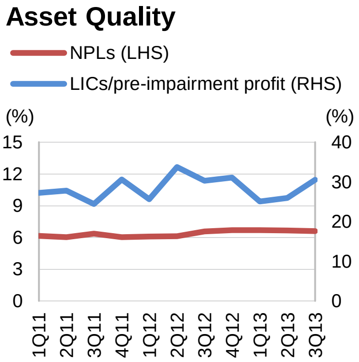
Source: Polish CB, Fitch calculations

Figure 13



Source: Polish FSA, Fitch calculations

Figure 14



Source: Polish FSA, Fitch calculations

Poland: Sector Outlook Stable

Easing Short-Term Pressures

The outlook for the Polish banking sector remains stable. Some early signs of an improving operating environment, both from a macro perspective (eg pick-up in GDP growth and stabilisation of interest rates) and banking sector-specific (asset quality and profitability), are visible, but are too fragile and too early in Fitch's view to justify changing the outlook to positive.

Economic Growth Slowly Rebounding

Fitch expects Polish GDP growth to speed up to 2.4% in 2014 from a weak 1.2% in 2013 as the recovery in EU markets accelerates and the turnaround in domestic demand is likely to be supported by low interest rates. Lending growth was subdued over 9M13 and we expect it to reach high single digits at best in 2014. Interest rates are most likely to stay low through 2014.

NPLs Might Have Peaked Already

Fitch expects reported asset quality to stabilise or marginally improve in 2014. This is driven by easing pressures in the corporate segment, healthy loan growth in consumer lending and only gradual asset-quality deterioration in residential mortgages. Contrary to Fitch's expectations, NPLs (defined as loans 90 days overdue) remained almost flat (we expected moderate growth) in H113 at 5.8% of gross loans (3Q12: 5.7%). The NPL ratio fell somewhat over 3Q13 to 5.7%, indicating a possible reversal of the trend, supported by an improvement in the impaired loans ratio to 7.4% at end-3Q13 (3Q12: 7.7%).

Easing Pressures on Profitability

Fitch expects pressures on revenue to recede, driven by positive lending growth, stabilisation of margins and non-interest income. The negative impact of a mandatory contribution to the stabilisation fund in 2014 will be much smaller than in the worst-case scenario. At the agreed rates it would total around PLN410m (equivalent to 2.5% of 9M13 sector annualised profit), much lower than the highest possible charge previously discussed of around PLN1.8bn.

The positive impact on 2014 profits resulting from lower impairment charges in 2014 versus 2013 may be limited as impairment charges fell in 9M13 versus 2012 (to 76bp from 91bp of average gross loans), driven by moderate improvements in asset quality.

Capital Buffers Set to Remain Strong

Fitch expects capital buffers to remain strong, although sector capitalisation ratios may stabilise in 2014 after five consecutive years of improvement. The stabilisation would result from the more flexible approach taken by the supervisor in allowing higher dividend pay outs, and weakening ROE (nearly halved from its 2007 peak) due to now higher capital levels and weaker profitability. In Fitch's view the capital position is supported by reasonable coverage of NPLs (at around 80%) and strong pre-impairment profitability.

Funding and Liquidity Stable

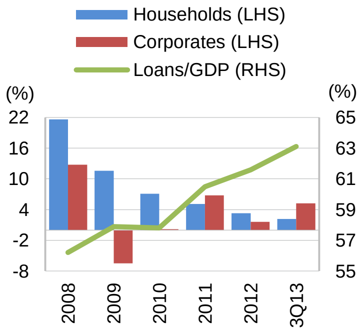
Fitch expects the funding and liquidity position of the Polish banking sector to remain broadly stable in 2014. The dependence on wholesale funding, including from parents, is moderate (loans/deposits ratio stable at around 110% at end-3Q13) and Poland did not experience a significant outflow of parental funding. Diversification of funding sources should continue with the attraction of medium-term unsecured wholesale funding. Work on reviving the covered bonds market intensified in 2H13 and is strongly supported by the local regulator.

M&A Activity Continuing

Two large transactions were announced in 2013: PKO BP's acquisition of the Polish unit of Nordea and BNP Paribas' acquisition of Rabobank's subsidiary. In Fitch's view the strategic repositioning of some foreign banks present in CEE markets will continue in the medium term.

Figure 15

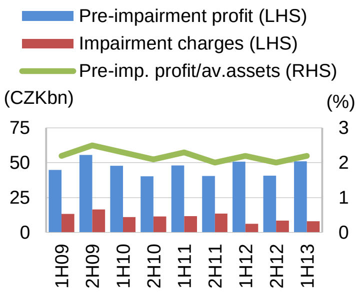
Lending Growth



Source: Czech CB, Fitch calculations

Figure 16

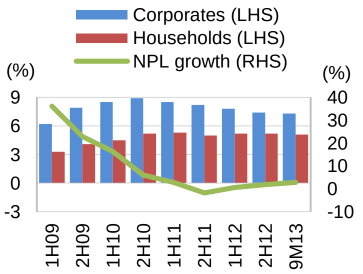
Performance



Source: Czech CB, Fitch calculations

Figure 17

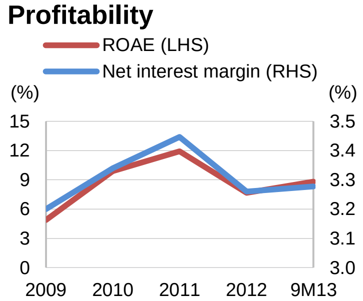
NPLs As % of Loans



Source: Czech CB, Fitch calculations

Figure 18

Profitability



Source: Slovak CB, Fitch calculations

Czech Republic: Sector Outlook Stable

Fitch expects the Czech banking sector's performance to remain affected in 2014 by a sluggish economy (Fitch forecasts GDP to contract further by 1% in 2013, before a return to modest growth of 1.2% in 2014) and low interest rates (the central bank's policy rate has remained at the historically low rate of 5bp since November 2012).

Due to the highly open nature of the economy, external demand remains key to future credit expansion, particularly in the corporate segment. While growth prospects are improving, the economy is unlikely to recover fully in 2014. Expansion in retail lending, underpinned by stronger demand for mortgages (driven by the combination of low interest rates and property prices), should moderate further in 2014, in line with overall macroeconomic trends.

Solid Capital and Liquidity Buffers

Fitch expects the Czech banking sector to remain resilient to moderate pressure from the operating environment due to solid capital and liquidity buffers, underpinned by the supervisory framework. We expect the sector's strong core capital adequacy ratio of 17.1% at end-3Q13 (end-2012: 15.9%) to remain comfortable due to higher capital thresholds incorporating "systemically important" and conservation buffers applied to Czech banks from 2014.

We expect liquidity to remain ample because of the conservative loans-to-deposits ratio (76% at end-3Q13) and positive deposit trends. NPL ratios remain stable and lower than in most CEE markets, with low origination of new problem exposures.

Profitability has been under some pressure from weaker growth in the low-interest rate environment, but the system's return on average equity was still healthy at 15.7% in 9M13 (16% in 2012), supported by reduced risk costs.

Slovakia: Sector Outlook Stable

The Slovakian sector's fundamentals – in particular, its solvency, liquidity and asset quality metrics – remain stable and sufficiently strong to offset the potential moderate pressure from the macroeconomic and operating environment.

Profitability Constrained by Limited Growth, Higher Fiscal Charges

The system's core capital ratio improved further to 15.3% at end-1H13 from 14.8% at end-2012, driven by earnings retention. Fitch expects capitalisation to remain sound in 2014, although profitability is likely to remain constrained by moderate growth, the increased tax burden (in particular the bank levy of 0.4% of liabilities – likely to remain in place beyond 2015 – and the increased corporate tax rate of 23%) and recent restrictions on loan fees.

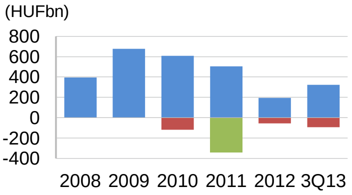
Net interest margins remain stable, while a continued decline in corporate lending, reflecting weaker eurozone growth, is offset by more active expansion in retail, mainly through housing finance. The latter benefits from the stabilisation in real-estate prices and lower interest rates.

NPL ratios were stable at 5.4% at end-3Q13 (end-2012: 5.3%) and reserve coverage is reasonable at 75%, given that most NPLs are collateralised exposures. Fitch does not foresee any major asset-quality problems in 2014. Macro stress-testing by the central bank indicates high resilience in the banking sector to negative events, with resulting re-capitalisation needs modest under three scenarios (baseline, economic downturn and sovereign crisis scenario).

Fitch expects sector liquidity to remain sound and conservatively managed (loans/deposits ratio of 90% at end-3Q13). Domestic customer deposits remain cheap despite the higher competition among smaller banks, and the sector retains its external creditor position.

Figure 19

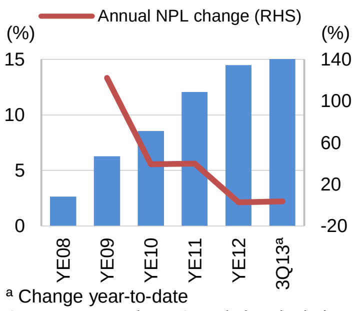
Performance



Source: Hungarian FSA, Fitch

Figure 20

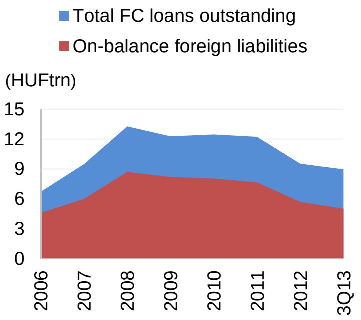
Asset Quality



[a] Change year-to-date
Source: Hungarian FSA, Fitch calculations

Figure 21

Foreign Funding



Source: Hungarian FSA, Fitch calculations

Hungary: Sector Outlook Negative

In 2014 banks will continue to suffer from high NPLs, muted credit demand, a sluggish economy and subdued performance, particularly affected by high impairment and non-operating charges. Fitch forecasts GDP to grow by a modest 0.7% in 2013 and 1.8% in 2014.

Weak Prospects for the Banking Sector

In 9M13 the banking sector returned to profit after two consecutive annual losses. However, profits were mainly concentrated at six banks, while the rest of the sector was around breakeven or incurred large losses (in some cases even without non-operating charges). A similar asymmetry is likely to continue in 2014. Sector capitalisation is tight and should be considered together with varied bank performance; however, material capital injections by foreign owners and decreasing risk-weighted assets limit pressures on solvency.

In 9M13 margins held up well due to stable interest income and lower funding costs. Banks passed part of the financial transaction tax on to customers, but transfer of some transaction taxes will not be allowed in 2014. Credit demand is likely to stay weak as borrowers are wary of an uncertain operating environment. However, the central bank's subsidised lending scheme could limit deleveraging at SMEs.

Weak Asset Quality Weighing on Banks' Risk Profiles

Asset quality is likely to remain under pressure in 2014 due to high (albeit slowly decreasing) legacy exposures mainly concentrated in the construction sector, and retail foreign-currency mortgages. In Fitch's opinion the government-sponsored aid schemes for households will not be successful in the absence of a strong recovery in employment.

Gradual Decrease in Parental Funding

In 9M13 there was a small fall in the loans/deposits ratio, but banks remain strongly reliant on parents to refinance loans in Swiss francs and euros. Fitch believes parental facilities will remain available, but rationed, as new lending is funded with customer deposits. The solid liquidity position in the Hungarian forint constitutes a comfortable cushion if retail deposits continue to flow out in 2014 (down 12% in 9M13) as households seek higher-yield investments.

Possible M&A Activity

Foreign parents are scaling down their unprofitable Hungarian subsidiaries and/or revising their strategic presence in the market. Fitch believes that a divestment of a Hungarian bank would be difficult in the current environment due to substantial legacy issues (such as unresolved NPLs or reliance on parental funding) and the punitive bank levy. However, some banks already present in Hungary may be interested in buying market share in light of muted prospects for organic growth in the foreseeable future.

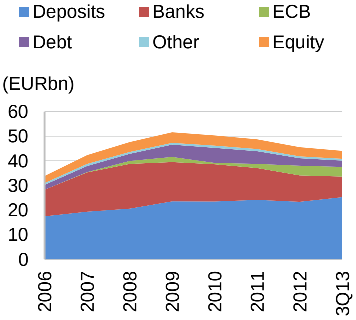
Unorthodox Government Measures Weighing on Performance

The government is considering a new relief scheme for foreign-currency mortgages, but its details have yet to be finalised. An aggressive solution (similar to the early repayment programme in 2011) could cause large losses for the banking sector and consequently may drive some foreign owners to contemplate exit strategy from Hungary.

In 2013 the authorities introduced a financial transaction tax, which was mostly passed on to customers, except for the additional one-off charge imposed to offset lower-than-budgeted inflows from this tax. In 9M13 the special bank levy (HUF93bn) and the financial transaction tax (HUF75bn) represented 29% and 23% of sector pre-impairment operating profit, respectively.

Figure 22

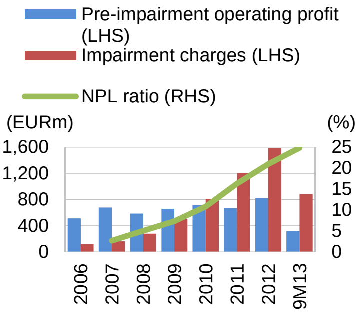
Funding Structure



Source: Bank of Slovenia, Fitch

Figure 23

Sector Performance



End-3Q13 NPL ratio - estimated by Fitch
Source: Bank of Slovenia, Fitch

Slovenia: Sector Outlook Stable

Planned Recapitalisation Improves Sector Outlook

The outlook for the banking sector has improved following the announcement of the planned recapitalisation of Slovenian banks. The estimated capital deficit of EUR4.8bn for banks subject to the asset quality review (AQR) is broadly in line with Fitch's own estimate.

The state plans to recapitalise the three largest banks (NLB, NKBM and Abanka), which together account for over 40% of sector assets. These institutions' combined capital shortfall of EUR3.715bn is to be covered by direct equity injections (EUR3.012bn), bail-in of subordinated debt (EUR441m) and the transfer of bad assets to the bad bank (EUR262m capital relief), with the last action also aimed at reducing their NPLs to more manageable levels.

Overall Prospects Still Fairly Weak and Uncertain

Nevertheless, the prospects for the banking sector remain fairly weak in light of the recessionary environment in Slovenia, banks' still significant exposure to an overleveraged corporate sector and their weak operating margins. Fitch forecasts GDP to contract by 2.4% in 2013 and 0.6% in 2014 before returning to only modest growth (+1%) in 2015. Furthermore, not all of NLB, NKBM and Abanka's impaired loans are to be transferred to the bad bank, and other domestic banks will still be burdened by large NPLs. Reserve coverage of NPLs in Slovenia remains the lowest in CEE, and the banking sector is likely to remain loss-making in 2013 after three consecutive years of negative results.

Capital Deficit to be Addressed

The timetable for recapitalisation has been set at end-2013 for NLB and NKBM, and in 1Q14 for Abanka. The remaining banks included in the AQR have until end-June 2014 to strengthen their capital bases. However, Fitch regards the recapitalisation options of domestic banks outside the top three as limited due to shareholders' moderate resources, the absence of foreign buyers and the shallow capital market in Slovenia.

Bad Bank Only a First Step in Sector Clean-Up

The corporate sector in Slovenia is highly indebted and may continue to act as a drag on asset quality and constrain banking sector growth in the absence of efforts to restructure it. There appears now to be greater momentum behind corporate sector reform as part of the bad bank solution, but there is considerable implementation risk in view of Slovenia's poor track record. Furthermore, the impact of any reforms is likely to take time to feed through.

High Dependence on Wholesale Funding, Acceptable Liquidity

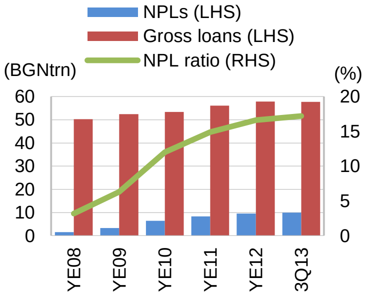
Refinancing risk remains significant, but has declined as banks have materially reduced their foreign liabilities. Sector liquidity is acceptable, but it relies to a significant degree on European Central Bank funding (equal to around 8% of sector assets at end-June 2013). Government deposits in the sector are also material, particularly at some of the weakest banks. Long-term funding is sourced primarily from the state-owned Slovene Export and Development Bank. At end-1H13 the system's loans/deposits ratio of 138% was among the highest in the region.

Further Consolidation Possible

Two banks (Factor Banka and Probanka) are being wound down, having been placed in temporary administration. Fitch expects further banking sector consolidation in the short to medium term. This reflects the overbanked nature of the Slovenian market, the need for scale and operating efficiency in view of the difficult operating environment and the authorities' focus on cleaning up the banking sector.

Figure 24

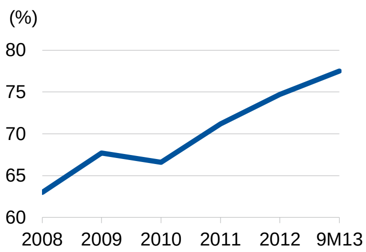
Asset Quality



Source: Bulgarian CB, Fitch calculations

Figure 25

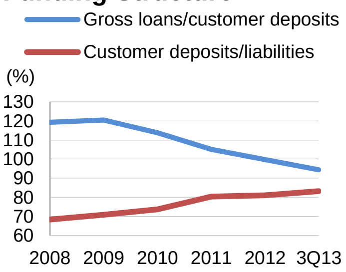
Customer Deposits / GDP



Source: Bulgarian CB, Fitch calculations

Figure 26

Funding Structure



Source: Bulgarian CB, Fitch calculations

Bulgaria: Sector Outlook Stable

Solid Capitalisation and Liquidity

The outlook for the Bulgarian banking sector remains stable and is underpinned by solid capitalisation, comfortable liquidity and strengthened funding. These metrics are strong enough to mitigate the risks arising from continued (although slower) asset-quality deterioration and pressures on profitability, amplified by subdued growth prospects and a somewhat less stable operating environment due to political instability.

Asset Quality a Key Rating Weakness

The sector's NPL ratio rose further to a high 17.2% at end-3Q13, as a result of prolonged economic stagnation and high unemployment. Although the pace of deterioration has slowed considerably, this in part reflects significant volumes of restructured loans. Corporate NPLs were 19.5% and retail NPLs were 13.3% at end-3Q13, with mortgage NPLs (17.1%) the main contributor to the latter, reflecting the continuous decline in property prices since their pre-crisis build up.

Fitch expects NPLs to continue to increase in 2014 due to subdued economic growth prospects for Bulgaria, but at the more moderate pace experienced in 2013.

Reserve coverage of existing NPLs by IFRS reserves remained moderate at 49% at end-3Q13. However, taking into account the specific reserves deducted from the regulatory capital base according to Bulgarian National Bank regulations, reserve coverage increased to a more comfortable 73%.

Performance under Pressure from Subdued Growth

Performance ratios at Bulgarian banks are under pressure from limited lending volumes due to the sluggish domestic economy. Margins are declining as customer deposits at banks increase, while there is almost no lending growth. Fitch expects this to continue as the domestic economy continues its slow growth. Loan impairment charges (LICs) will continue absorbing a significant proportion (9M13: 59%) of pre-impairment profit.

Continued Customer Deposit Growth Underpinning Liquidity

Despite sluggish GDP growth in Bulgaria, customer deposits continued to grow in 3Q13 and therefore remained the main source of funding, comprising 83% of total liabilities. Solid deposit growth has enabled banks to repay parent funding, and combined with almost no credit growth resulted in the reduction of the loans/deposits ratio to 94% at end-3Q13 from 120% at end-2009. Fitch views this as a rating strength.

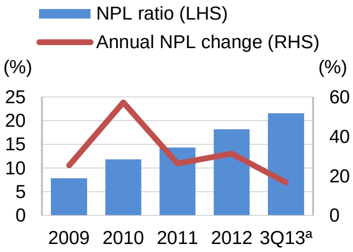
Capitalisation Underpinned by Specific Provisions

Fitch expects Bulgarian banks' capitalisation to remain solid in 2014. Internal capital generation will remain moderate, but should be sufficient relative to the expected base of business growth.

At end-3Q13 the sector's regulatory Tier 1 and total capital ratios were 15.6% and 17.0%, respectively, well above the levels required or recommended by the Bulgarian National Bank. Regulatory capital is reduced as a result of the (usually upward) adjustment to loan impairment reserves imposed by the Bulgarian National Bank relative to the reserves reported in banks' accounts.

Figure 27

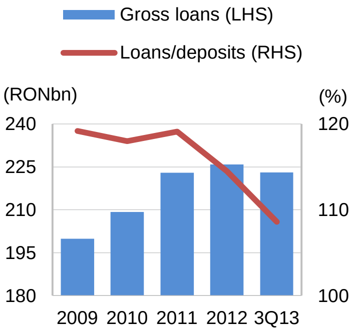
Asset Quality



a Change year-to-date
Source: Romanian CB, Fitch calculations

Figure 28

Loans and Funding



Source: Romanian CB, Fitch calculations

Romania: Sector Outlook Negative

Weak Performance in Difficult Environment

Fitch expects further deterioration of the Romanian banking sector's reported asset quality to end-2013 and into 2014, accompanied by additional impairment provisions, putting pressure on regulatory capital. Banks' profitability is likely to remain weak in 2014, as the operating environment will remain difficult and the economic recovery fragile, but should pick up slightly, relative to 2013, as NPLs start to plateau.

Asset-Quality Metrics Still Deteriorating

Contrary to Fitch's expectations a year ago, the key credit metrics of the Romanian banking system continued to deteriorate markedly over 9M13. The increase of the NPL stock in absolute terms was similar to that in 9M12 and the increase of the NPL ratio was exacerbated by the shrinking loan book. Fitch expects the inflow of NPLs to slow in 2014, but a broader recovery does not seem likely due to our expectations of an only moderate pick-up in economic activity and the sector's general focus on solving legacy NPLs rather than on new lending.

Reported NPL ratios may also increase by end-2013 after the review of loan classification and provisioning initiated by the Romanian Central Bank.

Risks related to the large share of lending in foreign currency are not likely to recede quickly, as a large proportion of these loans are medium-term consumer or long-term mortgage loans and new lending, predominantly in local currency, is slow.

Capitalisation Fairly Stable, Funding Profiles Gradually Improving

Fitch considers that regulatory capital adequacy may decline before end-2013 due to additional provisioning requirements, but should be more stable thereafter. Regulatory capital ratios are currently 2-3 percentage points lower than IFRS ratios as a result of the prudential filters (higher reserves) imposed by the Romanian regulator. However, Fitch expects this gap to narrow as the regulatory reserve requirements are likely to be gradually phased out.

The sector's funding profile is gradually improving, with the loan-to-deposit ratio falling by around 10 percentage points yoy to 108% in 3Q13. The sector is comfortably liquid in local currency, while the foreign-currency funding gap is still material, albeit gradually closing. The sector's loans/deposits ratio is suppressed by high mandatory reserve requirement ratios (20% for foreign-currency and 15% for local-currency liabilities).

Underlying Profitability Still Low, Consolidation Likely

A combination of lower lei interest rates, delayed recovery in lending, and more focus on domestic funding sources is likely to constrain net interest income and total revenue. Although inflow of new NPLs may slow in 2014, impairment charges are likely to remain high, driven partly by the need to increase provision coverage of existing NPLs. Against this backdrop, focus on cost efficiency and economies of scale is evident and, in Fitch's view, may lead to repositioning of some banks and possibly to further consolidation of the sector.

The sector returned to profitability in 9M13, driven by relatively stable revenue, lower operating costs and significant reduction of impairment charges to an annualised 310bp from 440bp in 2012. However, pre-tax profitability was still very low. Net profit reported in 9M13 was higher than pre-tax operating profit due to non-recurring items.

Croatia: Sector Outlook Stable

The outlook for the Croatian banking sector remains stable despite continued deterioration in asset quality driven by the country's fifth year in recession. The outlook is driven by the banks' strong capitalisation and stable funding. Fitch forecasts Croatian GDP to grow only 0.7% in 2014 and 1.2% in 2015, after contracting by 0.9% in 2013.

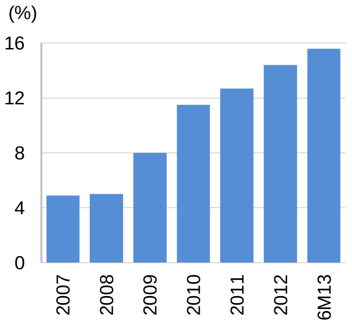
Asset Quality Hampering Ratings

Fitch expects loan growth to be minimal in 2014, because of the weak forecast recovery in economic activity. The recession is affecting both loan growth and asset quality. Banks have reduced their risk appetite and strengthened their credit policies. Loan growth was only 5% in 9M13 after a 1% contraction in 2012.

Fitch expects NPLs to continue to increase in 2014 in the absence of a strong domestic economic recovery, and reserve coverage to remain only moderate. Asset quality in the Croatian banking sector continued to deteriorate in 2013. NPLs (90 days+ in arrears) reached 15.3% in 9M13, with retail NPLs at 10.6% and corporate NPLs at a very high 27.4%. Reserve coverage of NPLs was only moderate at 43% at end-3Q13.

Figure 29

NPLs/Total Loans



Source: CNB data

Performance Under Pressure from Prolonged Recession

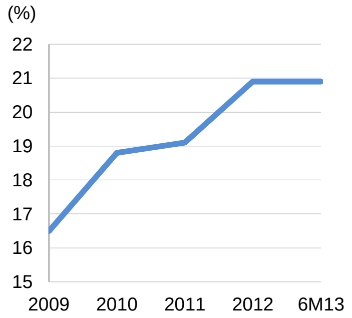
The performance of Croatia's banks is under pressure as their revenues are negatively affected by lack of growth and increasing loan impairment charges. Loan impairment charges absorbed 55% of pre-impairment profit in 9M13, up from 49% in 2012. Fitch expects the trend to continue in the absence of recovery in economic growth and continued asset-quality deterioration.

Solid Capitalisation a Key Rating Strength

The Croatian banking system's capitalisation remained strong, with a total capital ratio of 21.3% at end-3Q13, almost entirely composed of Tier 1 capital (Tier 1 ratio: 20.2%). However, the moderate level of reserves for NPLs weighs on capitalisation. Nevertheless, Fitch believes the level of capitalisation is still sufficient to absorb potential further loan losses.

Figure 30

Total Capitalisation Ratio



Source: CNB

High Loans/Deposits Ratio Reflecting Still High Parent Bank Funding

Despite there being almost no loan growth, the Croatian banking sector's loan-to-deposit ratio remains high (end-3Q13: 128%). This is a reflection of the amount of parent funding at the foreign owned banks. Fitch expects foreign funding to remain at similar levels in 2014, as parent institutions have not yet pushed the subsidiaries to be more self-funded, and when opportunities have arisen local banks have financed new loans with incremental funding from their owners.

Appendix: Banking System Data

Figure 31
Bulgaria (BGNm)

Date	End-3Q13	End-2012	End-2011	End-2010	End-2009
Assets and loans					
Assets	84,796.8	82,415.7	76,811.2	73,725.7	70,867.9
Assets (USDbn)	58.6	55,551.2	50.8	50.4	53.7
Gross loans	57,753.6	57,840.6	56,043.7	53,353.6	52,449.0
O/w non-retail	39,394.3	39,425.4	37,530.5	34,774.9	33,784.9
O/w retail	18,359.3	18,415.2	18,513.2	18,578.7	18,664.1
O/w foreign currency	35,760.5	37,037.3	35,726.4	32,958.3	30,757.8
Loan impairment reserve	4,895.3	4,576.2	3,982.6	3,092.6	2,073.8
Net loans	52,858.3	53,264.4	52,061.1	50,261.0	50,375.2
Funding and capital					
Customer deposits	61,268.5	57,941.6	53,344.5	46,932.6	43,533.3
O/w non-retail	23,543.2	22,072.1	21,443.0	18,895.3	18,696.3
O/w retail	37,725.3	35,869.5	31,901.5	28,037.4	24,837.0
O/w foreign currency	-	-	25,306.4	23,675.0	23,600.2
Equity	11,083.0	10,850.1	10,448.5	10,032.3	9,456.6
Tier 1 regulatory capital	8,616.2	8,325.7	8,275.2	7,762.5	7,674.5
Total regulatory capital	9,321.5	9,149.1	9,214.2	8,906.9	9,318.2
Risk-weighted assets	55,193.3	54,918.3	52,560.7	50,896.6	54,700.0
Income statement					
Net interest income	1,876.4	2,625.5	2,869.0	2,917.2	2,847.0
Total operating revenues	2,713.9	3,815.7	3,914.4	3,932.3	3,785.4
Operating expenses	1,452.3	1,986.7	1,973.8	1,929.3	1,923.2
Pre-impairment operating profit	1,261.6	1,829.0	1,940.6	2,003.0	1,862.2
Impairment charges	749.6	1,208.7	1,290.4	1,316.7	1,040.4
Net income	466.5	566.8	586.1	616.7	780.2
Ratios: Lending and asset quality					
Assets/GDP	107.3	106.2	102.6	104.6	110.2
Gross loans/GDP	73.0	74.6	74.8	75.7	81.6
Net loans/assets	62.3	64.6	67.8	68.2	71.1
Retail loans/gross loans	31.8	31.8	33.0	34.8	35.6
Foreign-currency loans/gross loans	61.9	64.0	63.7	61.8	58.6
Non-performing loans/gross loans	17.2	16.6	14.9	11.9	6.3
Reserves/non-performing loans	49.2	47.6	47.6	48.3	63.1
Ratios: Funding					
Customer deposits/GDP	77.5	74.7	71.2	66.6	67.7
Gross loans/customer deposits	94.3	99.8	105.1	113.7	120.5
Customer deposits/liabilities	83.1	81.0	80.4	73.7	70.9
Retail/total customer deposits	61.6	61.9	59.8	59.7	57.1
Foreign funding/total liabilities	-	0.0	19.1	23.3	27.7
Ratios: Capitalisation					
Equity/assets	13.1	13.2	13.6	13.6	13.3
Tier 1 capital/risk-weighted assets	15.6	15.2	15.7	15.2	14.0
Total capital/risk-weighted assets	16.9	16.7	17.5	17.5	17.0
Ratios: Income statement					
Net interest income/average earning assets	3.5	3.9	4.6	4.9	4.6
Operating expenses/operating revenues	53.5	52.1	50.4	49.1	50.8
Pre-impairment profit/average assets	2.0	2.3	2.6	2.8	2.7
Loan impairment charges/average loans	1.7	2.1	2.3	1.8	1.5
Return on average assets	0.7	0.7	0.8	0.9	1.1
Return on average equity	5.7	5.3	5.7	6.3	9.0

Source: National banks and bank regulators, Fitch calculations

Figure 32

Croatia (HRKm)

Date	End-3Q13	End-2012	End-2011	End-2010	End-2009
Assets and loans					
Assets	403,922.4	400,229.8	406,930.1	391,088.1	378,215.9
Assets (USDbn)	71.6	69.9	70.2	70.8	74.1
Gross loans	288,330.6	273,995.9	284,534.6	274,942.8	261,018.0
O/w non-retail	163,580.6	147,797.9	156,476.7	153,540.9	143,214.6
O/w retail	124,750.0	126,198.0	128,057.9	121,401.9	117,803.4
O/w foreign currency	-	-	-	-	-
Loan impairment reserve	18,936.7	16,774.2	14,972.8	11,959.7	8,620.0
Net loans	269,393.9	257,221.7	269,561.8	267,100.8	252,308.4
Funding and capital					
Customer deposits	226,017.9	217,223.9	212,551.5	206,956.3	193,484.8
O/w non-retail	53,749.9	51,012.5	53,155.2	54,397.6	52,391.6
O/w retail	172,268.0	166,211.4	159,396.3	152,558.7	141,092.2
O/w foreign currency	155,566.0	152,107.8	145,810.3	186,031.5	173,824.3
Equity	57,076.9	57,402.4	55,743.0	54,375.0	52,554.1
Tier 1 regulatory capital	52,449.2	52,393.7	48,947.9	50,764.9	48,456.7
Total regulatory capital	55,213.4	55,800.3	53,593.6	54,434.1	52,556.6
Risk-weighted assets	259,705.4	266,476.9	279,862.2	289,697.2	315,936.6
Income statement					
Net interest income	7,290.0	10,570.5	11,594.3	10,963.5	9,545.1
Total operating revenues	10,598.1	14,822.0	16,074.4	15,651.7	15,286.0
Operating expenses	5,340.8	7,442.7	7,689.1	7,574.4	7,546.9
Pre-impairment operating profit	5,257.3	7,379.3	8,385.3	8,077.3	7,739.1
Impairment charges	3,109.2	3,917.1	3,697.4	3,713.6	3,514.6
Net income	1,735.5	2,745.0	3,812.7	3,510.9	3,286.7
Ratios: Lending and asset quality					
Assets/GDP	120.2	121.2	119.4	118.8	120.4
Gross loans/GDP	85.8	83.0	83.5	83.5	83.1
Net loans/assets	66.7	64.3	66.2	68.3	66.7
Retail loans/gross loans	43.3	46.1	45.0	44.2	45.1
Foreign-currency loans/gross loans	-	-	-	-	-
Non-performing loans/gross loans	15.3	14.4	12.7	11.2	7.8
Reserves/non-performing loans	42.9	42.5	41.4	38.8	42.5
Ratios: Funding					
Customer deposits/GDP	67.2	65.8	62.3	62.9	61,6
Gross loans/customer deposits	127.6	126.1	133.9	132.9	134.9
Customer deposits/liabilities	65.2	63.4	60.5	61.5	59.4
Retail/total customer deposits	76.2	76.5	75.0	73.7	72.9
Foreign funding/total liabilities	19.7	21.5	24.9	23.4	24.0
Ratios: Capitalisation					
Equity/assets	14.1	14.3	13.7	13.9	13.9
Tier 1 capital/risk-weighted assets	20.2	19.7	17.5	17.5	15.3
Total capital/risk-weighted assets	21.3	20.9	19.1	18.8	16.6
Ratios: Income statement					
Net interest income/average earning assets	3.4	3.8	4.2	4.0	3.6
Operating expenses/operating revenues	50.4	50.2	47.8	48.4	49.4
Pre-impairment profit/average assets	1.7	1.8	2.1	2.1	2.1
Loan impairment charges/average loans	1.4	1.3	1.2	0.9	0.9
Return on average assets	0.6	0.7	1.0	0.9	0.9
Return on average equity	4.0	4.9	6.9	6.6	6.4

Source: National banks and bank regulators, Fitch calculations

Figure33

Czech Republic (CZKm)

Date	End-3Q13	End-2012	End-2011	End-2010	End-2009
Assets and loans					
Assets	4,757,993.0	4,633,393.0	4,476,423.0	4,184,933.3	4,086,318.7
Assets (USDbn)	249.8	243.2	224.9	223.3	219.3
Gross loans	2,449,432.2	2,360,090.7	2,304,471.1	2,174,751.1	2,102,083.8
O/w non-retail	1,272,631.3	1,209,257.2	1,189,941.0	1,114,190.4	1,111,744.0
O/w retail	1,176,800.9	1,150,833.5	1,114,530.1	1,060,560.7	990,339.8
O/w foreign currency	403,522.0	345,740.6	342,979.5	299,228.6	281,983.1
Loan impairment reserve	92,145.0	87,644.4	84,805.7	83,563.0	69,206.9
Net loans	2,357,287.2	2,272,446.3	2,219,665.4	2,091,188.1	2,032,876.9
Funding and capital					
Customer deposits	3,227,698.1	3,127,577.1	2,913,954.1	2,788,697.8	2,698,236.0
O/w non-retail	1,413,319.6	1,333,825.9	1,180,022.1	1,123,805.3	1,108,823.8
O/w retail	1,814,378.5	1,793,751.2	1,733,932.0	1,664,892.5	1,589,412.2
O/w foreign currency	322,206.3	278,480.0	249,406.8	243,048.5	240,751.0
Equity	434,821.0	426,964.0	362,517.0	355,021.2	327,878.6
Tier 1 regulatory capital	342,819.0	311,558.0	281,992.0	263,422.0	237,595.0
Total regulatory capital	347,176.0	320,962.0	303,510.0	289,352.0	264,736.0
Risk-weighted assets	2,003,325.0	1,953,787.5	1,987,612.5	1,865,175.0	1,875,625.0
Income statement					
Net interest income	78,451.0	107,816.0	109,859.0	105,457.0	103,299.0
Total operating revenues	126,855.0	166,562.0	162,112.0	157,410.0	168,375.0
Operating expenses	54,047.0	74,837.0	73,625.0	69,262.0	67,856.0
Pre-impairment operating profit	72,808.0	91,725.0	88,487.0	88,148.0	100,519.0
Impairment charges	12,602.0	14,817.0	25,352.0	22,377.0	29,825.0
Net income	50,643.0	64,344.0	53,426.0	55,666.0	59,715.0
Ratios: Lending and asset quality					
Assets/GDP	123.8	121.0	117.5	111.1	112.6
Gross loans/GDP	63.8	61.6	60.5	57.8	57.9
Net loans/assets	49.5	49.0	49.6	50.0	49.7
Retail loans/gross loans	48.0	48.8	48.4	48.8	47.1
Foreign-currency loans/gross loans	16.5	14.6	14.9	13.8	13.4
Non-performing loans/gross loans	5.9	6.0	5.9	6.6	5.4
Reserves/non-performing loans	63.8	62.4	61.9	58.0	60.7
Ratios: Funding					
Customer deposits/GDP	84.0	81.7	76.5	74.1	74.4
Gross loans/customer deposits	75.9	75.5	79.1	78.0	77.9
Customer deposits/liabilities	74.7	74.4	70.8	72.8	71.8
Retail/total customer deposits	56.2	57.4	59.5	59.7	58.9
Foreign funding/total liabilities	11.2	11.8	13.6	13.3	13.0
Ratios: Capitalisation					
Equity/assets	9.1	9.2	8.1	8.5	8.0
Tier 1 capital/risk-weighted assets	17.1	15.9	14.2	14.1	12.7
Total capital/risk-weighted assets	17.3	16.4	15.3	15.5	14.1
Ratios: Income statement					
Net interest income/average earning assets	2.4	2.6	2.8	2.8	2.8
Operating expenses/operating revenues	42.6	44.9	45.4	44.0	40.3
Pre-impairment profit/average assets	2.1	2.0	2.0	2.1	2.5
Loan impairment charges/average loans	0.4	0.3	0.6	0.5	0.7
Return on average assets	1.4	1.4	1.2	1.3	1.5
Return on average equity	15.7	16.3	14.9	16.3	19.0

Non-performing loans: bottom three of five regulatory categories
Source: National banks and bank regulators, Fitch calculations

Figure 34

Hungary (HUFbn)

Date	End-3Q13	End-2012	End-2011	End-2010	End-2009
Assets and loans					
Assets	25,710.7	26,301.0	28,797.3	28,157.3	28,996.4
Assets (USDbn)	116.3	119.0	119.6	135.3	154.2
Gross loans	14,982.8	15,340.2	17,898.5	18,073.2	17,657.5
O/w non-retail	8,823.7	9,005.2	10,372.9	10,449.1	10,660.1
O/w retail	6,159.1	6,335.0	7,525.6	7,624.1	6,997.4
O/w foreign currency	8,952.6	9,519.4	12,215.9	12,453.2	12,265.4
Loan impairment reserve	1,681.7	1,593.4	1,629.7	1,019.7	678.9
Net loans	13,301.1	13,746.8	16,268.8	17,053.5	16,978.6
Funding and capital					
Customer deposits	12,115.5	12,322.8	12,170.1	11,603.9	11,936.1
O/w non-retail	6,386.5	5,811.5	5,577.8	5,417.0	5,396.8
O/w retail	5,729.0	6,511.3	6,592.3	6,186.9	6,539.3
O/w foreign currency	5,012.1	5,683.7	2,801.6	2,964.1	3,081.4
Equity	2,627.8	2,529.5	2,334.0	2,468.3	2,396.1
Tier 1 regulatory capital	2,068.6	2,042.9	1,971.4	1,961.1	1,882.8
Total regulatory capital	2,352.3	2,364.1	2,284.3	2,314.0	2,291.4
Risk-weighted assets	14,299.9	15,057.4	17,576.0	17,379.0	17,466.3
Income statement					
Net interest income	646.0	827.5	938.0	938.7	823.1
Total operating revenues	733.0	758.5	1,072.9	1,085.5	1,298.3
Operating expenses	410.6	562.7	567.0	598.6	621.9
Pre-impairment operating profit	322.4	195.8	505.9	486.9	676.4
Impairment charges	170.8	178.2	649.4	393.6	408.7
Net income	36.2	-164.0	-243.4	38.5	209.1
Ratios: Lending and asset quality					
Assets/GDP	87.7	93.1	102.3	103.8	111.1
Gross loans/GDP	51.1	54.3	63.6	66.6	67.7
Net loans/assets	51.7	52.3	56.5	60.6	58.6
Retail loans/gross loans	41.1	41.3	42.0	42.2	39.6
Foreign-currency loans/gross loans	59.8	62.1	68.3	68.9	69.5
Non-performing loans/gross loans	15.4	14.5	12.1	8.5	6.3
Reserves/non-performing loans	73.0	71.7	75.4	66.0	61.3
Ratios: Funding					
Customer deposits/GDP	41.3	43.6	43.2	42.8	45.7
Gross loans/customer deposits	123.7	124.5	147.1	155.8	147.9
Customer deposits/liabilities	52.5	51.8	46.0	45.2	44.9
Retail/total customer deposits	47.3	52.8	54.2	53.3	54.8
Foreign funding/total liabilities	21.7	23.9	28.9	31.2	30.8
Ratios: Capitalisation					
Equity/assets	10.2	9.6	8.1	8.8	8.3
Tier 1 capital/risk-weighted assets	14.5	13.6	11.2	11.3	10.8
Total capital/risk-weighted assets	16.4	15.7	13.0	13.3	13.1
Ratios: Income statement					
Net interest income/average earning assets	3.6	3.3	3.5	3.5	3.1
Operating expenses/operating revenues	56.0	74.2	52.8	55.1	47.9
Pre-impairment profit/average assets	1.7	0.7	1.8	1.7	2.3
Loan impairment charges/average loans	1.1	0.7	3.2	2.0	2.1
Return on average assets	0.2	-0.6	-0.9	0.1	0.7
Return on average equity	1.9	-6.7	-10.1	1.6	9.1

Source: National banks and bank regulators (data for credit institutions operating as joint-stock companies), Fitch calculations

Figure 35

Poland (PLNm)

Date	End-3Q13	End-2012	End-2011	End-2010	End-2009
Assets and loans					
Assets	1,424,526.9	1,348,370.9	1,290,236.0	1,155,305.4	1,053,213.6
Assets (USDbn)	456.2	435.6	379.5	390.3	369.5
Gross loans	972,934.4	928,341.9	905,040.6	783,971.2	712,925.3
O/w non-retail	414,052.2	396,943.2	374,800.1	308,300.0	295,323.0
O/w retail	558,882.2	531,398.7	530,240.5	475,671.2	417,602.3
O/w foreign currency	262,087.0	253,355.9	284,162.1	235,177.1	212,198.2
Loan impairment reserve	44,428.1	43,492.2	41,034.2	37,648.4	29,467.0
Net loans	928,506.3	884,849.6	864,006.4	746,322.9	683,458.3
Funding and capital					
Customer deposits	894,576.7	874,801.8	822,950.6	731,959.5	660,669.7
O/w non-retail	360,368.2	357,939.3	343,353.1	312,413.8	282,434.5
O/w retail	534,208.6	516,862.5	479,597.4	419,545.7	378,235.2
O/w foreign currency	230,696.6	217,879.5	119,314.6	63,676.0	58,174.8
Equity	150,208.4	147,265.2	129,054.1	115,980.3	103,800.0
Tier 1 regulatory capital	126,287.8	114,800.6	99,137.1	90,446.1	81,154.8
Total regulatory capital	139,409.9	128,889.6	110,876.9	100,545.9	90,063.0
Risk-weighted assets	891,194.9	874,307.9	844,593.7	727,677.5	677,845.5
Income statement					
Net interest income	24,786.0	35,483.6	34,933.3	30,837.6	26,376.1
Total operating revenues	42,542.7	59,649.4	57,582.6	53,468.2	50,305.3
Operating expenses	22,681.8	31,526.6	30,125.7	28,770.3	28,092.5
Pre-impairment operating profit	19,860.9	28,122.8	27,456.9	24,697.9	22,212.8
Impairment charges	5,582.4	8,155.7	7,894.1	10,218.6	12,096.5
Net income	11,805.3	15,466.9	15,699.1	11,672.6	8,282.4
Ratios: Lending and asset quality					
Assets/GDP	85.8	84.8	85.1	81.7	78.5
Gross loans/GDP	58.6	58.4	59.7	55.4	53.1
Net loans/assets	65.2	65.6	67.0	64.6	64.9
Retail loans/gross loans	57.4	57.2	58.6	60.7	58.6
Foreign-currency loans/gross loans	26.9	27.3	31.4	30.0	29.8
Non-performing loans/gross loans[a]	5.7	5.8	5.3	5.6	7.1
Reserves/non-performing loans[a]	80.2	80.3	84.9	86.2	58.1
Ratios: Funding					
Customer deposits/GDP	53.9	55.0	54.3	51.8	49.2
Gross loans/customer deposits	108.8	106.1	110.0	107.1	107.9
Customer deposits/liabilities	70.2	72.8	70.9	70.4	69.6
Retail/total customer deposits	59.7	59.1	58.3	57.3	57.3
Foreign funding/total liabilities	18.1	18.1	20.8	20.8	20.1
Ratios: Capitalisation					
Equity/assets	10.5	10.9	10.0	10.0	9.9
Tier 1 capital/risk-weighted assets	14.2	13.1	11.7	12.4	12.0
Total capital/risk-weighted assets	15.6	14.7	13.1	13.8	13.3
Ratios: Income statement					
Net interest income/average earning assets	2.5	2.8	3.0	2.9	2.7
Operating expenses/operating revenues	53.3	52.9	52.3	53.8	55.8
Pre-impairment profit/average assets	1.9	2.1	2.2	2.2	2.1
Loan impairment charges/average loans	0.8	0.9	0.9	1.4	1.8
Return on average assets	1.1	1.2	1.3	1.1	0.8
Return on average equity	10.6	11.2	12.8	10.6	8.6

[a] Since Q110 the Polish FSA has reported 90-day overdue loans (NPLs) for the sector. The impaired loan numbers for 2009 are based on a broader definition of problem exposures

Source: National banks and bank regulators, Fitch calculations

Figure 36

Romania (RONm)

Date	End-3Q13	End-2012	End-2011	End-2010	End-2009
Assets and loans					
Assets	322,230.7	333,209.6	324,676.0	317,452.9	305,200.2
Assets (USDbn)	97.5	99.2	97.2	99.1	103.9
Gross loans	223,068.6	225,874.3	223,033.6	209,298.2	199,887.1
O/w non-retail	119,302.8	121,412.8	118,775.5	107,198.6	99,670.9
O/w retail	103,765.8	104,461.5	104,258.1	102,099.6	100,216.2
O/w foreign currency	137,347.4	141,151.5	141,378.4	131,947.0	120,157.4
Loan impairment reserve	45,914.5	39,178.4	30,662.6	23,558.9	14,952.6
Net loans	177,154.1	186,695.9	192,371.0	185,739.3	184,934.5
Funding and capital					
Customer deposits	205,376.3	197,294.4	187,291.3	177,438.7	167,742.0
O/w non-retail	78,868.5	75,073.6	74,537.8	73,424.1	70,437.0
O/w retail	126,507.8	122,220.8	112,753.5	104,014.6	97,305.0
O/w foreign currency	-	-	62,757.8	63,949.3	65,051.0
Equity	36,523.3	36,590.7	-	29,121.3	26,970.3
Tier 1 regulatory capital	24,115.4	27,012.2	25,267.8	25,248.6	21,379.2
Total regulatory capital	25,811.8	29,277.1	-	-	-
Risk-weighted assets	185,493.0	195,902.9	-	-	-
Income statement					
Net interest income	7,945.5	11,113.7	-	13,301.6	10,259.5
Total operating revenues	13,166.4	17,625.5	-	22,622.6	22,935.3
Operating expenses	-	-	-	14,373.0	14,395.3
Pre-impairment operating profit	-	-	-	8,249.6	8,540.0
Impairment charges	-	-	-	8,415.8	7,362.4
Net income	1,070.6	-2,587.3	-	-480.3	801.8
Ratios: Lending and asset quality					
Assets/GDP	51.5	56.7	58.8	60.7	62.1
Gross loans/GDP	35.7	38.4	40.4	40.0	40.7
Net loans/assets	55.0	56.0	59.3	58.5	60.6
Retail loans/gross loans	46.5	46.2	46.7	48.8	50.1
Foreign-currency loans/gross loans	61.6	62.5	63.4	63.0	60.1
Non-performing loans/gross loans	21.6	18.2	14.1	11.9	7.9
Reserves/non-performing loans	95.5	95.1	97.9	95.0	94.8
Ratios: Funding					
Customer deposits/GDP	32.8	33.6	33.9	33.9	34.1
Gross loans/customer deposits	108.6	114.5	119.1	118.0	119.2
Customer deposits/liabilities	71.9	66.5	57.7	61.5	60.3
Retail/total customer deposits	61.6	61.9	60.2	58.6	58.0
Foreign funding/total liabilities	-	-	-	29.6	28.8
Ratios: Capitalisation					
Equity/assets	11.3	11.0	-	9.2	8.8
Tier 1 capital/risk-weighted assets	13.0	13.8	-	-	-
Total capital/risk-weighted assets	13.9	14.9	14.5	14.7	14.0
Ratios: Income statement					
Net interest income/average earning assets	5.8	5.9	-	5.8	4.8
Operating expenses/operating revenues	-	-	-	63.5	62.8
Pre-impairment profit/average assets	-	-	-	2.6	2.8
Loan impairment charges/average loans	3.1	4.4	-	-	-
Return on average assets	0.4	-0.8	-	-0.2	0.3
Return on average equity	3.9	-	-	-1.7	3.0

Source: National banks and bank regulators, Fitch calculations

Figure 37

Slovakia (EURm)

Date	End-3Q13	End-2012	End-2011	End-2010	End-2009
Assets and loans					
Assets	57,988.2	57,894.4	55,772.0	54,695.0	53,011.0
Assets (USDbn)	78.4	76.3	72.2	73.1	76.4
Gross loans	38,720.5	37,494.4	36,672.1	32,631.0	31,090.0
O/w non-retail	18,688.3	18,720.8	19,422.8	16,279.2	16,340.1
O/w retail	20,032.2	18,773.6	17,249.3	16,351.8	14,749.9
O/w foreign currency	439.4	591.5	576.6	542.4	619.1
Loan impairment reserve	1,562.2	1,521.1	1,517.0	1,463.4	1,317.9
Net loans	37,158.4	35,973.4	35,155.1	31,167.6	29,772.1
Funding and capital					
Customer deposits	43,237.1	41,257.2	39,709.2	39,401.2	37,587.7
O/w non-retail	16,319.7	14,561.4	14,333.8	15,650.5	15,070.9
O/w retail	26,917.5	26,695.8	25,375.4	23,750.7	22,516.8
O/w foreign currency	1,652.7	1,451.5	1,483.3	1,557.5	1,416.4
Equity	6,823.3	6,729.6	5,991.8	5,314.5	5,077.4
Tier 1 regulatory capital	-	4,674.2	4,146.9	3,717.4	3,704.0
Total regulatory capital	-	5,054.7	4,487.8	4,355.1	4,186.0
Risk-weighted assets	-	31,603.5	33,469.3	33,080.3	33,300.0
Income statement					
Net interest income	1,346.8	1,759.3	1,807.3	1,680.0	1,562.4
Total operating revenues	1,623.7	1,940.7	2,302.2	2,071.1	1,910.2
Operating expenses	888.0	1,186.3	1,141.0	1,129.9	1,143.1
Pre-impairment operating profit	735.7	754.4	1,161.2	941.2	767.1
Impairment charges	161.5	166.5	336.4	277.7	426.5
Net income	448.9	488.2	674.2	513.9	250.1
Ratios: Lending and asset quality					
Assets/GDP	79.1	81.0	80.3	83.0	83.7
Gross loans/GDP	52.8	52.5	52.8	49.5	49.1
Net loans/assets	64.1	62.1	63.0	57.0	56.2
Retail loans/gross loans	51.7	50.1	47.0	50.1	47.4
Foreign-currency loans/gross loans	1.1	1.6	1.6	1.7	2.0
Non-performing loans/gross loans	5.4	5.3	5.7	6.1	5.5
Reserves/non-performing loans	75.3	77.1	72.4	73.8	77.3
Ratios: Funding					
Customer deposits/GDP	59.0	57.7	57.2	59.8	59.4
Gross loans/customer deposits	89.6	90.9	92.4	82.8	82.7
Customer deposits/liabilities	84.5	80.6	79.8	79.8	78.4
Retail/total customer deposits	62.3	64.7	63.9	60.3	59.9
Foreign funding/total liabilities	10.5	8.4	12.4	13.6	12.2
Ratios: Capitalisation					
Equity/assets	11.8	11.6	10.7	9.7	9.6
Tier 1 capital/risk-weighted assets	-	14.8	12.4	11.2	11.1
Total capital/risk-weighted assets	-	16.0	13.4	13.2	12.6
Ratios: Income statement					
Net interest income/average earning assets	3.3	3.3	3.4	3.3	-
Operating expenses/operating revenues	54.7	61.1	49.6	54.6	59.8
Pre-impairment profit/average assets	1.7	1.3	2.1	1.7	1.3
Loan impairment charges/average loans	0.4	0.3	0.6	0.5	0.8
Return on average assets	1.0	0.9	1.2	1.0	0.4
Return on average equity	8.8	7.7	11.9	9.9	4.9

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

Figure 38

Slovenia (EURm)

Date	End-3Q13	End-2012	End-2011	End-2010	End-2009
Assets and loans					
Assets	44,062.0	45,558.8	48,748.4	50,323.8	51,612.0
Assets (USDbn)	59.5	59.9	63.1	67.3	74.3
Gross loans	33,570.4	34,589.6	36,046.9	36,612.5	35,469.4
O/w non-retail	-	25,631.0	26,871.2	27,607.3	27,294.5
O/w retail	-	8,958.6	9,175.7	9,005.2	8,174.8
O/w foreign currency	-	1,422.8	1,732.5	1,481.0	1,635.6
Loan impairment reserve	4,560.4	3,986.7	3,035.1	2,166.9	1,559.6
Net loans	29,010.0	30,602.9	33,011.8	34,445.5	33,909.7
Funding and capital					
Customer deposits	25,267.0	23,394.9	24,169.6	23,507.0	23,570.0
O/w non-retail	10,793.0	8,936.1	9,630.4	9,215.0	9,769.0
O/w retail	14,474.0	14,458.8	14,539.2	14,292.0	13,801.0
O/w foreign currency	-	11,090.3	595.9	485.3	450.2
Equity	3,207.0	3,709.5	3,924.2	4,121.8	4,295.0
Tier 1 regulatory capital [a]	3,043.7	3,609.1	3,606.3	3,586.9	3,704.1
Total regulatory capital	-	4,204.3	4,360.8	4,498.8	4,590.5
Risk-weighted assets [a]	33,034.6	35,356.8	37,547.1	39,821.8	39,700.4
Income statement					
Net interest income	564.8	873.4	1,006.7	1,038.2	932.2
Total operating revenues	847.0	1,545.2	1,429.7	1,476.2	1,425.3
Operating expenses	527.6	727.5	762.8	765.9	765.2
Pre-impairment operating profit	319.4	817.7	666.9	710.3	660.1
Impairment charges	880.6	1,589.9	1,205.9	809.7	499.6
Net income	-567.3	-749.8	-444.0	-98.1	121.8
Ratios: Lending and asset quality					
Assets/GDP	122.5	128.5	136.8	140.6	145.9
Gross loans/GDP [a]	93.4	97.5	101.1	102.3	100.2
Net loans/assets	65.8	67.2	67.7	68.4	65.7
Retail loans/gross loans	-	25.9	25.5	24.6	23.0
Foreign-currency loans/gross loans	-	4.1	4.8	4.0	4.6
Non-performing loans/gross loans [a]	24.8	21.0	16.3	10.8	7.3
Reserves/non-performing loans [a]	54.8	55.0	51.8	54.8	60.2
Ratios: Funding					
Customer deposits/GDP	70.3	66.0	67.8	65.7	66.6
Gross loans/customer deposits [a]	132.9	147.9	149.1	155.8	150.5
Customer deposits/liabilities	61.8	55.9	53.9	50.9	49.8
Retail/total customer deposits	57.3	61.8	60.2	60.8	58.6
Foreign funding/total liabilities	0.0	26.5	33.1	34.7	34.7
Ratios: Capitalisation					
Equity/assets	7.3	8.1	8.0	8.2	8.3
Tier 1 capital/risk-weighted assets [a]	9.2	10.2	9.6	9.0	9.3
Total capital/risk-weighted assets	0.0	11.9	11.6	11.3	11.6
Ratios: Income statement					
Net interest income/average earning assets	1.8	2.0	2.1	2.1	2.1
Operating expenses/operating revenues	62.3	47.1	53.4	51.9	53.7
Pre-impairment profit/average assets	1.0	1.7	1.3	1.4	1.4
Loan impairment charges/average loans [a]	2.7	3.4	2.6	1.6	1.0
Return on average assets	-1.7	-1.6	-0.9	-0.2	0.3
Return on average equity	-21.9	-19.6	-11.0	-2.3	3.1

[a] End-3Q13: Fitch estimates
Source: National banks and bank regulators, Fitch calculations