BANKS

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TOP100SEE

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SEE TOP 100 Banks profits surge to all-time highs

Ongoing consolidation rejigs SEE banking scene

Five banks hold 25% of SEE 100 top lenders' total assets in 2018

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Letter from the editor

Growing lending underpinned by accelerating economic growth brought hefty profits to the banks in Southeast Europe (SEE) last year, offsetting the impact of falling interest rates. With no bailouts or bankruptcies to cloud the skies, the banking sector in the region was well capitalised and highly liquid and NPLs shrank further. Consolidation, seen as a stabilising factor for the sector, continued at full throttle.

The bids of Bulgaria, Romania and Croatia to join the euro area and the EU's banking union are conducive to tighter fiscal discipline and improved financial supervision. In Bulgaria, the results of a comprehensive assessment of six banks by the European Central Bank (ECB) as part of preparations for establishing close cooperation on supervision with the country's central bank are expected in July. Croatia has formally requested the establishment of close cooperation with the ECB on the supervision of its banks under the Single Supervisory Mechanism (SSM) – a step towards entry into the ERM II. In the Western Balkans too EU convergence is likely to strengthen key fiscal and monetary policy institutions.

With bank lending penetration still relatively low in most countries of the region there is room for further expansion of banking operations. The increasing share of foreign-owned banks in SEE too is seen as bringing greater stability to the sector.

All these factors, together with steady economic expansion, can help credit growth in 2019.

On the downside, a possible slowdown in economic activity can hamper lending growth. Despite the generally improving quality of the banks' assets, constraints to lending in some SEE countries remain in the still high NPL ratios, the unhealthy levels of indebtedness of big companies and the large share of informal economy.

Governance issues are also curbing growth in SEE. In Romania, a recent controversial decree on tax on banks' assets has threatened to send shock waves across the country's entire economy.

Nevena Krasteva
Editor-in-chief

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2018	2017	Bank name	Country	Total assets 2018	Y/Y change in assets 2018	Net profit/loss 2018	Net profit/ loss 2017
1	3	Banca Transilvania SA	Romania	15 892	24.99%	261.5	254.5
2	2	Zagrebacka Banka d.d.	Croatia	15 267	10.82%	250.4	111.7
3	1	Banca Comerciala Romana SA	Romania	14 561	0.26%	208.1	122.4
4	4	BRD – Groupe Societe Generale SA	Romania	11 597	1.12%	331.5	296.2
5	5	Privredna Banka Zagreb d.d.	Croatia	11 175	9.80%	186.0	192.1
6	6	UniCredit Bulbank AD	Bulgaria	9 926	1.66%	219.9	152.2
7	8	UniCredit Bank SA	Romania	8 908	10.68%	118.1	69.8
8	7	Nova Ljubljanska Banka d.d.	Slovenia	8 811	1.13%	165.3	189.1
9	9	Raiffeisen Bank SA	Romania	8 587	10.99%	188.9	105.4
10	10	Erste&Steiermarkische Bank d.d.	Croatia	8 282	7.39%	111.9	86.4
11	13	DSK Bank EAD	Bulgaria	7 390	19.01%	116.0	134.0
12	19	United Bulgarian Bank AD	Bulgaria	5 762	53.17%	88.6	-26.1
13	34	OTP Banka Hrvatska d.d.	Croatia	5 667	114.46%	22.4	6.9
14	14	Nova KBM d.d.	Slovenia	4 978	1.30%	75.5	45.8
15	15	Banca Intesa AD	Serbia	4 846	1.10%	107.0	100.3
16	16	First Investment Bank AD	Bulgaria	4 761	7.74%	80.1	43.7
17	17	Raiffeisenbank Austria d.d.	Croatia	4 399	3.98%	29.5	52.7
18	18	Eurobank Bulgaria AD	Bulgaria	4 196	10.60%	85.4	69.7
19	21	Raiffeisenbank (Bulgaria) EAD	Bulgaria	3 977	11.12%	67.6	68.8
20	20	Abanka d.d.	Slovenia	3 729	1.99%	66.7	42.6
21	26	Unicredit Bank Srbija AD	Serbia	3 712	20.58%	78.3	56.2
22	23	Alpha Bank Romania SA*	Romania	3 636	-76.75%	24.2	46.1
23	27	Banka Kombetare Tregtare Sh.a. (National Commercial Bank)	Albania	3 464	6.14%	60.2	52.8
24	48	Komercijalna Banka AD	Serbia	3 404	8.66%	69.1	68.7
25	24	Expressbank AD (former Societe Generale Expressbank AD)	Bulgaria	3 287	-0.28%	56.2	54.6
26	28	SKB Banka d.d.	Slovenia	3 089	3.27%	53.7	40.6
27	32	UniCredit Bank d.d. Mostar	Bosnia and Herzegovina	3 043	13.75%	49.7	45.8
28	30	Central Cooperative Bank AD	Bulgaria	2 871	3.74%	16.9	18.8
29	33	Hrvatska Postanska Banka d.d.	Croatia	2 863	7.36%	20.5	1.1
30	36	Societe Generale Bank Srbija AD	Serbia	2 687	9.95%	78.6	51.1
31	31	UniCredit Banka Slovenija d.d.	Slovenia	2 656	-1.86%	20.6	38.3
32	37	Banka Intesa Sanpaolo d.d.	Slovenia	2 596	8.27%	10.7	4.2
33	29	Addiko Bank d.d.	Croatia	2 478	-13.30%	23.0	30.6
34	39	Raiffeisen Banka AD	Serbia	2 477	10.32%	56.2	56.1
35	42	OTP Bank Romania SA**	Romania	2 405	23.70%	12.0	9.8
36	35	SID – Slovenska Izvozna in Razvojna Banka d.d.	Slovenia	2 319	-5.42%	14.3	14.0
37	41	Raiffeisen Bank d.d. Sarajevo	Bosnia and Herzegovina	2 248	6.27%	43.2	37.1
38	40	Garanti Bank SA	Romania	2 199	2.70%	24.0	27.8
39	63	Banka Postanska Stedionica AD	Serbia	1 867	56.48%	18.9	32.8
40	25	Komercijalna Banka AD	North Macedonia	1 860	9.09%	29.0	13.3
41	44	Gorenjska Banka d.d.	Slovenia	1 832	-2.16%	17.1	6.5
42	43	Raiffeisen Bank Sh.a.	Albania	1 825	-9.89%	51.3	33.5
43	46	AIK Banka AD	Serbia	1 753	-1.34%	47.9	102.3
44	47	Sberbank Banka d.d.	Slovenia	1 748	0.40%	8.2	3.0
45	54	Erste Bank AD	Serbia	1 722	25.33%	24.8	22.3
46	50	Addiko Bank d.d.	Slovenia	1 618	5.23%	37.2	19.0
47	55	Credins Bank Sh.a.	Albania	1 588	9.09%	9.7	8.2
48	59	Bulgarian Development Bank AD	Bulgaria	1 546	22.31%	19.8	10.3
49	62	Banca de Export-Import a Romaniei – Eximbank SA	Romania	1 544	29.64%	24.3	3.2
50	52	Stopanska Banka AD - Skopje	North Macedonia	1 493	6.33%	44.7	33.2

(*) Profit/loss before taxes
(**) Consolidated figures for 2018

in millions of euro

2018	2017	Bank name	Country	Total assets 2018	Y/Y change in assets 2018	Net profit/loss 2018	Net profit/ loss 2017
51	49	Piraeus Bank Bulgaria AD	Bulgaria	1 489	-3.36%	3.6	3.9
52	56	Banca Romaneasca SA	Romania	1 451	8.20%	8.0	4.2
53	57	Eurobank AD	Serbia	1 438	6.97%	19.3	18.9
54	58	Allianz Bank Bulgaria AD	Bulgaria	1 409	7.62%	15.3	14.2
55	65	Intesa Sanpaolo Bank Albania Sh.a.	Albania	1 388	-4.77%	6.8	11.4
56	60	NLB Banka AD Skopje	North Macedonia	1 331	8.01%	34.5	34.6
57	64	Sberbank d.d.	Croatia	1 300	8.39%	11.3	-18.1
58	61	Banka Sparkasse d.d.	Slovenia	1 223	0.72%	8.5	9.2
59	67	Moldova Agroindbank SA	Moldova	1 211	6.49%	27.2	22.3
60	72	Libra Internet Bank SA	Romania	1 170	18.39%	20.5	12.8
61	68	Vojvodjanska Banka AD	Serbia	1 134	8.89%	5.1	-17.8
62	70	ProCredit Bank Bulgaria AD	Bulgaria	1 107	10.23%	19.4	16.4
63	71	Investbank AD	Bulgaria	1 084	8.54%	11.8	-15.0
64	75	Intesa Sanpaolo Banka d.d.	Bosnia and Herzegovina	1 054	10.38%	18.6	12.7
65	73	Sberbank Srbija AD	Serbia	1 032	4.85%	11.1	6.8
66	66	Nova Banka a.d. Banja Luka	Bosnia and Herzegovina	998.0	3.83%	5.5	5.0
67	76	Dezelna Banka Slovenije d.d.	Slovenia	990.8	6.42%	5.4	3.8
68	81	Municipal Bank AD	Bulgaria	967.8	25.58%	3.5	0.016
69	78	ProCredit Bank AD	Serbia	942.4	14.87%	8.5	10.1
70	69	Credit Europe Bank (Romania) SA**	Romania	922.0	-8.16%	11.4	9.9
71	New	Raiffeisen Bank Kosovo Sh.a.	Kosovo	888.9	-1.33%	20.5	17.6
72	82	UniCredit Banka a.d. Banja Luka	Bosnia and Herzegovina	849.9	12.26%	14.2	13.2
73	79	Addiko Bank AD Beograd	Serbia	849.6	6.38%	11.1	10.3
74	83	Moldindconbank SA	Moldova	844.4	8.78%	25.6	17.8
75	84	Credit Agricole Banka Srbija AD	Serbia	840.0	13.86%	6.4	2.9
76	88	Halk Banka AD Skopje	North Macedonia	766.6	11.74%	10.7	8.8
77	New	ProCredit Bank Sh.a.	Kosovo	754.0	-5.15%	17.4	18.5
78	87	Sparkasse Bank d.d. Sarajevo	Bosnia and Herzegovina	750.0	9.20%	10.0	10.1
79	94	OTP Banka Srbija AD	Serbia	743.4	19.58%	2.4	-3.9
80	80	Patria Bank SA	Romania	740.5	-5.26%	-0.057	-9.1
81	86	International Asset Bank AD	Bulgaria	735.7	4.87%	5.3	3.1
82	89	Sberbank BH d.d.	Bosnia and Herzegovina	734.8	7.45%	N/A	3.0
83	85	Victoriabank SA	Moldova	728.5	-1.86%	2.2	13.8
84	91	Bulgarian-American Credit Bank AD	Bulgaria	726.2	14.53%	6.3	4.0
85	90	NLB Banka a.d. Banja Luka	Bosnia and Herzegovina	722.1	7.58%	16.5	23.1
86	93	Crnogorska Komercijalna Banka A.D.	Montenegro	691.4	12.44%	10.1	9.1
87	New	NLB Banka Sh.a. Prishtina	Kosovo	668.1	14.39%	14.8	14.2
88	98	Ohridska Banka AD	North Macedonia	643.3	12.35%	9.4	5.7
89	97	Alpha Bank Albania Sh.a.	Albania	627.0	0.84%	-5.6	-6.2
90	128	American Bank of Investments Sh.a.	Albania	608.6	83.04%	4.3	4.4
91	96	Tirana Bank Sh.a.	Albania	593.9	-5.77%	-10.6	0.522
92	99	NLB Banka d.d. Sarajevo	Bosnia and Herzegovina	588.7	10.78%	7.9	7.8
93	101	BC Mobiasbanca - Groupe Societe Generale SA	Moldova	562.7	8.61%	15.1	13.6
94	105	Bosna Bank International d.d. Sarajevo	Bosnia and Herzegovina	560.3	19.72%	5.0	4.4
95	New	TEB Sh.a.	Kosovo	555.9	13.79%	15.2	16.6
96	104	Societe Generale Bank Montenegro A.D.	Montenegro	530.5	9.74%	10.7	7.4
97	103	Erste Bank A.D.	Montenegro	520.3	6.06%	10.2	7.9
98	100	ZiraatBank BH d.d.	Bosnia and Herzegovina	518.9	-0.54%	-17.8	1.3
99	102	Hipotekarna Banka A.D.	Montenegro	506.8	2.43%	4.3	4.2
100	148	Direktna Banka AD	Serbia	504.9	121.44%	52.3	16.1

SEE TOP 100 Banks:

Profits hit all-time highs as loans grow

Consolidation rejigs banking scene in SEE

By Nevena Krasteva

The banks in Southeast Europe (SEE) put up a solid performance in 2018, operating in an improving economic environment amid high liquidity and in the absence of major external or internal shocks. Expanding loan portfolios coupled with shrinking NPLs and asset impairments supported net profits which grew to historic highs despite low interest rates.

The combined net profit of the top 100 lenders by assets in the region rose to 4.354 billion euro in 2018, up by 24% as compared to the net profit of the entrants in last year's ranking. The number of loss-making banks among the top hundred also declined, to only four from ten in 2017 and 12 in 2016.

At the same time, the total assets of the biggest banks in the region grew only marginally. The combined assets of the top 100 banks in SEE totalled 279 billion euro, up by a mere 1.45% as compared to 275 billion euro of the region's biggest banks a year earlier.

The top five banks in SEE accounted for 25% of the total assets of the top 100 lenders in the region at the end of 2018, as the sector continued to consolidate. Most deals were related to the ongoing divestment by Greek lenders and French banking group Societe Generale. At the buying end, the main player was Hungary's OTP. The other main foreign banks present in the region remain Italy's UniCredit and Austria's Erste and Raiffeisen.

Banca Transilvania emerges as biggest bank in SEE

The ongoing consolidation brought changes at the top of the ranking of the biggest banks in SEE. With 15.9 billion euro in assets at the end of 2018, up by 25% year-on-year, Romania's Banca Transilvania replaced Banca Comerciala Romana as the biggest bank in the region after buying Bancpost, a unit of Greece's Eurobank.

Croatia's Zagrebacka Banka kept its second position, boosting its assets by 10.89% while last year's winner, Banca Comerciala Romana, fell to the third place as its assets stayed flattish.

Naturally, the biggest gains in terms of assets growth also came as a result of acquisition deals. Serbia's Direktna Banka more than doubled its assets after buying the local unit of Piraeus Bank. A year earlier it bought from BNP Paribas its local unit Findomestic Banka Beograd.

Another lender to more than double its assets was OTP Banka Hrvatska. In December 2018 it completed the integration of Splitska Banka, which it bought from Societe Generale for 425 million euro in 2017.

In terms of profit, however, the leader was Romania's BRD, a unit of Societe Generale and the region's fourth largest bank in terms of assets. Its profit rose to 331.5 million euro last year on the back of business growth, improved operating performance and net cost of risk write-backs, BRD has said. BRD's net operating income increased by 13%, while net interest income rose 16.5%, driven by solid volume growth.

24%

Increase in SEE top 100 banks' combined net profit

Banca Transilvania, the SEE TOP 100 leader, pocketed 261.5 million euro, an increase by some 3% on 2017. The bank's operating income rose 34%, as net loans increased 22% and deposits from customers grew 27%.

Notably, Zagrebacka Banka increased its net profit to 250.4 million euro from 111.7 million euro, as its impairment losses and provisions more than halved. In June it sold a portfolio of retail and corporate non-performing loans worth a total 245.7 million euro to the Croatian unit of Norway's B2Holding, B2 Kapital.

Regulatory woes

While higher loans and savings underlie the solid performance of lenders in SEE and consolidation is generally perceived as having a stabilising effect, controversial regulations in Romania give grounds for concern.

At the beginning of the year Romania's government adopted a decree introducing a 0.1%-0.5% quarterly tax on banks' assets, to apply if money market rates top 2%. However, following severe criticism from analysts and international lenders, in March the government lowered the tax on the banks' financial assets to 0.2%-0.4% a year based on market share and decoupled it from money market rates. Banks with a market share below 1% would pay a tax on assets of 0.2% and banks with a market share above 1% would pay an asset tax of 0.4%. The banks will pay the asset tax twice a year.

Commenting on the government's decision to introduce an additional tax on banks' assets, Banca Transilvania has warned that the banks' capital and competencies have been built over time and can be quickly lost without the proper investments.

"The decrease of the available profit for capitalisation will slow down the development of the Romanian banking system and will affect the economic growth," it has said.

Romania's second biggest lender, Banca Comerciala Romana, thinks likewise.

"Unfortunately, at the end of 2018 we are working in a more unpredictable economic context than ever. The direction we are currently heading into can strongly influence future generations. It is necessary to sit around the table and analyse what works and what doesn't work. Recent history shows that sectorial taxes do not help the economy and generate distrust," the bank's CEO Sergiu Manea has said.

Other reasons for concern in the banking sector of SEE are seen in the still high NPL ratios in some countries and the big share of grey economy.

METHODOLOGY

This edition of SEE TOP 100 banks is a ranking of the largest banks in Southeast Europe in terms of total assets from non-consolidated balance sheets as of December 31, 2018. To allow comparison, all local currencies have been converted into euro, using the central banks' official exchange rates on the last working days of 2018 and 2017, respectively. The figures of OTP Bank Romania are converted into euro from Hungarian forints according to the exchange rate of the European Central Bank as of December 31, 2018. Local currency figures have been used when calculating year-on-year changes. All data is sourced from central banks, national commercial registers, financial supervision commissions, bank associations, government and corporate websites, and companies themselves. Data for Alpha Bank Romania, OTP Bank Romania, Credit Europe Bank (Romania) and ProCredit Bank are provided by Romanian consultancy company Keysfin. The initial pool exceeds 190 banks registered in Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Kosovo, Moldova, Montenegro, North Macedonia, Romania, Serbia and Slovenia and published annual financial reports up to May 20, 2019. By this date, 12 banks have not published figures for 2018 and 15 banks have provided only partial basic data, therefore they are not included in the sub-rankings.

EBRD economist Peter Tabak

Banks in the Western Balkans countries (Albania, Bosnia and Herzegovina, Kosovo, Montenegro, North Macedonia and Serbia) are well capitalised and generally highly liquid. Also, bank lending penetration (bank loans to the private sector-to-GDP ratio) is relatively low (ranging from 33% in Albania to 55% in Bosnia and Herzegovina vs. around 90% of GDP in the EU or the Eurozone), allowing further growth of their activities. All these factors, together with relatively stable and strong economic growth can help credit growth.

Nevertheless, NPL ratios are still high in some countries (notably at above 10% in Albania or close to 9% in Bosnia and Herzegovina and between 5% and 7% in Montenegro, North Macedonia and Serbia), despite significant decline in recent years. Also, often high informality in the economy or high indebtedness of large companies hold back lending.

* * *

Horia Braun, Banca Comerciala Romana chief economist

We expect around 4% lending growth evenly split between corporate and retail loans [in 2019]. This represents a slowdown compared to last year (7.9%) due to lower wage and overall economic growth, new regulations on household indebtedness as well as new taxation measures introduced by the government in several sectors.

* * *

Privredna Banka Zagreb Research Office

In 2019, we see a sustained positive trend of private sector lending, supported by steady economic growth, improved labour market conditions and investment rise. Credit growth in Croatia is forecast at a level slightly lower than in the previous year owing to the tightening of household credit standards, as well as continued NPL sales (affecting stock numbers), whereas in B&H we expect growth at previous year's pace with somewhat stronger growth of loans to households than to corporates.

* * *

OTP Banka Hrvatska

We expect a moderate growth of credit activity within the population sector as well as in the economy. The positive macroeconomic movements and the present consumer optimism will give incentive to loaning, while on the other hand, increased absorption of EU funds will decrease the need for bank loans.

Raiffeisen Bank d.d. Bosnia

Bosnia and Herzegovina experienced the first signs of economic slowdown in Q3 and Q4 2018, which was further prolonged and deepened in Q1 2019, driven mostly by worsening of global economic outlook and Euro area outlook in the same period. Hence the slowdown in the euro area was directly channeled to slowdown and decline in exports of goods (73% toward EU in 2018) and export-oriented industry dynamics which will affect overall economic dynamics in 2019. Therefore, we expect moderate deceleration of economic growth in Q1 and Q2 and our overall economic growth target for 2019 is 2.7% real GDP yoy growth which is 30 bps lower compared to our average for Bosnia and Herzegovina.

However, the banking sector proved to be quite resilient in Bosnia and Herzegovina in previous years and slightly lower economic growth in 2019 is not expected to be a substantial drag on loan dynamics in the banking sector. This is especially true because in 2018 the retail sector was and in 2019 it is expected to be at the forefront of loan growth in the banking sector. Consumer loans to Retail have been key driver of loan dynamics in past several years and we expect similar trend of loan structure more in favour of retail again in 2019. As consumption in Bosnia and Herzegovina is still the largest component of GDP and proved to be very resistant and stable (1.5% real growth in expected in 2019), banks are mostly retail-oriented as retail clients proved to perform better during the stress time, having NPL levels on average twice lower than the corporate sector. However, revival of financing in the corporate and SME sector has been also visible in the past three years. Therefore, we expect overall loan dynamics to be in the range of 5-6% year-on-year in 2019.

EBRD chief economist: Fight corruption, improve governance, invest in connectivity

By Nevena Krasteva

Sergei Guriev,
chief economist of the European Bank for Reconstruction and Development (EBRD)

Emerging economies need to reassess their economic model to deliver the governance, skills and infrastructure that will finance sustained economic growth, according to the EBRD report Eight Things You Should Know About Middle-Income Transitions. What are the main challenges facing countries in Southeast Europe (SEE) in particular?

Basically, the region consists of two different parts. The EU member states and the Western Balkans share some common challenges but the opportunities in member states and non-member states are very different. The challenges for the Western Balkans and for Bulgaria and Romania are emigration, ageing and brain drain. For Bulgaria and Romania they are aggravated by the fact that Bulgarians and Romanians have much easier time to get jobs in the West, and so the exit of skilled workers is much more painful.

However, Romania and Bulgaria can benefit from EU structural funds and can build infrastructure. In the Western Balkans too there is EU investment, as well as EBRD investment, but it is on a different scale. Yet investment in infrastructure in the Western Balkans is key to growth. Why? Because these countries are small. If they stay unconnected, they cannot really develop, they cannot really invest, they cannot really create knowledge-intensive jobs. Connecting markets creates jobs. These are the main challenges basically – emigration, ageing, infrastructure and connectivity.

Another issue not just for Southeast Europe, but one that is especially [big] in Southeast Europe, is governance and corruption. As you know, Romania has not yet exited the Cooperation and Verification Mechanism (CVM), so the EU does not believe Romanian governance is up to the European standards. You see major corruption issues in the Western Balkans, as well. I think Bulgaria is on the way out of the CVM but initially the CVM was supposed to be ended in two or three years after a country's accession and the fact that it took ten years [for Bulgaria to end it] is also suggestive. These are the major constraints to growth and investment. They are fixable and other countries did fix them.

Also, we know that political competition and media freedom is the most effective tool to fight corruption. Unfortunately, in some Western Balkans countries media freedom is not moving in the right direction.

The latest EBRD economic outlook projects that growth in SEE will slow down to around 3.0% in both 2019 and 2020 from 3.4% in 2018. What are the main global risks impacting this region?

In the Western Balkans almost every country is growing at 3% except for Albania and Kosovo where we project 4% growth but starting from a much lower base. The biggest challenge globally is the US-China trade war, which has escalated again. Our countries are not directly affected, but they are affected indirectly. If the Chinese economy slows down, the German economy slows down, and our countries are very much dependent on the German and the West European economy.

How about Brexit?

Brexit is a problem for the UK and its largest trading partners - Western Europe – but not for our countries, where we do not see a major impact. Southeast Europe is affected more than Central Asia for example but we see risks in the order of magnitude of decimal points of percentage points.

The EBRD economic outlook report says that the region's economic slowdown reflects a deceleration of the Turkish economy. Do you think its impact will continue to be felt in the future?

The average GDP figure for the region has been brought down by the Turkish figure because Turkey is a big part of the region. This year Turkey is going to be in recession and next year Turkey will rebound and our regional numbers also are affected by this. But there is no big spillover from Turkey to other countries. Overall, we hope that Turkey will start growing next year and that depends on policy response. We will see.

Would a possible interest rate hike by the Fed and ECB affect FDI into SEE?

If interest rates in the U.S. and Europe go up, this will have a major negative impact on our economies, and the more they go up, the more tangible the impact because it will result in an outflow of investment from our region. Last year we did see a tightening and higher cost of capital and things became more difficult. But even last year by historical standards the tightening was not too painful and in 2019 that trend reversed because the U.S. said it is not raising interest rates any further and the ECB is not increasing interest rates, either.

Moving on to the banking sector in the region, do you think it is stable and how would you comment on the level of NPLs?

We see that the situation with NPLs is improving. When we talk about a high share of NPLs, we talk about countries outside SEE like Greece and Ukraine.
We have the Vienna Initiative where we bring together international financial institutions and banks and try to coordinate and share best practices on handling NPLs. Overall, we do not see major reasons for worry in the banking system. One big issue was of course the Romanian policy change which raised a lot of concerns and we are monitoring the situation closely.

What would you like to say in conclusion?

We mentioned the biggest challenges of this region which are emigration, ageing, skills, governance, connectivity and so when you think about overcoming those problems, reforming the education systems, fighting corruption, investing in infrastructure and overall EU approximation is the way forward. Whatever we do, this region will be integrated with the EU in whatever modality over the long term, which means the issues related to brain drain will intensify. We see this in Western Europe and in Central Europe. Once Western markets are open for East European workers, brain drain becomes even stronger. The Western Balkans will also suffer, unless they create high-value added jobs. And to do that you need to fix corruption problems, you need to improve governance, you need to invest in innovation, research and development and skills. And again, connectivity is important even now, not only with the Western markets but in the region, because these countries are small and for innovation and for knowledge-intensive industries you need size, you need scale. This is why we promote this idea of regional integration before European approximation works out.

3%

Expected growth in SEE in 2019

Corruption and governance issues are major constraints to growth in SEE

No major reasons for worry in the SEE banking system

Reforming education, fighting corruption, investing in infrastructure and overall EU approximation is the way forward

SEE banking sector in 2018 – solid growth amid strong economic performance, lower risks

By Krasimir Yordanov, Research Analyst

The banking sector in Southeast Europe (SEE) experienced solid growth in 2018 driven by the robust economic expansion of the region, diminished risks and improved risk/return prospects. The sector weathered the emerging market woes in the summer of 2018 when rising interest rates in the U.S. prompted investors to flee some emerging markets, thus putting pressure on their capital accounts and currency exchange rates. The banking sector in SEE relies mainly on domestic funding and the net asset exposure in foreign currency is generally manageable.

Operating in a generally falling interest rate environment, most of the banks saw their net interest rate margins falling. On the other hand, the banks' bottom lines improved as the expansion of loan portfolios, coupled with the decreasing NPLs and asset impairments, supported net profits. As a result, in 2018 the banks' profitability ratios (ROE and ROA) climbed on average. The system as a whole remains well capitalised and has plenty of capital buffers to sustain in cases of large internal and external shocks.

Asset Growth

The aggregate assets of the banking systems in SEE[1] rose by 5.5% y/y, to close to 312 billion euro as of end-2018, as annual growth accelerated from 4.1% in 2017. The fastest expansion was reported in Serbia, Moldova and North Macedonia - of 12.2%, 9.8% and 9.3%, respectively.

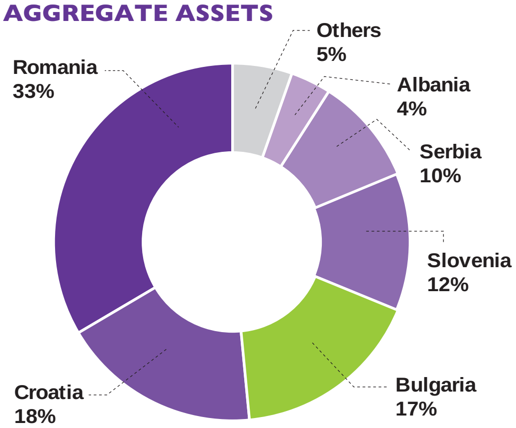
In 2018, the banking sector loans[2] on a net basis surged by 5.7% y/y to 191.4 billion euro. This was on top of 3.9% y/y rise in 2017 and reflects the increasing demand for credit by the private sector in a falling interest rate environment, rising employment and incomes. Moreover, the banks in SEE on average eased the credit standards across segments in a bid to issue new loans and offset the falling income from the shrinking interest rate differential between the loan and deposit base. Another important factor for the net loans growth was the fall in asset impairments as compared to 2017.

Profitability

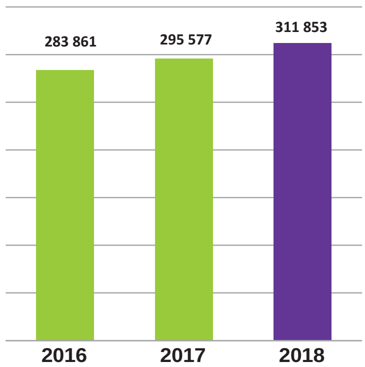
In 2018, the central banks in four out of eight countries in SEE slashed the average policy interest rates in a bid to spur economic growth and meet the inflation targets. Those include Albania, North Macedonia, Moldova and Serbia. Croatia, Montenegro and Slovenia (being part of the Eurozone) did not change their monetary policy stance during the year while Romania was the only country to lift its policy rate.

Due to the generally accommodative monetary policy in SEE, the average interest rate spreads between loans and deposits of the banking sector continued to shrink further in 2018. As a result, the banks' net interest income[3] stayed to a large extent unchanged at 4.8 billion euro, while the net interest

AGGREGATE ASSETS

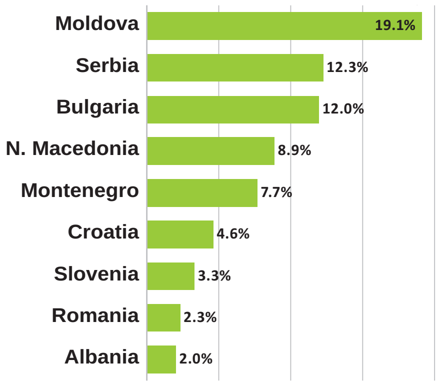


in millions of euro



Source: SeeNews, Central Banks Data

NET BANK LOANS GROWTH in 2018 by country



Source: SeeNews, Central Banks Data Profitability

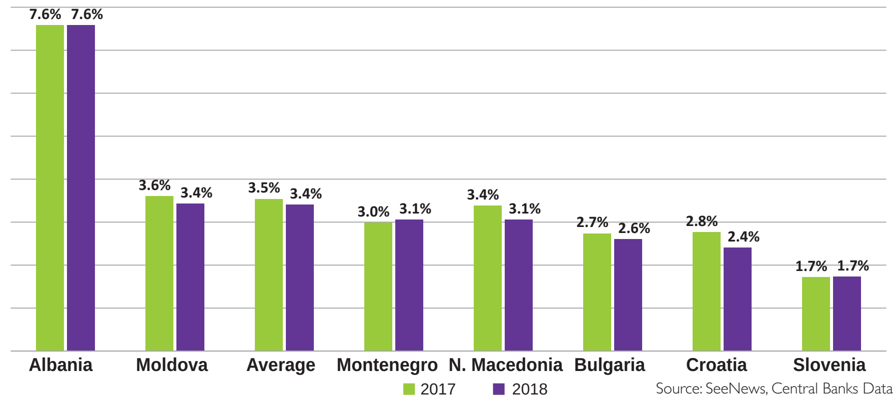
[1] Includes Albania, Bulgaria, Croatia, North Macedonia, Moldova, Montenegro, Romania, Serbia and Slovenia. The banking assets are converted in euro according to the average monthly exchange rates in the respective year.
[2] Includes bank loans as on balance sheets
[3] Excluding Romania and Serbia due to lack of data for full-2018
[4] Calculated as the ratio between respective banking sector's net interest income and bank assets as of year-end. The average net interest rate margins, calculated at local currency.

rate margin[4] declined from an average of 3.5% in 2017 to 3.4% in 2018.

Unlike the net interest income, the aggregate net profit of the banking sector in SEE improved markedly, jumping by 22% y/y to 5.5 billion euro in 2018. In addition to the rise in loans, a major factor for net profit increase were the falling impairment charges as compared to 2017. The Bulgarian banks had the largest increase of the total net profit, of 43% y/y to 858 million euro, followed by Croatia with 39% y/y rise to 671 million euro. The banking sectors of Montenegro and Albania saw their bottom lines shrink by 10% y/y and 9% y/y, respectively.

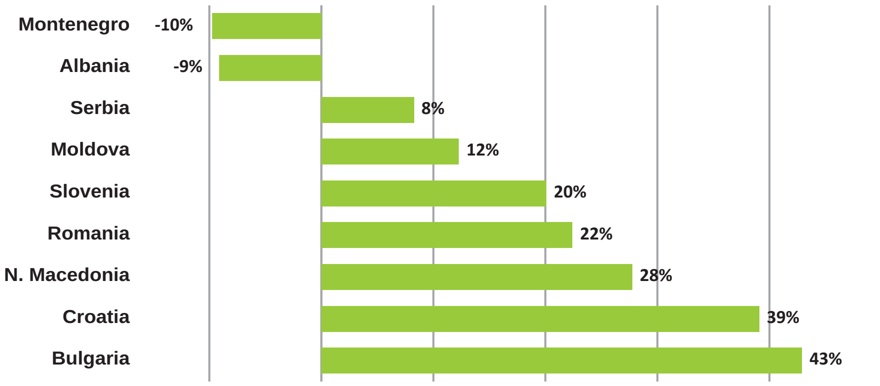
The pick-up in lending activity in 2018 and the improvement of the loan portfolios in the SEE region is accompanied by strong balance sheet positions. The average gross non-performing loan (NPLs) ratio went down to 7.4% in 2018, from 9.5% in 2017 and 11.5% in 2016. At the same time, the total capital adequacy ratio of the sector held steady on average at 20%, well above the minimum requirements of 12%. The total capital adequacy ratio across countries varies in accordance with respective NPLs ratio.

NET INTEREST RATE MARGIN



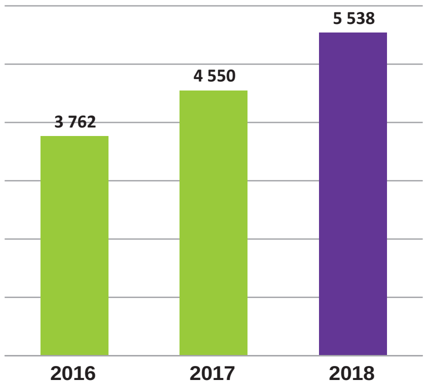
Source: SeeNews, Central Banks Data

SEE BANKING SECTOR'S NET PROFIT, 2018, y/y change



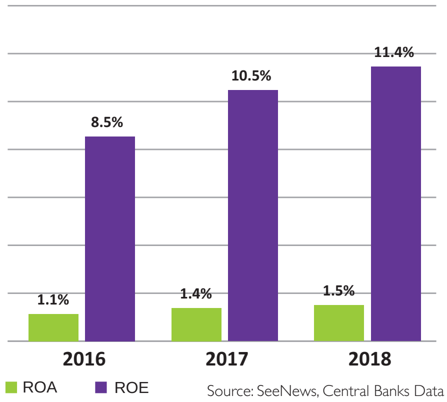
Source: SeeNews, Central Banks Data

SEE BANKING SECTOR NET PROFIT, in millions of euro



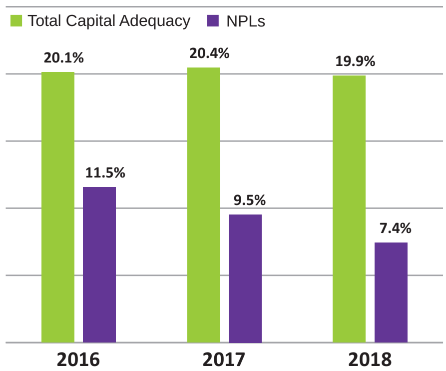
Source: SeeNews, Central Banks Data Profitability

SEE BANKING SYSTEMS ROE and ROA[5]



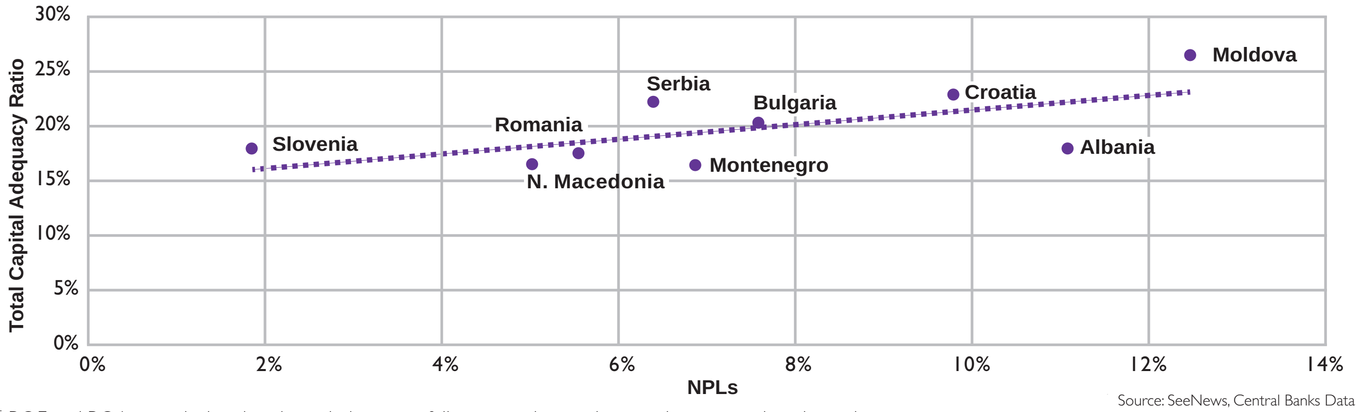
Source: SeeNews, Central Banks Data

SEE BANKING SECTOR AVERAGE FINANCIAL STABILITY RATIOS



Source: SeeNews, Central Banks Data

NPLS VS TOTAL CAPITAL ADEQUACY



Source: SeeNews, Central Banks Data

[5] ROE and ROA are calculated as the ratio between full-year earnings and respective year-end equity and assets

Serbia's Direktna Banka tops profitability rankings, banks in Romania, Croatia dominate income charts

Serbian lender Direktna Banka outshined its peers in Southeast Europe in terms of profitability, after it acquired and integrated the local operations of Greece's Piraeus Bank in 2018. Direktna Banka topped the Top 10 Cost to Income Ratio and Top 10 Return on Assets Ratio rankings, and ended third in terms of return on equity.

Romanian and Croatian lenders overshadowed their regional rivals in terms of value of loans and deposits, with Banca Transilvania and Zagrebacka Banka at the forefront of both rankings. Accordingly, lenders from the two countries also dominated the Top 10 Net Interest Income and Top 10 Net Fee and Commissions Income rankings.

The only lenders outside Romania and Croatia, which found a place in the Top 10 rankings by income, loans and deposits, were Bulgaria's largest lender by assets – UniCredit Bulbank, another Bulgarian lender – DSK Bank, which absorbed local CIBANK in 2018, and Slovenia's biggest lender by assets – Nova Ljubljanska Banka.

COST TO INCOME RATIO

	Bank	Country	CIR 2018	CIR 2017
1	Direktna Banka AD	Serbia	21.17%	30.87%
2	UniCredit Bulbank AD	Bulgaria	30.70%	34.78%
3	Komercijalna Banka AD	North Macedonia	32.52%	29.42%
4	Credins Bank Sh.a.	Albania	33.79%	50.27%
5	NLB Banka AD	North Macedonia	33.88%	36.27%
6	Stopanska Banka AD - Skopje	North Macedonia	34.16%	34.98%
7	NLB Banka Sh.a. Prishtina	Kosovo	35.69%	37.08%
8	Zagrebacka Banka d.d.	Croatia	36.77%	38.24%
9	Eurobank Bulgaria AD	Bulgaria	36.85%	36.85%
10	Bulgarian Development Bank AD	Bulgaria	36.90%	26.80%

RETURN ON EQUITY RATIO

	Bank	Country	ROE 2018	ROE 2017
1	Citibank Europe PLC - Bulgaria branch	Bulgaria	98.80%	84.97%
2	BNP Paribas Personal Finance SA	Bulgaria	69.36%	
3	Direktna Banka AD	Serbia	59.96%	48.16%
4	Idea Bank SA	Romania	51.77%	5.10%
5	Banka Per Biznes Sh.a.	Kosovo	25.80%	26.11%
6	Raiffeisen Bank Sh.a.	Albania	22.74%	15.07%
7	Raiffeisen Bank SA	Romania	21.47%	13.94%
8	Addiko Bank d.d.	Slovenia	21.40%	13.45%
9	BRD – Groupe Societe Generale SA	Romania	21.10%	19.64%
10	NLB Banka Sh.a. Prishtina	Kosovo	20.67%	21.28%

RETURN ON ASSETS RATIO

	Bank	Country	ROA 2018	ROA 2017
1	Direktna Banka AD	Serbia	10.36%	7.08%
2	BNP Paribas Personal Finance - Sofia branch	Bulgaria	7.34%	
3	Opportunity Banka AD Novi Sad	Serbia	3.42%	2.50%
4	TBI Bank EAD	Bulgaria	3.23%	4.43%
5	Moldindconbank SA	Moldova	3.04%	2.40%
6	Stopanska Banka AD - Skopje	North Macedonia	2.99%	2.37%
7	Jubmes Banka AD	Serbia	2.93%	0.53%
8	Societe Generale Bank Srbija AD	Serbia	2.92%	2.09%
9	BRD – Groupe Societe Generale SA	Romania	2.86%	2.58%
10	Raiffeisen Bank Sh.a.	Albania	2.81%	1.78%

TOTAL EQUITY

in millions of euro

2018	Bank Name	Country	Total Equities 2018	Total Equities 2017	Y/Y Change in Total Equities 2018
1	Zagrebacka Banka d.d.	Croatia	2 214	2 089	4.62%
2	Privredna Banka Zagreb d.d.	Croatia	1 908	1 831	2.88%
3	Banca Comerciala Romana SA	Romania	1 745	1 598	9.31%
4	Banca Transilvania SA	Romania	1 589	1 496	6.33%
5	BRD – Groupe Societe Generale SA	Romania	1 571	1 508	4.25%
6	UniCredit Bulbank AD	Bulgaria	1 447	1 459	-0.84%
7	DSK Bank EAD	Bulgaria	1 366	796.4	71.53%
8	Nova Ljubljanska Banka d.d.	Slovenia	1 295	1 381	-6.23%
9	Erste&Steiermarkische Bank d.d.	Croatia	1 053	950.5	9.35%
10	UniCredit Bank SA	Romania	975.2	722.2	35.15%

TOTAL DEPOSITS

in millions of euro

2018	Bank Name	Country	Total Deposits 2018	Total Deposits 2017	Y/Y Change in Total Deposits 2018
1	Banca Transilvania SA	Romania	13 450	10 564	27.43%
2	Zagrebacka Banka d.d.	Croatia	12 218	10 625	13.52%
3	Banca Comerciala Romana SA	Romania	11 937	11 603	2.97%
4	BRD – Groupe Societe Generale SA	Romania	9 780	9 716	0.75%
5	Privredna Banka Zagreb d.d.	Croatia	8 699	7 751	10.79%
6	UniCredit Bulbank AD	Bulgaria	8 327	8 167	1.96%
7	Raiffeisen Bank SA	Romania	7 211	6 491	11.19%
8	UniCredit Bank SA	Romania	7 204	6 542	10.22%
9	Nova Ljubljanska Banka d.d.	Slovenia	7 082	6 883	2.90%
10	Erste&Steiermarkische Bank d.d.	Croatia	7 019	6 482	6.91%

TOTAL LOANS

in millions of euro

2018	Bank Name	Country	Total Loans 2018	Total Loans 2017	Y/Y Change in Total Loans 2018
1	Zagrebacka Banka d.d.	Croatia	8 880	8 295	5.69%
2	Banca Transilvania SA	Romania	8 695	7 510	15.89%
3	UniCredit Bulbank AD	Bulgaria	7 879	5 657	39.29%
4	Banca Comerciala Romana SA	Romania	7 383	7 391	-0.02%
5	Privredna Banka Zagreb d.d.	Croatia	7 054	6 130	13.62%
6	BRD – Groupe Societe Generale SA	Romania	6 902	6 769	2.06%
7	DSK Bank EAD	Bulgaria	6 526	4 295	51.97%
8	Erste&Steiermarkische Bank d.d.	Croatia	6 079	5 542	8.29%
9	Raiffeisen Bank SA	Romania	5 537	4 616	20.07%
10	UniCredit Bank SA	Romania	4 904	4 695	4.55%

NET INTEREST INCOME

in millions of euro

2018	Bank Name	Country	Net Interest Income Rankings 2018	Net Interest Income Rankings 2017	Y/Y Change in Net Interest Income 2018
1	Banca Transilvania SA	Romania	531.3	388.1	37.02%
2	Banca Comerciala Romana SA	Romania	417.3	360.3	15.95%
3	BRD – Groupe Societe Generale SA	Romania	400.8	344.3	16.52%
4	Zagrebacka Banka d.d.	Croatia	359.6	362.3	-2.02%
5	Raiffeisen Bank SA	Romania	321.6	247.2	30.21%
6	Privredna Banka Zagreb d.d.	Croatia	297.5	316.0	-7.03%
7	Erste&Steiermarkische Bank d.d.	Croatia	222.7	220.5	-0.30%
8	DSK Bank EAD	Bulgaria	217.8	231.9	-6.08%
9	UniCredit Bulbank AD	Bulgaria	204.9	222.9	-8.08%
10	UniCredit Bank SA	Romania	194.7	160.9	21.14%

NET FEES AND COMMISSIONS INCOME

in millions of euro

2018	Bank Name	Country	Net Fees And Commissions Income 2018	Net Fees And Commissions Income 2017	Y/Y Change in Net Fees And Commissions Income 2018
1	Banca Transilvania SA	Romania	148.9	124.7	19.57%
2	Zagrebacka Banka d.d.	Croatia	148.2	139.1	5.17%
3	Banca Comerciala Romana SA	Romania	144.5	141.9	1.92%
4	Raiffeisen Bank SA	Romania	132.2	122.0	8.48%
5	UniCredit Bulbank AD	Bulgaria	118.7	110.8	7.13%
6	Nova Ljubljanska Banka d.d.	Slovenia	100.2	98.5	1.68%
7	Privredna Banka Zagreb d.d.	Croatia	98.7	91.2	6.86%
8	DSK Bank EAD	Bulgaria	82.6	78.7	5.07%
9	UniCredit Bank SA	Romania	68.3	64.6	5.83%
10	Erste&Steiermarkische Bank d.d.	Croatia	62.7	59.2	4.49%

Cost to income ratio (CIR) ranking is a ranking of the top 10 banks with the best performing ratio, calculated as cost except depreciation and impairment of financial assets divided by gross revenue.

ROE ranking presents the top 10 banks with the highest proportion between the net financial result and total equity. In this sub-ranking we excluded three banks with a negative total equity - BNP Paribas S.A. - Sofia branch, ING Bank N.V. - Sofia branch and Invest Banka Montenegro A.D.

ROA ranking is a ranking of the top 10 banks with the largest ratio between the net financial result and the bank's total assets.

PSD 2 Transforming the payment services market:

How does the payment services sector in Bulgaria adapt

By **Milena Angelova,** Associate at Schoenherr Bulgaria

Directive (EU) 2015/2366 of the European Parliament and of the Council of November 25, 2015 on payment services in the internal market ("PSD 2"), which entered into force on January 12, 2016, transforms the European banking sector by integrating and harmonizing the regulation of the European payment services market. The main objectives of PSD 2 are setting a level playing field for all payment services providers as it makes the market accessible not only to traditional banks and large financial institutions, but also to smaller, innovative and independent market players. It also aims at improving the competition on the payment services market, security and client protection. PSD 2 replaces the previous EU payment services directive and promises to revolutionize the way electronic payments are perceived by consumers.

All EU member states had to implement the PSD 2 in their local legislation by January 13, 2018. Bulgaria transposed the PSD 2 through the adoption of a brand-new law – the Act on the Payment Services and Payment Systems entered into force on March 6, 2018.

What is new?

Along with the well-known payment services regulated by the previous EU payment services directive, PSD 2 introduces two completely new payment services – payment initiation service and account information service. The payment initiation is a service which directly accesses the payee's payment account and initiates payment with the payee's consent. It allows consumers to shop online without the need of having a payment card and is a low-cost solution for both merchants and consumers as it basically removes the need of intermediation of a card issuer (which imply additional fees and sometimes causes delays in the delivery of the goods/services). Payment initiation applies exclusively in the area of e-commerce. As payment initiation is now a regulated payment service, payment initiation service providers have become subject to payment institution licensing requirement. This would guarantee the EU payment services users a sufficient level of security, confidentiality and data protection.
Account information is an online payment service which provides a consolidated information on one or more payment accounts held by a payment services user with either another payment service provider or with many payment services providers. The account information service is a useful tool which would allow payment services users to easily keep account on their personal finances and have an overall view on their financial situation.

The common feature of both newly introduced payment services is that their providers are not allowed to hold client funds. This is why, their providers are subject to less stringent licensing/registration requirements compared to the remaining payment services providers which operate with payment accounts. In addition, the fact that these new players are never in possession of their customers' money makes them more trustworthy by the users and does not expect them to have solid financial background in order to grab market share.

The mainstream thinking is that the niche of these payment services will be primarily occupied by new market players – 'boutique' payment providers which will place the emphasis on offering one particular payment service rather than on the entire variety of payment services (as this is most generally the case with banks).

What comes to one's mind when getting acquainted with these new payment services is the question how these new players being their providers would access the users' payment accounts so that they could offer them this type of services. This is where the real leverage of PSD 2 comes on stage – the concept of open banking. PSD 2 is, in fact, the epitome of open banking. Open banking is a system which allows the sharing of customer banking data to third parties and now finds its recognition at EU level through the PSD 2. It uses the advancement of technology to provide new functionality for the payment services providers and their users. PSD 2 imposed an obligation on all account servicing payment services providers to grant access to the users' accounts they hold. Such access should be granted on a proportionate and non-discriminatory way so that all payment services providers be able to provide their services without any obstruction. In practice, this is made through the creation of technical infrastructures which should, without any doubt, guarantee the security and confidentiality of customer information. To ensure this, in November 2017 the European Commission has adopted a Delegated Regulation on Regulatory Technical Standards ("RTS") outlining the minimum technical requirements which must be observed by the account servicing payment services providers when putting into effect such infrastructure. The 18-month deadline for application of the RTS by the account servicing payment services providers expires on September 14, 2019. The banks had until March 14, 2019 to provide access to their infrastructures for all payment services providers willing to test their software and applications they would use for the provision of payment services.

The backlash

The Bulgarian payment services market is primarily driven by banks. Banks determine what would be the pace of development of the payment services market and what catalogue of electronic payment services should be offered to the users. As a year has barely passed from the implementation of the PSD 2 in Bulgaria, it is challenging to assess whether its objectives have already started to take effect and whether the Bulgarian payment services market landscape has been affected by the new regulation.

Lack of active consumer demand slows down digitalisation of Bulgarian payment services market

What we see for the time being is that basically all Bulgarian banks have already made themselves compliant with the PSD 2 requirement to provide the technical infrastructure for payment services providers for testing the access to the customer account data. This means that the first steps towards effective open banking in Bulgaria are already made. What would be interesting to observe from now on is whether this opportunity will be grabbed by new and still unknown players which would bring the necessary movement of the payment services market. It also remains unclear whether banks would not only limit themselves to simply comply with the new legislation, but would also use the opportunity to develop and introduce innovative payment services.

As of the date of this article, only a few payment services providers have expressed their intention to start providing the new services of payment initiation and account information on the Bulgarian market. These providers are already present and well-known on the market. The sector's expectations are that possible new players will emerge this fall or by the end of 2019. Such new players could be either fashionable, recognisable and well-capitalised fintech companies established in Western Europe or the United States, or purely Bulgarian startup companies having the courage and confidence that their software/application is sufficiently good and that they could gain popularity amongst the youngest users.

One of the major reasons why it is hardly imaginable to say that the Bulgarian payment services market will be revolutionized following the arrival of PSD 2 and open banking, is the lack of consumer trust in this kind of digital, technology-driven products. The Bulgarian banking consumer could be determined as conservative and cautious with innovations. According to publicly available data, less than 10% of the clients of Bulgarian banks actively use mobile banking applications. Although mobile banking is significantly more convenient and cheaper, people still prefer to visit a bank office and to make physical contact with the bank officers when their personal finances are at stake. If one of the main objectives of PSD 2 – enhancement of transparency and information on payment services, materialises, this tendency of lack of consumer trust in the digital, impersonal banking experience will surely change, however, such change will not happen right away.

The other important market players - the fintech companies, started to gain popularity in the recent years, however, it looks like they still lag behind the traditional banks mainly in terms of consumer trust. Representatives of fintechcompanies admit that the Bulgarian payment services sector is rather unorganized and fragmented, and that the continuous support of banks is needed in order for them to survive and to be able to invest into new payment products. It looks like that the cooperation between traditional banks and innovative FinTech companies is key to the transformation of the Bulgarian payment services market.

Open banking and innovative payment products are in bloom around the world, especially in Western Europe, Asia and the United States. The Bulgarian payment services market is far behind such digitalised markets, mainly due to the lack of active consumer demand. As far as consumers are satisfied with the current catalogue of payment services and with their payment experience, banks will not be persuaded that something should be changed now and immediately. At the same time, fintech companies struggle to build trust amongst customers and to break the market dominance of traditional banks. Despite this, the digitalisation wave around the world is becoming bigger and bigger being reinforced by PSD 2 and its arrival to the more conservative Eastern payment services markets, including the Bulgarian, is inevitable.

SocGen, OTP deals stir M&A market, Greek banks continue to divest SEE assets

By Mario Tanev

The consolidation of the banking sector in Southeast Europe (SEE) continued full steam in 2018, as most deals were related to the ongoing divestment of assets by Greek lenders and French banking group Societe Generale.

Societe Generale has been engaged in a broad restructuring plan for the past few years, as it committed to refocus its business model and dispose of non-core assets which carry insufficient potential for intragroup synergies.

At the same time, Hungarian banking group OTP continued to operate in an aggressive expansionary mode, snatching the majority of Societe Generale's disposals in SEE.

OTP leveraged its extremely well-capitalised position and leaned on its solid retail lending expertise, which partly explains its bet on the region, where despite the somewhat lagging corporate credit demand, retail lending remains particularly strong.

Societe Generale began disposing of its SEE assets in 2017, when it sold a 100% stake in Croatia's Splitska Banka to OTP. The partnership between the two lenders proved to be fruitful, as in 2018 Societe Generale agreed to sell a further four of its units in the region – in Albania, Bulgaria, Montenegro and Serbia, to OTP. In addition, the two banking groups entered into a services agreement concerning their operations in Albania, Bulgaria, Croatia, Hungary and Serbia. The agreement encompasses the provision of mutual services in various fields, including investment banking, capital markets, financing and global transaction banking.

This process continued in 2019 when Societe Generale agreed to sell two more units – in Moldova and Slovenia, to OTP Bank.

Of all the SEE banking units Societe Generale agreed to divest in 2018 and early 2019, only North Macedonia's Ohridska Banka was sold to an investor different from OTP - Austria'a Steiermaerkische Sparkasse.

Meanwhile, Greek banks stuck to the commitments they made in their restructuring plans adopted in the aftermath of the global financial crisis. Local lenders increasingly focused on their domestic operations and continued their efforts to slim down by divesting their foreign subsidiaries and using the proceeds to boost capital ratios and liquidity.

At first, when Greek banks struggled to cut foreign exposure in SEE, weak asset quality chased away potential investors. However, the tide turned in 2017 and the process continued in 2018.

Piraeus Bank was among the most active players in the region, agreeing the sale of its subsidiaries in Albania, Bulgaria and Romania.

Serbian lender Direktna Banka completed the acquisition of the local banking and leasing operations of Piraeus Bank in April 2018. Direktna Banka wrapped up the integration of Piraeus Bank's Serbian operations in October.
Then, in July 2018, the Greek lender completed the sale of its Romanian subsidiary to private equity firm J.C. Flowers & Co and the European Bank for Reconstruction and Development (EBRD).

In August 2018, Piraeus Bank agreed to sell a 98.83% stake in its Albanian subsidiary, Tirana Bank, to Macedonia's Komercijalna Banka and Albanian investment group Balfin for a total consideration of 57.3 million euro.

The following month, Piraeus Bank signed an agreement to sell a 99.9819% stake in Piraeus Bank Bulgaria to Eurobank Bulgaria, which operates under the Postbank brand. Eurobank Bulgaria is a unit of another Greek lender - Eurobank Ergasias.

After selling its assets in Bulgaria and Serbia in the second half of 2017, National Bank of Greece continued with its strategy to divest assets in the SEE region.

National Bank of Greece sold United Bulgarian Bank and leasing company Interlease to Belgium's KBC Group for 610 million euro in mid-2017, while it wrapped up the sale of Serbia's Vojvodjanska Banka to OTP Group in December 2017.

In July 2018, National Bank of Greece completed the sale of its Albanian subsidiary NBG Albania, to American Bank of Investments (ABI), a unit of Albania's Tranzit. Subsequently, American Bank of Investments received central bank approval to absorb NBG Albania.

The Greek lender also tried to sell its Romanian unit, Banca Romaneasca, but the selected buyer, OTP Group, failed to obtain approval from Romania's central bank in April 2018.

Another Greek bank – Eurobank Ergasias, sold its Romanian unit Bancpost to Banca Transilvania in April 2018. Romania's Banca Transilvania subsequently absorbed Bancpost.

In addition to the Bancpost acquisition, in January 2018 Banca Transilvania became a shareholder of Moldova's Victoriabank after acquiring a 39.18% stake in a deal that marked the first investment by a non-Moldovan bank in the local market in a decade. Subsequently, Banca Transilvania grew its stake in Victoriabank to 44.6% in a buyout bid.

Besides the Greek banks, Societe Generale and OTP Group, another key player on the SEE M&A market in 2018 was Italian banking group Intesa Sanpaolo.

In July 2017, Intesa Sanpaolo sold its unit in Croatia - Veneto Banka, to Croatian lender Privredna Banka Zagreb. Privredna Banka Zagreb absorbed Veneto Banka in October.

Subsequently, the Italian banking group, through its unit Intesa Sanpaolo Bank Albania, completed the acquisition of the Albanian subsidiary of defunct Italian lender Veneto Banca.

The M&A market in the region seems likely to remain hot in 2019, as OTP Group continues to firm its foothold, while several other large players are reportedly scanning the scene for new buys.

“Beyond the capital required for organic growth the management intends to allocate significant part of the generated excess capital for further value-creating acquisitions,” OTP Bank’s management says in a presentation before the shareholders at its 2019 annual meeting.

OTP is reportedly looking into further acqusitions in Croatia after buying Societe Generale's local unit.

The Hungarian bank is not the only lender contemplating purchases in SEE. In May Austria's Raiffeisen Bank International announced that it will seek to make acquisitions in Croatia as oganic growth alone will not be sufficient to boost its market share in a market with limited growth potential.

At the same time Turkish state-owned Halkbank, already present in North Macedonia and Serbia, is reportedly considering expansion in Moldova.

The consolidtion of the SEE banking sector is expected to continue in 2019, a poll among some of the leading banks in the region confirmed. The ongoing privatisation process in Serbia and Slovenia may lend further momentum to this process.

We asked some of the leading banks in the region if they see room for further consolidation or entry of new players in the respective market/markets where they operate. Following are their answers:

OTP Banka Hrvatska

Bearing in mind the more complex and expensive regulatory framework for European banks, as well as the relatively small market of ours, further consolidation, especially in the segment of smaller banks is always possible.

* * *

Horia Braun,
BCR chief economist:

There is probably still room for consolidation in the local market as some small players continue to struggle and are interested in exits, while others remain interested in faster building of scale to compete with the Top 7. On the other hand, I think it’s more difficult to expect new players coming to the market, at least as long as loan growth in the banking market remains far from a compelling story and the regulatory and fiscal environment is also on a challenging path.

* * *

EBRD economist Peter Tabak:

Most countries of the region have still too many banks for the country size and recent bank failures show that corporate governance and lending standards are not equally strong for all of them. Large changes have been already under way in recent years, with many Greek banking groups or Societe Generale leaving the region while others (like OTP Group) strengthening their presence. These changes, together with strengthening regulatory activities, tightening capital requirements within the Basel III/IV framework, might also contribute to the consolidation in the banking sectors in the region.

* * *

Privredna Banka Zagreb Research Office:

Today, number of banks operating in Croatia declined to 21 – significantly lower compared to 34 banks in 2008, out of which around 13 banks have less than 1% market share. Trends in B&H are similar with number of banks declining to 23 (end-2018) from 30 (end-2008). Number of banks in both Croatia and B&H can still be considered high in relation to the size and concentration of the market, hence the process of consolidation will most likely continue. Banks will certainly try to benefit from economies of scale in an environment of stricter regulatory requirements, growing complexity of business, rising non-bank competition and narrowing margins, where pressure on profitability is strong, particularly in case of smaller players (which usually have higher C/I ratio). Also, various equity funds currently engaged in banking sector will most likely consider exit strategies.

* * *

Raiffeisen Bank d.d. Bosnia and Herzegovina, Investment Banking, Research and Advisory

Consolidation of banking sector has been practically halted in 2017 and 2018 with no changes in banking sector market in terms of banks number. Number of banks of 23 is still too high for small market and economy as B&H, especially with such large concentration of top three players holding 50% of the assets and loan portfolio in the market (Unicredit Group, Raiffeisen,NLB Group). With still limited potential for organic growth in BH banking sector in coming mid-term period due to limited growth of economy in range of 2.5 - 3% yoy in real terms, further consolidation of the market is inevitable. Banks will for sure seek out for an opportunity to acquire smaller players and their portfolio as creating of new portfolio is restricted due to moderate economic dynamics and quality projects in the country. In addition, some very weak and small banks could be liquidated in mid-term period in B&H.

Secured portfolios niche opening up in Bulgaria, Croatia and Romania

Rayna Mitkova,
EOS Matrix Managing Director

EOS Matrix Ltd. is part of the German leader in financial services EOS Group, which is one of the biggest international providers of personalized financial services. The main focus of the Group is the debt management in three main services: secured and unsecured debts purchase, debt collection and outsourcing of business processes. With over 7,000 employees and over 60 subsidiaries, EOS offers flexible solutions to strengthen the financial health of over 20,000 customers in 26 countries. EOS Matrix Ltd. has been present in Bulgaria since 2002. Currently, EOS has more than 350 employees in Bulgaria. EOS Matrix is also a co-founder of The Association of the Collection Agencies in Bulgaria (ACABG).

What are your expectations regarding the value of NPL transactions on the local market/in SEE in 2019 and over the next few years?

During the last years in general we are observing a growing market. For 2018 the investments in Bulgaria alone exceed 1.2 billion euro, compared with 800 million euro the previous year. One of the rather new trends is the opening of the secured portfolios niche in many new markets such as Bulgaria, Croatia and Romania for example.

Despite the positive tendencies for improving asset quality, Bulgaria still needs to face the challenge of a high proportion of bad debts. Speaking of NPL, our expectations for debt purchase deals in 2019 in terms of face value of portfolios are that the unsecured market will reach around 300 million euro and the secured market is expected to exceed a billion euro.

The corporate sector faces the challenge of inherited bad debts which hamper credit activity. Last year was particularly active in Bulgaria, with several big deals.

How do you see NPL levels in Bulgaria/SEE going forward?

The activity on markets that have already coped with most troubled loans is likely to gradually wane off at the expense of transactions with other types of assets - leasing receivables, subsidiaries of financial institutions serving platforms. The reason for this trend will be consolidation in the banking sector and banks' efforts to restructure by removing assets beyond their core business. For other countries, larger deals are still expected - these are the markets that will end up in the final phase of clearing up bad assets and improving balance sheets.

Behind the big numbers of the expected portfolios, the banking system in Bulgaria is facing overliquidity combined on the one hand with merging between the banks and on the other with long precession process preparation, all of that leading to hardly predictable market depending on single one-time big deals.

SEE businesses have been among the most unpunctual payers in Europe in the past few years, according to the EOS annual surveys. How do you expect this trend to develop?

The companies find a solution in partnership with debt collections agencies - 44% of the Bulgarian business uses the services of an external expert (an increase of 2 points compared to 2017). Five years ago, Bulgaria was at the bottom of the European ranking on this benchmark, now catching up with the average European levels and currently taking the second place after Germany.This progress clearly shows that the confidence in debt collections companies increases – 66% of respondents in the survey say that debt collection companies encourage good payment practices in society. The result is that Bulgaria ranks first in Eastern Europe in returns through debt collections companies - 11.1% of company turnover was recovered thanks to outsourced receivables management services.

Will the efforts of Bulgaria, Romania and Croatia to join the Eurozone and Banking Union affect the local NPL market?

In its bid to join the single currency Bulgaria has made commitments to strengthen its bank and systemic supervision, as well as to strengthen the supervision of the non-bank financial sector and anti-money laundering framework. Part of these efforts is addressing gaps in the insolvency framework. Poor insolvency regimes and inefficient judiciaries are a key reason for the slow pace of NPL resolution in many member states, where provisioning is often inadequate. Different creditor rights and problems with enforcement present a challenge for integration between national financial markets. In the case of Bulgaria, the average time to resolve insolvency is over three years, by no means the worst in the euro area.

Bulgarian NPL market to stay active with focus on corporate, SME secured segment

Georgios Christoforou, regional director for SEE and CEO of B2Kapital SA-Greece, a subsidiary of B2Holding

Norway-based B2Holding is one of the largest debt solution providers in Europe with operations in twenty-three European countries. The group has offices in three additional countries: Austria, Luxembourg and Netherlands. Subsidiaries in SEE are the leading player of debt purchase and debt collection, including Debt Collection Agency in Bulgaria; B2Kapital Portfolio Management and Debt Collection Agency in Romania; B2Kapital Greece and B2Kapital Cyprus.

What are your expectations regarding the value of NPL transactions on the market in SEE in 2019 and over the next few years?

In our view the SEE region will be very active regarding NPL transactions. It is not easy to predict the value, as the banks are revising their deleveraging levels and targets every year. In Bulgaria we expect the market to remain active with a focus on the corporate and SME secured segment as well as bigger retail unsecured portfolios from the top seven banks. We estimate that the NPL deals in 2019 will be for around 1.3 - 1.5 billion euro in nominal value, exceeding the levels of the record-breaking 2018; in Romania the market is not very active, but the political developments may give a new boost to the transaction pipeline. In Greece and Cyprus we have more clarity, because the targets are made public by the European Stability Mechanism's agreement with the banks. In Greece we expect around 20-25 billion euro to transact by 2021 and a good part this year. In Cyprus we also expect around 10 billion euro to be put for sale. Already, this year one transaction in Cyprus refers to a portfolio of 5.7 billion euro and a purchase price of 1.4 billion euro.

How do you see NPL levels in SEE going forward?

Overall, the NPL levels are in a downward trend and if the macroeconomic and political environment remains stable, then we should see the levels declining. However, there are some exceptions. For instance, the legislative endeavours in Romania - which in our view were not in the right direction - have already led to an increase of NPLs. Whether this trend will be temporary or not, we need to wait and see. Otherwise, overall the trend should be a declining one.\

How does the ongoing consolidation of the SEE banking sector affect your operations?

The ongoing consolidation is in general a step to the right direction as it leads to the creation of more sustainable banks. And banking system stability is a pivotal pillar to the sustainability of countries and regional economies. This consolidation is often coupled with a higher appetite by vendors to clean up their books. Therefore, it is a trend that is benefiting our operations rather than not.

Will the efforts of Bulgaria, Romania and Croatia to join the Eurozone and the Banking Union affect the local NPL market?

This is too technical a question to answer, but seeing the experiences of other small economies, the transition to euro often led to an increase of NPLs. This may be particularly applicable, depending on which currencies the debtors have borrowed money from the Banks. As I said it is difficult for us to answer this, as we lack the information of what hedging measures the borrowers have undertaken on their exposures.

1.3-1.5 bln euro

Estimated nominal value of NPL deals in Bulgaia in 2019

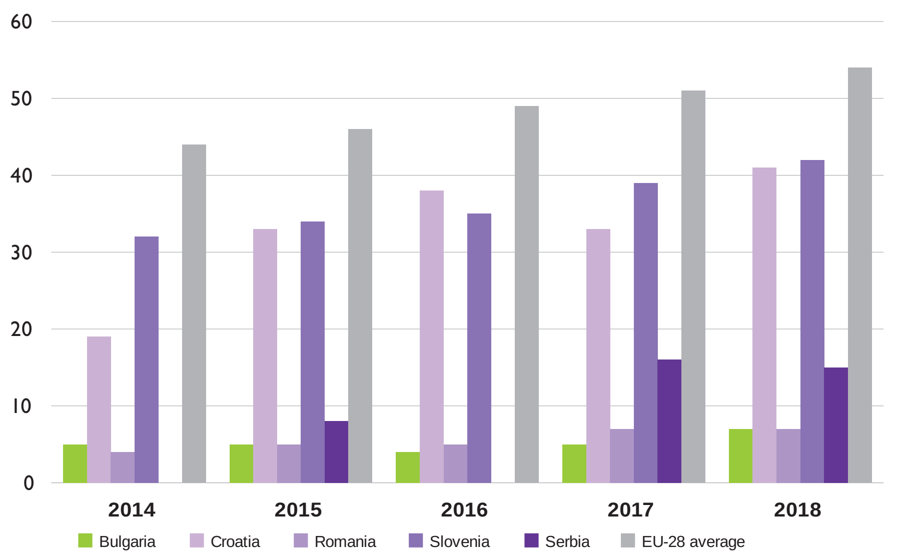
Online Banking – SEE banks' main fintech service holds untapped potential

By Valentin Stamov, Senior Business Analyst, SeeNews

● Online, or internet banking in Southeast Europe (SEE) is on the rise and the market has still a lot of room to grow as it is far from the EU-average level.
● Internet banking is most popular and well-developed in the region's EU members, as well as in Serbia.
● Slovenia and Croatia are the SEE countries with the highest level of online banking usage.
● As internet banking requires computer literacy, the service is predominately used by younger population and people with higher education.
● The growth of internet banking in SEE is inevitable - most of the banks in the region have already launched and started promotingg their online banking platforms and the people are becoming more aware of the benefits the service offers.

Online banking, also known as internet banking, is the main fintech service that is offered by the commercial banks in Southeast Europe (SEE). Most of the banks in the region have developed their own internet banking solutions, including mobile phone applications. Internet banking is most wide-spread in the region's EU-members – Bulgaria, Croatia, Romania, and Slovenia, as well as in Serbia. The popularity of internet banking is constantly rising but even some of the leading countries in the region are significantly lagging behind the EU-average level of usage of online banking. In 2018, Slovenia and Croatia were the SEE countries with the highest internet banking penetration, while the service is still not preferred by the banking clients in the other major countries in the region.

SHARE (%) OF INDIVIDUALS (AGED 16-74) USING THE INTERNET FOR ONLINE BANKING



Source: Eurostat

Bulgaria

SHARE (%) OF INDIVIDUALS USING INTERNET BANKING IN BULGARIA

	2014	2015	2016	2017	2018
National average	5	5	4	5	7
Aged 25-34	6	11	8	11	11
Individuals with high formal education	14	18	13	18	23
Individuals living in cities	8	9	7	9	11

Source: Eurostat

Online banking in Bulgaria is evolving in line with international standards, though with a certain delay. All local commercial banks offer online banking services but the market is in its initial development stage. Overall, Bulgarian bank customers still do not trust the Internet when it comes to financial payments. Online banking is most popular among Bulgarians aged between 25 and 34. Elderly generations are challenged by online banking due to their inadequate computer skills. In addition to age, internet use as a channel for banking operations is also related to consumer education – online banking is much more popular among university graduates than among people with lower or no education.

Croatia

In Croatia, the share of people who use online banking doubled in the 2014-2018 period. However, their share, at 41%, is still well below the average for the EU-28, according to Eurostat. Younger generations, as well as university graduates tend to use online financial services rather than traditional banking.

According to data from the Croatian National Bank in 2018, the value of credit transfers made electronically accounted for just over 90% of the total sum. Online payments were the leading form of electronic payments, followed by mobile banking. The share of online credit payments made by individuals was just 4.0%, while legal entities accounted for the bulk - 96%.

SHARE OF ELECTRONIC METHODS IN TOTAL NUMBER AND VALUE OF CREDIT TRANSFERS IN CROATIA

	2015		2016		2017		2018	
	Number	Value	Number	Value	Number	Value	Number	Value
Electronic methods - total, including:	66.6%	89.9%	68.9%	89.8%	71.1%	91.2%	73.6%	90.7%
Internet	42.3%	53.5%	44.3%	58.5%	44.9%	60.5%	43.7%	59.2%
Mobile phone	5.3%	0.7%	8.5%	1.1%	12.2%	1.7%	16.3%	2.5%

Source: Croatian National Bank

Romania

Although more than two-thirds of Romanians use the internet daily, the share of population who use the internet for banking operations is still very low. According to Eurostat, only 5.0% of the population between 16 and 74 years of age use online banking.

Half of Romanians using internet banking check almost daily the amounts on their accounts, but do not perform any other operations. On the other hand, Romanians have greater confidence in online banking security, as only 10% of them consider possible security issues a threat, compared to the EU average of 18%, according to Eurostat.

Some of the largest banks on the Romanian market continue to convert their branches into self-service units for customers who do not need support for basic banking operations. The lenders are also beginning to invest in the renovation of their online banking platforms.

RATE OF INTERNET BANKING USAGE BY ROMANIAN INTERNET USERS AS OF JUNE 2018

Rate	Share of local internet users
At least one a week	42%
Several times a week	23%
Once a week	10%
Several times a day	9%
Other	16%

Source: Exact Business Solutions

Serbia

In Serbia, cash payment is still the most popular way of payment, cards are second, and almost all payment terminals are non-contact. Almost 70% of the country's population uses the internet and there are 1.3 mobile phones per capita, which is a good prerequisite for online and mobile payments growth.

In 2017, more than 20% of the Serbian bank customers used online banking services, which is twice as high as 2010, according to a report by UniCredit Group. Classic mobile banking services are mostly free to consumers. However, in terms of online banking usage, Serbia remains at the bottom among the European countries, but outperforms major SEE countries as Romania and Bulgaria.

In 2017, the number of internet banking users in Serbia reached about two million and for the first time in the country, the number of mobile banking users exceeded one million, according to data from National Bank of Serbia and market representatives. In 2018, the users of alternative banking continued to grow – mobile banking exceeded 1.4 million users and online banking was preferred by more than 2.4 million customers. Also in 2018, the holders of an electronic money payment account surpassed 45,000.

NUMBER OF USERS BY TYPE OF PAYMENT SERVICE IN SERBIA

Service	2016	2017	2018
Cards	5,677,000	5,934,000	6,072,000
Direct debit	526,000	588,000	647,000
E-money account	63,000	36,000	46,000
Mobile payment	746,000	1,127,000	1,427,000
Online payment	1,618,000	1,936,000	2,466,000
Other	166,000	201,000	225,000

Source: National Bank of Serbia

Slovenia

Online banking has been constantly growing in Slovenia, surpassing 900,000 individual users at the end of September 2018. This is a rise of 5.1% over the end of 2017 and double the number of users ten years ago, Slovenian central bank data shows. In 2018, more than 40% of Slovenia's total population used the internet for online banking. Usage rate was higher, at 53%, among more active internet consumers who had used the internet within the last three months. The number of bank clients using online services doubled by 2015 compared to 2007, but the growth slowed down in the next two years due to the gradual saturation of the market.

SHARE (%) OF INDIVIDUALS USING INTERNET BANKING IN SLOVENIA

	2014	2015	2016	2017	2018
National average	32	34	35	39	42
Aged 25-34	58	55	55	57	63
Individuals with high formal education	67	69	64	75	71
Individuals living in cities	40	37	45	42	50

Source: Eurostat

Realising tomorrow today

Getting financial institutions ready for digital revolution

By IBM South East Europe

Today's banking systems evolved from the first merchants bartering and carrying goods between early villages and towns, into the tens of thousands of brick-and-mortar banks across the modern world, and most recently into the millions of banking applications we carry around in our pockets on our smart devices. The next evolution of banking institutions is being driven by digital reinvention, fuelled by technological innovation.

What's causing this digital reinvention? Is it smartphone-carrying merchants; other advancements in technology like AI, data science or quantum computing. Is it the new ways companies and individuals can conduct business by circumnavigating a bank's involvement completely, with decentralized digital assets such as cryptocurrencies? The simple answer is 'all of the above.'

For centuries, banks have been involved in all facets of monetary/transactional business. From simple deposits and loans to more advanced risk modelling and channel management, banks have acted at one time or another as trusted intermediaries, service providers, asset managers, and market makers.

"Today, if banks want to continue to succeed, they must reinvent themselves once again from generalist to specialist, by creating new products that enable them to deliver better forms of customer experience," said Michael Paier, General Manager, IBM South East Europe. Digital reinvention at its most fundamental level, redefines banking using a customer-first or customer-centric perspective. In addition, digital reinvention employs multiple technologies and approaches, including cloud computing, blockchain, mobile apps, the Internet of Things (IoT), AI, automation, DevOps, Agile and Lean methodologies.

As recently announced by IBM, clients in Southeast Europe, representing almost every industry, including the financial sector, are rapidly adopting AI and cloud as a platform for digital transformation and delivering new business value.

According to a survey by research company IDC (*Perception and Use of Cloud Computing & Artificial Intelligence in the Adriatic Region), cloud computing technologies are consistently being adopted in the SEE region as companies seek to accelerate their digital transformation. Financial and telecommunications industries are in the lead. For example, up to 20% of the companies across the Adriatic region are planning to implement a cloud solution in the next 12 months. Currently, the most popular cloud platform is the private cloud, but as markets transition from private to public cloud platforms, a third of the surveyed companies said they are on track to implement some form of public cloud in the coming year. Moreover, 44% of the companies have opted for hybrid multi-cloud solutions.

Clients increasingly are now looking to move beyond their initial cloud deployments, which were aimed at IT productivity and flexibility, and are now realizing the potential of the cloud to help optimize existing business applications, and launch new business services, with levels of speed and cognitive innovation previously impossible. With 80% of enterprise data locked up in on-premise data centers, clients are keen to move to a hybrid cloud model, that can migrate individual business processes and associated data to different cloud environments, hybrid, private and public.

Hybrid cloud also opens up opportunities to exploit cutting edge tools including AI, analytics, IoT and blockchain to maximize business outcomes, and transform the customer experience. IBM Cloud is tuned for the cognitive and data demands that are driving true differentiation in today's enterprise. IBM's private, public and hybrid offerings provide the global scale businesses need to support innovation across industries.

"In February this year IBM announced new solutions to make it easier than ever for our clients to integrate, manage and secure their cloud environments - including the new IBM Cloud Integration Platform, which cuts coding time for hybrid cloud environments by one-third, new services that simplify the management and governance of multiple clouds; and and new IBM Cloud Hyper Protect services, which brings the highest level of commercially available security on the public cloud. Many of SEE companies in the financial sector have chosen IBM Cloud for their critical workloads" said Paier.

For example, KIBS (Macedonia), ActivTrades (Bulgaria), Circeo (Hungary), Croatian Telecom, The Atlantic Group (Croatia), The Zavarovalnica Triglav (Slovenia) and CEC Bank (Romania) turn to IBM:

- **Klirinski Interbankarski Sistemi AD Skopje (KIBS),** a Macedonia-based payment system operator owned by 12 banks, has adopted IBM Cloud Private to help meet regulatory, security and availability standards while accelerating the development of digital services.
- **ActivTrades,** one of the leading UK online stock broker firms with over 50,000 customers providing services in Forex and Contact for Difference. By migrating to IBM Cloud, the Bulgarian branch of ActivTrades was enabled with quick access to the latest accounts status, stock prices, and other features that enable the clients to better manage their financial portfolios.

- A Hungarian fintech **Circeo** taps IBM Cloud to expand its loan processing capacity to support its overall growth and market expansion to multinational customers. This way, Circeo will be able to provide faster, simpler and better licensing options in highly flexible operating environment. As stated by Matthieu Job, CEO of Circeo: The efficiencies that we received from IBM Cloud has boosted

our processing capabilities and makes it possible for us to roll-out our solution for a client much quicker. It has allowed us to expand existing client portfolios and onboard new clients from outside of Hungary into production much faster than ever before.

● In addition, the leading insurance-financial group in Slovenia, **Zavarovalnica Triglav,** uses IBM Watson Customer Experience Analytics on the IBM Cloud to make smarter and faster marketing decisions. This provides Triglav with an end-to-end view of the customer experience to optimize journeys, boost conversations and maximize the lifetime of customer value.

● One of the largest Romanian banks, **CEC Bank,** has selected IBM Cloud API Connect to meet the EU and local regulatory requirements. IBM's solution met CEC's need to scale, securely expose and manage core banking services in order to expand the reach of their business.

Whilst banking clients are actively engaging with IBM to unlock business value with AI, Cloud, and blockchain today, clients are also looking into to future at emerging technologies such as Quantum computing, highlighted IBM executive.

Quantum computing has the potential to be especially helpful in solving optimization problems, such as portfolio optimization, management, and diversification. It may even extend to complex risk measures, such as conditional value at risk (C-VaR), also known as "expected shortfall. Furthermore, it now appears possible that optimization of pricing/risk analysis might eventually be done on a quantum computer with a "quadratic speed-up" requiring significantly fewer samples. While a classical Monte Carlo simulation* may require millions of samples, only a few thousand quantum samples might be sufficient on a quantum computer. Shortening cycles, such as for analyzing derivatives, from overnight to near real-time, might reduce risk and funding requirements. The result could be massive savings, given the billions of options contracts being traded worldwide every year.

"Quantum computing is a hot research area in technology research labs worldwide and there are compelling reasons to begin assessing the role and potential of quantum for business already now. One easy way to get started is to join an emerging financial services quantum ecosystem, such as the IBM Q Network. JP Morgan Chase (JPMC) and Barclays are among the banks experimenting with quantum computing to accelerate risk mitigation and improve performance modeling," Michael Paier explained.

In the recent IBM study from the Institute of Business Value on the role of quantum computing for finance industry there are listed straightforward steps an organization can take now to prepare for a "quantum leap":

● Experiment with quantum computing by using available, open prototypes. To get started, access an open source computing framework with learning material and readyto-use algorithm libraries.

● Explore quantum use cases pertinent to your business, then qualify and prioritize them by seeing where your operating model aligns with strategic direction. Build a customized quantum roadmap.

● Build, buy or rent required skills. There already may be someone on your team who closely follows the progress and potential of quantum computing. Consider adding that as a requirement for future key technical hires. Supplement with specialists more deeply involved in state-of-the-art development of quantum financial services.

● **Ensure that the entire C-suite becomes conversant about quantum computing.** Customers and investors are sure to be asking about it soon, if they haven't started already.

● **Join an ecosystem** of established companies, startups, academic partners and national research labs focusing on building quantum computing solutions for financial services problems.

Digitally transforming the business will make company a driver (rather than a victim) of change. Customer intimacy will be driven by the right conversation, through the right channel, and offering the right products, at the right point in time and this can be successfully done by implementing a right technology to drive innovation and more personalized experiences.

"If you want to find out more how new technologies help enterprises and banks digitally transform their organizations so they can innovate, operate and engage to generate value across the ecosystem, join us at IBM's fourth annual **South East Europe Think Summit** conference in **Belgrade, Serbia at September 11-12, 2019.** At Think you can also learn how IBM, with its partners and clients, intelligently changes the world," Michael Paier concluded.

**Monte Carlo simulations are mathematical methods that are used to estimate the future outcomes of certain hard-to-predict events. https://www.ibm. com/cloud/blog/monte-carlo-simulations- with-ibm-cloud-functions*

Financial institutions with flexible digital platforms poised for success

Software Group, founded in 2009, is a global technology company specialised in digitalization and integration solutions for institutions that provide financial services. The company, headquartered in Sofia, serves a worldwide client base from nine regional offices located in Australia, Egypt, Ghana, India, Kenya, Mexico, the Philippines and the U.S. Software Group's customer list includes Bill & Melinda Gates Foundation, MasterCard & MasterCard Foundation, International Finance Corporation (IFC), World Bank, Asia Development Bank, and seven of the ten biggest microfinancing networks in the world, among others. In March, the company signed an 18 million euro loan agreement with the European Investment Bank (EIB), supported by the Juncker Plan – the EIB's first venture debt operation in Bulgaria.

Kalin Radev,
CEO, Software Group

How does your omnichannel digital platform solve problems for financial institutions?

Actually, we solve two main types of problems which are structurally related to either the optimisation of internal systems, or the launch of new channels - efficiency and outreach. We do this though our omnichannel digital banking platform that has several key elements. One is an enterprise integration platform which automates links between systems, such as core banking, mobile wallet, agency banking, etc., and the second one is an omnichannel infrastructure that helps financial institutions launch any sales or end-client service channels. These channels can be used by the employees, the agents of the bank or the insurance institution, end customers, etc.

Some clients from the banking sector come to us and say things such as for example, they have 182 systems and close to 90% of the IT budget goes for maintenance but they want to carry out innovations. Another bank has eleven systems providing 360-degree customer view that are delivered by four vendors. The moment they decide to do something new, they need to coordinate everything with these four vendors. In such cases, we can help by reducing the number of the systems, retiring some of them, optimizing others, automating the links between third ones, etc.

We will also be launching a new service on the Bulgarian market - a chatbot for WhatsApp, Viber and Facebook Messenger that can answer questions people ask the institutions in compliance with all anti-fraud, anti-money laundering and strong customer authentication regulations. Although there is nothing revolutionary in this service, in the past we had to meet with officials and try to convince them that we have the technology and that it is safe, while now we no longer need to convince anyone. Organisations come to us and tell us they want to launch a mobile wallet, for example, that is easy to use, features insurance coverage and supports any type of payments, as well as allows clients to apply for loans, check their accounts with several banks, etc. All of this is possible through our solutions.

Earlier this year you signed an 18 million euro loan agreement with the European Investment Bank (EIB). What are you going to do with the funding?

We are going to use the EIB funds to continue developing in line with our business plan. We have a five-year plan which covers the 2018-2023 period that we review once in three years. The funding will support our current strategy.

The money will go into two main areas. We are a strongly product-oriented company and we are mainly investing in R&D and in developing new versions of our platform.

The other area in which we will invest is business development and marketing – we will reach more clients and enhance even further our offering for them. A lot of things are related here such as building an ecosystem of partners - complementary solutions, technology and service partners, sales, digital marketing, entry on new markets, etc.

You mentioned entry into new markets. Which markets are you eyeing?

We have clients on all continents, and we will have new markets on all continents. Speaking about Europe, the German and French markets are very interesting, and in the Balkan region we are focusing on markets such as Romania and Serbia.

In terms of sectors, where are you going to seek new clients?

We are working mostly with financial institutions, insurers, telecoms and factoring companies, all of which could offer financial services.

We do not plan to come up with some brand new products that are unrelated to what we have been doing so far. We will continue to develop the same platform, making it more mature and enterprise-ready.

How would you comment on Bulgarian organisations' readiness to embrace innovations?

Institutions that have flexible platforms allowing them to respond quickly to the needs of the market are best positioned to succeed. In my opinion, some banks that are strong enough, big enough and with enough cash will probably continue to follow the traditional approach. Another group that will probably do well are the banks that will evolve into investment companies. The third group that we think will have serious success are the so called digital banks. And it is not so much banks but rather fintech companies that are moving in that direction. All the others need to reconsider their strategies.

In my opinion, things are developing faster and faster and there are institutions willing to embrace change but the problem is that it doesn't happen overnight. When you have to replace the key elements of a bank system in order to allow it to carry out innovations, to enter the investment or digital market, this cannot happen in three or six months. From our experience, if banks follow their standard approach, in the best case scenario, the process takes 18 to 24 months.

18 mln euro

venture debt by EIB

The funding will go mainly into R&D and business development

In Bulgaria, we are witnessing a serious increase in activity. We hope that it is driven by the willingness of some key market players to innovate and enter the European markets, and not only by regulations such as PSD 2, GDPR and others, even though they are indeed a strong motivator. Competition too is intensifying, we have disrupters like Revolut starting operations here. Furthermore, the so called anti-banking roaming law is entering into force in the beginning of next year and no organisation will be able to charge any longer 10, 20, 30 or more euro per money transfer from Bulgaria to the Netherlands, for example, which will obviously deal a strong blow on the revenues of certain institutions.

A lot of projects are happening on the Bulgarian market. Allianz, for example, is carrying out a very good innovation, other banks have launched projects together with us as well. There will be more interesting news coming up later this year.

What I personally find most interesting are customer expectations which are growing drastically both globally and regionally. Clients expect that when things have reached a certain point in other areas of life, banks with all their financial power and big IT departments, should be on par.

In conclusion, where do you see your company in three years?

Ten years ago we were the first to provide certain technologies, we are the first ones now to benefit from the EIB instrument. In the future, we hope to become the first unicorn in Bulgaria.

Bulgarian banks assume diversified approaches to retaining trust on social media

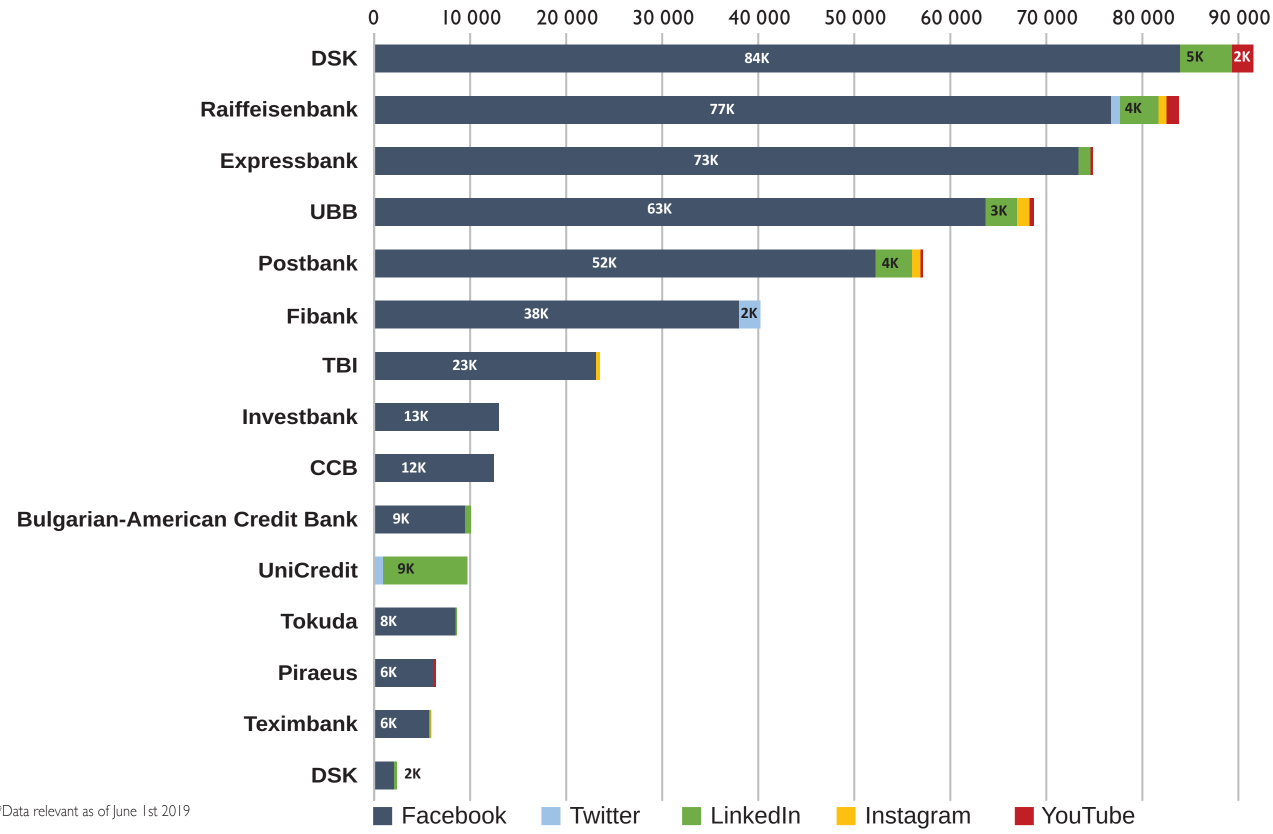
By Perceptica, Media Intelligence for Southeast Europe

The way companies communicate with their clients via their own social media channels has a growing impact upon businesses' overall reputation. This trend might not be as noticeable with banks, but the way they use social media is becoming important for building trust with current and prospect clients. The top Bulgarian banks have assumed a rather diversified approach to their social presence, as a number of them have opted for official accounts in a number of different platforms.
Facebook is by far the biggest channel banks have on social media. UniCredit is the sole exception to the trend, as it decided to pull off from the social network from June 1. As of May, UniCredit had the third most popular Facebook page amongst Bulgarian banks with over 74,000 followers. The decision, explained by the bank's concern for their customer's privacy, might require it to up its activity on other channels.

LinkedIn is the second most popular option, but the network provides a limited scope, as it is mostly employment driven. In order to remain relevant to its specifics, banks would need to focus on employment topics and job-related content. The platform does not represent a proper channel for communication with actual clients.

Instagram is an interesting choice, especially if the bank has some custom images and visual presentations. UBB offers a good example in this regard, as it posts unique images, accompanied by competitions and stories that are actually relevant to the platform and its audience. This enables the bank to accumulate 20 to 30 times more engagements on average than its competitors.
As a whole, Twitter remains an under-

BULGARIAN BANKS BY NUMBER OF SOCIAL MEDIA FOLLOWERS



*Data relevant as of June 1st 2019

SOCIAL MEDIA PLATFORMS WHERE BANKS HAVE OFFICIAL/VERIFIED ACCOUNTS

	Facebook	Twitter	Linkedin	Instagram	YouTube	Viber
DSK	✓	✗	✓	✗	✓	✗
Raiffeisenbank	✓	✓	✓	✓	✓	✓
Expressbank	✓	✗	✓	✗	✓	✗
UBB	✓	✗	✓	✓	✓	✗
Postbank/Eurobank	✓	✗	✓	✓	✓	✗
Fibank	✓	✓	✗	✗	✗	✗
TBI	✓	✗	✗	✓	✗	✓
Investbank	✓	✗	✗	✗	✗	✗
CCB	✓	✗	✓	✗	✗	✗
Bulgarian-American Credit Bank	✓	✗	✓	✗	✗	✗
UniCredit Bulbank	✗	✓	✓	✗	✗	✗
Tokuda	✓	✗	✓	✗	✗	✗
Piraeus	✓	✗	✗	✗	✓	✗
Teximbank	✓	✗	✓	✓	✗	✗
D Bank	✓	✗	✓	✗	✗	✗

* The table above includes channels that are verifiably belonging to the bank in question. This is confirmed either by a link from the bank's official page to the channel and account in question or by the account having been verified by the social network itself. Accounts whose ownership could not be traced to the bank have not been included in the table.

developed (but still growing) channel in Bulgaria, much less popular than it is in other European counties. It also requires an effort to actively participate in discussions relating to the brand, with limited returns, at least as of now. Very few banks have opted for a Twitter account, with Fibank and UniCredit the only examples of handles that actually answer user comments on the microblogging platform. UniCredit, in particular, upped its presence, after announcing its intention of pulling out of Facebook.

There are also doubts as to just how efficient of a channel YouTube is, especially when it comes to the online reputation of banking institutions. Videos by banks are typically seen by no more than a thousand users and followers on the platform are by no means guarantee that content will reach all subscribers. Raiffeisenbank appeared to offer the single exception to that trend, as its recent Game of Thrones inspired videos reached over 30,000 and 160,000 users respectively.

One important factor in an institution's social image has to do with the way it communicates with its followers and with people inquiring about something. The first and most important part is for banks to actually answer any questions users might have. Leaving questions unanswered diminishes trust and is immediately spotted by users. Thus, more channels means a lot of additional work in making sure all questions are answered.

The top banks have taken different approaches to how they discuss issues with their fans. Most do not go into too much detail in public comments, redirecting their clients to either physical offices, phone numbers, or personal messages. TBI Bank, for example, tells them to contact one of their offices via phone, while UBB urges them to visit one in person.

Postbank and DSK seem more digitally focused, with the former inviting users to continue the conversation via private messages. DSK, on the other hand, leaves everything public, answering questions in full and leaving the answers in plain sight. The bank's official handle still leaves users the option to also contact them in private. This approach

> Facebook is the biggest channel Bulgarian banks have on social media

shows users that the bank does not shy away from public conversations and also helps inspire trust in consumers.

The average number of Facebook posts per week range from 1 for ProCredit to as much as 10 in the case of Postbank. The activity of the page is by no means a prerequisite for its popularity. Bulgarian banks that are rather popular on Facebook post around 7 times a week on average. Recent and continuing changes to Facebook's algorithm mean that fewer and fewer posts by pages reach the account's followers. The social network is currently trying to boost the conversations taking place within groups by enhancing their visibility.

A metric like the one Facebook shows about the responsiveness of a page (how much time it takes to answer messages by users) is telling of just how much attention a particular handle gets from its owner. The likes of DSK, UBB, Postbank, and TBI are leading the field, as they tend to answer in a matter of hours, while the remaining banks take about a day or more. Quite predictably, users want their questions and issues addressed as quickly as possible, even when this happens on social networks. Failing to do so within a day, or even an hour, is often seen as a lack of respect for clients.

Key banking sector indicators

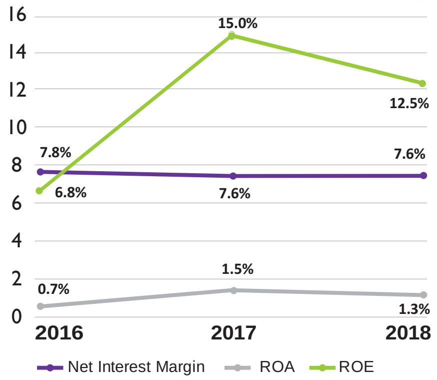
ALBANIA

In 2018, the banking sector in Albania operated in the conditions of an accommodative monetary policy. In June 2018, the Bank of Albania lowered the 7-day repo rate (policy rate) from 1.25% to 1.00% and as a result, interest rates on deposits, credits and government securities reached historically low levels. The aggregate assets of the Albanian banking sector slowed down their growth rates to 0.5% y/y on average after a rise of 2.7% y/y in 2017. The total bank assets came in at 1,453 billion leks as of end 2018, equivalent to a penetration rate of 89% in the nominal GDP. The penetration rate of the system fell from 93% in 2017.

In 2018, the banking system continued to be characterised by high levels of liquidity and capital adequacy, while the banks' balance sheets continued to improve on average. The ratio of non-performing loans (NPLs) of the system dropped to 11.1% at the end of 2018 from 13.2% in 2017 while the total capital adequacy rose from 17% in 2017, up to 18% as of end-2018.

In 2018, the spread between what banks charge on new loans granted and the interest rate they pay on new deposits continued its downward trend across major currency types. For example, the weighted average spread between the euro denominated loans and deposits across all maturities went down to 408 bps in 2018 on average

Banking System Profitability



Source: Bank of Albania

from 436 bps in 2017. The same spread between new loans and deposits in lek decreased from 660 bps in 2017, down to 645 bps in 2018. In U.S. dollars, the spread declined to 534 bps from 544 bps on average a year earlier.

In 2019, the banking sector faces challenges such as the still high NPL ratios, which could further deteriorate bank's profitability and asset growth as well as the slowing of the Eurozone economy in general and the Italy financial woes in particular. According to the Institute of Statistics of Albania, Greece, Germany and Italy accounted respectively for 4.2%, 4.3% and 48% of the total exports of goods of the country in 2018.

ALBANIAN BANKING SECTOR AGGREGATE INDICATORS

in millions of leks	2016	2017	2018
Assets	1,407,286	1,445,330	1,452,926
Loans, net	547,191	550,280	532,821
Deposits	1,153,665	1,162,226	1,176,538
Total Equity	136,883	146,953	147,453
Net Interest Income	109,712	109,529	110,193
Net Profit	22,252	56,295	48,552
ROA, %	0.7%	1.5%	1.3%
ROE, %	6.8%	15.0%	12.5%
Net Interest Margin, %	7.8%	7.6%	7.6%
Total Capital Adequacy, %	16.0%	17.0%	18.0%
Tier I Capital Adequacy, %	14.0%	15.0%	17.0%
NPLs, %	12.7%	13.2%	11.1%

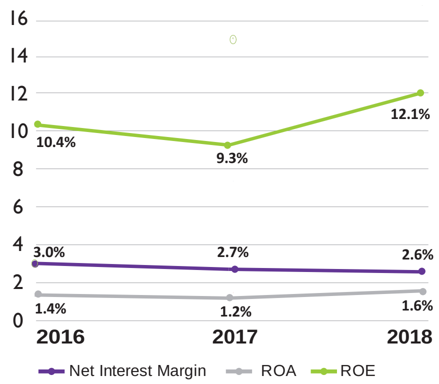
Source: Bank of Albania

BULGARIA

In 2018, the aggregate bank assets grew by 7.9% to 106.6 billion levs with the penetration rate going up by 100 bps to 98% of nominal GDP as of end 2018. However, compared to 2016, the banking system penetration remains unchanged which is an indication that the sector have expanded at rates corresponding to fundamental economic factors. The five largest banks held about 60% of total banking system assets. About 22% of the total bank assets are held by domestic banks with the remaining 78% being controlled by foreign banking institutions, mainly EU-based.

The total stock of loans on banks' balance sheets increased by the most since

Banking System Profitability



Source: Bulgarian National Bank

the global financial crisis in 2009, surging by 12% y/y to 66.8 billion levs as of end 2018 as lending intensified, driven by favourable macroeconomic developments which resulted in higher employment, wages and profits. This, coupled with the falling interest rates, pushed demand for credit higher. In 2018, country's GDP rose by a real 3.1% y/y, the unemployment rate declined to 4.8%, down 100 bps from end-2017 while nominal monthly wages advanced by 7.4% y/y. According to the Bulgarian National Bank (BNB), growth in housing loans lifted house prices which in turn stimulated demand for borrowed funds in financing loan purchases. In 2018, the gross loans to households went up by 11.6% y/y while the gross loans to non-financial corporations advanced by 5.2% y/y. Lev-denominated loans took accounted for 62% of the total, while euro-denominated loans took 36% share as of end-2018.

In 2019, the credit to the non-government sector is likely to increase further, albeit at a slower rate than in 2018. The continuing government repayments on energy efficiency loans and decreased volumes of such new loans will restrain the overall credit growth. Moreover, banks' policy of writing-off non-performing loans and selling credit portfolios along with the activation of the countercyclical capital buffer announced by the national bank will also weigh on the credit growth.

The downward trend of the amount

and share of NPLs in the banking system continued in 2018. On a gross basis, the NPLs ratio went down to 7.6% of the total gross loans and advanced from 10.2% in 2017. The net NPLs ratio declined to 3.9% from 5.5% as of end-2017. According to BNB, the share of non-performing loans in Bulgaria's banking sector, although falling, is still above the EU average level. The total capital adequacy fell by a small margin, of 170 bps to 20.4% due to the increase in total risk exposures but remains significantly higher compared to the minimum requirements of 12%.

In 2018, the aggregate net profit of the Bulgarian banking system increased by 43% y/y to 1.68 billion levs. The expansion of the loan portfolio, coupled with the decreasing NPLs and asset impairments were the biggest drivers for the bottom line expansion. The net interest income increased by 2.5% y/y to 2.7 billion levs while impairment costs on financial assets not measured at fair value through profit or loss came in at 479 million levs, down from 745 million levs a year earlier.

As a result, the system's total ROE swelled from 9.3% in 2017 to 12.1% in 2018. ROA went up from 1.2% to 1.6% in 2018.

Bulgarian banks continue to operate in a falling interest rate environment. In 2018, the average interest rates charged on new loans decreased faster than the decrease of the average interest rates paid on new deposits. As a result, the loans/deposits spread differential for non-financial corporations shrank to an average of 366 bps in 2018 from 385 in 2017 in levs (for euro loans and deposits the spread decreased to 296 bps, down from an average of 375 bps in 2017). In the same time, the loans/deposits spread differential for households went up to 231 bps in 2018 from 222 bps in 2017 for BGN denominated new loans and deposits.

BULGARIAN BANKING SECTOR AGGREGATE INDICATORS

In millions of levs	2016	2017	2018
Assets	92,095	97,808	105,557
Loans, net	55,906	59,669	66,808
Deposits	78,585	83,707	89,704
Total Equity	12,133	12,597	13,858
Net Interest Income	2,805	2,675	2,742
Net Profit	1,262	1,174	1,678
ROA	1.4%	1.2%	1.6%
ROE	10.4%	9.3%	12.1%
Net Interest Margin	3.0%	2.7%	2.6%
Total Capital Adequacy	22.2%	22.1%	20.4%
Tier 1 Capital Adequacy	20.9%	20.9%	19.4%
NPLs, gross	12.9%	10.2%	7.6%
NPLs, net	6.9%	5.5%	3.9%

Source: Bulgarian National Bank

Short-term challenges for the sector include risks to the growth of the EU economy, stemming from factors such as the US trade policy, the Chinese economic slowdown as well as the uncertainty surrounding the economic aspects of Brexit and Italy's political situation and public finances. Since the EU market accounted for 68% of the total exports of Bulgaria in 2018, adverse economic developments in the block could hamper country's export shipments, slow down the economy and negatively affect the quality of the banking system assets.

CROATIA

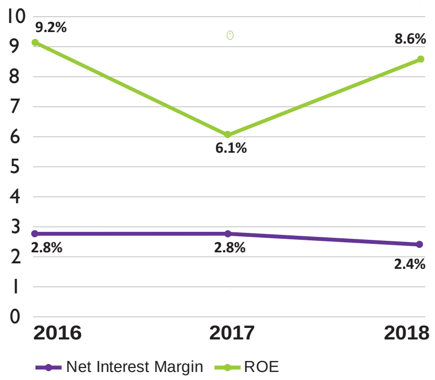
The assets of the banking system in Croatia grew by 3.9% y/y to 416.8 billion kuna, largely owing to a merger of Splitska Banka into OTP Banka Hrvatska which increased bank assets consolidation base. Banking sector penetration, measured as assets to nominal GDP, came in at 109% as of end-2018, down from 113% in 2017.

In 2018, lending activity intensified, as the aggregate bank loans on balance sheets grew by 4% y/y to 237.6 billion kuna. This is despite the slowdown of the Croatian economy, which grew by a real 2.6% y/y in 2018, down from 2.9% in 2017. Driving factor for new loan growth was the falling interest rates both for the non-financial corporate sector and for the households as well as the eased credit standards by the banks and the high liquidity in the domestic and international financial markets.

In the same time, the deposits of the system increased noticeably, particularly those of households and majority foreign owners. Total deposits surged by 25% y/y to 164.7 billion kuna.

The total capital adequacy ratio dropped from 23.2% as of end-2017 to 22.9% as of end-2018 which was largely attributable to changes in the risk weighting of exposures to the central government and the associated rise in risk exposure. The downward trend of the non-performing

Banking System Profitability



Source: Croatian National Bank

loans (NPLs) continued as the gross NPLs ratio of the system came down to 9.81% from 11.2% as of end-2017.

At the same time, bank profitability improved strongly from the same period of 2017, mostly due to base effects. The total net profit of the banks in the country surged by 38% y/y to 4.97 billion kuna. According to the Croatian National Bank, the upsurge in profits was largely the result of the fact that high expenses on impairment and provisions for claims on the Agrokor Group in 2017 were several times smaller than in 2018. Agrokor Group which was the largest conglomerate in Croatia focusing on agribusiness, food and retail sectors, went into bankruptcy in 2007. As a result, the reduction of total expenses on impairment and provisions was the main cause of the increase of the banking system net profit. Sector's aggregate ROA advanced to 1.2% in 2018 from 0.9% in 2017 while sector's ROE inched up to 8.6% compared to 6.1% in 2017.

Unlike net profit, the net interest income shrank by 9.8% y/y to 10 billion kuna in 2018. The decrease of the net interest income was due mainly to lower income from the road sector and the bankruptcy of Agrokor Group. According to the Croatian National Bank, the public enterprises from the road sector, included in the general government sector, have made an early repayment of substantial loan amounts in November 2017 as part of their operational and financial restructuring and refinanced their debt with banks under favourable conditions in April 2018.

Additional factor behind the lower interest rate income was the falling average interest rate spreads between new loans and deposits. In 2018, the average interest rate spread between household loans and deposits in local currency decreased to 660 bps, down from 690 bps in 2017. Regarding the non-financial corporate sector, the average spread in local currency came down to 430 bps from 480 bps in 2017.

Major risks to the banking sector in Croatia include the rising banking system concentration as well as the relatively high levels of exposure to the government sector which altogether make banks exposed to significant systemic risks. As of 2017, there were 25 banks in the country, down from 49 in 1999. Banks' placements with the government still account for about a fifth of the total assets of the system which exposes the sector to systematic risks, especially in the light of the relatively high public debt.

CROATIAN BANKING SECTOR AGGREGATE INDICATORS

In millions of kuna	2016	2017	2018
Assets	398,307	401,118	416,765
Loans, net	236,281	228,549	237,628
Deposits	101,640	131,762	164,734
Total Equity	55,936	59,459	57,943
Net Interest Income	11,008	11,095	10,008
Net Profit	5,119	3,598	4,974
ROA	1.3%	0.9%	1.2%
ROE	9.2%	6.1%	8.6%
Net Interest Margin	2.8%	2.8%	2.4%
Total Capital Adequacy	22.5%	23.2%	22.9%
Tier 1 Capital Adequacy	20.9%	21.8%	21.8%
NPLs, gross	13.6%	11.2%	9.8%

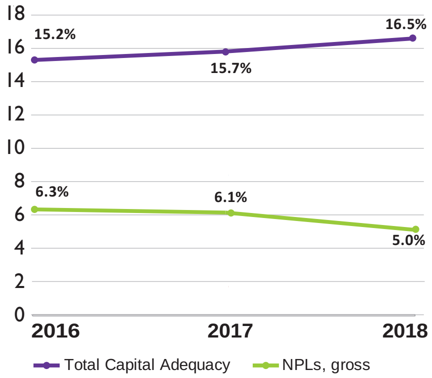
Source: Croatian National Bank

NORTH MACEDONIA

The total assets of the banking sector in North Macedonia expanded by 9% y/y to 503.5 billion denars in 2018, driven mainly by the rising lending activity. The total loans on bank's balance sheets increased by 8.6% y/y to an aggregate of 300 denars, as demand for borrowed funds inched up on the accelerated economic growth and the falling unemployment rate. In 2018, North Macedonia's GDP increased by 2.7% y/y in real terms and by 7.1% y/y in nominal as a result of the political stabilisation in the country. Both, lending to the non-financial corporate sector and the households sector experienced strong growth in 2018, of 6.7% y/y and 10.5% y/y, respectively

On the liability side, the overall deposits of the non-financial sector advanced by 9.4% y/y to 371 billion denars. The rise was driven mainly by the household's sector which raised its deposits by 9.6% y/y.

Banking System Financial Stability Ratios



Source: National Bank of Macedonia

In 2018, the system increased its capitalisation and decreased the non-performing loans. The total capital adequacy went up to 16.5% in 2018 from 15.7% in 2017 while the NPLs ratio declined from 6.1% to 5% in 2018.

The banks' aggregate interest rate income fell by 1.6% y/y to 15.4 billion denars as the falling interest rate differential between loans and deposits ate into operating profitability. According to the Central Bank, the interest rate spread in local currency declined from an average of 439 bps in 2017 to 407 bps in 2018 while the interest rate spread on foreign loans and deposits shrank to 412 bps in 2018, down from 443 bps in 2017.

At the same time the total net income of the system surged by 27% y/y to 8.35 billion denars mainly on less loan losses and impairments reported in 2018 compared to 2017. The sector's ROA increased from 1.4% in 2017, up to 1.7% in 2018, while ROE went up to 15.4% from 13.1% in 2017.

NORTH MACEDONIA'S BANKING SECTOR AGGREGATE INDICATORS

In millions of denars	2016	2017	2018
Assets	444,680	461,992	503,469
Loans, net	259,205	276,317	300,069
Deposits	322,797	339,281	371,333
Total Equity	47,191	50,081	54,332
Net Interest Income	15,389	15,632	15,380
Net Profit	6,325	6,555	8,353
ROA	1.4%	1.4%	1.7%
ROE	13.4%	13.1%	15.4%
Net Interest Margin	3.5%	3.4%	3.1%
Total Capital Adequacy	15.2%	15.7%	16.5%
Tier 1 Capital Adequacy	13.9%	14.2%	14.9%
NPLs, gross	6.3%	6.1%	5.0%

Source: National Bank of Macedonia

MOLDOVA

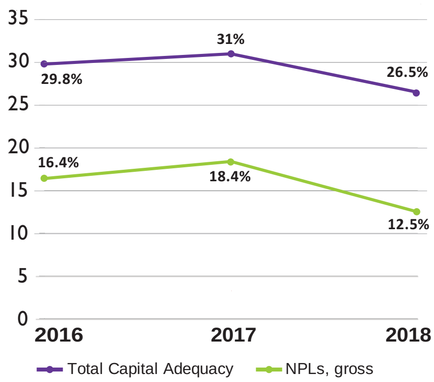
A total of 11 banks operated in Moldova as of end-2018 with more than 70% of banks' assets being managed by international groups. Although banks aggregate assets increases by 4.6% y/y to 83.2 billion lei in 2018, banking system penetration rate was to a large extend unchanged at 53% of the nominal GDP.

The balance of net loan portfolio increased by 13.5% y/y to 34.4 billion lei. At the same time, the volume of new loans granted in 2018 increased by 17.8%, compared to the same period of the previous year. Driven by the decreasing interest rates environment, consumer and real estate loans market the steepest increase among the major loan categories.

The share of gross NPLs in the total loan portfolio has decreased by 590 bps compared to the end of 2017 and represented 12.5%. According to the Central Bank, NPLs diminished at almost all banks and vary from 4.9% to 31.2% from bank to bank. In 2018, banks in Moldova undertook measures for diminishing the volume of non-performing loans, including the sale of collaterals as well as collaboration with real estate companies in order to identify potential buyers for the collaterals.

The total capital adequacy ratio went down to 26.5% in 2018 from as high as 31% in 2017.

Banking System Financial Stability Ratios



Source: National Bank of Moldova

The system's deposit base went up by 6% y/y to 63.6 billion lei. The net interest income of the banking system declined by 0.5% y/y to 2.85 billion lei in 2018, entirely due to the falling interest rate differential between new loans and

deposits. In 2018, the average spread in local currency was 436 bps compared to 460 bps in 2017. In the same time the loan/deposit spread in foreign currency increased from 340 bps in 2017 to 371 bps in 2018.
The banks' aggregate net profit went up by 7% y/y to 1.6 billion lei on increased non-interest revenues (fees and commissions) and on decrease of assets depreciation due to the improvements in the quality of loan portfolio. Total revenues amounted to 6.9 billion lei, out of which 62.1% represented interest rate revenues, and non-interest revenues accounted for 37.9%.

System's average ROA went slightly up to 2% in 2018 compared to 1.9% in 2017 (ROE advanced from 11.2% to 11.4% in 2018).

MOLDOVA'S BANKING SECTOR AGGREGATE INDICATORS

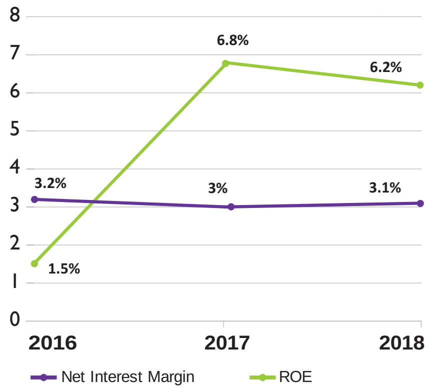
In millions of lei	2016	2017	2018
Assets	72,830	79,465	83,152
Loans, net	32,131	30,289	34,385
Deposits	54,972	59,990	63,577
Total Equity	12,610	13,650	14,292
Net Interest Income	3,256	2,861	2,846
Net Profit	1,364	1,528	1,635
ROA	1.9%	1.9%	2.0%
ROE	10.8%	11.2%	11.4%
Net Interest Margin	4.5%	3.6%	3.4%
Total Capital Adequacy	29.8%	31.0%	26.5%
Tier 1 Capital Adequacy	28.7%	29.8%	26.3%
NPLs, gross	16.4%	18.4%	12.5%
NPLs, net	15.3%	14.5%	10.2%

Source: National Bank of Moldova

MONTENEGRO

In 2018, the assets of the banking system of Montenegro increased by 5.4% y/y to 4.4 billion euro as the overall loans on bank's balance sheets surged by 7.7% y/y to 2.78 billion euro. In the structure of banks' assets, total loans accounted for the main share with 66.5%, followed by cash and deposits with central banks with 19.7%, while other asset items accounted for the remaining 13.8%. As of end-2018, the banking system penetration, as measured by the ratio between total assets and the nominal GDP, went down to 95% from 97% as of end-2017.
The total gross loans increased by 8.5% y/y to 2.93 billion euro. Loans disbursed to the nonfinancial and household sectors accounted for the main share of 78% in banks' loan receivables as of December 2018.

Banking System Profitability Ratios



Source: Central Bank of Montenegro

In 2018, the financial stability of the banking system improved as the total capital adequacy ratio inched up to 16.5% from 16.2% in 2017 while the gross NPLs ratio came down from 7.3% in 2017 to 6.9% as of end-2018.

The net interest margin of the banking sector came in at 3.1% of the total assets in 2018, increasing from 3.0% in 2017. The improvement was caused mainly by the surge of the net interest income by 7.9% y/y to 135 million euro as the average interest rate, charged on the outstanding deposits declined faster than the interest rate on the outstanding loans. The weighted average interest rate spread on the outstanding loans and deposits shrank to an average of 530 bps in 2018, down from 558 bps in 2017 and 613 bps in 2016.

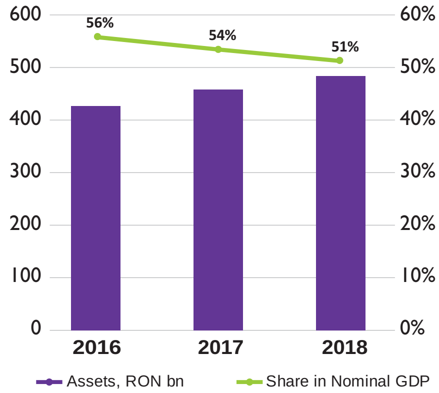
The system's aggregate net profit declined by 9.7% y/y to 32 million euro on increased assets depreciation in connection to bad loans.

ROMANIA

Romania's GDP growth decelerated to 4.1% in 2018, compared to a growth rate of 7.3% in the previous year, according to a provisional data from the country's statistical board. The economy slowed as the effect of the tax breaks and wage increases over the last two years began to fade. In light of the slower economic growth, the banking sector expansion rates also decelerated. In 2018, the aggregate assets of the group of 'other monetary financial institutions' increased by 5.7% y/y, down from 7.2% y/y in 2017. The banking penetration came down to 51% of the GDP in current prices, compared to 54% as of end-2017.

In 2018, the net income of the banking sector increased by almost 25% y/y to

Bank Assets and Penetration Rate



Source: National Bank of Romania

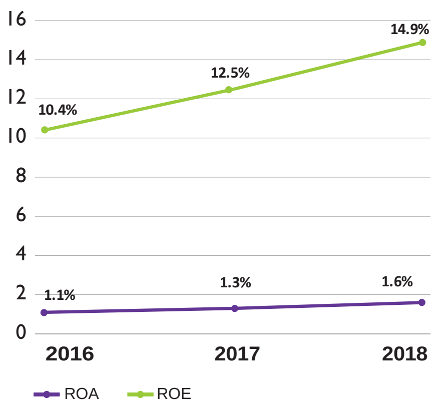
10.4 billion lei. The key driver of profitability is the cut in impairment losses, against the background of a favourable domestic macroeconomic environment and robust lending activity. Also, positive contribution to the bottom line of the sector had the interest rate spread between the outstanding loans and deposits in local currency, which went up to an average of 550 bps in 2018 from 468 bps in 2017.

The rise of the interest rates on loans and deposits was caused by the tightening monetary policy of the National Bank of Romania.

The NPL ratio continued its downward trend, falling to 5.6% in 2018 from 6.4% in 2017 and 9.6% in 2016. However, the decline was due to the faster increase in the volume of new loans while the volume of non-performing loans in absolute terms advanced. In the same time, the capitalisation of the system remains sound as the total capital adequacy ratio stood at 19.7%, marginally lower than the 20% capital adequacy ratio in 2017.

The main challenges and risks in front of

Profitability Ratio



Source: National Bank of Romania

the Romanian economy and the banking sector include the risk of worsening investor confidence towards emerging economies as well as the risks associated with the sovereign debt in the euro area and the UK's leaving the EU. In the current rising interest rate environment, there is a heightened risk of worsening debt servicing, especially for housing loans with long maturities.

ROMANIAN BANKING SECTOR AGGREGATE INDICATORS

In millions of lei	2016	2017	2018
Assets	429,027	460,018	486,135
Loans, net	300,640	320,155	333,486
Deposits	341,633	369,050	390,290
Total Equity	67,509	66,663	69,992
Net Profit	7,034	8,339	10,394
ROA	1.1%	1.3%	1.6%
ROE	10.4%	12.5%	14.9%
Total Capital Adequacy	18.3%	20.0%	19.7%
Tier I Capital Adequacy	17.6%	18.0%	17.6%
NPLs, gross	9.6%	6.4%	5.6%

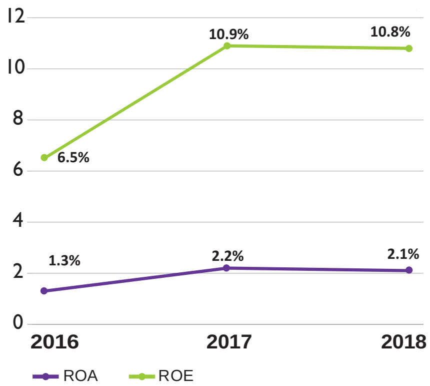
Source: National Bank of Romania, IMF

SERBIA

In 2018, the Serbian banking sector leveraged on the accelerating economic growth which stood at 4.4% in real terms, the fastest in a decade. The largest contributing factor for the strengthening growth was the investments in fixed capital which surged by 9.1% y/y on the back of the continued intensive investment in infrastructure and lower costs of borrowing. As a result, the aggregate assets of the banking system on a net basis expanded by 9.4% y/y to 3,581 billion dinars as banks lifted the credit to the real economy. Banks assets penetration ratio stood at 71% in 2018, up from 69% of nominal GDP in 2017.

During the year, the National Bank of Serbia (NBS) continued to implement activities aimed at promoting the use of the dinar in the Serbian financial system.

Profitability Ratios



Source: National Bank of Serbia

Through its required reserve policy, the NBS continued to encourage banks to rely more on dinar sources of funding. The required reserve ratios on dinar sources of funding are lower than on FX sources and the NBS pays remuneration only on dinar required reserves. According to NBS data, the share of dinar loans in total corporate and household lending increased to 32% as of June 2018, up from as low as 27% in 2014, while the share of dinar deposits in total corporate and household deposits advanced from 20% in 2014 to 30% in H1 2018.

Owning to successful implementation of the NPL Resolution Strategy of the central bank and faster lending growth, the share of NPLs in total loans fell to 6.4% in December 2018, the lowest level since 2008 (9.8% NPLs ratio as of end-2017). The NPL Resolution Strategy aims at reducing the share of non-performing loans in total bank loans. In close to three years, the stock of NPLs was reduced by over 60% and the share of NPLs in total loans by 14.6 pp. In the same time, the capitalisation of the banking system remains solid with the total capital adequacy ratio at 22.3% in 2018, unchanged compared to 2017.

MAIN BANKING SECTOR INDICATORS

In billions of dinars	2016	2017	2018
Assets	3,297	3,273	3,581
Loans, net	1,851	1,918	2,100
Deposits	2,038	2,111	2,423
Total Equity	616	664	673
Net Profit	21	69	73
ROA	1.3%	2.2%	2.1%
ROE	6.5%	10.9%	10.8%
Total Capital Adequacy	21.8%	22.6%	22.3%
NPLs, gross	17.0%	9.8%	6.4%

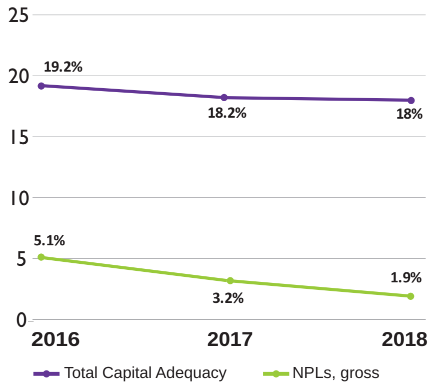
Source: National Bank of Serbia

SLOVENIA

The overall assets of the Slovenian banking system increased by 2.2% y/y to 38.8 billion euro as of end-2018. The total loans advanced by 3.3% y/y to 22.2 billion euro, down from a growth of 4.8% in 2017, as a result of a decline in loans to non-financial corporations and base effects. Loans to the households sector surged by 7% y/y with housing loans advancing by 4.7% y/y while consumer loans jumped by 11.8% y/y.

The aggregate deposits of the non-banking sector increased by 5.3% to 29 billion euro in 2018. According to the Bank of Slovenia, then growth in deposits by non-financial corporations slowed sharply last year and was lower than the growth in household deposits.

Financial Stability Ratios

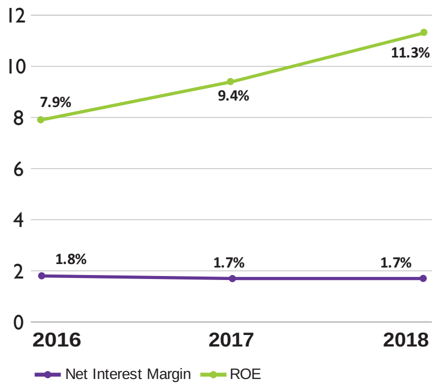


Source: Bank of Slovenia, IMF

The Slovenian banking sector has the lowest NPL ratios among the countries from SEE. With 1.9% of gross loans, the NPLs came down from 3.2% in 2017 and 5.1% in 2016, according to IMF data. The total capital adequacy in 2018 was high at 18%, slightly down compared to 18.2% in 2017.

According to the central bank, all the banks were profitable in 2018, generating a pre-tax profit of 532 million euro at system level, sup more than 20% over 2017. Net interest and net non-interest income both increased. The net interest income inched up by 3.1% y/y to 672 million euro in 2018. The rise in interest income is attributable to growth in loans, while interest expenses remain low, thanks to the cost benefits of the funding structure. In addition, the banks slightly reduced their operating costs in 2018 and recorded a net release of impairments and provisions for the second consecutive year, in the total amount of 48 million euro, 12% more than 2017.

Profitability Ratios



Source: Bank of Slovenia

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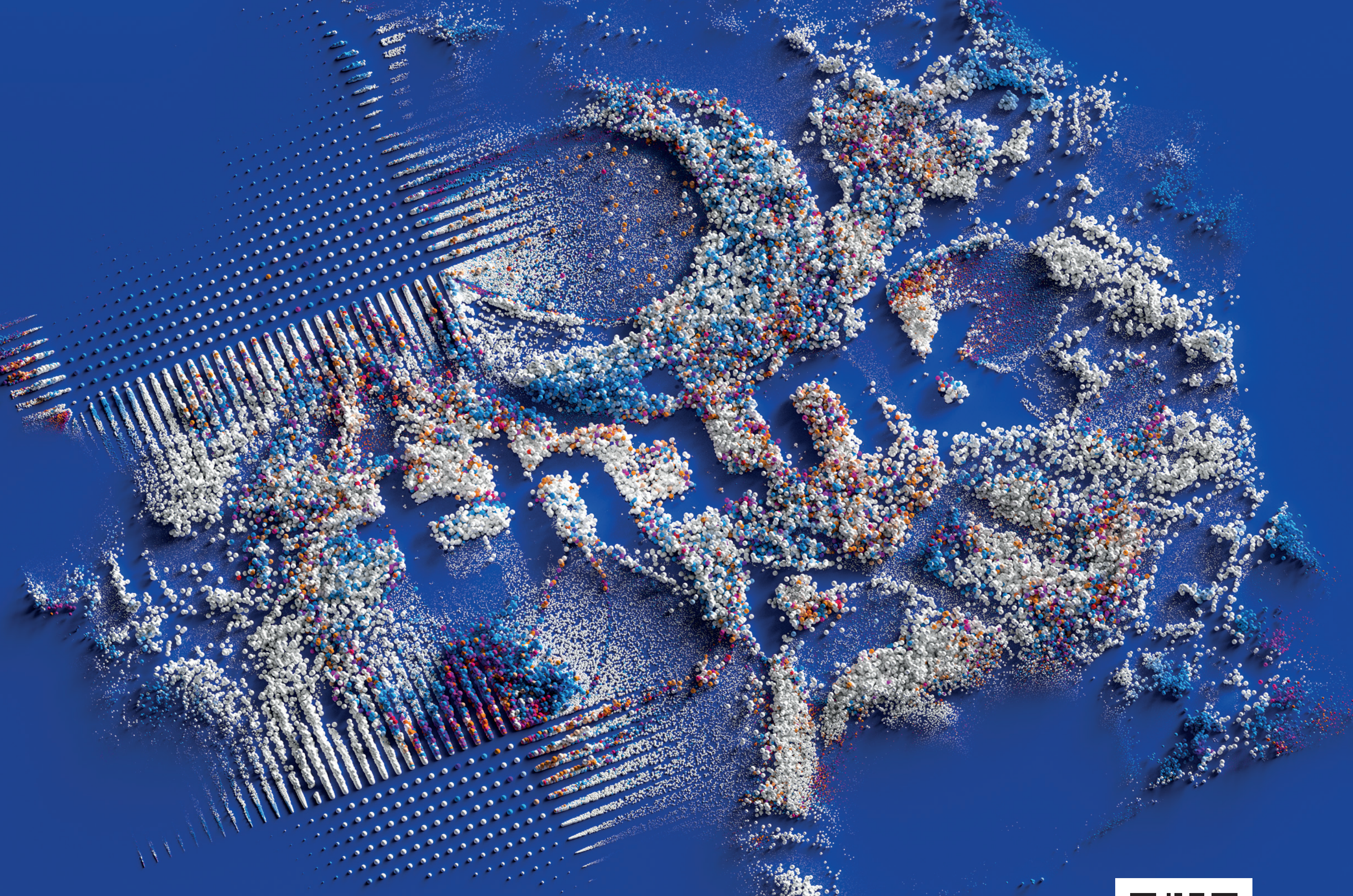

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