

Outlook 2018

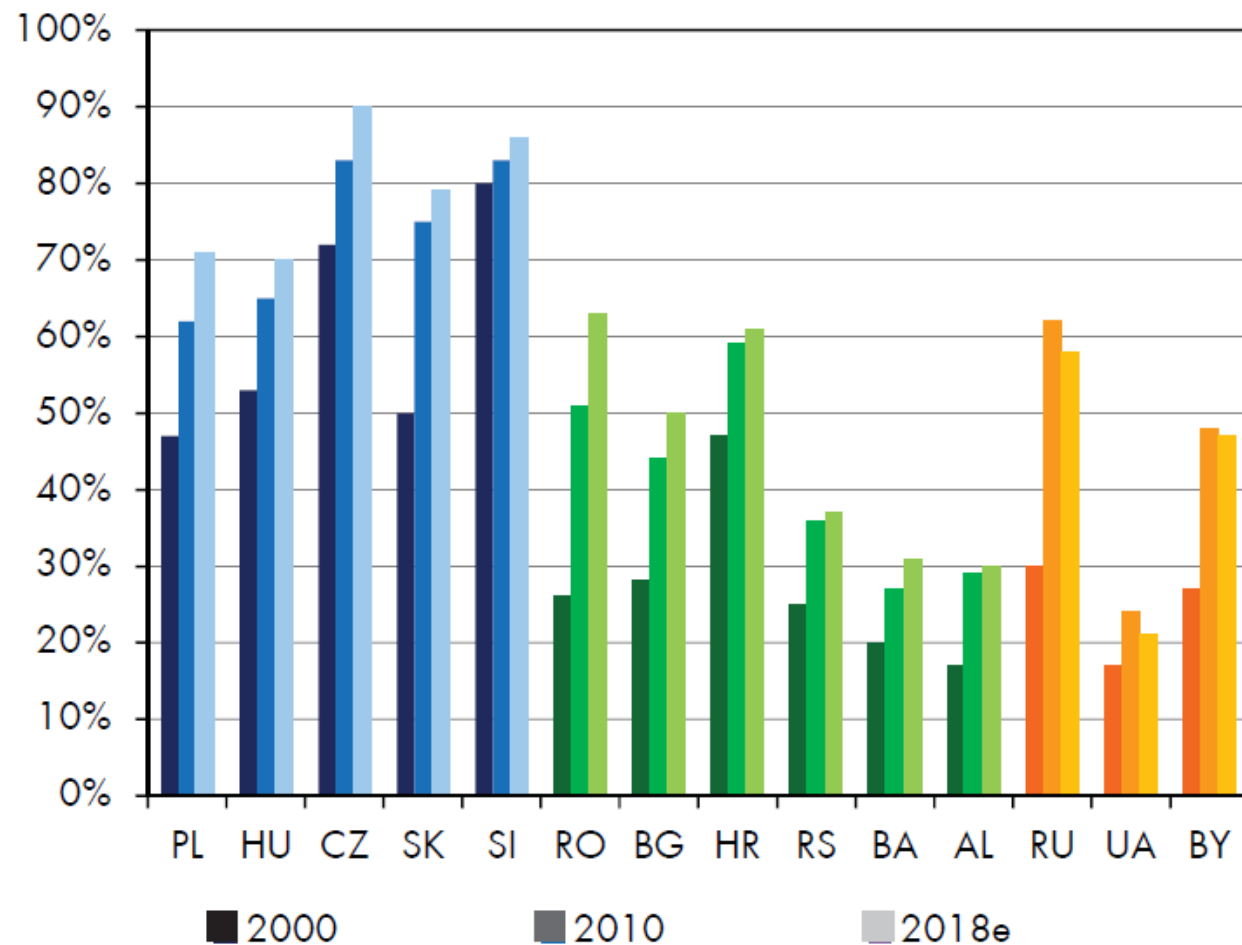
Banking. Finance. Investments

US-Ukraine Business Council

21 June 2018

Kyiv

CEE: GDP per capita (in % of European Union average)



Source: IMF WEO, Eurostat, wiiv, RBI/Raiffeisen RESEARCH

- CEE Banking Sector return to a more stable and broad-based expansion in 2017.
- Ukraine remained the only outright loss-making banking sector in 2017

Key economic indicators

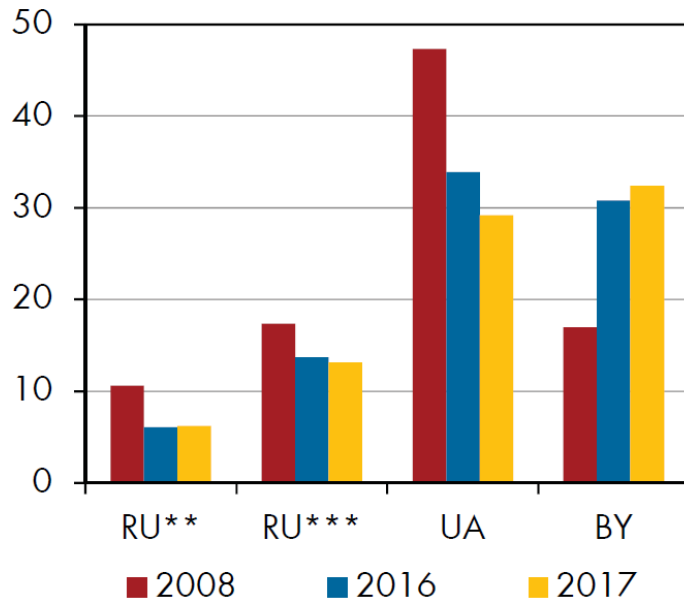
	Real GDP (% yoy)			CPI (% yoy, avg.)			Public debt (% of GDP)		Unemployment (%)	
	2017	2018e	2019f	2017	2018e	2019f	2013	2018e	2013	2018e
Poland	4.6	4.6	3.9	2.0	2.2	2.6	56	51	13.5	6.0
Hungary	4.0	3.8	3.2	2.4	2.4	2.8	77	72	10.3	3.6
Czech Republic	4.6	3.5	3.2	2.5	2.2	2.1	45	33	7.7	3.6
Slovakia	3.4	4.0	4.0	1.3	2.1	2.0	55	51	14.2	7.0
Slovenia	5.0	4.9	3.2	1.6	2.0	2.3	70	71	10.2	6.0
CE	4.4	4.2	3.6	2.1	2.2	2.4	57	51	11.8	5.3
Romania	7.0	5.0	3.5	1.3	4.4	3.3	37	36	7.1	4.7
Bulgaria	3.6	4.0	3.8	2.1	2.6	3.1	17	24	12.9	5.7
Croatia	2.9	2.3	2.5	1.1	1.4	2.0	82	78	17.4	11.1
Serbia	1.9	2.5	2.5	3.2	2.2	2.9	59	58	22.1	11.0
Bosnia and Herzegovina	3.0	2.8	3.0	1.3	1.8	2.0	39	37	27.5	18.0
Albania	3.8	4.0	3.8	2.0	2.4	2.8	68	69	16.0	13.3
SEE	5.0	4.1	3.3	1.6	3.2	2.9	44	43	12.6	7.7
Russia	1.5	1.5	1.5	2.4	2.0	4.2	11	12	5.5	5.0
Ukraine	2.5	2.5	3.0	14.4	12.0	9.0	41	63	7.8	9.0
Belarus	2.4	2.5	2.0	6.0	6.0	6.5	32	38	0.5	0.5
EE	1.6	1.6	1.6	4.2	3.6	4.6	14	17	5.5	5.1

Market shares & foreign-owned banks



- The foreign-ownership ratio in the CE/SEE banking sectors stands at 58% on average.
- In Ukraine, the foreign-ownership share inched below the 30% level in 2017, mainly driven by restructuring and/or market exits among Russian-owned banks. The market share of Western-owned banks in Ukraine remained more or less constant at 15-16% in 2017.

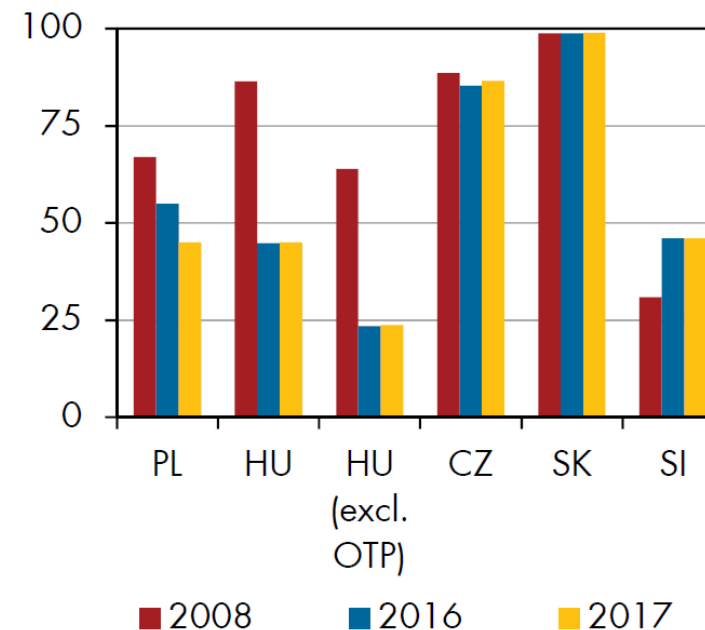
EE: Foreign-owned banks*



* market share (% of total assets); ** 100% foreign-owned; *** 50% foreign-owned

Source: national sources, RBI/Raiffeisen RESEARCH

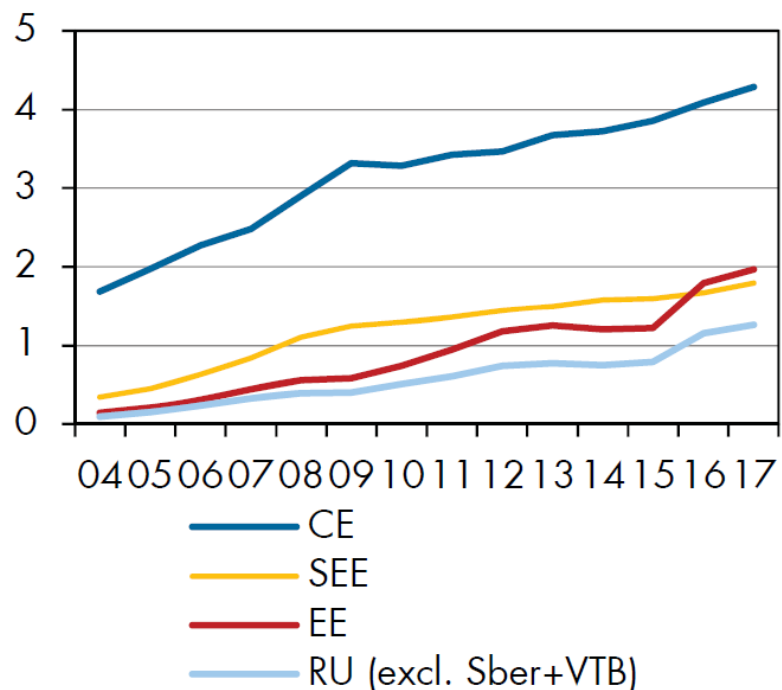
CE: Foreign-owned banks*



* market share (% of total assets)

Source: national sources, RBI/Raiffeisen RESEARCH

CEE: Avg. assets per bank (EUR bn)



Source: national sources, RBI/Raiffeisen RESEARCH

➤ each CE country has an average of around 30-40 operative banks (and some consolidation needs remain). In the SEE region, the average number of banks stands at 20-30 on a country level. For Ukraine, we consider 40-50 operating banks a reasonable Setup

➤ The remaining consolidation potential is also reflected in the ratio of average assets per operating bank, which is EUR 4.3 bn in CE

➤ the crisis-induced consolidation and restructuring has been accompanied by an increase of the market share of state-owned players. In Ukraine, the respective ratio stands at 58%.

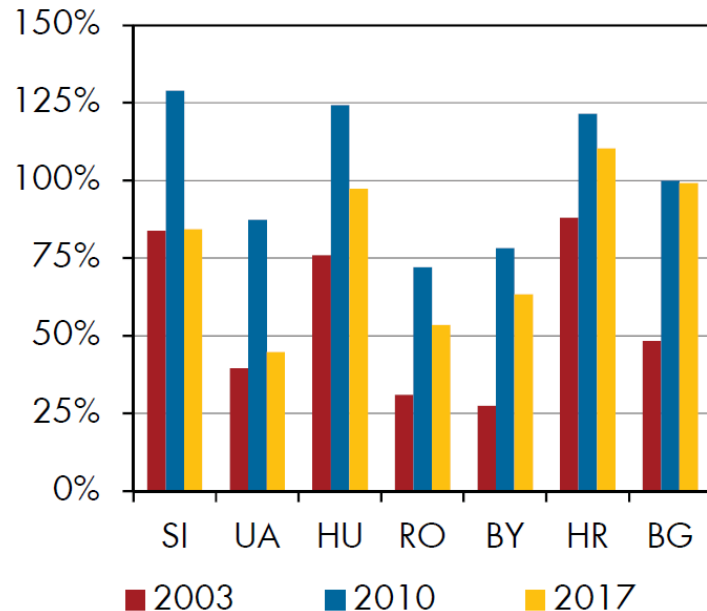
➤ For the time being, we do not expect a drastic turnaround, while the next 2-3 years will be crucial with regards to a potential reversal of this trend

➤ The most striking (crisis-induced) market concentration has been observed in Ukraine over the last few years, bringing the market share of the five leading banks up to 60% from around 35% in 2011/2012. Although we do not foresee too much large-scale M&A activity including the major international CEE lenders, certain targeted transactions and/or portfolio buying operations are likely to take place over the next 12-24 months.

Financial intermediation levels

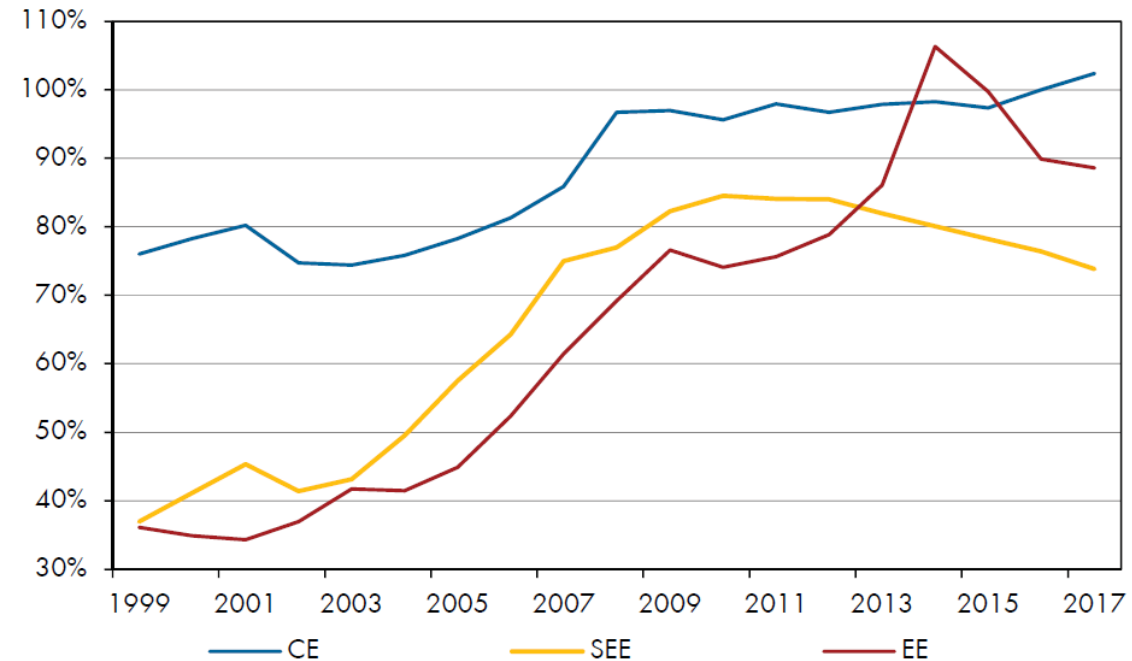
- The loan-to-GDP ratio nowadays stands at the lowest level seen over the last seven to ten years. In Hungary, the peak loan-to-GDP ratio has been at 62% in 2010; currently, total loans amount to 32% of GDP. In Romania, it went from 40% (in 2011) to 27%;
- Currently, the average loan-to-GDP ratio in EE stands at 45%. The most striking adjustment could be observed in Ukraine, where the loan-to-GDP ratio has dropped from some 80-90% in 2008/2009 or still elevated 64% in 2014 to around 37%.

CEE: Asset-to-GDP ratio



Source: national sources, RBI/Raiffeisen RESEARCH

CEE: Total assets (% of GDP)

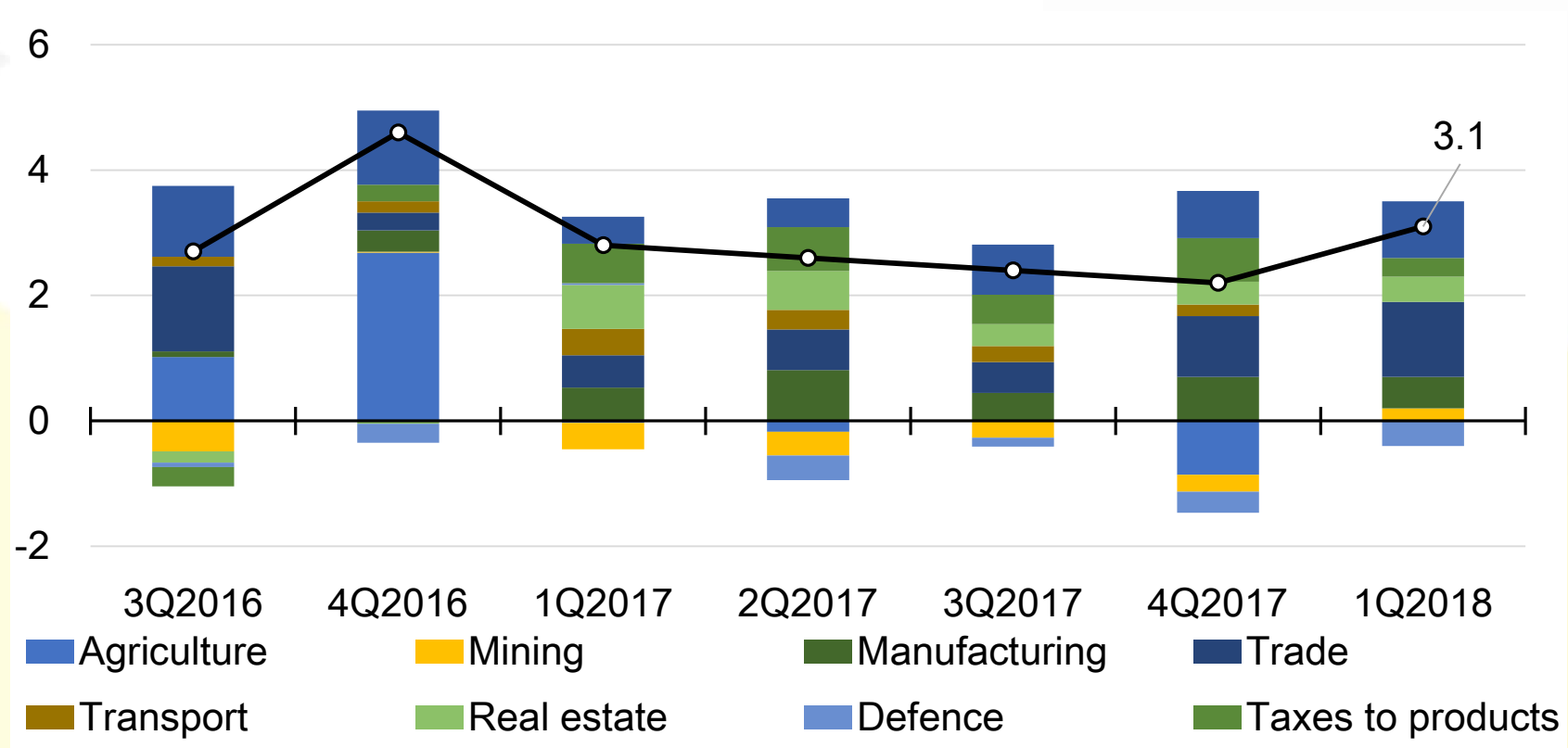


Source: national sources, RBI/Raiffeisen RESEARCH

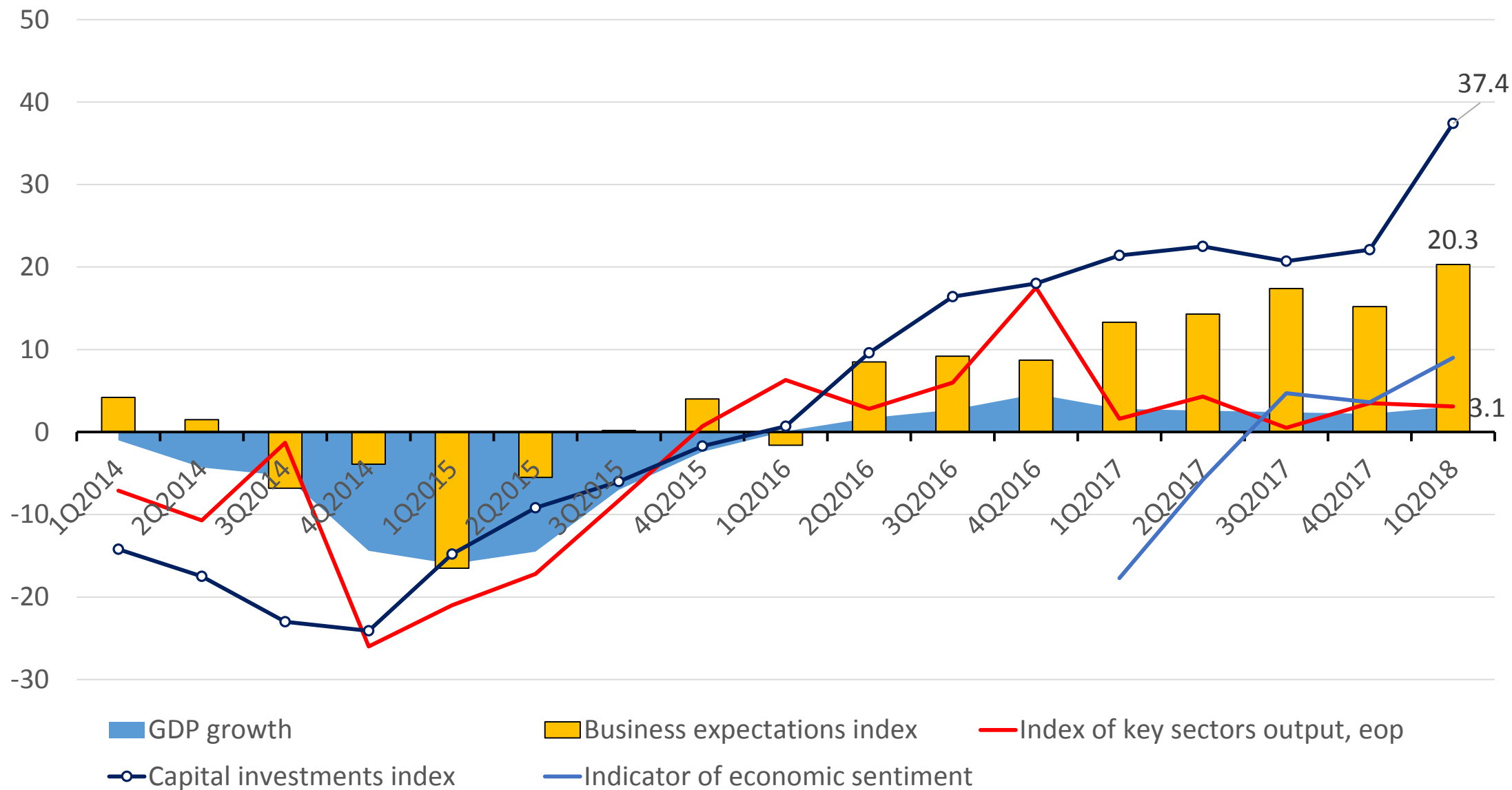
NBU Financial Stability Report. Apr 2018



➤ In the 1h 2018 banking sector operates without noticeable shocks, the macroeconomic situation was favorable.



Real GDP & key sectors dynamics, % yoy



Industry	Change in 01-05/2018	Change in %	Exposure actual	% in Total	Average pd %	% NPL in industry	Industry risk
agricultural products	1 429	10	15 164	39,9	2,06	1,8	Moderate
food products & beverages	553	17	3 824	10,1	2,82	4,4	Moderate
real estate	-166	-5	3 010	7,9	11,18	59,9	High
capital goods	115	4	2 807	7,4	2,38	17,4	Moderate
food & drug retailing	576	29	2 584	6,8	4,89	0,0	Low
specialty retail	-151	-7	1 965	5,2	2,41	2,3	Moderate
fertilizers	824	270	1 130	3,0	2,17	0,0	Low
automotive retailer	128	13	1 084	2,9	2,13	6,0	High
oil & gas - trading	71	9	879	2,3	3,51	16,1	Low
household & personal products	-73	-9	743	2,0	2,01	0,0	Moderate
containers & packaging	30	4	725	1,9	5,38	0,0	Low
construction materials	31	5	610	1,6	2,47	1,3	High
chemicals	15	3	482	1,3	3,02	0,0	High
paper & forest products	58	16	431	1,1	3,58	0,0	Moderate
construction & engineering	60	18	385	1,0	2,98	81,4	High
tobacco	259	1 544	276	0,7	1,39	0,0	High
ferrous metals	-324	-58	238	0,6	1,54	0,0	Moderate
pharmaceuticals & biotechnology	117	106	228	0,6	1,36	0,0	Moderate
media/advertising	26	18	169	0,4	4,12	83,1	High
health care - providers & services	-146	-49	149	0,4	3,07	3,2	Moderate
others	-93	-8	1 123	3,0	8,27	15,2	
Total	3 339	10	38 006	100,0	2,66	9,5	

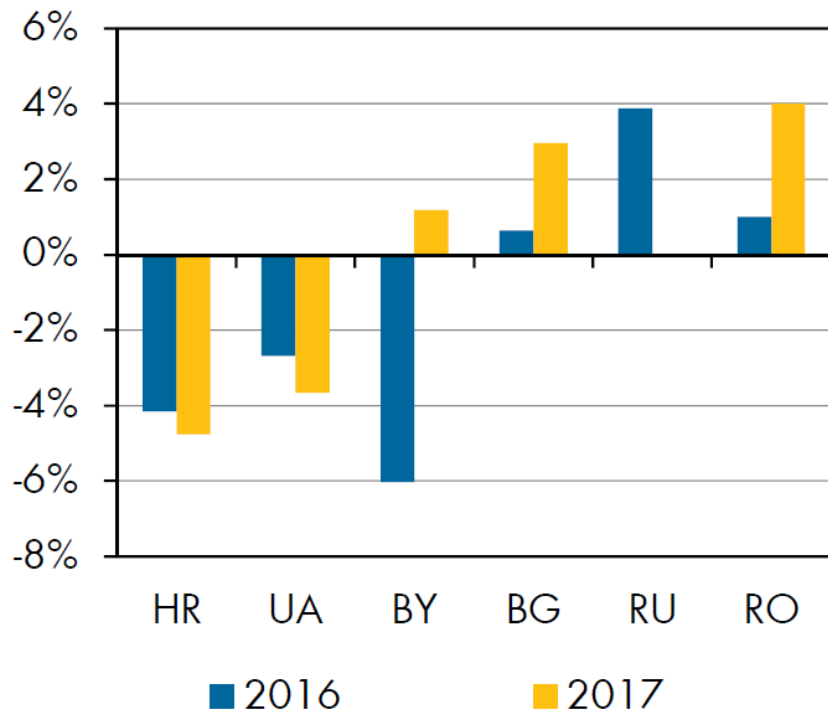
➤ According to NBU estimates, the credit risk and the risk of profitability of the banking sector decreased over the past six months. Liquidity risk remains low.

* Industry finance strategy . Corporate business RBAval

- The inflow of UAH funds remains stable (about 15% yoy), customer funds provide more than 80% of the banks' liabilities. They are mostly short, which causes liquidity risks in the event of adverse developments.

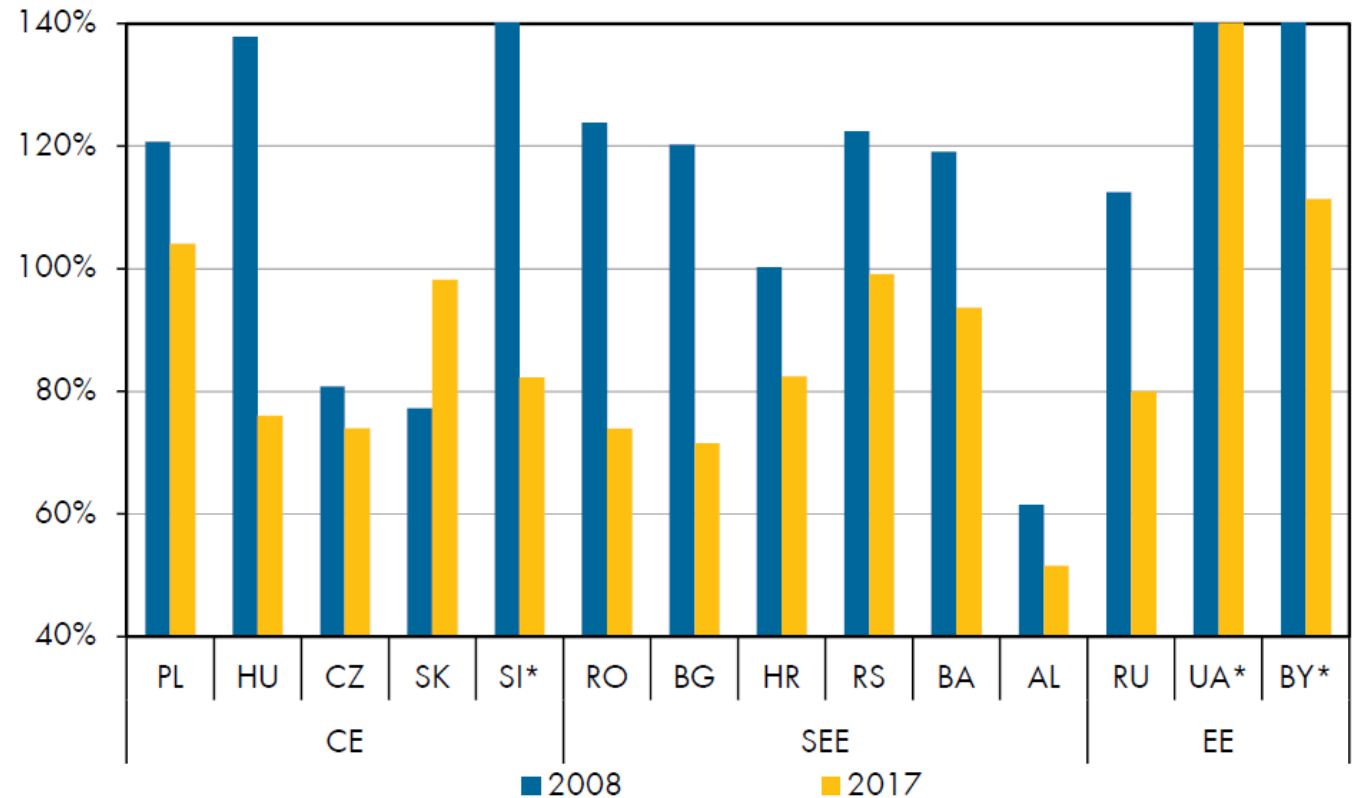


Stagnant/returning CEE markets*



* Average LCY- and FCY-based loan growth, % yoy
Source: national sources, RBI/Raiffeisen RESEARCH

CEE: Loan-to-deposit ratios (%)*

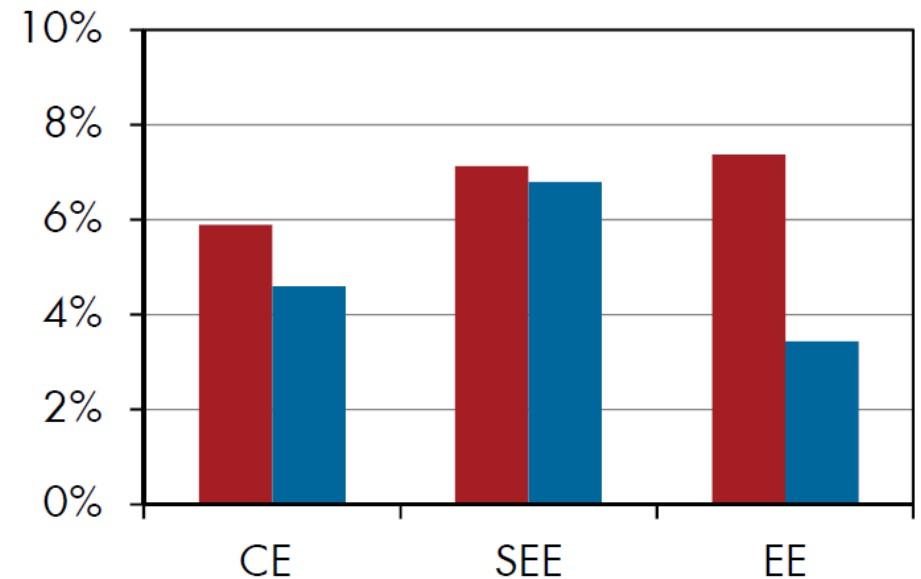


* Scale capped, 2008 L/D ratio SI: 166%; UA: 170%; BY: 171%
Source: national sources, RBI/Raiffeisen RESEARCH

Banking growth projections, overall market outlook

- nominal lending growth in the range of 5-7% in the CE/SEE region and close to 8% in the EE region
- loan-to-GDP ratio in the EE markets to increase moderately from around 40-45% to a level of 45-50% over the next 7-10 years.

CEE: Loan growth projections (% yoy)

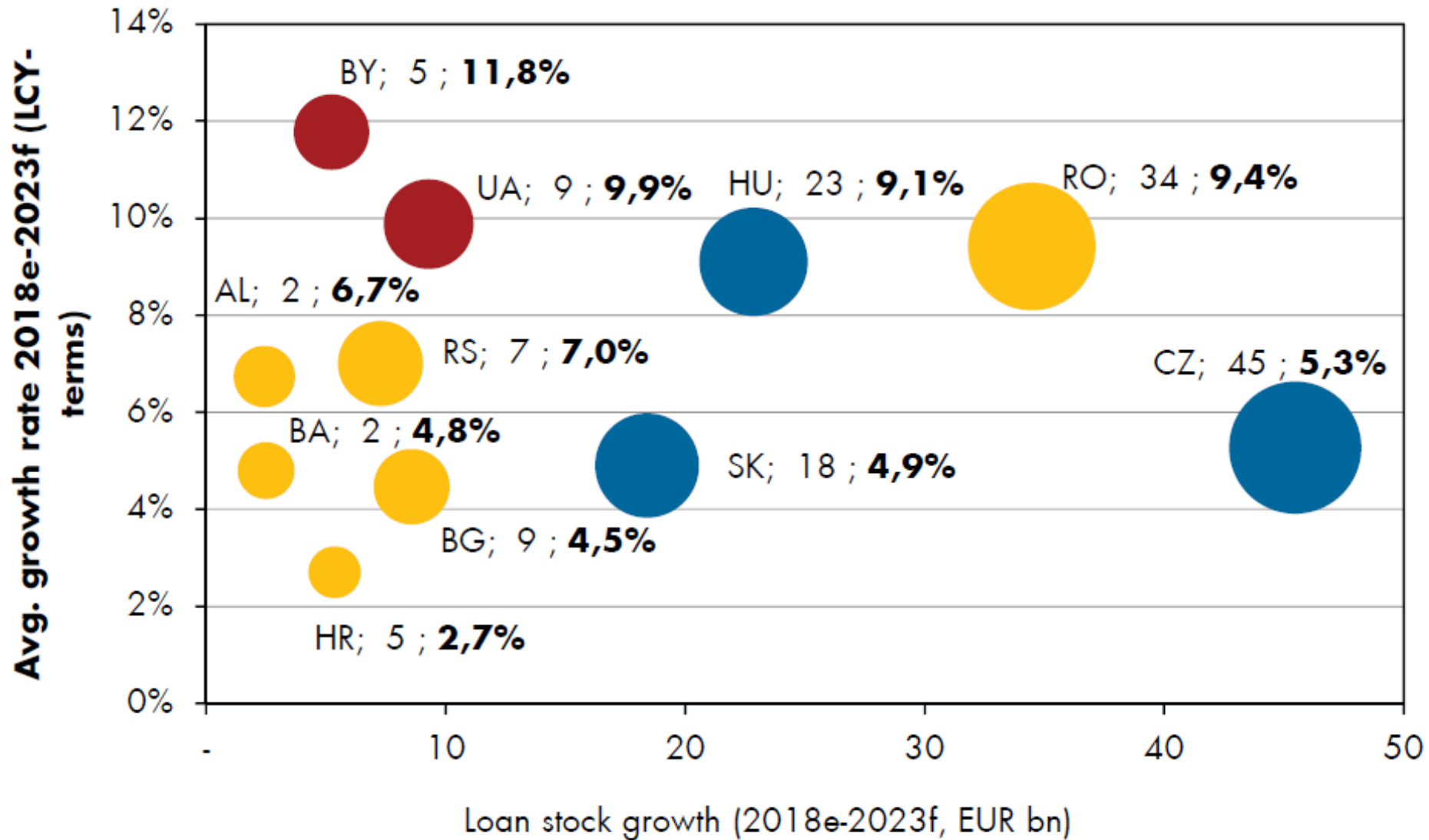


■ Avg. growth rate 2018e-2023f (LCY-terms)

■ Avg. growth rate 2018e-2023f (EUR-terms)

Source: national sources, RBI/Raiffeisen RESEARCH

CEE: Banking growth outlook smaller markets



Source: national sources, RBI/Raiffeisen RESEARCH