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The Future of the Banking System in the CEE Region Risks & Novelties

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Content

1. Changes in the financial sector regulatory landscape
 2. Macroeconomic developments and risks
 3. Impact of regulation and macroeconomic environment on business models
 4. Challenges and opportunities
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Crisis revealed regulatory weaknesses

- Lack of supervisory tools and powers that would have reduced vulnerabilities if in place before crisis
 - Regulation addressing risk taking in the financial system was inadequate
 - Regulatory framework, tools and powers are overhauled
 - The new regulatory framework in place will shape future of business model
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Aim of renovated regulatory landscape

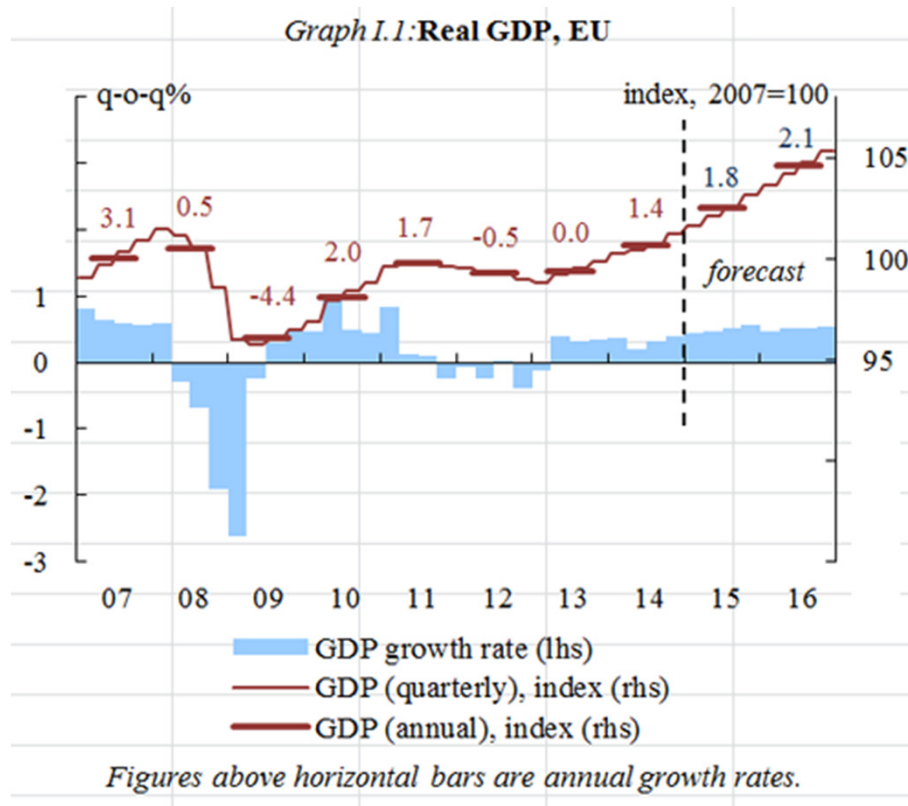
- To reduce the risk that firm would be unable to meet claims
 - To reduce the losses suffered by consumers and/or taxpayers in the event that a firm is unable to meet all claims fully
 - To provide early warning to supervisors enabling them to intervene promptly if capital falls below the required level
 - To promote confidence in the financial stability
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How the regulatory landscape has changed

- CRD IV: prudential rules for banks, building societies and investment firms:
 - the quality and quantity of capital
 - new liquidity and leverage requirements
 - new rules for counterparty risk
 - new macro prudential standards (countercyclical capital buffer and capital buffers for SIIs)
 - corporate governance, including remuneration
 - standardized EU regulatory reporting (own funds, large exposures, financial information)
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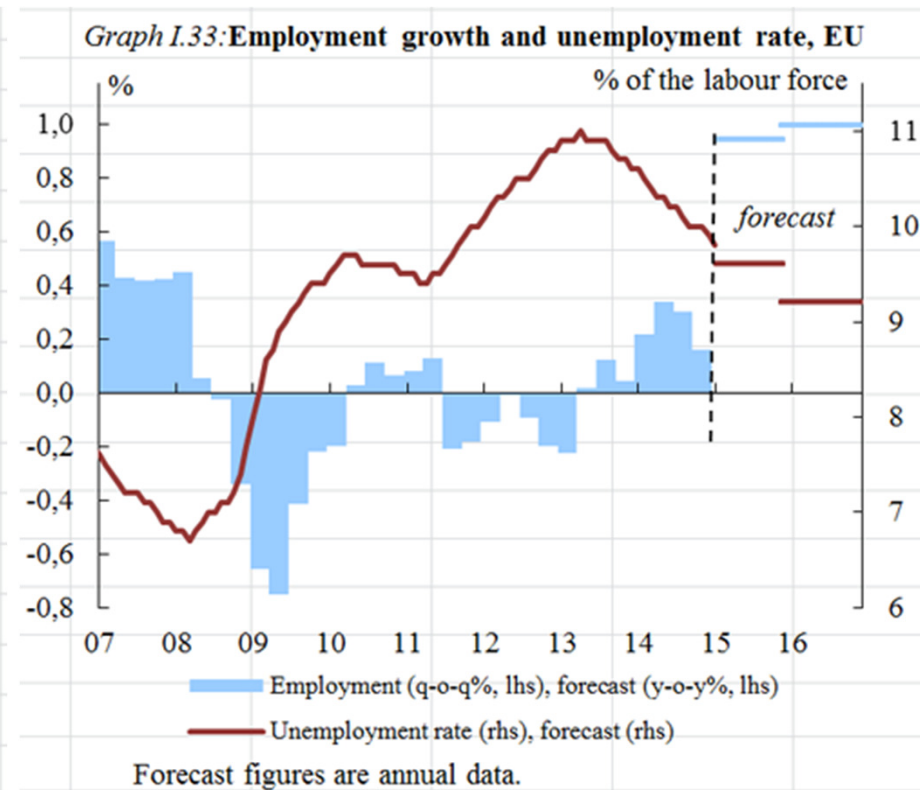
Macroeconomic developments

GDP growth



EC forecast spring 2015

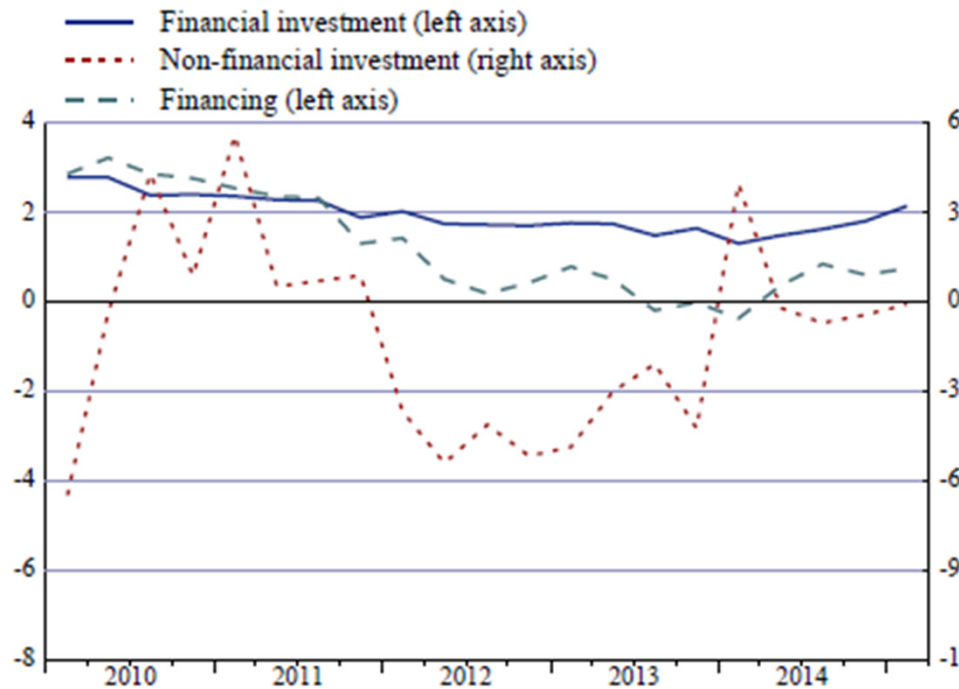
Unemployment



EC forecast spring 2015

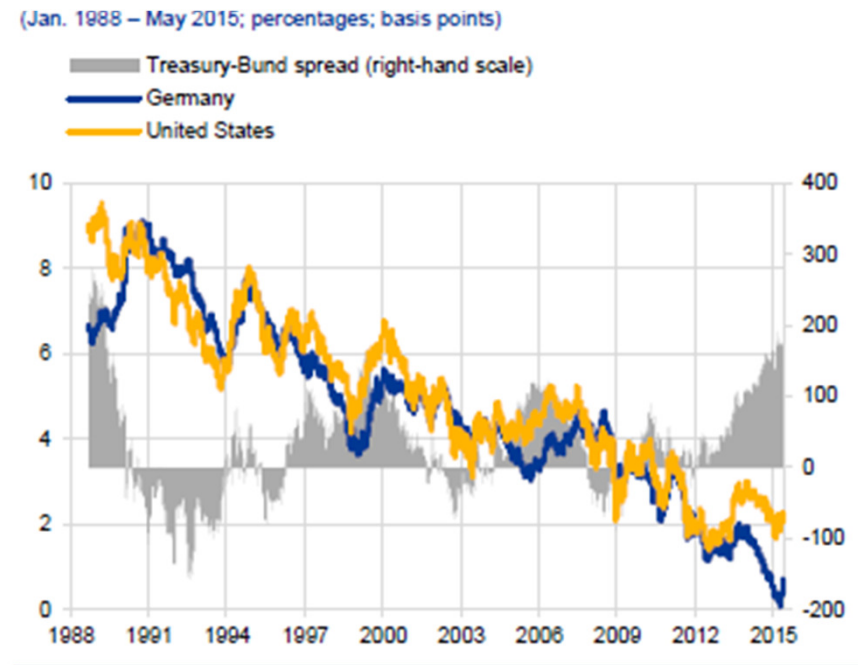
Macroeconomic developments

Household financing, investment annual growth



ECB, July 2015

Yields on 10yr US and DE bonds



Bloomberg and ECB calculations, May 2015

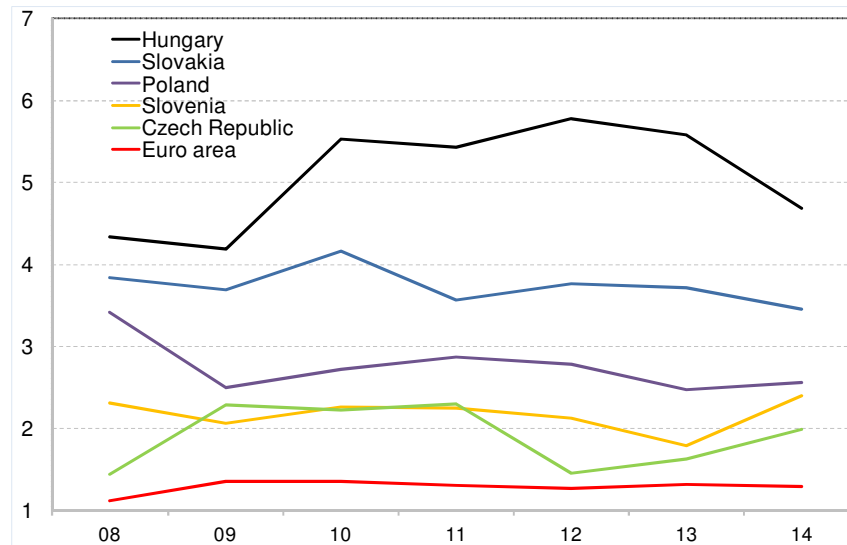
Risks derived from macroeconomic development

- Credit risk
 - Liquidity risk
 - Interest rate risk
 - Exchange rate risk
 - Volatility
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CEE banking sector developments: net interest margin and profitability

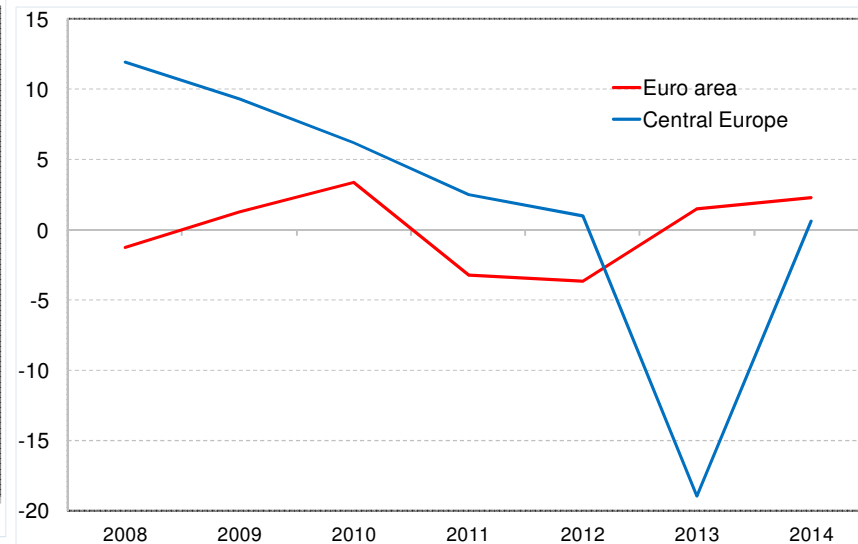
- Important differences in macroeconomic environment as well as impact of the crisis
- Relatively high net interest income in CEE
- In some countries profitability pressure due to low interest rate environment, increasing capital requirements and weak credit portfolio
- Profitability in whole CEE is still higher than EA average, but could fall below EA levels in 2015

Net interest income (% of total assets)



ECB SDW

Return on Equity (%)



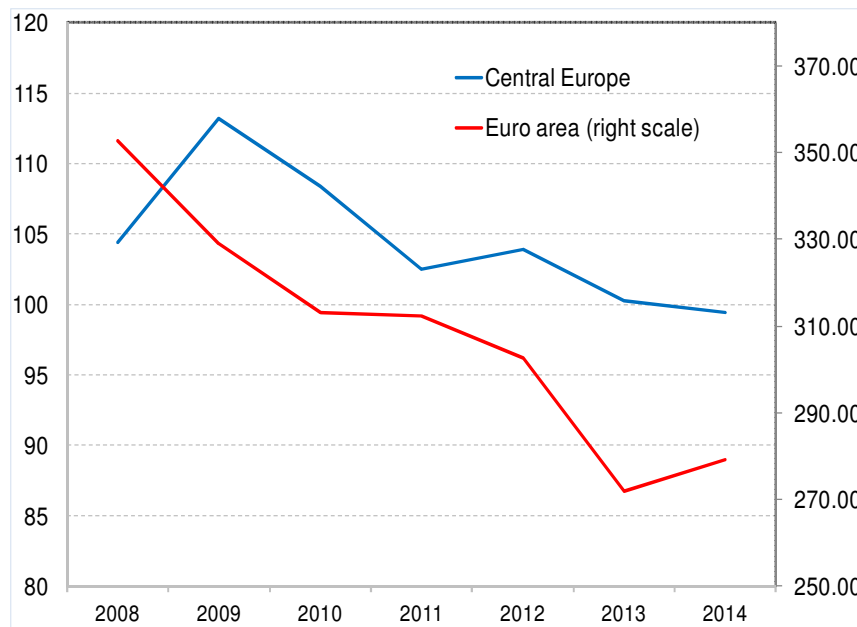
ECB SDW

Note: simple average for CE

CEE banking sector developments: size and cost efficiency

- Ongoing deleveraging process across European banking systems affecting also CEE banking systems
- Comparatively high cost efficiency

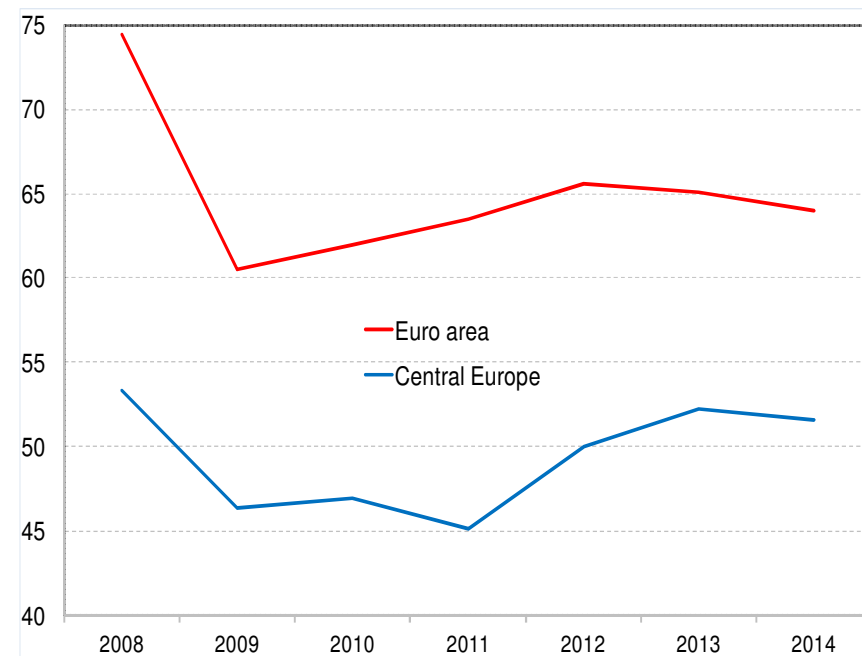
Asset-to-GDP ratio (in %)



ECB SDW

Note: simple average for CE

Cost-to-income ratio (in %)



ECB SDW

Note: simple average for CE

How regulation and macroeconomic developments are impacting business models

- Regulation is increasing costs of financial intermediation
 - Capital requirements to continue raising substantially
 - Operational complexity increasing
 - Reporting requirements increasing

 - Macroeconomic environment
 - Constrained business growth possibilities
 - Low yield investment opportunities
 - Higher risks environment
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Challenges and opportunities

- Profitability risk, ROE, ROA
- Operational risk
- Cost cutting options limited
- Constrained business growth possibilities

Scope for :

- Consolidation – higher market share
 - Niche business model
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