



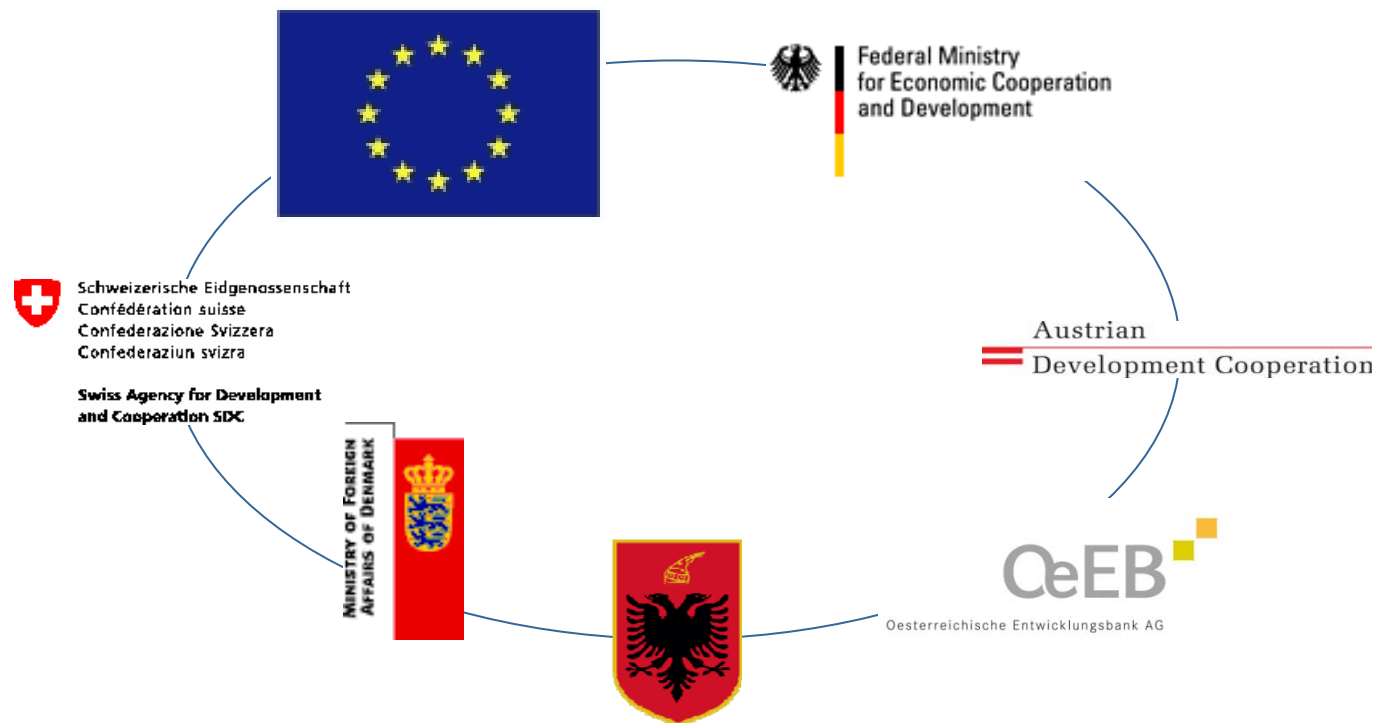
EUROPEAN FUND FOR SOUTHEAST EUROPE

Financial Crisis under the Microscope



NOVI SAD, SERBIA
27 MAY 2009

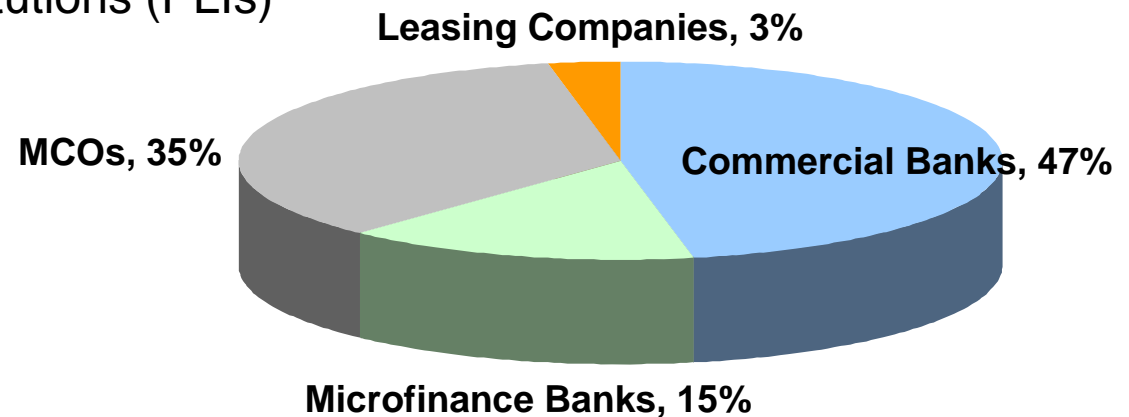
Donors



Introduction

EFSE in a nutshell

- 10 markets in Southeast Europe
- Over EUR 551 million in invested portfolio
- 55 partner lending institutions (PLIs)

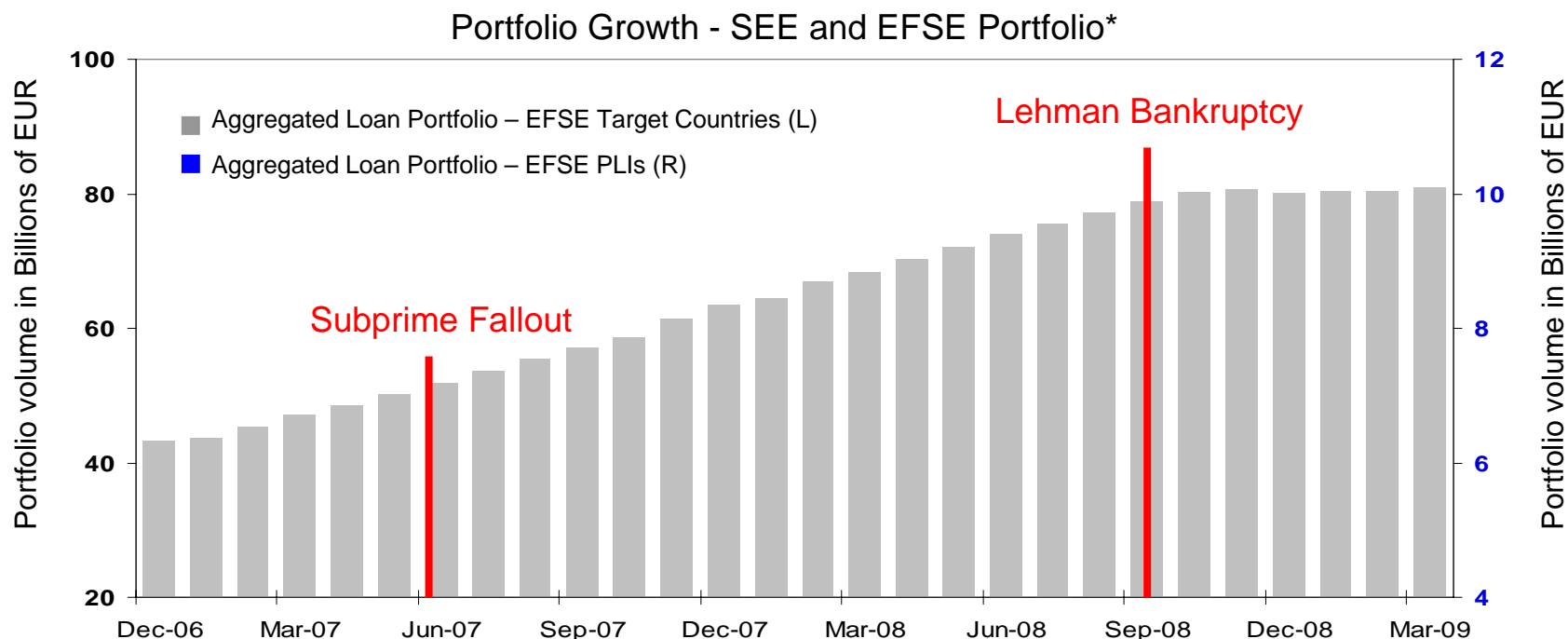


Monitoring data:

- Market data from the financial sector -> market intelligence unit
- Quarterly financial statements and central bank reporting from the partner lending institutions
- Weekly/monthly special reporting

Banking Sector

Strong credit growth in the region and in EFSE PLIs slowed down in 2008...

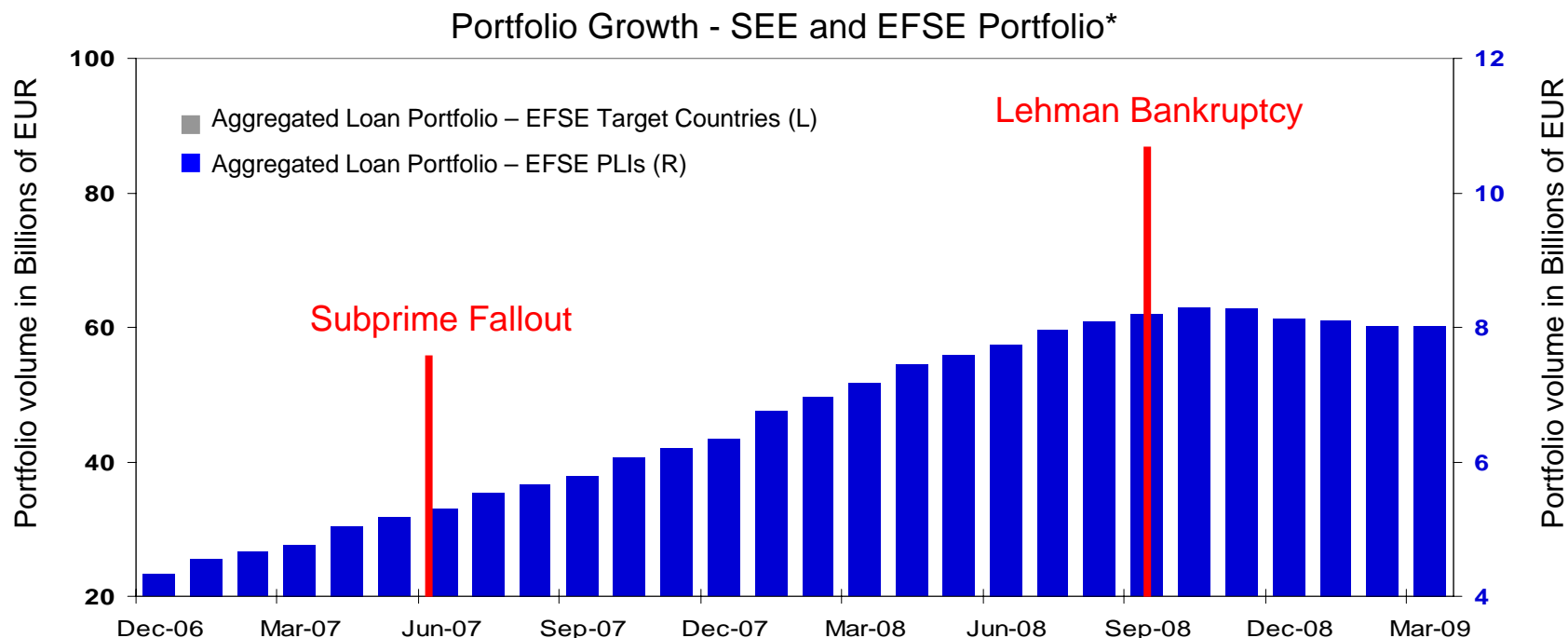


- First wave of the financial crisis (after subprime) had minor (if any) effects on the region due to limited integration of SEE in international capital markets
- Second wave (after Lehman) spurred liquidity crisis in SEE through contagion effect and loss of consumer confidence (deposit outflows/bank runs) -> loan portfolio growth was stopped

*Aggregated loan portfolios of all EFSE target countries except Ukraine and sample size of EFSE PLIs

Source: EFSE PLIs and central bank data from Albania, Bosnia & Herzegovina, Bulgaria, Kosovo, Macedonia, Moldova, Montenegro, Romania, and Serbia

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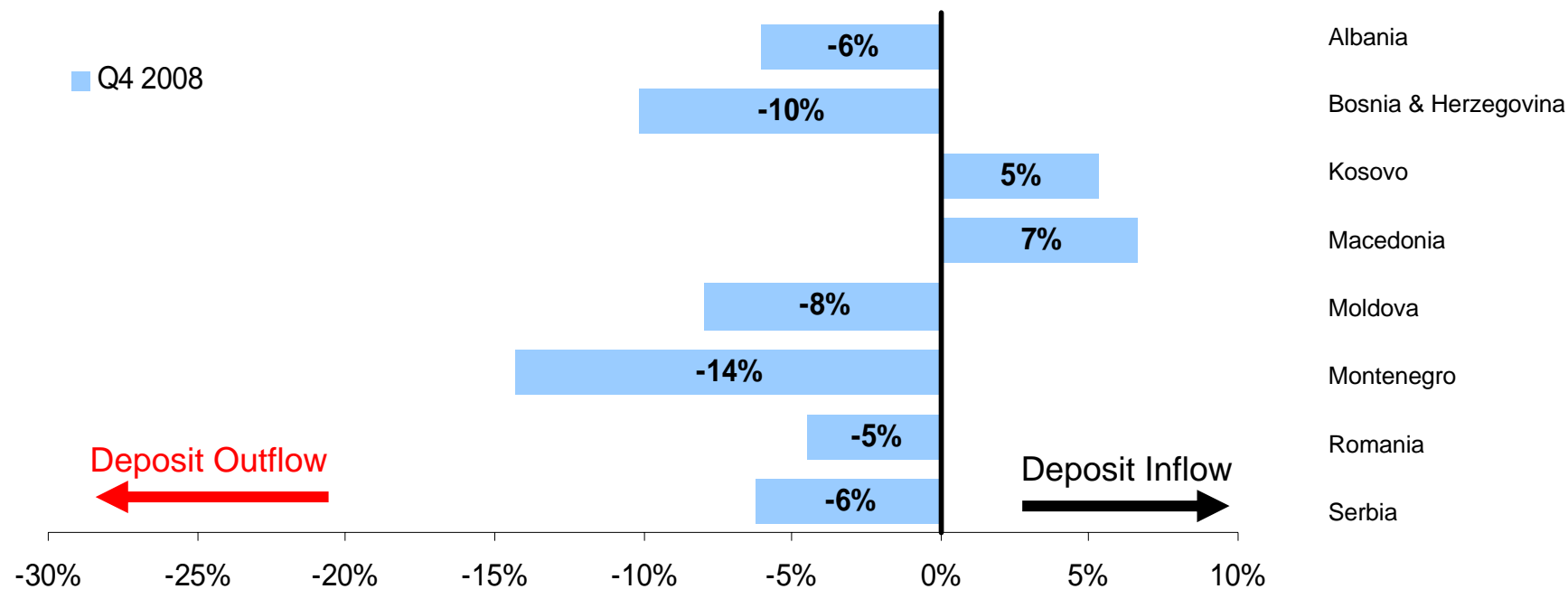


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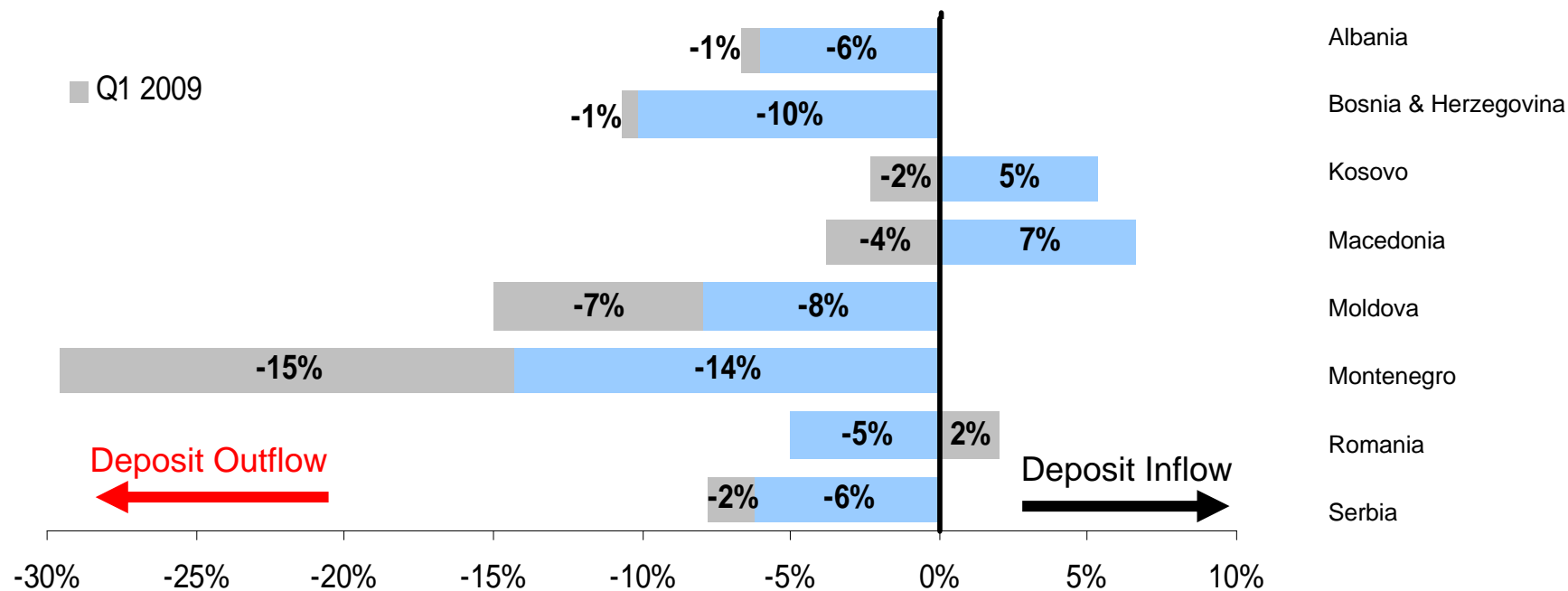
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... and the decline in banking sector confidence resulted in deposit outflows...



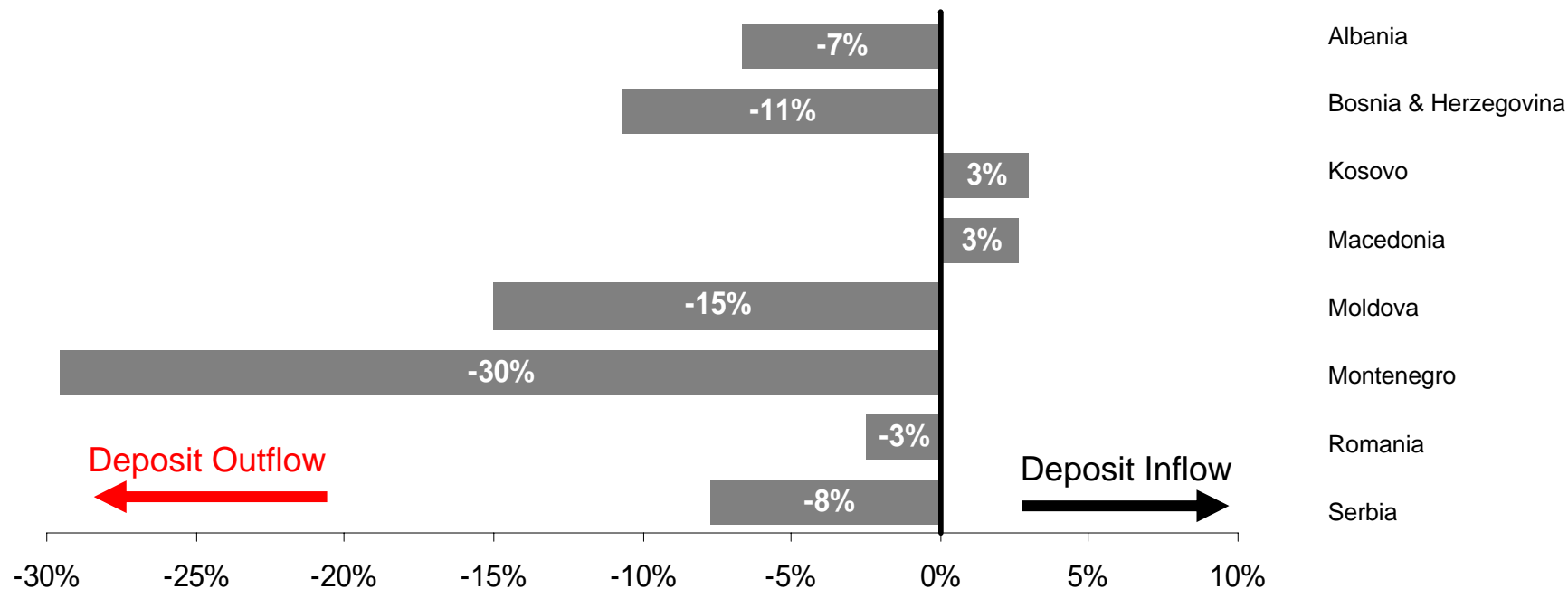
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Source: EFSE PLIs

... and the decline in banking sector confidence resulted in deposit outflows...

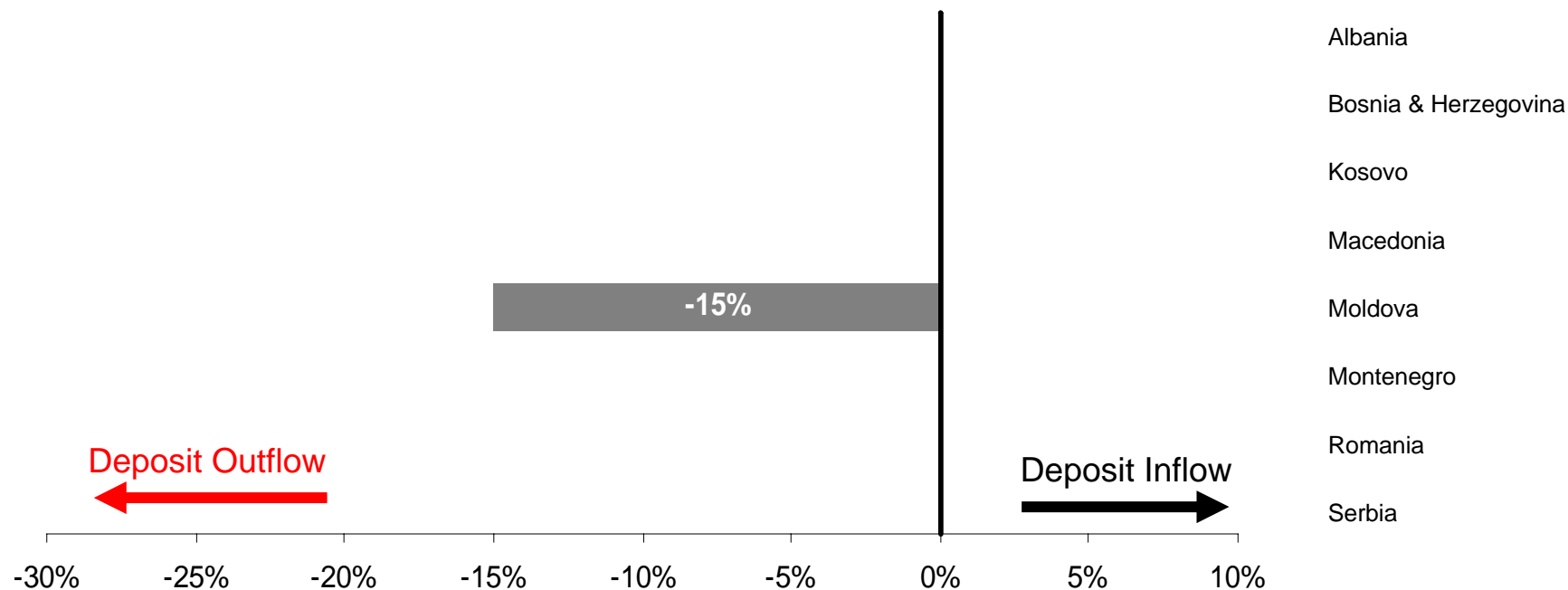
Net Deposit Flow since September 30, 2008



Source: EFSE PLIs

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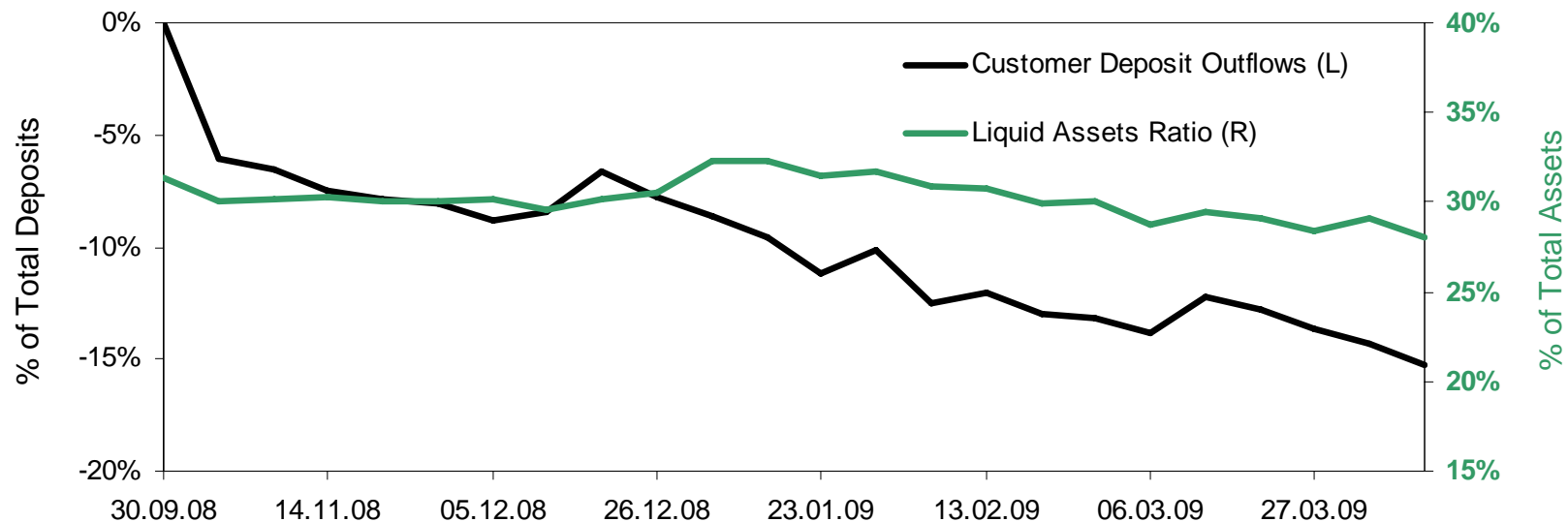
Net Deposit Flow since September 30, 2008



Source: EFSE PLIs

Despite continuous deposit outflows, Moldovan partner banks maintained comfortable liquidity level

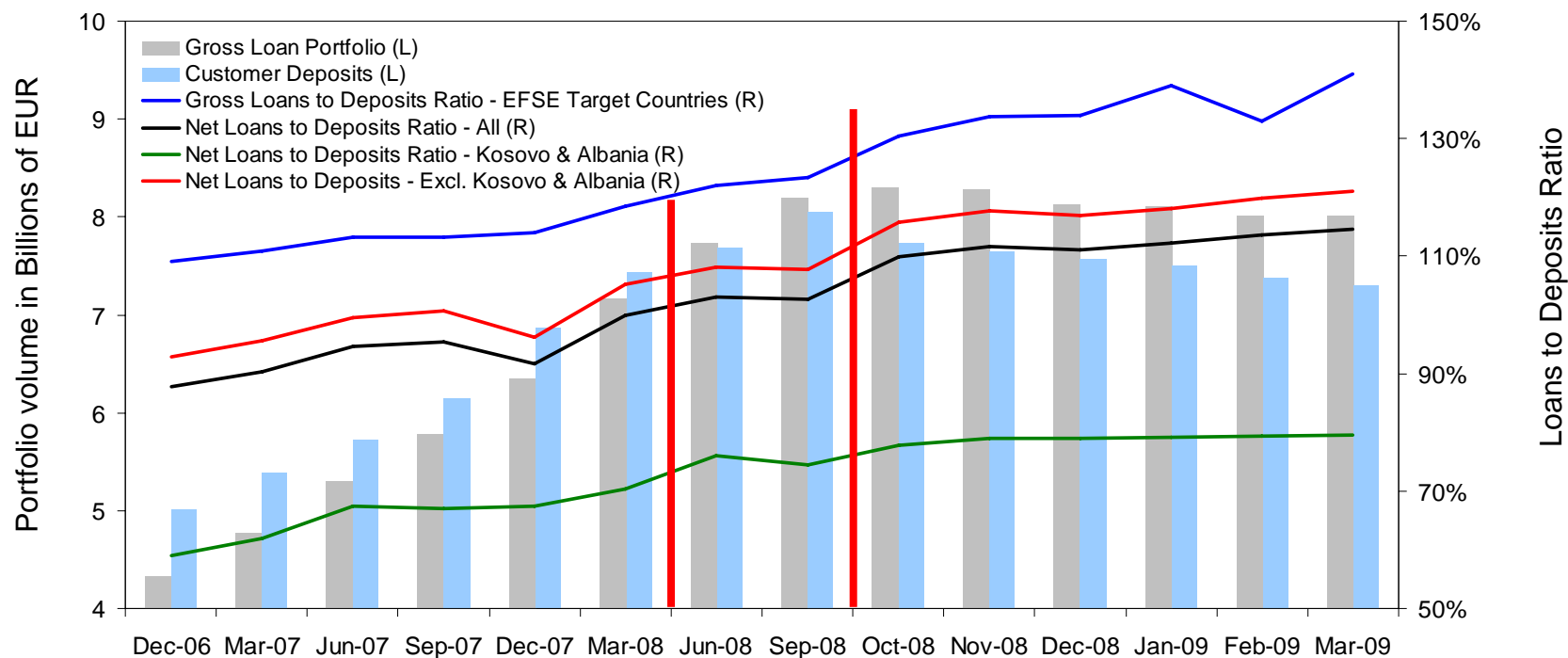
Moldova – weekly monitoring data



- NBM regulation requires 20% liquid assets
- Partner banks kept between 28-32% liquid assets before and after Lehman's collapse
- Liquid asset composition remained stable over the last 7 months

Two turning points

Portfolio Growth and Loans to Deposits Ratio - Sample of EFSE's Bank Portfolio*

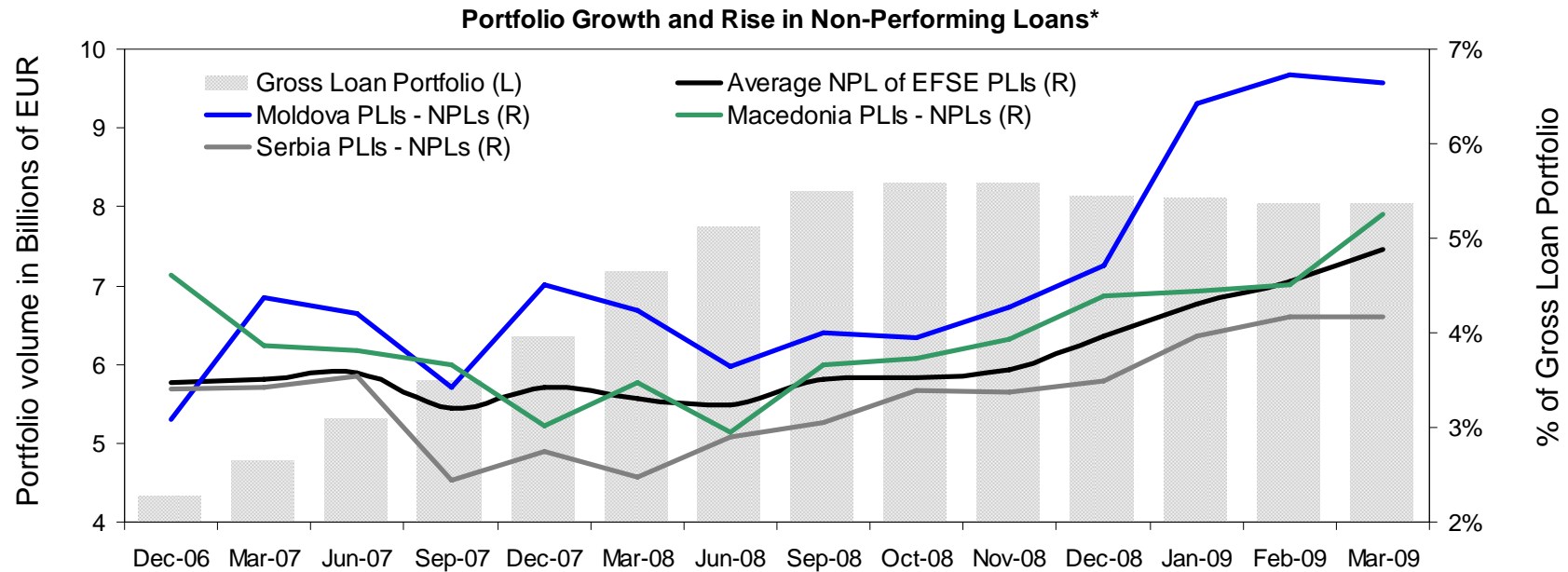


- Already in Q2 2008 gross loan portfolio in EFSE partner banks exceeded deposits
- Immediately after Lehman collapsed in September 2008, continuous deposit outflow and loan portfolio drop

*Aggregated loan portfolios, deposits, and arithmetic average of loans to deposits ratios of all EFSE target countries (excluding Ukraine) and EFSE bank PLIs that provided intensive monitoring reports (80% of bank PLIs)

Source: EFSE PLIs and central bank data from Albania, Bosnia & Herzegovina, Bulgaria, Kosovo, Macedonia, Moldova, Montenegro, Romania, and Serbia

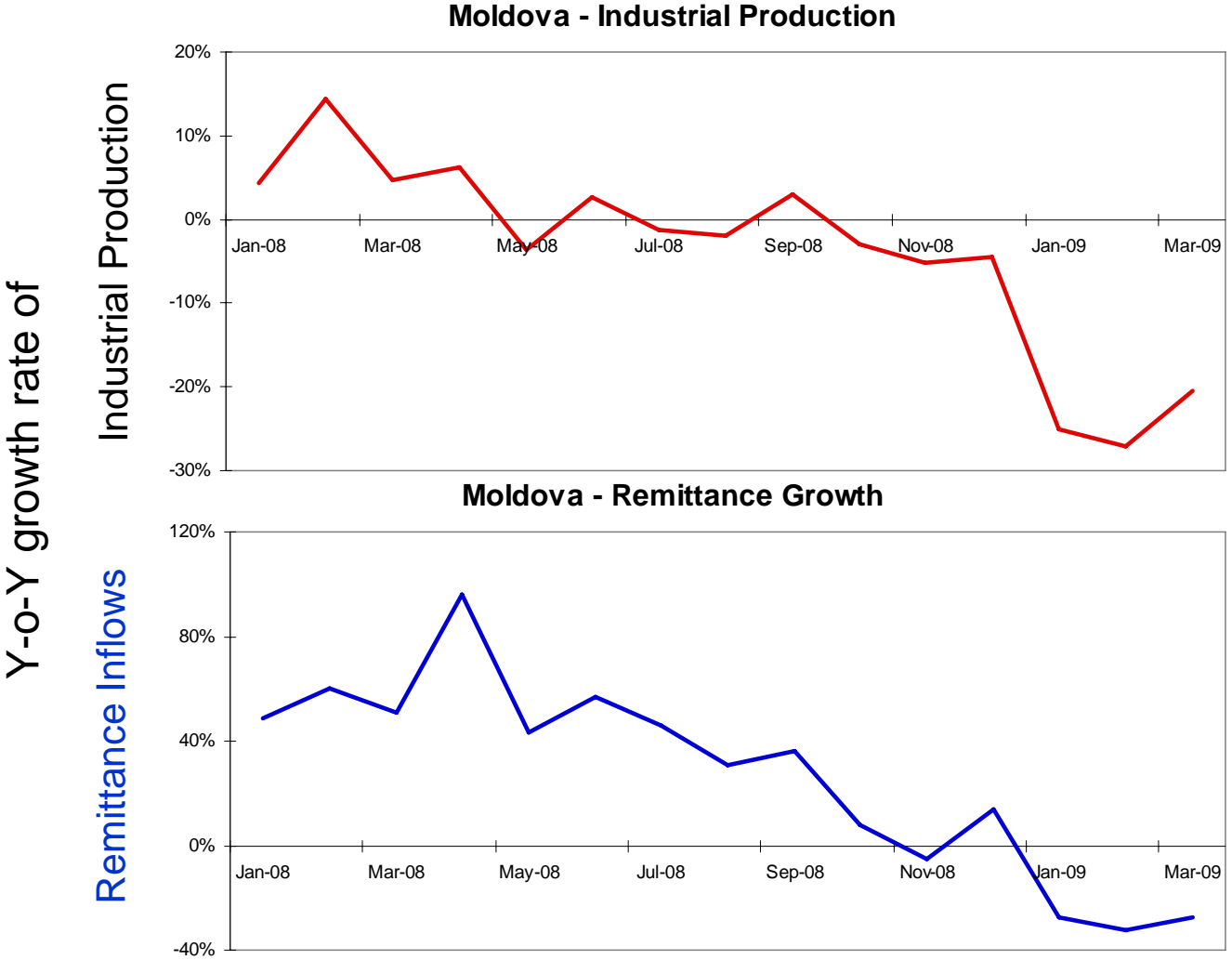
As the crisis hit, growth stopped and portfolio quality started to deteriorate...



*Aggregated loan portfolios and arithmetic average of NPL ratios of all EFSE bank PLIs that provided intensive monitoring reports (80% of bank PLIs)

Source: EFSE PLIs

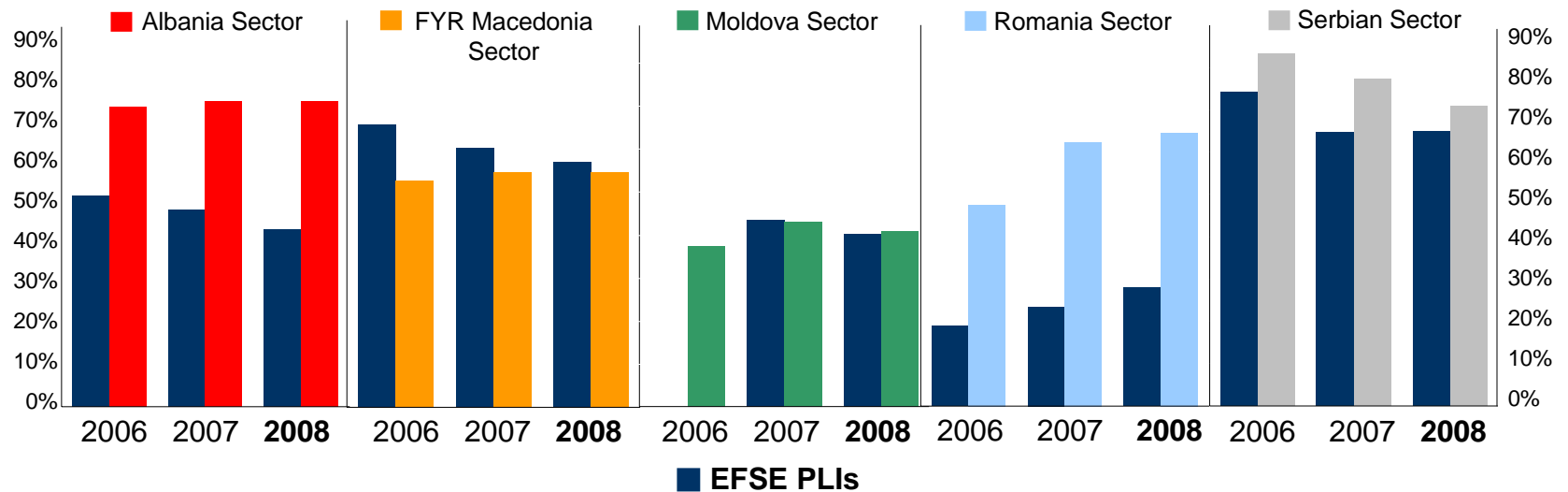
Two causes: Negative developments in the real sector and remittances



Source: Moldova Central Bank and Moldova State Statistical Office

The hidden beast appears with currency depreciation...

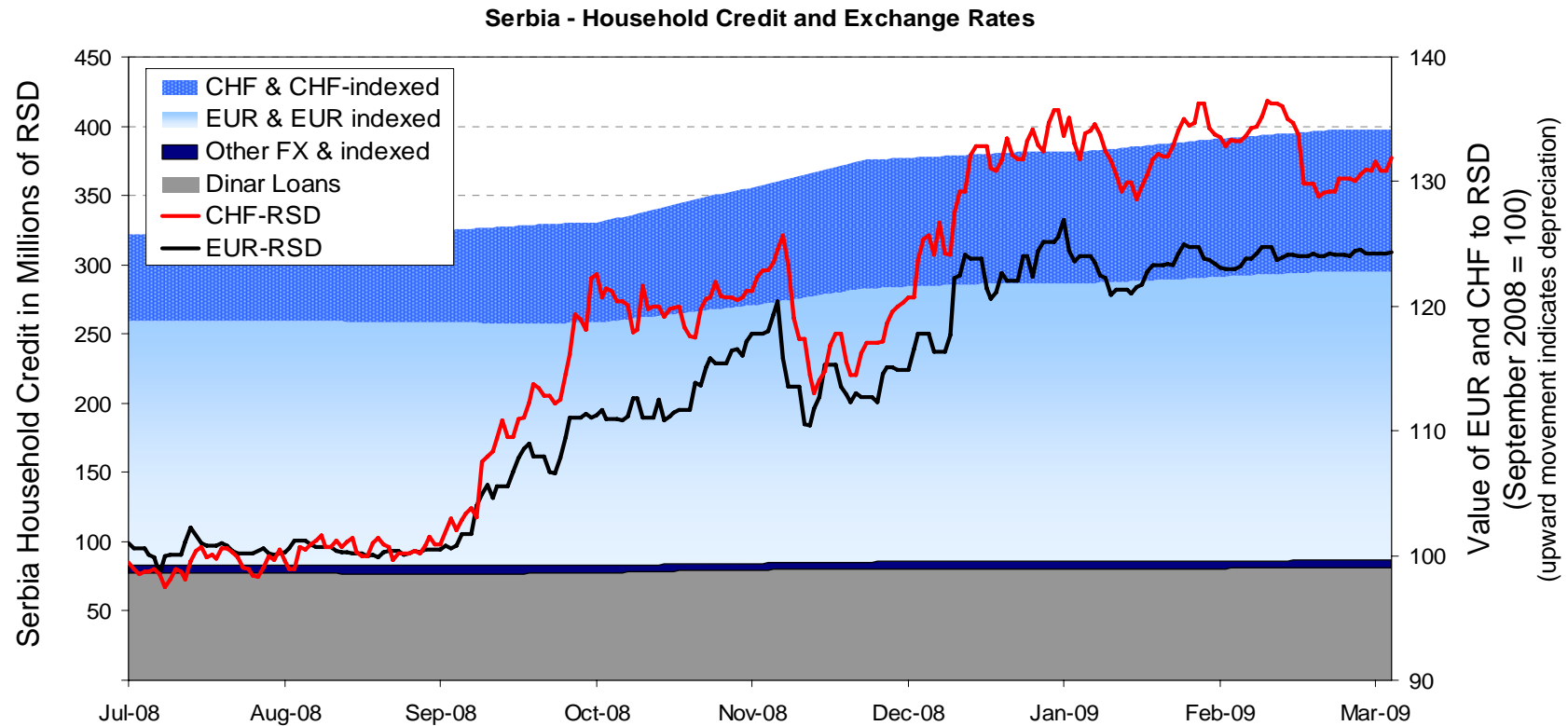
Foreign Currency Lending as % of Gross Loan Portfolio



Currency Depreciation (positive change indicates depreciation)										
	ALL-USD	ALL-EUR	MKD-EUR	MKD-USD	MDL-EUR	MDL-USD	RON-CHF	RON-EUR	RSD-CHF	RSD-EUR
APR 08 - MAR 09	25.50%	6.85%	1.63%	19.37%	-10.42%	5.39%	19.30%	14.09%	21.52%	16.21%
OCT 08 - MAR 09	12.07%	6.27%	1.23%	6.75%	1.68%	7.93%	17.69%	13.20%	28.45%	23.55%

Source: EFSE PLIs, central bank data, Thomson Datastream

...case in point, Serbia



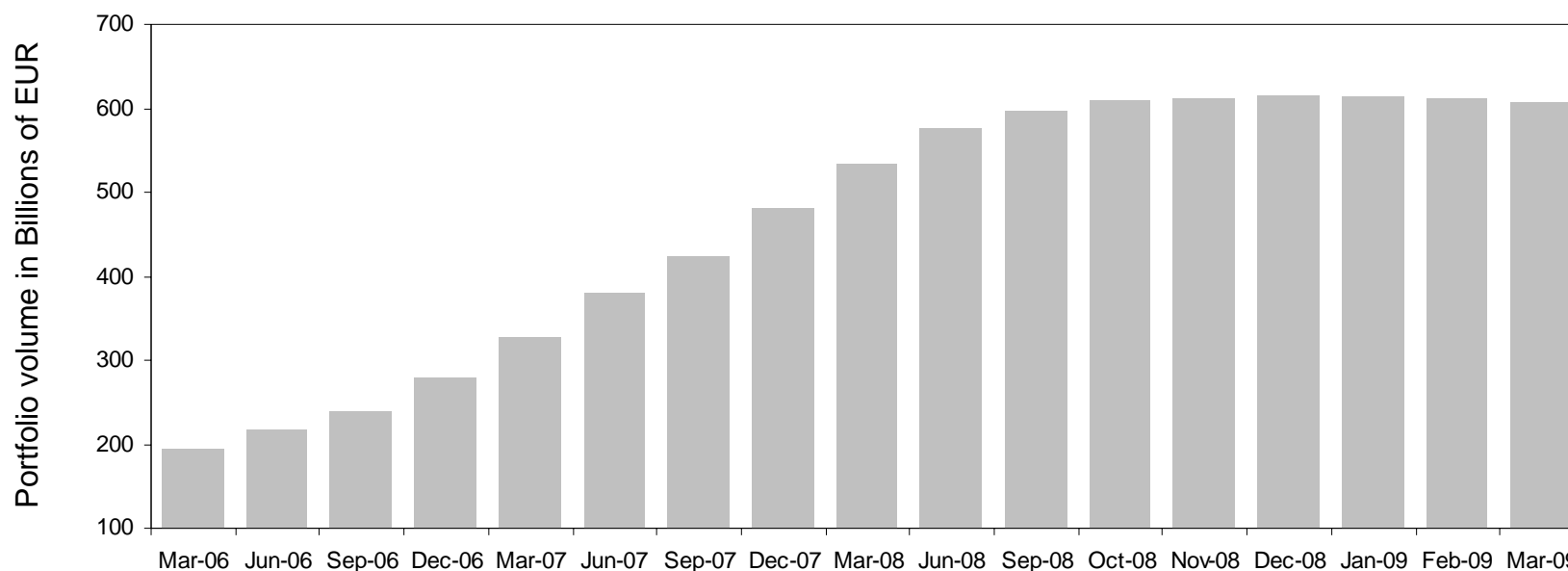
- Large percentage of household loans denominated and indexed in FX: 78% (Mar-09)
- High FX-induced credit risk due to strong depreciation of Serbian Dinar since September 2008

Source: National Bank of Serbia

MCO Sector Bosnia & Herzegovina, Kosovo, and Montenegro

Portfolio tripled over last three years

Aggregated loan portfolio of EFSE MCO PLIs (BiH, Montenegro, Kosovo)



- Similar growth pattern compared to banking sector: loan portfolio growth stopped in Q4 2008

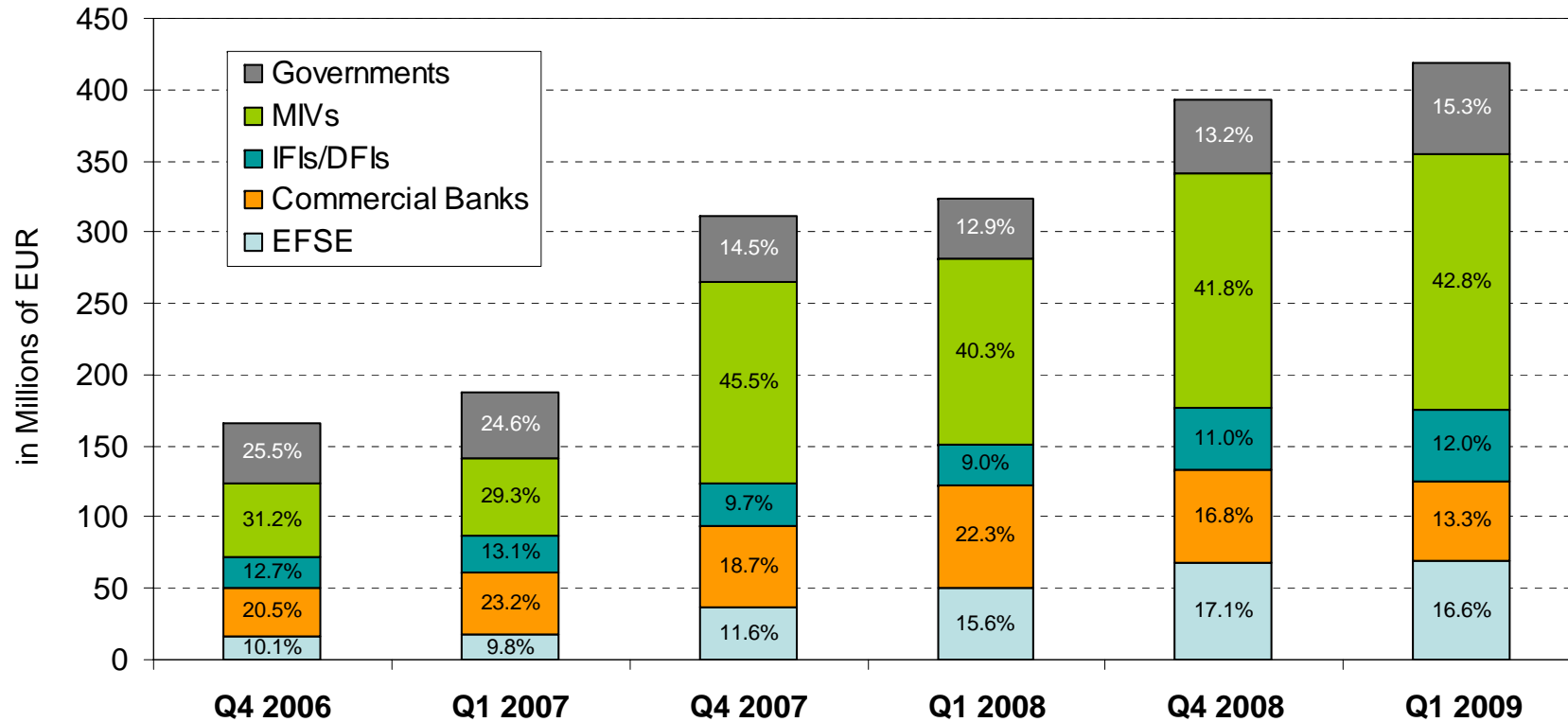
Liquidity risk in EFSE MCOs

Average Maturing Large Liabilities	Jan.09 - Mar.09	Apr.09 - Jun.09	Jul.09 - Sep.09
as % of Total Liabilities	10.8%	7.1%	8.3%

PLI breakdown and respective volume (# of PLIs - in millions EUR)			
Less than 10% of total liabilities	7	8	8
	EUR 15.8	EUR 15.9	EUR 20.7
Between 10.1% and 20% of total liabilities	5	5	5
	EUR 30.2	EUR 9.9	EUR 9.1
Greater than 20.1% of total liabilities	1	None	None
	EUR 0.5		
Total Large Liabilities due	EUR 46.5	EUR 25.8	EUR 29.8

Bosnia & Herzegovina – Total Funding Volume Composition

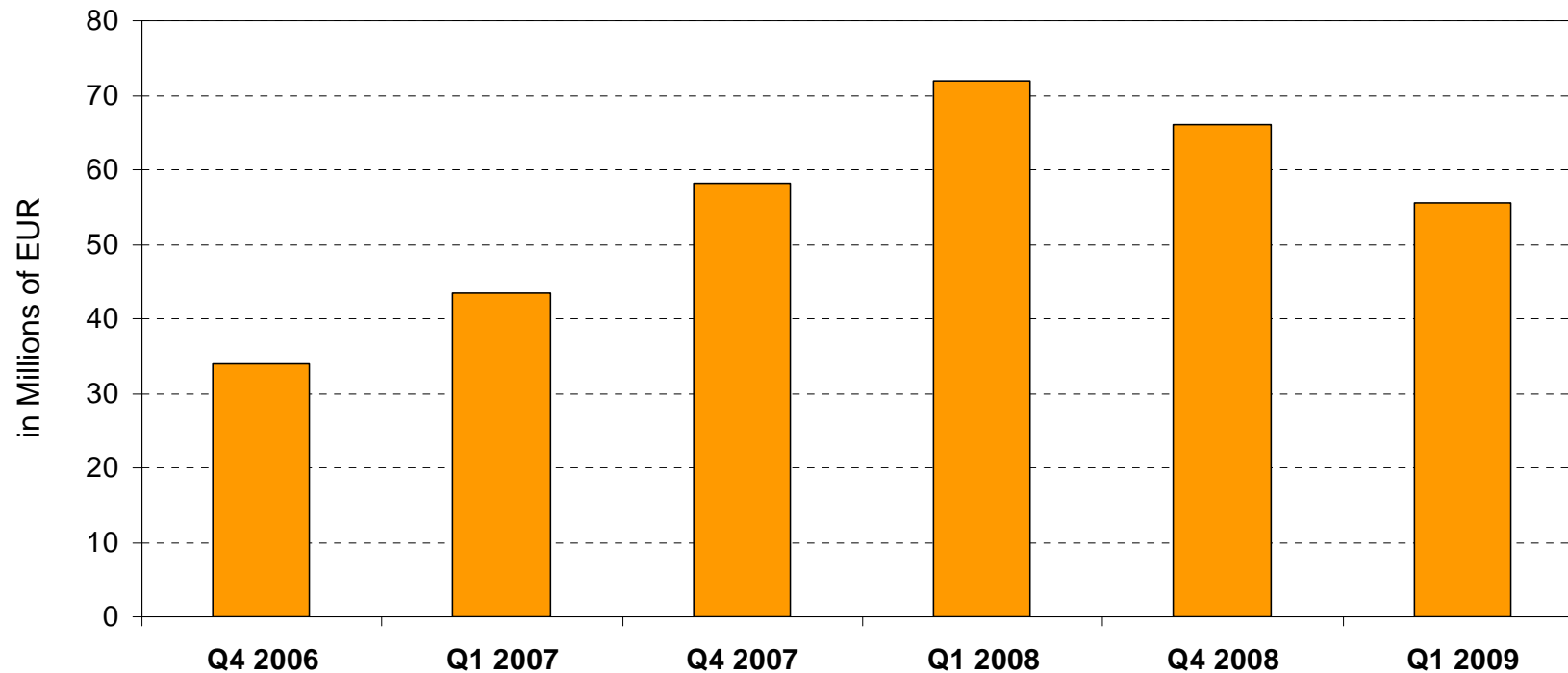
Total Funding Volume per Investor Group



Source: EFSE PLIs

Bosnia & Herzegovina – Funding Provided by Commercial Banks

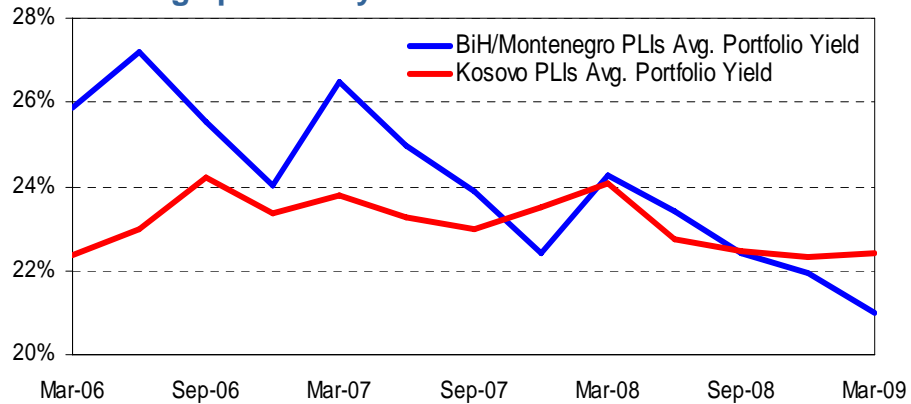
Total Outstanding Debt of EFSE MCO PLIs to BiH Commercial Banks



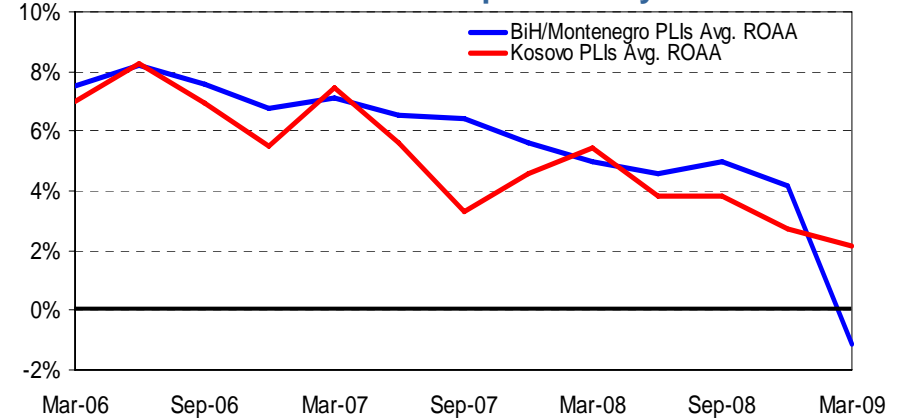
Source: EFSE PLIs

MCO Sector – BiH, Montenegro, Kosovo

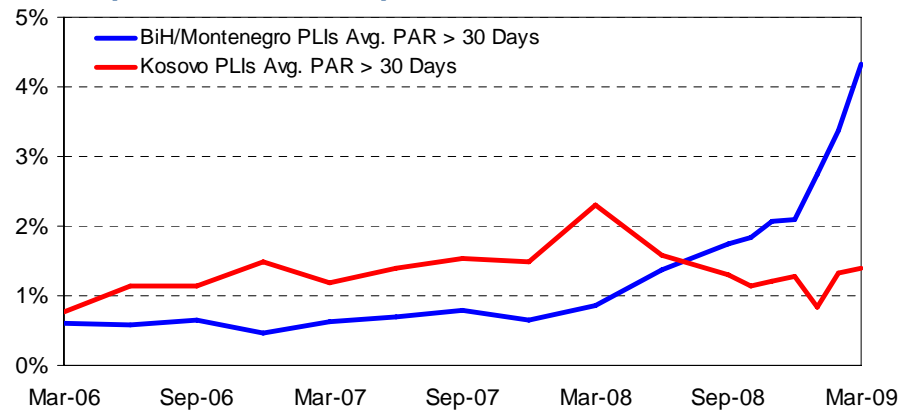
Average portfolio yield decreased...



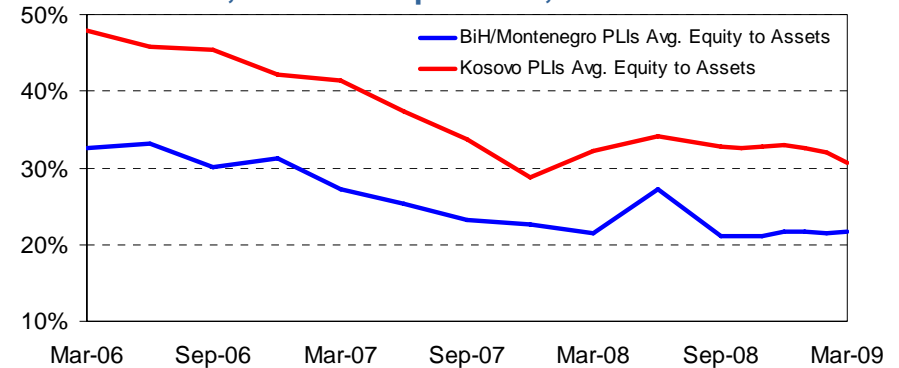
... resulted in decrease of profitability.



...plus increases in portfolio at risk ...



However, still well capitalised, but...



Source: EFSE PLIs

... where we are now

- Overall similar challenges in the banking sector of the region but with some markets being affected stronger than others
- Loan portfolios in both the banking and MCO sectors at a standstill
- Significant deposit outflows over an extended period of time ... but for different reasons
- Negative real sector development combined with exchange rate imbalances put asset quality under strain
- MCOs are not decoupled from the crisis

... and the way ahead

- What are the most appropriate crisis mitigating measures?
- How should, and can, different stakeholders – Central Banks, international funders, financial institutions – best respond to the crisis?



SAL. OPPENHEIM

Deutsche Bank



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Thank you for your Attention!