

Impact of the Financial Crisis in Southeast Europe: EFSE's Investment Portfolio under the Microscope

“Access to Finance or Excess to Finance”

Erfahrungen der Entwicklungs - und Schwellenländer mit der Finanzkrise

KfW Frankfurt – AtriumSaal

14. April 2010

Monika Beck



Die Zukunftsförderer

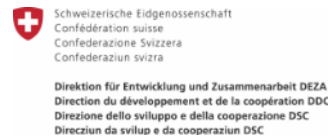


EFSE – First Class Shareholders



EFSE is a Luxembourg-registered SICAV-SIF Fund with First-Class Stakeholders

Donor Agencies



Private Institutional Investors

SAL. OPPENHEIM



OMIDYAR-TUFTS
MICROFINANCE FUND



NORD/LB **Horizont**



Target Region

- The Fund is active in the following countries

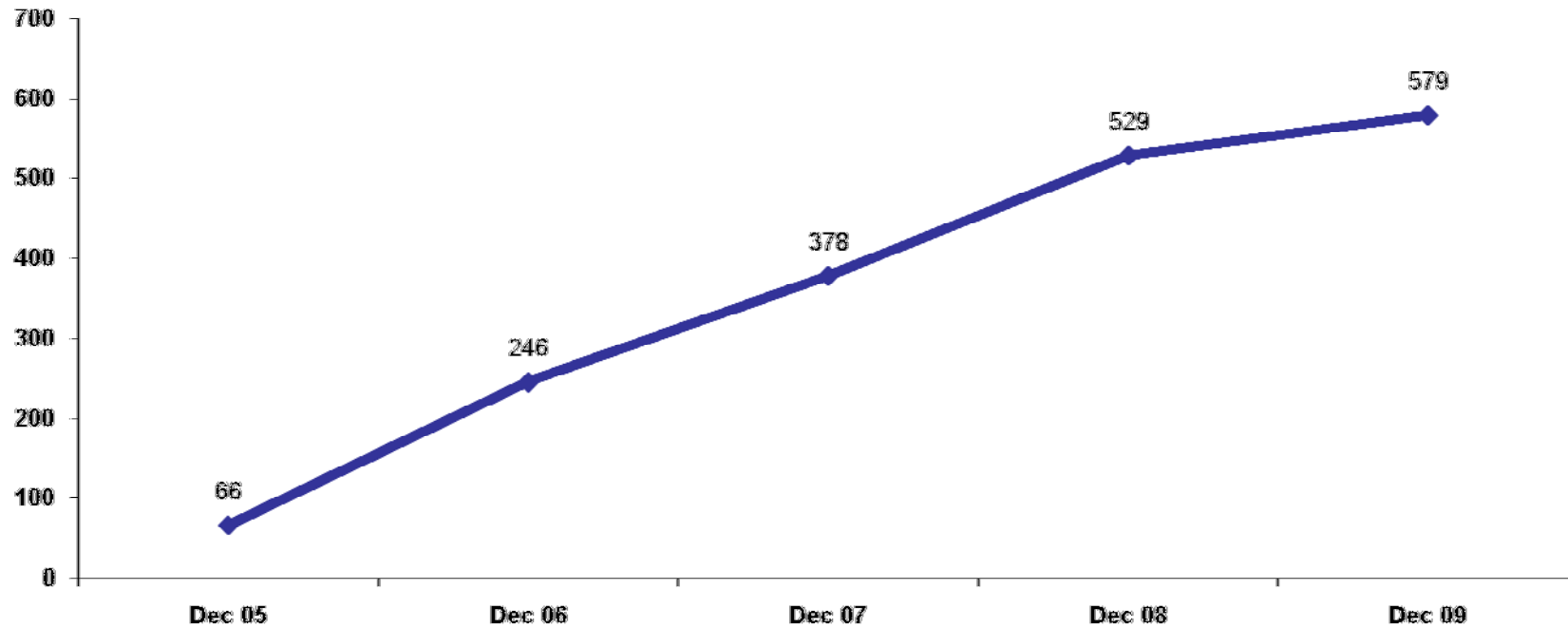


- Albania
- Armenia (2010)
- Azerbaijan (2010)
- Bosnia and Herzegovina
- Belarus (2010)
- Bulgaria
- FYR Macedonia
- Georgia (2010)
- Kosovo
- Moldova
- Montenegro
- Romania
- Serbia
- Ukraine

Local EFSE Contact Point 

Outstanding Investment Portfolio

EUR million

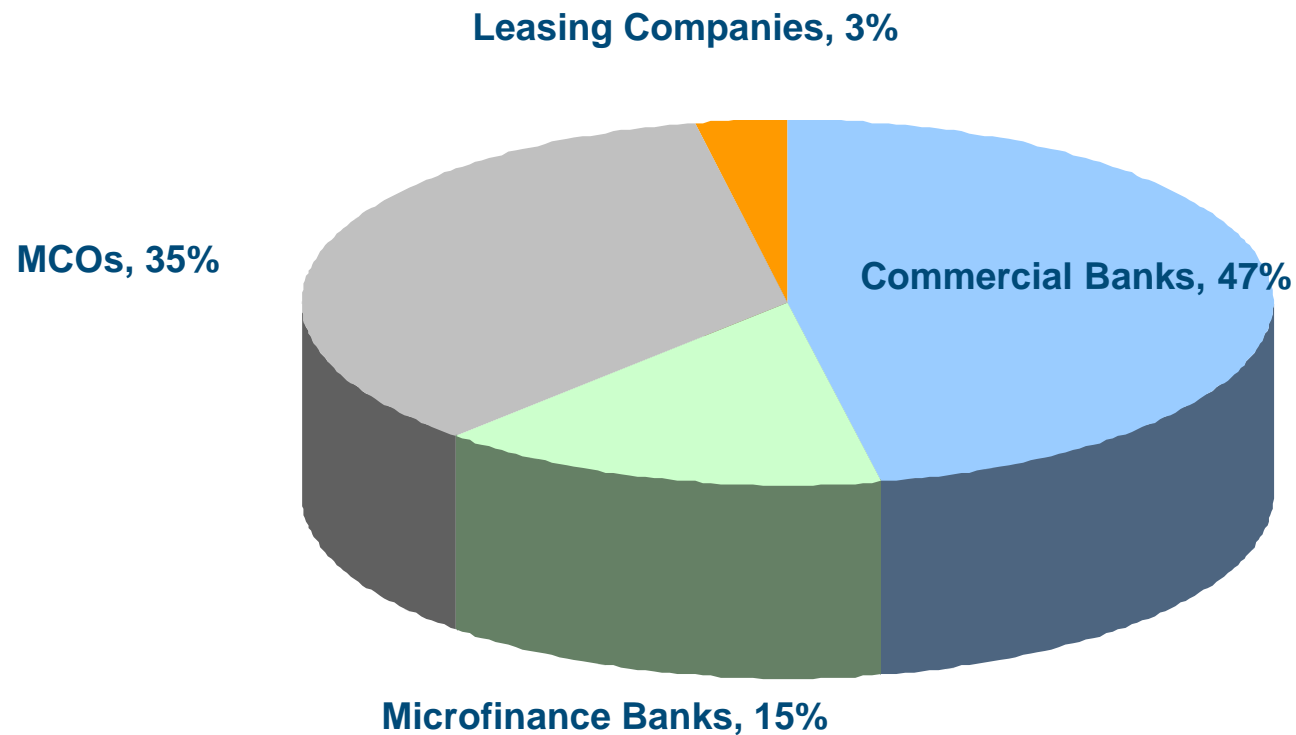


Outstanding Portfolio invested in PLIs as of Dec. 31 2009:

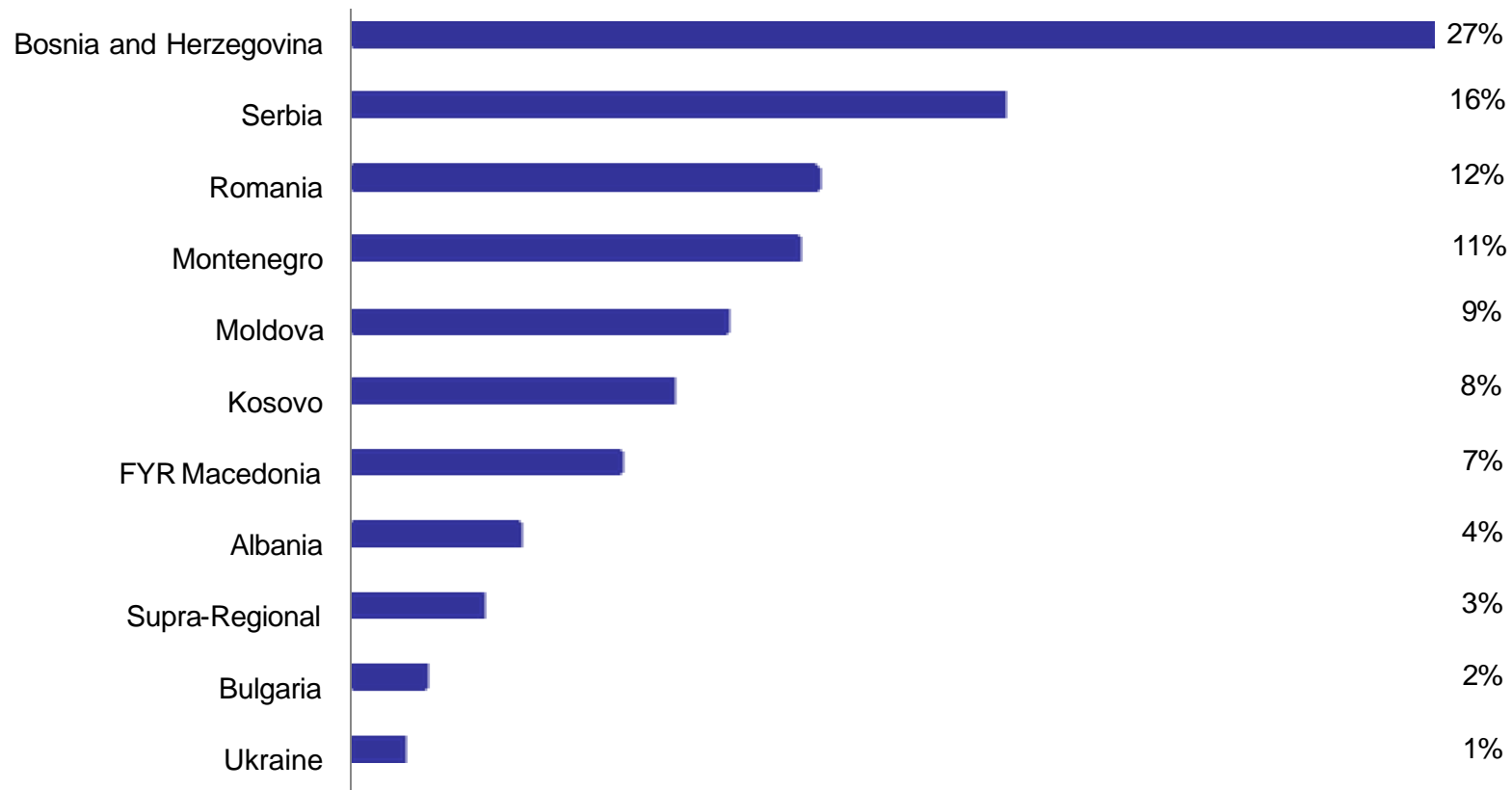
EUR 578.9 million

Investment portfolio by PLI category

Breakdown by type: 58 Partner Lending Institutions in 10 countries:



Investment Portfolio by Country (as of Dec 2009) based on amount outstanding



Country Risk Overview – Sovereign Ratings (as of 15.03.10)



Country Ratings*			
Overview of LT Issuer ratings			
15.03.2010			
Country	Moody`s	Standard & Poor`s	Fitch
Albania	B1/stable	-	-
Bosnia and Herzegovina	B2/stable	B+/stable	-
Bulgaria	Baa3/ <u>positive</u>	BBB/ <u>stable</u>	BBB-/negative
FYR Macedonia	-	BB/stable	BB+/negative
Moldova	Ratings withdrawn	-	<u>Ratings withdrawn</u>
Montenegro	Ba3/negative	BB+/negative	-
Romania	Baa3/stable	BB+/stable	BB+/ <u>stable</u>
Serbia	-	BB-/ <u>stable</u>	BB-/negative
Kosovo	-	-	-
Ukraine	B2/negative	B-/ <u>positive</u>	<u>B-/negative</u>

- Some mild positive trends observed in late 2009 and early 2010 with revision of outlooks for Bulgaria, Romania, Serbia and Ukraine (countries which managed solid level of fiscal consolidation)

Country Risk Overview



- GDP contraction ranges from a relatively mild 1%-5% (Serbia) to dramatic 5% – 10% (Romania, Bulgaria, Moldova and Ukraine); Kosovo, BiH and Albania recorded positive GDP growth

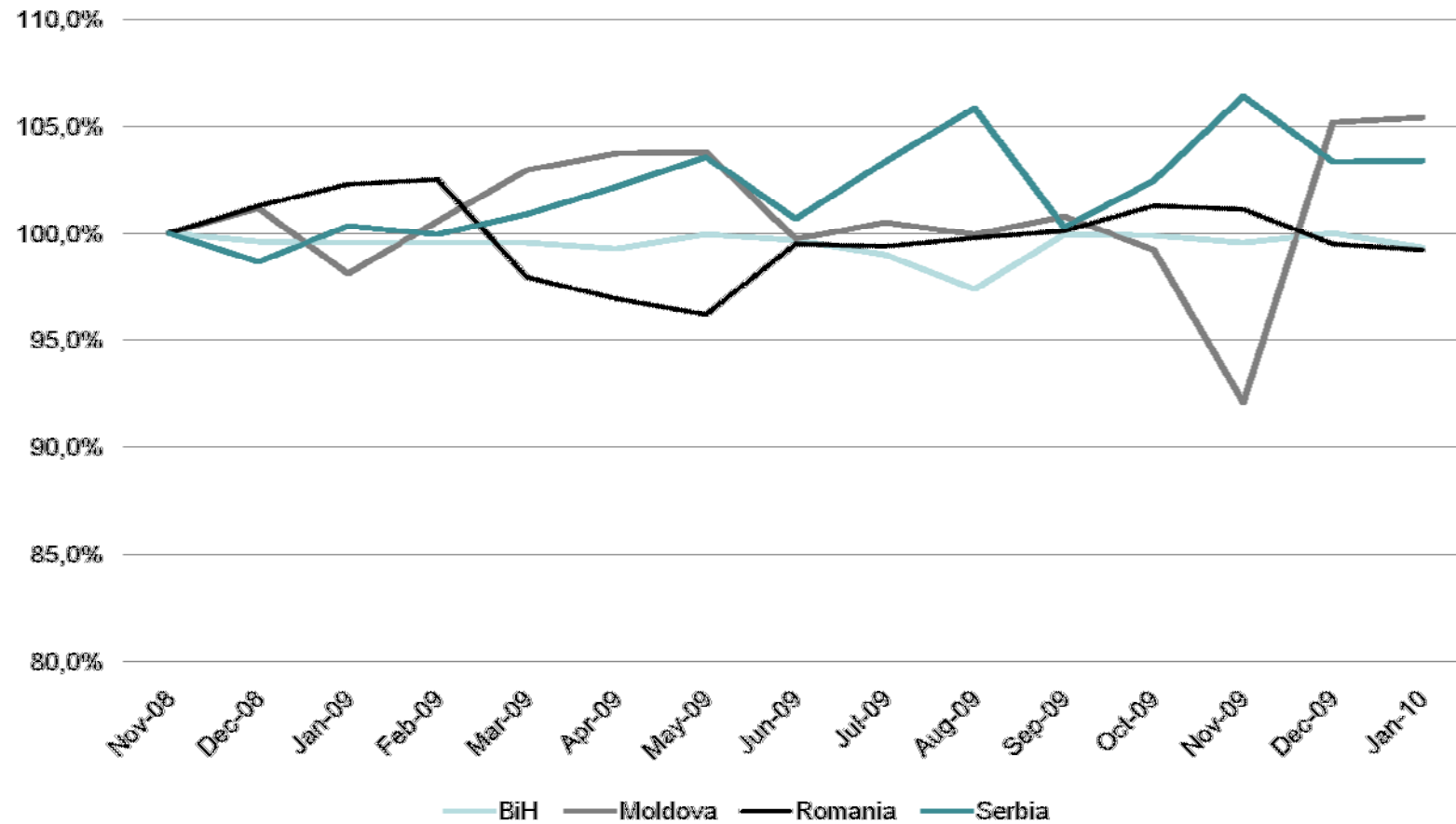
Country	2008	2009	2010
Albania	5.5	2.0	2.2
Armenia	6.8	-12.9	1.2
Azerbaijan	10.8	5.2	6.5
Belarus	10.0	-3.5	1.8
BiH	5.5	1.8	0.5
Bulgaria	6.0	-2.7	-2.5
Georgia	2.1	-4.0	2.0
Kosovo	5.4	1.1	1.9
Macedonia, FYR	5.0	-2.0	2.0
Montenegro	8.1	2.0	0.3
Moldova	7.2	-9.0	0.0
Romania	5.2	-8.0	0.5
Serbia	5.4	-0.2	1.5
Ukraine	4.5	-8.2	2.7

- Economic slowdown reflected in rising unemployment, rapid fall in private consumption and capital formation
- External financing and currency risks have eased slightly (IMF assistance, new sovereign debt) but political instabilities (especially BiH, Moldova, Ukraine) may endanger existing arrangements

M2/GDP – level of financial deepening

Country	High Peak level M2/GDP	2009 level M2/GDP	Trend in %
Albania	54.2 (2006)	47.3	-6.9
Armenia	14.7 (2008)	12.5	-2.2
Azerbaijan	17.4 (2008)	11.4	-6.3
Belarus	26.2 (2009)	26.2	0.0
BiH	56.6 (2007)	50.9	-5.7
Bulgaria	74.4 (2007)	68.5	-5.9
Georgia	28.9 (2007)	21.3	-7.6
Kosovo	n.a.	n.a.	n.a.
Macedonia, FYR	46.5 (2007)	44.2	-2.3
Montenegro	107.6 (2007)	84.5	-23.1
Moldova	34.6 (2008)	32.7	-1.9
Romania	37.5 (2007)	36.0	-1.5
Serbia	16.5 (2007)	15.2	-1.3
Ukraine	54.3 (2007)	50.2	-4.1
European Union	363.2 (2009)	363.2	0.0

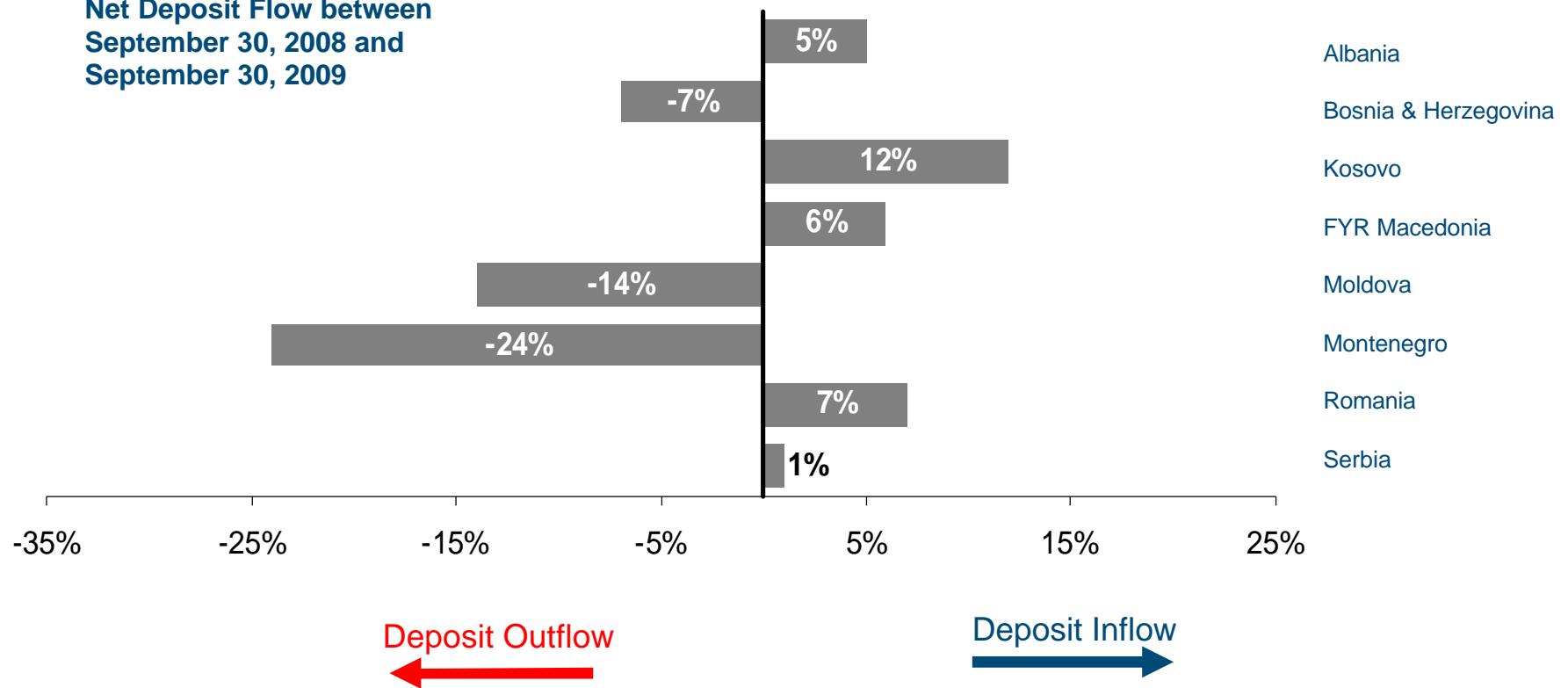
Total Banking Assets



Outflow of Deposits: Q4 2008 – Q3 2009



Net Deposit Flow between September 30, 2008 and September 30, 2009

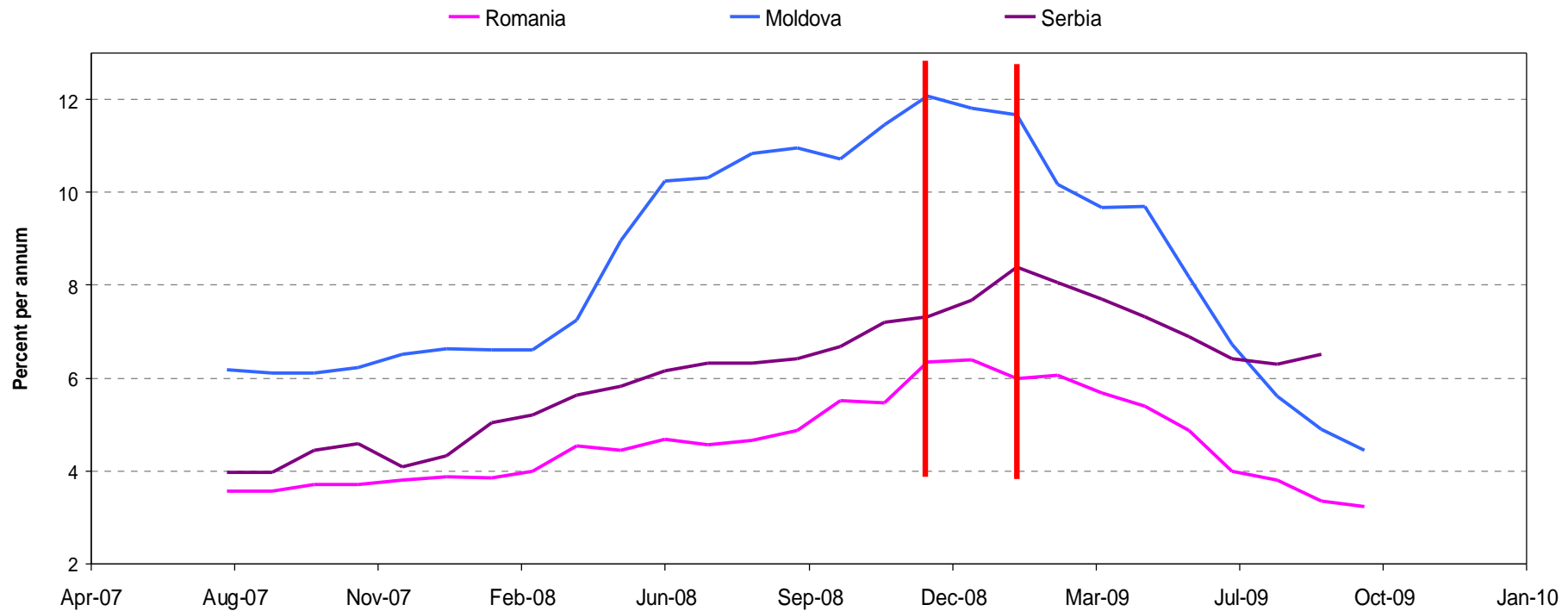


Source: EFSE PLIs

Deposit Rates Dynamics in the Region

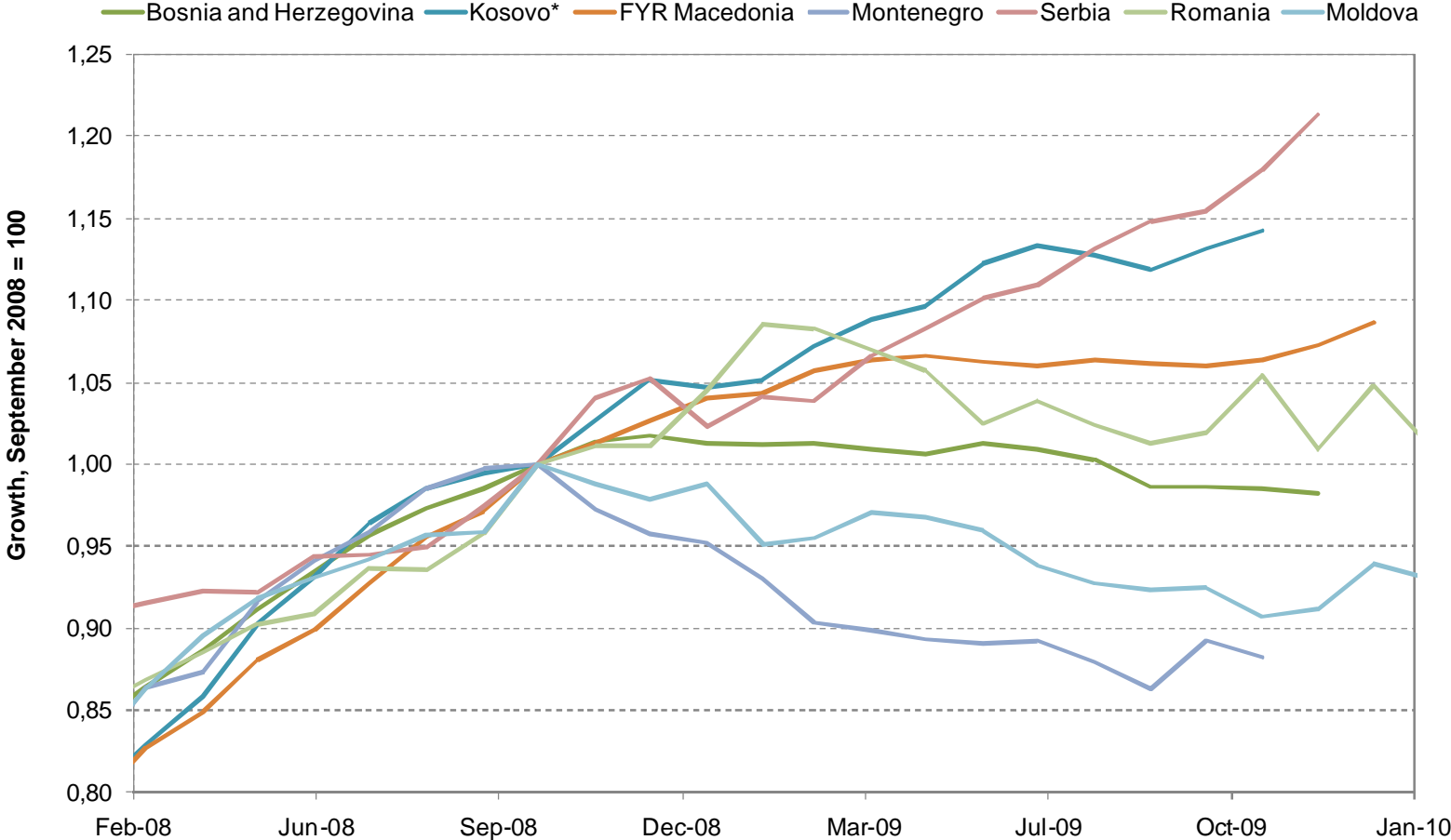


Foreign Currency Deposit Rates

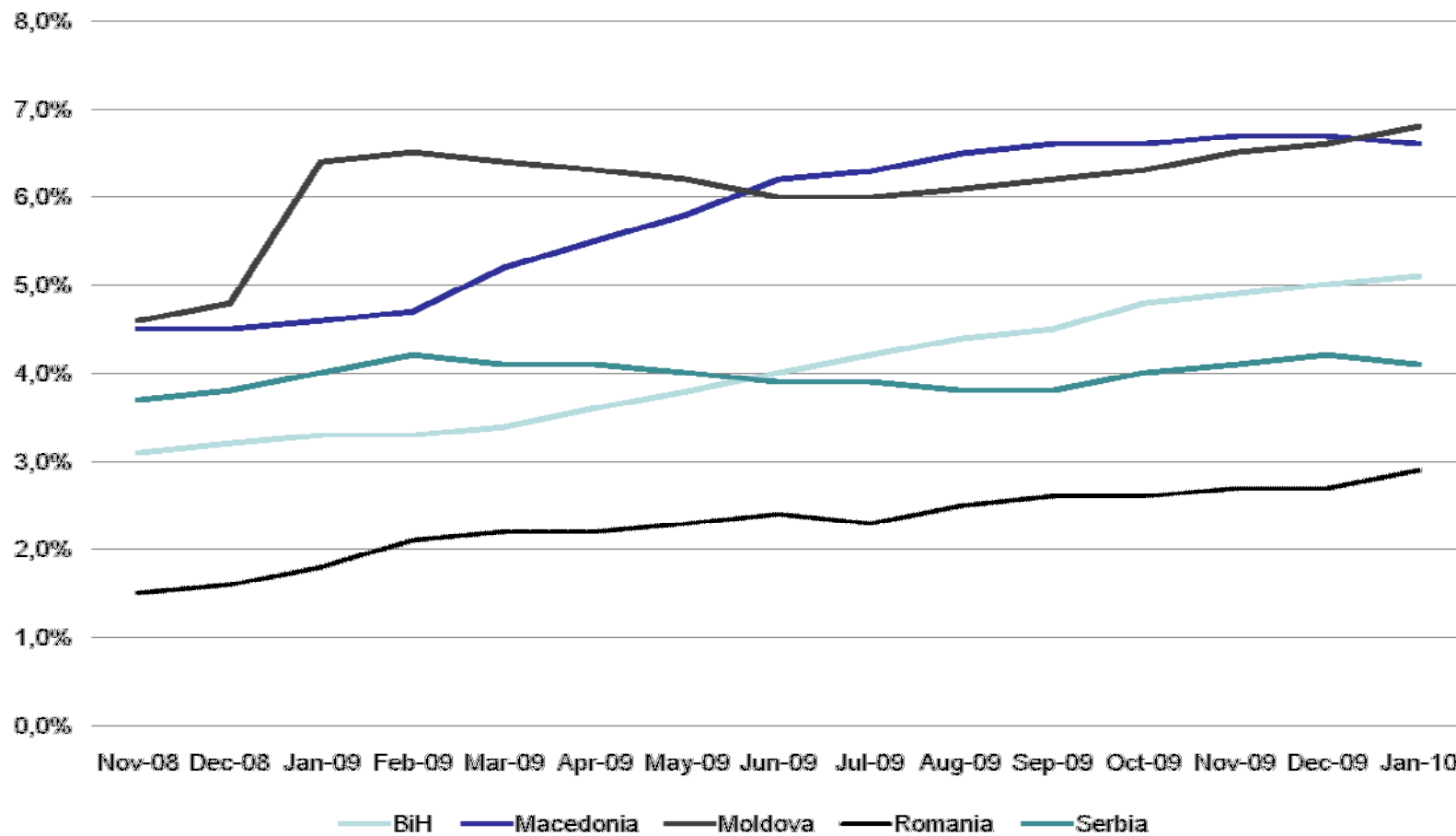


Restored Trust primary Driver for recovered Deposits
- Little correlation between deposit increase and deposit rates

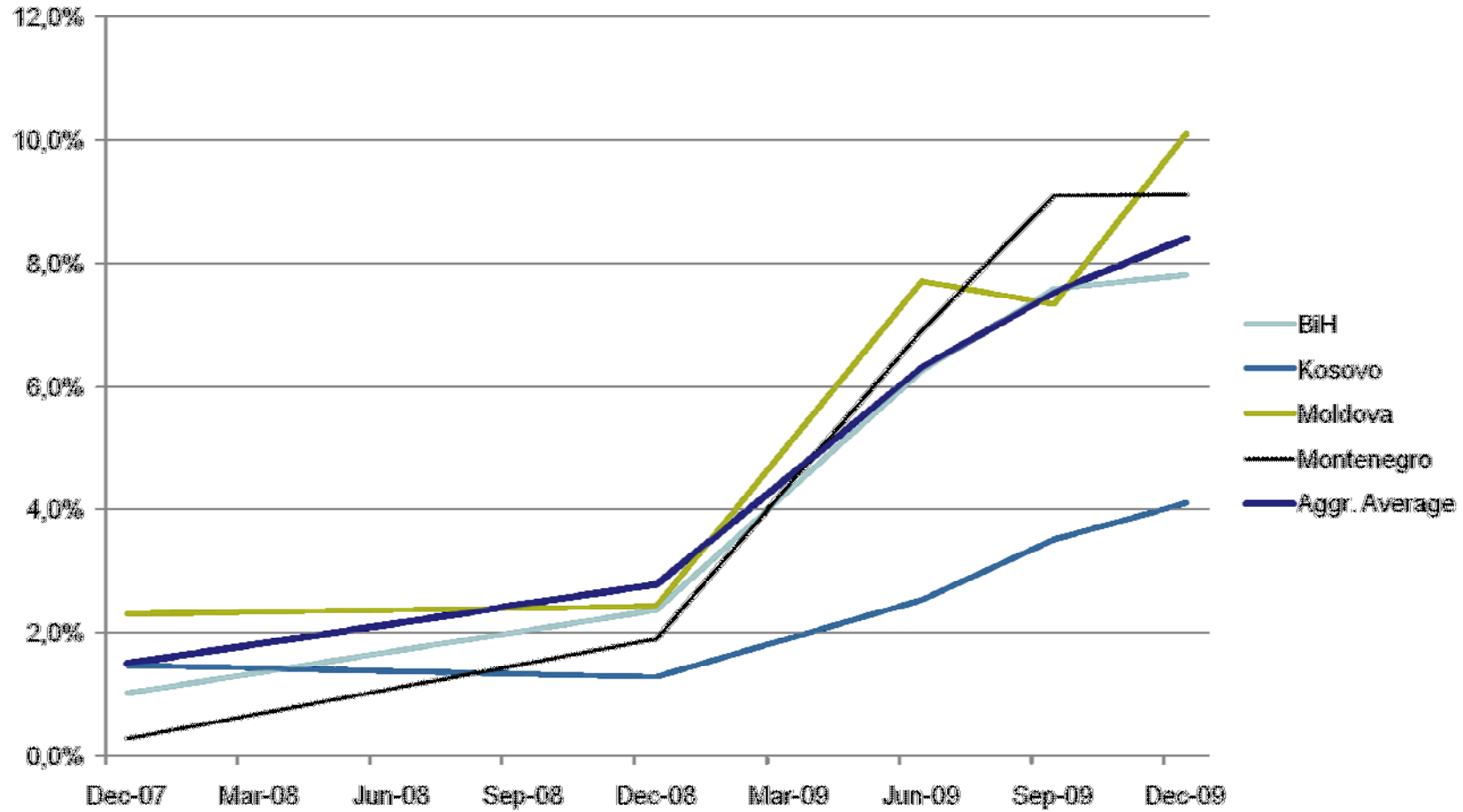
Portfolio Growth in Southeast Europe



NPL ratios in selected countries' banking sectors



PAR30 of EFSE MFIs/MCOs



Banks Credit Management for the bad Times ...

some mixed Results

- Experienced credit managers and adequate systems in place
- Restructuring actively used as a commonly acceptable tool
- Collection and work-out divisions

However

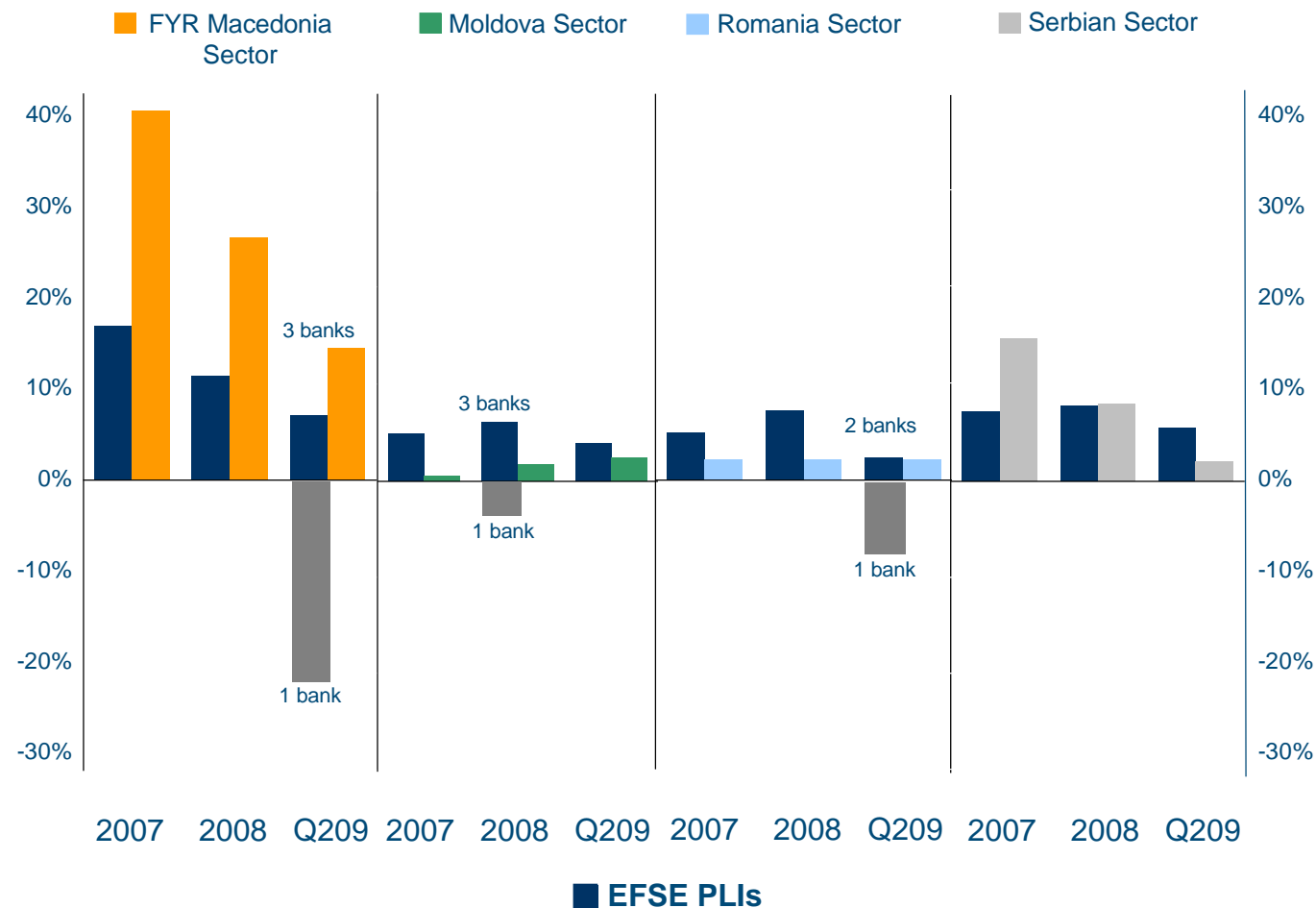
- Rating tools and scoring tools not crisis-proven
- Loan classification system not properly reflecting probability to default and potential loss
- Often too lax provisioning

MFIs one-eyed Credit Management ... for good Times

- Thorough understanding of the credit risk basics
- MFIs in the region: bonanza manager generation
- Limited forward looking trend/stress analysis
- Restructuring sometimes still considered a „no go“
- Delinquency management/collection new feature
- Rapid historic growth cum decentralization cum economic crisis = fraud-conducive environment
- Strive for efficiency left little extra resources to cope with the crisis

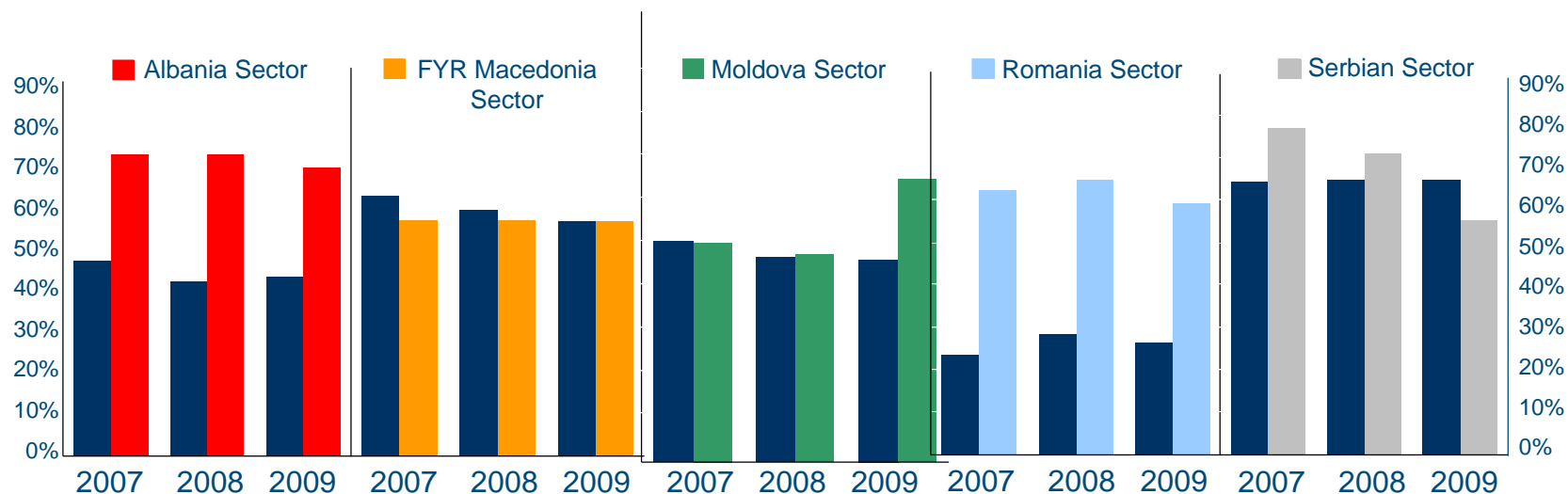
Direct Exposure to FX Risk in Banking Sector

Foreign Exchange Open Position as % of Regulatory Capital



Source: EFSE PLIs, Central Banks' data

Foreign Currency Lending as % of Gross Loan Portfolio



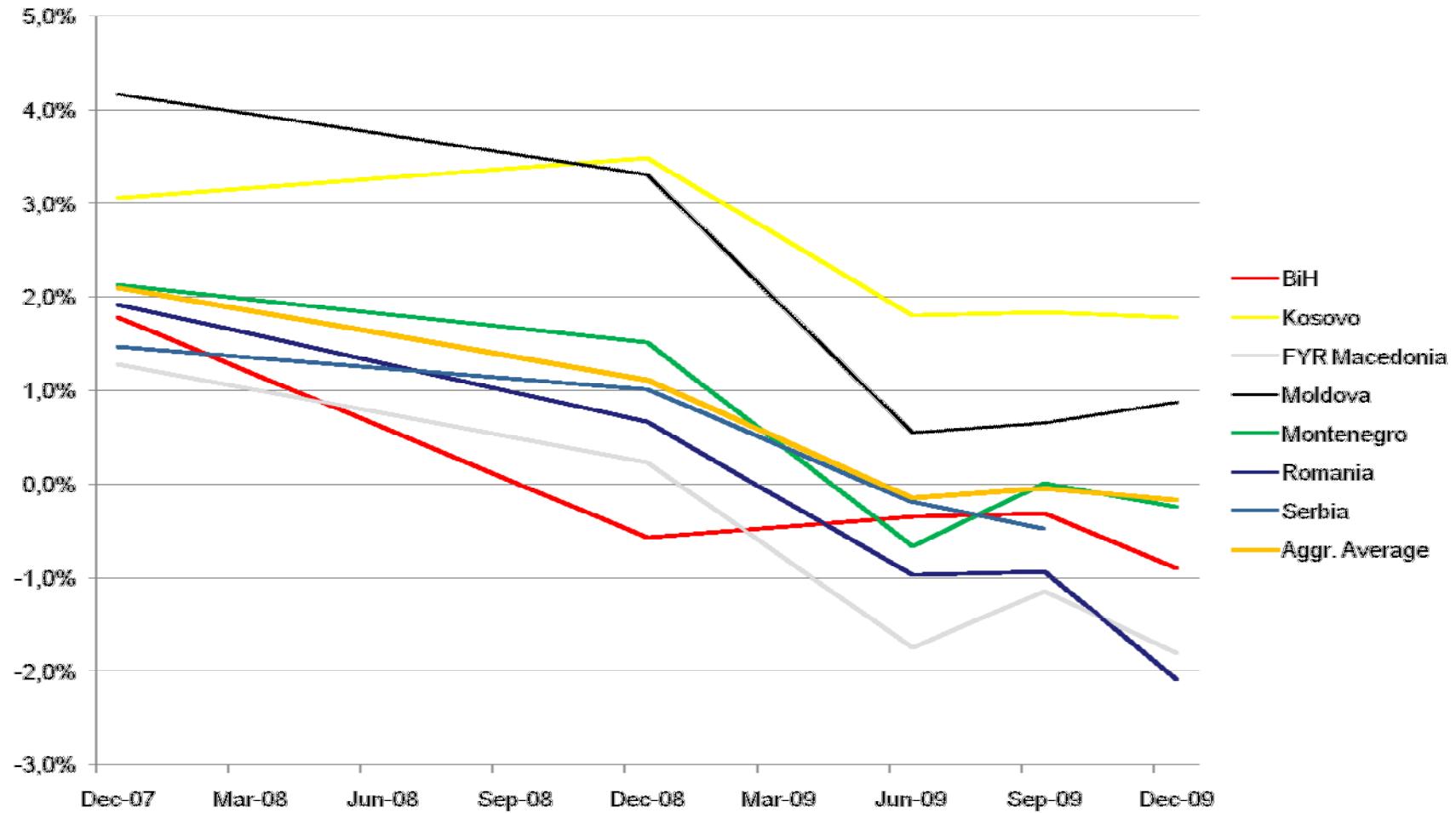
Currency Depreciation (positive change indicates depreciation)										
	ALL-USD	ALL-EUR	MKD-EUR	MKD-USD	MDL-EUR	MDL-USD	RON-CHF	RON-EUR	RSD-CHF	RSD-EUR
APR 08 - MAR 09	25,50%	6,85%	1,63%	19,37%	-10,42%	5,39%	19,30%	14,09%	21,52%	16,21%
OCT 08 - MAR 09	12,07%	6,27%	1,23%	6,75%	1,68%	7,93%	17,69%	13,20%	28,45%	23,55%
MAR 09 - MAR 10	-11,64%	1,78%	-0,39%	-13,31%	15,84%	4,91%	-4,23%	-1,79%	-3,25%	-0,93%

Source: EFSE PLIs, Central Banks' data

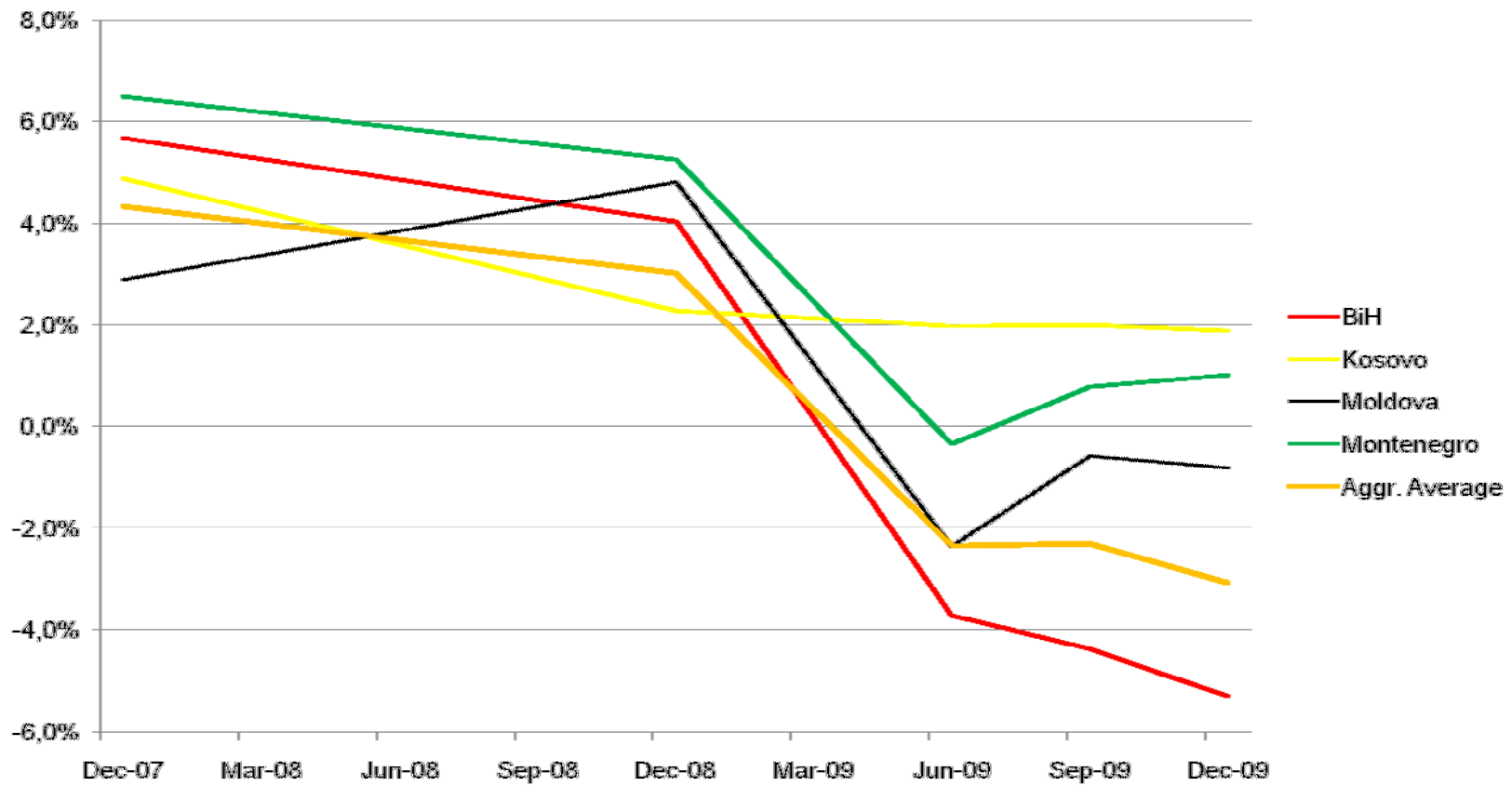
Limited FX Gap at the cost of large FX-induced credit risk

- FX gaps have been declining
- Strategic long EUR positions are often used to protect equity position in countries with expected depreciation
- Very limited FX swap market – if FX swaps are available, only for short-term
- FX gaps closed primarily via FX-denominated lending
- **However** – hidden beast of FX-induced credit risk given large portion of FX or FX-indexed loans

Return on Assets of EFSE PLI Banks



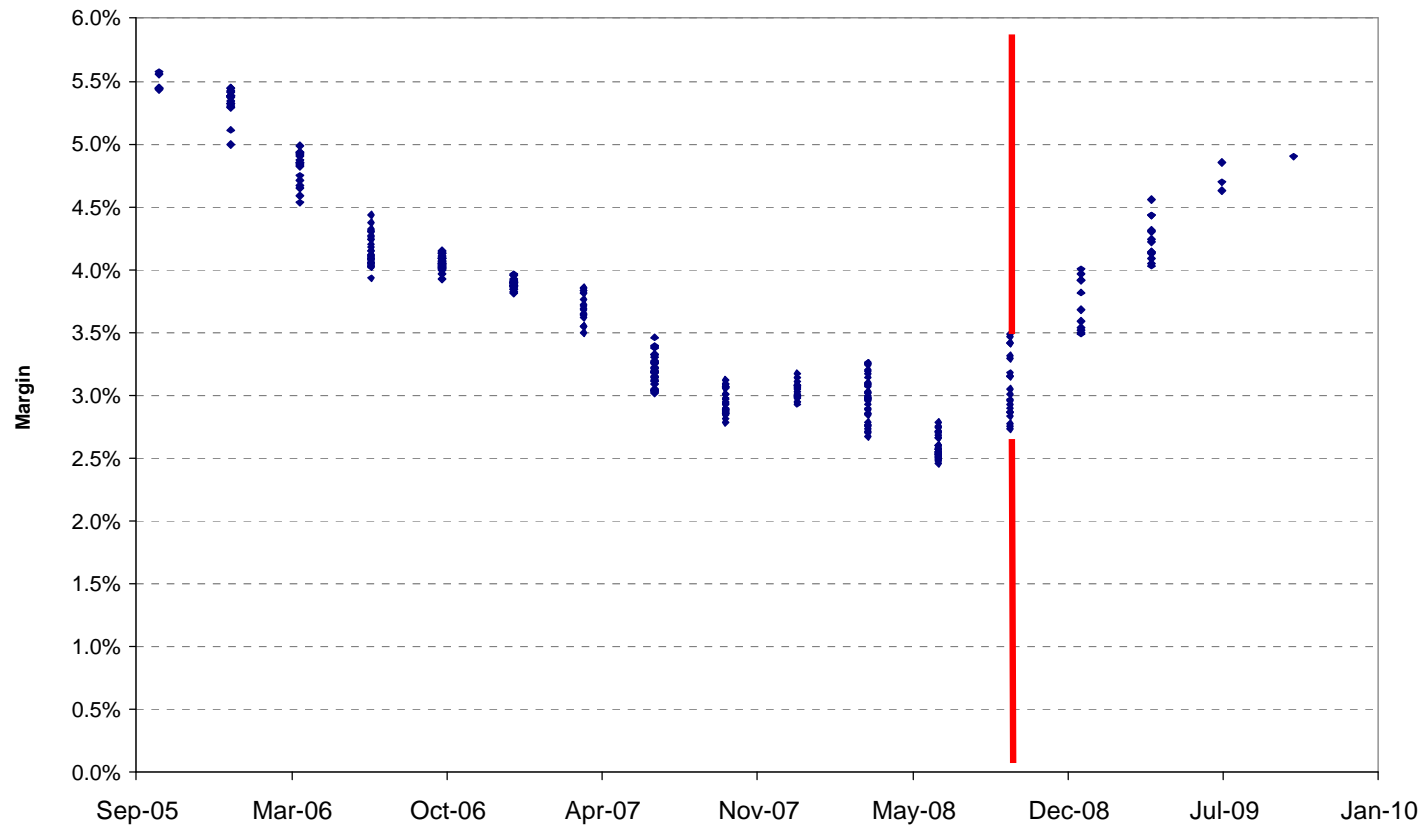
Return on Assets of EFSE PLI MFIs/MCOs



Importance of Refinancing Costs on Profitability



Average Funding Costs in Bosnia and Herzegovina



But ...

Importance of Refinancing Costs on Profitability

Average Nominal Funding Costs in Bosnia and Herzegovina

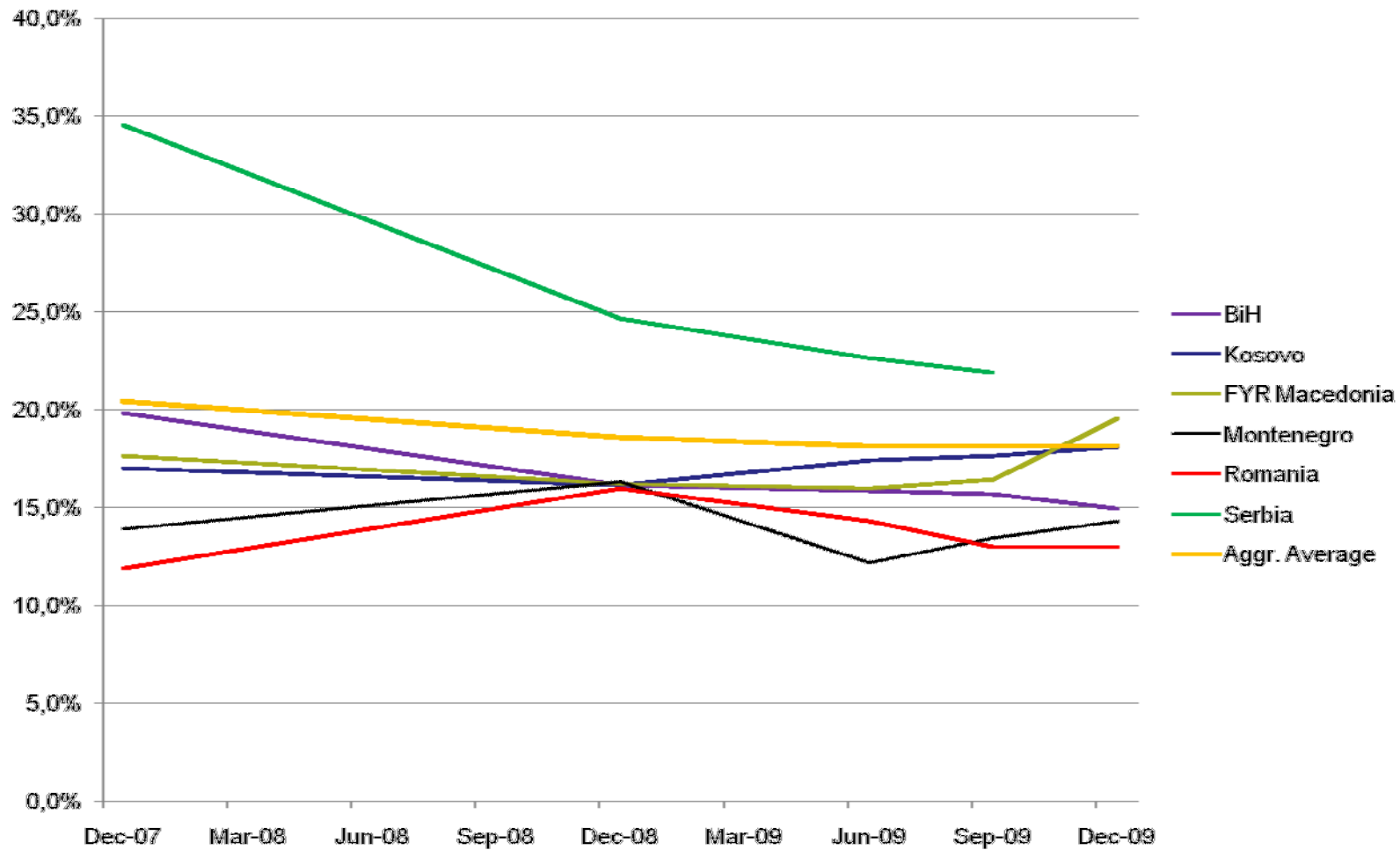


Profitability benefits from declining funding costs in nominal terms

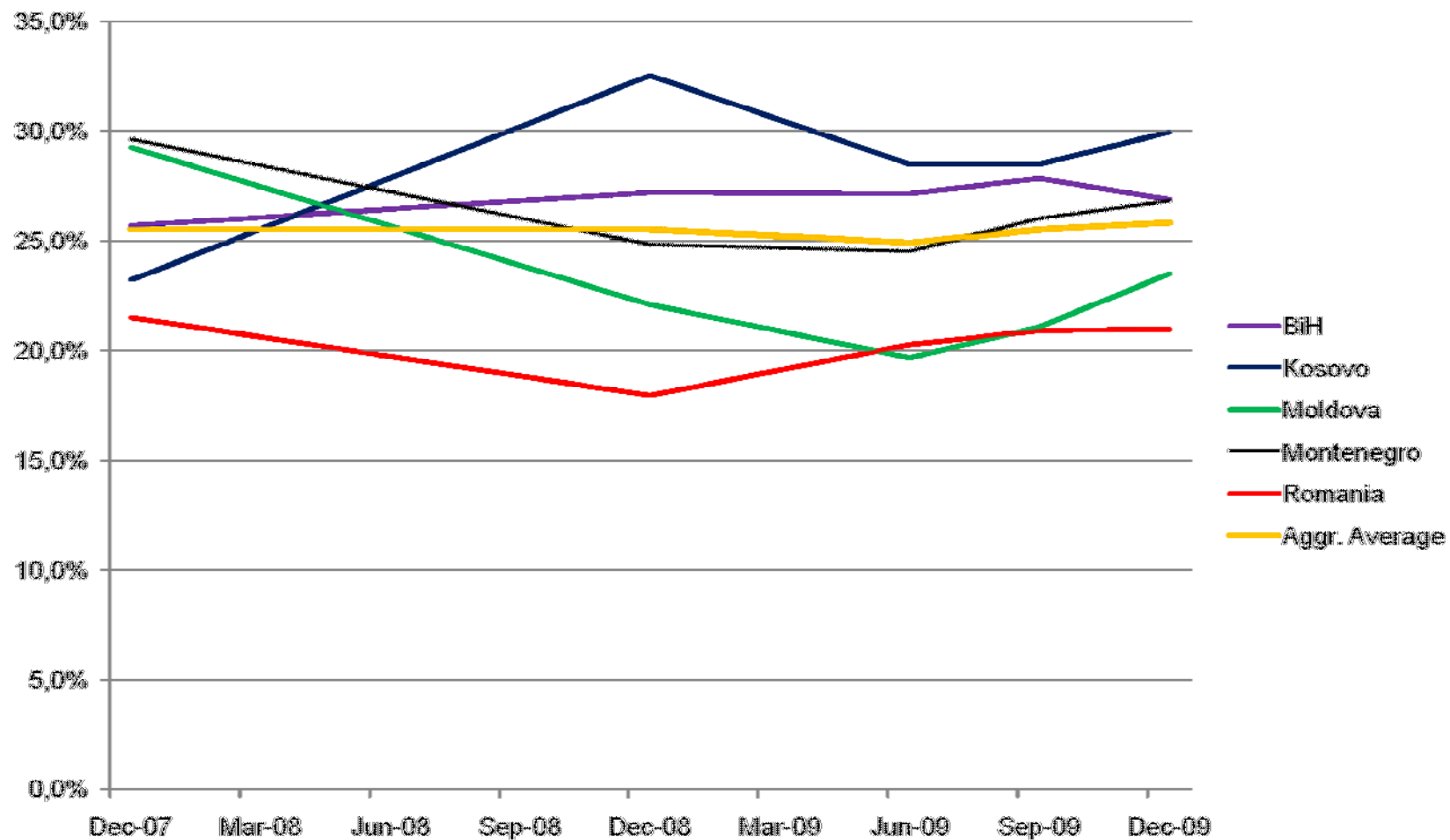
Creative Profitability Management

- § Refinancing costs are not the driving factor for low/negative profitability
- § High liquidity levels, sluggish lending activity and limited fee/other business activities hurt profitability
- § Main measures to actively manage profitability levels: provisioning, operational costs

Capital Adequacy Ratio of EFSE Banks



Equity to Assets Ratio of EFSE MFIs/MCOs



Thank you for your attention

Die Zukunftsförderer

