

ESTONIA, LATVIA, LITHUANIA - BANKING MARKET IN THE BALTICS 2008 - CEE BANKING BRIEF



by Marcin Mazurek, Intelace Research
March 2008

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EXECUTIVE SUMMARY – BANKING MARKET IN THE BALTICS, 2008

- **Macroeconomic situation.** The year 2007 was another successful period for all Baltic economies. Falling unemployment, advancing GDP and increasing wealth of individuals made the Baltics the most dynamically developing region in the whole Europe. Unfortunately first warning signs have been also visible in 2007 - Accelerating inflation, falling growth rate of GDP, huge C/A imbalances and interest rates on record highs, all factors threatening further economic growth
- **Banking markets.** Baltic banking markets were flourishing in 2007. Explosive expansion of lending, including mortgage and very quick deposits growth contributed to jump in total banking assets by ~35% on average, placing Latvia, Lithuania and Estonia among the top 5 most rapidly growing banking markets in Central and Eastern Europe. Encouraged by growing volumes in 2007 Baltic banks kept investing in infrastructure and significantly expanding branch, ATM and POS networks.
- **Competition.** Baltic banking markets are highly concentrated if compared to other CEE markets. Top 5 international groups present in all 3 countries still control almost 75% of combined banking assets. On the other side lack of major administrative entry barriers makes Baltic markets still an interesting opportunity for new entrants including both M&A and “greenfield” approach.
- **Perspectives.** The recent macroeconomic tensions, overheated real estate markets and worsening worldwide economic climate are likely to reduce temporarily the rate of growth in all Baltic countries. Especially Latvia and Estonia may be affected by lower growth rates and possible currency devaluation. Nevertheless the Baltic economies are relatively flexible and healthy, so after a temporary problems, they are likely to quickly resume growth. Intelace Research expect that banking assets in Baltic countries will further increase by 23% on average p.a. through 2009.

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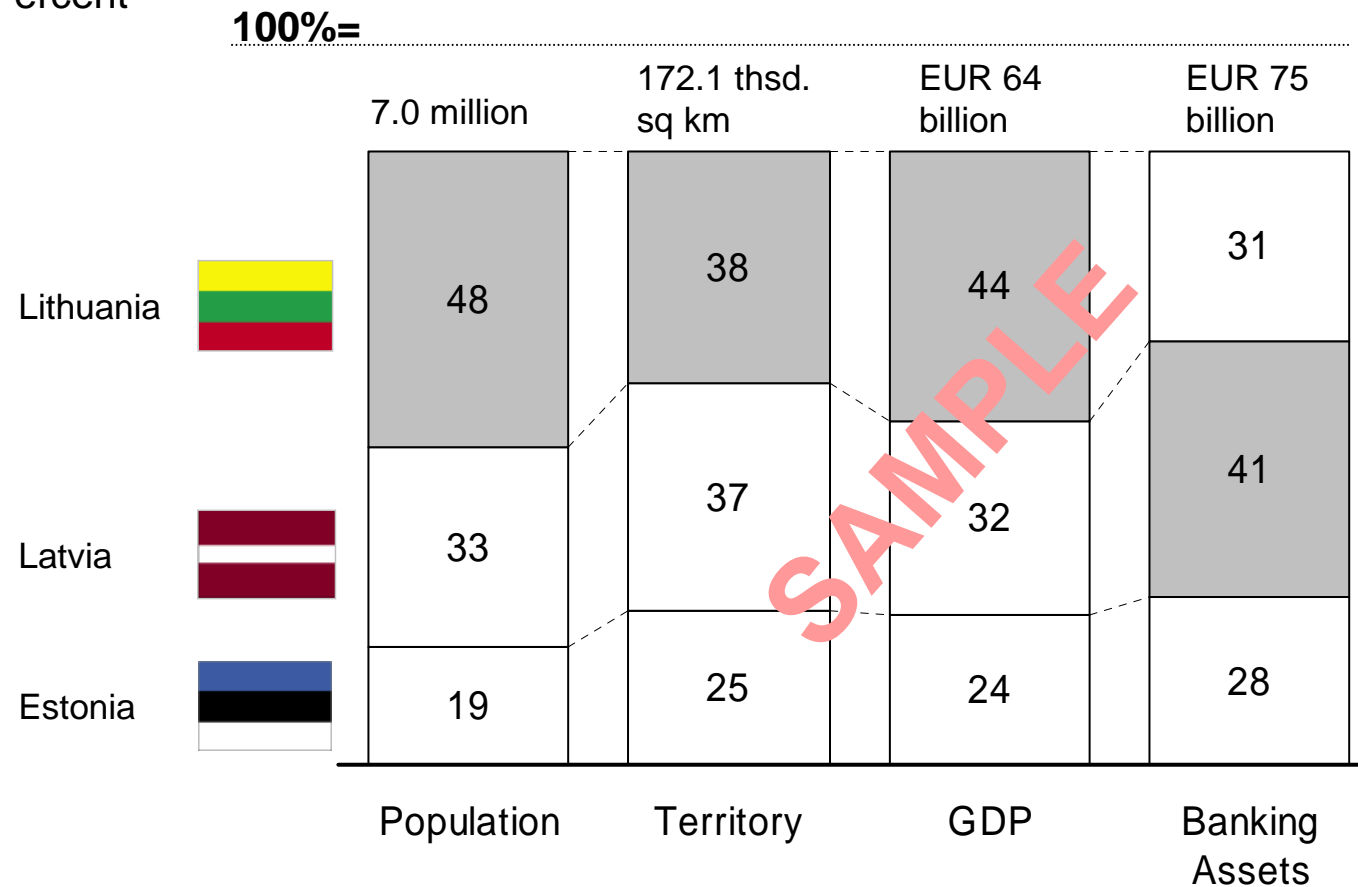
- **General overview**
- **Estonia**
- **Latvia**
- **Lithuania**
- **Mid-term forecast**
- **Notes on Methodology**

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7 MILLION INHABITANTS AND QUICKLY GROWING GDP, MAKE BALTIC COUNTRIES AN ATTRACTIVE BANKING MARKET

Baltic countries combined statistics , 2007

Percent



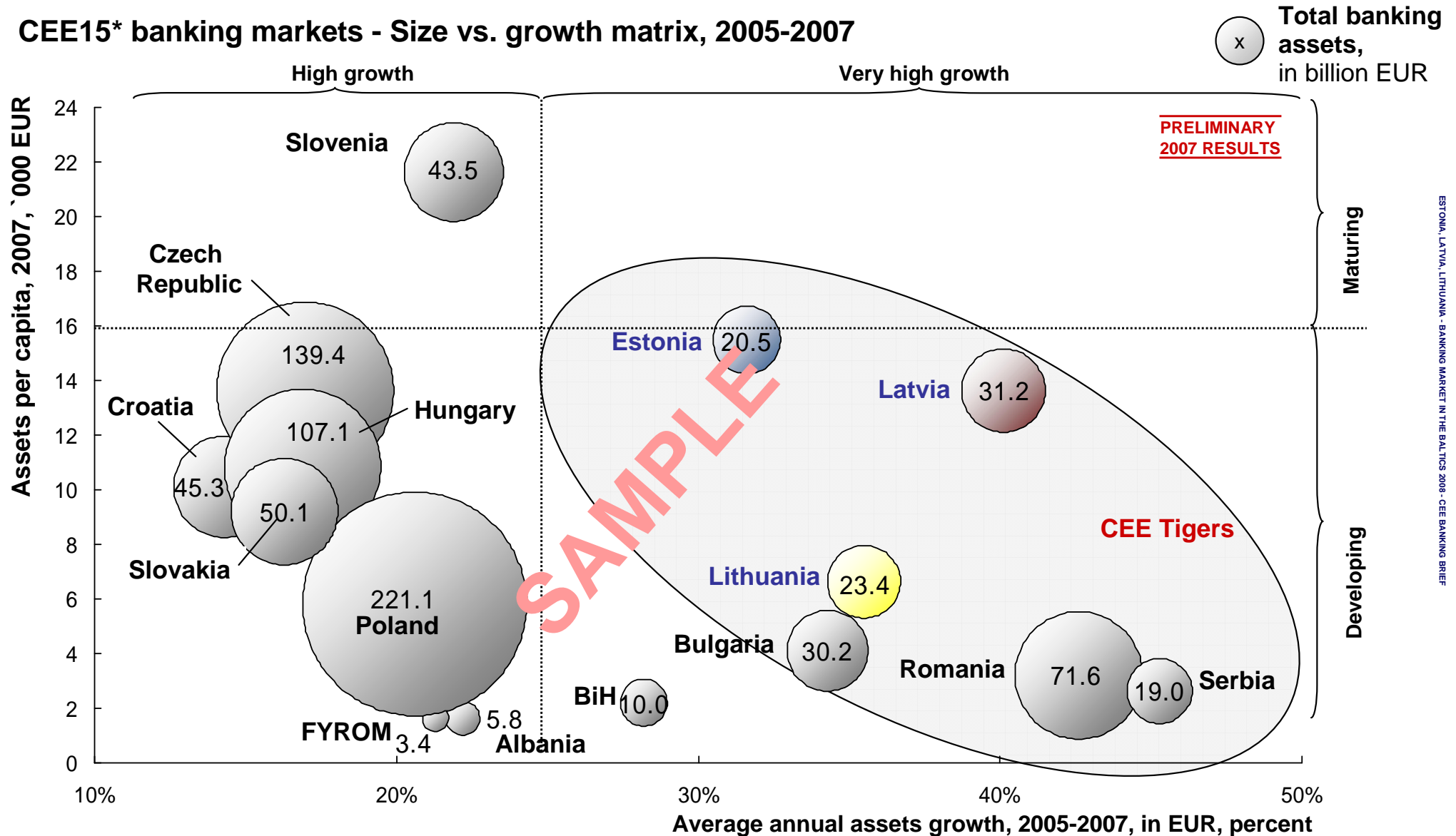
- Lithuania is the largest country in the group with almost 50% share in population, 44% share in GDP, but only 31% share in assets

- Estonia is the smallest Baltic country but it has relatively the highest GDP contribution per capita

- Latvia has the largest banking market in terms of total assets

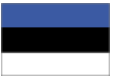
ESTONIA, LATVIA AND LITHUANIA ARE STILL AMONG MOST DYNAMIC BANKING MARKETS IN THE CEE15* AREA

CEE15* banking markets - Size vs. growth matrix, 2005-2007



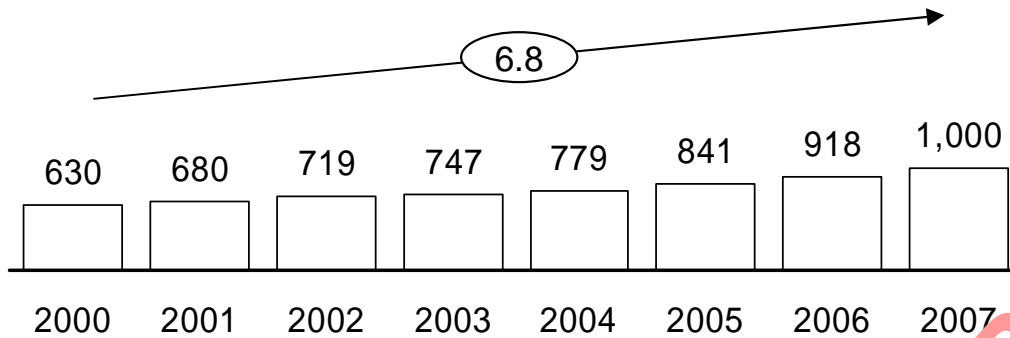
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* Top 15 Countries in Central and Eastern Europe. Russia, Ukraine and Belarus not included
 Source: Central banks, IMF, Intelace Research
 Intelace Research

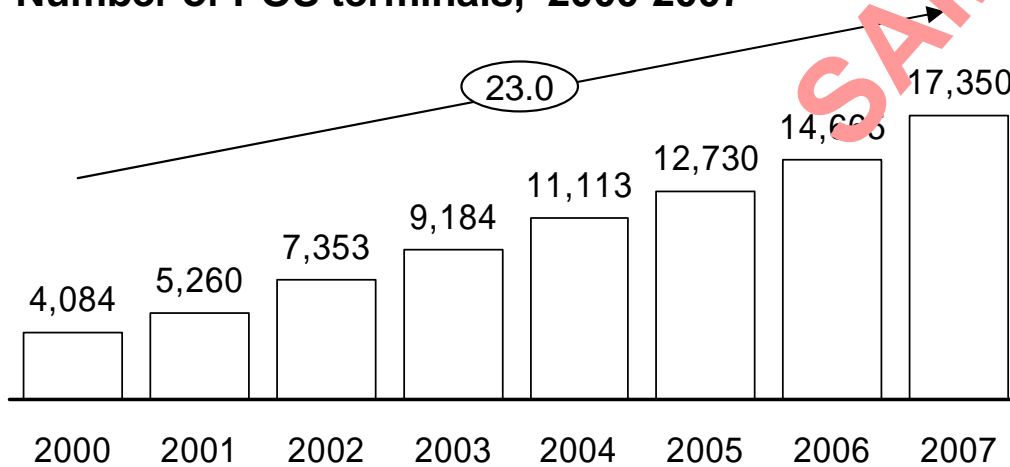


ESTONIA HAS THE MOST DEVELOPED PAYMENT INFRASTRUCTURE AMONG BALTIC COUNTRIES

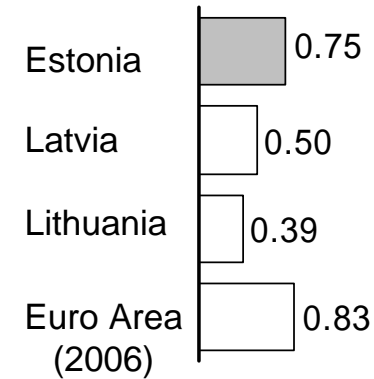
Number of ATMs, 2000-2007



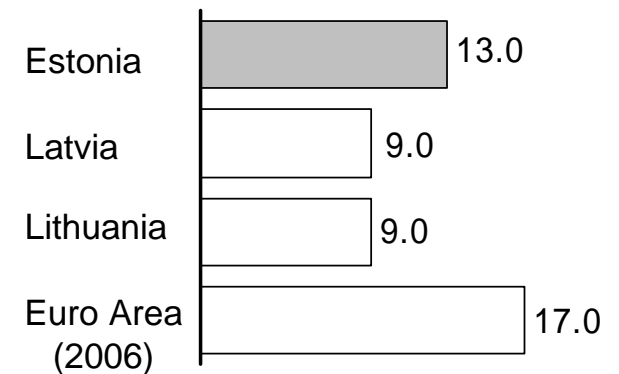
Number of POS terminals, 2000-2007



ATMs per capita, 2007 Per 1 thousand inhabitants



POS per capita, 2007 Per 1 thousand inhabitants



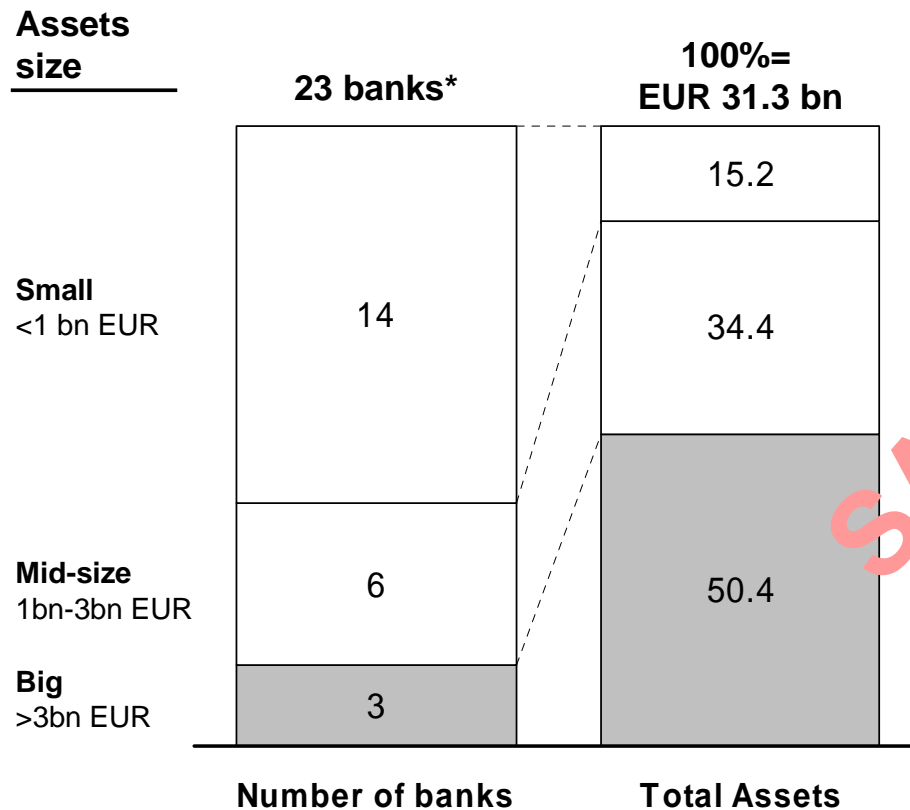
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BANKING MARKET IN LATVIA IS MODERATELY CONCENTRATED

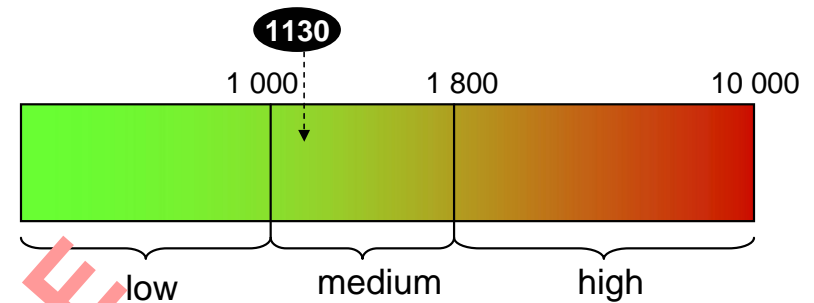
Banks by assets size groups, 2007

percent

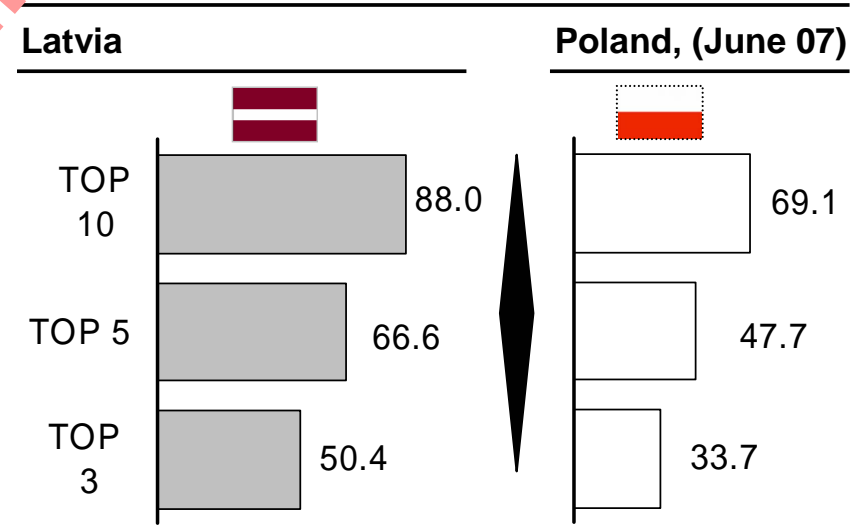


Herfindahl-Hirschman** Index, 2007

points, nonlinear scale



Share of top banks, 2007, percent



* Local banks and foreign banks branches

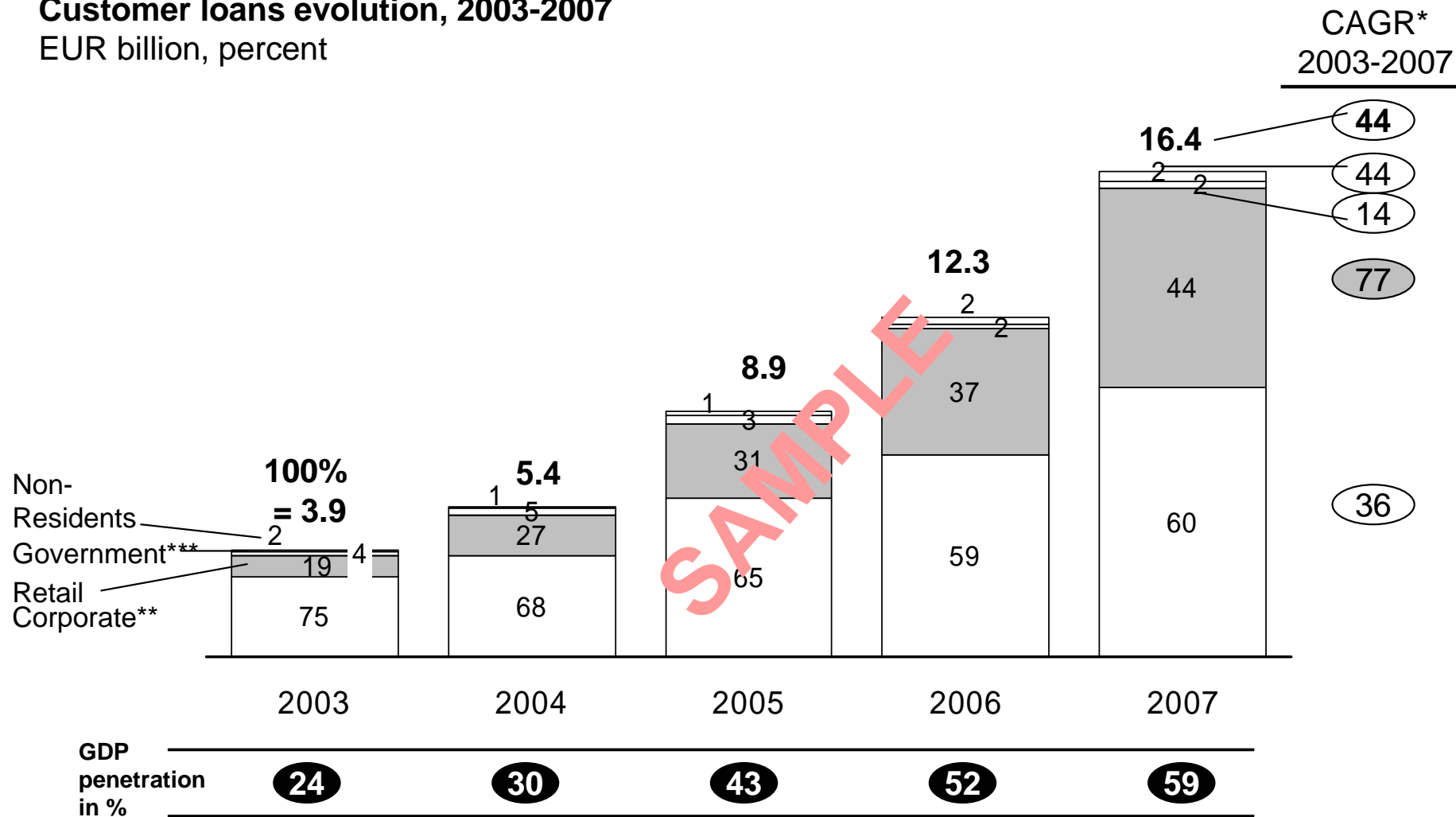
** Markets in which the HHI is between 1000 and 1800 points are considered to be moderately concentrated, and those in which the HHI is in excess of 1800 points are considered to be concentrated.

Source: Central Bank, Intelace Research



SIMILARLY TO OTHER BALTIC MARKETS, RETAIL SEGMENT IS DRIVING THE LEADING GROWTH IN LITHUANIA

Customer loans evolution, 2003-2007
EUR billion, percent



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* Compound Annual Growth Rate
 ** Including non-monetary financial institutions and public enterprises
 *** Including central and local government but excluding public enterprises
 Source: Central Bank, Intelace Research

NOTES ON METHODOLOGY

FX rates:

- As a general rule all balances like: assets, deposits, loans and similar volumes have been converted from the local currency into Euro using **end of year** exchange rate

- Exchange rates used in the report:

EUR / FX	2000	2001	2002	2003	2004	2005	2006	2007
EEK	15.7	15.7	15.7	15.7	15.7	15.7	15.7	15.7
LVL	0.58	0.56	0.61	0.67	0.70	0.70	0.70	0.70
LTL	3.77	3.54	3.45	3.45	3.45	3.45	3.45	3.45

Estimates and Forecasts:

- In some cases, recent or verified data was not available. Therefore, necessary short-term estimations have been done to fill the gaps. Estimates are always indicated with the letter “E”
- When preparing forecasts/estimates we have built models using latest observed trends, available forecasts of main economic indicators, seasonal changes observed in the past and other specific factors considered important.

Multiple sources:

- In some cases multiple sources of similar data exist. In this situation we always try to select the most appropriate one /in our view/. The source is indicated in the footer area of each slide. Nevertheless in specific cases, before interpreting the data it is recommended to get a good understanding on the methodology of data collection.

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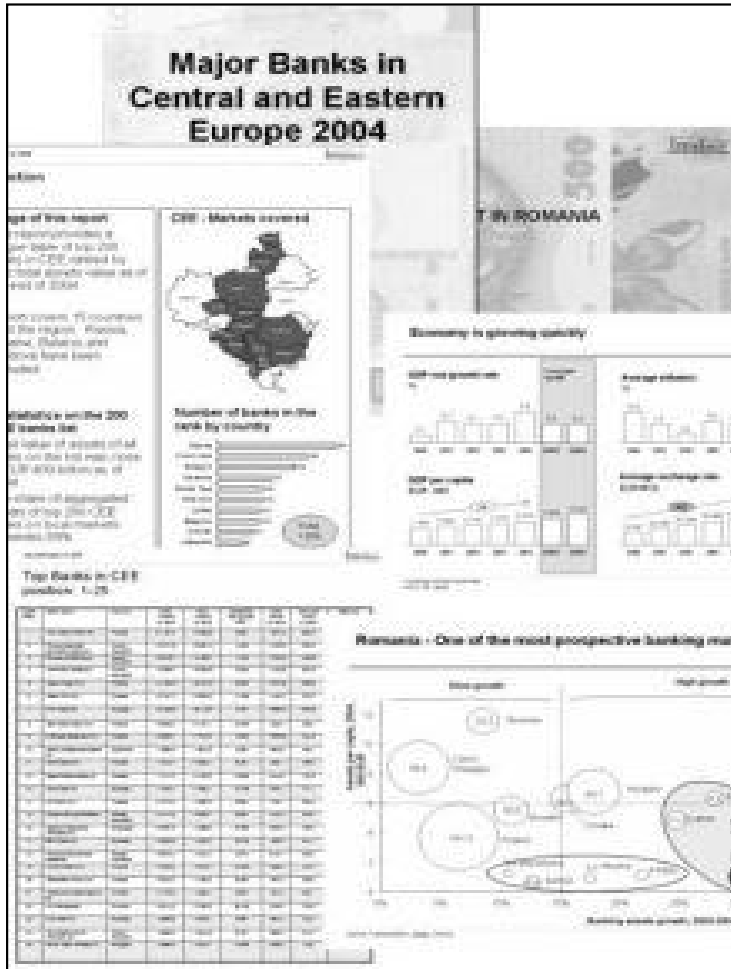
Through our customized research services we help our clients to better understand their consumers, competitors and overall market dynamics.

The lead researcher and founder of Intelace Research is Marcin Mazurek.

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