

United Bulgarian Bank

July 1-3, 2010

**Challenges before the banking sector in the countries of
South-eastern Europe in an environment of financial crisis –
strategies for protecting staff social rights and employment**

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Bulgarian Banking System 2005 – 2008

- Macroeconomic Environment
- Financial Performance
- Key Indicators

Bulgarian Banking System 2009-2010

- Key Performance Indicators
- Main Activity Focuses

Macroeconomic Environment

2005-2008 – good times for business

- Stable GDP Growth 6.3% average
- Controlled inflation at 8.3% average
- Strong financial discipline
 - Budget surplus 2-3% average
 - Currency board and fixed exchange rate
 - Low level of public debt at 14% average
 - Increased FX reserves from EUR 7.3 bio in 2005 to EUR 12.7 bio in 2008
 - Huge FDIs- total of EUR 3.397 bio increase for 2005 – 2008

BANKING SECTOR

- Boom in retail lending
- Very high competition for market shares
- Cheap financing, cheap & easy loans
- Good profit margins
- NPLs at acceptable levels
- Branch network expansion

Macroeconomic Environment

2009 – 2010 The global crises Impacted on Bulgaria

- GDP negative growth: - 5% y/y
- Production output in some sectors dropped by 30%
- Low consumption, no investments
- Significant drop in FDI - by EUR 3.704 bio versus 2008
- Increase unemployment – from 6.3% before crises to 9.1% as of end 2009, 9.5% as of May 2010

BANKING SECTOR

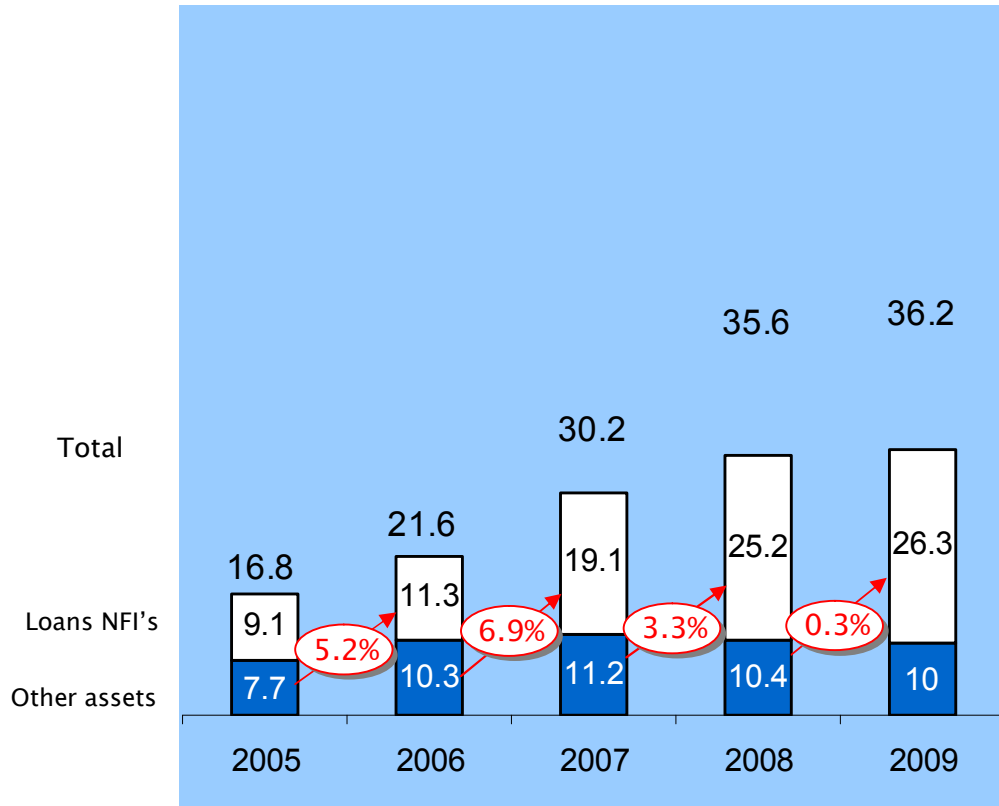
- High liquidity pressure resulted in significant increased deposit rates – “deposit price war”
- Close to 0 growth in lending due to
 - Restrictive lending policy of the banks
 - Increased pricing
 - Low demand – the applications for new mortgages dropped 10 times
 - Fast increase of NPLs reaching 9.8% in corporate loans, 10.6% in mortgages and 12.25% in consumer loans as of end 2009
 - Profitability dropped by 50% mainly due to increased provisions

Banking sector in Bulgaria - 2005 – 2009

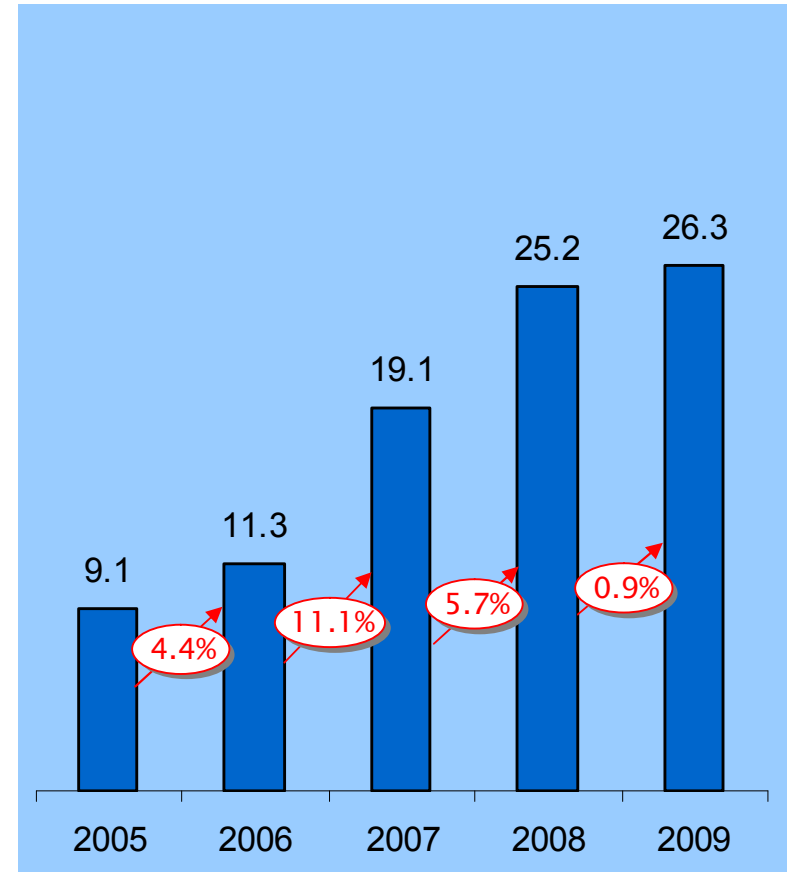
1/3

% CAGR

Assets EUR bio



Net loans NFI's EUR bio



Assets/GDP(%)

76.76%

85.48%

104.55%

104.24%

106.54%

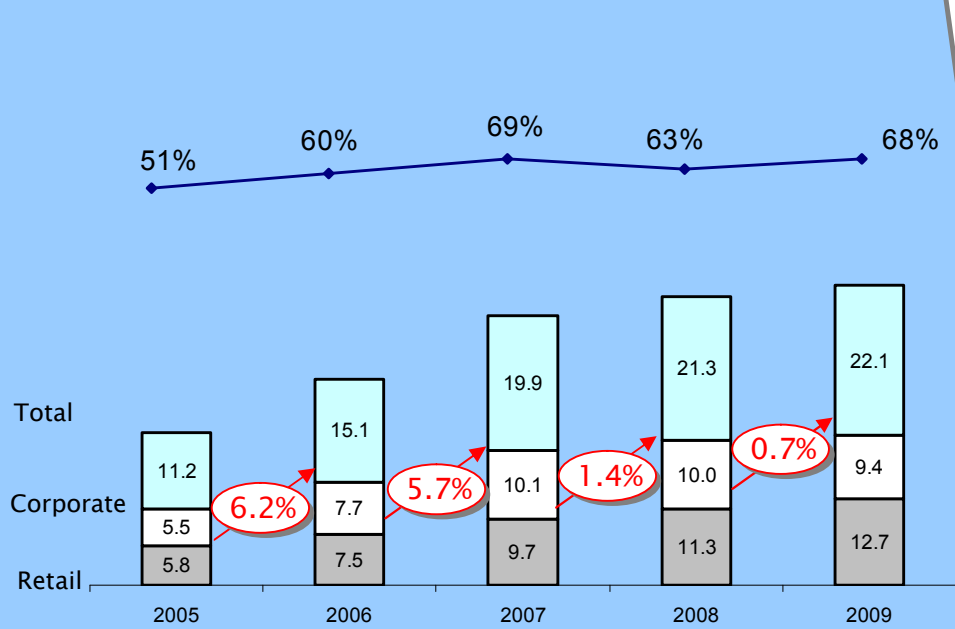
Deposits

2/3

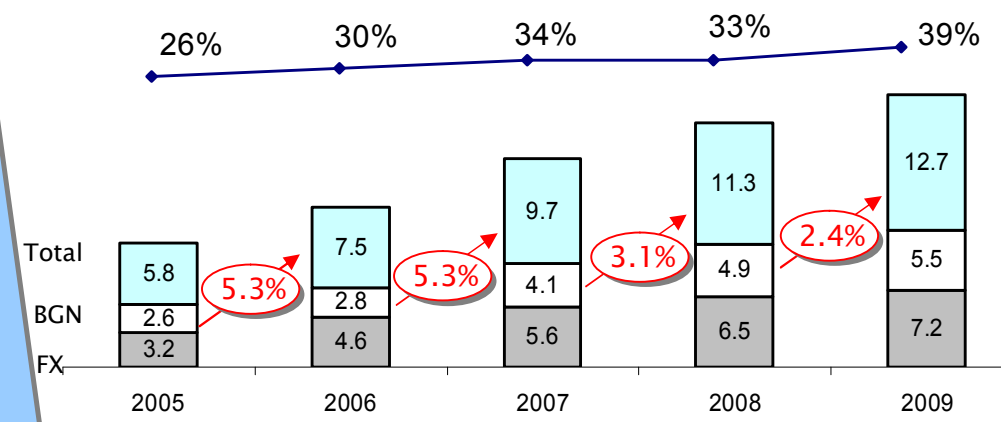
EUR bio

◆ Deposits/GDP % CAGR

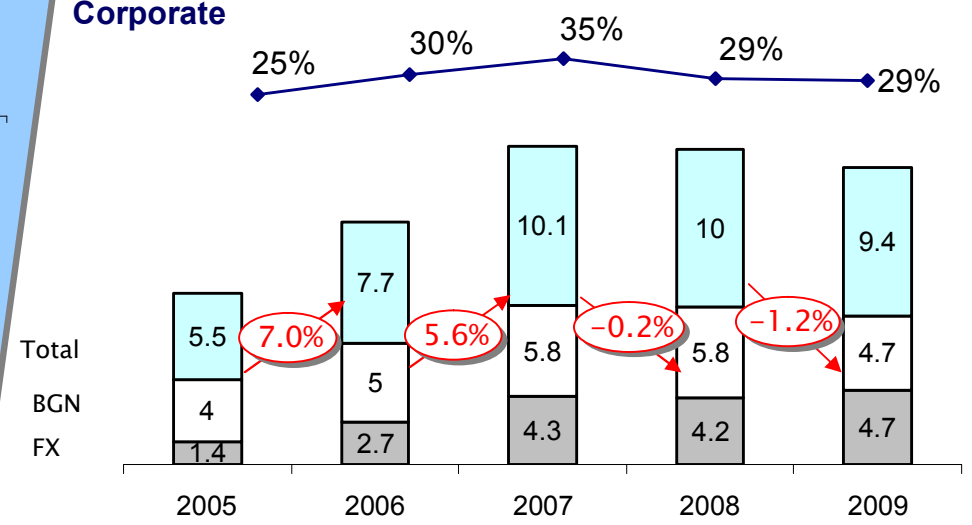
Deposit volume (Private Sector)



Retail



Corporate



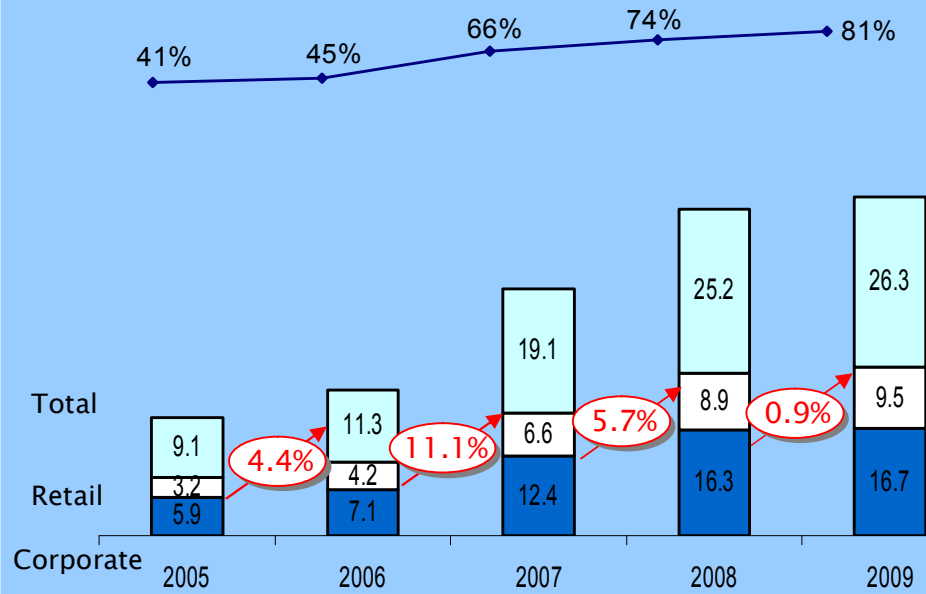
Loans

3/3

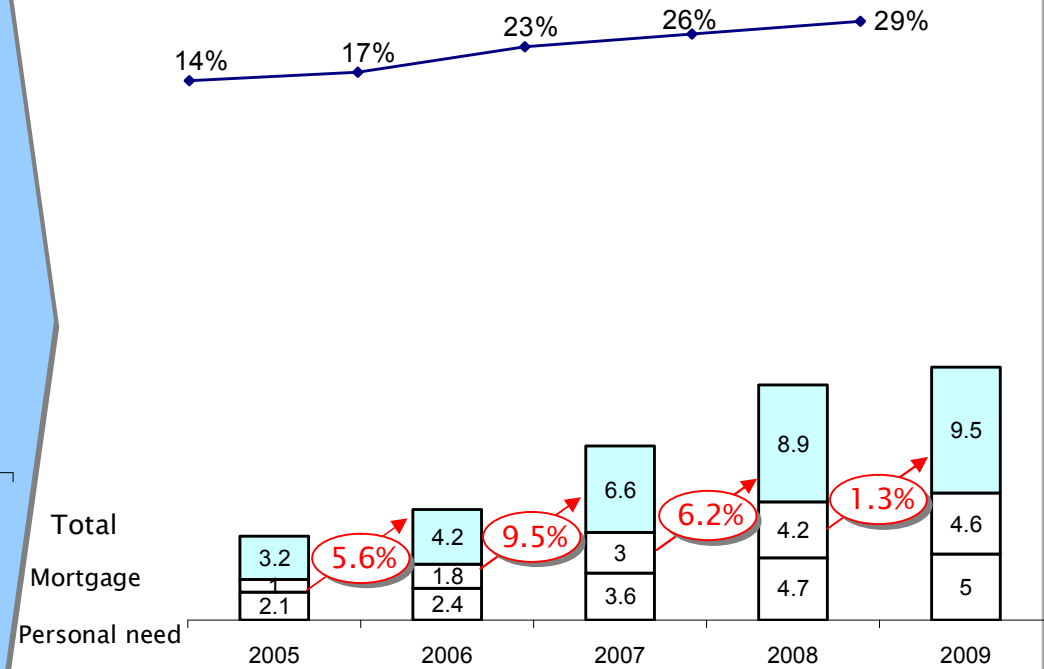
EUR bio

◆ Loan/GDP % CAGR

Loan volume



Retail loans volume

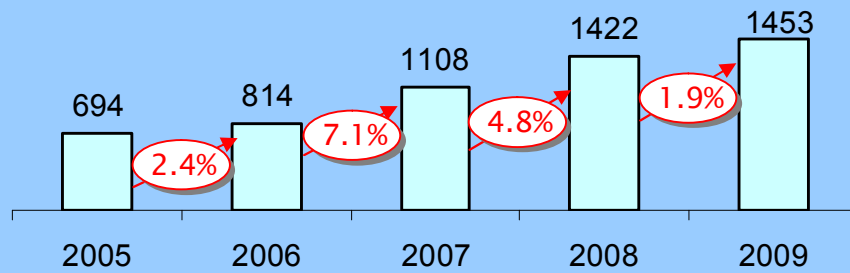


Bulgarian Banking System Key Performance Indicators

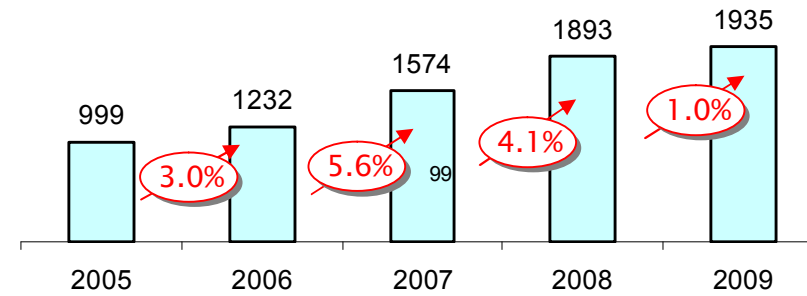
EUR Mio

% CAGR

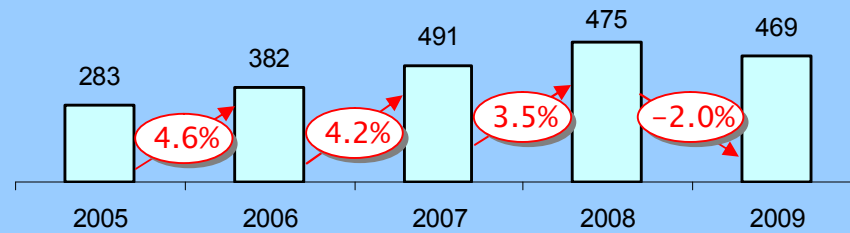
Net Interest Income



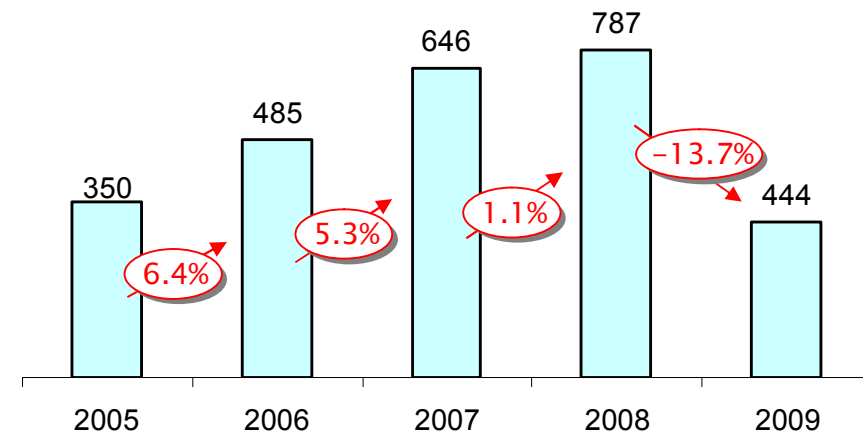
Total Income



NNII

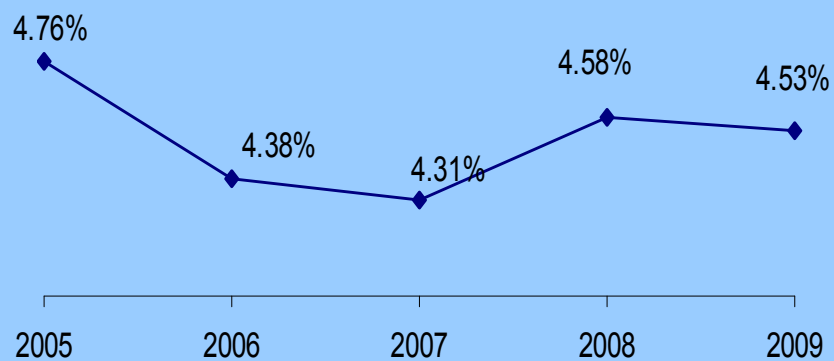


Profit before tax

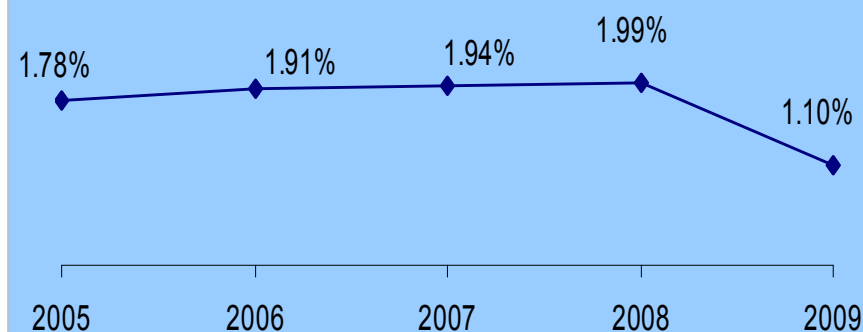


Bulgarian Banking System Key Performance Ratios

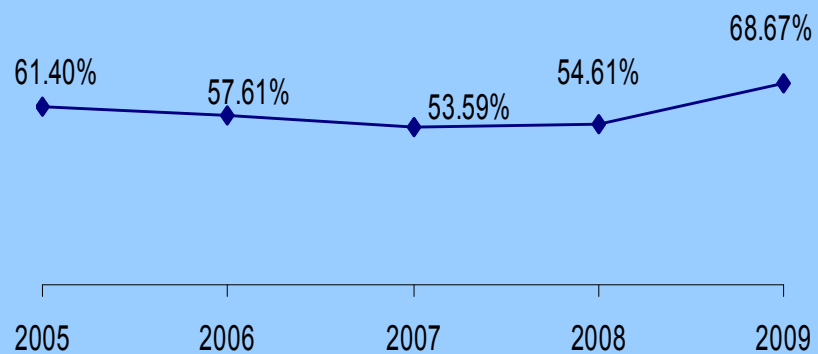
Net interest margin



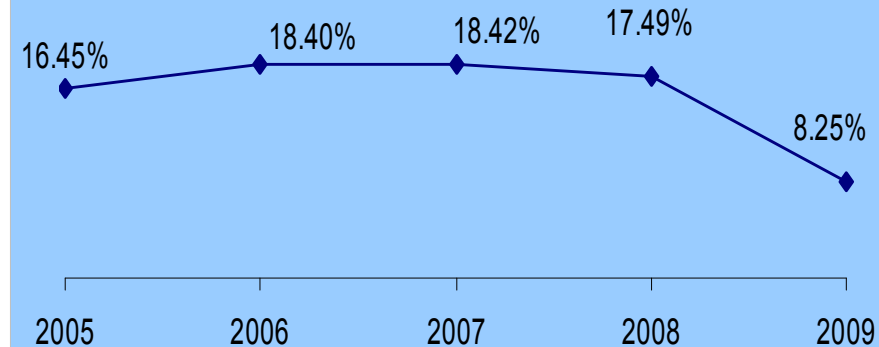
ROA



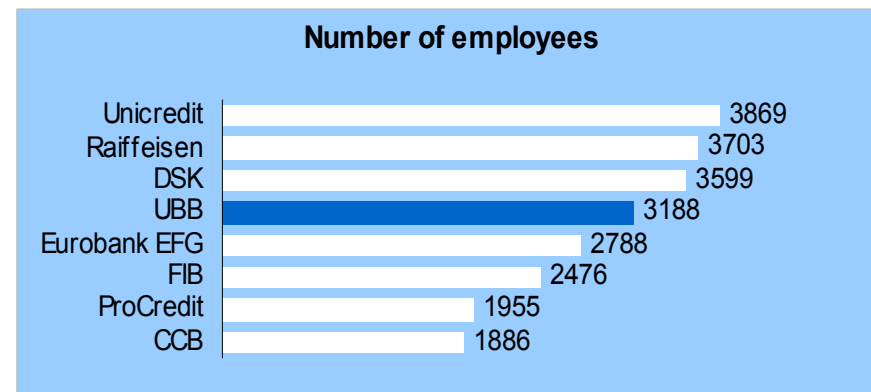
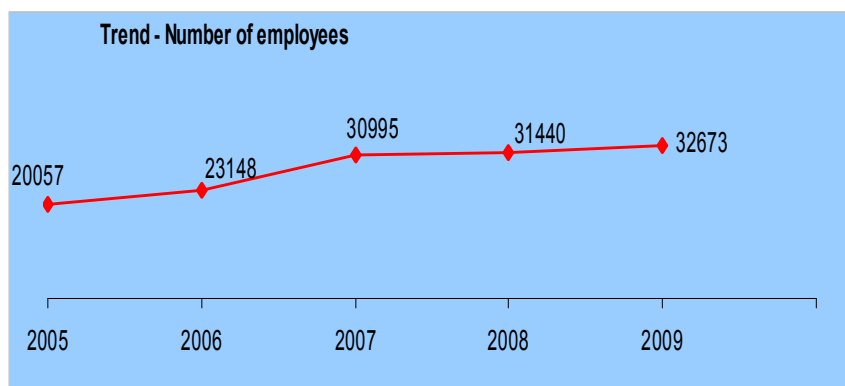
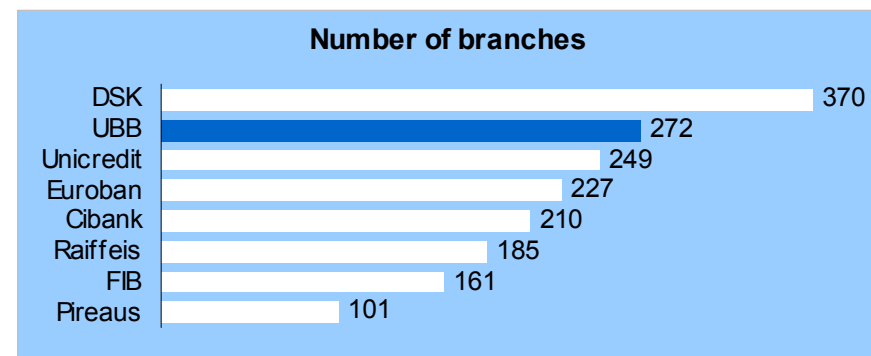
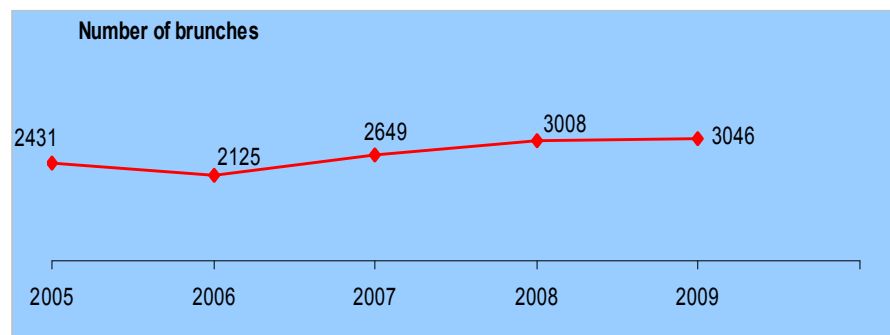
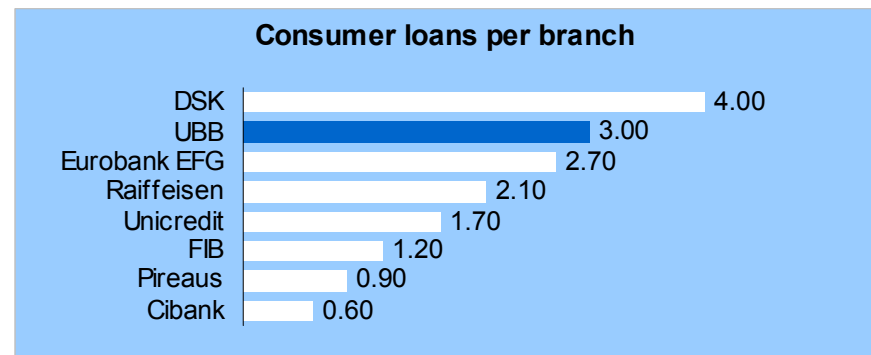
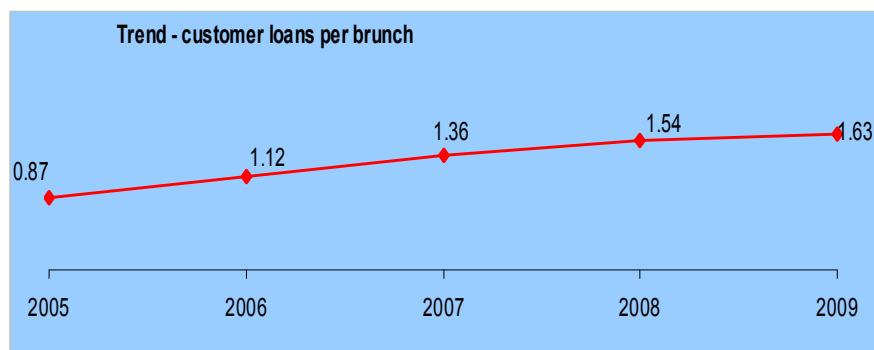
Cost/Income



ROE



Bulgarian Banking System– Key Trends and Ratios 2009



What has been done in Bulgaria's banking sector to decrease the impact of crisis?

| | <u>Actions taken or planned to be taken</u> | <u>(Expected) impact</u> |
|----------------------|--|--|
| By regulators | <ul style="list-style-type: none"> • Deposit guarantee up to BGN 100000 • Maintaining the Currency Board Stability (EUR/BGN 1.95583) • Amendments in the banks' reserve regulations. Decreasing on BNB Foreign reserves. | <ul style="list-style-type: none"> • Maintaining of the customers' confidence. Support on the retail lending. • Stability in the economy. Opportunities for FDI Increase. • Increase the liquidity of the banking system. Opportunities for credit growth or reducing mother-companies financing. |
| By Banks | <ul style="list-style-type: none"> • Reprising bank credit products • Focus on attracting deposits • Improve the loans/deposits ratio • Attract the subordinated debt and other debt instruments • Shift the focus from expanding market shares to improvement in liquidity ratios. • Shift the focus from retail to wholesale lending | <ul style="list-style-type: none"> • Delay or stop loans' credit growth rate • Increase the liquidity .Develop retail banking. • Decrease the credit growth rates. • Improve the capital base as well as the liquidity • Increase the deposit base . Reducing the credit expansion. • Maintaining the loans quality at good levels and well balanced portfolio |

What has been done or planned to be taken for protecting staff social rights and employment?

| | <u>Actions taken or planned</u> | <u>(Expected) impact</u> |
|---------------|---|---|
| By managers | <ul style="list-style-type: none"> • Shift the focus from expanding market to maintain efficiency ratios • Optimising the branch network and staff at prudent levels • Preparing a new bank's projects for testing and implementation. | <ul style="list-style-type: none"> • Maintaining of the employees confidence • Improving efficiency of the organization Opportunities for personal development • Increase the potential for increasing effectiveness and opportunities for restoring business growth of the bank |
| By Syndicates | <ul style="list-style-type: none"> • Adequate social policy • Prudent Cooperative Labor Agreement • Improve the relationship with the Bank's managers | <ul style="list-style-type: none"> • Increase the staff confidence • Increase the employees social and professional securitization • Increase the importance of employees in searching prudent managerial and business decisions within the bank |

Thank you for your attention!