

ESTONIA, LATVIA, LITHUANIA - BANKING MARKET IN THE BALTICS 2007 - CEE BANKING BRIEF



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April 2007

ESTONIA, LATVIA,
LITHUANIA - BANKING
MARKET IN THE BALTICS
2007 - SAMPLE

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EXECUTIVE SUMMARY – BANKING MARKET IN THE BALTICS

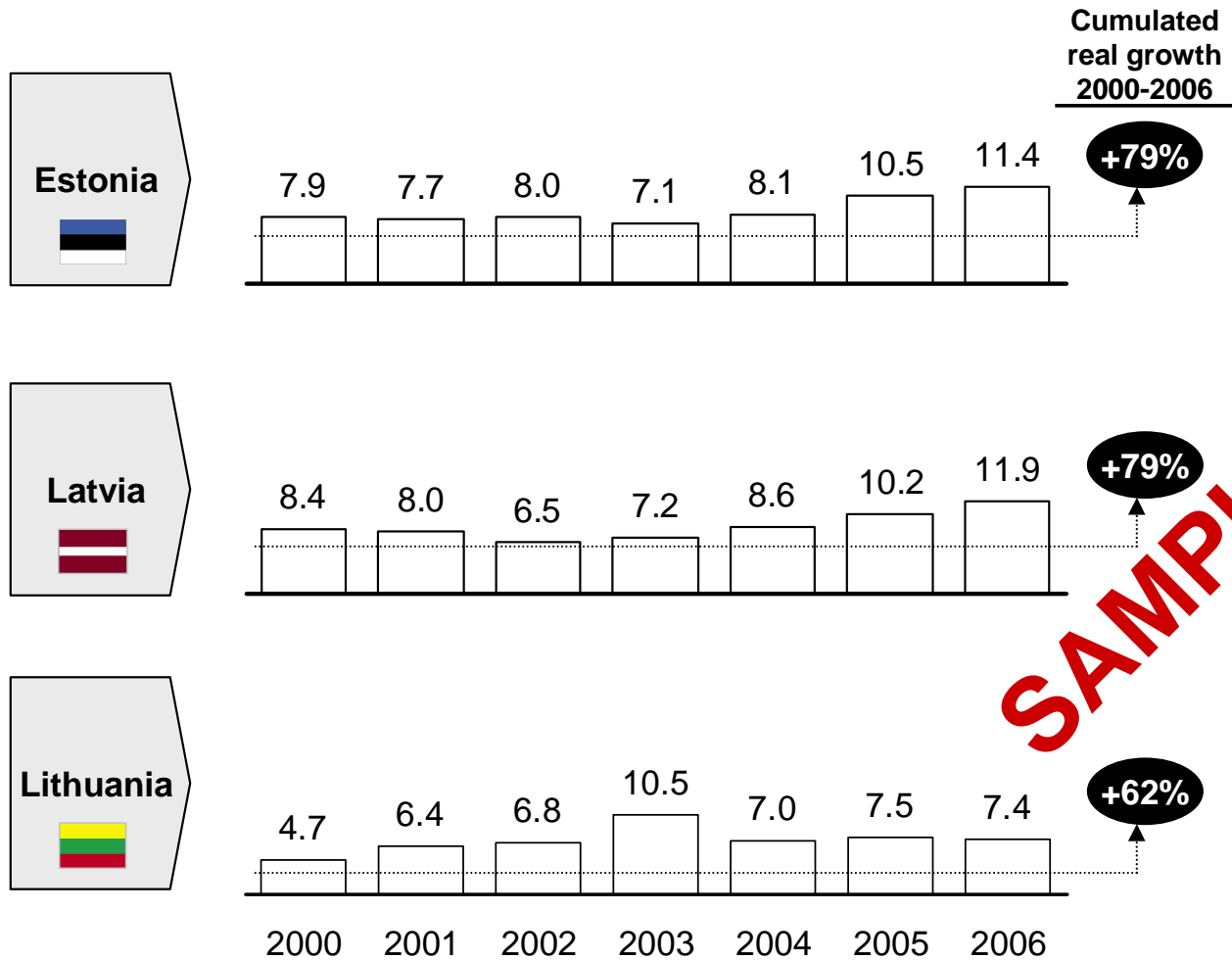
- **Excellent macroeconomic conditions.** The Baltic economies are nowadays in a phase of unprecedented expansion. In 2006 the GDP growth rate significantly exceeded 11% in Latvia and Estonia or 7% in case of Lithuania. Increasing GDP is boosting average wages and employment to levels not seen in the recent history. As a result the wealth of individuals is growing rapidly which translates into increasing retail volumes at commercial banks. At the same time well performing Baltic economies are facing increasing macroeconomic risks. The key issues at the moment are accelerating inflation and widening C/A deficits, that are difficult to address under current currency exchange regimes
- **Growth of banking markets.** Favorable economic environment is fuelling a continuous growth of banking markets in the Baltic countries. Latvia, Lithuania and Estonia are among top 5 most rapidly developing markets in the whole CEE15 area. In all Baltic countries most of the growth is coming from retail volumes, especially retail lending including mortgage. Baltic banks constantly expand their distribution networks, install new ATMs and POS terminals and issue more and more cards
- **Competitive situation.** Baltic banking markets are highly concentrated if compared to other CEE markets. Top 5 international groups present in all 3 countries already control over 76% of combined assets. As there are no substantial administrative barriers Baltic markets create still interesting opportunities for new entrants: There are small independent/locally owned players on each market that could be possibly acquired, and the growing market is also making the greenfield approach a possible option
- **Perspectives are very good.** Should the economic growth persist, banking markets will keep advancing at very high pace. Intelace Research expects that banking assets in Baltic countries will increase by 22% -32% p.a. through 2008.

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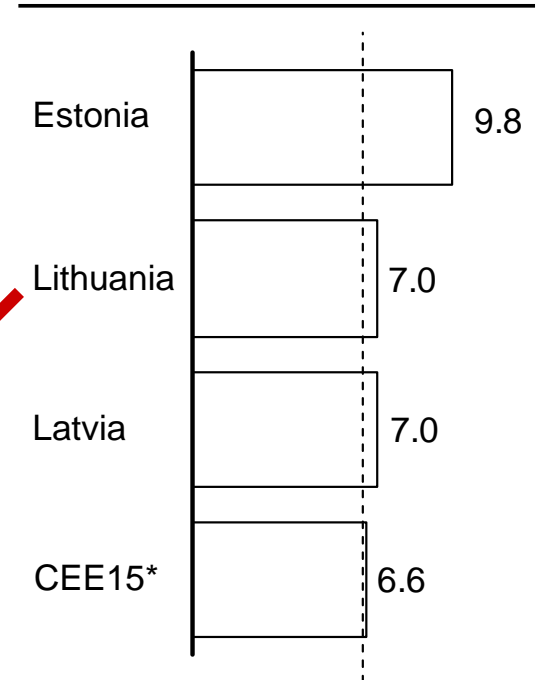
- **General overview**
- **Estonia**
- **Latvia**
- **Lithuania**
- **Mid-term forecast**
- **Notes on Methodology**

BALTIC ECONOMIES GROW RAPIDLY. THE GDP PER CAPITA IS ALREADY HIGHER THAN THE AVERAGE FOR CEE15 GROUP

Gross Domestic Product – Real growth rate, 2000-2006 Percent



GDP per capita, 2006 EUR thousand



SAMPLE

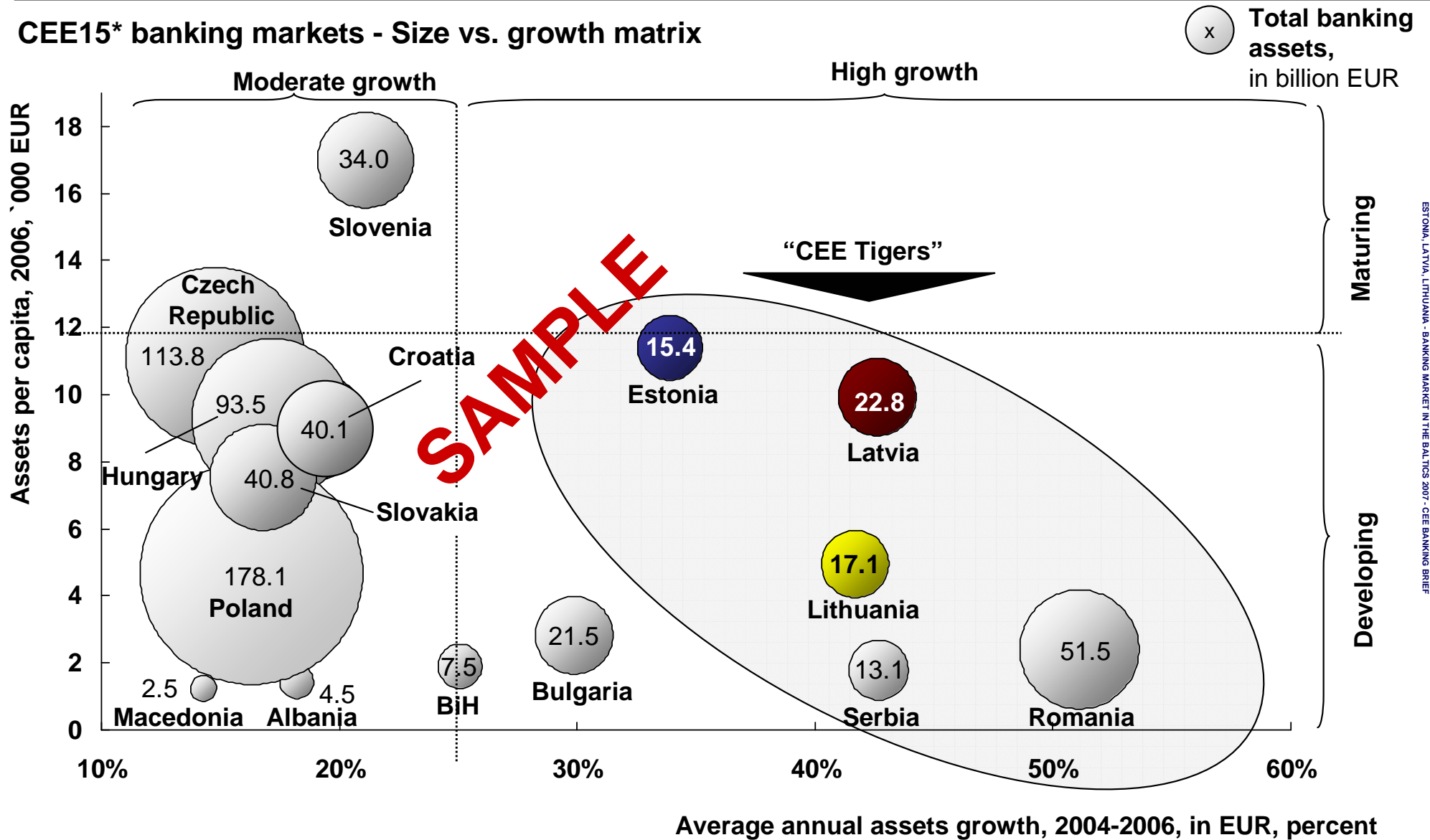
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* Major 15 CEE countries. Russia, Ukraine, Belarus excluded
Source: Central banks, Intelace Research

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

**PRELIMINARY
2006 DATA**

CEE15* banking markets - Size vs. growth matrix



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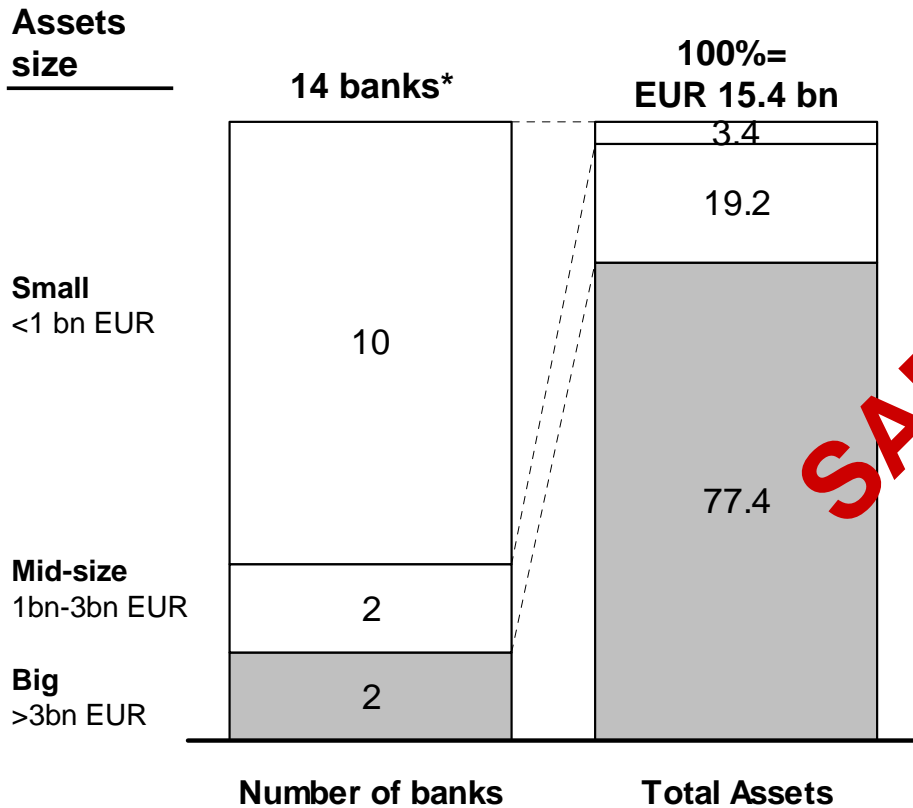
* Major 15 CEE countries. Russia, Ukraine and Belarus not included

Source: Central banks, IMF, Intelace Research

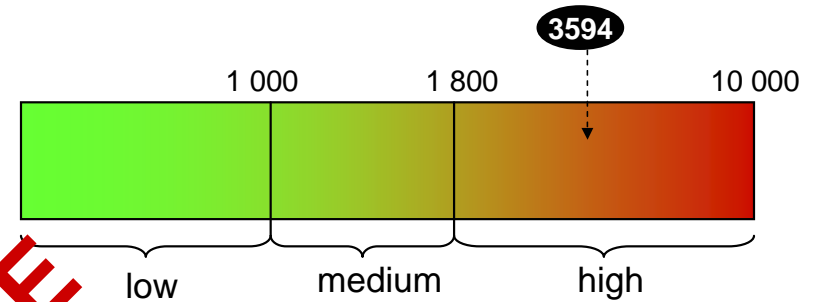


BANKING MARKET IN ESTONIA IS HIGHLY CONCENTRATED

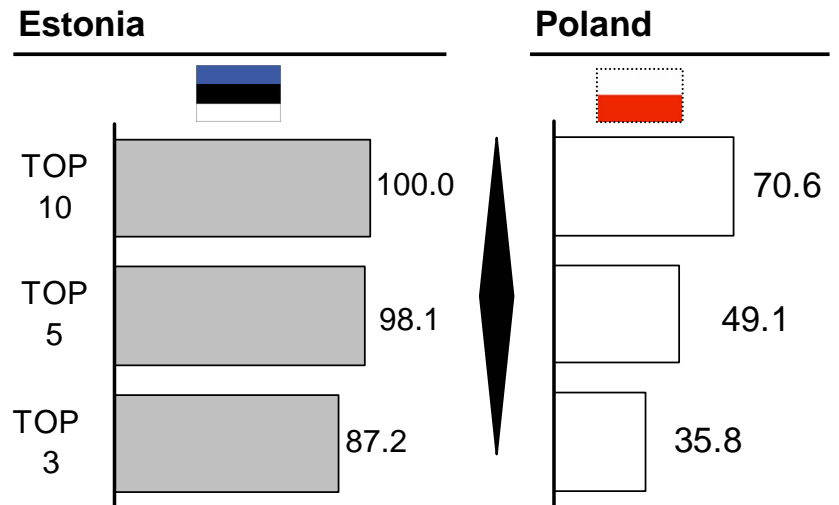
Banks by assets size groups, 2006
percent



Herfindahl-Hirschman Index, 2006**
points, nonlinear scale



Share of top banks, 2006, percent



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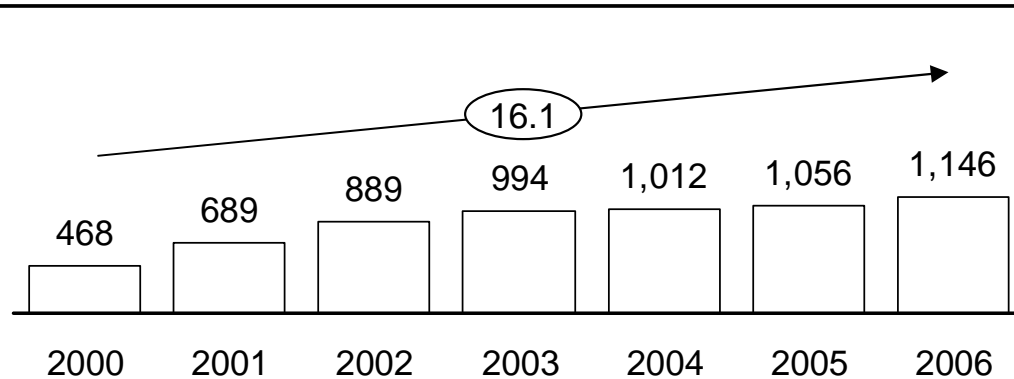
* Including 7 local banks and 7 foreign bank branches of which only 2 branches have significant business size

** 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.

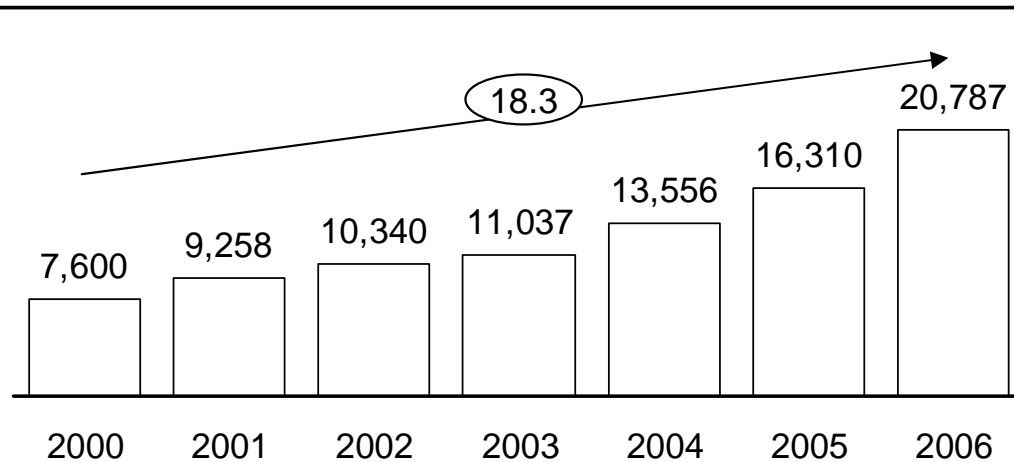


PAYMENT INFRASTRUCTURE IN LITHUANIA IS LESS DEVELOPED IF COMPARED TO OTHER BALTIC COUNTRIES

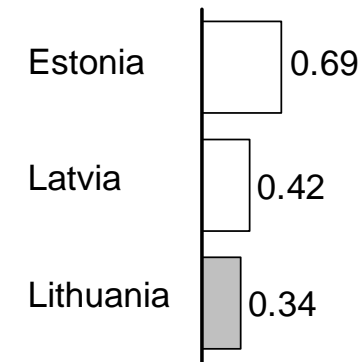
Number of ATMs, 2000-2006



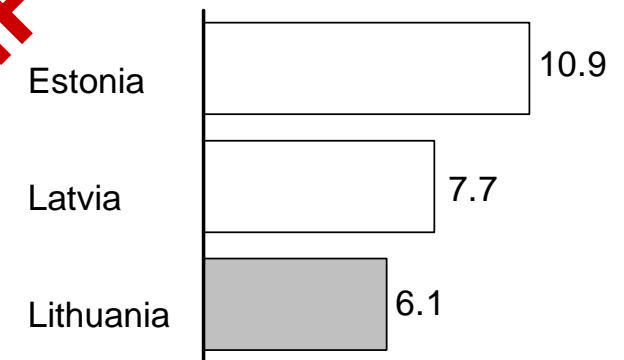
Number of POS terminals, 2000-2006



ATMs per capita, 2006 Per 1 thousand inhabitants



POS per capita, 2006 Per 1 thousand inhabitants



SAMPLE

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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
EEK	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
LTL	3.77	3.54	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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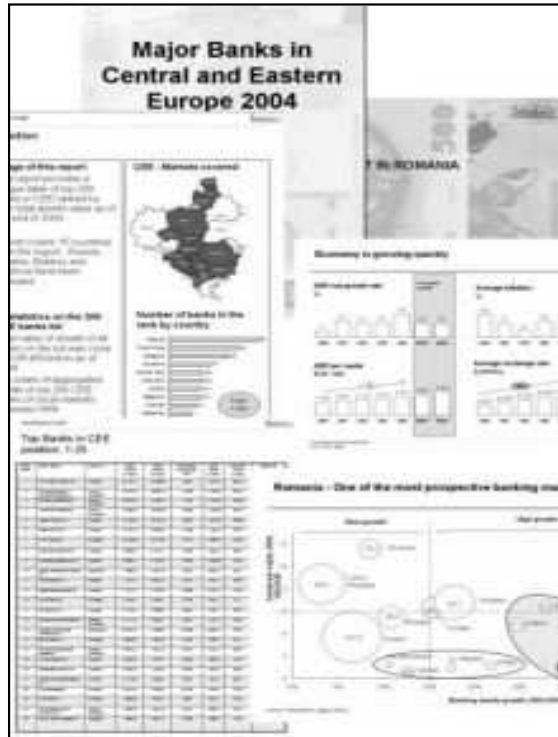
Through our customized research services we help our clients to better understand their consumers, competitors and overall market dynamics.

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