

<ul style="list-style-type: none"> ■ Low NPL level in privately owned banking sector ■ Strong presence in CESEE ■ Exposure in stable CESEE countries (Poland, Czech Republic, Slovakia) ■ Stable outlook ■ Declining foreign currency loan portfolio ■ Satisfying diversification in CESEE ■ Declining loan-to-deposit ratio 	<ul style="list-style-type: none"> ■ capital ratio must be improved ■ high NPL level in state-owned banking sector ■ low profitability in home market due to high competition pressure ■ cost pressure due to legal requirements ■ Exposure in instable CESEE countries (Hungary, Balkans) ■ High cost-income ratio ■ Withdrawal from Ukraine, Kazakhstan
Opportunities	Threats
<ul style="list-style-type: none"> ■ Economic recovery in CESEE would lower risk provisions, non-performing loans and raise net income 	<ul style="list-style-type: none"> ■ Risk of infection caused by economic deterioration in CESEE ■ Re-definition of non-performing loans ■ Growing risk provisions ■ Further capital injections for nationalized banking sector

Table 28: Raiffeisen Bank International AG – Austrian banking sector SWOT Analysis.
Source: FriedlResearch Data as of May 1, 2014.

7.3 OUTLOOK

For banks operating in Austria and in CESEE, the outlook mainly depends on the time horizon. The Austrian National Bank describes the market environment to remain difficult in the short term. Due to the unfavorable economic frame conditions, the fierce competition is expected to increase further. The high degree of competition may mislead banks to run more risks, however. In general, the Austrian banking industry is market by small growth rates for years, a high degree of competition and a high density of bank branches. As a result, the margins will under pressure. Despite the low base rate, experts expect lending costs to rise in the near future. In the next seven years, the Austrian banking sector is expected to close about a third of its branches. Moreover the number of big banks will go down in the next ten years, experts say.

Also in the CESEE region, the overall situation for banks remains tense in the short term. In 2013, the results will be similar as in 2012. In this decade, the profitability in the banking business will not reach the level of the period before 2008, however. Due to the market difficulties in several CESEE countries, risk provisions are expected to grow further. Above all, the situation in countries like Hungary, Slovenia and Croatia will remain difficult for foreign banks. At the moment, the European Central Bank assesses the financial statements of the 128 biggest European banks. However, the assessment criteria are still not determined yet. The ECB is said to push for stricter rules. As the exposure in Central, East and Southeast Europe (CESEE) is the biggest risk factor, the definition of non-performing loans is crucial for Austrian banks. In 2014, the volume of risky assets in CESEE is forecasted to grow further. Moreover, the size of non-performing loans in CESEE may be adjusted upwards. For Austrian