



# Redefining financial frontiers

Central and Eastern European strategic  
resilience in banking: outlook 2025



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## Foreword

The banking sector in Central and Eastern Europe (CEE) has entered the second half of the decade with resilience, transformation and strategic ambition. With six core markets—Poland, Czech Republic, Slovakia, Hungary, Romania and Croatia—demonstrating both financial strength and steady digital transformation, the region is no longer a side story but a central player in Europe’s financial system. As highlighted in the EMIS overview, capital adequacy ratios remain well above thresholds, non-performing loans are at historic lows and deposit growth has been exceptionally strong underlining the sector’s resilience and untapped potential.

This report, jointly prepared by Forvis Mazars and EMIS, aims to shed light on both the opportunities and risks shaping the evolution of CEE banking. By combining independent market intelligence with insights from our practitioners advising banks across the region, we offer not only a snapshot of current performance but also a forward-looking agenda for transformation.

Regulatory change is one of the defining forces of the decade. As our analysis shows, CEE banks are navigating the final Basel III standards, the Digital Operational Resilience Act (DORA) and the EU’s Artificial Intelligence Act—all while preparing for the ECB’s new 2026 stress test on geopolitical risks. These developments require banks to reconcile resilience with competitiveness and to invest in governance, transparency and supervisory dialogue.

At the same time, securitisation is no longer simply a compliance tool but a strategic driver of growth. Recent landmark transactions in Poland, the Czech Republic, Slovakia and Bulgaria illustrate how well-structured deals can free capital, enhance balance-sheet efficiency and expand lending capacity. The evolution of the EU framework, including simplified transparency obligations and fast-track supervisory assessments, further strengthens the role of securitisation as a lever for sustainable growth. Artificial intelligence and digitalisation are also reshaping business models. From AI-powered

mortgage processing in Poland, to no-code digital ecosystems in Romania and supercomputing infrastructures in Hungary, banks are deploying technology to boost efficiency, reduce risk and enhance client engagement. Yet, as our article on AI governance makes clear, innovation brings regulatory obligations: the EU AI Act requires institutions to embed transparency, fairness and oversight at the heart of digital transformation.

Finally, climate risk is no longer an abstract concept but a financial reality. Regulators are embedding ESG into prudential frameworks, while national supervisors are introducing new disclosure and governance requirements. For CEE banks, often exposed to carbon-intensive sectors and legacy infrastructure, the challenge lies in integrating climate considerations into strategy, risk management and capital allocation—transforming compliance into resilience.

The story of the CEE banking sector is one of convergence and ambition. The region has proven its ability to deliver profitability, stability and innovation in the face of volatility.

Drawing on the experience of consultants working closely with banks across CEE, this collaboration with EMIS brings forward an analysis designed to support banks, investors, regulators and policymakers. The goal is to deliver insights that help navigate a rapidly evolving environment with clarity and foresight. This report is intended to serve as both a strategic roadmap and practical toolkit for stakeholders committed to driving innovation, sustainability and resilience across CEE’s banking landscape.



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## Executive summary

From the beginning of 2020 until the first quarter of 2025, the Central and Eastern European (CEE) banking sector has successfully navigated a complex and evolving landscape shaped by macroeconomic volatility and tightening regulatory standards. The sector has faced changing monetary policies and post-pandemic inflationary challenges, yet it has remained resilient thanks to solid financial fundamentals, conservative oversight and ongoing integration with broader European financial norms.

Monetary policy has been a key factor shaping banking trends across the region, as each country’s central bank followed its own path in response to domestic inflation pressures and global economic shifts. In Hungary, where inflation has been the highest in the region since the pandemic, the central bank implemented a series of rate hikes, followed by substantial interest rate cuts starting in 2024. In contrast, Poland took a more restrained approach, while the Czech Republic and Romania opted for gradual, measured adjustments in line with wider European trends. The effects of these changes on household lending rates have varied, shaped by national financial structures, risk assessments and the competitive landscape.

Despite these policy changes, CEE banking systems have continued to demonstrate strong resilience. Capital adequacy ratios have remained comfortably above regulatory thresholds and non-performing

loan (NPL) levels have steadily decreased. Countries such as Croatia and Poland have upheld particularly high capital buffers, while Romania and Hungary have made notable progress in enhancing sector stability. Riskier loan exposures have been successfully managed, with tangible improvements in asset quality, most evidently in Croatia and Romania.

This sustained financial robustness, combined with a careful pivot towards monetary easing in 2024 and at the beginning of 2025, sets the stage for steady but moderate sectoral growth. Although recent inflationary trends have prompted stricter lending conditions, the gradual normalisation of interest rates is expected to support lending activity, especially in terms of mortgages and corporate credit. Greater harmonisation with EU regulatory standards, particularly regarding capital buffers and advancements in digital banking, adds further momentum to long-term development.

Looking ahead, CEE banks will need to strike a careful balance between profitability and prudent risk-taking amid a cautiously easing monetary environment. Looser financial conditions may support growth, but global uncertainties, from geopolitical tensions to fluctuating investor sentiment, pose continued risks. Even so, the sector’s solid capital position and improved asset quality leave it well-equipped to weather shocks, reinforcing its foundational role in regional economic resilience and expansion.



## Chapter one

# Banking performance across CEE: profitability and efficiency



Between 2018 and 2024, the banking sectors of CEE demonstrated remarkable resilience and profitability, underpinned by both cyclical and structural factors. Across Poland, the Czech Republic, Hungary, Slovakia, Romania and Croatia, net interest income and net interest margins benefitted from the region's broader macroeconomic environment, which was marked by strong credit growth in the pre-pandemic years, followed by extraordinary interest rate cycles after 2021. While there were variations in timing and magnitude, the overarching trend was one of profitability expansion, with certain markets registering historically high margins and returns.

Bank reports for 2023–2024 show rising net interest income driven both by higher yields and larger balances, with some individual institutions posting extraordinary profit growth. As reported by Reuters in March 2025, the Polish subsidiary of the French bank BNP Paribas registered a 132% y/y expansion in net profit for 2024, benefitting from high interest rates and excess liquidity. Leading domestic player PKO Bank Polski also reported remarkable results, with net profit rising by 69% y/y in 2024. In Hungary, results at major banks also materially shaped system totals. For example, OTP Group, the country's largest bank, reported extraordinarily strong earnings in 2024, citing both higher net interest income from its domestic operations and substantial contributions from foreign subsidiaries. Corporate-level outcomes of this magnitude pushed national aggregates upwards and reinforced Hungary's position among the region's most profitable banking markets.

The most visible driver across the region was the sharp increase in policy interest rates in response to post-pandemic inflationary pressures. This dynamic boosted banks' net interest income, as lending rates repriced rapidly, while deposit rates adjusted

more gradually. As noted in the November 2024 Financial Stability Report by the Hungarian National Bank (MNB), the monetary policy tightening cycle in Hungary substantially widened interest margins, generating exceptional profit levels in 2022 and 2023. Similar developments were observed in other markets—according to IMF assessments of the Slovak financial sector, issued in April 2025, Slovak banks also enjoyed a temporary, but pronounced surge in interest income during the high-inflation period. This pattern repeated itself across Romania and Croatia, where strong retail lending growth combined with elevated interest rates to drive double-digit profit expansion.

The resilience of profitability was also linked to relatively conservative cost structures. Cost-to-income ratios trended downwards in most countries, supported by rising revenues rather than major cost-cutting. According to the Czech National Bank's Financial Stability Report (2024), the Czech banks maintained one of the lowest cost-to-income ratios in the EU, reflecting both efficient operations and the surge in interest income. A similar efficiency gain was visible in Poland, where, as the Polish Financial Supervision Authority highlighted in its 2024 review, cost ratios improved despite regulatory and operational challenges, including the continued burden of Swiss franc mortgage settlements. Romania and Croatia also recorded declining cost-to-income levels during 2022–2023, benefitting from scale effects as revenues rose significantly faster than expenses.

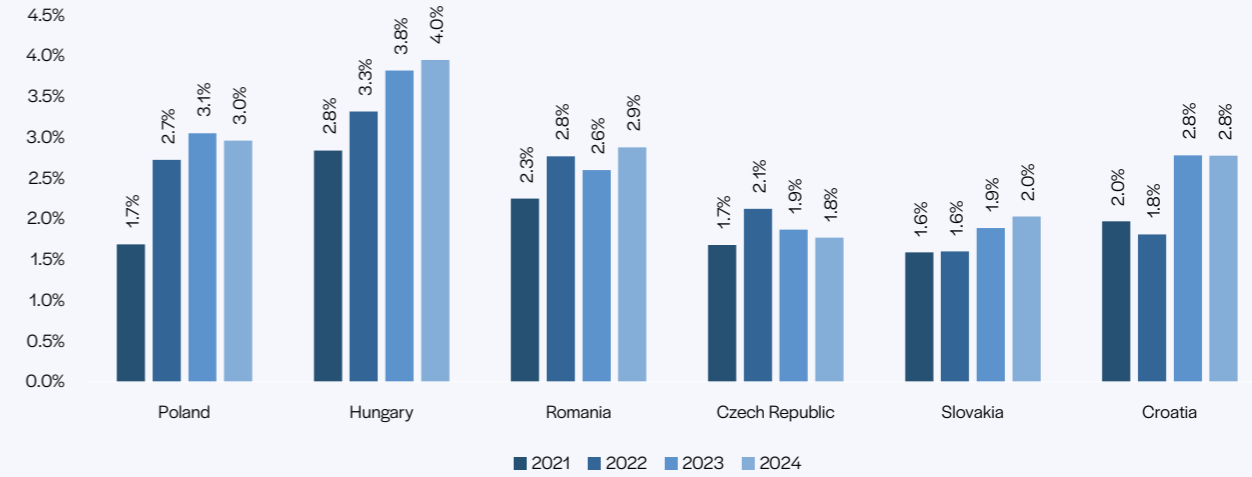
Still, the regional trajectory was not uniform. In Hungary, profitability in the banking sector was constrained by windfall taxes, initially introduced in late 2022 to support the government's budget needs. These measures targeted selected industries,

including financial institutions and pharmaceutical producers, and were later expanded to cover other extra profits. Although the government has pledged to gradually phase them out to encourage investment and growth, the taxes have already been codified into law for 2025 and 2026. As highlighted in the Hungarian National Bank's Financial Stability Report (November 2024), these fiscal burdens reduced part of the gains from interest income growth, leaving Hungarian banks trailing their regional peers in terms of net results despite their strong margins. Poland represented another partial exception—while net interest income grew strongly, profitability was weighed down by sector-specific risks, including the legal costs related to foreign-currency mortgage litigation, as repeatedly underlined in reports by the Polish Financial Supervision Authority. Meanwhile, in Slovakia, the IMF cautioned in April 2025 that

the extraordinary profit expansion observed in 2022–2023 was unlikely to be sustained, as the normalisation of interest rates and the gradual pass-through to deposit costs were already compressing margins.

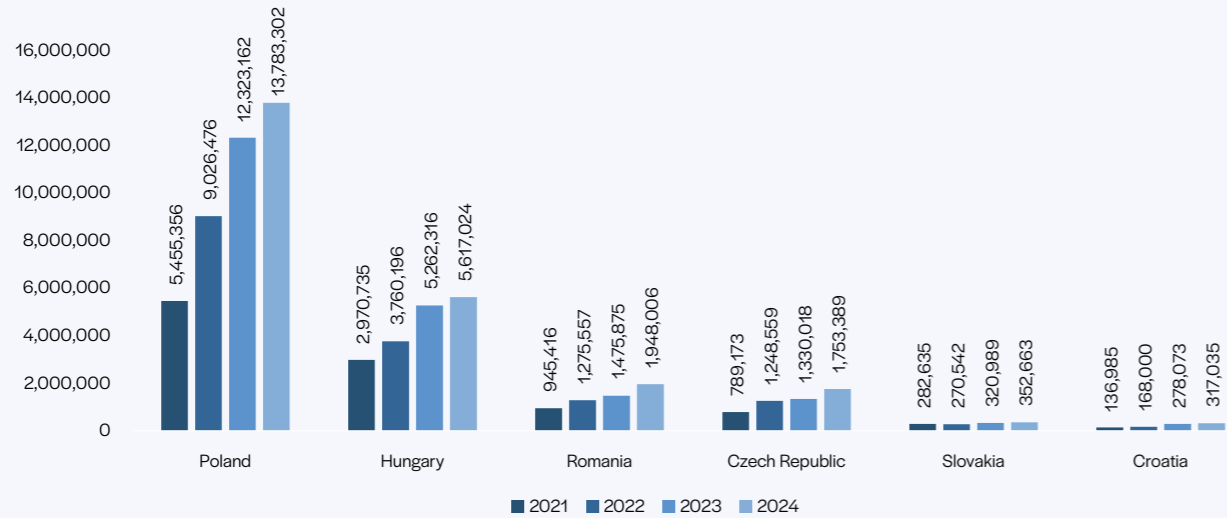
The Croatian case illustrates another regional nuance: profitability expanded strongly in the run-up to the country's euro adoption in January 2023, with banks capitalising on rising credit demand and widened spreads, but margins began to converge towards euro area levels once monetary policy transmission became aligned with the European Central Bank. As emphasised in the Croatian National Bank's Financial Stability Report (2024), this shift signalled the limits of extraordinary profitability under the new currency regime.

### Net interest margin, %



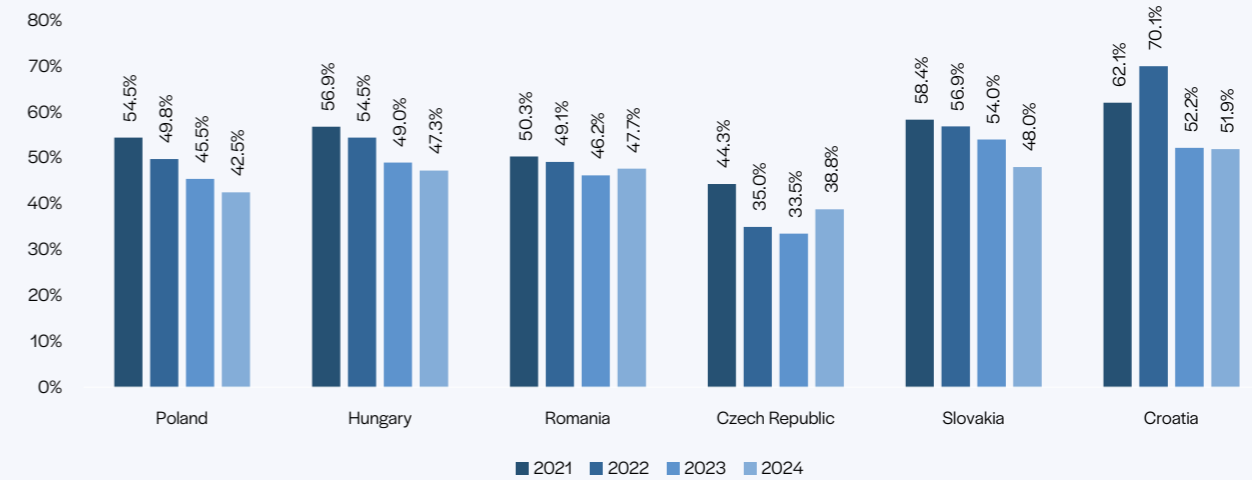
Source: ECB

### Net interest income, € thousand



Source: ECB

### Cost-to-income ratio, %



Source: ECB

Banks in the six leading economies of Central and Eastern Europe (Poland, Hungary, Romania, Czech Republic, Slovakia and Croatia) experienced a sustained expansion of total assets between 2018 and 2024, driven by resilient deposit inflows, strong demand for credit and increasing portfolio reallocations into securities and liquid assets during the post-pandemic monetary tightening cycle. While the intensity and composition of asset growth varied across markets, the regional pattern is one of balance-sheet deepening, supported by robust funding conditions, capital surpluses and in some cases integration into the euro area.

A common factor across all six markets was the steady accumulation of deposits, particularly from households. Deposits remained the primary funding source and consistently underpinned asset growth, as repeatedly emphasised by national authorities. In Croatia, for example, the Croatian National Bank (HNB) in its 2023 Financial Stability Report highlighted the central role of sight deposits, bolstered by high household savings and precautionary behaviour during the pandemic. Similar dynamics were evident elsewhere: the Czech National Bank (CNB) reported that deposits of households and non-financial corporations grew materially through 2022 - 2024, as confirmed by the Ministry of Finance's July 2025 report, while the National Bank of Poland (NBP) noted in its June 2025 Financial Stability Report that non-financial sector deposits represented around 70% of total assets, with household deposits alone accounting for half of liabilities and showing the strongest nominal increase in 2024. In Romania, the National Bank of Romania (BNR) documented ongoing increases in both RON (local currency) and FX household deposits in its August and December 2024 monetary indicators, while Slovakia and Hungary also saw household deposits steadily rising, as noted by the OECD's March 2024 Economic Survey (Slovakia) and the MNB's May 2025 Financial Stability Report (Hungary).

This stable funding base allowed banks to expand their balance sheets even when lending dynamics diverged. Household credit, particularly mortgage lending, was a key driver in several markets. In Slovakia, mortgage loans accounted for a large share of lending growth, as stressed by the OECD (March 2024) and the Slovak National Bank (NBS, November 2024). In Hungary, household loan growth was especially pronounced in 2022 and 2023, with the OECD's 2024 Economic Survey and the MNB's May 2025 report highlighting strong demand for mortgages and revitalised corporate lending. Croatia followed a similar path, with household loans - especially housing loans supported by state-

subsidised schemes - emerging as the largest single component of asset growth, as confirmed by the ECB's consolidated banking data. The Czech Republic also recorded sustained expansion in mortgage and consumer lending, contributing significantly to asset growth, according to the CNB's financial accounts and the February 2025 IMF report. In Romania, credit demand revived after 2021, with the BNR noting an 8.9% annual growth rate in private sector credit by December 2024, while the OECD flagged robust, though closely monitored FX borrowing from mid-2022 onwards.

At the same time, the monetary tightening cycles of 2021-2023 and related prudential developments encouraged banks to rebalance portfolios towards interest-earning securities and high-quality liquid assets. This was a widespread phenomenon across the EU, described in the ECB's May 2024 Financial Stability Review and the EBA's November 2024 Risk Assessment Report. In line with this, banks in Slovakia, Romania and Croatia significantly increased their holdings of sovereign and other liquid securities, thus expanding the size of their balance sheets. In Poland, this trend was particularly pronounced, with the NBP's December 2024 and June 2025 Financial Stability Reports confirming that the rise in government bond holdings, rather than loan growth, was the main driver of asset expansion during 2022-2024, fuelled additionally by banking tax relief for such holdings. Romania's BNR also underlined the banking system's "sizeable and rising" exposure to sovereign bonds in its 2024 Annual Report and June 2025 Financial Stability Report, while Hungary witnessed a similar, though more policy-driven expansion in government securities.

Hungary represents a clear case where regulatory and fiscal measures directly influenced asset composition. As noted in the MNB's May 2025 Financial Stability Report, and corroborated by OECD assessments, Hungarian banks increased government bond holdings to 15.6% of total assets by the end of 2024, from 13.9% a year earlier. This increase was incentivised by a tax scheme allowing banks to offset part of their windfall tax liabilities against new sovereign bond purchases. The government estimated collecting windfall taxes equivalent to 0.4% of GDP in 2025, while banks could reduce this burden by up to 0.2% of GDP if they increased government bond portfolios by around 2% of GDP. Such measures reinforced the bank-sovereign nexus, marking a notable exception in the region, where bond accumulation elsewhere was largely market- and regulation-driven.

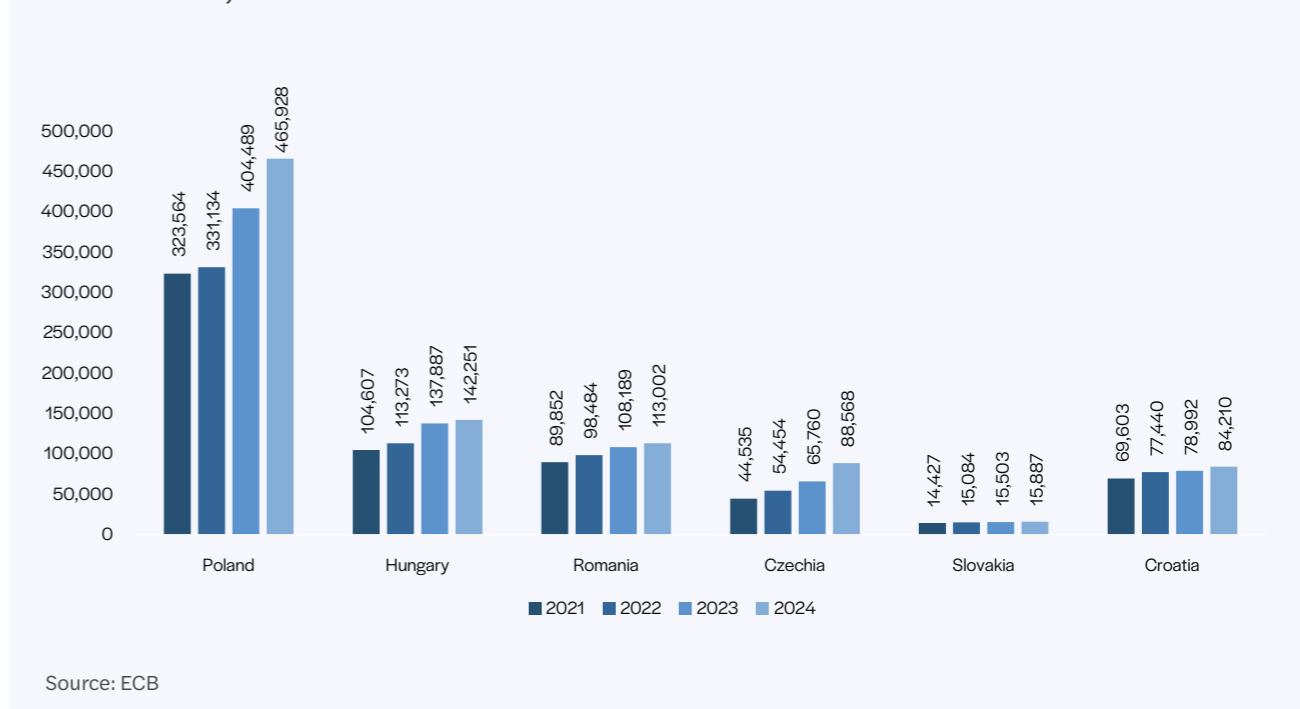
Structural shifts also shaped the trajectory of asset growth. Croatia's euro adoption in January 2023 had a profound impact on confidence



and liquidity. The HNB highlighted that the elimination of currency risk and access to the Euro Zone reinforced depositor trust and reduced funding costs. The OECD's June 2025 Economic Outlook stressed that euro area membership tends to support balance-sheet deepening in small open economies, a process already visible in Croatia's expanding asset base. Similarly, Czech banks benefitted from high

retained earnings and strong capitalisation, which enabled asset growth without eroding solvency, as emphasised in the IMF's February 2025 report. The National Bank of Poland (December 2024) likewise underscored the capital surpluses of Polish banks, which allowed continued balance-sheet expansion while maintaining resilience.

Total assets, €m



## Chapter two Capital strength and financial stability

From 2019 to 2024, the banking sector across CEE demonstrated notable resilience and stability, supported by robust financial soundness indicators, chiefly capital adequacy ratios (CAR) and NPL ratios. Capital buffers across the region have consistently exceeded minimum regulatory thresholds, reflecting strong solvency positions and a high capacity to absorb shocks. Romania demonstrated the strongest capital position in the region, with capital adequacy ratios reaching 24.9% in 2024, the highest among all CEE countries analysed. Croatia, while maintaining robust levels, showed capital ratios declining from a peak of 25.6% in 2021 to 22.3% in 2024, though still representing strong capitalisation. Poland maintained steady capital levels, ranging between 19.4% in 2021 and 21.8% in 2023, reflecting the system's prudent risk profile.

In Central and Eastern Europe, persistently high capital ratios are partly the result of national macroprudential authorities imposing additional buffers beyond the EU's minimum requirements. In Poland, the systemic risk buffer of 3% introduced in 2018 was repealed in March 2020 by a decision of the Ministry of Finance and has not been reinstated. At present, the countercyclical capital buffer (CCyB) remains set at 0%, while the Financial Supervision Authority (KNF) confirmed in December 2023 the application of institution-specific buffers for other systemically important institutions (O-SIIs), including 2.0% for PKO BP and 1.0% for Pekao, Santander Bank Polska and ING Bank Śląski.

In the Czech Republic, the CNB announced in June 2024 that the CCyB was set at 1.25%, with binding application from that date. In addition, the CNB applies O-SII and systemic risk buffers calibrated individually for significant institutions, ensuring capital requirements above the common EU standards.

In Hungary, the MNB decided in March 2024 to maintain the CCyB at 0.5% until 30 June 2025, followed by an increase to 1.0% from 1 July 2025,

as part of its "positive neutral" buffer strategy. At the same time, the MNB reaffirmed in December 2024 that O-SII buffers would remain unchanged for the seven most significant banking groups, while also reactivating a sectoral systemic risk buffer targeting commercial real estate exposures.

In Romania, the National Committee for Macroprudential Oversight (CNSM) confirmed in October 2024 that the CCyB would be kept at 1% and it has since been maintained at that level.

The National Bank of Romania (NBR) announced in December 2023 that O-SII buffers apply to nine banks, with requirements ranging from 0.5% to 2.0%, the highest level assigned to Banca Transilvania.

In parallel, the NBR continues to apply a systemic risk buffer calibrated to the non-performing loan ratio and coverage levels, with thresholds of up to 2%.

In Slovakia, the National Bank of Slovakia (NBS) applies both CCyB and O-SII buffers. The CCyB is assessed quarterly. As of January 2025, O-SII buffers are applied to five banks, ranging from 0.25% to 2%.

In Croatia, the Croatian National Bank (HNB) announced in December 2023 that the CCyB would be increased to 1.5%, effective from June 30, 2024, reflecting elevated credit and property market risks. In December 2023, the Croatian National Bank also confirmed O-SII buffer rates for seven institutions, ranging from 0.25% to 2.5%. In addition, a structural systemic risk buffer remains in place, applied at rates between 1.5% and 3% depending on the institution's size and risk profile.

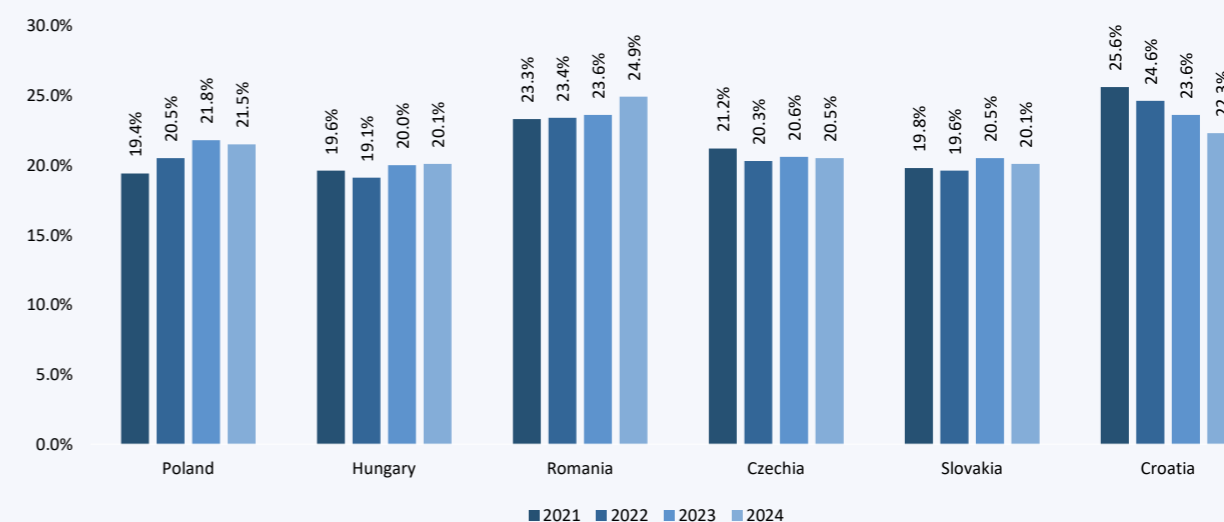
National authorities have applied more conservative capital buffers than EU minimums, driven by crisis memory, smaller banking system vulnerabilities and regional risks, including foreign exchange lending exposure. To address those capital demands, some banks started their own synthetic securitisation programmes. Securitisation is a financial technique whereby banks transfer credit risk from loan portfolios to external investors without selling the actual loans. In synthetic securitisation, the loans

remain on the bank's balance sheet, but their risk weighting decreases, reducing required capital to cover portfolio risk. This improves capital ratios, enabling banks to expand lending or pay higher dividends.

Recently, Polish banks have employed synthetic securitisation primarily for capital optimisation. Since 2020, eight banks and two leasing companies have completed synthetic securitisation transactions. mBank leads with four completed transactions

totalling PLN 28bn (18% of its active loan portfolio), including the largest synthetic securitisation in Central Europe at PLN 9.96bn in 2023. PKO BP completed its first pilot transaction in May 2025 worth PLN 1.89bn, representing less than 1% of its portfolio. Securitisation became competitive with MREL bond issuance only recently due to falling securitisation prices. The technique helps banks meet Basel III capital requirements while maintaining customer relationships and loan portfolios.

Capital adequacy ratio, %, year-end



Source: EBA



# Chapter three

## Credit markets: penetration and pricing dynamics



Household debt as a share of nominal GDP reveals clear tiers of credit penetration across Central and Eastern Europe. Slovakia consistently ranks at the top, with household debt-to-GDP ratios remaining between 45% and 49% from 2019 to 2024. This elevated level points to a well-developed retail banking landscape and widespread consumer adoption of financial products.

Poland occupies the middle range, with its household debt levels declining sharply from 34.8% to 23.1% of GDP over the 2020-2024 period. The country experienced a consistent downward trend, with debt ratios falling from the mid-30s range in 2020 (34.8%) to 32.4% in 2021, with the decline accelerating to reach 23.1% by 2024. This substantial decrease reflects broader regional trends driven by higher interest rates due to inflationary pressures, which led to a sharp drop in new lending activity and accelerated loan prepayments by households seeking to reduce their debt burden.

The Czech Republic shows more volatility, with household debt ratios fluctuating between 33.9% and 40.9% of GDP over the analysed period, peaking at 40.9% in 2021 before declining to 33.9% in both 2023 and 2024. Croatia, while starting with the highest debt ratios among the analysed countries, at 40.0% in 2020, has seen a consistent downward movement to 31.5% of GDP by 2023, before showing a slight upturn to 32.7% in 2024.

Hungary and Romania remain at the lower end of the spectrum in terms of household credit penetration, with Hungary recording debt-to-GDP ratios between 20.2% and 24.5%. Romania has consistently had the lowest levels among the six countries, declining from 19.8% in 2020 to 15.2% in 2024. This indicates considerable untapped potential for credit growth in both markets, particularly Romania.

When viewed in absolute terms, Poland stands out as the largest lending market in the region, with outstanding loans to residents reaching roughly €400 billion by the end of 2024, almost twice the volume of the next biggest market. It also posted

the most dynamic growth, with lending volumes rising from around €340 billion in early 2023 to over €400 billion by early 2025, a near 20% increase. Part of this expansion was driven by mortgage lending, which gained momentum under successive government housing support schemes. The 2023 Safe 2% Mortgage programme, offering subsidised interest rates for first-time buyers, triggered a surge in housing demand and loan uptake, contributing to rapid credit growth. In May 2024, the authorities introduced a follow-up measure - the Housing Start programme - designed to continue mortgage subsidies and expand access to young families and individuals. These initiatives stimulated borrowing in the housing segment, reinforcing Poland's lead as the region's largest and fastest-growing credit market.

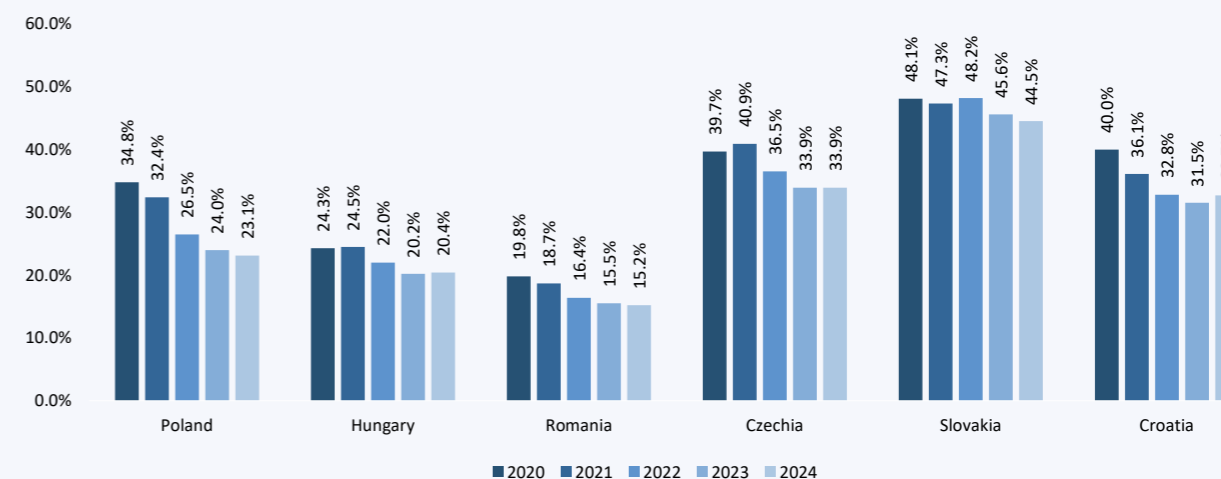
A similar policy-driven impulse can be observed in Hungary, where the government has repeatedly sought to support household borrowing through preferential mortgage schemes. In early 2024, officials announced the launch of a new subsidised home loan programme offering first-time buyers fixed interest rates as low as 3%. According to government communications, this scheme was intended to ease housing affordability pressures and sustain residential demand, while at the same time channelling credit growth into the household sector. The initiative followed earlier subsidy measures and reinforced the role of state-backed programmes in shaping Hungary's mortgage market.

The Czech Republic has the second-largest lending base, at approximately €280 billion, expanding at a steady but more subdued pace than Poland. Hungary's loan volume has generally ranged around €100 billion, with Hungarian banks identifying the unpredictable regulatory environment, limited or non-enforceable regulations for fintech players and the economic recession as the biggest challenges in 2024. However, Hungarian banks foresee increases in both the mortgage loan and consumer loan markets going forward.

The Hungarian National Bank noted that, according to banks, several factors contributed negatively to the assessment of the operating environment: the tightening of the regulatory environment, the increase in operating costs, the decline in the profitability level of some institutions, the deterioration of corporate creditworthiness and

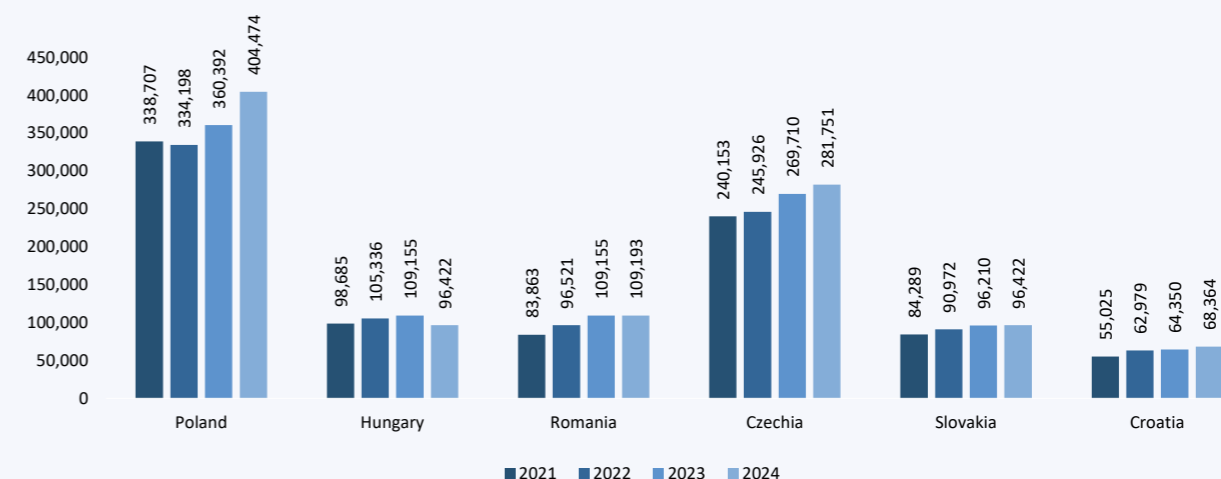
the uncertainty of the international and domestic economic environment. In contrast, the increase in competition and the increase in household credit demand had a positive effect on the banking sector outlook. Slovakia, Croatia and Romania have each maintained loan volumes between €60 billion and €110 billion.

Household debt as % of nominal GDP



Source: EBA

Outstanding loan stock to residents, €m



Source: EBA

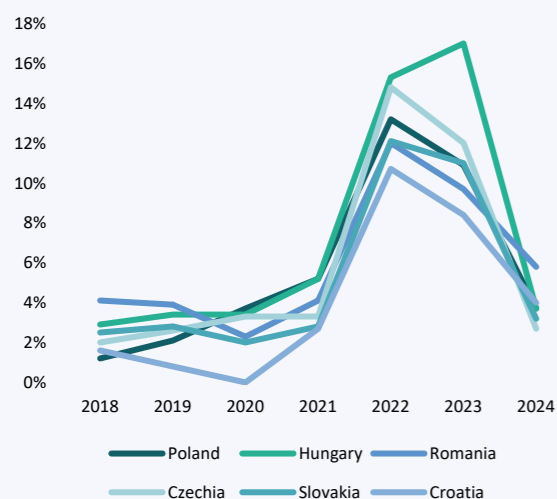
## Interest rate trends

The CEE region experienced a dramatic inflationary cycle that reshaped monetary policy responses between 2023 and 2025. Inflation surged to crisis levels in 2022, with all six CEE countries recording double-digit rates ranging from 10.7% to 15.3% on an annualised basis - a sharp escalation from the moderate 2%-4% range that characterised the pre-pandemic period of 2018-2021.

This inflationary shock persisted into 2023, with regional inflation averaging approximately 12%, forcing central banks to maintain aggressive monetary tightening policies. The breakthrough came in 2024, when coordinated policy efforts and global disinflationary trends brought regional inflation down to an average of 3.9%, though still above traditional 2% targets.

This rapid disinflation—from peak levels above 12% in 2023 to below 4% in 2024—created a complex policy environment where central banks had to balance continued vigilance against inflation resurgence with the need to support economic activity. Against this backdrop, the monetary policy environment across CEE between 2023 and 2025 saw considerable changes, with central banks adopting varied approaches to navigate the transition from crisis-level inflation to more sustainable price stability, while shaping the broader banking landscape.

### Inflation rates in CEE

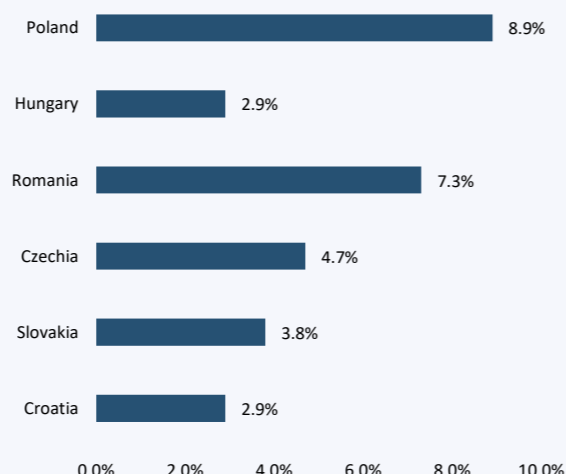


Source: Eurostat

Central banks in the region have followed divergent paths in response to differing inflationary pressures. Hungary led with the most forceful monetary tightening, beginning in 2023 with an exceptionally high policy interest rate of 13%. Over the following two years, it embarked on a sustained rate-cutting campaign, lowering the policy rate to 6.5% by January 2025. This significant 650-bp reduction underscores the central bank's confidence in curbing inflation effectively. In contrast, the European Central Bank (ECB) took a more measured approach. Its policy rate rose from 3.5% in early 2023 to 4.5% by mid-year, remained steady into early 2024 and then declined to 2.5% by January 2025 as inflationary pressures eased.

The extent to which policy rates influenced household borrowing costs varied notably across the region. Romania reported the highest household lending rates, ranging from 8.5% to 10.6%, despite not having the highest policy rate. The gap between policy and lending rates differed markedly by country, pointing to varying degrees of monetary transmission efficiency. In Hungary's case, elevated policy rates did not lead to a proportional increase in household lending rates, suggesting that banks may be absorbing part of the cost, or that competitive market pressures are limiting the full pass-through.

### Lending rate and policy rate as of May 2025



Source: EBA

\*Repo Rate: The interest rate at which a central bank lends short-term funds to commercial banks against government securities, used as a monetary policy tool to control liquidity, inflation and credit flow in the economy.

## Chapter four Deposit and loan market dynamics

The CEE region's household lending market reveals distinct national characteristics, while maintaining common themes of housing market confidence and consumer credit stability. Poland stands out with the largest absolute volumes, reaching approximately €193 billion of outstanding household loans by March 2025, up from €175 billion in 2020.

This represents the dominant position in the regional market, with sustained growth despite economic headwinds.

The Czech Republic maintains the second-largest household lending portfolio at €97 billion by March 2025, demonstrating steady growth from €71 billion in 2020. Croatia shows the most dynamic growth trajectory, with household lending expanding from €18 billion in 2020 to €25 billion by March 2025, representing a 39% increase over the five-year period.

Hungary has had solid growth momentum, with household loans reaching €28 billion by March 2025, up from €22 billion in 2020. Romania has demonstrated consistent expansion, growing from €31 billion to €39 billion over the same period. Slovakia's household lending portfolio has shown measured growth, reaching €55 billion by March 2025, up from €42 billion in 2020.

Poland leads non-financial corporation lending with €98 billion of outstanding corporate loans by

March 2025, representing nominal growth from €76 billion in December 2020—a 29% increase over the period. However, this apparent growth masks a more complex reality: when adjusted for inflation, corporate lending demand has actually weakened in real terms, indicating subdued corporate investment appetite despite the headline figures.

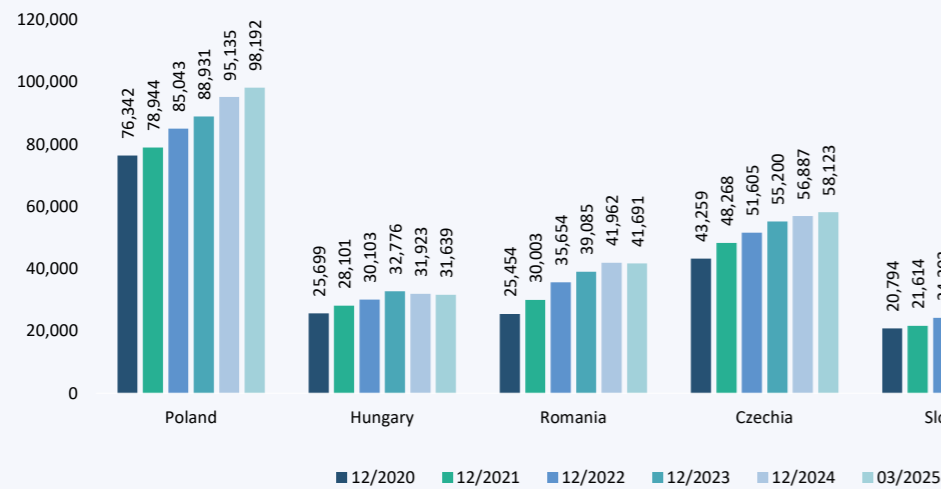
The Czech Republic has maintained second position with €58 billion in March 2025, showing modest growth from €43 billion in December 2020.

This 35% nominal increase similarly falls short of inflation adjustments, suggesting constrained real corporate credit demand across the region. Hungary demonstrates strong corporate lending momentum, with outstanding loans growing from €26 billion to €32 billion over the period, although this 25% nominal increase also trails cumulative inflation rates.

Romania has shown the most impressive nominal performance, with outstanding loans surging from €25 billion in December 2020 to €42 billion by March 2025—a remarkable 67% increase that appears to outpace inflation and suggests genuine expansion in corporate financing activity.

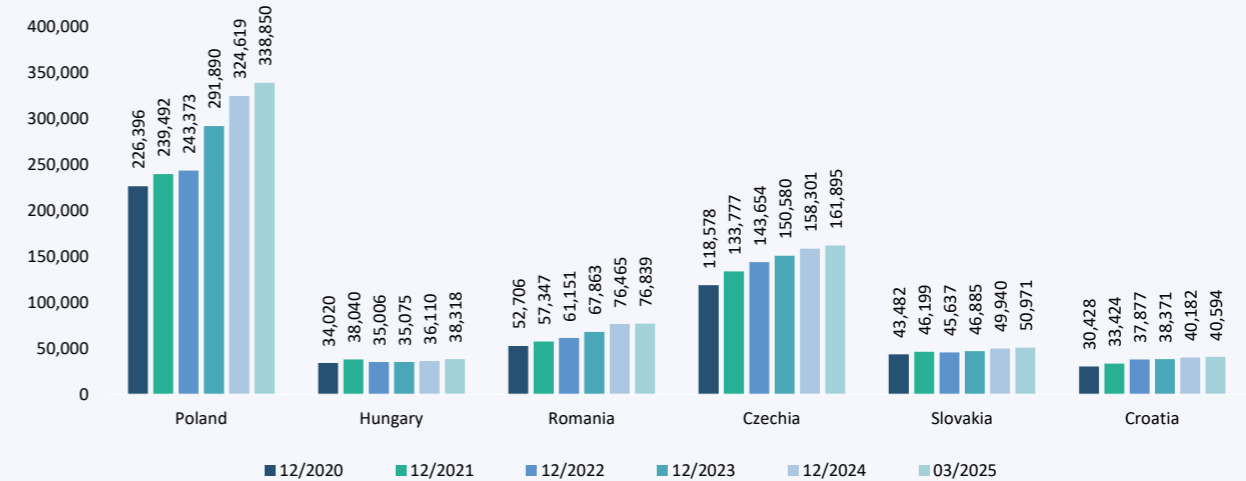
Slovakia has maintained relatively stable corporate lending at around €25 billion, with Croatia showing moderate but steady growth from €12 billion to €16 billion over the period, representing a 36% nominal increase.

## Outstanding loans: non financial corporations, €m



Source: ECB

## Outstanding deposits: households, €m



Source: ECB

## Deposit growth patterns

The CEE region has demonstrated exceptional deposit growth across both household and corporate segments between December 2021 and March 2025, although when viewed against the inflationary backdrop the picture becomes more nuanced. Household deposits showed robust nominal expansion, with Poland leading with 41.5% growth (€239.5 billion to €338.9 billion), followed by Romania, 34% and the Czech Republic and Croatia at around 21%, while Slovakia and Hungary showed more moderate growth of 10.4% and 9.1%, respectively.

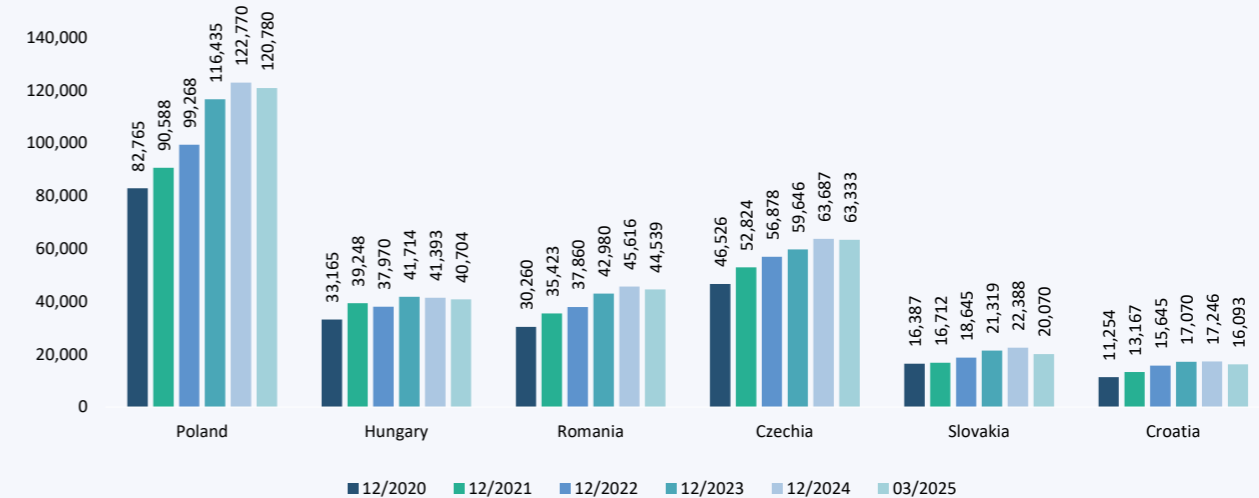
However, with cumulative inflation across the CEE region reaching approximately 35%-45% over this period, much of this nominal deposit growth reflects inflationary pressures rather than real wealth accumulation. Poland's 41.5% household deposit growth only marginally exceeds inflation, suggesting modest real savings growth, while Romania's 34% increase likely represents a slight real decline in purchasing power terms.

This substantial deposit influx, combined with the previously noted decline in real corporate lending demand, has created a situation where CEE banks are increasingly over-liquid. The disconnect between

strong deposit growth (ranging from 10% to 41% across countries) and the real decline in corporate lending (as noted earlier, Poland's 29% nominal corporate loan growth represents a 15% real decline when adjusted for inflation) suggests banks are struggling to deploy excess liquidity productively. This liquidity surplus places pressure on net interest margins, as banks must pay competitive rates on deposits while facing limited profitable lending opportunities in an environment where borrowers are reluctant to take on debt at elevated real interest rates.

Corporate deposit patterns mirror household trends, with Poland (33.3% growth) and Romania (25.7% growth) leading, followed by Slovakia (20.4%) and the Czech Republic (19.9%), with Hungary showing minimal expansion (3.8%). The acceleration from 2023 onwards coincided with central banks raising interest rates to combat inflation, making deposits more attractive relative to the preceding near-zero rate environment, although still insufficient to fully offset inflationary erosion in most cases while simultaneously creating excess liquidity challenges for the banking sector.

## Outstanding deposits: non financial corporations, €m



Source: ECB

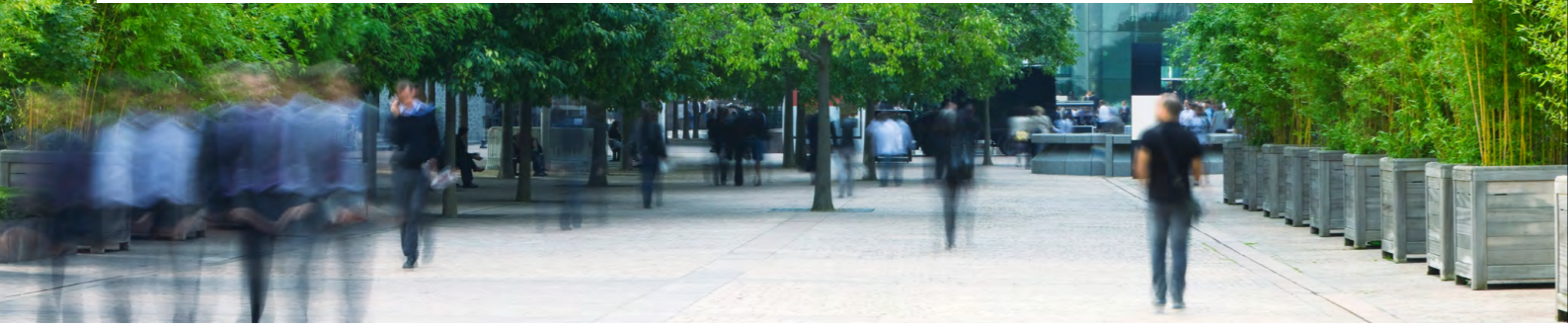
## Regional banking sector implications

Steady deposit growth, particularly in household segments, strengthens banks' funding profiles and reduces wholesale funding reliance. However, the predominance of short-term deposits across all markets creates a maturity risk in volatile interest rate environments.

The sustained growth in mortgage lending across all markets provides portfolio stability, while corporate lending volatility reflects broader economic conditions and business cycle impacts.

The preference for liquidity across both household and corporate segments indicates continued economic caution, although the gradual shift towards short-term deposits with agreed maturities suggests increasing confidence in committing funds for modest periods. This evolution provides opportunities for banks to develop more sophisticated deposit products balancing customer flexibility with improved funding stability.

## Chapter five Risk management practices and NPL evolution



Asset quality has also improved markedly over the period, with steady reductions in NPL ratios underscoring improved credit risk management and stronger loan books. Croatia has recorded the most dramatic improvement, bringing NPL levels down from around 7.3% in early 2019 to approximately 2.4% by mid-2024, a fall of nearly two-thirds.

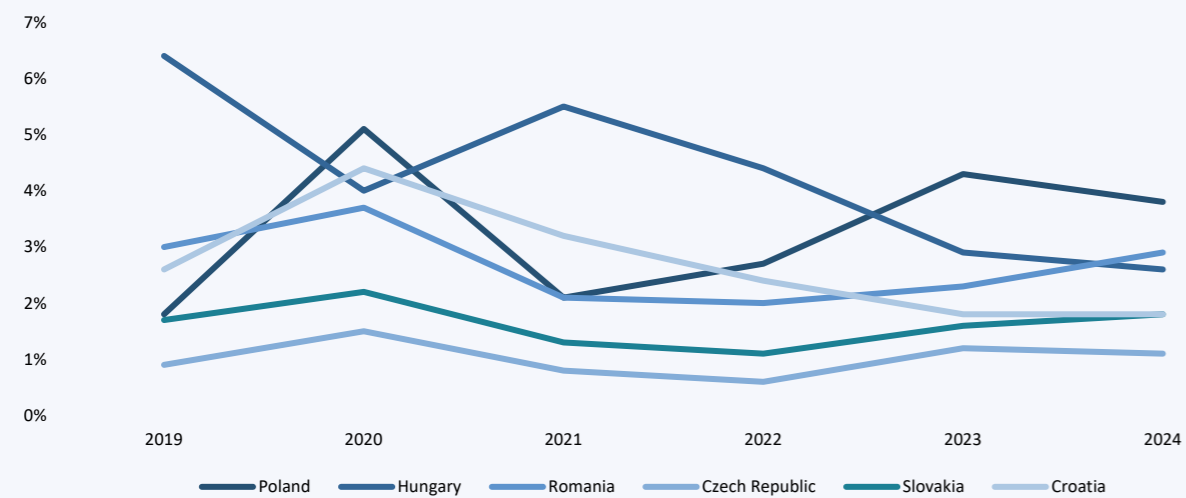
Romania also achieved considerable progress, with NPL ratios falling from approximately 5% to 2.5% over the same timeframe. Poland maintained relatively stable NPL ratios between 5% and 6%, with some downward movement in more recent quarters, reflecting gradual portfolio improvement.

Meanwhile, Hungary, Slovakia and the Czech Republic consistently posted the lowest NPL ratios, generally ranging between 1.5% and 3%. These figures indicate strong credit discipline and effective lending standards, positioning these countries as regional leaders in loan portfolio quality.

Looking across the six countries, a pattern of convergence is evident in both capital and asset quality metrics. While countries such as Croatia and Romania started the period with weaker asset quality, they have steadily caught up with their peers, suggesting that prudential frameworks and supervisory practices are becoming more harmonised across the CEE region.

Beyond strengthening prudential practices, several additional factors contributed to the significant NPL ratio declines across CEE: write-offs, restructuring and recovery efforts played a crucial role in cleaning up bank balance sheets. The robust economic growth experienced across the region during the recovery period improved borrowers' repayment capacity, while active debt collection and workout strategies helped banks recover value from distressed assets. Additionally, the natural maturation and resolution of legacy NPLs from the post-2008 financial crisis period contributed to the overall improvement in asset quality metrics.

### Non-performing loans ratio



Source: EBA

## Chapter six Digital transformation and strategic innovation



The digital transformation of the CEE banking sector has become a strategic imperative, with institutions allocating substantial resources to modernise infrastructure, deploy artificial intelligence and re-engineer customer experiences. As of June 2025, CEE banks were collectively leading multiple high-level operational upgrades, with Poland's PKO Bank Polski alone dedicating €650 million to its 2023 - 2025 digital roadmap.

### Strategic AI implementation: OTP Group's supercomputing infrastructure

Hungary's OTP Bank has established itself as the regional AI leader through its €120 million partnership with SambaNova Systems and the Hungarian Ministry of Innovation. The vendor is a Palo Alto-based AI company founded in 2017 that develops purpose-built enterprise-scale AI platforms and infrastructure to enable businesses to quickly deploy state-of-the-art AI capabilities.

The company specialises in powering large foundation models and AI supercomputers, with backing from major investors including SoftBank Vision Fund 2, BlackRock, Intel Capital and others. The OTP system, launched in November 2021 with a five-year implementation horizon, deployed Europe's fastest banking AI supercomputer capable of processing 1.5 exaflops. The infrastructure supports natural language processing for 14 CEE languages, enabling real-time analysis of 17 million customer interactions daily. By Q1 2025, the system reduced average credit decision times from 48 hours to 11 minutes, while improving risk prediction accuracy by 37% through continuous learning algorithms.

The supercomputer's modular design allows incremental capacity expansion, with Phase II (2024-2026) adding quantum computing integration through a €45 million budget allocation. This infrastructure also serves as a national resource, processing 23% of public sector AI workloads in Hungary while maintaining banking data isolation through hardware-level partitioning.

### Platform modernisation: Banca Transilvania's no-code revolution

Romania's largest bank has transformed its operations through the BT ONE platform developed with Bucharest-based FLOWX.AI—a multi-agent AI platform specifically designed for banking modernisation that enables financial institutions to build next-generation banking systems in weeks rather than years. The project, initiated in 2019 with a €28 million investment, is a no-code solution that has reduced average customer onboarding time from 45 minutes to 11 minutes for retail clients and from five days to eight hours for SMEs. The platform's micro-services architecture integrates 14 legacy systems through 238 APIs, handling 1.2mn daily transactions as of March 2025.

Phase III implementation (2024-2026) focuses on AI workflow automation, allocating €15 million to develop 47 machine learning models for document processing and compliance checks. The bank's digital transformation budget increased by 62% y/y to €41 million in 2025, reflecting its commitment to maintaining 98.7% system uptime while processing 3.9 million customer accounts.

### Mobile banking leadership: PKO Bank Polski's GenAI breakthroughs

Poland's banking leader continues to set regional benchmarks through its IKO mobile platform, which achieved 8.3 million active users by Q4 2024. The bank's €780 million digital transformation programme for 2022-2025 introduced several industry-first features:

- AI-powered credit processing: Machine learning algorithms now handle 83% of consumer loan decisions, processing €29.5 billion in credit volume in 2024 with 99.2% accuracy. The GenAI Mortgage Assistant has reduced average mortgage approval times from 14 days to 48 hours, while improving compliance checks.
- Graph network analytics: An investment of €12 million in deep learning systems maps transactional relationships across 580,000 corporate clients, identifying supply chain risks 45 days faster than traditional methods.
- Cloud-native infrastructure: Migration to Google Cloud Platform completed in Q3 2024 enabled real-time currency exchange processing for 5.1 million cross-border transactions monthly.

The bank maintains a dedicated €150 million annual budget for experimental technologies, currently piloting neuromorphic computing chips for fraud detection.

### Biometric banking: Tatra Banka's identity verification ecosystem

Slovakia's Tatra Banka revolutionised digital onboarding through its €18 million NFINITY platform developed with SOFTEC—a Slovak IT consultancy and software development company that specialises in custom information systems development, testing, management consulting and IT outsourcing services, with operations spanning 10 countries in CEE. Implemented in phases between 2022-2024, the system combines:

- 3D facial mapping: 98.7% first-attempt verification success rate;
- Liveness detection: 0.01% false acceptance rate;
- Document OCR: processes 42 ID types in 3.8 seconds.

This infrastructure enabled 54% of new accounts to open fully digitally by 2024, rising to 91% among clients under 30 years of age. The bank reduced onboarding costs by €23 per customer, while achieving compliance with eIDAS 2.0 standards 18 months ahead of EU deadlines.

### Open banking architecture: Erste Group's George ecosystem

Erste Bank extended its George platform across CEE markets through €300 million of cumulative investments since 2015. The 2023-2025 enhancement programme focuses on:

- Predictive cash flow management: AI analyses 18 months of transaction history to forecast balances with 94% accuracy;
- API marketplace: 67 third-party financial services integrated as of Q2 2025;
- Sustainability scoring: tracks CO2 impact across 1.2 million POS transactions daily.

The platform now serves 6.3 million users across seven countries, processing €47 billion in annual payment volume. Recent upgrades reduced mobile app load times to 0.8 seconds, while maintaining military-grade encryption standards.

### Cloud-first infrastructure: Zagrebačka Banka's hybrid model

Croatia's largest bank partnered with ASEE (Asseco Group) to deploy a €32 million hybrid cloud platform between 2023-2025. The vendor is an international technology company specialising in delivering innovative ICT software solutions. The architecture combines:

- Private cloud: hosts core banking systems with 99.999% availability;
- Public cloud: manages peak loads during the tourist season (up to 12,000 transactions/minute);
- Edge computing: processes ATM transactions locally during network outages.

The solution reduced IT infrastructure costs by 28%, while enabling real-time currency conversion for 890,000 international transactions annually. The bank's 2025-2027 roadmap allocates €21 million for quantum-resistant encryption upgrades.

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## Expert view

# EU and the CEE: global fragmentation in banking leads to strategic choices ahead

The global financial order is shifting rapidly and Europe stands at a critical inflection point. Six months into the Trump administration, multilateralism is under pressure, global coordination is fragmenting and policy signals from the US point towards deregulation and strategic bilateralism. For Europe—and increasingly for the banking systems of Central and Eastern Europe (CEE)—these dynamics heighten volatility, disrupt predictability in cross-border frameworks and increase the urgency of maintaining competitiveness. Supervisory and regulatory strategies must now reconcile resilience with integration to prevent fragmentation in a region where economic convergence and stability remain core priorities.

## Basel and the global divergence dilemma

The US policy shift in 2025 has fundamentally altered the trajectory of global banking regulation. Moving away from its previous “gold plated” approach, Washington is now favouring a lighter, more flexible interpretation of Basel standards to ease credit pressures and support regional banks. While the US remains committed in principle to Basel III, uncertainty over the final shape, calibration and timing of its framework marks a sharp departure from the predictability that once underpinned global coordination ([source](#)).

This shift is reverberating across Europe. The EU is pressing ahead to safeguard credibility, but delays in implementing the Fundamental Review of the Trading Book (FRTB) highlight the tension between competitiveness and supervisory integrity. The UK has mirrored this pragmatism, announcing that the FRTB for internal models will be deferred until 2028, while keeping other Basel 3.1 elements on track for 2027 ([source](#)).

According to the Basel Committee (May 2025), around 70% of jurisdictions have implemented, or are in the process of implementing, the final Basel III standards ([source](#)). Against this backdrop, Europe faces a defining strategic question: align with the US and its more flexible stance or move in step with the majority of jurisdictions pursuing full Basel compliance.

In the CEE region, where banks are subject to EU-

wide regulations, the regulatory landscape remains fragmented. Large domestic institutions, such as PKO in Poland and OTP in Hungary, equipped with robust risk management frameworks, are relatively well positioned to meet EU compliance standards. However, regulatory initiatives often compete for resources with other strategic priorities, creating internal tensions.

Subsidiaries of major Western European or global banking groups benefit from group-level regulatory guidance but face the costly and complex task of tailoring solutions to local data environments. In cases where key functions are highly centralised, limited flexibility can lead to friction with local supervisors, who increasingly demand greater transparency, standardisation and responsiveness to national risk profiles.

For smaller local banks, the challenge is existential. With constrained resources and limited technical expertise, many struggle to meet the modelling and governance requirements set out under the Basel III framework. This raises the risk of forced outsourcing, strategic retrenchment, or consolidation.

## ECB to conduct geopolitical risk stress test in 2026

In July 2025, ECB Supervisory Chief Claudia Buch announced a novel thematic stress test for 2026, focusing on geopolitical risks. Diverging from conventional approaches, banks will no longer be handed pre-defined scenarios—they will instead be

given target capital depletion levels and asked to create their own bank-specific stress scenarios, such as disruptions from new tariffs, crisis escalations in Ukraine or Gaza, or impeded dollar liquidity from Federal Reserve policies ([source](#)). This shift marks a significant evolution in supervision. It elevates geopolitical tensions—from trade wars to armed conflicts—to the same level as systemic financial shocks. It also reflects the ECB’s proactive stance on contingency planning, urging banks to anticipate threats such as global dollar shortages or cyber-retaliation tied to geopolitical turmoil. For CEE markets, this risk focus is particularly relevant: geographical proximity to areas of instability, reliance on trade corridors and concentrated exposures in sectors sensitive to sanctions or energy supply shocks make scenario design more complex. Regional institutions—especially those outside the euro area—must therefore prepare internal capital adequacy assessment process (ICAAP) and liquidity frameworks to meet these heightened supervisory expectations.

This follows the ECB’s 2024 cyber-resilience test and complements the forthcoming European Banking Authority (EBA)-wide stress test results published in August, forming a more holistic risk-testing sequence that spans cyber, climate, credit and now geopolitical threats ([source](#)).

## Climate risk: Europe leads amid fragmented global progress

Global coordination on climate risk supervision remains fragmented, with diverging priorities across jurisdictions. The US has taken a narrower approach, focusing mainly on physical risks, such as extreme weather, while the EU continues to drive an ambitious agenda embedding both transition and adaptation risks into prudential frameworks.

For EU banks, expectations are clear: accelerate governance, disclosure and scenario-testing capabilities, ensuring climate risk is fully integrated into ICAAP and stress-testing processes. Supervisors are positioning climate as a financial risk with capital and strategy implications, not a reputational exercise. This leadership reinforces the EU’s credibility but also raises competitiveness challenges, as European banks face higher compliance and infrastructure costs than their peers in less demanding jurisdictions. ECB disclosures underline the urgency, highlighting significant exposures to nature-sensitive sectors and requiring banks to embed climate and geopolitical scenarios into ICAAP as part of the 2026 thematic stress test ([source](#)).

For CEE economies, the transition challenge is amplified by carbon-intensive energy systems, agriculture-heavy production and legacy infrastructure - all of which heighten exposure to both transition and physical risks. Data gaps and limited modelling resources compound the cost of compliance, making supervisory engagement critical to avoid uneven implementation across the EU.

## Digitalisation, operational resilience and financial sovereignty

The Digital Operational Resilience Act (DORA) entered its application phase from January 2025, marking a critical implementation milestone for banks ([source](#)). Its introduction reflects the EU’s heightened concern over systemic dependencies on non-EU Internet and Communication Technology (ITC) providers, particularly dominant US-based cloud and technology firms. This reliance is now seen as a financial stability and sovereignty risk, amplified by limited supervisory tools to oversee third-party providers directly.

Beyond operational resilience, this debate ties to the EU’s broader strategic question: whether to develop home-grown infrastructure or remain reliant on global tech ecosystems. Progress on alternatives—such as the European Payments Initiative (EPI)—has been slow, leaving key areas such as payments, data hosting and core market infrastructure vulnerable to external shocks or political leverage. For CEE institutions, the DORA implementation magnifies the challenge: legacy IT, high outsourcing dependency and smaller operational budgets make compliance resource-intensive, requiring investment in governance and resilience testing to avoid supervisory shortfalls.

## Artificial intelligence: balancing innovation and compliance

Looking ahead, another important topic for CEE banks is the governance of artificial intelligence. The European Union’s Artificial Intelligence Act (EU AI Act, Regulation (EU) 2024/1689) ([source](#)), which came into force in August 2024, marks a significant regulatory shift for the financial sector. Implementation is phased, it started in February 2025, with the last phase in December 2030. Designed to harmonise AI governance across all EU member states, the regulation aims to foster innovation while safeguarding fundamental rights, democratic values and environmental sustainability. Financial institutions, typically acting as deployers

rather than developers of AI, must now integrate AI oversight into their existing governance structures. CEE banks will first have to map their AI applications—whether internally developed or sourced from third parties. They will also have to build internal capability to assess and document compliance, with an adequate assessment of risk levels and to ensure transparency, cybersecurity and human oversight. The regulation also addresses general-purpose AI models such as GPT-5, requiring compliance both at the model level and for each specific use case.

The EU AI Act is a world premiere in the regulation of AI, considering the more flexible approach of other countries/regions (such as the US, UK, or Asia). It will be more than a compliance exercise—it is a call to action. Institutions that act early to embed robust, transparent AI governance will not only mitigate risk but also gain a competitive edge in a rapidly evolving digital landscape, under the careful review of supervisors, which are expected to increase scrutiny of AI use as part of governance reviews, making early alignment both a compliance priority and a strategic opportunity to foster trust as adoption accelerates. The international regulatory environment around AI is expected to continue evolving as global standards are introduced—such as the new BSI standard for AI audit quality published in July 2025 (source).

At the same time, initiatives such as the upcoming EU Digital Omnibus Package, expected in late 2025, reflect growing pressure to streamline overlapping digital regulations, reduce administrative burdens and enhance regulatory coherence.

## Europe and CEE's structural dilemma: sovereignty vs. openness

The EU's financial architecture remains unfinished, leaving critical vulnerabilities at a time of global fragmentation. The Banking Union is still incomplete, with cross-border integration stagnant for decades and political barriers blocking true consolidation (source). Post-Brexit reliance on UK central counterparties (CCPs) is politically tolerable for now but structurally unresolved and key EU capital market segments remain dominated by non-EU clearing institutions, particularly those headquartered in the UK and US (source).

These challenges intersect with concerns over financial sovereignty in technology and infrastructure. Heavy reliance on non-EU cloud providers for critical banking operations, highlighted under DORA, exposes systemic dependencies that supervisory tools only partially address. Progress on alternatives such as the European Payments Initiative

remains slow, while discussions on reclaiming clearing and settlement autonomy continue without a clear end-state (source).

Dependencies extend beyond infrastructure. EU banks remain structurally reliant on US dollar funding to support global client activity, creating currency mismatches that require constant management (source). These exposures are not cyclical—they are embedded in the EU's financial model. The strategic choice is unavoidable: pursue greater financial sovereignty at the cost of efficiency and global integration or preserve openness while accepting reliance on foreign actors. For CEE, these trade-offs are particularly acute: smaller domestic capital markets, reliance on parent-bank funding and persistent US dollar needs for trade finance amplify structural vulnerabilities in a fragmenting global system.

## Navigating regulatory and supervisory uncertainty in the CEE banking sector

In this era of regulatory divergence and geopolitical volatility, CEE banks must move from compliance to strategic foresight. The region's deep integration with EU frameworks, combined with exposure to global fragmentation, demands proactive leadership. C-suite executives should urgently assess their institutions' readiness across five dimensions: Basel III implementation, geopolitical scenario planning, climate risk integration, digital resilience under DORA and AI governance. This is not just about meeting supervisory expectations, it is about safeguarding competitiveness, operational continuity and trust in a rapidly evolving financial landscape. Now is the time to invest in internal capabilities, strengthen cross-border coordination and engage actively with regulators to shape proportionate, future-proof frameworks that reflect the region's unique structural realities.

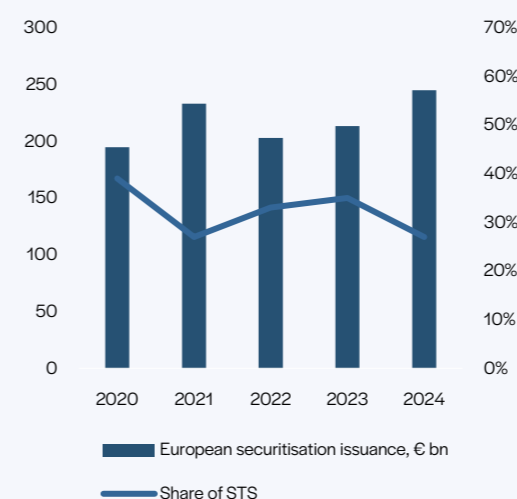


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## Expert view Beyond compliance: how securitisation regulation powers business growth in CEE

Securitisation consists of banks 'pooling' granted loans (e.g. mortgages and consumption loans) into a single tradable security, which is sold to other investors under specific conditions. The pooled loans can be transferred to a separate entity (traditional securitisation) or in a synthetic way, without transferring the assets. In both cases, the aim is to transfer part of the risk to a third party, to expand loan granting capacity. The banking industry has reached a pivotal moment where regulatory compliance is no longer merely a cost centre but a strategic driver of competitive advantage. The 2024-2025 regulatory landscape presents unprecedented opportunities for forward-thinking banks to transform compliance related investments into sustainable business growth, particularly through innovative securitisation strategies.

### Market overview



Source: AFME Q4 2024 & 2024FY Securitisation report

The European securitisation market demonstrated remarkable resilience and growth during the 2020-2024 period, with total annual issuance growing from €194.7 billion in 2020 to €244.9 billion in 2024, representing a 25.8% increase over four years. This growth trajectory reflects, not only market recovery from the COVID-19 pandemic, but also the strategic evolution of securitisation as a critical capital management tool for European banks. Most volume is generated by Western European countries, but in 2024 and 2025 significant volumes of loan portfolios were securitised in CEE countries. Examples include significant securitisation transactions covering: UniCredit Bulbank €2.1 billion issuance in July 2025 (Bulgaria), PKO Bank Polski €430 million issuance in May 2025 (Poland), mBank €1.2 billion issuance in November 2024 (Poland), UniCredit Bank issuance of €1.7 billion in November 2024 (Czechia and Slovakia). All of these transactions covered corporate loan portfolios and aimed at the reduction of risk weighted assets (RWAs), resulting in capital relief. Transaction met simple-transparent-standardised (STS) regime, which was introduced in EU law in 2019 and enabled specified treatment for securitisation transactions which met certain criteria.

## Securitisation benefits

Securitisation transactions pose immediate business benefits for the issuers, mainly:

- Capital efficiency and growth capacity—decreasing the capital burden and enabling new lending capabilities through strategic capital reallocation.
- Better balance sheet management—directly offloading long-term, illiquid assets, which helps banks manage liquidity, capital adequacy and regulatory compliance more effectively.
- Portfolio optimisation and risk diversification—reducing credit and sector concentration, which better aligns with the bank’s medium and long-term goals.

From a market perspective, securitisation contributes to the deepening of capital markets by creating attractive investment opportunities for a broad range of participants with varying risk appetites. These opportunities range from low-risk mezzanine tranches, well-suited to risk-averse investors such as pension funds and insurers constrained by strict regulatory requirements, to higher-risk tranches aimed at investors seeking greater returns in exchange for taking more risk.

From a broader perspective, these transactions leverage the credit capacity of the banking sector, enabling additional growth for the national economies. Well-regulated and transparent securitisation also promotes risk distribution across a wider set of market participants, which can enhance the stability of the financial system and reduce the concentration of risk in any single sector or institution.

## Legislative empowerment

Leveraging on STS-type securitisation may become easier with the legislation changes announced recently in the EU. The European Commission’s comprehensive reform of the EU securitisation framework, published on 17 June 2025, represents the first major legislative initiative under the Savings and Investments Union strategy.

The proposals are now under review by the European Parliament and Council through the ordinary legislative procedure, with adoption expected following trilogue negotiations in 2026.

The core assumptions underlying this reform are centred on creating a more risk-sensitive, proportionate and efficient regulatory framework that addresses the structural barriers that have

hindered the EU securitisation market’s development since the 2019 framework implementation. The reform introduces targeted amendments to the Securitisation Regulation, Capital Requirements Regulation (CRR) and Liquidity Coverage Ratio (LCR) Delegated Regulation, with the primary goal of reducing undue operational costs for issuers and investors while maintaining robust financial stability safeguards.

Key elements include streamlined due diligence requirements, simplified transparency obligations and the creation of “resilient” securitisation—a new category of STS transactions that can benefit from capital floors as low as 5% compared to the current 10%, subject to final calibration and eligibility criteria still under consultation. The reform also extends the STS framework to unfunded guarantees provided by an insurance or reinsurance undertaking, allowing them to provide credit protection and reduces the homogeneity requirement for SME loan securitisation from 100% to 75%. Additional investor protection is also reinforced by both due diligence failure penalties and more transparency via the public securitisation register.

The reform delivers substantial business advantages for European banks, particularly through operational efficiency and capital relief. Most significantly, the Commission estimates that the reform will reduce capital requirements by approximately one-third for senior securitisation tranches, with qualifying STS transactions under the proposed “resilient” category benefiting from significantly lower capital floors. The operational benefits are equally compelling: simplified due diligence procedures reduce the burden on investors, particularly around duplicative checks on sell-side compliance with retention and transparency requirements, although core verification responsibilities remain.

## Supervisory authorities on board

However, banks are only allowed to reduce their capital requirements when the supervisor acknowledges that the securitisation transfers a significant amount of risk to third parties—this is known as significant risk transfer (SRT). This requires a positive SRT assessment from the competent authority, acknowledging that risks have been transferred and will not be re-assumed by the originating bank during the lifespan of the securitisation.

Since 2020, the EBA has recommended a harmonised fast-track channel for transactions that meet predefined structural safeguards, emphasising common templates and a three-month turnaround.

This concept has been further developed by the European Central Bank (ECB) to be incorporated in the supervisory assessment of SRT. The assessment process has been undertaken in close dialogue with the European Banking Federation and is aimed at reducing the SRT assessment from three months to one month.

The new ECB fast-track SRT process is being pilot tested in 2025. If successful, it may inform a common supervisory approach across competent authorities, either through a legislative initiative or by establishing a harmonised set of rules across the EU.

## Final key takeaways

European banks are no longer treating securitisation as a defensive move to satisfy capital adequacy ratios. Instead, they are embracing it as a sharp instrument for profitable growth and capital agility. Yet, opportunity only materialises when every deal is meticulously measured and independently validated. Regulators still need to be satisfied to pass a formal SRT verdict and, increasingly, favour streamlined approvals such as the ECB’s 2025 fast-track process. Banks, therefore, need robust internal modelling to quantify costs and benefits before launch and they must orchestrate a multi-party relay—arrangers, legal counsel, rating advisers, custodians and a third-party verification agent who certifies data integrity between originator and investors, cementing trust and keeping the transparency promises of the STS label.

In short, securitisation has matured into a board-level lever: when executed with rigorous impact assessment and collaborative governance, each STS/SRT transaction not only unlocks capital but broadcasts operational excellence—turning compliance into a durable competitive advantage.



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## Expert view

# AI in banking: managing compliance and transformation in CEE

Artificial Intelligence (AI) is reshaping the banking sector across Central and Eastern Europe (CEE) at a remarkable pace. From improving operational efficiency and customer experience to revolutionising risk management, the integration of AI technologies offers profound benefits. However, this wave of innovation is accompanied by significant regulatory developments that affect how banks in the CEE region are deploying AI and the key trends driving their digital transformation.

## AI use cases in banking

AI technologies are already making a tangible impact on the operations and offerings of banks throughout the CEE region. Some of the most significant use cases include:

### Credit risk modeling

Machine learning models such as gradient boosting and neural networks are used to assess creditworthiness more accurately than traditional methods. This enhances prediction accuracy, accelerates loan approvals, and helps reduce default rates. Under the EU AI Act, such models are considered high-risk when used for credit scoring of individuals, triggering strict requirements for transparency, human oversight, and data governance.

### Fraud detection

AI systems analyse transaction patterns in real time, dramatically reducing fraud losses and improving response times. However, risks associated with false positives and potential bias emphasise the need for ongoing monitoring and fairness audits.

### Customer service automation

Chatbots and virtual assistants, powered by AI, handle routine customer queries around the clock, delivering significant cost savings and enhancing customer support standards. The risks here involve potential poor user experiences if these systems are not well-trained, as well as data leakage if security is not adequately designed.

### Algorithmic trading

AI-driven models can execute trades based on complex market signals, offering speed and efficiency. On the other hand, these models can introduce risks such as market manipulation and flash crashes, which necessitate robust monitoring and controls.

## Country highlights: AI and digital transformation in CEE

### How digital maturity shapes AI adoption

The adoption of AI is closely tied to the digital maturity of financial organisations. In CEE, many banks continue to rely on paper-based processes and have limited cloud infrastructure, indicating that digitalisation is still at an early stage for many institutions. This context shapes the current state and progress of AI integration.

- In **Poland**, banks invest in AI innovation through laboratories, accelerators, and corporate venture funds, with initiatives covering AI-powered customer service, digital platforms, and cyber-risk analytics.
- In **Romania**, EU funding and international collaborations contribute to the expansion of cloud platforms and digital banking tools. Initiatives such as the “Ask BT” AI Search Portal - powered by GPT-4 and integrated into Banca Transilvania’s websites - provide automated responses to customer FAQs. Since launching in 2023, this large language model chatbot has served over 430,000 users in 2024, representing the first integration of AI in the online service ecosystem among Romanian banks. The portal provides self-service information around the clock.
- In the **Czech Republic**, banks are developing AI chatbots to assist clients in navigating government paperwork and banking applications. The Erste Group, for example, is creating a chatbot that helps clients complete state subsidy application forms, aiming to enhance engagement and streamline processes.
- In **Slovakia**, banks are adopting AI, cloud, and digital tools to improve online services, e-signature capabilities, and risk scoring. Tatra

Banka introduced the IDEApp Innovation Platform internally in 2024. This system uses an AI assistant (NLP) to gather and prioritise employee proposals for new projects, supporting management in tracking idea development and allocating resources.

- In **Hungary**, there is an emphasis on IT modernisation and cybersecurity. The expansion of digital banking services is underway via applications, chatbots, and cloud-based platforms. OTP Lab’s Digital Workforce Program employs RPA bots and AI to automate more than 50 processes starting in 2020, combining human and digital workforces to reduce manual workloads, errors, and increase operational efficiency.
- In **Croatia**, the industry advances digitalisation through fully digital banking brands, as well as investments in web portals, account management tools, and CRM upgrades.

In summary, these examples illustrate both AI-driven developments and overall digital transformation throughout the CEE region’s banking sector. Progress in areas such as cloud adoption and process automation is playing a significant role in enabling future AI integration at scale.



## The regulatory landscape

The regulatory environment for AI in banking is rapidly evolving. The EU AI Act applies to all AI systems used within the union, even if developed abroad. It introduces a risk-based classification, under which high-risk systems - such as those for credit scoring or biometric identification - are subject to stringent requirements regarding transparency, human oversight, data quality, and robustness. Banks must conduct conformity assessments, maintain comprehensive documentation, and register high-risk AI systems in an EU-wide database. Data privacy obligations are particularly strict, with institutions required to comply fully with GDPR, including lawful processing, data minimisation, and the right to explanation.

## Data privacy challenges and mitigation strategies

Deploying AI in banking brings with it a host of data privacy and security challenges. Some of the most pressing concerns include:

**Bias and discrimination.** These risks are mitigated through the use of explainable AI, regular fairness audits and ensuring diverse training data.

**Lack of transparency.** This is addressed by rigorous model documentation, providing user-facing explanations and maintaining human-in-the-loop processes for critical decisions.

**Data breaches.** Encryption, robust access controls and secure model deployment are essential defenses.

**Unlawful processing.** Adhering to GDPR-compliant data governance, with clear purpose limitation and consent management, is crucial to avoid unlawful processing.



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## The road ahead

Artificial intelligence is already delivering measurable benefits to banks in CEE, improving efficiency, accuracy and customer experience. The regulatory environment, anchored by the EU AI Act, requires institutions to treat many AI systems as high-risk and to implement rigorous compliance measures, particularly around data privacy and accountability. While the region still faces challenges in terms of digital skills and infrastructure, ambitious public funding and the success of early adopters suggest rapid advancement ahead.

For banks that act early, robust and transparent AI governance can offer not just compliance, but a unique strategic advantage. As adoption accelerates under the watchful eye of regulators, the institutions best able to balance innovation with compliance will shape the future of banking in CEE.



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## Expert view

## Stress testing the future: climate risk, regulation and readiness in CEE

As climate risks intensify across Europe, the Central and Eastern European (CEE) financial sector is facing mounting pressure to elevate its approach to climate risk management. European regulators, including the EIOPA (European Insurance and Occupational Pensions Authority) and national supervisors, are now driving a transformation that requires institutions to embed climate considerations deeply into their operations, modelling frameworks and governance structures.

## Regulatory push for climate resilience in insurance and banking

Recent years have seen intensified regulatory scrutiny aimed at integrating climate risks into financial decision-making. Key regulatory developments shaping the CEE financial landscape include:

- **The European Central Bank (ECB) and European Insurance and Occupational Pensions Authority's (EIOPA's) joint paper, Towards a European System for Natural Catastrophe Risk Management (December 2024):** States that only around a quarter of natural catastrophe losses in the EU were insured and recommends a two-pillar EU-level solution—including a public-private reinsurance scheme and an EU disaster financing fund—to increase insurance coverage and improve public disaster risk management among member states.

- **EIOPA's Climate Guidelines:** The EIOPA recommends integrating physical and transition risks into ORSA (Own Risk and Solvency Assessment), calling on insurers to build internal climate models that go beyond average projections.

## Changes at national level:

In Q3 2023, the Polish financial supervision authority KNF conducted a stress test for property insurers using a flood scenario, concluding that insurers are currently well-prepared, but future climate change may increase risks—prompting plans to enhance analytical tools.

The Czech Republic is planning to integrate climate metrics into its annual supervisory review and evaluation process (SREP) based on data to be reported under Corporate Sustainability Reporting Directive (CSRD) requirements.

These initiatives collectively aim to build a more climate-resilient financial system, particularly in CEE countries that are still developing their climate risk capabilities.

## Understanding climate risk modelling: expectations and insights

In recent years, regulatory efforts to integrate climate risk into financial frameworks have intensified. The EIOPA has recommended incorporating climate risk into the ORSA framework. Utilising scenarios from the Network for Greening the Financial System (NGFS), methodologies for assessing physical and transition risks have been developed, although these have also exposed the limitations of existing tools and models.

The generation of climate scenarios heavily relies on integrated assessment models (IAMs), which link economic activity to climate outcomes. However, creating these scenarios is fraught with challenges, including model limitations and uncertainties. IAMs, which commonly assume average deterministic responses to global warming, may underestimate risks, as climate impacts are often shaped by extreme scenarios. Actuaries and risk managers depend on climate scenarios to anticipate the impacts of global warming and the transition to a low-carbon economy. Critical literature on IAMs suggests using a range of models and scenarios to address uncertainties. Given the current state of IAMs, it is necessary not to rely solely on NGFS-produced climate scenarios. Results must be nuanced and interpreted as a lower bound of the impact of transition scenarios on economic and financial systems. Actuaries need

to be trained in the limitations of these models. Supervisors can also share scenarios produced by other models to obtain a wider range of risk estimations. Centralising the production of these scenarios would enable both supervisors and the industry to better compare the risks to which different companies are exposed.

The regulatory landscape is poised to demand more precise, data-driven approaches to climate risk assessment and management. For the EU insurance and actuarial industry, this presents both opportunities and challenges. Regulators are likely to mandate advanced scenario analyses, robust risk modelling and actionable adaptation measures. Actuaries must refine their skills in interpreting complex scenarios and their implications for financial stability. Insurers will need to invest in resilience-building strategies to align with increasing regulatory expectations. As the EU seeks to harmonise climate risk frameworks across member states, it positions itself to lead globally in addressing the financial and societal challenges of climate change. By embracing these changes, the EU insurance sector can set a benchmark for innovation, collaboration and resilience, strengthening its role as a global leader in the transition to a low-carbon, climate-resilient future.

## Key regulatory updates on Sustainability Reporting

### Context

On 26 February 2025, the European Commission (EC) proposed a set of changes to corporate sustainability reporting (the Corporate Sustainability Reporting Directive – CSRD and EU green taxonomy), the Corporate Sustainability Due Diligence directive – CSDDD, and the carbon border adjustment mechanism – CBAM.

The proposals aim to reduce the regulatory burden and streamline sustainability reporting.

### Measures adopted / partially adopted:

#### ESRS quick fix (adopted by the European Commission on 11 July 2025, not yet entered into force)

As stated by the European Commission, according to the current European Sustainability Reporting Standards (ESRS), companies reporting on the financial year 2024 can omit information on, among other items, the anticipated financial effects of certain sustainability related risks. The “quick fix” delegated act, which applies from the financial year 2025, will allow them to omit that same information for financial years 2025 and 2026.

This means wave one companies, the first group of companies that are required to comply with the CSRD reporting requirements, will not have to report additional information compared to the financial year 2024. Moreover, for financial years 2025 and 2026, wave one companies with more than 750 employees will benefit from most of the same phase-in provisions that currently apply to companies with up to 750 employees.

## EU Taxonomy Delegated Act: partial adoption (4 July 2025)

### Main simplification measures:

- Introduction of optional materiality thresholds amounting to 10% of the denominator of each of the three key performance indicators (KPIs): turnover, CapEx, OpEx. For financial undertakings, this rule would permit them not to assess the taxonomy eligibility and alignment of up to 10% of their financial assets.
- Assessment of this threshold KPI by KPI (independent analysis of each KPI)
- Materiality analysis on aggregated activities (for example, for the turnover KPI, all activities that represent a total of less than 10% of the total consolidated turnover can be considered non-material)
- Exemption of non-material activities from eligibility analysis or alignment analysis (technical analysis underway on this point)
- Publication by the commission on 4 July 2025: the text is now subject to a four-month scrutiny period, possibly extended by two months, by the parliament and the council. Publication in the Official Journal of the European Union (OJEU) only at the end of this scrutiny period, with entry into force 20 days after publication in the OJEU.
- If the process follows through, the new provisions will apply from 1 January 2026, for fiscal year 2025 reporting, but companies will have the option of applying the old version of the amended regulations for fiscal year 2025 reporting, for the last time, if they consider that they do not have time to implement the new provisions.

### CSRD stop-the-clock (April 2025) Legislative change that formally:

- Postponed Wave 2 (non-listed large firms) for two years.
- Excluded Wave 3 (listed SMEs) from CSRD scope entirely.

These changes are legally binding, they apply EU-wide and need to be transposed in national law by 31 December 2025.



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## Methodology

This publication was developed through a collaboration between EMIS Insights and Forvis Mazars, combining data interpretation with expert analysis to provide a comprehensive view of the insurance sector in Central and Eastern Europe. EMIS collected and analysed publicly available data from six key markets: Croatia, Czech Republic, Hungary, Poland, Romania and Slovakia. Their team applied a consistent methodology to ensure comparability across countries, focusing on indicators such as premium volumes, profitability, solvency and market dynamics. Building on this foundation, Forvis Mazars contributed expert commentary and authored thematic articles that contextualise the data within broader industry trends. These insights reflect the company's experience advising insurers on regulatory compliance, strategic transformation and operational challenges. The report was jointly reviewed to ensure clarity, accuracy and relevance for stakeholders in the region. This dual approach - data-driven analysis from EMIS and expert interpretation from Forvis Mazars - ensures the study delivers both depth and practical relevance in a rapidly evolving insurance landscape.

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### Asset management

- Audit and assurance
- Governance, risk and internal control
- Valuation and quantitative solutions
- Strategy
- Tax services, including tax reporting for funds
- Financial reporting advisory
- Funds and transactional advisory

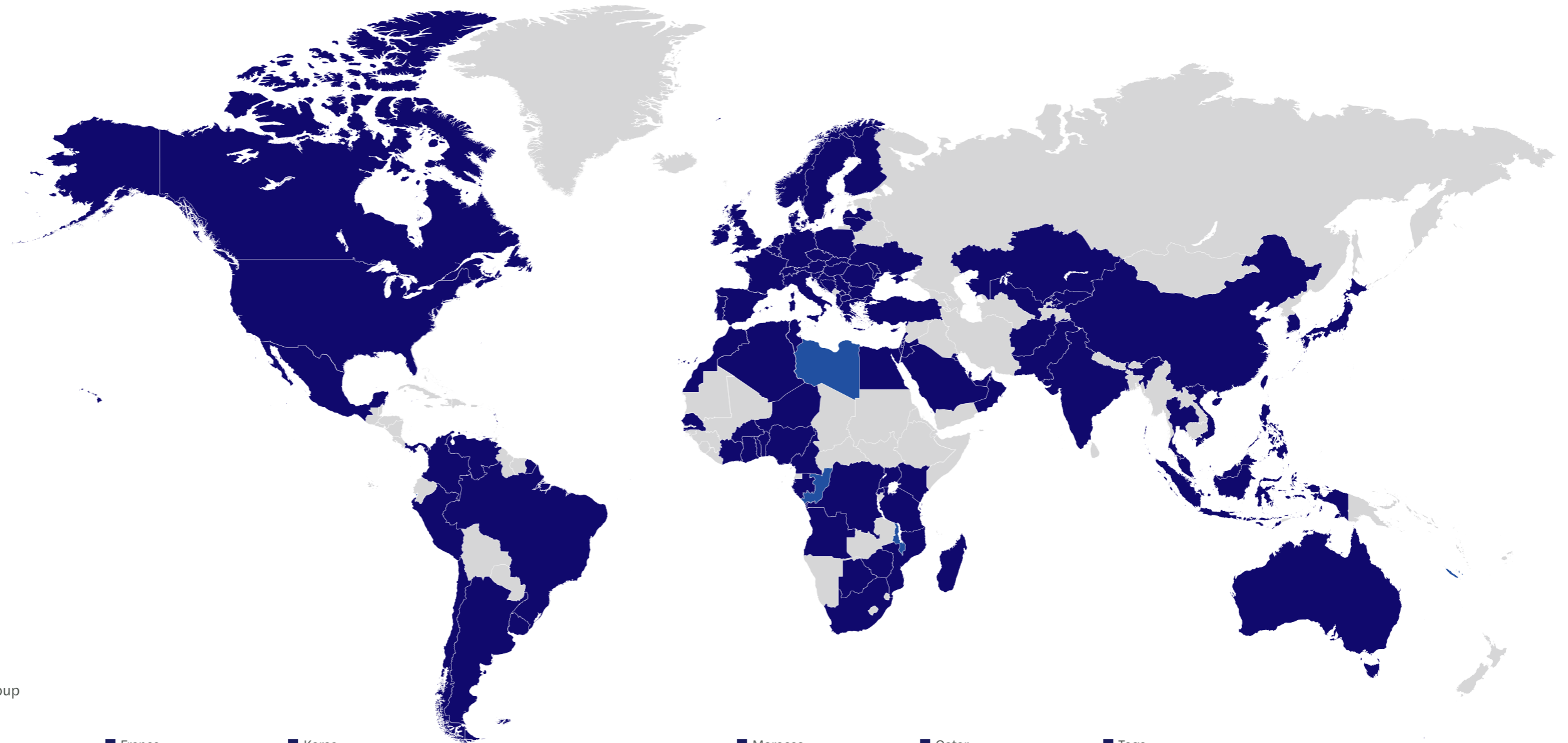
### Banking & capital markets

- Audit and assurance
- Risk management
- Quantitative model development, review, and validation (including IFRS 9 and Basel)
- Stress testing (including regulatory and climate)
- Regulation and compliance
- ESG strategy and transformation
- Sustainability reporting and assurance
- Sustainable finance

### Insurance

- Audit and assurance
- Regulation and compliance
- Actuarial and risk management
- IT Consulting
- Financial advisory
- Tax
- ESG strategy and transformation
- Sustainability reporting and assurance
- Sustainable finance

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As at 1 January 2025

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