

## Abstract

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### **Corporate Governance and foreign banks in Central and Eastern Europe**

This thesis studies part of the transition to market economy in Estonia, Lithuania, Latvia, Poland, Czech Republic, Hungary, Slovakia and Slovenia by focusing on the entry of foreign banks and their performances.

There are three research questions in this study. The first deals with explanations of foreign banks ownerships structures in the eight countries. The second research questions deals with competition between foreign and domestic banks. The third and last research question deals with if the ownership structure can influence performances of banks.

The empirical data show that foreign banks in the eight countries establish with a very large stake in their subsidiary. The main foreign owner has on average 98,3 percent ownership in Lithuania to 78,5 percent in Czech Republic with 86 percent in average. The shareholder stake is in a range from 100 percent to 14 percent in individual banks. This high ownership is not explained by shareholder rights or the low confidence in these laws. Instead the strategy of the foreign banks seems to explain the ownership structure. Analyses of banks that have entered more than one bank market in the candidate countries suggest that the banks have a uniform strategy.

During period 1996-2002 the market share of foreign banks grew at the same time as the total market expanded rapidly. In 2002 the average size of the foreign banks was twice as large as the average of domestic bank. Foreign banks had higher capital risk than the domestic banks. At the same time the foreign banks had lower credit losses. The profitability has been much higher during the period for foreign banks.

Concentrated ownership among foreign banks seems to correlate with profitability. However, no strong correlation was found between ownership structure and growth or risk. However among domestic banks there seem to be a correlation between ownerships structure and risk. Domestic banks with concentrated ownership have lower risk than banks with more widespread ownership. The higher profitability for foreign banks with concentrated ownership can be explained by lower credit losses. Foreign banks with concentrated ownership have lower credit losses than other banks. These results indicate that ownership structure has explanatory power on banks performance.

**Key words:** Corporate Governance, banks, Central and Eastern Europe, financial performance