ERSTE GROUP

CEE Equity Strategy

3Q 2011

A bit of summer feeling?

At least short-term recovery, supported by quite depressed market levels reached during 2Q

Sentiment and liquidity are drawing a rather negative picture still

Valuations, despite slow down in growth expectations are still attractive

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Share prices are as of July 1, 2011

Outlook

The main conclusion for an outlook on 3Q would be that market-pressing issues, such as the debt woes in Greece, etc., and its consequent somewhat positive news recently, will provide some short-term momentum to equity markets. This move should also be supported by having already reached pretty depressed levels during 2Q, which might be the base for a little rally. However, when combining still dry fund flows and with the consensus outlook expressing its view on further moderating growth via earnings revision rates turning/remaining negative, we would not expect miracles to happen in 3Q. In particular, reflecting the view of Austrian economics on equity markets, acknowledging further decreasing loan growth (in particular in the public sector) does not provide too positive a picture for a long-lasting strong performance on equity markets.

Sentiment continues to remain rather weak. The ZEW/Erste indicator does not paint a very positive picture, with declines in expectations. The only exceptions here are markets in Romania, Hungary and Croatia. Using the Ifo Business Cycle clock to identify where we are in the economic cycle, some hope is left for CEE equity markets, with economies still seen in the upswing area, while global markets are already plotted in the boom phase.

We tend to focus more on defensives as a general theme, but would finally rely more on stock picking, favoring situations with attractive valuations and growth when it comes at still reasonable prices. For our country allocation proposal, our model names Turkey and Russia as overweights. We would soften this view a bit, but would still favor these markets relative to others, assuming that any recovery on equity markets would also focus on size. SEE remains a speculative bet, held back precisely by size. We should mention that our view on Russia and Turkey also includes a speculative element, since performance here relies pretty much on the oil price for the one and on getting C/A imbalances under control for the other. In particular Turkish banks need to be circumvented somehow.

Valuations in general remain attractive, even when plotted against the drop in the growth outlook. All views on this topic (current against historical levels or earnings to bond yields and resulting fair valuations) still present a rather favorable picture of the CEE region.

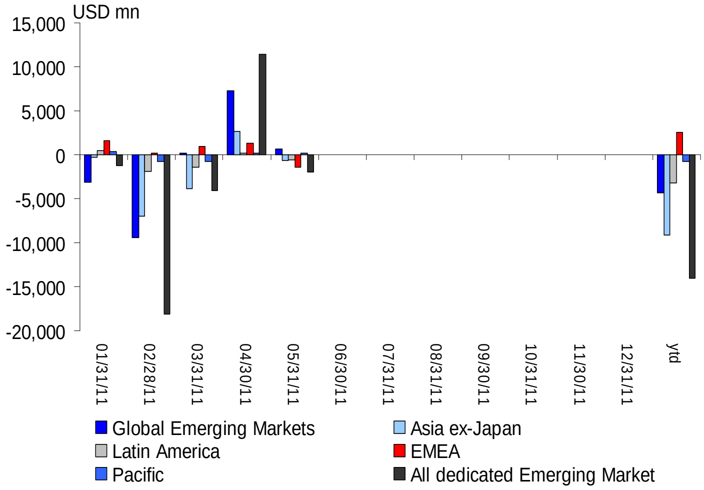
Various tools that would help to identify sector or other top down trends, do not provide a clear picture in our view. Hence, we would focus mostly on value, assuming the any upswing in liquidity would not allow for rather stretched growth stories to perform much further.

Outlook

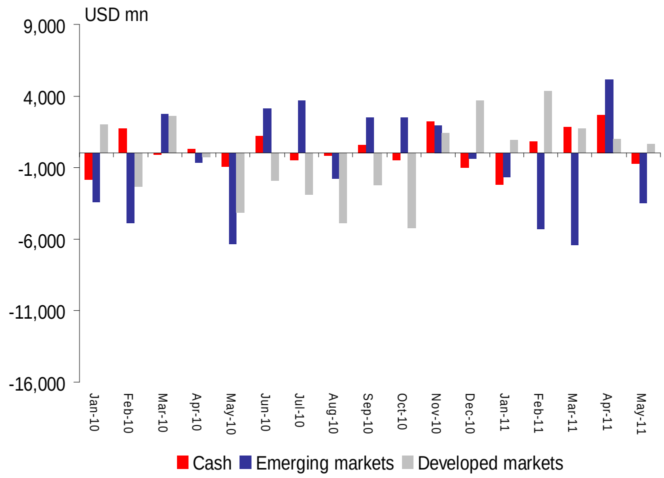
Markets appear extremely sentiment driven, when looking at market reactions after the Greek government survived the no-confidence vote or passed the consolidation package. It appears that market participants have pretty much sidelined themselves, waiting for some lasting solutions for the most pressing topics, such as the Greek story. We have learned the term 'washout' as a new thing to describe this. The consolidation package passing the Greek government should also help to ease equity markets, even though we would not expect miracles. The move will give the country some time to breathe, but the problems are certainly not solved and hence the Sword of Damocles will remain hanging over equity markets. The question will be how high or low this sword will hang over the coming months.

In line with this view, liquidity remains a major issue. Stock exchange turnover posted a slightly improving picture in May, with CEE 8 markets showing increases in turnover of 9% m/m and 2% y/y, which, however is a rather symbolic increase. When looking at global fund flows and active allocations, the picture remains bleak.

Monthly flows



Net sales / purchases



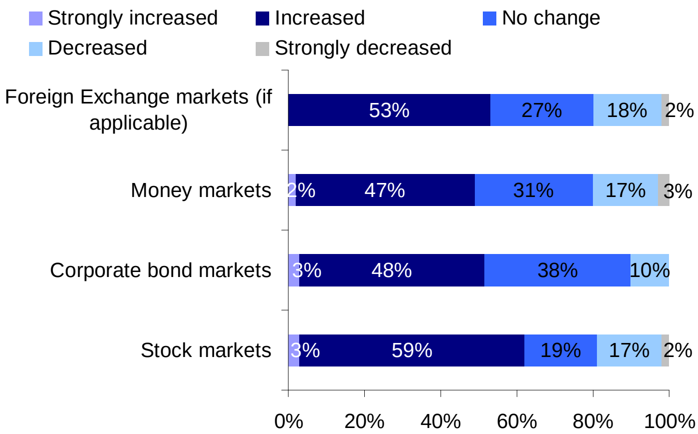
*Source: Emerging Portfolio Research; **Monthly flows**: change in assets minus portfolio change, minus forex change = contribution/redemption to funds, **Net purchases/sales:** change in market value of holdings - increase (decrease) of market value of holdings*

On the liquidity front, we had some short-lived signs that the reluctance to put money in emerging markets could finally come to an end, but the latest data reported for May shows more unfriendly weather. Even EMEA funds, which so far were resisting the emerging market trend by attracting flows, had negative numbers for the first time this year. Apparently, Russia and some recovery plays in North Africa lost their ability to buck the trend. The view on net buying and selling got slightly brighter in April, with emerging markets posting a positive balance for the first time since December 2010. However, these days nothing comes without a 'but' and, consequently, another striking detail was that cash was increasing quite substantially, getting us back to the 'sidelined' attitude mentioned earlier. May made it even worse, with emerging markets sold on a net base, while developed markets were able to keep some net buying, at least on symbolic levels. The data reported for the last week of June at least shows some search for yield, with corresponding flows in emerging market domestic currency bond funds. Also, individual markets such as Taiwan, the Philippines and Poland were able to attract inflows.

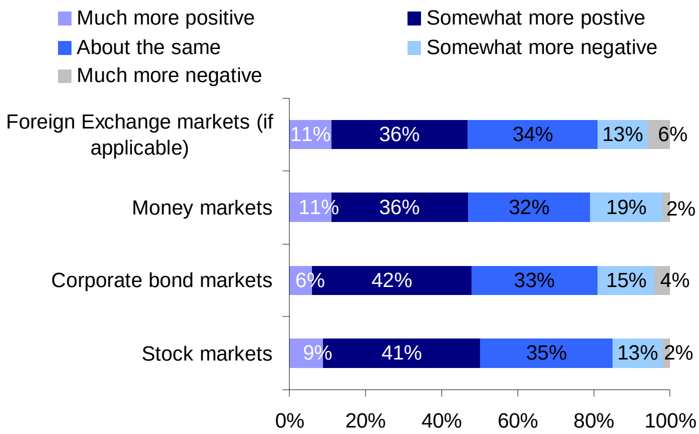
A positive tone on liquidity comes via the special question in the current ZEW/Erste sentiment indicator. Asked what their outlook on liquidity for the region is, a total of 62% of survey participants would expect increasing liquidity for regional equity markets. Another majority would see regional markets attracting better liquidity for regional markets, when compared to Eurozone equity markets. This majority gets somewhat slimmer when comparing the region against world equity markets. However, we have to note that these views focus more on the long term.

Outlook

Liquidity on domestic markets (outlook)



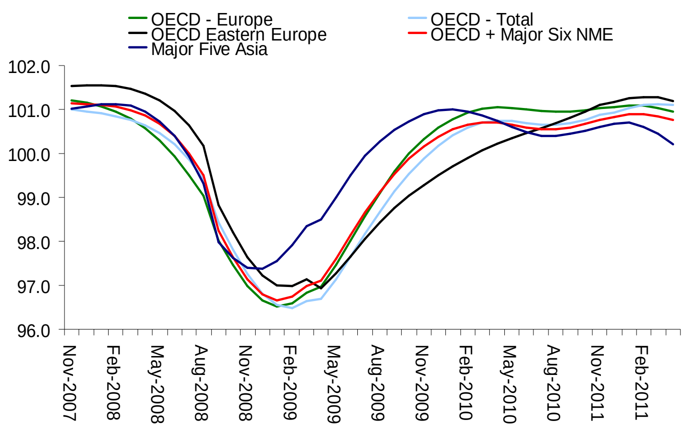
Liquidity in CEE vs Eurozone



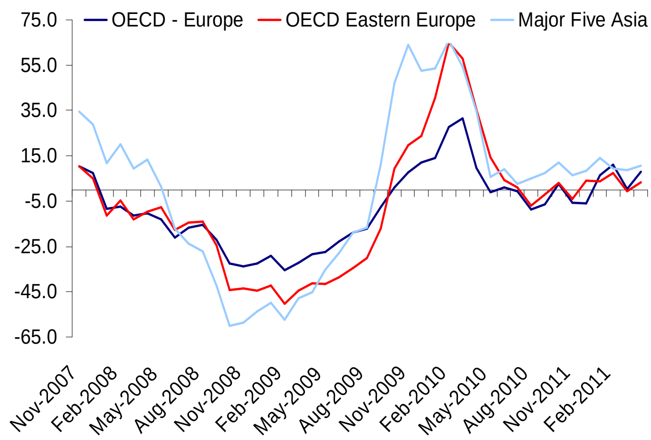
Source: ZEW

Another concern weighing on equity markets in general is sentiment reflecting the growth outlook. Our view on spreads between the 12M rate of change for the OECD CLI and the corresponding 12M performances for the respective indices confirms that equity markets are far away from euphorically pricing in any outlook, but rather reflect the view of moderating growth rates. Hence, the main trouble for equity markets remains a lack of momentum.

Composite Leading Indicator - regions



Spread CLI growth 12M rate of change (trend restored) to local index 12M rate of change

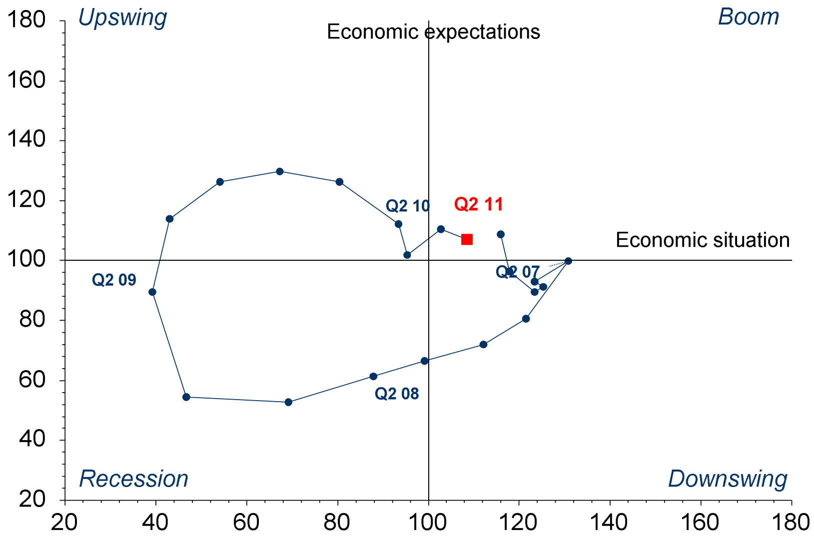


Source: OECD, own calculations (OECD stopped providing data for OECD Eastern Europe. OECD Eastern Europe shown in the chart is based on an average of individual CEE countries, calculated by Erste Group Research)

We add another tool for viewing how expectations on growth influence market performance. The Ifo business cycle clock presents a pretty straightforward look at where in an economic cycle we are when basing this view on sentiment. The Ifo World Economic Climate is the arithmetic mean of the view on the current situation and outlook. Graphically, it tends to rotate clockwise, given a pretty good feeling on where we are in terms of the economic cycle – based on expectations. This positioning within the cycle, consequently, could serve as an indication of when to step more into equity markets (and when not to). The business cycle clock picturing the world sentiment clearly puts the economy into the boom phase, which would still create some positive immediate environment for equities, but this positioning does not provide strong momentum.

Outlook

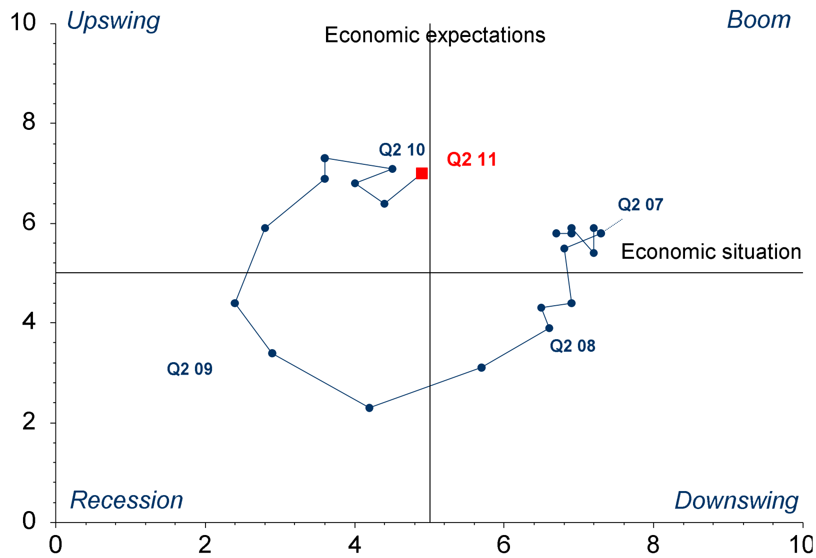
Ifo Business cycle clock - world



Source: Ifo, Datastream

When turning this tool towards Eastern Europe, the picture becomes a bit rosier. Based on expectations, the cycle is still in the upswing area, just at the edge of moving over to the boom area, though. Hence, the region should be more the place to be when looking for equity investments. However, the growth outlook is fading away – or, to put it more precisely, it is moderating. This becomes visible in consensus EPS growth as well as in earnings revisions, which continued to head south. In this environment, the best escape would be if the scenario that we outline in the macro section of this report comes true. With export-driven growth slowing down, all hopes rest on domestic consumption. Consumer confidence is pretty sound in Germany and the signs are that some recovery in this segment could kick in in CEE markets as well. Also, high capacity utilization has a chance for investment to support growth. However, this scenario might become tangible only in 2012. Turkey is the exception to the rule, coming with its own problems. One striking thing might be the kind of indecisiveness of the indicator, in particular for Eastern Europe. In previous quarters, it has been maneuvering quite a zig-zag course within the area of the upswing. Strong volatility in sentiment again confirms the very much news-driven market situation. When setting up the business cycle clock on individual countries, China and Brazil are seen to already be in the downswing area (again based on expectations), while Russia, India, Mexico, Indonesia and Turkey are in the boom area right now.

Ifo Business cycle clock – Eastern Europe



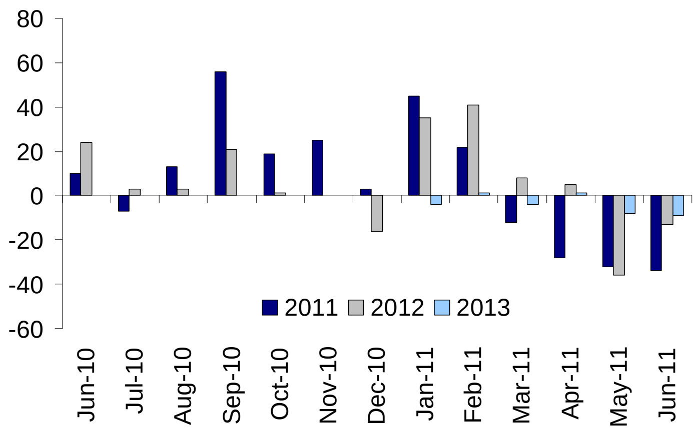
Source: Ifo, Datastream

Outlook

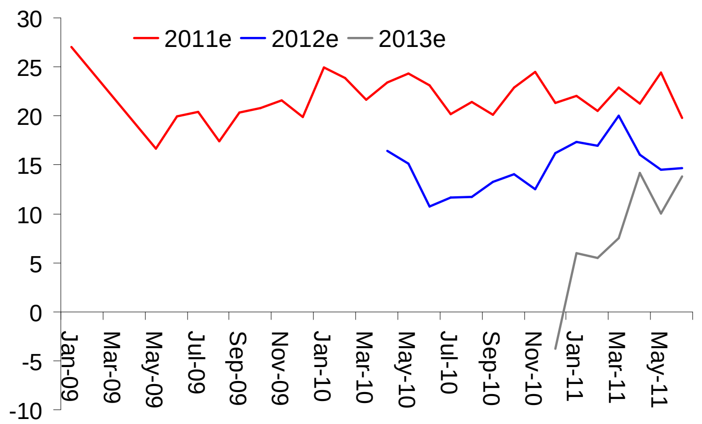
After concluding that sentiment/expectations have been getting sour, we turn to fundamentals. Consensus figures still put the region on very fair terms. Even if growth expectations were going down, valuations did so too, leaving markets attractive.

Revision rates for consensus EPS were already at negative balances for Turkey for quite some time, while it turned negative for CEE during the second quarter. With the oil price not having much further momentum (as it seems right now), the more moderate view on Russia also found its reflection in revision rates turning negative for this market. Consequently, growth expectations based on consensus numbers also cooled down. Average consensus EPS growth rates hold more or less stable at about 20% for 2011, while the outlook for 2012 went down significantly, from the previous ~20% to a current number of almost 15%. 2013 indicates a change for the better, with the consensus seeing growth improving. However, within the current rather uncertain environment, with limited visibility, we would not rely too much on such a distant future.

Consensus CEE - earnings revision



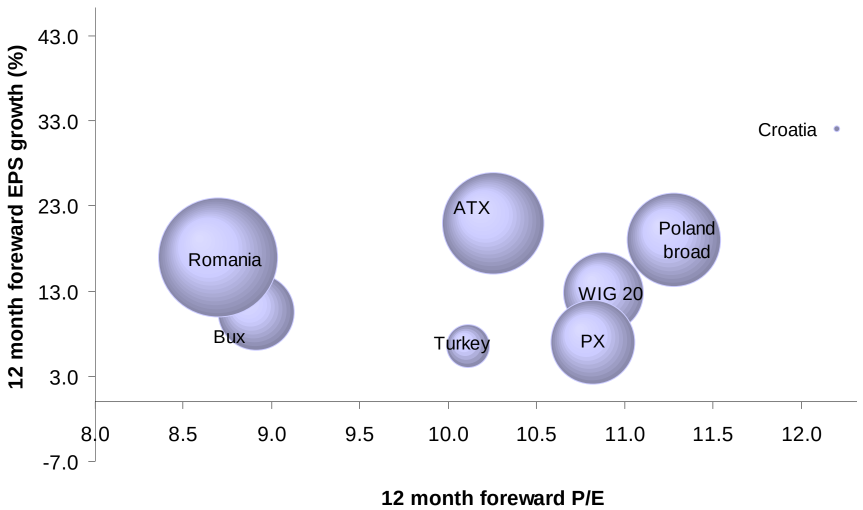
EPS growth



Source: Factset

Risk premia for the region, based on the comparison of earnings and bond yields, actually increased again. The extra return required for equity investments increased from the recent lows of 400bp earlier this year to 500bp at the end of June. Apart from generally viewing equities more harshly, we would not see any particular reason why the CEE region would deserve that add-on in terms of risk premia. Consequently, the theoretical upside based on implied earnings yields would come in at almost 19% for the CEE region. Based on this measure (which as usual is nothing more than an indication, rather than a precise statement), Romania and Austria offer the highest theoretical upside.

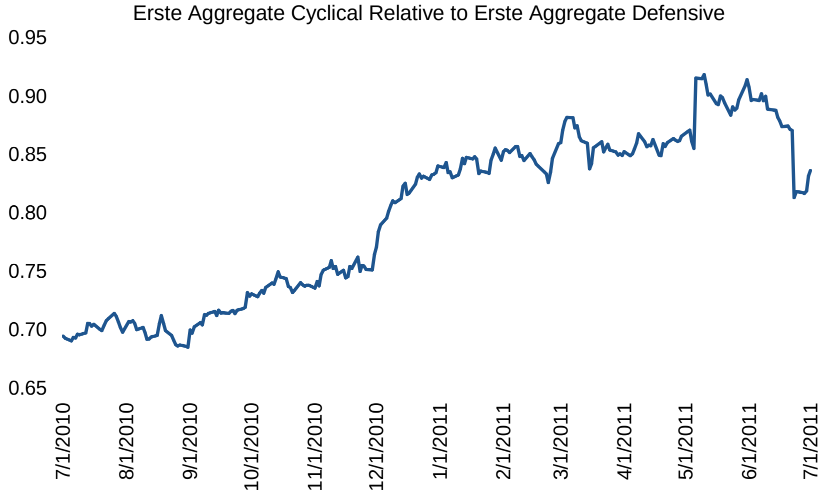
CEE – Valuation relative to implied upside (consensus data)



**Bubble size indicates discount based on implied fair values, red bubbles indicate premiums, consensus data, Source: Factset, Bloomberg, Erste Group Research*

Outlook

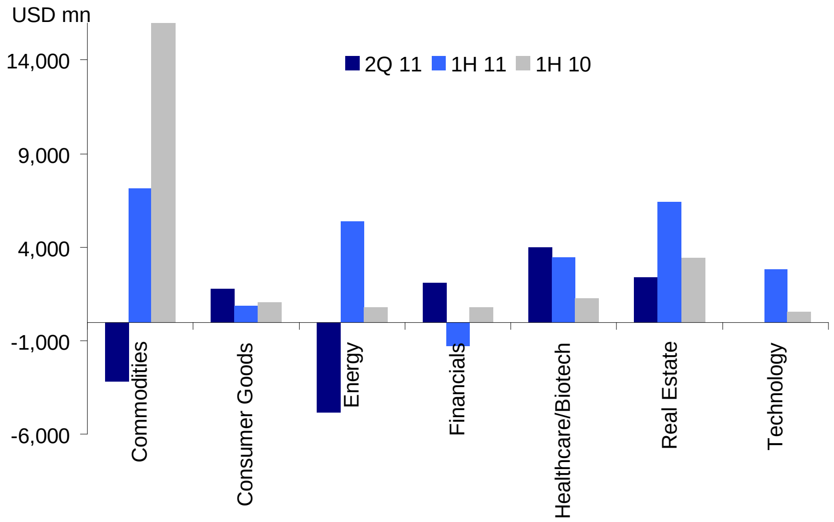
We have grouped our coverage universe into two categories, defensives and cyclicals. The obvious observation is that defensives have been outperforming cyclicals lately, reflecting the concerns on growth. However, after easing the Greek situation cyclicals came back a bit. The conclusion might be that as long as a positive sentiment comes back to the market, one might look at cyclicals. In total we would not draw the ultimate conclusion of focusing on either on area, but we would rely more on stock picking.



Source: Factset Partner, Erste Group Research

The data on fund flows reported by Emerging Portfolio Research indicates a swing to defensives. Commodities and energy suffered the strongest move to the negative side, while consumer goods, financials and healthcare in fact posted improving flows in 2Q11. Only a move towards QE3 or any other data confirming another sound upswing in growth would change this. Both events appear unlikely for the moment.

Fund flows 1H 2011 based on sectors



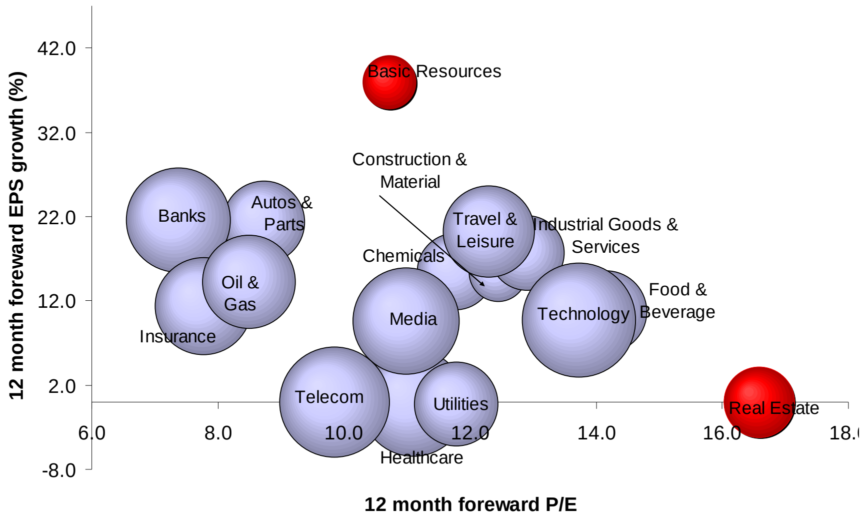
Source: Emerging Portfolio Research

Outlook

For potentially identifying some sector ideas, we look again at risk premia (implied upside based on theoretical fair value) for Euro Stoxx sectors, plotted in between 12M EPS forward growth and P/E (consensus). In particular, banks appear to have quite some upside to be eaten up and valuation relative to growth also looks decent. However, although the decision in Greece has given at least a short-term boost to the sector in terms of share price performance, we would expect some continued cautiousness on banks as well as on insurance, since the immediate Greek danger has receded, but the situation is certainly not solved yet. Autos & parts appear to have quite a good outlook relative to valuation, but the overall growth outlook might put a question mark on this. For Oil & Gas, we would restrict ourselves to upstream plays, as outlined in our recent sector report. Another group of sectors positioned a bit out of the middle are telcos, utilities and healthcare. Utilities have received a boost from the electricity price outlook.

Telcos might become a bit of a story again, assuming that 2Q will again deliver quite weak numbers, but 3Q might bring a stop in declining reported numbers. So far, telcos are pure dividend plays (with div. yields at around 8%) and with ex-dates having passed, we should not see too much activity here. Healthcare, as far as our universe is concerned, might be interesting to some extent, but (in particular) Hungarian players still carry some extra risk. Basic Resources are the main outliers in this chart (not that much in CEE). Growth expectations have driven that sector already beyond implied values, but the growth seen here by the consensus is also still the highest.

Valuation overview EuroStoxx sectors*



**Bubble size indicates discount based on implied fair values, red bubbles indicate premiums, consensus data for EuroStoxx sectors, Source: Factset, Bloomberg, Erste Group Research*

Apart from the idea that a continuation of a more positive view on the Greek situation might continue to support financials and with potentially further positive news on growth (US data, domestic consumption in Germany, etc.), we would stick to searching for growth at reasonable prices and probably even more so for value. Within the current uncertain and undecided environment, along with meager liquidity, we would feel best with this approach, which would also include some stronger weight on defensives. So, in general, we tend not to rely on any major top-down view or sector theme, but would focus more on stock picking.

Outlook

For coming up with some ideas, we screen our coverage with two methods. First, we run the previously introduced filter, ranking stocks by valuation, risk, profitability and growth. Again, this method looks at the entire coverage universe of Erste Group Research and does not distinguish between sectors or countries. Also, size and liquidity are not part of the ranking procedure, but are shown only as an additional reference. Hence, relative considerations among sectors, etc., are not reflected here, eventually posting a stock at a prominent level, even if it does not earn a Buy recommendation. Second, we look at our Buy recommendations and rank them according to the upside relative to our 12M target price.

Screening Erste coverage universe - industrials

All data 2011e	P/E	P/CE	P/BV	Dividend yield	EV/EBITDA	ROE	ROCE	Gearing ratio	EPS growth (LC)	Mcap (EUR mn)	Average turnover (EUR)*
Petrom	6.08	3.17	1.03	8.2%	3.19	18.1%	13.1%	17.4%	30.3%	5,114.0	270,248
KGHM	6.42	5.73	2.07	5.1%	4.15	36.6%	41.4%	-27.0%	36.1%	9,962.5	33,011,184
Sojaprotein AD	4.47	3.83	0.70	6.4%	5.06	16.3%	13.2%	57.3%	138.7%	88.5	35,704
New World Resources	6.56	4.81	2.75	7.6%	4.01	46.1%	30.6%	27.2%	77.6%	2,720.3	10,514,001
Synthos	7.00	6.08	2.27	3.5%	4.78	38.0%	39.0%	-16.5%	103.7%	1,719.1	2,742,742
Park Elektrik	6.45	5.29	1.26	0.0%	4.42	21.6%	24.5%	-17.5%	123.6%	229.8	2,978,896
GTC	4.25	4.75	1.08	2.6%	4.30	53.5%	8.6%	5.9%	36.5%	44.4	28,702
OMV	5.89	2.60	0.89	4.1%	3.72	15.9%	10.1%	43.4%	66.5%	9,848.1	12,611,968
Aselsan	8.12	7.07	0.81	3.1%	4.68	27.2%	11.2%	-15.3%	1.8%	919.9	1,406,424
Allami Nyomda	10.35	4.47	1.11	3.7%	4.55	17.8%	12.2%	14.4%	37.6%	566.0	1,489,515
Philip Morris CR	9.37	8.03	2.70	9.5%	5.66	29.4%	49.9%	-38.4%	5.5%	1,103.1	508,537
Vestel	9.98	5.35	0.86	7.0%	4.15	9.1%	9.5%	-9.7%	100.9%	219.9	536,808
Tupras	9.11	7.31	2.34	7.3%	6.26	26.9%	34.3%	3.0%	48.0%	4,262.1	9,899,408
T-Hrvatski Telekom	11.68	6.74	1.91	8.6%	4.94	16.3%	23.3%	-34.4%	-1.0%	2,854.1	588,634
Action SA	9.26	5.50	0.72	4.3%	5.30	16.9%	6.0%	8.5%	30.4%	231.5	298,855
Turkcell Iletisim Hizmetleri AS	10.81	6.39	1.90	6.9%	5.84	18.0%	18.8%	-14.8%	-0.1%	8,205.6	9,776,336
Farmacol	8.71	7.00	2.62	8.2%	6.95	24.4%	20.6%	0.6%	11.5%	2,106.2	2,684,779
Tofas	8.95	5.31	1.92	4.5%	6.13	22.7%	14.6%	23.2%	7.6%	1,586.2	4,081,665
Albalact	13.15	5.93	1.79	6.1%	5.16	11.2%	17.8%	-20.1%	25.7%	42.4	108,469
Austrian Post	12.21	8.92	1.67	12.6%	6.43	17.4%	22.7%	-19.3%	10.4%	26.7	5,908
austriamicrosystems	9.57	6.77	2.11	7.3%	5.81	18.3%	14.6%	15.8%	2.5%	1,482.8	1,809,927
Pegas NW	6.86	4.89	1.26	5.2%	7.68	19.1%	10.5%	75.1%	22.2%	176.4	226,380
Lotos Group	6.65	3.78	0.68	4.5%	6.90	10.9%	7.3%	69.5%	30.0%	1,489.2	3,287,127
Semperit	13.52	8.28	2.01	4.3%	5.25	15.0%	20.8%	-21.2%	17.6%	721.8	564,978
Arcelik	10.66	6.32	1.99	1.6%	5.39	15.8%	14.6%	-29.4%	7.1%	897.5	4,737,398

Source: Erste Group Research

The interesting part for this screening is that, we still find mostly cyclical stocks among the top ranks, which please with a reasonable growth outlook and profitability, coupled with attractive valuations. Petrom is heading our list and also our long-term darling OMV scores high. Also we find quite a few Turkish titles in top ranks, which does allow for an exposure to the Turkish market without too much local banks.

We run this filter also again for financials and unsurprisingly our long-term pick Raiffeisen appears on top. Also Halkbank and TSKB, the two financials that we like in Turkey come in relatively high.

Outlook

All data 2011e	P/E	P/BV	Dividend yield	ROE	Equity ratio	EPS growth (LC)	Mcap (EUR mn)	Average turnover (EUR)*
Aik Banka AD	4.88	0.60	1.1%	13.1%	36.4%	10.1%	298.5	72,767
Raiffeisen Bank International	6.28	0.99	3.2%	16.3%	8.1%	29.2%	7,232.7	6,390,154
Halkbank	6.88	1.52	5.1%	24.0%	10.4%	-3.1%	5,745.4	31,237,653
Vakifbank	7.61	0.95	3.3%	13.3%	12.3%	4.7%	3,954.9	24,581,369
Turkiye Sinai Kalkinma Bankasi	7.59	1.28	2.0%	17.8%	16.2%	12.9%	666.2	1,489,371
Yapi Kredi Bank	8.56	1.40	2.9%	18.0%	13.5%	0.4%	7,585.0	29,963,460
PZU	11.98	2.29	3.7%	20.3%	26.2%	12.2%	8,320.8	25,388,071
Sekerbank	5.45	0.54	2.8%	10.4%	11.5%	-11.1%	353.7	1,235,766
BRD-Group SG	8.55	1.46	2.0%	18.5%	13.1%	14.1%	2,315.1	444,436
OTP	9.80	1.10	2.0%	11.7%	14.0%	38.8%	6,376.9	29,570,300
Isbank	9.04	1.21	3.3%	14.0%	12.9%	-17.2%	9,568.9	74,893,850
Komercni banka	10.88	1.98	5.5%	18.6%	10.9%	7.4%	6,427.7	10,725,503
Albaraka Turk	8.67	1.28	4.0%	15.5%	9.7%	3.4%	515.3	910,495
Bank Pekao	14.12	2.09	4.2%	15.0%	14.2%	21.6%	10,981.4	15,036,111
Vienna Insurance Group	11.50	1.16	2.7%	10.4%	13.5%	17.3%	5,121.3	2,486,704
Akbank	11.22	1.60	2.7%	14.7%	14.8%	-6.9%	12,792.9	28,102,992
Bank Asya	9.89	1.04	2.5%	11.2%	12.7%	-11.4%	976.2	14,487,013
PKO BP	12.58	2.12	3.2%	18.1%	12.9%	16.5%	13,304.7	24,619,260
BZ WBK	14.72	2.59	3.4%	18.4%	10.4%	27.3%	306.3	101,669
Garanti Bank	10.69	1.69	2.3%	16.7%	12.8%	-7.8%	13,288.5	131,134,591
Banca Transilvania	12.01	0.98	1.2%	8.1%	10.1%	7.4%	426.9	430,410
Komercijalna Banka	15.94	0.96	0.0%	6.2%	14.5%	-38.4%	43.0	32,771
Uniqa	20.65	1.47	2.7%	7.5%	7.2%	119.5%	2,104.1	34,680
BRE Bank	15.62	1.91	1.6%	12.8%	7.6%	21.0%	3,527.1	2,211,679
FHB	11.26	1.06	0.0%	9.2%	6.7%	-51.5%	232.5	88,034
Turk Ekonomi Bank	12.41	1.06	0.0%	9.2%	10.0%	-39.8%	378.1	2,603,145

*Source: Erste Group Research; * Average turnover is based on 3M daily average volume multipled with 3M average share price in EUR*

List of Buy ratings

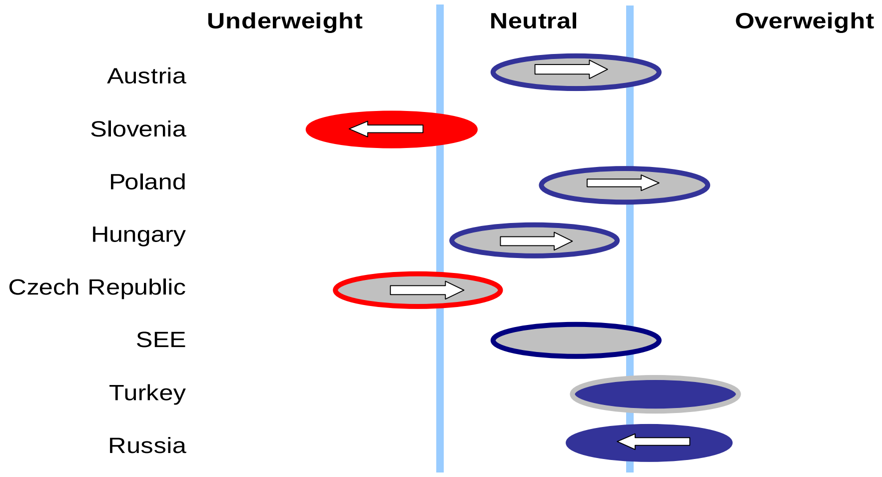
	Current price (LC)	Target price (LC)	Recommendation	Upside
BWT	18.2	28.2	Buy	54.9%
PannErgy	810.0	1,228.0	Buy	51.6%
AMAG	16.1	24.0	Buy	49.5%
Krka	60.0	89.5	Buy	49.2%
Raiffeisen Bank International	37.0	55.0	Buy	48.7%
ACE	8.3	12.2	Buy	48.4%
Albalact	0.2	0.3	Buy	48.1%
Asseco Poland	49.7	72.8	Buy	46.5%
Park Elektrik	3.6	5.2	Buy	44.2%
AT&S	13.5	19.0	Buy	41.1%
Akcansa	6.9	9.7	Buy	39.8%
austriamicrosystems	43.5	60.1	Buy	38.0%
Halkbank	10.7	14.7	Buy	37.1%
Immofinanz	3.0	4.0	Buy	35.4%
Kapsch TrafficCom	62.5	84.0	Buy	34.5%
Kulczyk Oil Ventures	1.8	2.4	Buy	33.5%
OMV	30.2	40.0	Buy	32.5%
S Immo	4.8	6.3	Buy	31.3%
Petrom	0.4	0.5	Buy	30.5%
TVN	16.2	21.0	Buy	29.7%
Allami Nyomda	780.0	1,010.0	Buy	29.5%
RHI	21.4	27.5	Buy	28.8%
Neuca	77.9	100.0	Buy	28.4%
Apator	19.3	24.7	Buy	28.0%
Richter Gedeon	35,965.0	45,500.0	Buy	26.5%
Vienna Insurance Group	40.0	50.0	Buy	25.0%
Aselsan	8.9	11.1	Buy	24.7%
Action SA	19.3	24.0	Buy	24.3%
Turcas Petrol AS	3.9	4.9	Buy	23.7%
Wolford	24.3	30.0	Buy	23.7%
Austrian Post	22.0	27.1	Buy	23.5%
Eurocash	31.3	37.0	Buy	18.2%
DO & CO	34.0	40.0	Buy	17.6%
Arcelik	8.5	9.9	Buy	16.5%
Turkiye Sinai Kalkinma Bankas	2.6	2.9	Buy	12.0%
Transelectrica	21.8	24.0	Buy	10.3%
voestalpine	38.2	41.0	Buy	7.2%
KGHM	196.7	202.0	Buy	2.7%

Source: Erste Group Research

Outlook

Our country allocation proposal, based on our multi-regression model, puts Russia, Turkey and SEE in front. All three are rather risky bets for various reasons. Turkey as an economy is indeed at risk of running too hot, while measures to fight the C/A deficit and too strong loan growth would damage the biggest sector in the market, banks. Circumventing this sector might still yield some interesting returns, assuming that the recovery from depressed 2Q market levels remains in place for some time. For Russia, the most decisive factors remain the oil price and political concerns, with elections getting closer. All other markets are left at rather neutral positions, differentiated by their trend towards some overweight positioning. Poland should do well and Hungary might post a positive move, based on its strong showing in sentiment surveys. Austria will hinge largely on the development of its financial sector as far as share price performance is concerned. The Czech Republic and (ever-more so) Slovenia are placed rather in the underweight area. The first market might surprise only in the case that its general defensive nature attracts more interest.

Allocation proposal, 3Q 2011



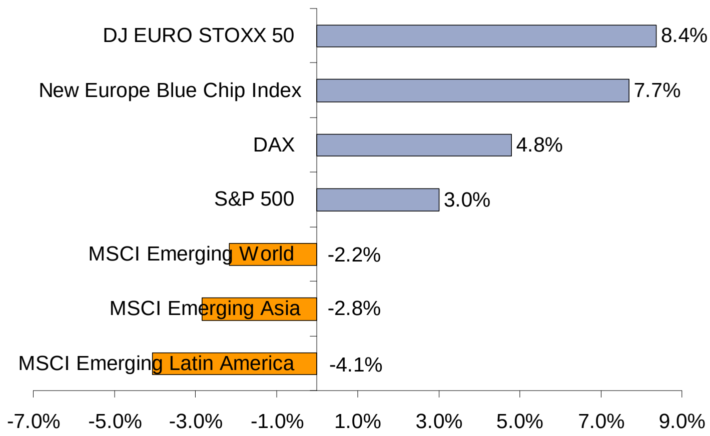
Source: Erste Group Research

Outlook

Austrian Economics – a different view

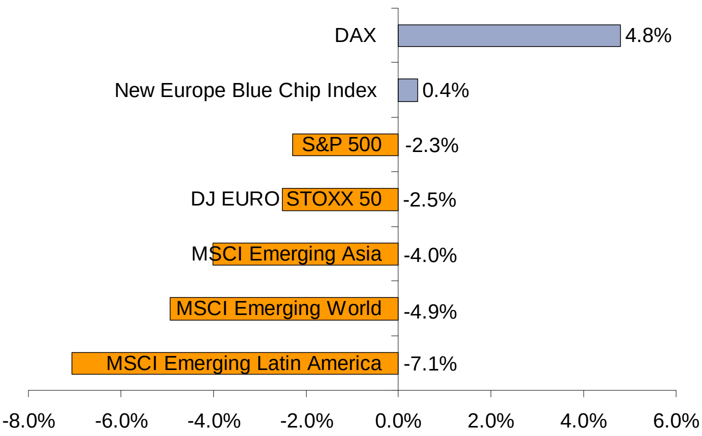
Mixed picture in lending trends again reflected in regional equity market performances. In our last column, we pointed out that slowing loan growth, triggered by a tight monetary policy in major emerging markets, has contributed to a relative underperformance in 1Q11 when compared to the US and Europe, where monetary policy (especially in the US) is still rather loose. We also expected this trend to continue throughout 2Q11. The performance comparison of emerging market indices vs. developed markets below shows that, in 2Q11 (right-hand graph), this trend continued and even accelerated when compared to 1Q11 (left-hand graph below). The bar chart shows that Latin America was hit the hardest. The stellar performance of the DAX in 2Q11 in our opinion reflects the strong performance of the underlying economy. We are pleased to see that the New Europe Blue Chip Index developed quite favorably in 2Q11 as well. In our opinion, this can also be attributed to the fact that the CEE region benefits from sound growth in Germany.

1Q11 major equity indices performance (in USD)



Source: Factset, performance in USD tracked from 01/01/2011 - 22/06/2011

2Q11 major equity indices performance (in USD)



Source: Factset, performance in USD tracked from 01/04/2011 - 28/03/2011

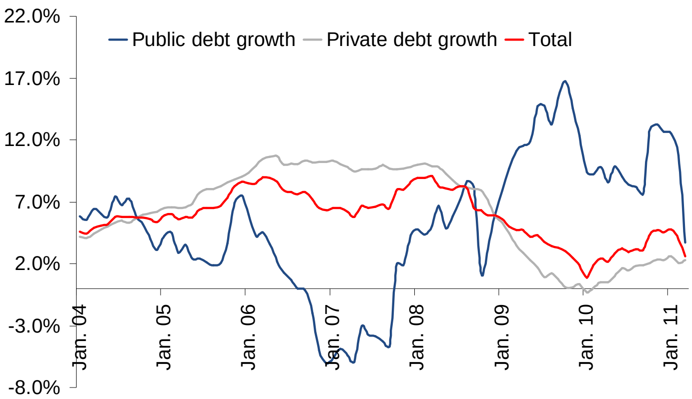
Slowing monetary forces on global scale indicate sluggish development for equities in 3Q11. Given the fact that the tight monetary stance in Emerging Asia and South America continues, while loan and debt growth in the Euro Area and the US is slowing down (mainly due to the fact that the public sector is finally approaching the limits of its debt capacity), we expect that the performance potential for equities will be limited in 3Q11. This market environment is in favor of low-risk government bonds, as already seen in 2Q11. Clearly, a change in the monetary policy of the US Fed (so far, QEII will end as planned in June) would change the picture and could trigger a short-term rally in equities.

Lending trends in 2Q11

Euro Area loan growth continues to decelerate. Total loan growth in the Euro Area slowed down further in April 2011. This slowdown (down to 2.4%, after 2.6% in March 2011) can be attributed to both the private (down to 2.2% y/y, after 2.3% y/y in March 2011) and public (down to 3.1% y/y, after 3.7% y/y in March 2011) sectors. We have to admit that, so far, loan growth in the private sector was mainly driven by households, while corporate loans (credits and bonds) stagnated. The left-hand graph below shows that the growth pace of lending to the public sector fell off a cliff in March. This does not come as a big surprise, given the constrained situation of public households. We expect that this situation will put further pressure on public sector loan growth in the months ahead. For the time being, all major monetary indicators for the Euro Area we track are loosing steam. The right-hand graph below shows that the money base of the Euro Area is even shrinking at the moment. Based on these developments, we would say that the short-term upside potential of equities is limited.

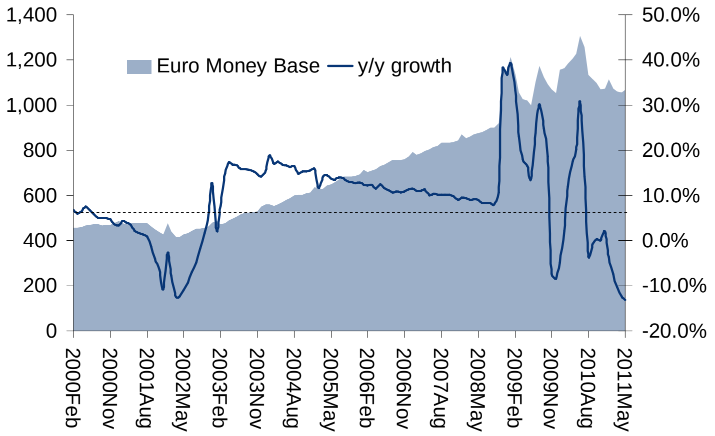
Outlook

Euro Area MFI loan growth Jan-04 – Apr-11



Source: ECB

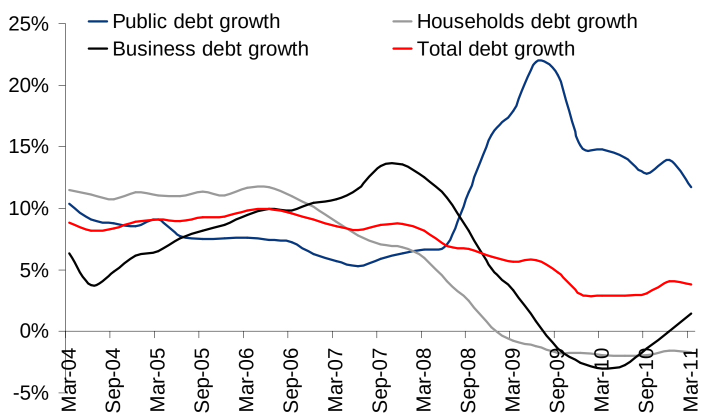
Euro Area money base growth Feb-00 – May-11



Source: ECB

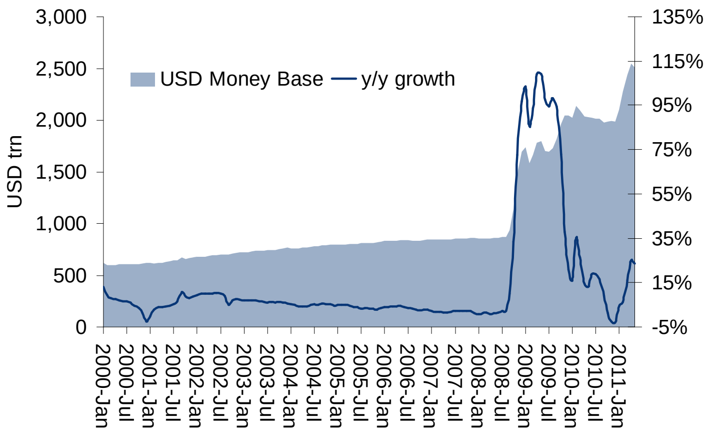
US debt growth slowing down as well. The US currently shows an encouraging corporate debt development. Debt growth in the corporate sector accelerated to 1.4% in 1Q11 (after a stable development in 4Q10). Debt outstanding of US households, on the other hand, continues to shrink (1.7% in 1Q11). Due to an already substantial public debt burden, public sector debt growth also slowed down to 11.7% in 1Q11 (after 13.9% in 4Q10). Thus, total debt growth in the US decelerated from 4.1% y/y in 4Q10 to 3.8% in 1Q11. In our opinion, this slowdown is not a harbinger of future rising asset prices.

US debt growth Mar-04 – Mar-11



Source: US Fed

USD money base growth Jan-00 – May-11



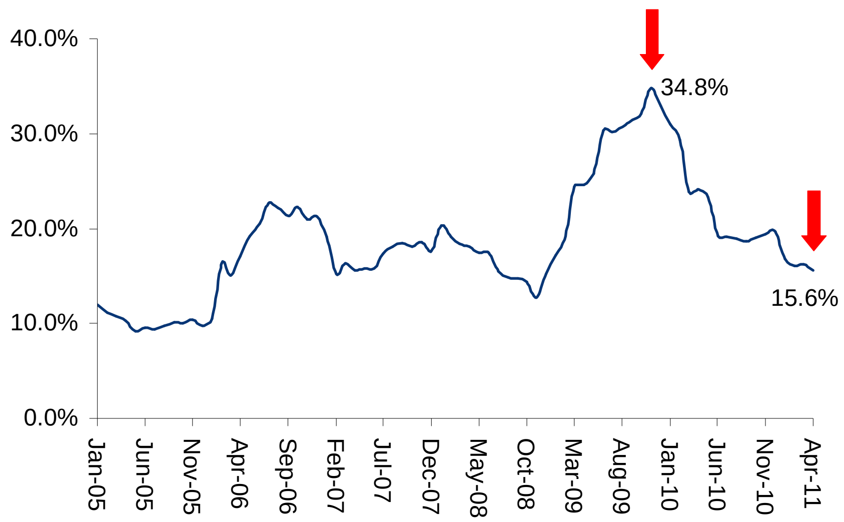
The right-hand graph above displays the development of the USD money base. The most recent spike upward stems from QEII. However, given the fact that QEII will end soon (end of June), there is still no further stimulus to be seen on the horizon. Thus, similar to the Euro Area, the development of major USD monetary forces leads us to believe that there is only limited upside potential for equities left.

Outlook

China – underground banks add new twist

Chinese loan growth slowing down further. After a lending spree in 2009, China has to fight the substantial inflationary pressures that surfaced during 2H10. For the time being, there is no indication that China will ease its current tight monetary stance. The markets will have to wait and see whether China will be able to digest the lending spree without any major disruptions. However, financial history has proven time and again that it is very difficult to engineer a 'soft landing' after an economic boom ignited by uncovered credit money. The graph below shows that loan growth is slowing down further.

Chinese loan growth Jan-05 – Apr-11



Source: PBoC

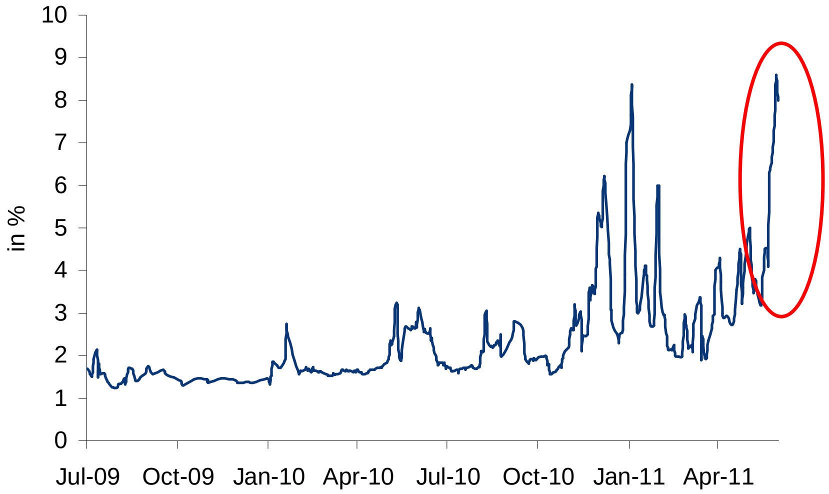
Underground banks add new twist. We have to add that the loan statistic we track is limited to the one officially published by the PBoC. However, a recent post in beyondbrics titled 'China's non-bank credit bubble' shed some light on the likely enormous Chinese market for non-bank credit[1]. The author explains that the tightened monetary policy of the PBoC (started in January 2010) has prompted banks to channel credit to large customers at the expense of household borrowers and small corporate borrowers. At the same time, deposit rates in China continue to be negative in real terms (sound familiar?); thus, Chinese depositors began to look for higher-yield investment opportunities to protect their purchasing power. The author writes '*A match was thus made in heaven. As the cash crunch grew more severe, firms began to pay double or triple digit annualized rates for short-term, uncollateralized loans. Underground banks became eager to offer depositors 20-30 per cent rates to attract funds, which would then be lent to cash-starved firms. High net worth households, and even some middle class ones, poured billions upon billions into either loans to firms or deposits in underground banks, both of which earned them much higher yields than the more basic 3.25 per cent offered by the state banks for one-year deposits or by government bonds. Chinese media reports suggest that there is now an enormous pool of underground loans, possibly totaling in the trillions of renminbi, although the government has not released an exact figure. In any event, the government may have a hard time tracking such loans, which often transpire through a handshake between two individuals'.* The tip of this probably huge iceberg became visible when a Chinese billionaire set himself on fire at the end of April to escape his creditors. The structure of his debt revealed that his business owed banks only RMB 150mn, but he owed individual creditors and underground banks some RMB 1.23bn.

[1] Retrieved from: http://blogs.ft.com/beyond-brics/2011/06/01/guest-post-credit-bubbles-underground-in-china/

Outlook

The most recent spike in China's money market lending rate (see graph below) is in our opinion a further indication that the tight monetary policy of the PBoC is putting severe pressure on the Chinese banking system.

7-day general collateral repo, interest rate swaps



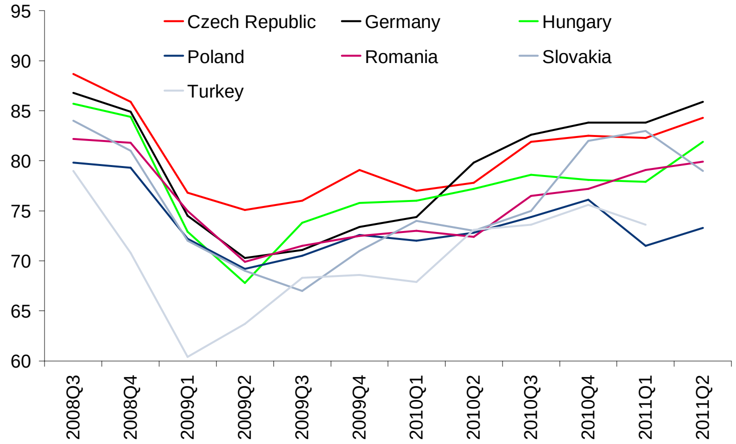
Source: Reuters

The banking system will pass this pressure on to its clients. It might thus be that an increasing number of activities that are heavily debt-dependent might come under pressure in the coming months.

CEE Macro Economy

The recovery after the slump in 2009 should move to its next stage in the coming quarters. Up to now, economic growth had been mainly achieved through foreign trade. Domestic demand was still suffering from the aftermath of the crisis, although to a different extent, which determined the speed of the recovery so far. Turkey was the exception to the rule, shooting out of recession through strong domestic demand. The pace of foreign demand is set to slow down. Not only will the catch up after the 2009 slump be completed but also some slowdown of demand from large developing economies seems likely. However, we expect investment expenditure to fill the gap. Continued strong growth for goods out of the CEE has led to high capacity utilization. It is likely that the point has already been reached where investments need to increase to meet growing demand. The next step in economic recovery - private consumption acceleration – will probably only be seen next year. Currently, consumption demand is still subdued, due to fiscal consolidation measures and/or sluggish labor markets. The Czech Republic and Slovakia seem front runners in this development, while Romania's and, especially, Croatia's recovery is proceeding slowly.

Capacity Utilization, in %



Source: Datastream

Turkey faces different problems, as it needs to cool its overheating economy. The newly-confirmed government announced a series of measures in this regard very shortly after elections. The measures mainly aim at curbing credit growth and should, in our view, be successful in slowing the economy, although the effect might only be felt late this year or in 2012. Specific events ahead include the general elections in Poland and Croatia, in October and likely in November, respectively. Campaigning is expected to start in September. It is no coincidence that both countries are laggards concerning budget consolidation and the next government in either country will have to find ways to reduce the deficit in 2012. Doubts in this regard could trigger market nervousness, at least until any new government comes forward with its fiscal plans.

Central banks will mostly stay put in the third quarter. Only in the Czech Republic might we see a hike in September. In the CEE region, inflation, driven by domestic demand, will remain subdued. The base effects speak for lower inflation rates ahead, assuming that oil prices remains around current levels. Slovakia will witness a jump of the inflation rate in July, as regulated gas and heating prices are increased. Romania, on the other hand, will post quite a significant drop, as last year's VAT hike will drop out of the calculation starting in August.

Looking at exchange rates, leaving Greece-induced spikes aside, we anticipate only small movements of currencies ahead. The Romanian lei recently came under pressure, as the Greek crisis came close to spinning out of control. The reasoning for the markets was the relatively large share of Greek banks (~20%) on the Romanian market. Even if Greek banks were to withdraw money from Romania, the consequences for the economy should be limited, in our view. In contrast to 2009, when the capital withdrawal of all banks was feared, the Greek crisis would now only affect a part of the financial sector. Competitors would be happy to step in nowadays and also credit growth is nowhere near where it was before 2009. So the dependence of the economy on credit growth has been reduced dramatically. Uncertainty concerning Greece may not subside quickly, but

CEE Macro Economy

should come down from the current level. Further, we expect the markets to follow our reasoning and that therefore fears concerning Romania should subside, speaking for a firming of the lei ahead. Hungary is hit indirectly by the Greek crisis, as the Swiss franc moves from one high to the next, due to safe haven flows. Due to the recent government program, FX borrowers can choose to have the FX rate fixed and the difference to the spot rate is turned into a loan, for which a three-year grace period applies. So, any further strengthening of the Swiss franc does not impact Hungarian borrowers immediately, but of course the debt piles up, possibly weighing on sentiment.

Macro economic overview

Real GDP growth (%)	2009	2010	2011f	2012f
Croatia	-6.0	-1.2	1.0	2.2
Czech Republic	-4.0	2.2	2.3	2.5
Hungary	-6.7	1.2	2.7	3.1
Poland	1.7	3.8	4.2	4.0
Romania	-7.1	-1.3	2.0	3.9
Serbia	-3.1	1.8	3.0	3.8
Slovakia	-4.8	4.0	4.0	4.5
Turkey	-4.8	8.9	6.5	4.5
Ukraine	-14.8	4.2	4.5	6.0
CEE8 average	**-3.8**	**2.3**	**3.3**	**3.8**
CEE8+Turkey	**-4.2**	**5.1**	**4.6**	**4.1**

CPI (%), eoy	2009	2010	2011f	2012f
Croatia	1.9	1.8	3.8	3.3
Czech Republic	1.0	2.3	2.5	2.7
Hungary	5.6	4.7	3.8	3.0
Poland	3.5	3.1	2.7	2.4
Romania	4.7	8.0	5.2	4.7
Serbia	6.6	10.3	8.5	5.7
Slovakia	0.5	1.3	4.4	3.7
Turkey	6.5	6.4	8.5	6.5
Ukraine	13.0	9.2	10.0	8.0
CEE8 average	**4.2**	**4.4**	**4.2**	**3.6**
CEE8+Turkey	**5.1**	**5.2**	**5.9**	**4.8**

Unemployment (%)	2009	2010	2011f	2012f
Croatia	9.1	11.8	12.2	11.9
Czech Republic	8.6	9.0	8.7	8.4
Hungary	10.0	11.2	10.9	10.3
Poland	11.0	12.1	11.5	10.1
Romania	6.9	7.3	6.9	6.8
Serbia	16.1	19.2	19.0	18.5
Slovakia	12.1	14.4	13.3	12.5
Turkey	14.0	11.9	11.0	11.0
Ukraine	8.8	8.1	7.8	7.5
CEE8 average	**9.9**	**10.9**	**10.5**	**9.7**
CEE8+Turkey	**11.6**	**11.3**	**10.7**	**10.3**

3M rates (average, %)	2009	2010	2011f	2012f
Croatia	8.9	2.4	2.1	3.0
Czech Republic	2.2	1.3	1.4	1.9
Hungary	8.6	5.5	6.1	5.7
Poland	4.3	3.8	4.4	5.0
Romania	11.7	6.8	5.9	6.6
Serbia	14.4	10.8	13.0	10.5
Slovakia	1.2	0.8	1.5	2.2
Turkey	9.9	7.5	8.0	9.0
Ukraine	18.0	7.7	4.5	5.1
CEE8 average	**7.0**	**4.3**	**4.3**	**4.7**
CEE8+Turkey	**8.2**	**5.6**	**5.8**	**6.5**

C/A (%GDP)	2009	2010	2011f	2012f
Croatia	-5.5	-1.4	-2.5	-3.3
Czech Republic	-3.2	-3.8	-3.7	-3.4
Hungary	0.4	2.1	1.5	0.6
Poland	-2.1	-3.4	-4.4	-4.8
Romania	-4.2	-4.1	-4.9	-4.8
Serbia	-6.9	-7.0	-7.4	-8.1
Slovakia	-3.6	-3.3	-2.7	-2.5
Turkey	-2.3	-6.6	-8.5	-6.2
Ukraine	-1.7	-1.9	-2.2	-3.0
CEE8 average	**-2.7**	**-2.8**	**-3.4**	**-3.7**
CEE8+Turkey	**-2.5**	**-4.4**	**-5.5**	**-4.8**

Budget Balance (%GDP)	2009	2010	2011f	2012f
Croatia	-4.5	-5.0	-5.9	-5.5
Czech Republic	-5.9	-5.3	-4.1	-3.7
Hungary	-4.5	-4.2	2.3	-2.9
Poland	-7.1	-7.8	-6.0	-3.7
Romania	-8.6	-7.3	-4.7	-4.0
Serbia	-4.3	-4.5	-4.1	-3.5
Slovakia	-8.0	-7.9	-5.0	-4.0
Turkey	-5.5	-3.6	-2.3	-2.3
Ukraine	-6.3	-5.5	-3.5	-2.5
CEE8 average	**-6.6**	**-6.5**	**-4.3**	**-3.6**
CEE8+Turkey	**-6.2**	**-5.3**	**-3.5**	**-3.1**

Source: Focus Economics, Erste Group Research

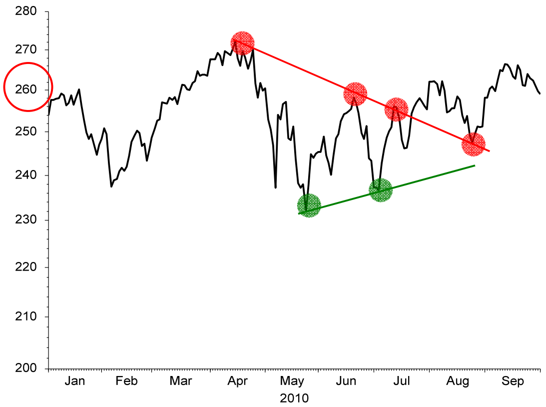
Global Markets

Europe – equity market

In the last quarter, we recommended being 'neutral-weight' in equities and 'under-weight' in western European stocks. In the second quarter of 2011, the Stoxx 600 decreased by 1.1%. On a total return basis, the index was up 0.9%. Going forward, we stick to these weightings, as the fundamental situation of the European economy and the value of bond yields remain largely unchanged.

Many developments in the last three months are similar to the development in the first half of 2010, when the Greek debt crisis first became a focus for investors. As in 2010, leading indicators such as the PMIs started to show signs of slowing down, before again signaling faster growth in the second half of 2010. Our economists also confirm that growth is intact in Europe, albeit at a slower pace than in 2010. Looking ahead, the main risk factor to this outlook is that the contagion of the country solvency crisis to Italy and Spain is still the main risk factor for equity markets in 3Q.

Investing in volatile times with technical safety PART I - the 'soft patch in 2010'
Stoxx 600

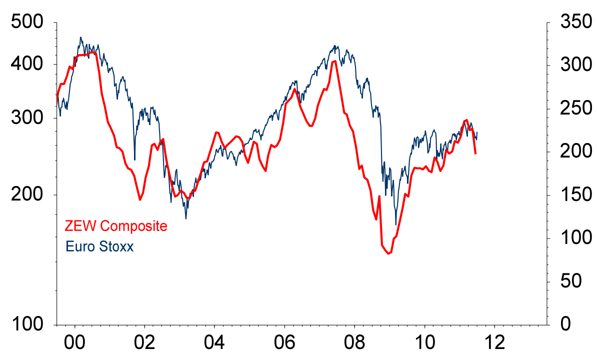


Investing in volatile times with technical safety PART II - the 'soft patch in 2011'
Stoxx 600

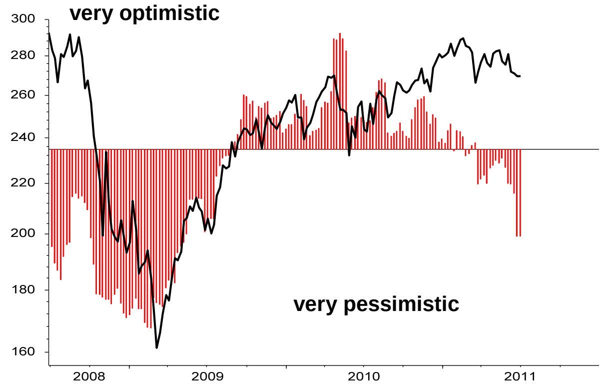
Sources: Datastream, Erste Group Research

Corrections in a bull market are a normal and natural phenomenon - and the correction of equity markets since February is (according to our volume and liquidity modules) no different. As part of this correction, certain leading indicators like EPS revisions in Europe and the ZEW Index of economic expectations for the Eurozone turned negative. But when looking at the data more closely, the ZEW Index of expectations merely slightly turned into negative territory. Also, the EPS revisions have turned negative, but not for all sectors. Historically, stocks have performed best when PMIs decreased during bull markets and not when they were at their peak, like at the start of 2011. We continue to favor sectors not exposed to GIIPS counties and with sales in emerging markets. This includes industrials, chemicals and the cyclical and non-cyclical consumer sectors.

Leading indicators such as the ZEW index decreased significantly in 2Q
ZEW Composite Index and Stoxx 600:



Earnings revisions have turned negative for the first time since the start of the recovery in Europe
Earnings revisions Stoxx 600



Sources: Datastream, IBES, Erste Group Research

Global Markets

US – equity market

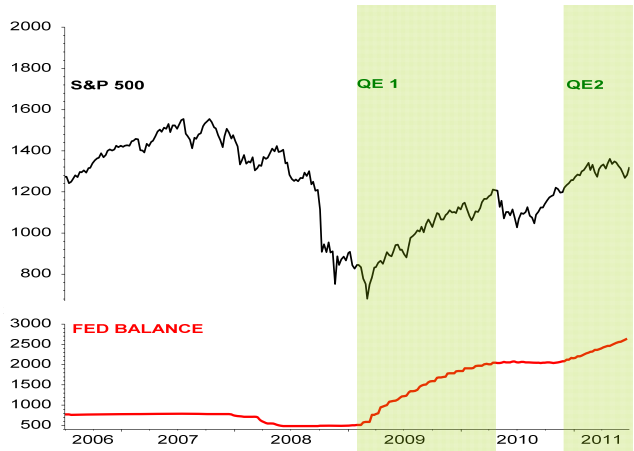
The US benchmark indices trended slightly weaker in the last quarter. The S&P 500 lost 2.2%, the Dow Jones 1.1% and the Nasdaq Composite 1.5%. Despite this slowdown, the US equity indices since the beginning of 2011 are still slightly increased. The Dow Jones is up in the first half by almost 7%. The increases were slightly lower in the S&P 500 (+5%) and Nasdaq Composite (+5%).

The weakening of the stock market coincided with the end of the QE2 program of the FED, which finished on June 30. Many investors are therefore somewhat uncertain about market developments in the coming months. Many participants (particularly primary dealer banks) are hoping for the proclamation of a successor program from the FED. Initially, these expectations were not met by Ben Bernanke. But his comments on the US economy are also not overly optimistic. He recently stated that the economic recovery is 'frustratingly slow'. Continuing weaker economic data would make a QE3 more likely. This in turn would be very bullish for commodity and equity markets.

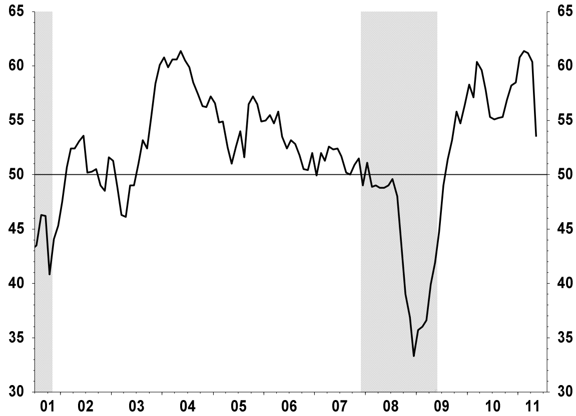
Corporate profit development remained positive in the second quarter. The last decline in oil prices was an important support for the stock market, so that the correction in the second quarter ultimately was only very moderate. But the oil price remains volatile and the long-term uptrend is intact. An increase to the highs seen in the end of April would be bearish for equities in the US, as retail gasoline prices will go back above USD 3 per gallon.

The sector development of the stock market has been of a defensive character in the last few months. Cyclical stocks showed an underperformance. Due to risk aversion, investors preferred stocks from the more defensive areas, such as food, beverages, pharmaceuticals and biotechnology. Cyclical stocks, such as those from the sectors construction, building materials, financial and automotive supplier, continue to be among the losers this year. We believe that this development will continue in the coming months, as the economic outlook remains volatile.

FED balance sheet increases, supported by the S&P 500 since 2009 - further uncharted territory ahead



The ISM Index crashed in 2Q



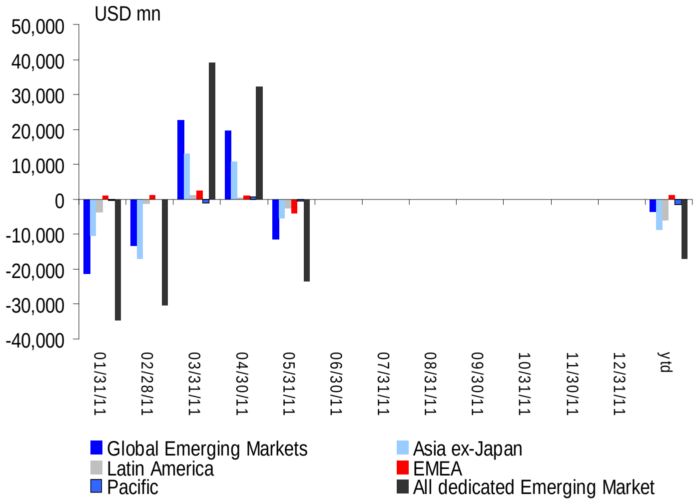
Source: Erste Group Research, Datastream

Outlook:
For the third quarter of 2011, we continue to project a sideward trend in equities. Therefore, we stick to our neutral recommendation for stocks in a portfolio. The US will continue to outperform, in our view, due to the low weighting of financials in the main indices compared to Europe and the better long-term fundamentals of the US economy vs. the Eurozone. We continue with our over-weight of US equities.

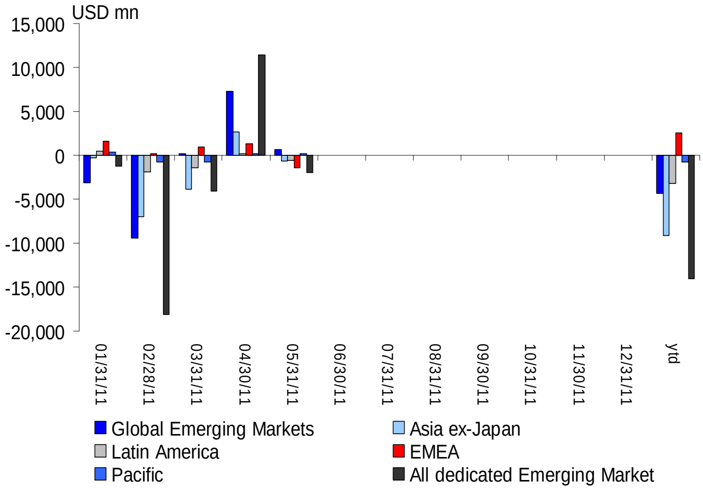
Fund Flow

Data indicated for the last week of June show some search for yield. So, at least Emerging market bond funds have seen inflows throughout 1H. Also emerging market equity funds were said to finally have seen some inflows again. However, it was not EMEA funds seeing inflows, still driven down by Greece, northern Africa woes and Russia lacking oil price momentum. Rather than regions it was more single countries that attracted flows and apart from Taiwan and the Phillipines also Poland was mentioned to have seen inflows in the last week of June. Among sectors a shift towards defensives was recorded in 2Q 2011, at the expense of commodities, energy and technology, sectors more attached to growth.

Monthly net change



Monthly flows



Source: Emerging Portfolio Research; ***Monthly net change:*** *change in assets minus forex change = portfolio change + monthly flows /* ***Monthly flows****: change in assets minus portfolio change, minus forex change = contribution/redemption to funds*

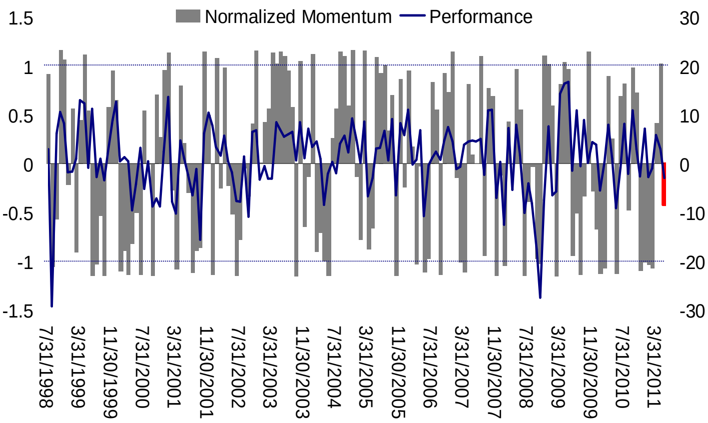
The data reported until the end of May still show a rather bleak picture. While EMEA remains in positive territory on accumulated data, it suffered redemptions of USD 1.4bn in May, the first outflow for this year. Global emerging markets continued to recover in May, but at significantly lower numbers than in April, hence remaining negative in accumulated terms, after massive outflows in January and February this year. In total, all dedicated emerging market equity funds were hit by outflows of USD 1.9bn, after April posted some hopes of recovery with a total inflow of USD 11.4bn.

Within EMEA equity funds, Egypt was the only market receiving fresh flows (2.14% of assets at the beginning of the month) in May. Middle East regional funds in turn were among the biggest relative losers (-3.02%). These outflows were beaten only by Russia and Ukraine, with -3.11% and -6.27%, respectively. It remains an interesting note that Russia ex-ETF lost only 1.34%. Compared to these numbers, Turkey did relatively well in May, losing only 1.34% in total, while ex-ETF the loss was certainly higher at 2.59%.

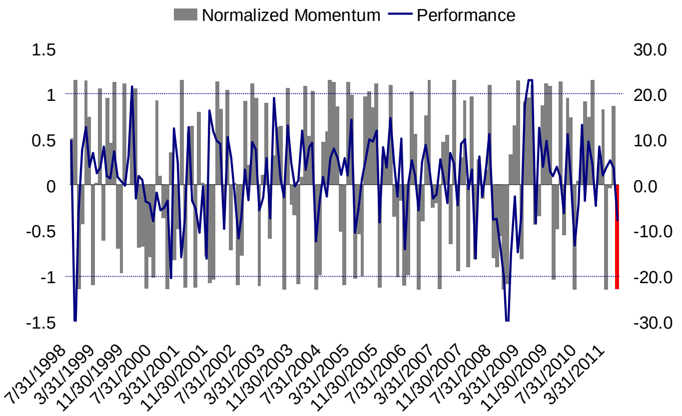
Fund Flow

Turning to our view on liquidity momentum, we have to stress again that this model relies only on monthly data, and consequently it might not be the finest tool for indicating trends. Liquidity momentum consequently does not provide a more positive picture. All dedicated emerging markets posted a trend reversal signal already in April and momentum turned truly negative in May. EMEA markets also present negative momentum, but this already touches a level above 1 standard deviation, which might be taken as a signal of a trend reversal.

Liquidity momentum - All emerging markets



EMEA

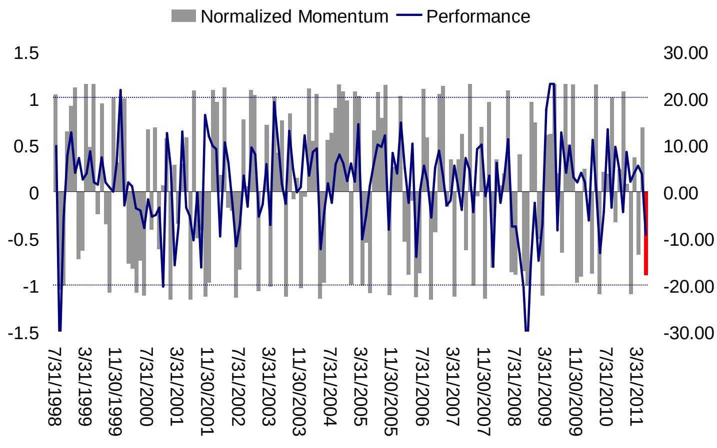


Source: EPFR, Factset, own calculations

Emerging Europe also turned negative in momentum, while the amplitude of the negative signal does not necessarily indicates a trend reversal soon. Also, momentum indications, at least on a monthly basis, have been rather volatile so far this year.

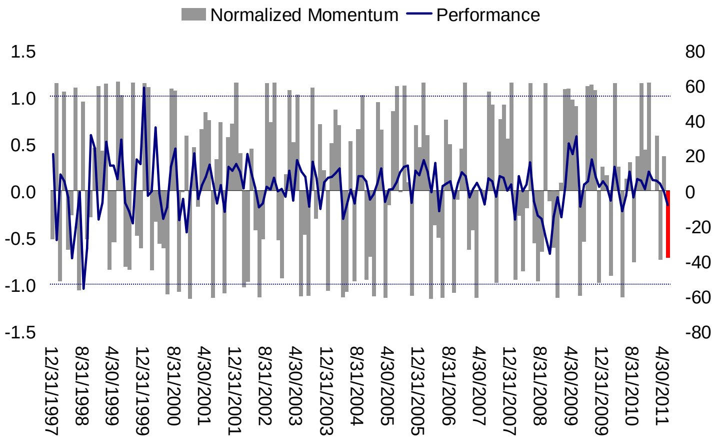
Among individual markets, the picture does not change for the better, with Romania the only exception. This market was indeed able to post positive momentum, but at a declining amplitude compared to the move seen in April. With the oil price remaining high, but certainly losing after the announcement of additional supply from strategic reserves, Russia has been posting negative momentum as well, with little outlook of reaching a trend changing region. Exactly the same is true for Turkey, where apparently the election result has confirmed market expectations – and positive momentum for the previous two months – with May consequently closing with negative momentum.

Liquidity momentum Emerging Europe

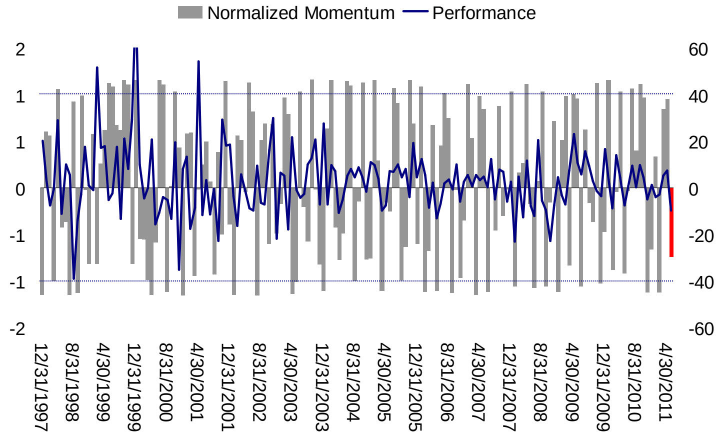


Fund Flow

Russia



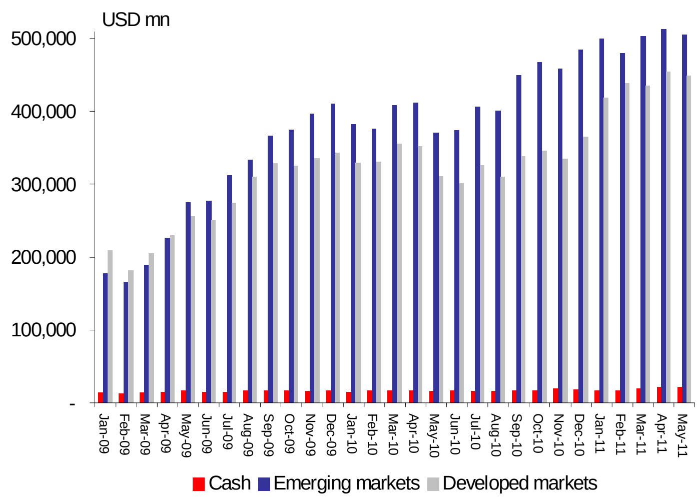
Turkey



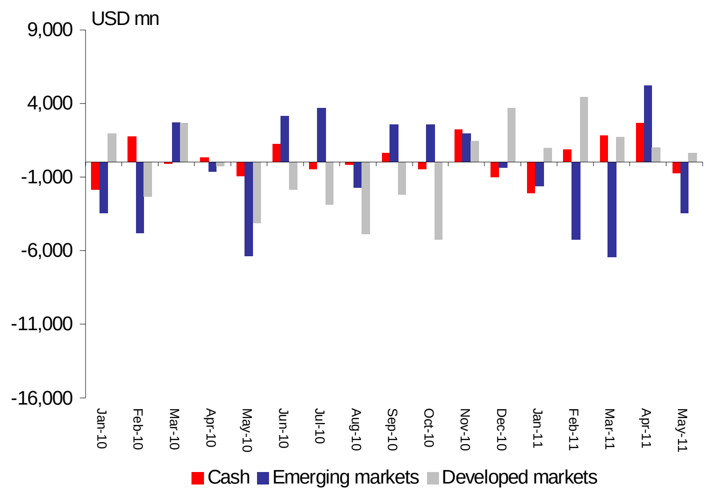
Source: EPFR, Factset, own calculations

Active allocations in terms of net purchases and sales indicated some better views in April, when emerging markets were bought more strongly than developed markets for the first time since December 2010. However, the increasing cash position reported already for the month of April indicated that investors were moving more to the sidelines, waiting for a clearer view on situations such as Greece. Consequently, May fell back to the old picture and did not confirm a break of the trend. Emerging markets were again sold quite massively, while developed markets kept some moderate positive numbers. All told, emerging markets were sold to the tune of 0.7% relative to assets at the beginning of the month, while developed markets added some decorative 0.14%.
.

Total holdings, eop...



...net purchases/sales

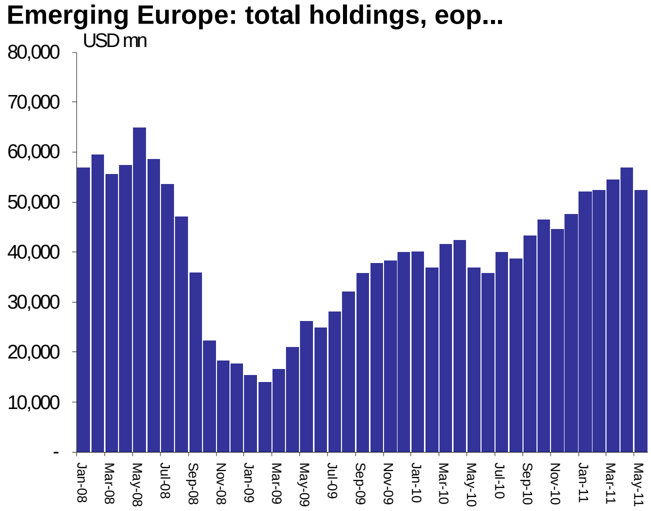


Source: Emerging Portfolio Research; ***Total holdings:*** *market value of all holdings for all funds covered;* ***Net purchases/sales:*** *change in market value of holdings - increase (decrease) of market value of holdings*

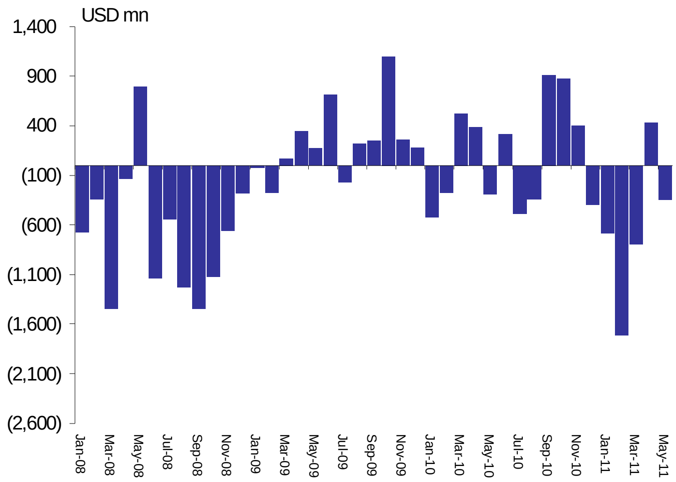
We see a similar picture in emerging Europe allocations, where April indicated some promise of a change to the better, but the region did not deliver on this promise in May. However, when looking at the breakdown for this region, it appears that it was mostly Russia/Ukraine (-0.5% of assets BOM) and Turkey (-2.9%) that contributed to the negative picture. Most other markets were actually bought on a net basis, with Bulgaria, Romania and Croatia leading the pack (2.8%), outperformed only by speculative money buying into the desolate market in Greece (4.9%).

Fund Flow

Emerging Europe: total holdings, eop...



...net purchases/sales

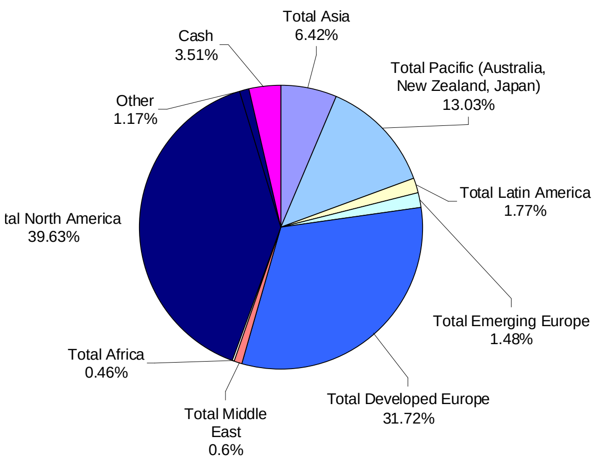


Source: Emerging Portfolio Research; ***Total holdings:*** *market value of all holdings for all Emerging Europe funds covered;* ***Net purchases /sales:*** *change in market value of holdings - increase (decrease) of market value of holdings for all Emerging Europe funds covered*

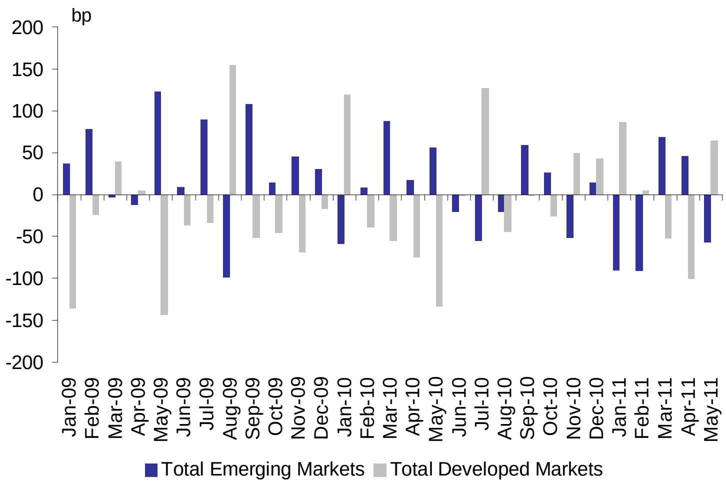
All of the above summarizes the allocation for global equity funds, again putting a stronger weight on developed markets. The hope for higher yields seemed to have changed the picture in favor of emerging markets in the previous two months, but in May the weight of emerging markets within global equity funds fell again to a moderate number of 10.95%. It was emerging Europe that fell most strongly (27bp).

Emerging markets - weight in Global Equity Funds

Current...



...over time



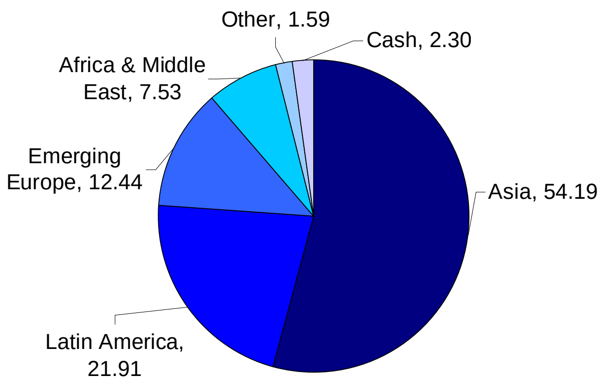
Source: Emerging Portfolio Research

Fund Flow

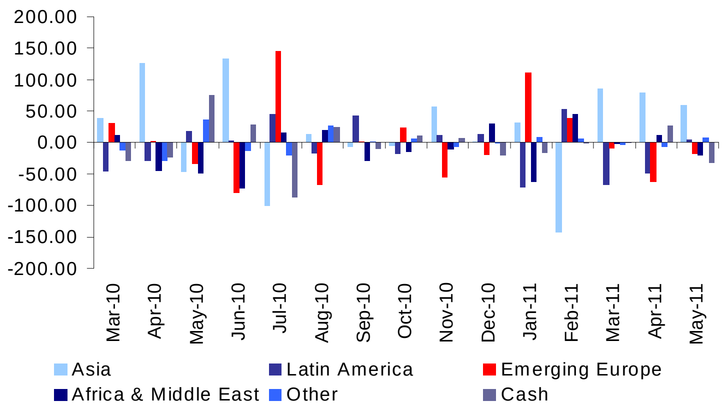
In global emerging market funds, emerging Europe continued to lose weight for the third consecutive month. Only Asia was able to add a visible number in terms of weight (60bp). Latin America remained flat, while MENA lost even (slightly) more than emerging Europe.

Emerging Europe - weight in Global Emerging Market Funds

Current...

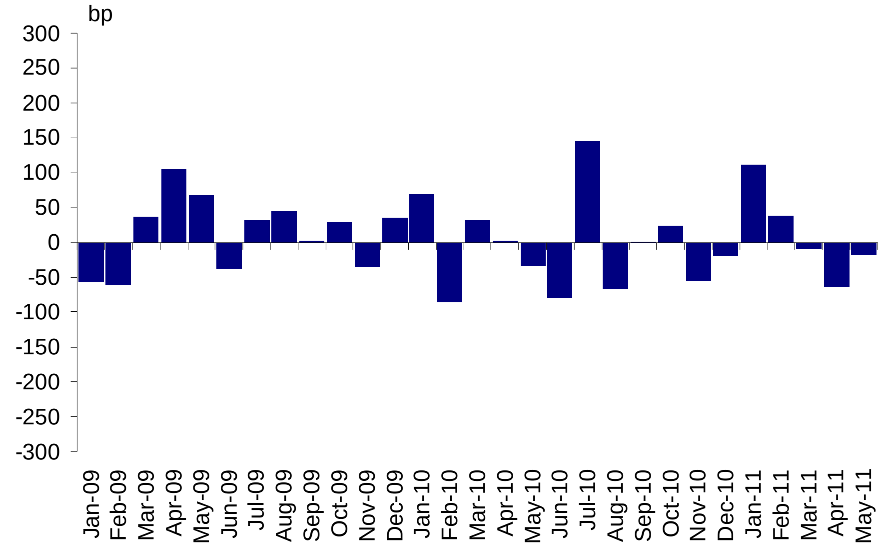


...over time (change in bps)



Source: Emerging Portfolio Research

Change in weighting - Emerging Europe within Global Emerging Market Funds

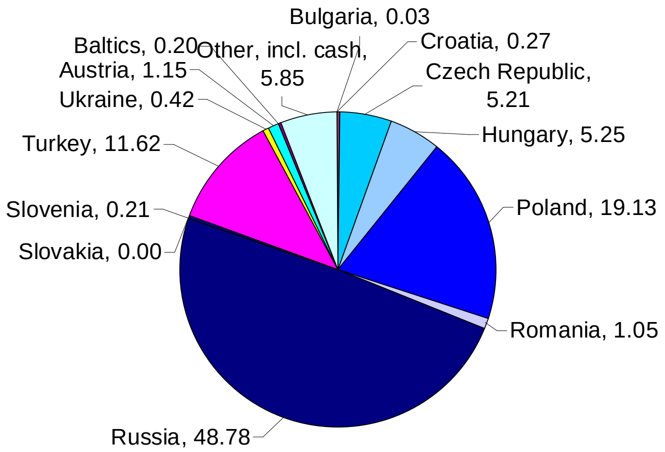


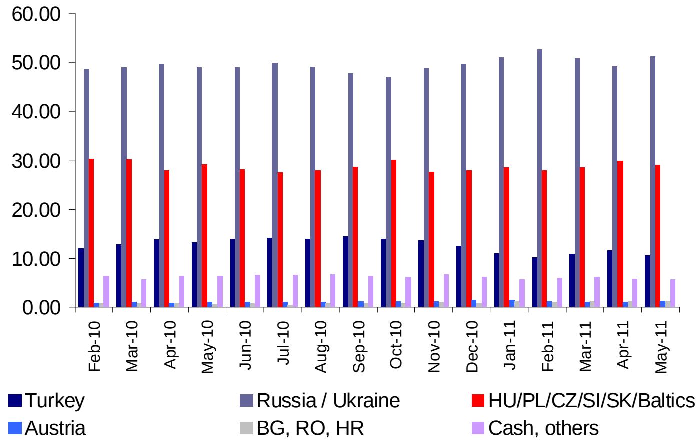
Source: Emerging Portfolio Research

Fund Flow

Within emerging Europe equity funds, Hungary, Russia, Romania, Poland and Ukraine were able to gain some weight, but none of them at significant numbers. The biggest loser in terms of weighting was Turkey.

Emerging Europe - country weighting in Emerging Europe Funds

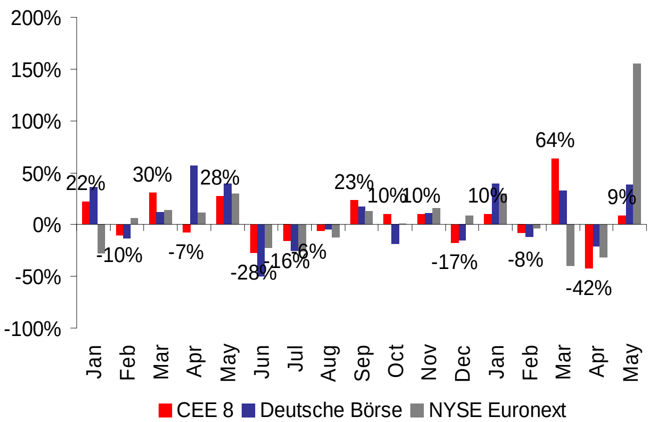




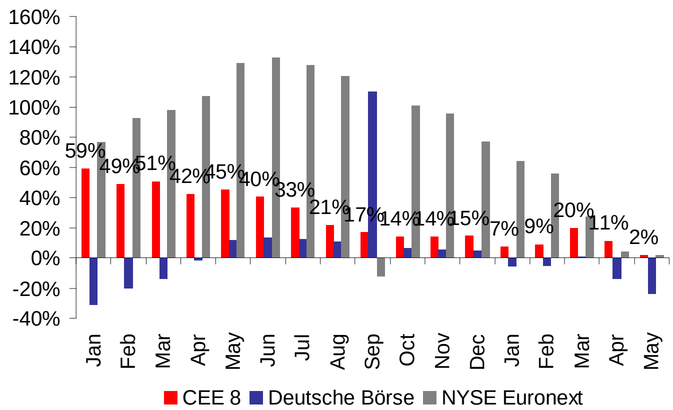
Source: Emerging Portfolio Research

After these numbers, it does not come as a surprise that turnover on European stock exchanges has been rather meager. In a y/y comparison, CEE8 markets come in with just a 2% gain in May, while March and April posted much better y/y numbers. Bucharest continued with its improving numbers in a y/y comparison, but at a declining trend. In a m/m comparison, the picture does not look any better. At least some of the m/m drop in turnover in April was leveled out by some (base) gains of 9% in May for CEE8 markets. Warsaw did rather well when comparing both periods.

Stock exchange turnover m/m



Stock exchange turnover accumulated y/y



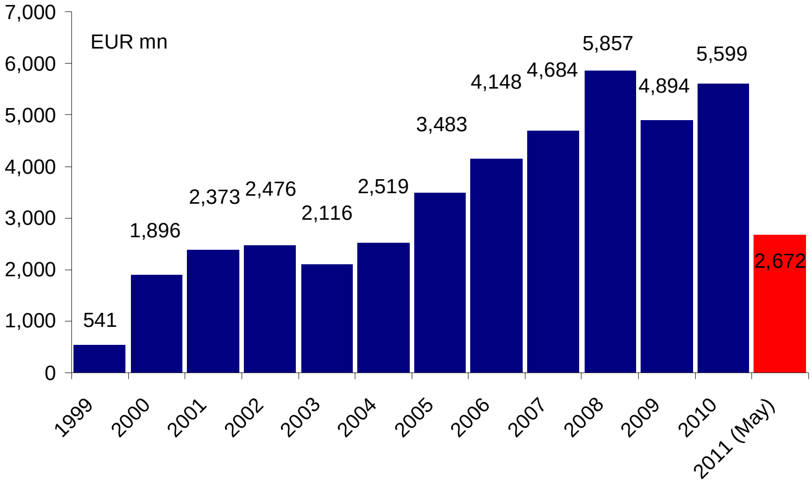
CEE 8 = A, BG, CZ, HU, PL, RO, SLO,SK; Source: FESE

Fund Flow

Polish pension funds were not yet impressed by changes in the contribution systems, with transfers down 3% m/m in May, but still some 4% higher y/y. However, allocations for equity investments suffered a bit, declining to 36.7%, which is almost the level seen at the beginning of the year (December 2010: 36.5%).

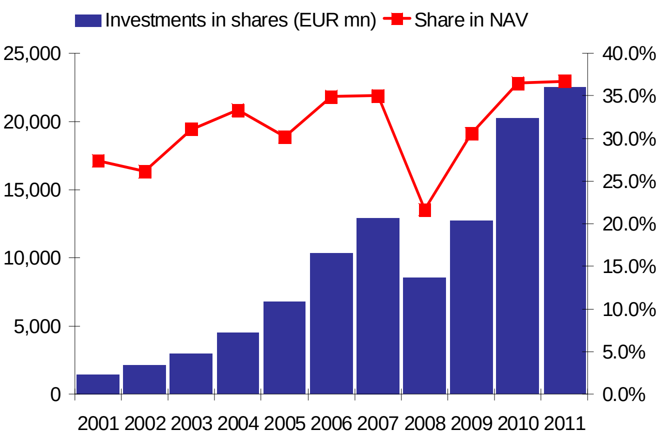
The picture is a bit more alarming for Polish mutual funds. After net cash inflows for February and March, flows turned negative in April and accelerated their southward move in May. The overall equity portion also declined, but only moderately, from 28.1% in April to 27.9% in May.

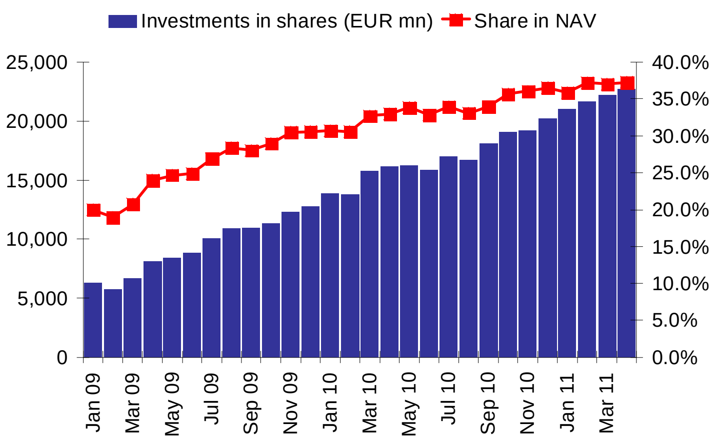
Transfers into Polish pension system



Source: ZUS

Polish pension funds - development in share investments



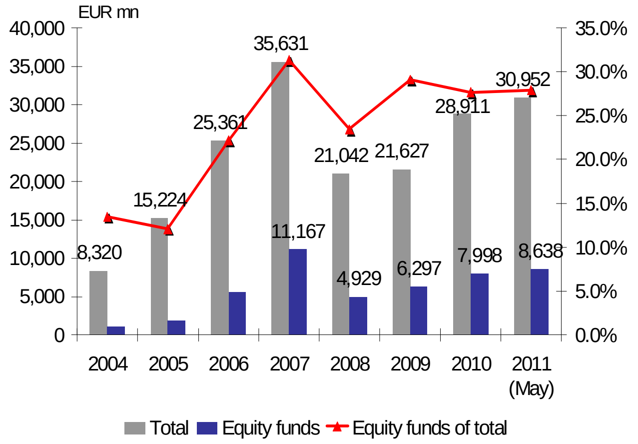


Source: Financial Supervision Authority of Poland

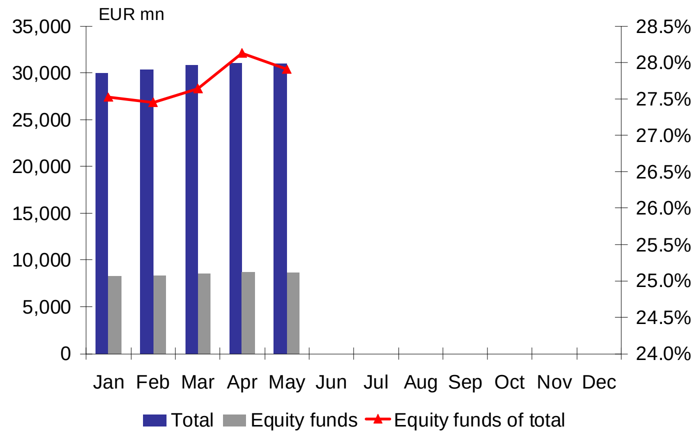
Fund Flow

Mutual funds - development of equity portion*...

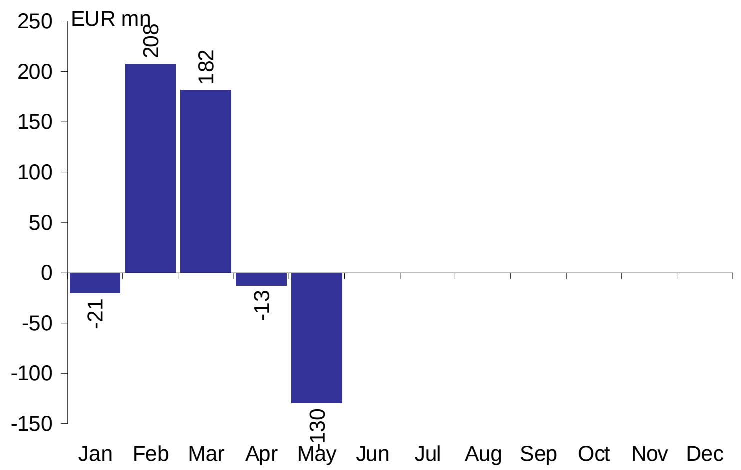
...annually...



...and on a monthly basis



Net cash inflows, Polish mutual funds (2011)



**Equity portion approximated based on equity funds, not including equity exposure in balanced funds, etc. Source: Analyze Online*

ZEW Indicator CEE

Decrease in Economic Expectations for the CEE Region in June

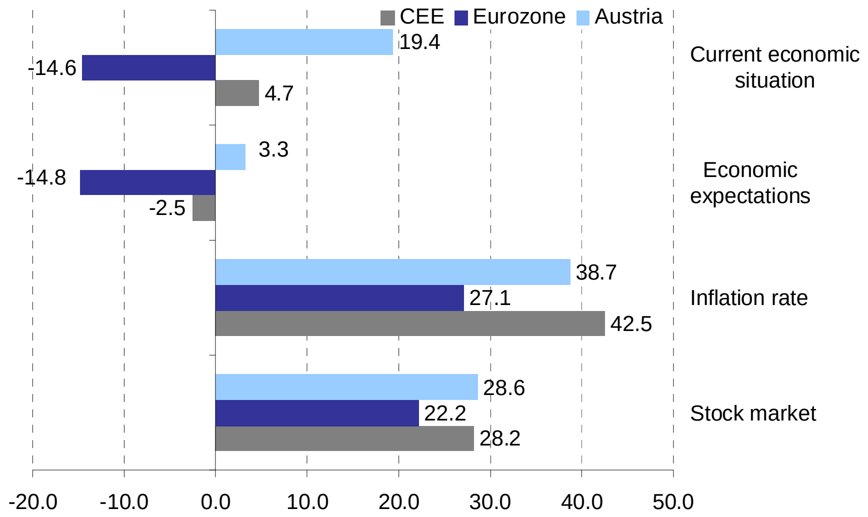
The economic expectations for Central and Eastern Europe including Turkey (CEE region) on a six-month time horizon have experienced a double digit decrease in June. The respective indicator has dropped by 23.4 points to minus 2.5 points. This is the first time the indicator displays a negative value since April 2009. The indicator of economic expectations for the Eurozone has decreased by 18.4 points to minus 14.8 points indicating that experts' expectations could not remain unaffected by the difficulties in the Eurozone. The evaluation of the current situation in the CEE region has also declined this month. Nevertheless, a majority of 76.7 per cent of the experts still assess the current situation in the region as normal. Similarly, 74.2 per cent and 68.8 per cent of the experts respectively assess the current situation for Austria and the Eurozone as normal.

Economic Outlook for the CEE Region, Austria and the Eurozone

The ZEW-Erste Group Bank Economic Sentiment Indicator for Central and Eastern Europe including Turkey (CEE), which is calculated as the balance of positive and negative assessments of the economic development on a six-month time horizon, has decreased by 23.4 points to minus 2.5 points in June. This is the first time the indicator displays a negative values since April 2009. The respective indicators of economic expectations for the Eurozone and Austria have also reached their lowest levels for the period. For the Eurozone the indicator of economic sentiment has dropped by 18.4 points to a level of minus 14.8 points this month. Even after a comparable drop by 18.3 points the indicator of economic sentiment for Austria retains a positive value of 3.3 points. A positive value indicates prevailing optimism among experts, which is not surprising considering the positive trajectory of Austrian industrial production since the beginning of 2011.

The indicators of experts' assessment of the current situation for the three regions- CEE, Eurozone and Austria, have displayed a decrease this month. For the CEE region and Austria the indicators still remain on a positive level of 4.7 points and 19.4 points respectively after decreases by 16.5 points and 13.0 points. For the Eurozone the indicator has slightly decreased by 7.0 points to minus 14.6 points. Nevertheless, the majority of roughly 70 per cent of the participants assess the current situation in all three regions as rather normal. The indicators of inflation expectations in the CEE region and the Eurozone have slightly declined in June by 1.0 point and 9.4 points respectively. The tendency of declining inflationary concerns in the previous months thus seems to have rather stabilized this month. The inflation concerns for Austria have further declined by 12.8 points to a level of 38.7 points. The expectation indicators for the stock market indices for the Eurozone (EUROSTOXX 50), Austria (ATX) and the CEE region (NTX) have slightly decreased in June. Still, at least half of the experts retain bullish expectations.

ZEW indicator



Balance of positive and negative assessment category chosen by respondents of the Financial Market Survey CEE; Source: ZEW

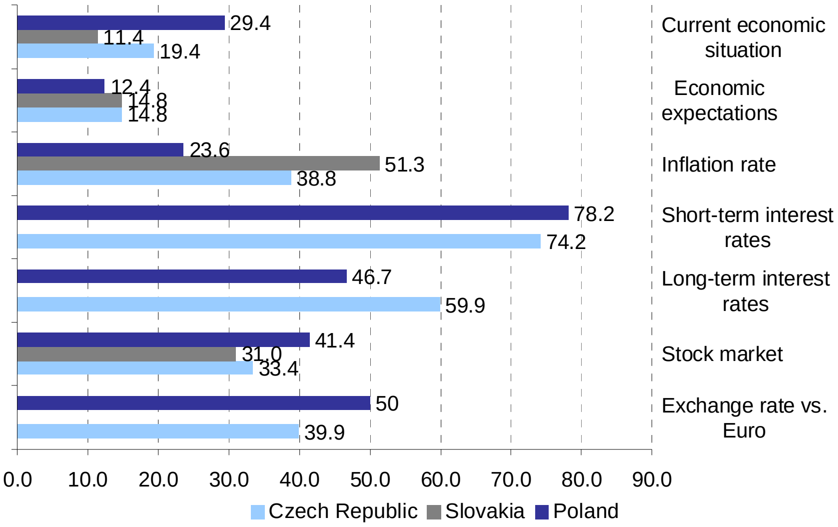
Czech Republic, Poland, and Slovakia: Positive current economic situation

The indicators of economic expectations for the Czech Republic, Poland, and Slovakia have remained at positive levels of 14.8 points, 12.4 points and 14.8 points respectively after double digit decreases by 12.1 points, 14.0 points and 20.2 points respectively. Experts' assessment of the current economic situation in the three countries has also displayed a large decrease in June for all surveyed economies. The highest decrease in experts'

ZEW Indicator CEE

assessment of the economic situation is observed for Slovakia. The respective indicator has decreased by 23.6 points to a level of 11.4 points in this months' survey. The result might be due to the rising inflation in Slovakia which can be observed since the beginning of 2011. The most positive experts' assessment of the current situation is observed for Poland. Despite of a drop by 17.9 points the respective indicator remains at 29.4 points, the highest level of all CEE countries. The reason for the positive experts' assessment may be Poland's sustained economic growth. The indicators of inflation expectations for the Czech Republic, Poland, and Slovakia display double digit declines in June. The strongest decline in inflation expectations is observed for Poland. In line with this result a large majority of 81.3 per cent of the participants also expect short-term interest rates to increase in Poland. The result is not surprising considering that the Polish Central Bank increased interest rates by 25 basis points at the beginning of June. Possible expectations of further interest rate increases might also be a reason for the strong decline of the inflation rate indicator. In line with that, the majority of experts expect an appreciation of the Polish Zloty. For the Czech Republic and Slovakia where inflation rates have increased over the last seven months, the survey results indicate that for the next six months a reversal of the upwards trend is expected. The expectations for the development of the Czech stock market index PX and the Polish WIG have remained largely unchanged. In contrast, 18.4 per cent of the experts have changed their expectations to bullish with respect to the Slovakian SAX in this month's survey.

ZEW indicator on country levels



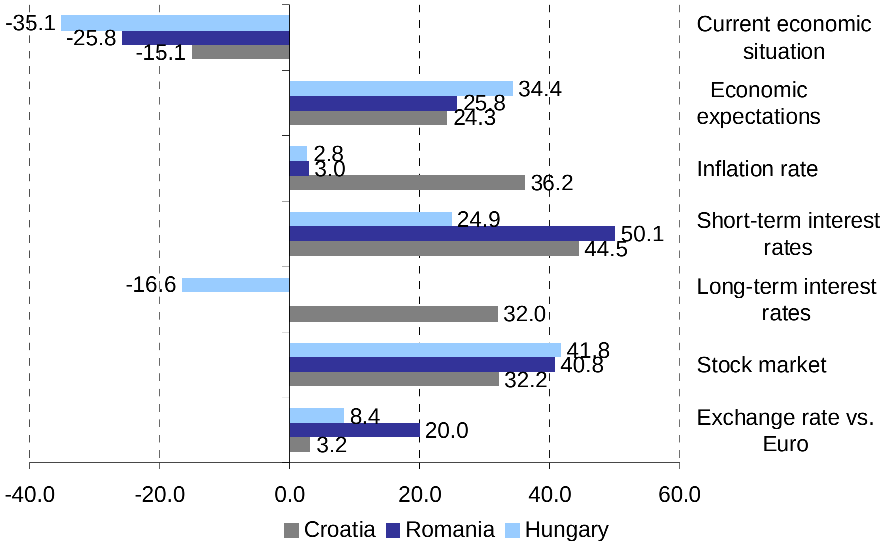
Balance of positive and negative assessment category chosen by respondents of the Financial Market Survey CEE; Source: ZEW

Croatia, Hungary and Romania: Bullish stock market sentiment

The indicators of economic sentiment for Croatia, Hungary and Romania remain at the highest levels among all surveyed economies. The indicator of economic sentiment for Romania has decreased by 24.3 points to a level of 25.8 points in June. This is the largest drop in economic sentiment among all surveyed economies. The highest value of the indicator is observed for Hungary. After a drop by 11.1 points the indicator displayed the highest level of 34.4 points in June. The indicators for the assessment of the current economic situation for Croatia, Hungary and Romania remain at the lowest levels among all surveyed economies. The indicator for Croatia has displayed the lowest decrease by 1.3 points and has thus reached a level of minus 15.1 points. A large majority of 72.7 per cent of the experts perceive the current situation in Croatia to be rather acceptable. The relatively stable results for the Croatian economy may reflect the fact that Croatia was finally set to join the EU at the beginning of the month. For Hungary and Romania the respective indicators of the current economic situation remain negative at levels of minus 35.1 points and minus 25.8 points respectively. The indicators have experienced comparably slight decreases of 12.4 points and 7.8 points respectively. Inflation concerns for Croatia have strongly diminished in June. This is indicated by a double digit decrease of the respective indicator by 20.2 points. The indicator of inflation expectations, however, retains its relatively high value of 38.2 points. Broad disagreement with respect to inflation expectations can be observed in the survey responses for Romania and Hungary. The indicators have decreased this month by 2.5 points and 18.0 points respectively to comparably low levels of 3.0 points and 2.8 points. More than half of the respondents are in a bullish mood with respect to the Croatian stock market index CROBEX, the Hungarian BUX and the Romanian BET. The respective indicators have displayed increases by 2.4 points, 11.1 points and 14.3 points.

ZEW Indicator CEE

ZEW indicator on country levels

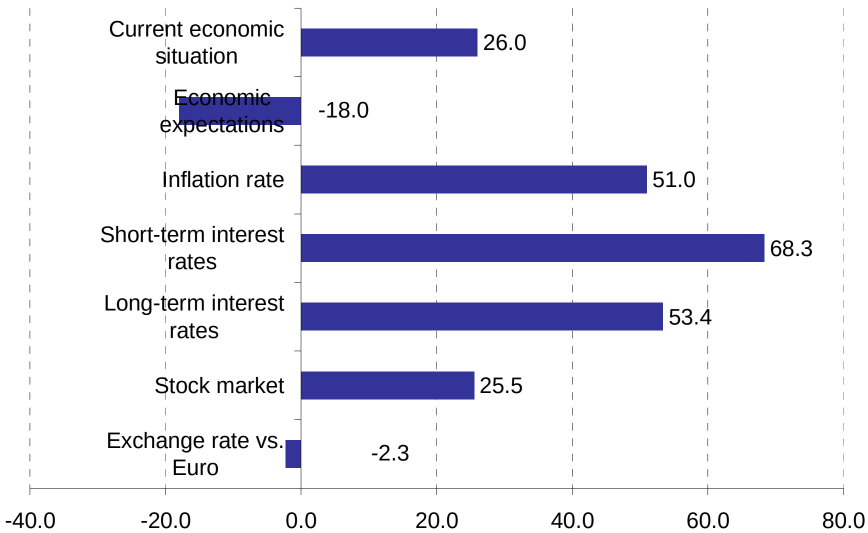


Balance of positive and negative assessment category chosen by respondents of the Financial Market Survey CEE; Source: ZEW

Turkey: Economic Sentiments Reveal Pessimism

The indicator of economic sentiment for Turkey has displayed its lowest value since October 2010, when Turkey was first included in the survey. After a major drop of 19.9 points the indicator has reached a level of minus 18.0 points. This is the lowest level of the indicator among all surveyed economies. The indicator for the assessment of the current situation has also experienced a major drop by 21.3 points and has thus reached 26.0 points. The majority of experts (61.2 per cent) further report relatively strong inflation concerns for Turkey. Although the indicator has decreased considerably by 18.0 points it retains a high level of 51.0 – the second highest among all surveyed economies. The indicator of experts' sentiments towards the Turkish stock market index ISE-100 has displayed a decrease of 13.9 points. Despite of the decrease, more than half of the participants (53.2 per cent) rather hold bullish expectations. The broad disagreement with respect to the expected development of the Turkish Lira has remained almost unchanged.

ZEW indicator Turkey



Balance of positive and negative assessment category chosen by respondents of the Financial Market Survey CEE; Source: ZEW

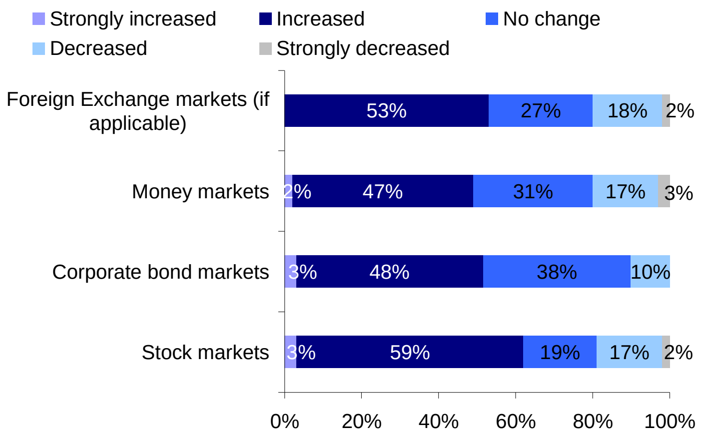
ZEW Indicator CEE

Special Question: Liquidity on financial markets in CEE

This month's special question deals with the development of market liquidity in the medium-term (3-5 years). The experts of our survey conveyed a rather optimistic outlook regarding Central and Eastern European financial markets. With respect to the liquidity of stock markets 62 per cent of the participants forecast an increase in the trade volume while only 19 per cent expect a decrease. This result is not surprising if one considers the fact that in some countries of the region the stock market liquidity is still in a recovery phase after the financial crisis. The experts were also asked for their expectations with regard to the midterm development of liquidity on bond markets, money markets, and domestic foreign exchange markets. The reported results indicate slightly lower optimism, but still similar results.

Although the overall forecasts appear to be rather optimistic, it is obvious that only few experts predict strong increases in market liquidity. Among the economists expecting a growth of stock market trade volumes only five per cent chose "strongly increase" instead of "increase". On the other end of the scale merely a small minority of experts expressed their opinion that the stock market trade volume will "strongly decrease". In conclusion a vast majority of the participants argue that markets in the CEE area will not experience any changes in liquidity at all.

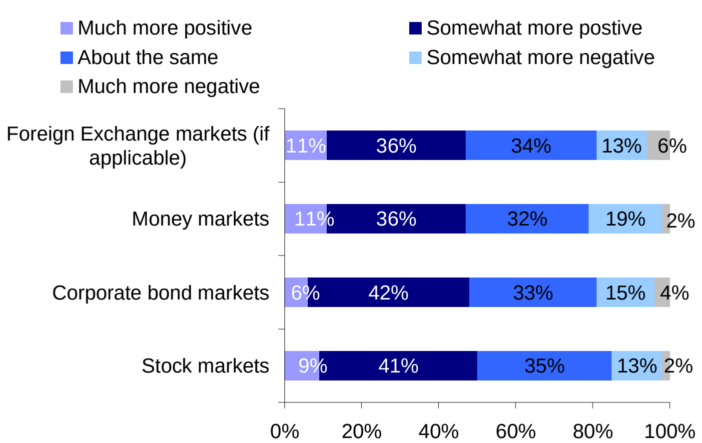
Liquidity on domestic markets



Source: ZEW

Experts' optimism is further revealed by their expectations with respect to the relative development of liquidity in the CEE region as opposed to the expected development of market liquidity on international financial markets in the Eurozone and on global financial markets. Especially in comparison to the Eurozone Central and Eastern European markets are predicted to be at an advantage. Merely about one fifth of the experts expect the CEE markets to trail Eurozone markets in the development of trade volumes. In contrast about one half of the experts have a more positive outlook regarding CEE markets.

Liquidity in CEE vs. Eurozone

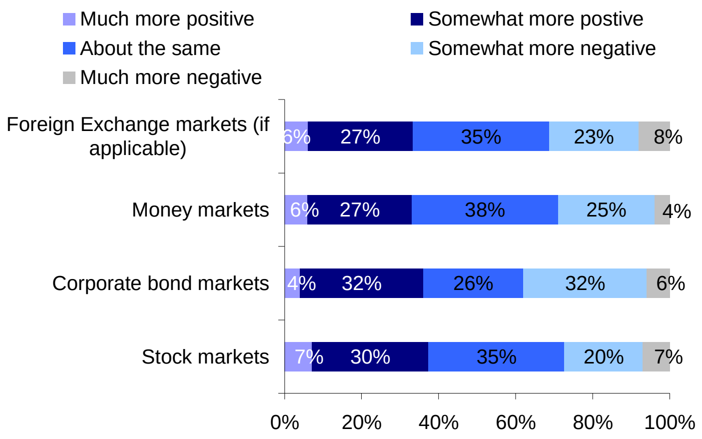


Source: ZEW

ZEW Indicator CEE

In comparison to worldwide stock markets the experts still see a relatively better liquidity development in the CEE region. 37 per cent forecast a more dynamic growth of liquidity and 27 per cent – a less dynamic growth. With respect to money, corporate bond, and foreign exchange markets, however, the experts assume the CEE area to line up in a globally averaged development of liquidity.

Liquidity in CEE vs. World



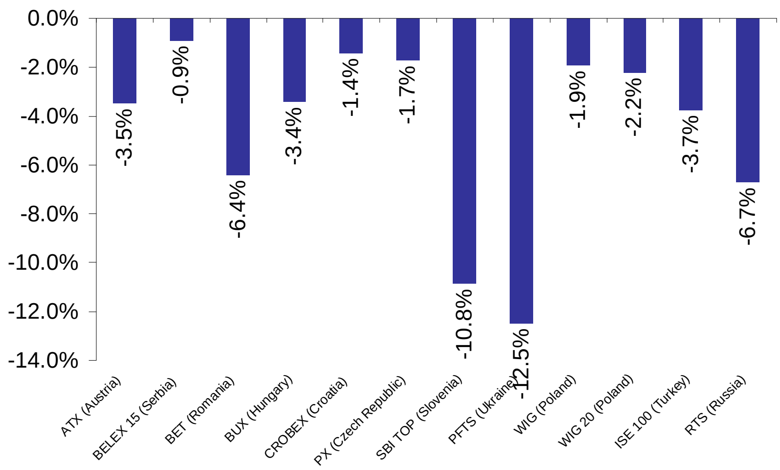
Source: ZEW

Entire text and charts – Source ZEW

CEE Country Allocation

At this point, we usually review the performance of our country allocation proposal. This time, the review can show only which allocation has prevented the worst. We had based our overweight call for Russia mostly on the momentum lent to the market by the strong gains in the oil price. As it became visible throughout the quarter that this momentum is fading out, we had softened our call in our CEE Equity Monthly publications. However, given the final decline of the index over the quarter, we have been decidedly too optimistic. Our second - much more moderate - overweight, Turkey, also touched negative territory, but at least to a much lesser extent. The more neutral positioning for most other markets was in line, with all of these markets posting some moderate losses. It was the right call to reduce the overweight decision of the quantitative model for SEE more towards the neutral area. The underweight call for Slovenia was certainly a good move.

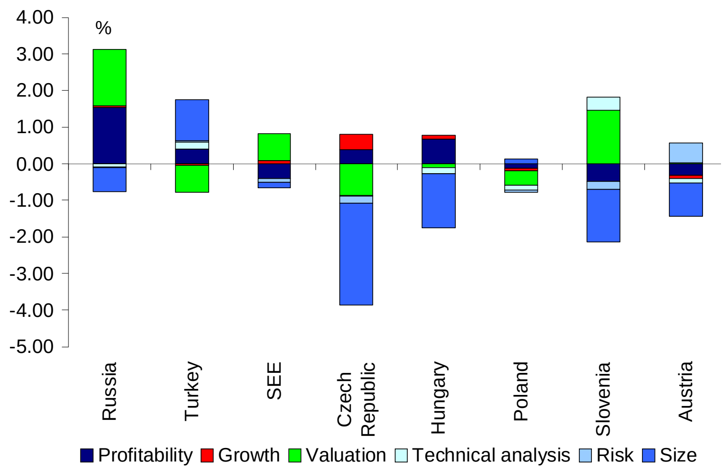
Performance overview 2Q 2011 (in LC)



2Q 2010 = 3month performance, closing price 01.07.2011; Source: Factset Partners, Erste Group Research

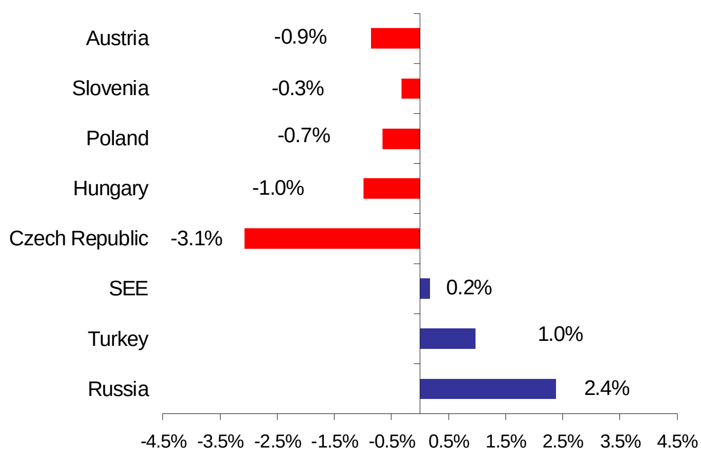
Size is the most dominant item influencing the recommendations given by our quant model, which comes as no surprise when looking at fund flows. Also, valuations are contributing strongly for most markets. We tend to argue, however, that valuations will not be a strong argument as long as liquidity does not help to lift these treasures. In general, we would still not expect the third quarter to see a significant breakthrough for equity markets. With some positive news from Greece and also the US, the best we should see is a recovery from depressed levels, which were reached during 2Q. This, however, could also come in as a reasonable performance. With the assumption of also some recovery in liquidity should favor the biggest markets such as Russia and Turkey. Being dependent on oil price and C/A deficit, each market remains a speculative issue, though.

Summary of return components



Source: Erste Group Research

Allocation based on expected returns



CEE Country Allocation

Austria – sound neutral
The strongest downside, as far as single components of the quant model are concerned, comes from size. Given the significant declines in turnover on the Vienna Stock Exchange during this year (accumulated y/y -23%, based on FESE data), we easily accept this argument. Hopes here are that we might see some movement in capital gains tax and that the expected overall increase in liquidity (see ZEW section, special question) will also leave its positive marks in Austria. What has also been holding back the market is the dominant position of financials – which might see some continued impetus, based on the latest move in Greece and as the large OMV (one of our top picks) has not been a star performer so far. However, the latest news from Greece might provide some momentum for financials, lasting at least for a while. Revision rates were pretty strong on the 2011 consensus, while 2012 is flat and 2013 turns moderately positive. This might indicate that we have seen the bottom here, leaving the market still at growth rates of 20% for 2011 and 2012, respectively. Valuations in turn are quite appealing, with Austria holding the highest implied upside, or - in a more negative interpretation - the highest risk premium for equities right now. As soon as liquidity overall makes a move to the positive, we would expect to see gains in Austrian value plays. Awaiting this, we place the market at a comfortable neutral to overweight.

Czech Republic – neutral to underweight
Size is given as the main argument against the Czech market. The second is valuation. We would not fully subscribe to this, when looking at forward P/Es and implied valuations. Admittedly, Komercni banka - as one of the main heavyweights - has its price. Growth is supposed to be a positive argument, but when comparing the Czech market against others in the region, this argument does not appear to be the strongest. Also, the listing of JSW in Poland might take some interest away from NWR. Hence, relative to other markets, we leave the Czech Republic at a neutral to underweight position, slightly improving the harsh view of our quant model.

Hungary –neutral
Our quant model sees Hungary more or less balanced between size (negative) and profitability (positive). If we combine the view that Hungary has come a long way with harsh consolidation measures (removing the remaining uncertainties step by step) with the outcome of the ZEW/Erste sentiment indicator, we arrive at a rather positive end. In the latest survey, Hungary enjoys the strongest view on economic expectations, a positive outlook on interest development and inflation, as well as the strongest expectations on stock market performance, next to Romania. A forward P/E of 8.9 speaks clearly as far as valuation is concerned. Revision rates are quite moderate and growth rates based on the consensus are quite reasonable at 13-15% in EUR. Hence, we veto the quant model outcome and call Hungary a neutral. We would still see the biggest risks in government action and liquidity.

Poland – neutral to overweight
The model is quite undecided on Poland, with the strongest contribution coming from valuations (negative). Being valued higher than Austria and the Czech Republic, it certainly still has the advantage of liquidity and fresh issues coming to the market. Earnings revisions have turned negative fairly substantially and growth is seen at 15% (EUR, WIG 20) for 2011, while decreasing in all following years. Given the current focus on liquidity, we would still rate Poland more strongly than suggested and put it ahead of the markets in Prague, Budapest and (somewhat) Vienna.

Russia – moderate overweight
Valuation is supposed to be the main argument for the Russian market. Indeed, it trades at a forward P/E of 6.8, which is far below other markets in the region. However, Russia never seemed to be very responsive to valuation, as performance has been more a reflection of the oil price. With the oil price seeing some positive momentum again these days, making up what it lost after interventions via strategic reserves, this might translate into a positive outlook for the Russian market. Also, the latest cautiously positive news from the US might help as far as the global growth outlook is concerned. Watching these developments carefully, we rate the market a slight overweight, but probably not as positive as the quant model would suggest. Also, note that elections are ahead and news flow might create disturbances for performance. Finally, fund flows are somewhat negative, which remains a topic to be looked at. Assuming the political concerns and moderate outlook on the oil price do not overshadow a possible recovery from depressed levels in 2Q, a focus on bigger markets coming along with some recovery in overall liquidity should be supportive for the Russian market.

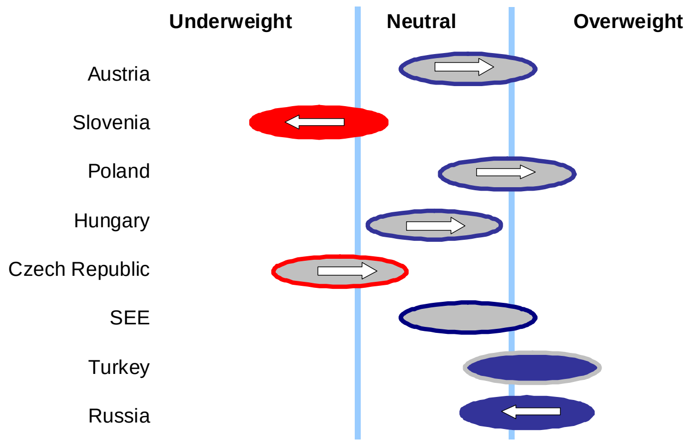
SEE – neutral to overweight
Southeastern Europe is one of the few markets receiving positive votes from our model. Valuation is among the main arguments and, relative to growth, the picture indeed looks attractive, mostly for Romania. Also, valuations for Croatia came down, but are still among the highest in the region – as is the growth outlook. Sentiment puts Croatia close to Hungary and Romania when measured with our ZEW survey. Both Romania and Croatia are

getting out of recession only this year, positing sound levels on economic expectations. Consequently, expectations on stock market performance are also said to be the highest by the ZEW survey. Finally, Croatia received some impetus from getting closer to EU accession, as did Serbia to some extent. However, liquidity remains the main issue for these frontier markets, being the biggest reason for caution. With a stressed speculative element, we rate these markets neutral to overweight, confirming the model outcome.

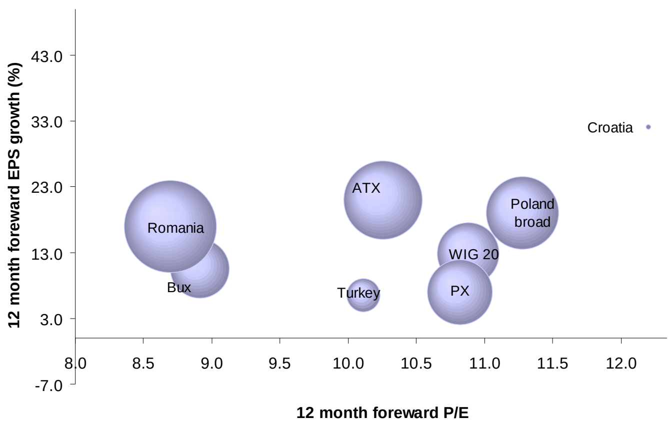
Turkey – moderate overweight
Turkey remains a delicate case. While seen positively by the model, the economy's growth comes at a high price – its C/A deficit. Concerns on economic expectations, inflation and interest rates are strongly reflected in the latest ZEW sentiment survey. Consequently, expectations on stock market performance are among the lowest in the survey. If we assume that targets (particularly for loan growth) will remain overshot and, deriving from this, that the C/A deficit will remain a hot issue, we expect further actions to slow down the economy. In the first place, these actions should be reflected in banks' performances. In our latest sector report on Turkish banks, we took a cautious stance on this sector. Remaining careful with banks and partially circumventing them, it might be worth looking at other industries within the country that benefit from the strong domestic consumption. The argument of recovery from depressed levels mentioned for Russia also applies for the Turkish case.

Slovenia – underweight
We confirm the model outcome for Slovenia and maintain our rather cautious view. Valuation is the main argument for the market, while size is indicated as the main issue against it. Within the current environment, we tend to weight the latter higher in the case of Slovenia. Admittedly, valuations came down not only compared to historical levels, but also compared to other regional markets. A current 12M forward P/E of 11 is not as challenging as the numbers we used to see here in the past. However, we simply would not expect that any reviving interest in the CEE region would hit Slovenia in the first place.

Allocation proposal



Valuation vs growth – consensus*



**Bubble size indicates discount to implied upside based on theoretical fair value / Source: Factset, Erste Group Research*

Appendix

Factor model description

In our approach to establishing a regional allocation, we employ a multi-factor model. The model screens a universe of the following countries:

- Austria
- Bulgaria (SEE)
- Croatia (SEE)
- Czech Republic
- Hungary
- Poland
- Romania (SEE)
- Russia
- Serbia (SEE)
- Slovenia
- Turkey

Due to data availability, we pooled Bulgaria, Croatia, Romania and Serbia into one region, which we called Southern and Eastern Europe (SEE). This was done because of the small number of available stocks in the data for this region.

The model refines its results by using a range of factors that are seen as significant in any asset allocation decision. Factors cover the topics of:

- Valuation
- Size/Liquidity
- Profitability
- Growth
- Corporate risk
- Technical analysis

In total, the model relies on 13 single factors.

We start our model view with the year 2005. Via a multiple-regression, we try to identify a relationship between our chosen factors at the end of a period and the observed return for the next period (in our case, we look at quarters). We run this multiple-regression for the first year of chosen history and summarize the results of the regression by calculating an average regression coefficient (b) for the first year for each factor.

As the next step, we use the average b from the past year (not including the current quarter) and the stock's current state for each factor to forecast an expected return for the next period. However, regression coefficients are estimated further on for all following periods. For each period, new forecasts are computed by calculating the past year's average of the regression coefficients for each factor.

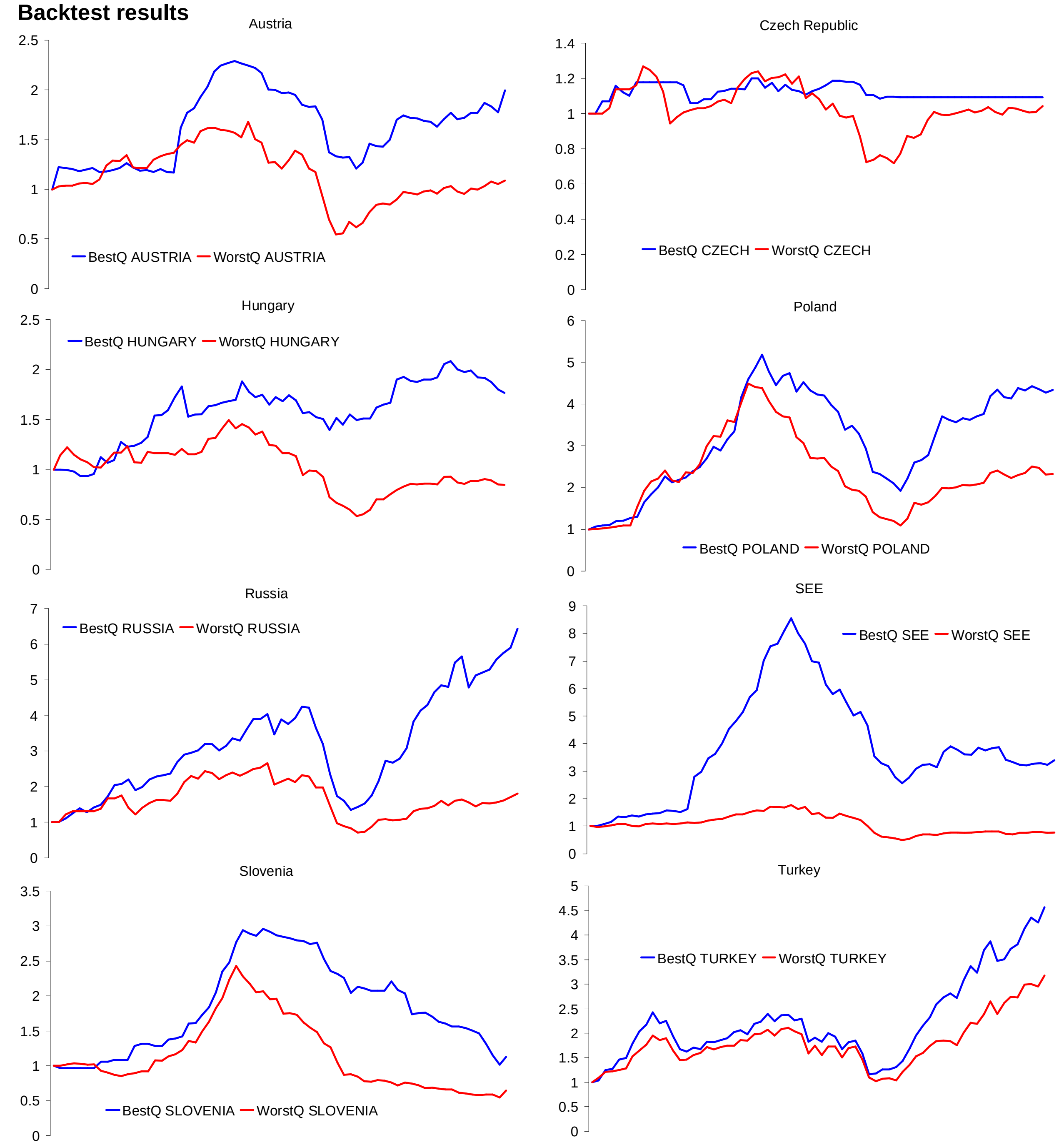
To cut it short, the model yields expected returns for each stock in our universe, which we finally aggregate to country levels.

In order to check the outcome of our model, we run a forward looking back test, e.g. how much any portfolio based on the model outcome would have made in terms of return. We differentiate between quartiles and would expect the top quartile to have outperformed the bottom quartile. The outcome indeed indicates that the model works, at least for markets with rather good data quality and - even more importantly - a higher number of stocks being traded. Hence, this already demonstrates the downside of our approach, given the fact that some markets simply offer a limited amount of stocks, which are frequently traded and for which reliable data is available. However, based on this, we would not question the entire approach, but would clearly stress the functionality of our tool: It is an allocation indication, NOT a tradable mechanism. Hence, we allow ourselves to put the pure outcome of the model on a relative scale and use our own judgment to formulate a final view.
Finally, for interpretation of the outcome of our model, we use the overall expected return by country, as well as the spread between the high and low (top - last quartile) expected return stocks. The expected return by countries is the forecast, which is the actual state of the factors for each stock in the universe multiplied by the average of the coefficients (b) for each factor from last year's regressions. Since the expected return of each stock is

composed of the sum of the expected return components for each factor, we can extract the information regarding from which factor the largest contribution to the expected return comes. Knowing this for each stock and each factor and aggregating on a country level gives us the average contribution of the factor to the total expected return for a country.

We have run a backtest, checking what our allocation model would have yielded. The following charts show the expected returns both for the best and the worth quartile.

Backtest results



Source: Erste Group Research

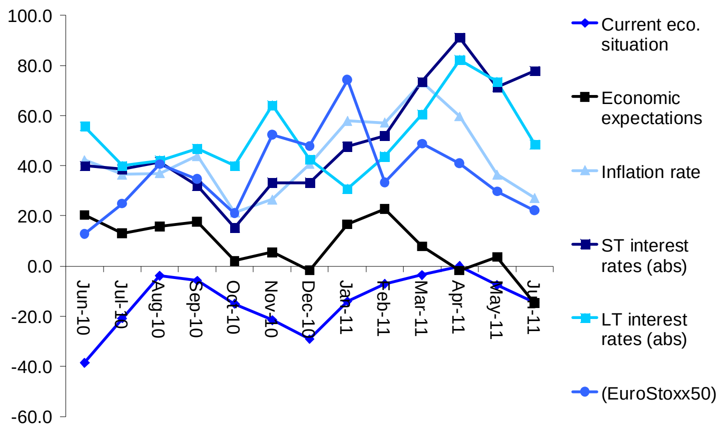
Appendix

ZEW sentiment indicator

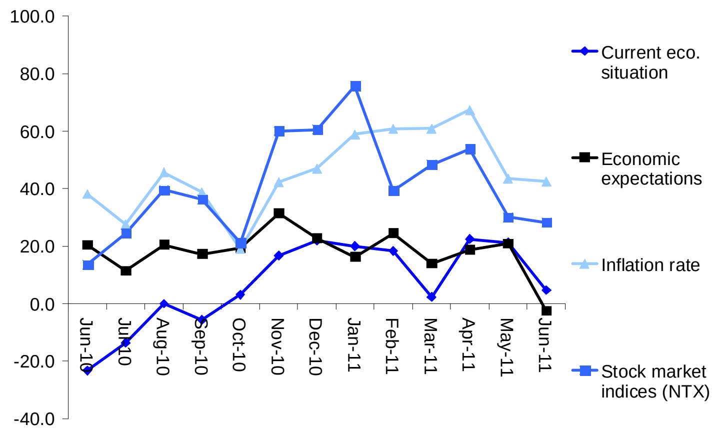
ZEW (Centre for European Economic Research, Mannheim, Germany) and Erste Bank jointly established a sentiment indicator. Each month financial experts in the region are asked to give their assesment on various indicator for the CEE region. Here we show the development of the ZEW indicator over time, aggregated by region as well as on individual country levels. Since the first report was published in June 2007, history is just about to be built over time.

ZEW indicator development

EUROZONE	Jun-10	Jul-10	Aug-10	Sep-10	Oct-10	Nov-10	Dec-10	Jan-11	Feb-11	Mar-11	Apr-11	May-11	Jun-11
Current eco. situation	-38.6	-20.8	-3.9	-5.8	-15.1	-21.5	-29.1	-14.0	-7.1	-3.5	0.0	-7.6	-14.6
Economic expectations	20.4	13.1	15.7	17.7	2.1	5.5	-1.7	16.7	22.8	7.9	-1.8	3.6	-14.8
Inflation rate	42.3	36.5	37.0	44.0	21.3	26.6	40.7	57.9	57.2	73.2	59.7	36.5	27.1
ST interest rates (abs)	40.0	38.6	41.6	32.0	15.3	33.3	33.3	47.7	52.0	73.6	91.1	71.4	77.8
LT interest rates (abs)	55.7	40.0	42.2	46.9	40.0	64.2	42.5	30.8	43.8	60.5	82.3	73.6	48.5
(EuroStoxx50)	12.8	24.9	40.6	34.7	21.1	52.4	47.9	74.3	33.4	48.8	41.0	29.8	22.2
Exchange rates (vs. Euro)	-	-	-	-	-	-	-	-	-	-	-	-	-

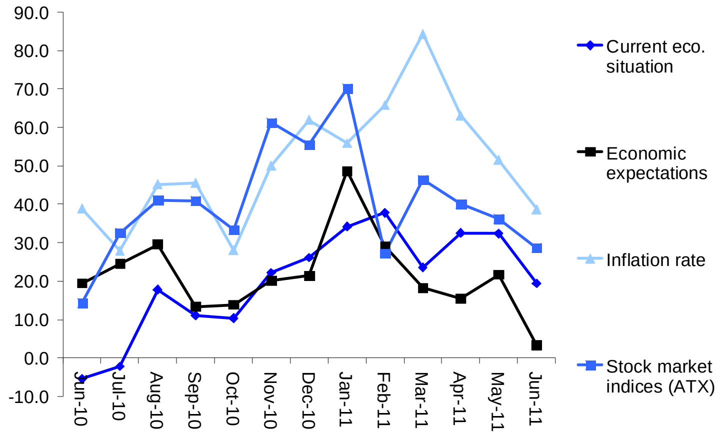


CEE	Jun-10	Jul-10	Aug-10	Sep-10	Oct-10	Nov-10	Dec-10	Jan-11	Feb-11	Mar-11	Apr-11	May-11	Jun-11
Current eco. situation	-23.2	-13.6	0.0	-5.7	3.2	16.7	22.0	20.0	18.4	2.3	22.5	21.2	4.7
Economic expectations	20.4	11.4	20.5	17.3	19.3	31.4	22.7	16.2	24.5	13.9	18.7	20.9	-2.5
Inflation rate	38.1	27.5	45.6	38.8	19.0	42.2	47.0	58.9	60.8	60.9	67.4	43.5	42.5
ST interest rates (abs)	-	-	-	-	-	-	-	-	-	-	-	-	-
LT interest rates (abs)	-	-	-	-	-	-	-	-	-	-	-	-	-
Stock market indices (NTX)	13.6	24.4	39.5	36.3	21.2	60	60.5	75.7	39.4	48.4	53.8	30	28.2
Exchange rates (vs. Euro)	-	-	-	-	-	-	-	-	-	-	-	-	-

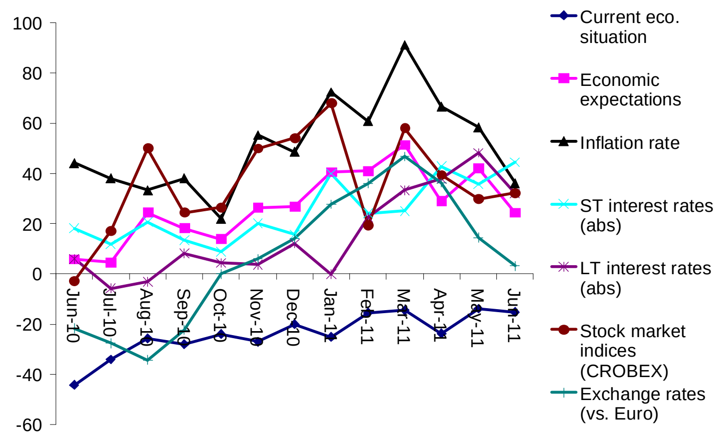


Appendix

AUSTRIA	Jun-10	Jul-10	Aug-10	Sep-10	Oct-10	Nov-10	Dec-10	Jan-11	Feb-11	Mar-11	Apr-11	May-11	Jun-11
Current eco. situation	-5.4	-2.2	17.8	11.1	10.3	22.2	26.1	34.2	37.8	23.6	32.5	32.4	19.4
Economic expectations	19.4	24.5	29.5	13.3	13.8	20.1	21.4	48.6	29.0	18.2	15.4	21.6	3.3
Inflation rate	38.8	27.9	45.2	45.5	28.0	50.0	61.9	55.9	65.8	84.4	63.1	51.5	38.7
ST interest rates (abs)	-	-	-	-	-	-	-	-	-	-	-	-	-
LT interest rates (abs)	-	-	-	-	-	-	-	-	-	-	-	-	-
Stock market indices (ATX)	14.3	32.5	41.1	40.9	33.3	61.3	55.5	70.1	27.2	46.4	40.1	36.2	28.6
Exchange rates (vs. Euro)	-	-	-	-	-	-	-	-	-	-	-	-	-

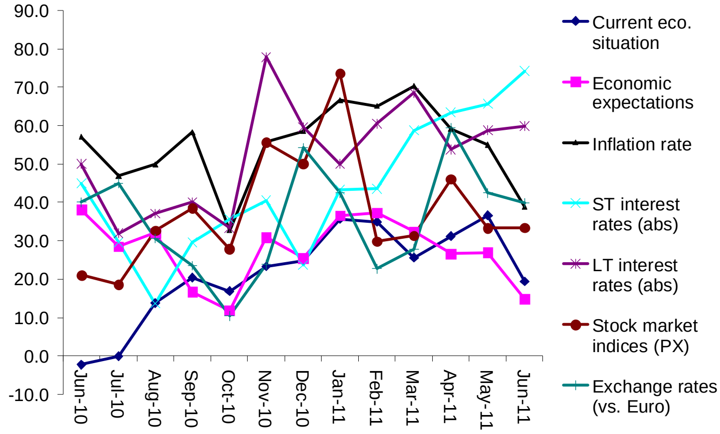


CROATIA	Jun-10	Jul-10	Aug-10	Sep-10	Oct-10	Nov-10	Dec-10	Jan-11	Feb-11	Mar-11	Apr-11	May-11	Jun-11
Current eco. situation	-44.2	-34	-25.6	-27.9	-24	-27	-20	-25.1	-15.4	-14.4	-23.7	-13.8	-15.1
Economic expectations	5.8	4.6	24.4	18.1	13.8	26.4	26.8	40.5	41.0	51.3	28.9	42.0	24.3
Inflation rate	44.1	38.1	33.4	38.0	22.0	55.3	48.6	72.4	60.8	91.2	66.6	58.4	36.2
ST interest rates (abs)	18.2	11.8	20.7	13.5	8.9	20.1	15.7	40.0	24.1	25.1	42.9	35.7	44.5
LT interest rates (abs)	6.1	-5.7	-3.1	8.2	4.4	3.8	12.1	-0.1	22.5	33.4	37.9	48.2	32.0
Stock market indices (CROBEX)	-2.8	17.1	50.0	24.4	26.5	49.9	54.1	67.9	19.4	58.0	39.4	29.8	32.2
Exchange rates (vs. Euro)	-21.6	-27.5	-34.2	-22.3	0	6.1	14	27.7	36.1	46.8	36.3	14.4	3.2

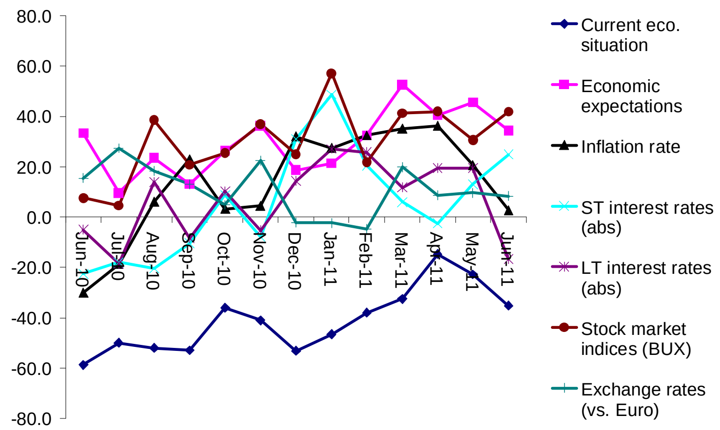


CZECH REPUBLIC	Jun-10	Jul-10	Aug-10	Sep-10	Oct-10	Nov-10	Dec-10	Jan-11	Feb-11	Mar-11	Apr-11	May-11	Jun-11
Current eco. situation	-2.3	-0.1	13.8	20.4	16.9	23.3	24.9	35.7	34.9	25.6	31.2	36.6	19.4
Economic expectations	38.1	28.5	32.0	16.7	11.8	30.9	25.5	36.5	37.3	32.4	26.6	26.9	14.8
Inflation rate	57.1	46.9	49.9	58.3	32.7	55.8	58.6	66.7	65.1	70.3	59.1	55	38.8
ST interest rates (abs)	45.0	29.6	13.7	29.6	35.7	40.5	23.7	43.3	43.6	58.8	63.4	65.7	74.2
LT interest rates (abs)	50.0	31.9	37.1	40.1	33.3	77.8	59.6	50.0	60.5	68.5	53.8	58.8	59.9
Stock market indices (PX)	21.0	18.6	32.6	38.5	27.8	55.6	50.0	73.6	29.8	31.3	46.0	33.3	33.4
Exchange rates (vs. Euro)	40.0	45.0	30.6	23.5	10.4	23.8	54.2	42.5	22.7	27.8	59.4	42.5	39.9

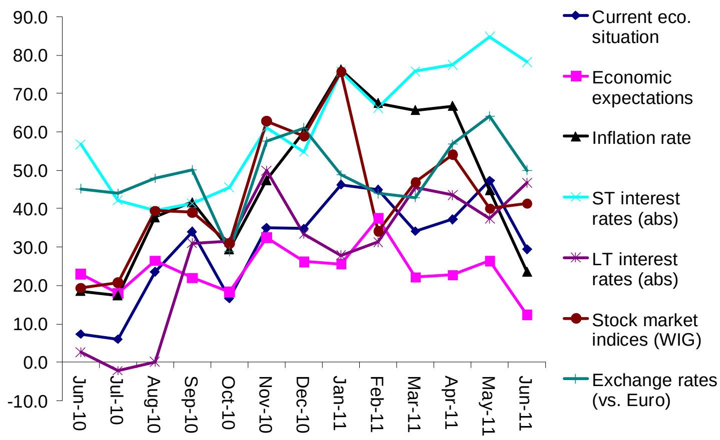
Appendix



HUNGARY	Jun-10	Jul-10	Aug-10	Sep-10	Oct-10	Nov-10	Dec-10	Jan-11	Feb-11	Mar-11	Apr-11	May-11	Jun-11
Current eco. situation	-58.6	-50.0	-51.9	-52.9	-36.0	-41.0	-53.1	-46.5	-38.0	-32.5	-14.6	-22.7	-35.1
Economic expectations	33.3	9.6	23.5	13.1	26.3	36.4	18.7	21.4	32.5	52.6	40.4	45.5	34.4
Inflation rate	-30.0	-18.7	6.1	23.1	3.3	4.5	32.0	27.5	32.5	35.2	36.3	20.8	2.8
ST interest rates (abs)	-22.5	-17.9	-20.4	-10.4	8.8	-7.9	31.0	48.7	20.5	5.9	-2.4	13.1	24.9
LT interest rates (abs)	-5.0	-18.5	13.9	-8.4	10.3	-5.2	14.4	27.1	25.7	11.8	19.5	19.5	-16.6
Stock market indices (BUX)	7.6	4.6	38.6	20.8	25.4	36.9	25.0	57.1	21.7	41.3	42.0	30.7	41.8
Exchange rates (vs. Euro)	15.5	27.4	18.4	13.0	4.9	22.5	-2.2	-2.3	-4.7	19.9	8.7	9.6	8.4

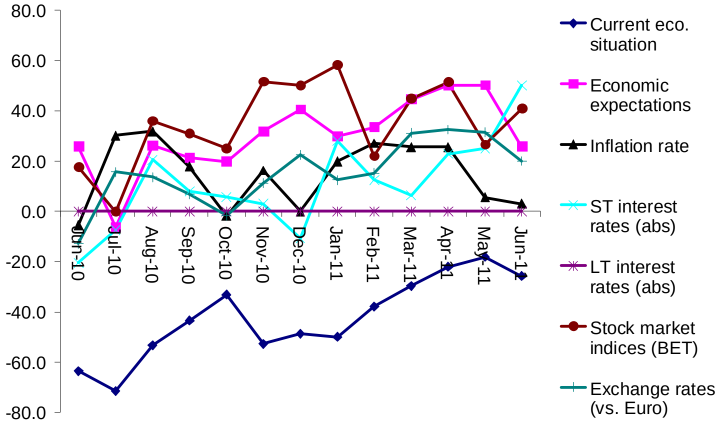


POLAND	Jun-10	Jul-10	Aug-10	Sep-10	Oct-10	Nov-10	Dec-10	Jan-11	Feb-11	Mar-11	Apr-11	May-11	Jun-11
Current eco. situation	7.3	6.0	23.6	34.0	16.6	35.0	34.8	46.3	45.0	34.1	37.2	47.3	29.4
Economic expectations	23.0	18.0	26.5	22.0	18.3	32.5	26.2	25.6	37.5	22.2	22.7	26.4	12.4
Inflation rate	18.5	17.4	37.8	41.7	29.4	47.5	60.1	76.3	67.5	65.7	66.8	44.8	23.6
ST interest rates (abs)	56.8	42.2	39.5	41.4	45.5	61.1	54.8	75.7	66.3	75.8	77.5	84.8	78.2
LT interest rates (abs)	2.6	-2.2	0.1	31.0	31.5	49.9	33.4	27.8	31.3	45.5	43.6	37.4	46.7
Stock market indices (WIG)	19.4	20.8	39.5	39.1	31.0	62.9	59.0	75.7	34.2	46.9	54.1	40.1	41.4
Exchange rates (vs. Euro)	45.2	44.0	47.9	50.1	28.9	57.5	61.0	48.8	43.9	42.9	56.8	64.1	50.0

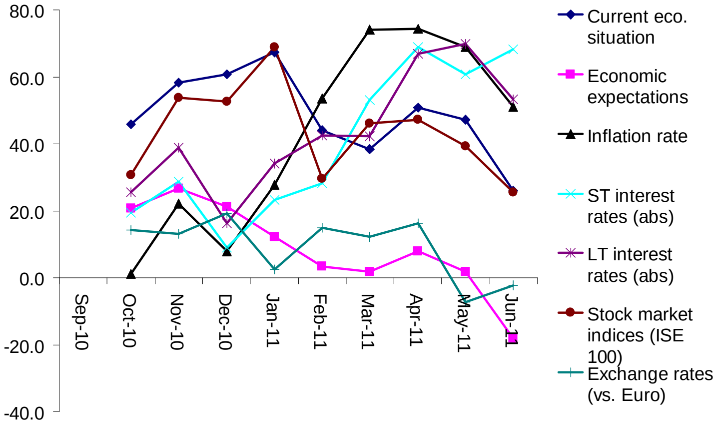


Appendix

ROMANIA	Jun-10	Jul-10	Aug-10	Sep-10	Oct-10	Nov-10	Dec-10	Jan-11	Feb-11	Mar-11	Apr-11	May-11	Jun-11
Current eco. situation	-63.4	-71.4	-53.2	-43.4	-33.2	-52.7	-48.7	-50.0	-37.8	-29.6	-22.0	-18.0	-25.8
Economic expectations	25.7	-6.3	26.1	21.3	19.8	31.8	40.4	29.8	33.4	44.5	50.0	50.1	25.8
Inflation rate	-5.6	30.2	31.8	17.8	-1.8	16.3	0.0	19.9	27.1	25.6	25.6	5.5	3.0
ST interest rates (abs)	-20.5	-7.5	20.5	7.9	5.7	3.0	-10.7	28.0	12.5	6.4	22.8	25.0	50.1
LT interest rates (abs)	-	-	-	-	-	-	-	-	-	-	-	-	-
Stock market indices (BET)	17.6	-0.1	35.9	30.9	25.0	51.5	50	58.1	21.9	44.8	51.4	26.5	40.8
Exchange rates (vs. Euro)	-12.8	15.6	13.7	6.8	-1.7	11.3	22.5	12.5	15.2	31.2	32.5	31.4	20.0



Turkey	Jun-10	Jul-10	Aug-10	Sep-10	Oct-10	Nov-10	Dec-10	Jan-11	Feb-11	Mar-11	Apr-11	May-11	Jun-11
Current eco. situation					45.9	58.4	60.7	67.4	44.0	38.5	50.9	47.3	26.0
Economic expectations					20.9	26.7	21.3	12.3	3.5	1.8	8.0	1.9	-18.0
Inflation rate					1.1	22.1	8.0	27.8	53.5	74.1	74.3	69.0	51.0
ST interest rates (abs)					19.5	28.8	9.1	23.3	28.2	53.2	69.0	60.9	68.3
LT interest rates (abs)					25.6	38.8	16.3	34.2	42.4	42.2	66.8	69.8	53.4
Stock market indices (ISE 100)					30.8	53.8	52.6	68.9	29.7	46.0	47.3	39.4	25.5
Exchange rates (vs. Euro)					14.3	13.1	19.2	2.4	14.9	12.3	16.3	-7.3	-2.3



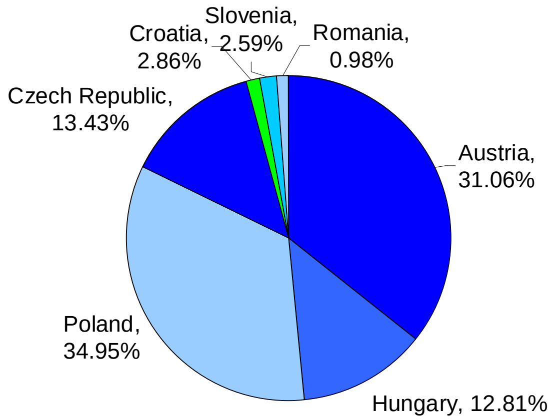
Note: Financial experts were asked about their expectations for the next 6 months. Balances refer to the differences between positive and negative assessments. Source: ZEW

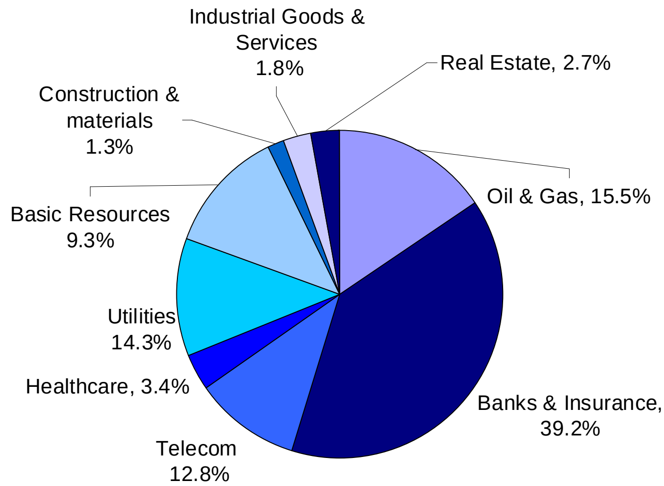
Appendix

New Europe Blue Chip Index (NTX)

In September 2005 Erste Bank together with the Vienna Stock Exchange launched the New Europe Blue Chip Index (NTX). The NTX was designed to summarize the regional convergence theme in Central and Eastern Europe by also offering an investable universe. The index includes the top 30 regional stocks ranked by free float. The NTX is calculated by the Vienna Stock Exchange, quoted real-time and in EUR (.NTX; NTX index <GO>).

Current index structure





Rank	Company	Country	Sector	Free float EUR	Weight
1	Erste Group	Austria	BANKS	9,577,092,377	9.49%
2	CEZ	Czech Republic	UTILITIES	7,632,356,902	7.56%
3	PKO BP	Poland	BANKS	7,027,660,421	6.96%
4	KGHM	Poland	BASIC RESOURCES	6,929,174,690	6.87%
5	Bank Pekao	Poland	BANKS	5,345,864,049	5.30%
6	OTP	Hungary	BANKS	5,032,775,643	4.99%
7	MOL	Hungary	OIL & GAS	4,960,354,908	4.92%
8	OMV	Austria	OIL & GAS	4,929,545,450	4.88%
9	PZU	Poland	INSURANCE	4,880,962,168	4.84%
10	voestalpine	Austria	BASIC RESOURCES	4,504,399,354	4.46%
11	PKN Orlen	Poland	OIL & GAS	3,892,638,678	3.86%
12	Telekom Austria	Austria	TELECOMMUNICATIONS	3,118,720,000	3.09%
13	Andritz	Austria	INDUSTRIAL GOODS & SERVICES	2,953,600,000	2.93%
14	TPSA	Poland	TELECOMMUNICATIONS	2,795,275,384	2.77%
15	Immofinanz	Austria	FINANCIAL SERVICES	2,762,997,571	2.74%
16	Komercni banka	Czech Republic	BANKS	2,555,602,785	2.53%
17	Vienna Insurance Group	Austria	INSURANCE	2,425,600,128	2.40%
18	Telefónica O2 CR	Czech Republic	TELECOMMUNICATIONS	2,311,187,645	2.29%
19	Raiffeisen Bank Internation	Austria	BANKS	2,084,182,374	2.07%
20	Verbund	Austria	UTILITIES	2,042,804,232	2.02%
21	PGNIG	Poland	OIL & GAS	1,872,140,954	1.86%
22	Richter Gedeon	Hungary	HEALTH CARE	1,779,110,923	1.76%
23	Krka	Slovenia	HEALTH CARE	1,700,453,760	1.68%
24	Wienerberger	Austria	CONSTRUCTION & MATERIAL	1,492,589,903	1.48%
25	T-Hrvatski Telekom	Croatia	TELECOMMUNICATIONS	1,419,684,373	1.41%
26	BRE Bank	Poland	BANKS	1,377,698,806	1.37%
27	Magyar Telekom	Hungary	TELECOMMUNICATIONS	1,156,675,391	1.15%
28	BRD-Group SG	Romania	BANKS	1,153,005,429	1.14%
29	New World Resources	Czech Republic	BASIC RESOURCES	1,051,901,196	1.04%
30	PGE	Poland	UTILITIES	155,008,008	0.15%
	Total			**100,921,063,500**	**100.00%**

Source: Vienna Stock Exchange, Erste Group Research

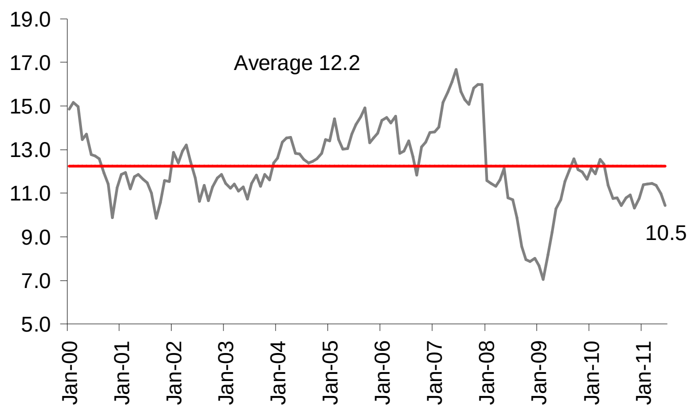
Appendix

Regional valuation and sentiment

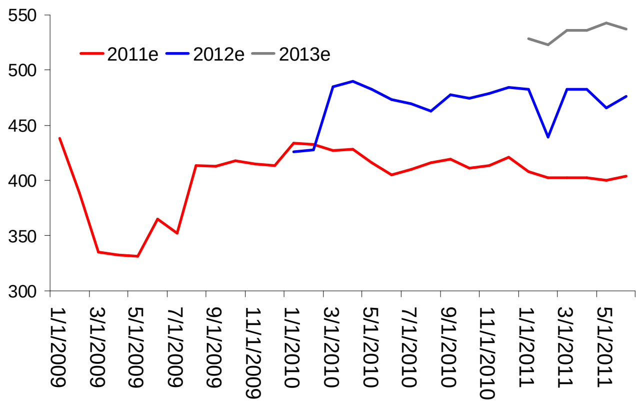
In order to get an overview on valuation, growth and risk premiums, we have summarized the region via the markets of Poland (WIG 20), the Czech Republic (PX), Hungary (BUX), Austria (ATX), Romania, Croatia and Slovenia (BET, CROBEX, SBI not included in risk premium calculation). Additionally, we show data for Turkey and Russia. Admittedly, the overview is also somehow dictated by the availability of reliable consensus data.

CEE Region

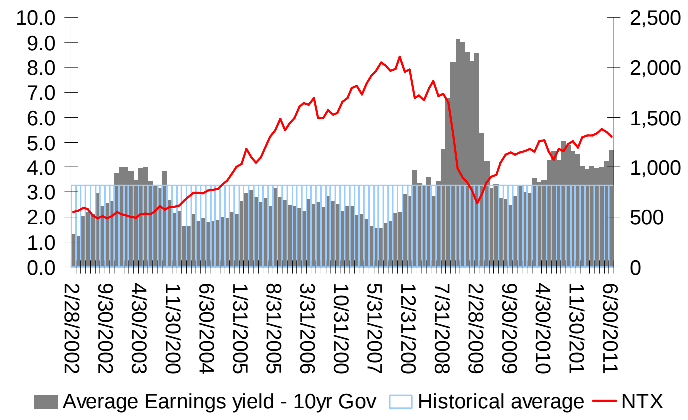
Regional forward PER vs historical average



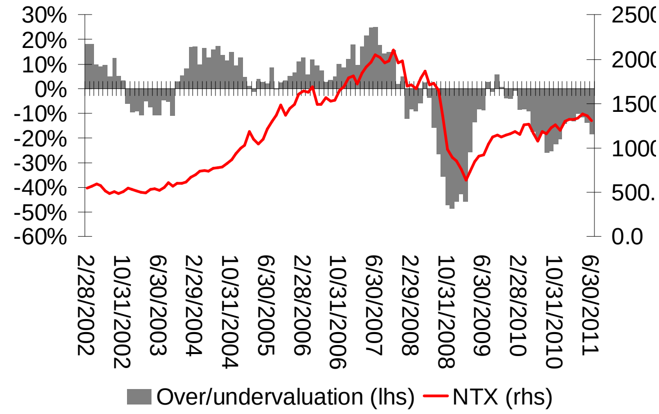
Consensus estimates EPS trend for region in EUR



Development of risk premium CEE Region

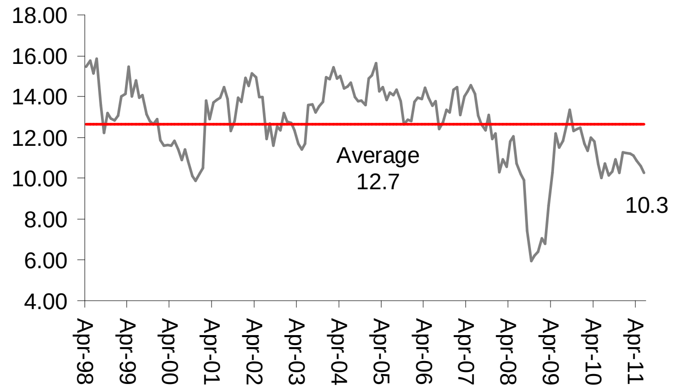


Implied valuation CEE Region

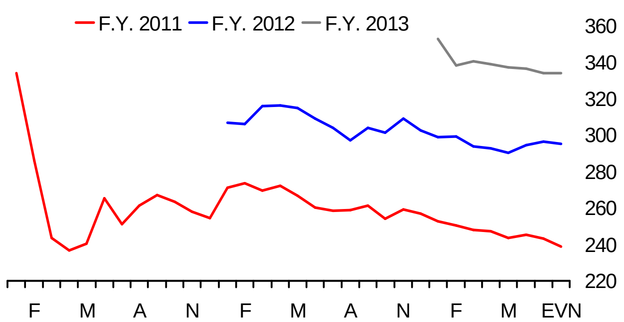


Source: Factset, Erste Group Research

Forward PER vs historical average – ATX

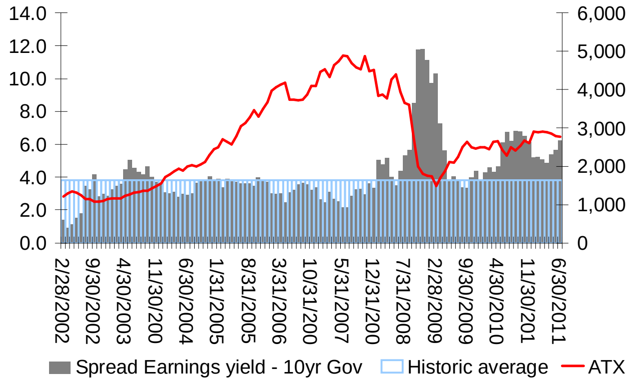


Consensus estimates EPS trend for ATX in EUR

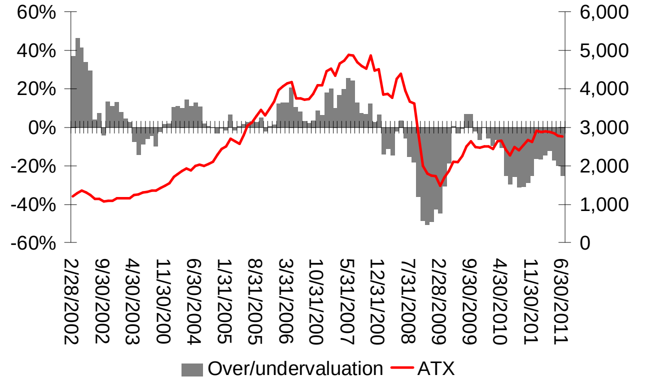


Appendix

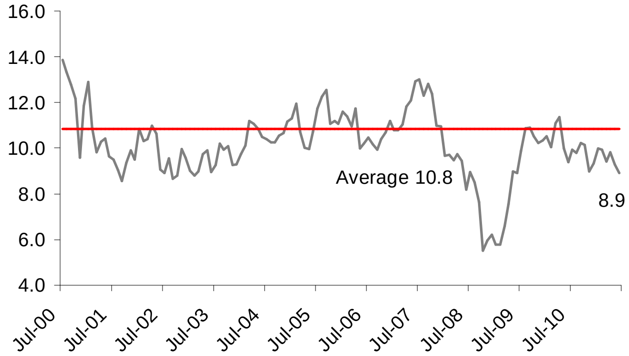
Development of risk premium – ATX



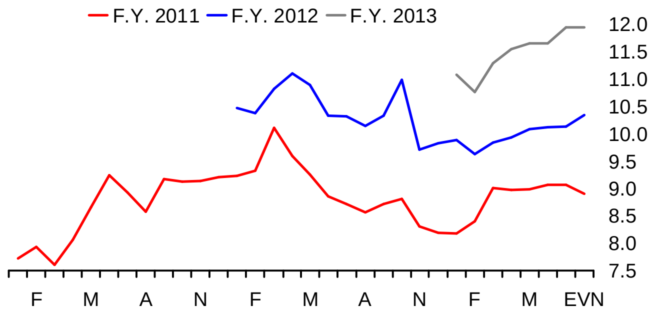
Implied valuation – ATX



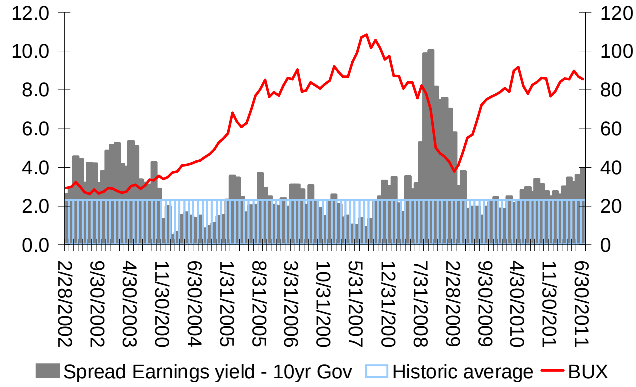
Forward PER vs historical average – BUX



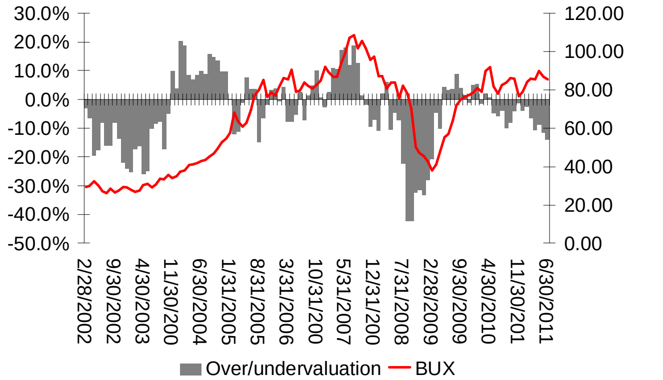
Consensus estimates EPS trend BUX in EUR



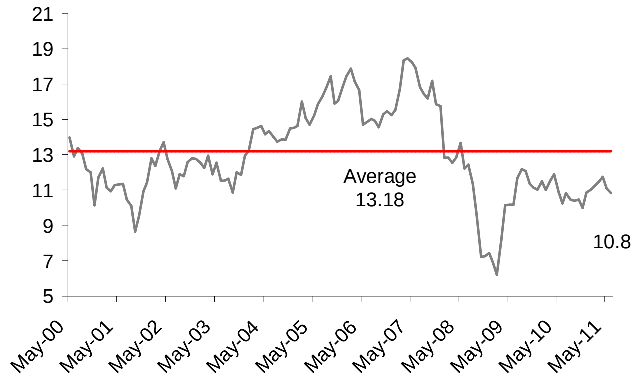
Development of risk premium – BUX



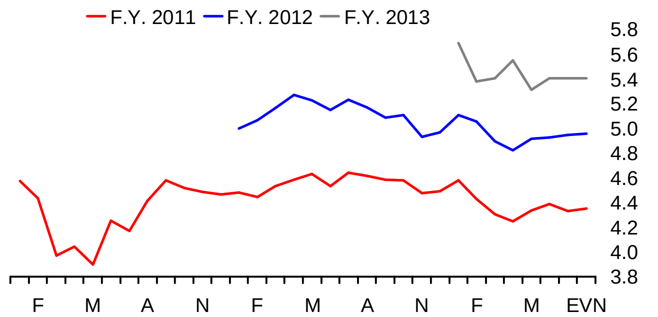
Implied valuation – BUX



Forward PER vs historical average – PX

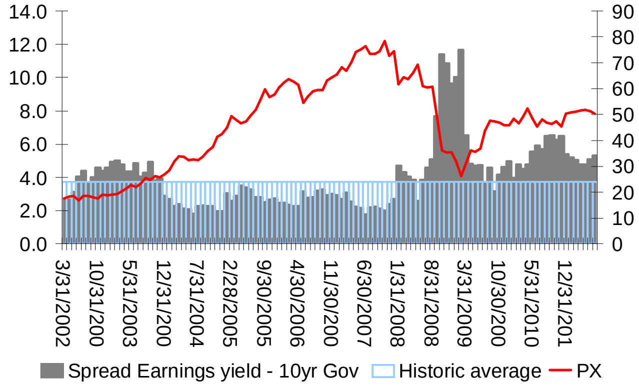


Consensus estimates EPS trend for PX 50 in EUR

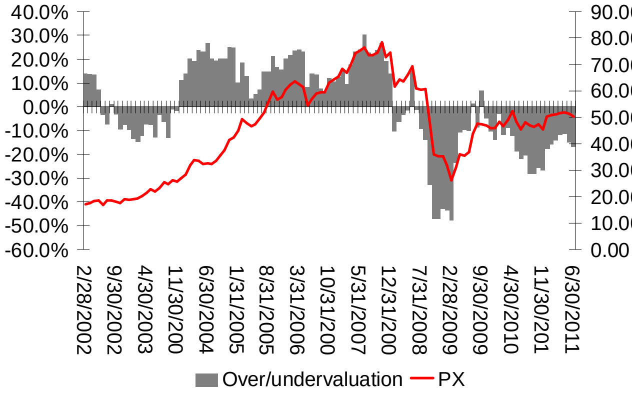


Appendix

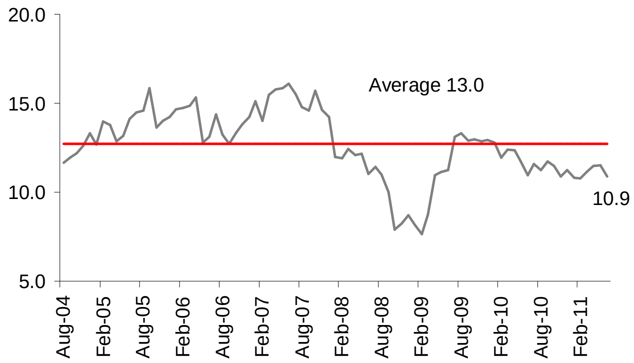
Development of risk premium – PX



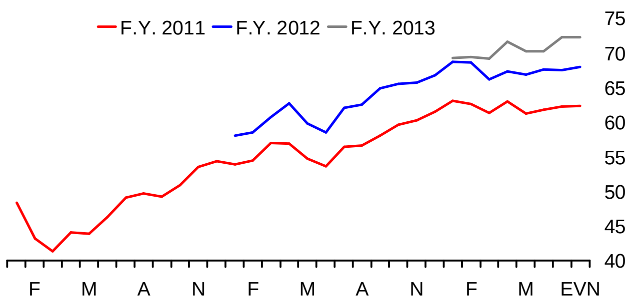
Implied valuation – PX



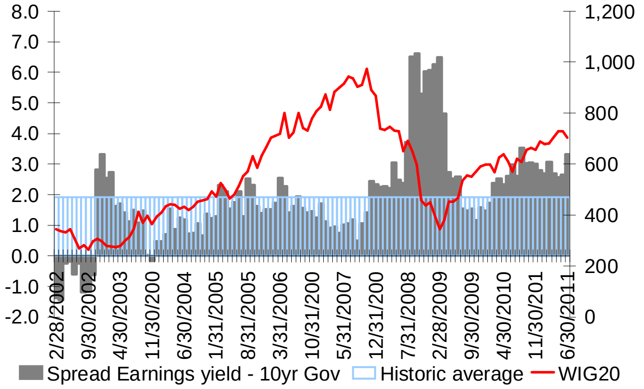
Forward PER vs historical average – WIG20



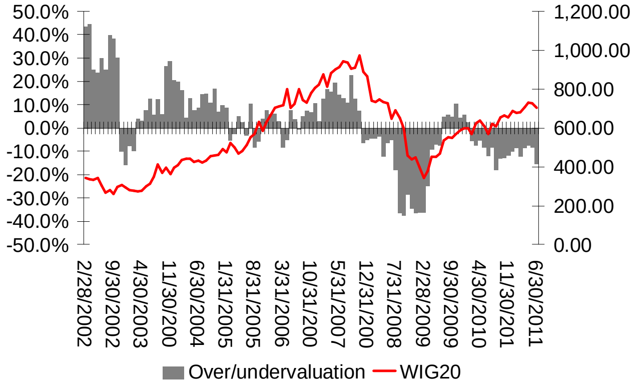
Consensus estimates EPS trend for WIG 20 in EUR



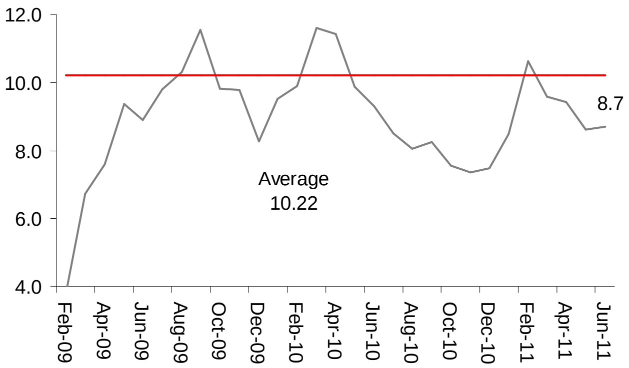
Development of risk premium – WIG20



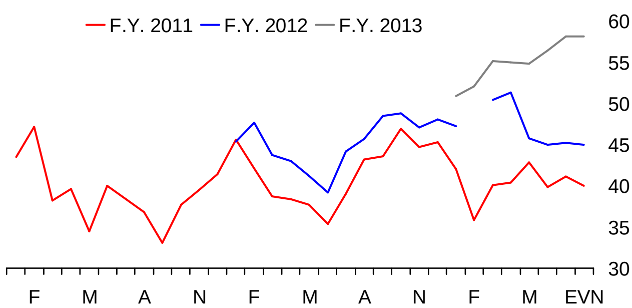
Implied valuation – WIG20



Forward PER vs historical average – Romania

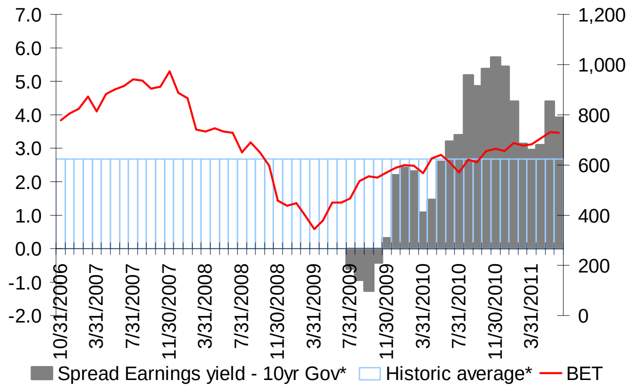


Consensus estimates EPS trend for RO in EUR

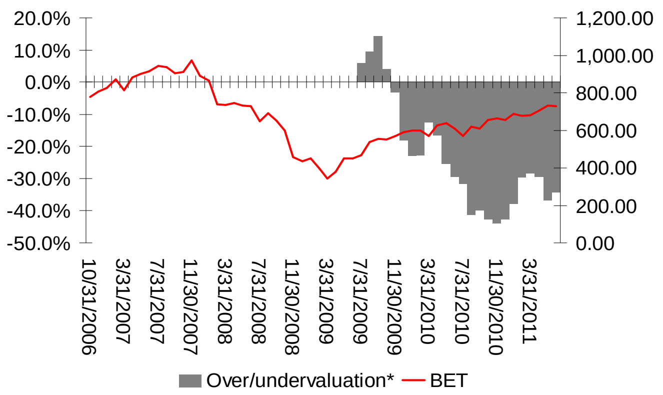


Appendix

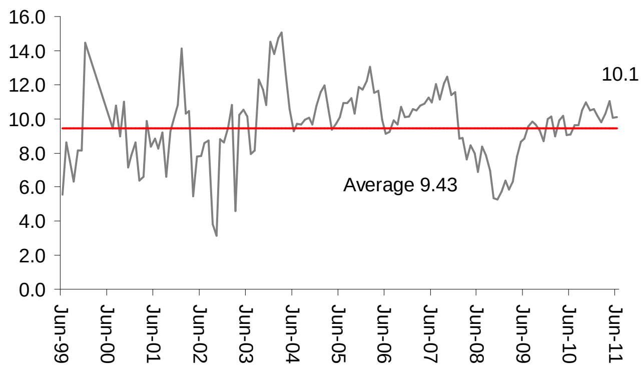
Development of risk premium – Romania



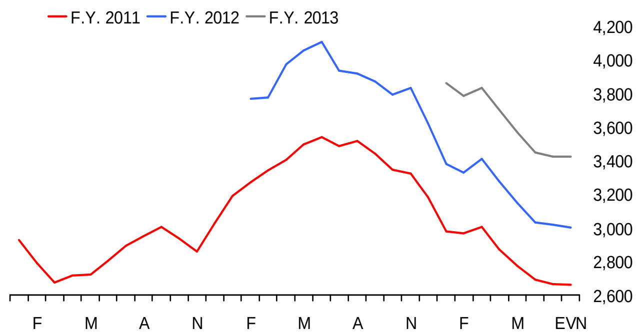
Implied valuation – Romania



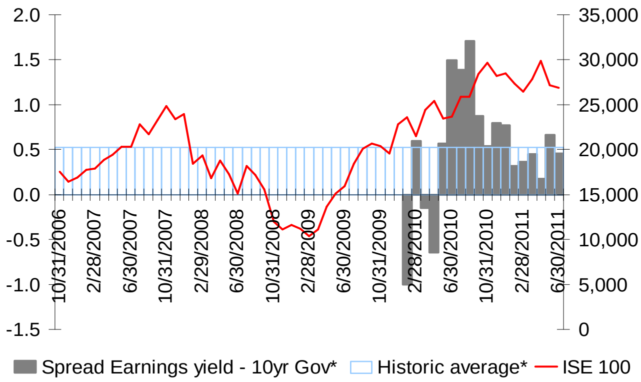
Forward PER vs historical average – Turkey



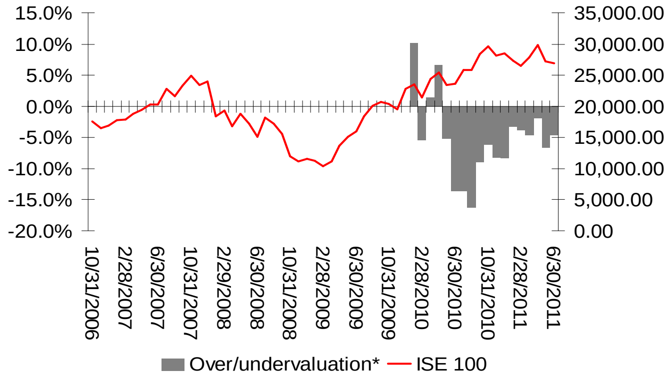
Consensus estimates EPS trend for Turkey in EUR



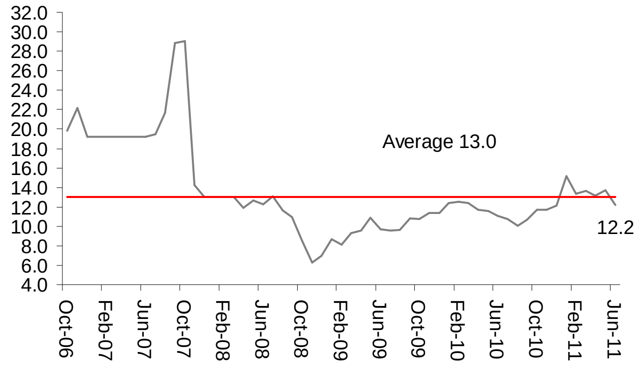
Development of risk premium – Turkey



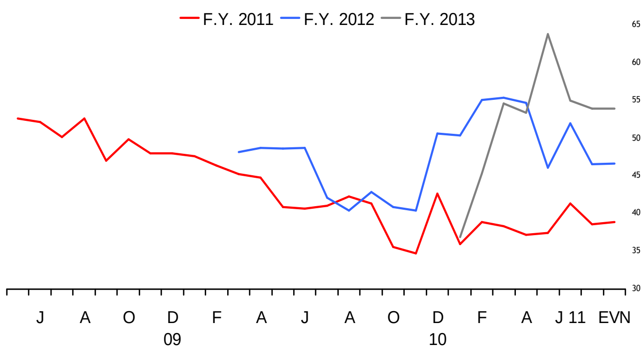
Implied valuation – Turkey



Forward PER vs historical average – Croatia

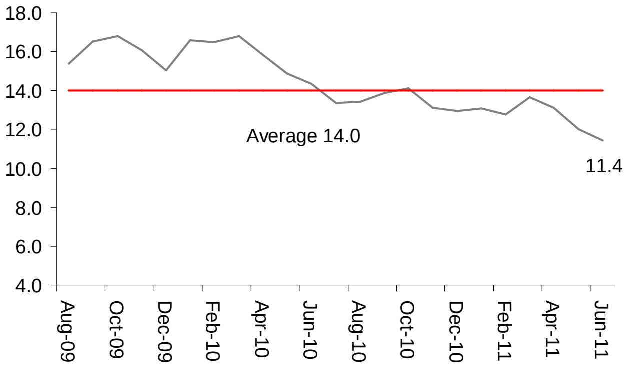


Consensus estimates EPS trend for Croatia in EUR

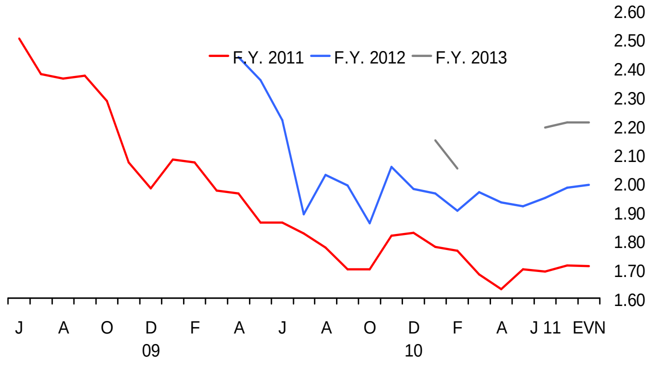


Appendix

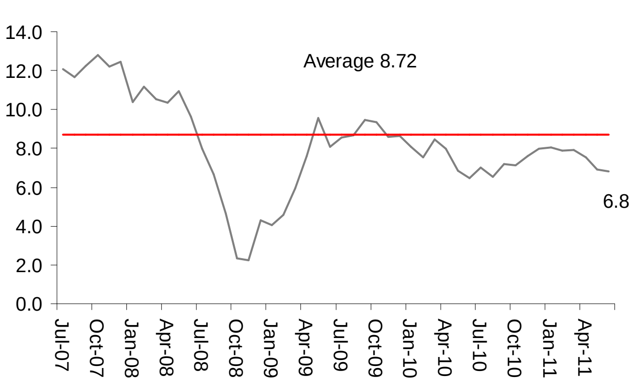
Forward PER vs historical average – Slovenia



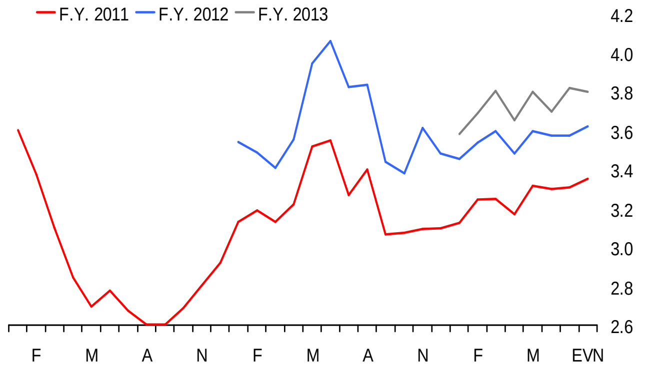
Consensus estimates EPS trend Slovenia in EUR



Forward PER vs historical average – Russia

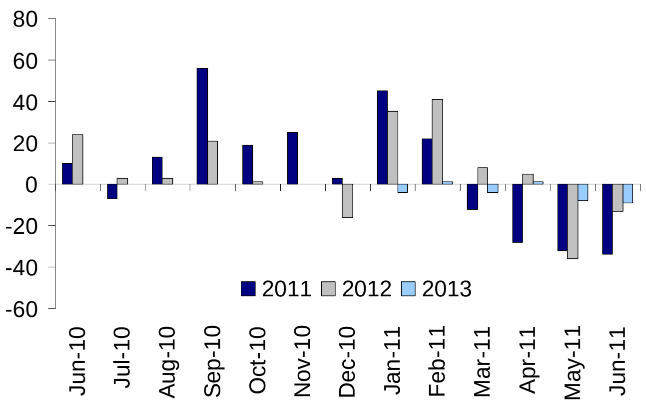


Consensus estimates EPS trend for Russia in EUR

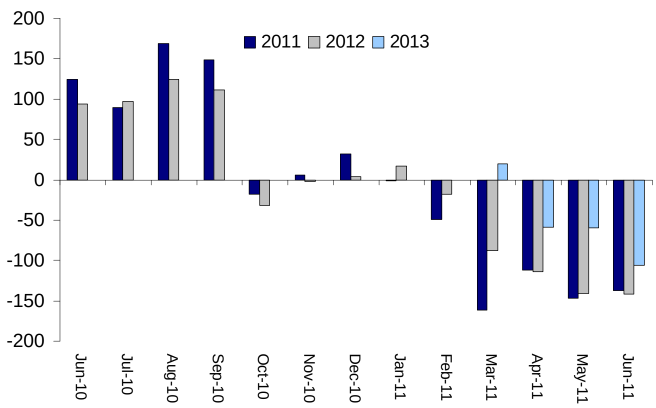


Source: Factset, Erste Group Research

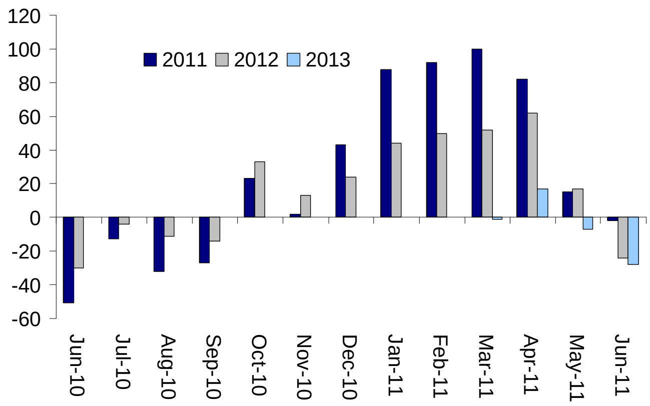
EPS revision rate CEE



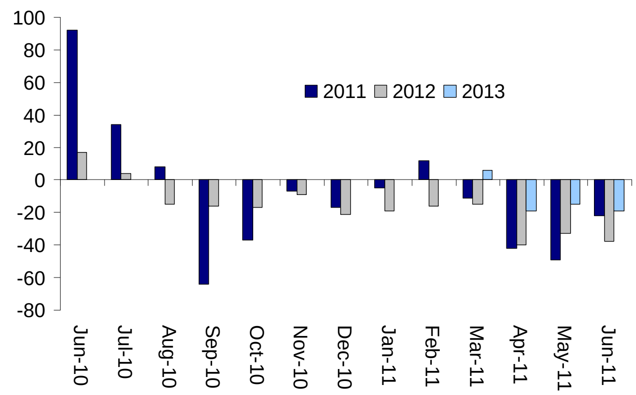
EPS revision rate EuroStoxx 50



EPS revision rate Russia



EPS revision rate Turkey



Source: Factset, Erste Group Research

Appendix

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Andrea Slesarova (Client sales)	+48 62 56 27
Saving Banks & Sales Retail	
Head: Thomas Schaufler	+43 (0)5 0100 - 84225
Equity Retail Sales	
Head: Kurt Gerhold	+43 (0)5 0100 - 84232
Fixed Income & Certificate Sales	
Head: Uwe Kolar	+43 (0)5 0100 - 83214
Treasury Domestic Sales	
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Corporate Sales AT	
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Head G7: Thomas Almen	+43 (0)5 0100 - 84323
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Fixed Income International & High End Sales Vienna	
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Appendix

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Please refer to www.erstegroup.com for the current list of specific disclosures and the breakdown of Erste Group's investment recommendations.

Appendix

Notes