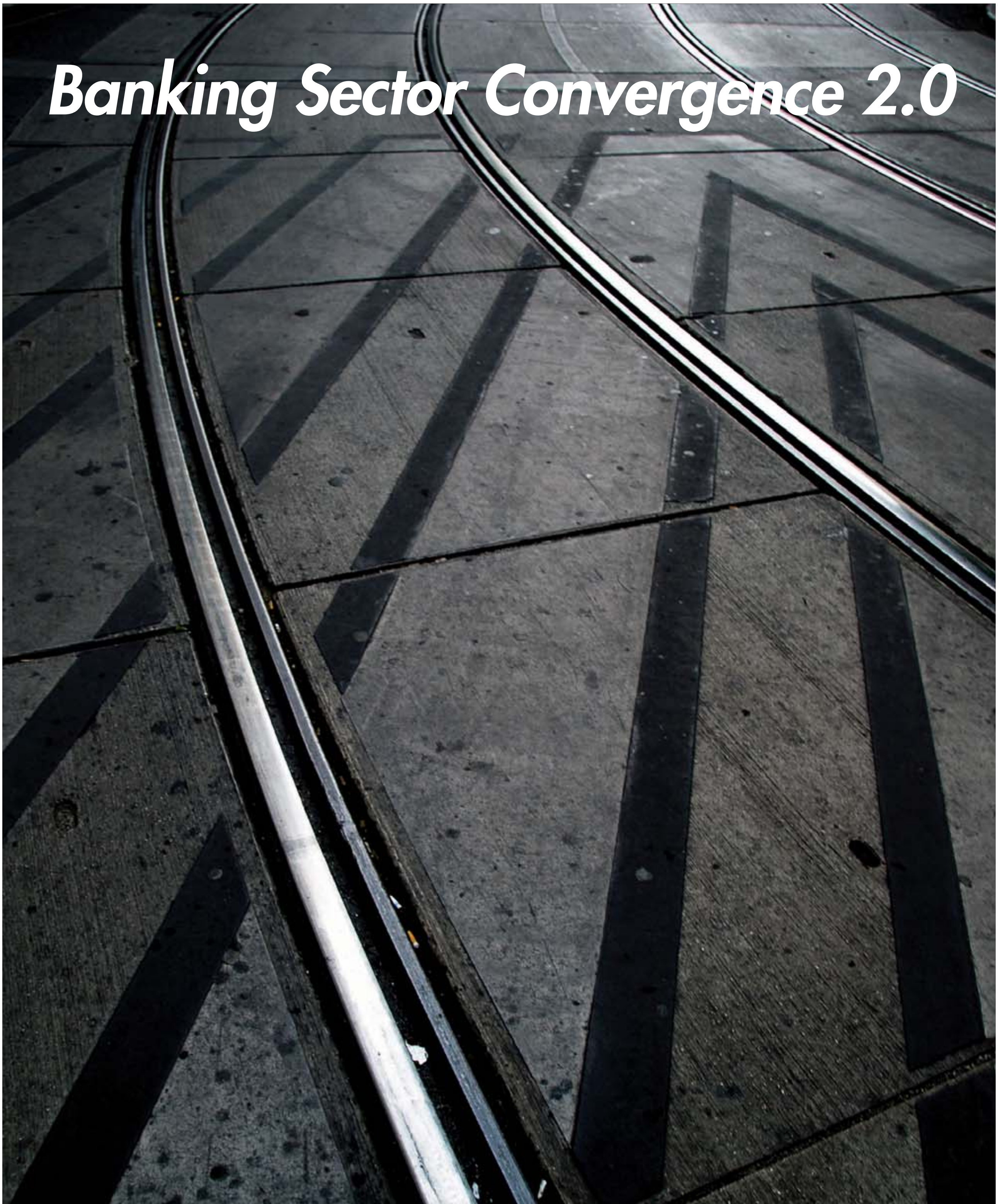
CEE Banking Sector Report

October 2011

Banking Sector Convergence 2.0



Analysts

Raiffeisen Bank International AG, Vienna
Gunter Deuber
gunter.deuber@raiffeisenresearch.at

Raiffeisen Centrobank AG, Vienna
Jovan Sikimic
sikimic@rcb.at

Raiffeisen RESEARCH

Table of contents

CEE Banking Sector Report
Summary

Loan growth returns, NPLs close to peaks

Loan growth in CEE accelerated in 2010 and H1 2011, a development reflected in the aggregated data for the region's banking sectors and major banks. Raiffeisen Bank International (RBI), UniCredit, Intesa Sanpaolo, Erste and Société Générale all posted loan growth. With lending volumes returning to growth and the economic situation in CEE stabilising, non-performing loans are almost at the peak or already past it at all major CEE banks, which is also confirmed by aggregated banking sector data. However, Hungary and some SEE markets remain challenging with regard to loan quality. Although the trend of ever rising loan-to-deposit ratios has now stopped, these ratios have decreased only in a limited number of CEE economies. Consequently, no significant changes occurred within the large banking groups in CEE in terms of their funding balances.

Up to now no major changes in loan-to-deposit ratios

No major changes among Top-5 banks

No major changes took place in the rankings of the region's Top-5 banks (in terms of total assets) in 2010/H1 2011. A certain amount of consolidation and new market entries were observable among the banks ranked 11-20, with Santander strengthening its CEE presence via its acquisition in Poland, Volksbank International being sold to Sberbank, and Greece's EFG and Alpha Bank set to merge. This consolidation may continue on what is essentially a buyer's market: KBC and BCP have announced plans to divest in CEE, Hypo Alpe Adria remains a mid-term takeover target.

New market entries - some takeover targets remain

Poland and Russia as growth markets

Currently, CEE banking groups are focusing on Poland and Russia and to a lesser extent, also on Romania and Serbia. The focus on these markets makes sense from a fundamental perspective, as they all have still room to grow their loan stock and financial intermediation. However, the macroeconomic environment for CEE started to deteriorate in H2 2011 due to the expected slowdown of the world economy and in the Eurozone in particular. For this reason, one has to be cautious regarding the near-term banking sector outlook in CEE. Moreover, recent negative developments with regard to the regulatory landscape in some CEE countries (e.g. outsized bank levies or interference in private loan agreements) must be watched carefully, as they set flawed standards and may undermine the attractiveness of the respective banking sectors.

80% of CEE banking assets in high growth markets

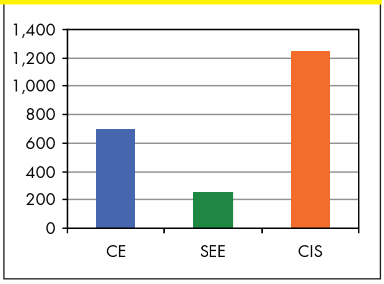
The expected lower availability of external financing suggests that deposits will retain the attractiveness they gained in CEE in recent years. As a result, sustainable loan growth in CEE will be more closely tied to deposit growth than in the past. In addition, some CEE economies may well face a more prolonged period of relatively low loan growth. Loan-to-GDP ratios are at a relatively high level in some CEE economies with lower income levels. Moreover, some market segments such as household lending do not appear to be underpenetrated in any CEE economy anymore. Consequently, loan growth in CEE will not occur in the same manner witnessed during the past decade. It is for this reason that we've chosen the title “Banking Sector Convergence 2.0” for our 2011 CEE Banking Sector Report. However, the medium- to longer-term outlook for banking sector growth remains very favourable in at least six CEE markets, a group that includes some of the region's largest economies: Russia, Poland, the Czech Republic, Romania, Slovakia and Albania are likely to remain high growth markets in which nominal loan and asset growth is likely to clearly outpace nominal GDP growth going forward. It is worth noting that these six markets represent 80% of total banking sector assets in CEE.

External environment challenges CEE once again

Introduction

All in all, there has been a broad-based improvement in banking sector resilience in CEE. This improvement was driven by a stabilising economic backdrop in 2010 and H1 2011. With the possible exception of Ukraine, non-performing loans (NPLs) in CEE remained well below the levels of past banking sector stress times in emerging markets. Moreover, high frequency data indicate that NPL growth has finally peaked in almost all CEE countries, while loan growth is picking up gradually. With loan growth returning, we take a closer look at the medium- and longer-term loan growth outlook in this eighth edition of our CEE Banking Sector Report. Before tackling this issue and sketching recent economic and banking sector trends as well as other more structural features we will start with a recap of some definitions. However, we will keep this section short as not much has changed here in comparison to previous reports.

Nominal GDP (EUR bn)*

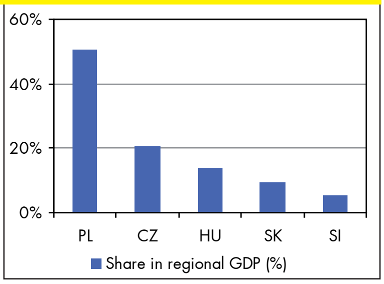


** 2010 data*
Source: National sources, Raiffeisen RESEARCH

Definition of sub-regions

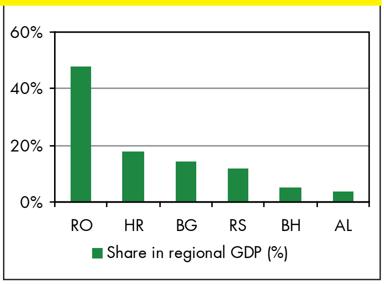
We divide CEE into three regions: Central Europe (CE), Southeastern Europe (SEE) and the Commonwealth of Independent States (CIS). Our classification is made along the lines of the level of economic development and the stage of integration with the EU.

Relative size CE economies*



** 2010 data*
Source: National sources, Raiffeisen RESEARCH

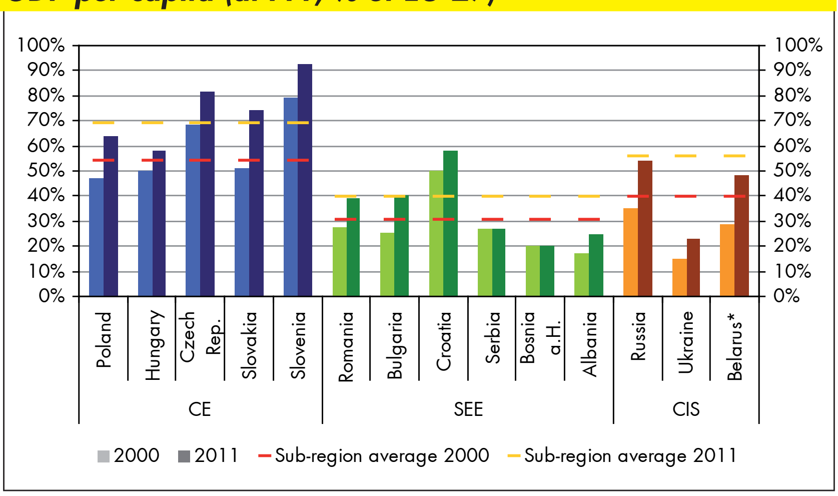
Relative size SEE economies*



** 2010 data*
Source: National sources, Raiffeisen RESEARCH

Central Europe (CE): This sub-region consists of five OECD members that joined the EU in 2004: Czech Republic, Hungary, Poland, Slovakia and Slovenia. The latter two are already Eurozone members. All CE countries are characterised by a high level of economic development. Over the past two decades, CE attracted substantial FDI that helped to (re-)build strong industrial sectors, which are now highly integrated with core European countries. Regarding long-term growth prospects, the CE countries have largely exploited the benefits of EU integration. For instance, the GDP per capita figures for Slovenia and the Czech Republic already stand at 86% and 76% of the Eurozone average, respectively. Further economic catch-up will require additional efforts to strengthen the international competitiveness position.

GDP per capita (at PPP, % of EU-27)



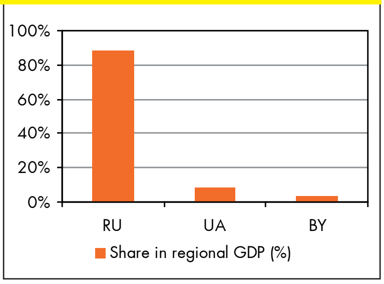
** figures for Belarus distorted (overvalued real exchange rate, recent BYR devaluation)*
Source: IMF, Raiffeisen RESEARCH

Southeastern Europe (SEE): The seven countries in this sub-region are marked by a much higher diversity than in CE. According to our definition, SEE consists of the EU members Romania and Bulgaria, the pending EU member Croatia, as well as four additional countries from the Western Balkans, namely Serbia, Bosnia and Herzegovina, Albania and Kosovo (the latter is not addressed within this report due to data constraints). The non-EU-member states in the Western Balkans (Serbia, Bosnia and Herzegovina, Albania and Kosovo) are currently in different stages of their rapprochement towards the EU, but none of them has yet gained the status as official candidate. The average GDP per capita at PPP in SEE stands at EUR 11,500. Croatia has the highest GDP per capita income in SEE (EUR 14,500, 54% of the Eurozone), Bosnia and Herzegovina and Albania have the lowest average incomes in SEE (EUR 6,700-7,000, 23% of the Eurozone). All in all, SEE is characterised by a lower level of economic development than CE, with SEE's industrial sectors being weaker and its infrastructure lacking CE's stature. Regarding the long-term growth prospects, SEE has not fully exploited all of the benefits that EU integration offers. While this also means that room for catching-up remains, recent boom-bust cycles in SEE have shown that the "speed limits" of catching-up (e.g. savings and investment imbalances) must be watched closely.

Commonwealth of Independent States (CIS): This sub-region consists of Russia, Ukraine and Belarus. Russia and Ukraine are the two most populous countries in CEE, while Russia is the wealthiest CIS economy, with a GDP per capita at PPP of EUR 12,800 (50% of the Eurozone average). The economies in Russia and Ukraine are commodity-driven, with revenues from the oil and gas sector in Russia accounting for 51% of the country's overall budget revenues and around 60-65% of its exports. In Ukraine, steel represents 30-40% of all exports. The CIS region is less dependent on Western Europe than CE and SEE are: exports to the EU-27 account for less than 50% in Russia and around 25% in Ukraine (intra-EU trade dominates exports in CE and SEE, with readings at the 90% level in smaller CE economies). However, the rather disappointing economic performance posted in Russia and Ukraine in 2011 indicates that both economies failed to lift their domestic growth potential during the recent global commodity price uptrend. The resource-poor Belarusian economy represents a unique situation. Belarus's economy is (still) state-run as in Soviet times, and the country has an elevated dependency on cheap Russian energy, as well as external funding. The limits of this growth model became obvious and Belarus is in the middle of an economic rebalancing.

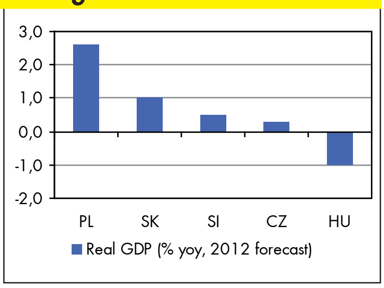
Central and Eastern Europe (CEE): The CEE region as defined previously represents 6% of world GDP (at PPP). For comparison: the Eurozone represents 15% of world GDP. CE and CIS represent the bulk of CEE's economic weight, with CE accounting for around 30% of the CEE GDP and CIS representing close to 60%. Whenever talking about CEE or the aggregates CE, SEE and CIS, one also has to bear in mind that a few large economies dominate. For instance, Poland and Romania represent roughly 50% of their respective regional GDP aggregate, while Russia accounts for 90% of GDP in the CIS region and 50% of the aggregated GDP in CEE as a whole.

Relative size CIS economies*



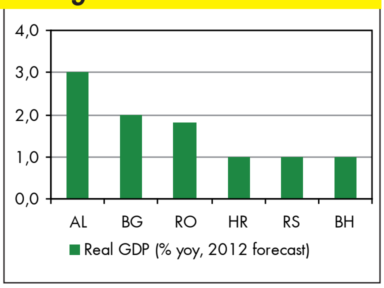
** 2010 data*
Source: National sources, Raiffeisen RESEARCH

2012 growth outlook CE



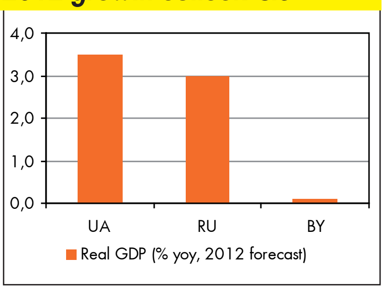
Source: National sources, Raiffeisen RESEARCH

2012 growth outlook SEE



Source: National sources, Raiffeisen RESEARCH

2012 growth outlook CIS



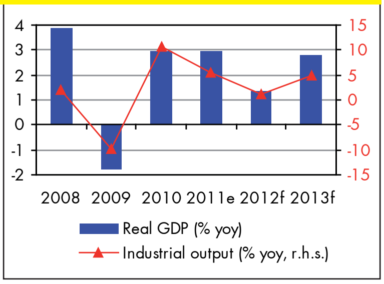
Source: National sources, Raiffeisen RESEARCH

Real GDP (% yoy)*

	2009	2010	11e	12f	13f
PL	1.7	3.8	3.9	2.6	3.5
HU	-6.7	1.2	1.5	-1.0	1.5
CZ	-4.0	2.2	1.9	0.3	2.0
SK	-4.8	4.0	3.3	1.0	3.0
SI	-8.1	1.2	1.2	0.5	1.5
RO	-7.1	-1.3	1.5	1.8	2.5
BG	-5.5	0.2	2.0	2.0	4.0
HR	-6.0	-1.2	1.0	1.0	2.5
RS	-3.5	1.0	2.0	1.0	2.0
BH	-2.9	0.7	1.9	1.0	3.0
AL	3.3	3.9	3.5	3.0	3.5
RU	-7.9	4.0	3.5	3.0	4.0
UA	-14.8	4.2	4.0	3.5	4.0
BY	0.2	7.6	6.0	0.0	3.0

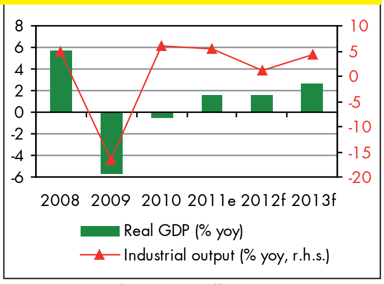
** forecasts as of 11 October 2011*
Source: National sources, Raiffeisen RESEARCH

Economic outlook CE



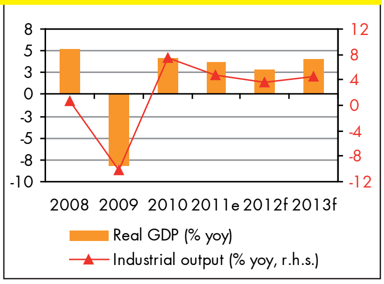
Source: National sources, Raiffeisen RESEARCH

Economic outlook SEE



Source: National sources, Raiffeisen RESEARCH

Economic outlook CIS



Source: National sources, Raiffeisen RESEARCH

Regional economic outlook

In H1 2011, CEE (still) profited from the cyclical recovery in Western Europe and, in particular, Germany, while domestic demand strengthened only very gradually. We expect GDP growth in CEE to average 3.2% in 2011. The following GDP growth is expected in the three sub-regions in 2011: CE: 3.0%, SEE: 1.6% and CIS: 3.6%. Given these expectations for 2011, it is clear that structural adjustments are still causing economic growth in SEE to lag behind that in CE and CIS. However, CEE and in particular the SEE countries gained a considerable reputation for overcoming the immediate impact of the global crisis by implementing a serious and partially painful "Washingston Consensus"-style economic restructuring either with the help of International Financial Institutions (IFIs) or self-imposed.

Macro-financial vulnerabilities in CEE decreased significantly on the back of the last slowdown and the accompanying economic restructuring. Nowadays, almost all CEE economies have current account balances (as measured in % of GDP) at sustainable single-digit levels. Fiscal deficits and public debt levels are also in check in most of the region's economies. Before the global crisis, a large number of CEE economies (especially in SEE) had been characterised by high and persistent current account deficits, which were a reflection of sizeable internal imbalances (e.g. lending booms, pro-cyclical fiscal policies, buoyant wage growth, and/or asset price bubbles). Moreover, not all of the capital imported to the region was invested in productive activities that enable the future repayment of incurred liabilities.

The current economic outlook for CEE remains challenging in light of the current weakening of economic activity in the global economy and in Western Europe in particular. We expect 2012 economic growth to average a meagre 0.2% inside the Eurozone, while the US economy should grow at a disappointing rate of 1.5%. Leading and economic sentiment indicators in CEE have already deteriorated across the board – from still low levels in some CE and SEE countries. In 2012, the CE countries will once again pay the price for their lopsided export-orientation towards Western Europe, as well as their strong position in cyclical medium-tech manufacturing industries. We expect a tangible slowdown of economic activity in CE, causing the sub-region's GDP growth to slip from 3.0% in 2011 to 1.4% in 2012. The economic recovery in SEE will be hit at a very early stage, thus capping 2012 growth rate at the level expected in 2011, namely 1.6%. The CIS economies of Russia and Ukraine will feel the global slowdown via lower commodity prices, while the economic rebalancing in Belarus is likely to continue well into 2012. As a consequence, we see the 2012 average GDP growth for the CIS region at 2.9%. Moreover, the overall CEE region is likely to remain under the scrutiny of financial markets going forward. With the exception of Russia, both external debt levels and external financing needs in relation to exports or FX reserves remain relatively high in CEE compared to other emerging markets. In fact, the current deterioration in global economic activity and external financing conditions hits a lot of CEE countries at an early stage of an economic rebalancing process that started in 2008/09.

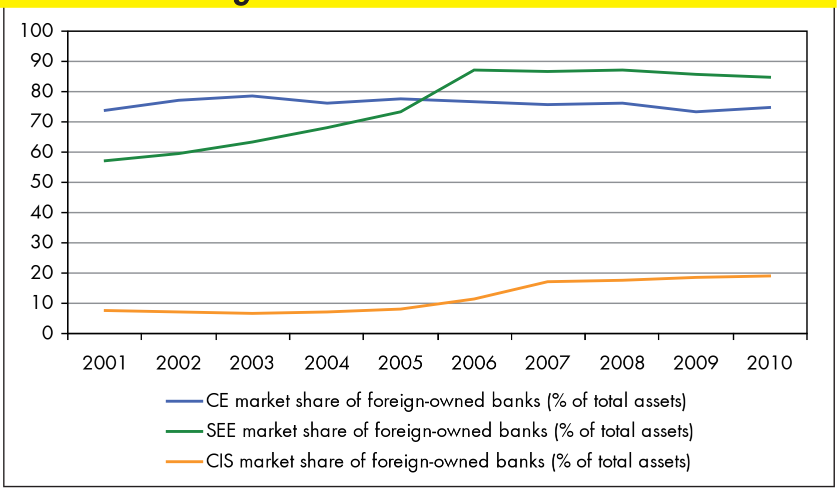
Ownership structures and market concentration

Ownership structures

In the CE region, private sector banks, mostly in foreign ownership, are a dominating force. On average, foreign ownership stands at some 75% of total assets, state ownership at 13% of total assets (2010). More or less the same pattern regarding foreign and private sector ownership can be observed in the SEE region: on average, foreign ownership in the region's banking sectors amounts to 85% of total assets, while state ownership is below 10% of total assets (2010).

However, there are remarkable country-specific divergences in CE and SEE. In Poland, the market share of banks in state ownership remains at some 20%, as measured on the basis of total assets. In Slovenia, the market share of state-owned banks increased in recent years due to state recapitalisations, but may decrease again on the back of divestment plans given the challenging fiscal position. In all other CE countries, the market share of state-owned banks in terms of total assets remains in the very low single digit percentage range. Regarding the presence of foreign banks, the banking sectors in Czech Republic, Slovakia and Hungary are dominated by foreign banks, whose market share stands at some 80-90% on the basis of total assets (2010). In contrast, local banks play a more important role in Poland (66% foreign-ownership) and Slovenia (37% foreign-ownership).

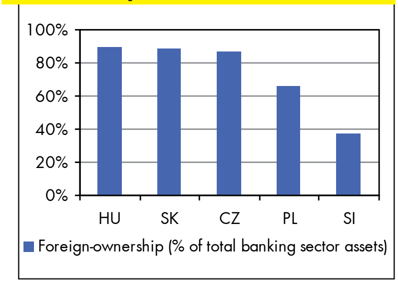
Presence of foreign-owned banks



Source: National central banks, Raiffeisen RESEARCH

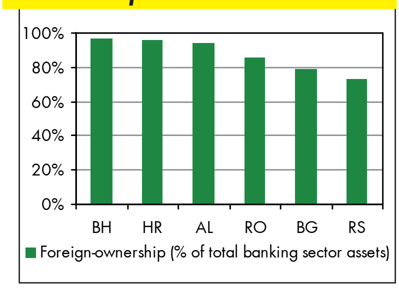
In SEE, private sector and foreign ownership structures in the banking sectors are more homogeneous. In all SEE countries – with the exception of Serbia – private sector foreign banks dominate with 80-95% of total assets, while low single digit market shares remain in the hands of state-owned banks. Only the Serbian banking sector bucks this trend, as state-owned banks there still hold some 20% of total assets and foreign banks account for "only" 73% of total assets – which is comparatively low for the SEE region.

Ownership structures CE*



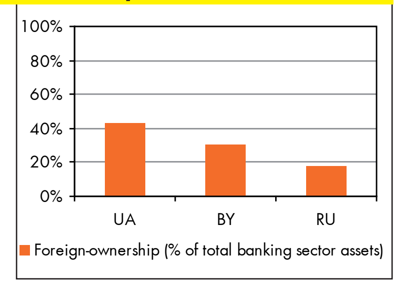
** 2010*
Source: National central banks, Raiffeisen RESEARCH

Ownership structures SEE*



** 2010*
Source: National central banks, Raiffeisen RESEARCH

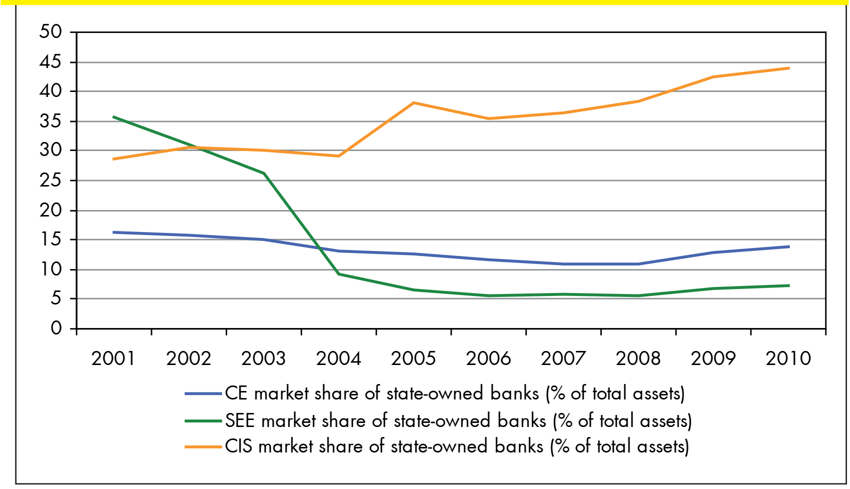
Ownership structures CIS*



* 2010
Source: National central banks, Raiffeisen RESEARCH

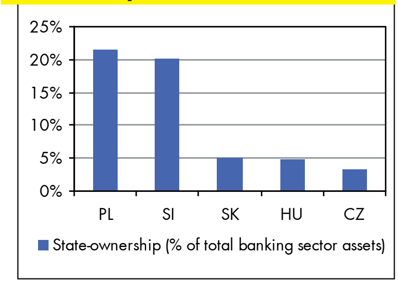
In contrast to CE and SEE, both foreign and private sector ownership is limited in the CIS banking sectors. In the CIS region, the market share of foreign banks amounts to some 20% of total assets (2010) on average, while state ownership stands above 40% (2010). However, there are strong divergences among the CIS countries. In Russia, foreign banks represent only around 18% of total assets (2010), while their share is higher in Belarus (around 30%) and, especially, in Ukraine (43%). The market share of foreign banks in Belarus increased strongly in recent years due to the expansion of (state-owned) Russian lenders. With regard to the years 2010 and 2011, this holds partially true for the Ukrainian banking sector as well. Both Russian banks and some local banks are increasing their footprint, while Western European banks remain more cautious with regard to their operations there. As a consequence, the share of total assets under foreign ownership in the Ukrainian banking sector has even decreased slightly in recent years.

Presence of state-owned banks



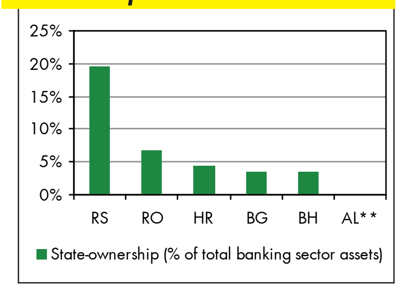
Source: National central banks, Raiffeisen RESEARCH

Ownership structures CE*



* 2010
Source: National central banks, Raiffeisen RESEARCH

Ownership structures SEE*



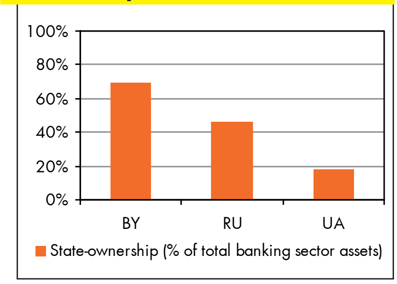
* 2010
** negligible level
Source: National central banks, Raiffeisen RESEARCH

With regard to state ownership in the banking sector, strong divergences exist within the CIS region, as well as in the region's comparison to CE and SEE. Banks in state ownership dominate the banking sector in Russia (46% of total assets in 2010) and, especially, Belarus (70%), while state ownership remains limited in Ukraine (18%). Nevertheless, state-led recapitalisations and directed lending activities in Ukraine's banking sector have increased state ownership, as measured in percentage share of the sector's total assets, from the low single-digit percentage range it had been in before 2008/09. The 46% of state ownership in Russia might appear to be at a still moderate level, but much depends on the exact definition used for directly and indirectly state-owned banks. A broad definition of state ownership would raise that share by some 10 percentage points. Nevertheless, even such a level of state ownership in Russia would not per se appear high compared with other major emerging markets (for more details please see "Focus on: Foreign and state ownership in Russia's banking sector", p.11).

All in all, foreign ownership levels in the banking sectors in CE and SEE are well above those in the Eurozone and the EU-27, as well as those in other emerging market regions. Inside the EU-27, foreign ownership in total banking sector assets amounts to some 10-12%. That average is driven mainly by the comparatively high foreign ownership of some 12% in UK's sizeable banking sector (which represents around 20% of total banking sector assets inside the EU-27), as well as by the previously mentioned high foreign ownership ratios in the ten EU countries from CEE (despite the fact that their banking sectors account for only 2% of the EU-27's banking assets). In contrast to the UK, foreign ownership levels in most other major Western European (Eurozone) countries are in the low single digit percentage range, namely some 3-10%. In emerging markets outside CEE, the respective ratios also stand at low levels, i.e. 10-15% of total assets are in foreign ownership on average. Thus, the CE and SEE region stands out in terms of foreign ownership in their banking sectors. Therefore, it goes without saying that international or EU-wide (regulatory) issues in cross-border banking are of high relevance for CE and SEE.

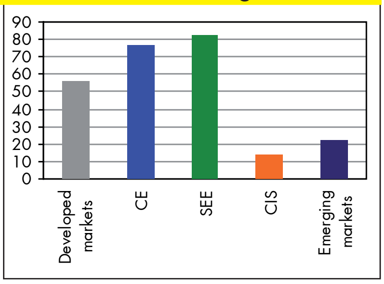
Given the already high level of private sector and foreign ownership in the hands of committed Western European banks with a strong business focus on CEE, ownership structures are unlikely to change substantially in CE and SEE. Two possible exceptions are Slovenia and Serbia, in both of which private sector banks and especially foreign banks are still somewhat underrepresented compared to other markets. Some potential to increase the share of foreign ownership (either by Western European banks or other international banks, e.g. from Russia) remains in the CIS countries Ukraine and Belarus.

Ownership structures CIS*



** 2010*
Source: National central banks, Raiffeisen RESEARCH

Cross-border banking CEE*



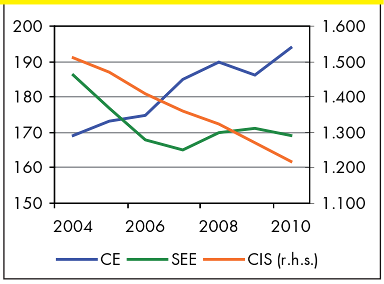
** total foreign claims (local claims + cross border claims), % of GDP, 2010*
Source: BIS, IMF, Raiffeisen RESEARCH

Market concentration

The banking markets in CE are rather concentrated. On a regional basis, the five largest banks have a country-weighted market share (in terms of total assets) slightly above 50% according to 2010 data. In most CE countries, the market concentration as measured by the market share of total assets jointly held by the five largest banks is even higher, as the CE average is lowered by the moderate market concentration in Poland, where the relevant market concentration figure is 45%. All of the other CE banking sectors are characterised by higher market concentration figures: Hungary 59%, Slovenia: 61%, Czech Republic: 63%, Slovakia: 71%. On average, SEE is characterised by an even higher market share of the Top-5 banks, namely some 58%. The banking markets in the three SEE countries Albania, Bosnia and Herzegovina and Croatia are highly concentrated, with the five largest banks in these countries holding markets shares of 70-75% of total assets. In contrast, the banking markets in Bulgaria, Romania and Serbia remain more fragmented. Here, the Top-5 banks in terms of total assets account for between 40% (Serbia) and 50% of total assets (Bulgaria, Romania). In the CIS region, the average market share of the five largest banks in terms of total assets is slightly below 50%. The respective figure for Russia is marginally above this regional average. The market concentration in Ukraine remains moderate, as the five largest banks there account for just 40% of total banking sector assets. In contrast, the Belarusian banking sector is rather concentrated, as its five largest banks have a market share of 80%.

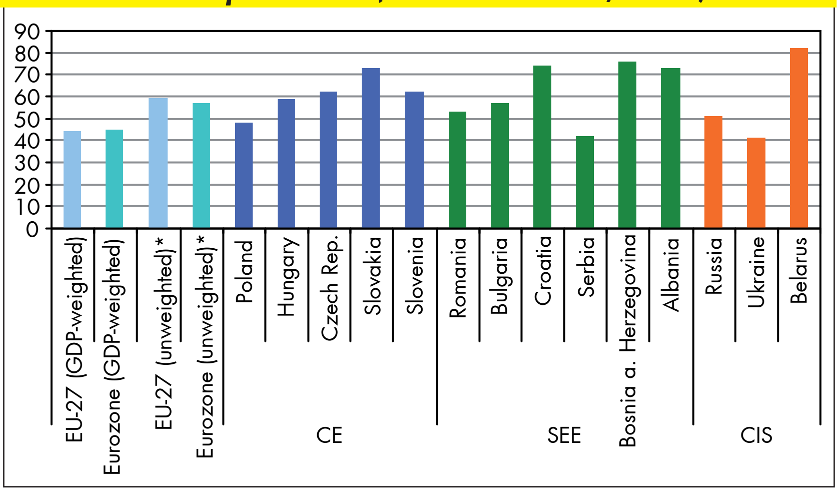
Most CEE banking markets rather consolidated

Number of banks



Source: National central banks, Raiffeisen RESEARCH

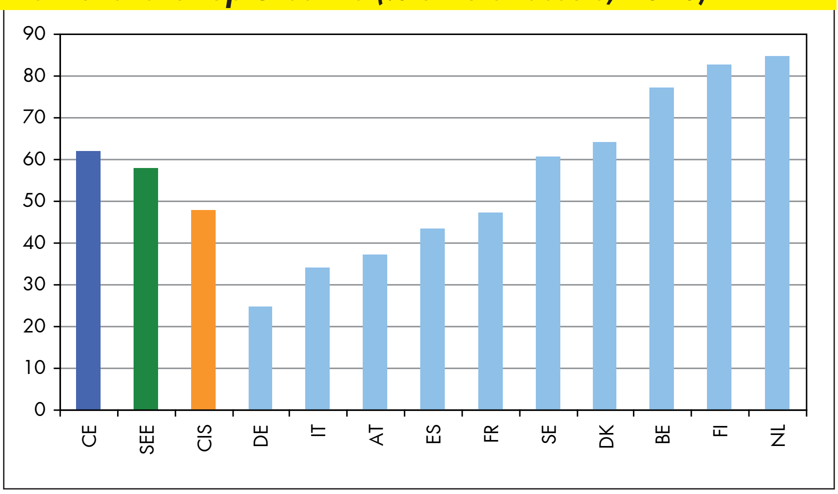
Market share Top-5 banks (% of total assets, 2010)



** Difference between weighted and unweighted average for Eurozone and EU-27 as indication of higher market shares in smaller EU/Eurozone countries*
Source: ECB, National central banks, Raiffeisen RESEARCH

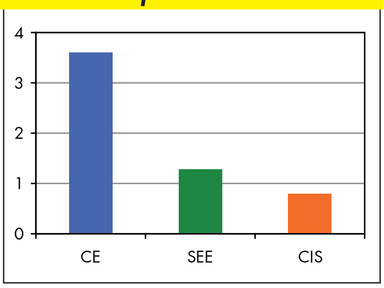
From an international perspective, the market concentration (market share of the five largest banks) remains at moderate levels in CEE. In the Eurozone, the weighted average market share of the five largest banks stands at some 44% of total assets. However, the (GDP-weighted) Eurozone aggregate masks important country-specific differences. The fact that the average market share of the five largest banks in the Eurozone is below 50% is largely driven by low concentration ratios in larger Western European banking sectors (e.g. the Top-5 banks have a market share of 25% in Germany, Italy: 34%, Spain: 42%, France: 47%; all data in terms of total assets). However, in smaller Western European banking sectors, the market share of the Top-5 banks is (well) above the readings in CEE.

Market share Top-5 banks (% of total assets, 2010)



Source: ECB, National central banks, Raiffeisen RESEARCH

Total assets per bank*

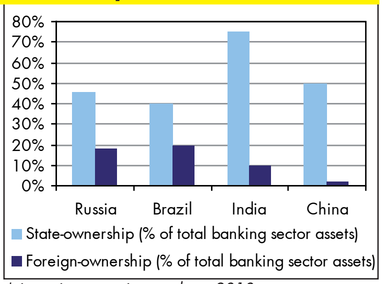


** total assets (EUR bn) divided by number of banks, 2010*
Source: National central banks, Raiffeisen RESEARCH

For instance, the market share of the five largest banks in Belgium stands at 77%-80%. In Sweden and Netherlands, the five largest banks comprise a market share of 82%-85%. Thus, there remains potential for a further consolidation in smaller CE and SEE countries, as well as in

Ukraine. Nevertheless, the banking sectors in CE are already well consolidated in terms of the number of banks. Here the relation of total assets divided by the number of banks is already close to the levels prevailing inside the Eurozone. In contrast, SEE and CIS are lagging CE in terms of banking sector consolidation measured as total assets in relation to number banks. Consequently, some potential appears to remain for further consolidation in terms of number of banks in SEE and CIS, but not per se among the five largest banks.

Ownership structures*



** in major emerging markets, 2010*
Source: National central banks, IMF, Raiffeisen RESEARCH

Focus on: Foreign and state ownership in Russia's banking sector

The low share of foreign ownership in the Russian banking sector is unique in the CEE region (with the possible exception of Belarus). However, in comparison to other major emerging markets, the low level of foreign ownership in the Russian banking sector is not so unique. The same holds true for the flip side of the low foreign ownership, the relatively high share of state ownership. In other major emerging markets, the share of (directly or indirectly) state-controlled banks amounts to some 40-80% of total assets. In fact, banks in (direct or indirect) state ownership are the core of the financial intermediation in Russia and the three other BRIC economies. The high share of state ownership reflects the role of banks as "strategic sector" within a state-led economic development and industrial policy approach. In the specific case of Russia, around 75% of all investments in strategic industries and infrastructure are currently conducted via major banks in state ownership. Moreover, given its strategic development agenda, Russia – like the other BRIC economies – currently seeks to turn some of its leading banks into international (investment) banks. As in other BRIC economies, this approach has been partially successful. For instance, Russia's VTB Capital is among the Top-5 bookrunners for bonds in Emerging Europe.

Moreover, policymakers in BRIC countries nowadays follow an international development agenda to secure their energy supply and/or strategic economic interests. Strong domestic and international banks are also essential for such purposes. In this context, the distinction between commercial and development banking sometimes becomes blurred. National policies in the BRIC countries also encourage domestic firms to invest globally, for which strong and sizeable banks are also essential. One should not forget that the high level of state ownership in their banking sector also made it easier for countries like Russia or China to embark on anti-cyclical policies in the context of 2008/09 global financial crisis. Moreover, the recent global financial crisis itself (which, in the eyes of emerging markets, had its origin in major developed economies) has further reduced the appetite in emerging markets to liberalize and open up their financial sectors. In fact, the recent and still ongoing global financial crisis has challenged the traditional view that foreign ownership in the banking sector per se delivers advantages (e.g. in terms of quality of banking services, risk management, etc.).

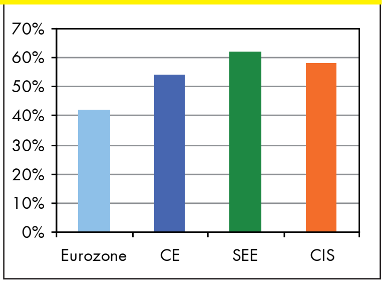
In light of all the aspects outlined above, governments in major emerging markets are unlikely to sell majority stakes in (core) state-owned banks over the medium term. This holds especially true for cash-rich emerging markets that currently have a low and rather sustainable public debt position, a group that includes Russia. In fact, state-owned Russian banks are currently heavily investing in technology and processes in order to compete with other (foreign-owned) banks on the local market. Moreover, big banks from major emerging markets like Russia are likely to make acquisitions in developed markets to gain access to foreign retail and corporate banking markets, i.e. to pursue their strategic economic interests. The acquisition of Volksbank International by Sberbank (giving Sberbank access to the banking sector in Czech Republic, Slovakia, Hungary, Slovenia, Croatia, Serbia and Bosnia and Herzegovina) provides a good example.

However, the high share of public ownership might nevertheless be somewhat more questionable in Russia than in other major emerging markets. State ownership in the banking sector seems to be a useful tool for steering economic development in countries with lower income levels. However, Russia has the highest GDP per capita among major emerging economies. Moreover, Russian banks under state control are active in all market segments, also investing heavily in international investment banking operations. To a certain extent, this creates moral hazard problems. Systemically important state-controlled banks leverage their cheap funding, an approach that runs against a tendency to separate these businesses (e.g. as shown by recent reforms in the UK). Moreover, Russian state banks price down the domestic market (especially for top-tier clients). Such a "race to the bottom" in terms of pricing can negatively impact asset quality in the aggregated banking sector. Moreover, state-controlled banks might also finance policy-motivated transactions, which can also negatively impact asset quality. In a worst case scenario, contingent liabilities for the sovereign stemming from a systemic domestic banking crisis (in emerging markets) may stand at some 10-40% of GDP.

All in all, the high share of state ownership in Russia has to be carefully watched by authorities and creates a challenging landscape for the country's banking industry. Nevertheless, the high share of government ownership in emerging markets like Russia still offers opportunities for other (possibly foreign-owned) private sector niche players. Some domestic and international clients might intentionally diversify their bank relations, i.e. having bank relations with both state-owned banks and (foreign) private sector banks as a hedge against adverse (political) developments. Thus, the increasing economic significance of major emerging countries like Russia, Brazil, India and China still offers substantial growth opportunities for smaller private sector banks, based on the sheer size of the markets involved. Moreover, given the economic rise of major emerging markets, having a presence in at least one or a number of the major emerging markets will be also essential for Western private sector banks to maintain their current client relationships and investor story. Nevertheless, securing a level playing field in terms of regulation and market access remains crucial in major emerging markets such as Russia in order to maintain a healthy competition among (foreign) private sector banks and state-owned lenders.

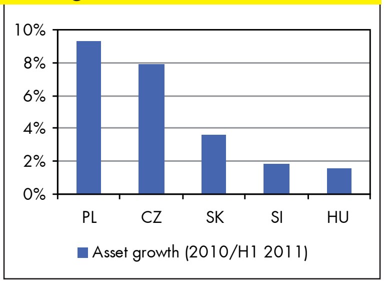
Financial intermediation

Total loans in total assets (%)*



* 2010
Source: National central banks, Raiffeisen RESEARCH

Asset growth 2010/11 CE*

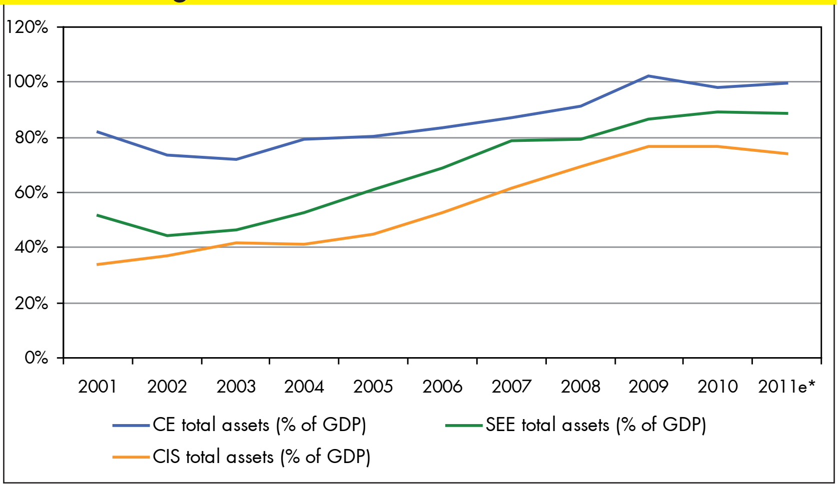


* average annualized asset growth 2010 and 2011, in EUR-terms
Source: National central banks, Raiffeisen RESEARCH

Banking activity in CEE is dominated by traditional banking (i.e. providing loans and collecting deposits). The share of loans in total banking assets in CEE amounts to 57% according to 2010 data. The respective ratio of total loans to total assets in the three CEE subregions stands at 56% in CE, 63% in SEE and 56% in the CIS region (2010 data). While there are a few deviations from the regional averages on a country level, the share of total loans in total banking assets in all CEE countries remains above 50%. Traditional lending activity thus plays a more prominent role in CEE than in the Eurozone, where the ratio of total loans to total assets stands at 43% and has remained more or less flat over the last 5-10 years.

However, the average Eurozone loan-to-asset ratio masks substantial deviations and diverging trends in the Eurozone's four major economies and banking sectors, namely those of Germany, France, Italy and Spain (these collectively account for 70-75% of Eurozone banking sector assets). For instance, the loan-to-asset ratio in Germany decreased from around 53% in 1997 to 41-43% in 2008/09. In France, the loan-to-asset ratio decreased from some 35% to a level closer to 30% (from 1997 to 2008/09). In contrast, the loan-to-asset ratio in countries like Italy, Spain and Portugal increased in recent years or at least stayed constant, well above the 50% level. Thus, looking at the Eurozone average of 43% might lead one to wrong conclusions regarding the possible medium-term loan-to-asset trend in CEE. The current loan-to-asset ratio of 57% in CEE does not look very high compared to some more developed Western European financial sectors. The loan-to-asset ratio drops in some bigger Eurozone economies like Germany or France over the last decade are unlikely to be sustained given the ongoing restructuring in both countries' banking sectors.

Total banking sector assets



* 2011 estimate based on H1 2011 trends
Source: National central banks, Raiffeisen RESEARCH

The loan-to-asset trends outlined above also imply that assets other than those involved in the traditional loan business -- namely, assets such as private and/or public bonds, equities and other securities – are not likely to play a very significant role in nearly all CEE banking sectors from a medium-term perspective. The only exceptions are some SEE and CIS countries (like Croatia, Bulgaria and Ukraine), where the ratio of total loans to total assets remains at rather high levels above 70%, as well as Poland and Russia, both of which still offer potential for deepening the overall financial markets (i.e. bonds, equities, other securities).

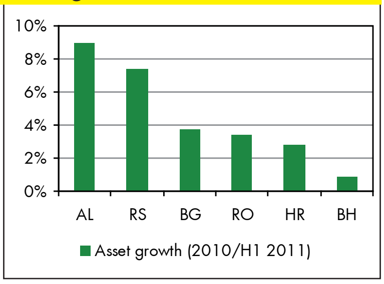
Recent asset growth dynamics

Looking at most recent asset-to-GDP ratios, the CEE region was characterised by a downtrend or, at best, stagnation in 2009 and 2010. Assets in relation to GDP decreased from 102% (2009) to 98% (2010) in CE. The respective ratio stagnated in SEE at 87-89% in 2009 and 2010, while in the CIS region the asset-to-GDP ratio stagnated at 76-77% in 2009 and 2010. Some banking markets in CEE (Hungary, Slovakia, Slovenia, Bosnia and Herzegovina, as well as Ukraine) were even characterised by a shrinking asset base in absolute terms (either in EUR-terms or in both EUR and LCY-terms). However, there were also CEE countries whose banking sector assets posted noteworthy gains in 2009 and 2010: Poland, Czech Republic, Serbia, Albania, Russia and Belarus. These countries not only account for almost half of the 14 banking sector markets covered in this report, they also represent 70-75% of banking sector assets in the CEE region.

The asset-to-GDP situation improved in H1 2011. Assuming that current trends in asset growth will be sustained, total asset growth in 2011 may come in at some 7-9% yoy in EUR-terms in CE, 2-4% yoy SEE and around 5-6% yoy in the CIS region (+5% yoy in Russia following a 23% yoy increase in 2010 in EUR-terms). Nevertheless, current asset growth remains well below pre-crisis levels in all CEE countries.

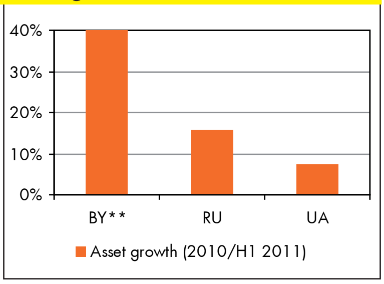
As of H1 2011, the volume of total banking sector assets in CE amounted to some EUR 726 bn, while total assets in SEE amounted to EUR 228 bn and EUR 985 bn in the CIS region. As an aggregate, the total banking sector assets in CEE amounted to some EUR 1,940 bn as of H1 2011, which corresponds to about 5.5% total banking sector assets in the Eurozone. In contrast, the nominal GDP of the CEE region stands at some 24% of the Eurozone. Consequently, asset-to-GDP ratios in CEE remain far below the current Eurozone average of some 330% of GDP. The financial sector in CEE obviously has potential left for catching up and remains a growth market for the banking industry in absolute and relative terms. This is likely to be all the more true as nominal and real GDP growth in all CEE countries is set to outpace the respective values in major Western European economies. However, in some CEE countries the level of financial intermediation has already increased sharply in recent years. In a number of CE countries, as well as in some SEE and CIS countries (such as Croatia, Bulgaria, Ukraine or Belarus all with asset-to-GDP ratios in the 85-115% range), the current level of financial intermediation appears to be high compared to the stage of economic development. For instance, asset-to-GDP ratios in other emerging markets outside CEE (some of which have a higher income level than CEE countries with a higher asset-to-GDP ratio) stand at some 66%-75% of GDP.

Asset growth 2010/11 SEE*



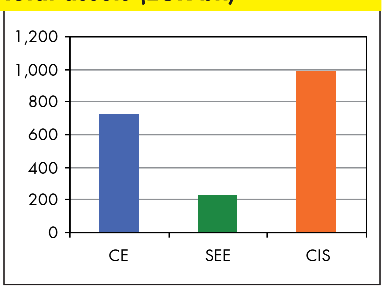
* average annualized asset growth 2010 and 2011, in EUR-terms
Source: National central banks, Raiffeisen RESEARCH

Asset growth 2010/11 CIS*



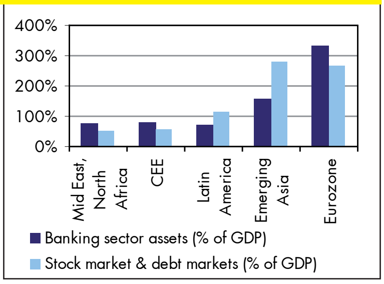
* average annualized asset growth 2010 and 2011, in EUR-terms
** BY in LCY-terms (FCY-reading would be negative)
Source: National central banks, Raiffeisen RESEARCH

Total assets (EUR bn)*



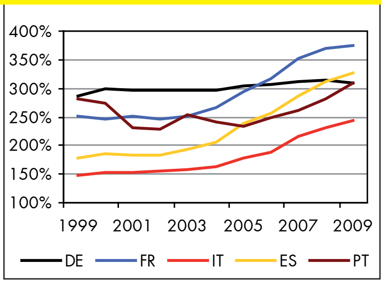
* H1 2011
Source: National central banks, Raiffeisen RESEARCH

Financial intermediation*



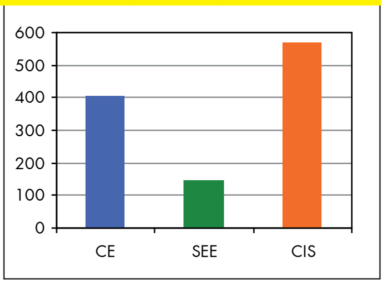
* 2010
Source: National central banks, IMF, Raiffeisen RESEARCH

Eurozone trends*



* total assets (% of GDP)
Source: ECB, Raiffeisen RESEARCH

Total loans (EUR bn)*



* H1 2011
Source: National central banks, Raiffeisen RESEARCH

Regarding the long-term prospects in the CEE banking markets in relation to the Eurozone, one must point out that the recent round of banking sector expansion in Western Europe and since the foundation of the Eurozone in particular is unlikely to be sustained. The asset-to-GDP ratio for the Eurozone increased from 230% in 1997 to slightly above 330% in 2008/09. Sharply rising asset-to-GDP ratios were observable in nearly all Eurozone banking sectors throughout the past decade. However, the current Eurozone aggregate in terms of assets-to-GDP might not be a suitable benchmark for the CEE banking sectors. A great deal of the expansion in the major Eurozone banking sectors during the last decade was based on unsustainable business lines outside the traditional lending business. Moreover, the banking sectors in bigger Eurozone countries like Spain were also characterised by steep increases in traditional lending that are unlikely to be sustained (e.g. household loans in Spain increased from some 10% of GDP in the late 1990ies to over 20% of GDP in 2009, mortgage loans from 20% of GDP in the late 1990ies to around 60% of GDP in 2009/10). Western European banks have already indicated that they intend to run down or sell at lot of assets they now regard as non-core or non-strategic. In fact, a certain banking sector deleveraging in the Eurozone is already well reflected in most recent banking sector data. Independent sources, such as IFIs or financial auditors, expect this trend to continue for at least another ten years.

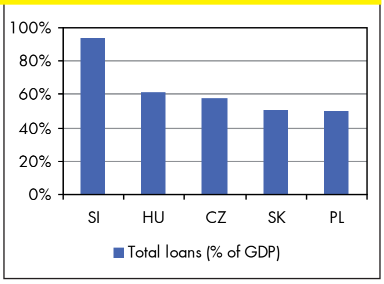
Lending structures and lending trends

As of H1 2011, total loans in CE amount to some EUR 400 bn, while lending in SEE totals some EUR 145 bn and EUR 570 bn in the CIS region. The total loan volume across the entire CEE region amounts to some EUR 1,120 bn, which corresponds to about 7.5% of total loans inside the Eurozone. In contrast, as previously mentioned, the CEE region's nominal GDP stands at some 24% of the Eurozone. Loan-to-GDP ratios thus also indicate a significant catching-up potential for the CEE banking sectors. However, it is difficult to address the long-term loan growth outlook in CEE on the basis of such considerations, which mostly reflect the overall lending stock as well as current Eurozone averages. Firstly, once again the Eurozone average (primarily driven by Germany, France, Italy and Spain) masks several important structural features. Secondly, as will be shown later within this report in the chapter covering the "Long-term loan growth outlook" (pp. 24-29), the Eurozone might not be the ideal benchmark for all CEE countries (at least over the next decade).

All in all, lending in CEE is focused on consumer and corporate lending. Total household lending (consumer loans + household loans) in CEE represents 37% of total lending or some 18% of GDP. Corporate lending represents the bulk of the remainder and currently corresponds to around 30% of the region's GDP. Financing of the public sector via the banking system is very limited in CEE. However, there are certain differences across the CEE regions. In CE, household lending represents around 56% of banks' overall loan portfolio, or some 30% of the regional GDP aggregate. In SEE, household lending accounts for 42% of overall bank lending, or around 24% of the regional GDP aggregate. Household lending activity in the CIS region represents slightly above

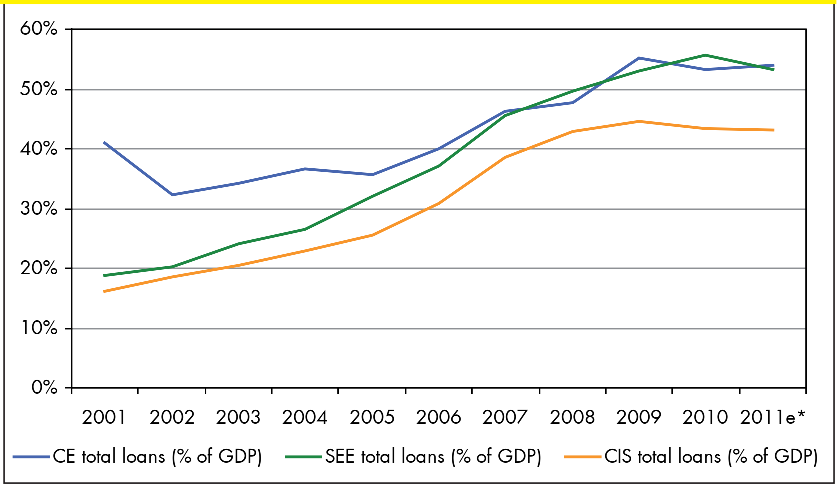
20% of all lending activity or 10% of the CIS region's GDP. However, as usual there are huge country-specific divergences within the three CEE sub-regions. In Poland and Hungary, the share of household lending in their banking sectors' total loans volumes is well above or at least at the regional CE average of 56%, while the share of household lending in Czech Republic, Slovakia and, in particular, Slovenia (23%) remains below the CE regional average. In the SEE countries Romania, Croatia and Bosnia and Herzegovina, the share of household lending in total lending is above or at the SEE regional average of 43%, while household lending shows below-average readings in Bulgaria, Serbia and Albania. In the CIS region, household loans as percentage of total loans are centered around the regional average of some 24% in all countries, with a slightly above-average reading in Ukraine.

Total loans CE*



** 2010*
Source: National central banks, Raiffeisen RESEARCH

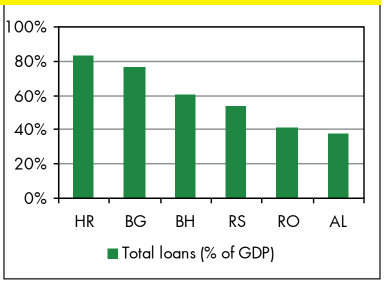
Total loans



** 2011 estimate based on H1 2011 trends*
Source: National central banks, Raiffeisen RESEARCH

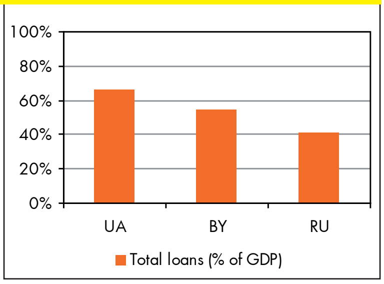
For most CEE countries (with the possible exception of Poland and Hungary), the shares of total household lending as part of overall lending are below the respective readings inside the Eurozone, where household and corporate lending each account for around 50% of total loans. Thus, at first sight there appears to be some potential for CEE to catch up in (total) household lending, though not per se in corporate lending. However, a closer look at the Eurozone averages shows that around 70% of the overall household lending (representing 40% of the Eurozone GDP and 37% of total loans) is concentrated in the segment of mortgage lending. Hence, inside the Eurozone banking sectors, the remaining household and consumer lending (excluding mortgages) represents just some 10-15% of total lending (or 16% of the Eurozone GDP). However, unlike in the Eurozone, mortgage lending remains largely underdeveloped in CEE, where it amounts to just 8% of GDP, i.e. one-fifth of the share mortgage lending holds in the Eurozone GDP. Consequently, a lot of potential to develop longer-term mortgage lending in CEE remains. On the flip side, the fact that CEE's penetration in terms of mortgage lending is low, while overall household lending is already close to the levels prevailing inside the Eurozone, implies that other household lending (e.g. consumer loans) have already a relatively high importance in CEE. In some CEE markets,

Total loans SEE*



** 2010*
Source: National central banks, Raiffeisen RESEARCH

Total loans CIS*

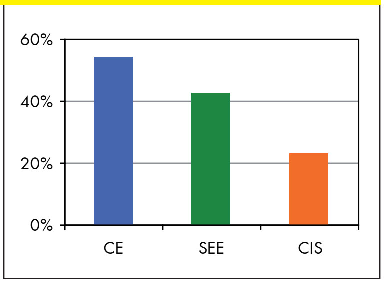


* 2010
Source: National central banks, Raiffeisen RESEARCH

the household lending penetration is even above the levels inside the Eurozone. For example in Poland, Slovenia, Bulgaria, Croatia, Romania and Ukraine household lending in relation to GDP (excluding mortgage lending) is already at or even above the household-lending-to-GDP ratios (excluding mortgages) inside the Eurozone. Please note: This already holds true when looking at nominal loan volumes in relation to GDP. If you were to compare household lending (excl. mortgages) to GDP per capita levels at lot of CEE markets would even look more saturated. This holds especially true in the SEE region. All in all, in markets like Poland, Slovenia, Bulgaria, Croatia, Romania and Ukraine – where household lending (ex mortgages) already amounts to 10-20% of GDP – the segment of household lending currently looks less attractive than mortgage lending and possibly other market segments like corporate lending.

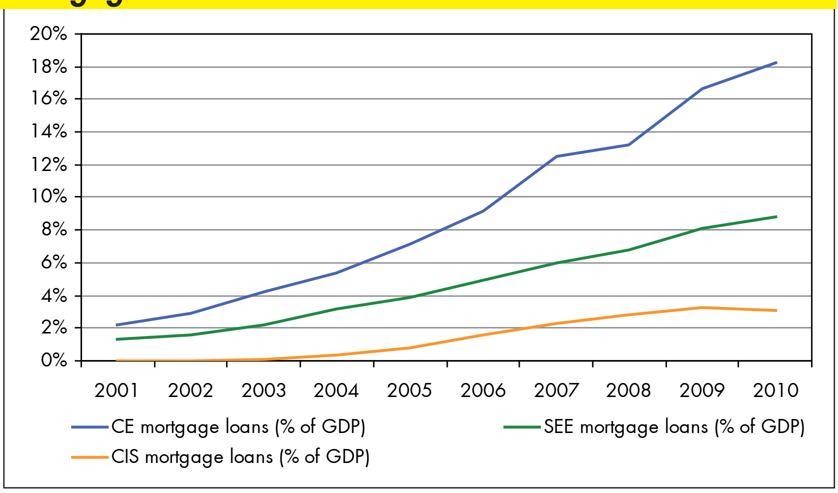
Given the relationships outlined above, growth opportunities in corporate lending in CEE might be higher than implied by the current share of corporate lending in the region's total lending: comparing the stock of corporate lending to GDP, the CEE region looks largely underpenetrated at a level of 30% of GDP. Once again, certain differences exist across the CEE regions in this regard. In CE, corporate lending stands at 23% of GDP, while it accounts for some 28% of GDP in SEE and the stock of corporate loans in all three CIS countries stands at or above the regional CEE average of 30% (in GDP terms). Accordingly, there appears to be enough potential left with regard to corporate lending in CEE, which remains well below the importance corporate lending holds in the Eurozone's bigger financial sectors (40-70% of GDP).

Household loans (% of total)*



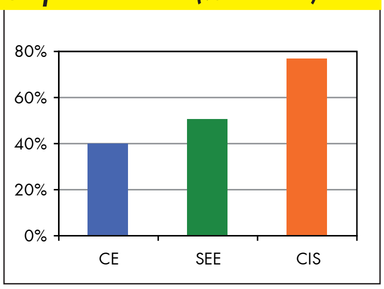
* 2010
Source: National central banks, Raiffeisen RESEARCH

Mortgage loans



Source: National central banks, Raiffeisen RESEARCH

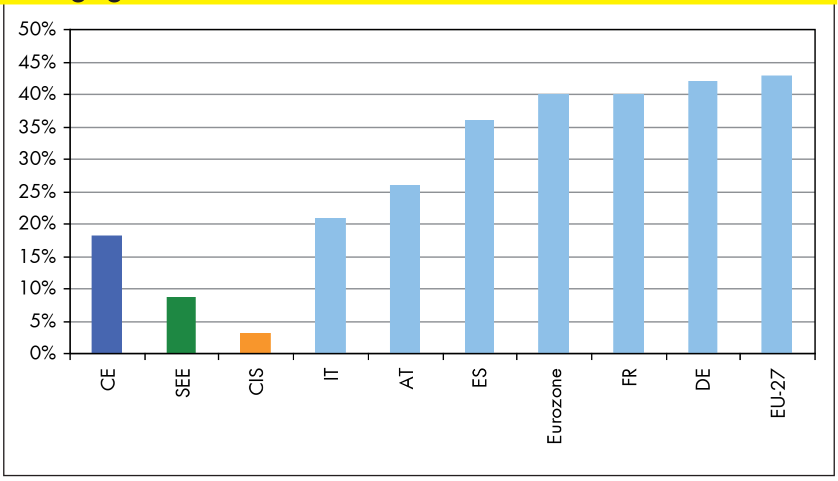
Corporate loans (% of total)*



* 2010
Source: National central banks, Raiffeisen RESEARCH

However, there are stark differences in CEE regarding the corporate loan stock in relation to GDP. The Slovene corporate sector looks overleveraged with a stock of corporate lending that stands at 70% of GDP. In all other CE economies, corporate loans remain in a lower range of 16-28% of GDP. In SEE, Bulgaria has a relatively high corporate lending stock (50% of GDP), while corporate lending in all other SEE economies remains in the range of 20-30% of GDP. In the CIS region, Ukraine and Belarus show a relatively high volume of corporate lending (40-47% of GDP), while corporate lending in Russia stands at moderate 30% of GDP.

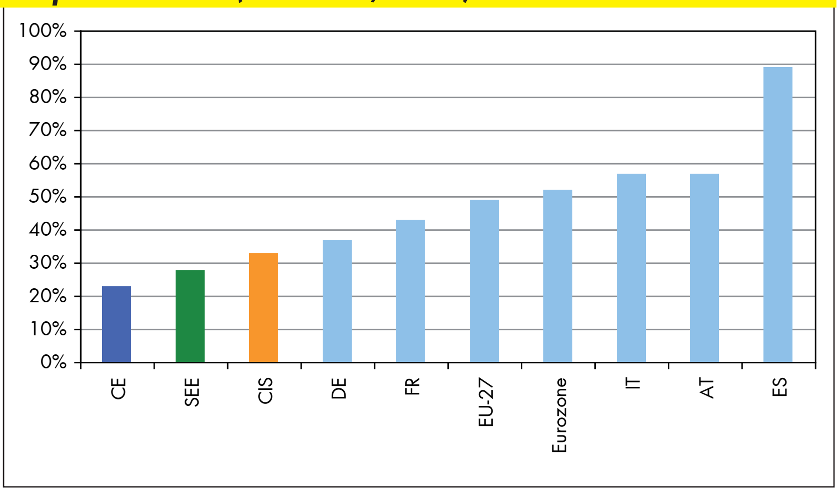
Mortgage loans (% of GDP, 2010)



Source: ECB, national central banks, Raiffeisen RESEARCH

Catch-up potential in mortgage lending

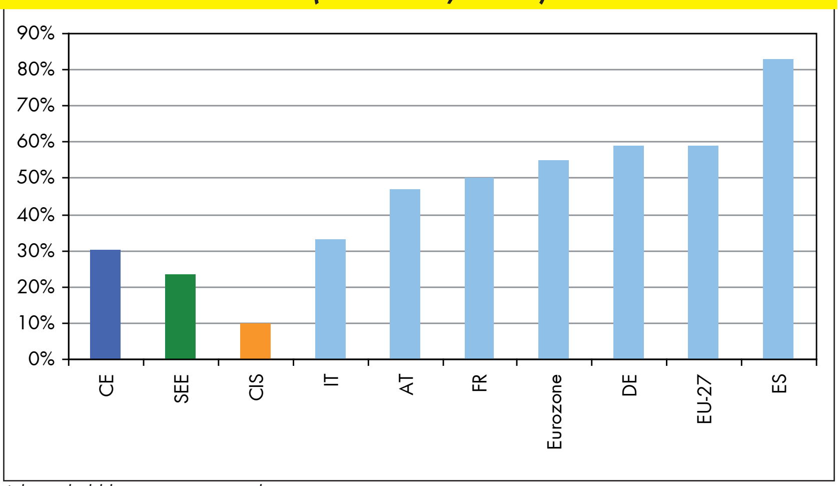
Corporate loans (% of GDP, 2010)



Source: ECB, national central banks, Raiffeisen RESEARCH

Certain catch-up potential in corporate lending

Total household loans (% of GDP, 2010)*



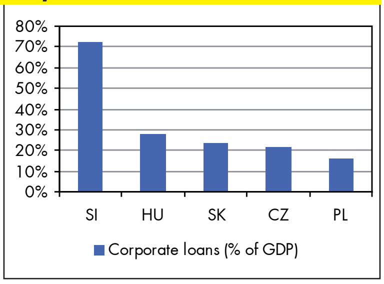
* household loans + mortgage loans

Source: ECB, national central banks, Raiffeisen RESEARCH

At first sight catch-up potential in household lending...

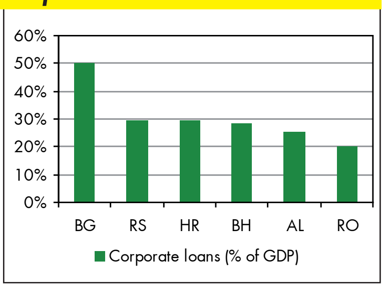
... but high penetration in household lending (excl. mortgages) in CE & SEE

Corporate loans CE*



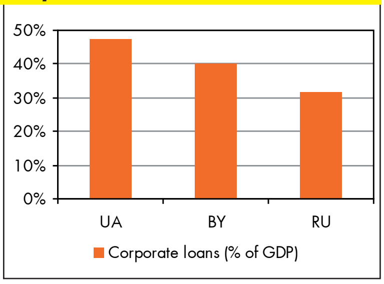
* 2010
Source: National central banks, Raiffeisen RESEARCH

Corporate loans SEE*



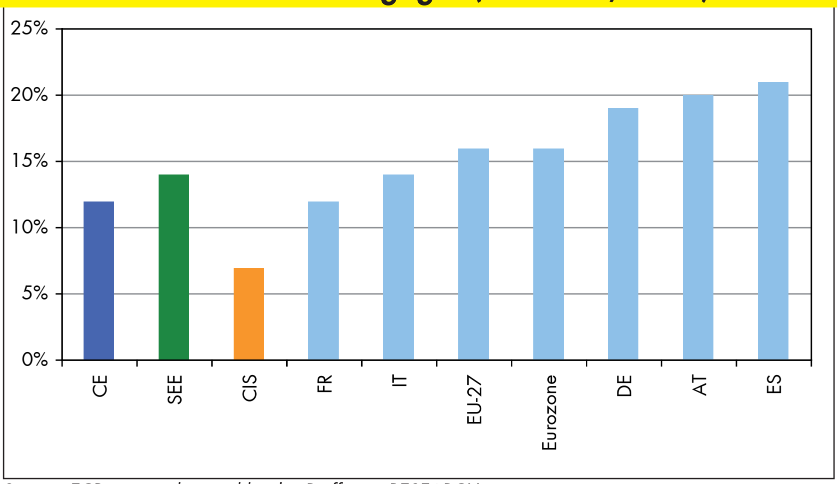
* 2010
Source: National central banks, Raiffeisen RESEARCH

Corporate loans CIS*



* 2010
Source: National central banks, Raiffeisen RESEARCH

Household loans excl. mortgages (% of GDP, 2010)



Source: ECB, national central banks, Raiffeisen RESEARCH

The relations outlined above indicate an untapped growth potential in corporate lending in most CEE countries, a claim that cannot be made about retail lending in all CEE countries. However, one should not be excessively optimistic with regard to the longer-term outlook for corporate lending. In smaller CEE economies whose corporate sector is dominated by foreign-owned banks and companies (large multinationals), corporate lending is unlikely to reach the percentage shares (i.e. 40-70% of GDP) it holds in the biggest Eurozone economies, which are the main investors in most CEE countries. A lot of multinational companies active in CEE do not (fully) refinance locally and with local banks.

As already presented in the previous section on asset-to-GDP relations in the Eurozone and CEE, some caution is also warranted when comparing the ratios for total loan volumes compared to GDP in CEE with Eurozone averages. In the Eurozone, loans-to-GDP currently stand at some 140%, while the comparable ratios in the CEE subregions remain well below 100%. In CE, loans-to-GDP stand at some 53%, slightly below the SEE's 56% but significantly above the 43% level the CIS region attained in 2010. However, here too the current Eurozone average might not be a suitable benchmark, as some elements of recent Eurozone banking sector trends might not be sustainable. In fact, the loan-to-GDP ratio in the Eurozone increased from around 100% in 1997 to 140% in 2009, with that increase particularly pronounced in some (larger) banking sectors. For instance, in France loans-to-GDP increased from 85% (1997) to 122% (2009), in Italy the ratio rose from 72% to 122% and in Spain it more than doubled from 83% to 187%. For this reason, the current average Eurozone loan-to-GDP ratio might not be a suitable benchmark. Instead, the 100% ratios some Eurozone countries posted in the 1990's might be a more realistic medium-term benchmark for most CEE economies, regardless whether they are inside the EU (with the option to enter the Eurozone) or (still) outside the EU. Such a more cautious growth and convergence outlook in the banking sector should apply especially to CEE countries in which loan-to-GDP ratios have already approached levels very close to such benchmarks, namely Slovenia (94% in 2010), Croatia (83%), Bulgaria (78%) and Ukraine (76%). There are also some other aspects warranting a more cautious stance regarding the medium- to longer-term banking sector growth outlook in CEE, including deposit constraints or lending trends in other emerging markets in particular, which will be dealt with in the chapter "Long-term loan growth outlook" (pp. 24-29).

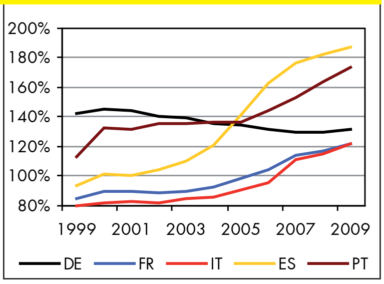
Recent lending dynamics

Pre-crisis lending growth (i.e. in the years 2005-08) was in the high double-digit percentage range in all CEE sub-regions. In 2009, loan growth turned negative (as measured in either EUR-terms or in LCY- and EUR-terms) in CIS and SEE and decreased to low single digit growth rates in CE. The year 2010 was characterized by a subdued loan growth expansion in all regions. In CE, loans grew by 9.3% in EUR-terms (6.5% in LCY-terms), by 5.5% in EUR-terms in SEE (7.8% in LCY-terms) and by some 20.8% in EUR-terms (14.1% in LCY-terms) in the CIS region.

However, the regional aggregates mask very heterogeneous developments on the country level. In CE, lending growth remained at a rather high level in Poland in 2010 (up 13.1% yoy in EUR-terms, 8.9% in LCY-terms), while other countries like Hungary or Slovenia were characterized by subdued loan expansion (up 3.2% and 1.7%, respectively). In 2010, loan growth was very sluggish in Romania, Bulgaria and Bosnia and Herzegovina (up 3.4%, 2.7% and 3.4% in EUR-terms, respectively), while the three other SEE countries Croatia, Serbia and Albania posted a more dynamic loan growth (7.1%, 15.4% and 8.5% in EUR-terms, respectively). However, the rather strong loan expansion that took place in Croatia and Serbia in 2010 can be largely attributed to one-off government-sponsored support schemes. In the CIS region, lending in 2010 picked up strongly in Russia (up 23.6% in EUR-terms, 12.6% in LCY-terms), continued to remain excessive in Belarus (up 44% in EUR-terms, 41% in LCY-terms), while continuing to remain subdued in Ukraine (up 0.9% in LCY-terms, 8.3% in EUR-terms).

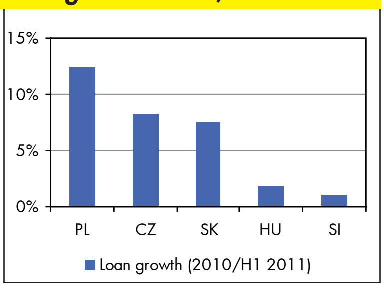
Data for H1 2011 indicate a sluggish uptick of lending activity in CEE. This holds especially true for those countries in which 2010 had been a tough year (e.g. Hungary, Slovenia and Ukraine). Assuming that current lending trends could be more or less sustained, loan growth in EUR-terms for the full year 2011might come in at around 9.5% in CE, 7% in SEE and roughly 13% in the CIS region (all figures in EUR-terms). However, intraregional developments continued to be very heterogeneous in H1 2011. In the CE countries Poland, Czech Republic and Slovakia, lending activity increased at rather healthy levels of 3-5% year-to-date, while it continued to stagnate in Hungary and Slovenia. Lending also more or less stagnated in the SEE markets Romania, Bulgaria and Croatia; however, Serbia, Bosnia and Herzegovina, and Albania experienced more dynamic lending activity. Regarding the CIS countries, loan expansion continued at decent levels in Russia, while it contracted once again in Ukraine. In LCY-terms, Belarus again experienced unsustainably high loan expansion in H1 2011, while the negative loan growth reading in FCY-terms for the first six months of 2011 is driven by the BYR's sharp devaluation in recent months

Eurozone trends*



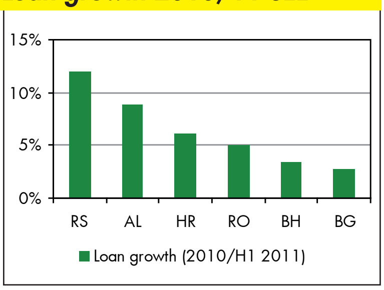
* total loans (% of GDP)
Source: ECB, Raiffeisen RESEARCH

Loan growth 2010/11 CE*



* average annualized loan growth 2010 and 2011, in EUR-terms
Source: National central banks, Raiffeisen RESEARCH

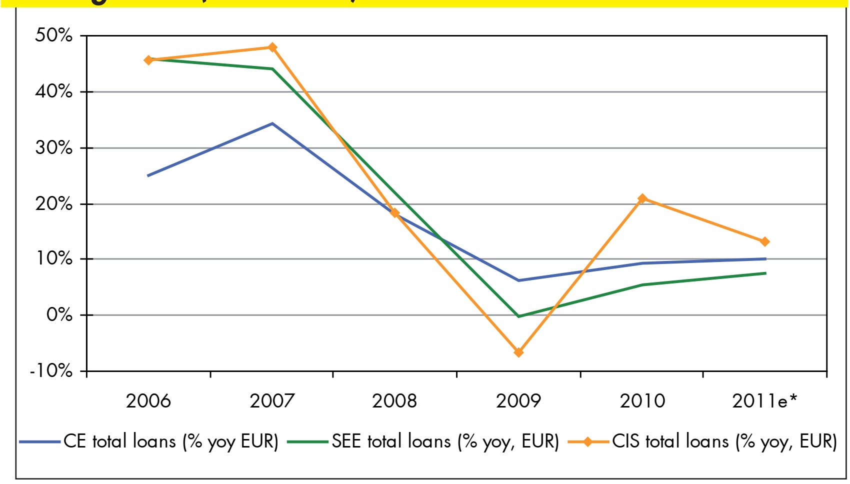
Loan growth 2010/11 SEE*



* average annualized loan growth 2010 and 2011, in EUR-terms
Source: National central banks, Raiffeisen RESEARCH

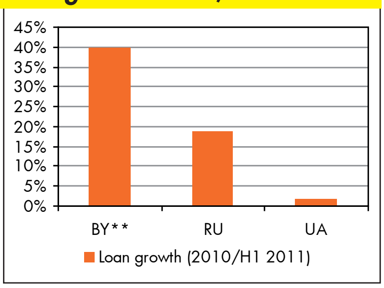
Loan growth returns in CEE

Loan growth (total loans)



** 2011 estimate based on H1 2011 trends*
Source: National central banks, Raiffeisen RESEARCH

Loan growth 2010/11 CIS*

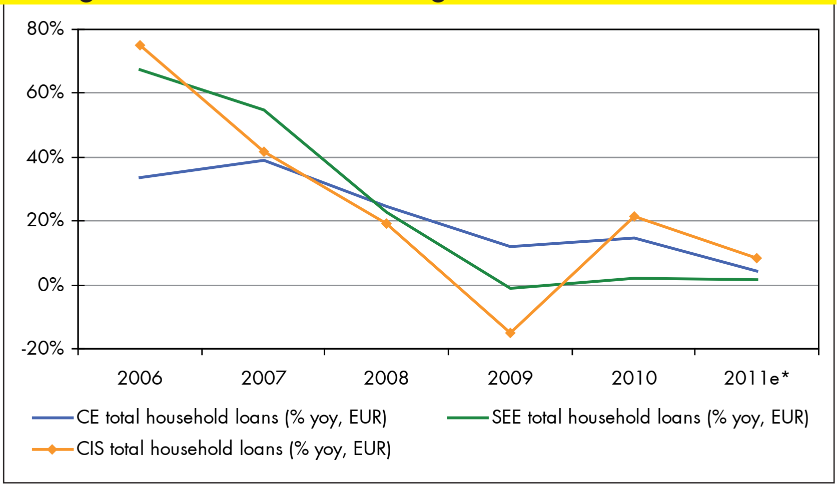


** average annualized loan growth 2010 and 2011*
*** BY in LCY-terms (FCY-reading would be negative)*
Source: National central banks, Raiffeisen RESEARCH

During the pre-crisis period 2005-08, the growth rate for retail lending clearly outpaced that for corporate lending in all CEE regions. On average, household lending in CE increased at an annual rate of 30% (in EUR-terms) in the years 2005-08, while corporate lending grew by 15-17%. During the same period, household lending in SEE increased at an average annual rate of 45-50% (in EUR-terms), while corporate lending grew by 30% each year on average. In CIS, the respective figures were 45% for household lending and 35% for corporate lending. With the exception of the CIS region, the average annual increases posted 2005-08 in LCY do not differ much from the increases in EUR-terms (household lending in CIS grew by an average annual rate of 58%, while the respective figure for corporate lending was 46% in LCY-terms). The 2005-08 growth rates in all CEE sub-regions clearly reflect an overheating. The overheating was very strong in the segment of household lending, particularly in SEE, where household lending (excluding mortgages) now accounts for a rather sizeable share of bank lending (i.e. 15-20% of GDP). For this reason, it seems highly likely that household lending in CEE will be marked by greater moderation going forward.

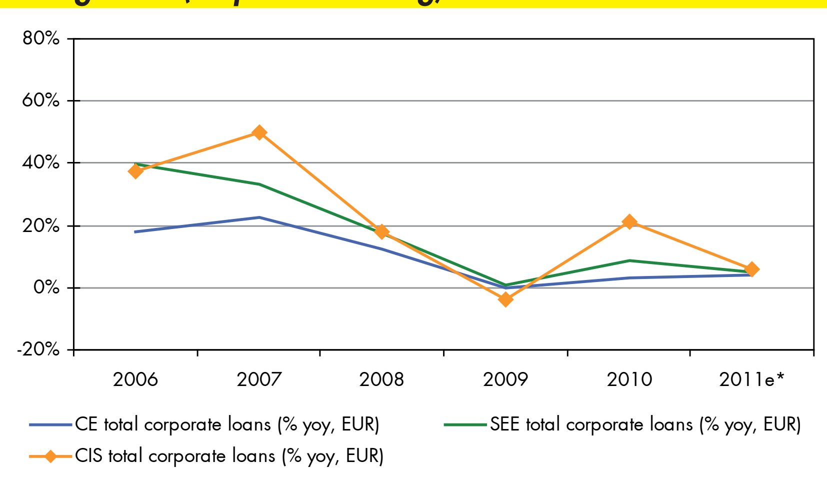
Comparing the business segments of household and corporate lending, current lending activity is clustered in the segment of corporate lending. The corporate sector in CEE still profits from the cyclical recovery posted by the Eurozone and the broader world economy in 2010 and H1 2011, while domestic drivers remained more subdued in most CEE economies. In H1 2011, corporate lending activity increased at a faster pace than retail lending in nearly all CEE regions. In CE, corporate lending increased by 4.3% year-to-date, compared to 4.1% for household lending. In SEE, corporate lending increased by 5.7%, while household lending increased by 1.6% year-to-date. The CIS region (on aggregate) currently shows some divergent developments, with corporate lending (5.7% year-to-date) increasing at a slower pace than household lending (8.3% year-to-date). However, here too, the regional figure masks huge country-specific divergences. Russia was the only CIS country in which corporate lending increased at a slower pace than household lending in H1 2011 (7.4% and 11.3% year-to-date, respectively). In contrast, corporate lending grew at a stronger pace than household lending in Ukraine (a gain of 0.6% year-to-date – compared to a decline of 8.2% year-to-date in houshold lending). In Belarus, corporate and household lending remained at unsustainably high levels during H1 2011 (corporate lending up 40-45% year-to-date, household lending up 25-30% year-to-date in LCY-terms).

Loan growth (household lending)



** 2011 estimate based on H1 2011 trends*
Source: National central banks, Raiffeisen RESEARCH

Loan growth (corporate lending)



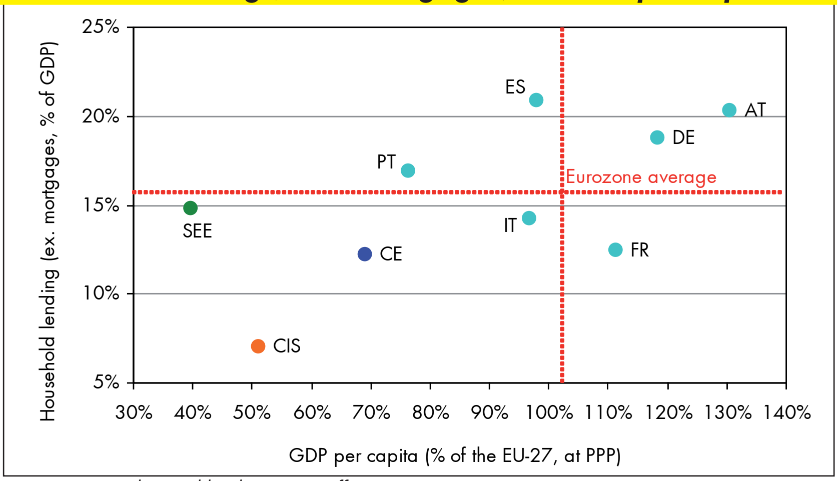
** 2011 estimate based on H1 2011 trends*
Source: National central banks, Raiffeisen RESEARCH

Corporate lending currently outpaces household lending

The current momentum in corporate lending is likely to fade away, particularly in CE and SEE. While some of the decreasing momentum in corporate lending might be compensated by increasing activity in household lending, this effect should not be overestimated given the prevailing weak domestic economic backdrop in nearly all CE and SEE economies, as well as the outlined lending structures (i.e. very strong expansion in retail lending 2005-08).

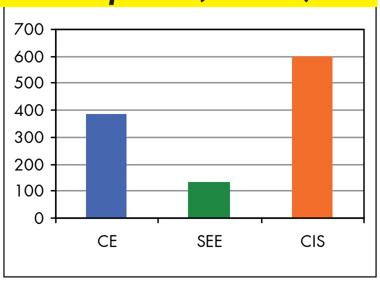
Not all CEE markets underpenetrated in terms of household lending (excl. mortgages)

Household lending (excl. mortgages) vs. GDP per capita



Source: National central banks, ECB, Raiffeisen RESEARCH

Total deposits (EUR bn)*



* *H1 2011*

Source: National central banks, Raiffeisen RESEARCH

Deposits

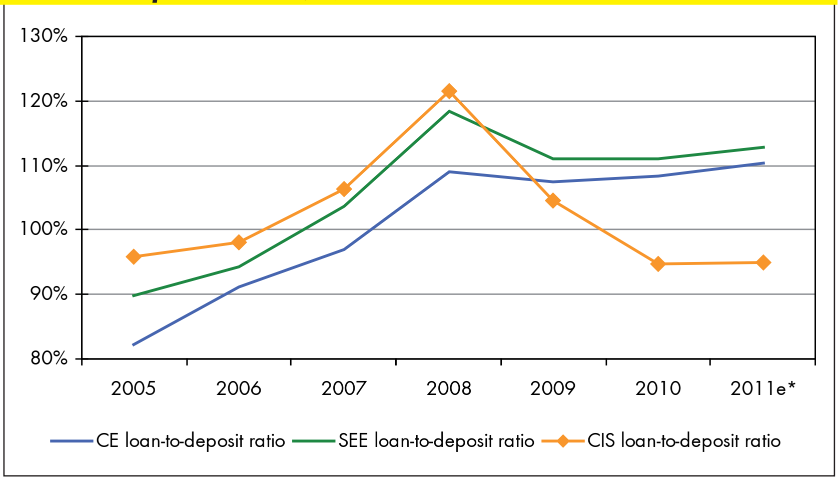
As of H1 2011, total deposits in CE amounted to some EUR 385 bn, while the total deposit base amounted to around EUR 133 bn in SEE and to roughly EUR 600 bn in the CIS region. The overall deposit base in the CEE region as a whole stands at EUR 1,120 bn, corresponding to about 8% of total deposit base inside the Eurozone. Similar to the situation regarding CEE's assets and loan stock, the deposit base in the region remains relatively small in relation to GDP. In CE, total deposits stand at 50% of GDP according to 2010 data. In SEE and CIS, the relevant figures are 51% and 46%, respectively. In contrast, total deposits inside the Eurozone amount to some 120% of GDP (while the loan-to-deposit ratio inside the Eurozone stands at some 115%).

In pre-crisis times (2005-08), lending growth continuously outpaced deposit growth in nearly all CEE markets. On average, total deposits in CE increased by 16-17% between 2005-08, while the average loan growth during this period amounted to 26-27% (in EUR-terms). In SEE, deposits increased by 24-26% yoy (2005-08), while total loan expanded by an average of 37-39% yoy (2005-08). For both regions, the average annual increases do not differ much in EUR-terms and LCY-terms. In the CIS region, average annual 2005-08 deposit growth stood at 38% yoy while total loan expanded at around 49% yoy (both figures in EUR-terms); in LCY-terms, the respective figures are 28% for the deposit increase and 37% for the increase in total loans.

These trends resulted in constantly rising loan-to-deposit ratios. In CE, the average loan-to-deposit ratio increased from 82% in 2005 to 108% in 2008. In SEE, the loan-to-deposit ratio increased from 90% in 2005 to 118% in 2008, while it rose from 96% to 122% in the CIS region. Up to a certain extent, the loan-to-deposit developments in CEE reflected a trend that was also visible inside the Eurozone. This holds true despite the fact that the average loan-to-deposit ratio inside the Eurozone remained more or less flat over the last cycle (115% in the late 1990's and 115%

in 2009). However, once again, the four major Eurozone economies and banking markets displayed sharply diverging trends. In Germany, the loan-to-deposit ratio decreased from 130% (1999) to 100% (2009), while the respective ratios showed rather steep increases in France (119%-130%), Italy (119%-146%), and Spain (95%-110%). The more or less similar loan-to-deposit ratio increases by some 20-30 percentage points in the CEE countries within a short period of time proved just as unsustainable. Moreover, the regional aggregates for CEE mask even more unsustainable developments in individual countries. For example, the loan-to-deposit ratio in Hungary increased from an already high level in 2005 (113%) to 133% in 2009. Bulgaria's and Romania's loan-to-deposit ratios increased from around 80-90% in 2005 to more than 120% in 2008. The Ukrainian and Belarusian banking sectors posted even more extreme increases. In Ukraine, the loan-to-deposit ratio increased from 160% year-end 2008 to 200% in Q1 2009, while the ratio for Belarus increased from around 120% to 170% during the same period.

Loan-to-deposit ratio (%)



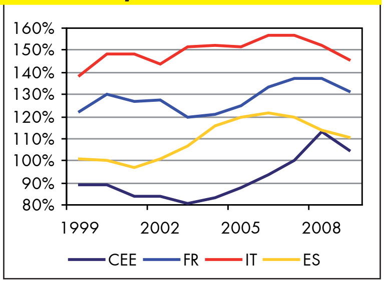
* H1 2011
Source: National central banks, Raiffeisen RESEARCH

Recent deposit dynamics

As outlined above, pre-crisis loan-to-deposit mismatches in CEE proved unsustainable and started to stabilize or correct in 2009 and 2010. In CE, the average loan-to-deposit ratio dropped slightly from 109% in 2008 to 108% in 2010. In SEE, the ratio dropped from 118% (2008) to 111% (2010), while the CIS region saw its loan-to-deposit ratio dropping from 122% (2008) to 95% (2010). Deposit collection outpaced loan growth in 2009 and 2010 in all CEE regions on average. Decreasing loan stocks added to declining loan-to-deposit ratios in some countries. For this reason, some SEE and CIS countries experienced huge declines in their loan-to-deposit ratios. For instance, loan-to-deposit ratios in Romania and Bulgaria dropped from 125% in 2008 to around 110-115% in 2010. In Ukraine, it dropped from 205% to 175%.

The sharply increasing loan-to-deposit ratios in CEE during the pre-crisis period 2005-08 were a reflection of ample global liquidity, wholesale

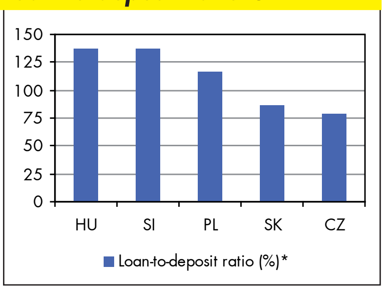
Loan-to-deposit ratio (%)



Source: ECB, national central banks, Raiffeisen RESEARCH

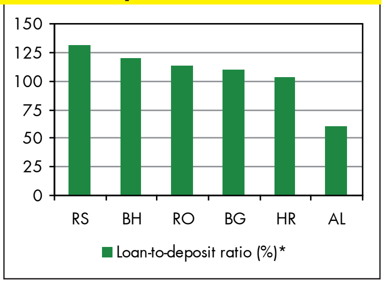
Trend of rising loan-to-deposit ratios in CEE has reversed

Loan-to-deposit ratio CE*



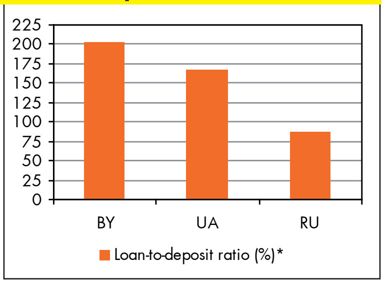
* H1 2011/Q1 2011
Source: National central banks, Raiffeisen RESEARCH

Loan-to-deposit ratio SEE*



* H1 2011
Source: National central banks, Raiffeisen RESEARCH

Loan-to-deposit ratio CIS*



* H1 2011
Source: National central banks, Raiffeisen RESEARCH

financing and European banks' high appetite for cross-border financing. All these factors flipped into the opposite direction during the years 2008-10. Consequently, deposits gained in attractiveness as sources of (local) refinancing. Nevertheless, by international standards loan-to-deposit ratios remain at comparatively high levels in some CEE countries. Moreover, in some of these countries, loan-to-deposit ratios already started to increase again in H1 2011, despite the fact that such trends are unlikely to be sustainable. The longer-term experience of Western European banking sectors and within the Eurozone has shown that even there loan-to-deposit ratios well above the 120-130% level can hardly be sustained. A sustainable loan-to-deposit threshold in CEE might be even lower for those banking sectors and countries that are (still) considered as emerging markets (by investors and/or regulatory standards).

Given that the availability of external financing for the CEE banking sectors is highly unlikely to return to the level of 2005-08, deposits will retain the attractiveness they gained. Moreover, sustainable lending growth in CEE will be more closely tied to the deposit growth than in the past. However, as deposits growth is limited by the economic fundamentals, high double digit loan growth rates (which had been achieved in the past) will be difficult to (re-)finance locally in nearly all CEE economies. Moreover, a rather low propensity to keep deposits in the banking system continues to exist in some countries. In these countries, banks will have to increase consumers' willingness to place deposits with banks.

Long-term loan growth outlook

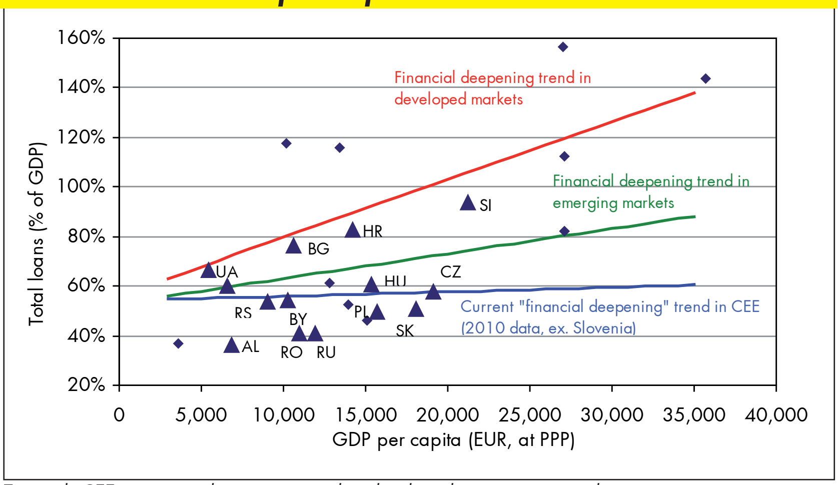
Data available for H1 2011 indicate that loan growth in CEE remains subdued, at least in comparison to pre-crisis times (i.e. the years 2005-08). Assuming that these trends are sustained for the remainder of 2011, loan growth for the full year may come in at 9.5% in CE, 7% for SEE, and 13% the CIS region (all figures in EUR and nominal terms). In fact several CEE economies are currently experiencing nominal loan growth that is below their nominal GDP growth – in other words, they are experiencing a „credit-less" recovery. This development is driven by a combination of supply and demand side constraints (among them: a lower propensity for cross-border banking sector leverage, looming regulatory burdens, national bank tax schemes as well as a weak economic recovery and unsustainable past loan growth in some CEE economies). From a longer-term perspective, the question remains whether loan growth that is both more dynamic and sustainable can be expected in all CEE economies. At least from a fundamental perspective, some CEE economies may well face a more prolonged period of low loan growth, and even a more pronounced deleveraging (leading to stagnant or decreasing loan-to-GDP ratios).

Loan growth trend differs in developed and emerging markets

Generally speaking, loan-to-GDP ratios in relation to GDP per capita have historically shown a strong uptrend in developed markets, with both variables showing a highly positive correlation. In developed markets, loan-to-GDP ratios increased by 2-2.5 percentage points with every 1,000 EUR in GDP per capita gains over the last cycle. In contrast, loan-to-GDP ratios in emerging markets are not highly correlated with GDP per capita increases and levels. On average, the loan-to-GDP ratio in emerging markets increases by some 0.9-1.2 percentage points with every EUR 1,000 gain in GDP per capita. Hence, the difference between emerging and developed markets in terms of loan-to-GDP ratios is especially pronounced at higher income levels (at PPP). For instance, the total loan volume as a percentage of GDP stands at around 250% in high-income OECD economies. In contrast, upper middle income countries – many emerging markets belong to this group – on average have a ratio of 60-80%.

As of year-end 2010, the regional loan-to-GDP ratios in CEE are CE: 53%, SEE: 56% and CIS: 43%. Interestingly, the CEE countries are currently showing a more or less flat relationship between their GDP per capita and loan-to-GDP-ratios (2010 data). In fact, some more mature economies with high GDP per capita levels – say Czech Republic, Slovakia or Poland – currently have the same or lower loan-to-GDP ratios than less mature economies such as Bosnia and Herzegovina, Croatia, Bulgaria, Ukraine or Belarus. When correcting for Slovenia (whose banking sector is a very specific case in the CEE context), on average loan-to-GDP ratios in the other 13 CEE countries covered in this report currently increase by just 0.2% percentage points with every additional EUR 1,000 in GDP per capita. This current relationship is driven by a high banking sector penetration in CEE countries with low GDP per capita levels, a status that developed over the last cycle. For instance, about five years ago the average loan-to-GDP ratio in CEE was still positively correlated with GDP per capita levels (i.e. every additional EUR 1,000 in GDP per capita was accompanied with an increase of 1-1.5 percentage points in the loan-to-GDP ratio).

Total loans vs. GDP per capita

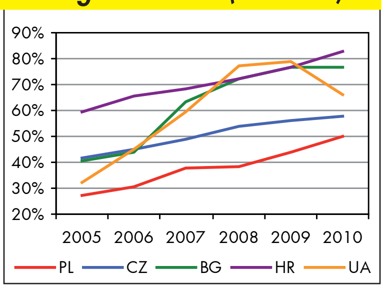


Triangels CEE countries, dots represent other developed or emerging markets
Source: ECB, World Bank, national central banks, Raiffeisen RESEARCH

A large number of sizeable CEE economies - e.g. Russia, Poland, the Czech Republic, and Romania - still have huge potential to deepen their loan-to-GDP ratios due to the rather prudent expansion that took place in these markets during the last loan growth cycle. In some of these economies, loan-to-GDP ratios remain well below the levels that look sustainable from a fundamental perspective. However, the relations men-

Not all CEE banking markets largely under-penetrated ...

Lending trends CEE (2005-10)*



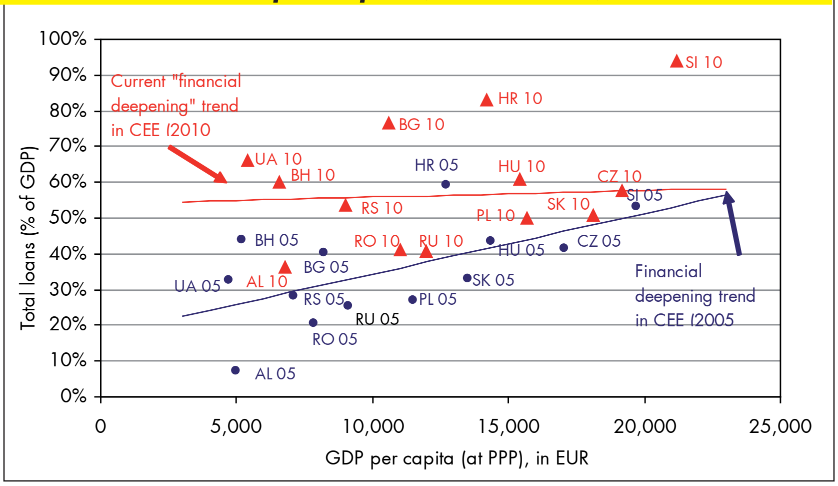
** total loans (% of GDP)*
Source: National central banks, Raiffeisen RESEARCH

... due to strong past expansion

tioned before also show that loan-to-GDP ratios may have overshot in some smaller and less mature CEE economies, possibly based on far too optimistic convergence assumptions for the respective banking sectors. Both recent crisis experience in CEE and the fundamental relationships outlined previously suggest that the average of either the high income OECD countries – driven by the US, UK, Japan and the Eurozone – or the Eurozone itself might not be the right benchmarks in determining sustainable loan-to-GDP ratios at certain income levels for a large number of CEE countries. This assessment holds all the more true for a period of time that is still reasonably forecastable – say, for the next 10 years. One should not forget that several other arguments (some of them mentioned in previous chapters of this report) also challenge the still prevailing consensus view that all CEE banking markets are largely underpenetrated in terms of their loan stock relative to fundamentals. Firstly, the CEE economies are still characterised by a relatively low stock of (accumulated) private financial wealth (i.e. intermediable resources). Several empirical studies suggest that the "financial intermediation penetration gap" in CEE is lower when compared to the relative domestic financial wealth rather than the GDP. Secondly, the long-term growth potential in corporate lending should not be overestimated in (smaller) CEE countries with a high dependency on large multinational enterprises that do not (fully) refinance locally. However, in terms of loans to households and, in particular, consumer finance, some CEE markets are already rather saturated when compared to more mature banking sectors (for more details, please see chapter "Lending structures and lending trends" in CEE, pp. 14-18). However, it is worth noting that despite a more cautious loan (and asset) growth outlook, a certain penetration gap in terms of banking services still exists in a wide range of CEE economies. Moreover, a certain degree of economic catching up (i.e. increasing GDP per capita at PPP in absolute terms and in relation to developed economies) is the most likely long-term scenario in most CEE countries.

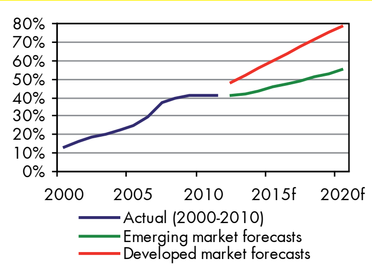
Large growth markets remain in CEE

Total loans vs. GDP per capita (2005/2010)



Source: national central banks, Raiffeisen RESEARCH

Russia: Total loans*

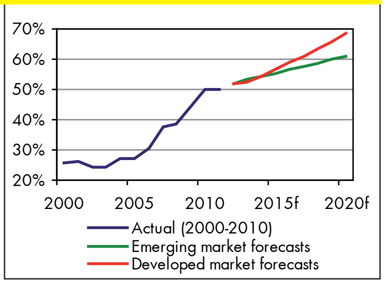


** % of GDP*
Source: National central bank, Raiffeisen RESEARCH

As shown previously, considerations regarding the corresponding potential and sustainable longer-term lending growth do matter a great deal given such an outlook. To be more concrete: Currently, the loan-to-GDP ratio in Russia stands at 41%, while the country's GDP per capita amounts to EUR 12,800 at PPP. If you were to consider Russia as a developed market (e.g. high-income OECD country) in terms of its banking sector prospects (i.e. over the next decade) and one were to assume a certain convergence to such standards, total loans as percentage of GDP should stand at 80-85% in ten years' time (Russia's projected GDP per capita at PPP would be EUR 18,600 at that time). In light of recent experience in both CEE and some Eurozone countries, a percentage point doubling of the financial intermediation at an already decent level (in case of Russia, from a loan-to-GDP ratio of 40% to 80% within a short period of time) could prove very damaging for both, banks and the economy as a whole. However, if you were to consider Russia more like an emerging market in terms of its longer-term financial sector outlook, loans-to-GDP should be at around 55-60% in ten years' time (assuming a GDP per capita level of EUR 18,600). In our example, average annual nominal loan growth of 25-30% would be needed to push Russia's loan-to-GDP ratio to 80-85%, whereas the 55-60% target in ten years' time is feasible with average annual nominal loan growth of 12-17%. That said, the Russian market enjoys a benign growth outlook, as the level of financial intermediation remains well below the level that looks sustainable when looking at Russia's financial sector from an emerging market perspective. Of course, from a developed markets perspective, Russia's financial sector looks tiny and underdeveloped. Russia's banking sector does not represent a unique situation in the CEE region. Other (sizeable) banking sectors (e.g. in Poland, the Czech Republic, or Romania) also enjoy a benign growth outlook. The level of financial intermediation in these countries also remains below the level that looks sustainable from an emerging and/or developed market perspective.

In contrast to Russia, Poland, Czech Republic or Romania, some other CEE economies (mostly in SEE, but also Belarus and Ukraine) are characterised by high loan-to-GDP ratios at their current GDP per capita levels. For instance, in 2010 loans-to-GDP stood at 83% in Croatia, 76% in Bulgaria, 66% in Ukraine, 60% in Bosnia and Herzegovina and 54.5% in Belarus. These readings (adjusted for per capita income) score high in comparison to other emerging markets outside the CEE region. More importantly, this assessment also holds true even if one takes a very optimistic view, i.e. regarding the sustainable level of loans-to-GDP in these SEE and CIS economies as similar to the ones in developed markets (adjusted for GDP per capita). Thus, from a fundamental and longer-term perspective, gradually decreasing loan-to-GDP ratios might be in the pipeline for some SEE and CIS economies. In the cases of Croatia and Bulgaria, loans-to-GDP may decline to a level of around 65-60% if these countries are considered more like emerging markets going forward. Even if Croatia and Bulgaria are viewed as developed markets in terms of their financial sector outlook, their loan-to-GDP ratios in tens years' time may stand at a maximum of 78% in the case of Bulgaria or 87% in the case of Croatia (currently these ratios are 76% and 83%, respectively). Ukraine provides an example of a fundamentally overleveraged economy, i.e. one in which the loan-to-GDP ratio has overshot a fundamentally backed level. The loan-to-GDP ratio for Ukraine in ten years's time should be lower from an emerging or developed market perspective (in both cases, around 55% of GDP vs. 66% in 2010). However, in case of countries like Ukraine one has to take into account the sizeable shadow economy. Thus, ratios like the loan-to-GDP ratio have a

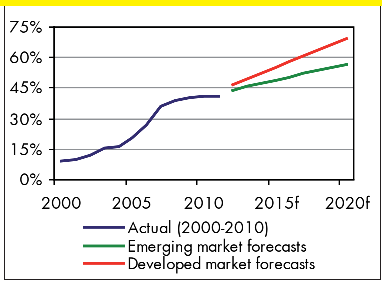
Poland: Total loans*



* in % of GDP
Source: National central bank, Raiffeisen RESEARCH

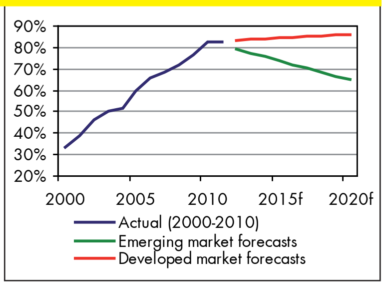
Poland & Russia - with 60% of total assets in CEE - remain growth markets

Romania: Total loans*



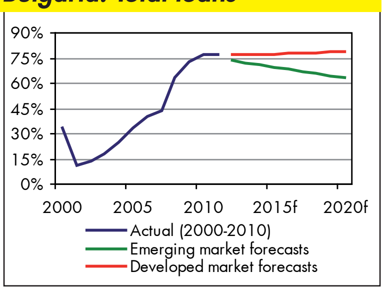
* in % of GDP
Source: National central bank, Raiffeisen RESEARCH

Croatia: Total loans*



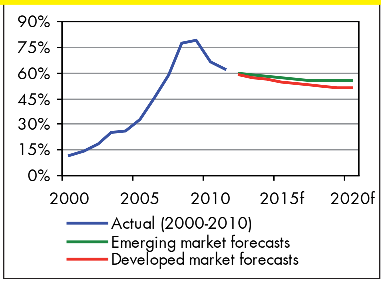
* % of GDP
Source: National central bank, Raiffeisen RESEARCH

Bulgaria: Total loans*



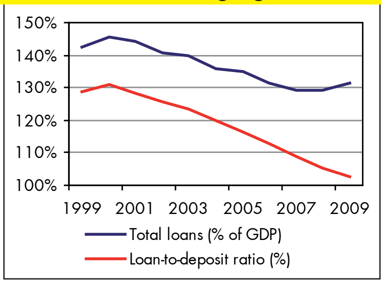
* % of GDP
Source: National central bank, Raiffeisen RESEARCH

Ukraine: Total loans*



** % of GDP*
Source: National central bank, Raiffeisen RESEARCH

German "deleveraging"



Source: ECB, Raiffeisen RESEARCH

certain upward bias in a country like Ukraine and the actual deleveraging need might be somewhat lower than the one derived from the current loan-to-GDP ratio. Moreover, the example of Ukraine clearly shows that even a bottoming out of the loan-to-GDP ratio can translate into a healthy expansion of the banking sector. Assuming an annual average inflation of 8-9% and an annual GDP growth of 3.5-4.5% (i.e. close to the potential output growth), an average annual loan growth rate in the low double-digits appears to be in reach.

All in all, the loan growth outlook for selected CEE economies seems to be limited to the nominal GDP growth at maximum for some years to come. At first sight, such a more cautious banking sector growth outlook does not look realistic when confronted against past trends. Over the past 5-10 years, nearly all CEE economies experienced a (more or less) linear rise in their loan-to-GDP ratio. However, a decline in the loan-to-GDP ratio is not a rare phenomenon – especially not in catching-up economies (but also in more mature economies) after a period of strong and possibly unsustainable loan expansion, followed by an economic and/or banking sector crisis. For instance, Sweden, Mexico, Turkey or Chile all provide good examples of countries whose loan-to-GDP ratio decreased by at least 20-30 percentage points following a severe economic and/or banking crisis. Moreover, Germany provides a striking example of the fact that loans-to-GDP can also decrease for a number of years on the back of a rather weak economic backdrop, as well as due to a macroeconomic rebalancing. From 2000-08, Germany's loan-to-GDP ratio decreased from 145% to 130% on the back of both a weak domestic economic backdrop (from 2000-08 Germany, was the fourth slowest growing EU economy), as well as a rebalancing (Germany entered the Eurozone with an overvalued exchange rate).

A lot of CEE economies still with potential to increase their loan-to-GDP ratio

In summary, not all CEE banking markets can still be regarded as being highly underpenetrated in terms of total loans in relation to GDP and income levels. This holds especially true when comparing smaller and less mature CEE economies to other emerging markets, but also – in some cases – even when comparing them to GDP-per-capita-adjusted loan-to-GDP ratios in developed markets. However, it is important to point out that even declining loan-to-GDP ratios in the still rather fast growing SEE or CIS economies do not imply zero nominal growth! Nominal loan growth will just remain below the sustainable nominal GDP growth, which could return to high single-digit or even low double-digit levels. However, it seems highly unlikely that the loan-to-GDP ratios for all CEE economies would decline for a longer period of time. A lot of CEE economies – among them, such mid-sized ones as the Czech Republic or Romania, and especially the major ones like Poland and Russia – still have the potential to increase their loan-to-GDP ratio from a fundamental perspective and on the basis of their current and projected GDP per capita. In the cases of Romania and Russia, this also holds true when comparing them to other emerging markets and in the case of the more mature economies in the Czech Republic or Poland, this holds especially true when comparing them with more developed markets.

Most attractive CEE banking markets 2011-15

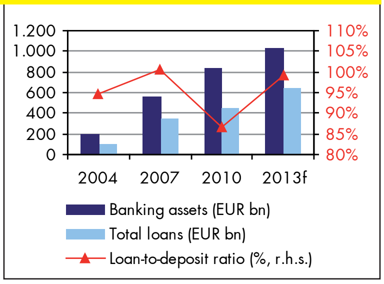
In light of the fundamentally backed growth perspectives outlined in the previous chapter "Long-term growth outlook", the various CEE banking sectors are likely to be characterised by highly differentiated loan and asset growth profiles going forward. The same holds true regarding the earnings profiles, which might also be driven by factors like the need for deposit collection or market structures. In absolute terms, Russia and Poland – together representing 60% of banking sector assets in CEE – will offer the biggest growth opportunities. This reflects both the absolute size of the two markets, as well as their expected sustainable nominal double-digit annual growth rates over the forecast horizon (2011-15).

By year-end 2011, total banking assets in Russia should amount to some EUR 900 bn. However, in absolute terms, the banking sector in Russia, the world's ninth-largest economy, currently just matches the banking assets of a mid-sized economy like Sweden (the world's 22nd largest economy, according to IMF data from 2011). In Poland, total banking sector assets should stand at some EUR 300 bn by year end 2011. However, in absolute terms the banking sector assets in Poland (the world's 22nd largest economy) just will match those in a rather small economy like Finland (ranks 36th among the world's economies). Consequently, the Russian and Polish banking sector retain some catching up potential. This holds true despite the fact that the post-crisis growth outlook is more cautious in comparison to pre-crisis. By 2015, total assets in Russia and Poland together might rise to EUR 1,600 bn, which would be nearly half the size of the French or the Italian banking sector. Moreover, in Russia and Poland no strong need to speed-up the deposit collection exists.

However, it will not be easy to participate in the growth opportunities the Polish and Russian banking markets offer, as both banking sectors are characterised by challenging market structures. In the case of Russia, the market environment remains challenging due to the strong competition of state-owned banks with a high market power that are offering the full product spectrum (i.e. retail, commercial and investment banking). In fact, the three largest state-owned banks dominate the Russian banking sector, while the rest of the market remains fragmented. Interestingly, the Polish banking sector shows somewhat similar characteristics. In Poland, two or three universal banks also dominate the market – although to a lower extent than Russia, as only one of these players can be considered as a strong retail, commercial and investment bank. Moreover, the Polish banking sector also remains fragmented, with the Top-5 banks having a collective market share below 50%.

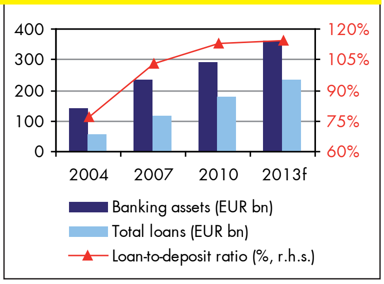
In CE, the Czech banking market may offer attractive growth opportunities, given sustainable low double-digit nominal growth rates in terms of loans and asset over the forecast horizon (2011-15). Slovakia's banking sector is also likely to experience a decent and healthy expansion, with high single-digit nominal growth rates over the forecast horizon. Moreover, strong deposit collection is not necessary in either of the two markets. Their loan-to-deposit ratios may even inch somewhat higher (current loan-to-deposit ratio in Czech Republic is 76%, 87% in Slovakia). In contrast, the banking sector outlook for both Hungary and Slovenia is constrained by structural weaknesses and homemade problems. Both markets are

Growth outlook Russia



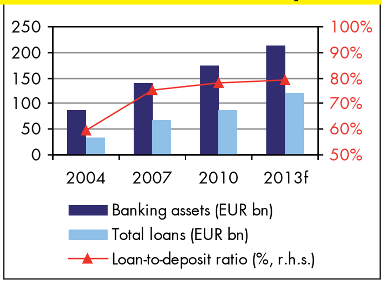
Source: National central bank, Raiffeisen RESEARCH

Growth outlook Poland



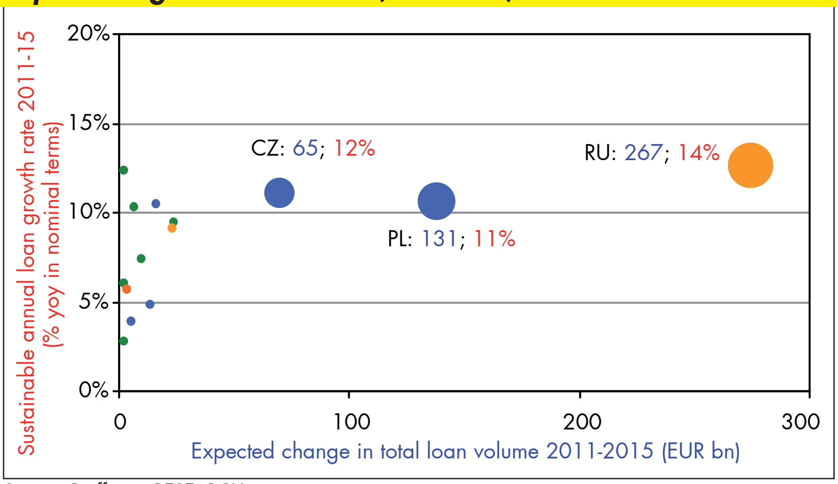
Source: National central bank, Raiffeisen RESEARCH

Growth outlook Czech Republic



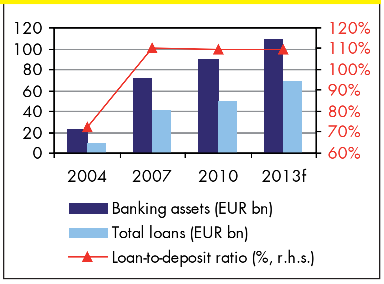
Source: National central bank, Raiffeisen RESEARCH likely to post low single-digit nominal loan and asset growth rates over the forecast horizon (2011-15). Moreover, deposit collection has to pick-up in both banking sectors in order to decrease their dependency on external (wholesale) funding. Current loan-to-deposit ratios in Hungary and Slovenia are at some 137% (H1 2011). However, the deposit base in both countries is limited. Nevertheless, all CE banking sectors with the exception of Poland are characterised by a high share (60-70% of total assets) held by the Top-5 banks in their markets. This bodes well for banks to profit from the decent growth outlook in markets like Czech Republic or Slovakia, while it may help to offset low earning prospects in Hungary.

Top-3 CEE growth markets (2011-15)



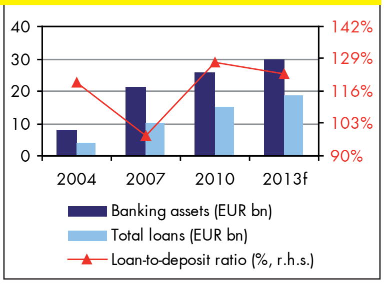
Source: Raiffeisen RESEARCH

Growth outlook Romania



Source: National central bank, Raiffeisen RESEARCH

Growth outlook Serbia



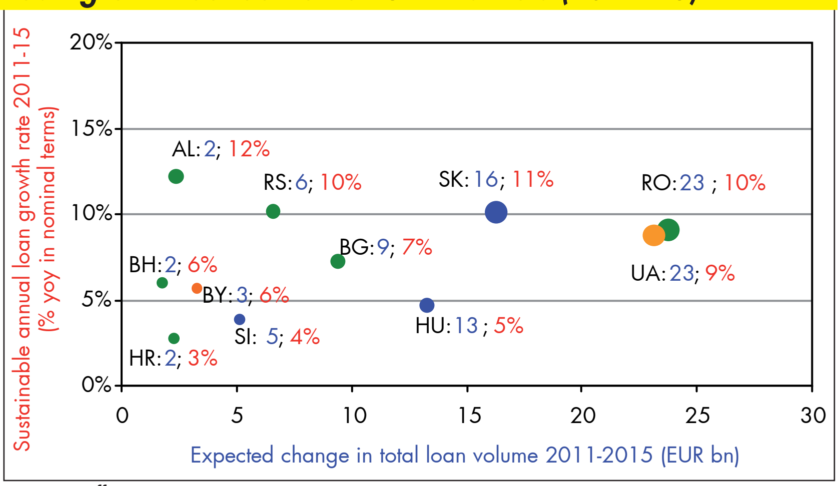
Source: National central bank, Raiffeisen RESEARCH

With the possible exception of Albania, high nominal double-digit loan and asset growth rates are unlikely in nearly all banking sectors in SEE over the forecast horizon (2011-15). Nevertheless, the Romanian banking market is set to be the most attractive SEE market, reflecting its position as the largest banking market in SEE and the decent expansion that looks sustainable (i.e. nominal loan and asset growth rates in the range of 8-11% yoy in EUR-terms over the forecast horizon 2011-15). Moreover, there is no immediate need for another round of aggressive deposit collection in Romania, where the current loan-to-deposit ratio stands at 113% (H1 2011). Serbia's banking market might also offer a reasonable growth outlook by SEE standards. However, in comparison to Romania's banking sector, Serbia's needs to speed up deposit collection (current loan-to-deposit ratio: 133%), which could constrain the profitability. In contrast, the outlook for the Croatian banking market – the second largest in SEE – as well as the Bulgarian banking sector remains challenging. From a fundamental perspective, low single-digit nominal loan and asset growth rates are likely over the forecast horizon (2011-15). Not much higher growth rates look sustainable in the banking sector of Bosnia and Herzegovina. The smaller Albanian banking sector seems to be the only banking sector in SEE that might offer double-digit loan and asset growth rates over the forecast horizon (2011-15). Moreover, the need for additional deposit collection is limited, given a loan-to-deposit ratio of 60% in Albania. Despite the overall challenging banking environment in SEE, one must point out that the region's banking markets are characterised by market structures that are highly concentrated. In all SEE markets with the sole exception of Serbia, the Top-5 banks hold a market share of above 50% – in some markets, that figure is close to 70% (in terms of total assets). This might help offset the lower earning prospects that result from a more sluggish loan and asset growth over the forecast horizon (2011-15), coupled with the need to speed-up the deposit collection.

In the CIS region, the banking sector outlook for both Ukraine and Belarus cannot compete with the favourable outlook for Russia. Single-digit loan and asset growth rates in nominal terms are likely in Ukraine and Belarus over the forecast horizon (2011-15). This growth outlook is driven by a fundamentally warranted deleveraging in terms of banking sector size. Moreover, earning prospects in Ukraine and Belarus are constrained by the countries' banking sector structures. The Ukrainian market remains fragmented, while the Belarusian market is dominated by two state-owned banks that together account for 60% of the market. Moreover, deposit collection has to speed up in both countries in order to decrease their banking sectors' dependency on external financing.

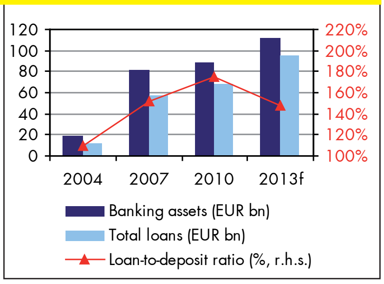
The banking sector growth in CEE 2011-15 will not be the same as the one we witnessed during the past decade. For this reason, our 2011 CEE Banking Sector Report carries the title "Banking Sector Convergence 2.0". Nevertheless, the medium- to longer-term banking sector growth outlook remains very favourable in at least six CEE markets, which includes some of the region's biggest ones and which collectively represent around 80% of total banking sector assets in CEE. Russia, Poland, Czech Republic, Romania, Slovakia and Albania are likely to remain high growth markets where nominal loan and asset growth could clearly outpace nominal GDP growth through the cycle going forward. In the remaining CEE countries (i.e. Hungary, Slovenia, Bulgaria, Croatia, Bosnia and Herzegovina, Serbia, Ukraine and Belarus), lending growth might not constantly outpace nominal GDP growth. However, in all these CEE countries, nominal annual loan growth rates in the range of 4-10% (in EUR-terms) through the cycle might be possible and would be sustainable from a fundamental perspective. These estimates still compare favourably with the average sustainable annual loan growth rate of some 3-5% (in nominal terms) in the Eurozone's healthier banking sectors.

Loan growth outlook other CEE markets (2011-15)



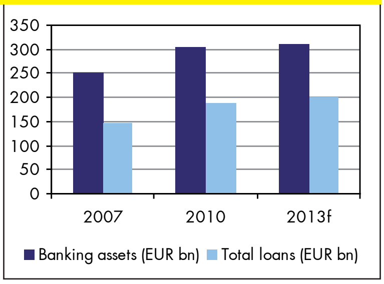
Source: Raiffeisen RESEARCH

Growth outlook Ukraine



Source: National central banks, Raiffeisen RESEARCH

Growth outlook other markets*



** HU, SI, BG, HR, BH, BY*
Source: National central banks, Raiffeisen RESEARCH

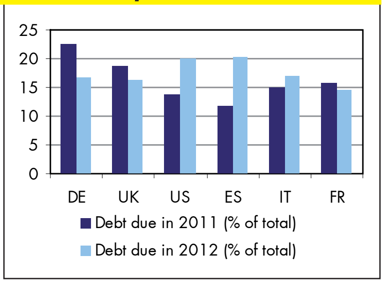
80% of CEE in terms of total assets will remain a high growth market

Challenges and opportunities for banking in CEE

Some of the challenges ahead for the CEE banking sectors are of global or Western European nature, the other are of more local nature. The following chapter starts with the challenges resulting from the current global backdrop. Afterwards more regional issues are tackled. The opportunities will be sketched following the same structure.

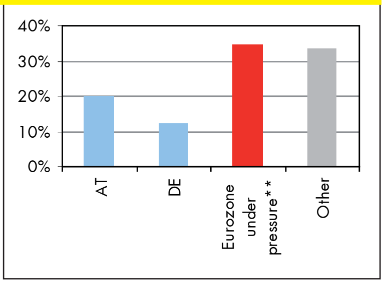
Challenges for CEE banks

Rollover requirements*



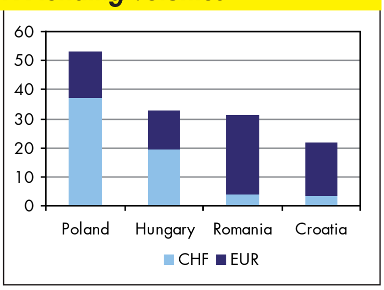
** in the banking sector*
Source: IMF, Raiffeisen RESEARCH

Total BIS claims on CEE*



** European banks, % of total, March 2011*
*** Belgium, Greece, Italy, Portugal, Ireland, Spain*
Source: BIS, Raiffeisen RESEARCH

FX lending volumes*

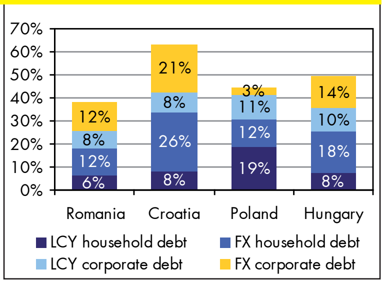


** EUR bn, Data as of year-end 2010*
Source: National central banks, Raiffeisen RESEARCH

The current economic slowdown in major European economies, as well as the fragile financial markets environment could negatively impact the banking sector environment in CEE going forward. Firstly, 2012 economic growth in CEE is likely to remain below the expansion expected in 2011. Secondly, (Western) European banks on aggregate have sizeable debt maturities in 2012, while the refinancing outlook for banks is likely to remain challenging. Moreover, CEE is among the emerging markets regions with the highest dependency on cross-border banking and on Western European banks in particular (around 90% of all cross border banking claims on CEE are from Western European banks). Thirdly, the economic slowdown in the Eurozone could complicate the management of the public debt crisis in Western Europe. Due to its high integration with Western European banks, the CEE region could be negatively affected from adverse developments inside the Eurozone. A massive compression of Bund yields and high refinancing cost for local and foreign-owned CEE banks (outside of Germany), may hamper the banking business in CEE. Among the cross-border banking claims on CEE around 30% are from Eurozone countries that had been under pressure from financial markets due to their challenging public debt position (i.e. Belgium, Greece, Italy, Portugal, Ireland and Spain). Fourthly, a sovereign default in case of Greece could have a severe impact on the SEE region. However, the effects should not be overrated either. Greece banks have a sizeable presence (15-20% of all banking sector assets) in a few smaller SEE banking sectors (Bulgaria, Serbia, Albania, Macedonia). The Greek share in cross-border claims of European banks on CEE stands at 7%. Moreover, it is obvious that a public debt restructuring that would affect Greek banks has to be accompanied by a large scale and internationally financed banking sector support package. A support package for Greek banks may include provisions to sell assets abroad (e.g. in CEE, like Allied Irish Bank (AIB) had to sell its stake in Bank Zachodni). However, even a potential but unlikely sell down of foreign subsidiaries will take place in an orderly manner. The cautious approach pursued in selling the foreign operations of AIB provides a good example.

With regard to more local trends in CEE, it is clear cut that loan and deposit growth will have to be much more aligned than in the past. Post-crisis liquidity and funding constraints are likely to remain above pre-crisis levels. A decreasing dependency on external financing should be positive for the CEE banking sectors from a fundamental perspective. However, it will put pressure on the profitability of (cross-border) banking in CEE. With regard to the competitive environment in CEE some more Western European banks may turn to the more attractive CEE markets, as the growth outlook remains subdued in a lot of Western European markets. This holds especially true in the segments of corporate and investment banking, where new CEE market entrants do not have to invest in a branch network. Other strong international banks may also increase their footprint in CEE. The most prominent indication is the takeover of the Volksbank International network by Russia's Sberbank. From a longer-term perspective Sberbank may become a serious competitor to current universal banks active across CEE. Sberbank is likely to seek further acquisitions targets beyond its current country presence (i.e. the VBI network excluding the franchise in Romania). The bank has shown explicit interest in such markets like Poland, Romania and Turkey. However, we think that Sberbank will scale up its CEE presence very gradually over the next years due to the limited EUR deposit funding base as well as the low scale of the VBI network.

Private sector debt (% of GDP)



Data as of year-end 2010

Source: National central banks, Raiffeisen RESEARCH

Focus on: Current state and future of FCY lending in CEE

FCY lending is widespread in CEE (29% of all loans in CE, 55% in SEE and 20% in the CIS region). FCY lending is more widespread in CEE than in other emerging market regions, where FX lending (mostly to corporates with FCY income) amounts to 5-20% of total loans. The current FCY loan stock will remain with CEE for a longer period of time due to the high share of FCY mortgages. Moreover, a lot of FX lending in CEE is denominated in currencies other than EUR, namely CHF. As most of the FX loans were extended to unhedged borrowers (i.e. households) the recent currency weakness in CEE puts pressure on borrowers.

FCY lending in EUR and CHF in CEE is concentrated in four countries: Hungary, Poland, Romania and Croatia. These four economies account for the bulk of CEE's FX loans and, in particular, CHF loans. In Ukraine, foreign currency lending accounts for 45-50% of all loans and is primarily in USD. While FX trends suggest that FCY borrowers in Poland and Hungary are equally worse off, NPL trends differ significantly. In Hungary, loan quality in FCY is worse than in LCY, while in Poland loan quality in FCY continues to be higher than in LCY. In Poland, FCY-lending was well-regulated, mortgage-lending in CHF was concentrated at the top-end of the market and loan-to-value ratios remained at prudent levels all the time. Finally, Polish households profited from more favourable income trends than in Hungary. Disposable income rose by 35% in Poland 2006-10, compared to 15% in Hungary.

In light of the accumulated risks good reasons to stop (unregulated) FCY lending to unhedged borrowers exist at both the micro- and macroeconomic levels. This holds especially true in countries with large balance sheet mismatches (i.e. a large loan stock in FCY and low FCY deposit base). Moreover, regulatory moves in Hungary and Croatia to address current problems with non-performing FX loans are likely to negatively impact the profitability of the countries' banking sectors. Not to forget that recent negative newsflow exposes CEE banks to reputational risks. Given these developments, FCY lending in CEE lending is likely to decrease.

However, the question remains whether well-regulated FCY lending will disappear entirely in CEE. Long-term refinancing and funding markets are likely to remain shallow in most CEE frontier markets, despite efforts to develop them (e.g. Romania, Croatia, Hungary, Serbia, Ukraine and Russia). Moreover, as Eurozone membership remains a distant prospect for some CE and SEE economies with still high LCY rate levels, profiting from lower external interest rates will remain attractive for borrowers. Moreover, a lot of free-floating CEE currencies have the potential to appreciate against the EUR, while Eurozone membership remains attractive for nearly all CEE economies from a long-term perspective. Nevertheless, no overoptimistic EUR-adoption targets should be communicated to avoid overly optimistic assumptions on behalf of borrowers. Moreover, if limited FCY lending takes place with prudent practices (e.g. with the upper client segment which may have FCY income as well as in only certain market segments such as mortgages) and under prudent regulation (e.g. low loan-to-value ratios), the overall risks for banks and borrowers can be contained. Moreover, future FCY lending could be based on a better mutual sharing of borrower and lender interests. Caps could be introduced with regard to certain FX levels (although this will make FCY lending less attractive) or hedging might become feasible for higher loan amounts. However, the implementation of such features also depends on rather developed LCY capital markets.

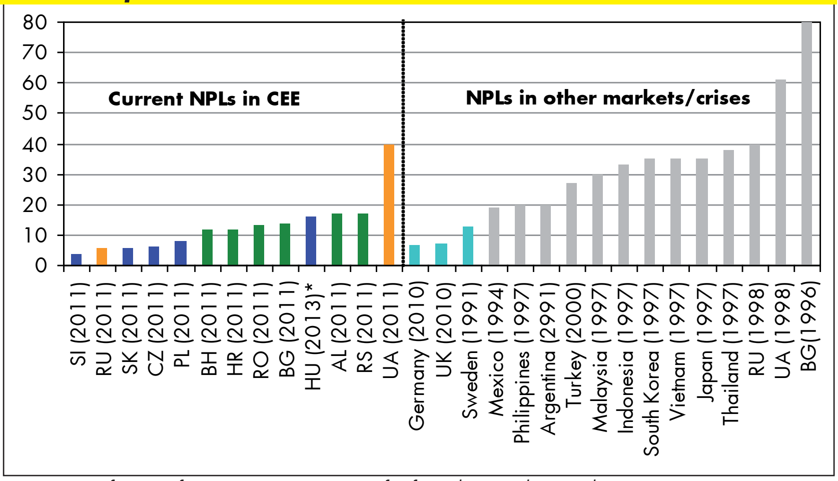
All in all, there is "no such thing as a free lunch" with regard to the choice between LCY and FCY lending. Risks also exist with regard to lending in LCY (partially related to those in FX lending). Specifically, LCY borrowers run their local interest rate risk. All interest rate risk is with the borrower in the event that a national bank attempts to defend the exchange rate or targets a lower domestic macroeconomic volatility via an aggressive monetary policy. A key prerequisite for making LCY lending more attractive for borrowers and lenders lies in stability-oriented macroeconomic policies that result in rather stable inflationary and exchange rate trends (as seen in the Czech Republic, where FX lending accounts for 13% of all loans, mostly to corporates).

NPL outlook

Current/ peak (%)		NPLs in 3-4 years time Optimistic (%)	Pessimistic (%)
PL (2011)	7.9	3	5
HU (2013)*	16.0	11-13 3-4 years after peak	
CZ (2011)	6.3	3	4
SK (2011)	5.8	2	4
SI (2011)	3.9	3	3
RO (2011)	13.4	5	9
BG (2011)	13.5	4	9
HR (2011)	11.9	5	10
RS (2011)	18.1	7	14
BH (2011)	11.8	5	8
AL (2011)	17.0	9	14
RU (2011)	5.7	2	5
UA (2011)	40.0	15	28

** 2013 NPL forecast for Hungary as NPLs are far from their peak according to our estimates*
Belarus not included as the NPL cycle has just started in H1 2011
Source: National central banks, Raiffeisen RESEARCH

NPL comparison (NPLs, % of total loans)



** 2013 NPL forecast for Hungary as NPLs are far from their peak according to our estimates*
Belarus not included as the NPL cycle has just started in H1 2011
Source: National central banks, ECB, IMF, Raiffeisen RESEARCH

Focus on: Non-performing loans in CEE

Excessive loan growth (as occurred in some CEE countries) is the single best leading indicator for financial distress, while non-performing loans (NPLs) are a typical by-product of financial sector distress. As the economies in CEE recovered in 2010 and 2011, the resilience of its banking sectors also started to improve. Data for H1 2011 show that NPLs may already have peaked in some CEE economies such as the Czech Republic, Slovakia, Russia and Ukraine and are at least close to their peak in Poland and Serbia. Thus, the year 2011 might mark the peak for NPLs in these economies. Accordingly, NPL ratios in some CEE economies might also peak at comparatively low single digit numbers, i.e. figures comparable to more mature banking markets like Germany or UK, where NPLs peaked at the 5.5-6% level in 2010/11. In other CEE economies (with the possible exception of Hungary and Belarus), NPL growth at least slowed down substantially in H1 2011. In those economies, NPLs might still continue to rise into 2012, but NPL peak levels should remain close to the levels seen in H1 2011. On a positive note, NPLs in nearly all CEE countries (with the possible exception of Ukraine) will peak at levels well below those seen in other emerging market crises. For that reason, there is no need – in comparison to past systemic NPL problems in other emerging market crises – to establish centralised institutions to deal with the legacy problem (possibly including some losses for the sovereign balance sheet). This is good news for public finances in CEE.

However, high and persistent NPLs can turn into a drag on economic growth. If NPLs are continuously rolled over, capital is locked up in unprofitable activities. Due to a less aggressive tackling of their NPL stock, some countries hit by the Asian financial crisis in the late 1990's did not return to their pre-crisis economic growth. As growth slowed in 2001, in several Asian economies the decline in NPLs also slowed or even reversed. The Asian experience from the late 1990's showed that a front-loaded dealing with NPLs pays off. This is all the more true for the CEE economies as the economic backdrop for them already started to deteriorate again on the back of a slowing global economy in H2 2011.

Depending on economic and loan growth the CEE states post in 2012 and 2013, as well as the eagerness to tackle NPL stocks, NPL ratios in the region could decrease over the course of 3-4 years to around 1/3 of their current level in an optimistic scenario or to around 2/3 of current levels in a more pessimistic scenario. The optimistic scenario implies that the region's average 2012 and 2013 GDP growth will come in relatively close to the pre-crisis level (i.e. a maximum difference of 1-1.5 percentage points compared to pre-crisis GDP growth). Thus, the optimistic scenario banks on a rather short-lived economic slowdown in H2 2011 and H1 2012, followed by a tangible economic recovery in H2 2012 and in 2013. Recession is avoided in all CEE countries, with the possible exceptions of Hungary and Belarus, in this more optimistic scenario. Within such a scenario, NPL portfolio transactions with local and international investors (including corporate lending and all segments of retail lending) are likely to remain executable at reasonable prices (although internal workout remains the most important way of dealing with NPLs in CEE). NPL transactions in more challenging banking markets like Ukraine or Russia also remain an option in this scenario. In contrast, the more pessimistic scenario implies that 2012 and 2013 GDP growth remains significantly below the levels seen in 2011 (i.e. half of the 2011 growth rate or a least 2-3 percentage points below the average pre-crisis GDP growth posted in 2005-08). The more pessimistic scenario implies that the positive labor market conditions seen in most CEE countries in 2011 will clearly reverse in 2012 and 2013, while export dynamics will not match the performance seen in 2011. Within this pessimistic scenario, the uncertainty regarding whether corporate and private individuals can meet their loan payments increases once again. NPL portfolio transactions (especially in unsecured retail lending and with international investors), which have picked-up in some of the more mature CEE markets in 2010 and 2011, will become difficult to execute within the more negative scenario.

With regard to the regulatory environment some of the buffers (e.g. high reserve requirements in general or foreign liabilities in particular), that have served the CEE economies (especially in SEE) to withstand the global crisis, have been depleted. Most likely they will be replenished. However, this may constrain the profitability and growth outlook. With regard to the transition to Basel III the outlook for CEE is a mixed bag. The Basel III regime will have an impact on CEE as these economies are highly dependent on bank financing. The share of loans in banks assets is higher in CEE than in a lot of Western European banking sectors. However, on a positive note in most CEE markets capitalisation ratios are already at high levels due to past strict home country regulations. Moreover, the asset structure of large CEE banks is less complex than the one of other major Western banks, while most large CEE banks have a strong retail and/or corporate funding base. However, additional region-specific macro- and/or micro-prudential regulation for CEE banks beyond the standard Basel III framework in European home or CEE host countries cannot be ruled out (e.g. a countercyclical capital buffer in home countries or regulations to introduce prudent lending standarts or to decrease the dependency on external financing in some host countries).

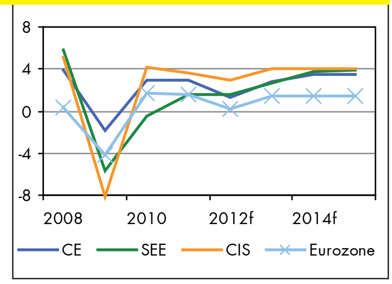
Regulatory environment exerts pressure on banks

All in all, the sketched environment will force larger banking groups active in CEE to reap efficiency gains and to create local centres of competence. Moreover, some consolidation within larger banking groups cannot be ruled out (i.e. countries with low market shares might be considered as non-strategic).

Opportunities for CEE banks

Despite all sketched challenges as well as a more moderate growth outlook the CEE banking sector will remain a growth market in comparison to a lot of Western European banking markets. Pre-crisis, the long-term average Return on Assets (RoA) in CEE was at some 2% vs. around 1% inside the Eurozone. Although this difference may shrink, an average RoA of some 1.4-1.7% in CEE seems in reach going forward. The major CEE markets Poland and Russia as well as some mid-sized economies like the Czech Republic, Slovakia or Romania (representing some 80% of total assets in the CEE banking sector) still have the potential to deepen their financial intermediation, while the market segments of mortgage and corporate lending still look rather attractive in nearly all CEE markets. Moreover, CEE will remain by far the fastest growing part of Europe and the EU. This will bode well for CEE banks, while another round of market consolidation looks likely. Some foreign-owned niche players without an extended branch network may continue to leave the CEE markets. That holds especially true in the segment of private clients. Furthermore, some smaller locally-owned banks might be taken over by other local rivals. From a medium-term perspective large foreign banks in CEE may gain a higher market share than currently.

Economic outlook CEE*



** real GDP (% yoy)*
Source: National sources, Raiffeisen RESEARCH

Western European banks active in CEE gained in reputation due to their commitment during the global financial crisis. On a positive note, as shown by the modest NPL peak ratios in the context of the severe downturn, private and corporate clients in nearly all CEE countries also showed strong payment morale (i.e. reducing expenditure and servicing

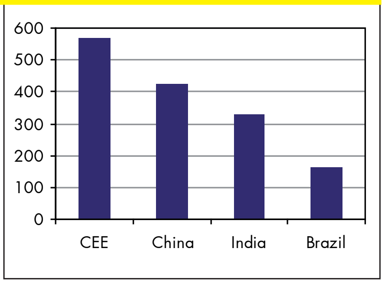
Large CEE banks gained in reputation

their debts). Nowadays, foreign banks with a long-standing presence and a large distribution network could leverage their client relationships. This holds true with regard to the market segment of private clients and business clients. In both market segments, the appetite for more sophisticated products is likely to increase.

Local knowledge is key in CEE

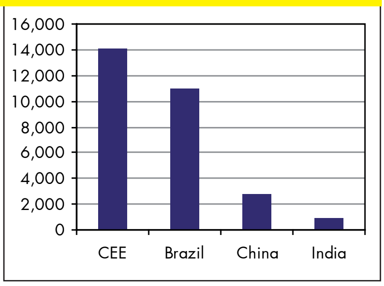
In the fields of private clients, gains in GDP per capita levels in CEE (that are among the highest in the emerging markets universe) clearly point to an increasing demand for more sophisticated products. Rising household income is significantly correlated with the probability of having a banking account, a bank card or drawing a mortgage and investing in pension funds, etc. In the fields of corporate clients, demand for more sophisticated products is likely to increase on the back of the increased size of corporates in CEE and their increasing international focus at the top-end. With regard to corporate and investment banking activity one has to add that greenfield FDI and M&A activity in CEE is returning and remains at or above the levels in other fast growing emerging markets. Thus, the CEE economic growth model based on trade and financial integration is resuming. Large CEE banks may also deepen their relationships with large multinationals, as the recent years have shown the importance of local knowledge to properly access developments in CEE and at the country level. With regard to local corporate clients, there is evidence that these companies remain behind Western peers in using sophisticated financial services and products. Moreover, the outlook for a more distant euro adoption in CE and SEE (compared to overoptimistic assumptions in the past) also benefits the banking business. Domestic interest rate levels and developments must not necessarily follow the trends inside the Eurozone, while FX transactions, hedging activity and LCY bond markets in CEE will stay around for longer than expected some years ago. However, large foreign-owned banks in CEE also have to find the right risk appetite to reach out to the lower-end of the market in terms of private, as well as corporate clients and small and medium sized enterprises in particular. Up to now, large foreign-owned banks on average were more focussed on households with formal employment, a higher education and a higher household income. A prudent and not risk-based expansion to the lower-end of the market may also help to overcome the urban-rural gap that is still visible in terms of banking services in a lot of CEE markets. Recent improvements with regard to the creditor protection in some CEE economies may support such an expansion.

2011 FDI trends*



* number of greenfield FDI projects H1 2011
Source: UNCTAD World Investment Report

2011 M&A trends*

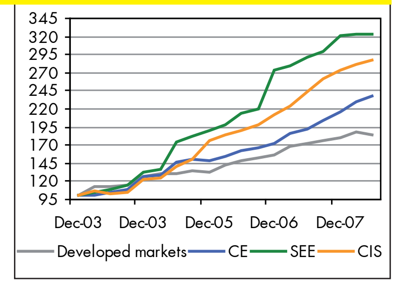


* value of cross-border M&A deals H1 2011, USD mn
Source: UNCTAD World Investment Report

The outlook for a banking sector expansion in CEE, mostly driven by scarce domestic deposit collection, definitely limits the profitability and growth outlook. However, on a more positive note, more moderate loan-to-deposit ratios may also help to decrease the risk perception with which some CEE countries and banks with a strong focus on the CEE region are viewed. This positive effect might partially counterbalance increasing deposit collection costs. Well-trusted banks with an extended branch network can master the challenge of a higher deposit collection more easily than competitors with a high reliance on wholesale funding. The recent establishment and/or rise in officially insured deposits may also support the deposit collection going forward. Well-trusted banks may also profit from the increasing trend in CEE to use internet and mobile banking services. This market segment offers scale effects for larger banking groups. Moreover, the strive for reasonable funding costs in CEE, as well as the prevailing underpenetration in mortgage lending, may help to develop standardised securitization deals with prudent standards and based on strong fundamentals in terms of the securised assets. For years to come CEE banks could be originators of securitization deals given their substantial asset base in CEE as well as the fact that the Western world and some other emerging markets have much more capital accumulated than CEE. An increasing focus of big international investment banks on CEE may help to establish standardised securitization deals in CEE. However, given recent problems with structured finance, it is clear cut that structured finance and securitization deals in CEE will have to be supported by IFI's for some years to come and will be limited to plain vanilla products.

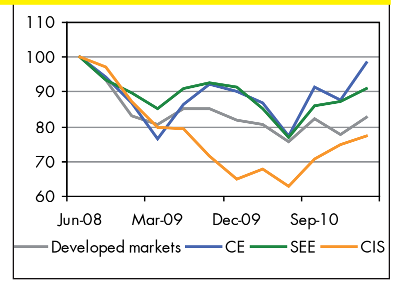
All in all, more sustainable lending and growth strategies based on the ideas sketched in this "Banking Sector Convergence 2.0" report could deliver more sustainable macroeconomic developments in the CEE economies and hence more stable and sustainable income streams for CEE banks.

Total international claims



** total foreign claims (local claims + cross border claims), Dec 2003 = 100, until Jun 2008*
Source: BIS, Raiffeisen RESEARCH

Total international claims



** total foreign claims, Jun 2008 = 100, until Mar 2011*
Source: BIS, Raiffeisen RESEARCH

Focus on: "Vienna Initiative" – importance of cross-border banking and private-public sector cooperation in CE and SEE

Foreign bank lending (cross-border or via foreign-owned subsidiaries) is an integral part of financial globalisation and the international capital flows to emerging markets. The CEE region took part in these capital flows very actively in the years 2005-08. The rise in cross-border banking integration (measured as total international claims on the basis of BIS statistics) in CEE was the strongest among all emerging market regions. Within CEE, the most pronounced expansion took place in CE and SEE: according to 2010 data, CE and SEE account for 80% of all BIS claims on CEE, although their combined share in CEE's total banking assets stood at 49%. As a result, cross-border banking plays a much more important role in CEE (and, in particular, in CE and SEE) than in other emerging markets, most developed markets, or the CIS region. The high reliance on cross-border banking in CE and SEE is clearly driven by the high level foreign ownership in their banking sectors, as outlined earlier in this report (see pp. 7-9).

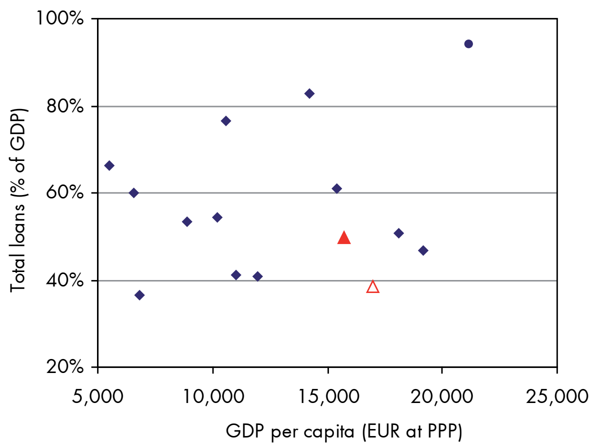
The traditional argument is that a high degree of foreign ownership helps to secure financial stability in emerging markets. However, during the global financial crisis in 2008/09, Western European banks operating in CEE were viewed critically as possible conduits for global market wobbles, capable of transferring these to CEE via a capital flow reversal. The concerns first aired in 2008 were influenced by the insights gathered from the Asian crisis in the late 1990's, in which the sudden reversal of capital flows was a key element. Net capital inflow to emerging Asian economies stood at some 6.3% of GDP in 1995 and 6% in 1996, while net outflows in 1997 amounted to 2% of GDP and around 5.2% in 1998. In contrast, net private capital inflows to CEE dropped from some 11% of GDP in 2007 to nearly zero by 2009, but a reversal was avoided.

Well-targeted support packages by IFI's, as well as by the European Bank Coordination Initiative (EBCI, or "Vienna Initiative"), made the principal contributions to preventing capital and banking sector outflows in CEE. Following the collapse of Lehman Brothers, cross-border lending in CE and SEE remained stable in comparison to both the CIS region and developed markets – and thus stood in stark contrast to grumbles about a possible banking crisis in CEE. The Vienna Initiative's success showed that in the case of CEE, the traditional argument that foreign banks help to provide financial stability held true. The Vienna Initiative also showed the effectiveness of fruitful private-public sector cooperation, as it helped to avoid coordination difficulties, which normally take center stage when it comes to capital outflows. The Vienna Initiative also supported the coordination of policies in home and host countries (e.g. bank support packages in home countries and both monetary and regulatory policy in host countries). In addition, the Vienna Initiative helped to secure government financing in those CEE countries in which banks pledged to keep their lending volumes after regulators decreased reserve requirements. The pledge to keep liquidity in CEE countries also shielded exchange rates from selling pressure.

As outlined above, the Vienna Initiative fulfilled its initial goals and was thus unquestionably a success story. This holds especially true as similar arrangements in other emerging market crises proved unsuccessful. The spirit of cooperation between the private and public sector, as well as across national borders, during the early days of the Vienna Initiative is worth preserving. A refocused Vienna Initiative Plus, as proposed by the EBRD, makes perfect sense when one takes into account the challenges banks face in CEE, as well as recent regulatory policy moves in home and host countries. Some of unilateral policy measures currently being discussed or actually being implemented in home and host countries clearly work against the future of cross-border banking inside the EU and beyond the EU.

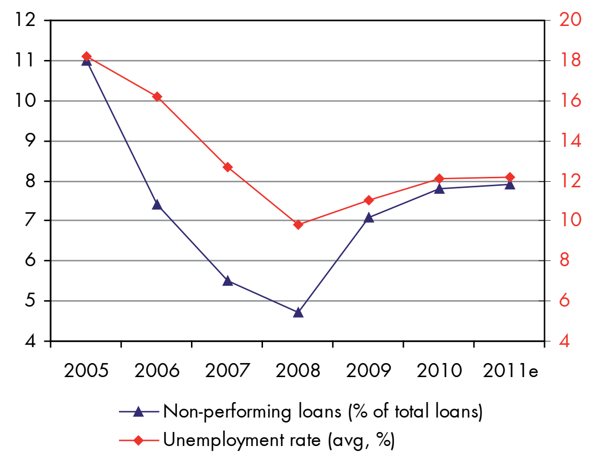
CE's growth market
Prudent past expansion

Total loans vs. GDP per capita



Data for 2010, red triangle (2010) and non-filled red triangle (2008) to illustrate dynamics in Poland
Source: NBP, national central banks, Raiffeisen RESEARCH

Non-performing loans* and unemployment



** NPL data as of Q2 2011*
Source: NBP, Raiffeisen RESEARCH

On the back of a weaker global backdrop, the Polish economy is also expected to slow down in 2012. However, sizeable public investments driven by large infrastructure projects co-financed by the EU will be a stabilizing factor.
The Polish banking sector remained highly profitable in 2010 and H1 2011, nearly reaching 80% of its pre-crisis profits. The banking sector experienced also solid growth in 2010 and H1 2011 (loan growth of 13.1% in 2010 in EUR terms; up 5.8% in H1 2011). However, with economic growth moderating, loan and asset growth is also set to moderate. Deposit growth is also likely to slow amid deteriorating labor market conditions. However, this effect may be partially offset by a shift of funds from riskier assets to bank deposits. Mortgage growth (up 27% in 2010 in EUR terms and 7.7% in H1 2011) might be additionally limited by recent changes in the government support programs. Currently, NPLs are stabilizing at around 8% (below 8% in the household segment, around 12% in the corporate segment). Risks in the segment of FX lending (around 34% of total loans) are limited due to prudent and effective pre-crisis regulation. Moreover, the net open FX position of the banking sector in manageable, representing some 0.2-0.3% of capital (in Hungary, this ratio stands well above 10%).
The Polish banking sector is well capitalized, with a capital adequacy ratio of 14% (of risk weighted assets). In early 2010, the Financial Supervision Authority (KNF) released its "Recommendation T" introducing tighter household lending standards (e.g. by capping the debt-service-to-income ratio). In 2011, the KNF updated the Recommendation S in order to tighten mortgage lending standards (by capping the debt-service-to-income ratio for FX loans). Recent lending trends show that the KNF measures are re-

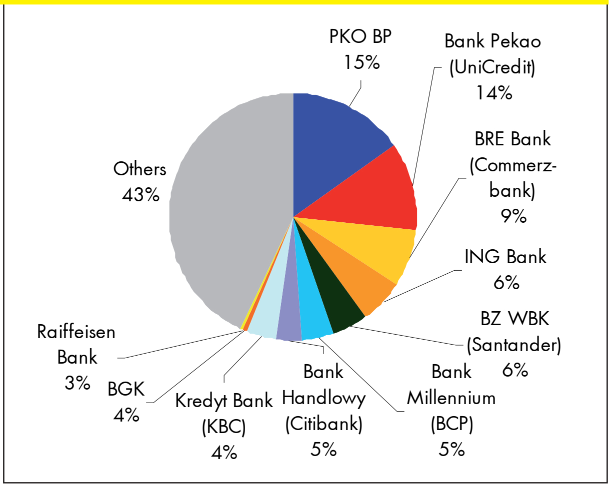
Key economic figures and forecasts

Poland	2008	2009	2010	2011e	2012f	2013f
Population (mn)	38.1	38.2	38.2	38.2	38.2	38.2
Nominal GDP (EUR bn)	363	311	354	374	379	398
Nominal GDP per capita (EUR)	9,517	8,152	9,277	9,783	9,936	10,432
Nominal GDP per capita (EUR at PPP)	14,100	14,300	15,700	16,400	17,000	17,595
Real GDP (% yoy)	5.1	1.7	3.8	3.9	2.6	3.5
Consumer prices (avg, % yoy)	4.2	3.5	2.6	4.2	2.4	2.5
Unemployment rate (avg, %)	9.8	11.0	12.1	12.2	12.4	11.8
General budget balance (% of GDP)	-3.7	-7.2	-7.9	-5.4	-5.0	-3.5
Public debt (% of GDP)	47	51	53	56	57	57
Current account balance (% of GDP)	-6.6	-3.9	-4.5	-3.9	-3.6	-3.4
Gross foreign debt (% of GDP)	47.6	63.2	66.9	69.6	75.2	75.0
Official FX reserves (EUR bn)	44.1	55.2	70.0	78.0	85.0	95.0
EUR/LCY (avg)	3.5	4.3	4.0	4.1	4.2	3.9
USD/LCY (avg)	2.4	3.1	3.0	3.0	3.4	3.1

Source: National sources, wiiw, Raiffeisen RESEARCH

ducing the share of FX mortgages in new lending. However, 60% of the mortgage loan stock remains denominated in FX. The introduction of a financial stability levy or contribution is being considered. The base would be banks' liabilities, excluding Tier 1 capital and insured deposits.
The overall attractive banking sector environment makes the Polish market appealing for M&A activity and new market entries. Following the formal takeover of Bank Zachodni WBK by Santander Group in April 2011 and the ongoing takeover of Polbank EFG by Raiffeisen Bank International, further consolidation is expected in the Polish banking sector. Among larger banks, BCP's Millennium and KBC's Kredyt Bank are being offered for sale. Additionally, the Polish operations of DZ Bank and DnB Nord may be put up for sale. HSBC announced that it plans to leave the market as part of its global streamlining of country activities.

Market shares



Per cent of total assets; H1 2011 data
Raiffeisen market share does not include Polbank, as acquisition of majority share not yet closed as per H1 2011
Source: NBP, Raiffeisen RESEARCH

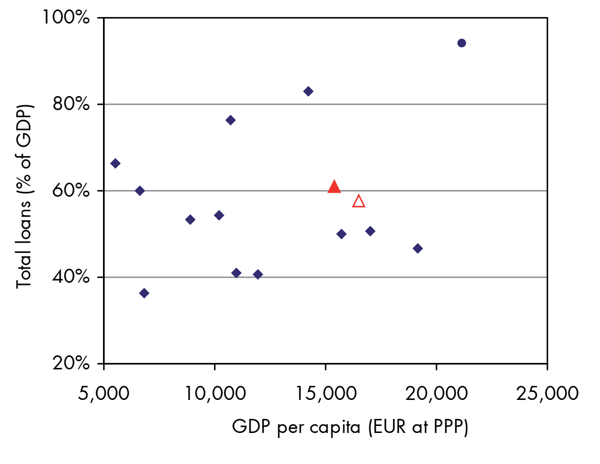
Overview of banking sector developments

Balance sheet data	2007	2008	2009	2010	H1 2011*
Total assets (EUR mn)	234,819	261,401	273,845	292,962	309,972
growth in % yoy	23.8	11.3	4.8	7.0	5.8
in % of GDP	75.3	72.0	88.0	82.7	n.a.
Total loans (EUR mn)	117,614	139,751	156,016	176,512	186,831
growth in % yoy	41.3	18.8	11.6	13.1	5.8
in % of GDP	37.7	38.5	50.1	49.8	n.a.
Loans to private enterprises (EUR mn)	46,890	51,786	54,034	57,063	59,957
growth in % yoy	32.0	10.4	4.3	5.6	5.1
in % of GDP	15.0	14.3	17.4	16.1	n.a.
Loans to households (EUR mn)	70,723	87,965	101,317	120,132	125,973
growth in % yoy	48.1	24.4	15.2	18.6	4.9
in % of GDP	22.7	24.2	32.6	33.9	n.a.
Mortgage loans (EUR mn)	44,044	49,132	52,983	67,595	72,812
growth in % yoy	52.4	11.6	7.8	27.6	7.7
in % of GDP	14.1	13.5	17.0	19.1	n.a.
Loans in foreign currency (EUR mn)	29,168	48,120	52,474	60,449	63,412
growth in % yoy	27.1	65.0	9.0	15.2	4.9
in % of GDP	9.4	13.3	16.9	17.1	n.a.
Loans in foreign currency (% of total loans)	24.8	34.4	33.6	34.2	33.9
Total deposits (EUR mn)	113,764	115,800	137,997	156,758	158,770
growth in % yoy	18.1	1.8	19.2	13.6	1.3
in % of GDP	36.5	31.9	44.4	44.2	n.a.
Deposits from households (EUR mn)	73,409	79,551	94,326	106,724	110,317
growth in % yoy	15.9	8.4	18.6	13.1	3.4
in % of GDP	23.6	21.9	30.3	30.1	n.a.
Total loans (% of total deposits)	103.4	120.7	113.1	112.6	117.7
Structural information					
Number of banks	64	70	67	70	69
Market share of state-owned banks (% of total assets)	18.3	17.3	20.8	21.5	n.a.
Market share of foreign-owned banks (% of total assets)	66.6	67.0	62.9	66.2	n.a.
Profitability and efficiency					
Return on Assets (RoA)	1.8	1.8	0.9	0.9	1.1
Return on Equity (RoE)	22.9	23.6	13.3	13.7	13.8
Capital adequacy (% of risk weighted assets)	12.0	10.7	13.3	13.7	13.8
Non-performing loans (% of total loans)	5.5	4.7	7.1	7.8	7.9

** data as of June 2011, 2011 growth rates as year-to-date figures (in EUR-terms)*
Source: NBP, Raiffeisen RESEARCH

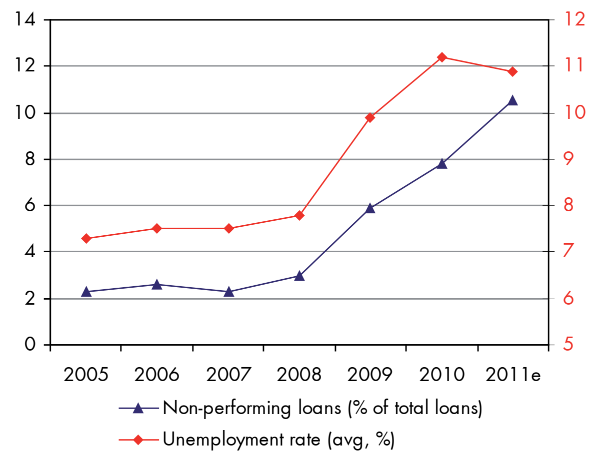
CE's ailing banking sector
Supply and demand side disruptions

Total loans vs. GDP per capita



Data for 2010, red triangle (2010) and non-filled red triangle (2008) to illustrate dynamics in Hungary
Source: MNB, national central banks, Raiffeisen RESEARCH

Non-performing loans* and unemployment



** NPL data as of Q2 2011*
Source: MNB, Raiffeisen RESEARCH

On the back of a very weak domestic backdrop and deteriorating external conditions, the Hungarian economy is set continue to perform well below its potential. Moreover, painful, but necessary, fiscal austerity measures present an additional drag on growth. We expect negative GDP growth in 2012. The means that the government has implemented to tackle current problems (cutting public debt by nationalizing pension fund assets; decreasing households' FX indebtedness at the banking sector's expense) are ill-designed and instead of easing the situation, may actually backfire. The Hungarian banking sector continues to suffer from the weak domestic economy and policy measures (i.e. demand and supply constraints). Following the sector's poor profitability in 2010 (Return on Assets 0.2%, Return on Equity 2.3%) and most likely also in 2011, the overall banking and profitability outlook will likely only improve gradually. After a huge government-induced push at the end of 2011, the deleveraging in the household sector is likely to continue in the years to come, while households' ability to save remains limited. We expect NPLs to rise, continuing their recent steep increases (the sector's NPL ratio rose to ca. 13% in H1 2011, up from 10% at the end of 2010; in FCY, the ratio stood as 11.9% in H1 2011). Corporate and household NPLs are expected to peak in 2012-13 at 16-17%. The banking sector remains vulnerable to market risks due to its sizeable net open FX position (10-15% of capital) and its reliance on the short-term FX swap market.
The (initially transitory) outsized banking levy that is targeted at general revenue collection (approximately 0.5% on end-2009 total assets) will also apply in 2011 and 2012 and is unlikely to be abolished afterwards, although its size may decrease somewhat.
The first phase of the government's FCY mortgage loan rescue package (i.e. fixing CHF/HUF rate at 180 vs.

Key economic figures and forecasts

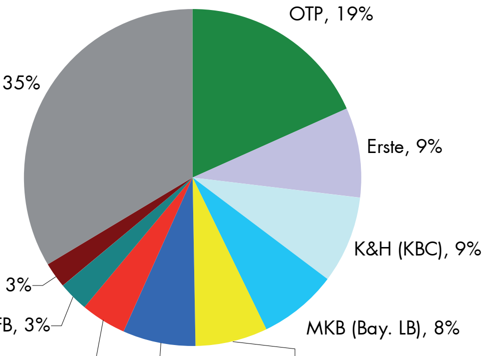
Hungary	2008	2009	2010	2011e	2012f	2013f
Population (mn)	10.05	10.03	10.01	9.99	9.96	9.93
Nominal GDP (EUR bn)	106	93	99	103	101	110
Nominal GDP per capita (EUR)	10,513	9,291	9,840	10,330	10,090	11,027
Nominal GDP per capita (EUR at PPP)	16,145	15,015	15,390	16,141	14,763	17,229
Real GDP (% yoy)	0.6	-6.7	1.2	1.5	-1.0	1.5
Consumer prices (avg, % yoy)	6.1	4.2	4.9	3.8	4.2	3.6
Unemployment rate (avg, %)	7.8	9.9	11.2	11.0	12.5	12.5
General budget balance (% of GDP)	-3.7	-4.4	-4.7	0.0	-3.8	-3.4
Public debt (% of GDP)	73	78	81	73	76	76
Current account balance (% of GDP)	-7.1	0.3	2.0	2.0	2.5	1.9
Gross foreign debt (% of GDP)	93.6	110.9	108.6	96.9	98.5	89.5
Official FX reserves (EUR bn)	24.0	30.0	33.7	35.8	38.2	40.3
EUR/LCY (avg)	250.8	280.1	275.5	272.6	288.1	275.0
USD/LCY (avg)	170.5	200.9	207.7	197.8	229.4	220.0

Source: National sources, wiiw, Raiffeisen RESEARCH

market price of 240 until the end of 2014) did not attract many participants. The government therefore decided that an FCY mortgage full-repayment scheme should be made available at the same exchange rate. While the new scheme's full impact will only be visible when it is known what proportion of the 1 million debtors will participate (estimates are 20-30%), the Hungarian banking sector will certainly lose a tangible part of its capital. Also, after several years in which market shares have been frozen, a significant reallocation is likely to take place as. The question is, who is willing to provide HUF mortgages to replace the ones in FCY?

While none of the commercial banks have publicly announced plans to close down their operations in Hungary, the Hungarian market has lost appeal. The challenging environment in its banking sector may cause a shift of funding and lending away from Hungary.

Market shares



Per cent of total assets; H1 2011 data
Source: MNB, Raiffeisen RESEARCH

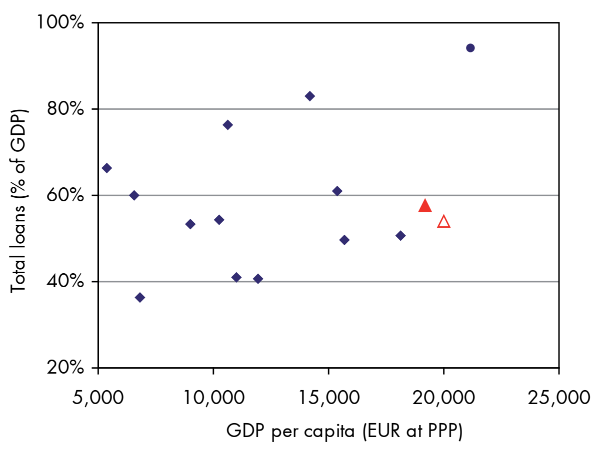
Overview of banking sector developments

Balance sheet data	2007	2008	2009	2010	H1 2011*
Total assets (EUR mn)	108,004	125,212	124,888	121,268	124,966
growth in % yoy	15.6	15.9	(0.3)	(2.9)	3.0
in % of GDP	106.8	118.6	134.0	123.1	n.a.
Total loans (EUR mn)	53,582.0	60,809.8	58,128.7	59,964.0	60,111.4
growth in % yoy	16.9	13.5	(4.4)	3.2	0.2
in % of GDP	53.0	57.6	62.4	60.9	n.a.
Loans to private enterprises (EUR mn)	28,752.7	30,171.9	28,035.3	27,369.4	27,070.2
growth in % yoy	11.7	4.9	(7.1)	(2.4)	(1.1)
in % of GDP	28.4	28.6	30.1	27.8	n.a.
Loans to households (EUR mn)	23,344.3	29,082.8	28,720.9	30,918.9	31,239.2
growth in % yoy	23.9	24.6	(1.2)	7.7	1.0
in % of GDP	23.1	27.5	30.8	31.4	n.a.
Mortgage loans (EUR mn)	17,224.1	22,444.4	22,239.7	24,699.1	25,075.5
growth in % yoy	61.0	30.3	(0.9)	11.1	1.5
in % of GDP	17.0	21.3	23.9	25.1	n.a.
Loans in foreign currency (EUR mn)	28,051.4	37,347.5	35,635.3	36,962.2	35,678.8
growth in % yoy	40.4	33.1	(4.6)	3.7	(3.5)
in % of GDP	27.7	35.4	38.2	37.5	n.a.
Loans in foreign currency (% of total loans)	52.4	61.4	61.3	61.6	59.4
Total deposits (EUR mn)	42,415.5	44,117.4	43,629.6	42,742.3	43,821.9
growth in % yoy	10.2	4.0	(1.1)	(2.0)	2.5
in % of GDP	41.9	41.8	46.8	43.4	n.a.
Deposits from households (EUR mn)	25,011.6	27,102.6	27,761.4	26,580.2	27,700.4
growth in % yoy	6.4	8.4	2.4	(4.3)	4.2
in % of GDP	24.7	25.7	29.8	27.0	n.a.
Total loans (% of total deposits)	126.3	137.8	133.2	140.3	137.2
Structural information					
Number of banks	38	38	35	35	35
Market share of state-owned banks (% of total assets)	n.a.	3.9	4.4	4.6	4.8
Market share of foreign-owned banks (% of total assets)	78.4	91.1	90.6	89.8	89.7
Profitability and efficiency					
Return on Assets (RoA)	1.5	1.2	1.7	0.2	1.2
Return on Equity (RoE)	20.1	15.2	10.1	2.3	12.6
Capital adequacy (% of risk weighted assets)	10.0	11.1	13.1	13.3	13.8
Non-performing loans (% of total loans)	2.3	3.0	5.9	7.8	10.5

** data as of June 2011, 2011 growth rates as year-to-date figures (in EUR-terms)*
Source: NBH, Raiffeisen RESEARCH

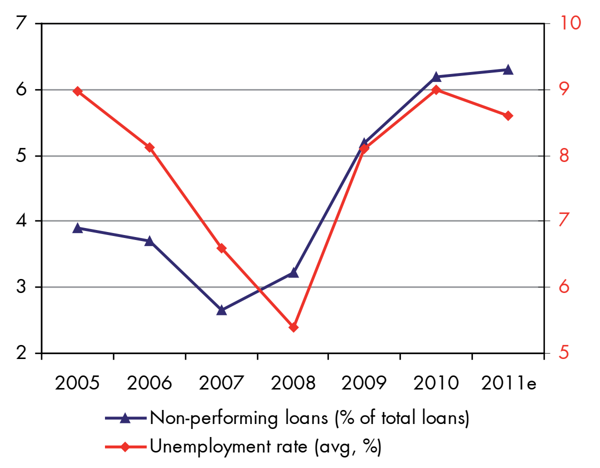
Solid banking sector
Sound macroeconomic environment

Total loans vs. GDP per capita



Data for 2010, red triangle (2010) and non-filled red triangle (2008) to illustrate dynamics in Czech Republic
Source: CNB, national central banks, Raiffeisen RESEARCH

Non-performing loans* and unemployment



** NPL data as of Q2 2011*
Source: CNB, Raiffeisen RESEARCH

The Czech economy slowed down in 2011 due to fiscal austerity and weak domestic consumption, while economic growth is only driven by exports. In 2012, fiscal policy will continue to be restrictive and domestic consumption (both public and private) will be weak. We however expect certain rebound in investment activity. Due to its high export dependency, the Czech economy is likely to suffer from the Eurozone crisis and the continuing global slowdown.

The overall banking system was very stable during the crisis, benefiting from a solid macroeconomic framework (e.g. low inflation benefitted CZK lending in the household sector) and prudent pre-crisis banking sector practices and regulation (e.g. high liquidity and capital buffers, conservative loan-to-value ratios). The banking sector also profited from its low dependency on external financing on the back of a low loan-to-deposit ratio of some 77%. The deterioration in loan quality seems to have petered out at a low level (NPL ratio H1 2011: 6.3%), while the profitability of the Czech banking system remains high. Moreover, following the stagnation in 2009, the year 2010 was already characterized by a modest growth in the banking sector, especially in the corporate sector. Total loans grew by 7.8% and the corporate sector's improving economic situation was also reflected in the stronger growth rates of its deposits. On the other hand, household lending suffered from the effects of cost-savings measures and households adapted their financial behavior to the changed circumstances. Both household lending and mortgage loan growth slowed in 2010, while household lending showed some signs of recovery in H1 2011. However, the expected economic slowdown should keep the banking sector's overall performance in 2011 close to the 2010 figures. Currently, no extra banking sector levy

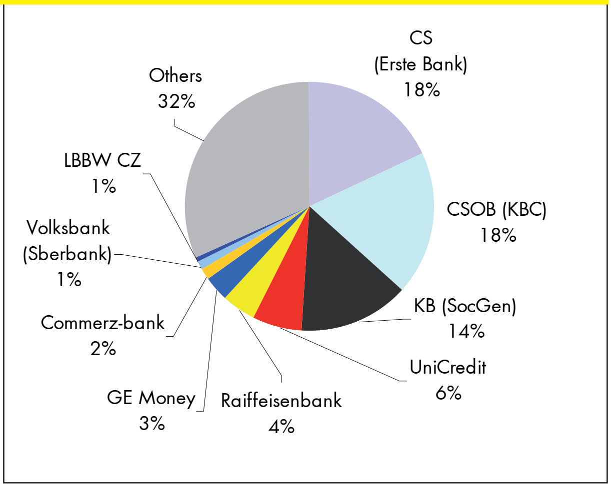
Key economic figures and forecasts

Czech Republic	2008	2009	2010	2011e	2012f	2013f
Population (mn)	10.43	10.49	10.52	10.54	10.54	10.54
Nominal GDP (EUR bn)	148	137	145	155	161	171
Nominal GDP per capita (EUR)	14,171	13,073	13,816	14,713	15,247	16,233
Nominal GDP per capita (EUR at PPP)	20,145	18,960	19,161	19,720	19,977	20,377
Real GDP (% yoy)	2.3	-4.0	2.2	1.9	0.3	2.0
Consumer prices (avg, % yoy)	6.3	1.0	1.5	1.8	2.4	2.0
Unemployment rate (avg, %)	5.4	8.1	9.0	8.6	8.6	7.6
General budget balance (% of GDP)	-2.7	-5.8	-4.7	-4.5	-3.9	-3.0
Public debt (% of GDP)	30	35	39	41	44	45
Current account balance (% of GDP)	-2.2	-2.5	-3.2	-3.2	-3.1	-2.8
Gross foreign debt (% of GDP)	40.4	45.1	49.1	43.7	45.7	45.6
Official FX reserves (EUR bn)	26.6	28.9	32.0	30.0	32.0	36.0
EUR/LCY (avg)	24.9	26.4	25.3	24.3	23.8	22.8
USD/LCY (avg)	17.0	19.0	19.1	17.6	18.9	18.2

Source: National sources, wiiw, Raiffeisen RESEARCH

(e.g. to collect a buffer for crisis times) is being discussed in Czech Republic. However, the Czech National Bank monitors (foreign-owned) banks to ensure that capital and liquidity buffers remain appropriate before these make dividend payments.
Due to the challenging financial market environment and a strategic shift Belgium's KBC did not list its Czech subsidiary (CSOB) on the stock market (an EU-demanded exit in exchange for state support KBC has received). Currently, KBC prefers to sell its Polish subsidiary. After almost ceasing entirely in 2009, M&A activity in the sector picked up in 2010 on the back of the improving economic situation. However, distressed assets deals and restructurings outweighed standard M&A transactions. For the remainder of 2011, we expect banks and sponsors to be more willing to participate in sound M&A deals and restructurings.

Market shares



Per cent of total assets; year-end 2010 data
Source: CNB, Raiffeisen RESEARCH

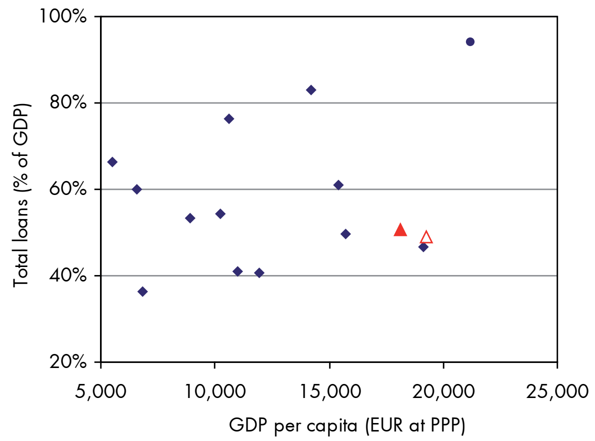
Overview of banking sector developments

Balance sheet data	**2007**	**2008**	**2009**	**2010**	**H1 2011***
Total assets (EUR mn)	140,262.3	154,835.1	161,862.7	173,213.7	181,183.3
growth in % yoy	23.3	10.4	4.5	7.0	4.6
in % of GDP	101.5	108.0	112.9	114.8	n.a.
Total loans (EUR mn)	67,390.1	77,307.3	80,617.6	86,918.0	90,842.0
growth in % yoy	30.9	14.7	4.3	7.8	4.5
in % of GDP	48.8	53.9	56.2	57.6	n.a.
Loans to private enterprises (EUR mn)	28,075.9	31,678.8	29,996.9	31,167.4	33,235.2
growth in % yoy	21.3	12.8	(5.3)	3.9	6.6
in % of GDP	20.3	22.1	20.9	20.7	n.a.
Loans to households (EUR mn)	25,237.3	30,106.4	34,439.4	38,392.5	40,255.0
growth in % yoy	40.0	19.3	14.4	11.5	4.9
in % of GDP	18.3	21.0	24.0	25.4	n.a.
Mortgage loans (EUR mn)	12,600.0	14,799.3	21,261.8	24,170.2	25,900.0
growth in % yoy	45.1	17.5	43.7	13.7	7.2
in % of GDP	9.1	10.3	14.8	16.0	n.a.
Loans in foreign currency (EUR mn)	8,690.3	10,868.4	10,814.4	11,961.0	11,759.6
growth in % yoy	24.6	25.1	(0.5)	10.6	(1.7)
in % of GDP	6.3	7.6	7.5	7.9	n.a.
Loans in foreign currency (% of total loans)	12.9	14.1	13.4	13.8	12.9
Total deposits (EUR mn)	89,396.2	95,618.2	103,481.1	111,470.8	115,650.7
growth in % yoy	21.2	7.0	8.2	7.7	3.7
in % of GDP	64.7	66.7	72.2	73.9	n.a.
Deposits from households (EUR mn)	44,885.4	50,122.1	56,196.1	61,416.9	64,614.4
growth in % yoy	13.8	11.7	12.1	9.3	5.2
in % of GDP	32.5	35.0	39.2	40.7	n.a.
Total deposits (% of total credits)	75.4	80.8	77.9	78.0	78.5
Structural information					
Number of banks	37	37	39	41	44
Market share of state-owned banks (% of total assets)	2.5	2.8	2.7	3.3	3.3
Market share of foreign-owned banks (% of total assets)	96.4	88.5	87.1	86.9	86.8
Profitability and efficiency					
Return on Assets (RoA)	1.3	1.2	1.5	1.3	1.5
Return on Equity (RoE)	25.4	21.7	25.8	21.9	22.6
Capital adequacy (% of risk weighted assets)	11.6	12.3	14.1	15.5	16.0
Non-performing loans (% of total loans)	2.6	3.2	5.2	6.2	6.3

** data as of June 2011, 2011 growth rates as year-to-date figures (in EUR-terms)*
Source: CNB, Raiffeisen RESEARCH

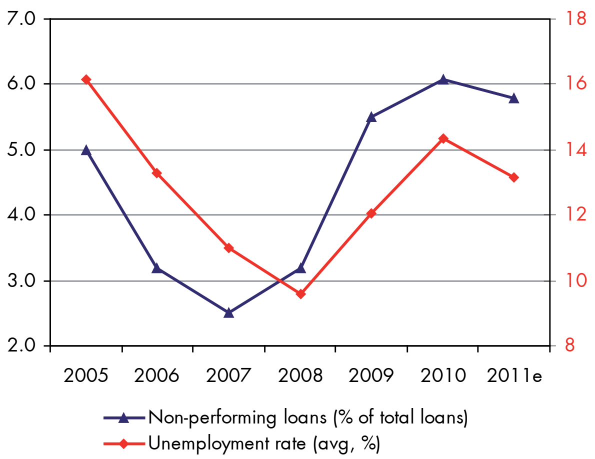
One of EMU's most solid banking sectors

Total loans vs. GDP per capita



Data for 2010, red triangle (2010) and non-filled red triangle (2008) to illustrate dynamics in Slovakia
Source: NBS, national central banks, Raiffeisen RESEARCH

Non-performing loans* and unemployment



** NPL data as of Q2 2011*
Source: NBS, Raiffeisen RESEARCH

The Slovak economy grew by 3.4% yoy in H1 2011. However, that recovery has been led by export-oriented industries, while domestic consumption stagnated. Prospects for a more broad-based growth are endangered by the recent deterioration of the global economic backdrop.

Despite sluggish household consumption, loans to households increased by some 5.6% ytd in H1 2011, following a solid increase of 12.3% in 2010. Especially the strong increase of mortgage loans in 2010 and H1 2011 shows that this market segment is not saturated. While we expect domestic banks to stay focused on retail lending in 2012, we forecast household and mortgage loan growth in the coming year to be slower than in 2010 and 2011 on account of the deteriorating macroeconomic backdrop. The relatively modest corporate loan growth seen in 2010 (up 0.4%) and H1 2011 (up 5.8%) is expected to continue, as overall investment activity remains subdued. The sluggish rate of corporate loan growth also reflects the fact that the main drivers of the economy's recovery – namely large multinational companies - are not very dependent on financing through local banks. In light of the macroeconomic risks and the challenging banking sector outlook in the Eurozone, we remain cautious about the corporate loan segment's development in 2012 and expect a low single digit growth rate.

The growth of the deposit base has traditionally lagged behind loan growth. Total deposits grew by 4.8% yoy in H1 2011, driven mainly by retail deposits (up 6.2% yoy). We expect somewhat stronger dynamics in 2012 due an expected increase of savings on the back of the increasing economic uncertainty. Nevertheless, the loan-to-deposit ratio (currently at 87%) should not become a limiting factor going forward. Moreover, the fact that the sector's loan-to-deposit ratio is below 100% highlights Slovak banks' low dependency on external funding. The strongest

Key economic figures and forecasts

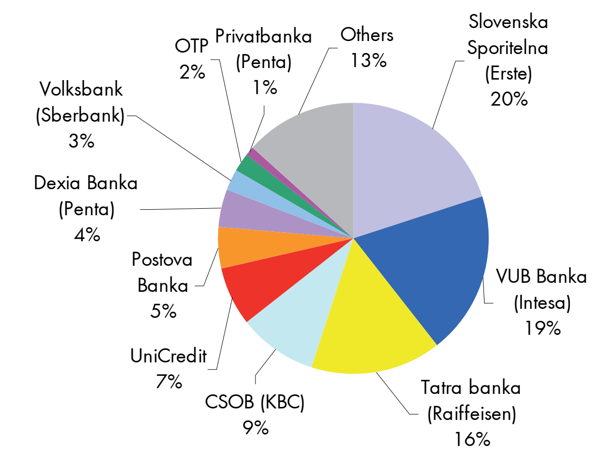
Slovakia	*2008*	*2009*	*2010*	*2011e*	*2012f*	*2013f*
Population (mn)	5.41	5.41	5.42	5.43	5.44	5.45
Nominal GDP (EUR bn)	67	63	66	69	71	75
Nominal GDP per capita (EUR)	11,900	11,600	12,100	12,779	13,026	13,692
Nominal GDP per capita (EUR at PPP)	18,100	17,200	18,100	18,697	18,883	19,451
Real GDP (% yoy)	5.8	-4.8	4.0	3.3	1.0	3.0
Consumer prices (avg, % yoy)	4.6	1.6	1.0	3.8	2.0	2.5
Unemployment rate (avg, %)	9.6	12.1	14.4	13.4	13.7	13.3
General budget balance (% of GDP)	-2.1	-8.0	-7.9	-4.9	-4.1	-3.7
Public debt (% of GDP)	28	35	41	44	45	45
Current account balance (% of GDP)	-6.0	-3.6	-3.5	-1.8	-0.4	0.5
Gross foreign debt (% of GDP)	56.4	71.9	75.1	76.1	89.4	94
Official FX reserves (EUR bn)	13.5	1.0	1.2	1.4	1.6	1.8

Source: National sources, wiiw, Raiffeisen RESEARCH

impact on the regulatory front is expected from the bank levy that is likely to be introduced as of 2012 and will apply to non-insured primary deposits with a net effect of some EUR 40-50 mn (almost 8% of the 2010 net profit of the banking sector). On a positive note, the envisaged revenues will not go to the state budget, but are instead earmarked for a buffer for potential future financial sector troubles.

There have been two changes in ownership structure in recent months: Dexia Banka Slovensko was acquired by a leading Slovak private equity group (Penta), while Volksbank Slovensko, previously a part of Volksbank International, is now under the control of Russia's Sberbank. We expect these transactions, both of which involve strong investors as buyers, to increase the competition in retail lending.

Market shares



Per cent of total assets; H1 2011 data
Source: NBS, Raiffeisen RESEARCH

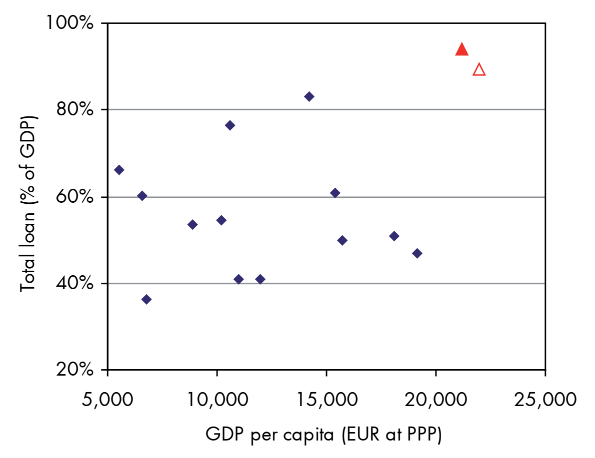
Overview of banking sector developments

Balance sheet data	***2007***	***2008***	***2009***	***2010***	***H1 2011****
Total assets (EUR mn)	49,412.8	62,838.2	53,028.0	54,695.0	55,779.0
growth in % yoy	16.5	27.2	(15.6)	3.1	2.0
in % of GDP	68.8	97.4	84.1	83.0	n.a.
Total loans (EUR mn)	24,571.1	31,649.5	31,876.0	33,452.0	35,176.9
growth in % yoy	27.2	28.8	0.7	4.9	5.2
in % of GDP	34.2	49.1	50.6	50.8	n.a.
Loans to private enterprises (EUR mn)	12,407.9	16,158.8	15,620.0	15,688.0	16,597.5
growth in % yoy	4.6	30.2	(3.3)	0.4	5.8
in % of GDP	17.3	25.0	24.8	23.8	n.a.
Loans to households (EUR mn)	8,435.6	11,830.3	13,158.0	14,773.0	15,607.1
growth in % yoy	31.9	40.2	11.2	12.3	5.6
in % of GDP	11.8	18.3	20.9	22.4	n.a.
Mortgage loans (EUR mn)	5,932.7	8,335.5	9,235.0	10,581.0	11,403.4
growth in % yoy	170.2	40.5	10.8	14.6	7.8
in % of GDP	8.3	12.9	14.6	16.1	n.a.
Loans in foreign currency (EUR mn)	5,807.6	6,909.3	576.0	504.0	466.1
growth in % yoy	36.6	19.0	(91.7)	(12.5)	(7.5)
in % of GDP	8.1	10.7	0.9	0.8	n.a.
Loans in foreign currency (% of total loans)	23.6	21.8	1.8	1.5	1.3
Total deposits (EUR mn)	32,158.0	40,986.3	37,541.0	39,642.0	40,395.5
growth in % yoy	20.1	27.5	(8.4)	5.6	1.9
in % of GDP	44.8	63.5	59.5	60.1	n.a.
Deposits from households (EUR mn)	14,498.6	21,343.2	21,090.0	22,248.0	22,971.2
growth in % yoy	19.8	47.2	(1.2)	5.5	3.3
in % of GDP	20.2	33.1	33.4	33.8	n.a.
Total loans (% of total deposits)	76.4	77.2	84.9	84.4	87.1
Structural information					
Number of banks	25	26	26	29	31
Market share of state-owned banks (% of total assets)	1.0	0.8	0.9	5.3	5.1
Market share of foreign-owned banks (% of total assets)	97.0	96.3	94.3	93.4	88.7
Profitability and efficiency					
Return on Assets (RoA)**	1.1	1.0	0.5	0.9	0.3
Return on Equity (RoE)**	16.5	14.1	6.5	12.3	4.1
Capital adequacy (% of risk weighted assets)**	12.8	11.1	12.6	12.7	12.6
Non-performing loans (% of total loans)	2.5	3.2	5.5	6.1	5.8

** data as of June 2011, 2011 growth rates as year-to-date figures (in EUR-terms); ** as of March 2011*
Source: NBS, Raiffeisen RESEARCH

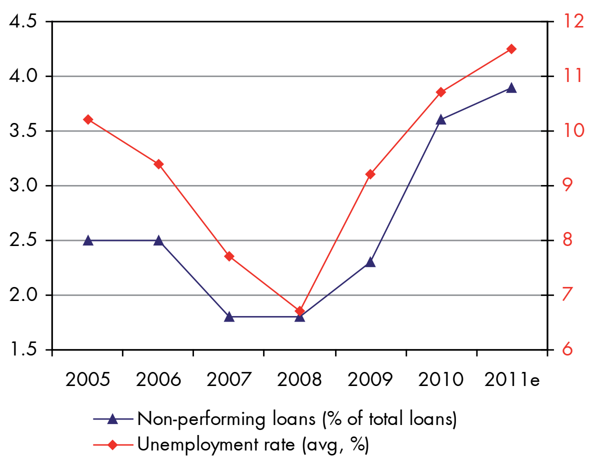
Homemade problems
Overleveraged corporate sector

Total loans vs. GDP per capita



Data for 2010, red triangle (2010) and non-filled red triangle (2008) to illustrate dynamics in Slovenia
Source: BSI, national central banks, Raiffeisen RESEARCH

Non-performing loans* and unemployment



** NPL data as of Q1 2011*
Source: BSI, Raiffeisen RESEARCH

After experiencing the deepest recession in CE, Slovenia is currently also experiencing a very shallow recovery in comparison to its CE peers (by year-end 2010, GDP reached its level of mid-year 2006). Domestic demand and investments remain weak, unemployment remains high.
The Slovenian banking sector was hit hard by the severe economic slowdown. Strong pre-crisis loan growth financed via short-term external bank borrowing proved unsustainable. Especially the loan concentration to highly-leveraged corporates caused a massive deterioration in asset quality and profitability. The banking system registered a loss in 2010, mainly driven by a steep rise in impairments and provisioning costs. In 2010, the banks kept their tight lending standards from previous years, resulting in a meager loan growth of 1.7% yoy in 2010 (loan growth in Q1 2011: +0.2% ytd). Due to the high leverage in the corporate sector, corporate lending has nearly stopped in recent years. Lending to households proved more stable due to a lower leverage in the household sector. The overall low loan growth contributed to a sharp rise in NPLs in 2010 and H1 2011 (currently at 3.9% vs. 1.8% in 2008). The strongest increase in NPLs took place at banks under majority foreign ownership (NPLs at some 4%) and large domestic banks (NPLs slightly above 4%), while small domestic banks showed a better performance, with NPLs (still) below the 4% threshold.
The aggregated capital adequacy in the Slovenian banking system is some two percentage points below the Eurozone average. Especially the capital position of large domestic banks remains weak, while capital adequacy is above average and has recently increased at small domestic banks and banks with foreign ownership. However, the biggest lender Nova Ljubljanska Banka (NLB) barely passed the European banking stress test in 2011. Although the low capitalization is still in line with regulatory mi-

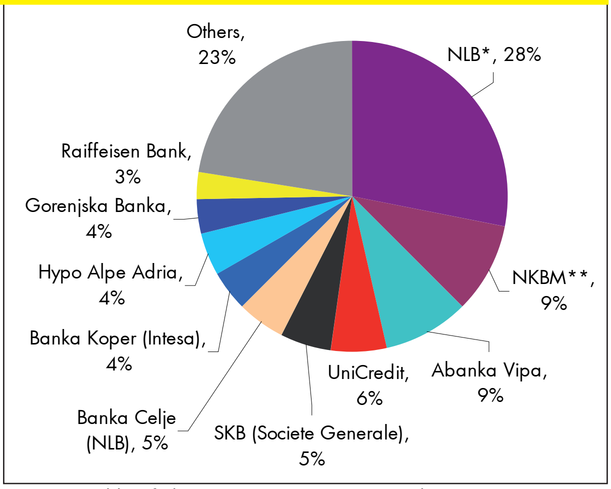
Key economic figures and forecasts

Slovenia	2008	2009	2010	2011e	2012f	2013f
Population (mn)	2.02	2.04	2.05	2.05	2.05	2.05
Nominal GDP (EUR bn)	37	35	37	38	39	40
Nominal GDP per capita (EUR)	18.456	17.306	17.831	18.266	18.780	19.415
Nominal GDP per capita (EUR at PPP)	22.800	20.800	21.200	21.500	21.800	22.000
Real GDP (% yoy)	3.7	-8.1	1.2	1.2	0.5	1.5
Consumer prices (avg, % yoy)	5.7	0.9	1.8	1.5	2.5	2.0
Unemployment rate (avg, %)	6.7	9.2	10.7	11.5	12.0	11.5
General budget balance (% of GDP)	-1.8	-6.0	-5.5	-5.5	-5.5	-5.5
Public debt (% of GDP)	23	35	39	44	48	50
Current account balance (% of GDP)	-6.7	-1.5	-1.1	-1.6	-1.3	-1.5
Gross foreign debt (% of GDP)	105.2	114.1	111.9	110.4	109.0	106.8
Official FX reserves (EUR bn)	0.6	0.7	0.7	0.7	0.7	0.7

Source: National sources, wiiw, Raiffeisen RESEARCH

nimum requirements, it limits the ability to lend and the growth outlook for the Slovenian economy and banking sector remain challenging. Moreover, the growth outlook is also constrained by the local deposit market's limited potential and ongoing wobbles on international wholesale markets. The banks' dependency on borrowing from the ECB decreased somewhat in 2010, but remained at 1.1% of total assets end of 2010. We expect single-digit loan growth rates going forward. This outlook will be a drag on (retained) earnings, which will be needed to boost capital. The introduction of Basel III will add to capital requirements.
Although the Slovenian banking sector has not seen much consolidation for a long time, some M&A activity might be expected to take place. Recapitalizations might be used to broadening the investor base. Changing and expanding the (foreign) ownership may also help to overcome some weakness in terms of governance and risk management. The overall challenging growth outlook may also foster consolidation beyond what is needed by due to capital increases. Consolidation may help to increase the sector's efficiency and earnings capacity.

Market shares



** 45% Republic of Slovenia, 25% KBC minority stake*
*** 27.6% Republic of Slovenia*
Per cent of total assets, Q1 2011 data
Source: BSI, Raiffeisen RESEARCH

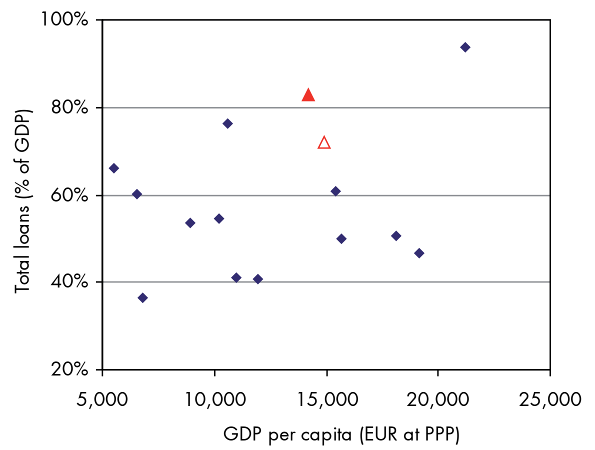
Overview of banking sector developments

Balance sheet data	**2007**	**2008**	**2009**	**2010**	**Q1 2011***
Total assets (EUR mn)	42,195	47,501	51,441	50,290	51,743
growth in % yoy	-97.2	12.6	8.3	-2.2	2.9
in % of GDP	122.1	127.3	145.4	137.6	n.a.
Total loans (EUR mn)	28,046	33,334	33,742	34,329	34,380
growth in % yoy	-96.9	18.9	1.2	1.7	0.1
in % of GDP	81.1	89.4	95.4	93.9	n.a.
Loans to private enterprises (EUR mn)	22,331	26,744	26,638	26,441	26,481
growth in % yoy	-96.7	19.8	(0.4)	(0.7)	0.2
in % of GDP	64.6	71.7	75.3	72.3	n.a.
Loans to households (EUR mn)	5,715	6,590	7,104	7,888	7,898
growth in % yoy	-97.5	15.3	7.8	11.0	0.1
in % of GDP	16.5	17.7	20.1	21.6	n.a.
Total deposits (EUR mn)	36,198	37,762	23,529	23,495	25,113
growth in % yoy	-97.3	4.3	(37.7)	(0.1)	6.9
in % of GDP	104.7	101.2	66.5	64.3	n.a.
Deposits from households (EUR mn)	11,778	12,865	13,464	13,939	13,975
growth in % yoy	-97.6	9.2	4.7	3.5	0.3
in % of GDP	34.1	34.5	38.1	38.1	n.a.
Total loans (% of total deposits)	77.5	88.3	143.4	146.1	136.9
Structural information					
Number of banks	21	19	19	19	19
Market share of state-owned banks (% of total assets)	15.1	17.7	20.5	20.1	n.a.
Market share of foreign-owned banks (% of total assets)	37.7	38.2	36.6	37.1	n.a.
Profitability and efficiency					
Return on Assets (RoA)	1.4	0.7	0.3	-0.2	0.4
Return on Equity (RoE)	16.3	8.1	3.9	-2.3	4.6
Capital adequacy (% of risk weighted assets)	11.2	11.7	11.6	11.3	n.a.
Non-performing loans (% of total loans)	1.8	1.8	2.3	3.6	3.9

** data as of Q1 2011, 2011 growth rates as year-to-date figures (in EUR-terms)*
Source: BSI, Raiffeisen RESEARCH

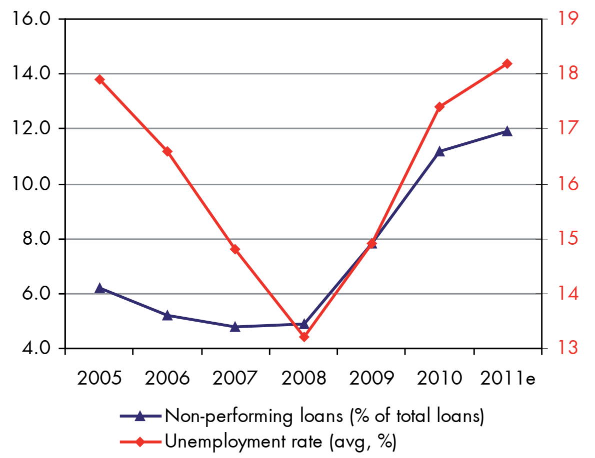
Overleveraged economy
Oversized banking sector

Total loans vs. GDP per capita



Data for 2010, red triangle (2010) and non-filled red triangle (2008) to illustrate dynamics in Croatia
Source: CNB, national central banks, Raiffeisen RESEARCH

Non-performing loans* and unemployment



** NPL data as of Q2 2011*
Source: CNB, Raiffeisen RESEARCH

Croatia is still struggling with recession in 2011, marking one of the longest stagnations in the region. Moreover, the economy is characterized by a high external indebtedness, as well as substantial external financing needs plus partially depleted (foreign currency) buffers in the banking sector (which had been built up because of proactive pre-crisis macroprudential regulation).

From 2009 until now, the Croatian banking sector has been characterized by stagnation in terms of asset growth and household lending. Some growth was registered in corporate lending (partially due to credit-support schemes); however, most of this lending was used for working capital financing or to refinance existing (external) loans. NPLs continued to grow in H1 2011, reaching 11.7% on aggregate (close to 20% in the corporate segment). While a further growth in NPLs seems likely given the weak growth prospects, NPL growth appears to be petering out somewhat given the modest increase in comparison to year end 2010 data. With a market share of some 75%, FCY loans (of which around 16% are CHF-linked) remain substantial. The banking sector's net open FX position continues to be at manageable levels due to the rather high level of FX deposits (around 70% of deposits). Proactive pre-crisis regulation helped the Croatian banking system to remain stable throughout the global financial crisis and the severe domestic recession (only one state-owned bank was recapitalized using public funds amounting to 0.1% of GDP). Most banks are highly capitalized, overliquid and modestly profitable. High impairments constrained the sector's profitability in 2009 and 2010. In 2011, the worsening of the loan portfolio is forecasted to slow down, bringing the sector's Return on Equity back to the double-digit

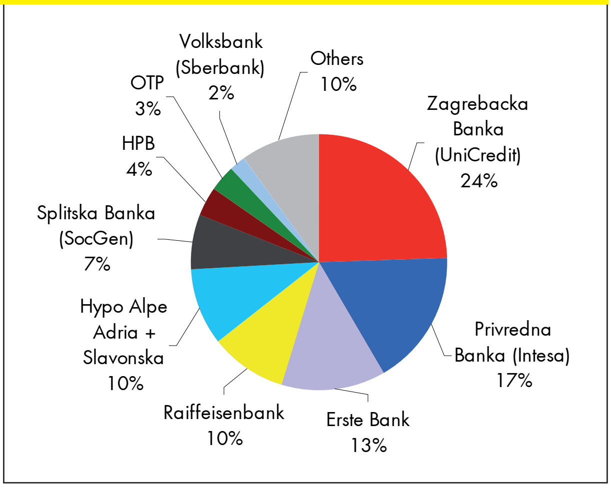
Key economic figures and forecasts

Croatia	*2008*	*2009*	*2010*	*2011e*	*2012f*	*2013f*
Population (mn)	4.43	4.43	4.42	4.29	4.29	4.29
Nominal GDP (EUR bn)	48	46	46	47	48	51
Nominal GDP per capita (EUR)	10,777	10,311	10,374	10,857	11,215	11,840
Nominal GDP per capita (EUR at PPP)	15,500	14,400	14,200	14,700	14,900	15,100
Real GDP (% yoy)	2.2	-6.0	-1.2	1.0	1.0	2.5
Consumer prices (avg, % yoy)	6.1	2.4	1.1	2.3	2.8	2.9
Unemployment rate (avg, %)	13.2	14.9	17.4	18.2	17.5	16.5
General budget balance (% of GDP)	-1.4	-4.1	-4.9	-5.5	-4.8	-3.5
Public debt (% of GDP)	29	35	41	44	47	47
Current account balance (% of GDP)	-8.8	-5.3	-1.1	-1.4	-1.0	0.0
Gross foreign debt (% of GDP)	84.9	99.1	101.2	103.4	101.5	98.3
Official FX reserves (EUR bn)	9.1	10.4	10.7	11.7	12.0	12.3
EUR/LCY (avg)	7.2	7.3	7.3	7.4	7.5	7.5
USD/LCY (avg)	4.9	5.3	5.5	5.4	5.9	6.0

Source: National sources, wiiw, Raiffeisen RESEARCH

level. However, the medium-term growth potential is very limited due to an already very high level of financial intermediation. Some growth potential remains in the corporate segment, where an adjustment to more modest pricing may demotivate companies from borrowing abroad. Currently, Croatia has no plans to introduce a banking sector levy, which would likely be very damaging given the challenging environment for the banking sector.
Consolidation within the Croatian banking sector seems inevitable, as 25 out of 34 banks have a market share of less than 0.7%. On the other hand, the six largest universal banks (all members of international groups) will compete severely on a relatively stagnant market, which is likely to constrain profit margins and might also cause mergers. Other banks may have to specialize as niche players.

Market shares



Per cent of total assets; 2010 year end data
Source: CNB, Raiffeisen RESEARCH

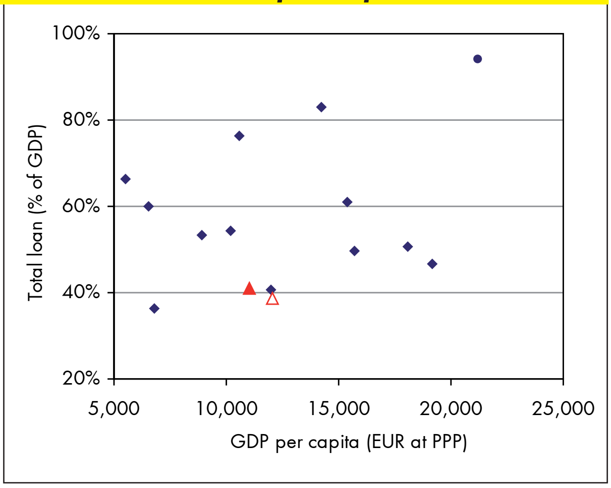
Overview of banking sector developments

Balance sheet data	**2007**	**2008**	**2009**	**2010**	**H1 2011***
Total assets (EUR mn)	47,109.4	50,619.4	51,853.5	53,027.6	53,913.9
growth in % yoy	13.4	7.5	2.4	2.3	1.7
in % of GDP	108.4	107.5	113.0	117.1	n.a.
Total loans (EUR mn)	29,658.6	33,931.5	35,083.9	37,563.4	38,541.4
growth in % yoy	14.0	14.4	3.4	7.1	2.6
in % of GDP	68.3	72.0	76.5	82.9	n.a.
Loans to private enterprises (EUR mn)	10,677.0	12,052.9	12,389.4	13,551.6	14,086.5
growth in % yoy	11.6	12.9	2.8	9.4	3.9
in % of GDP	24.6	25.6	27.0	29.9	n.a.
Loans to households (EUR mn)	15,374.9	17,192.2	16,724.7	17,146.3	17,225.9
growth in % yoy	18.7	11.8	(2.7)	2.5	0.5
in % of GDP	35.4	36.5	36.5	37.8	n.a.
Mortgage loans (EUR mn)	6,578.5	7,570.3	7,670.7	8,286.5	8,417.3
growth in % yoy	21.9	15.1	1.3	8.0	1.6
in % of GDP	15.1	16.1	16.7	18.3	n.a.
Loans in foreign currency (EUR mn)	18,517.8	22,385.6	25,460.2	27,396.1	28,552.0
growth in % yoy	(0.8)	20.9	13.7	7.6	4.2
in % of GDP	42.6	47.5	55.5	60.5	n.a.
Loans in foreign currency (% of total loans)	62.4	66.0	72.6	72.9	74.1
Total deposits (EUR mn)	31,453.9	33,411.9	34,741.6	36,462.5	37,195.9
growth in % yoy	15.1	6.2	4.0	5.0	2.0
in % of GDP	72.4	70.9	75.7	80.5	n.a.
Deposits from households (EUR mn)	16,625.9	18,569.5	19,321.0	20,657.4	20,831.2
growth in % yoy	10.7	11.7	4.0	6.9	0.8
in % of GDP	38.3	39.4	42.1	45.6	n.a.
Total loans (% of total deposits)	94.3	101.6	101.0	103.0	103.6
Structural information					
Number of banks	33	33	34	34	33
Market share of state-owned banks (% of total assets)	4.7	4.4	4.2	4.3	4.3
Market share of foreign-owned banks (% of total assets)	90.4	90.6	90.9	90.3	95.7
Profitability and efficiency					
Return on Assets (RoA)**	1.6	1.6	1.1	1.1	1.3
Return on Equity (RoE)**	10.9	9.9	6.4	6.5	7.7
Capital adequacy (% of risk weighted assets)	16.4	15.2	16.4	18.8	19.1
Non-performing loans (% of total loans)	4.8	4.9	7.8	11.2	11.9

** data as of H1 2011, 2011 growth rates as year-to-date figures (in EUR-terms); ** Data as of Q1 2011*
Source: CNB, Raiffeisen RESEARCH

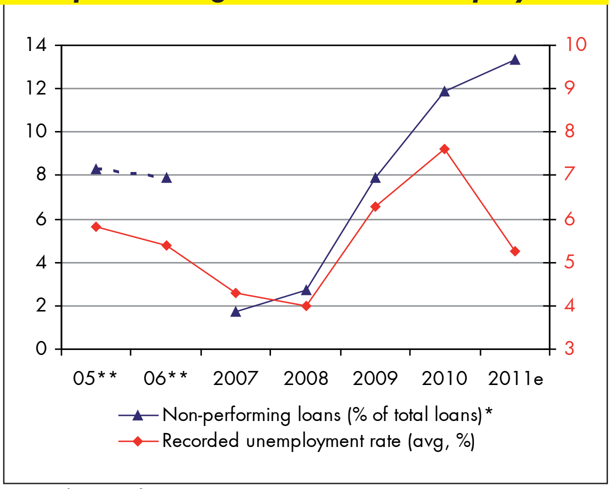
SEE's growth market
Still low level of financial intermediation

Total loans vs. GDP per capita



Data for 2010, red triangle (2010) and non-filled red triangle (2008) to illustrate dynamics in Romania
Source: NBR, national central banks, Raiffeisen RESEARCH

Non-performing loans* and unemployment



** NPL data as of Q2 2011*
*** IMF data as no local data available*
Source: NBR, IMF, Raiffeisen RESEARCH

After two years of negative growth and an adjustment of the external position to more sustainable levels, the Romanian economy experienced a decent recovery in H1 2011. However, the recovery was already losing some of its momentum in Q2 2011, reflecting the fact that Western European economies were cooling down and that domestic demand remained subdued.
In 2010, loan growth was driven mainly by export-oriented companies (corporate loan growth was up 7% in EUR-terms). Moreover, a government support scheme for mortgage loans (which accounted for most of the increase in households loans in 2010) added to the loan growth (overall loan growth up 3.4% in 2010, mortgage lending up 17.8%). As a result, new loans have been originated predominantly in FCY, causing the ratio of FCY-denominated loans (mostly in EUR) of total loans to remain above 60%. Weak domestic demand continued to weigh on LCY lending, especially for consumer loans, which remained on a downtrend. On the back of sluggish loan growth, NPLs continued to rise (currently 13.4%), but at a slower pace than in 2010. The loan-to-deposit ratio remains over the 100% level and even increased slightly in H1 2011 due to the very sluggish growth in deposits. In H1 2011, overall loan growth remained subdued, especially in retail lending. We expect this trend to continue well into 2012. The effects of the support scheme for mortgages are gradually fading away, while the financial position of most households remains fragile. On a positive note, the aggregated banking sector returned to profitability in H1 2011 after posting negative profitability readings in 2010. More adverse scenarios were avoided in 2009 and 2010 thanks to substantial capital and liquidity buffers (i.e. proactive and tight banking sector regulation). As of H1 2011

Key economic figures and forecasts

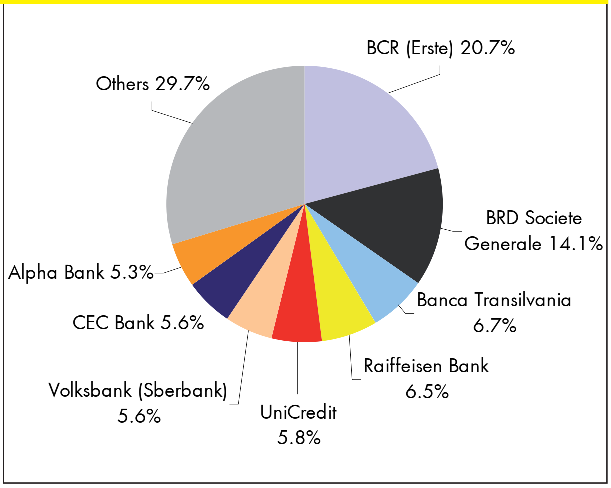
Romania	2008	2009	2010	2011e	2012f	2013f
Population (mn)	21.50	21.47	21.43	21.39	21.34	21.29
Nominal GDP (EUR bn)	140	118	122	131	135	149
Nominal GDP per capita (EUR)	6,499	5,474	5,693	6,109	6,347	6,991
Nominal GDP per capita (EUR at PPP)	11,686	10,865	11,001	11,538	11,941	12,512
Real GDP (% yoy)	7.3	-7.1	-1.3	1.5	1.8	2.5
Consumer prices (avg, % yoy)	7.9	5.6	6.1	5.9	3.8	3.8
Unemployment rate (avg, %)	4.0	6.3	7.6	5.3	5.0	4.9
General budget balance (% of GDP)	-5.7	-8.5	-6.4	-5.0	-4.0	-3.9
Public debt (% of GDP)	13	24	31	33	35	37
Current account balance (% of GDP)	-11.6	-4.2	-4.2	-4.5	-4.5	-4.6
Gross foreign debt (% of GDP)	51.8	69.1	74.4	75.0	75.3	73.2
Official FX reserves (EUR bn)	26.2	28.3	32.4	33.0	32.0	31.0
EUR/LCY (avg)	3.7	4.2	4.2	4.2	4.3	4.2
USD/LCY (avg)	2.5	3.0	3.2	3.1	3.4	3.4

Source: National sources, wiiw, Raiffeisen RESEARCH

the capital adequacy ratio stands at some 14%, with all banks above 11%. There are no serious plans to introduce a special bank levy, as the influential central bank opposes such a move. A large number of banks from the Eurozone periphery operate in Romania and collectively hold 16% of total assets. However, recent banking statistics show that these banks have higher capital ratios than the country average and their liquidity position remains solid, as there are no indications of significant bank-specific deposit outflows.

Although there was no M&A activity in 2010 or H1 2011, a pick up in M&A activity is likely going forward. Romania looks overbanked in terms of banking sector infrastructure and the number of banks operating in the country. Some smaller locally-owned banks are especially likely to show losses in 2011 and may become take-over candidates (or candidates for a state-led recapitalization in the first place).

Market shares



Based on National accounting standards, Per cent of total net assets; data from year-end 2010
Source: NBR, Raiffeisen RESEARCH

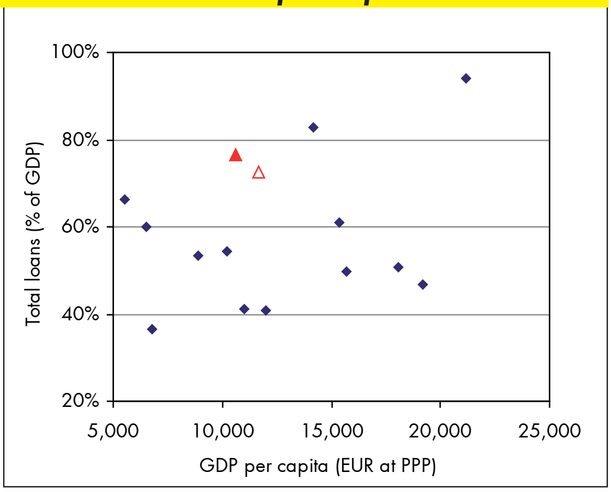
Overview of banking sector developments

Balance sheet data	***2007***	***2008***	***2009***	***2010***	***H1 2011****
Total assets (EUR mn)	72,056.2	85,190.4	86,201.8	89,906.4	91,054.1
growth in % yoy	38.9	18.2	1.2	4.3	1.3
in % of GDP	62.5	66.0	73.2	75.0	n.a.
Total loans (EUR mn)	41,344.4	49,968.6	47,583.6	49,208.1	50,887.8
growth in % yoy	51.3	20.9	(4.8)	3.4	3.4
in % of GDP	35.9	38.7	40.4	41.0	n.a.
Loans to private enterprises (EUR mn)	20,324.5	23,868.4	22,931.2	24,692.4	26,090.2
growth in % yoy	38.3	17.4	(3.9)	7.7	5.7
in % of GDP	17.6	18.5	19.5	20.6	n.a.
Loans to households (EUR mn)	19,807.1	24,972.8	23,778.7	23,889.1	24,134.4
growth in % yoy	70.6	26.1	(4.8)	0.5	1.0
in % of GDP	17.2	19.3	20.2	19.9	n.a.
Mortgage loans (EUR mn)	3,946.2	5,267.2	5,753.8	6,775.8	7,087.7
growth in % yoy	66.3	33.5	9.2	17.8	4.6
in % of GDP	3.4	4.1	4.9	5.7	n.a.
Loans in foreign currency (EUR mn)	22,564.3	28,947.3	28,717.6	31,131.3	32,163.4
growth in % yoy	74.4	28.3	(0.8)	8.4	3.3
in % of GDP	19.6	22.4	24.4	26.0	n.a.
Loans in foreign currency (% of total loans)	54.6	57.9	60.4	63.3	63.2
Total deposits (EUR mn)	37,381.5	40,352.3	42,808.4	44,843.3	45,001.1
growth in % yoy	31.1	7.9	6.1	4.8	0.4
in % of GDP	32.4	31.2	36.3	37.4	n.a.
Deposits from households (EUR mn)	19,032.9	21,204.1	23,534.7	24,672.7	25,562.1
growth in % yoy	45.9	11.4	11.0	4.8	3.6
in % of GDP	16.5	16.4	20.0	20.6	n.a.
Total loans (% of total deposits)	110.6	123.8	111.2	109.7	113.1
Structural information					
Number of banks	41	42	41	41	41
Market share of state-owned banks (% of total assets)	5.4	5.2	7.3	7.4	6.7
Market share of foreign-owned banks (% of total assets)	87.7	88.2	85.3	85.1	85.4
Profitability and efficiency					
Return on Assets (RoA)	1.0	1.6	0.3	(0.2)	0.1
Return on Equity (RoE)	9.4	17.0	2.9	(1.7)	0.6
Capital adequacy (% of risk weighted assets)	13.8	13.8	14.7	15.0	14.2
Non-performing loans (% of total loans)*	1.7	2.8	7.9	11.9	13.4

** data as of June 2011, 2011 growth rates as year-to-date figures (in EUR-terms)*
Source: NBR, Raiffeisen RESEARCH

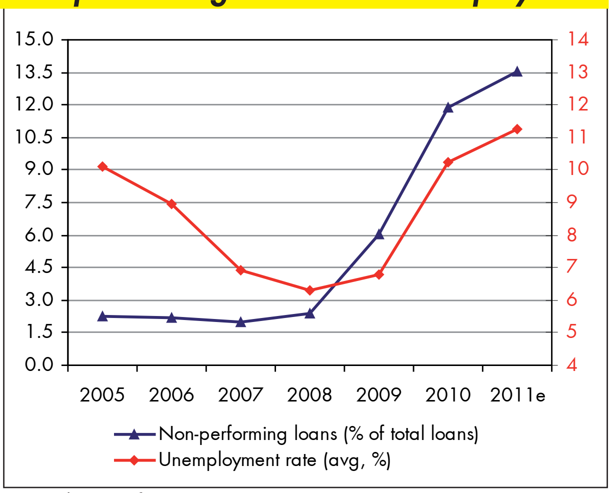
The next credit cycle ...
... will not be like the last one

Total loans vs. GDP per capita



Data for 2010, red triangle (2010) and non-filled red triangle (2008) to illustrate dynamics in Bulgaria
Source: BNB, national central banks, Raiffeisen RESEARCH

Non-performing loans* and unemployment



** NPL data as of Q2 2011*
Source: BNB, Raiffeisen RESEARCH

The Bulgarian economy's recovery remains sluggish. Despite the excellent export performance, domestic demand stagnates on the back of flat incomes and rising unemployment. Due to the deterioration of the external environment, this development will most likely continue with export growth decelerating and consumption and investment improving marginally.

In H1 2011, the banking sector continued to adjust in line with the economy's rebalancing. Following overall loan growth of 2.7% in 2010 (household lending down 0.5%, corporate lending up 4.4%), loan growth remained subdued in H1 2011 (up 1.3% ytd). Industry and export dynamics are more supportive of corporate lending (up 2.0% ytd vs. 0.1% in household lending). Low consumer loan activity reflects the prevailing high unemployment and wage stagnation. Households maintained a comparatively high propensity to save, which resulted in a rise in the deposit base (up 5.6% ytd) and a decreasing loan-to-deposit ratio (2010: 114%, H1 2011: 110%). This trend also helped foreign-owned banks to reduce their dependency on parent funding. At the same time, NPL growth continued in H1 2011 (13.5%), albeit at a slower pace than in 2010. According to the Bulgarian National Bank, NPL levels are expected to peak in the latter part of 2011 and may then gradually decline. Tightened lending conditions and healthy deposit growth also helped to maintain the sector's solid liquidity position. Moreover, the banking system remains over-capitalized (H1 2011: 17.7% on average, with all banks above 12%). Profitability indicators declined further in H1 2011 due to weaker financial results and increasing loan loss provisions. The share of FCY loans remains high, but risks related to the FCY lending are cushioned both by the high level of FCY deposits, as well as by the

Key economic figures and forecasts

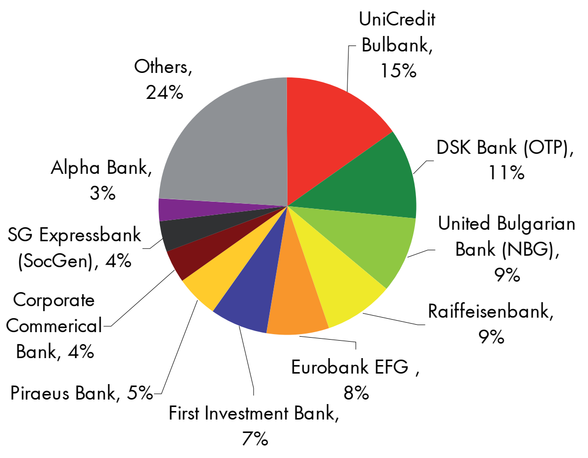
Bulgaria	2008	2009	2010	2011e	2012f	2013f
Population (mn)	7.61	7.56	7.50	7.31	7.27	7.23
Nominal GDP (EUR bn)	35	35	36	38	40	42
Nominal GDP per capita (EUR)	4,658	4,618	4,801	5,220	5,477	5,852
Nominal GDP per capita (EUR at PPP)	10,900	10,400	10,600	11,360	11,861	12,415
Real GDP (% yoy)	6.2	-5.5	0.2	2.0	2.0	4.0
Consumer prices (avg, % yoy)	12.3	2.8	2.4	4.2	3.1	2.5
Unemployment rate (avg, %)	6.3	6.8	10.2	11.4	11.6	10.7
General budget balance (% of GDP)	2.9	-0.8	-3.9	-2.6	-2.2	-1.6
Public debt (% of GDP)	14	15	16	16	20	18
Current account balance (% of GDP)	-23.0	-8.9	-1.0	2.3	2.7	2.2
Gross foreign debt (% of GDP)	104.9	108.0	101.8	93.5	91.5	84.6
Official FX reserves (EUR bn)	12.7	12.9	13.0	12.8	15.4	16.5
EUR/LCY (avg)	2.0	2.0	2.0	2.0	2.0	2.0
USD/LCY (avg)	1.3	1.4	1.5	1.4	1.6	1.6

Source: National sources, wiiw, Raiffeisen RESEARCH

currency board's stability and returning market confidence in its viability. More adverse developments in the banking sector have been avoided due to tight regulation (e.g. regarding provisioning and collateral valuation). Some regulatory easing that took place during the crisis is likely to be carefully reversed. Moreover, the Bulgarian banking sector remains vulnerable to tensions in the Eurozone periphery, as banks from these countries represent 28% of total assets and 25% of deposits.

Some M&A activity took place in 2011, including the sale of NLB Bank Sofia by its Slovenian owner Nova Ljubljanska Banka to TBIF Financial Services BV. Moreover, the biggest Turkish private bank Turkiye Is Bankasi A.S. opened a branch in Bulgaria through its German subsidiary. Turkish-based Aktif bank, part of the Calik Group, with a corporate banking focus plans to open a branch office.

Market shares



Per cent of total assets; H1 2011 data
Source: BNB, Raiffeisen RESEARCH

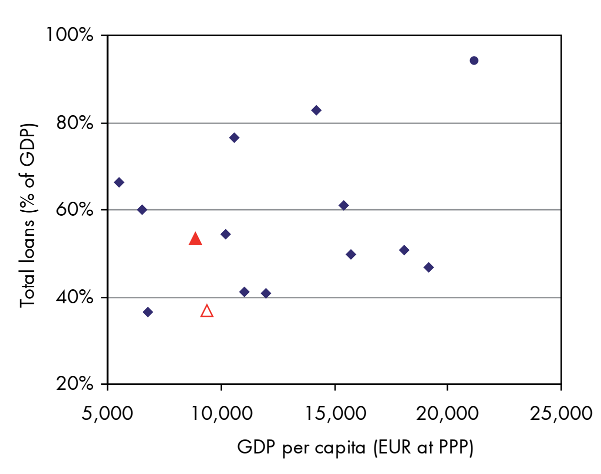
Overview of banking sector developments

Balance sheet data	***2007***	***2008***	***2009***	***2010***	***H1 2011****
Total assets (EUR mn)	30,212.0	35,565.7	36,234.2	37,695.3	38,336.1
growth in % yoy	40.0	17.7	1.9	4.0	1.7
in % of GDP	98.2	100.4	103.7	104.6	n.a.
Total loans (EUR mn)	19,403.9	25,661.5	26,816.8	27,535.1	27,901.1
growth in % yoy	66.7	32.2	4.5	2.7	1.3
in % of GDP	63.1	72.4	76.8	76.4	n.a.
Loans to private enterprises (EUR mn)	12,771.2	16,786.9	17,274.0	18,036.0	18,393.2
growth in % yoy	71.1	31.4	2.9	4.4	2.0
in % of GDP	41.5	47.4	49.4	50.1	n.a.
Loans to households (EUR mn)	6,632.7	8,874.5	9,542.8	9,499.1	9,507.9
growth in % yoy	58.8	33.8	7.5	(0.5)	0.1
in % of GDP	21.6	25.0	27.3	26.4	n.a.
Mortgage loans (EUR mn)	3,011.6	4,221.9	4,577.9	4,739.2	4,781.0
growth in % yoy	67.4	40.2	8.4	3.5	0.9
in % of GDP	9.8	11.9	13.1	13.2	n.a.
Loans in foreign currency (EUR mn)	9,811.6	14,673.2	15,726.3	16,876.2	17,334.3
growth in % yoy	85.9	49.5	7.2	7.3	2.7
in % of GDP	31.9	41.4	45.0	46.8	n.a.
Loans in foreign currency (% of total loans)	50.6	57.2	58.6	61.3	62.1
Total deposits (EUR mn)	19,854.9	21,339.1	22,131.5	23,993.9	25,326.0
growth in % yoy	31.1	7.5	3.7	8.4	5.6
in % of GDP	64.5	60.2	63.4	66.6	n.a.
Deposits from households (EUR mn)	9,707.6	11,334.1	12,699.0	14,335.1	14,977.4
growth in % yoy	n.a.	16.8	12.0	12.9	4.5
in % of GDP	31.5	32.0	36.4	39.8	n.a.
Total loans (% of total deposits)	97.7	120.3	121.2	114.8	110.2
Structural information					
Number of banks	29	30	30	30	30
Market share of state-owned banks (% of total assets)	2.1	2.1	2.4	3.2	3.6
Market share of foreign-owned banks (% of total assets)	82.3	83.9	83.5	80.7	78.7
Profitability and efficiency					
Return on Assets (RoA)	2.4	2.1	1.1	0.86	0.85
Return on Equity (RoE)	23.8	20.5	9.3	6.73	6.26
Capital adequacy (% of risk weighted assets)	13.8	14.9	17.0	17.5	17.7
Non-performing loans (% of total loans)	2.0	2.4	6.1	11.9	13.5

** data as of June 2011, 2011 growth rates as year-to-date figures (in EUR-terms)*
Source: BNB, Raiffeisen RESEARCH

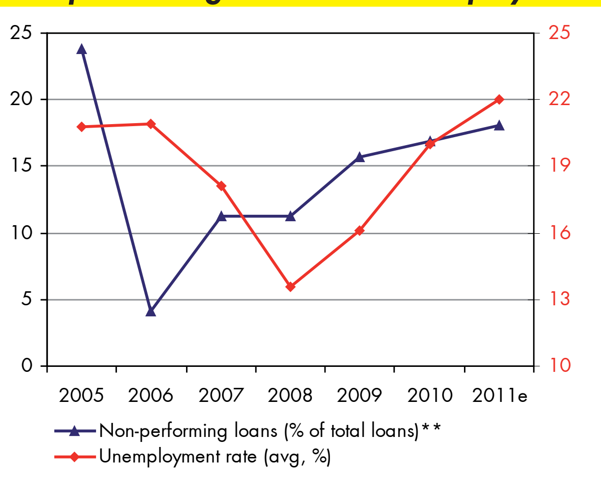
Decent growth outlook
Some consolidation potential

Total loans vs. GDP per capita



Data for 2010, red triangle (2010) and non-filled red triangle (2008) to illustrate dynamics in Serbia
Source: NBS, national central banks, Raiffeisen RESEARCH

Non-performing loans* and unemployment



** NPL data as of May 2011*
Source: NBS, Raiffeisen RESEARCH

The recovery of the Serbian economy continued in H1 2011, supported by strong exports and government-sponsored lending. Monetary policy shifted to a restrictive stance in mid-2010 in order to cut inflationary pressure, while supporting a dinarisation strategy. Negotiations on a precautionary IMF support program were finalized (following a previous Stand-By Arrangement) in August 2011.

Banks remained cautious on new lending in 2011, following strong loan growth in 2010 that had mostly been government-sponsored LCY lending. In 2011, banks increased their holdings of T-bills given attractive interest rates and the unexpected dinar appreciation. Nevertheless, decent loan expansion took place in H1 2011 (corporate lending up 5.5% ytd, retail up 5.1% ytd). Currently, lending with FCY clauses remains widespread (around 68.7% of total loans), although some decrease was visible in comparison to 2010 (73.4% H1 2010, 69.6% Dec 2010). The loan-to-deposit ratio deteriorated to 132% in June 2011 from 123% a year earlier, reflecting weaker growth in corporate deposits. Consequently, the banking sector remains reliant on external funding. After reaching 17.8% in Q3 2010, non-performing loans decreased slightly to 16.9% in Q4 2010 and then increased once again to 18.1% in Q2 2011. Adverse scenarios in the banking sector have been avoided due to the large buffers that the National Bank of Serbia enforced in pre-crisis times (e.g. via tight reserve requirements and a broadening of their base to external liabilities, limits on retail lending and a shortening of maturities of cash loans). During the previous IMF support programme, banks also committed to helping convert FCY loans and to cooperating with the national bank regarding out-of-court loan restructuring. During the crisis, the national bank also supported the banking sector by eliminating reserve re-

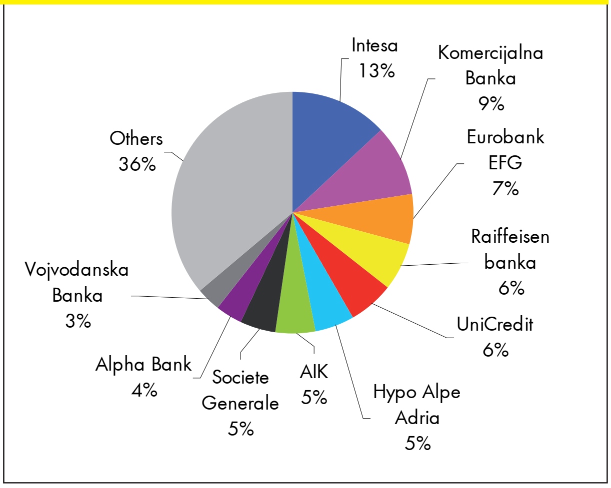
Key economic figures and forecasts

Serbia	2008	2009	2010	2011e	2012f	2013f
Population (mn)	7.35	7.35	7.35	7.35	7.35	7.35
Nominal GDP (EUR bn)	33	29	28	33	34.3	36.9
Nominal GDP per capita (EUR)	4,445	3,930	3,882	4,426	4,665	5,024
Nominal GDP per capita (EUR at PPP)	9,000	8,300	9,000	9,200	9,300	9,478
Real GDP (% yoy)	3.8	-3.5	1.0	2.0	1.0	2.0
Consumer prices (avg, % yoy)	11.7	8.4	6.5	11.5	7.5	6.5
Unemployment rate (avg, %)	13.6	16.1	20.0	22.0	21.0	20.0
General budget balance (% of GDP)	-2.6	-4.3	-4.8	-4.5	-4.0	-3.0
Public debt (% of GDP)	27	34	43	43	44	44
Current account balance (% of GDP)	-21.6	-7.2	-7.4	-8.9	-8.6	-8.6
Gross foreign debt (% of GDP)	64.6	77.9	84.5	71.3	70.3	66.1
Official FX reserves (EUR bn)	8.2	10.6	10.0	10.2	10.3	10.5
EUR/LCY (avg)	81.5	93.9	103.0	101.7	105.0	106.0
USD/LCY (avg)	55.4	67.4	77.6	73.8	83.6	84.8

Source: National sources, wiiw, Raiffeisen RESEARCH

quirements for new external borrowing and lowering reserve requirements for FCY liabilities or the limits for net open FX positions.
M&A activities centered on the state-owned banks: Slovenia's Nova KBM took over Credy Banka; Kragujevac, Banka Postanska Stedionica and Privredna Banka Pancevo completed their merger; while IFC and EBRD recapitalized Cacanska banka aiming to prepare it for a privatization within the next three years. On the regulatory front, the authorities are pursuing a dinarisation strategy. The full application of the mandatory reserve rate cut decision (MRR) in February 2011 was replaced with a new decision that increased the rates (LCY funding: 5% up to 2Y and 0% over 2Y and FCY funding: 30% up to 2Y and 25% over 2Y). The loan-to-value ratio for FCY linked mortgage lending was changed to 80% (from 90%), while such requirements are not in place for dinar mortgages (though this product is rarely – if at all – provided by banks). Also downpayment for consumer loans was lifted to 30% (from 20%), while indexation is forbidden for currencies other then EUR.

Market shares



Per cent of total assets; 2010 year-end data
Source: NBS, Raiffeisen RESEARCH

Overview of banking sector developments

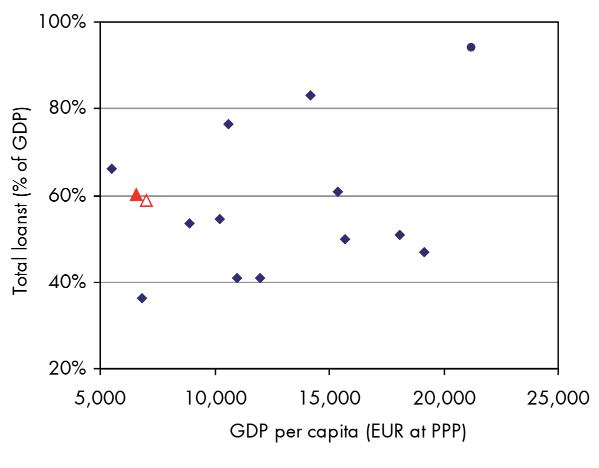
Balance sheet data	***2007***	***2008***	***2009***	***2010***	***H1 2011****
Total assets (EUR mn)	21,181.8	21,631.8	24,361.6	25,984.0	26,696.7
growth in % yoy	31.3	2.1	12.6	6.7	2.7
in % of GDP	73.6	64.7	84.4	91.6	n.a.
Total loans (EUR mn)	10,097.8	12,261.8	13,138.1	15,166.1	16,247.1
growth in % yoy	38.7	21.4	7.1	15.4	7.1
in % of GDP	35.1	36.7	45.5	53.4	n.a.
Loans to households (EUR mn)	3,835.5	4,287.1	4,784.4	5,372.8	5,726.0
growth in % yoy	49.6	11.8	11.6	12.3	6.6
in % of GDP	13.3	12.8	16.6	18.9	n.a.
Mortgage loans (EUR mn)	1,235.5	1,861.0	2,193.0	2,621.1	2,787.4
growth in % yoy	137.8	50.6	17.8	19.5	6.3
in % of GDP	4.3	5.6	7.6	9.2	n.a.
Loans in foreign currency (EUR mn)	n.a.-	856.0	688.6	730.4	727.3
growth in % yoy	n.a.-	n.a.-	(19.6)	6.1	(0.4)
in % of GDP	n.a.-	2.6	2.4	2.6	n.a.
Loans in foreign currency (% of total loans)	n.a.-	7.0	5.2	4.8	4.5
Total deposits (EUR mn)	10,301.0	10,018.9	11,407.7	11,894.2	12,353.3
growth in % yoy	45.4	(2.7)	13.9	4.3	3.9
in % of GDP	35.8	30.0	39.5	41.9	n.a.
Deposits from households (EUR mn)	5,289.8	5,151.6	6,546.4	7,515.5	7,940.9
growth in % yoy	45.4	(2.6)	27.1	14.8	5.7
in % of GDP	18.4	15.4	22.7	26.5	n.a.
Total loans (% of total deposits)	98.0	122.4	115.2	127.5	131.5
Structural information					
Number of banks	35	34	34	33	33
Market share of state-owned banks (% of total assets)	16.5	17.5	18.2	20.3	18.5
Market share of foreign-owned banks (% of total assets)	75.5	75.3	74.3	72.5	74.5
Profitability and efficiency					
Return on Assets (RoA)	1.7	2.1	1.0	1.1	1.4
Return on Equity (RoE)	8.5	9.3	4.6	5.4	7.0
Capital adequacy (% of risk weighted assets)	27.9	21.9	21.4	19.9	19.7
Non-performing loans (% of total loans)	11.3	11.3	15.7	16.9	18.1

** data as of June 2011, 2011 growth rates as year-to-date figures (in EUR-terms)*
Source: NBS, Raiffeisen RESEARCH

High financial intermediation

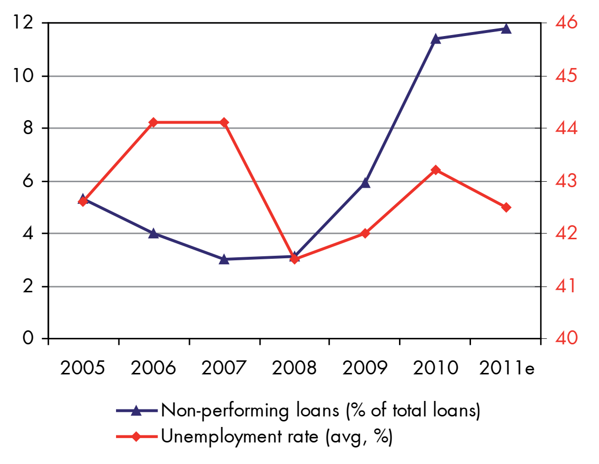
Modest growth potential

Total loans vs. GDP per capita



Data for 2010, red triangle (2010) and non-filled red triangle (2008) to illustrate dynamics in Bosnia and Herzegovina
Source: CBBH, national central banks, Raiffeisen RESEARCH

Non-performing loans* and unemployment



NPL data as of Q2 2011
Source: CBBH, Raiffeisen RESEARCH

The economic recovery in Bosnia and Herzegovina continued in H1 2011, mostly driven by robust exports and industry growth, although the accelerating dynamics of imports, loan growth and tax collection point to a mild recovery of private consumption and investments.

Bosnia and Herzegovina's banking sector recovered from jittery times, as shown by the return of household deposits in 2010 (+10.3% in EUR-terms) and H1 2011 (+3.2%). Since H1 2011, overall deposits are back to pre-crisis levels. In line with the improving domestic backdrop, loan growth returned in H1 2011 (around 3.5% ytd H1 2011) following two years of decline. The export-oriented corporate sector was the major driver of the recovery in lending (+4.8% ytd). The challenging labor market conditions marked by slow employment and wage growth continued to constrain retail lending in H1 2011 (+1.4% ytd). This holds true despite a downward tendency in average lending interest rates and the aggressive campaigning of some banks. The overall bank sector's stability remains in place due to a high capital adequacy ratio of 15.8%, a bottoming out in NPL growth (H1 2011: 11.8%, 11.4% at year-end 2010) and a stabilizing loan-to-deposit ratio at some 120%. More adverse scenarios were avoided due to strict reserve requirements that were relaxed during the global crisis starting in 2008. Profitability indicators turned into positive territory in H1 2011 following negative readings for the returns on assets and equity in 2010. Due to the moderate recovery of domestic demand and consumption, we expect loan growth of around 5-8% in 2011, which is well below the double-digit growth rates before the crisis.

Competition remains tough as the Top-5 foreign-owned banks control more than 70% of the banking sector assets. Currently, the spotlight for potential M&A

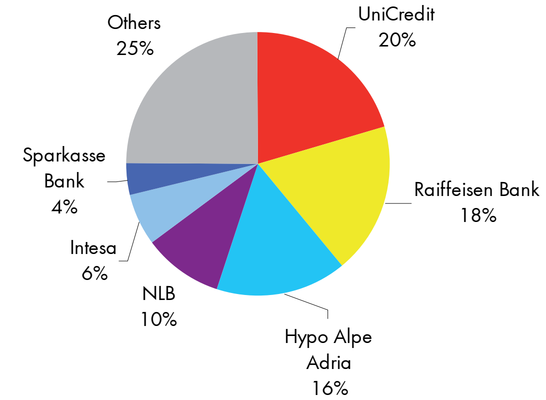
Key economic figures and forecasts

Bosnia and Herzegovina	2008	2009	2010	2011e	2012f	2013f
Population (mn)	3.84	3.84	3.84	3.84	3.84	3.84
Nominal GDP (EUR bn)	13	12	13	13	14	14
Nominal GDP per capita (EUR)	3,290	3,195	3,254	3,449	3,554	3,726
Nominal GDP per capita (EUR at PPP)	6,600	6,400	6,550	6,700	7,000	7,300
Real GDP (% yoy)	5.7	-2.9	0.7	1.9	1.0	3.0
Consumer prices (avg, % yoy)	7.4	-0.4	2.1	4.2	1.9	2.0
Unemployment rate (avg, %)	41.5	42.0	43.2	42.5	42.7	42.5
General budget balance (% of GDP)	-2.2	-4.5	-2.2	-3.0	-3.0	-2.0
Public debt (% of GDP)	17	22	26	26	30	31
Current account balance (% of GDP)	-14.2	-6.2	-5.3	-6.5	-6.4	-6.6
Gross foreign debt (% of GDP)	49.0	54.2	58.3	58.9	59.3	59.4
Official FX reserves (EUR bn)	3.2	3.2	3.3	3.2	3.2	3.5
EUR/LCY (avg)	2.0	2.0	2.0	2.0	2.0	2.0
USD/LCY (avg)	1.3	1.4	1.5	1.4	1.6	1.6

Source: National sources, wiiw, Raiffeisen RESEARCH

activities is focused on mostly privately-owned small to medium-sized banks (the remaining state-owned banks are mostly small and only represent 3.4% of banking sector assets). The major targets for potential M&A activities in the market are IK Bank d.d. Zenica, Nova banka a.d. Banja Luka and Poštanska banka. However, there was no M&A activity during H1 2011, although most of the above-mentioned banks were looking for strategic partners. However, given the current number of banks (29), the size and potential of the market growth, major players will struggle to gain markets shares without M&A activity. As no Greek banks are present in Bosnia and Herzegovina, less vigilance is currently needed than in other SEE countries. The ongoing restructuring of Hypo Group Alpe Adria (HGAA) is unlikely to affect the local (M&A) market, as both HGAA systemically important subsidiaries in Bosnia and Herzegovina are considered as HGAA core business.

Market shares



Per cent of total assets; year-end 2010 data
Source: CBBH, Raiffeisen RESEARCH

Overview of banking sector developments

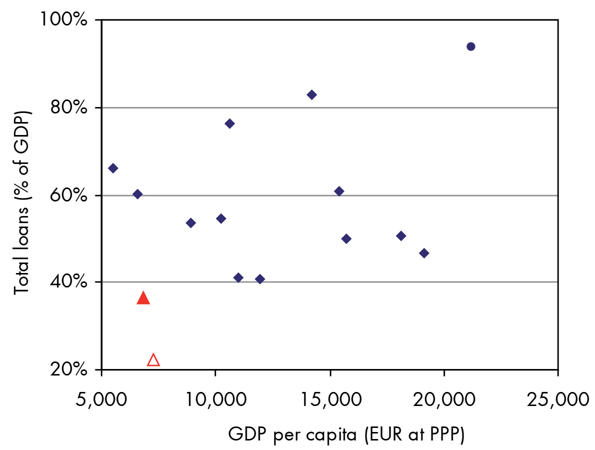
Balance sheet data	***2007***	***2008***	***2009***	***2010***	***H1 2011****
Total assets (EUR mn)	9,980.3	10,761.8	10,695.7	10,776.2	10,836.1
growth in % yoy	32.8	7.8	(0.6)	0.8	0.6
in % of GDP	89.6	85.2	87.2	86.9	n.a.
Total loans (EUR mn)	6,109.5	7,442.4	7,209.7	7,454.5	7,715.0
growth in % yoy	28.4	21.8	(3.1)	3.4	3.5
in % of GDP	54.9	58.9	58.7	60.1	n.a.
Loans to private enterprises (EUR mn)	2,696.3	3,444.0	3,406.6	3,546.1	3,714.9
growth in % yoy	29.4	27.7	(1.1)	4.1	4.8
in % of GDP	24.2	27.3	27.8	28.6	n.a.
Loans to households (EUR mn)	2,907.1	3,423.6	3,223.3	3,228.6	3,274.3
growth in % yoy	30.0	17.8	(5.9)	0.2	1.4
in % of GDP	26.1	27.1	26.3	26.0	n.a.
Loans in foreign currency (EUR mn)	622.4	754.0	734.9	529.2	470.6
growth in % yoy	18.3	21.1	(2.5)	(28.0)	(11.1)
in % of GDP	26.1	27.1	26.3	26.0	n.a.
Loans in foreign currency (% of total Loans)	10.2	10.1	10.2	7.1	6.1
Total deposits (EUR mn)	6,187.0	6,072.6	6,178.7	6,403.9	6,421.2
growth in % yoy	37.5	(1.8)	1.7	3.6	0.3
in % of GDP	55.6	48.1	50.3	51.6	n.a.
Deposits from households (EUR mn)	2,641.3	2,661.2	2,895.3	3,318.5	3,425.1
growth in % yoy	26.0	0.8	8.8	14.6	3.2
in % of GDP	23.7	21.1	23.6	26.8	n.a.
Total loans (% of total deposits)	98.7	122.6	116.7	116.4	120.1
Structural information					
Number of banks	32	30	30	29	29
Market share of state-owned banks (% of total assets)	2.0	0.9	0.9	3.4	3.4
Market share of foreign-owned banks (% of total assets)	93.7	95.0	95.0	96.6	96.6
Profitability and efficiency					
Return on Assets (RoA)	0.9	0.4	0.1	(0.6)	0.4
Return on Equity (RoE)	8.9	4.3	0.8	(5.5)	3.5
Capital adequacy (% of risk weighted assets)	17.1	16.3	16.1	16.2	15.5
Non-performing loans (% of total loans)	3.0	3.1	5.9	11.4	11.8

** data as of June 2011, 2011 growth rates as year-to-date figures (in EUR-terms)*
Source: CBBH, IMF, Raiffeisen RESEARCH

Still low financial intermediation

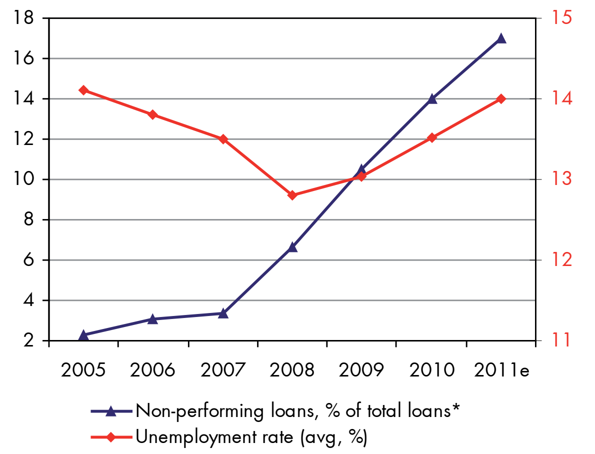
Challenging NPL level

Total loans vs. GDP per capita



Data for 2010, red triangle (2010) and non-filled red triangle (2008) to illustrate dynamics in Albania
Source: NBA, national central banks, Raiffeisen RESEARCH

Non-performing loans* and unemployment



** NPL data as of Q2 2011*
Source: NBA, Raiffeisen RESEARCH

Albania was one of the few CEE economies that did not experience recession in the wake of the global financial crisis. On the back of this performance, loan growth remained in positive territory in 2009 and 2010 and the country's financial sector did not require any public sector support. Nevertheless, weak domestic demand and a slowing external backdrop are weighing on the growth outlook.

Loan growth in H1 2011 stands at 4.6% year-to-date, driven primarily by the corporate sector (up 5.2% in H1 2011 and 14.9% in 2010) while the overall banking environment remains challenging. The banking sector is highly penetrated by foreign banks (94% of total assets). Greek banks hold some 23% of total assets, although the Albanian share in their mother banks assets is low at some 0.2-1%. With deposits continuing to increase strongly (up 16.4% in 2010 and 5.4% ytd) and Greek banks not managing to increase their market share, there is some evidence that Albanian emigrants in Greece are withdrawing some of their deposits in Greece and channeling them into other foreign-owned non-Greek banks in Albania. With a loan-to-deposit ratio of 60%, the banking system is less dependent on external financing (only 2 larger banks have loan-to-deposit ratios above 100%). The share of FCY loans in total loans remains high with some 70%. In FCY, the loan-to-deposit ratio remains somewhat above the average loan-to-deposit ratio (80-85%).
The sector's non-performing loans increased to a challenging level 17.0% (the NPL ratio for FCY loans was slightly below this average). This marks a rather strong increase from 14.7% at the end of Q1 2011, considering that the ratio had stood at 14.0% at the end of 2010. The NPL ratios for some banks are now well above 20%. At 14.2%, the sector's capital ade-

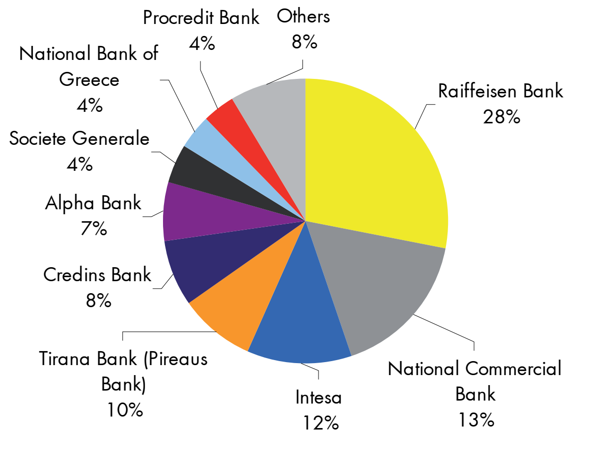
Key economic figures and forecasts

Albania	2008	2009	2010	2011e	2012f	2013f
Population (mn)	3.18	3.19	3.19	3.20	3.21	3.21
Nominal GDP (EUR bn)	9	9	9	10	10	11
Nominal GDP per capita (EUR)	2,785	2,743	2,928	3,046	3,192	3,403
Nominal GDP per capita (EUR at PPP)	6,400	6,500	6,800	7,100	7,300	7,700
Real GDP (% yoy)	7.8	3.3	3.9	3.5	3.0	3.5
Consumer prices (avg, % yoy)	3.4	2.2	3.6	3.8	3.6	3.3
Unemployment rate (avg, %)	12.8	13.0	13.5	14.0	13.8	13.7
General budget balance (% of GDP)	-5.5	-7.0	-5.7	-5.6	-5.5	-5.5
Public debt (% of GDP)	55	60	60	59	59	59
Current account balance (% of GDP)	-15.8	-15.6	-10.3	-11.5	-10.9	-5.0
Gross foreign debt (% of GDP)	19.2	22.5	23.5	25.1	26.6	25.1
Official FX reserves (EUR bn)	1.7	1.6	1.9	1.9	1.9	1.9
EUR/LCY (avg)	122.8	132.1	137.8	140.5	141.0	138.5
USD/LCY (avg)	83.5	94.7	103.9	102.0	112.3	110.8

Source: National sources, wiiw, Raiffeisen RESEARCH

quacy remains high, but deteriorated somewhat in H1 2011 (2010: 16.2%). The aggregated net profit in H1 2011 amounted to EUR 7.94 mn (this figure includes the combined loss of around EUR 32 mn posted by Greek-owned banks). The Greek banks' poor performance weighed on the banking sector's aggregated profitability (H1 2011 RoE: 2.4%, RoA: 0.2%). More adverse scenarios were avoided due to proactive and tight pre-crisis regulation and liquidity buffers (including prudent loan-to-value ratios and a partial ban on distributing dividends). Nevertheless, given the country's strong links to Greece's economy and banking sector, there is a need for Albania to pursue contingency planning, possibly in cooperation with other SEE economies.
Some potential for M&A activities remains, given the number of banks operating in the country and the rather low collective markets share banks outside of the Top-5 continue to hold, despite the decreasing domination of the two largest banks in recent years.

Market shares



Per cent of total assets; H1 2011
Source: CBBH, Raiffeisen RESEARCH

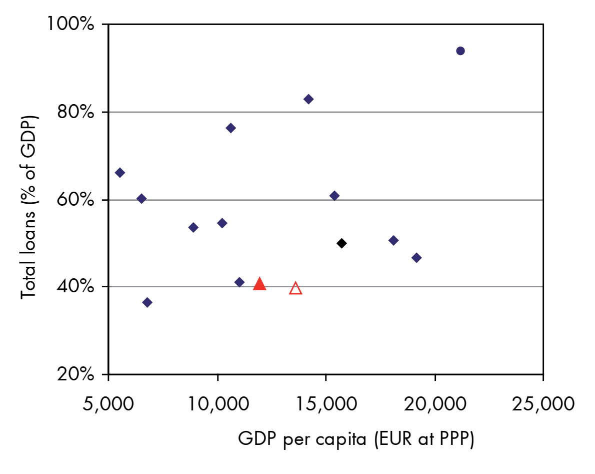
Overview of banking sector developments

Balance sheet data	2007	2008	2009	2010	H1 2011*
Total assets (EUR mn)	6,099.5	6,737.8	6,424.4	7,138.6	7,382.4
growth in % yoy	21.0	10.5	(4.7)	11.1	3.4
in % of GDP	76.8	76.6	77.0	76.3	n.a.
Total loans (EUR mn)	2,401.5	3,204.9	3,261.0	3,537.3	3,701.5
growth in % yoy	50.2	33.5	1.8	8.5	4.6
in % of GDP	30.2	36.4	39.1	37.8	n.a.
Loans to households (EUR mn)	852.5	1,131.3	1,047.2	1,064.7	1,090.1
growth in % yoy	61.6	32.7	(7.4)	1.7	2.4
in % of GDP	10.7	12.9	12.6	11.4	n.a.
Mortgage loans (EUR mn)	518.6	669.1	715.9	752.6	773.1
growth in % yoy	67.4	29.0	7.0	5.1	2.7
in % of GDP	6.5	7.6	8.6	8.0	n.a.
Loans in foreign currency (EUR mn)	1,741.7	2,332.5	2,290.7	2,469.9	2,544.6
growth in % yoy	51.6	33.9	(1.8)	7.8	3.0
in % of GDP	53.1	48.6	51.5	53.3	n.a.
Loans in foreign currency (% of total credits)	72.5	72.8	70.2	69.8	68.7
Total deposits (EUR mn)	5,173.3	5,211.2	5,032.3	5,885.5	6,059.3
growth in % yoy	21.9	0.7	(3.4)	17.0	3.0
in % of GDP	65.1	59.2	60.3	62.9	n.a.
Deposits from households (EUR mn)	4,223.3	4,276.5	4,296.1	4,986.9	5,256.2
growth in % yoy	19.6	1.3	0.5	16.1	5.4
in % of GDP	53.1	48.6	51.5	53.3	n.a.
Total loans (% of total deposits)	46.4	61.5	64.8	60.1	61.1
Structural information, profitability and efficiency					
Number of banks	17	16	16	16	16
Market share of state-owned banks (% of total assets)	0.0	0.0	0.0	0.0	0.0
Market share of foreign-owned banks (% of total assets)	94.0	94.0	94.0	94.0	94.0
Profitability and efficiency					
Return on Assets (RoA)	1.6	0.9	0.4	0.7	0.2
Return on Equity (RoE)	20.7	11.4	4.6	7.6	2.4
Capital adequacy (% of risk weighted assets)	17.1	17.2	16.2	16.2	14.6
Non-performing loans (% of total loans)	3.4	6.6	10.5	14.0	17.0

** data as of June 2011, 2011 growth rates as year-to-date figures (in EUR-terms)*
Source: NBA, Raiffeisen RESEARCH

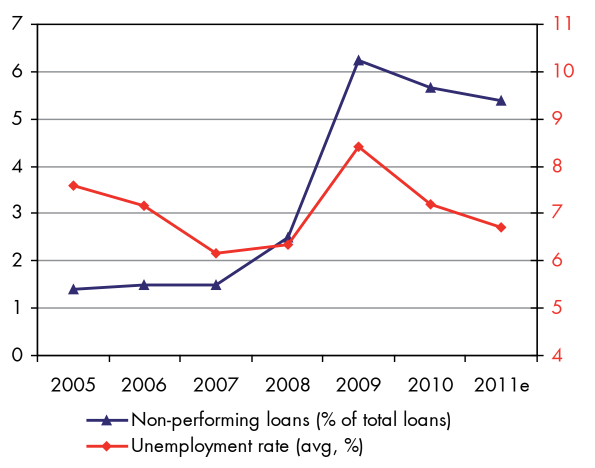
CEE's leading growth market
In absolute and relative terms

Total loans vs. GDP per capita



Data for 2010, red triangle (2010) and non-filled red triangle (2008) to illustrate dynamics in Russia
Source: CBR, national central banks, Raiffeisen RESEARCH

Non-performing loans* and unemployment



** NPL data as of Q2 2011*
Source: CBR, Raiffeisen RESEARCH

Russian banks have done their post-crisis homework well. The country's banks have fully provisioned the cyclical increase in NPLs largely out of operating earnings. Although equity remained untouched in most cases, many players took a cautious stance and beefed up their capital buffers, using contributions from shareholders and RUB 900 bn in subordinated government loans. The system enjoyed a strong inflow of retail deposits during the past three years, which were used to repay wholesale funding or were invested in fixed income securities.

The credit cycle started to turn in Russia at the beginning of 2010, with the sector recording 12.1% growth in corporate lending and 14.3% in retail in 2010. In H1 2011, growth rates accelerated to 7.5% and 11.5%, respectively. Competition has intensified in recent years, largely driven by the state-owned and the largest privately-owned banks. In corporate banking, this led to the relaxation of underwriting standards, especially with regard to the pricing of loans, and banks are experiencing strong pressure on margins as a result. VTB's foray into investment banking and Sberbank's upcoming acquisition of Troika Dialog are also reshaping the competitive landscape in this segment. In retail, point-of-sale (POS) and cash loans seem to be everyone's darling. Although several M&A deals were rumoured, none of them has materialised. Sberbank, which is believed to be interested in this segment, decided to develop this business in a joint venture with Cetelem. Elsewhere, Nomos Bank acquired a 51.3% stake in Bank Khanty-Mansiysk, a leading player in that region. VTB purchased 75% of Transcreditbank from Russian Railways and has already completed the ill-advised acquisition of the controlling stake in Bank of Moscow by the end of Q3 2011. Another example of the riskiness of bank M&A in Russia is provided by the integration challenges at

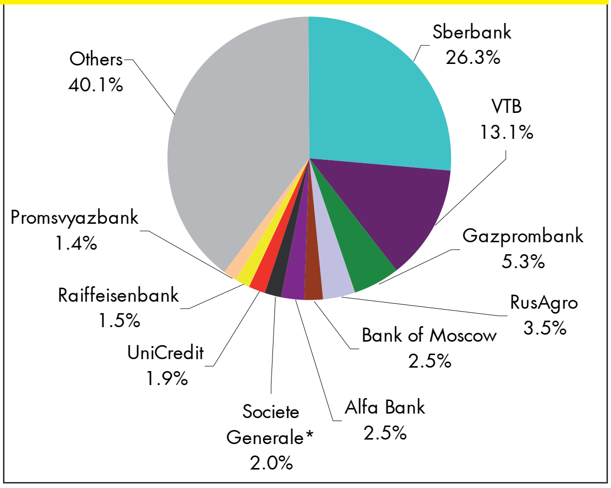
Key economic figures and forecasts

Russia	2008	2009	2010	2011e	2012f	2013f
Population (mn)	141.32	140.69	140.09	141.95	142.05	142.10
Nominal GDP (EUR bn)	1,134	883	1,104	1,279	1,421	1,600
Nominal GDP per capita (EUR)	8,022	6,280	7,884	9,013	10,005	11,259
Nominal GDP per capita (EUR at PPP)	12,225	11,244	11,965	12,806	13,640	14,186
Real GDP (% yoy)	5.2	-7.9	4.0	3.5	3.0	4.0
Consumer prices (avg, % yoy)	14.1	11.8	6.9	9.0	5.5	7.0
Unemployment rate (avg, %)	6.4	8.4	7.2	6.7	7.0	6.0
General budget balance (% of GDP)	4.9	-6.3	-4.1	0.5	-2.5	-1.0
Public debt (% of GDP)	6	9	9	10	12	13
Current account balance (% of GDP)	6.2	4.0	6.1	4.8	2.2	0.6
Gross foreign debt (% of GDP)	28.8	37.9	32.8	33.1	32.9	31.9
Official FX reserves (EUR bn)	296.0	283.4	336.0	407.7	408.0	392.0
EUR/LCY (avg)	36.5	44.3	40.3	40.4	39.9	39.9
USD/LCY (avg)	24.8	31.7	30.4	29.3	31.7	31.9

Source: National sources, wiiw, Raiffeisen RESEARCH

MDM Bank, which merged with URSA Bank at the peak of financial crisis. Several international banks, among them Barclays and HSBC, announced their intention to close retail operations in Russia. Raiffeisen remains the second-largest foreign player in the country after UniCredit, but will probably slip to the third place as and when SocGen completes the consolidation of all its businesses in Russia.
The market infrastructure improved a great deal in terms of banks' access to the central bank's liquidity. However, the consolidation of the fragmented bottom of the sector has decelerated, as only 12 players left the market (on a net basis) in H1 2011, down from the 46 that exited in 2010. What is more important, the ability of the regulator to supervise large and complex institutions can be called into question, as shown by large-scale fraud cases uncovered at International Industrial Bank and Bank of Moscow, both of which belong to Russia's thirty largest lenders.

Market shares



Per cent of total assets; H1 2011 data
** incl. Rosbank, Rusfinance and Deltacredit*
Source: CBR, Raiffeisen RESEARCH

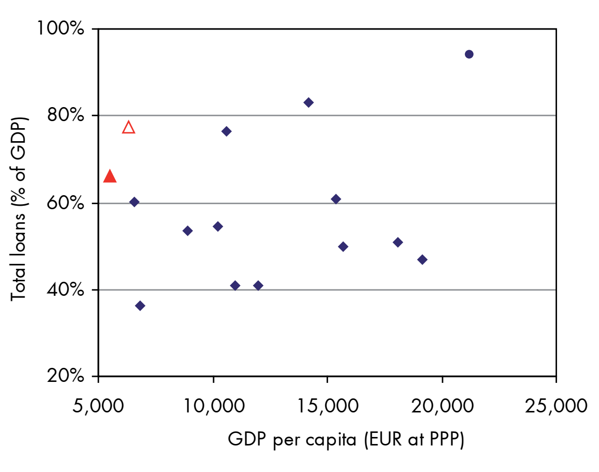
Overview of banking sector developments

Balance sheet data	2007	2008	2009	2010	H1 2011*
Total assets (EUR mn)	560,075.4	676,188.6	678,293.5	838,137.9	872,473.8
growth in % yoy	38.4	20.7	0.3	23.6	4.1
in % of GDP	60.5	67.6	75.3	76.0	n.a.
Total loans (EUR mn)	341,942.8	398,804.6	371,425.0	449,945.6	487,119.6
growth in % yoy	47.7	16.6	(6.9)	21.1	8.3
in % of GDP	37.0	39.9	41.2	40.8	n.a.
Loans to private enterprises (EUR mn)	259,258.8	301,867.0	289,057.2	348,669.0	374,387.8
growth in % yoy	50.8	16.4	(4.2)	20.6	7.4
in % of GDP	28.0	30.2	32.1	31.6	n.a.
Loans to households (EUR mn)	82,684.0	96,937.6	82,367.8	101,276.6	112,731.8
growth in % yoy	38.9	17.2	(15.0)	23.0	11.3
in % of GDP	8.9	9.7	9.1	9.2	n.a.
Mortgage loans (EUR mn)	17,009.7	24,010.0	20,766.0	26,058.0	29,984.7
growth in % yoy	68.5	41.2	(13.5)	25.5	15.1
in % of GDP	1.8	2.4	2.3	2.4	n.a.
Loans in foreign currency (EUR mn)	77,805.5	98,703.9	88,157.4	99,615.5	97,561.1
growth in % yoy	36.5	26.9	(10.7)	13.0	(2.1)
in % of GDP	8.4	9.9	9.8	9.0	n.a.
Loans in foreign currency (% of total loans)	22.8	24.7	23.7	22.1	20.0
Total deposits (EUR mn)	340,428.9	354,609.3	393,260.4	520,160.9	552,677.8
growth in % yoy	37.1	4.2	10.9	32.3	6.3
in % of GDP	36.8	35.5	43.6	47.2	n.a.
Deposits from households (EUR mn)	143,577.5	142,539.7	172,511.9	243,422.9	260,393.2
growth in % yoy	30.8	(0.7)	21.0	41.1	7.0
in % of GDP	15.5	14.3	19.1	22.1	n.a.
Total loans (% of total deposits)	100.4	112.5	94.4	86.5	88.1
Structural information					
Number of banks	1,136	1,108	1,058	1,012	994
Market share of state-owned banks (% of total assets)	39.2	40.5	43.9	45.8	n.a.
Market share of foreign-owned banks (% of total assets)	17.2	17.3	18.3	18.0	n.a.
Profitability and efficiency					
Return on Assets (RoA)	2.5	1.8	0.7	1.7	2.5
Return on Equity (RoE)	19.0	13.3	4.9	12.5	20.0
Capital adequacy (% of risk weighted assets)	15.5	16.8	20.9	18.1	16.7
Non-performing loans (% of total loans)	1.5	2.5	6.2	5.7	5.4

** data as of June 2011, 2011 growth rates as year-to-date figures (in EUR-terms)*
Source: CBR, IMF, Raiffeisen RESEARCH

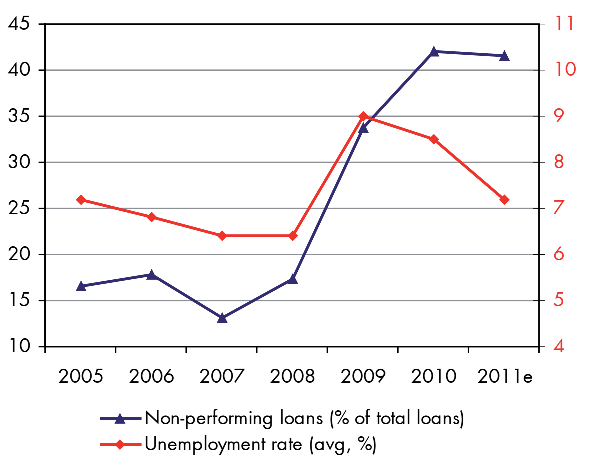
Oversized banking sector
relative to emerging and developed markets

Total loans vs. GDP per capita



Data for 2010, red triangle (2010) and non-filled red triangle (2008) to illustrate dynamics in Ukraine
Source: NBU, national central banks, Raiffeisen RESEARCH

Non-performing loans* and unemployment



** NPL data as of Q2 2011*
Source: NBU, IMF, Raiffeisen RESEARCH

The Ukrainian economy continues to recover, posting GDP growth of 4.5% yoy in H1 2011. At the same time, the ongoing global slowdown with its negative impact on commodity prices endangers the outlook. The banking system slowly emerged out of the woods in 2010 and H1 2011. Deposits are flowing back (up 38% in 2010 and 3% in H1 2011 in EUR-terms) and surpassed pre-crisis levels in 2010. Overall, loan volumes remain below pre-crisis levels and household lending declined once again in H1 2011 following decreases in 2009 and 2010. Consequently, the loan-to-deposit ratio decreased from above 200% (2009) to some 160% in H1 2011 on a gross basis (in net terms the respective ratios are 190% for 2009 and 130% in H1 2011 due to substantial loan loss reserves). Profitability indicators remained negative in H1 2011, but showed some improvement. Although NPLs are stabilizing at 40%, such high NPL levels may act as a drag on growth without a supportive restructuring and taxation framework. Moreover, the stock of FCY loans remains sizeable at around 44%, despite the decreased volume of FCY loans in 2009, 2010 and H1 2011. The banking sector's net open FX position in relation to its capital also remains in double-digit territory (10-20%). Achieving more sustainable loan growth is conditional on a certain deleveraging and the development of sustainable LCY long-term funding. Moreover, the protection of creditor rights and the banking supervision have to be strengthened. Unfortunately, the overall progress within the fields of supervision and regulation remains very modest so far, particularly with regard to such aspects as streamlining bankruptcy and foreclosure procedures, and developing a credit bureau infrastructure. At the same time, the National Bank banned FCY lending to unhedged borrowers and is mulling heavy restrictions on consumer len-

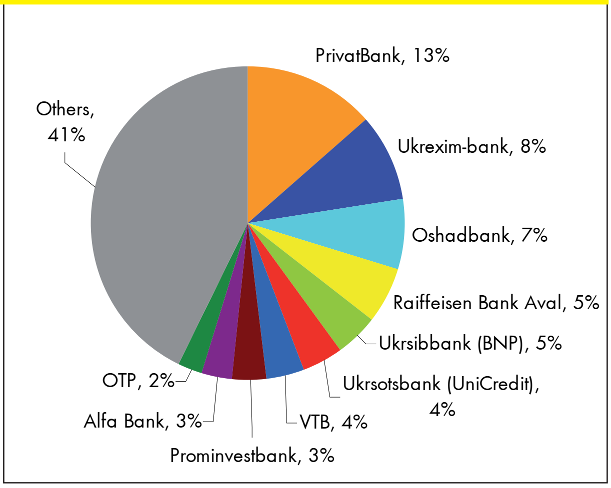
Key economic figures and forecasts

Ukraine	2008	2009	2010	2011e	2012f	2013f
Population (mn)	46.17	46.05	45.84	45.59	45.34	45.09
Nominal GDP (EUR bn)	123	82	103	117	148	170
Nominal GDP per capita (EUR)	2,656	1,775	2,248	2,558	3,269	3,767
Nominal GDP per capita (EUR at PPP)	5,900	5,200	5,400	5,800	6,100	6,400
Real GDP (% yoy)	2.3	-14.8	4.2	4.0	3.5	4.0
Consumer prices (avg, % yoy)	25.2	15.9	9.4	10.0	10.0	9.0
Unemployment rate (avg, %)	6.4	9.0	8.5	7.2	6.5	6.5
General budget balance (% of GDP)	-1.5	-8.7	-7.5	-4.0	-3.0	-2.0
Public debt (% of GDP)	20	35	40	43	42	41
Current account balance (% of GDP)	-7.2	-1.6	-2.1	-3.5	-4.2	-4.7
Gross foreign debt (% of GDP)	59.6	88.2	84.9	89.0	78.8	75.4
Official FX reserves (EUR bn)	22.2	17.8	24.8	28.9	30.1	31.7
EUR/LCY (avg)	7.7	11.2	10.5	11.0	10.0	10.0
USD/LCY (avg)	5.3	8.0	7.9	8.0	8.0	8.0

Source: National sources, wiiw, Raiffeisen RESEARCH

ding. Taking all aspects into account, loan growth is expected to be sluggish going forward, with the loan-to-GDP ratio gradually leveling off.
Around ten banks still do not meet capital and/or other regulatory requirements. The Nadra Bank resolution is progressing slowly. Another three state-recapitalized banks remain under state administration, with resolution unlikely to happen soon. Surprisingly, the crisis did not bring big changes in the market structure, as the banking sector remains characterized by a vast number of banks (178), as well as a low market concentration. The share held by state-owned banks doubled in the last years amid the nationalization of ailing systemic banks and strong directed lending activity. However, in comparison to the past, the Ukrainian market is characterized by a very strong expansion of Russian banks, while most other international banks remain cautious.

Market shares



Per cent of total banking assets; data as of year-end 2010
Source: NBU, Raiffeisen RESEARCH

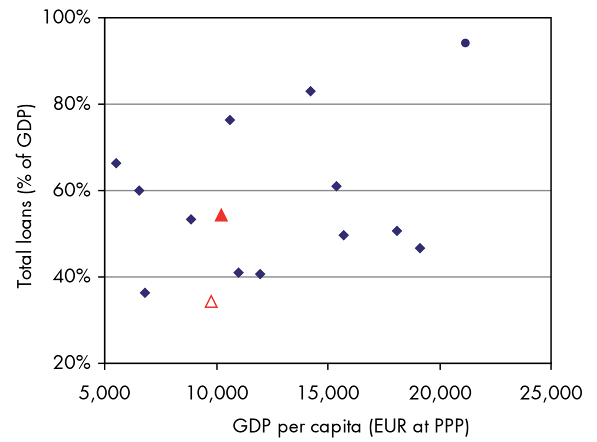
Overview of banking sector developments

Balance sheet data	**2007**	**2008**	**2009**	**2010**	**H1 2011***
Total assets (EUR mn)	81,265.3	87,085.7	76,696.9	88,166.8	88,143.4
growth in % yoy	59.0	7.2	(11.9)	15.0	(0.0)
in % of GDP	83.2	97.7	96.4	86.1	n.a.
Total loans (EUR mn)	57,882.2	69,015.0	62,618.7	67,808.6	66,113.3
growth in % yoy	57.1	19.2	(9.3)	8.3	(2.5)
in % of GDP	59.2	77.4	78.7	66.2	n.a.
Loans to private enterprises (EUR mn)	36,798.4	43,306.5	42,012.7	48,674.1	48,941.9
growth in % yoy	47.0	17.7	(3.0)	15.9	0.6
in % of GDP	37.7	48.6	52.8	47.5	n.a.
Loans to households (EUR mn)	21,075.2	25,708.6	20,506.1	19,134.4	17,574.5
growth in % yoy	78.6	22.0	(20.2)	(6.7)	(8.2)
in % of GDP	21.6	28.8	25.8	18.7	n.a.
Mortgage loans (EUR mn)	7,768.7	10,113.6	9,122.1	8,685.6	n.a.
growth in % yoy	90.1	30.2	(9.8)	(4.8)	n.a.
in % of GDP	8.0	11.3	11.5	8.5	n.a.
Loans in foreign currency (EUR mn)	28,883.1	40,791.7	32,043.5	31,568.6	29,556.5
growth in % yoy	58.3	41.2	-21.4	-1.5	-6.4
in % of GDP	29.6	45.8	40.3	30.8	n.a.
Loans in foreign currency (% of total loans)	49.9	59.1	51.2	46.6	44.7
Total deposits (EUR mn)	37,976.5	33,646.2	28,554.7	38,767.1	39,685.5
growth in % yoy	38.2	(11.4)	(15.1)	35.8	2.4
in % of GDP	38.9	37.7	35.9	37.8	n.a.
Deposits from households (EUR mn)	22,298.0	20,269.5	18,422.5	25,430.8	26,118.2
growth in % yoy	39.9	(9.1)	(9.1)	38.0	2.7
in % of GDP	22.8	22.7	23.2	24.8	n.a.
Total loans (% of total deposits)	152.4	205.1	219.3	174.9	166.6
Structural information					
Number of banks	198	184	182	176	178
Market share of state-owned banks (% of total assets)	8.0	11.4	17.2	16.9	18.0
Market share of foreign-owned banks (% of total assets)	37.5	45.0	46.6	42.6	43.0
Profitability and efficiency					
Return on Assets (RoA)	1.5	1.0	(4.4)	(1.5)	(0.2)
Return on Equity (RoE)	12.7	8.5	(32.5)	(10.2)	(1.5)
Capital adequacy (% of risk weighted assets)	13.9	14.0	18.1	20.9	19.2
Non-performing loans (% of total loans)	13.2	17.4	33.8	42.0	41.6

** data as of June 2011, 2011 growth rates as year-to-date figures (in EUR-terms)*
Source: NBU, IMF, Raiffeisen RESEARCH

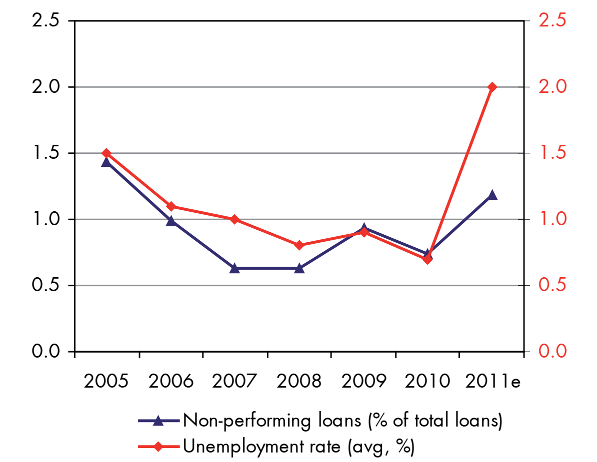
Challenging economic backdrop
will weigh on the banking sector

Total loans vs. GDP per capita



Data for 2010, red triangle (2010) and non-filled red triangle (2008) to illustrate dynamics in Belarus
Source: NBRB, national central banks, Raiffeisen RESEARCH

Non-performing loans* and unemployment



** NPL data as of Q2 2011*
Source: NBRB, Raiffeisen RESEARCH

The Belarusian economy continued to expand in 2010 and H1 2011, despite the unfolding FX liquidity and balance of payments problems that caused FX scarcity in 2011, multiple exchange rates, and a devaluation-inflation spiral.
Despite being a cause of Belarus's unsustainable external position, the brisk loan expansion seen from 2006 to 2009 (20-50% in LCY-terms) continued in 2010 and H1 2011 (loan volumes contracted in EUR terms due to the BYR devaluation). To a great extent, loan growth is boosted by directed lending under government programs (40-45% of total lending). The banking sector has become a vehicle for a sizeable quasi-fiscal stimulus and does not follow purely commercial considerations. Loans to 100% state-owned enterprises account for at least 20% of total loans. The banking sector has remained stable until now, but the previous lending boom (with loan growth rates surpassing GDP growth rates for a number of years) is now causing liquidity and credit risks. The loan-to-deposit ratio has increased beyond 200%, pointing to a weak deposit base. The funding gap has been largely covered by the national bank's injection of around EUR 6 bn since the start of 2010. In early 2011, banks had to cope with deposit withdrawals fuelled by devaluation expectations and fears of a possible FX deposit freeze (around 50% of the deposit base is in FCY). This FX withdrawal has slowed down recently, while the outflow of BYR deposits was short-lived and reversed afterwards. Deposits currently account for more than a third of the banks' funding base, with households remaining the principal supplier. Currently, non-performing assets stand at some 3%, NPLs at 1.2%, which is attributable to the moderate share of FCY loans (30%), mostly in the corporate sector (a ban on FX lending to private individuals was introduced in 2009). Given

Key economic figures and forecasts

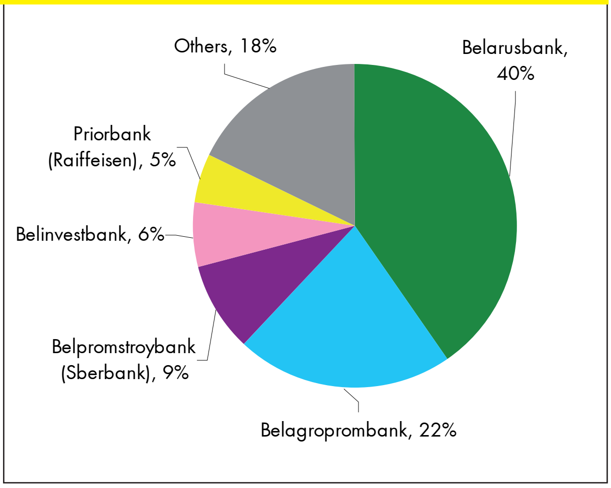
Belarus	**2008**	**2009**	**2010**	**2011e**	**2012f**	**2013f**
Population (mn)	9.59	9.49	9.47	9.44	9.55	9.52
Nominal GDP (EUR bn)	41.3	35.3	41.2	39.8	31.3	33.3
Nominal GDP per capita (EUR)	4.300	3.700	4.400	4.200	3.300	3.500
Real GDP (% yoy)	10.2	0.2	7.6	6.0	0.0	3.0
Consumer prices (avg, % yoy)	14.8	12.9	7.7	40.0	50.0	22.5
Unemployment rate (avg, %)	0.8	0.9	0.7	2.0	2.0	3.0
General budget balance (% of GDP)	1.4	-0.7	-2.6	-2.0	-3.0	-2.0
Public debt (% of GDP)	13	22	24	43	46	49
Current account balance (% of GDP)	-8.7	-13.0	-15.5	-12.8	-11.4	-13.2
Gross foreign debt (% of GDP)	26.4	43.6	51.5	69.7	102.2	103.2
Official FX reserves (EUR bn)	1.9	3.4	2.6	2.7	3.6	4.4
EUR/LCY (avg)	3,142	3,894	3,951	6,300	11,200	13,000
USD/LCY (avg)	2,136	2,793	2,979	4,600	8,900	10,400

Source: National sources, wiiw, Raiffeisen RESEARCH

recent excessive loan growth (generally a good leading indicator for banking sector problems), a significant rise in the sector's NPL ratio cannot be ruled out. This holds especially true for the state-owned banks. However, the recent establishment of a Development Bank, that is likely to take loans provided under government programs, might keep the NPLs out of the commercial banking sector.

No major changes have been registered in the banking landscape, which is characterized by a high concentration and large market shares held by state-owned banks. The Top-5 banks, of which three continue to be in Belarusian state ownership (the 4th largest lender belongs to Russian Sberbank), account for 80% of the sector's total assets. The privatization of Belinvestbank and the sale of minority stakes in Belarusbank and Belagroprombank have not taken place so far, reflecting the challenging macroeconomic and banking sector environment.

Market shares



Per cent of total assets; Data as of July 2011
Source: NBRB, Raiffeisen RESEARCH

Overview of banking sector developments

Balance sheet data	2007	2008	2009	2010	2011*
Total assets (EUR mn)	13,263.2	20,725.9	20,280.8	32,104.2	25,244.0
growth in % yoy	29.4	56.3	(2.1)	58.3	(21.4)
in % of GDP	42.9	48.8	60.6	78.3	n.a.
Total loans (EUR mn)	9,218.5	14,638.9	15,498.8	22,355.0	16,263.2
growth in % yoy	32.5	58.8	5.9	44.2	(27.3)
in % of GDP	29.8	34.5	46.3	54.5	n.a.
Loans to private enterprises (EUR mn)	6,684.0	10,522.4	11,613.5	16,644.6	12,395.7
growth in % yoy	33.0	57.4	10.4	43.3	(25.5)
in % of GDP	21.6	24.8	34.7	40.6	n.a.
Loans to households (EUR mn)	2,534.5	4,116.5	3,885.3	5,710.3	3,867.5
growth in % yoy	31.0	62.4	(5.6)	47.0	(32.3)
in % of GDP	8.2	9.7	11.6	13.9	n.a.
Loans in foreign currency (EUR mn)	3,470.0	4,523.1	4,581.7	4,847.6	4,878.5
growth in % yoy	47.6	30.3	1.3	5.8	0.6
in % of GDP	11.2	10.7	13.7	11.8	n.a.
Loans in foreign currency (% of total loans)	37.6	30.9	29.6	21.7	30.0
Total deposits (EUR mn)	6,389.4	8,569.6	7,978.3	10,830.9	8,005.2
growth in % yoy	24.0	34.1	(6.9)	35.8	(26.1)
in % of GDP	20.7	20.2	23.8	26.4	n.a.
Deposits from households (EUR mn)	3,362.6	4,336.9	4,421.0	5,778.9	3,834.5
growth in % yoy	21.5	29.0	1.9	30.7	(33.6)
in % of GDP	10.9	10.2	13.2	14.1	n.a.
Total loans (% of total deposits)	144.3	170.8	194.3	206.4	203.2
Structural information					
Number of banks	27	31	32	31	31
Market share of state-owned banks (% of total assets)	76.0	79.2	79.4	72.7	69.0
Market share of foreign-owned banks (% of total assets)	20.9	17.0	19.4	27.0	30.7
Profitability and efficiency					
Return on Assets (RoA)	1.7	1.4	1.4	1.7	1.6
Return on Equity (RoE)	10.7	9.6	8.9	11.8	12.4
Capital adequacy (% of risk weighted assets)	19.3	21.8	19.8	20.5	16.8
Non-performing loans (% of total loans)	0.6	0.6	0.9	0.7	1.2

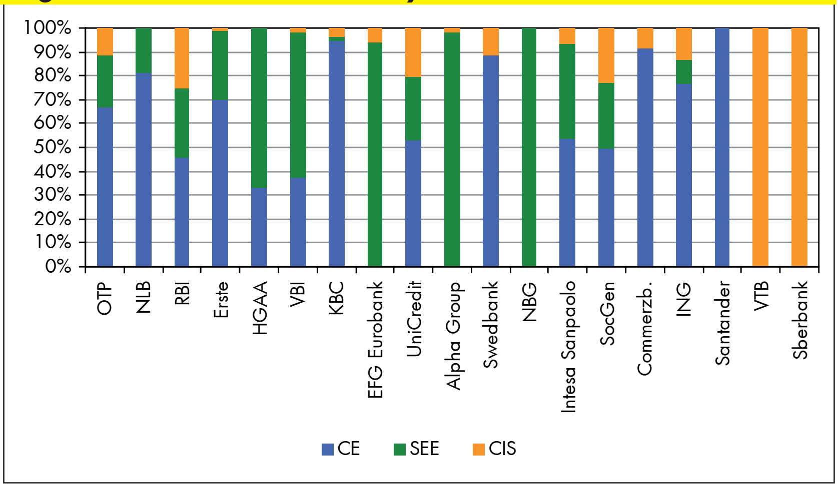
** data as of June 2011, 2011 growth rates as year-to-date figures (in EUR-terms)*
Source: NBRB, IMF, Raiffeisen RESEARCH

Market players
in Central and Eastern Europe

After a painful year 2009 across the region with CEE banks predominantly working on loan book cosmetics and stabilizing funding profiles, 2010 and H1 2011 in fact returned the markets into the well-known convergence mode. However, the pace of growth is getting more heterogeneous among international banking groups operating in CEE and – simplifying the circumstances on the banking markets - can be put into a matrix comprising

1) intra-regional presence of a particular banking group or the ability of expanding loan books naturally based on higher loan demand (Russia, Poland, Czech Republic, Slovakia) and
2) external factors like culminating sovereign debt problems diverting the attention away from willingness to grow to strategic capital decisions or, in other words, the need for divestments and consolidation which has accelerated significantly since our last CEE Banking Report edition in September 2010 (e.g. Greek banks, KBC, Hypo Group Alpe Adria (HGAA), Volksbank International).

Regional asset allocation (%, year-end 2010)

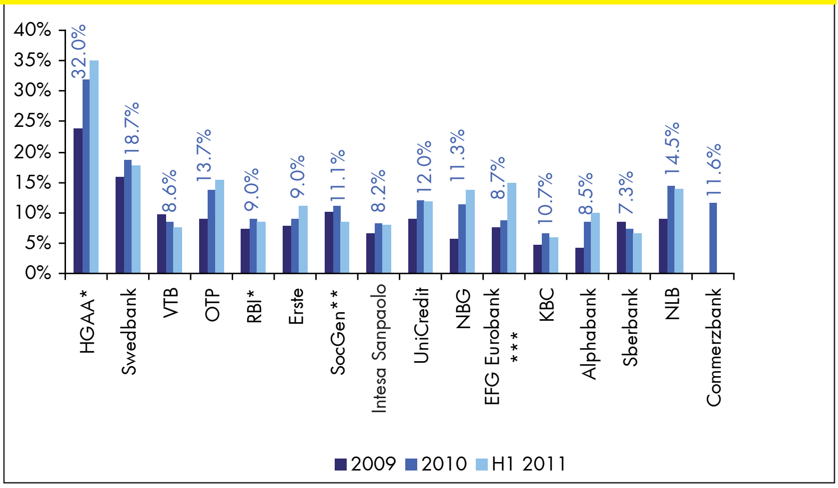


Source: Company data, local central banks

Positive asset quality at Russian banks and those with high Russian exposure + CE (excl. HU, SI)

In general, there has been a positive trend in loan book quality across the CEE banking sector in terms of stabilizing NPL ratios. We note that the environment was in fact quite favourable for banks including H1 2011, with some country-specific exceptions. According to our observations on the data reported by the banks including H1 2011, the non-written rule is: the higher the presence in Russia and in CE (excl. Hungary and Slovenia), the better the loan growth/asset quality profile. Based on above-average loan growth, the best performers have been Russian VTB and Sberbank, both of which have been gradually reducing their NPL ratios already since Q1/Q2 2010, followed by Raiffeisen Bank International (RBI), Société Générale (SocGen) and UniCredit representing the dominant foreign players in Russia. Among the banks with a wider CEE presence like UniCredit, RBI, Intesa Sanpaolo, OTP, KBC or Erste Group there is in addition a high dependence on the individual country split. Having said that, Erste Group has been suffering mostly from Romania and - like OTP - from Hungary. At this point we differentiate between both groups as contrary to Erste, OTP's high concentration on its home market could not be fully offset by other markets, while Erste benefitted from a positive asset quality trend in the Czech Republic and Slovakia despite running the largest bank in Romania. For KBC, which owns the second largest bank in Hungary, first of all the absence of a Romanian loan book and secondly its significant presence in the Czech Republic, Slovakia and Poland helped to neutralize the negative influence. Apart from the Hungarian case, also the banks with dominant SEE exposure faced deteriorating loan qualities, which was reflected in still growing NPL ratios at HGAA, Nova Ljubljanska Banka (NLB) and Greek banks, all predominantly exposed to those countries. Wherever it was reported or made calculable, we provide an overview of the asset qualities of the international banks operating in CEE. Polbank has been taken out from EFG as of H1 2011 which negatively impacted the ratio. We remind that a cross comparison between individual banks is very limited due to different methods applied and it should rather give an impression about the development of the individual asset qualities over the last years.

NPLs of international banks (% of total loans)

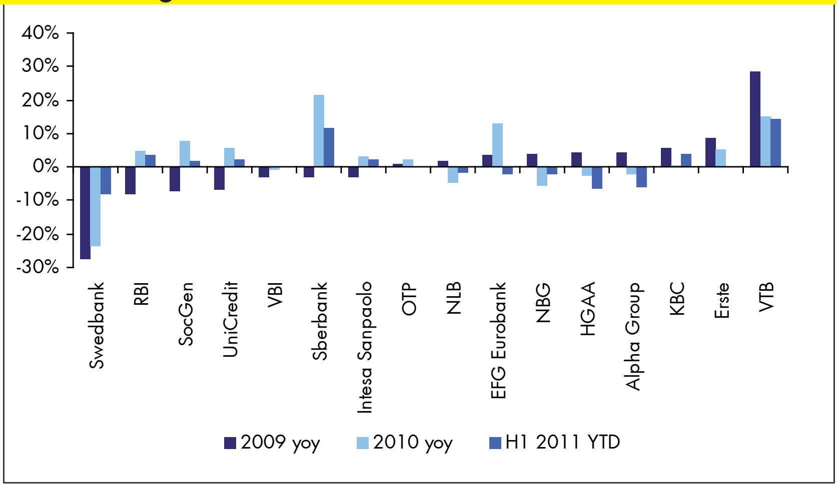


** figures for the entire banking group*
*** in 2010: only for Komercni, BRD and Rosbank*
**** as of Q2 2011 excl. Polbank*
Source: Company data

Loan growth rebound vs. 2009, partly supported by LCY appreciation vs. EUR

Looking at loan growth in EUR terms, the rebound seen at RBI, SocGen, UniCredit, Intesa Sanpaolo and Erste does not surprise as it was predominantly made in Russia and in some parts of CE, particularly in Poland, the Czech Republic and Slovakia (a certain portion of "growth" was inflated by the LCY appreciation vs. EUR with RUB +6%, CZK +5%, PLN +3%). Excluding currency effects, growth rates of the Russian majors VTB and Sberbank topped the average by a multiple. In addition, SEE countries performed quite robust here, but the growth was to a large extent driven by generous government support schemes which may become questionable due to budgetary shortfalls going forward. So far the growth path that started from 2010 largely continued throughout H1 2011, additionally supported by stable LCYs, a factor which has in fact worsened along with accumulating fears about the Eurozone's sovereign debt crisis in Q3 2011. De-risking activities of Greek banks have been obvious in the SEE sub-region. EFG, which thanks to Poland rose overproportionally vs. its peers in 2010, turned into a negative growth rate after the agreement to sell Polbank to RBI. The remaining Greek banks seem to have scaled down their lending activities in the region further. Together with HGAA (deep in balance sheet clean-up), Swedbank (Baltics exposure) and VBI, which in the meantime was sold to Sberbank, they were laggards on the CEE banking markets in terms of market share gains since end-2009.

Loan book growth of international banks in CEE

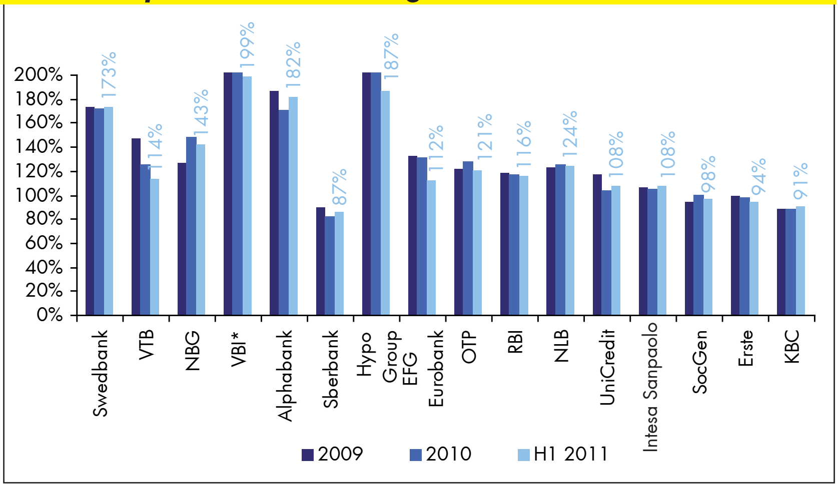


VTB slightly inflated by the Transcreditbank acquisition in 2010*
Source: Company data, local central banks

Funding profiles stabilized on deposit growth, stabilizing LCY/FX rates and on bank specific events

In most of the countries, the pressure on FX loan book funding eased throughout 2010 and the main part of H1 2011 as the FX movements stabilized, keeping the loan/funding balances quite stable compared to end-2009. After the strong improvement across the region in 2009, there was no visible deterioration of the loan-to-deposit ratios during the last 1-1.5 years. However, in some cases we have observed positive changes which were more strategic outcomes rather than the result of market circumstances: 1) Hypo group fighting through the third de-risking year, 2) EFG Eurobank after the agreement on the sale of Polbank to RBI in Q1 2011 and 3) the announced merger between EFG Eurobank and Alphabank, which will very likely trigger some changes in the loan-to-deposit profile of the new entity. Generally speaking, the banks have re-focused on deposit generation rather than wholesale funding, which particularly in the case of Greek and some Austrian banks was quite important in the funding structure before 2008. As is known from the past, the most-favourable loan-to-deposit profiles are shown by retail banks with a dominant presence in the Czech Republic, Poland or Russia: Erste, KBC, Societe Generale and Sberbank. Regarding the latter, the purchase of VBI, which still relies on a relatively high but nominally moderate amount of parental funding, should not have a big impact on its loan-to-deposit ratio. Following the easing of the fight for deposits, funding margins improved further during 2010 and have been the major net interest margin driver so far after intensified competition in the lending markets and interest rate hikes in some countries.

Loan-to-deposit ratio of CEE segments (2009-H1 2011)



** VBI as of Q1 2011*
*** as of Q2 2011 excl. Polbank*
Source: Company data

Branch network of international banks (as of year-end 2010)

2010	PL	HU	CZ	SK	SI	ES	LT	LI	BG	RO	HR	AL	RS	ME	BH	KO	MK	BY	RU	UA	KZ	MD	GE	No. of countries	No. of outlets
Raiffeisen Bank International	123	144	112	159	17				190	542	84	105	95		98	52		96	198	931	1	1		17	2948
UniCredit	1075	135	78	82	25	2	2	3	224	247	145		73		141				115	444	112			16	2903
Société Générale	100		395		58				147	937	130	41	90	19			25		700	11		49	38	14	2740
Erste Bank		184	667	291						668	144		73							133				7	2160
Intesa Sanpaolo		145		245	54					97	220	32	206		54				79	410				10	1542
OTP		402		76					387	106	105		55	33					155	189				9	1508
KBC	381	252	301	129					118				63						71					7	1315
EFG	335								214	286			117							74				5	1026
National Bank of Greece									240	146		30	142				68							5	626
ING	443	n.a.	n.a.	n.a.					n.a.	120									n.a.	20				8	583
Volksbank		62	24	41	11					155	29		26		46					52				9	446
NLB					158				1				68	19	116	62	48							7	472
Swedbank						63	59	94											7	92				5	315
Hypo Group					18						72		38	9	93									5	230
Commerzbank	161	10	5	2															n.a.	194				6	372
Alpha Bank									103	175		47	153				25			23				6	526

... Number of branches per country ... Only leasing presence

RBI: excluding Polbank (PL)
Source: Company data

Top-5 ranking (still) unchanged in terms of asset size

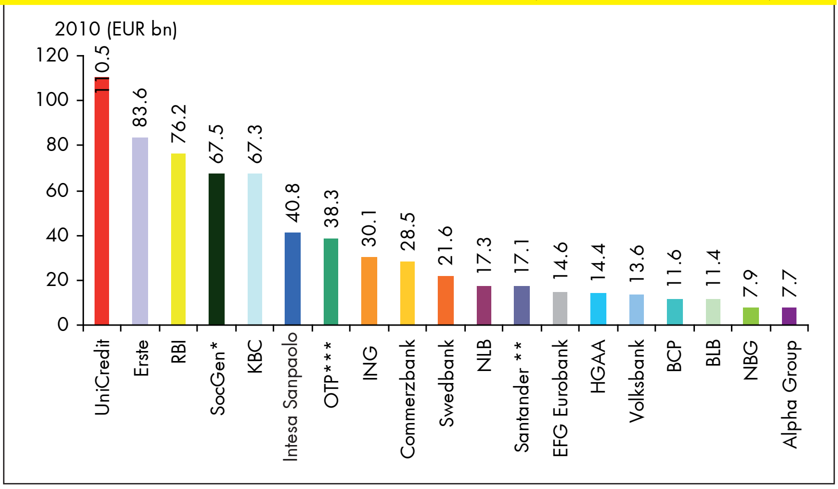
Among the Top-5 international banks ranked by 2010 consolidated assets, there was no position change compared to the previous year. Even after the closing of the Polbank takeover (EUR 5.6 bn), RBI would remain the third-ranked banking group in CEE behind Erste with a gap of less than EUR 2 bn. SocGen and KBC remained head-to-head among the Top-5 banks, with almost equal size. However, we do not consider KBC's

Santander knocking on Top-10 door

minority stake in NLB and in addition the ongoing sales procedures in Poland, as well as potential divestments in Russia and Serbia would lower KBC's assets by ca. EUR 13.6 bn or 22% of KBC's current CEE size. UniCredit is still leading the list of the Top-20 foreign banks with a gap of more than EUR 25 bn to Erste.

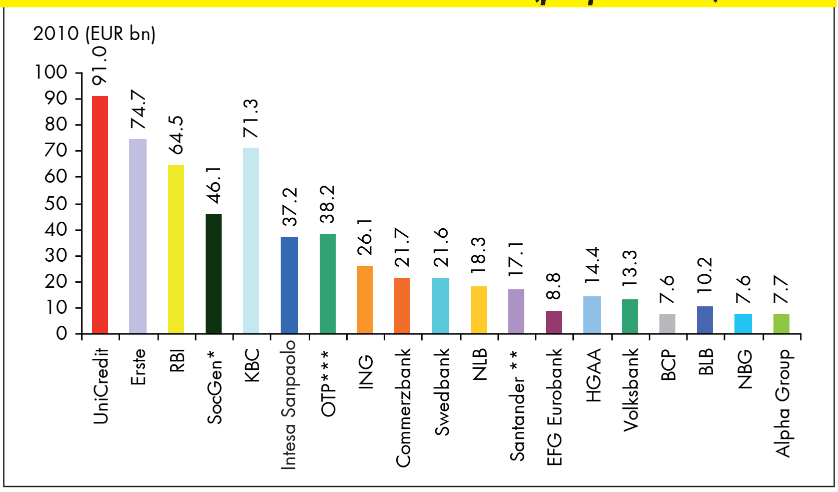
After the dynamic shifts among the banks ranked 6-10 in 2009 (Bayerische Landesbank dropping out, Swedbank's scaling-down its Baltics operations), 2010 was quite uneventful in our view. Intesa Sanpaolo is still heading as the No. 6 in the region ahead of OTP with a stable gap to the Top-5 pool of around EUR 26 bn.

Total assets of EU-based banks in CEE (consolidated**)**



** Vostok RU, Eurobank PL with 2009 data*
*** BZ WBK as of 2010 + Santander Consumer of estimated PLN 15 bn*
**** excl. Corporate center*
***** fully-consolidated entities*
Source: Company data, local central banks

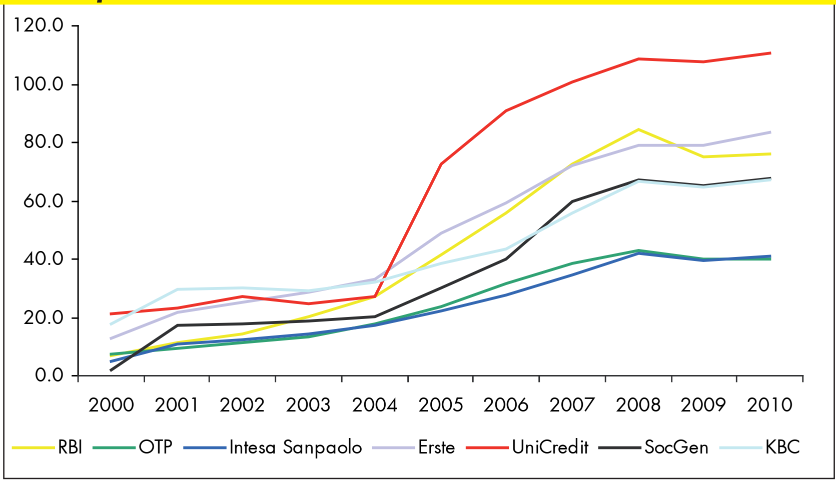
Total assets of EU-based banks in CEE (proportional)



Proportional according to exact share holdings; minorities deducted
** Vostok RU, Eurobank PL with 2009 data*
*** BZ WBK as of 2010 + Santander Consumer of estimated PLN 15 bn*
**** excl. Corporate center*
Source: Company data, local central banks

Raiffeisen RESEARCH

*Development of total assets in CEE (consolidated)**



** EUR bn, data as of December 2010*
Source: Company data, local central banks

CEE asset growth

	CAGR 00-10	CAGR 05-10
Raiffeisen	27.1%	12.8%
OTP	18.2%	11.2%
Intesa Sanpaolo	23.1%	13.0%
Erste	20.5%	11.4%
UniCredit	18.1%	8.8%
SocGen	40.8%	17.6%
KBC	14.4%	11.8%

Source: company data

Recently closed and announced deals reshaping the Top 11-20 basket:

- Santander as newcomer

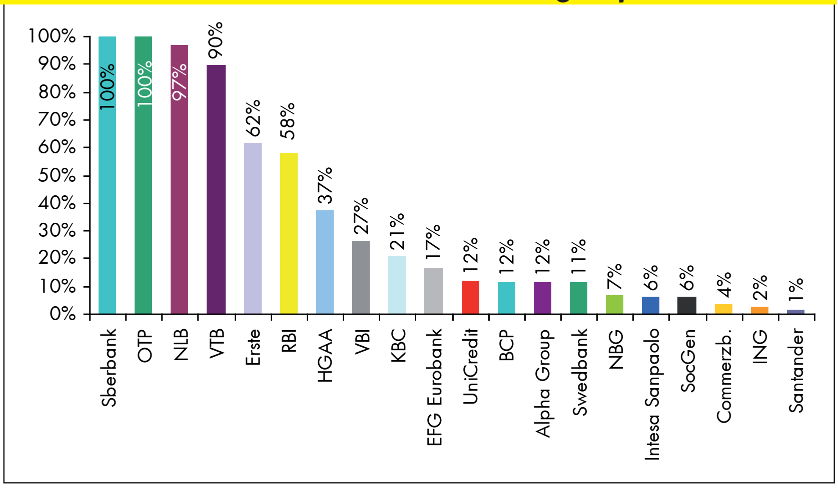
- VBI to drop out

- EFG-Alpha to get among Top-3 in Serbia, Romania and Bulgaria

Thanks to EFG, Santander and VBI, the Top 11-20 basket comprising mid-sized CEE banking groups has reshaped (or will be reshaped on announced deals) most. Spain's Santander is a newcomer here altogether (not entering the region but buying into significant additional market share in Poland) after taking over the majority in BZ WBK from Allied Irish Bank in 2010. Recently, Santander also placed another bid for Poland's KredytBank, which would catapult the Spanish banking group into the Top-10. Furthermore, the agreed merger between EFG and Alphabank would create a new CEE banking group of ca. EUR 16.4 bn (excl. Polbank) size on aggregated assets, which would put it one step closer to the Top-10. By closing the deal at year-end 2011 as it was initially envisaged, VBI would become a part of Sberbank group and as such with the remaining Romanian assets (ca. EUR 5 bn) would even drop out from the Top-20 ranks. We note that Sberbank is by far the largest group in the region with EUR 215 bn, now adding 7 new markets into its scope of operations. Finally, in case the Portuguese BCP decides to divest from its Polish operations incorporated in Bank Millennium, it might very likely exit the region in 2011/12 (preliminary bids have already been received).

Generally, the importance or the size of the CEE operations has remained flat at almost all major banking groups. The only difference is that since the merger with Raiffeisen Zentralbank (RZB) in 2010, RBI is not a pure CEE play anymore. OTP, NLB, Sberbank and VTB as “pure CEE” players without major foreign strategic ownership show nearly 100% of assets diversified in the CEE region.

Share of assets of CEE subsidiaries (% of group assets, 2010)



Data as of December 2010, representing ownership structure as of June 2011 (agreed but unclosed M&A transactions highlighted)
Source: Company data, local central banks

Consolidation wave may accelerate further

A year ago in our last CEE Banking Sector Report we advised on an increasing consolidation wave among CEE banks. We listed plenty of possible takeover or merger deals with some of them already materializing between Sep. 2010 and Sep. 2011, which may create room for speculation on the multiples to be applied to forthcoming transactions in 2011/12:

1) Santander acquired BZ WBK at 2.7x Book Value (BV) in September 2010,
2) RBI announced plans to aquire the majority in Polbank at 1.7x BV in February 2011,
3) Sberbank stepped into the CE/SEE region buying 100% in VBI excluding Romanian assets at around 1.0x BV,
4) VTB finally acquiring the Bank of Moscow after several steps launched in early 2011 and
5) EFG Eurobank and Alpha Bank announced a merger at the parental level in summer 2011.

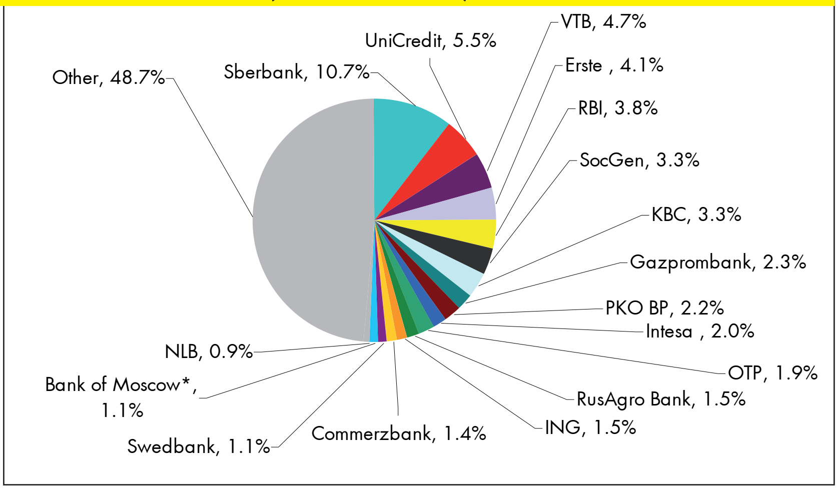
We believe that the takeover/consolidation wave will not stop here, as some market participants (still) intend to reduce their overal regional exposure. When it comes to reasons, they have not changed since last year, but given the culminating Greek sovereign debt crisis, the transactions may accelerate due to: 1) capital needs for repayment of state aid or fulfilling the capital requirements criteria (BCP, KBC, HGAA) pressuring the banks to scale down their CEE operations, 2) de-nationalisation intentions out of budgetary requirements (PKO in the very long term, HGAA post-restructuring) or 3) massive de-risking measures (HGAA, NLB, Bayerische LB). In addition, as a fourth reason we add the negative impact from a Greek debt restructuring on Western European banks (Societe Generale, Commerzbank, Italian banks). Insofar as the fate of Greek banks is concerned, we think that NBG with comparatively high sovereign exposure might be the one which could face the highest recapitalisation need, a fact which could lead to further asset rebalancing in SEE. In addition, the ownership distribution among Greek subsidiaries might get reshuffled due to further consolidation waves on the parent level where ATE, Marfin and Pireaus (however with marginal market shares in CEE) might be among the banks to follow the examples of EFG

Possible M&A candidates in the mid- to long-term perspective

Country	Target	Total assets (in EUR bn)	Comment
Poland	Bank Millennium	11.6	BCP intends to sell 65.5% stake; preliminary bids already submitted
	KredytBank	10.8	KBC is exiting Poland, Santander is in exclusive talks
	BRE Bank	22.7	Subsidiary of Commerzbank. In the case the crisis deepens it could be a subject of rumours, however less likely
	BPH Bank	9.4	Subsidiary of GE Money Bank
	Getin Holding	11.7	Owned by Leszek Czarnecki, no rumours at all, rather long-term takeover target
	PKO BP	44.6	Government selling minority stake by 2013, speculatively a long-term target
	Alior Bank	n.a.	Rumours about sale of the bank by the major shareholder Carlo Tassara to Sberbank or alternatively IPO in 2013
Romania	Banca Transilvania	5.0	No strategic investor: 10% owned by the Bank of Cyprus; ca. 18% by EBRD+IFC, a long-term takeover candidate
	CEC	5.1	Has been a takeover candidate for years; the state has re-positioned the bank and injected capital, recent rumours about floating the bank
	Volksbank Romania	4.6	After ÖVAG did not manage to sell to Sberbank, the fate of the bank seems uncertain. High portion of FX mortgages
Serbia	AIK Banka	1.3	Greek ATE with 20% stake; no major strategic investor.
	Komercijalna Banka	2.4	No. 2, EBRD holds 25% with a put option; state 42%; privatisation not likely before 2013. Strong retail network
	KBC Serbia	0.3	In accordance with KBC's strategic plan, the sale of Serbian subsidiary is expected in the coming period
	some smaller players with a market share < 1%		Privredna banka Beograd, Cacanska banka
Slovenia	Nova Ljubljanska Banka	14.6	The bank needs a EUR 400 mn recap, rumours that EBRD might step in
	Abanka	4.6	About 50% owned by insurance companies Sava and Triglav; it is rumoured that Abanka needs to fresh capital
	Gorenjska Banka	2.0	May be sold together with Abanka; recent rumours are that Apax might be interested + Banka Celje. Sava owns 50%
	Banka Celje	2.6	49% stake held by NLB is on sale
	Faktor Banka	1.1	No concrete rumours for the time being, NKBM owns 10%
Russia	Bank Khanty Mansiysk	4.2	Nomos bank owns majority. The remanining 44.2% stake will be tendered by the Khanty-Mansiysk government in 2011
	Absolut Bank	2.7	Subsidiary of KBC Group; ranked as 33rd largest according to assets
	Home Credit & Finance Bank	2.7	Consumer lender, was rumoured to have been in talks with Sberbank and VTB, deal failed on high price
Hungary	MKB Bank	9.8	Subsidiary of Bayern LB which seems not to consider CEE as a core segment after the painful episode with Hypo Group
	Budapest Bank	3.3	Subsidiary of GE Money Bank
Other	Hypo Group Alpe Adria (CEE assets)	14.4	Either it will be put on sale as a whole but more likely as individual parts, March 2012 is the recapitalisation deadline imposed by the regulator, apparently ~EUR 1.5 bn short of regulatory capital
	Greek banks	n.a.	There is no explicit exit strategy from any of the Greek banks operating in CEE; any solutions to appear rather on the parent level like recent EFG-Alpha merger

Source: Local news flow, banks

Market shares CEE (% total assets)



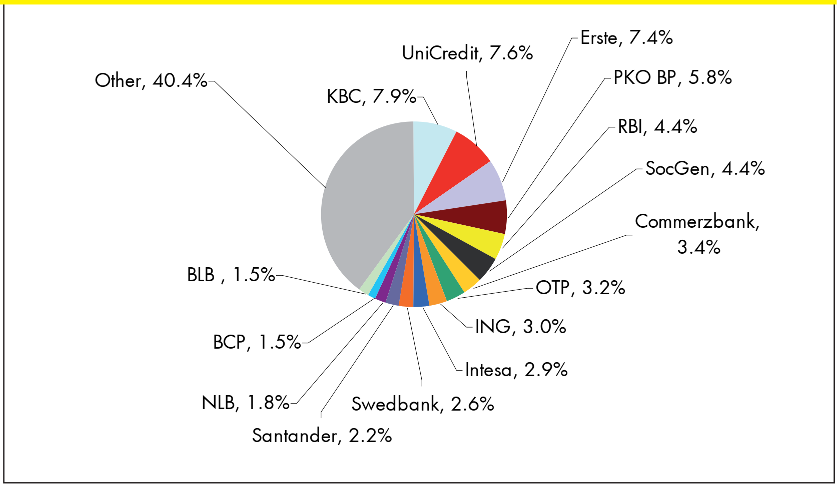
** Bank of Moscow has been taken over by VTB in several steps during the 9M 2011*
Data as of December 2010, representing ownership structure as of June 2011 (agreed but unclosed M&A transactions highlighted)
CEE: PL, CZ, SK, HU, SI, RO, BG, HR, RS, BH, AL, RU, UA, BY; LV, LT, EE, ME, KO, MD, MK, KZ
Source: Company data, local central banks

Russian banks gained most of the market share in CEE

The total consolidated assets (in EUR terms) of the entire banking system in the CEE region grew by a remarkable 13% yoy (in EUR-terms) in 2010 after a 0.6% yoy increase in recessionary 2009. The performance is due firstly to a 24% yoy rebound in CIS (-4% in 2009) while CE and SEE were clearly topped, growing by "only" +4% each but also better than last year (+0% vs. +2%). The Russian market proved to be the most dynamic with +24% yoy, followed by the Czech Republic +9% and Poland +7%. The weakest spots were Bosnia and Herzegovina (-14%), Hungary (-4%) and Slovenia (-2%).

Having said that, the shifts on the market share monitor are obvious after the Russian market attained more importance in the overall CEE banking picture. Russian banks have gained, the most additional market share (Sberbank +140bp, VTB +110bp and Gazprombank, +10bp) with RusAgro Bank and the Bank of Moscow – in the meantime the latter is part of VTB – now with more than 1% of the total market share. Consequently, HGAA's market share dropped from 0.9% in 2009 to 0.7% in 2010. All other not-purely Russian players lost between 20-50bp in 2010 depending on the country exposure, but with no change in the overall size ranking.

Market shares CE (% total assets)

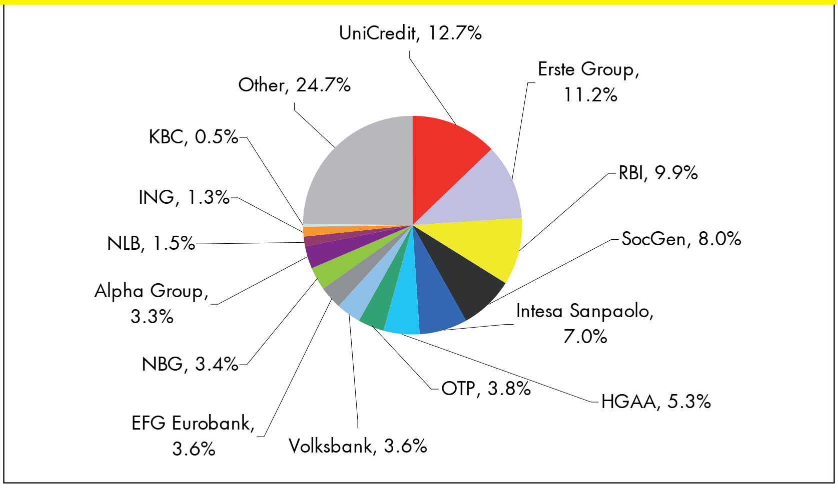


Data as of December 2010, representing ownership structure as of June 2011 (agreed but unclosed M&A transactions highlighted)
CE: PL, CZ, SK, HU, SI; LV, LT, EE
Source: Company data, local central banks

CE: no change among TOP-5 yet - KBC's divestment in Poland to change the picture from 2011

In the CE sub-region, for the second time in a row the Polish PKO BP is the absolute winner, gaining further 70bp in market share after it posted the highest asset growth on the largest individual market, which helped the largest Polish bank to reduce the gap to 160bp to the Top-3 basket. Presence in the Czech Republic helped Erste and SocGen to more or less defend their shares vs. last year, while it was not enough to keep KBC from the loss of 20bp market share and to compensate for the weak performance in Poland. UniCredit and RBI lost only marginally vs. last year, however, after closing the transaction, the takeover of Polbank would add approximately 80bp additional market share to RBI. There were no spectacular ranking movements among the Top-ranked banks in this sub-region, however, it is worth mentioning that the concentration among the largest banks is getting narrower. While the gap between the 1st and 6th largest was ca. 380bp in 2009, last year it dropped to 350bp. With an eye on potential M&A impacts for the coming years, after the planned disposal of its Polish subsidiary, KBC will have to give up its leading position. Santander is the new serious player to challenge the market which – in the case of the next potential acquisition in Poland – might shoot up to around OTP's size. Sberbank is in fact also the new name here but the moderate importance of the acquired VBI will add less than 1% of the market share.

Market shares SEE (% total assets)

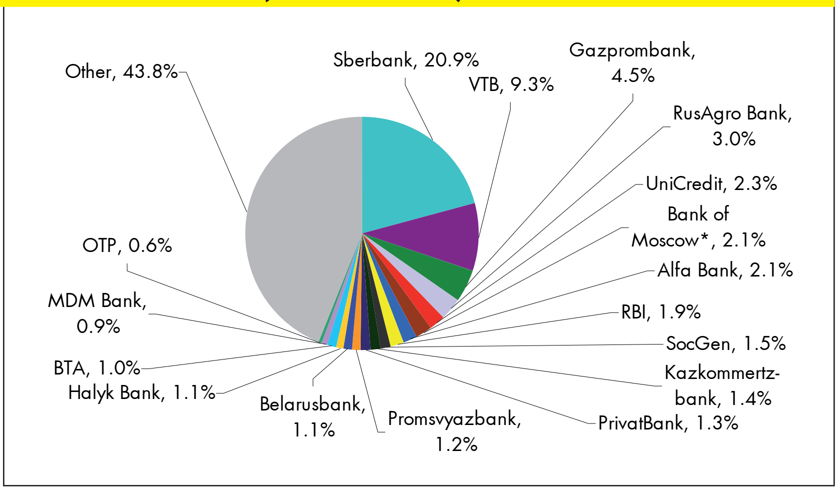


Data as of December 2010, representing ownership structure as of June 2011 (agreed but unclosed M&A transactions highlighted)
SEE: RO, BG, HR, RS, AL, BH; ME, KO, MD, MK
Source: company data, local central banks

SEE: Hypo further losing most, Sberbank ahead of entering the region

After market share movements were more interesting in 2009 with UniCredit becoming the largest player in SEE, we can say that 2010 was quite calm in this respect. HGAA has lost most vs. 2009 (-110bp) which does not surprise as it was once the core market of the Austrian banking group. Particularly the performance of the banking sector in Bosnia and Herzegovina, where HGAA is still the leading bank, brought losses. Contrary to CE, for Sberbank the presence of VBI excluding Romania means buying into ca. 1.5% market share or ca. the size of NLB which we consider as moderate. The importance of Greek banks is the highest in this segment with ca. 11% allocated to the three big players EFG, NBG and Alpha. The merger EFG-Alpha may apparently create the 5th or 6th largest banking group in SEE, ca. the current size of Intesa Sanpaolo.

Market shares CIS (% total assets)



** Bank of Moscow has been taken over by VTB in several steps during the 9M 2011*
Data as of December 2010, representing ownership structure as of June 2011 (agreed but unclosed M&A transactions highlighted)
CIS: RU, UA, BY; KZ
Source: Company data, local central banks

CIS: VTB-Bank of Moscow deal to further reduce the gap to Sberbank

In CIS, Russian banks grew over-proportionally despite their dominance in terms of size in the sub-region (approximately 82% of the entire assets comes from Russia) which shifted market shares vs. 2009 pretty significantly. The share of the 6 largest Russian banks in this pool increased from approximately. 40% in 2009 to 42% in 2010 thanks to the two biggest banks, while the new name in the Top-15 is Promsvyazbank. During 2010 only Gazprombank and MDM lost 30bp of the CIS market share while the other Russian banks gained between 30-150bp. After the recent takeover of Bank of Moscow, which is the largest deal in CIS ever, VTB will continue reducing the gap to leading Sberbank. From the foreign banking groups, despite some shifts in Russia, the ranking has remained unchanged with UniCredit, RBI and SocGen being among the Top-10. Kazakh HalykBank, BTA and Kazkommertzbank were the weakest and all lost 10-40bp of the market. The only Ukrainian and Belarusian banks presented in this graph, Privatbank and Belarusbank, have slightly improved their presence by 10-20bp.

Key abbreviations

EU-27 incl. Eurozone

Austria	(AT)	Italy	(IT)
Belgium	(BE)	Latvia	(LV)
Denmark	(DK)	Lithuania	(LT)
Estonia	(EE)	Netherlands	(NL)
Finland	(FI)	Spain	(ES)
France	(FR)	Sweden	(SE)
Germany	(DE)		

CEE Central and Eastern Europe

CE The markets in Central Europe

Czech Republic	(CZ)	Slovakia	(SK)
Hungary	(HU)	Slovenia	(SI)
Poland	(PL)		

SEE The markets in Southeastern Europe

Albania	(AL)	Croatia	(HR)
Bosnia a. H.	(BH)	Romania	(RO)
Bulgaria	(BG)	Serbia	(RS)

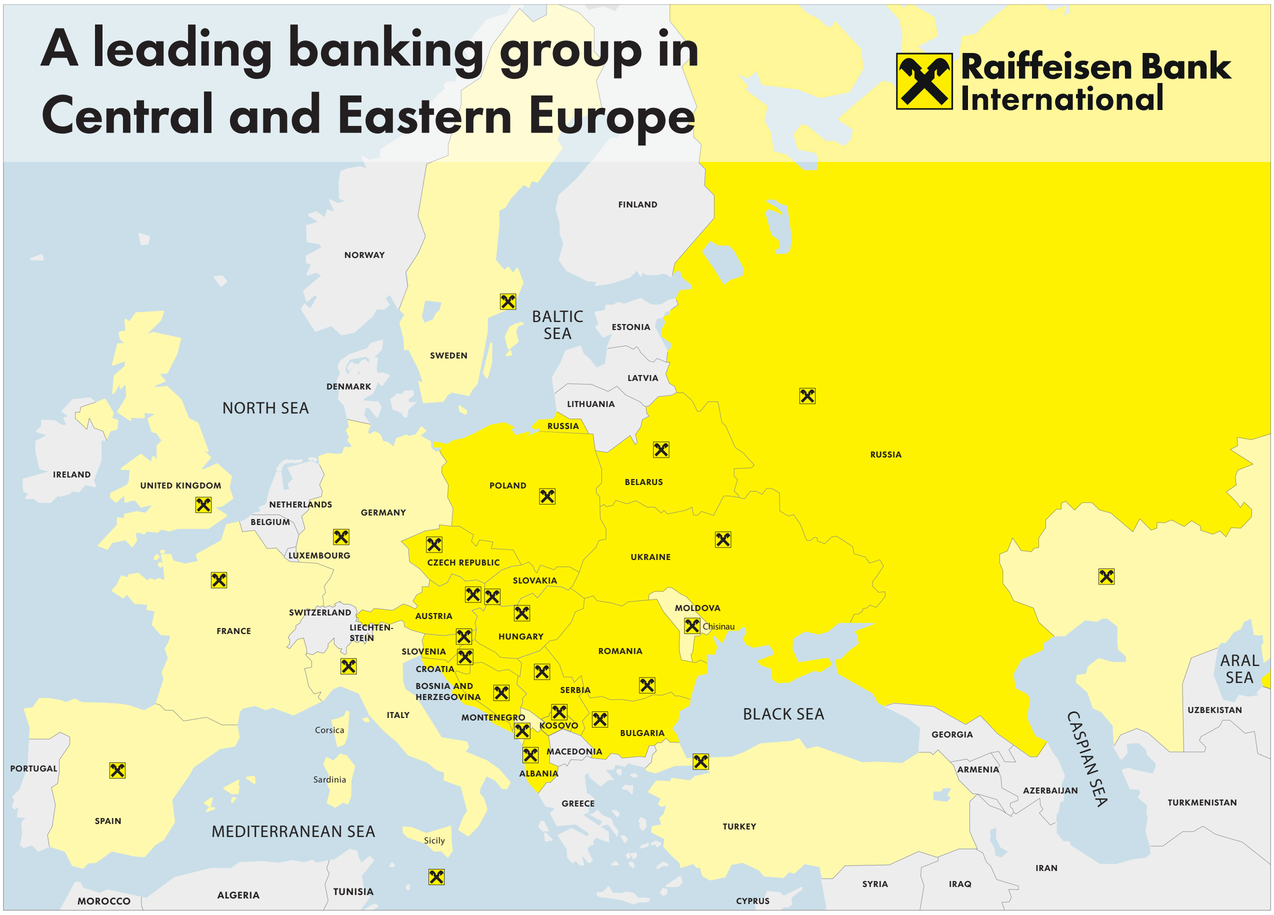
CIS The markets in the former Commonwealth of Independent States

Belarus	(BY)	Ukraine	(UA)
Russia	(RU)		

Other CEE countries

Georgia	(GE)
Kazakhstan	(KZ)
Kosovo	(KO)
Macedonia	(MK)
Moldova	(MD)
Montenegro	(ME)

GDP	Gross Domestic Product
PPP	Purchasing Power Parity
yoy	year on year
ytd	year to day
qoq	quarter on quarter
FX	foreign exchange
FCY	foreign currency
LCY	local currency
bn	billion
mn	million
BV	Book value
bp	Basis points
CAGR	Compound annual growth rate, average growth per year
excl.	excluding
IFIs	International Financial Institutions
No.	Number
NPLs	Non-performing loans
ROA	Return on Assets
ROE	Return on Equity
SME	Small and medium-sized enterprises



www.rbinternational.com

HEAD OFFICE AND NETWORK BANKS — BRANCHES, REPRESENTATIVE OFFICES AND OTHER UNITS

Acknowledgements

Published by: Raiffeisen Bank International AG and Raiffeisen Centrobank AG

Raiffeisen Bank International AG
Am Stadtpark 9, A-1030 Vienna
Postal address: P.O. Box 50, A-1011 Vienna
Phone: +43-1-717 07-0
Fax: +43-1-717 07-1715
www.rbinternational.com

Raiffeisen Centrobank AG
Tegetthoffstraße 1, A-1010 Vienna

Phone: + 43-1-515 20-0
Fax: +43-1-515 20-180
www.rcb.at

Analysts

Gunter Deuber	Raiffeisen Bank International AG, Vienna +43-1-717 07-1526, gunter.deuber@rbinternational.com	Banking trends in CEE, Focus on sections, Country overviews
Jovan Sikimic	Raiffeisen Centrobank AG, Vienna +43-1-515 20-184, sikimic@rcb.at	Market players in CEE
Gleb Shpilevoy	Raiffeisen Bank International AG, Vienna +43-1-717 07-1526, gleb.shpilevoy@rbinternational.com	Country overview Russia, CIS banking sectors, Sberbank, VTB
Jörn Lange, CEFA	Raiffeisen Bank International AG, Vienna +43-1-717 07-5934, joern.lange@rbinternational.com	UniCredit, Commerzbank, Societe Generale

Published and produced in: Vienna
Editing: Peter Klopf, Raiffeisen Bank International AG
Design: Kathrin Korinek, Raiffeisen RESEARCH GmbH
Printed by: Rabl Druck, 3943 Schrems, Karl Müller Straße 9
Cover photo: Peter Klopf

This report was completed on 11 October 2011

Raiffeisen Bank International network contributions

Albania	Joan Canai Valbona Gjeka	Raiffeisen Bank Sh.a., Tirane
Belarus	Natalya Chernogorova	Priorbank JSC, Minsk
Bosnia and Herzegovina	Ivona Kristic Srebrenko Fatusic	Raiffeisen Bank d.d. Bosna i Hercegovina, Sarajevo
Bulgaria	Kaloyan Ganev Velina Kostovska	Raiffeisenbank (Bulgaria) EAD, Sofia
Croatia	Anton Starcevic Zrinka Zivkovic-Matijevic	Raiffeisenbank Austria d.d., Zagreb
Czech Republic	Lenka Kalivodova Pavel Mertlik	Raiffeisenbank a.s., Prague
Hungary	Zoltan Torok	Raiffeisen Bank Zrt., Budapest
Poland	Dorota Strauch	Raiffeisen Bank Polska S.A., Warsaw
Romania	Ionut Dumitru Nicolae Covrig	Raiffeisen Bank S.A., Bucharest
Serbia	Ljiljana Grubic	Raiffeisen banka a.d., Belgrade
Slovakia	Robert Prega Aleksandra Vukosavljevic	Tatra banka a.s., Bratislava
Ukraine	Dmytro Sologub	Raiffeisen Bank Aval JSC, Kiev

Raiffeisen Bank International AG

Investmentbanking units

Raiffeisen Bank International AG, Vienna
Global Markets
Head: Nicolaus Hagleitner Tel: +43 1 71707 1467
Head of International Sales: Luca Scalzini Tel: +43 1 71707 3981
Head of FX-MM Sales: Wolfgang Kalinka Tel: +43 1 71707 3959
Head of Solution Sales: Harald Schönauer Tel: +43 1 71707 1148

Belgrade: Raiffeisenbank a.d. Serbia
Contact: Zoran Petrovic Tel: +381 11 2207006

Bratislava: Tatra banka, a.s.
Contact: Michal Kustra Tel: +421 2 59191334

Bucharest: Raiffeisen Capital & Investment S.A.
Contact: James Stewart Tel: +40 21 302 0082

Budapest: Raiffeisen Bank Zrt.
Contact: Ferenc Szabo Tel: +36 1 484 4400

Kiev: Raiffeisen Bank Aval
Contact: Vladimir Kravchenko Tel: +380 44 49005 42

Maribor: Raiffeisen Banka d.d.
Contact: Gvido Jemensek Tel: +386 2 229 3111

Minsk: Priorbank JSC
Contact: Andrey Filazafovich Tel: +375 17 289 9 213

Moscow: ZAO Raiffeisenbank Austria
Contact: Sergei Monin Tel: +7 495 721 9922

Tirana: Raiffeisen Bank Sh.a.
Contact: Christian Canacaris Tel: +355 4 253 646

Prague: Raiffeisenbank a.s.
Contact: Jan Pudil Tel: +420 234 401 863

Sarajevo: Raiffeisen BANK d.d. Bosnia and Herzegovina
Contact: Sanja Korene Tel: +387 33 287 122

Sofia: Raiffeisenbank (Bulgaria) EAD
Contact: Evelina Miltenova Tel: +359 2 91985 451

Warsaw: Raiffeisen Bank Polska S.A.
Contact: Adam Pers Tel: +48 22 585 26 26

Zagreb: Raiffeisenbank Austria d.d.
Contact: Ivan Zizic Tel: +385 1 45 66 466

Raiffeisen CENTROBANK AG

Institutional Equity Sales, Vienna
Head: Wilhelm Celeda Tel: +43 1 515 20 402
Sales: Klaus della Torre Tel: +43 1 515 20 472

Raiffeisen Investment AG, Vienna
Contact: Wolfgang Putschek Tel: +43 1 710 54 00-153
Martin Schwedler Tel: +43 1 710 54 00-155

Commercial banks

Raiffeisen Bank International AG, Vienna
Austrian Corp. Customers: Joseph Eberle Tel: +43 1 71707 1487
Financial Institutions: Axel Summer Tel: +43 1 71707 1476

RBI London Branch
Contact: Wladimir Ledochowski Tel: +44 20 7933 8002
Mark Bowles Tel: +44 20 7933 8001

Raiffeisen Malta Bank plc., Sliema
Contact: Anthony Schembri Tel: +356 21 320 942

RB International Finance USA, New York
Contact: Dieter Beintrexler Tel: +1 212 845 4100
Stefan Gabriele Tel: +1 212 835 2328

RBI Beijing Branch
Contact: Andreas Werner Tel: +86 10 653 233 88

RBI Singapore Branch
Contact: Stefan Mandl Tel: +65 6305 6100

International desk

Vienna: Raiffeisen Bank International AG
Contact: Rudolf Lercher Tel: +43 1 71707 3537

Belgrade: Raiffeisen banka a.d.
Contact: Sofija Davidovic Tel: +381 11 220 7807

Bratislava: Tatra banka, a.s.
Contact: Oswald Brandstetter Tel: +421 2 5919 1849

Bucharest: Raiffeisen Bank S.A.
Contact: Reinhard Zeitlberger Tel: +40 21 306 1564

Budapest: Raiffeisen Bank Zrt.
Contact: Petra Reök Tel: +36 1 484 4684

Kiev: Raiffeisen Bank Aval
Contact: Johannes Riepl Tel: +38 044 230 99 81

Maribor: Raiffeisen Banka d.d.
Contact: Simon Jug Tel: +386 2 2293 276

Minsk: Priorbank JSC
Contact: Julia Shigaeva Tel: +375 17 289 92 09

Moscow: ZAO Raiffeisenbank Austria
Contact: Maria Maevskaya Tel: +7 495 775 5230

Prague: Raiffeisenbank a.s.
Contact: Roman Lagler Tel: +420 234 40 1728

Pristina: Raiffeisen Bank Kosovo J.S.C.
Contact: Valbona Recica Tel: +381 38 22 22 22 116

Sofia: Raiffeisenbank (Bulgaria) EAD
Contact: Irena Krentcheva Tel: +3592 9198 5826

Sarajevo: Raiffeisen Bank d.d. Bosna i Hercegovina
Contact: Vildana Sijamhodzic Tel: +387 33 287 283

Tirana: Raiffeisen Bank Sh.a.
Contact: Jorida Zaimi Tel: +355 4 2381 445 2865

Warsaw: Raiffeisen Bank Polska S.A.
Contact: Tomasz Kwiecien Tel: +48 22 585 2375

Zagreb: Raiffeisenbank Austria d.d.
Contact: Wolfgang Wöhry Tel: +385 1 4566 462