CEE Banking Sector Report

June 2012

Performing in challenging times

- No "credit crunch" in CEE
- Funding profiles improved significantly
- NPLs have peaked in major CEE markets
- Growth markets attracting M&A activities

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Table of contents

CEE Banking Sector Report Summary

- **Solid banking sector expansion in 2011, total loan growth in CEE at 13% yoy in EUR-terms (+ 19% yoy in LCY-terms)**
- **Loan-to-deposit ratios improved in a lot of CEE countries, total loan-to-deposit ratio for the whole CEE region below 100%**
- **Non-performing loans peaked in major markets like Russia and Poland, NPL ratio in CEE stabilising below 7%**

CEE: 25% real loan growth 2009-11

The CEE banking sectors showed a high degree of resilience in 2011. With loan growth of 19% yoy in LCY-terms and 13% yoy in EUR-terms, 2011 loan growth in CEE remained at a healthy level. Moreover, the 2011 increase followed decent loan growth in 2010. Cumulative 2009-2011 real loan growth in CEE amounts to some 25% (CPI-deflated), whereas the respective reading for the Eurozone was roughly 1%. Moreover, many banking sectors in CEE improved their resilience by bringing down loan-to-deposit ratios. Therefore, the region appears less vulnerable to adverse external shocks than it was in 2008/09.

Lower vulnerability due to lower loan-to-deposit ratios

Solid growth performance ...

There are no signs of a credit crunch in CEE. Lending remains subdued in just a few countries which had experienced a rapid expansion pre-crisis. The CEE banking sectors in Russia, Poland, the Czech Republic, Slovakia, Romania, Serbia and Albania – which we identified in our last CEE Banking Sector Report as high growth markets – posted a handsome performance in 2011: this country group achieved average credit growth of 14% yoy (in EUR terms) in 2011. It is important to stress that these seven growth markets represent 80% of the CEE banking market. The remaining countries, representing 20% of the CEE banking market, showed a more modest performance in 2011. For this group, annual total loan growth remained more or less flat. Going forward, we expect this divergent performance to persist for some time. Nevertheless, corporate and mortgage loan growth remained at healthy levels even in those CEE markets that did not show a strong total loan growth in 2011. This performance underscores that both business segments are underpenetrated in nearly all CEE markets.

... solid profitability in 2011

The decent performance of the CEE banking sectors is well reflected in the 2011 profitability indicators, with average Return on Equity at 12.6% and Return on Assets at 1.4%. This performance was supported by a peak in the non-performing loan (NPL) ratio in markets such as Poland, Russia, the Czech Republic, Slovakia or Ukraine. The NPL ratio for the CEE region as a whole stabilised at slightly below 7% in 2011. Most countries in SEE and the CE countries of Hungary and Slovenia did not manage to follow the trend of stabilising asset quality in 2011. Given the modest size of the CEE banking sectors, which currently represent 9% of the total loan stock in the Eurozone, it comes as no surprise that the NPL stock in CEE amounts to half of the NPLs in a Eurozone-country such as Spain.

M&A activity caused shifts among Top-10 CEE banks

RBI second largest international CEE bank following UniCredit, Santander in Top-10

Societe Generale, UniCredit, RBI and KBC, with high asset allocations in Russia and CE excl. Hungary and Slovenia, were able to outperform their peers in terms of loan growth and asset quality. The Top-10 assets ranking has been largely influenced by M&A transactions, and accordingly Polbank's takeover made RBI the second largest foreign bank in CEE after UniCredit. Kredyt Bank's acquisition by Santander pushed the Spanish bank into the Top-10. While Russian VTB played on M&A in Russia, Sberbank bought 100% of Austrian VBI, hence acquiring a presence in seven CEE countries. We expect the consolidation wave to continue, but do not expect the M&A volume of 2011 to be reached in the next 12 months.

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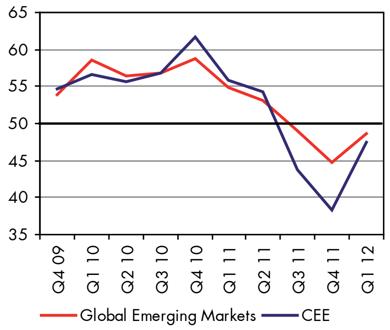
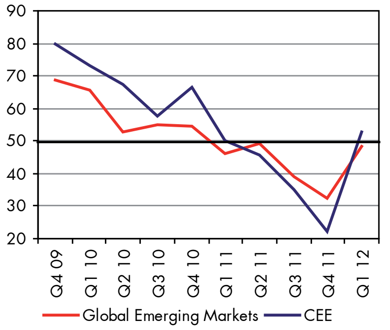
Banking in CEE: much better-than-expected

IIF Lending Survey*



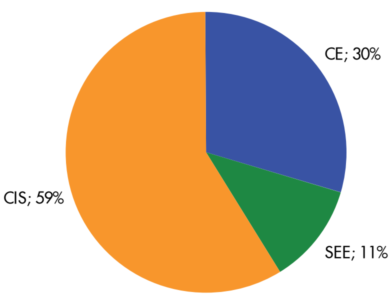
** Total Index (50 = neutral level)*
Source: Institute of International Finance, Raiffeisen RESEARCH

IIF Lending Survey*



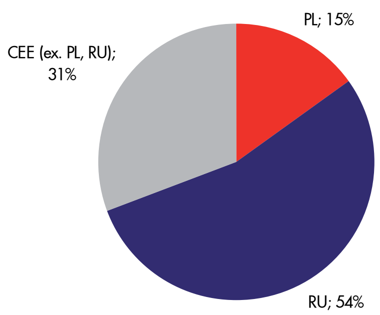
** Funding Conditions (50 = neutral level)*
Source: Institute of International Finance, Raiffeisen RESEARCH

CEE: GDP breakdown (2011, %)



Source: National sources, Raiffeisen RESEARCH

CEE: GDP breakdown (2011, %)



Source: National sources, Raiffeisen RESEARCH

Introduction

After we have published the previous CEE Banking Sector Report in autumn 2011, the banking sector environment in Western Europe and Central and Eastern Europe (CEE) became even more challenging than we had expected. Western Europe headed towards a recession which reached its peak in the winter months of 2011 and 2012. Moreover, the ad-hoc requirements for systemically important European banks imposed by the European Banking Authority (EBA) led to widespread fears of a severe asset reduction and credit crunch in Europe, including in CEE. According to the Emerging Markets Bank Lending Conditions Survey published by the Institute of International Finance (IIF), the CEE region was one of the worst performing regions in Q3 and Q4 2011. In addition, there were also some concerns that uncoordinated national regulatory moves (such as those discussed in Austria in 2011) would negatively impact cross-border banking in Europe, which is of particular importance in CEE.

The European Central Bank (ECB) helped to reduce the pressure on the Western European and CEE banking sectors via its long-term funding operations in December 2011 and February 2012. Accordingly, it comes as no surprise that Emerging Markets in general and CEE in particular rebounded in the IIF's lending conditions survey for Q1 2012. With the benefit of hindsight, one has to stress that up to now the Western European banking sector has avoided worst case scenarios, which might have induced significant spillovers on CEE. Moreover, Western European banks operating in CEE have once again shown their commitment to the region. This is also evident in the fact that loan growth in most CEE countries remained at healthy levels in 2011, as this report will show. This holds especially true for Russia and Poland, the two regional heavyweights who together account for slightly more than 60% of all CEE banking sector assets. Western European banks remained committed to CEE as profitability indicators rebounded strongly in 2011 – and not because they regard themselves as some kind of "Red Cross". On a positive note, regulatory pressure on cross-border banking in CEE has also eased somewhat due to revived private and public-sector coordination within the "Vienna Initiative" framework.

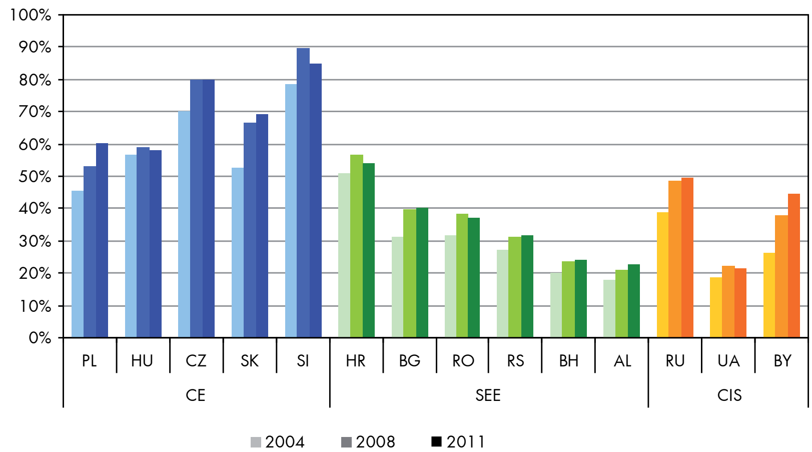
Despite all this good news, recent trends in the CEE banking sectors also confirm our view that the region has arrived in a sort of "new reality" defined by a "new normal" and a "new convergence mode". The main features of this "new" banking sector landscape, which is characterised by a lower, but more sustainable expansion, mirror the findings and ideas we presented in our 2011 CEE Banking Sector Report titled "Banking Sector Convergence 2.0". However, it is important to stress that the 2011 lending and profitability trends in the CEE banking sectors do show that this "new normal" offers nice earnings prospects in both absolute and relative terms. This holds especially true given the overall challenging landscape for banking business in (Western) Europe and on a global scale.

Definition of sub-regions and regional economic outlook

Before describing recent banking sector trends in CEE in more detail, we start with a recap of some definitions, followed by a regional economic outlook. We divide the very heterogeneous CEE region into three sub-regions: Central Europe (CE), South Eastern Europe (SEE) and the Commonwealth of Independent States (CIS).

Central Europe (CE): The sub-region CE consists of five OECD-member countries (Poland, Hungary, the Czech Republic, Slovakia and Slovenia) that have been EU member states since 2004. Moreover, Slovakia and Slovenia are also Eurozone members. All CE countries are characterised by a high level of economic development; e.g. some CE countries like the Czech Republic, Slovenia or Slovakia are also considered Advanced Economies by the International Monetary Fund (IMF). The CE sub-region's average GDP per capita at purchasing power parity (PPP) of EUR 17,500 is the highest in CEE (at market prices, the GDP per capita for CE stands at EUR 11,000 EUR). Over the past two decades, all CE countries attracted substantial Foreign Direct Investment (FDI) that helped to (re-)build the sub-region's strong industrial sectors. Moreover, the industry sectors in CE are highly integrated with the so-called "core" European countries like Germany, the Netherlands or Austria, which are the biggest investors in CE. With regard to their long-term growth prospects, most CE countries have largely exploited the low-hanging fruits that European economic integration and EU membership offer. For instance, the GDP per capita of Slovenia and the Czech Republic already stands at 70-80% of the Eurozone's average GDP per capita. At such a high level of economic development, the scope for further catching up via just exploiting wage differentials is limited. Further economic catching-up will require additional efforts to strengthen the international competitiveness position of the CE economies. However, recent years have also shown that economic catching-up is not a one-way street and that political risks can escalate even in more solid CE countries. Hungary has shown no economic convergence vis-a-vis the Eurozone in recent years, which can be attributed to mostly the country's unsustainable economic policies. As a consequence, Hungary is now the poorest CE country, with an average GDP per capita (at PPP) that is 54% of the Eurozone average. Due to unsustainable developments in the fiscal sphere and its banking sector, Slovenia has also shown more or less no convergence in recent years.

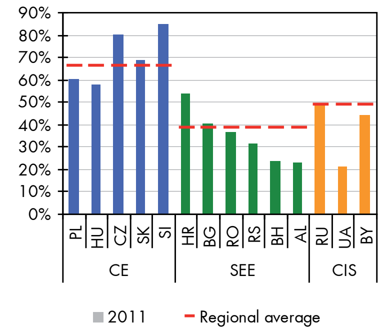
CEE: GDP per capita at PPP (% of Eurozone)



Source: IMF, wiiw, Raiffeisen RESEARCH

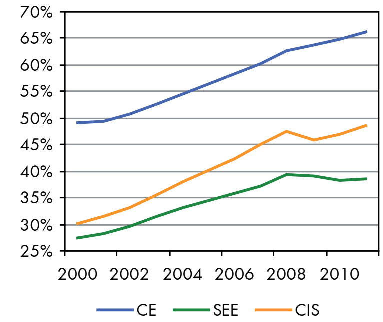
South Eastern Europe (SEE): The SEE sub-region consists of seven countries that are characterised by pronounced economic and political divergences. SEE according to our definition consists of the EU member states Romania and Bulgaria and the upcoming EU member state Croatia (EU entry scheduled for 2013), as well as four further countries from the Western Balkans, namely Serbia, Bosnia and Herzegovina, Albania and Kosovo (the latter will not be addressed by this report on account of data constraints). The remaining EU-outsiders from the Western Balkans (Serbia, Bosnia and Herzegovina, Albania and Kosovo) are at dif-

CEE: GDP per capita at PPP*



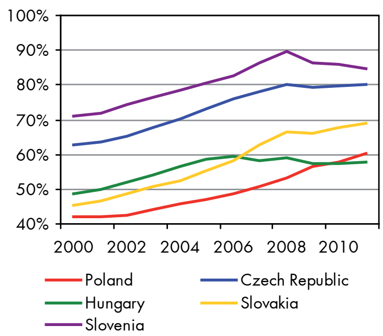
** % of Eurozone, regional averages GDP-weighted*
Source: IMF, wiiw, Raiffeisen RESEARCH

CEE: GDP per capita at PPP*



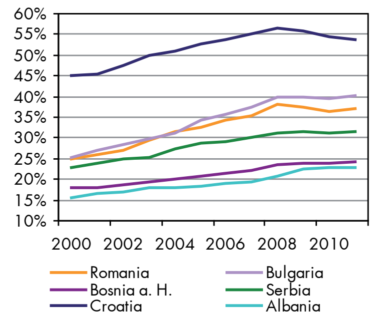
** % of Eurozone*
Source: IMF, wiiw, Raiffeisen RESEARCH

CE: GDP per capita at PPP*



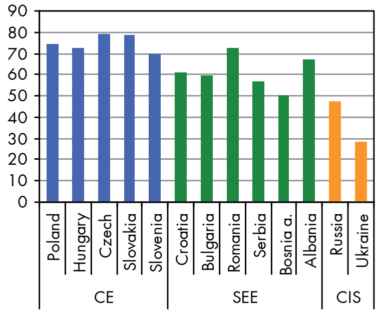
** % of Eurozone*
Source: IMF, wiiw, Raiffeisen RESEARCH

SEE: GDP per capita at PPP*



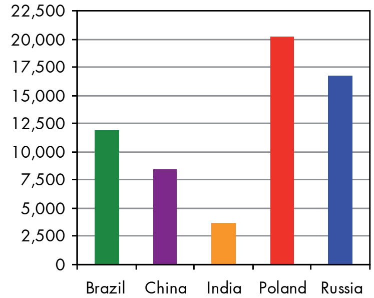
** % of Eurozone*
Source: IMF, wiiw, Raiffeisen RESEARCH

CEE: trade with EU-27 (% of total)*



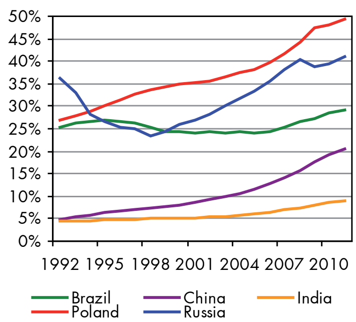
** % of total trade volume, 2010*
Source: wiiw, national sources, Raiffeisen RESEARCH

GDP per capita at PPP (USD, 2011)



Source: IMF, Raiffeisen RESEARCH

GDP per capita at PPP*



** % of major G-7 economies*
Source: IMF, Raiffeisen RESEARCH

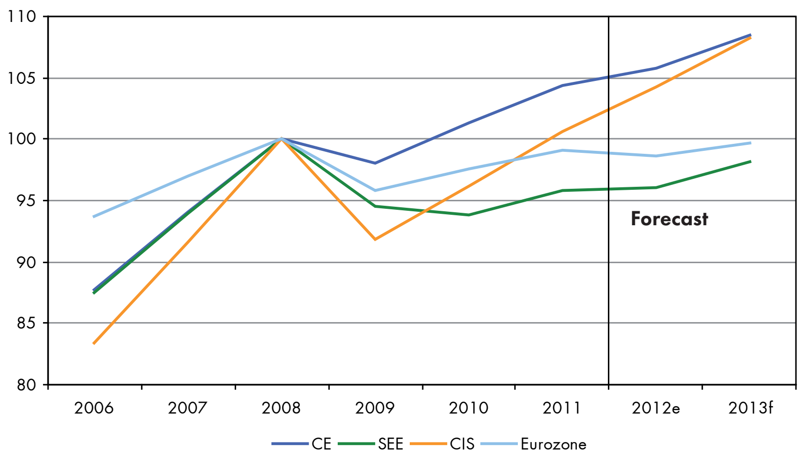
ferent stages of their long-standing rapprochement towards the EU, but positive advancements could be registered recently, most notably the granting of official EU candidate status to Serbia in March 2012. Although the SEE region is getting closer to the EU in political terms, the region is unquestionably still characterised by a certain economic backwardness compared to CE. The average GDP per capita at PPP in SEE stands at EUR 12,000, at market prices the GDP per capita is around EUR 6,000. In SEE, Croatia has the highest GDP per capita income (EUR 14,900 at PPP, or 54% of the Eurozone average), while Bosnia and Herzegovina and Albania have the lowest average incomes (both around EUR 6,000-7,000 at PPP, or 23% of the Eurozone average). Most industrial sectors in SEE are not as strong as those in CE, and the sub-region's infrastructure lacks the level of development in CE. As SEE has obviously not yet fully exploited all of the economic benefits that EU integration offers, some room for catching-up remains. However, the recent boom-bust cycles that drove up current account deficits, inflation and credit growth in some SEE countries have also shown that the "speed limits" of convergence must be watched closely if sustainable wealth gains are to be attained. Moreover, the recent negative economic performance in some SEE countries has also made evident that economic convergence is neither a one-way street nor easy to achieve. For instance, Croatia has not shown any convergence over the last 3-4 years, which illustrates that real and nominal convergence has to be backed by structural convergence.

Commonwealth of Independent States (CIS): The CIS sub-region consists of Russia, Ukraine and Belarus. Russia and Ukraine are the most populous countries in the entire CEE region. Russia is the wealthiest CIS economy, with an average GDP per capita at PPP of around EUR 14,000, or 50% of the Eurozone average. In contrast the GDP per capita at PPP in Ukraine (some EUR 6.000) only amounts to roughly 20% of the Eurozone GDP per capita. The Russian and Ukrainian economies are both commodity-driven: In Russia, revenues from the oil and gas sector account for up to 50% of the state budget revenue and around 65% of all exports, while steel represents around 30% of all exports in Ukraine. The CIS region is less dependent on Western Europe than both CE and SEE are. Exports to the EU-27 account for less than 50% of Russia's overall exports and around 25% of Ukraine's exports (in CE and SEE, intra-EU trade dominates exports, with readings at the 90% level in the smaller CE economies). Consequently, the economies in the CIS region are currently less affected than those in CE and SEE by the adverse developments in Western Europe. Moreover, with regards to the Russian economy, one should point out that its expected economic growth rates are more likely to be in the range of 4-5% yoy than the 6-8% posted by the other major Emerging Markets. Russia has posted a strong economic performance over the past decade and is by far the wealthiest major Emerging Market measured in GDP per capita at PPP. At such high wealth levels, economic growth rates usually settle down in comparison to economies that are not as developed. However, compared to the pre-crisis years, Russia must deliver a more ambitious approach to fiscal consolidation going forward, given that non-oil fiscal deficits increased sharply over the past 5 years. Among the commodity-driven Emerging Markets, Russia has one of the highest break-even oil prices (namely, USD 110-115 per barrel). The resource-poor Belarusian economy represents a unique situation in the CIS region, given its more or less unreformed economy that remains state-run like in "Soviet times" and its elevated dependency on cheap Russian energy and external funding. The limits of this growth model recently became obvious, as evidenced by the country's Balance of Payments problems and massive BYR-depreciation in 2011 that resulted in hyperinflation. Currently, Belarus is in the middle of a painful economic adjustment.

Central and Eastern Europe (CEE): All in all, the CEE region is characterised by substantial heterogeneity: Some CEE countries must be regarded as Advanced Economies, some are fairly close to the conditions prevailing in more mature economies, while others are still more typical of Emerging Markets. In nominal terms (at current market prices), the entire CEE region corresponds to something like 27% of the Eurozone's GDP, while total loans in the CEE region amount to only 9% of the total loan volume inside the Eurozone. Therefore, from a structural point of view, a lot of catching-up potential remains for banks in CEE. Moreover, from a more cyclical perspective, the expected GDP growth in CEE in the years to come will clearly outpace the current growth dynamics there. In fact, GDP growth rates in CEE are expected to fall in the range of 3.5-4% yoy over the next 4-5 years due to the overall healthy conditions in most of the region's countries.

Within our regional categorization, CE and CIS represent the bulk of CEE's economic weight. CE accounts for around 30% of the CEE's economic output, CIS for close to 60%, while the SEE weight in the region's aggregated GDP remains at some 10%. One should bear in mind when talking about the overall CEE economy, as well as the regional aggregates for CE, SEE and CIS, that some individual large economies play a dominating role. For instance, Poland and Romania represent roughly 50% of the respective GDP aggregates for CE and SEE, while Russia accounts for a full 90% of the CIS region's GDP and 50% of the aggregated GDP in the CEE region as a whole.

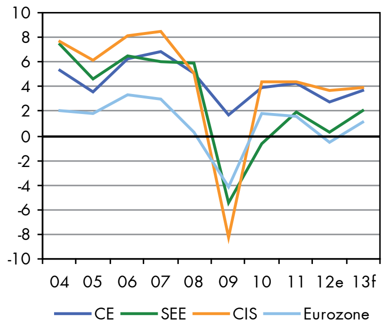
CEE: real GDP Index (2008 = 100)



Source: National sources, Raiffeisen RESEARCH

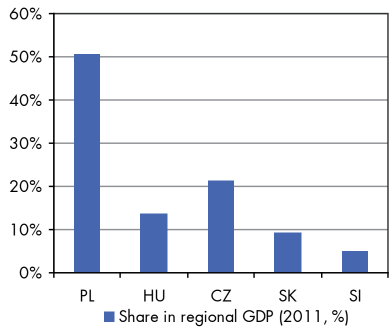
In H1 2011, the CEE region still profited from the cyclical recovery that was then taking place in the world economy and in Western Europe, with Germany serving as its frontrunner. These developments also supported global commodity prices. However, in H2 2011 Western Europe headed towards a recession whose peak occurred in the winter months of 2011 and 2012. As a result, we are rather cautious regarding the growth perspectives for the full year 2012, particularly with regard to most CE countries. However, for 2012 as a whole, we expect GDP growth in CEE to average 3.2%, driven mostly by the tangible uptick in economic activity that we are pencilling in for H2 2012. The economic growth we currently forecast for the three sub-regions in CEE is as follows: CE: 3.0%, SEE: 1.6% and CIS: 3.6%. Given these estimates, it is obvious that SEE is still lagging behind CE and CIS on account of home-made structural adjustments. Pre-crisis, many SEE economies were characterised by high and persistent current account deficits, which were a reflection of sizeable internal imbalances (e.g. lending booms, buoyant wage growth or asset price bubbles). However, the

CEE: real GDP (%, yoy)



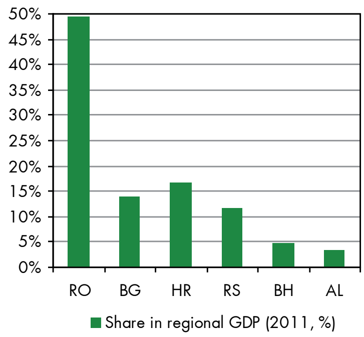
Source: National sources, Raiffeisen RESEARCH

CE: GDP breakdown



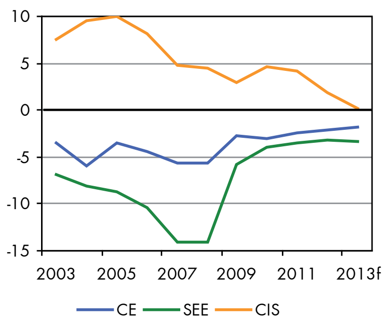
Source: National sources, Raiffeisen RESEARCH

SEE: GDP breakdown



Source: National sources, Raiffeisen RESEARCH

CEE: Current account balance*



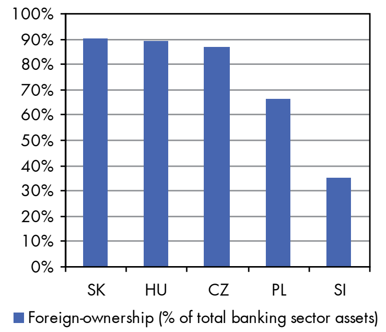
** % of GDP*
Source: National sources, Raiffeisen RESEARCH

GDP growth forecasts

	2010	2011	2012e	2013f
Poland	3.9	4.3	2.8	3.7
Hungary	1.3	1.7	-0.5	1.0
Czech Rep.	2.7	1.7	-0.2	1.0
Slovakia	4.0	3.3	2.4	2.0
Slovenia	1.4	-0.2	-1.0	1.5
CE	**3.2**	**3.1**	**1.5**	**2.5**
Romania	-1.6	2.5	0.5	2.5
Bulgaria	0.4	1.7	1.0	2.5
Croatia	-1.2	0.0	-1.0	1.0
Serbia	1.0	2.0	0.0	1.0
Bosnia	0.7	1.9	0.0	2.0
Albania	3.9	3.1	2.5	3.5
SEE	**-0.7**	**1.9**	**0.3**	**2.1**
Russia	4.3	4.3	3.7	4.0
Ukraine	4.2	5.2	3.5	4.0
Belarus	7.6	5.3	3.0	3.0
CIS	**4.4**	**4.4**	**3.7**	**4.0**
CEE	**3.5**	**3.7**	**2.7**	**3.3**
Eurozone	1.9	1.5	-0.5	1.1
USA	3.0	1.7	2.0	1.0

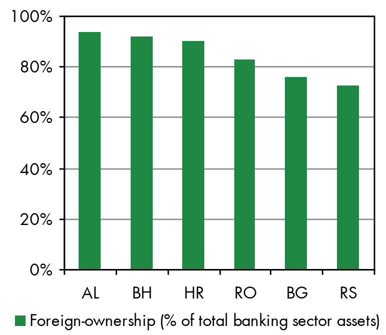
Source: National sources, Eurostat, Raiffeisen RESEARCH

CE: ownership structures (2011)



Source: National sources, Raiffeisen RESEARCH

SEE: ownership structures (2011)



Source: National sources, Raiffeisen RESEARCH

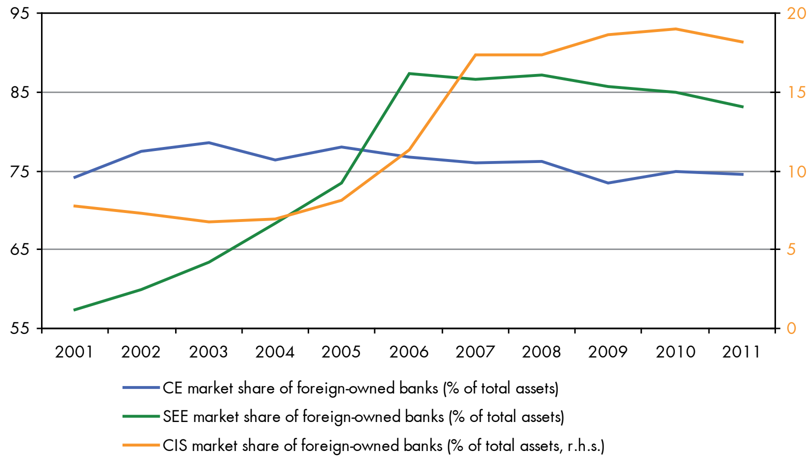
CEE region in general and the SEE countries in particular gained a considerable reputation for overcoming the immediate impact of the global economic crisis by implementing serious – and partly painful – economic restructuring. Macrofinancial vulnerabilities in CEE are now significantly lower due to the last slowdown and the accompanying economic restructuring. Current account deficits are at sustainable single-digit levels, while some CEE economies like Bulgaria, Hungary and Slovakia have even shifted to a surplus position. Fiscal deficits and public debt levels are also in check in all countries, with the possible exception of Hungary. All in all, the CEE region has shown a higher-than-expected degree of economic resilience in recent years. Therefore, most CEE sovereigns have already successfully tapped international markets in 2012 and financed large parts of their annual financing needs. The positive reputation that the CEE region gained in recent years is currently well reflected on the financial markets, where the risk premia of many CEE countries are well below those of more mature but highly indebted Eurozone countries. The financial markets no longer seem to apply something like a CEE or Emerging Markets discount.

Ownership structures and market concentration

On aggregate, not much has changed with regards to the ownership structures (i.e. foreign ownership) and market concentration in the CEE banking sectors over the past year. Some major transactions (like Sberbank's acquisition of Volksbank International, the purchases of the Polish business of Allied Irish or KBC by Santander or the purchase of the Polish EFG Eurobank franchise by RBI) "simply" transferred foreign-owned assets from one owner to another. As a consequence, the ratio of foreign ownership in the CEE banking sectors remained more or less flat in 2011. As of the end of last year, foreign-owned banks remain dominating forces in CE and SEE, with market shares of 73% and 83%, respectively. In contrast, foreign-owned banks on average have a market share of only 20% in the CIS region. In CE and SEE, the average market share of foreign-owned banks now stands around 2-4 percentage points below the highest readings seen in the years 2005 to 2008. This slight decline can be explained by the modestly increased market shares held by locally-owned and/or state-owned banks in some markets. The trends are less straightforward at the country level. For instance, the market shares of foreign-owned banks declined in Poland, Romania, Bulgaria and Bosnia and Herzegovina, while they remained more or less flat in the CIS region. However, the overall stable reading in the CIS region masks some very heterogeneous developments. In Russia, the market share of foreign-owned banks continued to decrease only slightly in 2011, while the drop in Ukraine was more pronounced at around 5 percentage points. In contrast, the market share of foreign-owned banks in Belarus increased substantially in 2011 (i.e. by around 5 percentage points) due to the expansionary strategies of Russian banks active there.

The generally stable development in terms of foreign-owned banks' market shares should not detract from the fact that Western European banking groups lost some market share in major CEE growth markets like Russia and Poland. This development can be largely attributed to the strong performance of locally-owned players and/or larger state-owned banks (PKO in Poland or Sberbank and VTB in Russia provide illustrative examples). The latter were usually the most stable lenders in recent years, i.e. fulfilling the typical role of state-linked banks to behave less pro-cyclical through the cycle. Moreover, state-owned banks such as PKO, Sberbank and VTB all have a strong deposit funding base in the retail and/or corporate segment. Their position as strong deposit takers helped these banks to outpace the overall market average in times of scarcer funding. In the specific case of Russia, some mid-sized locally-owned banks like Alfa Bank or Nomos Bank have also expanded much more strongly than most of their Western European peers (for more details on recent market changes in Russia see our Focus on article starting on p. 56). The decline in the market shares held by Western European players in Ukraine's banking sector can be explained by the fact that they are still applying more conservative business and risk taking strategies, while Russian and local banks are pursuing strong expansion.

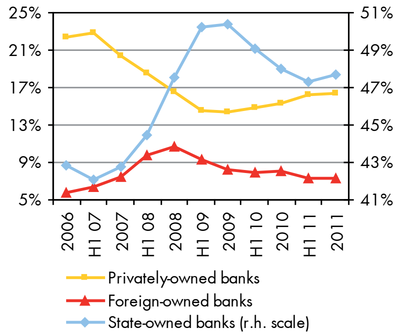
CEE: presence of foreign-owned banks



Source: National central banks, Raiffeisen RESEARCH

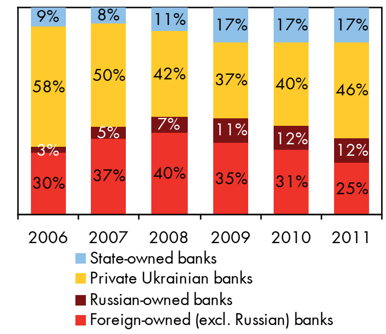
All in all, the experience in recent years has illustrated the stabilizing impact foreign ownership has had on the CEE banking sectors. According to data from the Bank of International Settlements (BIS) and empirical studies, at the global level, foreign-owned banks reduced their lending more than locally-owned banks during the global crisis. The exceptions to this trend were countries, like those in CEE, where foreign-owned cross-border banks have a large footprint in the host banking market. The crisis experience has shown that while banks cut their "niche" exposure first, the major CEE banks do not approach the region as a niche. Instead, the "home bias" of the strategically committed foreign-owned cross-border banks in CEE is a regional one – and not for their individual home countries – and they have played a clearly stabilizing role in CEE as a result. In 2009, all that was needed to make this commitment credible in the market was a sort of formal policy framework or coordination platform (in the form of the "Vienna Initiative"). Moreover, the banks that did participate in the "Vienna Initiative" usually proved to be more stable lenders than non-participating banks. That stabilizing role is not undercut by the finding that at the beginning of the global financial crisis some foreign-owned banks in CEE cut their lending somewhat more strongly than some locally-owned peers or by the previously mentioned slight decrease in their market shares. Such developments must be regarded in the context of the fact that in the pre-crisis period foreign-owned banks on average expanded somewhat more strongly than their locally-owned peers. Accordingly, some foreign-owned banks had to implement steeper cuts to new lending at the beginning of the crisis. However, the performance of locally and foreign-owned banks does not differ much with regards to actual lending growth. Moreover, it should be pointed out that the formal commitments within the framework of the "Vienna Initiative" for banks to keep their exposures stable or to increase the capitalization in some countries with IMF/EU support packages did not impact negatively on other countries in which no such formal guarantees were in place (i.e. no funding or capital was withdrawn from the latter group of countries).

RU: market shares by ownership*



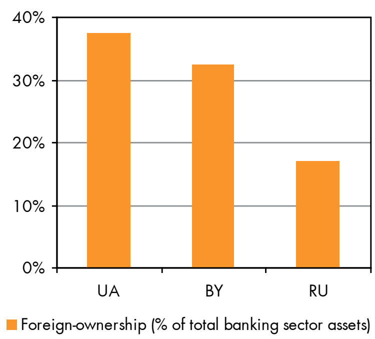
* *based on a sample of Top-50 banks*
Source: RBC Rating, CBR, Raiffeisen RESEARCH

UA: market shares by ownership



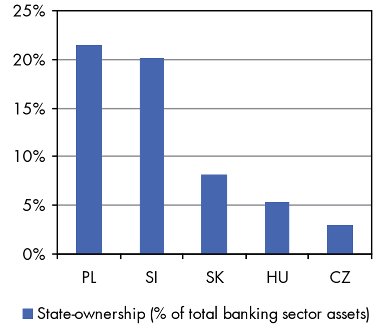
Source: National sources, Raiffeisen RESEARCH

CIS: ownership structures (2011)



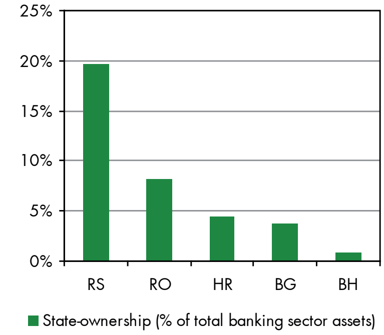
Source: National sources, Raiffeisen RESEARCH

CE: ownership structures (2011)



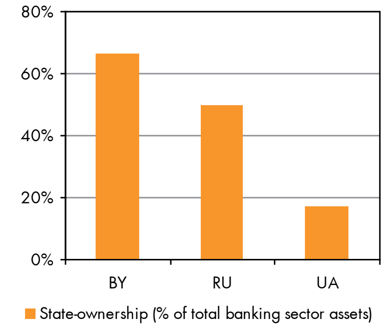
Source: National sources, Raiffeisen RESEARCH

SEE: ownership structures (2011)



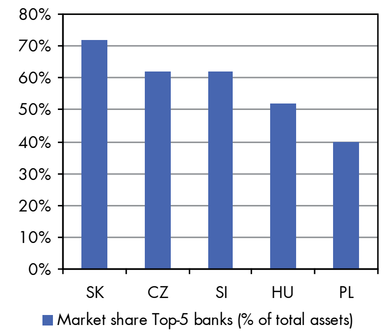
Source: National sources, Raiffeisen RESEARCH

CIS: ownership structures (2011)



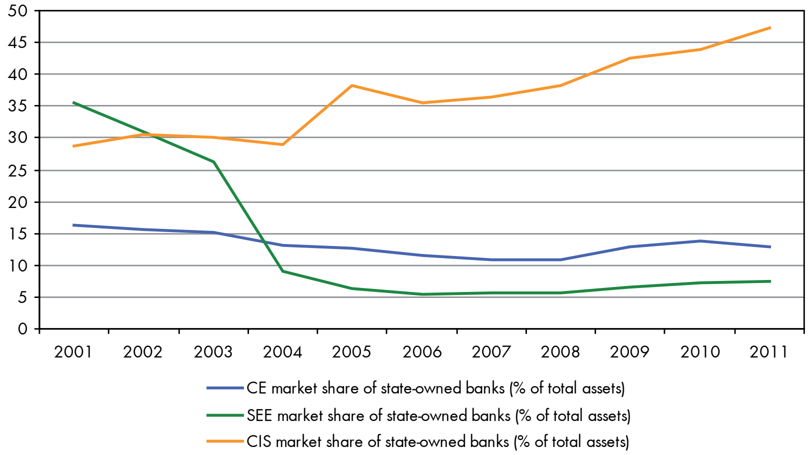
Source: National sources, Raiffeisen RESEARCH

CE: market share Top-5 banks (2011)



Source: National sources, Raiffeisen RESEARCH

CEE: presence of state-owned banks



Source: National central banks, Raiffeisen RESEARCH

The CEE banking sector's performance since the introduction of the EBA requirements has once again confirmed the stabilizing role of the committed foreign-owned banking groups, as the EBA requirements appear to have had no pronounced negative impact on sector's performance over the past 8-12 months (for more details, please see the chapters covering asset and credit growth dynamics on p. 11 and p. 17 respectively). Due to the commitment that foreign banks active in CEE had shown to the region in the period from 2008 to 2010, markets were not as worried about a retrenchment in 2011 as they had been in 2008 and 2009. For that reason, there was no need for a "Vienna Initiative 2.0" that was focused on the strong and pro-active role of major cross-border CEE banks. The "Vienna Initiative 2.0" that developed in 2011 and 2012 was in fact more about a much-needed coordination between regulators and International Financial Institutions (IFIs). The experience of the CEE banking sectors during 2008-2012 has clearly shown the positive and stabilizing contribution of the rather high market penetration by the committed foreign banks active in CEE. Given the experience of the past few years, policymakers and developmental institutions had been right to support financial integration in CEE. Moreover, the foreign-ownership structure in the CEE banking systems must be viewed within a broader, global perspective and not just the Western European or Anglo-Saxon context, where nationally-owned banks tend to dominate their home markets (for more details, please see the following section "Focus on: CEE foreign banking sector ownership in a broader context" on p. 12).

The CEE banking sectors remain a very heterogeneous group with regards to their degree of market concentration. In some smaller CE banking markets like the Czech Republic, Slovakia and Slovenia, the Top-5 banks (as based on total assets) have a market share well above 50%. However, on average, the Top-5 market share in CE remains slightly below 50%, reflecting the rather low market concentration in Poland's sizeable banking sector. In the SEE region, the Top-5 market concentration averages 58% and is thus well above the CE average. Serbia's banking market is the only one in the sub-region with a Top-5 market share below 50%. In the CIS region, the market concentration differs significantly. In Russia, the Top-5 banks have a market share slightly above 50%, while those in Ukraine have a market share below 40%. In contrast, Belarus is one of the most concentrated CEE banking markets, with the Top-5 banks there accounting for around 80% of the banking sector's total assets. The Top-5 market concentration in the largest individual market in the sub-region (i.e. Poland in CE, Romania in SEE, and Russia in the CIS region) remains at levels below the respective sub-regional average. This status follows a trend also visible in banking sectors outside of CEE, namely that Top-5 market concentration tends to be higher in smaller markets than bigger ones.

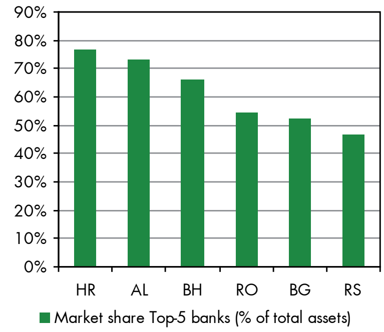
In the more concentrated CE and SEE markets (both of which are characterized by high foreign-ownership ratios), banks will most likely focus on organic growth in the years to come. Although some potential for consolidation remains in certain SEE countries and in Ukraine, Western European banks are unlikely to snap up assets there in the current regulatory environment. Consolidation via M&A activity, including that involving the current leading international banking groups in CEE, is a rather unlikely scenario for the next few years. However, some rather new market entrants (such as Santander in Poland, or Sberbank via its purchase of the Volksbank International franchise) may try to strengthen their footprint in CEE by making additional acquisitions. In addition, some local players that snapped up market shares in recent years may drive a further consolidation and specialization at the lower end of the market spectrum in the years to come.

Financial intermediation and asset growth

From a structural perspective, the CEE banking sectors remain underpenetrated in terms of their degree of financial intermediation. In 2011, total banking sector assets (excluding the business with what the ECB defines as "Monetary Financial Institutions") inside the European Monetary Union (EMU) represented some 269% of the region's GDP. This compares to an average total-assets-to-GDP ratio of some 87% in CEE as of year-end 2011. Within the CEE region, the comparable ratio at the national level ranged from a maximum of 120-140% in more mature CE markets like the Czech Republic, Hungary and Slovenia to a minimum of some 70-80% of GDP in less mature banking markets like Romania, Ukraine or Russia. Given these asset-to-GDP ratios, the CEE region on average shows a degree of financial intermediation that remains some 68% below that of the EMU (with the CEE region's more mature banking sectors being some 55-60% below the EMU average, while its less mature banking sectors are some 75-80% below that average).

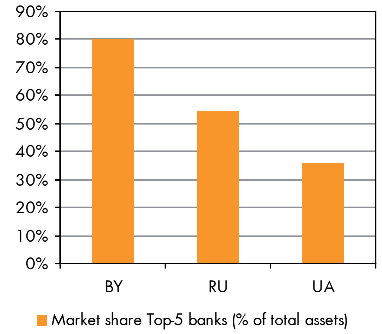
However, one has to be very cautious when assessing the differences in the levels of financial intermediation in the CEE and Eurozone banking sectors solely on the basis of asset-to-GDP ratios. First, we may see a certain deleveraging on the asset side in many Western European banking sectors going forward. Second, while traditional banking or lending business dominates in CEE's banking sectors, it is of less importance in most of those in Western Europe. For instance, total loans represent something like 55-60% of total assets in CEE, while total loans on average represent only around 45% of all assets inside the Eurozone. Moreover, the ratio of total loans to total assets was on a constant uptrend in CEE over the last decade, while this ratio was on a secular downtrend inside the EMU. Therefore, it is obvious that the catching-up distance between the degree of financial intermediation in CEE and that in more mature banking markets in Western Europe might be overstated if one were to look only at the total-assets-to-GDP ratio. Consequently, that gap is smaller for other indicators, such as the loan-to-GDP or deposit-to-GDP ratios. When looking at such indicators, the gap between the EMU and CEE is around 5-10 percentage points smaller than for the asset-to-GDP ratio. Nevertheless, the findings outlined above do show that the CEE banking sectors on average do remain underpenetrated to a certain degree. However, going forward, more focus ought to be placed on loan-to-GDP and deposit-to-GDP ratios rather than the overall asset-to-GDP ratio. Any further expansion in the CEE banking sectors and especially in those individual markets whose loan-to-

SEE: market share Top-5 banks (2011)



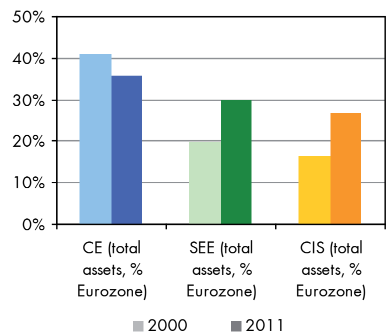
Source: National sources, Raiffeisen RESEARCH

CIS: market share Top-5 banks (2011)



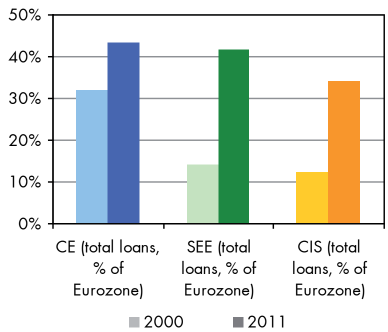
Source: National sources, Raiffeisen RESEARCH

CEE: total asset trends*



* *total asset comparison based on financial intermediation ratio*
Source: National sources, Raiffeisen RESEARCH

CEE: total loan trends*



* *total loan comparison based on financial intermediation ratio*
Source: National sources, Raiffeisen RESEARCH

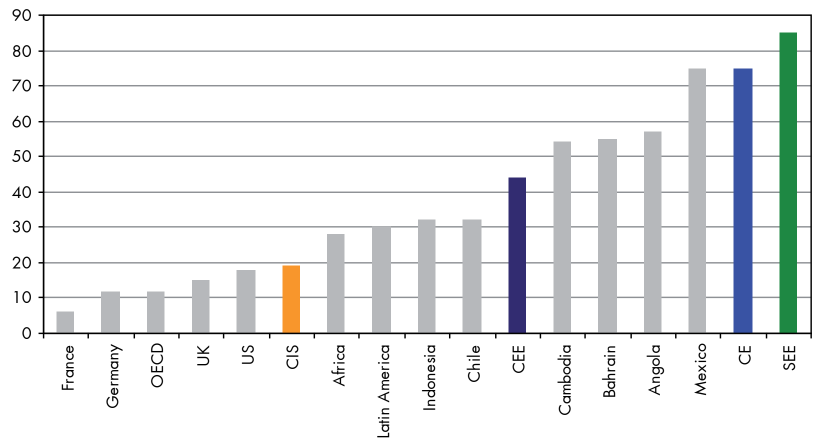
Focus on: CEE foreign banking sector ownership in a broader context

The fairly high share of foreign-ownership in some CEE banking sectors may look like a phenomenon specific to CEE when viewed from a Western European or Anglo-Saxon home country perspective. While foreign ownership stands at some 5-15% of total assets in countries like France, Germany, the UK and the US, it accounts for 60-90% of the total assets in CE and SEE and stands at 10-40% in the CIS region. Even Russia's banking market (with a foreign-ownership ratio in the range of 10-20%) is characterised by a stronger foreign bank footprint than a lot of the Western banking sectors. However, the high foreign-ownership ratios in the CEE banking sectors should be seen in a broader global or Emerging Markets (EM) context. In fact, those high ratios are not a regional phenomenon, but rather reflect the trend in many other EM's in which the share of foreign-ownership in their banking sectors increased from a longer-term perspective. As a result of this trend, the market share of foreign banks in many EM country groups averages around 30-40%, while it currently amounts to only 10% in many OECD economies. Looking at CEE as a whole, the (GDP-weighted) foreign-ownership ratio in the region's banking sector also stands at "just" 40-45% and is therefore close to that in other EM regions. This finding also reflects the tendency for foreign-ownership ratios in many regional aggregates to be driven down by large economies with a less-pronounced degree of foreign ownership in their banking sectors (like in Russia).

Emerging markets' superior economic and banking sector growth outlook compared to most advanced economies provided the impetus for international banks to penetrate these fast-growing markets, leading foreign-ownership ratios there to rise over the past decade. Moreover, big international banks seek to smooth earnings profiles by diversifying away from their home market as a singular high concentration risk. Some internationally operative US-based banks generated around 90% of their profits in 2009 and 2010 outside the US. A large number of globally active Western European banks also generate 60-70% of their earnings outside their home market, including such major EM regions as Asia, Latin America and Emerging Europe, Middle East and Africa (EMEA). In light of these trends, the focus that some Western European – and, in particular, Austrian – banking groups have placed on CEE looks more like a "natural" phenomenon. Unquestionably, a number of CEE banking markets stand out with foreign ownership ratios well above 80% or even 90%. However, some examples of such high-foreign ownership ratios also exist in other EMs (Mexico provides perhaps the most prominent example), although these are sometimes not reflected in very broad regional aggregations to the same degree as they are in the CEE aggregate.

In terms of its home-host country constellation, the banking sector integration in CEE also follows global trends in banking sector integration and banking Foreign Direct Investment (FDI). Across the globe, foreign bank entry tends to be regionally concentrated and integration with foreign banks tends to take place with traditional and important economic and trading partners. As Western European investors (mostly from so-called "core" Eurozone countries) dominate the FDI in CEE, it is fairly natural for banks from the same countries to be a dominating force in the region. Moreover, internationally active banks are usually looking to benefit from their regional expertise and are more likely to expand further into a specific region, where they are already present.

Presence of foreign-owned banks (% of total assets)



Source: National central banks, IMF, Raiffeisen RESEARCH

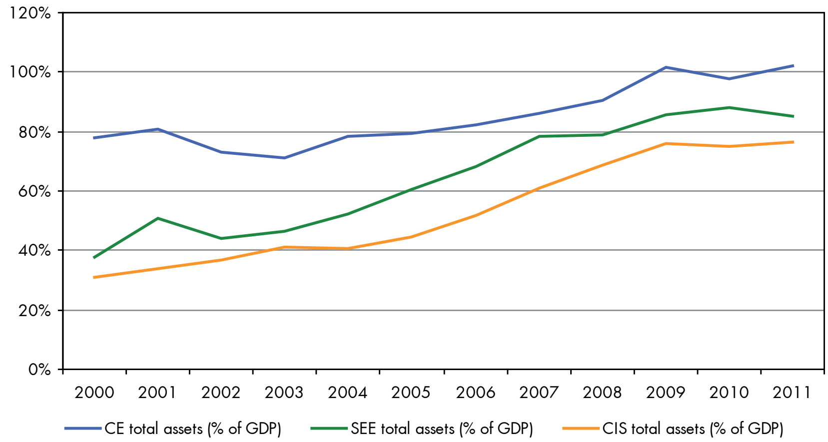
Currently, banking sector integration in CEE is still dominated by banks from the so-called advanced economies in Western Europe. However, intra-regional integration in CEE is also slowly increasing, mostly on account of the expansion being pursued by Russian and a few larger nationally-owned banks. This phenomenon is also in line with the global trend of EM banks (still) concentrating most of their investments within their own region.

Gunter Deuber

Non-CEE foreign ownership data taken from: Claessens/Hoeren: Foreign banks: Trends, Impact and Financial Stability, IMF Working Paper, Jan-12.

deposit ratios still remain quite high will be closely tied to the future development of the deposit base. In other words: The financial intermediation gap in terms of total assets or total loans can only be closed more or less in line with a closing of the gap in terms of total deposits. Therefore, the short- and medium-term banking sector growth outlook will be determined by the deposit growth in countries that are still characterised by loan-to-deposit ratios well above the 100-110% level, which can be considered as a sort of safe level in terms of loan-to-deposit ratios and balance sheet liquidity.

CEE: total asset trends

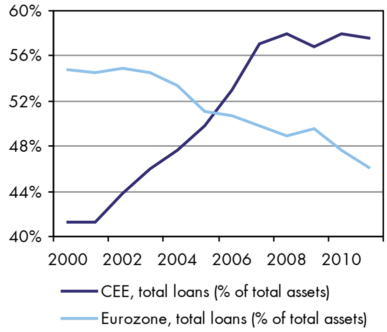


Source: National sources, Raiffeisen RESEARCH

Moreover, it cannot be neglected that some CEE banking sectors are already relatively large compared to the size of their national economy, i.e. loan-to-GDP ratios are relatively high in certain CEE countries. That finding, which applies in particular to some SEE or CIS banking sectors, can be backed up by comparing the income level and degree of financial intermediation in these CEE countries to EMU averages. Such a comparison shows that in some SEE and CIS countries, total loans in relation to GDP per capita compared to the Eurozone are substantially higher than the GDP per capita (either in PPP or at market prices) compared to the Eurozone. Moreover, the outlined method of comparison once again shows that asset-to-GDP relations between the CEE countries and the Eurozone do not necessarily provide a warning signal for those economies in which loan-to-GDP ratios are already at relatively high levels compared to the income level. The sketched results derived from a rather simple comparison of income and financial intermediation levels are also backed by more complex calculations of fundamentally backed estimated equilibrium loan-to-GDP ratios within a larger sample of benchmark economies, an approach we introduced in our 2011 CEE Banking Report and developed further in a more extensive paper based on that report.[1]

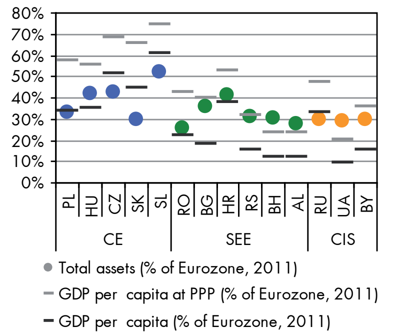
Nevertheless, as we stressed in our 2011 CEE Banking Sector Report and want to reiterate here: important and still substantially underpenetrated growth markets for banks do exist in CEE. This holds especially true for larger banking markets like those in Russia, Poland, the Czech Republic, Slovakia and Romania. In all of these countries, total loans or total assets as a percentage of GDP are at levels that offer potential for a solid long-term banking sector growth performance (i.e. these markets still display a banking sector underpenetration when using either the Eurozone or other Emerging Markets as a benchmark). With regard to Russia and its outlook for financial intermediation, one must stress that the Russian

Total loans vs assets: CEE vs EMU



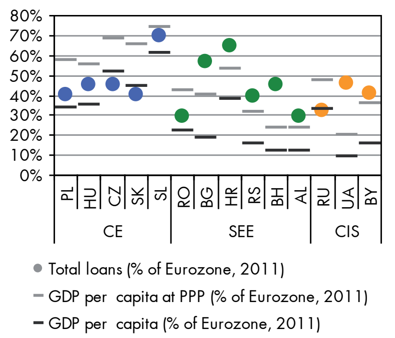
Source: National sources, Raiffeisen RESEARCH

CEE: total assets vs income level*



** total asset comparison based on financial intermediation ratio*
Source: National sources, wiiw, IMF, Raiffeisen RESEARCH

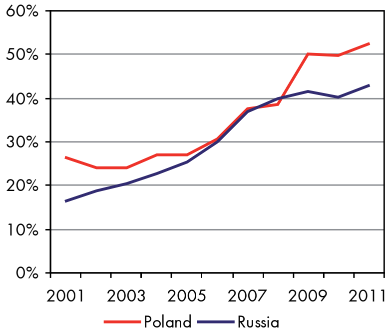
CEE: total loans vs income level*



** total loan comparison based on financial intermediation ratio*
Source: National sources, wiiw, IMF, Raiffeisen RESEARCH

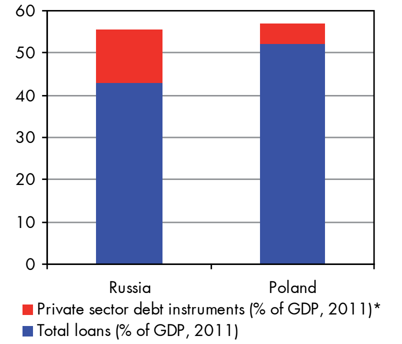
1 Deuber: Post-crisis Banking Sector Outlook in CEE, Osteuropa-Wirtschaft, 3-4/2011, pp. 168-193.

RU vs PL: total loans (% of GDP)



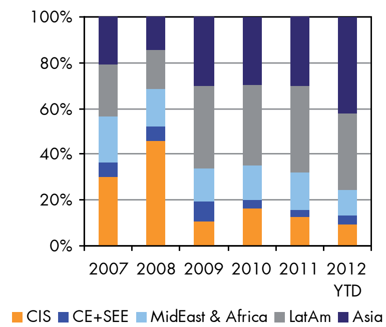
Source: National sources, Raiffeisen RESEARCH

RU vs PL: financial Intermediation



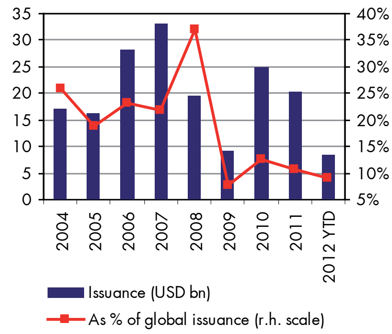
** Corporate and Financial Institutions debt stock on local and international markets*
Source: Bloomberg, Cbonds, IMF, Raiffeisen RESEARCH

Global Corporate Eurobond Issuance*



** % of total EM issuance*
Source: Bloomberg, Raiffeisen RESEARCH

RU: Corporate Eurobond Issuance



Source: Bloomberg, Raiffeisen RESEARCH

Focus on: Financial intermediation and the debt capital market channel in Russia

When assessing the degree of financial intermediation in Russia, one must take a broader perspective than looking at total loans (in relation to GDP). Russia is the only CEE country in which local and international corporate debt issuance has reached a critical size in both absolute and relative terms. Therefore, Russia's level of financial intermediation is higher than what is indicated by its total loan stock. As of year-end 2011, total bank lending amounted to 42.6% of GDP in Russia. Financial intermediation outside the banking sector (i.e. private sector bond issuance) corresponds to 12.5% of GDP, bringing the overall level of financial intermediation to around 55% of GDP. Although Poland is somewhat comparable to Russia in terms of income levels and overall capital markets development, the situation in Poland differs entirely. While bank lending in Poland stands at 52% of GDP year-end 2011, financial intermediation outside the banking sector (i.e. corporate bond issuance on local or international markets) corresponds to just 5% of GDP, bringing the total financial intermediation figure in CE's largest economy to 57% of GDP. As such, Poland and Russia look similar in terms of their overall level of financial intermediation, but in Russia the debt capital market channel plays by far a more important role than it does in Poland.

The Russian market features RUB 6.8 trillion in outstanding corporate bonds, equally split between international and local issuance. The Russian Eurobond market used to be the largest in the Emerging Markets (EM) space, contributing 24% to the global EM corporate Eurobond issuance volume from 2004-2008. However, Russia has surrendered this first place to Brazil in recent years as the contribution of Russian corporates to global EM corporate issuance decreased to 10.6% by the end of 2011. Russia's economy and corporate sector were hit hard by the global crisis, leading banks and companies to focus on extending the maturity and adjusting the FX mix of their liabilities instead of taking on new debts. The growing preference for RUB-denominated borrowing gave a boost to the LCY bond market, which almost doubled in size since 2009. Another reason for the rapid growth of the LCY bond issuance lies in the changing monetary policy regime. The Russian central bank has substantially increased the flexibility of the RUB exchange rate and aims to control liquidity in the system increasingly through refinancing operations with commercial banks. The list of securities eligible for repo operations with the central bank was extended substantially in 2008 and besides government and municipal bonds currently includes RUB 2.4 trillion in corporate bonds, which represent 70% of the local corporate bond market. Last but not least, local bonds are essentially covenant-free, which makes them more attractive for borrowers compared to Eurobonds and bank loans.

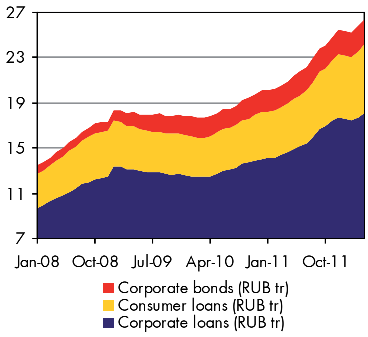
The findings outlined above show that Russia's banking market differs substantially from other CEE banking markets. The development of total loans and total banking sector assets in Russia over time also supports our view that there is potential to grow the country's asset base outside the traditional loan business. When compared to Western European banking sectors with their strong focus on cross-border and investment banking (beyond traditional lending business), Russia exhibits similar patterns with regards to the growth of loans and assets. In contrast, in nearly all other CEE banking markets, total loans expanded more strongly than total assets over the last decade.

The unique setup of Russia's banking sector and its local capital markets offers a great deal of potential for local banks. First, banks and companies can easily choose between different forms of debt financing, i.e. whether to place debt instruments or to draw a bank loan. This provides additional balance sheet flexibility for the local lenders, as most corporate bonds are eligible for repo transactions, making it possibly for portfolios to be easily transferred into cash or leveraged up. Second, the bond market provides banks with cross-selling opportunities that help to boost fee income. This goes beyond the underwriting fees, as most large banks usually run brokerage operations. Although the mutual fund market is still tiny in Russia, it is likely to gain in importance as the population becomes increasingly wealthy and starts looking for saving instruments other than bank deposits. Most large local players already run a captive asset management business. Third, some bond issues are placed among a limited number of large investors, usually banks. As such, the bond market offers Russian banks an opportunity to syndicate risks. All in all, the large and liquid corporate bond market provides Russian banks and corporates a higher flexibility through-the-cycle compared to their peers in other CEE banking markets.

The opportunities the Russian market offers outside the (capital intensive) traditional loan business and the sheer size of the market make the Russian banking sector an attractive market for universal banks offering both traditional loan business and client-driven investment banking. The potential profit and revenue pool in Russian investment banking is expected to increase substantially, rising from USD 700-800 million in 2010 and 2011 (according to Dealogic data) to some USD 1.5-2 bn in two to three years' time. Therefore, it comes as no surprise that state-owned Russian banks are increasing their investment banking capabilities. The latter also provide an efficient means to leverage corporate client relationships. VTB, which set up an investment bank in 2008, has already entered the highest rankings in M&A advisory, ECM and DCM products in both Russia and the CIS, and is expanding further. Sberbank entered this market via its acquisition of Troika Dialog last year. This expansion by local players is happening at times when big international investment banks are still wary to increase their footprint in Russia, as the country features higher macroeconomic volatility than some other major EM. While the large investment banking mandates on the Russian market are likely to end up with the state-linked investment banks, the sheer size of the market offers a lot of potential in the client-oriented investment banking for mid-sized Russian and foreign-owned banks.

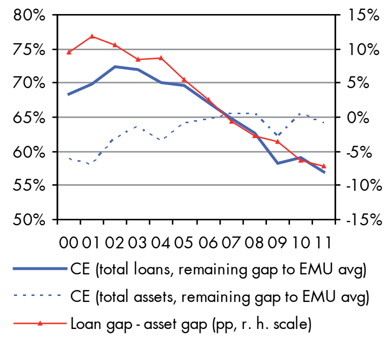
Gunter Deuber, Gleb Shpilevoy

Russia: credit volumes*



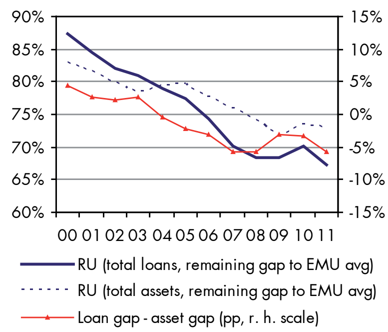
** Corporate bonds held by banks*
Source: CBR, Raiffeisen RESEARCH

CE: total loans vs total assets*



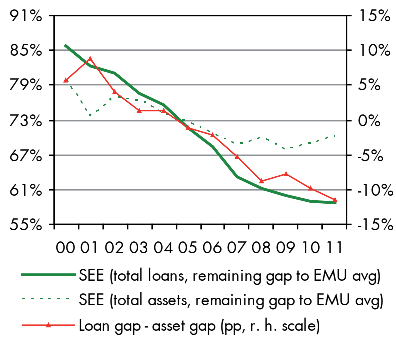
** total asset and total loan comparison based on financial intermediation ratio*
Source: National sources, ECB, Raiffeisen RESEARCH

RU: total loans vs total assets*



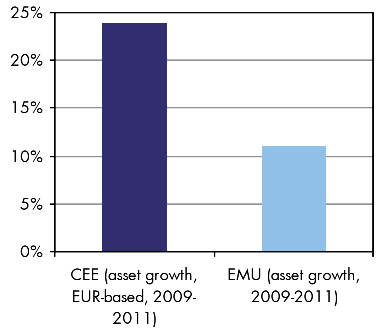
** total asset and total loan comparison based on financial intermediation ratio*
Source: National sources, ECB, Raiffeisen RESEARCH

SEE: total loans vs total assets*



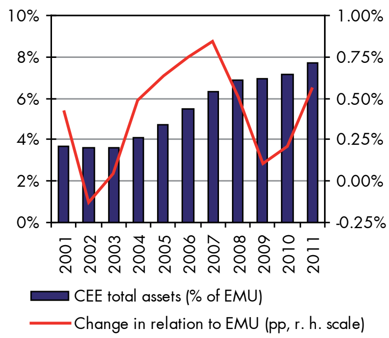
** total asset and total loan comparison based on financial intermediation ratio*
Source: National sources, ECB, Raiffeisen RESEARCH

Cumulative asset growth



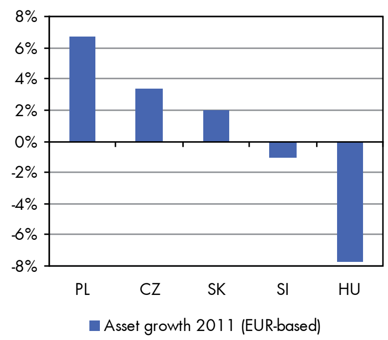
Source: National sources, ECB, Raiffeisen RESEARCH

Financial intermediation CEE vs EMU



Source: National sources, ECB, Raiffeisen RESEARCH

CE: asset growth (EUR-based)



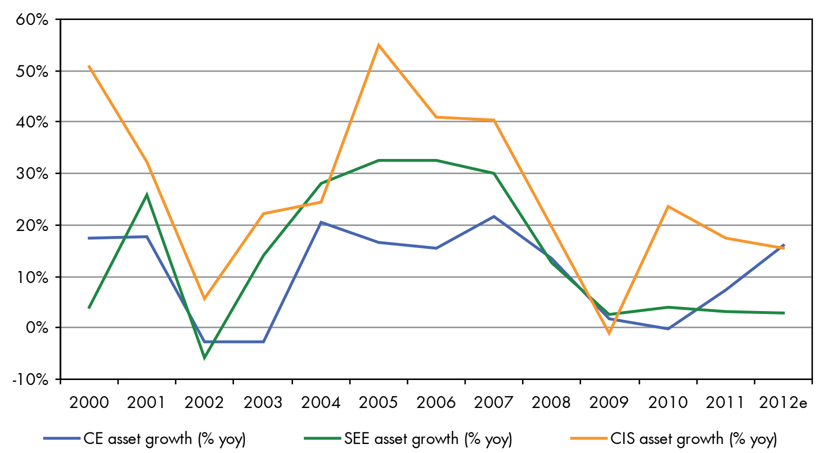
Source: National central banks, Raiffeisen RESEARCH

banking system represents a very special case in the CEE region. At first sight, the Russian banking market appears to display substantial underpenetration with a loan-GDP ratio of 43%. However, the degree of financial intermediation in Russia might be somewhat lower than what is indicated by its low loan-to-GDP ratio. We tackled this issue in the previous special section titled "Focus on: Financial intermediation and the debt capital market channel in Russia" starting on p. 14. Nevertheless, Russia remains one of the most attractive banking sector growth markets when regarded both from a CEE and a global Emerging Markets perspective. Moreover, Russia is one of the few banking sectors in the CEE region in which a tangible banking business beyond traditional lending activity exists – and that business may grow significantly in the years ahead.

Having established that we have arrived in times of more moderate expansion in the CEE banking sectors, it should come as no surprise that the asset growth dynamics in CEE in 2011 on average remained clearly below the 20-30% annual growth rates posted during the boom years of 2004-2007. Nevertheless, asset growth in CEE in 2011 was on average rather healthy: total banking sector assets in the region increased by some 11.5% yoy (all figures in EUR-terms). Therefore, total asset growth in 2011 continued at more or less the same rate as that seen in 2010 (+13.2%). However, one should note that the total asset growth seen in 2010 largely represented a rebound from the subdued expansion of 0.6% posted in 2009. From this perspective, the growth rate for 2011 looks fairly healthy.

The asset growth dynamics outlined above clearly outpaced the asset growth trend in the Eurozone during the same period. In 2011, the total asset growth in CEE stood at 11% yoy, while the comparable figure for the Eurozone was only around 4% yoy. Moreover, one should note that the difference between the 2011 asset growth dynamics in CEE and those in the Eurozone represents a continuation of a trend already seen in 2009 and 2010. Over the last 3 years the banking sectors in CEE added some 25% to their total assets base (cumulative annual asset growth rates), while the Eurozone banking sectors on average added just some 10% during the same period. Consequently, the relative size of the total assets in the CEE banking sectors in relation to those in the Eurozone increased from some 7.3% in 2007 to around 9.6% in 2011. Coming in at 0.9 percentage points in 2011, the relative increase in the total loan stock in CEE against that in the Eurozone was more or less at the levels seen in 2004 or.

CEE: total asset growth*



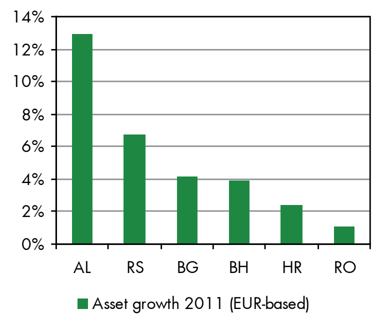
** growth rates based on EUR-figures*
Source: National sources, Raiffeisen RESEARCH

Raiffeisen RESEARCH

The constant growth outperformance posted by the CEE banking sectors shows that on a relative basis, the CEE banking sectors remain fairly attractive growth markets vis-a-vis most Western European peers. Moreover, just like the CEE region, Western Europe also has some banking sectors in which a certain deleveraging need exists from a medium-term perspective. For this reason, on an aggregated level, the growth differential between the banking sectors in CEE and those in Western Europe is likely to remain in place over the years to come. Going forward, we expect yearly asset growth rates in CEE in the range of 9-15% yoy on average. The lower end of the 9-15% band looks more realistic at the lower point of an economic cycle, while annual asset growth rates in the range of 13-15% are more feasible during an economic upswing. That said, we expect total asset growth in CEE to average around 9-12% in in 2012.

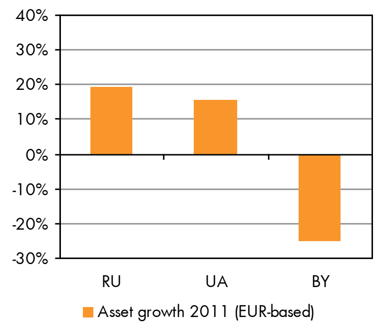
However, it is worth pointing out that the CEE average once again hides some important regional differences. Total assets growth in 2011 stood at 17% yoy in the CIS sub-region (+19% in Russia), followed by a rate of around 6% in CE and 3% in SEE. The CE sub-region showed the widest dispersion in the total asset growth rates posted by its constituent markets, with Poland posting an increase of around 7% while Hungary declined by ca. 7%. In the SEE sub-region, total banking sector assets remained more or less flat in all countries, with the possible exception of Serbia and Albania. Given the very differing fundamentally backed growth outlook for the CEE sub-regions and the individual CEE banking markets, we expect this divergent growth performance to persist for some years to come.

SEE: asset growth (EUR-based)



Source: National central banks, Raiffeisen RESEARCH

CIS: asset growth (EUR-based)



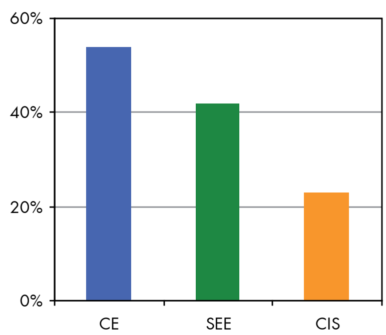
Source: National central banks, Raiffeisen RESEARCH

Lending structures and loan growth

When looking at the CEE banking sector as a whole, corporate lending is the most important business segment, representing around EUR 720 bn, or 60%, of total loans in 2011; household lending in the region stands at around EUR 425 bn. However, the split between household and corporate lending differs among the CE, SEE and CIS sub-regions. In the CIS sub-region, corporate lending represents around 70% of total lending, while corporate lending "only" makes up around 50% of total lending in the CE and SEE banking sectors. The split between corporate and household lending in the loan portfolio context in CE and SEE is more or less at the same level as that in the Eurozone, where corporate loans represent around 50% of total lending. In relative terms, corporate lending has gained in importance in recent years in CE and SEE, resulting in a slight uptick of its relative share in total loans. This development can largely be attributed to the fact that household lending expanded at a brisk pace during the consumption-led pre-crisis period in some CE and SEE countries, while export industries are currently more or less the only vibrant economic sectors in some CE and SEE countries.

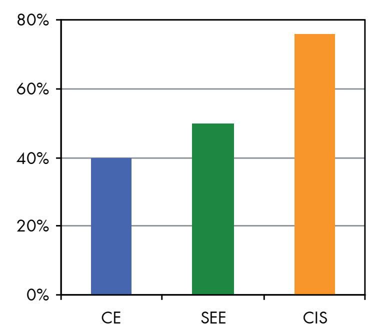
The share of mortgage lending in overall household lending increased significantly in CEE over the last decade, making mortgage lending an important market segment. Currently, mortgage lending represents around 50% of overall household lending in CEE. The respective shares at the level of the sub-regions are around 60% in CE, 40% in SEE and 30% in the CIS region. Inside the Eurozone, mortgage lending accounts for something like 70% of total household lending. This comparison suggests that the bigger structural growth prospects in the overall household lending segment in CEE (with the possible exception of Russia) lie in mortgage lending rather than in (unsecured) consumer or household lending. Therefore, it comes as no surprise that the relation of mortgage loans to GDP is at low levels in many CEE countries, while the ratio of consumer lending in relation to GDP is already at rather high levels in some of them.

CEE: household loans (2011)*



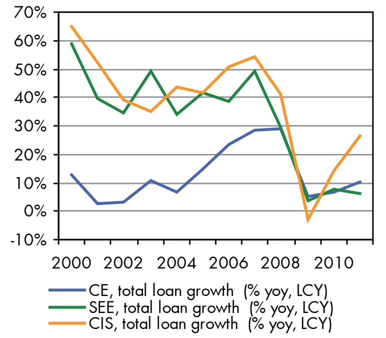
** % of total*
Source: National central banks, Raiffeisen RESEARCH

CEE: corporate loans (2011)*



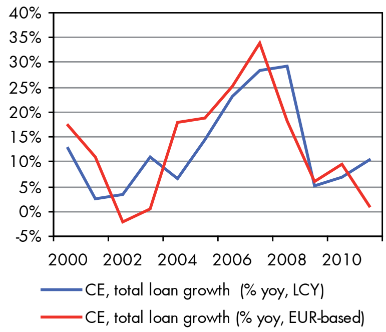
** % of total*
Source: National central banks, Raiffeisen RESEARCH

CEE: total loan growth*



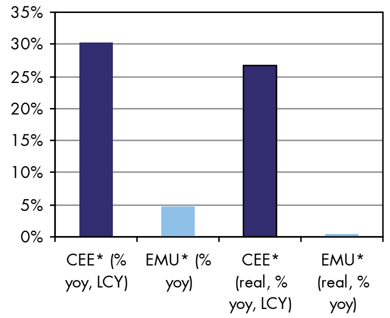
** based on LCY-figures*
Source: National central banks, Raiffeisen RESEARCH

CE: loan growth (LCY vs EUR)



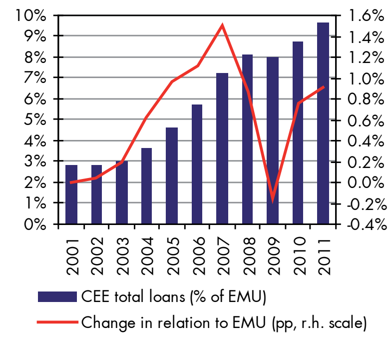
Source: National sources, Raiffeisen RESEARCH

Loan growth CEE vs Eurozone



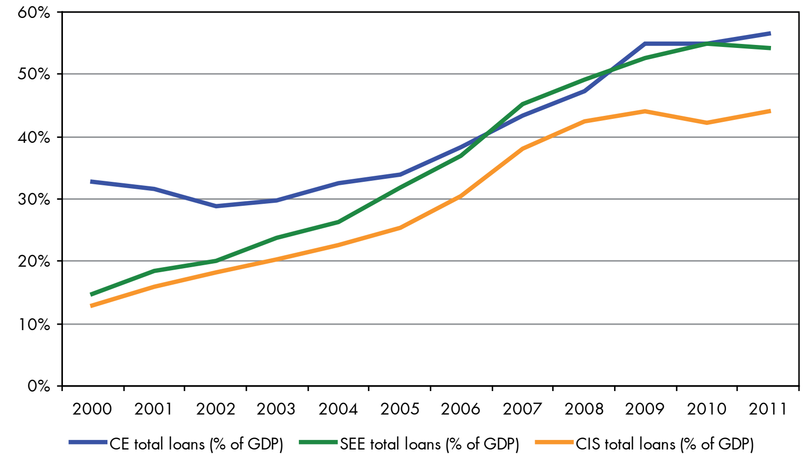
** total cumulative loan growth 2009 - 2011, real growth rates CPI-deflated*
Source: National sources, ECB, Raiffeisen RESEARCH

Financial intermediation CEE vs EMU



Source: National sources, ECB, Raiffeisen RESEARCH

CEE: total loans



Source: National central banks, Raiffeisen RESEARCH

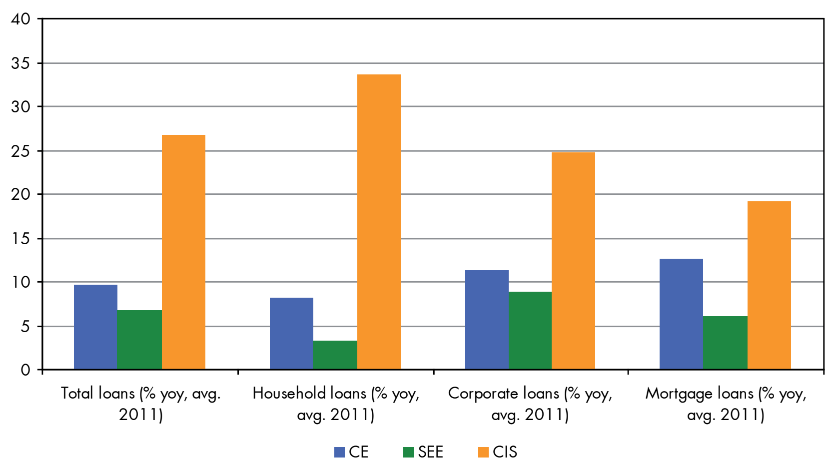
Total loan growth in CEE in 2011 remained more or less at the level seen in 2010 (+13.9% vs 13.7% in 2010). It is therefore quite clear that the CEE region was not hit by a "credit crunch" in 2011. The loan growth that took place in CEE in 2011 is all the more impressive given the fact that the double-digit loan book expansion in 2010 had followed on the back of a decline in 2009. The fact that a double-digit growth rate was once again achieved in 2011 shows that the CEE economies can sustain such growth rates even in challenging times and that such rates are not just a rebound phenomenon, as one may interpret the 2010 performance. Recent loan growth dynamics in CEE are also fairly impressive when compared to the current and medium-term developments in the Eurozone. Both the CEE region and the Eurozone experienced a drop in total loan volumes in 2009 (-1.5% in CEE and -0.4% in the Eurozone). However, total loan volumes in CEE grew by more than 25% in two-year period 2010 and 2011 (+13.7% in 2010, +13.9% in 2011), while total loan volumes in the Eurozone decreased by some 2-3% during the same period (-3.3% in 2010, +0.6% in 2011). Given these loan growth trends since the "crisis year" 2008, the CEE banking sectors are on aggregate fairly attractive compared to those in the Eurozone.

The 2011 total loan growth in CEE looks solid in both LCY- and EUR-terms (+20% in LCY-terms, +13.9% in EUR-terms). It was only in the CE sub-region that loan growth this past year varied substantially depending on whether one measures it in LCY- or EUR-terms (+10.5% in LCY, +1.2% in EUR-terms). Central Europe's more subdued performance on a EUR basis can largely be attributed to strong swings in CE currencies pairs like EUR/PLN and EUR/HUF. The respective growth rates in LCY- and EUR-terms for CEE's other two sub-regions are 6.4% and 5.7% in SEE and 26% and 21% in the CIS region. On the back of the positive banking sector growth in the overall CEE region, the total loan stock in the region's banking sectors in relation to those in the EMU increased from some 7.3% in 2007 to around 9.6% in 2011. At 0.9 percentage points, the relative 2011 increase in total loans in CEE vs the EMU was at the "catching-up" level CEE had posted in 2004 or 2005.

However, the CEE banking sectors – like those in the Eurozone – are also characterised by stark divergences and loan growth differs substantially in the various CEE sub-regions and at the country level. In some CEE markets, total loan volumes remained more or less flat in 2011, while the total loan book grew at high single-digit or even double-digit rates in a number of other CEE countries, such as Poland or Russia. With regards to the regional differentiation in the loan growth rates in 2010 and 2011, two features are of importance. First, past loan expansion that was too aggressive appears to act as a constraint on growth. Second, relatively high loan-to-deposit ratios (these tend to be relatively high in those countries that experienced very strong banking sector expansion in recent years) appear to be another important growth constraint in the current environment as well. Consequently, the most attractive banking sectors in CEE are currently those markets that were not characterised by an overambitious pre-crisis loan expansion and that avoided an overshooting of the loan-to-deposit ratio from the loan side. Given the very different stage of the CEE markets in terms of their current and fundamentally-backed level of financial intermediation, we expect that the current divergences in loan growth rates will persist for some time to come. Interestingly, the overall divergence between the individual CEE markets will nevertheless remain below the huge discrepancies seen during the last strong growth cycle. Therefore, it looks like we will move towards an environment of more moderate, but also more stable loan growth. The latter development may help to stabilise the earnings of regionally diversified cross-border CEE banks.

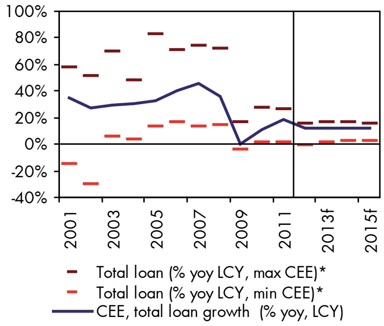
Mortgage loans continue to be one of the most attractive market segments in CEE. Nearly all CEE banking markets registered a fairly positive performance in mortgage lending in 2011 and all three CEE sub-regions posted gains in EUR-terms (+5% to +10% in CE and SEE, +20% in the CIS region). More importantly, the growth in mortgage lending in 2011 followed on the back of what had already been decent expansion in 2010 (+20% in CE, +10% in SEE, +16% in the CIS region). Much more heterogeneity exists on the sub-regional and country levels with regard to the segments of retail and corporate lending. Corporate lending rose in nearly all CEE markets in 2011, increasing by around 11% in the CE sub-region, by 9.7% in SEE, and by ca. 25% in the CIS region (all figures in LCY-terms). In CE, Poland and Slovakia slightly outperformed the regional average in corporate lending, while Romania, Serbia and Albania managed to (slightly) outperform the more or less solid corporate lending growth in SEE at the sub-regional level. Household lending developed rather sluggish in most SEE markets due to the relatively high leverage in the household sector. Moreover, the SEE economies are still characterised by a rebalancing of their economies and exports remain more or less the only source of economic growth. As a consequence, the 2011 growth rate in the segment of household lending differed more sharply across the CEE sub-regions, with an expansion of around 8% in CE, 2% in SEE and 33% in the CIS region (all figures in LCY-terms). In CE, the Czech Republic and Slovakia managed to come in above the sub-regional average in household lending, while in SEE Bulgaria, Serbia and Bosnia and Herzegovina outperformed the relatively weak regional household lending dynamics.

CEE: 2011 loan growth across the business segments



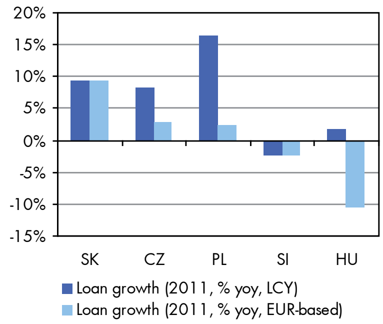
Source: National central banks, Raiffeisen RESEARCH

CEE: past vs forecasted loan growth



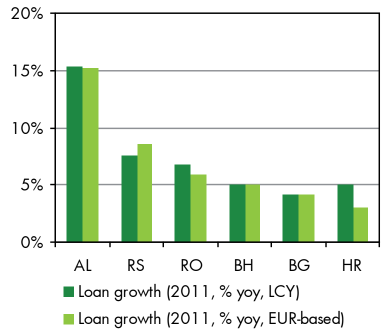
** best and worst performing CEE country in each year*
Source: National sources, Raiffeisen RESEARCH

CE: loan growth (LCY vs EUR)



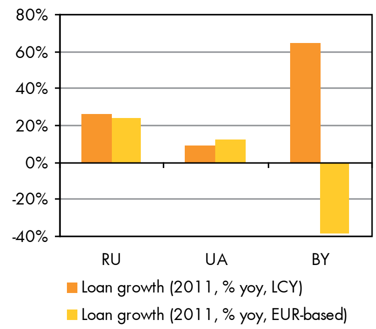
Source: National sources, Raiffeisen RESEARCH

SEE: loan growth (LCY vs EUR)



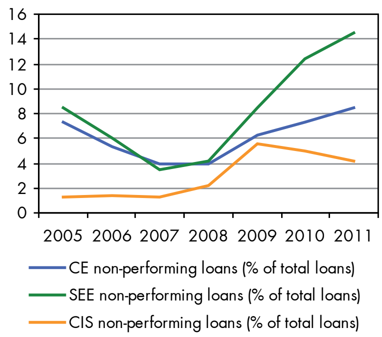
Source: National sources, Raiffeisen RESEARCH

CIS: loan growth (LCY vs EUR)



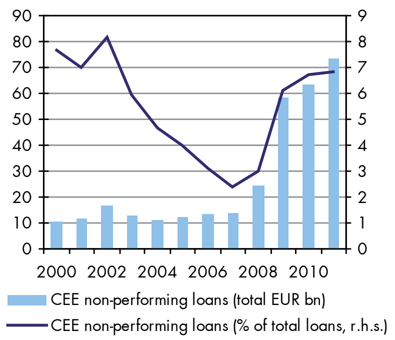
Source: National sources, Raiffeisen RESEARCH

CEE: NPLs in the sub-regions



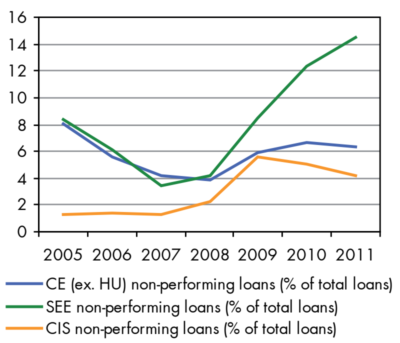
Source: National sources, Raiffeisen RESEARCH

NPLs in CEE



Source: National sources, Raiffeisen RESEARCH

NPLs in CE excl. Hungary



Source: National sources, Raiffeisen RESEARCH

Focus on: Non-performing loans have peaked in CEE

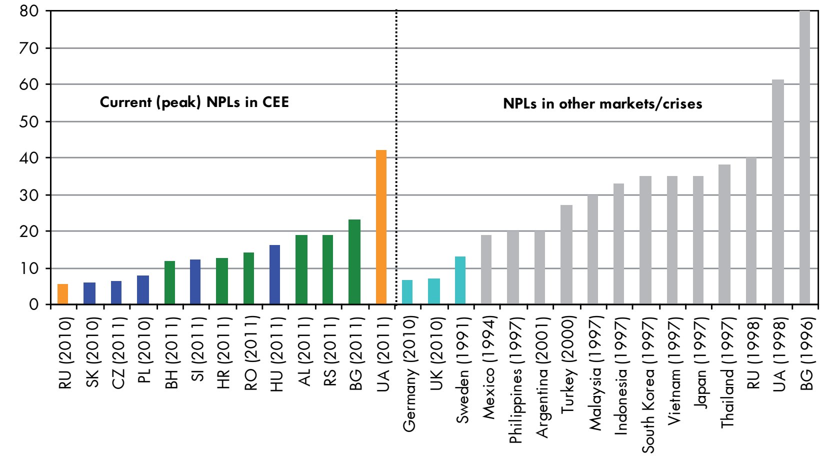
The 2011 performance of the CEE banking sectors with regards to non-performing loan (NPL) ratio trends was more or less as diverse as the loan growth performance. This finding does not come as a surprise: a growing loan book (i.e. profitable new business) makes it easier to lower the NPL ratio via write-offs and helps to overcompensate for seasoning effects in existing loan portfolios. Moreover, from a purely technical point of view, decent lending growth increases the NPL ratio denominator. Declining or stabilising NPL ratios in banking sectors like Russia, Poland, Slovakia or the Czech Republic were driven by a tangible deceleration of the NPL accumulation or even flat NPLs, while their loan books were expanding at a decent pace at the same time. Moreover, the most attractive CEE banking markets – such as Russia, Poland and the Czech Republic – were also characterised by NPL selling transactions, a development that also supported the stabilisation or decline in the NPL ratios in the banking sector. Given the solid asset quality performance in major CEE banking sectors like Russia or Poland our projection that the NPLs in CEE would peak late in 2011 turned out to be right. Currently, it looks like the (GDP-weighted) NPL ratio for the overall CEE region peaked at around 6.8-6.9%, i.e. at the level seen in 2010 and 2011.

The positive news that the NPL ratio for the CEE region as a whole most likely reached its peak level in 2011, driven by positive developments in the largest banking sectors, should not draw attention away from the still-rising NPLs in some other markets and the negative NPL trend in SEE in particular. On the back of stagnant lending and the overall economic weakness in SEE, NPLs continued to increase substantially from an already high level in that sub-region, causing the sub-region's average NPL ratio to increase from around 12.5% in 2010 to some 14% in 2011. Moreover, all SEE countries (with the possible exception of Bosnia and Herzegovina) where characterised by increasing NPLs, with some markets like Serbia and Albania evidencing NPL ratios close to the 20% level, while Croatia and Bosnia and Herzegovina are slightly below the regional average. In the CE sub-region, the average NPL ratio also increased somewhat in 2011 (from 7.1% to 8.5%), mostly driven by the adverse banking sector and economic developments in Slovenia and Hungary. The NPL ratio for Hungary jumped from 7.8% in 2010 to 16.1% in 2011, while that in Slovenia increased from 8.2% to 11.8%. In the CIS region, the average NPL ratio inched below 5% in 2011, mostly driven by the positive developments in Russia, where NPLs decreased from 5.7% in 2010 to 4.8% in 2011. In Ukraine, the NPL ratio also decreased two percentage points from its 2010 reading to reach 40% at year-end 2011.

Given current NPL levels, we want to underline our belief that the NPLs we have seen and will see in the CEE region will remain well below the levels witnessed in other EM crisis. Moreover, the NPLs in the most solid of the CEE region's banking sectors (where the current asset quality cycle has peaked) are well below the NPL ratios in some troubled Western European banking sectors. Moreover, given the already outlined moderate absolute size of the CEE banking sectors both in EUR-terms and compared to the size of the EMU banking sectors, the "NPL problem" in CEE appears tiny compared to the volume of NPLs in Western Europe. Total NPLs in CEE in 2011 (which we estimate at slightly above EUR 70 bn) are equivalent to half of the total current NPL stock in a country like Spain (data as of February 2012).

Gunter Deuber

NPLs in CEE: international and historical comparison (% of total loans)

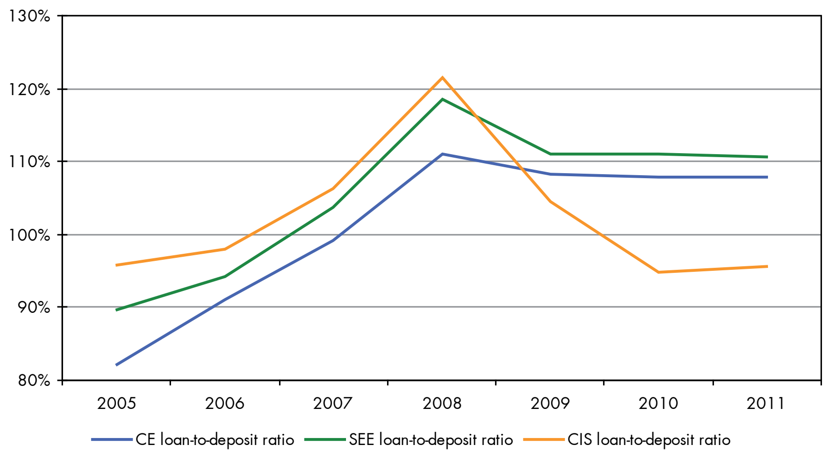


Source: National central banks, ECB, IMF, Raiffeisen RESEARCH

Loan-to-deposit ratios and deposit growth

Since 2009, deposit collection has outpaced loan growth in CEE: on a cumulative basis from 2009 to 2011, the deposit base in CEE added some 38%, while total loans increased by some 25% . While loan-to-deposit ratios declined in most CEE markets over the past 24-36 months as a consequence, a certain divergence in terms of loan-to-deposit ratios and balance sheet liquidity still remains among the sub-regions. The loan-to-deposit ratio in CE stands at 108% at present, and in SEE it is slightly higher at 111%. Mostly driven by the current modest loan-to-deposit ratio of 90% in Russia, the CIS region has an average loan-to-deposit ratio of 96%, but both Ukraine and Belarus remain well above the 100% level. The loan-to-deposit ratio for the CEE banking sectors as a whole is currently slightly below 100%. Moreover, in recent years, deposit collection in the segment of household deposits was above the market average. This is of special importance, as the ability to grow the household deposit base will largely determine the attainability of tangible and sustained deposit growth in CEE. The current healthy deposit collection trends in CEE are good news, as future banking sector growth will in turn strongly depend on that deposit collection.

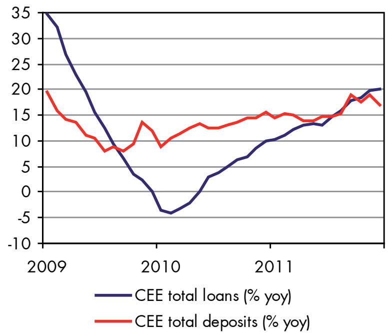
CEE: loan-to-deposit ratios in the sub-regions



Source: National central banks, Raiffeisen RESEARCH

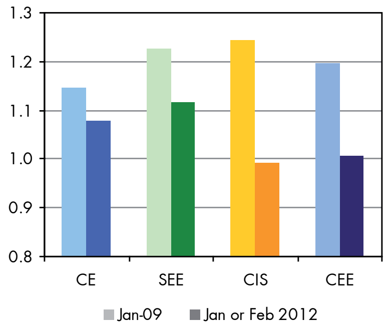
Due to declining loan-to-deposit ratios, the total deposit gap in the CEE region (i.e. total loans minus total deposits) declined substantially and even turned into a slight surplus in recent years. Starting with a sizeable deposit shortfall of some

CEE: loan vs deposit growth



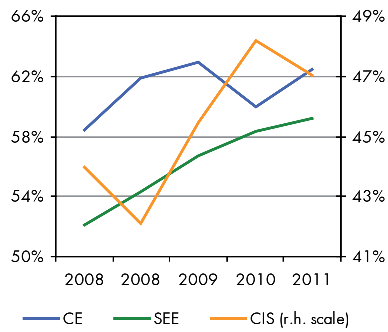
Source: National sources, Raiffeisen RESEARCH

CEE: loan-to-deposit ratio (%)



Source: National central banks, Raiffeisen RESEARCH

CEE: household deposits*



** % of total deposits*
Source: National sources, Raiffeisen RESEARCH

Focus on: Cross-border exposure to CEE, something to be worried about?

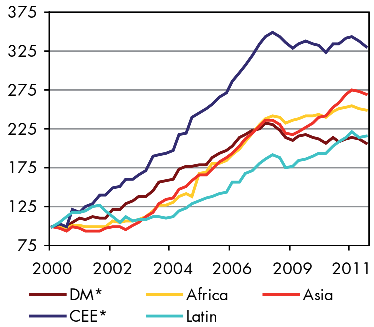
Given the declining loan-to-deposit ratios in combination with subdued lending in some CEE countries, we are also not interpreting too much into the widely cited decreasing cross-border banking exposure towards CEE (as we define the region, which does not exactly match the BIS definition of Emerging Europe). Increased local funding brings about decreased reliance on external funding and cross-border banking exposure. For instance, in a country like Russia the significant decline in cross-border banking exposure from June 2008 to December 2011 was accompanied by a tangible improvement in the loan-to-deposit ratio.

For the CEE region as a whole, cross-border banking exposure declined by some EUR 360 bn from its absolute peak level (in USD-terms) in June 2008 according to BIS data (in USD-terms) for December 2011. During this period, the cross-border exposure declined by some EUR 260 bn in CE and SEE, and by some EUR 100 bn in the CIS region. In percentage terms, the total decline in cross-border exposure to the CEE region from its peak level in June 2008 to December 2011 was around 19% (down 17% in the CE and SEE regions, and 24% in the CIS region). At first sight, this looks like a significant drop in cross-border banking exposure to CEE. However, the fluctuations in the aggregate for the CE and SEE regions was driven mostly by EUR/USD fluctuations, as most cross-border banking exposure to this region is denominated in EUR. The EUR/USD exchange rate dropped by 17-18% from June 2008 to December 2011 and there are only a few CEE countries (Hungary, Slovakia, Slovenia, Croatia, Bosnia and Herzegovina, Russia and Ukraine) that experienced a significant decline in cross-border banking exposure that was well above possible exchange rate effects. Other banking sectors such as those in Poland, the Czech Republic, Romania, Serbia, Albania and Belarus saw their cross-border banking sector exposure fluctuating more or less in line with the EUR/USD exchange rate, changing below a level the EUR/USD exchange rate fluctuation might suggest, or even increasing. Moreover, some of the biggest declines in cross-border exposure are concentrated in only a handful of countries. Around 30% of the declining cross-border exposure to the CE and SEE region can be attributed to the significant decline that took place in Hungary. The remaining change in cross-border exposure can largely be attributed to modest changes in bigger banking markets like Poland, Croatia, Bulgaria and Romania. However, these modest changes could be attributed to changing (re-)financing patterns and/or stagnant banking sector markets, as well as to EUR/USD exchange rate effects. As already mentioned, exchange rate trends do matter in CE and SEE, as most cross-border banking exposure to the countries in these two sub-regions is denominated in EUR. So stagnant overall cross-border banking exposure to CE and SEE means that the total exposure figure will more or less fluctuate with the EUR/USD exchange rate; cross-border exposures to other regions (also the CIS region) are less affected by EUR/USD fluctuations.

Taking a broader perspective on the current cross-border banking exposures, the CEE banking sectors are somewhat in-between the developments in the Emerging Markets and Developed Markets space. Currently, CEE is not experiencing significant cross-border banking inflows like other Emerging Market regions are, but it is also not subject to the constant outflows that characterize the Developed Markets space. Moreover, one should not forget that from a longer-term perspective, the CEE region experienced the strongest increase of cross-border banking exposure of any EM region over the last decade or so. Hence, from a long-term perspective, most recent data is pointing more towards a stabilisation at current levels rather than towards a secular decline.

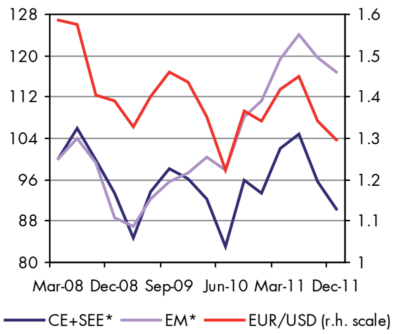
Gunter Deuber

Total foreign claims (2000 = 100)



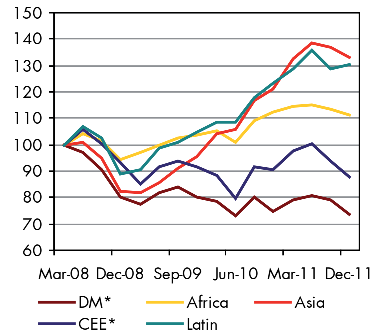
**DM: Developed Markets; CEE: according to our definition (does not equal BIS definition Emerging Europe)*
Source: BIS, Raiffeisen RESEARCH

Total foreign claims (Mar-08 = 100)



**EM: Emerging Markets; CE+SEE: according to our definition (does not equal BIS definition Emerging Europe)*
Source: BIS, Raiffeisen RESEARCH

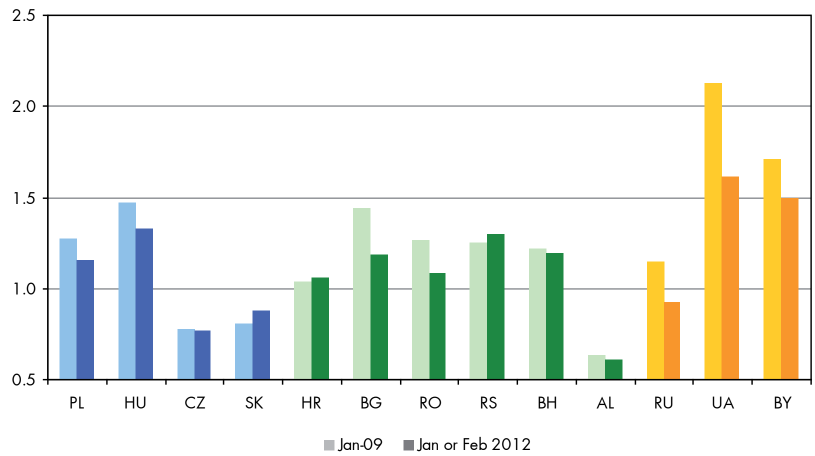
Total foreign claims (Mar-08 = 100)



**DM: Developed Markets; CEE: according to our definition (does not equal BIS definition Emerging Europe)*
Source: BIS, Raiffeisen RESEARCH

EUR 120 bn in 2008, that gap actually turned into a surplus of around EUR 5-6 bn in 2010 and 2011. This substantial swing from a shortfall to a deposit overhang on aggregate can largely be attributed to a massive decline in the CIS region's deposit gap (which developed from a shortfall of EUR 85 bn in 2008 to a surplus of some EUR 30 bn in 2010 and 2011). However, the CE and SEE regions also decreased their total deposit gap in recent years. The total deposit gap in the CE banking sectors declined from a deposit shortfall of some EUR 20 bn in 2008 to a more modest shortfall of around EUR 13 bn in 2010 and 2011, while the SEE region saw its total deposit gap falling from EUR 16 bn in 2008 to some EUR 10 bn in 2010 and 2011. The rather modest total deposit gap in CEE deserves to receive more attention than it is usually accorded by some external observers. We consider this total deposit gap (or surplus) measure as more relevant than the total outstanding amount of loans when one is accessing potential cross-border risks stemming from the CEE banking sectors in a worst case scenario. The modest total deposit gap in the CEE region clearly shows that Western European cross-border banks operate with manageable deposit gaps compared to their total CEE loan exposure. However, only the latter is usually regarded as a risk factor or "contingent liability" for the home countries of the cross-border banking groups operating in CEE.

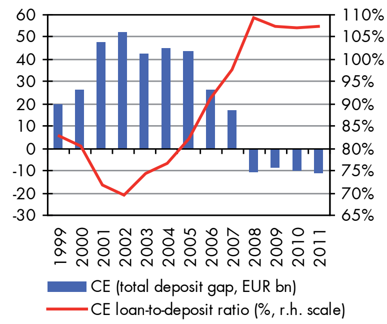
CEE: loan-to-deposit ratios at the country level*



** %, based on LCY-figures*
Source: National central banks, Raiffeisen RESEARCH

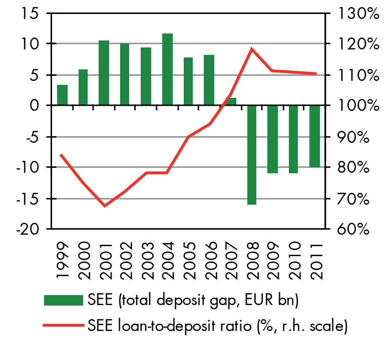
A lot of banking sectors in CEE have improved their overall resilience via bringing down their loan-to-deposit ratios over the last 12-24 months. Therefore, the region seems to be less vulnerable to adverse external shocks like in 2008/09. In total, the decreasing reliance on external financing in the CEE banking sectors, as shown by decreasing loan-to-deposit ratios, is a positive development as it reduces the risk of negative spillovers from adverse external developments and helps to prevent a domestic overheating driven by too much externally financed loan growth. Moreover, the current loan-to-deposit ratio slightly below the 100% level in CEE as a whole shows the potential cross-banking offers for the region. However, it has to be seen to what extent the domestic deposit base will be sufficient to finance future banking sector growth in all CEE markets once loan demand picks up again. This holds especially true for some CEE banking sectors that are currently still experiencing subdued loan growth, like those in SEE. In some SEE countries with less potential to mobilise domestic savings, International Financial Institutions (IFIs) may need to play a role in providing stable (re)financing going forward. Currently, the SEE region represents something like 40% of the remaining total combined deposit gap of the CE and SEE region. However, in terms of total assets or total loans, the SEE banking sectors represent only around 30-35% of the combined banking sector volumes in the two sub-regions.

CE: total deposit gap*



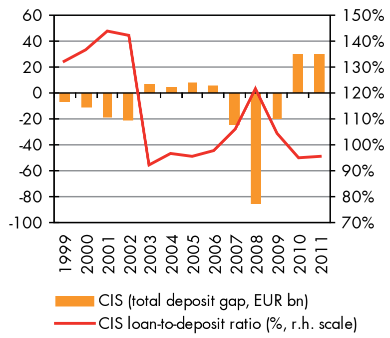
** Total deposit gap = total loans minus total deposits*
Source: National sources, Raiffeisen RESEARCH

SEE: total deposit gap*



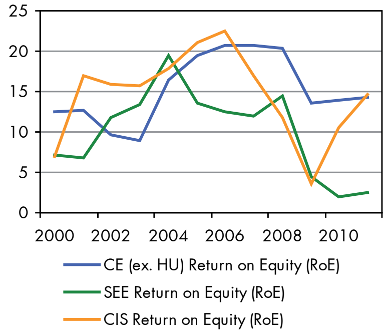
** Total deposit gap = total loans minus total deposits*
Source: National sources, Raiffeisen RESEARCH

CIS: total "deposit gap"*



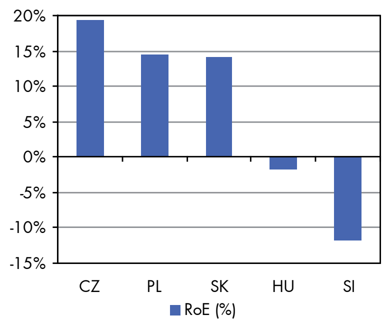
** Total deposit gap = total loans minus total deposits*
Source: National sources, Raiffeisen RESEARCH

Return on Equity in CE (ex. HU)



Source: National central banks, Raiffeisen RESEARCH

CE: Return on Equity (2011)

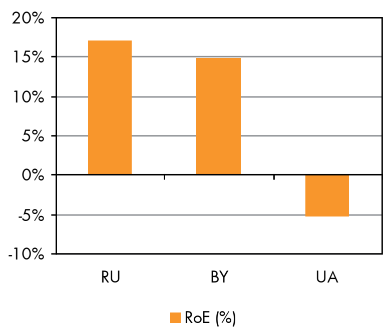


Source: National sources, Raiffeisen RESEARCH

SEE: Return on Equity (2011)

Source: National sources, Raiffeisen RESEARCH

CIS: Return on Equity (2011)

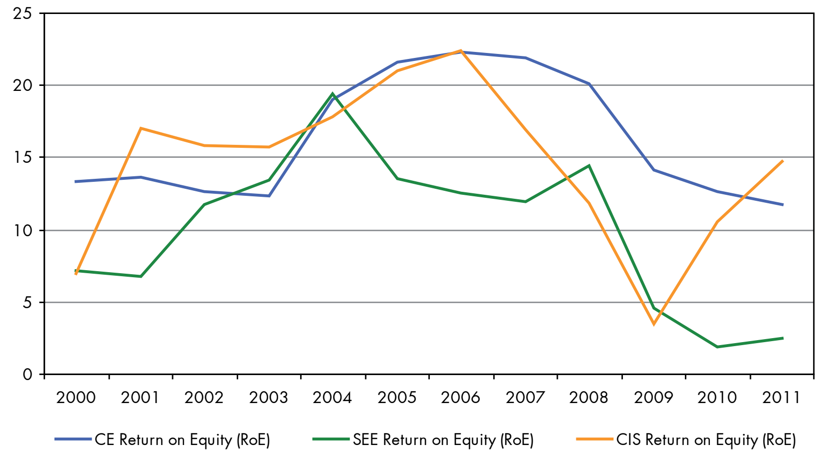


Source: National sources, Raiffeisen RESEARCH

Profitability indicators

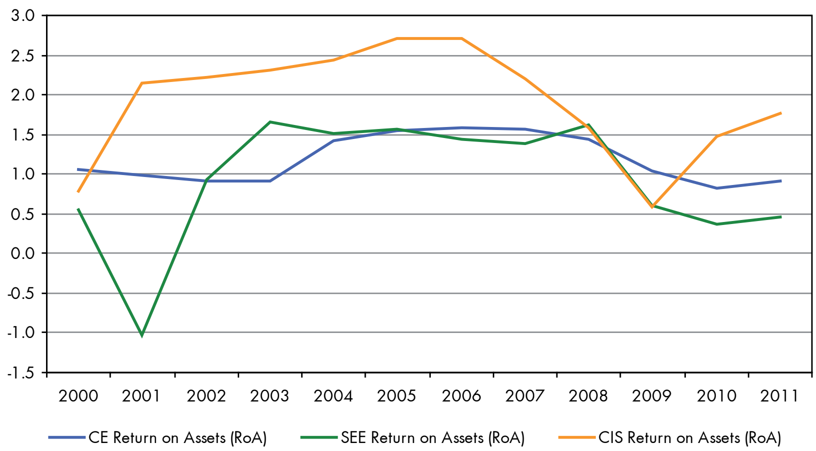
The CEE banking sectors as a whole became more profitable in 2011. The average total Return on Equity (RoE) in the CEE region increased to 12.8% in 2011, compared to 10.4% in 2010 (and 7% in 2009). While that 2011 RoE remained below the 18-21% posted in the boom years of 2004-2007, it is worth pointing out that the profitability of the CEE banking sectors on average returned close to the levels seen in the years 2001-2003 or in 2008.

CEE: Return on Equity in the sub-regions (%)



Source: National central banks, Raiffeisen RESEARCH

CEE: Return on Assets in the sub-regions (%)



Source: National central banks, Raiffeisen RESEARCH

The increasing profitability in the CEE banking sectors on aggregate was clearly supported by the stabilisation of NPLs in the CEE region as a whole (see "Focus on: Non-performing loans have peaked in CEE" on p. 20). In terms of profitability, the banking sectors of Russia, Poland and the Czech Republic proved to be the most attractive markets in 2011. These three best performers were followed by Slovakia and Belarus, both of which also posted decent RoE and RoA readings in 2011. On a regional basis, the 2011 profitability indicators in the CE and CIS sub-regions were also more or less at their longer-term through-the-cycle averages. For the CE sub-region, this is all the more true once the negative but very country-specific developments in Hungary are screened out. In contrast, the aggregated 2011 profitability indicators for the SEE region – where the NPL trend continued to be clearly negative at already high levels – remained well below the longer-term through-the-cycle averages, with Romania showing nega-

Raiffeisen RESEARCH

tive banking sector profitability indicators for a second consecutive year in 2011. More or less similar negative developments were visible only in Ukraine (which had negative aggregated profitability indicators from 2009 to 2011) and the smaller CE banking market of Slovenia (with negative aggregated profitability indicators in 2010 and 2011). In some SEE markets, the RoE in the banking sector remains below the yield levels of risk-free government bonds, which obviously does not support the extension of new loans in some SEE countries.

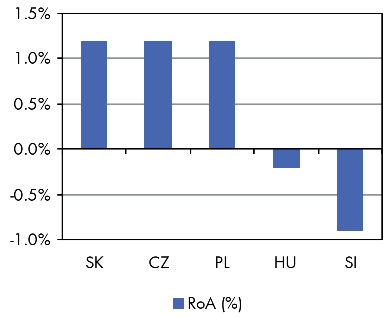
The aggregated banking sector return profile of the CEE region in the challenging year 2011 confirms our view that a RoE at around 15% and a RoA of ca. 1.5% are feasible in the CEE banking sectors from a medium-term perspective and through-the-cycle. This estimate factors in a gradual improvement of the banking sector profitability indicators in SEE, which may compensate for some margin pressure in the most profitable CEE banking sectors, such as Russia, Poland or the Czech Republic. Moreover, the sizeable and profitable high-growth markets Poland and Russia have proven their resilience throughout the past few challenging years.

Medium-term outlook: most attractive CEE banking markets

From a short-term and more cyclical point of view, developments like the effects of H1 2012's economic slowdown compared to 2011 and some other supply-side factors (like funding constraints or a strong expansion in 2010 and 2011) may drive the region's loan growth rate for 2012 as a whole somewhat below the levels seen in 2011 in some CEE markets. However, from a long-term perspective, structural and demand-side aspects will once again gain in importance for loan demand and supply in CEE. This should result in another round of financial deepening (i.e. a loan growth rate above that of GDP growth) in CEE. We expect the loan-to-GDP ratio in CEE to increase from some 50% in 2011 to around 57% in 2015. This financial deepening will most likely be driven by countries like Poland, Russia, the Czech Republic, Slovakia, Romania, Serbia and Albania, all of which are markets in which the loan stock is characterized by a decent distance to so-called "equilibrium levels". With the exception of Romania and Serbia, there is also no need to improve the loan-to-deposit relation substantially in these most attractive CEE growth markets. The seven listed growth markets represent something like 80% of the total loans in the CEE region, with the two biggest growth markets (Poland and Russia) alone representing something like 60% of total loans in the CEE.

In some other CEE countries like Hungary, Slovenia, Croatia, Bulgaria, Bosnia and Herzegovina, and Ukraine, the total loan stock has possibly reached or even overshot "equilibrium levels." In these markets, we expect somewhat slower loan growth in line with the nominal GDP growth or slightly below the nominal GDP growth going forward. However, one must stress that due to the countries' remaining catching-up potential vis-a-vis more mature economies, even such a more subdued loan growth outlook will still translate into decent growth rates in these markets, which are mostly characterized by a fairly high nominal trend GDP growth. Moreover, a certain amount of deleveraging can go hand-in-hand with an economic recovery. The example provided by Ukraine, where the loan-to-GDP ratio has already declined by some 20 percentage points in recent years, shows that a deleveraging must not necessarily be a drag on economic growth. Moreover, it should be stressed that the more subdued growth outlook for some banking sectors in CEE constitutes something like a normalization following the exceptionally strong expansion some of these markets experienced pre-crisis. In fact, the relative share of this particular grouping of countries in CEE's overall

CE: Return on Assets (2011)

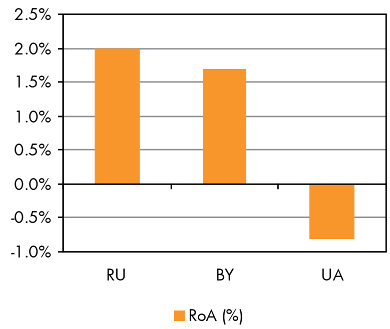


Source: National sources, Raiffeisen RESEARCH

SEE: Return on Assets (2011)

Source: National sources, Raiffeisen RESEARCH

CIS: Return on Assets (2011)

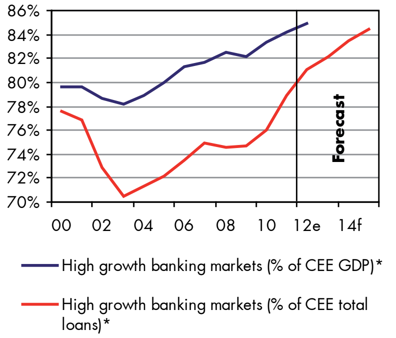


Source: National sources, Raiffeisen RESEARCH

Deleveraging in Ukraine

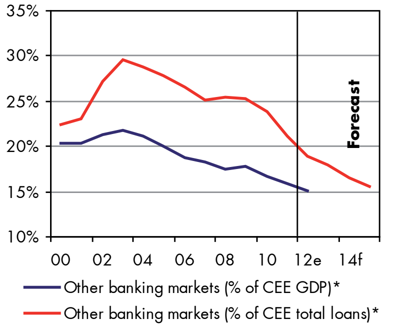
Source: National sources, Raiffeisen RESEARCH

Economic vs banking sector size



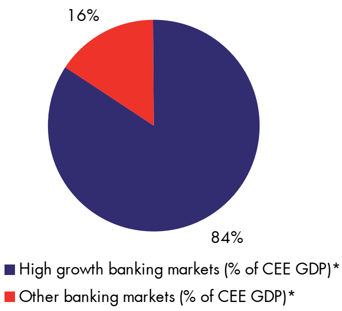
** Poland, Czech Republic, Slovakia, Romania, Serbia, Albania, Russia*
Source: National sources, Raiffeisen RESEARCH

Economic vs banking sector size



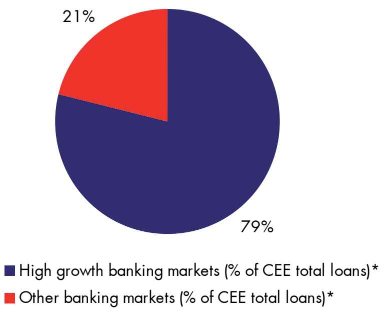
** Hungary, Slovenia, Bulgaria, Croatia, Bosnia a. H., Ukraine, Belarus*
Source: National sources, Raiffeisen RESEARCH

Economic vs banking sector size



** Country aggregates according to previous definition, 2011 data*
Source: National sources, Raiffeisen RESEARCH

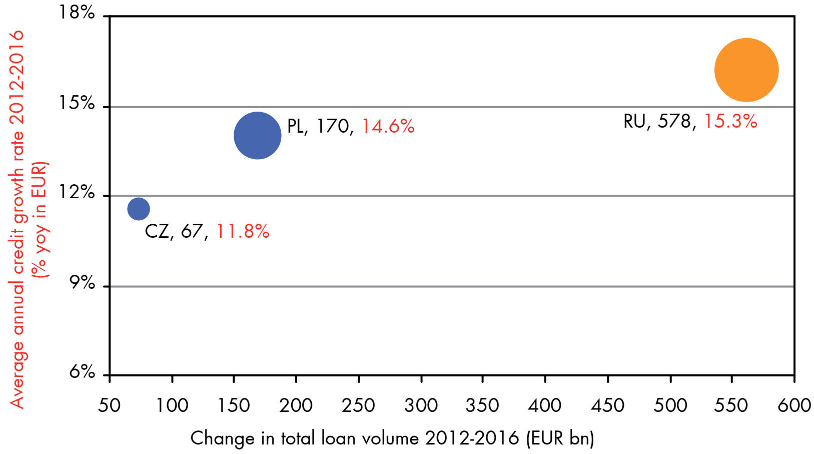
Economic vs banking sector size*



** Country aggregates according to previous definition, 2011 data*
Source: National sources, Raiffeisen RESEARCH

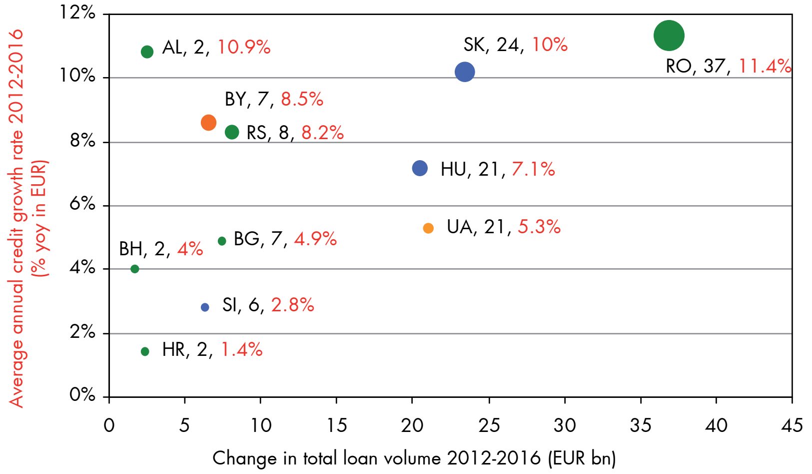
loan stock increased to very high levels (i.e. around 30% in 2004) in the pre-crisis era and was thus well above their share in the regional GDP, which stands around 20%. Going forward, we expect the loan stock in this country group to align more strongly with its relative GDP share.

CEE: expected loan volume growth and growth rates (2012-2016)



Source: National central banks, Raiffeisen RESEARCH

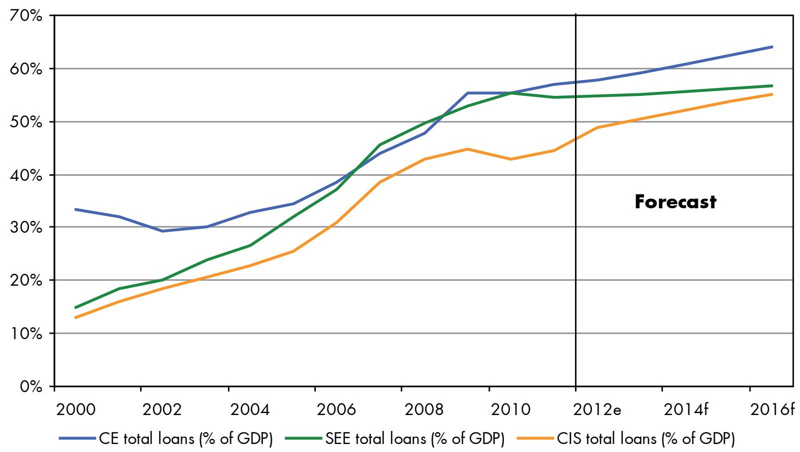
CEE: expected loan volume growth and growth rates (2012-2016)



Source: National central banks, Raiffeisen RESEARCH

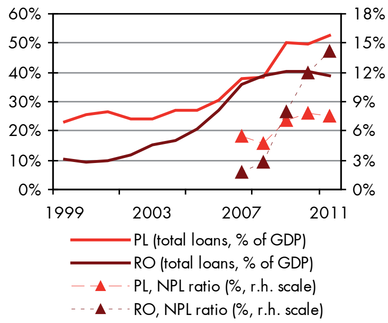
As already mentioned several times, the projected asset and loan growth dynamics in the years to come will most likely remain below the levels seen during the boom phase of the past decade. At first sight, it may seem that the appeal of the CEE banking sector might diminish going forward. However, it should be pointed out that asset, loan and deposit growth rates in 2011 were on average rather close to the levels that should be sustained over the years to come. The level of banking sector expansion that we witnessed in the years 2004-2008 does not provide a suitable yardstick for a sustainable longer-term expansion. In fact, very fast loan growth can be particularly harmful at a country level. The developments in Poland and Romania over the last cycle provide an illustrative example. Both countries are still characterised by a total loan stock (Poland: 52% of GDP, Romania: 39% of GDP) that cannot be viewed as being too high from a fundamental perspective. However, Romania experienced very strong loan growth in the years 2004-08, which drove up the loan-to-GDP ratio to the same level as that in Poland in 2008. Please bear in mind that the GDP per capita in Romania represents just some 60-80% of the level in Poland (either measured at current market prices or at PPP). The very strong loan growth in Romania fostered a highly procyclical macro-economic development and is at the heart of the current asset quality and profitability problems in the Romanian banking sector. For this reason, it is clear cut that a more sustainable banking sector expansion, like we are projecting it in our current forecast scenario, is in the interest of all relevant stakeholders in CEE.

CEE: expected loan growth trends



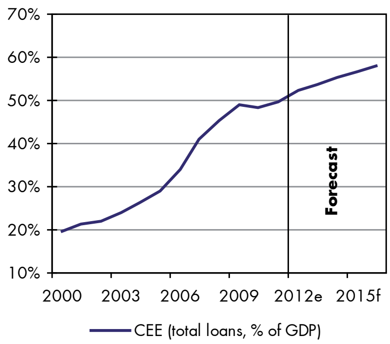
Source: National sources, Raiffeisen RESEARCH

PL vs RO: banking growth trends



Source: National sources, Raiffeisen RESEARCH

CEE: expected loan growth trend



Source: National sources, Raiffeisen RESEARCH

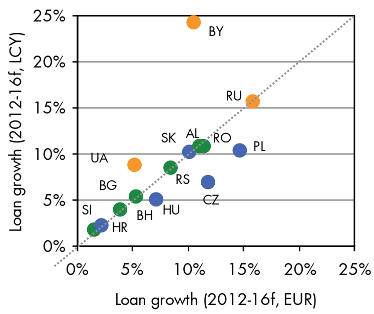
Challenges and opportunities for banking in CEE

Challenges

Large international cross-border banks operating in CEE are facing several challenges in the micro- and macroprudential regulatory sphere. On the microprudential level, international and Western European cross-border banks operating in CEE will have to comply with the Basel III framework sooner or later, while the macroprudential supervision and regulation is increasing in Europe as shown by the foundation of the European Systemic Risk Board (ESRB) at the ECB. Going forward, national regulation may also play an increasing role. A lot of CEE countries (e.g. Hungary, Poland and Russia) have strengthened their macroprudential oversight in recent years, a development which we consider positive. In addition, some CEE countries like Poland or Romania have introduced or tightened regulations supporting prudent lending practices that should help to avoid excessive private sector indebtedness. For the large CEE banking groups operating out of Austria, the so-called "Austrian Finish" requires them to comply with Basel III already in 2013 and to stick to some additional recommendations regarding their funding at the country level.

Given all the regulatory changes that have taken place or are likely to, the ESRB's issuance of a recommendation to secure some consistency in the macroprudential oversight in Europe (Recommendation of 22 December 2011, ESRB/2011/3) is a positive step. While calling for a strong role for national central banks in the macroprudential oversight, the recommendation also stresses that the cross-border effects of any national macroprudential regulation must be taken into account. National authorities should inform the ESRB about significant macroprudential actions they are envisaging in order to avoid an excessive and uncoordinated regionalization of macroprudential regulation and oversight. Some signs of a decreasing financial integration in Europe (e.g. on interbank or government bond markets) was already visible in the past 6-12 months. However, European economic integration would likely recoil if faced with too much regionalization of the banking and financial sector and its regulation. Given all the regulatory

CEE: expected loan growth*



** LCY vs FCY*
45-degree line shows an equal percentage points relationship between loan growth in LCY and FCY (i.e. no exchange rate effects)
Source: National sources, Raiffeisen RESEARCH

Focus on: Details of the "Austrian Finish"

Recently, Austrian regulators (FMA, OENB) have taken some specific steps in terms of macroprudential regulation (sometimes referred to as "Austrian Finish"), resulting in a release of supervisory guidelines on 14 March 2012. The regulation, which affects the large international banks headquartered in Austria, targets three aspects:

(1) The capital position,
(2) Funding structures and
(3) Resolution plans.

(1) The Basel III standards on Common Equity Tier 1 (CET1) will be implemented as of 1 January 2013 without a transition period. However, any fully loss-absorbent private and government participation capital subscribed under the Austrian bank support package will be fully included in the capital base. Hence, the rules applied here are less restrictive than the EBA framework. Furthermore, international Austrian banking groups will be subject to an additional capital surcharge of up to 3 percentage points of CET1 (depending on the perceived riskiness of banks' business models from a regulator's point of view) from January 1, 2016. The capital add-on will be along the guidance of the local implementation of so called SIFI-rules and the upper bucket with a maximum capital surcharge of 3 percentage points is unlikely to applied when the regulation is implemented as of January 2016.

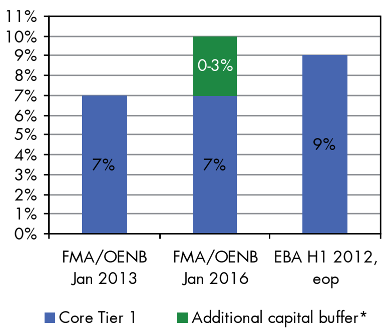
(2) The Austrian regulation recommends banks to exhibit a so-called "Loan to Local Stable Funding Ratio" (LLSFR) of below 110% in all new business. However, this does not imply a loan-to-deposit ratio of 110% in new business, as other funding sources (like local capital markets financing or IFI financing) are also eligible for the LLSFR. The monitoring of the LLSFR will be jointly done by home and host country regulators. Moreover, the LLSFR should not be interpreted as a very strict limit; instead, it should function more as a reasonable early warning indicator.

(3) By year-end 2012, all large international Austrian banks must submit recovery and resolution plans.

Not only are the targets established by the Austrian Finish in line with the current business strategies of the Austrian banks operating in CEE, but it is also the case that investors do not tolerate the same degree of bank leverage as in pre-crisis times. Moreover, given the CEE loan-to-deposit trends outlined above, the LLSFR should not have a significant impact on the Austrian banks' near-term future expansion in CEE. However, one should not expect all too much in terms of rebalancing the LLSFR-profiles in CEE. Most CEE countries, with the possible exception of Russia, are characterized by bank-centric financial systems and still underdeveloped capital market structures that do not provide the means for raising significant local funding for banks or enterprises.

Gunter Deuber

"Austrian Finish" vs EBA

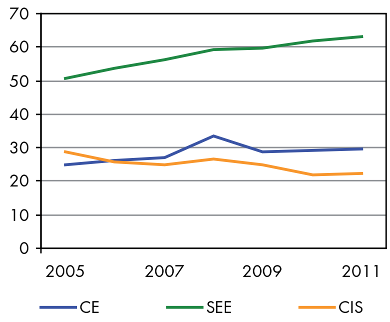


** Additional capital buffer in the range of 0-3%*
Source: National sources, Raiffeisen RESEARCH

changes taking place, there is also an evident need to secure a level playing field in international and cross-border banking. The "Vienna Initiative 2.0" has highlighted the merits of better home-host coordination and cooperation. Simply "nationalising" the local banking systems in CEE (e.g. by "ring-fencing" capital and liquidity) is not the right strategy to pursue, given the fact that the capital markets in several CEE countries are still comparatively underdeveloped. For this reason, the CEE banking systems require a home-host supervisory coordination that corresponds to the degree of financial integration in the region. Moreover, the goals and strategies of large banking groups in CEE and the regulators in home or host countries do not differ all too much. After all, all of these relevant actors are currently pursuing funding structures that place greater reliance on local refinancing than on parent funding or international wholesale funding. With regards to the least-developed CEE countries (some of which still exhibit overstretched loan-to-deposit ratios), some room remains for IFIs and other Development Institutions to support the local funding base.

In autumn 2011, the ESRB also issued a recommendation addressing lending in FCY (Recommendation of 21 September 2011, ESRB/2011/1). By and large, the recommendation, which focuses on the CEE banking sectors, highlights the risks that are associated with FCY lending to unhedged borrowers. Moreover, the regulation calls for such lending to follow prudent lending practices (e.g. lending to borrowers with high creditworthiness, and prudent loan-to-value or debt-to-income ratios), that are internalizing all risks into the pricing of FCY loans. There will be several deadlines in 2012 and 2013 for home and host regulators to issue their views on the ESRB/2011/1 guideline and to communicate which measures have been taken. This process will be important for establishing best-practices in terms of FCY lending to unhedged borrowers (differing regulations supporting prudent standards in FCY lending are already in place in Austria, Hungary, Poland, Romania, Latvia and Lithuania). However, the ESRB recommendation does not ban FCY lending and it is in line with business practices of the CEE banking groups, which are already taking a cautious stance towards such lending. The ESRB recommendation is also in harmony with our view that FCY lending in CEE, when carried out under prudent standards, may not disappear entirely going forward. This holds especially true for long-term (mortgage) lending and lending to export-oriented companies that are naturally hedged.

CEE: FCY loans (% of total loans)

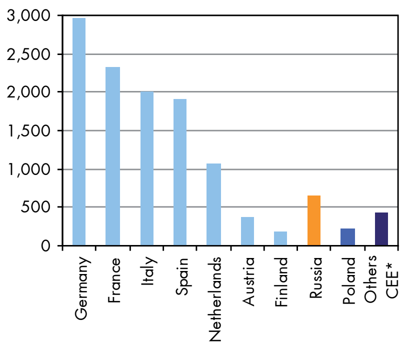


Source: National sources, Raiffeisen RESEARCH

All of the regulatory moves discussed above support our view that the CEE region will not again experience stunningly high credit growth comparable to that of the pre-crisis era. Given higher cost of liquidity and capital for banks, as well as the resulting outlook for a medium-term profitability that will remain below that of the best pre-crisis years, the larger banking groups operating in CEE will be under pressure to deliver some shifts in their operational policies and efficiency (i.e. optimising branch networks, keeping administrative costs under control). However, this seems to be a more of a global phenomenon for the banking industry as a whole rather than a feature specific to the CEE markets. Moreover, it is worth noting that the current environment is also being seized as an opportunity to carry out some streamlining or downsizing at the country level that some larger banking groups operating in CEE had already envisaged before the crisis. All in all, a value-based management focus is likely to take on a greater role at those banks, with the likely result that more selective expansion strategies in terms of countries and business segments will be pursued. Margin pressure is also likely to remain high in CEE given the flatter growth trajectory and increasing competition in the region. This holds especially true for prominent high growth markets like Poland, Russia and the Czech Republic. Margin pressure might be somewhat weaker in more concentrated banking systems, like those in SEE, that are currently also not in the focus of the growth strategies of large international banks and that have not seen substantial M&A transactions in recent years.

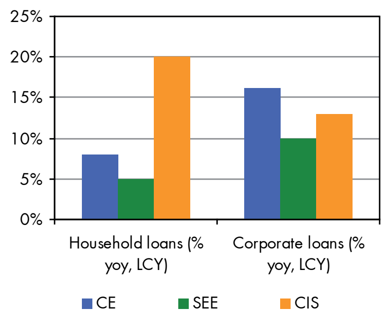
The strong credit expansion seen in CEE in the years 2004-2008, which resulted in an underestimation and underpricing of risks in some CEE markets, cannot simply be attributed to the dominating cross-border banking model. The overexpansion in some CEE countries was driven more by global trends and excessive convergence optimism on the part of investors, the banks competing for market shares in the region, and CEE borrowers and politicians. Accordingly, a more responsible and sustainable approach to banking sector expansion in CEE requires that all relevant stakeholders have a joint understanding. However, one should bear in mind that the banking business in CEE is mostly about lending. Thus, possible regulatory measures in the region should not lead to the traditional lending business being discriminated against in comparison to the capital markets business, the security business or lending to the government sector. Given current regulatory trends, the CEE countries must make certain that their specific interests

Total loans (EUR bn, 2011)*



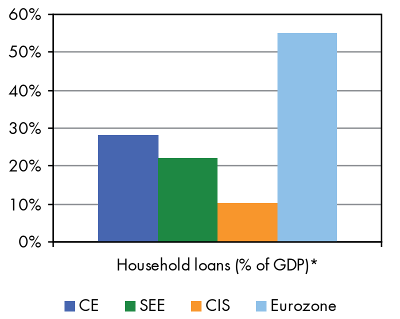
** CZ, SK, HU, SI, BG, HR, RO, RS, BH, AL, UA, BY*
Source: National sources, ECB, Raiffeisen RESEARCH

CEE: expected loan growth*



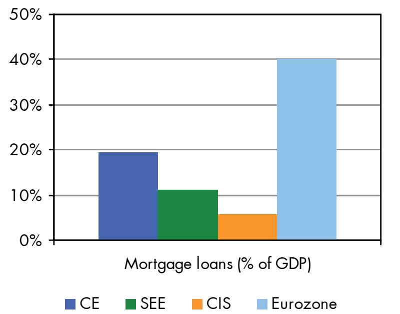
** average 2012 - 2016*
Source: National sources, Raiffeisen RESEARCH

Household loans CEE vs Eurozone*



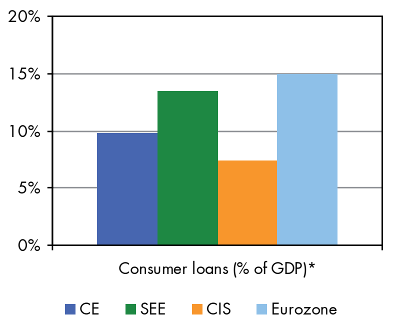
** mortgage loans plus consumer loans and other household lending, in 2011*
Source: National sources, ECB, Raiffeisen RESEARCH

Mortgage loans CEE vs Eurozone*



** 2011*
Source: National sources, ECB, Raiffeisen RESEARCH

Consumer loans CEE vs Eurozone*



** consumer loans plus other household lending, in 2011*
Source: National sources, ECB, Raiffeisen RESEARCH

find their way into the current (European) regulatory debate. Given the relatively miniscule size of the CEE banking sectors compared to those in the Eurozone, it is clear that current regulatory initiatives that are driven by the need to address shortcomings in some EMU banking sectors may not fully take into account the CEE banking sectors' specific needs.

Opportunities

Large international cross-border banks pursuing a universal bank model are likely to have the best growth opportunities in CEE going forward. Because the attractiveness of different business segments varies substantially across the CEE markets and CEE sub-regions, well-diversified international cross-border banks are likely to profit most from the more heterogeneous character of the future banking sector expansion in the region. Going forward, the fact that NPLs have peaked in many CEE countries (especially the larger ones) should also support the near-term growth opportunities for banks active in the region. Banks with a strong focus on Russia, Poland and some other CE markets in which NPLs peaked in 2011 will be best-positioned for growth in the next year or two.

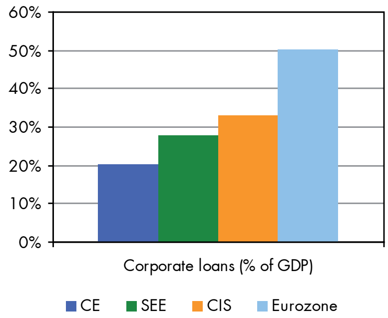
The biggest near-term business potential in CEE seems to be in the segment of corporate lending and mortgage lending, while unsecured household lending demand appears to be well-satisfied in most CEE markets, with the possible exception of Russia. In fact, many CEE countries are characterized by very competitive and successful corporate sectors, supported by a very high degree of FDI penetration. Moreover, a lot of CEE countries worked hard to sustain or improve their international competitiveness position in recent years. As a result, these countries have indicators of international competitiveness that are at much more favourable levels than those in many Western European economies. In the future, corporate clients in CEE will most likely put a stronger focus on the sustainability of their business relationships with universal banks, rather than always striving for the tightest pricing for each and every transaction. Moreover, some niche players in the region that were more or less just leveraging their global platform in investment and corporate banking may well be less active in the CEE region going forward. Given the current regulatory pressure on all large (Western) European cross-border banks, the top Western corporate clients in CEE might seek to diversify their bank relationships away from their "house bank" in their home market and may increasingly turn to local banks or international banks with an explicit focus on CEE (the latter group includes the leading Russian banks with an international focus who are expanding in the region).

Moreover, the demand for client-driven investment banking business in CEE is likely to increase in the years to come. Before the crisis, the capital markets environment in CEE was much more stable than it currently is. We expect the current more volatile and diverse capital markets environment that currently exists to persist. Furthermore, the relevance of local capital and currency markets in CEE is likely to continue for a much longer period than had been expected before the crisis, when most CEE countries were focused on attaining a swift entry into the Eurozone. However, the course of the crisis within the Eurozone has shown that joining a fixed-exchange rate bloc is not a "free lunch" and this step must be well-prepared. For that reason, we do not expect a substantial eastward enlargement of the Eurozone in the years to come (with the possible exception of Bulgaria and the Baltic countries Latvia and Lithuania). Moreover, some current regulatory moves to increase the local refinancing of the CEE banks may also support the development of local currency capital markets, which in turn might offer interesting opportunities for the leading banks in CEE.

Those cross-border banking groups active in CEE that have a strong footprint in the retail business and extensive branch networks are likely to have the best growth opportunities going forward. Future banking sector growth in CEE will be linked far more tightly to deposit growth than had been the case in the past. Any sizeable increase of the local funding and deposit base must be based on solid growth in retail deposits (Russia provides the one possible exception to this rule). Going forward, those large banks that have well-established brand names on both the country and regional levels are in the best position to attract deposits at reasonable costs. Although the banking business in CEE is still dominated by the traditional banking model and banking groups with extensive branch networks, the rationale for an increased use of cost-efficient internet or e-banking remains in CEE. Accordingly, those large established banks that are willing and able to shoulder the sizeable investment costs that e-banking operations demand are also those who are best positioned to profit from the expected gradual pick-up in e-banking in the more mature CEE markets.

The previously outlined pressure on the profitability of banks operating in CEE may lead to better governance structures and improved operating models, which in turn may help the banks to reap still unrealized efficiency gains. In the past, banking sector expansion in CEE was largely based on country-by-country market entry strategies and involved only limited cross-country and regional synergies. Following the crisis, we may see the development of regional hubs for some product categories, a move that might benefit certain locations such as Warsaw or Moscow, but possibly some other markets as well. Such developments may help to sustain the CEE banking sectors' current profitability, which remains well above the average readings in most Western European banking sectors.

Corporate loans CEE vs Eurozone*

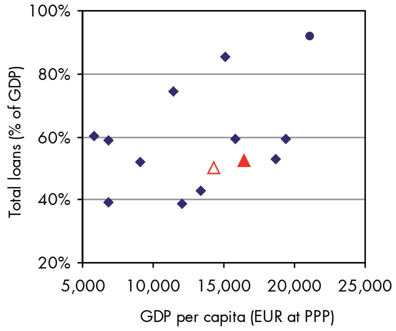


** 2011*
Source: National sources, ECB, Raiffeisen RESEARCH

Highly attractive market, attracting new entries

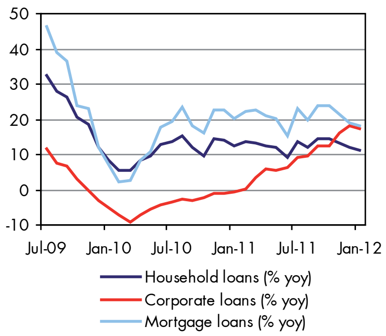
- **Solid household and mortgage lending dynamics, corporate lending showed a healthy pick-up in 2011**
- **Non-performing loans stabilized at around 8% in 2011 driven by decent lending dynamics and improving asset quality**
- **FCY loan extension slowed down substantially, remaining FCY loan extension in EUR**

Total loans vs GDP per capita



Data for 2011, red triangle (2011) and non-filled red triangle (2009) to illustrate dynamics in Poland
Source: NBP, national central banks, Raiffeisen RESEARCH

Lending growth (% yoy)



Source: NBP, Raiffeisen RESEARCH

On a relative basis, the economic situation in Poland remains fairly good and according to a survey conducted by Poland's FSA, banks are planning to increase lending activity in 2012. The share of CHF loans in mortgage lending is set to decrease as banks retreat from offering such loans. At present, around 80% of new mortgages are in PLN, 10-15% in EUR, the rest in other currencies. Due to the currently more uncertain economic conditions and recommendations from the FSA, banks have started to tighten mortgage lending standards somewhat in 2012 (mainly in terms of loan-to-value ratios and collateral standards). On a positive note, clear signs exist that property prices are stabilizing 15-25% below their 2008 peaks.

Driven by healthy lending and decreasing provisioning, banking sector's net profit grew by 37.5% yoy in 2011 to reach almost PLN 16 bn. The capital adequacy ratio breached 13% , while the Tier 1 ratio stood at 11.75%. The capital adequacy improvements were supported by conservative dividend policies (in line with FSA's recommendations). In 2012, the sector's profitability is likely to remain close to the 2011 level. Improving asset quality is likely to compensate for a loan expansion that might come in a tad lower than in 2011. NPLs stabilized at around 8% in 2011. During 2011 as a whole, the retail lending portfolio quality remained stable with NPLs slightly above 7%, while NPLs in the corporate segment improved from above 12% to 10.5% at year-end. On aggregate, the liquidity situation in the banking sector is solid. Nevertheless, the sector's loan-to-deposit ratio remains above 100%, which sometimes causes a competition for deposits; the highest share of the latter is with state-owned PKO. Moreover, some branches of foreign-owned banks have sizeable funding gaps covered by intra-group financing. The efforts of the regulator to push banks to restrict FCY loans to a niche product makes perfect sense, given the elevated PLN volatility (no major bank is currently marketing FX loans since Nordea stopped offering FX loans with the start of 2012). Nevertheless, PLN volatility poses a risk to banks' earnings capacity. Many banks are hedging their FX exposure (i.e. net open FX positions are low), but hedging costs may rise sharply in turbulent times. Discussions on a

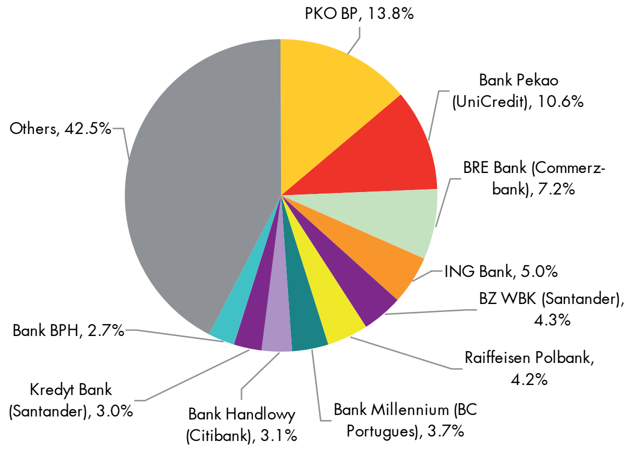
Key economic figures and forecasts

Poland	2008	2009	2010	2011	2012e	2013f
Nominal GDP (EUR bn)	363	311	354	371	390	414
Nominal GDP per capita (EUR)	9,517	8,152	9,277	9,707	10,217	10,856
Real GDP (% yoy)	5.1	1.7	3.9	4.3	2.8	3.7
Gross fixed capital formation (real, % yoy)	9.6	-1.1	-2.0	7.2	5.1	5.0
Consumer prices (avg, % yoy)	4.2	3.5	2.6	4.3	3.9	2.5
Unemployment rate (avg, %)	9.8	11.0	12.1	12.4	12.6	11.8
General budget balance (% of GDP)	-3.7	-7.2	-7.9	-5.4	-4.9	-3.4
Public debt (% of GDP)	47	51	53	56	54	52
Current account balance (% of GDP)	-6.6	-3.9	-4.1	-3.9	-3.8	-3.1
Gross foreign debt (EUR bn)	173	194	235	260	240	250
Gross foreign debt (% of GDP)	47.7	62.3	66.4	70.1	61.5	60.3
EUR/LCY (avg)	3.51	4.33	3.99	4.11	4.21	3.99

Source: National sources, wiiw, Raiffeisen RESEARCH

banking tax continue and a bank levy is scheduled to be introduced in 2012 or 2013 (a semi-annual payment made to the Bank Guarantee Fund, i.e. not directed to the state budget).

Market shares (2011, eop)



Per cent of total assets
Source: NBP, Raiffeisen RESEARCH

The Polish banking sector remains attractive for M&A, as some strategic investors may still opt for a sale of their subsidiary due to restructuring needs. The most important changes are the closing of Raiffeisen's acquisition of Polbank (from EFG Eurobank) and the merger of BZ WBK (already owned by Santander) with Kredyt Bank (purchased by Santander from KBC). The transactions imply significant consolidation, as they create Poland's sixth and third-largest banks, respectively. The Bank of China will be a new player on the market in 2012, with a focus on facilitating Chinese investments. On the other hand, some players are also downsizing their operations on the competitive Polish market.

Overview of banking sector developments

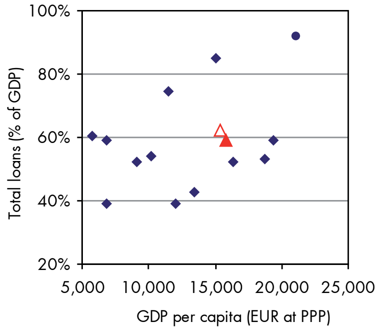
Balance sheet data	2007	2008	2009	2010	2011
Total assets (EUR mn)	234,819	261,401	273,845	292,962	312,693
growth in % yoy	23.8	11.3	4.8	7.0	6.7
in % of GDP	75.3	72.0	88.0	82.7	90.7
Total loans (EUR mn)	117,614	139,751	156,016	176,512	180,847
growth in % yoy	41.3	18.8	11.6	13.1	2.5
in % of GDP	37.7	38.5	50.1	49.8	52.5
Loans to private enterprises (EUR mn)	46,890	51,786	54,034	57,063	53,669
growth in % yoy	32.0	10.4	4.3	5.6	(5.9)
in % of GDP	15.0	14.3	17.4	16.1	15.6
Loans to households (EUR mn)	70,723	87,965	101,317	120,132	118,606
growth in % yoy	48.1	24.4	15.2	18.6	(1.3)
in % of GDP	22.7	24.2	32.6	33.9	34.4
Mortgage loans (EUR mn)	44,044	49,132	52,983	67,595	73,085
growth in % yoy	52.4	11.6	7.8	27.6	8.1
in % of GDP	14.1	13.5	17.0	19.1	21.2
Loans in foreign currency (EUR mn)	29,168	48,120	52,474	60,449	63,640
growth in % yoy	27.1	65.0	9.0	15.2	5.3
in % of GDP	9.4	13.3	16.9	17.1	18.5
Loans in foreign currency (% of total loans)	24.8	34.4	33.6	34.2	35.2
Total deposits (EUR mn)	113,764	115,800	137,997	156,758	155,741
growth in % yoy	18.1	1.8	19.2	13.6	(0.6)
in % of GDP	36.5	31.9	44.4	44.2	45.2
Deposits from households (EUR mn)	73,409	79,551	94,326	106,724	105,909
growth in % yoy	15.9	8.4	18.6	13.1	(0.8)
in % of GDP	23.6	21.9	30.3	30.1	30.7
Total loans (% of total deposits)	103.4	120.7	113.1	112.6	116.1
Structural information					
Number of banks	64	70	67	70	66
Market share of state-owned banks (% of total assets)	18.3	17.3	20.8	21.5	21.5
Market share of foreign-owned banks (% of total assets)	66.6	67.0	62.9	66.2	63
Profitability and efficiency					
Return on Assets (RoA)	1.8	1.8	0.9	0.9	1.2
Return on Equity (RoE)	22.9	23.6	13.3	13.7	14.6
Capital adequacy (% of risk weighted assets)	12.0	10.7	13.3	13.7	13.1
Non-performing loans (% of total loans)	5.5	4.7	7.1	7.8	7.5

Source: NBP, Raiffeisen RESEARCH

Is the worst in the banking sector really behind us?

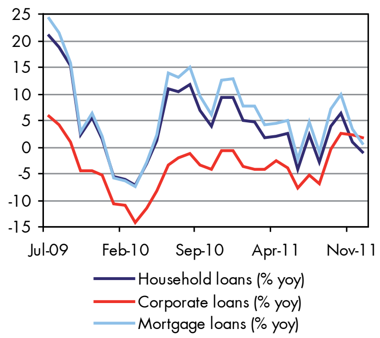
- **Deleveraging continues on the back of an unfriendly economic and regulatory environment**
- **Non-performing loans still on the rise, peak level unlikely to be reached in 2012**
- **Disastrous profitability in 2011, improvement expected, but government tax plans may pose further risks**

Total loans vs GDP per capita



Data for 2011, red triangle (2011) and non-filled red triangle (2009) to illustrate dynamics in Hungary
Source: MNB, national central banks, Raiffeisen RESEARCH

Lending growth (% yoy)



Source: MNB, Raiffeisen RESEARCH

The pre-crisis economic model, based on buoyant consumption driven by very lax wage policies and lending, has failed. The situation is made even more difficult by the necessary fiscal austerity. All in all, deleveraging is the name of the game. In 2011, Hungary experienced a decline of both corporate and household lending. In the corporate segment, loan transactions were negative mostly because of declining FX loans (HUF loans remained stabile). The government's FX mortgages early repayment scheme (Oct 2011– Feb 2012) delivered a "big bang" for household loans, with 24% of all FX mortgages being paid back early (one-third was replaced by HUF mortgages).

For Hungarian banks 2011 was a disastrous year. The steep banking levy, strongly deteriorating asset quality and government actions pushed the profitability of most banks deep into red. With after tax losses amounting to EUR 300 mn, the banking sector's RoE was negative in 2011. Currently, banks are closing down branches, laying off staff and reducing assets. The government appeared to be in a more cooperative mood, reflected in an agreement with the Banking Association in late 2011. For that reason, 2012 was increasingly expected to be a more balanced year in terms what the banking sector gives to (e.g. preferential rates offered for remaining FX mortgage holders) and receives from the state (e.g. losses can be deducted from the banking tax).

Asset quality has been deteriorating continuously. As far as the household segment is concerned, there are various reasons for the accelerating NPLs (14.8% year-end 2011): unemployment jumped to around 11% in 2011 and is not expected to improve; massive FX exposure (two-thirds of household loans, mainly in CHF); and the HUF's devaluation (down 20% against the EUR and 40% against the CHF over the past years). Good quality loans were affected by the FX mortgage early repayment program, which also contributed to the increased share of household NPLs. Corporate NPLs (17.4% at end-2011) are a function of the struggling real economy and are not seen declining anytime soon.

Volksbank was taken over by Sberbank and the Hungarian government is negotiating with DZ Bank over the purchase of its 40% stake in Takarekbank. While most banks are having difficult times, there are no other changes amongst the

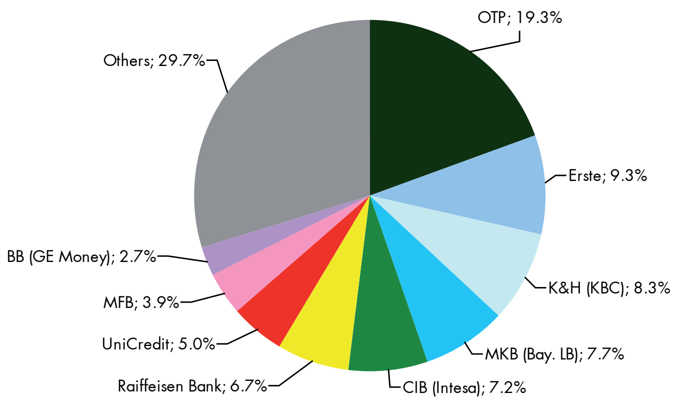
Key economic figures and forecasts

Hungary	2008	2009	2010	2011	2012e	2013f
Nominal GDP (EUR bn)	106	92	97	101	99	106
Nominal GDP per capita (EUR)	10,503	9,122	9,710	10,090	9,970	10,624
Real GDP (% yoy)	0.9	-6.8	1.3	1.7	-0.5	1.0
Gross fixed capital formation (real, % yoy)	-2.6	-6.5	-5.3	-5.3	-3.0	-1.5
Consumer prices (avg, % yoy)	6.1	4.2	4.9	3.9	5.6	3.5
Unemployment rate (avg, %)	7.8	9.8	11.1	11.0	11.4	11.0
General budget balance (% of GDP)	-3.7	-4.6	-4.2	4.3	-3.0	-2.6
Public debt (% of GDP)	73	80	81	81	80	79
Current account balance (% of GDP)	-7.1	0.3	1.1	1.6	1.8	1.0
Gross foreign debt (EUR bn)	123	134	136	134	133	132
Gross foreign debt (% of GDP)	116.1	146.6	139.4	132.9	133.9	125.1
EUR/LCY (avg)	250.75	280.10	275.50	279.32	290.50	285.00

Source: National sources, wiiw, Raiffeisen RESEARCH

major market players yet. Under the current circumstances it would be extremely difficult to find anyone who would buy a bank in Hungary at a sensible price. Therefore, banks are typically engaged in deleveraging for now (banking sector total assets are decreasing since 2009), and adopted a wait and see stance. The banking sector's fate is very much depending on the government's actions. The agreement that was signed by Banking Association and the government in late 2011 is violated by the planned new financial transaction levy (most financial transactions are taxed by 0.1%). Details are not finalized yet however the tax burden might be even higher than that of the controversial banking tax was. Due to the heavy deleveraging over the past three years, the loan-to-deposit ratio has decreased substantially (i.e. by around 10 percentage points) but remains slightly above the 130% level. External funding has decreased while the reliance on the FX swap market has considerably increased. This is seen as a major risk to financial stability.

Market shares (2011, eop)



Per cent of total assets
Source: MNB, Raiffeisen RESEARCH

Overview of banking sector developments

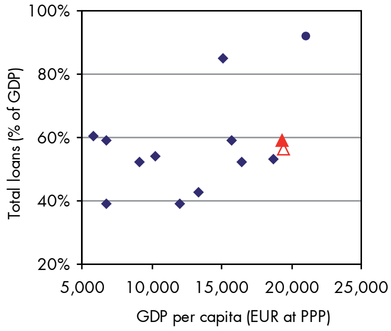
Balance sheet data	**2007**	**2008**	**2009**	**2010**	**2011**
Total assets (EUR mn)	108,004	125,212	124,888	121,268	111,934
growth in % yoy	15.6	15.9	(0.3)	(2.9)	(7.7)
in % of GDP	106.8	118.6	134.0	123.1	123.6
Total loans (EUR mn)	53,582.0	60,809.8	58,128.7	59,964.0	53,678.0
growth in % yoy	16.9	13.5	(4.4)	3.2	(10.5)
in % of GDP	53.0	57.6	62.4	60.9	59.3
Loans to private enterprises (EUR mn)	28,752.7	30,171.9	28,035.3	27,369.4	24,842.0
growth in % yoy	11.7	4.9	(7.1)	(2.4)	(9.2)
in % of GDP	28.4	28.6	30.1	27.8	27.4
Loans to households (EUR mn)	23,344.3	29,082.8	28,720.9	30,918.9	27,351.4
growth in % yoy	23.9	24.6	(1.2)	7.7	(11.5)
in % of GDP	23.1	27.5	30.8	31.4	30.2
Mortgage loans (EUR mn)	17,224.1	22,444.4	22,239.7	24,699.1	22,159.5
growth in % yoy	61.0	30.3	(0.9)	11.1	(10.3)
in % of GDP	17.0	21.3	23.9	25.1	24.5
Loans in foreign currency (EUR mn)	28,051.4	37,347.5	35,635.3	36,962.2	32,853.7
growth in % yoy	40.4	33.1	(4.6)	3.7	(11.1)
in % of GDP	27.7	35.4	38.2	37.5	36.3
Loans in foreign currency (% of total loans)	52.4	61.4	61.3	61.6	61.2
Total deposits (EUR mn)	42,415.5	44,117.4	43,629.6	42,742.3	40,448.8
growth in % yoy	10.2	4.0	(1.1)	(2.0)	(5.4)
in % of GDP	41.9	41.8	46.8	43.4	44.7
Deposits from households (EUR mn)	25,011.6	27,102.6	27,761.4	26,580.2	25,057.0
growth in % yoy	6.4	8.4	2.4	(4.3)	(5.7)
in % of GDP	24.7	25.7	29.8	27.0	27.7
Total loans (% of total deposits)	126.3	137.8	133.2	140.3	132.7
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	5.3
Market share of foreign-owned banks (% of total assets)	78.4	91.1	90.6	89.8	89.3
Profitability and efficiency					
Return on Assets (RoA)	1.5	1.2	1.7	0.2	(0.2)
Return on Equity (RoE)	20.1	15.2	10.1	2.3	(1.7)
Capital adequacy (% of risk weighted assets)	10.0	11.1	13.1	13.3	13.5
Non-performing loans (% of total loans)	2.3	3.0	5.9	7.8	16.1

Source: MNB, Raiffeisen RESEARCH

Traditional banking business: Profitable and "sexy"

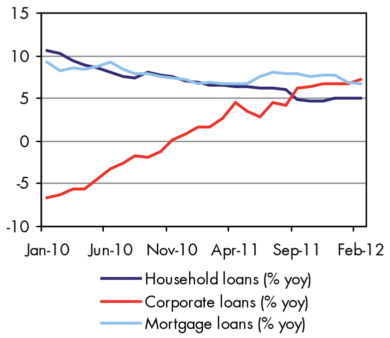
- **Decent loan extension in all business segments due to solid liquidity and capital position**
- **Profitability remained high in 2011, one of the most profitable CEE banking sectors through-the-cycle**
- **Peak in non-performing loans seems to be reached at around 6% of total loans**

Total loans vs GDP per capita



Data for 2011, red triangle (2011) and non-filled red triangle (2009) to illustrate dynamics in Czech Republic
Source: CNB, Raiffeisen RESEARCH

Lending growth (% yoy)



Source: CNB, Raiffeisen RESEARCH

The Czech economy slowed down in 2011 because of fiscal austerity. The current mild recession is expected to bottom out in H1 2012. The developments in the Czech banking sector – with one of the highest foreign-ownership ratios in CEE and from a global perspective – for the year 2011 as a whole showed solid growth. This performance was somewhat better than expected, reflecting significantly improved banking sector trends in H2 2011. This holds especially true for corporate lending, which profited from the export-led recovery. Total loans grew by 6%, with corporate loans contributing around 60% of this growth. Total deposits increased by 4.5%, once again driven by the corporate segment. Consequently, the loan-to-deposit ratio continued to increase at a rather low level. Over the last four to five years, the loan-to-deposit ratio is on a moderate trend increase from readings slightly above 70% to around 78-81%.

The adverse effects of the economic slowdown on household lending remained fairly pronounced and the financial situation of households is only gradually improving. Total household lending decelerated its expansion to levels around 5% yoy, mainly driven by a downturn in consumer loans. Demand for mortgages kept a stable growth in 2011 thanks to a historically low interest rates and a tangible reduction of property prices. On a yoy-basis, monthly growth rates in mortgage lending remained in the range of 8-9% throughout 2011.

Despite the challenging domestic and external economic and regulatory situation, the profitability of the Czech banking sector decreased by only 4% in 2011 and capital adequacy (Tier 1) remained at 14.2%. Moreover, the sector's loan portfolio quality improved slightly, with NPLs decreasing from 6.3% to 6.0%. The Czech banking sector is among the first in CEE to see an improvement in its asset quality. The sector's overall high degree of resilience in terms of liquidity and earnings is driven by conservative business models (i.e. by a focus on traditional banking activity, low loan-to-deposit ratios) and a modest level of indebtedness in the corporate and household sector. Therefore, on average the situation of foreign-owned Czech banks differs significantly from that in most other CEE coun-

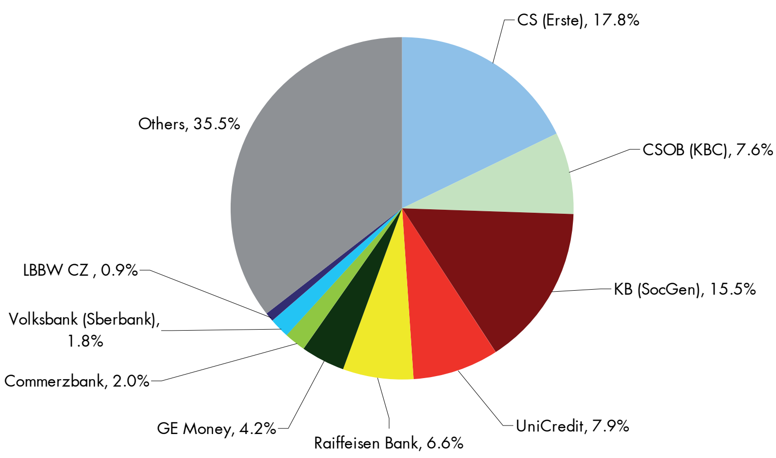
Key economic figures and forecasts

Czech Republic	2008	2009	2010	2011	2012e	2013f
Nominal GDP (EUR bn)	154	142	149	155	157	170
Nominal GDP per capita (EUR)	14,785	13,487	14,187	14,694	14,845	16,025
Real GDP (% yoy)	3.1	-4.7	2.7	1.7	-0.2	1.0
Gross fixed capital formation (real, % yoy)	4.1	-11.5	0.1	-0.5	0.9	0.8
Consumer prices (avg, % yoy)	6.3	1.0	1.5	1.9	3.0	2.2
Unemployment rate (avg, %)	5.4	8.1	9.0	8.5	8.9	9.1
General budget balance (% of GDP)	-2.2	-5.8	-4.8	-4.4	-3.7	-3.4
Public debt (% of GDP)	29	34	38	41	44	45
Current account balance (% of GDP)	-2.1	-2.4	-3.9	-2.9	-2.2	-2.3
Gross foreign debt (EUR bn)	60	62	71	76	74	81
Gross foreign debt (% of GDP)	38.7	43.7	47.9	48.9	47.4	47.9
EUR/LCY (avg)	24.95	26.45	25.28	24.59	24.50	23.50

Source: National sources, wiiw, Raiffeisen RESEARCH

tries in which foreign-owned Western European banks are also a dominating force. The Czech subsidiaries of most foreign-owned Western European banks are net creditors to their parent banks. Therefore, regulators in the Czech Republic are understandably closely watching any potential spillover from adverse developments in the Western European banking sector to the domestic banks (e.g. plans exist to lower the limit on exposures Czech subsidiaries can have to their foreign mother banks from 100% to 50% of the capital position of the Czech unit).

Market shares (Q3 2011, eop)



Per cent of total loans
Source: CNB, Raiffeisen RESEARCH

No major changes took place with regards to the ownership structures in the sector, with Sberbank's takeover of the Czech subsidiary of Volksbank International recently being closed. The year 2012 seems to be as demanding as 2011 and growth and profitability indicators are likely to remain at their 2011 level in a more optimistic scenario.

Overview of banking sector developments

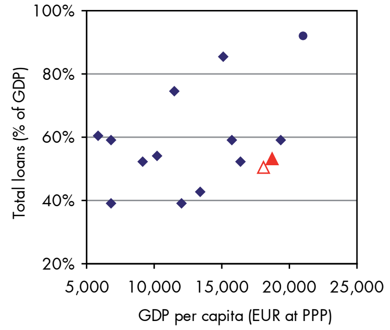
Balance sheet data	**2007**	**2008**	**2009**	**2010**	**2011**
Total assets (EUR mn)	139,630.0	154,375.2	159,475.8	172,916.5	178,720.8
growth in % yoy	22.7	10.6	3.3	8.4	3.4
in % of GDP	101.5	108.0	112.9	114.8	118.7
Total loans (EUR mn)	67,086.3	77,077.7	79,428.8	86,768.9	89,320.8
growth in % yoy	30.3	14.9	3.1	9.2	2.9
in % of GDP	48.8	53.9	56.2	57.6	59.3
Loans to private enterprises (EUR mn)	27,949.3	31,584.7	29,554.5	31,113.9	32,100.3
growth in % yoy	20.8	13.0	(6.4)	5.3	3.2
in % of GDP	20.3	22.1	20.9	20.7	21.3
Loans to households (EUR mn)	25,123.6	30,017.0	33,931.5	38,326.7	39,107.3
growth in % yoy	39.4	19.5	13.0	13.0	2.0
in % of GDP	18.3	21.0	24.0	25.4	26.0
Mortgage loans (EUR mn)	12,543.2	14,755.4	20,948.3	24,128.8	25,542.7
growth in % yoy	44.4	17.6	42.0	15.2	5.9
in % of GDP	9.1	10.3	14.8	16.0	17.0
Loans in foreign currency (EUR mn)	8,651.1	10,836.1	10,654.9	11,940.5	13,293.8
growth in % yoy	24.0	25.3	(1.7)	12.1	11.3
in % of GDP	6.3	7.6	7.5	7.9	8.8
Loans in foreign currency (% of total loans)	12.9	14.1	13.4	13.8	14.9
Total deposits (EUR mn)	88,993.2	95,334.2	101,955.1	111,279.6	112,944.2
growth in % yoy	20.7	7.1	6.9	9.1	1.5
in % of GDP	64.7	66.7	72.2	73.9	75.0
Deposits from households (EUR mn)	44,683.0	49,973.2	55,367.4	61,311.5	61,791.3
growth in % yoy	13.3	11.8	10.8	10.7	0.8
in % of GDP	32.5	35.0	39.2	40.7	41.0
Total deposits (% of total credits)	75.4	80.8	77.9	78.0	79.1
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	3.0
Market share of foreign-owned banks (% of total assets)	96.4	88.5	87.1	86.9	86.5
Profitability and efficiency					
Return on Assets (RoA)	1.3	1.2	1.5	1.3	1.2
Return on Equity (RoE)	25.4	21.7	25.8	21.9	19.4
Capital adequacy (% of risk weighted assets)	11.6	12.3	14.1	15.5	15.3
Non-performing loans (% of total loans)	2.6	3.2	5.2	6.3	6.0

Source: CNB, Raiffeisen RESEARCH

Solid banking sector with focus on “bread-and-butter banking”

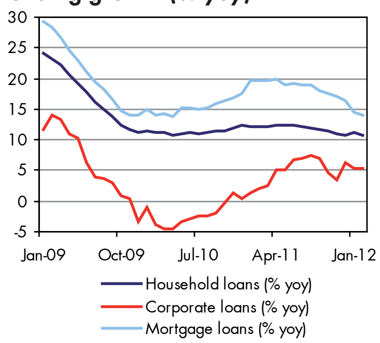
- Highest absolute aggregated banking sector profit reached in 2011, solid profitability through-the-cycle
- Peak in non-performing loans seems to be reached at around 6% of total loans
- Domestic politics focussing too much on banking sector tax as key for fiscal consolidation

Total loans vs GDP per capita



Data for 2011, red triangle (2011) and non-filled red triangle (2009) to illustrate dynamics in Slovakia
Source: NBS, national central banks, Raiffeisen RESEARCH

Lending growth (% yoy)



Source: NBS, Raiffeisen RESEARCH

Economic growth remained at solid 3.3% in 2011, primarily on the back of strong exports. Lending dynamics increased in 2011 compared to 2010. Household loans rose by 10.8% yoy and maintained a growth around 10% yoy for a third consecutive year. The key driver in retail lending remained mortgages, which grew by 16.3% yoy in 2011. Moreover, corporate lending increased by 6.3% yoy after stagnating in 2010 and a decrease in 2009. As the demand for corporate loans is more correlated with cyclical developments, we expect a somewhat lower credit expansion in 2012.

Slovakia’s banking sector achieved its highest-ever profit after tax in 2011: EUR 674 mn. This performance resulted from higher business volumes, lower risk costs and improving operational efficiency. Operational costs in the banking sector were 7% lower in 2011 than they had been in 2008. NPLs decreased slightly from 6% year-end 2010 to 5.8% in 2011. Due to tax legislation considerations, banks are motivated to keep NPLs in their books at least for three years. As a result, the NPL ratio does not reveal too much about asset quality, particularly with regard to new business. The volume of net provisioning was on a strong decline throughout 2011. The increase in provisioning in December 2010 can be explained by the specific situation at one medium-sized bank that had large provisions on its Greek government bond portfolio. All in all, the Slovak banking system proved its resilience and stability despite being affected by a recession inside the Eurozone and a substantial drop of revenues due to the EUR introduction 2009. The banking system’s structural strength in terms of liquidity and earnings is driven by conservative business models (i.e. balance sheets dominated by traditional lending, low loan-to-deposit ratios), a high capital adequacy around 12%, and the relatively low level of indebtedness in the corporate and household sector. Going forward, Slovakia’s banking sector is unlikely to be very negatively affected by international regulatory moves on the capital and liquidity front. The high majority of capital in the banking system consists of Tier-1 capital and a short-term liquidity ratio was introduced in 2009. For this reason, there is no risk of an enforced deleveraging in 2012. Instead, additional taxation poses

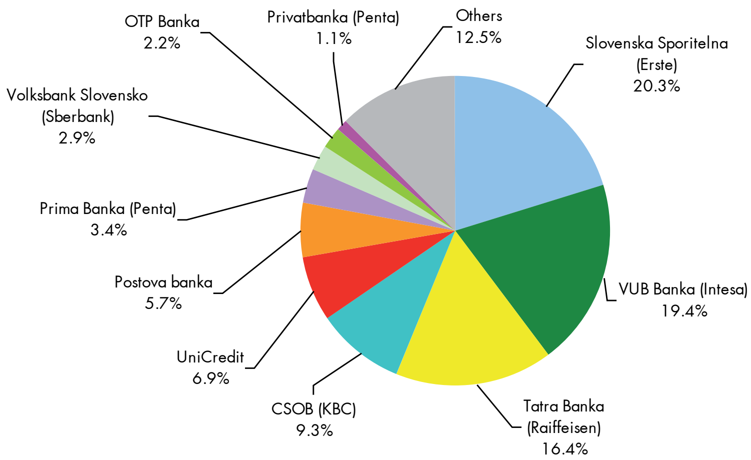
Key economic figures and forecasts

Slovakia	2008	2009	2010	2011	2012e	2013f
Nominal GDP (EUR bn)	67	63	66	69	71	74
Nominal GDP per capita (EUR)	12,393	11,644	12,151	12,720	13,046	13,610
Real GDP (% yoy)	5.8	-4.8	4.0	3.3	2.4	2.0
Gross fixed capital formation (real, % yoy)	1.0	-19.9	12.4	5.7	2.0	4.0
Consumer prices (avg, % yoy)	4.6	1.6	1.0	3.9	3.0	2.5
Unemployment rate (avg, %)	9.6	12.1	14.4	13.5	13.7	13.5
General budget balance (% of GDP)	-2.1	-8.0	-7.9	-5.0	-4.6	-2.8
Public debt (% of GDP)	28	35	41	44	48	49
Current account balance (% of GDP)	-6.0	-2.6	-2.5	0.2	1.4	2.0
Gross foreign debt (EUR bn)	38	46	49	55	58	64
Gross foreign debt (% of GDP)	56.4	72.3	74.5	79.0	81.3	86.0

Source: National sources, wiiw, Raiffeisen RESEARCH

the biggest risk for profitability and the general outlook. Despite the fact domestic banks have not received any financial aid from the state, a bank levy at 0.4% on selected liabilities (total liabilities decreased by equity and insured (retail) deposits) was introduced in 2011. The levy has no cap for individual banks and also has to be paid by banks that are generating net losses. We expect the bank levy to equal around 10% of the sector's net profit in 2011. Moreover, the newly-elected Prime Minister Robert Fico has already strongly argued that an increase in banking sector tax will be key for fiscal consolidation.

Market shares (2011, eop)



Per cent of total assets
Source: NBS, Raiffeisen RESEARCH

The Slovak private equity group J&T announced its interest in buying a majority stake in Postova banka, the fourth largest retail bank and number six in total assets, from the Slovakian finance group Istrokapital. J&T is already active in the Slovak and Czech banking sectors via J&T banka.

Overview of banking sector developments

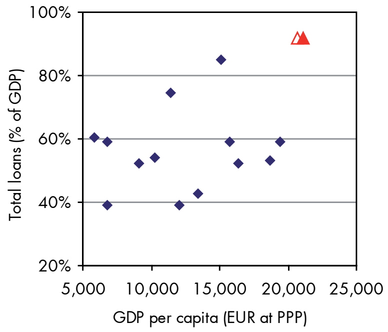
Balance sheet data	2007	2008	2009	2010	2011
Total assets (EUR mn)	49,412.8	62,838.2	53,028.0	54,695.0	55,774.9
growth in % yoy	16.5	27.2	(15.6)	3.1	2.0
in % of GDP	68.8	97.4	84.1	83.0	80.8
Total loans (EUR mn)	24,571.1	31,649.5	31,876.0	33,452.0	36,624.0
growth in % yoy	27.2	28.8	0.7	4.9	9.5
in % of GDP	34.2	49.1	50.6	50.8	53.0
Loans to private enterprises (EUR mn)	12,407.9	16,158.8	15,620.0	15,688.0	16,676.7
growth in % yoy	4.6	30.2	(3.3)	0.4	6.3
in % of GDP	17.3	25.0	24.8	23.8	24.1
Loans to households (EUR mn)	8,435.6	11,830.3	13,158.0	14,773.0	16,362.4
growth in % yoy	31.9	40.2	11.2	12.3	10.8
in % of GDP	11.8	18.3	20.9	22.4	23.7
Mortgage loans (EUR mn)	5,932.7	8,335.5	9,235.0	10,581.0	12,024.0
growth in % yoy	170.2	40.5	10.8	14.6	13.6
in % of GDP	8.3	12.9	14.6	16.1	17.4
Loans in foreign currency (EUR mn)	5,807.6	6,909.3	576.0	504.0	843.0
growth in % yoy	36.6	19.0	(91.7)	(12.5)	67.3
in % of GDP	8.1	10.7	0.9	0.8	1.2
Loans in foreign currency (% of total loans)	23.6	21.8	1.8	1.5	2.3
Total deposits (EUR mn)	32,158.0	40,986.3	37,541.0	39,642.0	40,426.3
growth in % yoy	20.1	27.5	(8.4)	5.6	2.0
in % of GDP	44.8	63.5	59.5	60.1	58.5
Deposits from households (EUR mn)	14,498.6	21,343.2	21,090.0	22,248.0	23,869.3
growth in % yoy	19.8	47.2	(1.2)	5.5	7.3
in % of GDP	20.2	33.1	33.4	33.8	34.6
Total loans (% of total deposits)	76.4	77.2	84.9	84.4	90.6
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	8.2
Market share of foreign-owned banks (% of total assets)	97.0	96.3	94.3	93.4	88.8
Profitability and efficiency					
Return on Assets (RoA)	1.1	1.0	0.5	0.9	1.2
Return on Equity (RoE)	16.5	14.1	6.5	12.3	14.2
Cost income ratio	59.2	55.1	59.8	54.7	49.6
Capital adequacy (% of risk weighted assets)	12.8	11.1	12.6	12.7	13.4
Non-performing loans (% of total loans)	2.5	3.2	5.5	6.1	5.8

Source: NBS, Raiffeisen RESEARCH

Some stabilisation in the "Spain of Central Europe"

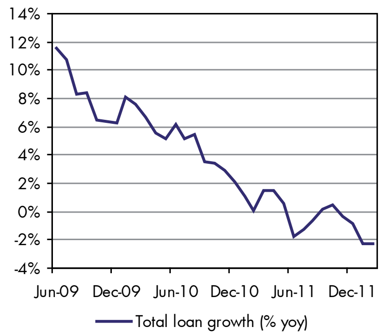
- **NPLs still on the rise following an excessive pre-crisis loan expansion and property price bubble**
- **Recent high-frequency indicators pointing at a stabilisation of profitability after two years of losses in the banking sector**
- **Significant banking sector involvement of the government remains following necessary capital injections**

Total loans vs GDP per capita



Data for 2011, red triangle (2011) and non-filled red triangle (2009) to illustrate dynamics in Slovenia
Source: BSI, national central banks, Raiffeisen RESEARCH

Lending growth (% yoy)



Source: ECB, Raiffeisen RESEARCH

The export-led recovery that was visible in Slovenia in 2010 started to slowdown significantly in 2011, beginning in H1 2011. The negative rating actions taken on the sovereign in 2011 have also had a significant impact on the ratings of Slovenian banks given the sizeable government participation in the banking sector. Moreover, the claims of the banking sector on the general government are at a relatively high level corresponding to some 9-10% of total assets. Total assets continued to decline for the second consecutive year in 2011 and the total loan volume also decreased in 2010 and 2011. The latter can be attributed to declining lending activity in the household lending segment compared to 2010, while corporate lending also decreased in 2011. Mortgage lending, which had still grown nicely in 2010, also slowed down substantially in 2011 (but still managed to finish the year with a slightly higher volume than 2010). Given the overall negative loan distribution trends, both the assets-to-GDP and loan-to-GDP ratio declined in 2011. NPLs inched higher to 11.8% at the end of 2011, driven by NPLs in the corporate segment (reaching around 15%). The large domestic banks' current NPL ratios of 13-14% lie above the market average, while the NPL ratios of foreign-owned banks and small domestic banks (7% and 12%, respectively) lie below those of the large domestic banks.

On the back of stagnant lending and recapitalisations, the capital adequacy ratio increased above the 12% level in 2011, while the Tier-1 ratio increased to 9.9%. Both represent the highest readings in recent years and were driven mainly by recapitalisations at large state-owned banks. Profitability indicators remained in negative territory in 2011 for the second consecutive year, reflecting the challenging situation in the economy and banking system (e.g. continuing problems in the construction sector, high leverage in the corporate sector, relatively high bank funding costs, poor asset quality). Moreover, impairment and provisioning costs (around EUR 1 bn in 2011, up 35% yoy) led the sector's RoA and RoE to deteriorate substantially from their already weak 2010 readings. On a positive note, the sector's profitability increased during the first months of 2012. The ECB's LTRO operations, for which Slovenian banks are eligible, also provided some relief.

Key economic figures and forecasts

Slovenia	2008	2009	2010	2011	2012e	2013f
Nominal GDP (EUR bn)	37	35	35	36	36	38
Nominal GDP per capita (EUR)	18,372	17,312	17,301	17,359	17,518	18,482
Real GDP (% yoy)	3.5	-7.7	1.4	-0.2	-1.0	1.5
Gross fixed capital formation (real, % yoy)	7.7	-22.2	-8.3	-10.0	-5.0	0.0
Consumer prices (avg, % yoy)	5.7	0.9	1.8	1.8	2.2	2.0
Unemployment rate (avg, %)	6.7	9.2	10.7	11.8	12.5	12.0
General budget balance (% of GDP)	-1.9	-6.1	-5.8	-6.5	-4.5	-4.0
Public debt (% of GDP)	22	35	39	48	50	51
Current account balance (% of GDP)	-6.9	-1.3	-0.8	-0.5	-0.6	-1.1
Gross foreign debt (EUR bn)	39	40	41	41	42	44
Gross foreign debt (% of GDP)	105.7	114.1	114.9	116.3	116.7	115.8

Source: National sources, wiiw, Raiffeisen RESEARCH

The government is gradually downsizing its role in the banking sector. That process started in 2011 via decreasing government deposits and the government has reduced its deposits further since the beginning of 2012.

Going forward, the banking system has to tackle several challenges. First, profitability has to be sustained in a deleveraging and balance sheet clean-up process. Second, recapitalisation needs continue to exist and profits are unlikely to be sufficient at some banks. Third, the government has to develop a feasible strategy to divest from those banks that required state support. Currently, the Republic of Slovenia owns 45% of Nova Ljubljanska Banka (NLB) and 51% (35.7% directly and 15.4% indirectly) of Nova Kreditna Banka Maribor (NKBM). The banks under state ownership needed state capital injections to maintain their capital adequacy, but were not always satisfied with some government measures that were aiming at stabilising economic sectors and companies strongly affected by the domestic financial and economic crisis.

Rank of banks in Slovenia*

1	Nova Ljubljanska banka (NLB)**
2	Nova Kreditna banka Maribor (NKBM)**
3	Abanka Vipa
4	UniCredit
5	SKB (Societe Generale)
	...
10	Raiffeisen

** % of total loans in 2011*
*** state-owned*
Source: BSI, Raiffeisen RESEARCH

Overview of banking sector developments

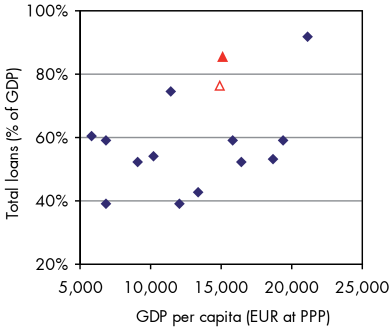
Balance sheet data	**2007**	**2008**	**2009**	**2010**	**2011**
Total assets (EUR bn)	43.5	49.0	53.4	53.0	52.4
growth in % yoy	24.8	12.7	9.0	(0.7)	(1.1)
in % of GDP	124.9	131.6	152.0	150.8	147.2
Total loans (EUR bn)	30.6	36.1	39.0	39.0	38.4
growth in % yoy	26.2	17.9	8.1	(0.1)	(1.6)
in % of GDP	87.9	96.9	111.0	110.9	107.7
Loans to private enterprises (EUR bn)	17.5	20.7	21.0	21.0	20.3
growth in % yoy	34.6	18.3	1.4	0.0	(3.3)
in % of GDP	50.3	55.6	59.8	59.7	57.0
Loans to households (EUR bn)	6.8	7.8	8.4	9.3	9.5
growth in % yoy	25.9	14.7	7.7	10.7	2.2
in % of GDP	19.5	20.9	23.9	26.5	26.7
Mortgage loans (EUR bn)	2.7	3.4	3.9	4.8	5.2
growth in % yoy	35.0	25.9	14.7	23.1	8.3
in % of GDP	7.8	9.1	11.1	13.7	14.6
Loans in foreign currency (EUR bn)	2.0	2.4	1.9	1.8	1.5
growth in % yoy	n.a.	19.1	(20.0)	(2.7)	(16.7)
in % of GDP	5.8	6.4	5.4	5.2	4.3
Loans in foreign currency (% of total loans)	6.5	6.6	4.9	4.7	4.0
Total deposits (EUR bn)	33.3	38.4	40.5	38.1	37.9
growth in % yoy	22.4	15.3	5.5	(5.9)	(0.5)
in % of GDP	95.7	103.2	115.3	108.4	106.5
Deposits other than MFI and state (EUR bn)	18.3	19.1	20.0	20.8	21.3
growth in % yoy	8.7	4.8	4.5	4.1	2.5
in % of GDP	52.4	51.4	56.9	59.2	59.9
Total loans (% of total deposits)	91.8	93.9	96.3	102.3	101.1
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)	(1.0)
Return on Equity (RoE)	16.3	8.1	3.9	(2.4)	(11.7)
Capital adequacy (% of risk weighted assets)	11.2	11.7	11.6	11.3	12.1
Tier-1 capital adequacy (%)	7.8	9.2	9.3	9.0	9.9
Non-performing loans (% of total loans)	1.8	4.2	5.8	8.2	11.5

Source: BSI, Raiffeisen RESEARCH

Stagnant economy, stagnant banking sector

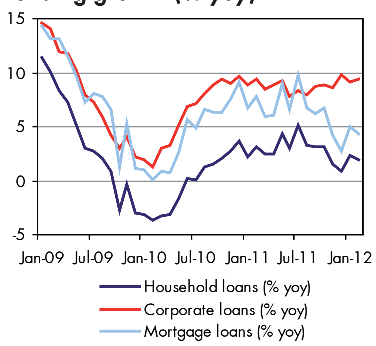
- **Persistent deleveraging in the household sector continues, corporate loan growth due to external deleveraging**
- **Non-performing loans still increasing, but with declining speed**
- **Reaping efficiency gains will be key to lift profitability, not much changes in the banking sector due to EU-entry**

Total loans vs GDP per capita



Data for 2011, red triangle (2011) and non-filled red triangle (2009) to illustrate dynamics in Croatia
Source: CNB, national central banks, Raiffeisen RESEARCH

Lending growth (% yoy)



Source: CNB, Raiffeisen RESEARCH

Croatia's economy stagnated in 2011 and is likely to fall into recession in 2012. For this reason, the outlook for the banking sector is subdued from a cyclical perspective. Moreover, the medium-term growth prospects are limited due to structural weaknesses in the real economy and the already high level of financial intermediation in relation to the income level.

In the segment of household lending, the fast growth experienced in the pre-crisis years has turned into a slow but persistent deleveraging. Household borrowing has also been negatively affected by the unfinished deflation of the price bubble on the real estate market and adverse effects from widespread FCY lending and FX risk imbedded in loans indexed to FCY (CHF). However, the risks posed to the Croatian banking system by the widespread FCY lending are limited, as the asset and liability sides are more or less matching due to the economy's elevated degree of "euroisation". In the segment of corporate lending, government supported credit schemes temporarily supported demand for working capital financing, but the financing volume of investments has declined. Given that corporate indebtedness is higher on the foreign than on the domestic market, demand for corporate lending with domestic banks has been sustained as businesses seek to refinance maturing foreign debt domestically.

The Croatian banking system remained stable throughout the recent challenging years thanks to proactive regulation before the crisis (e.g. limits on credit growth, buffers in FCY created pre-crisis have been released in periods of capital outflow and were used to slow down depreciation pressure on the HRK). All large and medium-sized banks are highly capitalized, liquid and modestly profitable. However, strong competition and stagnant credit demand have decreased the average RoE in the sector to the yield level on long-term government bonds. A return to higher profitability is likely to be carried out via cost cutting and efficiency improvements. During the extended period of low growth, banks have already refocused from lending to improvements in risk management, collection and workout process development, collateral evaluation, pledge and resale capabil-

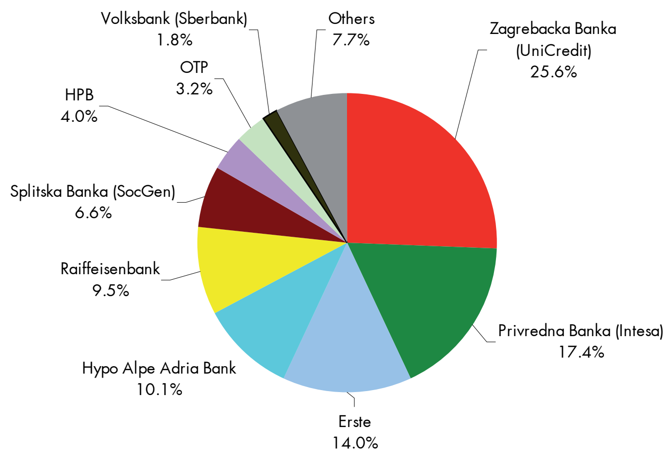
Key economic figures and forecasts

Croatia	2008	2009	2010	2011	2012e	2013f
Nominal GDP (EUR bn)	48	45	46	46	46	48
Nominal GDP per capita (EUR)	10,722	10,111	10,380	10,702	10,728	11,175
Real GDP (% yoy)	2.1	-6.9	-1.2	0.0	-1.0	1.0
Gross fixed capital formation (real, % yoy)	8.7	-14.2	-11.3	-7.2	-2.5	4.5
Consumer prices (avg, % yoy)	6.1	2.4	1.1	2.3	3.0	3.0
Unemployment rate (avg, %)	13.2	14.9	17.4	18.0	18.5	18.3
General budget balance (% of GDP)	-1.4	-4.1	-4.9	-5.5	-4.3	-3.5
Public debt (% of GDP)	29	35	41	45	52	54
Current account balance (% of GDP)	-9.0	-5.1	-1.0	-1.0	-1.4	-1.5
Gross foreign debt (EUR bn)	41	45	46	46	48	48
Gross foreign debt (% of GDP)	85.4	101.0	101.2	99.6	103.6	100.8
EUR/LCY (avg)	7.22	7.34	7.29	7.43	7.56	7.55

Source: National sources, wiiw, Raiffeisen RESEARCH

ity increase. The NPL ratio continued to grow in 2011, reaching 12.4% (over 20% in the corporate segment, 8.6% for households). A further rise in NPLs seems possible given the country's weak growth prospects, still declining real estate prices, still rising unemployment and delayed bankruptcies in the corporate sector.

Market shares (2011, eop)



Per cent of total assets
Source: CNB, Raiffeisen RESEARCH

Croatia intends to follow a common EU solution regarding the possible introduction of a banking sector levy. In July 2013, Croatia will join the EU and will therefore open the market for banks licensed in other EU states. Given the muted growth outlook for the Croatian banking sector, this process is unlikely to strengthen competition in the short run. Nevertheless, a consolidation seems inevitable, since 24 out of the 33 banks present in Croatia have a market share of less than 0.7%. On the other hand, the six largest universal banks (all are members of international groups) will compete on a stagnant market, which is likely to constrain profit margins and might also lead to mergers.

Overview of banking sector developments

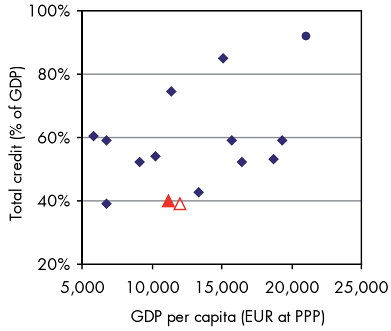
Balance sheet data	2007	2008	2009	2010	2011
Total assets (EUR mn)	47,109.4	50,619.4	51,853.5	53,027.6	54,282.6
growth in % yoy	13.4	7.5	2.4	2.3	2.4
in % of GDP	108.4	107.5	113.0	117.1	119.8
Total loans (EUR mn)	29,658.6	33,931.5	35,083.9	37,563.4	38,687.6
growth in % yoy	14.0	14.4	3.4	7.1	3.0
in % of GDP	68.3	72.0	76.5	82.9	85.4
Loans to private enterprises (EUR mn)	10,677.0	12,052.9	12,389.4	13,551.6	14,505.1
growth in % yoy	11.6	12.9	2.8	9.4	7.0
in % of GDP	24.6	25.6	27.0	29.9	32.0
Loans to households (EUR mn)	15,374.9	17,192.2	16,724.7	17,146.3	16,964.8
growth in % yoy	18.7	11.8	(2.7)	2.5	(1.1)
in % of GDP	35.4	36.5	36.5	37.8	37.4
Mortgage loans (EUR mn)	6,578.5	7,570.3	7,670.7	8,286.5	8,346.2
growth in % yoy	21.9	15.1	1.3	8.0	0.7
in % of GDP	15.1	16.1	16.7	18.3	18.4
Loans in foreign currency (EUR mn)	18,517.8	22,385.6	25,460.2	27,396.1	28,951.4
growth in % yoy	(0.8)	20.9	13.7	7.6	5.7
in % of GDP	42.6	47.5	55.5	60.5	63.9
Loans in foreign currency (% of total loans)	62.4	66.0	72.6	72.9	74.8
Total deposits (EUR mn)	31,453.9	33,411.9	34,741.6	36,462.5	37,496.2
growth in % yoy	15.1	6.2	4.0	5.0	2.8
in % of GDP	72.4	70.9	75.7	80.5	82.8
Deposits from households (EUR mn)	16,625.9	18,569.5	19,321.0	20,657.4	21,235.7
growth in % yoy	10.7	11.7	4.0	6.9	2.8
in % of GDP	38.3	39.4	42.1	45.6	46.9
Total loans (% of total deposits)	94.3	101.6	101.0	103.0	103.2
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	4.5
Market share of foreign-owned banks (% of total assets)	90.4	90.6	90.9	90.3	90.6
Profitability and efficiency					
Return on Assets (RoA)	1.6	1.6	1.1	1.1	1.2
Return on Equity (RoE)	10.9	9.9	6.4	6.5	7.0
Capital adequacy (% of risk weighted assets)	16.4	15.2	16.4	18.8	19.2
Non-performing loans (% of total loans)	4.8	4.9	7.8	11.2	12.4

Source: CNB, Raiffeisen RESEARCH

Some legacy problems, but gradually improving profitability

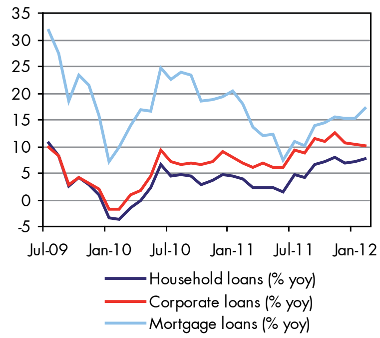
- **Banking sector posted a loss for the second consecutive year in 2011, but solid capital position**
- **Non-performing loans still rising, peak level likely to be reached in 2012**
- **No retrenchment of foreign banks, strong competition for retail deposits on the domestic market**

Total loans vs GDP per capita



Data for 2011, red triangle (2011) and non-filled red triangle (2009) to illustrate dynamics in Romania
Source: NBR, national central banks, Raiffeisen RESEARCH

Lending growth (% yoy)



Source: NBR, Raiffeisen RESEARCH

The 2011 economic recovery – which followed two years of recession – was sluggish and unevenly distributed across sectors (i.e. strong exports vs sluggish consumption and investments). The banking environment remained challenging in 2011, reflecting the prevailing economic weakness. Overall, loans to the private sector grew marginally, while lending to companies performed somewhat better as corporates were the first to feel the recovery. Moreover, the corporate sector is less leveraged than the household sector. Loans to companies grew both in RON and FCY, almost in line with GDP growth. Mortgage loans in FCY remained on an upward trend thanks to incentives provided by a government-sponsored loan support scheme. Consumer loans fell as loan extension remained below repayments. Consequently, there is a deleveraging trend in the household sector that is being accompanied by an increasing propensity to save. Banks increased their public sector exposure in 2011 by adding government securities to their portfolios.

Expectations that NPL dynamics would stabilize or improve in 2011 were not confirmed. NPLs remained on an upward trend, with provisioning activity remaining high and dragging on profitability. While the banking system on aggregate recorded a loss for the second year in a row in 2011, some banks posted decent profits. The NPL peak level is likely to be reached in 2012 and a well-balanced handling of the high NPL stock will be the key to returning to decent loan growth. In spite of the challenging business environment, the banking system remained in solid shape, with the average capital adequacy ratio standing at 14.5% in December 2011.

Given subdued lending, some banks downsized their branch network and staffing. However, no changes were recorded in the structure of the banking system. Major foreign banks from Austria, Greece and France maintained their exposure broadly unchanged in 2011 (Volksbank International's Romanian franchise was not purchased by Sberbank). The competition of their local subsidiaries for deposits remained strong given the loan-to-deposit ratio at 111%. Going forward,

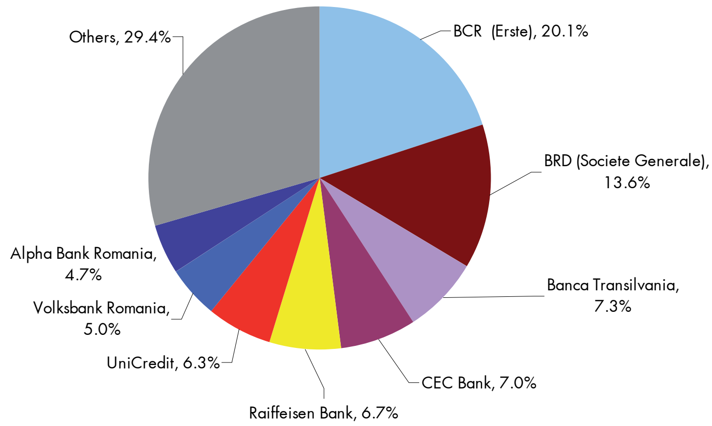
Key economic figures and forecasts

Romania	2008	2009	2010	2011	2012e	2013f
Nominal GDP (EUR bn)	140	118	124	137	141	153
Nominal GDP per capita (EUR)	6,499	5,509	5,792	6,379	7,387	8,079
Real GDP (% yoy)	7.3	-6.6	-1.6	2.5	0.5	2.5
Gross fixed capital formation (real, % yoy)	15.6	-28.1	-2.1	6.3	4.0	6.0
Consumer prices (avg, % yoy)	7.9	5.6	6.1	5.8	3.0	3.6
Unemployment rate (avg, %)	5.8	6.9	7.3	7.3	7.1	6.9
General budget balance (% of GDP)	-5.7	-9.0	-6.8	-4.6	-3.0	-3.0
Public debt (% of GDP)	13	24	31	33	34	35
Current account balance (% of GDP)	-11.6	-4.2	-4.4	-4.2	-4.0	-4.2
Gross foreign debt (EUR bn)	72	81	92	99	102	109
Gross foreign debt (% of GDP)	51.8	68.7	74.5	72.2	72.5	71.0
EUR/LCY (avg)	3.68	4.24	4.21	4.24	4.42	4.40

Source: National sources, wiiw, Raiffeisen RESEARCH

loan growth is likely to grow slowly in 2012, with the corporate segment set to again outperform the retail segment. Demand for household lending is likely to remain subdued, given the public's low confidence in the overall economic situation. Moreover, in Q1 2012 banks enforced new household lending rules that apply tighter lending standards to consumer loans, especially in FCY (lower tenors, lower debt-to-income ratios). The room for banks to expand the sovereign exposure is also limited. The major foreign banks will certainly continue to see Romania as a strategic market, but given the current challenging domestic and external situation they will be more cautious and selective in expanding exposures.

Market shares (2011, eop)



Per cent of total assets, preliminary data
Source: NBR, Raiffeisen RESEARCH

Starting January 2012, IFRS has replaced the Romanian Accounting Standards (RAS). The new standards result in lower provisioning requirements for banks, but their enforcement will not alter the financial and solvency position of the banking system in place since the end of 2011.

Overview of banking sector developments

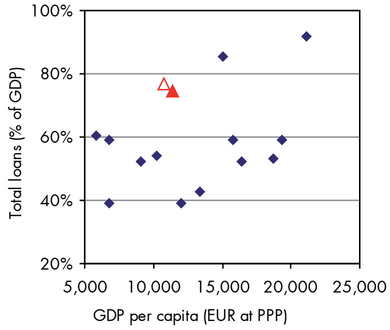
Balance sheet data	**2007**	**2008**	**2009**	**2010**	**2011**
Total assets (EUR mn)	72,056.2	85,190.4	86,201.8	89,906.4	90,886.4
growth in % yoy	38.9	18.2	1.2	4.3	1.1
in % of GDP	62.5	66.0	72.7	73.7	67.9
Total loans (EUR mn)	41,344.4	49,968.6	47,583.6	49,208.1	52,124.4
growth in % yoy	51.3	20.9	(4.8)	3.4	5.9
in % of GDP	35.9	38.7	40.1	40.3	38.9
Loans to private enterprises (EUR mn)	20,324.5	23,868.4	22,931.7	24,692.4	27,106.9
growth in % yoy	38.3	17.4	(3.9)	7.7	9.8
in % of GDP	17.6	18.5	19.3	20.2	20.2
Loans to households (EUR mn)	19,807.1	24,972.8	23,779.1	23,889.1	24,198.6
growth in % yoy	70.6	26.1	(4.8)	0.5	1.3
in % of GDP	17.2	19.3	20.1	19.6	18.1
Mortgage loans (EUR mn)	3,946.2	5,267.2	5,753.8	6,775.8	7,752.7
growth in % yoy	66.3	33.5	9.2	17.8	14.4
in % of GDP	3.4	4.1	4.9	5.6	5.8
Loans in foreign currency (EUR mn)	22,564.3	28,947.3	28,713.1	31,131.3	33,182.9
growth in % yoy	74.4	28.3	(0.8)	8.4	6.6
in % of GDP	19.6	22.4	24.2	25.5	24.8
Loans in foreign currency (% of total loans)	54.6	57.9	60.3	63.3	63.7
Total deposits (EUR mn)	37,381.5	40,352.3	42,802.8	44,843.3	46,867.0
growth in % yoy	31.1	7.9	6.1	4.8	4.5
in % of GDP	32.4	31.2	36.1	36.8	35.0
Deposits from households (EUR mn)	19,032.9	21,204.1	23,534.1	24,672.7	26,497.9
growth in % yoy	45.9	11.4	11.0	4.8	7.4
in % of GDP	16.5	16.4	19.9	20.2	19.8
Total loans (% of total deposits)	110.6	123.8	111.2	109.7	111.2
Structural information					
Number of banks	41	42	41	41	40
Market share of state-owned banks (% of total assets)	5.4	5.2	7.3	7.4	8.2
Market share of foreign-owned banks (% of total assets)	87.7	88.2	85.3	85.1	83.1
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)	(1.4)
Capital adequacy (% of risk weighted assets)	13.8	13.8	14.7	15.0	14.5
Non-performing loans (% of total loans)*	1.7	2.8	7.9	11.9	14.1

Source: NBR, Raiffeisen RESEARCH

Healthy banking sector rebalancing, just as in the real economy

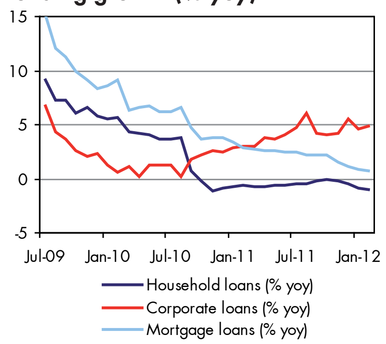
- **Deleveraging in the household sector, but fairly solid corporate loan growth in 2011**
- **Banking sector remained moderately profitable in 2011 despite the ongoing rebalancing**
- **Substantially improved loan-to-deposit ratio at around 106% (down 10-15 percentage points from its pre-crisis peak)**

Total loans vs GDP per capita



Data for 2011, red triangle (2011) and non-filled red triangle (2009) to illustrate dynamics in Bulgaria
Source: BNB, national central banks, Raiffeisen RESEARCH

Lending growth (% yoy)



Source: BNB, Raiffeisen RESEARCH

While Bulgaria continued to recover from recession in 2011, economic growth remained subdued due to some sectoral weaknesses. Domestic consumption contracted by 0.3% yoy on the back of rising unemployment, and investments also stayed in negative territory. The banking sector continued to adjust its activity in line with the slow economic recovery. Due to tight lending policies and a high level of unemployment, lending activity remained low, growing by some 4% in 2011 (total lending accounts for 73% of total assets). Increased credit demand in trade, processing industries and professional services led corporate lending to grow by slightly above 6% yoy in 2011, thus remaining the main growth driver of the total loan portfolio.

In 2011, the importance of funding attracted from residents increased progressively. Driven mainly by increasing retail deposits amid continuing public confidence in the banking sector, the deposit base grew by around 12% yoy in 2011. Sluggish lending activity and steady deposit growth supported the banking system's liquidity. As measured by the liquid asset ratio, liquidity improved further to 25.57% as per year-end 2011, compared to 24.37% a year earlier. The system's loan-to-deposit ratio decreased to around 106% in 2011, significantly below the levels seen in 2009 and 2010 (around 115-120%). The banking system ended 2011 with an overall capital adequacy ratio of 17.5%, well exceeding the regulatory minimum of 12%. Given its solid liquidity and capital position, the Bulgarian banking system is well placed to support lending in a friendlier domestic and external economic environment, which distinguishes the country's banking sector from some of its peers in the SEE region.

For the third year in a row, the Bulgarian banking sector registered a decline in its net profit, which fell to EUR 300 mn in 2011 from EUR 315 mn in 2010. The system's RoA and RoE also declined for the third year in a row, reaching 0.78% and 5.76%, respectively. This weaker financial result was due to increasing provisioning, driven by the boost in so-called "classified" loans, as well as a lower volume of new lending. In 2011, the system registered a slight slowdown in the

Key economic figures and forecasts

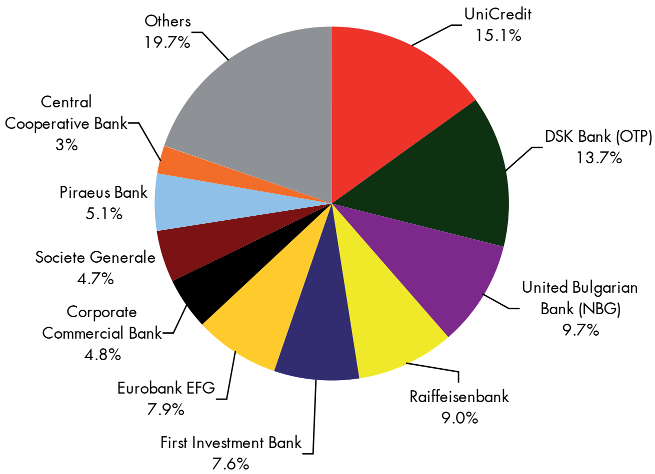
Bulgaria	2008	2009	2010	2011	2012e	2013f
Nominal GDP (EUR bn)	35	35	36	38	40	42
Nominal GDP per capita (EUR)	4,658	4,618	4,804	5,261	5,456	5,769
Real GDP (% yoy)	6.2	-5.5	0.4	1.7	1.0	2.5
Gross fixed capital formation (real, % yoy)	23.4	-17.6	-18.3	-9.7	2.3	7.1
Consumer prices (avg, % yoy)	12.3	2.8	2.4	4.2	2.7	3.1
Unemployment rate (avg, %)	6.3	6.8	10.2	11.2	11.9	11.5
General budget balance (% of GDP)	2.9	-0.9	-4.0	-2.1	-2.2	-1.8
Public debt (% of GDP)	14	15	17	17	20	19
Current account balance (% of GDP)	-23.1	-8.9	-1.0	0.9	0.7	0.5
Gross foreign debt (EUR bn)	37	38	37	35	34	33
Gross foreign debt (% of GDP)	105.1	108.3	102.8	91.9	86.8	78.0
EUR/LCY (avg)	1.96	1.96	1.96	1.96	1.96	1.96

Source: National sources, wiiw, Raiffeisen RESEARCH

growth rate for classified loans and NPLs. Classified loans accounted for 23.21% of total loans, with that share consisting of 8.29% in exposures under surveillance (loans that are 30 to 90 days past due), 3.18% in NPLs (90 to 180 days past due) and 11.75% in losses (more than 180 days past due).

The market entry in 2011 of the German-registered Turkish ISBANK GmbH led the total number of banks in Bulgaria to increase to 31 (24 commercial and 7 branches of foreign banks). No significant M&A activity took place on the market in 2011. The Bulgarian National Bank (BNB) supported Sofia's Municipal Council in its taking over the control of Municipal Bank, which thus came under state control again. Based on the expectations for a recession in the Eurozone and an economic slowdown in Bulgaria in 2012, the BNB sees lower potential for banks to generate income from their core lending activity, a development that will force them to diversify to other business segments.

Market shares (2011, eop)



Per cent of total loans
Source: BNB, Raiffeisen RESEARCH

Overview of banking sector developments

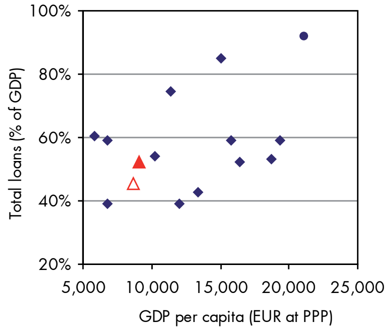
Balance sheet data	2007	2008	2009	2010	2011
Total assets (EUR mn)	30,212.0	35,565.7	36,234.2	37,695.3	39,272.9
growth in % yoy	40.0	17.7	1.9	4.0	4.2
in % of GDP	98.2	100.4	103.7	104.6	102.1
Total loans (EUR mn)	19,403.9	25,661.5	26,816.8	27,535.1	28,654.7
growth in % yoy	66.7	32.2	4.5	2.7	4.1
in % of GDP	63.1	72.4	76.8	76.4	74.5
Loans to private enterprises (EUR mn)	12,771.2	16,786.9	17,274.0	18,036.0	19,189.0
growth in % yoy	71.1	31.4	2.9	4.4	6.4
in % of GDP	41.5	47.4	49.4	50.0	49.9
Loans to households (EUR mn)	6,632.7	8,874.5	9,542.8	9,499.1	9,465.7
growth in % yoy	58.8	33.8	7.5	(0.5)	(0.4)
in % of GDP	21.6	25.0	27.3	26.3	24.6
Mortgage loans (EUR mn)	3,011.6	4,221.9	4,577.9	4,739.2	4,789.8
growth in % yoy	67.4	40.2	8.4	3.5	1.1
in % of GDP	9.8	11.9	13.1	13.1	12.4
Loans in foreign currency (EUR mn)	9,811.6	14,673.2	15,726.3	16,876.2	18,266.6
growth in % yoy	85.9	49.5	7.2	7.3	8.2
in % of GDP	31.9	41.4	45.0	46.8	47.5
Loans in foreign currency (% of total loans)	50.6	57.2	58.6	61.3	63.7
Total deposits (EUR mn)	19,854.9	21,339.1	22,131.5	23,993.9	27,000.4
growth in % yoy	31.1	7.5	3.7	8.4	12.5
in % of GDP	64.5	60.2	63.4	66.6	70.2
Deposits from households (EUR mn)	9,707.6	11,334.1	12,699.0	14,335.1	16,311.0
growth in % yoy	n.a.	16.8	12.0	12.9	13.8
in % of GDP	31.5	32.0	36.4	39.8	42.4
Total loans (% of total deposits)	97.7	120.3	121.2	114.8	106.1
Structural information					
Number of banks	29	30	30	30	31
Market share of state-owned banks (% of total assets)	2.1	2.1	2.4	3.2	3.7
Market share of foreign-owned banks (% of total assets)	82.3	83.9	83.5	80.7	76.5
Profitability and efficiency					
Return on Assets (RoA)	2.4	2.1	1.1	0.86	0.78
Return on Equity (RoE)	23.8	20.5	9.3	6.73	5.76
Capital adequacy (% of risk weighted assets)	13.8	14.9	17.0	17.5	17.5
Non-performing loans (% of total loans)	2.0	2.4	6.1	11.9	14.9

Source: BNB, Raiffeisen RESEARCH

Last year's performance underscores medium-term growth potential

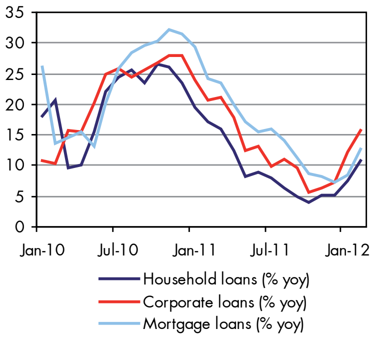
- Rather high loan extension in 2011, primarily in H1 2011, worked against a decrease of the loan-to-deposit ratio
- Non-performing loans continued their uptrend in 2011, while appetite for lending decreased
- Some consolidation and M&A activity including the remaining state-owned banks as an option

Total loans vs GDP per capita



Data for 2011, red triangle (2011) and non-filled red triangle (2009) to illustrate dynamics in Serbia
Source: NBS, national central banks, Raiffeisen RESEARCH

Lending growth (% yoy)



Source: NBS, Raiffeisen RESEARCH

As the external environment deteriorated in September 2011 the government turned to the IMF for another support programme, which was frozen in February 2012 because of disagreements on fiscal policy. Due to the deteriorating economic situation and still rising NPLs (18.8% in Q3 2011), banks started to tighten lending standards. This holds especially true for corporate lending, where NPLs are well above the market average. Therefore, in 2011 corporate lending growth remained subdued (+4.8% yoy) as banks targeted retail lending (+15.0% yoy). NPLs in retail lending started to stabilise at 9.5% in Q3 2011. Although the overall NPL level remains high, the sector's coverage ratio is solid (44.7% under IFRS standards, while total calculated loan loss reserve under IFRS + local rules are at 140%). On aggregate, capital adequacy remains at a solid level (19.7% in Q3 2011) and is well above the regulatory minimum of 12%. Decreasing appetite for lending and a decent growth in corporate and retail deposits also supported a gradual improvement of the loan-to-deposit ratio from 127.5% in 2010 to 125.6% in 2011. Nevertheless, such a rather high reading constrains the growth outlook in a friendlier domestic and external economic environment.

In 2011, the banking sector's profitability remained well below pre-crises levels (when the RoE peaked at 12.0%), despite the fact that it started to recover and reached 6.5% (Jan-Sept 2011), compared to 5.9% (Jan-Sept 2010). The recovery in profitability was supported by the high interest rate environment on the domestic market. Tight cost management continued in 2011, as the number of bank branches in Serbia decreased to 2,432 (2010: 2,487) and banks undertook additional staffing cuts.

M&A activity is once again centred on the remaining state-owned banks. In 2011, the National Bank of Serbia adopted a package of new measures for capital adequacy and risk management in line with Basel II standards, prompting recapitalizations at some state-led banks, but also at private and foreign-owned banks. The state took over the caretaker management in Agrobanka (7th largest banks

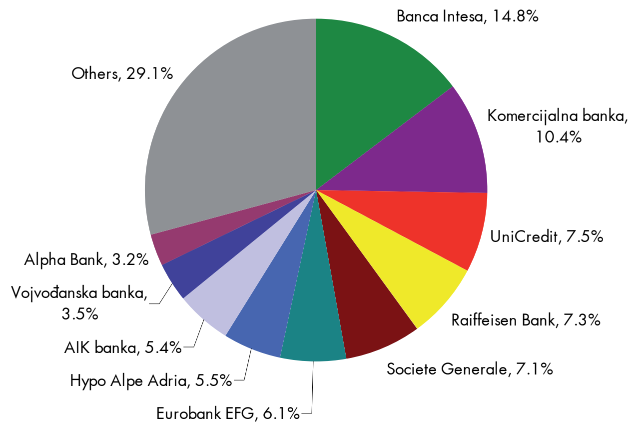
Key economic figures and forecasts

Serbia	2008	2009	2010	2011	2012e	2013f
Nominal GDP (EUR bn)	33	29	28	32	32	35
Nominal GDP per capita (EUR)	4,445	3,945	3,863	4,442	4,466	4,886
Real GDP (% yoy)	3.8	-3.5	1.0	2.0	0.0	1.0
Gross fixed capital formation (real, % yoy)	0.0	0.0	0.0	0.0	0.0	0.0
Consumer prices (avg, % yoy)	11.7	8.4	6.5	11.0	6.5	6.0
Unemployment rate (avg, %)	13.6	16.1	20.0	22.0	24.0	23.7
General budget balance (% of GDP)	-2.6	-4.3	-4.8	-4.5	-5.2	-4.6
Public debt (% of GDP)	27	34	43	46	48	45
Current account balance (% of GDP)	-21.6	-7.2	-7.4	-8.9	-7.4	-7.3
Gross foreign debt (EUR bn)	21	22	24	24	25	25
Gross foreign debt (% of GDP)	64.6	77.9	84.5	74.5	75.7	70.3
EUR/LCY (avg)	81.48	93.94	102.95	101.97	109.02	106.87

Source: National sources, wiiw, Raiffeisen RESEARCH

by assets in 2011) and is considering a recapitalization to cover losses. The state is also mulling over the idea of a capital injection in Privredna Banka Beograd before the bank is prepared for sale. In addition, Razvojna Banka Vojvodine also sought assistance from the government, as its capital adequacy ratio fell below the minimum level of 12%. At the same time, the state invited pre-qualification bids from privatization advisers to help sell its 42.6% stake in the second largest bank, Komercijalna Banka, after the state recapitalized the bank with EUR 102 mn in order to keep its 42.6% stake. The government formed a working group to monitor the implementation of a new program of measures aimed at preserving banks' financial stability. The program foresees two types of state bailouts, both entailing the issuance of traded dinar-denominated state bonds to finance a bank recapitalization.

Market shares (2011, eop)



Per cent of total assets
Source: NBS, Raiffeisen RESEARCH

Overview of banking sector developments

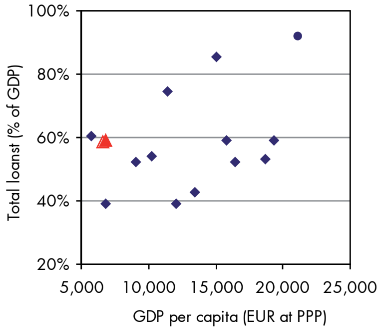
Balance sheet data	2007	2008	2009	2010	2011
Total assets (EUR mn)	21,181.8	21,631.8	24,361.6	25,984.0	27,732.2
growth in % yoy	31.3	2.1	12.6	6.7	6.7
in % of GDP	73.6	64.7	84.4	91.6	87.9
Total loans (EUR mn)	10,097.8	12,261.8	13,138.1	15,166.1	16,452.3
growth in % yoy	38.7	21.4	7.1	15.4	8.5
in % of GDP	35.1	36.7	45.5	53.4	52.1
Loans to private enterprises (EUR mn)	5,620.3	6,602.0	7,513.9	8,695.8	9,776.8
growth in % yoy	-	17.5	13.8	15.7	12.4
in % of GDP	19.5	19.8	26.0	30.6	31.0
Loans to households (EUR mn)	3,835.5	4,287.1	4,784.4	5,372.8	5,701.6
growth in % yoy	49.6	11.8	11.6	12.3	6.1
in % of GDP	13.3	12.8	16.6	18.9	18.1
Mortgage loans (EUR mn)	1,235.5	1,861.0	2,193.0	2,621.1	2,834.7
growth in % yoy	137.8	50.6	17.8	19.5	8.2
in % of GDP	4.3	5.6	7.6	9.2	9.0
Loans in foreign currency (EUR mn)	n.a.	9,815.2	8,053.9	10,000.4	11,632.7
growth in % yoy	-	-	(17.9)	24.2	16.3
in % of GDP	-	29.4	27.9	35.2	36.9
Loans in foreign currency (% of total loans)	n.a.	80.0	61.3	65.9	70.7
Total deposits (EUR mn)	10,301.0	10,018.9	11,407.7	11,894.2	13,099.5
growth in % yoy	45.4	(2.7)	13.9	4.3	10.1
in % of GDP	35.8	30.0	39.5	41.9	41.5
Deposits from households (EUR mn)	5,289.8	5,151.6	6,546.4	7,515.5	8,172.7
growth in % yoy	45.4	(2.6)	27.1	14.8	8.7
in % of GDP	18.4	15.4	22.7	26.5	25.9
Total loans (% of total deposits)	98.0	122.4	115.2	127.5	125.6
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	19.7
Market share of foreign-owned banks (% of total assets)	75.5	75.3	74.3	72.5	72.7
Profitability and efficiency					
Return on Assets (RoA)	1.7	2.1	1.0	1.1	1.3
Return on Equity (RoE)	8.5	9.3	4.6	5.4	6.5
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	18.8

Source: NBS, Raiffeisen RESEARCH

The only SEE banking sector with stabilising NPLs in 2011

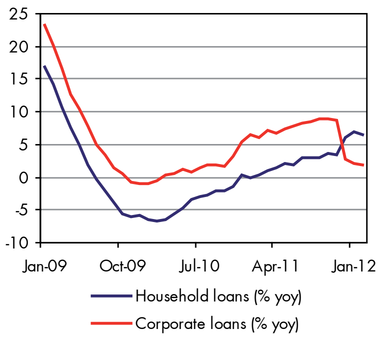
- **Tangible recovery in household and corporate lending growth, but near-term risks on the downside**
- **Total loan stock and loan-to-deposit ratio still looks a bit high compared to regional peers and income level**
- **Banking sector returned to profitability in 2011, supported by stabilising NPLs**

Total loans vs GDP per capita



Data for 2011, red triangle (2011) and non-filled red triangle (2009) to illustrate dynamics in Bosnia a. H. Source: CBBH, national central banks, Raiffeisen RESEARCH

Lending growth (% yoy)



Source: CBBH, Raiffeisen RESEARCH

The real economy was characterized by a notable rebound in H1 2011. Domestic consumption and private investment showed signs of a recovery for the first time since Bosnia and Herzegovina slipped into recession in 2009. In line with the economic recovery for the year as a whole, lending dynamics also posted a year-on-year improvement. This holds true for both retail and corporate lending. However, first signs of economic weakening in Q3/Q4 2011 were followed suit by a tapering-off in lending, especially in corporate lending. After reaching its peak in Q3 (+8.6% yoy), corporate lending slipped back to meager growth levels around 2-3% yoy in the final months of 2011. In contrast, retail lending showed some resilience. At the same time, the positive dynamics with regard to deposits started to soften by the end of year, with retail deposit growth rates declining from double digit territory to some 8-9% yoy. As a result, the loan-to-deposit ratio showed no tangible improvement and remained more or less flat around 115%. The relatively high loan-to-deposit ratio may constrain the banking sector's growth outlook in a friendlier domestic and external economic environment. Moreover, Bosnia's loan-to-GDP ratio of 59% still looks somewhat overstretched in comparison to both its GDP per capita level and to some of its peers in SEE or CE.

In Q4 2011, stricter capitalization rules at the European level, which resulted in local regulatory changes and cuts in risk-weighted assets by the subsidiaries of Western European banks, reversed a negative trend in financial soundness indicators. Consequently, the banking sector's capital adequacy ratio increased to 16.4% from 15.3% in Q3 2011, while NPLs decreased slightly from their peak at 12.6% in Q3 to 11.8% in Q4 2011. On the back of the asset quality trends outlined above, the banking sector returned to profitability in 2011, achieving a net profit of BAM 141.9 mn or around EUR 70 mn (compared to net loss in of BAM 126.3 mn in 2010). This development led to a RoA and RoE of 0.8% and 7.2%, respectively.

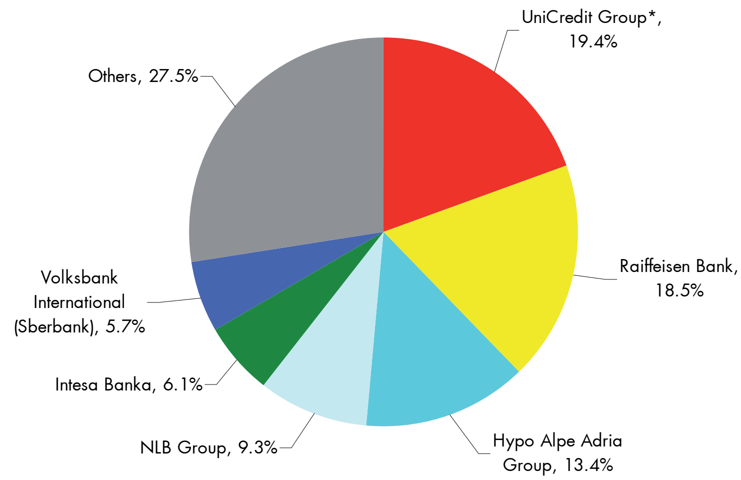
Key economic figures and forecasts

Bosnia and Herzegovina	2008	2009	2010	2011	2012e	2013f
Nominal GDP (EUR bn)	13	12	13	13	14	14
Nominal GDP per capita (EUR)	3,290	3,195	3,254	3,449	3,541	3,697
Real GDP (% yoy)	5.7	-2.9	0.7	1.9	0.0	2.0
Gross fixed capital formation (real, % yoy)	16.0	-27.6	-8.1	6.0	-5.0	4.0
Consumer prices (avg, % yoy)	7.4	-0.4	2.1	3.7	2.2	2.0
Unemployment rate (avg, %)	23.4	24.1	27.2	27.6	27.9	27.6
General budget balance (% of GDP)	-2.2	-4.5	-2.2	-3.0	-3.0	-2.0
Public debt (% of GDP)	30	35	38	37	40	40
Current account balance (% of GDP)	-14.2	-6.2	-5.3	-8.1	-6.6	-8.1
Gross foreign debt (EUR bn)	6	7	7	8	8	9
Gross foreign debt (% of GDP)	49.0	54.2	58.3	58.9	61.0	60.6
EUR/LCY (avg)	1.96	1.96	1.96	1.96	1.96	1.96

Source: National sources, wiiw, Raiffeisen RESEARCH

The banking sector in Bosnia (with 29 operative banks) is fairly concentrated: the Top-3 players (UniCredit, Raiffeisen and Hypo Alpe Adria Group) together control more than 50% of the market. The only M&A activity in 2011 involved the take-over of the local franchise of Volksbank International by Sberbank, which is among the Top-10 players on the local market. In terms of other legal and corporate issues or measures imposed by the regulatory authorities, no major changes were reported during 2011. Looking forward, we expect a pattern of economic worsening similar to the one experienced in 2008. Such a development will consequently lead to a further softening in lending dynamics, i.e. flat or even slightly negative yoy growth rates in corporate lending, while low single-digit growth rates might be still possible in retail lending (up to 5% yoy). Furthermore, tight financing in international markets and stricter lending conditions will also leave no room for a further decline in interest rates on the domestic market.

Market shares (2011, eop)



Per cent of total assets
** UniCredit Bank & UniCredit Bank Banja Luka*
Source: CBBH, Raiffeisen RESEARCH

Overview of banking sector developments

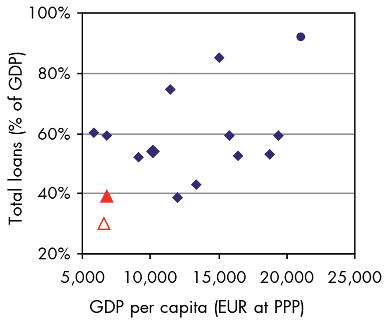
Balance sheet data					
Total assets (EUR mn)	9,980.3	10,761.8	10,695.7	10,776.2	11,196.3
growth in % yoy	32.8	7.8	(0.6)	0.8	3.9
in % of GDP	89.6	85.2	87.2	86.9	84.5
Total loans (EUR mn)	6,109.5	7,442.4	7,209.7	7,454.5	7,828.4
growth in % yoy	28.4	21.8	(3.1)	3.4	5.0
in % of GDP	54.9	58.9	58.7	60.1	59.1
Loans to private enterprises (EUR mn)	2,696.3	3,444.0	3,406.6	3,546.1	3,641.4
growth in % yoy	29.4	27.7	(1.1)	4.1	2.7
in % of GDP	24.2	27.3	27.8	28.6	27.5
Loans to households (EUR mn)	2,907.1	3,423.6	3,223.3	3,228.6	3,428.1
growth in % yoy	30.0	17.8	(5.9)	0.2	6.2
in % of GDP	26.1	27.1	26.3	26.0	25.9
Loans in foreign currency (EUR mn)	622.4	754.0	734.9	529.2	372.3
growth in % yoy	18.3	21.1	(2.5)	(28.0)	(29.6)
in % of GDP	26.1	27.1	26.3	26.0	25.9
Loans in foreign currency (% of total Loans)	10.2	10.1	10.2	7.1	4.8
Total deposits (EUR mn)	6,187.0	6,072.6	6,178.7	6,403.9	6,643.2
growth in % yoy	37.5	(1.8)	1.7	3.6	3.7
in % of GDP	55.6	48.1	50.3	51.6	50.1
Deposits from households (EUR mn)	2,641.3	2,661.2	2,895.3	3,318.5	3,605.3
growth in % yoy	26.0	0.8	8.8	14.6	8.6
in % of GDP	23.7	21.1	23.6	26.8	27.2
Total loans (% of total deposits)	98.7	122.6	116.7	116.4	117.8
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	0.9
Market share of foreign-owned banks (% of total assets)	93.7	95.0	95.0	96.6	92.0
Profitability and efficiency					
Return on Assets (RoA)	0.9	0.4	0.1	(0.6)	0.8
Return on Equity (RoE)	8.9	4.3	0.8	(5.5)	7.2
Capital adequacy (% of risk weighted assets)	17.1	16.3	16.1	16.2	16.4
Non-performing loans (% of total loans)	3.0	3.1	5.9	11.4	11.8

Source: CBBH, Raiffeisen RESEARCH

The banking sector growth star in SEE

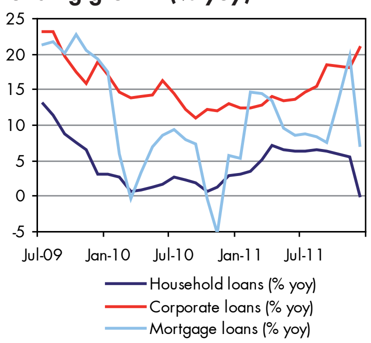
- **Total loans increased by some 15% in 2011, as there remains much room to grow from a fundamental perspective**
- **One of the lowest loan-to-deposit ratios in CEE (~60%) will support future banking sector expansion**
- **Modest profitability in 2011 because of strong increase in NPLs due to troubled construction sector**

Total loans vs GDP per capita



Data for 2011, red triangle (2011) and non-filled red triangle (2009) to illustrate dynamics in Albania
Source: NBA, national central banks, Raiffeisen RESEARCH

Lending growth (% yoy)



Source: NBA, Raiffeisen RESEARCH

Albania is expected to post GDP growth of 2-2.5% in 2012. For an emerging economy, this is a rather weak performance and can largely be attributed to sluggish domestic demand and economic crises in main trading partners like Greece or Italy. Lending growth in Albania developed more dynamically in 2011. For the full year 2011, loans grew by around 15% yoy, compared to a growth around 8-9% yoy in 2010. Lending growth was particularly strong in the corporate segment, with double digit yoy growth rates, while household lending expanded at a lower pace of around 3-6% yoy (with a negative reading in December). Going forward we expect a certain cyclical weakening of lending growth in line with the more challenging overall economic outlook. A negative impact will be also felt from the decreasing exposure of Greek-owned banks in Albania as response to the difficulties their mother banks are facing. However, from a more medium-term and structural perspective, lending growth in Albania should return to healthy high single-digit or double-digit readings. The country has one of the lowest loan-to-GDP ratios in CEE and compared to SEE peers. Moreover, Albanian banks are characterized by a modest loan-to-deposit ratio of 60% on average.

The economic and financial strains in SEE have nevertheless also affected the Albanian banking sector and its profitability suffered in 2011, with RoA at 0.1% and RoE at 0.8%. However, banks remain well-capitalized and have a solid liquidity position. In 2011, customer deposits increased by almost 13% yoy, showing that the banking sector continues to be trusted. The same customer behavior is also expected for 2012, in which the deposit growth rate in the three first months of the year was almost at the same levels of 2011. The EBA regulation is going to limit the asset growth of the market's biggest banks, which are part of Western European banking groups. However, the main concern for the banking sector remains the rapid increase of NPLs, which currently stand at around 20%. NPLs increased sharply in the last years: the NPL ratio for the sector stood at 6.6% at the end of 2008 and increased to 18.8% by year-end 2011. The main reason for this sharp increase can be found in the negative performance of the construc-

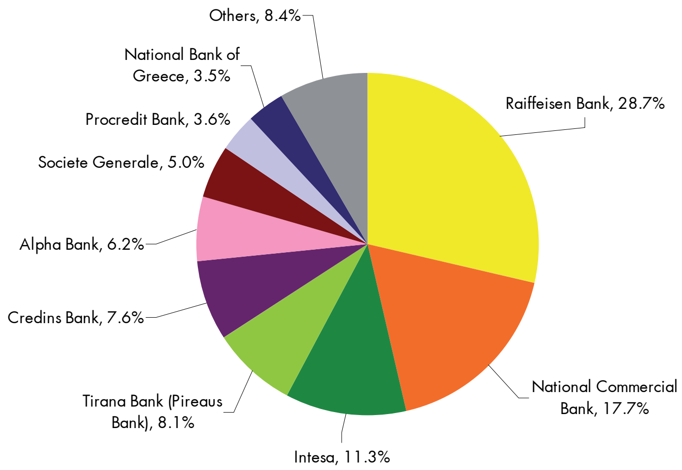
Key economic figures and forecasts

Albania	2008	2009	2010	2011	2012e	2013f
Nominal GDP (EUR bn)	9	9	9	10	10	11
Nominal GDP per capita (EUR)	2,785	2,743	2,928	3,445	3,631	3,916
Real GDP (% yoy)	7.8	3.3	3.9	3.1	2.5	3.5
Gross fixed capital formation (real, % yoy)	0.0	0.0	0.0	0.0	0.0	0.0
Consumer prices (avg, % yoy)	3.4	5.0	4.0	3.5	3.0	3.5
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	-3.5	-4.0	-4.0
Public debt (% of GDP)	55	60	60	60	60	59
Current account balance (% of GDP)	-15.8	-15.6	-10.3	-11.3	-10.1	-8.9
Gross foreign debt (EUR bn)	2	2	2	2	3	3
Gross foreign debt (% of GDP)	19.2	22.5	23.5	23.6	24.3	23.2
EUR/LCY (avg)	122.80	132.06	137.79	140.33	140.24	138.50

Source: National sources, wiiw, Raiffeisen RESEARCH

tion sector, which has been the engine of the Albanian economy for almost a decade. During 2012, NPLs are expected to continue growing due to decreasing lending growth. However, the NPL growth is likely to be moderate compared to that of previous years. Banks already tightened their lending standards for quite some time.

Market shares (2011, eop)



Per cent of total assets
Source: NBA, Raiffeisen RESEARCH

In late November 2011, the Bank of Albania introduced additional regulations in order to protect the banking sector from potential spillover effects from the Greek banking sector crisis. The new regulation imposes a haircut on bank's exposure to other banks with an external rating in the range of "BB+" to "CCC+". The new regulation also introduced an increase of the index of liquid assets to short term liabilities from 20% to 25%. So far, this index was required to be at 20% for all currencies combined, but now it is required to be at 20% for LCY and FCY separately.

Overview of banking sector developments

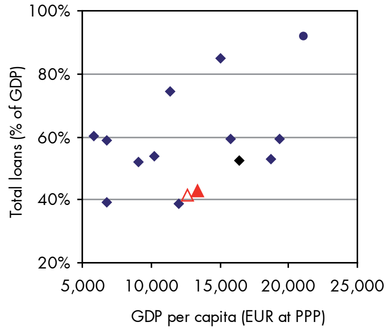
Balance sheet data	**2007**	**2008**	**2009**	**2010**	**2011**
Total assets (EUR mn)	6,099.5	6,737.8	6,424.4	7,138.6	8,062.8
growth in % yoy	21.0	10.5	(4.7)	11.1	12.9
in % of GDP	76.8	76.6	77.0	76.3	85.2
Total loans (EUR mn)	2,401.5	3,204.9	3,261.0	3,537.3	4,075.6
growth in % yoy	50.2	33.5	1.8	8.5	15.2
in % of GDP	30.2	36.4	39.1	37.8	43.1
Loans to private enterprises (EUR mn)	1,516.8	1,979.8	2,070.0	2,379.3	2,858.4
growth in % yoy	41.8	30.5	4.6	14.9	20.1
in % of GDP	19.1	22.5	24.8	25.4	30.2
Loans to households (EUR mn)	852.5	1,131.3	1,047.2	1,064.7	1,071.6
growth in % yoy	61.6	32.7	(7.4)	1.7	0.6
in % of GDP	10.7	12.9	12.6	11.4	11.3
Mortgage loans (EUR mn)	518.6	669.1	715.9	752.6	805.5
growth in % yoy	67.4	29.0	7.0	5.1	7.0
in % of GDP	6.5	7.6	8.6	8.0	8.5
Loans in foreign currency (EUR mn)	1,741.7	2,332.5	2,290.7	2,469.9	2,766.4
growth in % yoy	51.6	33.9	(1.8)	7.8	12.0
in % of GDP	53.1	48.6	51.5	53.3	60.7
Loans in foreign currency (% of total credits)	72.5	72.8	70.2	69.8	67.9
Total deposits (EUR mn)	5,173.3	5,211.2	5,032.3	5,885.5	6,651.3
growth in % yoy	21.9	0.7	(3.4)	17.0	13.0
in % of GDP	65.1	59.2	60.3	62.9	70.3
Deposits from households (EUR mn)	4,223.3	4,276.5	4,296.1	4,986.9	5,742.7
growth in % yoy	19.6	1.3	0.5	16.1	15.2
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	61.3
Structural information, profitability and efficiency					
Number of banks	17	16	16	16	16
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	0.1
Return on Equity (RoE)	20.7	11.4	4.6	7.6	0.8
Capital adequacy (% of risk weighted assets)	17.1	17.2	16.2	16.2	15.6
Non-performing loans (% of total loans)	3.4	6.6	10.5	14.0	18.8

Source: NBA, Raiffeisen RESEARCH

Growth and profitability in CEE banking at its best

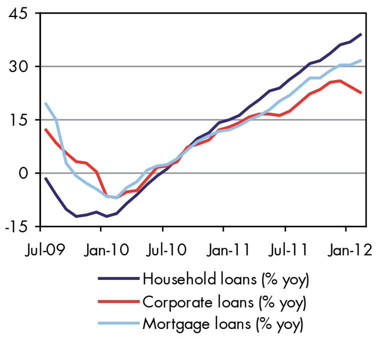
- **Solid loan dynamics in 2011, corporate lending pick-up due to challenging international capital markets environment**
- **Provisioning cycle finished, non-performing loan ratios declining at low absolute levels**
- **Some reshuffling in market shares, but Top-10 players and foreign banks well placed to defend their position**

Total loans vs GDP per capita



Data for 2011, red triangle (2011) and non-filled red triangle (2009) to illustrate dynamics in Russia
Source: CBR, national central banks, Raiffeisen RESEARCH

Lending growth (% yoy)



Source: CBR, Raiffeisen RESEARCH

Healthy bank balance sheets and a low level of financial intermediation were the key drivers for the 28.2% yoy lending growth (in LCY-terms) in 2011. Most banks were aggressive in retail lending, where attractive margins and a low household leverage resulted in lending growth of 35.9% yoy. Corporate lending accelerated in H2 2011 because the volatility on global markets reduced Russian corporates' ability to tap international markets. Moreover, a pick-up in local rates made banks more willing to lend. With a growth in mid teens, the LCY corporate bond market expanded slower than corporate lending, as banks were offloading liquidity and adjusting their asset mix towards less liquid products. However, with RUB 6.8 trillion outstanding paper (29.4% of bank lending, 12.5% of GDP) the bond market (LCY-bonds + international bonds) remains an important channel of financial intermediation and source of fee business for banks.

Russian banks largely accomplished their provisioning cycle in 2010 and their cost of risk decreased in 2011, which helped to boost the RoE back to the pre-crisis levels. Although NPL ratios fell throughout the sector, it is important to note that this was largely a result of rapid loan growth and the absolute NPL amount remained more or less flat at most lenders. Many institutions switched to more aggressive balance sheet management and sought to offload excess liquidity accumulated in crisis times. This is only partly attributable to a normalisation of the liquidity and funding conditions, as these changes were aimed to offset margin pressure. Following its brisk expansion in 2011, lending is expected to grow in the high teens range in 2012, a rate that will probably require capital injections at several banks. The biggest question is where that capital will come from. With privatisation plans for Sberbank (7.6% stake, expected 2012) and VTB (10% stake, timing unclear), the IPO market is likely to be a very competitive place. The International Finance Corporation (IFC) and Vnesheconombank (VEB) have set up a USD 1 bn equity fund, eligible to invest in Russian second tier and regional banks.

Competition among Russian banks intensified, especially among the Top-30 players. While the 10 largest lenders were able to defend their positions, the

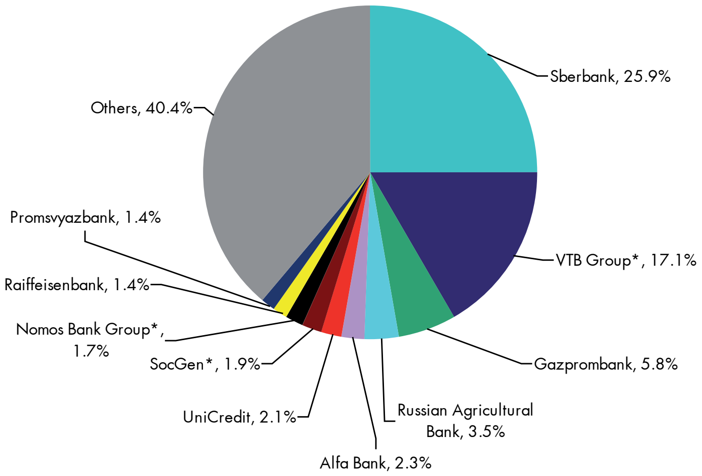
Key economic figures and forecasts

Russia	2008	2009	2010	2011	2012e	2013f
Nominal GDP (EUR bn)	1,129	877	1,121	1,330	1,509	1,626
Nominal GDP per capita (EUR)	7,992	6,233	8,003	9,369	10,626	11,446
Real GDP (% yoy)	5.2	-7.9	4.3	4.3	3.7	4.0
Gross fixed capital formation (real, % yoy)	10.6	-14.4	5.8	6.0	5.5	6.5
Consumer prices (avg, % yoy)	14.1	11.8	6.9	8.5	6.0	6.9
Unemployment rate (avg, %)	6.4	8.4	7.2	6.6	7.0	6.0
General budget balance (% of GDP)	4.9	-6.3	-4.1	0.8	-1.3	-1.0
Public debt (% of GDP)	7	8	9	10	14	16
Current account balance (% of GDP)	6.2	4.0	6.1	5.5	2.8	0.9
Gross foreign debt (EUR bn)	327	335	362	388	423	454
Gross foreign debt (% of GDP)	28.9	38.2	32.9	29.4	28.0	27.9
EUR/LCY (avg)	36.55	44.26	40.29	40.88	39.69	41.23

Source: National sources, wiiw, Raiffeisen RESEARCH

shifts among mid-sized banks were substantial, with privately-owned local players expanding at the cost of foreign-owned banks. Many banks claim that it is increasingly difficult to retain good clients, who switch to larger banks, and smaller players are forced to move down the credit curve. In terms of M&A activity, VTB acquired controlling stakes in Bank of Moscow and Transcreditbank, while Sberbank expanded in CEE by acquiring Austria-based Volksbank International. The positive side-effect of the increasing competition is that most Top-30 banks currently feature strong market-focused franchises and related party lending decreased. However, the single borrower concentration ratios remain high, which is probably a result of the concentrated nature of the Russian economy. For details regarding market share trends see "Focus on: Market changes in Russia" on p. 56.

Market shares (2011, eop)



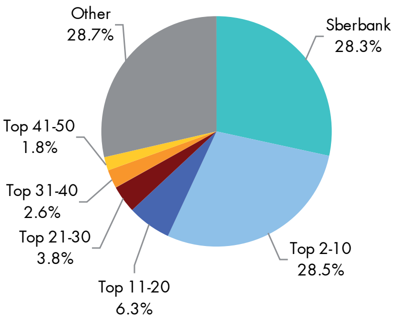
** VTB Group = VTB, VTB 24, Bank of Moscow, Transcreditbank; SocGen = Rosbank, Rusfinance and Deltacredit; Nomos Bank Group = Nomos Bank, Bank Khanty Mansiysk and 2 small regional subsidiaries*
Per cent of total assets
Source: RBC Rating, CBR, Raiffeisen RESEARCH

Overview of banking sector developments

Balance sheet data	**2007**	**2008**	**2009**	**2010**	**2011**
Total assets (EUR mn)	560,075.4	676,188.6	678,293.5	838,137.9	998,948.9
growth in % yoy	38.4	20.7	0.3	23.6	19.2
in % of GDP	60.5	67.9	75.8	74.8	76.6
Total loans (EUR mn)	341,942.8	398,804.6	371,425.0	449,945.6	558,325.4
growth in % yoy	47.7	16.6	(6.9)	21.1	24.1
in % of GDP	37.0	40.0	41.5	40.2	42.8
Loans to private enterprises (EUR mn)	259,258.8	301,867.0	289,057.2	348,669.0	425,118.9
growth in % yoy	50.8	16.4	(4.2)	20.6	21.9
in % of GDP	28.0	30.3	32.3	31.1	32.6
Loans to households (EUR mn)	82,684.0	96,937.6	82,367.8	101,276.6	133,206.5
growth in % yoy	38.9	17.2	(15.0)	23.0	31.5
in % of GDP	8.9	9.7	9.2	9.0	10.2
Mortgage loans (EUR mn)	17,010.0	25,508.5	23,298.7	28,001.1	35,396.8
growth in % yoy	152.3	50.0	(8.7)	20.2	26.4
in % of GDP	1.8	2.6	2.6	2.5	2.7
Loans in foreign currency (EUR mn)	77,805.5	98,703.9	88,157.4	99,615.5	114,462.2
growth in % yoy	36.5	26.9	(10.7)	13.0	14.9
in % of GDP	8.4	9.9	9.9	8.9	8.8
Loans in foreign currency (% of total loans)	22.8	24.7	23.7	22.1	20.5
Total deposits (EUR mn)	340,428.9	354,609.3	393,260.4	520,160.9	622,018.9
growth in % yoy	37.1	4.2	10.9	32.3	19.6
in % of GDP	36.8	35.6	44.0	46.5	47.7
Deposits from households (EUR mn)	143,577.5	142,539.7	172,511.9	243,422.9	284,881.2
growth in % yoy	30.8	(0.7)	21.0	41.1	17.0
in % of GDP	15.5	14.3	19.3	21.7	21.8
Total loans (% of total deposits)	100.4	112.5	94.4	86.5	89.8
Structural information					
Number of banks	1,136	1,108	1,058	1,012	978
Market share of state-owned banks (% of total assets)	39.2	40.5	43.9	45.8	50.0
Market share of foreign-owned banks (% of total assets)	17.2	17.3	18.3	18.0	16.9
Market share of state-owned banks (% of total loans)*	42.8	42.8	47.5	50.4	48.0
Market share of foreign-owned banks (% of total loans)*	5.8	7.5	10.7	8.2	8.1
Profitability and efficiency					
Return on Assets (RoA)	2.5	1.8	0.7	1.7	2.0
Return on Equity (RoE)	19.0	13.3	4.9	12.5	17.1
Capital adequacy (% of risk weighted assets)	15.5	16.8	20.9	18.1	14.7
Non-performing loans (% of total loans)	1.5	2.5	6.2	5.7	4.8

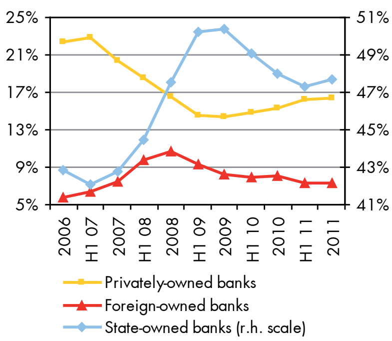
** based on the Top-50 banks; Source: CBR, RBC Rating, Raiffeisen RESEARCH*

RU: market shares by total loans



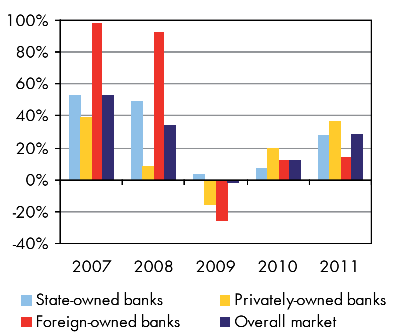
Source: RBC Rating, CBR, Raiffeisen RESEARCH

RU: market shares by ownership*



** based on a sample of Top-50 banks*
Source: RBC Rating, CBR, Raiffeisen RESEARCH

RU: lending growth by ownership*



** based on a sample of Top-50 banks, overall market refers to total sector loans*
Source: RBC Rating, CBR, Raiffeisen RESEARCH

Focus on: Market changes in Russia – no near-term threat for Top-10 banks

Not all too many changes took place in terms of market shares in most CEE banking sectors in recent years, especially at the top-end of the market. However, developments in Russia bucked this trend, as market shares there changed visibly on the back of strong loan expansion over the past two years. As the Russian banking sector is highly concentrated, our analysis traced the development of the market shares of Russia's 50 largest banks as measured by total loans, going back to 2006 on a semi-annual basis. Our sample fairly reflects the competitive environment, as the Top-50 banks account for around 70% of total loans. Our data significantly differs from the numbers compiled by the Central Bank of Russia (CBR) as regards the market share of foreign-owned banks. The reason is that the CBR's classification of foreign-owned banks includes institutions whose non-resident owners are controlled by Russian residents, Alfa Bank or Promsvyazbank would be prominent examples.

In our sample, the state-owned banks increased their market share from 42.8% at the end of 2006 to 47.7% at the end of 2011. Their market share peaked at 50.4% at year-end 2009 and has declined gradually since then. A detailed breakdown shows that all five large state-owned players – with the exception of Bank of Moscow (BoM) – fuelled the pre-crisis lending expansion. The state influence in the banking sector increased after the nationalization of failed mid-sized lenders in Q4 2008. While the market shares of Gazprombank and Russian Agricultural Bank by and large remained stable since 2009, VTB was the only quasi-sovereign player delivering constant market share gains during the same period (not least through its acquisition of Transcreditbank in 2010 and BoM in 2011). Accordingly, Sberbank and BoM have driven the gradual decline in the market share held by state-owned banks since 2009.

The foreign-owned players among Russia's Top-50 banks were expanding rapidly until 2008. Their market share peaked at 10.7% at year-end 2008 and has been on a decline since then. However, the end-2008 data point ought to be treated with a degree of caution. The largest portion of the pre-crisis growth posted by foreign-owned banks took place via acquisitions and most of the acquired banks were rapidly growing loan books prior to the change of control; as a consequence, the above-mentioned figure was inflated somewhat. From its peak in 2008, the market share of the large foreign-owned players in Russia decreased by some 3.5 percentage points to 7.2% at the end of 2011. This loss in market share suggests that large foreign-owned banks (mostly Western European players) preferred to consolidate their position. The behavior of large foreign-owned banks can largely be attributed to the rapid tightening of capital adequacy regulations in Western Europe and the challenging conditions in some of the banks' home markets. The exceptions to this rule were Nordea and small players like Citibank or OTP who specialize in consumer lending, which has proven to be the fastest-growing segment over the past two years.

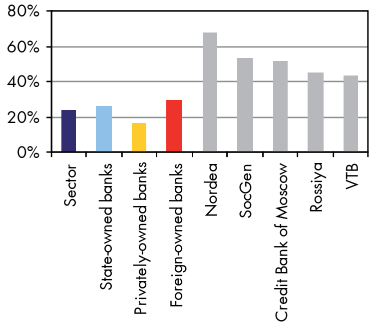
Currently the "Troika" of large foreign-owned banks in Russia – Societe Generale, UniCredit and Raiffeisen – is firmly maintaining its position within the

Top-10. Despite their recent relative loss of market share, the gap between the Top-10 and the banks ranked 11 to 20 remains sizeable. For instance, the loan book of the eleventh-largest bank makes up only 70% of the portfolio of the tenth-largest player. Nevertheless, the developments outside the Top-10 indicate increasing competitive pressure from privately-owned local players. Although privately-owned banks recorded the largest market share decline from 22.4% at end-2006 to 14.4% at end-2009 due to the rapid expansion of state-owned and foreign-owned competitors, they were the only group of banks that was able to gain market share in the post-crisis environment. Their market share bounced back by 2 percentage points to 16.4% at end-2011. The market segment of the Russian banks ranked 11 to 20, which is usually represented by privately-owned lenders, is a very competitive terrain. Our data sample shows that only four banks from this group were able to retain their ranks within it since 2008 (of the remaining six players, one was acquired, one went bankrupt, two advanced into the Top-10 and the other two dropped to lower ranks). The newcomers to this segment were usually growing above the market average and, more importantly, above their internal capital generation capacity. The reason for the strong push by smaller players might be found in their lack of scale and international reach, which is why their only available expansion strategy is to grow in Russia. It remains to be seen whether the fast-growing locally-owned Russian banks are able to defend their positions and to continue growing faster than the market and major foreign-owned banks. Capital adequacy ratios at many local players look stretched following a period of rapid growth. Moreover, their loan books are still unseasoned and the quality of underwriting standards has not been tested through-the-cycle. Fast climbers must also be prepared to defend their positions from a number of other mid-sized privately-owned players, which have not participated in recent growth (mostly due to internal reasons), but exhibit high capital adequacy and are therefore well prepared to grab additional market share.

As the Russian banking sector retains high growth potential, we believe that the key challenge for many local banks is to raise equity capital to support further balance sheet growth. This challenge is equally important to all banks regardless of their ownership type. Some foreign-owned banks used to pay dividends to their parent companies in the past, but going forward they may find it increasingly challenging to sustain payouts without further compromising market shares. While many privately-owned banks might have grown beyond the ability of their shareholders to inject fresh equity to support their balance sheet growth, raising equity capital from the market will not be an easy task for them, as privately-owned lenders will have to compete with the government's plans to sell 7.6% in Sberbank (planned for 2012) and 10% in VTB (timing unclear). The capital adequacy issue is also important in light of upcoming changes in local capital adequacy regulations that aim at higher risk weights on certain loans and tighter market risk rules. It goes without saying that banks with strong internal capital generation capacity, i.e. strong bottom-line profitability, are best prepared to defend their positions or increase their market share.

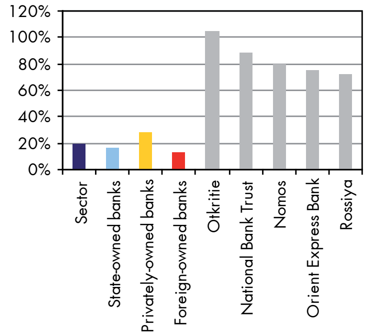
Gunter Deuber, Gleb Shpilevoy

RU: five quickest growing banks*



** 2006-2011, compound annual growth rate of total loans; growth rates by ownership based on a sample of Top-50 banks*
Source: RBC Rating, CBR, Raiffeisen RESEARCH

RU: five quickest growing banks*

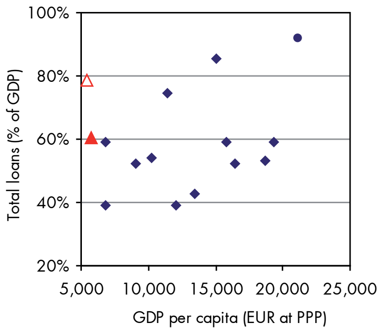


** 2009-2011, compound annual growth rate of total loans; growth rates by ownership based on a sample of Top-50 banks*
Source: RBC Rating, CBR, Raiffeisen RESEARCH

Deleveraging goes well in hand with improving prospects

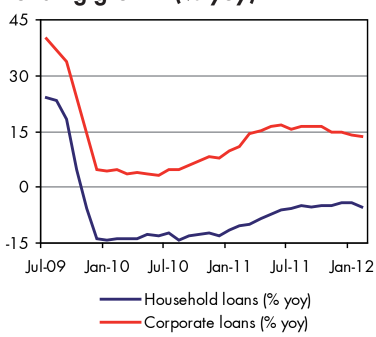
- **Deleveraging continued, but profitability indicators improved and a lot of banks operated with profit in 2011**
- **Peak in NPLs reached, tangible improvement in the loan-to-deposit ratio**
- **Western European banks remain more cautious, Russian banks increasing their market share**

Total loans vs GDP per capita



Data for 2011, red triangle (2011) and non-filled red triangle (2009) to illustrate dynamics in Ukraine
Source: NBU, national central banks, Raiffeisen RESEARCH

Lending growth (% yoy)



Source: NBU, Raiffeisen RESEARCH

Headline economic indicators registered a notable improvement in 2011. However, the country's fragile external position and blocked access to international capital markets remain a concern. Lending started to recover in early 2011 as improved economic prospects stimulated corporate loan demand, while banks have also poured in high-margin consumer lending in LCY. Mortgage lending remains frozen due to the ban on FX lending, high LCY interest rates, unaffordable housing prices and tight lending standards. The recovery in lending was hampered in H2 2011 by the significant monetary tightening pursued in order to support the currency peg. Total loans grew by 9.6% yoy in 2011, which is somewhat better than in either of the previous two years. However, the loan-to-GDP ratio continued its downtrend (from 77.4% in 2008 to 62.5% at the end of 2011), gradually realigning with a fundamentally back level (i.e. with the GDP per capita level). On the funding side, banks are increasingly relying on domestic deposits and demand for external borrowing is feeble given the limited opportunities in FCY lending. Consequently, the funding position also improved further, with the loan-to-deposit ratio falling below 160% in Q1 2012 after standing above 200% in 2009.

Increasing lending and the solid performance in the new loan portfolios contributed to the sector's NPL ratio reaching its peak in H1 2011. The activation of loan write-offs and sales processes following relevant regulatory changes also contributed to this development. According to official calculations, the NPL ratio fell from 11.2% at end-2010 to 9.6% as per end-2011. Unofficial estimates (based on IFRS figures) suggest that the aggregate NPL ratio reached its peak in the 35-40% range in H1 2011 and is starting to level off. While on aggregate the banking system still posted a loss last year (for the third year in a row), this loss came in 40% lower than that of 2010, with the RoE improving from -10.2% to -5.3%. The overall loss resulted from the disastrous financial performance of just a few individual banks that have not yet finished their provisioning cycle, while a lot of other banks returned to profitability in 2011. Although the decrease in NPLs is positive, the rather low provisioning levels (loan loss reserves are at

Key economic figures and forecasts

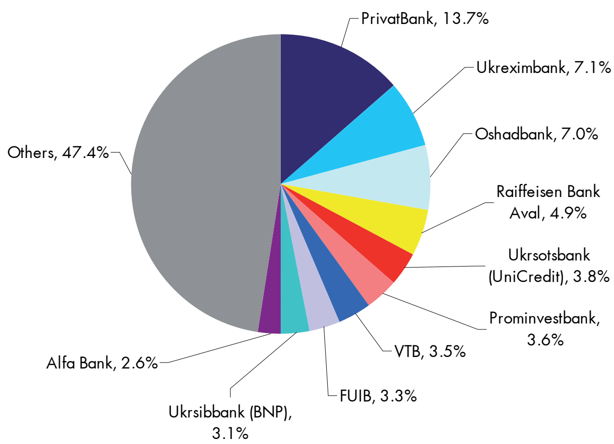
Ukraine	2008	2009	2010	2011	2012e	2013f
Nominal GDP (EUR bn)	123	82	103	118	140	151
Nominal GDP per capita (EUR)	2,660	1,770	2,250	2,600	3,090	3,340
Real GDP (% yoy)	2.3	-14.8	4.2	5.2	3.5	4.0
Gross fixed capital formation (real, % yoy)	1.6	-46.2	4.7	10.1	5.0	4.0
Consumer prices (avg, % yoy)	25.2	15.9	9.4	8.0	4.2	8.5
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	-4.3	-4.0	-2.5
Public debt (% of GDP)	20	35	40	36	38	37
Current account balance (% of GDP)	-7.2	-1.6	-2.2	-5.5	-4.1	-4.1
Gross foreign debt (EUR bn)	73	72	87	97	99	110
Gross foreign debt (% of GDP)	56.4	90.7	85.9	76.6	71.4	72.8
EUR/LCY (avg)	7.7	11.2	10.5	10.9	10.9	11.6

Source: National sources, Raiffeisen RESEARCH

around 18%, translating into a coverage ratio of around 50%), high single borrower concentrations, and related party lending may still pose risks to the sector's profitability and capital adequacy going forward.

The Ukrainian banking system remains fragmented, with 175 banks operating and the Top-5 banks controlling less than 40% of the market. The market share of foreign-owned banks stood at 37% of total assets at the end of 2011, which is 10 percentage points below the level of 2008.

Market shares (2011, eop)



Per cent of total assets
Source: NBU, Raiffeisen RESEARCH

While the legal environment is gradually improving (streamlining of the bank resolution framework, forthcoming changes in open FX position rules), implementation risks remain high amid vast corruption and a weak court system. Overall, the outlook for the banking system does not look exceptionally bright taking into account the unstable macroeconomic environment, the lack of long-term domestic funding and legal weaknesses.

Overview of banking sector developments

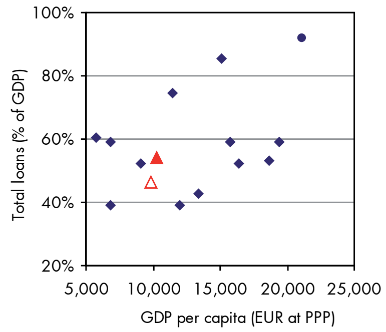
Balance sheet data	**2007**	**2008**	**2009**	**2010**	**2011**
Total assets (EUR mn)	81,265.3	87,085.7	76,696.9	88,166.8	101,788.5
growth in % yoy	59.0	7.2	(11.9)	15.0	15.4
in % of GDP	83.2	97.7	96.4	86.1	80.6
Total loans (EUR mn)	57,882.2	69,015.0	62,618.7	67,808.6	76,268.5
growth in % yoy	57.1	19.2	(9.3)	8.3	12.5
in % of GDP	59.2	77.4	78.7	66.2	60.4
Loans to private enterprises (EUR mn)	36,798.4	43,306.5	42,012.7	48,674.1	57,402.3
growth in % yoy	47.0	17.7	(3.0)	15.9	17.9
in % of GDP	37.7	48.6	52.8	47.5	45.4
Loans to households (EUR mn)	21,075.2	25,708.6	20,506.1	19,134.4	18,866.2
growth in % yoy	78.6	22.0	(20.2)	(6.7)	(1.4)
in % of GDP	21.6	28.8	25.8	18.7	14.9
Mortgage loans (EUR mn)	7,768.7	10,113.6	9,122.1	8,685.6	7,526.3
growth in % yoy	90.1	30.2	(9.8)	(4.8)	(13.3)
in % of GDP	8.0	11.3	11.5	8.5	6.0
Loans in foreign currency (EUR mn)	28,883.1	40,791.7	32,043.5	31,568.6	31,071.0
growth in % yoy	58.3	41.2	-21.4	-1.5	-1.6
in % of GDP	29.6	45.8	40.3	30.8	24.6
Loans in foreign currency (% of total loans)	49.9	59.1	51.2	46.6	40.7
Total deposits (EUR mn)	37,976.5	33,646.2	28,554.7	38,767.1	46,805.9
growth in % yoy	38.2	(11.4)	(15.1)	35.8	20.7
in % of GDP	38.9	37.7	35.9	37.8	37.0
Deposits from households (EUR mn)	22,298.0	20,269.5	18,422.5	25,430.8	29,560.0
growth in % yoy	39.9	(9.1)	(9.1)	38.0	16.2
in % of GDP	22.8	22.7	23.2	24.8	23.4
Total loans (% of total deposits)	152.4	205.1	219.3	174.9	162.9
Structural information					
Number of banks	198	184	182	176	176
Market share of state-owned banks (% of total assets)	8.0	11.4	17.2	16.9	17.0
Market share of foreign-owned banks (% of total assets)	37.5	45.0	46.6	42.6	37.5
Profitability and efficiency					
Return on Assets (RoA)	1.5	1.0	(4.4)	(1.5)	(0.8)
Return on Equity (RoE)	12.7	8.5	(32.5)	(10.2)	(5.3)
Capital adequacy (% of risk weighted assets)	13.9	14.0	18.1	20.9	18.2
Non-performing loans (% of total loans)	13.2	17.4	33.8	42.0	40.0

Source: NBU, Raiffeisen RESEARCH

Remarkable resilience despite perfect storm in the real economy

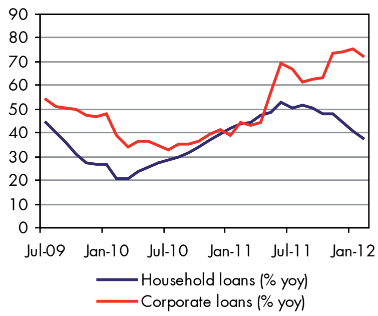
- **Banking sector remained profitable despite economic turbulences and massive BYR devaluation in 2011**
- **Risks to 2011 profitability figures due to IFRS reporting standards for hyperinflation economies**
- **Relatively low level of non-performing loans, a lot of NPLs remain outside the banking sector**

Total loans vs GDP per capita



Data for 2011, red triangle (2011) and non-filled red triangle (2009) to illustrate dynamics in Belarus
Source: NBRB, national central banks, Raiffeisen RESEARCH

Lending growth (% yoy)



Source: NBRB, Raiffeisen RESEARCH

A persistently rising and unsustainable current account deficit caused a FCY shortfall and balance of payments crisis that led to multiple exchange rates, a 65% devaluation of the BYR in 2011, and a surge in inflation. Tighter policies coupled with external assistance helped to restore macroeconomic stability. The banking sector expanded further and total assets more than doubled in BYR-terms, though they shrank by almost a quarter in EUR-terms. Due to continued administrative lending and high inflation rates, total lending posted an almost 70% yoy increase in BYR-terms in 2011.

The shortage of FCY, devaluation expectations, and fears of a FCY deposit freeze triggered deposit outflows in H1 2011. However, the outflow was short-lived and higher interest rates prevented a massive run on BYR deposits, which rose 65% in 2011. FX deposits registered a more pronounced contraction, due to the withdrawal of household deposits. However, the reintroduction of a single exchange rate and a return of confidence contributed to a renewed 3.5% growth of FX deposits in 2011 on an annual basis. As deposit growth was almost twice as fast as credit growth, the loan-to-deposit ratio dropped from around 200% to 150%. The banking sector remained fairly profitable in 2011 and increased its profitability indicators (in line with local standards) somewhat. The sector's RoA stayed at the same level as 2010 (1.7%), while its RoE increased to 14.9% in 2011 from 11.8% in 2010. However, some banks recognized losses under IFRS reporting for 2011 as a result of the hyperinflationary status assigned to Belarus and the application of IAS 29 (Financial Reporting in Hyperinflationary Economies).

The banking sector is highly concentrated: from the 31 banks operating, the Top-5 banks control around 80% of the market. The market share of state-owned banks decreased slightly from over 70% at the end of 2010 to 65% in 2011. Foreign-owned banks increased their presence to 34% in 2011, driven by expanding Russian banks, who accounted for 25% of total assets. The launch of the Belarusian Development Bank in June 2011 marked a major structural change, as the bank is supposed to take lending under government programs on its bal-

Key economic figures and forecasts

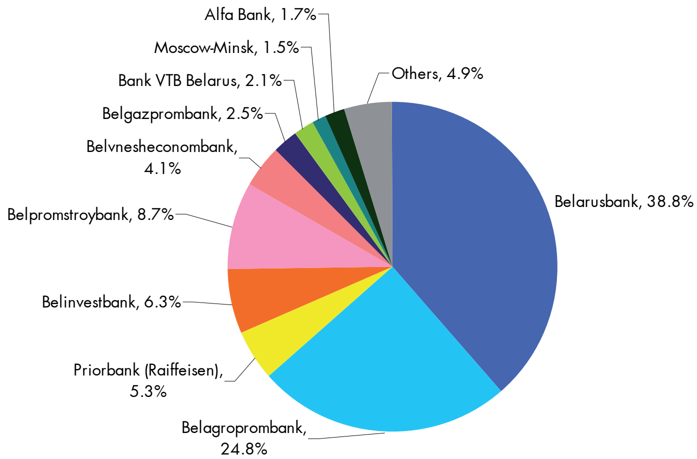
Belarus	2008	2009	2010	2011	2012e	2013f
Nominal GDP (EUR bn)	41	35	41	43	37	37
Nominal GDP per capita (EUR)	4,300	3,700	4,300	4,500	3,900	4,000
Real GDP (% yoy)	10.2	0.2	7.6	5.3	3.0	3.0
Gross fixed capital formation (real, % yoy)	23.8	5.0	16.5	11.1	n.a.	n.a.
Consumer prices (avg, % yoy)	14.8	12.9	7.7	53.2	60.0	24.0
Unemployment rate (avg, %)	0.8	0.9	0.7	0.8	1.0	2.0
General budget balance (% of GDP)	1.4	-0.7	-2.6	2.4	-0.5	-1.0
Public debt (% of GDP)	13	22	24	53	47	54
Current account balance (% of GDP)	-8.2	-12.6	-15.1	-10.5	-9.1	-9.3
Gross foreign debt (EUR bn)	11	15	21	26	27	31
Gross foreign debt (% of GDP)	26.4	43.6	51.3	61.5	73.7	82.2
EUR/LCY (avg)	3,142	3,893	3,950	6,300	11,400	14,000

Source: National sources, wiiw, Raiffeisen RESEARCH

Raiffeisen RESEARCH

ance sheet, thus helping to keep NPLs out of the banking system. However, the overall NPL ratio remains very low at 0.5% (the share of non-performing assets stands at around 4%). This astonishingly low NPL ratio is driven mainly by ongoing government support for the corporate sector, rapid lending growth, a rather low share of FCY loans, the ban on FCY lending to households introduced in 2009, a rather low debt burden in the household sector and borrowers' fairly good payment discipline. Moreover, loan classification and provisioning practices may well not reflect the entire balance of NPLs. A further increase in the NPLs cannot be ruled out, but NPLs are still expected to remain at low levels and mainly outside the banking sector. Going forward, banking sector growth is likely to continue at a slower pace as a result of tighter economic policies due to commitments under the Russian and EurAsEC support, which impose caps on administrative lending.

Market shares (2011, eop)



Per cent of total loans
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	24,019.1
growth in % yoy	29.4	56.3	(2.1)	58.3	(25.2)
in % of GDP	42.9	48.8	60.6	78.3	94.6
Total loans (EUR mn)	9,218.5	14,638.9	15,498.8	22,355.0	13,691.4
growth in % yoy	32.5	58.8	5.9	44.2	(38.8)
in % of GDP	29.8	34.5	46.3	54.5	53.9
Loans to private enterprises (EUR mn)	6,684.0	10,522.4	11,613.5	16,644.6	10,729.4
growth in % yoy	33.0	57.4	10.4	43.3	(35.5)
in % of GDP	21.6	24.8	34.7	40.6	42.2
Loans to households (EUR mn)	2,534.5	4,116.5	3,885.3	5,710.3	2,962.0
growth in % yoy	31.0	62.4	(5.6)	47.0	(48.1)
in % of GDP	8.2	9.7	11.6	13.9	11.7
Loans in foreign currency (EUR mn)	3,470.0	4,523.1	4,581.7	4,847.6	5,410.2
growth in % yoy	47.6	30.3	1.3	5.8	11.6
in % of GDP	11.2	10.7	13.7	11.8	21.3
Loans in foreign currency (% of total loans)	37.6	30.9	29.6	21.7	39.5
Total deposits (EUR mn)	6,389.4	8,569.6	7,978.3	10,830.9	9,093.2
growth in % yoy	24.0	34.1	(6.9)	35.8	(16.0)
in % of GDP	20.7	20.2	23.8	26.4	35.8
Deposits from households (EUR mn)	3,362.6	4,336.9	4,421.0	5,778.9	4,539.1
growth in % yoy	21.5	29.0	1.9	30.7	(21.5)
in % of GDP	10.9	10.2	13.2	14.1	17.9
Total loans (% of total deposits)	144.3	170.8	194.3	206.4	150.6
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	66.7
Market share of foreign-owned banks (% of total assets)	**20.9**	**17.0**	**19.4**	**27.0**	**32.3**
Profitability and efficiency					
Return on Assets (RoA)	1.7	1.4	1.4	1.7	1.7
Return on Equity (RoE)	10.7	9.6	8.9	11.8	14.9
Capital adequacy (% of risk weighted assets)	**19.3**	**21.8**	**19.8**	**20.5**	**24.7**
Non-performing loans (% of total loans)	0.6	0.6	0.9	0.7	0.5

Source: NBRB, IMF, Raiffeisen RESEARCH

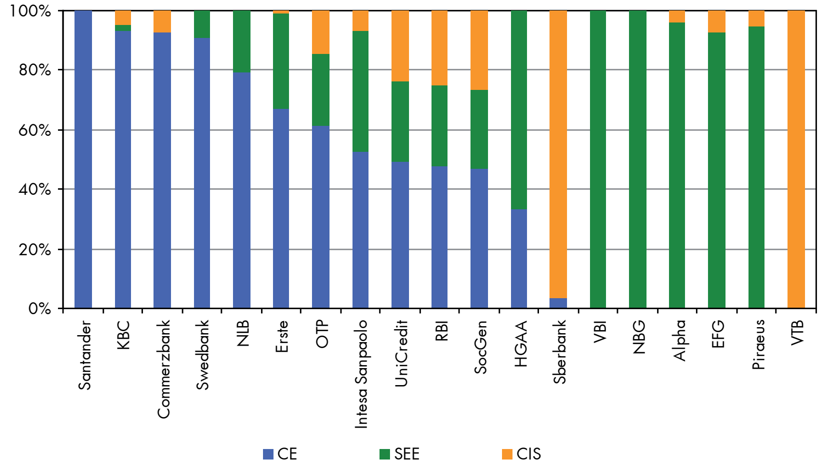
Market players in Central and Eastern Europe

- **Sound loan growth/asset quality mix at banks with higher presence in Russia and CE (excl. Hungary and Slovenia)**
- **Funding re-allocation towards local deposits ongoing – no visible L/D deterioration**
- **After 12 months of quite notable transactions, we expect a slowdown in M&A activity in the short term**

Austrian, French and Italian banks benefitted from Russian and CE growth ...

Looking at final figures for 2011, we see that for CEE, the second half of 2011 proved to be what we had forecast in our previous CEE Banking Sector Report (published in late 2011), namely still a robust growth story. Of course, the pace of growth has come down. This was predominantly due to international banks' increasing efforts to reduce the impact of regulatory capital requirements by slowing down their lending activity in the region. In-line with our previous findings, the growth was very mixed among the international banking groups operating in CEE. We highlight those banks that have benefitted from robust loan demand in Russia, Poland, the Czech Republic and Slovakia (namely Austrian, Italian, French banks). In contrast, there are also banks with massive sovereign debt problems on their backs (eg. Greek banks) or which are restructuring/bailout cases (eg. Hypo Group Alpe Adria, Volksbank International, KBC). Banks in the latter category have already created or are expected to create room for takeover speculations for the mid-term.

Regional asset allocation (%, year-end 2011)



Source: Company data, national central banks

... which also translated into the downward trend of NPL ratios in 2011

In terms of NPL ratios, the loan book quality across the CEE banking sectors did not impress during 2011, even though a slowing trend in the accumulation of new NPLs was discernable. Similar to loan and asset growth, notable country-specific differences are apparent. According to FY 2011 data reported by the individual banks, we can confirm the non-written rule that the higher a bank's presence in Russia and in CE (excl. Hungary and Slovenia), the better its loan growth and asset quality profile. That said, the ranking of the banking groups has not changed vs the first quarter of 2011, with the best performers again being Russia's VTB and Sberbank, followed by UniCredit, Societe Generale (SocGen) and Raiffeisen Bank International (RBI), the three of which are the dominant foreign players in Russia. To this group, we also add Swedbank, which in 2011 achieved the strongest year-on-year NPL ratio reduction among the surveyed banks, thanks to improvement in the Baltics. Among the banks with a wider CEE presence (like UniCredit, RBI, Intesa, OTP, KBC or Erste Group), the individual banking group's loan and asset quality is also highly dependant on the specific country split of the group's presence. Banks with significant exposure in Hungary, Slovenia, Romania, Bulgaria and Croatia suffered the most. This grouping includes all Greek banks, which belong to the dominant players in Romania, Bulgaria and Serbia. Despite favourable developments in the Czech Republic and Slovakia, Erste Group has been suffering mostly from the course of events in Romania and, like OTP, in Hungary. KBC could only slightly improve its CEE asset quality following its early 2012 divestment of Poland's Kredyt Bank, whose NPL ratio of 9.7% in 2010 was above the average for the KBC group. Consequently, KBC's continuing weakness appears to have resulted from the developments in Hungary, where KBC still runs the Top-3 bank. Apart from banks with sizeable exposure to Hungary, banks with a strong SEE presence also faced weakening loan qualities, which was reflected in sharply growing NPL ratios. This was particularly evident at Slovenian Nova Ljubljanska Banka (NLB) and at the Greek banking groups active in CEE, all of which are predominantly exposed to the SEE countries. Following the change of the reporting scheme at Hypo Group Alpe Adria (HGAA) as of year-end 2011, the group's NPL ratio of 12% should not to be viewed as a positive surprise, given that it does not include the HGAA's EUR 10 bn "wind-down" portfolio (which has a NPL ratio of 70%!) as the portfolio does not provide a split between CEE and non-CEE exposure. We provide an overview of the asset quality of those international banks operating in CEE for whom that information was either reported or was calculable. As of year-end 2011, the NPL data for Polbank and Kredyt Bank have been taken out from EFG Eurobank and KBC and added to RBI and Santander, respectively. One should note that the comparability of the data for individual banks in the graph below is limited, due to differing methods banks apply in calculating NPLs. The graphic should instead provide an overview of how an individual bank's asset quality developed over the past few years.

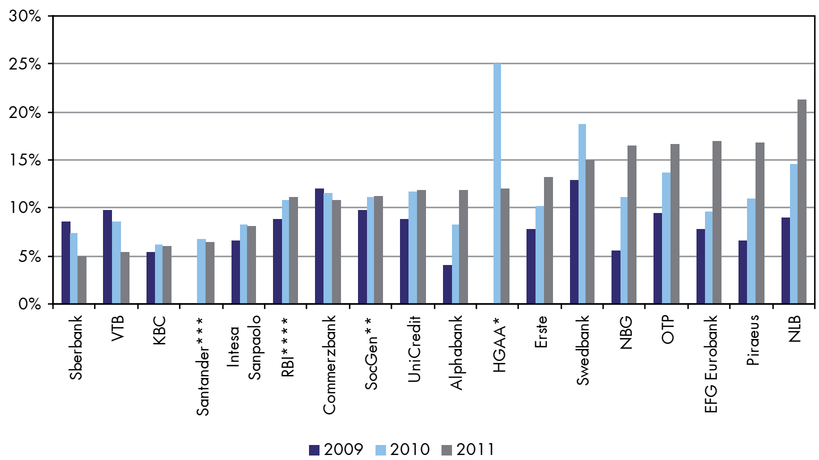
Apart from Greek banks, NLB and OTP, NPL ratios have either stabilised or even decreased vs 2010

NPLs in Hungary in 2011

RBI	23%
Erste	21%
KBC	10%
OTP	14%
Intesa	16%

Source: Banks

NPL ratios of international banks



** wind down portfolio not included 2011*
*** only for Komercni Banka, BRD and Rosbank*
**** Kredyt Bank included*
***** Polbank included*
Source: Company data

Looking at loan growth in EUR-terms, the rebound observed in the first half of 2011 at RBI, SocGen and UniCredit continued on the same path throughout the entire year 2011. These banks extended their portfolios in Russia and also in the well-performing parts of CE (Poland, the Czech Republic and Slovakia), where Erste was also a part of the group. At this point, it is worth noting that the

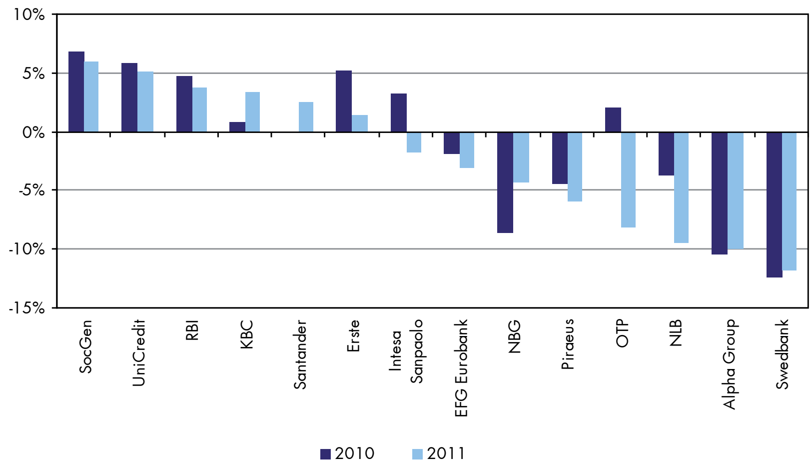
Russian loan growth 2011/10

VTB	40%
Sberbank	30%
OTP	27%
UniCredit	20%
RBI	19%
Societe Generale	9%

Source: Banks

gains of major local currencies vs the euro in the first half of 2011 were more than erased in the second half of 2011, thus negatively impacting the growth rates denominated in EUR terms. NLB, the largest Slovenian banking group, saw its loan volumes decline 10% in 2011, mainly due to massive asset reduction incentives triggered by the huge capitalisation gap the bank faced on account of the EBA requirement. Playing in a league of their own, the Russian majors VTB and Sberbank were the only banks to report double-digit loan growth rates that clearly topped the CEE banking sector's average. On the other end of the market spectrum, those banks focusing on SEE countries continued to underperform, as was already indicated in the figures for the first half of 2011. In fact, our research established that the loan volume decline at banks operating in SEE actually accelerated in the second half of 2011 in an obvious reflection of the de-risking activities carried out by Greek banks. Greece's EFG Eurobank, whose organic growth outpaced that of its peers in 2010 thanks to the bank's then still-existing presence in Poland, registered higher negative growth after its Polish operation was sold to RBI. The growth performance, of the other Greek banks was similar, with Alpha Bank providing the negative highlight in our view. Not surprisingly, Alpha Bank has experienced the highest market share losses since 2009, together with HGAA (currently deeply involved in balance sheet clean-up), Swedbank (whose public exposure has been further cut as part of the bank's long-term plan) and VBI (whose assets excl. Romania were sold to Sberbank).

Loan book growth 2011 vs 2010 (in EUR)

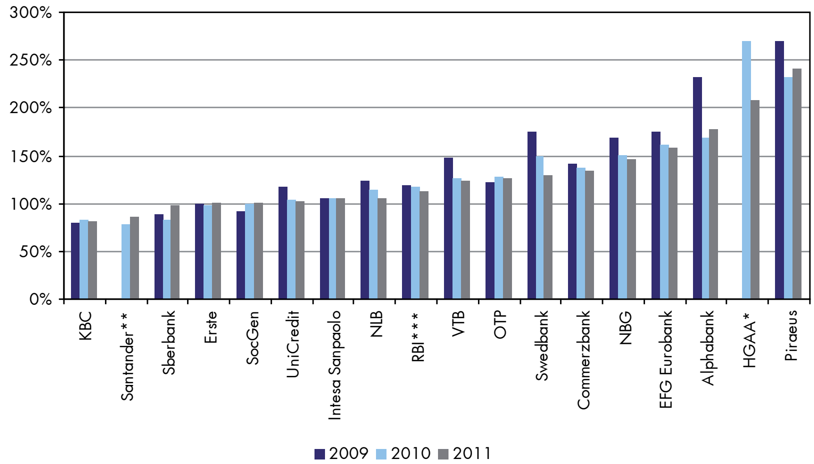


Source: Company data, national central banks

L/D balances improved, but partly due to loan volume decline

Overall, the funding structure of international banks improved compared to year-end 2010, helped by lower loan growth rates on the one hand and the increased focus on local funding growth on the other. Some moderate deleveraging took place in the CEE region, a development that has triggered, or is about to trigger, a stronger focus on local funds (eg. by Swedbank and Commerzbank, or by the foreign banks in Hungary and Slovenia in general). The ECB's Long-Term Refinancing Operation was a boon to Slovenian banks, as it allowed them to replace expensive syndicated debt with more favourable long-term ECB funding. It is evident that across the region, loan-to-deposit ratios (L/D) have been declining since 2009. Following the Austrian financial market regulator's publication of a recommendation of a maximum 110% loans to local stable funding (Loan to Local Stable Funding ratio, LLSFR) for new business in CEE, the funding re-allocation towards local deposits/bonds should continue along the direction on which it had already started after the pure wholesale funding model collapsed in 2009. As is known from the past, the most favourable loan-to-deposit profiles are those of retail banks with a strong presence in the Czech Republic, Poland, Slovakia and/or Russia: Erste, KBC, SocGen 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 the Russian giant's loan-to-deposit ratio. As regards Kredyt Bank and Polbank, both Polish entities have impacted the local funding profiles of their respective new owners, Santander and RBI.

Loan-to-deposit ratios of CEE segments (2009-2011)

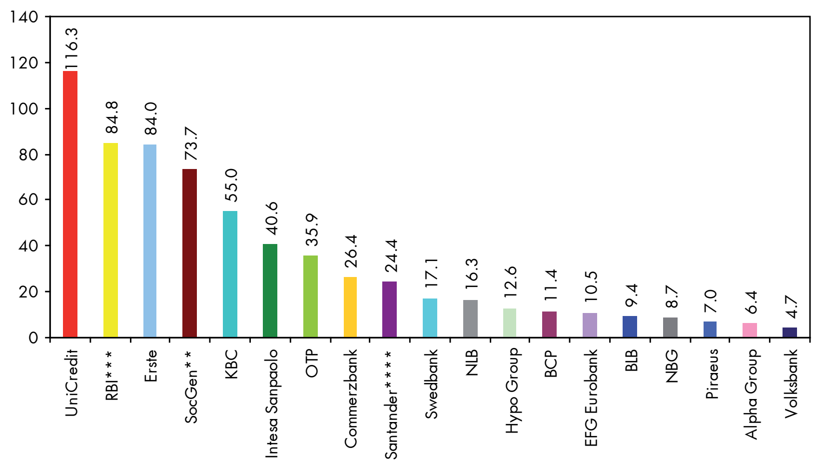


** wind down portfolio not included in 2011*
*** Kredyt Bank included*
**** Polbank included*
Source: Company data

Slightly changed bank rankings thanks to recent M&A deals

Recent M&A activity has in fact only slightly changed the ranking of foreign-owned banks in CEE in terms of the total assets they have in the region. Based on 2011 figures, UniCredit still leads the regional banking sector as the biggest EU-based player and has quite a significant gap (ca. EUR 30 bn) to other EU-based players. After its acquisition of Polbank, RBI has advanced to become the number two in CEE, its total consolidated assets in the region of EUR 84.8 bn outpacing those of Erste by less than EUR 1 bn. The gap of SocGen to the top three foreign-owned players has diminished further, namely from around EUR 16 bn to EUR 10 bn. KBC is still among the Top-5 foreign banks, despite the fact that its Polish assets have been sold to Santander. In 2011, Hungary's OTP and Italy's Intesa Sanpaolo also managed to defend their positions compared to 2010.

Total assets of international banks in CEE (consolidated, 2011 EUR bn)*

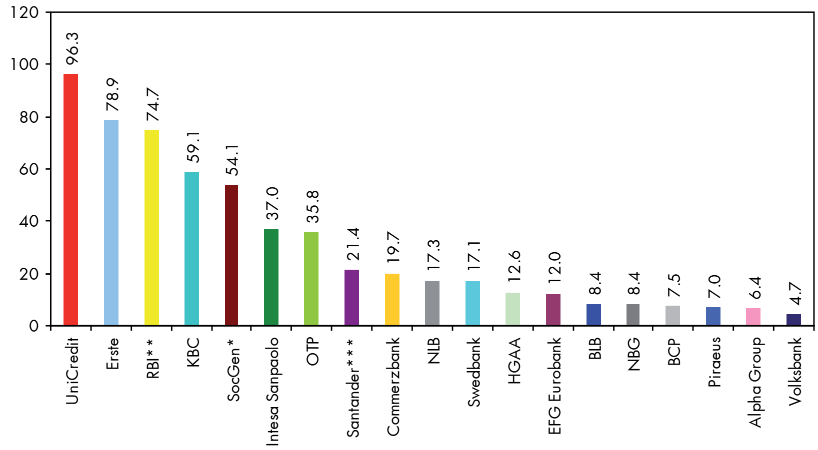


** fully-consolidated entities*
*** Poland assets assumed to be EUR 2.6 bn*
**** incl. Polbank*
***** incl. Kredyt Bank*
Source: Company data, national central banks

Top-10 ranked international banks outperformed their smaller peers in total asset growth in CEE

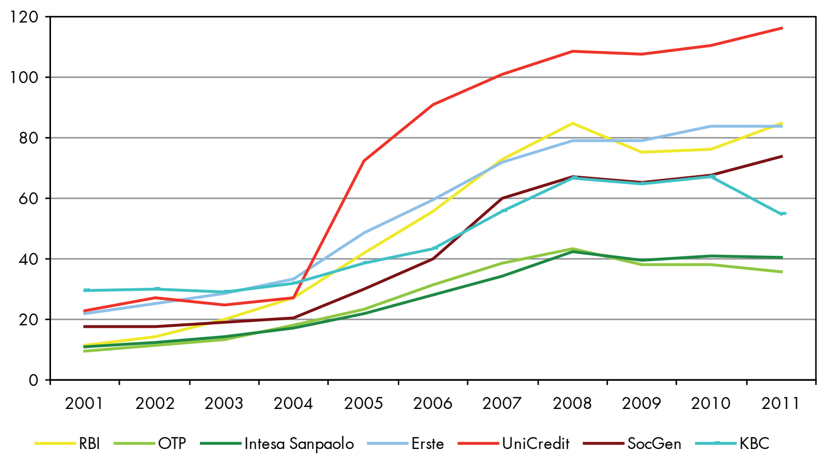
Following its purchase of a majority stake in Kredyt Bank in Poland, Spain's Santander has for the first time entered the Top-10 of foreign banking groups in CEE. If we were to also include Russian banks into our ranking, Sberbank would be the largest group in the region by far, with assets of EUR 269 bn (95% of which in Russia) and a presence that extends to ten CEE markets thanks to the addition of seven markets through the purchase of Volksbank International from Volksbank AG (VBAG). The latter now owns only Volksbank Romania and has therefore dropped to the end of our assets ranking. Besides Sberbank, other large Russian banks such as VTB and Gazprombank are obviously also gaining higher market shares every year. The announced merger between the two Greek banks Alpha Bank and EFG Eurobank, which would have created a group with EUR 17 bn, appears unlikely to be realized. Commerzbank holds a stable position in the Top-15 due to the stable performance of its Polish subsidiary BRE Bank. Generally, the Top-10 ranked foreign-owned banks in CEE outperformed their smaller peers in total asset growth in CEE in 2011, supported as they were by their higher asset allocation towards Russia, Poland, Slovakia and the Czech Republic. In contrast, the banks in rungs 10 to 20 – a group that includes the Greek banks, NLB, Hypo Group, Swedbank and VBI – posted declines in their total consolidated assets in a yoy comparison.

Total assets of international banks in CEE (proportional, 2011 EUR bn)*



** Poland assets assumed to be EUR 2.6 bn*
*** incl. Polbank*
**** incl. Kredyt Bank*
Source: Company data, national central banks

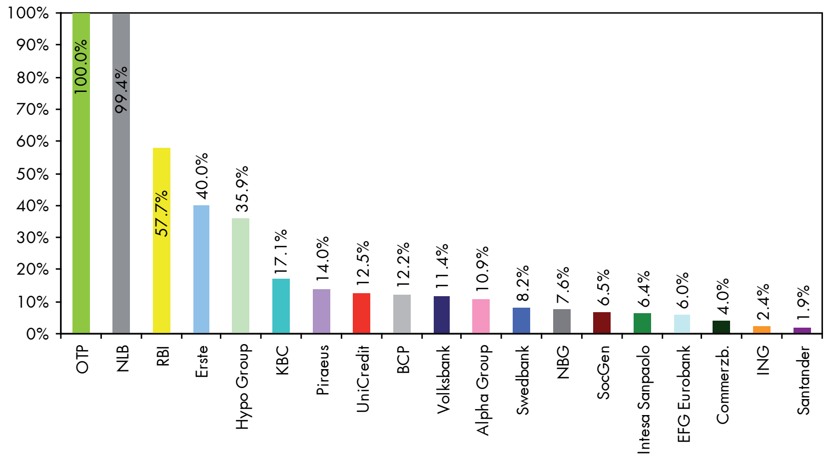
Development of total assets in CEE (consolidated, EUR bn)



Source: Company data, national central banks

The importance or the size of CEE operations has generally remained intact at almost all of the major banking groups active in the region. The only noteworthy exception is Volksbank, which is now present only in Romania following the sale of the rest of VBI to Sberbank. In its strategy, Banco Santander regards the Polish market as one of its Top-10 core world markets; however, Santander's assets in Poland currently represent only around 2% of the group's overall assets.

Share of assets of CEE subsidiaries as % of group assets



Source: Company data, national central banks

Quite some nameable takeovers since the beginning of 2011

The consolidation wave among CEE banks accelerated over the past 12 months, driven primarily by some benchmark deals that have either closed or are approaching a closing later this year. In this context, we would highlight two transactions in Poland (Polbank and Kredyt Bank) involving buyers in the Top-10, and Sberbank's takeover of Volksbank International. Apart from these headline deals, several takeovers took place in Russia, most prominently VTB's purchase of Bank of Moscow. On the other hand, the recent failure of merger talks between the Greek local giants Alpha Bank and EFG Eurobank, which would have created a Top-15 international banking group in the CEE region, is worth noting.

Finalized and ongoing transactions

Country	Target	Total assets (EUR bn)	Comment
Poland	Kredyt Bank	10.0	Santander has bought a majority in a non-cash deal at 1.4x P/BV from KBC. Santander will merge BZ WBK and Kredyt Bank, and KBC will have a minority stake in the new entity
	Polbank	5.9	RBI has bought 70% at max 1.5x P/BV - the transaction has been closed. Raiffeisen Bank PL and Polbank will merge and EFG intends to divest of the minority stake (13%) in the combined bank
	Allianz Bank	0.2	A loss-making Polish unit was bought by Getin Holding at 0.5x P/BV
	BGZ	7.5	Majority owner Rabobank has submitted a tender offer for a 40% stake at 1.2x P/BV or a 57% premium to the market price
Romania	BCR	17.8	Erste has bought a minority stake of 24% from local SIFs at approximately 1.0x P/BV in a combined cash/share swap deal
	Romexterra	0.3	Its parent MKB (part of Bayerische LB) has signed an agreement with PineBridge Inv. for selling its 92% stake. No terms were published
	Banca Carpatica	0.9	Anacap, a British private equity fund, has expressed interest in the bank; however, apparently the deal has failed
Serbia	KBC Serbia	0.3	In accordance with KBC's strategic plan, a sale of the Serbian subsidiary is expected in the coming period
Russia	Bank of Moscow	18.8	VTB has acquired a 94.85% stake at P/BV of 1.45x
	Transcreditbank	9.7	VTB has acquired a 77.86% stake at P/BV of 1.64x
Other	Volksbank International	9.3	Sberbank acquired 100% of VBI for EUR 505 mn

Source: Banks, press articles, Bloomberg

We expect a certain slowdown in the size of M&A deals for the next 12 months

In our view, after quite a fruitful year in terms of banking sector consolidation following a couple of years in the doldrums, the takeover/consolidation wave might not stop here, but the size/number of the deals is likely to decelerate for the next 12 months. Such a deceleration would reflect the fading-out by mid-2012 of the overall recapitalisation incentive for some foreign parents (KBC, Commerzbank, UniCredit, BCP), which may reduce the likelihood of quick divestment decisions for the coming months. Nevertheless, we believe that some market participants (still) intend to reduce their overall exposure in CEE. When it comes to company-specific reasons for such a step, these have not changed since last year: 1) capital needs for the repayment of state aid (HGAA, KBC), 2) de-nationalisation intentions due to budgetary requirements (Slovenia's NLB and NKBM in the mid-term, Poland's PKO in the very long-term, and HGAA followings its restructuring), 3) de-risking (Bayerische Landesbank), and 4) Greek banks, whose SEE exposure remains high as they have as yet not disposed of any of their investments in the region. In this context, the previous Greek government's recently published plan to support the largest Greek banks with "bridge" capital in the short run and with "permanent recapitalisation" in the long run is worth noting. Moreover, the failure of merger negotiations between Alpha Bank and EFG Eurobank may also accelerate the consolidation pressure in SEE, particularly in Romania, Bulgaria and Serbia. In addition, we would like to point out that Credit Agricole is the first French bank to consider exiting from the region altogether (a possible course of action that would seem to be triggered by the bank's underperforming and loss-making Serbian entity rather than by de-leveraging or capital incentives at the group level).

Potential takeover candidates

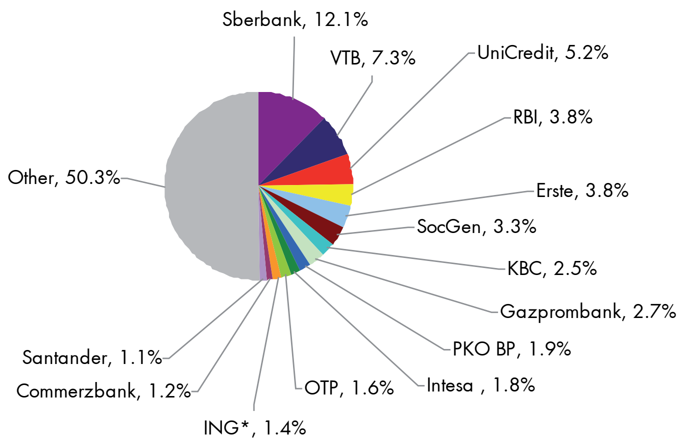
Country	Target	Total assets (EUR bn)	Comment
Poland	Bank Millennium	11.4	BCP re-declared it as core asset in Dec 2011 after failing to attract appealing buyers in 2-3Q 11; target in the long-term horizon
	BRE Bank	22.2	Subsidiary of Commerzbank. In the case the crisis deepens it could become a subject of rumours, however less likely
	BPH Bank	8.3	Subsidiary of GE Money Bank
	Get Bank (GetinNoble Bank)	12.0	Owned directly by Leszek Czarnecki, no rumours at all, rather long-term takeover target
	PKO BP	42.8	Government expected to reduce its 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 strategic investors Sberbank or alternatively IPO in 2012/13 a more likely prospect
Romania	Banca Transilvania	6.0	No strategic investor: 10% owned by the Bank of Cyprus; ca. 18% by EBRD+IFC, a long-term takeover candidate
	CEC	4.9	Has been a takeover candidate for years; the state has re-positioned the bank and injected capital/recent rumours about floating the bank
	ATE Bank Romania	0.4	Owned to ~70% by Greek ATE which intends to divest the bank
Serbia	AIK Banka	1.3	Greek ATE plans to sell 20% stake; no major strategic investor behind the group
	Komercijalna Banka	2.6	Country's No. 2 in size, EBRD with 25% and state with 42% agreed on privatisation plan until 2015. Strong retail network
	KBC Serbia	0.3	The sales process is in an advanced stage
	Credit Agricole	0.5	The French parent considers an exit from Serbia. Currently screening the offers
	some smaller players with a market share < 1%		Privredna banka Beograd, Cacanska banka
Slovenia	Nova Ljubljanska Banka Group	16.4	The bank needs a EUR 400 mn recap; rumours that EBRD might step in, state and KBC might sell minority stake
	Nova Kreditna banka Maribor	5.8	The bank needs fresh capital of ~EUR 50 mn; state might sell minority stake in the mid-term
	Abanka	4.1	About 50% owned by insurance companies Sava and Triglav; after EUR 120 mn loss in 2011, re-capitlisation is in focus + potential merger with Gorenjska Banka
	Gorenjska Banka	1.8	May be sold together with Abanka; recent rumours are that Apax might be interested as well as Banka Celje. Sava owns 50%
	Banka Celje	2.6	The fate of the 49% stake held by NLB will be known after NLB has been recapitalized
Russia	Absolut Bank	2.7	Subsidiary of KBC Group; 34th largest bank in Russia by total loans
	Bank Khanty Mansiysk	5.4	Nomos bank owns majority. The remanining 44.2% stake will be tendered by the Khanty-Mansiysk government
	Promsvyazbank	13.5	Majority shareholders are expected to purchase 14.4% stake from Commerzbank by July 2012
	Sberbank	260.0	Government plans to privatise 7.6% stake potentially this year
	VTB	162.9	Privatisation of further 10% is planned, timing unclear
Hungary	MKB Bank	8.7	Subsidiary of Bayern LB which seems not to consider CEE as a core segment after the painful episode with Hypo Group
Others	Hypo Group Alpe Adria (SEE assets)	12.6	According to the latest news, the bank plans to sell its Balkan subsidiaries as a whole. Short list of bidders should be drawn up before year-end 2012. Potential buyers might come from Russia, Turkey, Asia and EU. Apparently, management is seeking at least a book value of ~EUR 1.5 bn for its banks in HR, RS, BiH, MO and SL.
	Alpha Bank	7.6	Plan to separate stakes in RO, BG, RS, AL and UA from Greek parent and to place them into a holding company with EBRD participation
	Greek banks (EFG, NBG, Alpha, Pireaus)	~32.6	There is no explicit exit strategy from any of the Greek banks operating in CEE; any solutions to appear rather on the parent level

Source: Banks, press articles, Bloomberg

Russian banks gained market share in the CEE region

In 2011, Russia's internationally active banking groups continued to gain market shares in CEE. Sberbank's strong market share growth of 140bp reflects both the acquisition of Volksbank International and organic growth (although Volksbank accounts for only 10-20bp of that growth). Two other large Russian banks, Gazprombank and VTB, gained 40bp and 260bp, respectively, with VTB becoming the second biggest player in CEE after its acquisition of Bank of Moscow. Other banks have lost between 10-30bp in the overall CEE region. While KBC experienced a significant market share drop of 80bp following its large-scaled divestment from Poland, RBI was able to keep its overall market share stable compared to 2010 thanks to its recent acquisition of Polbank from EFG Eurobank.

Market shares in CEE (in % total assets)

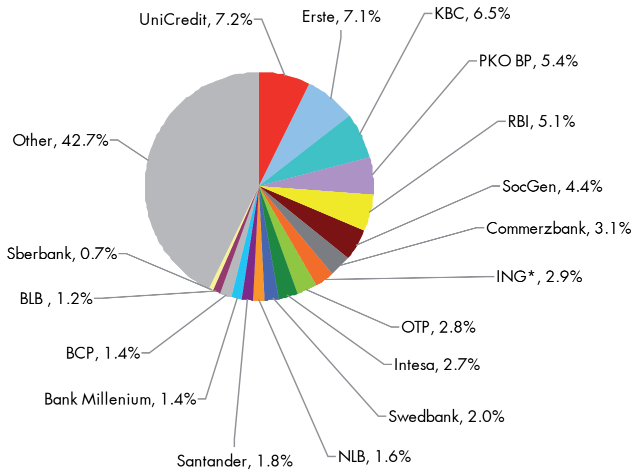


** ING data as of 31 December 2010*
CEE: PL, CZ, SK, HU, SI, LT, LV, EE, RO, BG, HR, RS, ME, BH, AL, KO, MK, RU, UA, BY, KZ
Source: Company data, national central banks

CE: UniCredit is the new leader, Sberbank is a newcomer, Santander gained most

The above-mentioned acquisition of Polbank helped RBI gain another 70bp in market share in Central Europe in 2011. KBC, previously the leading banking group in this sub-region, lost 140bp after the sale of Kredyt Bank to Santander, which saw its market share rise to 1.8% and the group is already placed among the Top-10 players. With KBC dropping from from first to third position, Italy's UniCredit has become the new leader in the CE region, followed by Erste Group (the gap between them has come decreased from 20bp to 10bp). Through its acquisition of VBI, Sberbank is a newcomer in Central Europe, where its market share of 70bp reflects assets mainly located in the Czech Republic, Slovakia and Hungary; Poland is still missing in Sberbank's universe. Other significant players have lost market shares in the range of 10-40bp. For example, PKO BP lost market share (namely, 40bp yoy) for the first time since 2009 due to a negative currency impact and its management's decision to shift down the loan growth. Swedbank continued its de-risking in the Baltics, contributing to its 60bp yoy drop in market share.

Market shares in CE (in % total assets)

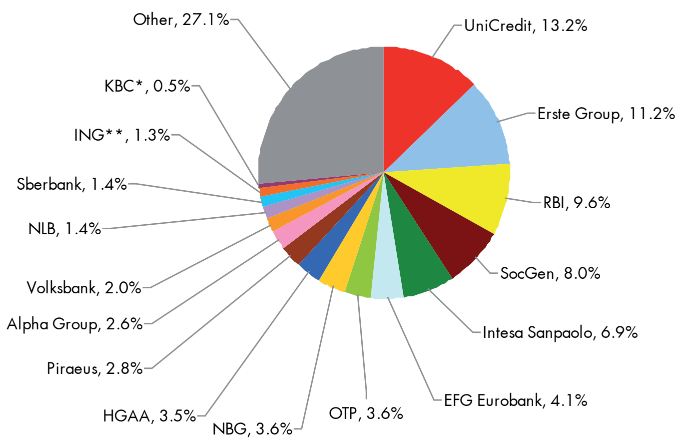


** ING data as of 31 December 2010*
CE: PL, CZ, SK, HU, SI, LT, LV, EE
Source: Company data, national central banks

SEE: Greek banks further losing market share, other foreign banks quite robust

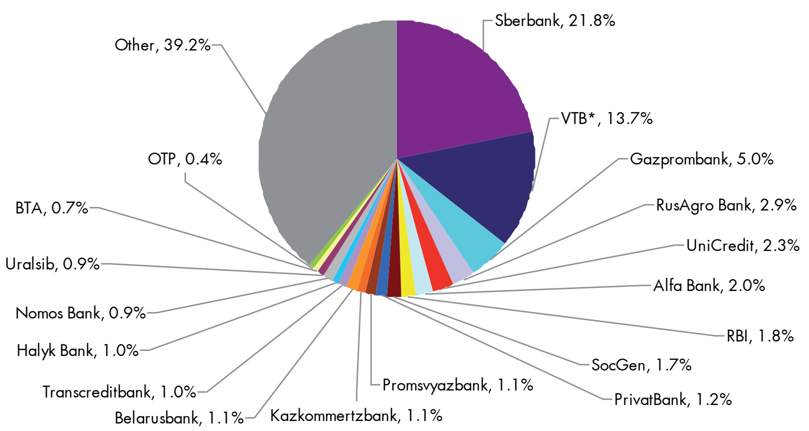
The positive development of its subsidiaries in SEE helped UniCredit gain another 50bp market share in 2011 and cement its leading position in the sub-region, with its gap to Erste Group widening from 150bp to 200bp. HGAA lost the most compared to 2010 (-180bp), but one should note that HGAA has re-allocated some SEE assets into a special "wind-down portfolio" together with Austrian and Italian assets without providing a geographical break-down for that portfolio. Similar to the aforementioned developments on the CE market, the sale of almost all VBI assets (apart from Romania) to Sberbank caused a market share transfer of 130bp. RBI lost a moderate 30bp due to its somewhat more defensive stance in this sub-region. At Erste Group, asset growth was in-line with the market growth, so its overall market share remained stable year-on-year. The collective market share held by the largest Greek banks (NBG, Alpha, and EFG Eurobank) fell by 100bp in the SEE region due to the well-known issues impacting Greek Banks.

Market shares in SEE (in % total assets)



** excl. 30% stake in NLB*
*** data to 31 December 2010*
SEE: RO, BG, HR, RS, ME, BH, AL, KO, MK
Source: company data, national central banks

Market shares in CIS (in % total assets)



** incl. Bank of Moscow*
CIS: RU, UA, BY, KZ
Source: Company data, national central banks

CIS: VTB gained vs. Sberbank / foreign banks stable

The significance of the CIS sub-region increased further in the last 12 months. Sberbank, the region's leading banking group, increased its market share by 90bp. However, VTB posted the strongest year-on-year gain in market share (+440bp), heavily supported by the acquisition of a majority shareholding at Bank of Moscow. This step allowed VTB to reduce its market gap to Sberbank by 350bp to 810bp. Gazprombank still holds the third largest market share in the CIS region.
The Top-17 CIS banks have increased their total market share by 300bp vs their CE/SEE peers. During 2011, only Kazkommertzbank and BTA lost market share (namely, in the amount of around 30bp each), while the other CIS banks were more or less stable. Almost all foreign players operating in the CIS managed to defend their market positions without noteworthy changes. Only SocGen grew its market share (by 20bp), while OTP lost 20bp compared to 2010. Particularly in Russia, the ranking order of the Top-3 international players remained the same as in 2010: UniCredit ahead of SocGen and RBI.

Market presence and branch networks

2011	PL	HU	CZ	SK	SI	EE	LV	LT	BG	RO	HR	AL	RS	ME	BH	KO	MK	BY	RU	UA	KZ	MD	GE	No. of countries	No. of outlets
Sberbank*		62	24	41	11						29		26		46			37	19173	182	103			11	19734
RBI**	438	134	129	156	17				187	551	81	105	85		98	54		101	191	909	1	1		17	3238
UniCredit	1062	134	104	79	34	1	5	2	227	257	145		78		138				108	384	103			16	2861
Société Générale	100		397		60				150	937	130	42	92	20			25		700	10		25	37	14	2725
Erste Bank		184	654	292						667	146		66							131				7	2140
Intesa Sanpaolo		128		245	55					92	217	31	208		53				75	342				10	1446
OTP		377		74					386	100	103		52	32					148	152				9	1424
VTB																		47	746	160	13		17	5	983
Santander	899																							1	899
KBC		236	314	148					51				63						63					6	875
EFG Eurobank									209	276			117							50				4	652
National Bank of Greece									240	134		30	119				66							5	589
Alpha Bank									102	165		45	137				24			24				6	497
NLB					171								57	19	112	66	49							6	474
Piraeus									100	178		56	44							45				5	423
Commerzbank	135	7	5	2															n.a.	148				6	297
Swedbank						63	59	94											2	51				5	269
HGAA					27						73		49	10	96		2			1				7	258

... Number of branches per country
... only leasing branches

** VBI branches included*
*** Polbank branches included*
Source: Banks

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 South Eastern Europe

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

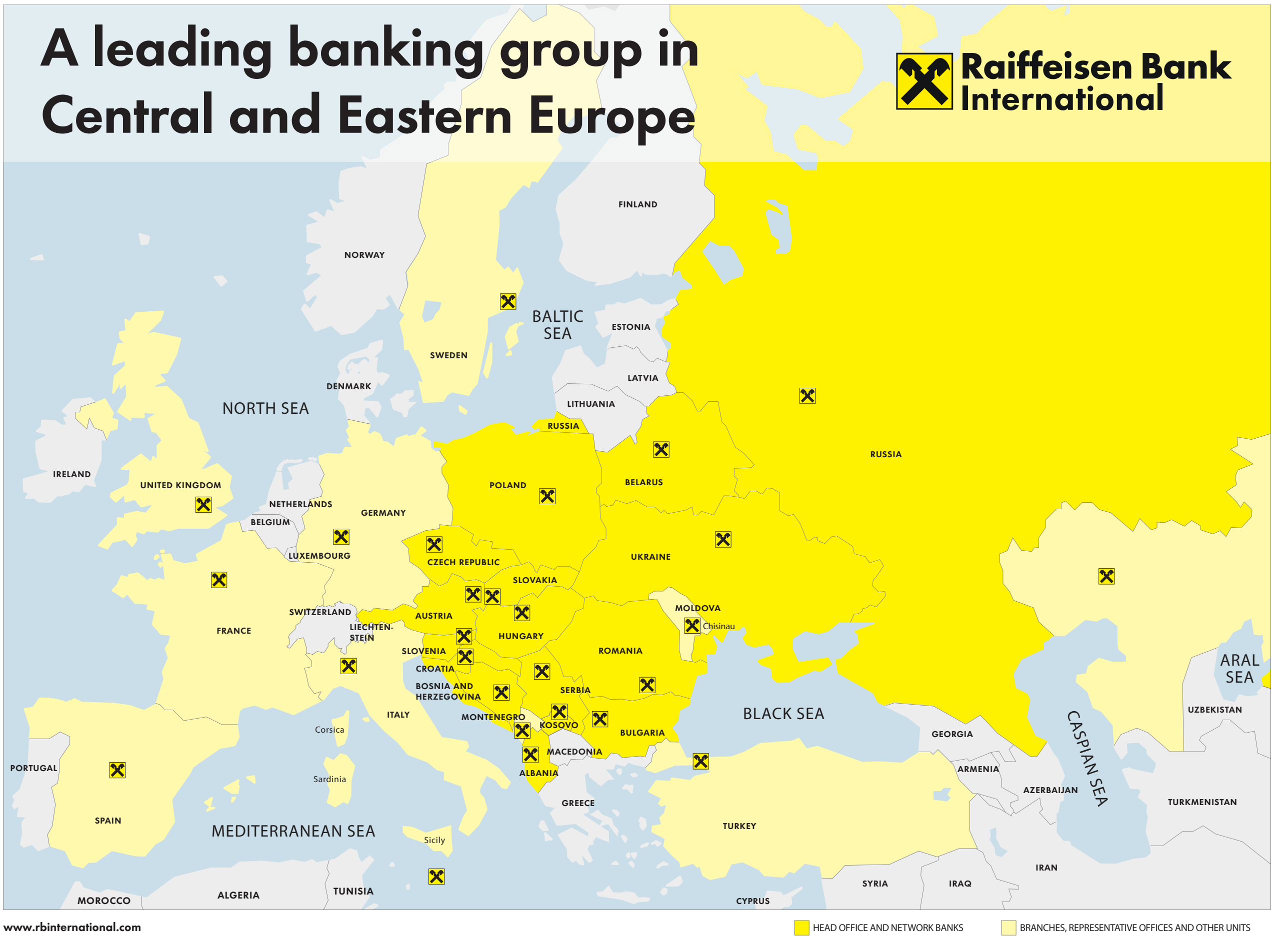
CIS The markets in the former Commonwealth of Independent States

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
EBA	European Banking Authority
EMU	European Monetary Union, Eurozone
ESRB	European Systemic Risk Board
excl.	excluding
FMA	Financial Market Authority (Austria)
IFIs	International Financial Institutions
No.	Number
NPLs	Non-performing loans
OENB	Austrian National Bank
RoA	Return on Assets
RoE	Return on Equity



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