Banking sector in Central Eastern Europe: Pace to slow down slightly on indirect sub-prime crisis effects

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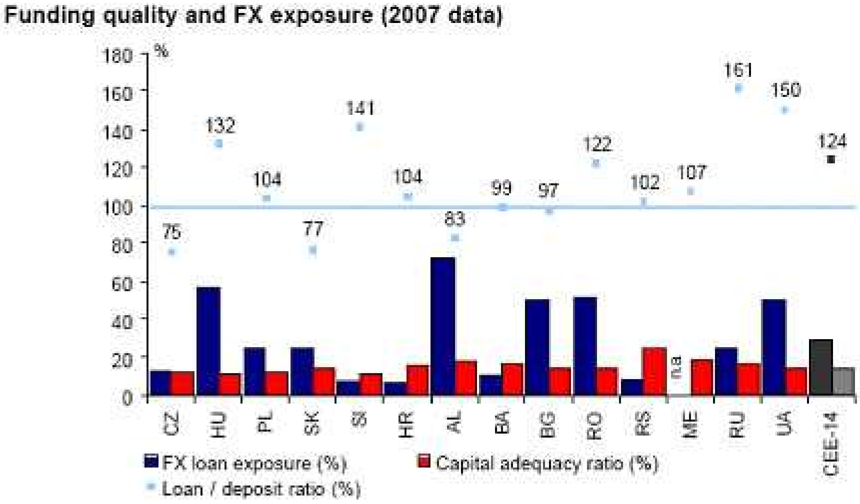
Economic growth to remain above major market levels for many years
Indirect effects from the sub-prime crisis: slowing growth, higher funding costs
Key markets in 1Q 2008 have not yet lost their strong pace set in 2007
Raiffeisen International and OTP are the top picks in the region

Economic development
A period of above-potential growth lies behind most CEE countries. First and foremost, growth needs to come down, as the pace of recent years was unsustainable, which would lead in the medium term to overheating economies. The second factor is that important export markets (particularly the EU) are also set to slowdown, as the financial crisis and the slowdown in the US will be felt. Overall, though, Erste Bank analysts do not expect a strong impact on the Euroland economy. “In total, we only expect a moderate slowdown of economic growth, as the slowdown in Euroland should be relatively modest and we think that domestic demand has gained enough of a dynamic to compensate at least partially for any slowdown of foreign trade, especially as the competitive advantage of EU members is still significant. These countries offer a unique mixture of a stable political/legal framework and (labour) cost advantages, which will remain for many years and continue to attract foreign investments. This will support further productivity and wage convergence towards Western peers. Thus, economic growth should remain above major market levels for many years to come”, analyzes Günter Hohberger,banking sector equity analysts at Erste Bank and co-author of the report.

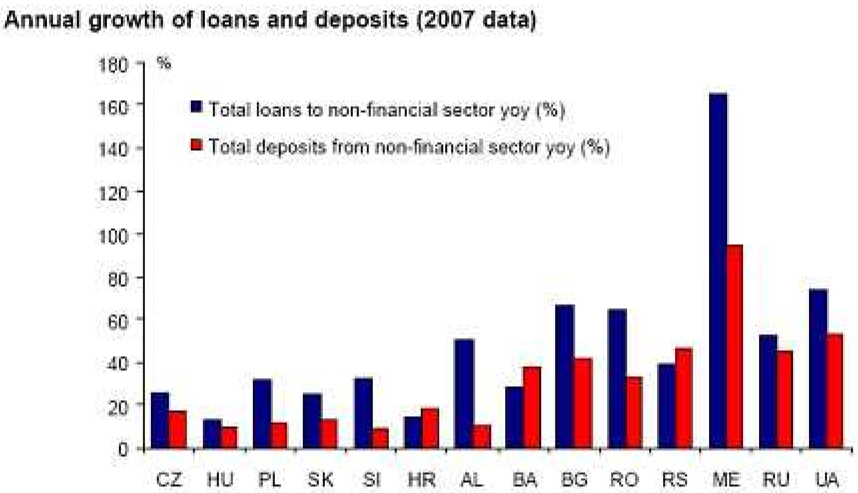
Sector overview
Unlike many US and Western European players, our CEE bank coverage is not at all involved in any sub-prime or sub-prime related investments and therefore needs no writing-off of their assets. With the end of the 1Q08 reporting season, however, investors' focus has changed from the direct effects (e.g. write-offs, capital needs) to the indirect effects of slowing economic growth and increasing funding costs. On the funding side, however, the crisis has squeezed liquidity. The 3M Euribor (for instance) increased by 125bp to 4.97%, from 3.725% at the beginning of 2007. Therefore, the funding ability and funding quality have become an issue in the last couple of months, in order to secure asset growth at a reasonable price.

“We looked at the loan to deposit ratios of the different banking markets to divide the markets, which are more securely funded, from those that are more stretched” says Günter Hohberger. “The most stretched banking systems we found in Russia (161% loan / deposit ratio) and Ukraine (150%), followed by Slovenia (141%), Hungary (132%) and Romania (122%).” In particular, in Russia (with more than 1,200 banks and a low market concentration), the smaller and mid-sized banks are currently running into trouble funding the strong asset growth. Players with good regional branch networks could therefore become increasingly interesting for bigger players, which need to grow their retail networks in this heavily under-banked country (1 bank branch covers 41,000 inhabitants, vs. about 1,900 in mature markets!).

With the higher interest rate levels in most CEE countries compared to the Eurozone, the demand for FX loans has risen heavily in recent years. In 2007 the strongest FX loan growth was seen in Bulgaria (+86% y/y), Romania (+84% y/y) and Ukraine (+75% y/y), resulting in FX exposure (FX loans in terms of total loans to the non-financial sector) of more than 50%. The strongly FX-exposed countries face higher default risk than markets relying on local currency loans in the case of a depreciating local currency, which increases credit instalments. The Erste Bank analysts therefore have also looked at the equity coverage of the FX loan exposure to demonstrate the different sizes of the banking sector's cushions. “As shown in the graph below, the Czech Republic (low interest rate level), Slovenia (euro implemented as of 1.1.2007), Croatia and Serbia can be seen as safe havens in terms of FX exposure”, states Günter Hohberger.

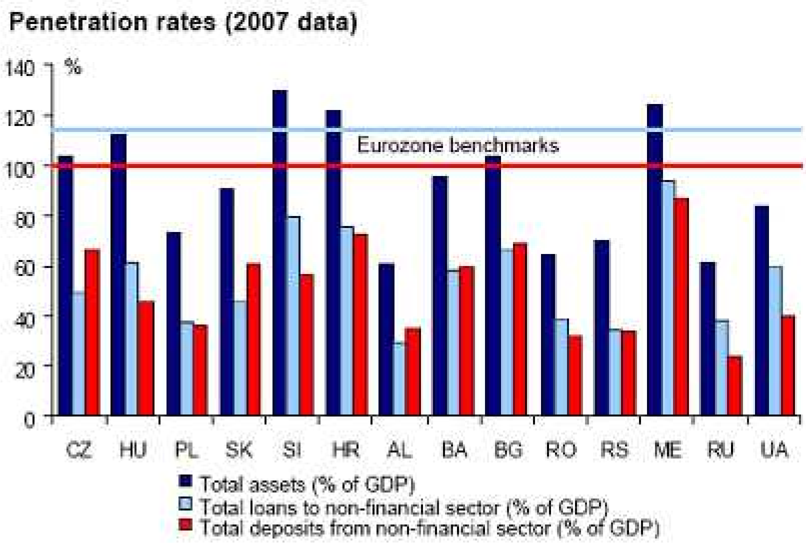


“The strongest loan growth in 2007 was seen in the new EU members Bulgaria and Romania, as well as the CIS region, i.e. Ukraine and Russia, with more than 50% annual growth. The main driver in the CEE region was again retail loans, growing above 50% levels in Ukraine, Romania, Russia, Bulgaria and Serbia. Corporate loan growth was very strong in Bulgaria (+77% y/y) and Ukraine (+62% y/y)”, says Hohberger. “In general, deposit growth has been slower than loan growth, lifting loan/deposit ratios above the 100% barrier in some countries. In many CEE countries, the low penetration of loans provides a basis for strong lending growth rates in the coming years. The main drivers for the loan growth in most of the countries are mortgage and consumer loans - a consequence of decreasing unemployment rates, rising GDP per capita and subsequently growing demand for consumer goods and housing.”



Since summer 2007, Romania has been facing periods of strong sell-offs, driven by fears about the vulnerability of the Romanian economy and the impact of its weaker currency on the economy (especially in the financial sector). “We believe that the weakened currency is supportive of the Romanian economy and the adjustment process of the high C/A deficit. Since the beginning of this year, we have seen a sharp deceleration of the current account widening, suggesting that the C/A deficit to GDP might remain flat this year (compared to the general market consensus of minor growth). The C/A deficit will be partially financed by FDI inflows (estimated at 6% of GDP) and further growth of external borrowing, mainly by the private sector. We expect that strong growth of domestic demand will also lead to a widening of the current account deficit in Ukraine. Fortunately, Ukraine has been attracting large FDI inflows, which have sufficiently covered the current account deficit. A large-scale privatization plan scheduled by the Ukrainian government for 2008 makes the economy less dependent on issuing new external debt", comment the Erste Bank analysts.

Banking penetration rates CEE
The expected economic slowdown in the CEE region is not yet reflected in the banking sector data available for 1Q08. Key markets like Poland, Romania and Ukraine have not yet lost their strong pace set in 2007. In Romania and Ukraine, the loan growth in 1Q08 even accelerated to 66% y/y and 76% y/y, respectively. "The new EU members Bulgaria and Romania, as well as Ukraine and Russia, will offer the highest growth rates in the coming years, converging to mature market levels. Overall, we expect all CEE countries to use the catch-up potential they have, resulting in above-average growth rates for more than ten years", says Gernot Jany, banking sector equity analysts at Erste Bank and co-author of the report.



"While the deposits are already at a relatively high level in countries like the Czech Republic and Croatia, in the emerging banking markets, a lot of money is still stored in piggy banks. We expect the commercial banks to continue to replace piggy banks as confidence in the banking market rises. The entrance of foreign players usually has a very positive effect on confidence in the banking market, which can already be seen in Ukraine, Bulgaria and Bosnia & Herzegovina", summarizes Jany.

Following conclusions from the dividend discount model, peer group valuation and regression analysis the analysts of Erste Bank point out the following banks in CEE:

Raiffeisen International with the ongoing growth story and the value play **OTP** provide the strongest upside potential based on current share prices and therefore again receive a Buy recommendation
BRD GSG as one of the most profitable banks in CEE and the Romanian growth play **Banca Transilvania** have performed well in the past months and due to limited upside potential we arrived at an Accumulate rating
PKO BP, which is the Polish big play with a strong bottom line growth and **Komercni banka** providing comfortable funding quality are our preferred stocks rated at Accumulate

AIK Banka is the Serbian high growth and profitability play which includes a bet on improving politics receiving an Accumulate rating

Sector report [pdf; 1,4 MB]

Presentation [ppt; 567,5 KB]

CEE Equity Research

June 19, 2008

Sector Report

CEE Banks

CEE 4-2 Euroland

- 1-0 Despite expected slowdown, GDP growth in CEE will stay above that of Euroland
- 1-1 Inflation felt more strongly in CEE, due to higher food weighting
- 1-2 Increasing FX exposure in CEE provides some vulnerability
- 2-2 CEE banking sector had no asset write-offs
- 3-2 Asset growth slowing down, but remains double-digit
- 4-2 Slightly declining profitability, but still far above that of Euroland

Team A in CEE:

- OTP: Value play trading at heavy discounts
- Raiffeisen Intl.: Growth play with country diversification

Team B in CEE:

- BRD GSG: Among most profitable banks in CEE
- AIK Banka: Highly efficient corporate bank
- Banca Transilvania: Strong growth and improving profitability
- PKO BP: Strong profitability and huge deposit base
- Komercni banka: Highly efficient value play with relaxed balance sheet

Sector Report

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All share prices as of June 17, 2008

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Executive summary

The Central and Eastern European banking sector has lost much of its performance and valuation premiums in the last couple of months, due to the negative sentiment in the global banking sector. The banks' share prices are still sentiment-driven, due to the US sub-prime crisis and its direct and indirect effects on the global economy and the banking sector. With potentially further real estate crisis areas popping up in the UK and Spain, the negative banking sentiment might continue. The good news is that the banks in our CEE coverage universe are not at all involved in any sub-prime or sub-prime related investments and therefore had no need to write-off their assets. However, the focus since the 1Q08 reporting season has shifted from the direct effects like asset write-offs and capital needs to the indirect effects of slowing economic growth and increasing funding costs, both of which are also on the agenda for CEE banks.

On the funding side, the crisis has squeezed liquidity. With the 3M Euribor increase of 125bp to 4.97% (from 3.725% at the beginning of 2007), the funding ability and funding quality have become an issue in order to secure asset growth at a reasonable price. We therefore have looked at the countries' loan/deposit ratios (LDR) to assess the funding quality. The most stretched banking systems were found in Russia (161% LDR) and Ukraine (150% LDR). In particular, in Russia, the smaller and mid-sized banks are currently running into trouble funding the strong asset growth. Players with good regional branch networks could therefore become increasingly interesting for bigger players, which need to grow their retail networks in this heavily under-banked country. In the other CEE markets, M&A activity has come to a halt since the beginning of the sub-prime crisis.

Following a period of above-potential growth at moderate inflation in most CEE countries, macro concerns have arisen in the past few months. We expect a moderate slowdown of economic growth, as the slowdown in Euroland should be relatively modest and we think that domestic demand has gained enough of a dynamic to compensate at least partially for any slowdown of foreign trade. Given the size of the unit labor cost gap between transforming economies and the mature economies, the competitive advantage will remain for many years and continue to attract foreign investments. This will support further productivity and wage convergence towards Western peers. Thus, economic growth should remain above major market levels for many years to come. With the rising energy and food prices, the inflation rates have risen strongly since last summer, which was felt more strongly in CEE, as food has a higher weighting in the consumer basket than in mature markets. Pre-emptive interest rate hikes by central banks were justified and will continue, due to the rising risk of further price increases. We think that the central banks should be able to master the situation and that price increases will remain largely confined to the usual suspects: energy, commodities and food, only spreading into other areas of the economy to a minor degree.

However, the expected economic slowdown in the CEE region is not yet reflected in the banking sector data we have for 1Q08. Key markets like Poland, Romania and Ukraine have not yet lost the strong pace set in 2007. In Poland, the projections of a decrease in the price of residential real estate and of the growth in the supply of dwellings resulted in limited speculative demand for housing loans for the third time in a row in 1Q08. However, the national bank statistics still show strong (50%) annual growth of housing loans in the first quarter (+50.4% y/y as of year-end 2007). In Romania and Ukraine, the loan growth in 1Q08 even accelerated to 66% y/y and 76% y/y, respectively. In many CEE countries, the low penetration of loans provides a basis for strong lending growth rates in the coming years. The main drivers for the loan growth in most of the countries are mortgage and consumer loans - a consequence of decreasing unemployment rates, rising GDP per capita and subsequently growing demand for consumer goods and housing. Mortgage loans were the main growth contributor in CEE, with +127% y/y in Ukraine, +116% in Russia and +77% y/y in Romania in 2007.

Romania has been in the limelight due to its high C/A deficit and the resulting implications for its banking industry. As for the deficit itself, we stick to our previous view: the situation is admittedly severe, but not as bad as it might look. The structure of the deficit still appears to be solid, with FDI and remittances backing it and consumption on a declining trend. The high FX loan exposure (51% 2007 eop) has fed concerns that currency depreciation might cause increasing default on loans, since serving loans could become more expensive. By running scenarios, combining both the effect of currency depreciation and interest movements, we found that, given the volatility of the RON in 2007, a closer look at the timing (when a loan was taken) is the crucial thing. In a bullish scenario of RON development and EUR interest rates, we find an increase of less than 5% for monthly installments when looking at a period of 39 months. In contrast, a bear scenario - EUR/RON 4.0, EUR interest rate 8.58% - loans taken within a period of six months out of 39 months (loans taken May 2007-October 2007) would face some monthly installment increases of 25% or more. In our base scenario (EUR/RON 3.6, EUR interest rate 6.94%), loans taken within a period of 14 months out of 39 would face increases in monthly installments of 5-10%, which we consider as not too worrisome.

The valuation premiums of 20% and more that we saw last year for Polish and Romanian banks have disappeared and the P/BVs have returned to levels below 4. With the strong R^2 in our regression analysis, most premiums and discounts that appear in the peer group valuation seem justified by the corresponding size of the ROE, which has not always been the case in our previous regression analysis. One of our top picks, **Raiffeisen International** (Buy, target price EUR 114) currently trades at 2.1x BV08e, which is a 10% discount to the peers' 2.4x, as well as an 8% discount in terms of P/E 08e (13.6x vs. 13.8x). However, due to RI's weaker profitability of 17% ROE 08e, the regression analysis shows that RI is trading slightly above the regression line. **OTP** (Buy, target price HUF 8,500) is our second top pick, currently trading at 1.5x BV08e and 7.6x EPS08e, which is some 35% below the CEE peers and actually more in line with the valuation levels of Western banks with some CEE exposure. However, with an ROE 08e of 23%, OTP is still far above these banks (ROEs around 14%) and therefore we do not regard this discount as justified.

One of the most profitable banks in CEE is **BRD GSG** (Accumulate, target price RON 25.6), with ROE 2008e of 34%. Currently, the BRD GSG share trades at a nearly 10% discount to the peer group mean in terms of P/E 08e, which still looks attractive to us. **PKO BP** (Accumulate, target price PLN 55) and **Komercni banka** (Accumulate, target price CZK 4,700) both have an Accumulate recommendation, as both are very profitable and trade very closely to the regression line, which puts the P/BV premiums of 44% for PKO BP and 24% for Komercni into perspective. **Banca Transilvania** (Accumulate, target price RON 0.51) also trades close to the regression line, with a slight P/BV 08e premium of 5%. As we expect improving profitability in the near term, a higher premium would be justified. We therefore reiterate our Accumulate recommendation on the stock. Besides the overall bad sentiment toward financials, Serbian banks have also been hit by the current political instability in the country. **AIK Banka** (Accumulate, target price RSD 9,660) is traded below the regression line, with a discount of 28% to the peers' P/BV 08e. Due to its high profitability (ROE 08e: 19%), we reiterate our Accumulate recommendation, but expect the stock price development to be highly influenced by politics.

We have reinitiated coverage of **BRE Bank** (Hold, target price PLN 410) with a Hold recommendation. BRE currently trades at 2.6x BV 08e and 14.8x earnings, which indicates premiums of 10% and 7%, respectively. With a 20% ROE 08e, BRE's P/BV08 trades above the regression line.

Valuation

Target prices based on valuation with three-stage DDM

We valued all twelve banks in our CEE banking sector report with a Dividend Discount Model. As all the banks operate in emerging markets characterized by different stages of development in terms of financial intermediation and growth rates, we used a three-stage model to cope with the growth pattern. In the first stage, we explicitly forecast EPS until 2012. The second stage comprises an additional 10 years, gradually declining growth rates, profitability and the cost of equity to more sustainable levels. In the third stage, we determined the banks' terminal values by multiplying 2022 shareholders' equity by a P/BV derived from the Gordon Growth Model. By discounting these three components back to June 2008, using an appropriate cost of equity, we arrive at the current fair value for the banks, which we compound by using the cost of equity to arrive at our 12-month target price.

Peer group valuation to check plausibility

We also employed two market valuation methods to check the plausibility of the assumptions we made in our DDM. We used the regression with the highest R^2 (P/BV 08e vs. ROE 08e), leaving out two valuation mavericks, i.e. Komercijalna Banka (low ROE vs. high P/BV) and OTP (high ROE vs. low P/BV), which resulted in a surprisingly high R^2 of 85%. Moreover, we calculated P/E multiples, based on the prevailing stock prices and EPS estimates for 2008 and 2009.

Peers divided into three segments

Our peer group valuation comprises three banking segments: (a) our banking sector coverage consisting of twelve banks from the CEE region (AIK Banka, Banca Transilvania, BRD GSG, BRE Bank, BZ WBK, FHB, Komercijalna banka, Komercni banka, OTP, Pekao, PKO BP, and Raiffeisen International), (b) some 100% CEE plays like Handlowy and Millennium, and (c) some Western players with sizeable CEE exposure like UniCredit. However, the CEE exposure of most Western players is less than the pure CEE banks we cover. For peer group valuation reasons, we therefore refer to the mean of the CEE banks.

Peer group comparison

Company	Market	EPS (EUR)				CAGR	DPS (EUR)				BVPS (EUR)			
(EUR mn)	Cap.	2006	2007	2008e	2009e	06-09e	2006	2007	2008e	2009e	2006	2007	2008e	2009e
Aik Banka AD Nis	725	8.21	7.91	10.49	12.38	14.7%	0.45	0.45	0.58	0.70	36.74	51.68	60.41	72.09
Banca Transilvania	1,248	0.00	0.01	0.01	0.01	46.2%	0.00	0.00	0.00	0.00	0.02	0.03	0.05	0.06
BRD GSG	4,132	0.27	0.40	0.56	0.59	29.0%	0.10	0.16	0.22	0.23	0.90	1.20	1.54	2.07
BRE Bank	3,344	4.25	7.10	10.49	11.43	39.1%	0.00	0.00	0.00	0.00	25.37	33.17	43.40	54.51
BZ WBK	3,239	3.08	3.87	4.09	4.93	17.0%	1.78	0.89	1.23	1.97	16.06	17.61	20.47	23.43
FHB	309	0.47	0.33	0.43	0.45	-1.3%	0.13	0.00	0.09	0.09	1.82	1.98	2.33	2.69
Komercijalna banka	822	15.97	46.26	28.34	45.54	41.8%	0.00	0.00	0.00	0.00	233.94	285.23	340.96	441.92
Komercni banka	6,578	10.03	12.18	13.58	14.89	14.1%	6.21	7.45	8.15	8.93	54.1	54.0	59.4	65.4
OTP Bank	7,061	2.94	3.24	5.74	4.03	11.1%	0.62	0.00	0.95	1.21	12.17	14.01	17.86	20.85
Pekao	13,019	3.17	3.63	4.37	4.55	12.8%	2.66	2.84	2.62	3.18	15.75	16.57	18.31	19.66
PKO BP	14,202	0.64	0.86	1.11	1.35	28.4%	0.29	0.32	0.44	0.54	2.98	3.53	4.19	5.00
Raiffeisen International	14,227	8.29	5.36	6.82	8.49	26.8%	0.71	0.93	1.37	1.71	27.97	37.88	43.39	50.25
Bank Handlowy	2,997	1.31	1.75	2.02	2.38	21.9%	1.07	1.46	1.54	1.71	10.83	11.93	13.07	13.73
Bank Millennium	1,789	0.09	0.15	0.18	0.21	32.1%	0.04	0.05	0.06	0.06	0.68	0.83	1.00	1.16
Kredyt Bank	1,510	0.45	0.40	0.36	0.44	-0.9%	0.10	0.10	0.12	0.15	2.01	2.33	2.81	3.12
Sberbank	47,478	0.12	0.13	0.16	0.21	19.8%	0.01	0.01	0.02	0.03	0.44	0.79	0.91	1.10
VTB Bank	15,830	0.30	0.30	0.31	0.39	8.5%	0.02	0.03	0.06	0.08	1.92	3.29	3.29	3.62
Erste Bank	14,866	3.10	3.76	4.47	5.40	20.3%	0.65	0.75	0.90	1.10	25.31	26.72	31.53	36.24
Intesa Sanpaolo	47,954	0.35	0.35	0.43	0.50	12.9%	0.38	0.38	0.29	0.35	2.54	4.10	4.25	4.43
KBC Groupe	28,035	7.82	8.52	8.30	9.40	6.3%	3.31	3.78	3.80	4.20	48.51	49.90	53.13	57.99
Société Générale	42,820	11.54	1.98	7.62	9.03	-7.8%	5.18	0.90	3.50	4.20	61.27	57.54	60.50	65.17
UniCredit	54,875	0.48	0.50	0.50	0.60	7.9%	0.24	0.26	0.26	0.30	3.70	4.32	4.55	4.82

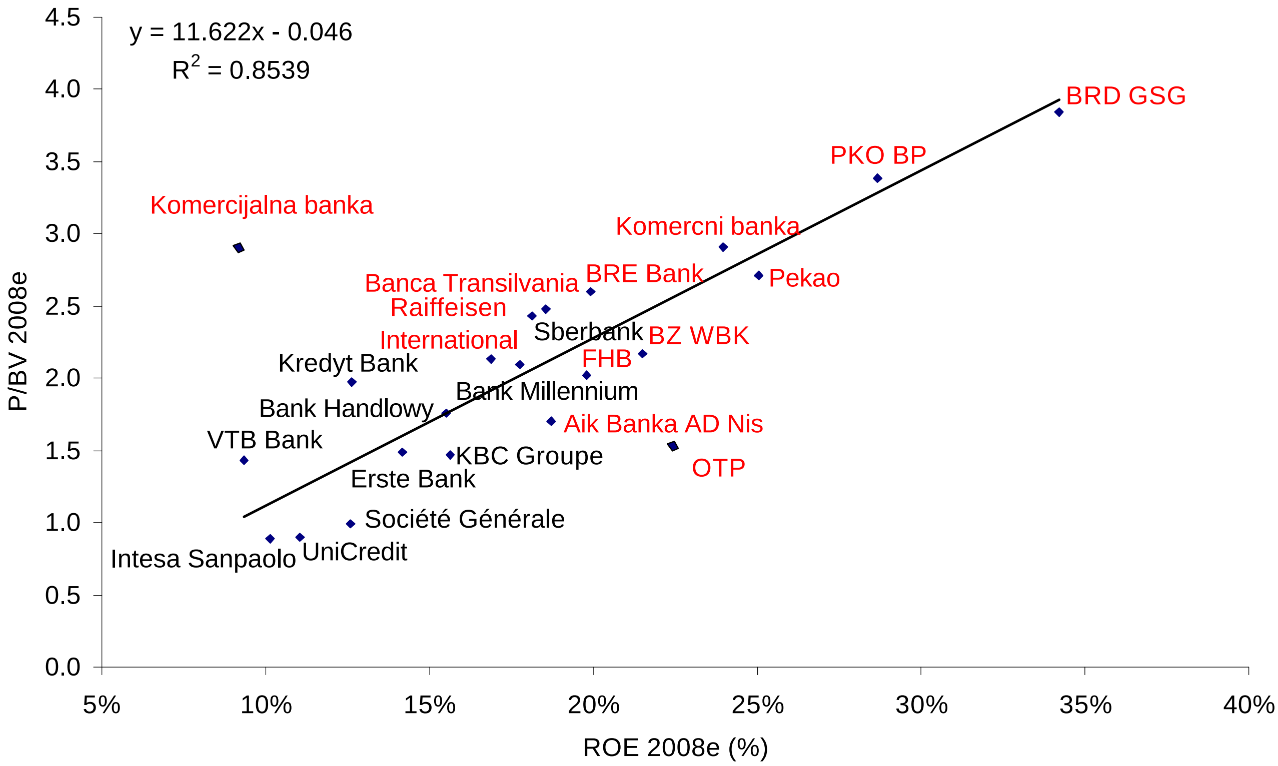
Source: JCF, Erste Bank estimates

Peer group valuation

Company	P/BV				P/E				Dividend yield				ROE			
	2006	2007	2008e	2009e	2006	2007	2008e	2009e	2006	2007	2008e	2009e	2006	2007	2008e	2009e
Aik Banka AD Nis	2.8x	2.0x	1.7x	1.4x	12.6x	13.0x	9.8x	8.3x	0.4%	0.4%	0.6%	0.7%	26.2%	19.4%	18.7%	18.7%
Banca Transilvania	5.4x	3.6x	2.5x	2.0x	35.2x	26.1x	15.9x	11.3x	0.0%	0.0%	0.0%	0.0%	17.6%	16.0%	18.5%	19.6%
BRD GSG	6.6x	4.9x	3.8x	2.9x	21.6x	14.8x	12.6x	10.0x	1.7%	2.7%	3.8%	3.9%	33.9%	38.0%	34.2%	32.6%
BRE Bank	4.4x	3.4x	2.6x	2.1x	29.0x	18.1x	14.8x	10.9x	0.0%	0.0%	0.0%	0.0%	16.9%	21.3%	19.9%	21.0%
BZ WBK	2.8x	2.5x	2.2x	1.9x	14.4x	11.5x	10.9x	9.0x	4.0%	2.0%	2.8%	4.4%	20.7%	23.0%	21.5%	22.4%
FHB	2.6x	2.4x	2.0x	1.7x	10.0x	14.4x	11.0x	10.4x	2.8%	0.0%	1.8%	1.9%	28.7%	17.2%	19.8%	18.1%
Komercijalna banka	4.1x	3.4x	2.8x	2.2x	60.7x	20.9x	34.2x	21.3x	0.0%	0.0%	0.0%	0.0%	7.1%	17.8%	9.0%	11.6%
Komercni banka	3.2x	3.2x	2.9x	2.6x	17.3x	14.2x	12.7x	11.6x	3.6%	4.3%	4.7%	5.2%	18.2%	22.5%	24.0%	23.9%
OTP Bank	2.2x	1.9x	1.5x	1.3x	9.3x	8.4x	7.6x	6.8x	2.3%	0.0%	3.5%	4.4%	28.1%	24.9%	22.5%	20.8%
Pekao	3.2x	3.0x	2.7x	2.5x	15.7x	13.7x	11.4x	10.9x	5.4%	5.7%	5.3%	6.4%	20.7%	18.3%	25.0%	24.0%
PKO BP	4.8x	4.0x	3.4x	2.8x	22.3x	16.5x	12.8x	10.5x	2.0%	2.3%	3.1%	3.8%	22.9%	26.4%	28.7%	29.3%
Raiffeisen Int.	3.3x	2.4x	2.1x	1.8x	11.2x	15.9x	13.6x	10.9x	0.8%	1.0%	1.5%	1.8%	17.5%	17.1%	16.9%	18.3%
Bank Handlowy	2.1x	1.9x	1.8x	1.7x	17.5x	13.1x	11.3x	9.6x	4.7%	6.4%	6.7%	7.5%	12.1%	14.7%	15.5%	17.3%
Bank Millennium	3.1x	2.6x	2.1x	1.8x	23.1x	13.9x	11.8x	10.0x	2.1%	2.5%	2.8%	3.1%	13.4%	18.3%	17.7%	18.2%
Kredyt Bank	2.8x	2.4x	2.0x	1.8x	12.4x	13.9x	15.6x	12.7x	1.7%	1.8%	2.2%	2.8%	22.3%	17.1%	12.6%	14.0%
Sberbank	5.0x	2.8x	2.4x	2.0x	18.2x	16.4x	13.4x	10.6x	0.4%	0.6%	0.9%	1.3%	27.3%	17.0%	18.1%	18.9%
VTB Bank	2.4x	1.4x	1.4x	1.3x	15.5x	15.6x	15.3x	12.2x	0.4%	0.7%	1.3%	1.6%	15.8%	9.1%	9.3%	10.7%
Erste Bank	1.9x	1.8x	1.5x	1.3x	15.2x	12.5x	10.5x	8.7x	1.4%	1.6%	1.9%	2.3%	12.2%	14.1%	14.2%	14.9%
Intesa Sanpaolo	1.5x	0.9x	0.9x	0.9x	10.9x	10.8x	8.8x	7.6x	10.1%	10.1%	7.7%	9.3%	13.7%	8.5%	10.1%	11.3%
KBC Groupe	1.6x	1.6x	1.5x	1.3x	10.0x	9.2x	9.4x	8.3x	4.2%	4.8%	4.9%	5.4%	16.1%	17.1%	15.6%	16.2%
Société Générale	1.0x	1.0x	1.0x	0.9x	5.2x	30.3x	7.9x	6.6x	8.6%	1.5%	5.8%	7.0%	18.8%	3.4%	12.6%	13.9%
UniCredit	1.1x	0.9x	0.9x	0.9x	8.6x	8.3x	8.2x	6.8x	5.8%	6.3%	6.4%	7.3%	12.9%	11.5%	11.0%	12.4%
Mean EB coverage	**3.8x**	**3.1x**	**2.5x**	**2.1x**	**21.6x**	**15.6x**	**13.9x**	**11.0x**	**1.9%**	**1.5%**	**2.2%**	**2.7%**	**21.5%**	**21.8%**	**21.6%**	**21.7%**
Mean CEE banks	**3.6x**	**2.8x**	**2.4x**	**2.0x**	**20.3x**	**15.3x**	**13.8x**	**11.0x**	**1.9%**	**1.8%**	**2.4%**	**2.9%**	**20.6%**	**19.9%**	**19.5%**	**20.0%**
Mean CEE exposure	**1.4x**	**1.2x**	**1.1x**	**1.1x**	**10.0x**	**14.2x**	**8.9x**	**7.6x**	**6.0%**	**4.9%**	**5.3%**	**6.3%**	**14.8%**	**10.9%**	**12.7%**	**13.7%**
Mean all banks	**3.1x**	**2.5x**	**2.1x**	**1.8x**	**18.0x**	**15.1x**	**12.7x**	**10.2x**	**2.8%**	**2.5%**	**3.1%**	**3.6%**	**19.2%**	**17.9%**	**18.0%**	**18.5%**

Source: JCF, Erste Bank estimates

Regression P/BV vs. ROE 2008e



Source: JCF, Erste Bank Research

We derived the following conclusions from our peer group valuation and regression analysis:

▮ The valuation premiums of 20% and more which we have seen last year at Polish and Romanian banks have disappeared and the P/BV returned to levels below 4.

▮ With the strong R^2 in our regression analysis, most premiums and discounts which appear in the peer group valuation seem justified by the corresponding size of the ROE, which has not always been the case in our previous regression analysis.

▮ One of our top picks, Raiffeisen International, currently trades at 2.1x BV08e, which is a 10% discount to the peers' 2.4x, as well as an 8% discount in terms of P/E 08e (13.6x vs. 13.8x). However, due to RI's weaker profitability of 17% ROE 08e, the regression analysis shows that RI is trading slightly above the regression line.

▮ OTP is our second top pick, currently trading at 1.5x BV08e and 7.6x EPS08e, which is some 35% below the CEE peers and actually more in line with the valuation levels of Western banks with some CEE exposure. However, with an ROE 08e of 23%, OTP still is far above these banks (ROEs around 14%) and therefore we do not regard this discount as justified.

▮ One of the most profitable banks in CEE is BRD GSG, with ROE 2008e of 34%. Currently, the BRD GSG share trades at a nearly 10% discount to the peer group mean in terms of P/E 08e, which still looks attractive to us.

▮ PKO BP and Komercni banka both have an Accumulate recommendation, as both are very profitable and trade very closely to the regression line, which puts the P/BV premiums of 44% for PKO BP and of 24% for Komercni into perspective.

▮ Banca Transilvania also trades close to the regression line, with a slight P/BV 08e premium of 5%. As we expect improving profitability in the near term, a higher premium would be justified. We therefore reiterate our Accumulate recommendation on the stock.

▮ Besides the overall bad sentiment toward financials, Serbian banks have been also hit by the current political instability in the country. Aik Banka is traded below the regression line, with a discount of 28% to the peers' P/BV 08e. Due to its high profitability (ROE 08e: 19%), we reiterate our Accumulate recommendation, but expect the stock price development to be highly influenced by politics.

▮ We have reinitiated coverage of BRE Bank with a Hold recommendation. BRE currently trades at 2.6x BV 08e and 14.8x earnings, which indicate premiums of 10% and 7%, respectively. With a 20% ROE 08e, BRE's P/BV08 trades above the regression line.

▮ FHB currently trades below the regression line and at a discount of 14% to its CEE peers in terms of P/BV 08e. As FHB still faces declining profitability, we regard this discount as justified and therefore stick to our Hold recommendation.

▮ Finally, there is Komercijalna Banka, which trades at very high premiums to the peer group of some 20% in terms of P/BV 08e. Due to its low profitability of 9% (ROE 08e), we do not see this premium as justified and reiterate our Reduce recommendation. However, as with Aik Banka, politics can act as a trigger in both directions.

All of our target prices are based on the valuation as of today (dividend discount model) and are calculated as 12-month target prices (using the cost of equity as the compounding rate).

Recommendation overview

Company	Country	Valuation method	Recommendation	Current price	Target price	Upside potential
AIK Banka	Serbia	3 stage DDM	**Accumulate**	RSD 8,300	RSD 9,660	16.4%
Banca Transilvania	Romania	3 stage DDM	**Accumulate**	RON 0.444	RON 0.510	14.9%
BRD Groupe Société Générale	Romania	3 stage DDM	**Accumulate**	RON 21.7	RON 25.6	18.0%
BRE Bank	Poland	3 stage DDM	**Hold**	PLN 381	PLN 410	7.6%
BZ WBK	Poland	3 stage DDM	**Hold**	PLN 150	PLN 165	10.0%
FHB	Hungary	3 stage DDM	**Hold**	HUF 1,152	HUF 1,200	4.2%
Komercijalna Banka	Serbia	3 stage DDM	**Reduce**	RSD 78,000	RSD 70,840	-9.2%
Komercni banka	Czech Rep.	3 stage DDM	**Accumulate**	CZK 4,183	CZK 4,700	12.4%
OTP	Hungary	3 stage DDM	**Buy**	HUF 6,705	HUF 8,500	26.8%
Pekao	Poland	3 stage DDM	**Hold**	PLN 168	PLN 184	9.5%
PKO BP	Poland	3 stage DDM	**Accumulate**	PLN 47.99	PLN 55	14.6%
Raiffeisen Intl.	Austria	3 stage DDM	**Buy**	EUR 92.48	EUR 114	23.3%

Source: Erste Bank estimates

Peer group comparison 1Q08

22% bottom line growth

First, we did a detailed peer group comparison to cross-check the performance of our coverage and compare to the other banks in the peer group that we do not cover. The cross-check of the 1Q08 performance of our banking coverage shows a diminishing pace of the bottom line growth to 22%, compared to the 26% we saw in 4Q07 and the above 30% levels of the first three quarters of 2007. The main reason for the slowdown was the single-digit growth of net fee & commission income, which was affected by a decrease of financial market related fees (e.g. asset management fees, brokerage fees). On the other hand, net interest income even accelerated to 26% annual growth, mainly driven by ongoing volume growth and central bank rate hikes, which helped deposit margins.

Overview 1Q 2008

1Q 2008 snapshot (EUR mn)	Bank Pekao**	BRE Bank	BZ WBK	FHB	Komercni banka	OTP Bank	PKO BP	Raiffeisen Intl.	Erste Bank
Net interest inc.	314.3	88.3	105.2	16.0	198.6	421.9	399.6	711.1	1151.1
Net provisions	-14.1	-6.2	-1.7	-0.8	-17.9	-47.4	-7.5	-93.0	-163.1
Net commissions	171.0	42.1	97.8	1.8	76.5	152.9	165.4	330.8	491.9
Op. expenses	-260.1	-118.3	-113.6	-11.8	-139.7	-344.2	-265.4	-584.4	-964.8
Pre-tax profit	391.6	119.7	97.6	12.5	146.7	261.8	333.2	369.6	494.5
Net profit	318.5	98.2	68.1	9.0	118.3	213.7	266.3	254.4	315.6
CAR (%)	10.6%	9.5%	10.6%		9.8%	13.2%	11.7%	10.2%	7.0%
NIM (on TA, %)	3.64%	2.16%	3.49%	2.64%	3.03%	4.99%	5.13%	3.81%	2.30%
CIR (%)	39.7%	57.9%	53.4%	49.6%	45.5%	52.2%	43.9%	55.8%	55.7%
ROE (%)*	29.9%	24.9%	21.8%	27.2%	23.5%	24.4%	30.7%	17.3%	14.9%
y/y (%)									
Net interest inc.	10.9%	38.6%	29.5%	-4.0%	16.5%	6.1%	37.9%	40.8%	27.4%
Net provisions	-50.6%	220.3%	n.a.	-195.6%	15.1%	11.6%	n.a.	22.5%	27.0%
Net commissions	-13.8%	5.3%	-4.8%	49.3%	4.3%	12.2%	10.7%	20.2%	12.1%
Op. expenses	3.6%	32.3%	18.4%	14.4%	12.0%	12.5%	7.7%	22.6%	10.8%
Pre-tax profit	21.6%	44.5%	-4.9%	43.9%	12.9%	11.4%	36.4%	26.4%	3.8%
Net profit	22.8%	57.5%	-6.7%	34.0%	16.6%	9.5%	41.4%	32.1%	4.5%
CAR (%)	-4.1%p	-1.4%p	-3.3%p	n.a.	-1.4%p	2.1%p	-2.1%p	0.9%p	0.2%p
NIM (on TA, %)	0.39%p	0.09%p	0.09%p	-0.54%p	0.15%p	-0.26%p	1.08%p	0.31%p	0.35%p
CIR (%)	-2.7%p	-2.1%p	3.6%p	-7.1%p	-0.2%p	-4.5%p	-7.9%p	-0.6%p	-3.0%p
ROE (%)*	4.4%p	-8.8%p	-3.7%p	5.3%p	3.1%p	-1.2%p	4.9%p	-1.6%p	0.0%p
q/q (%)									
Net interest inc.	32.4%	8.3%	3.3%	2.5%	2.1%	-1.5%	8.6%	-0.6%	4.5%
Net provisions	12.4%	-38.5%	-11.7%	-28.1%	63.0%	-27.4%	n.a.	-19.1%	37.3%
Net commissions	9.8%	10.8%	-13.0%	-42.8%	-19.5%	-8.7%	-3.6%	-6.8%	-2.3%
Op. expenses	7.7%	-3.3%	-18.2%	-22.7%	-0.4%	-14.8%	-20.4%	-9.6%	3.5%
Pre-tax profit	107.9%	108.9%	29.5%	78.6%	-5.1%	12.7%	11.6%	30.0%	-14.3%
Net profit	102.5%	147.1%	42.6%	92.4%	-1.4%	8.6%	8.7%	18.0%	-6.3%
CAR (%)	-1.0%p	-0.7%p	-2.7%p	n.a.	-0.3%p	3.6%p	-0.3%p	-1.2%p	0.0%p
NIM (on TA, %)	0.25%p	0.00%p	-0.16%p	-0.03%p	-0.01%p	-0.38%p	0.30%p	-0.27%p	0.10%p
CIR (%)	-16.2%p	-7.1%p	-10.8%p	-15.7%p	0.0%p	-8.8%p	-10.9%p	-6.0%p	-0.2%p
ROE (%)*	10.5%p	7.4%p	5.8%p	11.8%p	-1.8%p	1.4%p	0.3%p	0.5%p	-1.0%p

Source: Company data, Erste Bank

best in class | w orst in class

*) adjusted for one-off capital gains

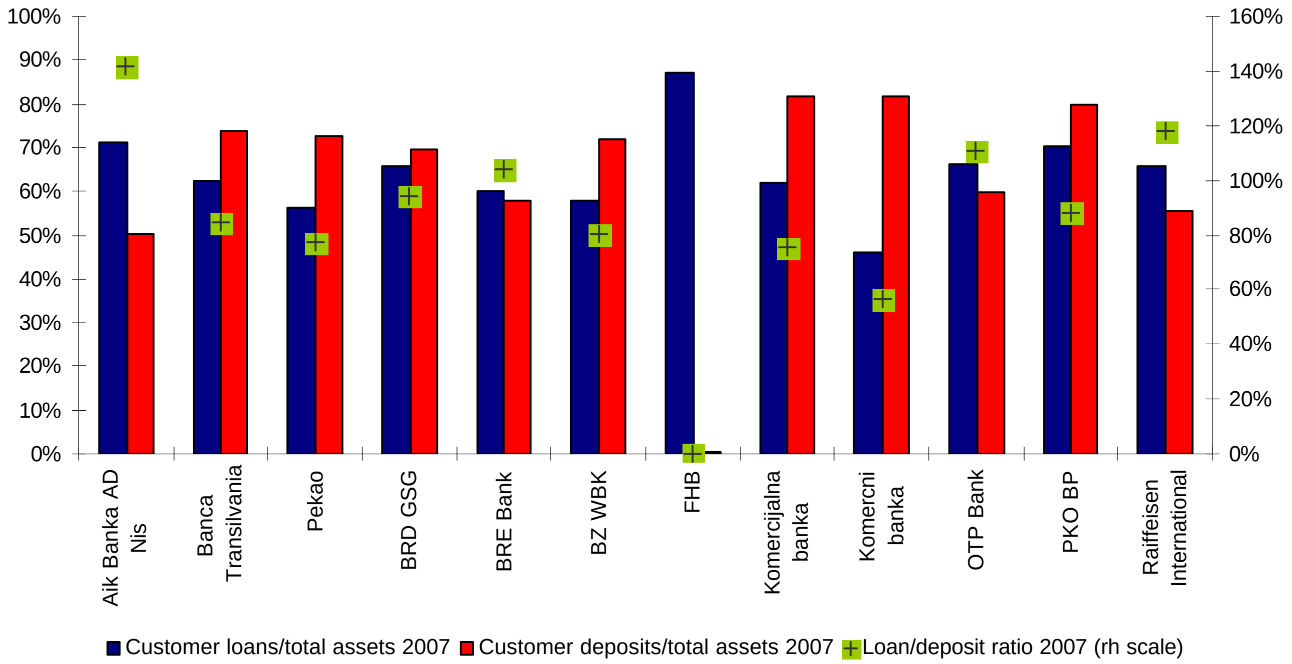
**) including BPH-285 consolidated as of November 30, 2007

Sector Report

Net interest income was main driver

In our view, 1Q08 was still a very good quarter, albeit at a diminishing pace on the bottom line. The income drivers have switched from fees & commissions to net interest income. Moreover, the quality of the growth has improved compared to previous quarters, because the release of loan loss provisions was brought to a halt and banks are returning to more sustainable provisioning. In the coming quarters, we will watch out for loan and deposit volume growth, bearing in mind the rising loan/deposit ratios, which cause funding constraints. Additionally, as rate hikes were postponed and funding costs have risen, net interest income should grow steadily. Fee & commission income might accelerate again when the financial markets pick up and funds come back to asset managers.

Funding quality 2007



Source: Company data

AIK Banka DDM

Dividend Discount Model in RSD	2008e	2009e	Stage I 2010e	2011e	2012e	Stage II 2013e-2022e	TV 2023ff
Total asset per share growth	29.8%	27.0%	27.0%	22.0%	17.0%	10.2%	
ROE	18.7%	18.7%	18.4%	18.7%	18.0%	15.6%	12.0%
BVPS	4,863	5,803	6,907	8,243	9,776		
Equity ratio	33.6%	31.6%	29.6%	29.0%	29.4%	30.5%	
EPS	844	997	1,170	1,417	1,625		
EPS growth	32.7%	18.0%	17.4%	21.1%	14.7%	8.2%	3.0%
Payout ratio	5.5%	5.7%	5.7%	5.7%	5.7%	27.5%	
DPS	47	56	66	80	92		
Cost of equity	14.3%	14.7%	14.6%	14.7%	14.8%	13.5%	9.5%
PV stage I					**221**		
PV stage II						**2,171**	
Target P/BV							1.38
BVPS 2022e							30,533
PV Terminal value							**6,064**
Equity value - DDM	**8,456**						
Equity value - DDM (12m)	**9,661**						

P/BV vs ROE Regression	2008e
R^2	0.854
ROE	18.7%
Target P/B	2.2x
Equity value	**10,802**
Equity value (12m)	**12,342**
Equity value - P/BV vs ROE	**10,802**
Equity value - P/BV vs ROE (12m)	**12,342**

P/E Multiples	2008e	2009e
P/E peer group	13.8x	11.0x
EPS	844	997
Equity value	**11,653**	**10,963**
Equity value (12m)	**13,314**	**12,525**
Weighting	0.50	0.50
Equity value - PE Multiples	**11,308**	
Equity value - PE Multiples (12m)	**12,919**	

Source: Erste Bank Research

Banca Transilvania DDM

Dividend Discount Model			Stage I			Stage II	TV
in RON	2008e	2009e	2010e	2011e	2012e	2013e-2022e	2023ff
Total asset per share growth	33.0%	30.7%	25.7%	22.3%	20.0%	10.1%	
ROE	33.4%	19.5%	20.3%	20.6%	20.0%	16.4%	12.0%
BVPS	0.181	0.224	0.279	0.344	0.422		
Equity ratio	9.9%	9.4%	9.3%	9.4%	9.6%	9.7%	
EPS	0.051	0.039	0.051	0.064	0.077		
EPS growth	61.3%	-22.4%	29.6%	25.7%	19.4%	8.0%	3.0%
Payout ratio	0.0%	0.0%	0.0%	0.0%	0.0%	30.0%	
DPS	0.000	0.000	0.000	0.000	0.000		
Cost of equity	12.3%	12.7%	12.6%	12.7%	12.8%	11.7%	9.5%
PV stage I					**0.000**		
PV stage II						**0.116**	
Target P/BV							1.38
BVPS 2022e							1.334
PV Terminal value							**0.338**
Equity value - DDM	**0.453**						
Equity value - DDM (12m)	**0.509**						

P/BV vs ROE Regression	2008e
R^2	0.854
ROE	18.5%
Target P/B	2.2x
Equity value	**0.397**
Equity value (12m)	**0.445**
Equity value - P/BV vs ROE	**0.397**
Equity value - P/BV vs ROE (12m)	**0.445**

P/E Multiples	2008e	2009e
P/E peer group	13.9x	11.0x
EPS	0.029	0.039
Equity value	**0.397**	**0.434**
Equity value (12m)	**0.446**	**0.487**
Weighting	0.50	0.50
Equity value - PE Multiples	**0.416**	
Equity value - PE Multiples (12m)	**0.466**	

Source: Erste Bank Research

BRD GSG DDM

Dividend Discount Model in RON	2008e	2009e	Stage I 2010e	2011e	2012e	Stage II 2013e-2022e	TV 2023ff
Total asset per share growth	33.0%	22.7%	22.9%	18.3%	13.7%	8.3%	
ROE	40.8%	32.6%	30.5%	27.9%	25.0%	17.4%	12.0%
BVPS	5.650	7.603	9.849	12.341	15.005		
Equity ratio	7.4%	8.1%	8.6%	9.1%	9.7%	9.7%	
EPS	2.059	2.161	2.660	3.093	3.417		
EPS growth	40.4%	5.0%	23.1%	16.3%	10.5%	1.8%	3.0%
Payout ratio	40.0%	39.2%	39.2%	39.2%	39.3%	50.0%	
DPS	0.823	0.847	1.043	1.214	1.342		
Cost of equity	12.3%	12.7%	12.6%	12.7%	12.8%	11.7%	9.5%
PV stage I					**3.635**		
PV stage II						**10.090**	
Target P/BV							1.38
BVPS 2022e							35.793
PV Terminal value							**9.068**
Equity value - DDM	**22.793**						
Equity value - DDM (12m)	**25.586**						

P/BV vs ROE Regression	2008e
R^2	0.854
ROE	34.2%
Target P/B	4.0x
Equity value	**22.717**
Equity value (12m)	**25.500**
Equity value - P/BV vs ROE	**22.717**
Equity value - P/BV vs ROE (12m)	**25.500**

P/E Multiples	2008e	2009e
P/E peer group	13.9x	11.0x
EPS	1.722	2.161
Equity value	**23.940**	**23.773**
Equity value (12m)	**26.873**	**26.686**
Weighting	0.50	0.50
Equity value - PE Multiples	**23.857**	
Equity value - PE Multiples (12m)	**26.779**	

Source: Erste Bank Research

BRE Bank DDM

Dividend Discount Model			**Stage I**			**Stage II**	**TV**
in PLN	**2008e**	**2009e**	**2010e**	**2011e**	**2012e**	**2013e-2022e**	**2023ff**
Total asset per share growth	19.2%	16.2%	14.2%	13.0%	12.0%	6.6%	
ROE	26.5%	22.6%	19.2%	18.4%	18.8%	15.6%	12.0%
BVPS	151.796	190.634	231.073	259.103	291.192		
Equity ratio	6.7%	7.3%	7.7%	7.7%	7.7%	7.9%	
EPS	35.447	38.629	40.422	45.136	51.672		
EPS growth	47.7%	9.0%	4.6%	11.7%	14.5%	3.0%	3.0%
Payout ratio	0.0%	0.0%	0.0%	40.0%	40.0%	55.0%	
DPS	0.000	0.000	0.000	18.055	20.669		
Cost of equity	11.2%	11.6%	11.5%	11.6%	11.7%	10.7%	9.5%
PV stage I					**25.4**		
PV stage II						**158.6**	
Target P/BV							1.4
BVPS 2022e							594.9
PV Terminal value							**185.1**
Equity value - DDM	**369.1**						
Equity value - DDM (12m)	**410.4**						

P/BV vs ROE Regression	**2,008**
R^2	0.854
ROE	19.9%
Target P/B	2.4x
Equity value	**358.1**
Equity value (12m)	**398.2**
Equity value - P/BV vs ROE	**358.1**
Equity value - P/BV vs ROE (12m)	**398.2**

P/E Multiples	**2,008**	**2,009**
P/E peer group	13.8x	11.0x
EPS	25.78	34.80
Equity value	**356**	**383**
Equity value (12m)	**396**	**426**
Weighting	0.50	0.50
Equity value - PE Multiples	**369.3**	
Equity value - PE Multiples (12m)	**410.7**	

Source: Erste Bank Research

BZ WBK DDM

Dividend Discount Model in PLN	2008e	2009e	Stage I 2010e	2011e	2012e	Stage II 2013e-2022e	TV 2023ff
Total asset per share growth	18.0%	16.0%	14.0%	13.0%	12.0%	6.6%	
ROE	20.4%	21.4%	20.9%	20.3%	19.7%	13.0%	12.0%
BVPS	72.641	83.130	92.805	101.061	107.531		
Equity ratio	10.9%	10.7%	10.5%	10.1%	9.6%	7.4%	
EPS	13.824	16.649	18.429	19.658	20.538		
EPS growth	5.6%	20.4%	10.7%	6.7%	4.5%	-2.1%	3.0%
Payout ratio	30.0%	40.0%	50.0%	60.0%	70.0%	80.0%	
DPS	4.147	6.660	9.214	11.795	14.377		
Cost of equity	11.8%	12.2%	12.1%	12.2%	12.3%	11.8%	10.0%
PV stage I					**33.5**		
PV stage II						**77.9**	
Target P/BV							1.3
BVPS 2022e							139.5
PV Terminal value							**36.0**
Equity value - DDM	**147.4**						
Equity value - DDM (12m)	**164.8**						

P/BV vs ROE Regression	2,008
R^2	0.854
ROE	20.4%
Target P/B	2.4x
Equity value	**175.8**
Equity value (12m)	**196.6**
Equity value - P/BV vs ROE	**175.8**
Equity value - P/BV vs ROE (12m)	**196.6**

P/E Multiples	2,008	2,009
P/E peer group	13.8x	11.0x
EPS	13.82	16.65
Equity value	**190.8**	**183.1**
Equity value (12m)	**213.3**	**204.8**
Weighting	0.50	0.50
Equity value - PE Multiples	**187.0**	
Equity value - PE Multiples (12m)	**209.1**	

Source: Erste Bank Research

FHB DDM

Dividend Discount Model in HUF	2008e	2009e	Stage I 2010e	2011e	2012e	Stage II 2013e-2022e	TV 2023ff
Total asset per share growth	12.6%	10.1%	10.1%	10.1%	10.1%	6.6%	
ROE	19.7%	18.0%	16.6%	16.2%	15.5%	14.2%	12.0%
BVPS	571.3	661.1	755.9	862.0	977.3		
Equity ratio	5.4%	5.7%	5.9%	6.1%	6.3%	6.6%	
EPS	104	111	117	131	142		
EPS growth	30.2%	6.5%	5.5%	11.7%	8.7%	6.4%	3.0%
Payout ratio	20.1%	20.1%	20.1%	20.1%	20.1%	45.0%	
DPS	21	22	24	26	29		
Cost of equity	11.5%	11.9%	11.8%	11.9%	12.0%	11.0%	9.5%
PV stage I					**87.0**		
PV stage II						**390.4**	
Target P/BV							1.38
BVPS 2022e							2,137
PV Terminal value							**598**
Equity value - DDM	**1,075**						
Equity value - DDM (12m)	**1,199**						

P/BV vs ROE Regression	2008e
R^2	0.854
ROE	19.7%
Target P/B	2.3x
Equity value	**1,336**
Equity value (12m)	**1,490**
Equity value - P/BV vs ROE	**1,336**
Equity value - P/BV vs ROE (12m)	**1,490**

P/E Multiples	2008e	2009e
P/E peer group	13.9x	11.0x
EPS	104	111
Equity value	**1,451**	**1,223**
Equity value (12m)	**1,618**	**1,363**
Weighting	0.50	0.50
Equity value - PE Multiples	**1,337**	
Equity value - PE Multiples (12m)	**1,491**	

Source: Erste Bank Research

Komercijalna Banka DDM

Dividend Discount Model in RSD	2008e	2009e	Stage I 2010e	2011e	2012e	Stage II 2013e-2022e	TV 2023ff
Total asset per share growth	23.7%	14.5%	17.6%	16.5%	15.8%	9.2%	
ROE	9.1%	11.6%	15.0%	15.4%	15.1%	15.8%	12.0%
BVPS	27,447	35,574	44,928	54,279	64,469		
Equity ratio	11.9%	13.5%	14.5%	15.0%	15.4%	15.9%	
EPS	2,281	3,666	6,054	7,644	8,965		
EPS growth	-38.7%	60.7%	65.1%	26.3%	17.3%	9.9%	3.0%
Payout ratio	0.0%	0.0%	0.0%	0.0%	0.0%	34.0%	
DPS	0	0	0	0	0		
Cost of equity	14.3%	14.7%	14.6%	14.7%	14.8%	13.5%	9.5%
PV stage I					**0**		
PV stage II						**15,099**	
Target P/BV							1.38
BVPS 2022e							184,147
PV Terminal value							**36,571**
Equity value - DDM	**51,670**	**51,670**	**51,670**				
Equity value - DDM (12m)	**59,033**	**59,033**	**59,033**				
Takeover premium	**10%**	**20%**	**30%**				
Takeover value - DDM (12m)	**64,936**	**70,840**	**76,743**				

P/BV vs ROE Regression	2008e
R^2	0.854
ROE	9.1%
Target P/B	1.1x
Equity value	**30,132**
Equity value (12m)	**34,426**
Equity value - P/BV vs ROE	**30,132**
Equity value - P/BV vs ROE (12m)	**34,426**

P/E Multiples	2008e	2009e
P/E peer group	13.8x	11.0x
EPS	2,281	3,666
Equity value	**31,478**	**40,324**
Equity value (12m)	**35,964**	**46,070**
Weighting	0.50	0.50
Equity value - PE Multiples	**35,901**	
Equity value - PE Multiples (12m)	**41,017**	

Source: Erste Bank Research

Komercni banka DDM

Dividend Discount Model in CZK	2008e	2009e	Stage I 2010e	2011e	2012e	Stage II 2013e-2022e	TV 2023ff
Total asset per share growth	10.5%	9.0%	8.0%	7.0%	6.0%	3.6%	
ROE	23.5%	23.4%	23.0%	22.0%	21.0%	15.6%	12.0%
BVPS	1,467	1,614	1,773	1,940	2,114		
Equity ratio	7.6%	7.7%	7.8%	8.0%	8.2%	9.7%	
EPS	328.258	359.849	389.810	408.541	425.152		
EPS growth	11.5%	9.6%	8.3%	4.8%	4.1%	0.8%	3.0%
Payout ratio	60.0%	60.0%	60.0%	60.0%	60.0%	60.0%	
DPS	197	216	234	245	255		
Cost of equity	9.8%	10.2%	10.1%	10.2%	10.3%	10.1%	9.5%
PV stage I					**913**		
PV stage II						**2,012**	
Target P/BV							1.4
BVPS 2022e							3,946
PV Terminal value							**1,369**
Equity value - DDM	**4,294**						
Equity value - DDM (12m)	**4,715**						

P/BV vs ROE Regression	2,008
R^2	0.854
ROE	23.5%
Target P/B	2.8x
Equity value	**4,065**
Equity value (12m)	**4,464**
Equity value - P/BV vs ROE	**4,065**
Equity value - P/BV vs ROE (12m)	**4,464**

P/E Multiples	2,008	2,009
P/E peer group	13.8x	11.0x
EPS	328	360
Equity value	**4,530**	**3,958**
Equity value (12m)	**4,974**	**4,346**
Weighting	0.50	0.50
Equity value - PE Multiples	**4,244**	
Equity value - PE Multiples (12m)	**4,660**	

Source: Erste Bank Research

OTP DDM

Dividend Discount Model in HUF	2008e	2009e	Stage I 2010e	2011e	2012e	Stage II 2013e-2022e	TV 2023ff
Total asset per share growth	20.9%	21.1%	18.3%	16.5%	14.6%	8.3%	
ROE	35.8%	20.7%	20.5%	19.6%	18.2%	14.8%	12.0%
BVPS	4,414	5,153	5,955	6,836	7,771		
Equity ratio	11.2%	10.8%	10.5%	10.4%	10.3%	9.9%	
EPS	1,411	990	1,139	1,250	1,328		
EPS growth	77.4%	-29.8%	15.1%	9.8%	6.2%	4.9%	3.0%
Payout ratio	16.5%	30.0%	30.0%	30.0%	30.0%	45.0%	
DPS	233	297	342	375	398		
Cost of equity	12.8%	13.3%	13.2%	13.4%	13.6%	12.2%	9.5%
PV stage I					**1,118**		
PV stage II						**2,282**	
Target P/BV							1.38
BVPS 2022e							17,609
PV Terminal value							**4,139**
Equity value - DDM	**7,539**						
Equity value - DDM (12m)	**8,502**						

P/BV vs ROE Regression	2008e
R^2	0.854
ROE	22.5%
Target P/B	2.7x
Equity value	**11,746**
Equity value (12m)	**13,246**
Equity value - P/BV vs ROE	**11,746**
Equity value - P/BV vs ROE (12m)	**13,246**

P/E Multiples	2008e	2009e
P/E peer group	13.9x	11.0x
EPS	881	990
Equity value	**12,246**	**10,891**
Equity value (12m)	**13,811**	**12,282**
Weighting	0.50	0.50
Equity value - PE Multiples	**11,569**	
Equity value - PE Multiples (12m)	**13,046**	

Source: Erste Bank Research

Pekao DDM

Dividend Discount Model in PLN	2008e	2009e	Stage I 2010e	2011e	2012e	Stage II 2013e-2022e	TV 2023ff
Total asset per share growth	6.9%	11.9%	10.9%	10.0%	8.0%	4.0%	
ROE	24.9%	23.8%	25.9%	24.8%	21.5%	15.6%	12.0%
BVPS	62.205	66.793	70.311	73.906	77.169		
Equity ratio	12.3%	11.8%	11.2%	10.7%	10.3%	9.7%	
EPS	14.752	15.374	17.752	17.880	16.225		
EPS growth	20.2%	4.2%	15.5%	0.7%	-9.3%	-2.6%	3.0%
Payout ratio	60.0%	70.0%	80.0%	80.0%	80.0%	80.0%	
DPS	8.848	10.757	14.196	14.304	12.980		
Cost of equity	11.4%	11.8%	11.7%	11.8%	11.9%	11.3%	9.5%
PV stage I					**46.7**		
PV stage II						**88.1**	
Target P/BV							1.4
BVPS 2022e							105.4
PV Terminal value							**30.8**
Equity value - DDM	**165.6**						
Equity value - DDM (12m)	**184.5**						

P/BV vs ROE Regression	2,008
R^2	0.854
ROE	24.9%
Target P/B	2.9x
Equity value	**182.8**
Equity value (12m)	**203.6**
Equity value - P/BV vs ROE	**182.8**
Equity value - P/BV vs ROE (12m)	**203.6**

P/E Multiples	2,008	2,009
P/E peer group	13.8x	11.0x
EPS	14.75	15.37
Equity value	**203.6**	**169.1**
Equity value (12m)	**226.7**	**188.4**
Weighting	0.50	0.50
Equity value - PE Multiples	**186.3**	
Equity value - PE Multiples (12m)	**207.6**	

Source: Erste Bank Research

PKO BP DDM

Dividend Discount Model in PLN	2008e	2009e	Stage I 2010e	2011e	2012e	Stage II 2013e-2022e	TV 2023ff
Total asset per share growth	20.0%	17.0%	14.0%	12.0%	11.0%	5.8%	
ROE	28.5%	29.2%	28.2%	26.3%	23.8%	16.5%	12.0%
BVPS	14.235	16.978	20.134	23.596	27.241		
Equity ratio	10.9%	11.1%	11.6%	12.1%	12.6%	14.3%	
EPS	3.738	4.550	5.234	5.740	6.046		
EPS growth	28.7%	21.7%	15.0%	9.7%	5.3%	1.8%	3.0%
Payout ratio	40.0%	40.0%	40.0%	40.0%	40.0%	50.0%	
DPS	1.495	1.820	2.094	2.296	2.419		
Cost of equity	10.3%	10.7%	10.6%	10.7%	10.8%	10.3%	9.5%
PV stage I					**7.9**		
PV stage II						**21.3**	
Target P/BV							1.4
BVPS 2022e							62.2
PV Terminal value							**20.9**
Equity value - DDM	**50.1**						
Equity value - DDM (12m)	**55.2**						
P/BV vs ROE Regression	**2,008**						
R^2	0.854						
ROE	28.5%						
Target P/B	3.4x						
Equity value	**47.8**						
Equity value (12m)	**52.8**						
Equity value - P/BV vs ROE	**47.8**						
Equity value - P/BV vs ROE (12m)	**52.8**						
P/E Multiples	**2,008**	**2,009**					
P/E peer group	13.8x	11.0x					
EPS	3.74	4.55					
Equity value	**51.6**	**50.0**					
Equity value (12m)	**56.9**	**55.2**					
Weighting	0.50	0.50					
Equity value - PE Multiples	**50.8**						
Equity value - PE Multiples (12m)	**56.0**						

Source: Erste Bank Research

Raiffeisen International DDM

Dividend Discount Model in EUR	2008e	2009e	Stage I 2010e	2011e	2012e	Stage II 2013e-2022e	TV 2023ff
Total asset per share growth	25.1%	22.1%	18.1%	17.1%	12.1%	7.5%	
ROE	14.7%	15.8%	16.6%	16.9%	17.1%	15.6%	12.0%
BVPS	49	58	67	77	89		
Equity ratio	8.4%	8.0%	7.9%	7.8%	8.0%	9.2%	
EPS	7	8	10	12	14		
EPS growth	17.5%	24.5%	22.5%	17.5%	16.5%	6.7%	3.0%
Payout ratio	20.1%	20.1%	20.1%	30.2%	30.3%	40.0%	
DPS	1.372	1.710	2.096	3.698	4.310		
Cost of equity	11.3%	11.5%	12.0%	12.3%	12.3%	11.2%	9.5%
PV stage I					**9.0**		
PV stage II						**29.9**	
Target P/BV							1.38
BVPS 2022e							232.8
PV Terminal value							**63.8**
Equity value - DDM	**102.6**						
Equity value - DDM (12m)	**114.1**						

P/BV vs ROE Regression	2,008
R^2	0.854
ROE	14.7%
Target P/B	1.8x
Equity value	**87.0**
Equity value (12m)	**96.8**
Equity value - P/BV vs ROE	**87.0**
Equity value - P/BV vs ROE (12m)	**96.8**

P/E Multiples	2,008	2,009
P/E peer group	13.8x	11.0x
EPS	6.82	8.49
Equity value	**94.1**	**93.4**
Equity value (12m)	**104.7**	**103.9**
Weighting	0.50	0.50
Equity value - PE Multiples	**93.8**	
Equity value - PE Multiples (12m)	**104.3**	

Source: Erste Bank Research

CEE banking sector drivers

Macro concerns

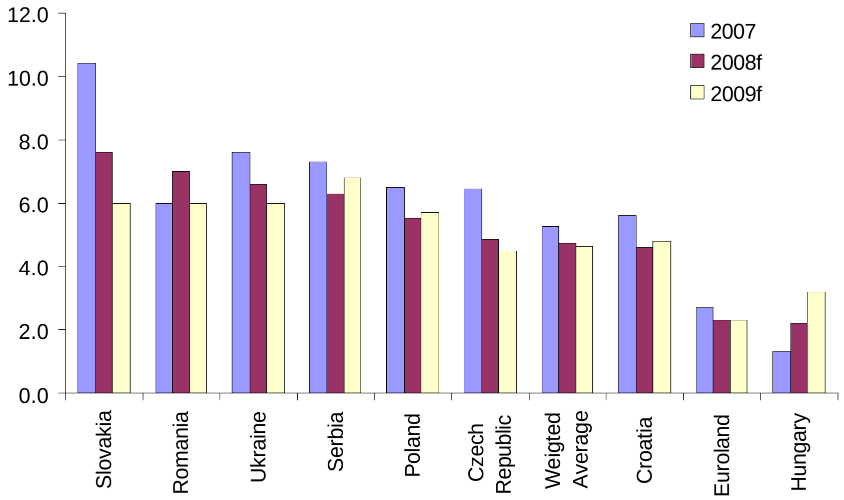
Exceptional period is coming to an end

A period of above-potential growth lies behind most CEE countries. The last few years were indeed outstanding. Growth rates were high and inflation increased only towards the end of the period, but this was mostly due to external factors (commodity prices) and/or changes of administered prices. Some price pressures generated from domestic demand occurred in Poland.

Economies to slow down moderately in 2008

At the same time, economic growth should slow down in the course of the year. The extent and cause might differ among the countries, but some common factors can be recognized. First and foremost, growth needs to come down, as the pace of recent years was unsustainable, which would lead in the medium term to overheating economies. The second factor is that important export markets (particularly the EU) are also set to slowdown, as the financial crisis and the slowdown in the US will be felt. The former seems to have peaked, but some lagging effects can still be expected. Overall, though, we do not expect a strong impact on the Euroland economy. However, it will suffice to have a somewhat dampening effect on CEE countries. Consumer demand should also decelerate, as employment growth is hitting natural barriers and inflation and interest rate increases will also start to bite.

GDP growth, y/y

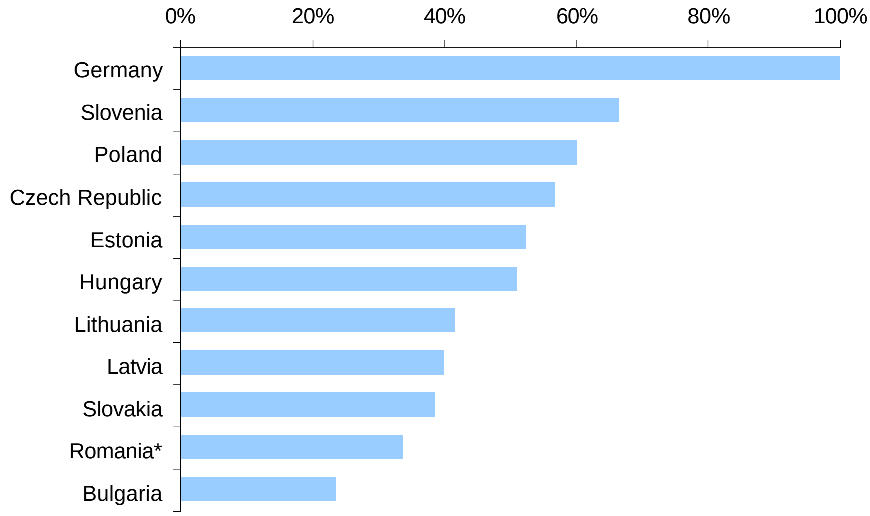


Source: Bloomberg, Erste Bank Research

Competitive advantage of CEE countries to remain for many years

In total, we only expect a moderate slowdown of economic growth, as the slowdown in Euroland should be relatively modest and we think that domestic demand has gained enough of a dynamic to compensate at least partially for any slowdown of foreign trade, especially as the competitive advantage of the new EU members is still significant. These countries offer a unique mixture of a stable political/legal framework and (labor) cost advantages. Unit labor costs are still considerably below western peers' throughout the region, i.e. the countries offer a favorable productivity-wage relationship. From an investors' perspective, countries outside the EU offer higher risks, but cost advantages are also higher. Given the size of the unit labor cost gap between transforming economies and the mature economies, the competitive advantage will remain for many years and continue to attract foreign investments. This will support further productivity and wage convergence towards Western peers. Thus, economic growth should remain above major market levels for many years to come.

United labour costs

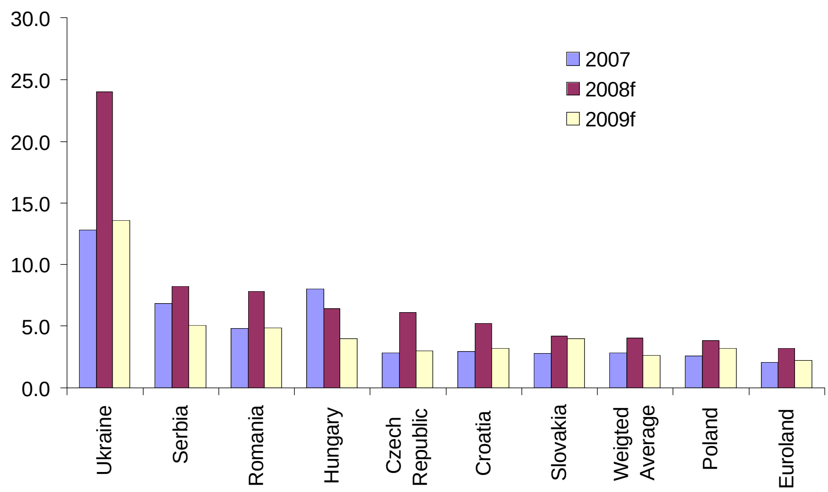


Source: Eurostat, Erste Bank Research

Slower economies and higher interest rates to keep lid on inflation

The recent years were not only outstanding in terms of economic growth, but were also accompanied by low inflation rates - at least until last year. The picture changed dramatically in the summer of 2007, as rising energy and food prices led to a strong increase of inflation rates. The consequences were felt more strongly in CEE countries, as food (for instance) has a higher weighting in the consumer basket than in mature markets. At the same time, currency gains dampened the effect of higher prices of dollar-traded goods. On the other hand, demand pull inflation has so far hardly emerged. Nonetheless, with labor markets tight and solid economic growth in 1Q, inflationary risks will remain an issue in the period ahead. So, pre-emptive interest rate hikes by central banks were justified, due to the rising risk of further price increases. The job of the central banks in this respect might not be over yet, but they will get support from cooling economies in the period ahead. We think that central banks should be able to master the situation and price increases will remain largely confined to the usual suspects: energy, commodities and food, only spreading into other areas of the economy to a minor degree.

Inflation, y/y



Source: Bloomberg, Erste Bank Research

Slow recovery in Hungary

Hungary was the exception to the regional rule during the last few years. The fiscal austerity package implemented in the fall of 2006 had severe implications for the economy: Growth dropped strongly, while inflation surged. At the same time, the desired effects on the current account balance and the fiscal deficit materialized, both showing a strong reduction since then. We expect only a slow recovery of the economy, but the bottom should have already been reached. Inflation is moving (too) slowly in the right direction. Ever rising commodity prices are of course also being felt strongly in Hungary. The central bank reacted with further increases of the key rate during the course of the year but for now the peak has likely been reached. In the end, inflationary pressures should recede and, together with further improvement on international financial markets, the central bank should be able to reduce interest rates towards the end of the year.

CEE currencies have performed well during the last several months. The Polish zloty, Czech koruna, Slovak koruna and Hungarian forint gained strongly. The Romanian leu moved away from the lows posted in January, just to name the most watched currencies. Future developments will depend on individual factors as well as market sentiment, with the latter probably the bigger unknown, but at least recent developments look promising in this respect (please refer to our forecasts for individual currencies).

Slovakia to join Eurozone starting 2009

Special circumstances apply to Slovakia, Serbia and Ukraine. After the positive assessment in the convergence report, Slovakia will join the EMU at the beginning of 2009. The only relevant question still open is the entry rate of the koruna. While this will be announced officially at the beginning of July it is very likely to be the reset central parity of EUR/SKK 30.1.

Lengthy coalition negotiations expected in Serbia

The course Serbia will take after the recent election will without doubt have a significant impact on the economy and capital markets. In the short term, the impact should be limited, as the central bank has sufficient FX reserves to stabilize the currency. The elections brought the expected inconclusive results and the formation of a new government will take time, as it is a complicated process. The largest pro-EU party won the election by a high margin, which was a surprise. However, with under 40% of the vote, uncertainty remains over the composition of the next government. In any case, it can be expected that any new government would have only a slim majority, as the electorate is evenly spilt between the two large camps. Nonetheless, a pro-EU government would follow the convergence process further, which is of course attractive for foreign investors. Also, the recently signed Stabilization and Association Agreement (SAA) could be ratified. However, to come into force, the SAA must also be ratified by all EU member state parliaments, which in turn depends on the transfer of the remaining inductees to the International Criminal Tribunal for the former Yugoslavia (ICTY). A government formed by nationalistic forces would not necessarily mean the end of any EU convergence, but the process would be put on ice at least until a new government is formed. The Serbian constitution provides for three months to form a government. Otherwise, elections are to be scheduled.

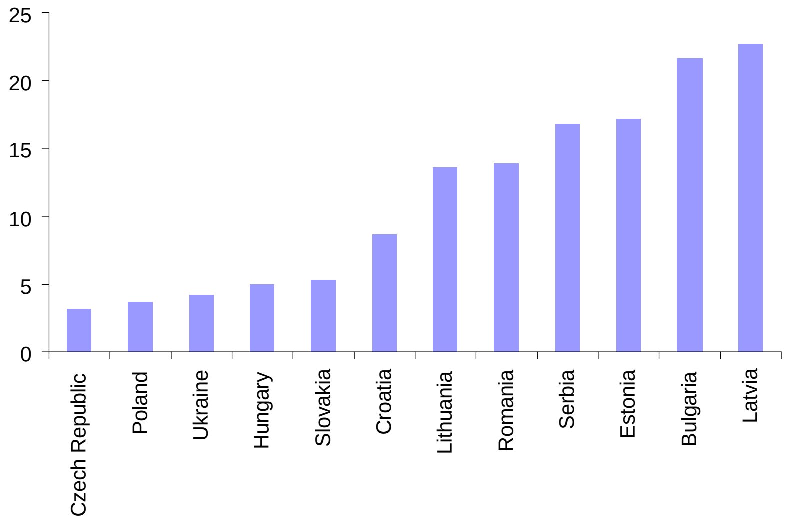
Only minor change of Ukrainian currency regime

Ukraine is confronted with inflation close to 30% and a fixed (= undervalued) exchange rate. The obvious solution would be to change to a floating rate regime and let the currency appreciate, which would dampen inflationary pressures. A change to a floating rate regime would have to be accompanied by some other form of monetary policy anchor - likely inflation targeting. In the case of Ukraine, this would not make much sense, as prices in the fields of energy and transport still need to be liberalized. Gas prices, for example, are still only 60% of the European level. The resulting inflationary pressures could not be fought by interest rates, so any setting of an inflation target would be senseless. Thus, we only see minor changes to monetary policy for the time being. At mid-May the central bank changed the official exchange rate to 4.85 UAH/USD, strengthening the hryvnia by 3.96%.

Current account deficits in spotlight

The CEE economies that have been driven by strong domestic demand, like the Balkan and Baltic states, faced growing external imbalances, in some cases with the current account deficit even topping 20% of GDP (Bulgaria, Latvia). Financing of current account deficits has become more challenging, given the strong preference for liquidity on global financial markets and widened spreads. These economies now have to rely on further FDI inflows or growing external debt to finance their deficits.

Current account deficit / GDP (2007, %)



Source: Erste Group Research, Consensus Forecasts

Deterioration of Romanian C/A deficit slowing down

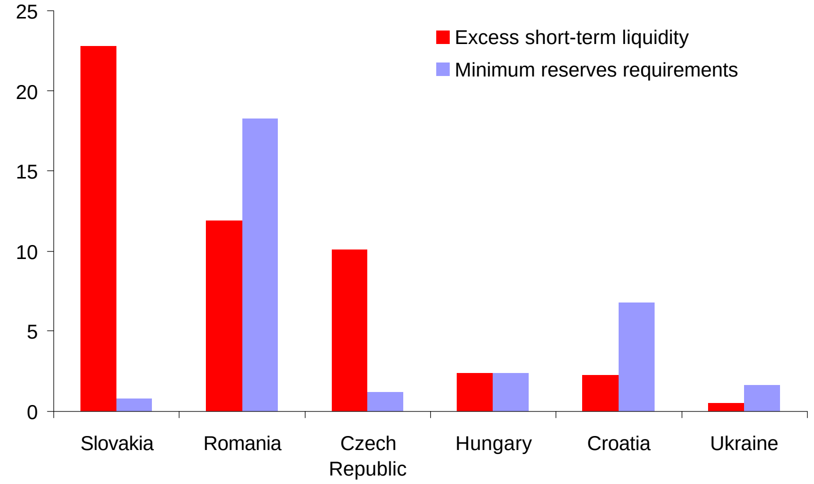
Despite having a lower current account deficit than the Baltic states, the situation has been more pronounced in Romania because of its flexible exchange rate. Since summer 2007, Romania has been facing periods of strong sell-offs, driven by fears about the vulnerability of the Romanian economy and the impact of its weaker currency on the economy (especially in the financial sector). We believe that the weakened currency is supportive of the Romanian economy and the adjustment process of the high current account deficit. Since the beginning of this year, we have seen a sharp deceleration of the current account widening, suggesting that the current account deficit to GDP might remain flat this year (compared to the general market consensus of minor growth). The current account deficit will be partially financed by FDI inflows (estimated at 6% of GDP) and further growth of external borrowing, mainly by the private sector.

We expect that strong growth of domestic demand will also lead to a widening of the current account deficit in Ukraine. Fortunately, Ukraine has been attracting large FDI inflows, which have sufficiently covered the current account deficit. A large-scale privatization plan scheduled by the Ukrainian government for 2008 makes the economy less dependent on issuing new external debt.

Local currency liquidity remains favorable in most CEE countries

Liquidity on local financial markets has remained favorable in recent months in most CEE economies. In general, central banks in CEE have had to sterilize excess local currency liquidity, rather than inject liquidity into the market. The highest excess liquidity has been in the Czech Republic and Slovakia, which also remained relatively immune to the global financial turmoil. However, in some countries where central banks have tried to tighten monetary conditions through an increase of minimum reserve requirements (in order to slow down credit growth), the excess liquidity has contracted substantially.

Liquidity monitor



Source: Erste Group Research, Central Banks

Monetary tightening has drained excess liquidity in Ukraine

The National Bank of Ukraine tightened its monetary policy in November last year by increasing the minimum reserve requirement (a 75% increase). On top of that, the bank increased rates twice in 2008, by 2% to 12%. The volume of excess liquidity in Ukraine shrank to UAH 2bn in April 2008, from an average level of UAH 11bn in 2007. The drained liquidity increased the volatility of money market rates and the NBU had to significantly increase refinancing of the sector a couple of times to neutralize the negative impact of the drained liquidity on the market. We expect the liquidity situation to stabilize in the coming months, as the government will release some additional hryvnia resources from its Treasury Account (liquidity has also been drained by extraordinarily high tax payments to the Treasury Account from the private sector, which have not come back to the sector yet).

Enlargement of Eurozone will continue in CEE

The positive assessment of Slovakia by the European Commission has increased the chances of other CEE countries qualifying for the single currency. However, we should see a pretty long pause (lasting at least three years) until the next CEE country joins the Eurozone. The Baltic countries will always face difficulties meeting the inflation criteria, unless a higher level of price convergence is achieved. Even if inflation declines, sustainability can be questioned. Countries with flexible exchange rate regimes are in a much better position to fulfill the inflation criterion. The assessment of Slovakia confirmed that nominal appreciation is tolerated within the ERMII and that disinflation achieved partially thanks to currency appreciation is also accepted. This significantly increases the chances of other adepts with relatively low price levels and flexible exchange rates (Poland, the Czech Republic, Hungary and Romania) to fulfill the inflation criterion in the mid-term outlook. None of these countries has entered ERMII and some of them face serious challenges in the fiscal area (especially Hungary), which delays their chances of early adoption. The timing depends heavily on the political support of early adoption (the lowest in the Czech Republic, relatively high in Poland at present) and the ability of governments to advance in structural reforms and fiscal consolidation.

Timetable – Euro Adoption expectation

	Erste Group Research*	Market consensus**
Lithuania	—	2012
Estonia	—	2012
Poland	2013	2013
Latvia	—	2013
Romania	2014	2015
Hungary	not before 2014	2014
Bulgaria	—	2014
Czech Republic	not before 2015	2013

Source: Erste Group Research (without Baltics and Bulgaria) , **Reuters Poll (April 2008)*

Sector overview

The banking markets we have looked at in CEE comprise 14 countries, including five in the CE region (i.e. the Czech Republic, Hungary, Poland, Slovakia, Slovenia), seven in SEE (i.e. Albania, Bosnia & Herzegovina, Bulgaria, Croatia, Montenegro, Romania and Serbia, with market data including Kosovo), as well as two countries in the CIS region, namely Russia and Ukraine. Out of these CEE-14, we have put our emphasis on Romania and Serbia, where the four banks in our recently extended coverage are headquartered, i.e. BRD Groupe Société Générale and Banca Transilvania from Romania, as well as AIK Banka and Komercijalna Banka from Serbia. Moreover, we have focused on Poland and Hungary, which are the core markets of the largest companies in our coverage, as well as the recent developments in one of the strongest growing markets in 2007, Ukraine. Please refer to the Appendix section for our new Country Fact Sheets, including macroeconomic data, banking sector data, market shares as well as funding quality and FX risk data.

Concerning Kosovo, we would like to point out that AIK Banka and Komercijalna Banka are not active in Kosovo and therefore do not operate a branch network there. Raiffeisen International runs 34 outlets in Kosovo, which contributes some EUR 300mn (or 0.7%) to RI Group's risk-weighted assets (as of 30.6.2007).

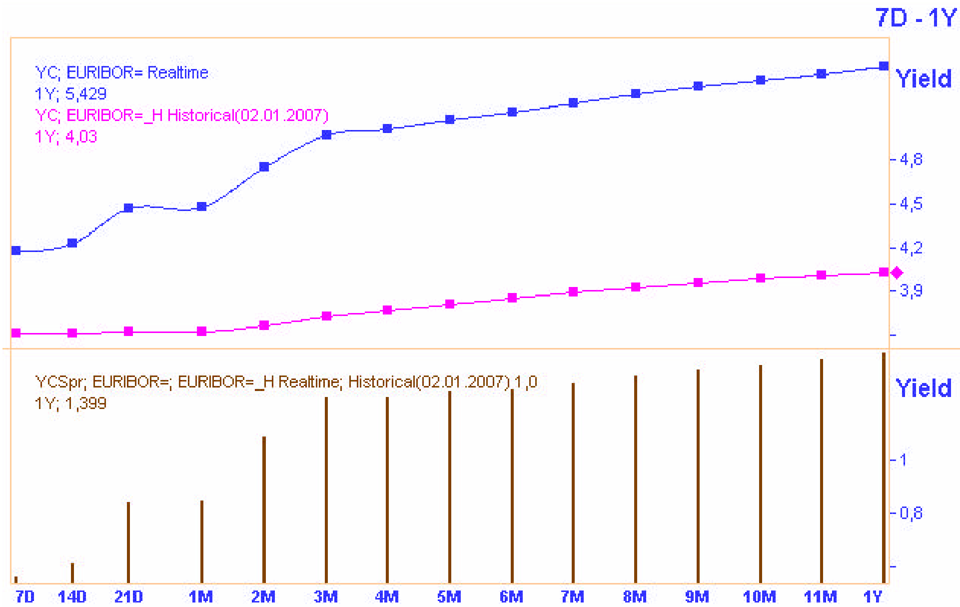
No sub-prime related write-offs, but...

The current market sentiment for the banking sector is still dominated by the US sub-prime crisis and its direct and indirect effects on the global economy and the banking sector. Unlike many US and Western European players, our CEE bank coverage is not at all involved in any sub-prime or sub-prime related investments and therefore needs no writing-off of their assets. With the end of the 1Q08 reporting season, however, investors' focus has changed from the direct effects (e.g. write-offs, capital needs) to the indirect effects of slowing economic growth and increasing funding costs.

…higher funding costs and slowing growth

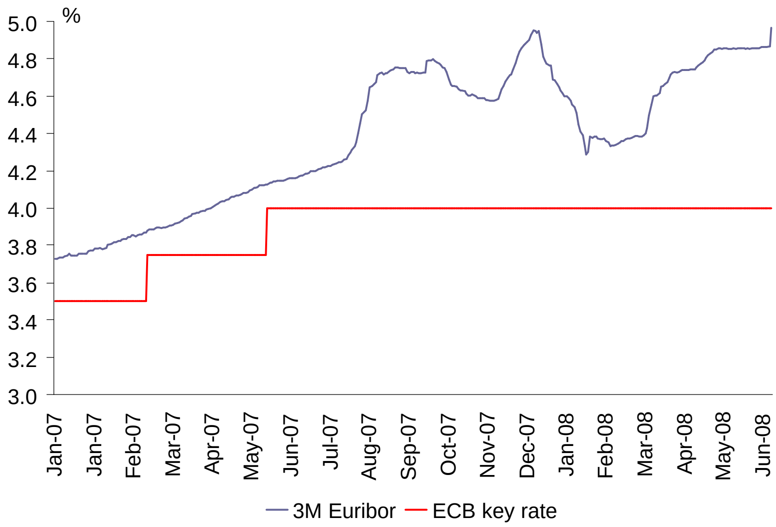
On the funding side, however, the crisis has squeezed liquidity. The 3M Euribor (for instance) increased by 125bp to 4.97%, from 3.725% at the beginning of 2007. Therefore, the funding ability and funding quality have become an issue in the last couple of months, in order to secure asset growth at a reasonable price.

Euribor yield curve, current vs. beginning of 2007



Source: Reuters

3M Euribor vs. ECB key rate



Source: Bloomberg, ECB

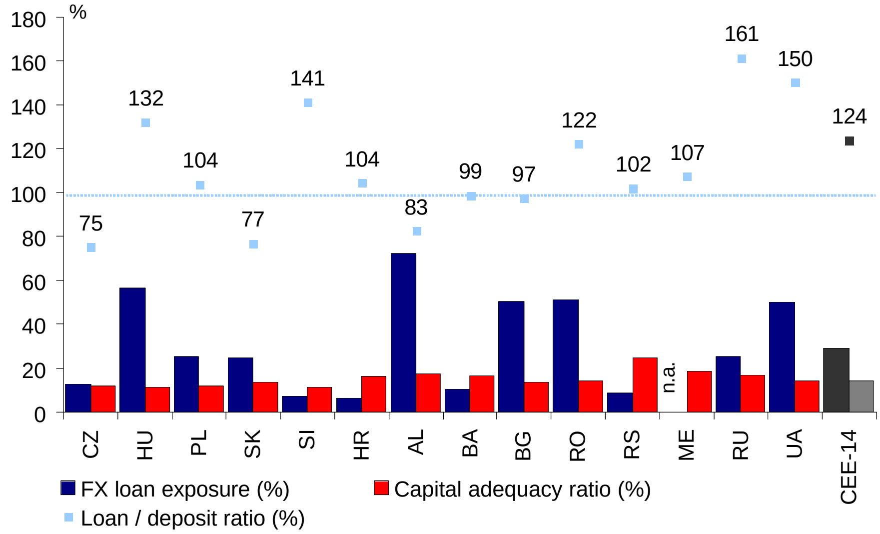
Stretched banking systems in Russia and Ukraine

Consequently, we have looked at the countries' loan / deposit ratios to assess the funding quality and the extent to which the banking systems are dependent on wholesale funding. The most stretched banking systems we found in Russia (161% loan / deposit ratio) and Ukraine (150%), followed by Slovenia (141%), Hungary (132%) and Romania (122%). In particular, in Russia (with more than 1,200 banks and a low market concentration), the smaller and mid-sized banks are currently running into trouble funding the strong asset growth. Players with good regional branch networks could therefore become increasingly interesting for bigger players, which need to grow their retail networks in this heavily under-banked country (1 bank branch covers 41,000 inhabitants, vs. about 1,900 in mature markets!).

High FX exposure in Hungary, Bulgaria, Romania, Ukraine

With the higher interest rate levels in most CEE countries compared to the Eurozone, the demand for FX loans has risen heavily in recent years. In 2007, the strongest FX loan growth was seen in Bulgaria (+86% y/y), Romania (+84% y/y) and Ukraine (+75% y/y), resulting in FX exposure (FX loans in terms of total loans to the non-financial sector) of more than 50%. Additionally, Albania (72%) and Hungary (56%) have been exposed to FX loans for many years. The strongly FX-exposed countries face higher default risk than markets relying on local currency loans in the case of a depreciating local currency, which increases credit installments (see also the "FX and interest rate scenarios" section). We therefore have also looked at the equity coverage of the FX loan exposure to demonstrate the different sizes of the banking sector's cushions. As shown in the graph below, the Czech Republic (low interest rate level), Slovenia (euro implemented as of 1.1.2007), Croatia and Serbia can be seen as safe havens in terms of FX exposure.

Funding quality and FX exposure (2007 data)

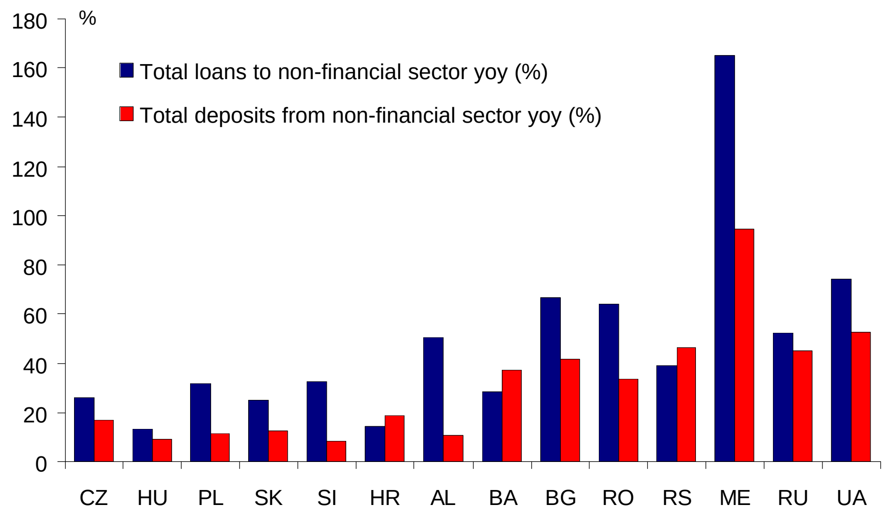


Source: National banks, Erste Bank Research

Strongest growth 2007: new EU members, Ukraine, Russia

In 2007, the strongest loan growth was seen in the new EU members Bulgaria and Romania, as well as the CIS region, i.e. Ukraine and Russia, with more than 50% annual growth. Montenegro had an extraordinarily high 124% loan expansion. The main driver in the CEE region was again retail loans, growing above 50% levels in Ukraine, Romania, Russia, Bulgaria and Serbia. Corporate loan growth was very strong in Bulgaria (+77% y/y) and Ukraine (+62% y/y). In general, deposit growth has been slower than loan growth, lifting loan / deposit ratios above the 100% barrier in some countries.

Annual growth of loans and deposits (2007 data)

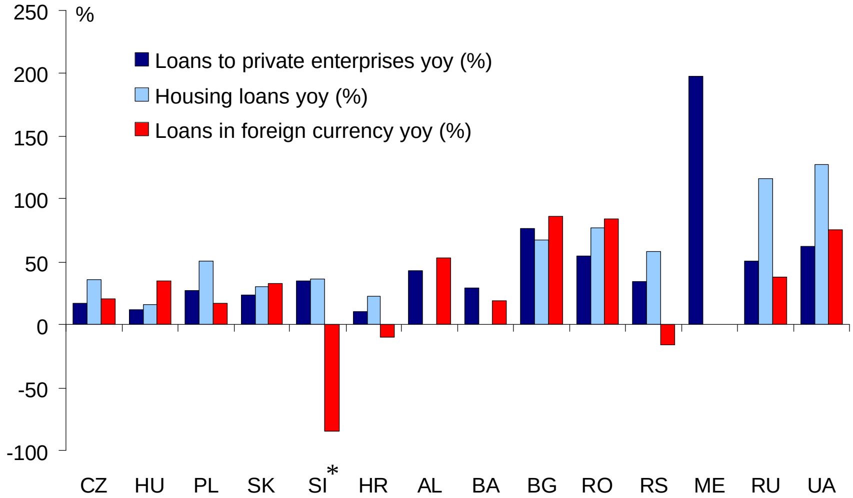


Source: National banks, Erste Bank Research

Mortgage and consumer loans are main drivers

In many CEE countries, the low penetration of loans provides a basis for strong lending growth rates in the coming years. The main drivers for the loan growth in most of the countries are mortgage and consumer loans - a consequence of decreasing unemployment rates, rising GDP per capita and subsequently growing demand for consumer goods and housing. Mortgage loans were the main growth contributor in CEE, with +127% y/y in Ukraine, +116% in Russia and +77% y/y in Romania.

Annual growth of loan types (2007 data)



** Slovenia implemented the euro as of 1/1/2007.*
Source: National banks, Erste Bank Research

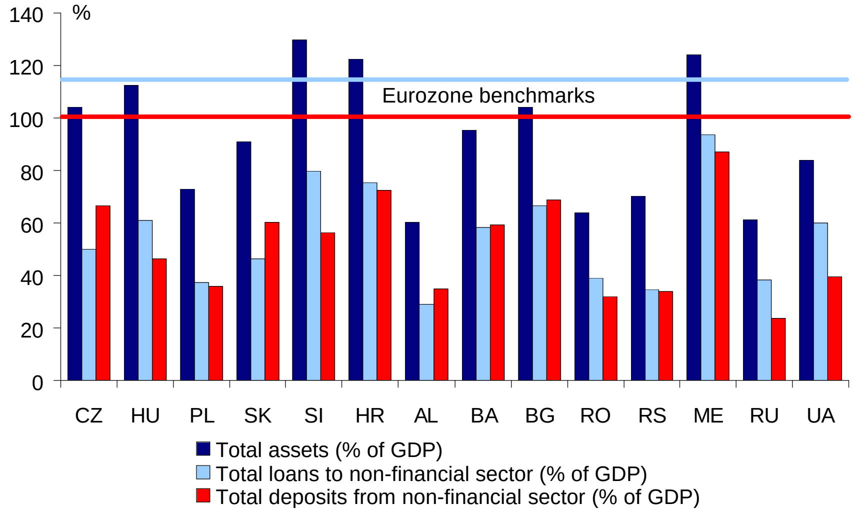
Pace remained strong in 1Q08

The expected economic slowdown in the CEE region is not yet reflected in the banking sector data we have for 1Q08. Key markets like Poland, Romania and Ukraine have not yet lost their strong pace set in 2007. In Poland, the projections of a decrease in the price of residential real estate and of the growth in the supply of dwellings resulted in limited speculative demand for housing loans for the third time in a row in 1Q08. However, the national bank statistics still show strong (50%) annual growth of housing loans in the first quarter (+50.4% y/y as of year-end 2007). In Romania and Ukraine, the loan growth in 1Q08 even accelerated to 66% y/y and 76% y/y, respectively.

Still lots of catch-up potential on asset side

The following graph shows the impressive catch-up potential of the CEE region. It compares total banking sector assets, total loans to the non-financial sector and total deposits from the non-financial sector to GDP. The underlying data was collected from the local national banks and adapted where necessary for comparability reasons. However, we cannot guarantee 100% comparability, as the quality of the data depends on the national banks. We adjusted the data for transactions among banks and foreign assets in order to avoid double counting. We think that the new EU members Bulgaria and Romania, as well as Ukraine and Russia, will offer the highest growth rates in the coming years, converging to mature market levels. Overall, we expect all CEE countries to use the catch-up potential they have, resulting in above-average growth rates for more than ten years.

Penetration rates (2007 data)



Source: National banks, Erste Bank Research

Foreign players to increase confidence

The gap between the Euro Area and CEE countries regarding the total deposits to GDP ratio in many cases is smaller than for total loans to GDP. This is based on the fact that the growth on the loan side started much later than the deposit growth. While the deposits are already at a relatively high level in countries like the Czech Republic and Croatia, in the emerging banking markets, a lot of money is still stored in piggy banks. We expect the commercial banks to continue to replace piggy banks as confidence in the banking market rises. The entrance of foreign players usually has a very positive effect on confidence in the banking market, which can already be seen in Ukraine, Bulgaria and Bosnia & Herzegovina.

FX and interest rate scenarios in Romania

Some concerns on affordability, but...

In countries with high FX loan exposure like Romania (51% as of year-end 2007), bankers, analysts and investors carefully watch out for the development of the local vs. the lending currency. The main reason is that borrowers having to pay back their loans in foreign currency but earning their money in local currency can easily run into trouble paying back their loans if the local currency devalues (and no insurance bears the FX risk) and the monthly salary allows no 20% plus installment boost. Therefore, banks and, in some countries, the national bank, implemented lending criteria as a buffer for securing future affordability of potentially higher installments (either FX or interest rate-driven), i.e. installments for mortgage loans not exceeding 50-70% of net salary (depending on customer risk profile) and loan to value ratios of 75-80% (irrespective of lending currency, max. 100%). In fact, the cushions are not very big, in particular when inflation eats up some salary.

...flat EUR/RON year-end forecast

The sharp lei devaluation vs. the euro of -24% from the currency's peak on July 2, 2007, to its 2007/2008 low on January 25, 2008, which was based on worsening macroeconomics, raised concerns on the affordability of existing FX loans in a scenario of further lei devaluation to EUR/RON levels of 4.0 or even 4.2. But, we also have to mention that the lei in 1H07 strongly appreciated (by 9%) to a peak EUR/RON 3.087 and then started depreciating, falling 19% since then. Reducing the impact of these extreme values by focusing on the yearly average numbers, we have seen the lei appreciating in 2007 by 5% vs. the 2006 average. Our forecast of EUR/RON 3.5 (year-end 2008) indicates an appreciation of 3% and our forecast for average 2008 of EUR/RON 3.6 is flat compared to year-end 2007.

EUR/RON milestones from 2006 until now

RON valuation changes (%) " – " = RON devaluation		2006 year-end	2006 average	2007 peak	2007 year-end	2007 average	2007/08 low	2008 9.6.08	2008 year-end	2008 average
	EUR/RON	3.382	3.525	3.087	3.608	3.334	3.839	3.668	3.500	3.600
2006 year-end	3.382		-4.2	8.7	-6.7	1.4	-13.5	-8.5	-3.5	-6.4
2006 average	3.525	4.1		12.4	-2.4	5.4	-8.9	-4.1	0.7	-2.1
2007 peak (2.7.07)	3.087	-9.6	-14.2		-16.9	-8.0	-24.3	-18.8	-13.4	-16.6
2007 year-end	3.608	6.3	2.3	14.4		7.6	-6.4	-1.7	3.0	0.2
2007 average	3.334	-1.4	-5.7	7.4	-8.2		-15.1	-10.0	-5.0	-8.0
2007/08 low (25.1.08)	3.839	11.9	8.2	19.6	6.0	13.1		4.4	8.8	6.2
2008 9.6.08	3.668	7.8	3.9	15.8	1.6	9.1	-4.6		4.6	1.9
2008e year-end	3.500	3.4	-0.7	11.8	-3.1	4.7	-9.7	-4.8		-2.9
2008e average	3.600	6.1	2.1	14.3	-0.2	7.4	-6.6	-1.9	2.8	

Source: Reuters, Erste Bank estimates

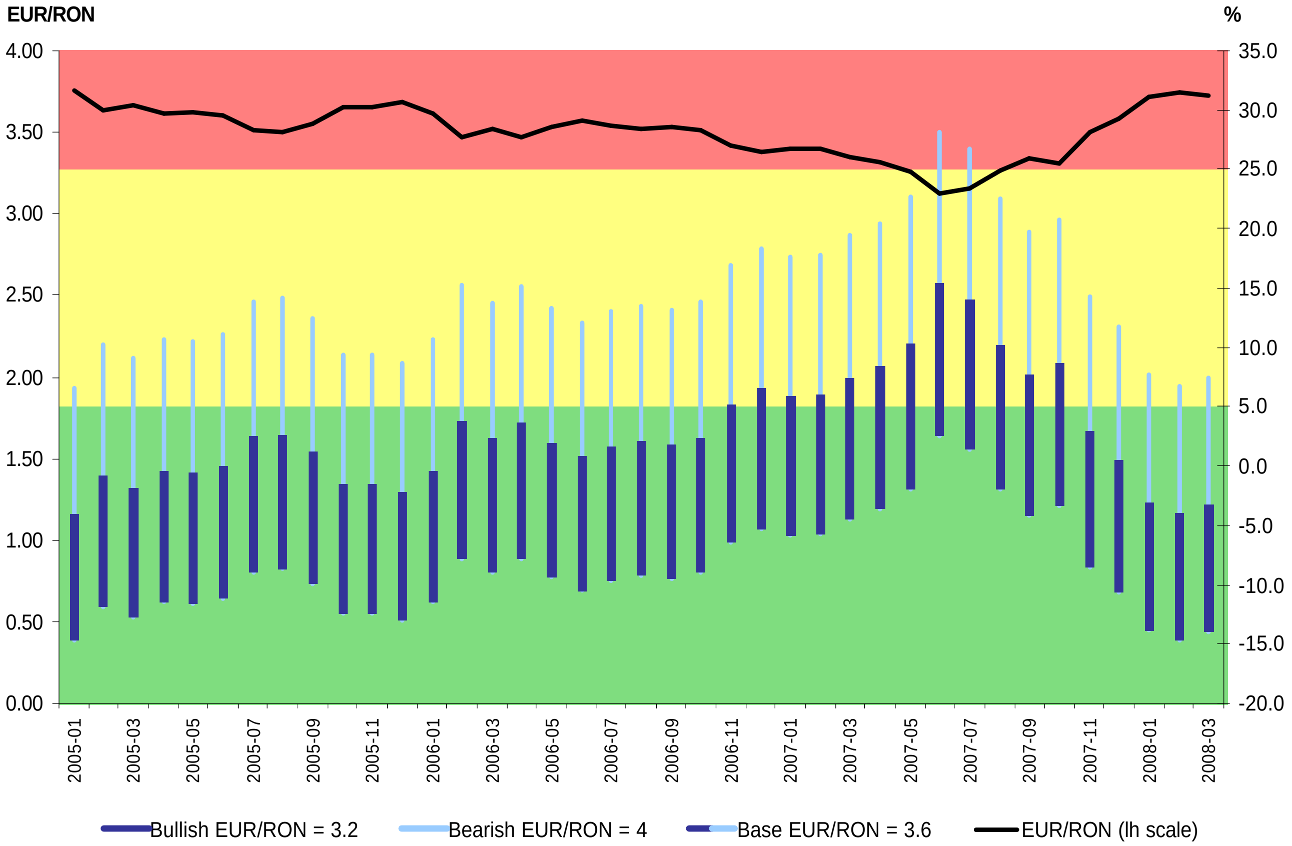
Timing matters

Due to the sharp appreciation and devaluation of the lei in 2007, the FX loan affordability analysis has to go down to monthly data, because the installment of an FX mortgage loan taken (for instance) in January 2007 might not stretch the monthly net wages of the borrower in such a way as an FX mortgage loan taken in June 2007 would today. So, we can say that the impact of currency devaluation scenarios on borrowers' affordability also has an important timing component.

FX: Only two scary months, mostly cheaper

The following chart gives an overview of the price changes of loan installments for a euro loan taken at a given time from January 2005 to February 2008. The green zone indicates installments becoming cheaper or at most 5% more expensive; the yellow zone ranges from 5-25% higher installments and the red zone shows more than 25% pressure on installments. The bandwidth of the blue sticks shows three major EUR/RON scenarios. The dark blue section ranges from a bullish EUR/RON of 3.2 to our base scenario of EUR/RON 3.6 (EB forecast for 2008 average) and the light blue section indicates a bearish EUR/RON of 4.0. We can see that, in the base EUR/RON scenario (the middle of the stick), the installments on FX loans taken in June 2007 will be 15% more expensive due to the strong RON at that point in time. And in a bear case scenario (EUR/RON of 4.0), only the installments of FX loans taken in June and July 2007 will jump over the 25% price increase barrier. So, if we come back to our base EUR/RON scenario, we feel quite comfortable with the fact that borrowers who have taken FX loans in a period of 12 months (from November 2006 until October 2007) out of the observed 36 months bear a 5-15% price increase risk. In fact, in most cases, the FX installments have not changed or have even become cheaper for borrowers.

EUR/RON stop lights

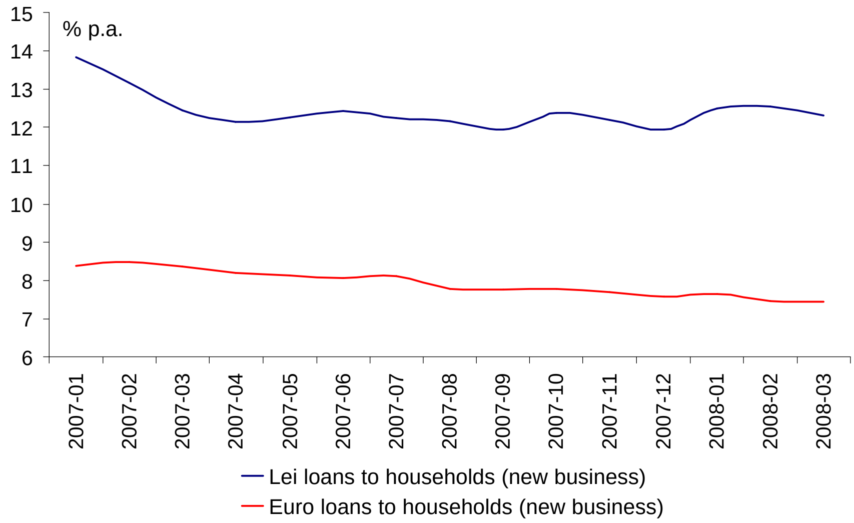


Source: Reuters, Erste Bank estimates

Euro loan rates declined with RON rates

In a second step, we have looked at the interest rate development both in Romania and in the Eurozone to assess the risk of interest rate hikes for the affordability of monthly installments. For this purpose, we have used average interest rates on new euro loans to households (monthly data provided by the National Bank of Romania). Notably, these interest rates do not correspond with the Euribor, which went up almost 100bp in 2007 (3M Euribor); in contrast, the interest rate for new euro loans in Romania decreased by 100bp to 7.58%, rather in line with the development of new lei loans. The chart below shows why euro loans in Romania are still more popular than lei loans, i.e. a spread of more than 480bp (7.44% for euro loans vs. 12.33% for lei loans, as of March 2008). And this favor might hold on for some time, taking the recent sharp rate hike in Romania into account.

Interest rate lei loans vs. euro loans to households

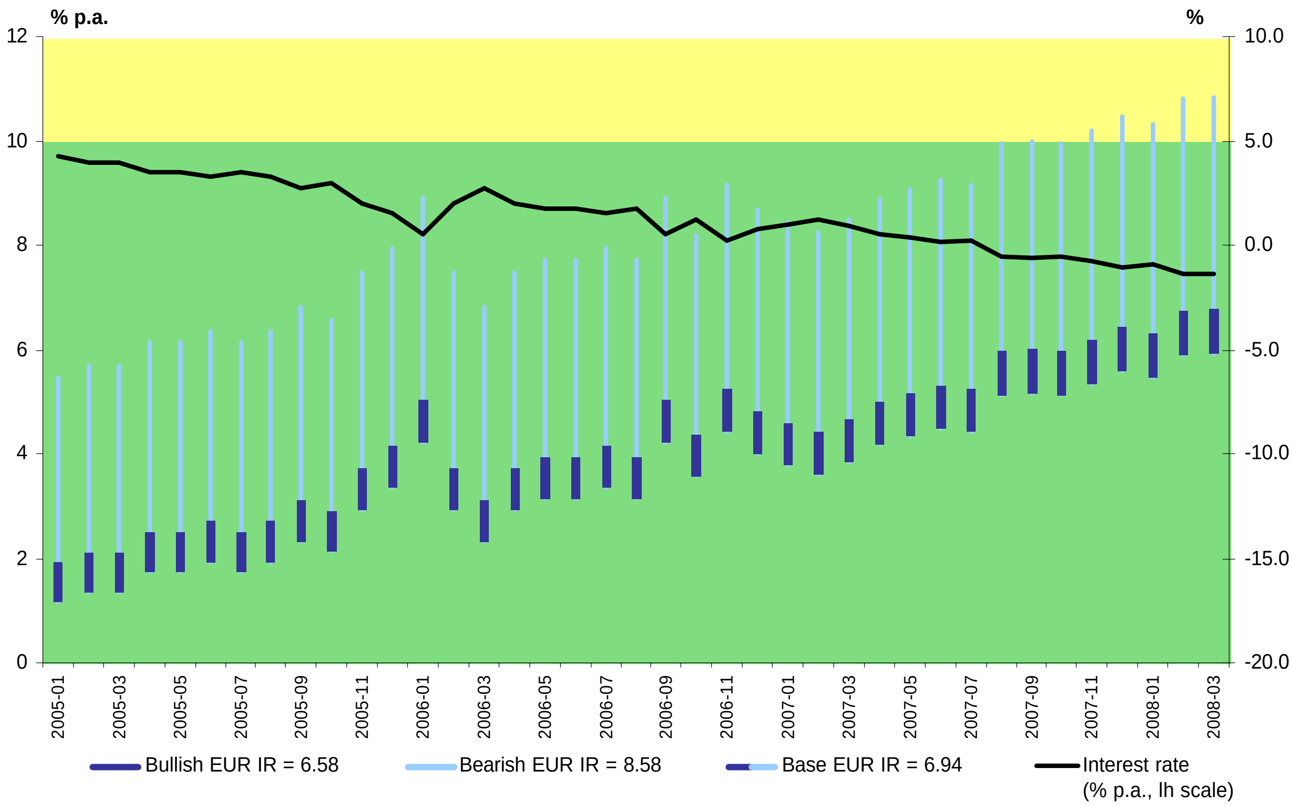


Source: NBR

Interest rates: mostly cheaper

In our base scenario for euro interest rates, Romanian households will have to pay in 2008, we have used our Euribor forecast, indicating a 64bp decrease by year-end 2008. This corresponds to a 6.94% interest rate for euro loans to households in Romania. Our bearish scenario includes a 100bp rate hike vs. year-end 2007 to 8.58% and the bull case a 100bp decline to 6.58% as of December 2008. Then, we have calculated for each and every interest rate the corresponding installment (15-year maturity) and the same for our three different scenarios. To keep a long story short: only the latest few cases in the bear scenario (loans granted since November 2007) bear a risk of over a 5% increase of monthly installments. In all other cases, even a 100bp interest rate hike would be below the 5% barrier.

Interest rate stop lights

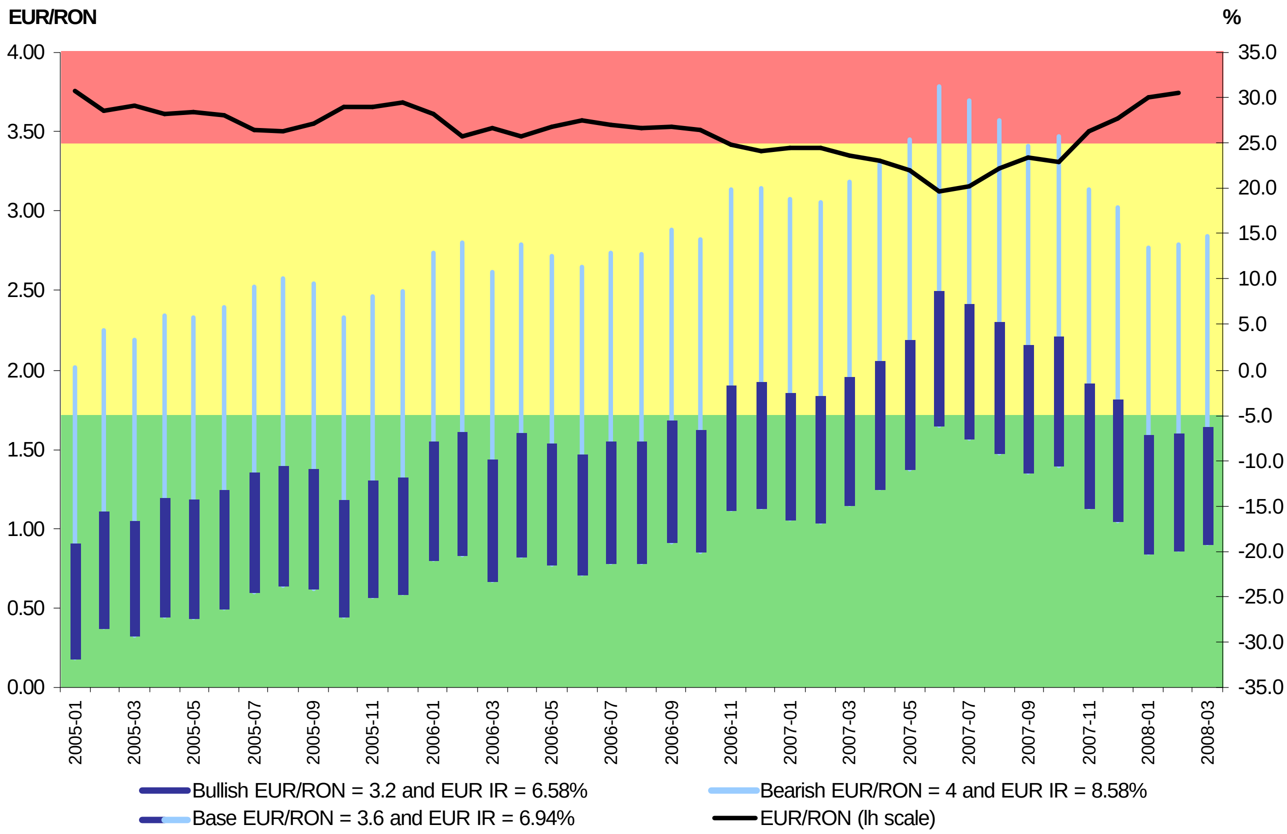


Source: NBR, Erste Bank estimates

FX + interest rates: 14 months in 5-10% price increase range

In the third step, we have combined both the EUR/RON installment sensitivity and the interest rate installment sensitivity. As you can see in the table below, there are 14 months out of the observed 39 months where we locate an increasing monthly installment between 5% and 10% compared to the initial installment (base scenario of EUR/RON = 3.6 and EUR interest rate = 6.94%). Only in the bear scenario (EUR/RON = 4.0 and EUR interest rate increases to 8.58%) are there six months at or over the 25% barrier, i.e. loans granted between May 2007 and October 2007 might face more than a 25% increase of the installment compared to the initial installment. A bull scenario, however, is for the whole 39-month period in the green zone of less than a 5% increase of the monthly installment. We therefore see the current macroeconomic environment and its implications for EUR/RON and interest rates as quite relaxed. Only in the case of a sustained weakening of the lei beyond the 4.0 level would we see the euro loans granted in June and July 2007 running into trouble, as servicing these loans would be 30% more expensive then initially intended for borrowers having only lei income.

Combined EUR/RON + interest rate stop lights



Source: NBR, Reuters, Erste Bank estimates

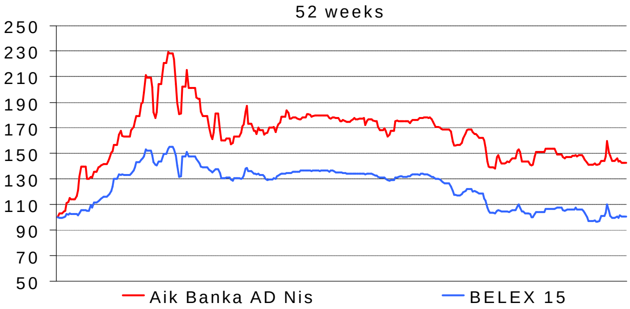
AIK Banka — maintain Accumulate

Serbia / Banking & insurance

Gernot Jany, CFA +43 50 100 11903
gernot.jany@erstebank.at

Share price (RSD)	8,300	Reuters	AIKB.BEL	Free float	69.1%
Number of shares (mn)	7.3	Bloomberg	AIKB SG	Shareholders	ATE Bank (20.32%)
Market capitalization (RSD mn / EUR mn)	58,361.3 / 732.4	Div. ex-date	n.a.		IRVA Investicije (10.63%)
Index weight (BELEX15)	20.0%	**Target price**	**9,660**	Homepage:	www.aikbanka.co.yu

RSD mn	2007	2008e	2009e	2010e
Total income	7,854	10,583	12,960	15,493
Operating profit	5,064	6,874	8,254	9,677
Profit before taxes	5,064	6,894	8,294	9,737
Net profit	4,475	6,056	7,286	8,553
EPS (RSD)	636	844	997	1,170
BVPS (RSD)	4,160	4,863	5,803	6,907
Div/share (RSD)	36	47	56	66
P/E (x)	13.0	9.8	8.3	7.1
P/BV (x)	2.0	1.7	1.4	1.2
Dividend yield	0.4%	0.6%	0.7%	0.8%

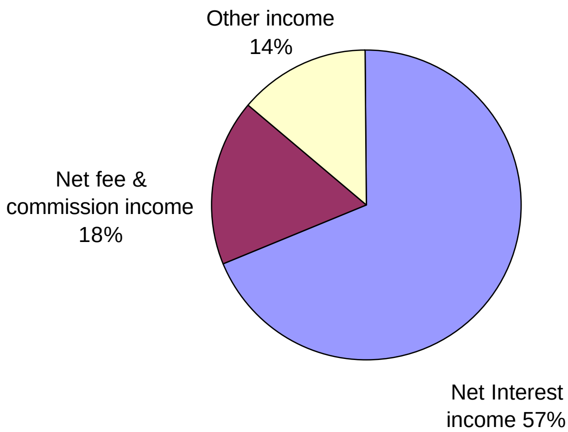


Performance	12M	6M	3M	1M
in RSD	-25.8%	-8.9%	7.8%	0.0%
in USD	-25.3%	-11.0%	12.4%	2.9%

Company description

AIK Banka (AIK) is one of the leading domestic banks in Serbia, providing banking services to large and medium size private and state-owned enterprises and individual customers. AIK started to invest more in the expansion of its branch network in the last four years, intending to target the retail segment more seriously, focusing on the regions of Belgrade, Nis and Novi Sad. The bank has around 200 corporate clients, 12,000 SME clients and 150,000 individual clients. Based on its impressive asset growth in 2007, the bank improved its market position to No. 6 by year-end 2007, from No. 11 the previous year. As the largest privately-held bank in Serbia, it might be a takeover target in the future. Greece's ATE currently holds a 20.3% stake in the company. The second biggest investor is local businessman Mr. Nicovic, who holds around 10.6% via Irva Investicije.

Total income breakdown (2007)



Source: Company data

Strength/Opportunities

- Quickly improving market position
- Strong foothold in SME business
- Outstanding profitability, based on high NIM and cost efficiency
- Possible takeover target
- Long-term catch-up potential of banking sector in Serbia
- Strong growth rates in all market segments

Weakness/Threats

- Higher business risk, due to focus on corporate and SME segment
- Weak deposit base (high loan/deposit ratio)
- High uncovered current account deficit
- Current political instability

Investment story

High growth and outstanding profitability

AIK Banka (AIK) is a very successful player on the Serbian banking market, combining high growth with cost efficiency, resulting in the highest profitability in the sector. Based on dynamic growth in 2007, the bank improved its market position markedly to No. 6 and is expected to continue moving up in the future. As AIK is the largest privately-held bank in the Serbian banking market, the takeover fantasy is still present.

Accumulate, target price RSD 9,660

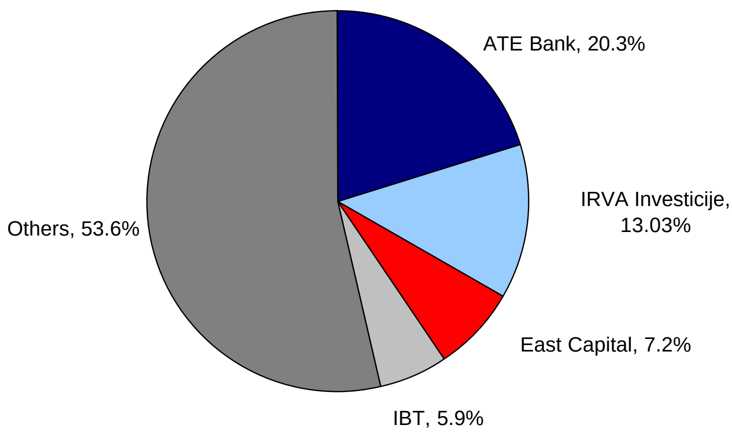
In the mid term, we expect ROE to stay more or less stable at around 18%. The ongoing pressure on margins should be compensated for by further declining risk costs and a strict cost management. The currently extremely high equity ratio of around 37% serves to some extent as a cushion against an adverse margin development. Based on its good market position and outstanding profitability, we reiterate our Accumulate recommendation with a 12-month target price of RSD 9,660.

Strategy

Largest privately-held bank

In 2006, AIK was ranked 11th in terms of total assets, with a market share of around 3%. Based on strong loan and deposit growth and partly due to the recent capital increase, AIK managed to further improve its market position in 2007, reaching the No. 6 position.

Shareholder structure



Source: Company data

Takeover fantasy

Greece's ATE currently holds a stake of 20.3% in the bank. The second largest investor is a local businessman, Mr. Nicovic, with around 10.6% held via Irva Investicije. Based on its market position and shareholder structure (no major shareholder), AIK could be a potential takeover target in the mid term (either for ATE or another strategic investor).

Focus on corporate segment

Unlike the majority of its competitors, AIK is almost a pure corporate bank, with an 80% stake of the total loan book in the corporate segment (incl. SME). According to management, there is no strategic shift to retail banking planned in the near future. In the past, AIK funded its growth mainly with equity, but heavily focused on collection of deposits in the last couple of years and managed to decrease its loan/deposit ratio to 153%, from 657% in 2003.

High profitability

Based on its business model and strict cost control, AIK is one of the most profitable banks in Serbia with ROE of around 19.4%. This outstanding ROE is based on high margins - especially in the SME segment (NIM 07: 9.4%) - and a very lean operation (CIR 07: 16.6%), whereas the leverage was more than moderate, with an equity ratio of 37.4%

in 2007 (or 22.4% incl. off-balance sheet items). We expect ROE to stay at around 18% in the mid term, as it should be possible to compensate for the ongoing pressure on margins by further lowering risk costs and strict cost management. The currently extremely high equity ratio of around 37% serves to some extent as a cushion against an adverse margin development.

Earnings review

Unconsolidated, SAS RSDmn	Reported 1Q 2008	Reported 1Q 2007	y/y
Net interest income	1,603.0	997.0	60.8%
Net provisions	-1,323.0	-333.2	297.0%
Net fee & commission inc.	614.0	414.1	48.3%
Pre-tax profit	1,264.0	999.2	26.5%
Net profit	n.a	n.a	n.a.
Net interest margin (on TA, %)	7.42%	9.13%	-1.70%p
Risk / earnings ratio (%)	82.5%	33.4%	49.1%p
Cost / income ratio (%)	11.6%	13.2%	-1.6%p
ROE (%)	n.a.	n.a.	n.a.
Capital adequacy ratio (%)	n.a	n.a	n.a.

Source: Company data

Solid pre-tax profit growth, despite higher provisioning

AIK reported solid 1Q08 results. Pre-tax profit increased by 26.5% y/y to RSD 1,264mn, mainly driven by dynamic development in both income sources, net interest income (+60.8% y/y) and net fee & commission income (+48.3%). Due to the jump in provisioning (the risk / earnings ratio rallied to 82.5%), the top line growth outpaced that of the bottom line, despite a further improvement of CIR to 11.6%, from the already low level of around 13.2% seen in 1Q07.

NIM and ROE distorted, due to capital increase

In the last couple of quarters, NIM was quite volatile, ranging from below 7% to nearly 10%. Therefore, we would not take the decrease in NIM too seriously. Nevertheless, we expect NIM in the Serbian banking market to decrease to a more sustainable level in the mid term, based on greater competition. The reduction in NIM y/y was also to some extent influenced by the EUR 100mn capital increase conducted in June last year, which also negatively affects the ROE in the short term.

AIK targets 28% bottom line growth for FY08

Some weeks ago, the management of AIK announced that it expects net profit to rise by some 28% y/y to RSD 5.9bn. Net interest income should improve by 30% y/y to RSD 7.1bn and net fee & commission income by 24.5% y/y to RSD 1.73bn. The planned growth in total assets of around 30% to RSD 101.8bn, that the company expects more or less stable NIM over the next 12 months.

Financial outlook

Lower sector dynamics

Due to lending restrictions imposed by the NBS, cross-border financing is a big issue in Serbia. Taking the off-balance sheet items into account, Serbia has one of the highest penetration rates (135% of GDP 2007) in the SEE region. We therefore expect the high growth rates observed in recent years (CAGR 03-07: 38.9%) to approach a more sustainable level (CAGR 07-10e: 22.7%), with consumer and mortgage loans remaining the main growth driver.

Improving market position

Based on AIK's relatively small market share, but good position in the fast growing SME segment, we expect the bank to outpace average market growth, resulting in a further improvement of its market share in loans to customers, from the current 4.7% to around 5.2% in the mid term.

High but gradually improving loan/ deposit ratio

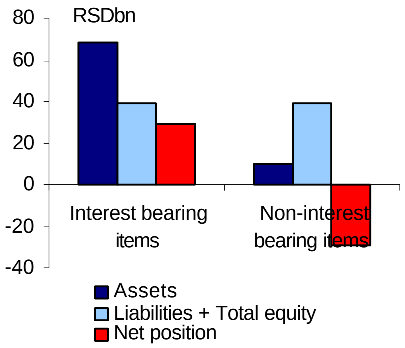
Lacking a strong deposit base, AIK funded its asset growth in the past mainly with equity. Facing this sub-optimal capital structure, AIK worked hard on the collection of deposits and managed to improve its loan/deposit ratio gradually to 153% in 2007, from above 600% in 2003. We expect a further decline to around 134% in the mid term. As ATE has a strong deposit base, we expect closer cooperation between the two banks in this field in the near future. Despite its strategic focus on a riskier business segment, we expect AIK to decrease its equity ratio to a more sustainable - but still cautious - level in the mid term.

Decreasing profitability

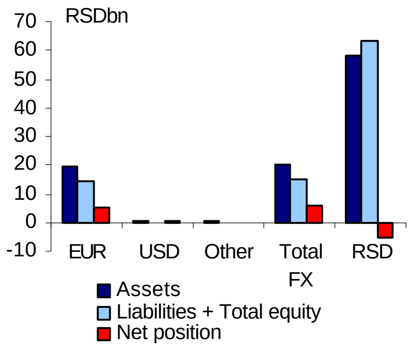
Despite increasing leverage, AIK's profitability should diminish in the mid term to a more sustainable level of around 18%. This trend will be driven by a gradual decline in NIM to a level of around 6.7% (from 9.4% in 2007) and a further decrease in the net fee margin to around 2.3% Nevertheless, the remaining high level of equity can be used by management to somewhat soften this development.

Snapshot of loan book risk exposure

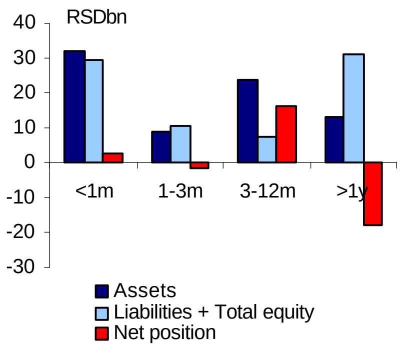
Interest rate risk exposure (2007, RSDbn)



Currency risk exposure (2007, RSDbn)



Liquidity risk exposure (2007, RSDbn)



Source: Company data

Financial Statements (IFRS, RSDmn, 31/12)

Income Statement	2006	2007	2008e	2009e	2010e
Net interest income	2,865.6	5,452.1	7,352.0	9,006.7	10,789.9
Risk provisions for loans and advances	395.4	-1,483.8	-2,276.9	-2,838.1	-3,443.5
Net interest income after risk provisions	3,261.1	3,968.3	5,075.1	6,168.7	7,346.4
Net fee and commission income	2,161.7	2,819.0	3,504.0	0.0	0.0
Dividend income	0.9	1.7	2.4	5.9	6.9
Trading result	122.1	93.5	108.5	123.5	138.5
Result on financial instruments	736.2	872.4	916.0	961.8	1,009.9
Other income	26.0	41.7	42.6	43.4	44.3
Total income	**4,583.2**	**7,854.0**	**10,583.1**	**12,960.3**	**15,493.4**
Personnel expenses	-463.4	-518.0	-814.8	-1,184.5	-1,623.2
Other administrative expenses	-514.9	-449.5	-494.5	-543.9	-592.9
Depreciation and amortization	-74.2	-102.8	-113.1	-124.4	-136.9
Other expenses	-0.3	-235.8	-10.0	-15.0	-20.0
Total expenses	**-1,052.8**	**-1,306.2**	**-1,432.4**	**-1,867.8**	**-2,373.0**
Operating profit	**3,925.8**	**5,064.0**	**6,873.8**	**8,254.4**	**9,676.9**
Extraordinary result	324.5	0.0	20.0	40.0	60.0
Profit/loss before taxes	**4,250.2**	**5,064.1**	**6,893.8**	**8,294.5**	**9,736.9**
Income taxes	-388.5	-478.1	-689.4	-829.4	-973.7
Profit/loss after taxes	**3,861.7**	**4,585.9**	**6,204.5**	**7,465.0**	**8,763.2**
Minority interests	-91.6	-110.8	-148.9	-179.2	-210.3
Net profit/loss	**3,770.1**	**4,475.1**	**6,055.6**	**7,285.9**	**8,552.9**
Adjusted profit/loss before taxes	4250.24	5064.08	6893.84	8294.46	9736.93
Adjusted net profit/loss	3770.09	4475.11	6055.55	7285.85	8552.92

Balance Sheet	2006	2007	2008e	2009e	2010e
Cash and balances with central banks	9,803.8	14,474.9	18,840.1	22,376.5	26,961.8
Loans and advances to banks - net	954.0	1,062.0	1,380.6	1,656.7	1,905.2
Loans and advances to customers - net	24,184.1	55,697.5	76,298.5	99,188.0	128,944.5
Interest-earning financial assets	2,074.9	4,968.0	6,458.4	7,750.0	8,912.5
Interest-earning assets	**37,016.8**	**76,202.4**	**102,977.5**	**130,971.3**	**166,724.0**
Non-interest-earning assets	171.8	206.4	268.4	322.0	370.3
Intangible and tangible assets	1,026.7	1,320.6	1,716.8	2,060.2	2,369.2
Other assets	94.3	559.1	726.9	872.2	1,003.1
Total assets	**38,309.6**	**78,288.5**	**105,689.5**	**134,225.7**	**170,466.6**
Deposits from banks	6,908.1	8,007.9	9,112.6	9,933.6	10,021.5
Deposits from customers	13,085.7	39,301.9	58,952.9	79,586.4	107,441.7
Debt securities issued	0.0	0.0	0.0	0.0	0.0
Interest-rate-related derivatives	0.0	0.0	0.0	0.0	0.0
Interest-bearing liabilities	**19,993.9**	**47,309.8**	**68,065.5**	**89,520.1**	**117,463.1**
Non-interest-rate-related derivatives	0.0	0.0	0.0	0.0	0.0
Provisions	947.4	975.6	1,170.7	1,287.8	1,416.6
Other liabilities	497.9	753.1	903.7	994.1	1,093.5
Subordinated capital	0.0	0.0	0.0	0.0	0.0
Total liabilities	**21,439.2**	**49,038.5**	**70,140.0**	**91,802.0**	**119,973.2**
Minorities	0.0	0.0	0.0	0.0	0.0
Shareholders' equity	**16,870.4**	**29,250.0**	**35,549.5**	**42,423.7**	**50,493.4**
Total liabilities and equity	**38,309.6**	**78,288.5**	**105,689.5**	**134,225.7**	**170,466.6**

Other figures	2006	2007	2008e	2009e	2010e
Tangible shareholders' equity	16,870.4	29,250.0	35,549.5	42,423.7	50,493.4
Off-balance sheet items	35,218.8	52,239.7	71,568.4	93,038.9	120,950.6
No. of shares outstanding (mn)	5.7	7.0	7.3	7.3	7.3
Weighted average no. of shares (basic) mn	5.7	7.0	7.2	7.3	7.3
Weighted average no. of shares (diluted) mn	5.7	7.0	7.2	7.3	7.3
Number of employees (FTE)	304.0	386.0	506.0	626.0	746.0

Source: Company data, Erste Bank estimates

Ratios

Per share figures (RSD)	2006	2007	2008e	2009e	2010e
EPS basic	661	636	844	997	1,170
EPS diluted	661	636	844	997	1,170
BVPS	2,958	4,160	4,863	5,803	6,907
Tangible BVPS	2,958	4,160	4,863	5,803	6,907
DPS	36.54	35.86	46.80	56.31	66.10
Payout ratio	5.5%	5.6%	5.7%	5.7%	5.7%
No. of shares outstanding (mn)	5.704	7.031	7.311	7.311	7.311
Profitability	**2006**	**2007**	**2008e**	**2009e**	**2010e**
Total interest income / avg. interest-earning assets [Yield on assets]	12.0%	13.2%	11.9%	11.6%	11.3%
Total interest expenses / avg. interest-bearing liabilities [Cost of funds]	-6.9%	-7.4%	-6.8%	-6.8%	-6.7%
Yield on assets - cost of funds [Interest spread]	5.1%	5.8%	5.1%	4.8%	4.6%
Net interest income / avg. total assets [Net interest margin, NIM]	9.5%	9.4%	8.0%	7.5%	7.1%
Net fee and commission income / avg. total assets [Net fee margin]	2.8%	2.4%	2.4%	2.4%	2.3%
Net profit / avg. shareholders' equity [Return on equity, ROE]	26.2%	19.4%	18.7%	18.7%	18.4%
Net profit / avg. total assets [Return on assets, ROA]	12.5%	7.7%	6.6%	6.1%	5.6%
Efficiency	**2006**	**2007**	**2008e**	**2009e**	**2010e**
Total operating expenses / total income [Cost income ratio, CIR]	23.0%	16.6%	13.5%	14.4%	15.3%
Total operating expenses / avg. total assets [Cost asset ratio]	3.5%	2.2%	1.6%	1.6%	1.6%
Personnel expenses / total income	-10.1%	-6.6%	-7.7%	-9.1%	-10.5%
Personnel expenses / avg. no. of employees [Avg. staff costs, RSD mn)]	-1.76	-1.50	-1.83	-2.09	-2.37
Asset quality	**2006**	**2007**	**2008e**	**2009e**	**2010e**
Risk provisions (P&L) / avg. loans to customers (gross) [Risk costs]	-1.6%	3.3%	3.1%	3.0%	2.8%
Risk provisions (P&L) / net interest income [Risk earnings ratio]	-13.8%	27.2%	31.0%	31.5%	31.9%
Capital adequacy	**2006**	**2007**	**2008e**	**2009e**	**2010e**
Total equity / total assets [Equity ratio]	44.0%	37.4%	33.6%	31.6%	29.6%
P&L structure	**2006**	**2007**	**2008e**	**2009e**	**2010e**
Net interest income / total income	62.5%	69.4%	69.5%	69.5%	69.6%
Net fee and commission income / total income	18.2%	17.7%	20.4%	21.8%	22.6%
Net trading result / total income	2.7%	1.2%	1.0%	1.0%	0.9%
Non-interest income / total income	37.5%	30.6%	30.5%	30.5%	30.4%
Personnel expenses / total operating expenses	44.0%	39.7%	56.9%	63.4%	68.4%
Effective tax rate	-9.1%	-9.4%	-10.0%	-10.0%	-10.0%
Balance sheet structure	**2006**	**2007**	**2008e**	**2009e**	**2010e**
Loans to customers / deposits from customers [Loan deposit ratio]	208.0%	152.8%	139.5%	134.4%	129.4%
Loans to customers / total assets	71.0%	76.7%	77.8%	79.7%	81.6%
Deposits from customers / total assets	34.2%	50.2%	55.8%	59.3%	63.0%
Growth rates	**2006**	**2007**	**2008e**	**2009e**	**2010e**
Net interest income y/y	45.6%	90.3%	34.8%	22.5%	19.8%
Net fee and commission income y/y	19.4%	67.3%	55.2%	30.4%	24.3%
Total income y/y	3.0%	71.4%	34.7%	22.5%	19.5%
Personnel expenses y/y	73.2%	11.8%	57.3%	45.4%	37.0%
Total operating expenses y/y	76.5%	24.1%	9.7%	30.4%	27.0%
Operating profit y/y	49.9%	29.0%	35.7%	20.1%	17.2%
Profit before taxes y/y	59.5%	19.1%	36.1%	20.3%	17.4%
Net profit y/y	62.2%	18.7%	35.3%	20.3%	17.4%
Loans and advances to customers y/y	38.9%	120.7%	37.0%	30.0%	30.0%
Total assets y/y	73.0%	104.4%	35.0%	27.0%	27.0%
Deposits from customers y/y	71.5%	200.3%	50.0%	35.0%	35.0%
Total liabilities y/y	109.0%	128.7%	43.0%	30.9%	30.7%
Shareholders' equity y/y	41.9%	73.4%	21.5%	19.3%	19.0%

Source: Company data, Erste Bank estimates

Banca Transilvania

maintain Accumulate

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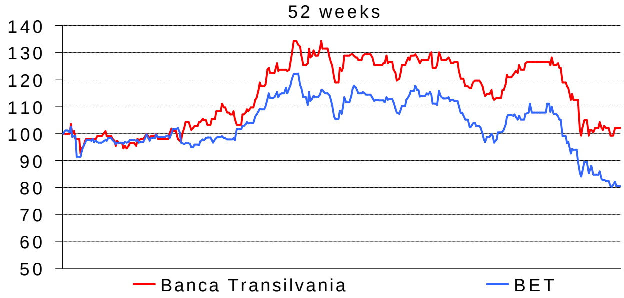
gernot.jany@erstebank.at

ROMANIA / Banking & insurance

Share price (RON)	0.444	Reuters	BATR.BX	Free float	85.0%
Number of shares (mn)	10746.7	Bloomberg	TLV RO	Shareholders	EBRD (15%)
Market capitalization (RON mn / EUR mn)	4,569.3 / 1,246.9	Div. ex-date	n.a.		
Index w eight (BETI)	19.8%	**Target price**	**0.51**	Homepage:	w w w .bancatransilvania.ro

RON mn	2007	2008e	2009e	2010e
Total income	876	1,393	1,452	1,814
Operating profit	194	337	475	624
Profit before taxes	338	599	475	624
Net profit	308	531	421	553
EPS (RON)	0.032	0.051	0.039	0.051
BVPS (RON)	0.123	0.179	0.222	0.277
Div/share (RON)	0.000	0.000	0.000	0.000
P/E (x)	14.1	8.7	11.3	8.7
P/BV (x)	3.6	2.5	2.0	1.6
Dividend yield	0.0%	0.0%	0.0%	0.0%

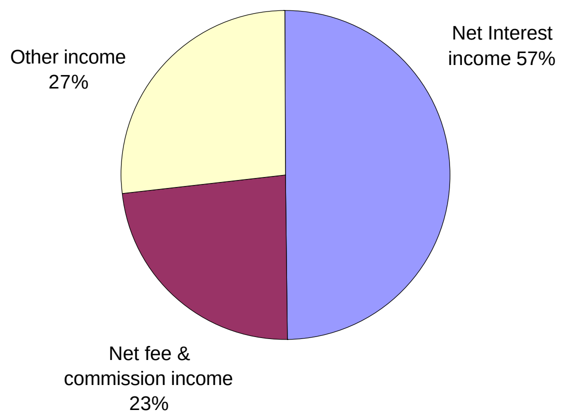


Performance	12M	6M	3M	1M
in ROL	-3.7%	-16.6%	-0.5%	-4.3%
in USD	-16.4%	-19.8%	1.0%	-4.9%

Company description

Banca Transilvania (BT) is a mid-sized bank with a market share of around 5.4% (total assets 2007), putting it at No. 5 in the Romanian banking market. The bank is organized in three business lines (retail, SME and corporate) and offers a wide range of services, including banking, leasing, brokerage, asset management, consumer finance, factoring and private pensions. In the SME segment, BT has an even stronger position (No. 2 after BCR-Erste). The bank was founded 13 years ago on the initiative of a businessman in Cluj and therefore still has a strong foothold in this region. After strong regional expansion in the last few years, BT is now present in all Romanian economic centers, with a network of around 430 branches and agencies. BT is focused on growth, targeting a market share of around 10% in the mid term and pole position in the SME segment.

Total income breakdown (2007)



Source: Company data

Strength/Opportunities

▮ No. 2 position in high-growth, high-margin SME segment
▮ Historically strong position in fast growing region around Cluj
▮ Pole position in asset management
▮ Strong branch network of around 430 units
▮ Potential takeover target, lacking strategic investor
▮ Long-term catch-up potential of banking sector in Romania
▮ Strong growth rates in all market segments

Weakness/Threats

▮ Higher business risk, due to focus on SME
▮ Regional bias of branch network coverage
▮ Lack of cheap and available funds from parent
▮ Vulnerable, due to high FX exposure on asset side

Investment story

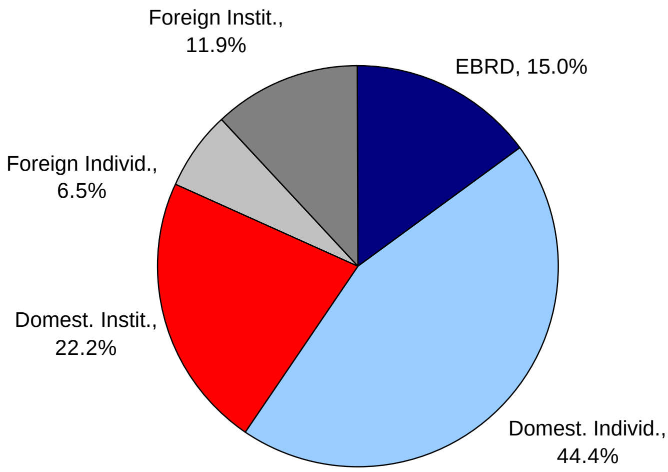
High speed, at cost of profitability

In the last four years, Banca Transilvania (BT) doubled its market share to 5.4% (No. 5 position), accompanied by fast network expansion across Romania. Based on a strong foothold in the SME segment, we expect BT to gain further market shares, but at a slower speed than in the past. The fast network expansion of recent years did not leave costs unaffected and CIR increased from an already high level to 75.3% in 2006. However, the trend reversed in 2007 and CIR decreased to 64.5%. At the same time, ROE dropped to 16% (adjusted for the gain on the disposal of BT Asigurari), from levels above 24%.

Accumulate, target price RON 0.51

As a shareholder value-driven company and (without a strategic investor) heavily reliant on the capital market, we expect BT to work harder on cost control in the future, bringing ROE back to a higher level. We therefore reiterate our Accumulate recommendation for Banca Transilvania with a 12-month target price of RON 0.51.

Shareholder structure



Source: Company data

Strategy

Mid-size player with strong position in SME and AM

With a market share of around 5.4%, Banca Transilvania (BT) is a mid-sized player (No. 5) in the Romanian banking market. Although BT is almost a full-range universal bank (offering services for retail and corporate clients), its core business is the SME segment, where it is ranked No. 2 (after BCR). It also has a strong position in factoring (No. 3) and asset management (No. 1), with the latter in particular poised to gain importance in the future, when the banking market becomes more developed and wealth management becomes a bigger issue.

Strong position in fast developing Cluj region

BT has a strong foothold in the quickly developing region around Cluj. After the strong regional expansion of the last few years, BT is now present in all Romanian economic centers with a network of 410 branches and agencies. Nevertheless, we can still see a regional bias in terms of branch network coverage.

Fighting for market shares

In recent years, BT's strategy was clearly focused on improving its position in the Romanian banking market, combined with a broader regional coverage. It has been very successful in doing so, more than doubling its market share to 5.4% (compared to 2.3% in 2003) and improving its position to No. 5 in 2006. It is the target of management to further boost its market share, but also keep a closer eye on efficiency and profitability, which have suffered from the fast network expansion.

Strategic re-orientation - focus on core banking business

In January 2008, BT sold its insurance arm BT Asigurari (90% stake) for around EUR 90mn (1.14x gross written premiums 07e) to French mutual insurer Groupama. The final price depends on certain criteria, predominantly performance-related. BT Asigurari ranks ninth in non-life and is the twelfth largest life insurer in Romania, with a market share of 3.7% and premium income of EUR 60mn in 2006. It also holds the second largest Romanian distribution network, with over 270 branches and sales outlets throughout the country. The transaction included an exclusive agreement for non-life products with BT. As the disposal was effective as of November 2007, BS and the P&L (above line) are clean and a net gain of around RON 144mn was booked as profit on discontinued operations.

Disposal of 25% stake in insurer Asiban

In April, the contract for the disposal of Romanian insurance company Asiban to French insurance company Groupama was signed. Asiban is the No. 3 player on the Romanian insurance market, evenly held by Banca Comerciala Romana, BRD, Banca Transilvania and CEC. The value of the transaction was EUR 350mn, 1.88 times the gross written premiums Asiban recorded last year. This means that BT will receive EUR 87.5mn (RON 315mn), resulting in a positive contribution to the P&L in 2Q08 of around RON 260mn.

No dividend, but regular bonus shares

BT does not pay dividends, but capitalizes net profit. Instead, the bank issues a certain amount of bonus shares each year to existing shareholders (share split), based on accumulated reserves and subscription premiums from the last year's new share issue. BT has increased its share capital gradually in the last few years by issuing new shares significantly below the market price, with a pre-emption right for existing shareholders. In May 2008, BT issued 4,180,624,240 bonus shares to its existing shareholders (0.6841 new free shares for each share held). The company plans to increase its capital by around RON 107mn, via the issuance of 305,539,888 new shares at a subscription price of RON 0.35 per share. Each shareholder will be able to subscribe 0.05 new shares for each share held until June 30, 2008 (the end of the subscription period).

Earnings review

Consolidated, RAS RONmn	**Reported** **1Q 2008**	**Reported** **1Q 2007**	**y/y**	**Erste Bank** **1Q 2008e**	**Reported** **vs. EB**
Total income	223.6	168.1	33.0%	n.a.	n.a.
Total expenses	163.3	131.6	24.1%	n.a.	n.a.
Pre-tax profit	60.3	36.4	65.4%	n.a.	n.a.
Net profit	n.a.	n.a.	n.a.	n.a.	n.a.
Net interest margin (on TA, %)	n.a.	n.a.	n.a.		
Risk / earnings ratio (%)	n.a.	n.a.	n.a.		
Cost / income ratio (%)	n.a.	n.a.	n.a.		
ROE (%)	n.a.	n.a.	n.a.		
Capital adequacy ratio (%)	n.a.	n.a.	n.a.		
Shareholders' equity (avg.)	960	648			
Total assets (avg.)	10,655	6,532			
Total operating income	227.0	0.0			
Total operating expenses	-133.0	0.0			

Source: Company data

Local GAAP, not IFRS!

The quarterly figures of BT are reported in local GAAP (RAS) and are therefore not fully comparable with the IFRS figures reported at the end of the year. Nevertheless, we included the latest available data in our report to be as accurate as possible and to provide an idea of the business development during 1Q08.

1Q08 pre-tax profit up 65% y/y

BT had a good start in the first quarter of 2008, with quite dynamic growth of the key BS and P&L figures. Pre-tax profit increased by 65% y/y to RON 60.26mn, total income was up 33% y/y and total expenses (also including loan loss provisions) increased by 24% y/y. Loan growth was quite dynamic in 1Q08 at 13% q/q and outpaced deposit growth, which improved by 6% q/q.

Guidance 2008

In 2008, BT plans to increase pre-tax profit by 31% to RON 300mn, mainly driven by a strong top line performance. NII is expected to increase to RON 574.3mn (+39% y/y) and net F&C income should improve by 60% to RON 431.2mn. Based on the strong network expansion of the last few years, BT expects to increase its loan book and deposits by 40% and 45%, respectively, resulting in a decline in the loan/deposit ratio. To strengthen its position in the Romanian banking market, BT plans to invest around EUR 46.35mn, out of which EUR 18mn is dedicated to opening 80 new units.

Financial outlook

Lower sector dynamics, but still at high level

With total assets of 64% of GDP, financial intermediation in Romania is still at a very low level, promising high growth rates for years to come. In the last few years, total assets improved by 48% on average (CAGR 03-07), backed by strong GDP growth. We expect growth rates to calm down a little bit over the next couple of years to a more sustainable level (CAGR 07-12e: 25%).

Foot on gas pedal...

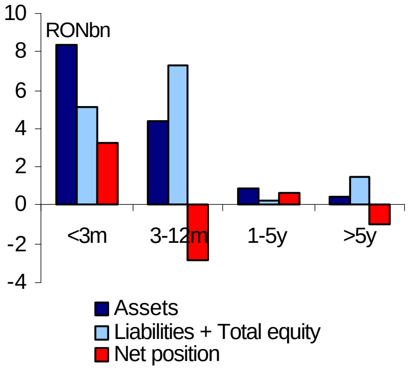
In recent years, BT has more than doubled its market share to 5.4%, improving its market position to No. 5 in 2007. Due in particular to its excellent market position in the SME segment, we expect BT to outpace market growth, but with lower dynamics, as the air becomes thinner.

...with clear route to destination

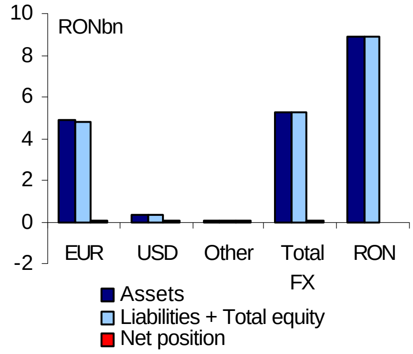
The fast network expansion of recent years did not leave costs unaffected and CIR increased from an already high level to 75.3% in 2006. However, the trend reversed in 2007 and CIR decreased to 64.5%. According to the bank's management, cost control and efficiency will be a big issue in the near term, with the aim to increase profitability. As it normally takes branches some months to become profitable, we expect an effect from this side already in the short term. As BT already operates with 430 branches and agencies (a rather large network), economies of scale should also contribute to efficiency improvement. In our opinion, it should be possible to improve ROE back to a level of around 20% in the mid term (basically by decreasing CIR to around 54% and despite NIM falling) and to a more sustainable level of around 3.6%.

Snapshot of risk positions

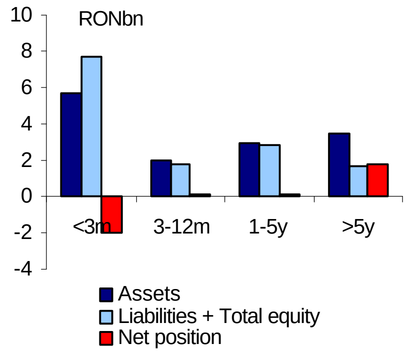
Interest rate risk exposure (2007, RONbn)



Currency risk exposure (2007, RONbn)



Liquidity risk exposure (2007, RONbn)



Source: Company data

Financial Statements (IFRS, RONmn, 31/12)

Income Statement	2006	2007	2008e	2009e	2010e
Net interest income	363.3	436.6	632.8	831.4	1,060.4
Risk provisions for loans and advances	-40.7	-116.5	-93.1	-120.6	-156.4
Net interest income after risk provisions	322.6	320.1	539.7	710.8	904.1
Net fee and commission income	175.0	299.2	417.2	538.3	668.8
Dividend income	0.0	0.0	0.0	0.0	0.0
Trading result	63.2	121.7	60.0	60.0	60.0
Result on financial instruments	0.0	0.0	0.0	0.0	0.0
Other income	84.0	18.7	20.6	22.7	24.9
Total income	**685.5**	**876.3**	**1,130.6**	**1,452.4**	**1,814.2**
Personnel expenses	-229.6	-281.9	-372.9	-482.4	-610.2
Other administrative expenses	-185.1	-165.0	-181.5	-199.6	-219.6
Depreciation and amortization	-40.4	-48.3	-53.2	-58.5	-64.3
Other expenses	-61.4	-70.3	-93.3	-116.3	-139.3
Total expenses	**-516.5**	**-565.5**	**-700.8**	**-856.8**	**-1,033.4**
Operating profit	**128.3**	**194.2**	**336.7**	**475.0**	**624.4**
Extraordinary result	0.4	143.3	262.4	0.0	0.0
Profit/loss before taxes	**128.7**	**337.5**	**599.1**	**475.0**	**624.4**
Income taxes	-20.1	-28.1	-95.9	-76.0	-99.9
Profit/loss after taxes	**108.6**	**309.4**	**503.2**	**399.0**	**524.5**
Minority interests	5.9	-1.6	27.7	21.9	28.8
Net profit/loss	**114.4**	**307.8**	**530.9**	**420.9**	**553.4**
Adjusted profit/loss before taxes	128.74	337.54	599.09	475.00	624.43
Adjusted net profit/loss	114.45	163.82	298.41	420.95	553.37

Balance Sheet	2006	2007	2008e	2009e	2010e
Cash and balances with central banks	1,995.2	3,017.3	3,641.9	4,752.6	6,158.0
Loans and advances to banks - net	675.0	1,183.0	1,537.9	2,076.1	2,595.2
Loans and advances to customers - net	4,968.5	8,782.2	12,735.9	16,875.1	21,515.7
Interest-earning financial assets	251.6	656.6	853.6	1,152.4	1,440.5
Interest-earning assets	**7,890.3**	**13,639.0**	**18,769.2**	**24,856.1**	**31,709.3**
Non-interest-earning assets	27.9	68.7	36.6	49.5	61.8
Intangible and tangible assets	258.2	316.7	411.7	555.7	694.7
Other assets	154.2	59.1	76.8	103.7	129.7
Total assets	**8,330.6**	**14,083.5**	**19,294.4**	**25,565.0**	**32,595.4**
Deposits from banks	1,325.0	1,950.0	2,742.6	4,098.7	5,688.1
Deposits from customers	5,645.3	10,390.3	14,027.0	18,235.1	22,793.8
Debt securities issued	58.5	55.6	72.3	97.6	126.9
Interest-rate-related derivatives	0.0	0.0	0.0	0.0	0.0
Interest-bearing liabilities	**7,028.8**	**12,396.0**	**16,841.9**	**22,431.3**	**28,608.9**
Non-interest-rate-related derivatives	0.0	0.0	0.0	0.0	0.0
Provisions	0.0	0.0	0.0	0.0	0.0
Other liabilities	304.9	197.3	256.5	346.3	450.2
Subordinated capital	201.6	217.0	282.1	380.8	495.1
Total liabilities	**7,535.2**	**12,810.3**	**17,380.5**	**23,158.4**	**29,554.1**
Minorities	7.0	10.2	15.2	19.1	24.1
Shareholders' equity	**788.4**	**1,263.0**	**1,898.7**	**2,387.5**	**3,017.2**
Total liabilities and equity	**8,330.6**	**14,083.5**	**19,294.4**	**25,565.0**	**32,595.4**

Other figures	2006	2007	2008e	2009e	2010e
Tangible shareholders' equity	774.6	1,254.6	1,887.8	2,372.8	2,998.9
Off-balance sheet items	1,244.2	1,966.2	2,851.0	3,777.5	4,816.4
No. of shares outstanding (mn)	9,625.3	10,291.2	10,596.7	10,746.7	10,896.7
Weighted average no. of shares (basic) mn	9,070.1	9,765.8	10,444.0	10,671.7	10,821.7
Weighted average no. of shares (diluted) mn	9,070.1	9,765.8	10,444.0	10,671.7	10,821.7
Number of employees (FTE)	6,225.0	6,173.0	7,099.0	8,163.8	9,388.4
Number of branches	341.0	430.0	n.a.	n.a.	n.a.
Number of ATMs	530.0	n.a.	n.a.	n.a.	n.a.

Source: Company data, Erste Bank estimates

Ratios

Per share figures (RON)	2006	2007	2008e	2009e	2010e
EPS basic	0.013	0.032	0.051	0.039	0.051
EPS diluted	0.013	0.032	0.051	0.039	0.051
BVPS	0.082	0.123	0.179	0.222	0.277
Tangible BVPS	0.080	0.122	0.178	0.221	0.275
DPS	0.000	0.000	0.000	0.000	0.000
Payout ratio	0.0%	0.0%	0.0%	0.0%	0.0%
No. of shares outstanding - adj. (mn)	9,625	10,291	10,597	10,747	10,897
Profitability	**2006**	**2007**	**2008e**	**2009e**	**2010e**
Total interest income / avg. interest-earning assets [Yield on assets]	10.2%	8.4%	8.2%	8.0%	8.0%
Total interest expenses / avg. interest-bearing liabilities [Cost of funds]	-5.0%	-4.8%	-4.9%	-5.0%	-5.0%
Yield on assets - cost of funds [Interest spread]	5.3%	3.6%	3.3%	3.0%	3.0%
Net interest income / avg. total assets [Net interest margin, NIM]	5.4%	3.9%	3.8%	3.7%	3.6%
Net fee and commission income / avg. total assets [Net fee margin]	2.6%	2.7%	2.5%	2.4%	2.3%
Net profit / avg. shareholders' equity [Return on equity, ROE]	17.6%	30.0%	33.6%	19.6%	20.5%
Net profit / avg. total assets [Return on assets, ROA]	1.7%	2.7%	3.2%	1.9%	1.9%
Efficiency	**2006**	**2007**	**2008e**	**2009e**	**2010e**
Total operating expenses / total income [Cost income ratio, CIR]	75.3%	64.5%	62.0%	59.0%	57.0%
Total operating expenses / avg. total assets [Cost asset ratio]	7.7%	5.0%	4.2%	3.8%	3.6%
Personnel expenses / total income	-33.5%	-32.2%	-33.0%	-33.2%	-33.6%
Personnel expenses / avg. no. of employees [Avg. staff costs, RON mn)]	-0.04	-0.05	-0.06	-0.06	-0.07
Asset quality	**2006**	**2007**	**2008e**	**2009e**	**2010e**
Risk provisions (P&L) / avg. loans to customers (gross) [Risk costs]	1.0%	1.7%	0.9%	0.8%	0.8%
Risk provisions (P&L) / net interest income [Risk earnings ratio]	11.2%	26.7%	14.7%	14.5%	14.7%
Capital adequacy	**2006**	**2007**	**2008e**	**2009e**	**2010e**
Total equity / total assets [Equity ratio]	9.5%	9.0%	9.9%	9.4%	9.3%
P&L structure	**2006**	**2007**	**2008e**	**2009e**	**2010e**
Net interest income / total income	53.0%	49.8%	56.0%	57.2%	58.5%
Net fee and commission income / total income	25.5%	34.1%	36.9%	37.1%	36.9%
Net trading result / total income	9.2%	13.9%	5.3%	4.1%	3.3%
Non-interest income / total income	47.0%	50.2%	44.0%	42.8%	41.5%
Personnel expenses / total operating expenses	44.5%	49.9%	53.2%	56.3%	59.0%
Effective tax rate	-15.6%	-8.3%	-16.0%	-16.0%	-16.0%
Balance sheet structure	**2006**	**2007**	**2008e**	**2009e**	**2010e**
Loans to customers / deposits from customers [Loan deposit ratio]	88.8%	86.1%	92.5%	94.2%	96.1%
Loans to customers / total assets	60.1%	63.5%	67.2%	67.2%	67.2%
Deposits from customers / total assets	67.8%	73.8%	72.7%	71.3%	69.9%
Growth rates	**2006**	**2007**	**2008e**	**2009e**	**2010e**
Net interest income y/y	41.0%	20.2%	44.9%	31.4%	27.5%
Net fee and commission income y/y	60.7%	71.0%	39.4%	29.0%	24.2%
Total income y/y	59.1%	27.8%	29.0%	28.5%	24.9%
Personnel expenses y/y	76.9%	22.8%	32.3%	29.4%	26.5%
Total operating expenses y/y	75.8%	9.5%	23.9%	22.3%	20.6%
Operating profit y/y	9.4%	51.4%	73.4%	41.1%	31.5%
Profit before taxes y/y	5.2%	162.2%	77.5%	-20.7%	31.5%
Net profit y/y	5.4%	169.0%	72.5%	-20.7%	31.5%
Loans and advances to customers y/y	64.9%	78.5%	45.0%	32.5%	27.5%
Total assets y/y	64.1%	69.1%	37.0%	32.5%	27.5%
Deposits from customers y/y	67.5%	84.1%	35.0%	30.0%	25.0%
Total liabilities y/y	65.3%	70.0%	35.7%	33.2%	27.6%
Shareholders' equity y/y	53.5%	60.2%	50.3%	25.7%	26.4%

Source: Company data, Erste Bank estimates

BRD GSG — from Buy to Accumulate

ROMANIA / Banking & insurance

Gernot Jany, CFA +43 50 100 11903
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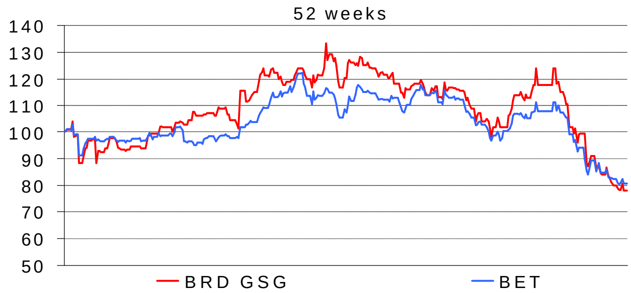
Share price (RON)	21.70	Reuters	BRDX.BX	Free float	41.68%
Number of shares (mn)	726.9	Bloomberg	BRD RO	Shareholders	SocGen (58.32%)
Market capitalization (RON mn / EUR mn)	15,122.8 / 4,126.8	Div. ex-date	02/05/07		
Index w eight (BETI)	19.7%	**Target price**	**25.60**	Homepage:	w w w .brd.ro

RON mn	**2007**	**2008e**	**2009e**	**2010e**
Total income	2,505	3,389	3,979	5,015
Operating profit	1,215	1,428	1,830	2,347
Profit before taxes	1,215	1,706	1,830	2,347
Net profit	1,022	1,435	1,539	1,973
EPS (RON)	1.47	2.06	2.16	2.66
BVPS (RON)	4.41	5.64	7.59	9.83
Div/share (RON)	0.59	0.82	0.85	1.04
P/E (x)	14.8	10.5	10.0	8.2
P/BV (x)	4.9	3.8	2.9	2.2
Dividend yield	2.7%	3.8%	3.9%	4.8%

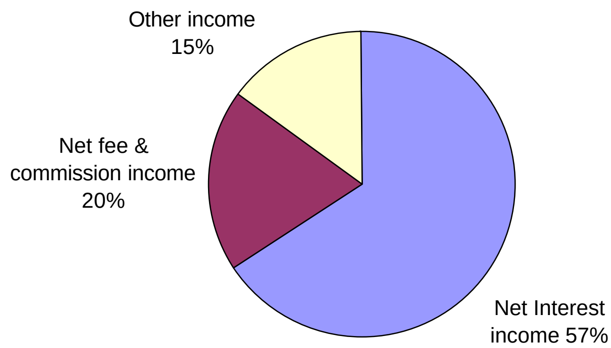


Performance	**12M**	**6M**	**3M**	**1M**
in ROL	-16.5%	-18.4%	8.5%	-5.2%
in USD	-27.5%	-21.6%	10.2%	-5.8%

Company description

BRD Groupe Société Générale (BRD) is a universal bank offering the full range of products for private and corporate clients, including investment banking and market operations. As a 58.32% subsidiary of Société Générale (SocGen), it is a pure local player, focusing on the Romanian banking market. In terms of total assets, it is (with a market share of 15.4% in 2007) No. 2 in the Romanian banking market, but has an even stronger foothold in the retail loan segment, where it reached a market share of 22.7% in 2006. The growth in the loan book was quite impressive over the last couple of years (CAGR 03-07: 51%), supported by a fast enlargement of the branch network to around 800 branches in 2007. Despite these substantial investments, BRD kept its costs under control. With CIR and ROE of 46% and 38% in 2007, respectively, it is the most efficient and profitable bank in Romania.

Total income breakdown (2007)



Source: Company data

Strength/Opportunities

- No. 2 position in terms of total assets, with even stronger foothold in high growth & high margin retail and SME segment
- Leadership in terms of efficiency and profitability, despite fast expansion of branch network
- Strong geographic coverage
- Support from parent company (funding, know-how)
- Long-term catch-up potential of banking sector in Romania
- Strong growth rates in all market segments

Weakness/Threats

- Highest valuation in CEE banking sector
- Increasing competition puts pressure on margins
- Vulnerable to RON depreciation, due to high FX exposure
- Tightening of lending restrictions

Investment story

Among most profitable banks in CEE

BRD Groupe Société Générale (BRD) is the second largest player in the Romanian banking market, having managed to further improve its market share in recent years, based on the impressive expansion of its branch network and its even stronger foothold in the high growth & margin retail and SME segment. Keeping a close eye on efficiency, CIR decreased to 46% and ROE jumped to a fantastic 38% in 2007, putting it at the top of the CEE banking world.

Accumulate, target price RON 25.60

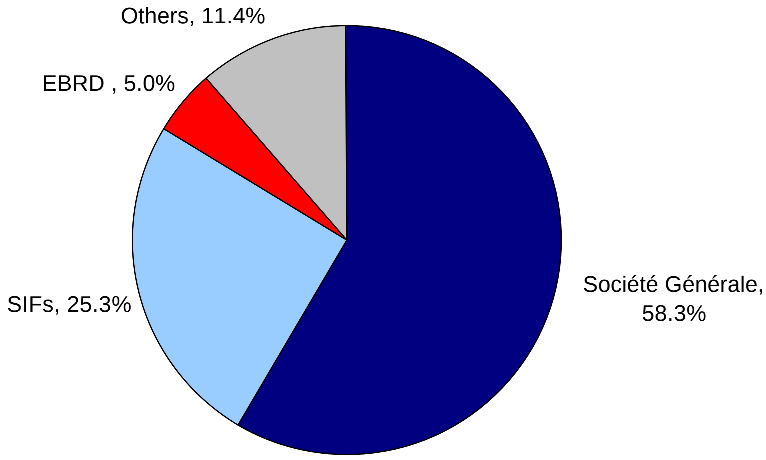
We expect BRD to have its foot firmly on the gas pedal and a focus on profitability in the near future. Although the stock is traded with a premium to its peers, we think this is more than justified by its outstanding operating performance. We expect the Bull Run we saw in the last couple of months to be prolonged in the near future, but at a lower speed. We therefore reduce our recommendation to Accumulate but increase our 12-month target price of RON 25.60.

Strategy

Local universal bank

BRD sees itself as a universal bank offering a broad range of products for private and corporate customers, including investment banking and market operations in Romania. As a subsidiary of SocGen, it has full access to the products and knowledge of its holding company, but has managed to customize the products for the specifics of the Romanian market. As a member of Groupe Société Générale, it is focused on the Romanian banking market and pursues no regional strategy.

Shareholder structure



Source: Company data

Opportunistic branch concept

BRD concentrates its activity on Bucharest and other large & medium size cities. For areas with a high potential for development and in small & medium towns, BRD is present with a special type of branch called "BRD Express". With its small agencies, it also covers rural areas, but with a very low density. Overall, at year-end 2007, BRD operated the second largest network in the Romanian banking market, comprising 806 branches.

Second largest player in RO

BRD is the second largest player in the Romanian banking market, after BCR (Erste Bank). Based on high growth rates (CAGR 03-07: 48%) well above the market average of around 43%, BRD managed to improve its market share to 15.4% (total assets 2007), from 13.5% three years before.

Strong foothold in high growth & margin retail and SME segment

The above-average growth rate in recent years was mainly due to BRD's strong presence in the high growth & margin retail and SME segment (above 80% of the loan book), but also supported by the fast expansion of its branch network across the country. The number of branches has more than four folded since 2003 to 806 units in 2007.

Leadership in efficiency

Despite the impressive branch expansion of the last few years, BRD did a very good job holding costs under control and managed to improve its CIR within the same period to 46%, from almost 64%. The improving efficiency was based on above-average loan growth and high margins in the Romanian market, as well as economies of scale and a high proportion of small size branches, which require lower investments and turn positive in a shorter period of time.

Impressive profitability

Overall, the result is outstanding profitability, reaching an impressive 38% in 2007. We expect BRD to have its foot firmly on the gas pedal and a focus on profitability in the near future, with an improvement in market position, albeit less dynamic, due to increasing competition.

Disposal of 25% stake in insurer Asiban

In April, the contract for the disposal of the Romanian insurance company Asiban to the French insurance company Groupama was signed. Asiban is the No. 3 player on the Romanian insurance market, evenly held by Banca Comerciala Romana, BRD, Banca Transilvania and CEC. The value of the transaction is EUR 350mn, 1.88 times the gross written premiums Asiban recorded last year. This means that BRD will receive EUR 87.5mn (RON 315mn), resulting in a positive contribution to P&L in 2Q08 of around RON 280mn

Earnings review

Unconsolidated, RAS RONmn	**Reported 1Q 2008**	**Reported 1Q 2007**	**y/y**	**Erste Bank 1Q 2008e**	**Reported vs. EB**
Net interest income	321.0	240.0	33.8%	345.2	-7.0%
Net provisions	-62.0	-49.0	26.5%	-117.3	-47.1%
Net fee & commission inc.	283.0	189.0	49.7%	238.8	18.5%
Pre-tax profit	320.0	207.0	54.6%	295.2	8.4%
Net profit	259.0	168.0	54.2%	239.7	8.1%
Net interest margin (on TA, %)	3.20%	3.38%	-0.18%p		
Risk / earnings ratio (%)	19.31%	20.4%	-1.1%p		
Cost / income ratio (%)	44.6%	45.0%	-0.3%p		
ROE (%)	31.1%	30.0%	1.1%p		
Capital adequacy ratio (%)	10.5%	12.0%	-1.5%p		

Source: Company date, Erste Bank estimates

Look out for local GAAP (RAS)

The quarterly figures of BRD are reported in local GAAP (RAS) and are therefore not fully comparable with the IFRS figures reported at the end of the year. Nevertheless, we included the latest available data in our report, to be as accurate as possible and to give an idea of the business development during 1Q08.

Impressive bottom line

BRD again reported very impressive figures, above our estimates. The main top line items, net interest income and net F&C income, performed strongly, rising 33.8% y/y and 49.7% y/y, respectively. Based on lower growth in net provisions (decreasing risk earnings ratio) and a declining CIR, net profit jumped to RON 259mn (+54.2% y/y).

Slightly diminishing NIM, but improving ROE

Due to increasing competition, NIM slightly decreased to 3.20% (-0.18%p). Due to lower provisioning, higher cost efficiency, but also higher leverage, ROE improved slightly to 31.1% from 30.0% in 1Q07.

Financial outlook

Guidance 2008 (RAS):

Loan book:	20-25% (2007: +37%); deposits: 25%-30% (50%)
Total income:	+28.5% (42%)
Operating expenses:	+26% (+28%)
Operating result:	+30% (+54%)
Net profit:	+30% (+36%)
Investments:	EUR 80mn
ROE:	35% (35.4%)
CIR:	<44% (44.0%)

Lower sector dynamics, but still at high level

With total assets at 64% of GDP, financial intermediation in Romania is still at a very low level, promising high growth rates for years to come. In the last few years, total assets improved by 43% on average (CAGR 03-07), backed by strong GDP growth. We expect growth rates to calm down a little bit over the next couple of years to a more sustainable level (CAGR 07-12e: 25%).

Slightly improving market position

In the last three years, BRD managed to improve its market share to 15.2% (total assets 2007), from 13.5%. In mid-term, we expect BRD to grow at an above-average rate (CAGR 07-12e: 26%) and increase its market share to close to 18%, with further improvement of its market share in loans to customers (from the current 17% to around 19%).

Costs under control

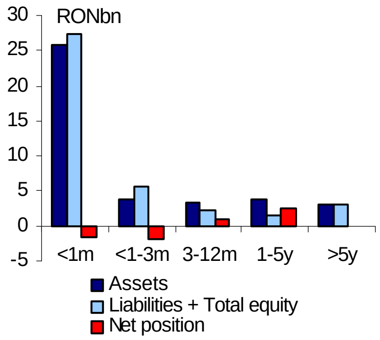
BRD has demonstrated a solid track record of efficiency in the last few years (despite fast branch network expansion), which we believe its management can continue in the future. We therefore estimate a more or less stable CIR at around 46%, taking further expansion of its network into account, but at a lower speed.

Gradually declining profitability

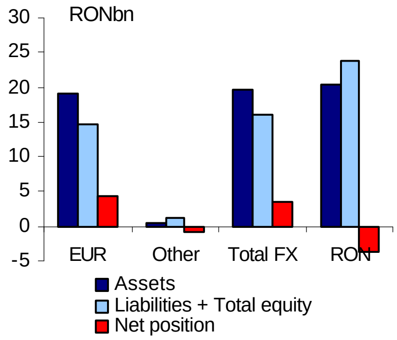
In the last couple of years BRD increased the leverage and reached an equity ratio and of 7.7% in 2007, compared to 15.3% in 2003. Capital adequacy stood at 12% at year-end 2007. We followed a conservative approach and increased the equity ratio to almost 10% in mid-term. We expect competition to become more tough in the next couple of years, further depressing NIM to around 3.6%.Taking the lower leverage, declining margins and a more or less stable CIR into account, ROE is expected to come down to a more sustainable level of around 25%.

Snapshot of risk positions

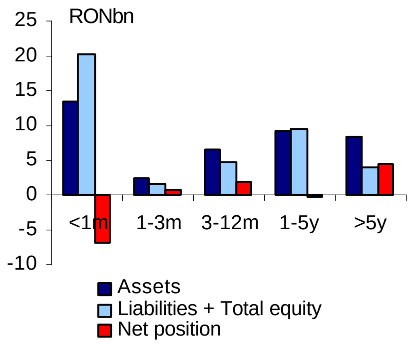
Interest rate risk exposure (2007, RONbn)



Currency risk exposure (2007, RONbn)



Liquidity risk exposure (2007, RONbn)



Source: Company data

Financial Statements (IFRS, RONmn, 31/12)

Income Statement	2006	2007	2008e	2009e	2010e
Net interest income	1,185.0	1,499.4	1,833.8	2,335.3	2,931.4
Risk provisions for loans and advances	-71.8	-143.7	-237.3	-311.2	-401.5
Net interest income after risk provisions	1,113.2	1,355.7	1,596.4	2,024.1	2,529.9
Net fee and commission income	861.7	1,151.8	1,513.1	0.0	0.0
Dividend income	0.7	5.7	0.8	1.0	1.2
Trading result	214.1	324.8	364.8	431.8	498.8
Result on financial instruments	0.0	0.0	0.0	0.0	0.0
Other income	47.3	42.8	49.2	59.0	70.8
Total income	**1,842.9**	**2,505.0**	**3,110.2**	**3,978.9**	**5,015.3**
Personnel expenses	-402.8	-552.5	-794.2	-1,116.9	-1,474.3
Other administrative expenses	-415.3	-398.5	-438.3	-482.2	-530.4
Depreciation and amortization	-107.4	-136.2	-149.9	-164.8	-181.3
Other expenses	-50.6	-58.8	-63.0	-74.0	-81.0
Total expenses	**-976.1**	**-1,146.0**	**-1,445.4**	**-1,837.9**	**-2,267.0**
Operating profit	**795.1**	**1,215.3**	**1,427.5**	**1,829.8**	**2,346.8**
Extraordinary result	0.0	0.0	278.7	0.0	0.0
Profit/loss before taxes	**795.1**	**1,215.3**	**1,706.2**	**1,829.8**	**2,346.8**
Income taxes	-91.4	-195.9	-273.0	-292.8	-375.5
Profit/loss after taxes	**703.6**	**1,019.4**	**1,433.2**	**1,537.0**	**1,971.3**
Minority interests	-2.7	2.3	1.4	1.5	2.0
Net profit/loss	**701.0**	**1,021.6**	**1,434.7**	**1,538.6**	**1,973.3**
Adjusted profit/loss before taxes	795.06	1215.25	1706.22	1829.80	2346.82
Adjusted net profit/loss	700.96	1021.64	1200.28	1538.57	1973.30

Balance Sheet	2006	2007	2008e	2009e	2010e
Cash and balances with central banks	8,448.9	11,226.1	14,806.6	18,649.3	23,475.8
Loans and advances to banks - net	524.2	801.4	1,041.8	1,302.2	1,627.8
Loans and advances to customers - net	18,290.2	26,280.9	35,188.2	45,439.6	58,677.4
Interest-earning financial assets	29.1	118.2	153.7	192.1	240.1
Interest-earning assets	**27,292.4**	**38,426.6**	**51,190.3**	**65,583.2**	**84,021.0**
Non-interest-earning assets	41.6	61.4	43.6	54.4	68.1
Intangible and tangible assets	1,218.1	1,253.2	1,629.2	2,036.5	2,545.7
Other assets	127.0	241.3	313.7	392.2	490.2
Total assets	**28,679.1**	**39,982.6**	**53,176.8**	**68,066.3**	**87,124.9**
Deposits from banks	5,269.6	7,813.4	10,014.3	11,300.3	15,462.2
Deposits from customers	20,117.3	27,870.8	37,904.3	49,654.6	62,068.3
Debt securities issued	785.8	734.8	808.3	969.9	1,309.4
Interest-rate-related derivatives	0.0	0.0	0.0	0.0	0.0
Interest-bearing liabilities	**26,172.6**	**36,419.0**	**48,726.8**	**61,924.8**	**78,839.9**
Non-interest-rate-related derivatives	0.0	0.0	0.0	0.0	0.0
Provisions	0.3	0.0	0.0	0.0	0.0
Other liabilities	195.2	465.9	512.5	615.0	830.2
Subordinated capital	0.0	0.0	0.0	0.0	0.0
Total liabilities	**26,368.1**	**36,884.9**	**49,239.3**	**62,539.8**	**79,670.1**
Minorities	3.5	26.9	5.9	8.3	11.2
Shareholders' equity	**2,307.4**	**3,070.8**	**3,931.6**	**5,518.3**	**7,443.6**
Total liabilities and equity	**28,679.1**	**39,982.6**	**53,176.8**	**68,066.3**	**87,124.9**

Other figures	2006	2007	2008e	2009e	2010e
Tangible shareholders' equity	2,257.3	3,020.7	3,866.4	5,436.8	7,341.7
Off-balance sheet items	4,643.8	6,088.5	8,158.6	10,524.6	13,576.8
No. of shares outstanding (mn)	696.9	696.9	696.9	726.9	756.9
Weighted average no. of shares (basic) mn	696.9	696.9	696.9	711.9	741.9
Weighted average no. of shares (diluted) mn	696.9	696.9	696.9	711.9	741.9
Number of employees (FTE)	7,286.0	8,534.0	10,667.5	13,334.4	16,001.3
Number of branches	600.0	806.0	n.a.	n.a.	n.a.

Source: Company data, Erste Bank estimates

Ratios

Per share figures (RON)	2006	2007	2008e	2009e	2010e
EPS basic	1.01	1.47	2.06	2.16	2.66
EPS diluted	1.01	1.47	2.06	2.16	2.66
BVPS	3.31	4.41	5.64	7.59	9.83
Tangible BVPS	3.24	4.33	5.55	7.48	9.70
DPS	0.37	0.59	0.82	0.85	1.04
Payout ratio	36.5%	40.4%	40.0%	40.0%	40.0%
No. of shares outstanding (mn)	697	697	697	727	757
Profitability	**2006**	**2007**	**2008e**	**2009e**	**2010e**
Total interest income / avg. interest-earning assets [Yield on assets]	8.6%	8.5%	7.6%	7.5%	7.4%
Total interest expenses / avg. interest-bearing liabilities [Cost of funds]	-3.8%	-4.3%	-3.8%	-3.8%	-3.8%
Yield on assets - cost of funds [Interest spread]	4.8%	4.2%	3.7%	3.7%	3.6%
Net interest income / avg. total assets [Net interest margin, NIM]	4.9%	4.4%	3.9%	3.9%	3.8%
Net fee and commission income / avg. total assets [Net fee margin]	1.6%	1.8%	1.9%	1.9%	2.0%
Net profit / avg. shareholders' equity [Return on equity, ROE]	33.9%	38.0%	41.0%	32.6%	30.4%
Net profit / avg. total assets [Return on assets, ROA]	2.9%	3.0%	3.1%	2.5%	2.5%
Efficiency	**2006**	**2007**	**2008e**	**2009e**	**2010e**
Total operating expenses / total income [Cost income ratio, CIR]	53.0%	45.8%	46.5%	46.2%	45.2%
Total operating expenses / avg. total assets [Cost asset ratio]	4.0%	3.3%	3.1%	3.0%	2.9%
Personnel expenses / total income	-21.9%	-22.1%	-25.5%	-28.1%	-29.4%
Personnel expenses / avg. no. of employees [Avg. staff costs, RON mn)]	-0.06	-0.07	-0.08	-0.09	-0.10
Asset quality	**2006**	**2007**	**2008e**	**2009e**	**2010e**
Risk provisions (P&L) / avg. loans to customers (gross) [Risk costs]	0.5%	0.6%	0.8%	0.8%	0.8%
Risk provisions (P&L) / net interest income [Risk earnings ratio]	6.1%	9.6%	12.9%	13.3%	13.7%
Capital adequacy	**2006**	**2007**	**2008e**	**2009e**	**2010e**
Total equity / total assets [Equity ratio]	8.1%	7.7%	7.4%	8.1%	8.6%
P&L structure	**2006**	**2007**	**2008e**	**2009e**	**2010e**
Net interest income / total income	64.3%	59.9%	59.0%	58.7%	58.4%
Net fee and commission income / total income	21.5%	25.2%	27.7%	28.9%	30.2%
Net trading result / total income	11.6%	13.0%	11.7%	10.9%	9.9%
Non-interest income / total income	35.7%	40.1%	41.0%	41.3%	41.6%
Personnel expenses / total operating expenses	41.3%	48.2%	54.9%	60.8%	65.0%
Effective tax rate	-11.5%	-16.1%	-16.0%	-16.0%	-16.0%
Balance sheet structure	**2006**	**2007**	**2008e**	**2009e**	**2010e**
Loans to customers / deposits from customers [Loan deposit ratio]	93.7%	97.0%	95.6%	94.1%	97.2%
Loans to customers / total assets	65.8%	67.6%	68.1%	68.7%	69.2%
Deposits from customers / total assets	70.1%	69.7%	71.3%	73.0%	71.2%
Growth rates	**2006**	**2007**	**2008e**	**2009e**	**2010e**
Net interest income y/y	21.1%	26.5%	22.3%	27.4%	25.5%
Net fee and commission income y/y	65.0%	59.7%	36.3%	33.7%	31.4%
Total income y/y	32.5%	35.9%	24.2%	27.9%	26.0%
Personnel expenses y/y	28.3%	37.2%	43.8%	40.6%	32.0%
Total operating expenses y/y	35.1%	17.4%	26.1%	27.2%	23.3%
Operating profit y/y	38.1%	52.9%	17.5%	28.2%	28.3%
Profit before taxes y/y	38.1%	52.9%	40.4%	7.2%	28.3%
Net profit y/y	41.5%	45.7%	40.4%	7.2%	28.3%
Loans and advances to customers y/y	77.1%	43.4%	34.0%	29.0%	29.0%
Total assets y/y	45.9%	39.4%	33.0%	28.0%	28.0%
Deposits from customers y/y	34.2%	38.5%	36.0%	31.0%	25.0%
Total liabilities y/y	47.9%	39.9%	33.5%	27.0%	27.4%
Shareholders' equity y/y	26.5%	33.1%	28.0%	40.4%	34.9%

Source: Company data, Erste Bank estimates

BRE Bank — re-initiating: Hold

POLAND / Banking & insurance

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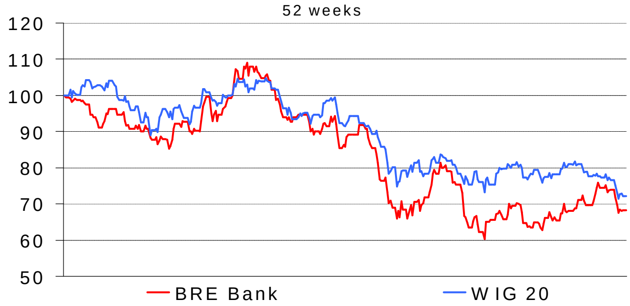
Share price (PLN)	381.0	Reuters	BREP.WA	Free float	30.1%
Number of shares (mn)	30.1	Bloomberg	BRE PW	Shareholders	Commerzbank (69.9%)
Market capitalization (PLN mn / EUR mn)	11,300.7 / 3,339.6	Div. ex-date	n.a.		
Index weight (WIG 20)	3.3%	**Target price**	**410**	Homepage:	www.brebank.pl

PLN mn	2007	2008	2009e	2010e
Total income	2,334	2,810	3,414	4,027
Operating profit	846	1,026	1,308	1,549
Profit before taxes	932	1,314	1,499	1,604
Net profit	710	1,055	1,157	1,219
EPS (PLN)	23.9	35.3	38.5	40.3
BVPS (PLN)	112.1	146.7	184.2	223.3
Div/share (PLN)	0.0	0.0	0.0	0.0
P/E (x)	15.9	10.8	9.9	9.5
P/BV (x)	3.2	2.5	2.0	1.6
Dividend yield	0.0%	0.0%	0.0%	0.0%

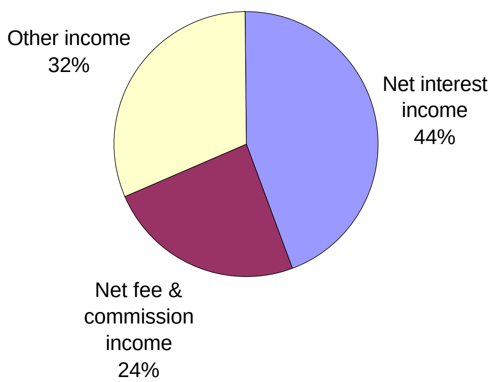


Performance	12M	6M	3M	1M
in PLN	-30.4%	-21.6%	6.4%	-2.6%
in USD	-22.0%	-16.2%	11.4%	-2.5%

Company description

BRE is the No. 3 Polish bank, with a 6.6% market share in terms of total assets. It was originally focused on corporate and investment banking. In 2001, BRE successfully launched retail and Internet banking offerings. It has successfully developed retail banking operations under the mBank and MultiBank brands and attracted over 1.6mn customers. The bank has become No. 3 in the mortgage market, with a market share of approx. 11%. Asset management and brokerage are also significant areas of operations. BRE's investment fund subsidiary has a market share of nearly 4% in assets under management, which is the current No. 7 position in Poland. With the expansion of the consumer finance business, BRE plans to generate some 30% of pre-tax profits from the retail business in 2009. The bank is also the owner of the second largest leasing company and one of the largest factoring services providers. The bank is 70% owned by Commerzbank.

Total income breakdown (2007)



Source: Company data

Strength/Opportunities

- Strong position in corporate banking market
- Innovative products for corporate customers
- Improved position in mortgage market, in particular in FX
- Dynamic development of retail and Internet banking
- Good and improving position in wealth management market
- CIR improved from 72.3% in 2005 to 60.5% in 2007

Weakness/Threats

- Late entry into retail segment (41% of loan portfolio)
- High cost of funding and low margin, due to low customer deposit base
- Volatility of earnings, due to sale of investments
- Regional expansion strategy currently under review

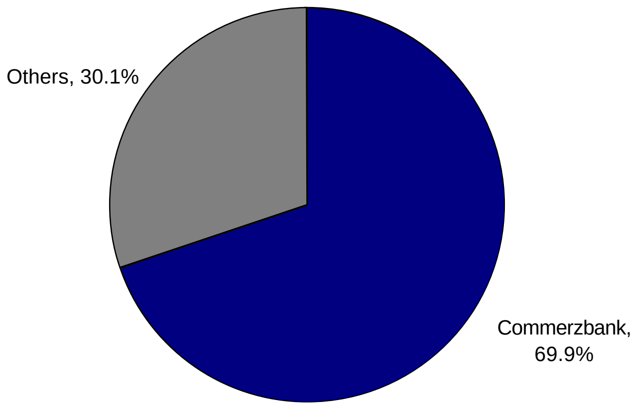
Investment story

BRE Bank is the No. 3 Polish bank, with a market share of 6.6% (in terms of total assets). It is one of the few top-10 banks in Poland gaining market share, due to its strong >40% loan growth. However, the very strong dynamics of the past two years have diminished in the last few quarters, due to the stretched funding structure of the bank. Moreover, with the replacement of the former CEO and mBank visionary Slawomir Lachowski, the regional expansion strategy is under review and the focus is turning back to Poland. With 23% annual bottom line growth in the next three years, BRE Bank is still one of the strongest growing plays in the market.

Hold, target price PLN 410

We have based our valuation for BRE Bank on our three-stage dividend discount model (see valuation section). Moreover, we have checked the output of our DDM with the peer group multiples for the CEE region. BRE currently trades at a P/BV 08 of 2.6x vs. the peers' 2.4x and at a P/E 08 of 14.8x (peer group 13.8x) which indicate premiums of 10% and 7%, respectively. We do not think that BRE's dependence on wholesale funding and the focus on the home market justify a premium. We therefore reiterate our coverage with a Hold recommendation and target price of PLN 410.

Shareholder structure



Source: Company data

Strategy

New strategy in autumn

Following the changes to the management board (Mariusz Grendowicz replaced Slawomir Lachowski as CEO), BRE Bank is currently reviewing its strategy for 2009-2011, which is to be presented in autumn. During the 1Q08 conference call, management stated its intention to refocus more on profitability, following the years of strong growth and the expansion into the Czech Republic and Slovakia in 2007. The further expansion abroad will depend on the financial results achieved in the new countries.

2008 targets: 34% loan growth, 18.5% deposit growth

According to the FY07 annual report and based on BRE's macro scenario, the bank's targets for 2008 include 18.5% deposit growth, 34% loan growth and 21% total asset growth. In the Corporate and Institutions segment, BRE mainly aims to increase the volume of loans to enterprises by PLN 2bn (including EU loans up by 17%), to expand its corporate banking network by 20 offices and to grow BRE Leasing's sales of new leasing contracts by around 20%.

Retail targets: 42% loan growth and 17% deposit growth

In the Retail Banking segment, BRE targets 18% customer growth to 2.4mn clients, with goals to enlarge the loan portfolio by PLN 5.8bn (+42% y/y) and to increase customer deposits by PLN 2.2bn (+17% y/y). The latter will be helped by the offering of structured savings products. BRE is also going to expand in the consumer finance market and grow its sales network accordingly.

1Q08 above expectations, but slowing dynamics

38% operating profit growth

BRE Bank reported net profit of PLN 351mn (+58% y/y) for 1Q08, which was 8% better than the consensus had expected. Excluding positive one-offs from the sale of Vectra S.A. in 1Q08 (PLN 137.7mn), the operating profit was up 38% y/y. The sustainable income sources were still the main profit growth drivers, albeit at a slowing pace. Net interest income was up 39% y/y, compared to 46% annual growth in 4Q07, and net fee & commission income grew just 5% y/y (+6% y/y in 4Q07 and +33% y/y in 3Q07). While the first was based on a still very dynamic 44% y/y bigger loan portfolio, 26% annual deposit growth and slightly better margins (NIM 2.16%), the latter was mainly affected by flat brokerage fees. Trading income was up 19% y/y, despite unfavorable conditions on the financial instruments markets.

Slowing business dynamics

Operating cost growth maintained its pace above the 30% level, mainly driven by 23% y/y higher personnel expenses, as well as other operating costs from the sale/ liquidation of fixed assets. Net provisions were lower than in the previous two quarters and stood at a moderate 7% of net interest income, due to the ongoing good loan quality (NPL ratio flat at 3.6% q/q). The main business drivers showed slightly slowing dynamics at high levels, with customer loans up 44% y/y, driven by corporate loans (+40% y/y) and retail loans (+54% y/y). On the funding side, customer deposit growth slowed down to +26% y/y (vs. +31% y/y in 4Q07), driven by 44% higher retail deposits. Corporate deposit dynamics again lost pace in 1Q08 to a 14% growth rate. This is a seasonal effect that can be recognized on the Polish market, with corporate deposit growth coming down to 9%, from 18% as of year-end 2007.

Regional expansion under review

During the conference call, management said that it is very satisfied with the business development in the Czech Republic and Slovakia. However, further expansion in other countries is under review, since the new management is focusing on the home Polish market. An updated strategy is to be presented in autumn this year. In terms of credit risk, BRE expects provisioning returning to levels of PLN 8-12mn p.m., which would be higher than the PLN 22mn reported in 1Q08. In our view, the 1Q08 numbers have confirmed the third quarter in a row in which BRE's growth dynamics have diminished, due mainly to weak fee & commission income, as well as increased operating costs.

Earnings review

Consolidated, IFRS PLNmn	**Reported 1Q 2008**	**Reported 1Q 2007**	**y/y**	**Consensus 1Q 2008e**	**Reported vs. Cons.**
Net interest income	315.3	227.5	38.6%	312.0	1.1%
Net provisions	-22.2	-6.9	220.3%	n.a.	n.a.
Net fee & commission inc.	150.4	142.9	5.3%	142.0	5.9%
Trading result	135.1	113.4	19.2%	n.a.	n.a.
Total income*	729.4	532.0	37.1%	n.a.	n.a.
Total expenses	-422.5	-319.5	32.3%	n.a.	n.a.
Operating profit*	284.6	205.6	38.4%	n.a.	n.a.
Pre-tax profit	427.6	295.9	44.5%	n.a.	n.a.
Net profit	350.8	222.7	57.5%	324.0	8.3%
Capital adequacy ratio (%)	9.5%	10.9%	-1.4%p		
Net interest margin (on TA, %)	2.16%	2.07%	0.09%p		
Cost / income ratio (%)*	57.9%	60.1%	-2.1%p		
ROE (%)*	24.9%	33.7%	-8.8%p		
Risk / earnings ratio (%)	7.1%	3.1%	4.0%p		

*) excluding PLN 137.7mn gain from sale of Vectra S.A.

Source: Company date, Reuters, Erste Bank estimates

Financial outlook

21% operating profit growth in FY08e

We have set up our BRE Bank model for the coming years based on the diminishing 1Q08 dynamics. For FY08e, we expect 49% net profit growth to PLN 1,055mn, which is mainly driven by PLN 288mn gains from the sale of investments, i.e. PLN 137.7mn gain from the sale of Vectra S.A. booked in 1Q08 and the expected gain of PLN 150mn from the sale of PTE Skarbiec Emerytura. Adjusted for these one-offs, we foresee 23% bottom line growth, mainly driven by 31% net interest income growth, based on 29.4% loan growth at a slightly better net interest margin of 2.18%. From fee & commission income, we would not expect more than 14% growth this year, as long as brokerage fees and asset management fees grow at just a single-digit pace. Personnel and G&A expenses are expected to keep their 20% pace for the full year, due to ongoing network expansion. Provisioning should return in 2008 to a more sustainable level of a 10% risk/ earnings ratio, due to the slight asset quality deterioration expected for 2H08.

FY09e, FY10e: 28% and 18% operating profit growth, respectively

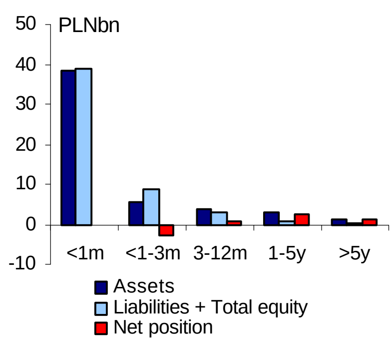
For the following years, we expect further one-off gains from the sale of investments, including the sale of the 0.76% stake in Poland's biggest insurer, PZU, in 2009 (expected gain of PLN 191mn) and the sale of real estate subsidiary Garbary in 2010 (expected gain of PLN 55mn). Our expectations for BRE's operating profit growth (excluding these one-offs) in 2009 and 2010 are 28% y/y and 18% y/y, respectively. This is mainly due to the ongoing loan portfolio growth of above 20% at slightly improving net interest margins to a still very moderate 2.3%. Net fee & commission income should return to growth levels above 30% in 2009.

Stretched loan/ deposit ratio >110%

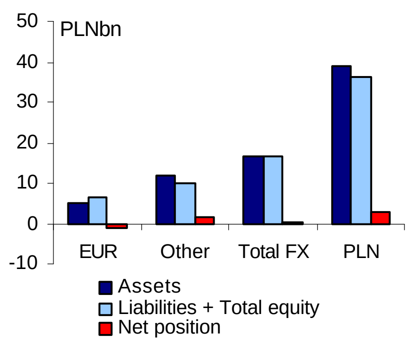
BRE Bank has one of the most stretched loan/deposit ratios in our coverage universe, with 111% as of 1Q08. Due to the expected slower deposit growth of 21% (compared with 29% loan growth), we foresee a 113% L/D ratio as of year-end 2008. As a result, wholesale funding will increase, putting some pressure on margins, as funding costs have risen 50-100bp vs. mid last year. Therefore, the net interest margin might not improve significantly above the 2.2% level, even though the central bank's rate hikes would give some room for margin improvement. The cost / income ratio should dive below the 60% barrier in 2008 and might reach 55% by 2010, mainly due to moderate cost expansion.

Snapshot of loan book risk exposure

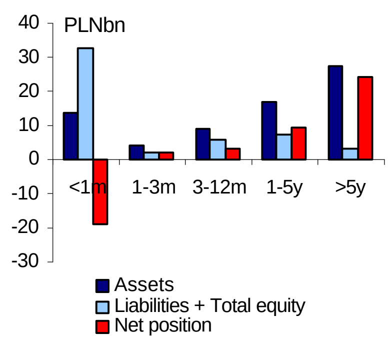
Interest rate risk exposure (2007, PLNbn)



Currency risk exposure (2007, PLNbn)



Liquidity risk exposure (2007, PLNbn)



Source: Company data

Financial Statements (IFRS, PLNmn, 31/12)

Income Statement	2006	2007	2008e	2009e	2010e
Net interest income	724.2	1,027.8	1,343.2	1,615.7	1,926.6
Risk provisions for loans and advances	-46.0	-76.8	-138.0	-199.8	-274.2
Net interest income after risk provisions	678.2	951.0	1,205.3	1,415.9	1,652.4
Net fee and commission income	416.4	564.3	640.4	874.7	1,098.4
Dividend income	39.3	6.2	4.8	4.8	4.8
Trading result	399.6	486.5	559.4	643.4	707.7
Result on financial instruments	0.0	0.0	0.0	0.0	0.0
Other income	229.0	249.7	262.1	275.3	289.0
Total income	**1,808.5**	**2,334.4**	**2,810.1**	**3,413.8**	**4,026.6**
Personnel expenses	-475.9	-628.6	-753.7	-895.4	-1,034.7
Other administrative expenses	-403.6	-474.7	-564.9	-661.0	-793.2
Depreciation and amortization	-164.9	-176.3	-188.7	-203.8	-222.1
Other expenses	-183.7	-132.3	-139.0	-145.9	-153.2
Total expenses	**-1,228.0**	**-1,412.0**	**-1,646.2**	**-1,906.0**	**-2,203.2**
Operating profit	**534.5**	**845.6**	**1,025.9**	**1,308.0**	**1,549.2**
Extraordinary result	36.1	86.6	287.7	191.0	55.0
Profit/loss before taxes	**570.6**	**932.2**	**1,313.6**	**1,499.0**	**1,604.2**
Income taxes	-124.2	-184.6	-203.1	-280.7	-320.8
Profit/loss after taxes	**446.4**	**747.6**	**1,110.5**	**1,218.3**	**1,283.3**
Minority interests	-25.1	-37.5	-55.5	-60.9	-64.2
Net profit/loss	**421.3**	**710.1**	**1,054.9**	**1,157.4**	**1,219.2**
Adjusted profit/loss before taxes	528.7	823.2	1,025.9	1,308.0	1,549.2
Adjusted net profit/loss	385.1	623.5	767.2	1,042.8	1,153.2

Balance Sheet	2006	2007	2008e	2009e	2010e
Cash and balances with central banks	3,743.3	2,026.8	2,884.1	2,904.3	2,767.6
Loans and advances to banks - net	2,848.7	2,095.1	2,304.7	2,535.1	2,661.9
Loans and advances to customers - net	23,040.1	33,677.5	43,668.3	54,343.5	64,837.8
Interest-earning financial assets	10,686.9	15,770.5	15,589.0	15,786.4	16,812.1
Interest-earning assets	**40,319.1**	**53,569.9**	**64,446.2**	**75,569.3**	**87,079.4**
Non-interest-earning assets	5.4	4.8	4.8	4.8	4.8
Intangible and tangible assets	961.2	1,075.2	1,195.6	1,309.0	1,417.2
Other assets	1,044.9	1,333.0	1,533.0	1,716.9	1,888.6
Total assets	**42,330.6**	**55,983.0**	**67,179.6**	**78,600.1**	**90,390.1**
Deposits from banks	7,972.4	12,286.9	14,761.6	16,474.1	18,203.9
Deposits from customers	24,669.9	32,401.9	39,206.3	46,655.4	54,586.9
Debt securities issued	3,389.6	2,928.4	2,782.0	3,060.2	3,366.2
Interest-rate-related derivatives	0.0	0.0	0.0	0.0	0.0
Interest-bearing liabilities	**36,031.8**	**47,617.2**	**56,749.8**	**66,189.7**	**76,156.9**
Non-interest-rate-related derivatives	0.0	0.0	0.0	0.0	0.0
Provisions	70.2	71.2	79.8	81.4	83.0
Other liabilities	2,059.1	3,191.4	3,989.3	4,587.7	5,046.4
Subordinated capital	1,547.4	1,661.8	1,828.0	2,010.8	2,111.3
Total liabilities	**39,708.4**	**52,541.7**	**62,646.8**	**72,869.5**	**83,397.7**
Minorities	91.4	116.8	153.3	193.8	236.5
Shareholders' equity	**2,530.8**	**3,324.5**	**4,379.4**	**5,536.8**	**6,756.0**
Total liabilities and equity	**42,330.6**	**55,983.0**	**67,179.6**	**78,600.1**	**90,390.1**

Other figures	2006	2007	2008e	2009e	2010e
Tangible shareholders' equity	2,523.6	3,317.4	4,372.3	5,529.7	6,748.8
Off-balance sheet items	554,693.5	651,896.1	704,345.9	761,021.5	822,263.9
No. of shares outstanding (mn)	29.5	29.7	29.9	30.1	30.3
Weighted average no. of shares (basic) mn	29.3	29.6	29.8	30.0	30.2
Weighted average no. of shares (diluted) mn	29.5	29.6	29.8	30.0	30.2
Number of employees (FTE)	5,159	5,826	6,409	6,921	7,406
Number of branches (mBank and MultiBank)	149	212	242	287	347

Source: Company data, Erste Bank estimates

Ratios

Per share figures (PLN)	2006	2007	2008e	2009e	2010e
EPS basic	14.4	24.0	35.4	38.6	40.4
BVPS	85.7	112.1	146.7	184.2	223.3
Tangible BVPS	85.5	111.8	146.4	184.0	223.0
DPS	0.00	0.00	0.00	0.00	0.00
Payout ratio	0.0%	0.0%	0.0%	0.0%	0.0%
No. of shares outstanding (mn)	29.5	29.7	29.9	30.1	30.3
Profitability	**2006**	**2007**	**2008e**	**2009e**	**2010e**
Total interest income / avg. interest-earning assets [Yield on assets]	4.7%	4.9%	5.1%	5.2%	5.3%
Total interest expenses / avg. interest-bearing liabilities [Cost of funds]	-2.9%	-3.1%	-3.2%	-3.3%	-3.3%
Yield on assets - cost of funds [Interest spread]	1.7%	1.9%	2.0%	2.0%	2.0%
Net interest income / avg. total assets [Net interest margin, NIM]	1.9%	2.1%	2.2%	2.2%	2.3%
Net fee and commission income / avg. total assets [Net fee margin]	1.1%	1.1%	1.0%	1.2%	1.3%
Net profit / avg. shareholders' equity [Return on equity, ROE]	18.5%	24.3%	27.4%	23.3%	19.8%
Net profit / avg. total assets [Return on assets, ROA]	1.1%	1.4%	1.7%	1.6%	1.4%
Efficiency	**2006**	**2007**	**2008e**	**2009e**	**2010e**
Total operating expenses / total income [Cost income ratio, CIR]	67.9%	60.5%	58.6%	55.8%	54.7%
Total operating expenses / avg. total assets [Cost asset ratio]	3.3%	2.9%	2.7%	2.6%	2.6%
Personnel expenses / total income	-26.3%	-26.9%	-26.8%	-26.2%	-25.7%
Personnel expenses / avg. no. of employees [Avg. staff costs, PLN '000)]	-101	-114	-123	-134	-144
Asset quality	**2006**	**2007**	**2008e**	**2009e**	**2010e**
Risk provisions (P&L) / avg. loans to customers (gross) [Risk costs]	0.2%	0.3%	0.4%	0.4%	0.5%
Risk provisions (P&L) / net interest income [Risk earnings ratio]	6.3%	7.5%	10.3%	12.4%	14.2%
Capital adequacy	**2006**	**2007**	**2008e**	**2009e**	**2010e**
Total equity / total assets [Equity ratio]	6.2%	6.1%	6.7%	7.3%	7.7%
P&L structure	**2006**	**2007**	**2008e**	**2009e**	**2010e**
Net interest income / total income	40.0%	44.0%	47.8%	47.3%	47.8%
Net fee and commission income / total income	23.0%	24.2%	22.8%	25.6%	27.3%
Net trading result / total income	22.1%	20.8%	19.9%	18.8%	17.6%
Non-interest income / total income	60.0%	56.0%	52.2%	52.7%	52.2%
Personnel expenses / total operating expenses	38.8%	44.5%	45.8%	47.0%	47.0%
Effective tax rate	-21.8%	-19.8%	-15.5%	-18.7%	-20.0%
Balance sheet structure	**2006**	**2007**	**2008e**	**2009e**	**2010e**
Loans to customers / deposits from customers [Loan deposit ratio]	96.8%	106.1%	113.4%	118.9%	121.7%
Loans to customers / total assets	56.4%	61.4%	66.2%	70.6%	73.5%
Deposits from customers / total assets	58.3%	57.9%	58.4%	59.4%	60.4%
Growth rates	**2006**	**2007**	**2008e**	**2009e**	**2010e**
Net interest income y/y	11.3%	41.9%	30.7%	20.3%	19.2%
Net fee and commission income y/y	23.1%	35.5%	13.5%	36.6%	25.6%
Total income y/y	25.1%	29.1%	20.4%	21.5%	17.9%
Personnel expenses y/y	18.0%	32.1%	19.9%	18.8%	15.6%
Total operating expenses y/y	20.5%	15.0%	16.6%	15.8%	15.6%
Operating profit y/y	53.6%	58.2%	21.3%	27.5%	18.4%
Profit before taxes y/y	71.3%	63.4%	40.9%	14.1%	7.0%
Net profit y/y	70.2%	68.6%	48.6%	9.7%	5.3%
Loans and advances to customers y/y	47.1%	43.9%	29.4%	24.7%	19.8%
Total assets y/y	29.3%	32.3%	20.0%	17.0%	15.0%
Deposits from customers y/y	21.2%	31.3%	21.0%	19.0%	17.0%
Total liabilities y/y	29.6%	32.3%	19.2%	16.3%	14.4%
Shareholders' equity y/y	24.3%	31.4%	31.7%	26.4%	22.0%

Source: Company data, Erste Bank estimates

BZ WBK

from Accumulate to Hold

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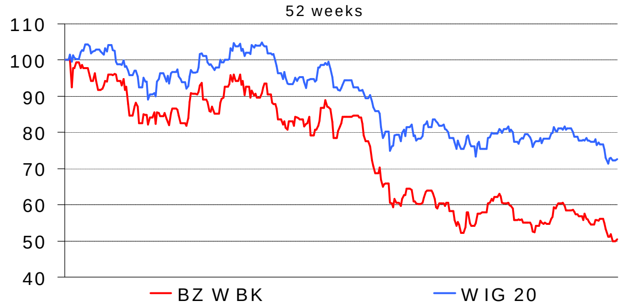
POLAND / Banking & insurance

Share price (PLN)	150.0	Reuters	BZWB.WA	Free float	29.5%
Number of shares (mn)	73.0	Bloomberg	BZW PW	Shareholders	AIB (70.5%)
Market capitalization (PLN mn / EUR mn)	10,944.0 / 3,234.2	Div. ex-date	30/04/07		
Index w eight (WIG 20)	4.6%	**Target price**	**165**	Homepage:	w w w .bzw bk.pl

PLN mn	2007	2008e	2009e	2010e
Total income	2,992	3,365	4,004	4,621
Operating profit	1,391	1,358	1,655	1,915
Profit before taxes	1,391	1,358	1,655	1,915
Net profit	955	1,009	1,215	1,345
EPS (PLN)	13.1	13.8	16.6	18.4
BVPS (PLN)	59.5	69.2	79.2	88.4
Div/share (PLN)	3.0	4.1	6.7	9.2
P/E (x)	11.5	10.9	9.0	8.1
P/BV (x)	2.3	2.0	1.7	1.5
Dividend yield	2.0%	2.8%	4.4%	6.1%

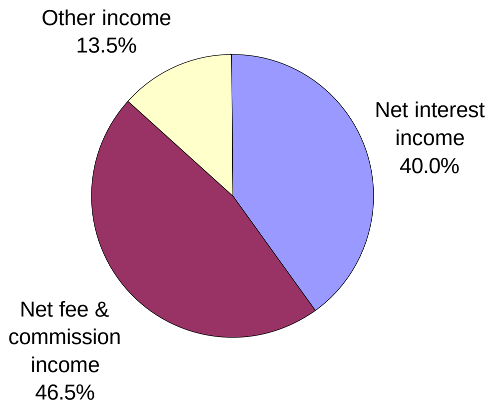


Performance	**12M**	**6M**	**3M**	**1M**
in PLN	-49.5%	-38.8%	-12.3%	-13.5%
in USD	-43.3%	-34.5%	-8.2%	-13.5%

Company description

BZ WBK is a mid-size Polish bank, with a 5% share of the total assets of commercial banks. It is a product of the merger of two regional banks operating in the southwestern and western parts of Poland. The bank is strongly developing its presence in large cities in other parts of the country. BZ WBK is a universal bank, focusing on corporate loans, mortgage loans, cash loans, credit card business, investment funds and the brokerage business. During the financial market turbulence, BZ WBK lost some market share in the Polish investment fund market (to a current 16%), but defended its No. 2 position. The bank is also very active in brokerage services and leasing. BZ WBK aims to expand its distribution network from 400 branches to 450 branches in the coming years. Allied Irish Bank is the strategic investor, with a 70% stake in the bank.

Total income breakdown (2007)



Source: Company data

Strength/Opportunities

- Strong franchise in core regions
- High asset quality
- Good position in mortgage and credit card market
- Growth driver net interest income with good margins
- CIR further decreased to 53% (from 55%)
- ROE improved to 23%

Weakness/Threats

- Relatively low dynamics of lending
- Corporate lending exposure still high
- Relatively small distribution network (400 branches)
- Dependence on financial market environment
- Fee & commission income declined by 5% in 1Q08

Investment story

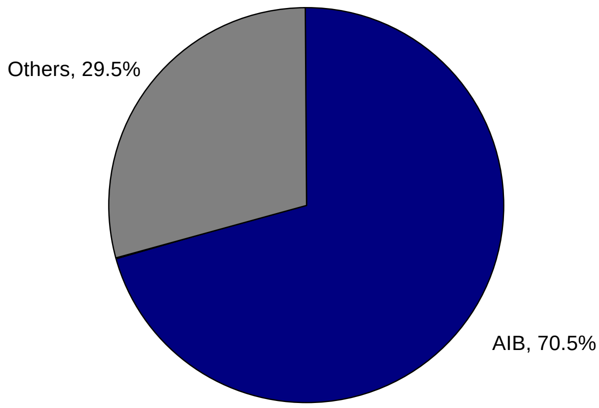
15% market share in mutual funds

BZ WBK has become the No. 5 Polish bank in terms of total assets, with a market share of 4.9%. However, in the mutual fund market, the company ranks second, with a 15% share (assets under management) and in the equity market its brokerage subsidiary ranks No. 3, with an 11% market share. This strong position in financial market related businesses is largely responsible for the bank's strong financial performance in recent quarters. However, it is also responsible for the current weak performance, in terms of both quarterly reports and share price. Due to our almost flat commission income expectation and the ongoing network expansion, BZ WBK's bottom line might only grow 6% this year. A return to 20% growth levels is expected in FY09.

Hold, target price PLN 165

We have based our valuation for BZ WBK on our new dividend discount model, indicating a fair value per share of PLN 165. In terms of P/BV 2008, the share trades at 2.2x, which is 8% discount. And on P/E 08 of 10.9x, BZ WBK is valued 20% below its peers. We reduce our target price to PLN 165 and decrease our recommendation from Accumulate to Hold.

Shareholder structure



Source: Company data

Weak 1Q08 below expectations

Bottom line decreased 7% y/y

BZ WBK reported a 7% y/y decline in net profit for 1Q08 (PLN 243mn), which was 7% below our expectations, but 4% above the consensus. The main income source was net interest income (+30% y/y), in line with expectations. Net fee & commission income (+9% y/y) came in below our estimates, mainly due to the weakening mutual fund business. Total costs increased by 18.4%, driven by the ongoing network expansion, driving CIR to 53.4%, from 49.8% in 1Q07.

Network expansion: +80 branches

The CEO of BZ WBK announced that the bank plans to accelerate the growth of its chain development via opening 80 new branches this year. So far, the company has opened 39 branches in 2008. Thus, the number of customers is expected to increase by 200,000 - 250,000 this year. Separately, the CEO assured investors that the bank's income growth is to exceed the cost rise in FY08 (as opposed to 1Q08, when costs rose by 18.4% and income was up 10.4%).

30% top line pace appreciated

The 1Q08 figures were below expectations, mainly due to the weak net fee & commission income. We like the strong 30% pace in net interest income, which even accelerated compared to 4Q07 (+29% y/y).The operating cost side stayed at quite high growth levels. It has to be proven in the coming quarters that management can bring costs down to improve profitability.

Earnings review

Consolidated, IFRS PLNmn	Reported 1Q 2008	Reported 1Q 2007	y/y	Consensus 1Q 2008e	Reported vs. Cons.	Erste Bank 1Q 2008e	Reported vs. EB
Net interest income	375.7	290.1	29.5%	381.0	-1.4%	381.0	-1.4%
Net provisions	-6.0	20.6	n.a.	n.a.	n.a.	-10.0	-40.3%
Net fee & commission inc.	349.3	367.0	-4.8%	363.0	-3.8%	384.0	-9.0%
Trading result	20.8	16.7	24.4%	n.a.	n.a.	10.0	107.8%
Total income	760.5	688.7	10.4%	n.a.	n.a.	793.0	-4.1%
Total expenses	-405.9	-342.8	18.4%	n.a.	n.a.	-394.0	3.0%
Operating profit	348.6	366.5	-4.9%	n.a.	n.a.	389.0	-10.4%
Pre-tax profit	348.5	366.4	-4.9%	n.a.	n.a.	389.0	-10.4%
Net profit	243.1	260.6	-6.7%	234.0	3.9%	260.6	-6.7%
Capital adequacy ratio (%)	10.6%	13.9%	-3.3%p				
Net interest margin (on TA, %)	3.49%	3.40%	0.09%p				
Cost / income ratio (%)	53.4%	49.8%	3.6%p				
ROE (%)	21.8%	25.5%	-3.7%p				
Risk / earnings ratio (%)	1.6%	-7.1%	8.7%p				

Source: BZ WBK, Reuters, Erste Bank estimates

Financial outlook

FY08e bottom line to grow just 6%

We have based our financial model on the disappointing 1Q08 developments of BZ WBK's financial market related business operations, i.e. mutual funds, asset management and brokerage. As a result, we have lowered our expectations for FY08 to 6% bottom line growth, which is mainly due to the 5% growth expectations for net fee & commission income. In 1Q08, BZ WBK AIB TFI's mutual funds decreased by 19% y/y (-25% q/q), which resulted in 18% lower net fees from mutual funds and asset management. Moreover, brokerage fees declined by 37% y/y.

NII as main driver: +24% y/y

The main growth driver for FY08 will therefore be net interest income, which we foresee to increase by 24% y/y, based on 30% loan growth and 21% deposit growth at a 10bp better net interest margin of 3.55%. Since we regard BZ WBK as a good proxy for the Polish financial market performance, investors should watch out for a market rebound, boosting BZ WBK's P&L with brokerage and AM fees. We therefore see a return to 20% growth levels in FY09 at the latest.

Network expansion as main cost driver

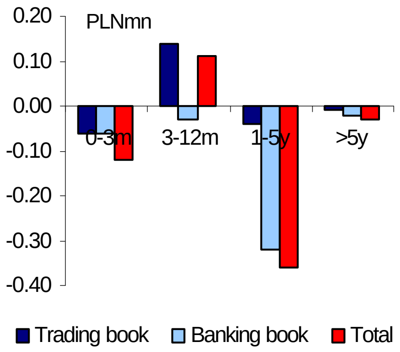
On the cost side, however, we expect 20% personnel growth, driven by hiring for the ongoing network expansion (+80 branches to be opened in 2008) and 11% higher costs per employee. Due to higher marketing expenses and the network expansion, we expect G&A costs to rise by 23% y/y. The cost of risk is foreseen to return to a rather normalized level of a 6% risk / earnings ratio in FY08. As a result, the cost/income ratio might increase to 56.7% (53.4%) and ROE should come down to 21.5% (23%).

89% loan/deposit ratio

In our model, BZ WBK can keep its relatively comfortable funding structure, with a loan/ deposit ratio of 89% in FY08, staying below the 100% barrier in the next couple of years. This is mainly due to one of the strongest network expansion plans in the Polish banking sector, spilling into retail and corporate deposits far above market levels.

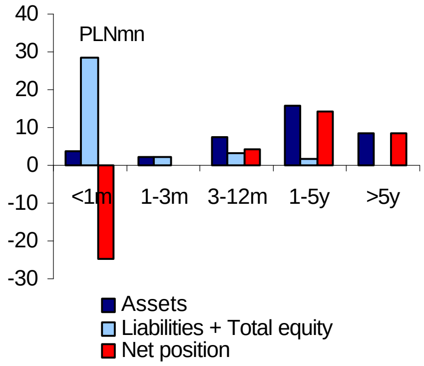
Snapshot of loan book risk exposure

Interest rate risk exposure (2007, PLNmn)



Source: Company data

Liquidity risk exposure (2007, PLNmn)



Financial Statements (IFRS, PLNmn, 31/12)

Income Statement	2006	2007	2008e	2009e	2010e
Net interest income	1,031.7	1,286.7	1,599.3	1,897.8	2,152.8
Risk provisions for loans and advances	-28.3	-3.9	-98.8	-143.5	-196.5
Net interest income after risk provisions	1,003.4	1,282.7	1,500.6	1,754.3	1,956.3
Net fee and commission income	1,191.4	1,545.0	1,621.9	1,948.9	2,300.4
Dividend income	108.5	41.2	13.4	13.4	13.4
Trading result	43.4	67.9	78.1	89.9	98.8
Result on financial instruments	0.0	0.0	0.0	0.0	0.0
Other income	49.8	51.2	52.7	54.3	55.9
Total income	**2,424.7**	**2,991.9**	**3,365.4**	**4,004.2**	**4,621.3**
Personnel expenses	-683.7	-842.8	-1,010.4	-1,189.4	-1,374.5
Other administrative expenses	-447.2	-581.9	-715.7	-823.1	-930.1
Depreciation and amortization	-158.8	-134.6	-144.0	-154.1	-164.9
Other expenses	-41.2	-37.2	-38.3	-39.5	-40.7
Total expenses	**-1,330.9**	**-1,596.6**	**-1,908.5**	**-2,206.1**	**-2,510.2**
Operating profit	**1,065.5**	**1,391.4**	**1,358.2**	**1,654.6**	**1,914.7**
Extraordinary result	0.0	0.0	0.0	0.0	0.0
Profit/loss before taxes	**1,065.5**	**1,391.4**	**1,358.2**	**1,654.6**	**1,914.7**
Income taxes	-221.3	-280.8	-273.7	-334.2	-386.8
Profit/loss after taxes	**844.2**	**1,110.7**	**1,084.5**	**1,320.4**	**1,527.9**
Minority interests	-86.0	-156.0	-75.9	-105.6	-183.3
Net profit/loss	**758.2**	**954.7**	**1,008.6**	**1,214.7**	**1,344.6**
Adjusted profit/loss before taxes	1,065.5	1,391.4	1,358.2	1,654.6	1,914.7
Adjusted net profit/loss	758.2	954.7	1,008.6	1,214.7	1,344.6

Balance Sheet	2006	2007	2008e	2009e	2010e
Cash and balances with central banks	1,534.5	2,206.3	1,970.2	1,822.3	1,858.2
Loans and advances to banks - net	3,160.8	2,582.8	2,324.6	2,208.3	2,208.3
Loans and advances to customers - net	17,613.8	23,943.7	31,145.6	38,951.9	46,352.7
Interest-earning financial assets	9,145.8	11,063.3	11,681.5	11,824.4	12,186.7
Interest-earning assets	**31,454.9**	**39,796.2**	**47,121.8**	**54,807.0**	**62,606.0**
Non-interest-earning assets	36.2	13.4	13.4	13.4	13.4
Intangible and tangible assets	628.7	658.5	729.5	802.4	876.3
Other assets	872.4	864.0	907.2	952.6	1,000.2
Total assets	**32,992.2**	**41,332.1**	**48,771.9**	**56,575.3**	**64,495.9**
Deposits from banks	2,608.4	4,483.5	4,842.0	5,086.1	5,255.4
Deposits from customers	24,222.1	29,765.7	36,016.5	42,499.4	49,299.4
Debt securities issued	646.3	353.0	335.3	318.5	318.5
Interest-rate-related derivatives	0.0	0.0	0.0	0.0	0.0
Interest-bearing liabilities	**27,476.8**	**34,602.2**	**41,193.8**	**47,904.1**	**54,873.3**
Non-interest-rate-related derivatives	0.0	0.0	0.0	0.0	0.0
Provisions	174.2	246.2	275.7	303.3	318.4
Other liabilities	1,264.4	1,907.0	2,002.4	2,302.7	2,533.0
Subordinated capital	0.0	0.0	0.0	0.0	0.0
Total liabilities	**28,915.4**	**36,755.4**	**43,471.9**	**50,510.1**	**57,724.8**
Minorities	116.7	235.2	252.4	288.8	322.4
Shareholders' equity	**3,960.0**	**4,341.5**	**5,047.5**	**5,776.4**	**6,448.7**
Total liabilities and equity	**32,992.2**	**41,332.1**	**48,771.9**	**56,575.3**	**64,495.9**

Other figures	2006	2007	2008e	2009e	2010e
Tangible shareholders' equity	3,960.0	4,341.5	5,047.5	5,776.4	6,448.7
Off-balance sheet items	8,683.9	11,062.3	12,721.7	13,993.8	15,113.4
No. of shares outstanding (mn)	73.0	73.0	73.0	73.0	73.0
Weighted average no. of shares (basic) mn	73.0	73.0	73.0	73.0	73.0
Weighted average no. of shares (diluted) mn	73.0	73.1	73.0	73.0	73.0
Number of employees (FTE)	7,467	8,469	9,147	9,878	10,570

Source: Company data, Erste Bank estimates

Ratios

Per share figures (PLN)	2006	2007	2008e	2009e	2010e
EPS basic	10.4	13.1	13.8	16.6	18.4
BVPS	54.3	59.5	69.2	79.2	88.4
Tangible BVPS	54.3	59.5	69.2	79.2	88.4
DPS	6.00	3.00	4.15	6.66	9.21
Payout ratio	57.7%	22.9%	30.0%	40.0%	50.0%
No. of shares outstanding (mn)	73.0	73.0	73.0	73.0	73.0
Profitability	**2006**	**2007**	**2008e**	**2009e**	**2010e**
Total interest income / avg. interest-earning assets [Yield on assets]	5.5%	5.8%	5.9%	5.9%	5.8%
Total interest expenses / avg. interest-bearing liabilities [Cost of funds]	-2.4%	-2.6%	-2.6%	-2.6%	-2.5%
Yield on assets - cost of funds [Interest spread]	3.0%	3.2%	3.3%	3.3%	3.3%
Net interest income / avg. total assets [Net interest margin, NIM]	3.3%	3.5%	3.5%	3.6%	3.6%
Net fee and commission income / avg. total assets [Net fee margin]	3.8%	4.2%	3.6%	3.7%	3.8%
Net profit / avg. shareholders' equity [Return on equity, ROE]	20.7%	23.0%	21.5%	22.4%	22.0%
Net profit / avg. total assets [Return on assets, ROA]	2.4%	2.6%	2.2%	2.3%	2.2%
Efficiency	**2006**	**2007**	**2008e**	**2009e**	**2010e**
Total operating expenses / total income [Cost income ratio, CIR]	55.1%	53.4%	56.7%	55.1%	54.3%
Total operating expenses / avg. total assets [Cost asset ratio]	4.3%	4.3%	4.2%	4.2%	4.1%
Personnel expenses / total income	-28.3%	-28.2%	-30.0%	-29.7%	-29.7%
Personnel expenses / avg. no. of employees [Avg. staff costs, PLN '000)]	-93	-106	-115	-125	-134
Asset quality	**2006**	**2007**	**2008e**	**2009e**	**2010e**
Risk provisions (P&L) / avg. loans to customers (gross) [Risk costs]	0.2%	0.0%	0.4%	0.4%	0.5%
Risk provisions (P&L) / net interest income [Risk earnings ratio]	2.7%	0.3%	6.2%	7.6%	9.1%
Capital adequacy	**2006**	**2007**	**2008e**	**2009e**	**2010e**
Total equity / total assets [Equity ratio]	12.4%	11.1%	10.9%	10.7%	10.5%
P&L structure	**2006**	**2007**	**2008e**	**2009e**	**2010e**
Net interest income / total income	42.7%	43.0%	47.5%	47.4%	46.6%
Net fee and commission income / total income	49.3%	51.6%	48.2%	48.7%	49.8%
Net trading result / total income	1.8%	2.3%	2.3%	2.2%	2.1%
Non-interest income / total income	57.3%	57.0%	52.5%	52.6%	53.4%
Personnel expenses / total operating expenses	51.4%	52.8%	52.9%	53.9%	54.8%
Effective tax rate	-20.8%	-20.2%	-20.2%	-20.2%	-20.2%
Balance sheet structure	**2006**	**2007**	**2008e**	**2009e**	**2010e**
Loans to customers / deposits from customers [Loan deposit ratio]	75.4%	82.4%	88.6%	93.8%	96.2%
Loans to customers / total assets	55.4%	59.4%	65.4%	70.5%	73.6%
Deposits from customers / total assets	73.4%	72.0%	73.8%	75.1%	76.4%
Growth rates	**2006**	**2007**	**2008e**	**2009e**	**2010e**
Net interest income y/y	13.5%	24.7%	24.3%	18.7%	13.4%
Net fee and commission income y/y	71.6%	29.7%	5.0%	20.2%	18.0%
Total income y/y	24.3%	23.9%	12.5%	19.0%	15.4%
Personnel expenses y/y	19.0%	23.3%	19.9%	17.7%	15.6%
Total operating expenses y/y	11.6%	20.0%	19.5%	15.6%	13.8%
Operating profit y/y	53.2%	31.8%	-2.4%	21.8%	15.7%
Profit before taxes y/y	54.5%	30.6%	-2.4%	21.8%	15.7%
Net profit y/y	46.9%	25.9%	5.6%	20.4%	10.7%
Loans and advances to customers y/y	22.4%	34.3%	30.0%	25.0%	19.0%
Total assets y/y	12.6%	25.3%	18.0%	16.0%	14.0%
Deposits from customers y/y	16.2%	22.9%	21.0%	18.0%	16.0%
Total liabilities y/y	11.8%	27.1%	18.3%	16.2%	14.3%
Shareholders' equity y/y	17.1%	9.6%	16.3%	14.4%	11.6%

Source: Company data, Erste Bank estimates

Sector Report

FHB

maintain Hold

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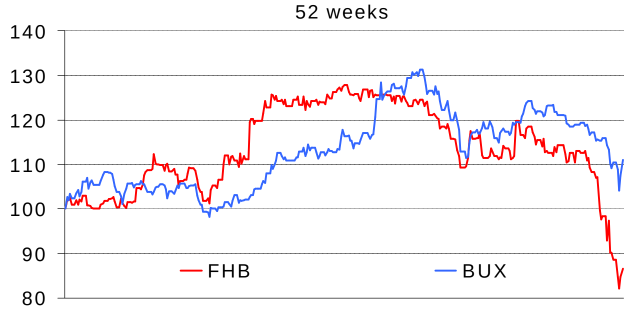
HUNGARY / Banking & insurance

Share price (HUF)	1,152.0	Reuters	FHBK.BU	Free float	90.0%
Number of shares (mn)	65.7	Bloomberg	FHB HB	Shareholders	Allianz (9.9%)
Market capitalization (HUF mn / EUR mn)	75,814.6 / 308.5	Div. ex-date	04/06/07		
Index w eight (BUX)	1.3%	**Target price**	**1,200**	Homepage:	w w w .fhb.hu

HUF mn	**2007**	**2008e**	**2009e**	**2010e**
Total income	20,248	21,297	23,598	25,603
Operating profit	6,540	8,836	9,406	9,928
Profit before taxes	6,540	8,836	9,406	9,928
Net profit	5,294	6,892	7,337	7,744
EPS (HUF)	80	105	112	118
BVPS (HUF)	487	571	661	756
Div/share (HUF)	0	21	22	24
P/E (x)	14.3	11.0	10.3	9.8
P/BV (x)	2.4	2.0	1.7	1.5
Dividend yield	0.0%	1.8%	1.9%	2.0%

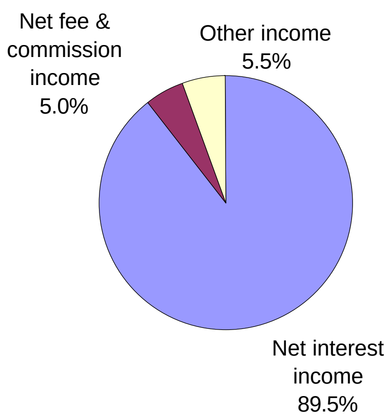


Performance	**12M**	**6M**	**3M**	**1M**
in HUF	-49.8%	-32.2%	-16.0%	-18.9%
in USD	-49.5%	-29.8%	-12.2%	-18.5%

Company description

FHB is the second largest player on the Hungarian mortgage market, with some 18% market share. It is a nearly pure mortgage bank, originating own loans and refinancing other banks, which is a unique business model for CEE. Historically, FHB has been benefiting from the government subsidy system for residential mortgage lending. Due mainly to adverse changes in the subsidy system and increased refinancing costs, the profitability (ROE) of FHB declined to 17% in 2007, from the spectacular 50% seen in 2003. Despite the weakening of the Hungarian economy, triggered by an austerity package launched by the government last year, loan growth remained robust (+25% y/y) and the quality of the loan book remained good (NPL ratio and qualified loan ratio at 1.4% and 2.6%, respectively). In September last year, Hungary's privatization agency (APV) sold a 50% stake in FHB, decreasing its stake in the company to 4.1%. Currently, Allianz (with a stake of 9.9%) is the biggest shareholder in FHB.

Total income breakdown (2007)



Source: Company data

Strength/Opportunities

- No. 2 position in Hungarian mortgage market
- High efficiency, currently negatively affected by strategy implementation costs
- Long-term catch-up potential and strong growth rates in Hungarian mortgage market
- Good quality of loan portfolio (NPL ratio and qualified loan ratio at 1.4% and 2.6%, respectively)

Weakness/Threats

- Declining importance of refinancing function for partner banks (trend softened by current liquidity crisis)
- Unfavorable changes of subsidy system in 2003
- Direct and indirect negative effects from austerity package and growth dent in HU
- High dependence on capital markets for refinancing (high loan/deposit ratio)
- Potential increase in credit risk, due to rising FX exposure

Investment story

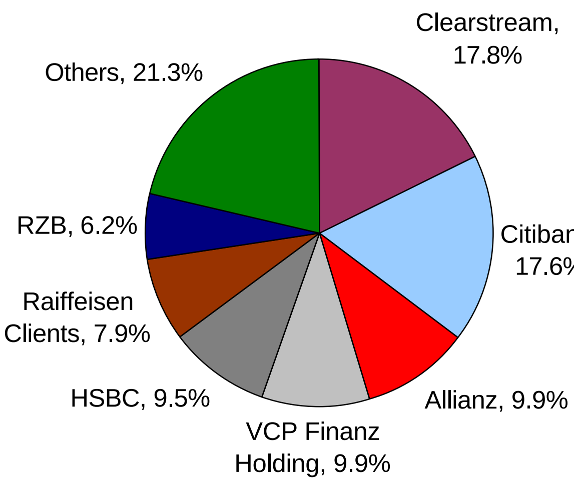
Pure HU mortgage play, declining profitability

FHB is a pure mortgage play, focusing on the Hungarian mortgage market, where it is No. 2, with a market share of around 18% (incl. refinancing business). FHB is currently facing a tough business environment. Besides the unfavorable amendment to the residential mortgage subsidy system in Hungary and the direct and indirect effects from the austerity package launched by the government last year, FHB is currently facing higher refinancing costs.

Reduce or Hold, target price HUF 1,200

Based on the ongoing re-pricing/refinancing of subsidized mortgage loans and the changed conditions on the European money and credit markets, we expect NIM to decline to around 2.4% in the mid term (2007: 2.9%). Taking moderate growth on the cost side (2007 cost base distorted by privatization and strategy implementation costs) and slightly rising risk costs into account, we expect ROE to decrease to around 15% in the mid term, compared to the 17% seen in 2007. FHB currently trades below the regression line and at a discount of 14% to its CEE peers in terms of P/BV 08e. As FHB still faces declining profitability, we regard this discount as justified and therefore stick to our Hold recommendation with a target price of HUF 1,200.

Shareholder structure



Source: Company data

Strategy

No. 2 in HU mortgage market

FHB is an almost pure Hungarian mortgage bank, originating own loans and refinancing other banks. With a market share of around 20% (incl. refinancing business), it is ranked No. 2 in the Hungarian mortgage market. In 2007, FHB's loan book reached HUF 561bn, with a split of 47:53 between own origination and refinancing business. Basically, the refinancing business of FHB is expected to decline in the mid term, due to changes in mortgage loan legislation that enables commercial banks to originate mortgage loans without refinancing them with specialized mortgage banks. The increased dynamic in volume seen in 2007 (+9.5% y/y) was in our opinion mainly driven by the ongoing liquidity crisis.

Pressure on margins from two sides

Historically, FHB has been benefiting from the favorable subsidy system for residential mortgage lending in Hungary. Due mainly to adverse changes in this system and increased refinancing costs, the profitability (ROE) of FHB declined to 17% in 2007, from the spectacular 50% seen in 2003. Despite the weakening of the Hungarian economy, triggered by an austerity package launched by the government last year, loan growth remained robust (+25% y/y) and the quality of the loan book remained good (NPL ratio and qualified loan ratio at 1.4% and 2.6%, respectively).

Strategic objectives for 2006-10

To slow down the margin erosion caused by the structural change in FHB's mortgage portfolio towards FX-denominated loans, FHB is introducing new mortgage related products like land mortgages, expanded project finance, life annuity reverse mortgages and property leasing. The distribution channels for the new products are basically the same as for mortgage loans and the volume of the new products is expected to reach around 16% of the entire loan portfolio in 2010. Growth in direct mortgage lending is expected to improve by around 22% on average over the next four years (CAGR 06-10).

Mid-term targets

As the underperformance in 2007 (net profit around 20% below guidance) was mainly driven by one-offs, the management of FHB left its mid-term financial target unchanged. NIM is expected to further decrease to 2.4%, while CIR should increase to around 44.2% and ROE should drop further to approx. 23% in 2010. (The mid-term target was given before the announcement of the Hungarian austerity package. Net profit and ROE are therefore calculated with a corporate tax of 16%, which in the meantime has increased to 20%!)

Privatization almost finished…

In September, Hungary's privatization agency (APV) sold a 50% stake in FHB via an accelerated book building process. 33mn A-type shares were sold at HUF 2,025 per share to two dozen international and domestic financial investors. No financial investor acquired more than a 5% stake in the company. Via the transaction, the shareholding of the privatization office decreased to 4.1% (from 54.1%), which means that the APV has only B-type preferred shares. The remaining two thirds of B-type preferred shares are held by Allianz, which currently holds around a 9.9% stake (A- and B-type shares together) in the company. According to the Hungarian finance minister, the disposal to financial investors was preferred, as it was not possible to sell the stake to a strategic investor at this price level, due mainly to the voting rights of Allianz. He mentioned that it was not possible to sell FHB to Allianz, while the German insurer also refused to sell its stake together with the state to another strategic investor.

…but no strategic investor in sight

As FHB is a sizable player in the Hungarian mortgage market, we expect the company to remain a takeover story in the future, whereas the privatization process showed that a disposal to a strategic investor might be very tricky, given the prevailing shareholder structure and especially with the veto rights of APV and Allianz. As no strategic investor is in sight, we calculate a stand-alone value of FHB, not including a strategic premium.

Earnings review

Consolidated, IFRS	**Reported**	**Reported**		**Erste Bank**	**Reported**
HUFmn	**1Q 2008**	**1Q 2007**	**y/y**	**1Q 2008e**	**vs. EB**
Net interest income	4,137	4,310	-4.0%	4,069	1.7%
Net provisions	-205	-214	-4.4%	n.a.	n.a.
Net fee & commission inc.	469	314	49.3%	n.a.	n.a.
Pre-tax profit	3,232	2,391	35.2%	1,917	68.6%
Net profit	2,326	1,736	34.0%	1,495	55.5%
Net interest margin (on TA, %)	2.64%	3.18%	-0.55%p		
Risk / earnings ratio (%)	5.0%	5.0%	0.0%p		
Cost / income ratio (%)	51.1%	54.7%	-3.6%p		
ROE after taxes (%)	27.2%	23.0%	4.2%p		
Capital adequacy ratio (%)	n.a.	n.a.	n.a.		

Source: Company date, Erste Bank estimates

Strong bottom line driven by one-offs

FHB reported a strong 1Q08 bottom line, well above our expectations. Net profit increased to HUF 2,326mn (+34% y/y, +96% q/q), driven by a strong increase of non-sustainable income sources, such as net profit from financial transactions (FX transactions, change of fair value of derivatives, gain from securities) and other income and expenditure, which came in about HUF 959mn higher than in the year-earlier period.

NII down by 4% y/y, based on weaker NIM

Net interest income - on the other hand - decreased by 4% y/y, mainly driven by a further declining NIM, despite quite strong growth of the loan book (+32.4% y/y, +8.4% q/q) and refinancing business (+15% y/y, +6.4% y/y). Net provisions developed in line with NII, leaving the risk earnings ratio unchanged at 5%. Despite an increase in costs of around +20% y/y, CIR decreased to 51.1% (-3.6%p), due to strong development of operating income. ROE improved to 27.2% (+4.2%p).

Financial outlook

Lower sector dynamics, declining market shares

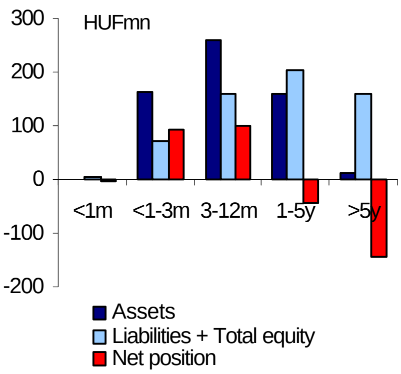
Despite the current demanding macroeconomic situation and the austerity package in Hungary, the development of housing loans remained strong in 2007 (+16% y/y) and even gained dynamics in 1Q08 (+22% y/y). In terms of market penetration, the Hungarian mortgage market - with a penetration rate of around 12% (in % of GDP) - ranked second in CEE, behind the Czech Republic (with 17.2%) and still far from the Eurozone level of 39%. Nevertheless, we expect growth rates to calm down to around 14% (CAGR 07-12e), compared to the 20% observed in the last few years (CAGR 03-07). As the refinancing business is expected to decline in importance, we forecast a decline in market share to around 14.6% in the mid term (2007: 18%).

Declining profitability

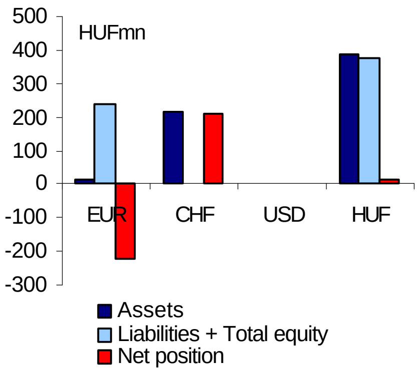
Currently, FHB's is facing a tough business environment. NIM is under pressure from both the asset and liability sides. On the asset side, FHB is currently going through a transformation process (re-pricing of subsidized mortgage loans and increasing the amount of loans denominated in foreign currency), which has been an ongoing process for a longer time and leads to a declining yield on assets. On the liability side, the prevailing tensions on the money and credit market have led to a higher cost of funds. As an almost pure mortgage player, FHB is heavily dependent on the capital market to refinance its business. Therefore, we expect NIM to further decline to around 2.4% in the mid term (2007: 2.9%). In 2007, the cost side was negatively affected by one-offs stemming from the implementation of FHB's new strategy and the privatization process finalized in September. Based on moderate growth on the cost side, slightly higher risk costs and ongoing pressure on margins, we expect the profitability of FHB to decline to around 16% in the mid term.

Snapshot of loan book risk exposure

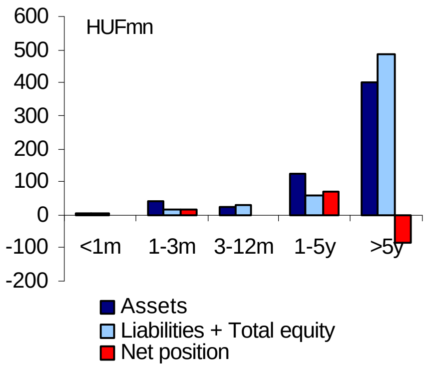
Interest rate risk exposure (2007, HUFmn)



Currency risk exposure (2007, HUFmn)



Liquidity risk exposure (2007, HUFmn)



Source: Company data

Financial Statements (IFRS, HUFmn, 31/12)

Income Statement	2006	2007	2008e	2009e	2010e
Net interest income	17,111	16,602	17,156	18,337	19,665
Risk provisions for loans and advances	-411	-350	-492	-578	-679
Net interest income after risk provisions	16,701	16,253	16,664	17,759	18,986
Net fee and commission income	1,967	2,478	2,886	0	0
Dividend income	0	0	0	0	0
Trading result	500	952	1,032	1,612	1,746
Net income from investments	370	220	260	340	407
Other income	199	843	883	833	900
Total income	**18,817**	**20,248**	**21,297**	**23,598**	**25,603**
Personnel expenses	-3,428	-4,574	-5,208	-6,288	-7,263
Other administrative expenses	-4,482	-6,772	-5,154	-5,540	-5,817
Depreciation and amortization	-462	-1,252	-1,377	-1,515	-1,666
Other expenses	-191	-760	-231	-271	-250
Total expenses	**-8,563**	**-13,358**	**-11,969**	**-13,614**	**-14,996**
Operating profit	**9,843**	**6,540**	**8,836**	**9,406**	**9,928**
Extraordinary result	0	0	0	0	0
Profit/loss before taxes	**9,843**	**6,540**	**8,836**	**9,406**	**9,928**
Income taxes	-2,204	-1,246	-1,944	-2,069	-2,184
Profit/loss after taxes	**7,640**	**5,294**	**6,892**	**7,337**	**7,744**
Minority interests	0	0	0	0	0
Net profit/loss	**7,640**	**5,294**	**6,892**	**7,337**	**7,744**
Adjusted profit/loss before taxes	9,843	6,540	8,836	9,406	9,928
Adjusted net profit/loss	7,640	5,294	6,892	7,337	7,744

Balance Sheet	2,006	2,007	2008e	2009e	2010e
Cash and balances w ith central banks	19,388	679	2,099	6,116	7,381
Loans and advances to banks - net	20,063	11,892	12,487	13,735	15,109
Loans and advances to customers - net	480,872	559,822	628,243	679,573	740,472
Interest-earning financial assets	5,395	27,999	32,199	40,249	48,298
Interest-earning assets	**525,717**	**600,392**	**675,027**	**739,673**	**811,260**
Non-interest-earning assets	0	1,508	1,734	2,168	2,601
Intangible and tangible assets	6,517	9,645	11,092	13,865	16,638
Other assets	5,068	5,408	6,220	7,775	9,330
Total assets	**537,302**	**616,954**	**694,074**	**763,481**	**839,829**
Deposits from banks	44,749	31,346	23,835	26,524	30,149
Deposits from customers	0	3,599	4,499	5,624	6,748
Debt securities issued	455,657	541,296	618,430	677,181	741,513
Interest-rate-related derivatives	0	0	0	0	0
Interest-bearing liabilities	**500,406**	**576,241**	**646,764**	**709,328**	**778,411**
Non-interest-rate-related derivatives	3,265	3,878	4,362	4,799	5,278
Provisions	0	0	0	0	0
Other liabilities	4,144	4,778	5,376	5,913	6,505
Subordinated capital	0	0	0	0	0
Total liabilities	**507,815**	**584,897**	**656,503**	**720,040**	**790,194**
Minorities	0	0	0	0	0
Shareholders' equity	**29,487**	**32,057**	**37,571**	**43,440**	**49,635**
Total liabilities and equity	**537,302**	**616,954**	**694,074**	**763,481**	**839,829**

Other figures	2,006	2,007	2008e	2009e	2010e
Tangible shareholders' equity	29,487	32,057	37,571	43,440	49,635
Off-balance sheet items	10,238	9,559	11,232	13,197	15,507
No. of shares outstanding (mn)	65.9	65.8	65.8	65.7	65.7
Weighted average no. of shares (basic) mn	66.0	66.0	66.0	66.0	66.0
Weighted average no. of shares (diluted) mn	66.0	66.0	66.0	66.0	66.0
Number of employees (FTE)	433	532	612	704	774

Source: Company data, Erste Bank estimates

Ratios

Per share figures (HUF)	2006	2007	2008e	2009e	2010e
EPS basic	115.75	80.21	104.42	111.17	117.33
EPS diluted	115.75	80.21	104.42	111.17	117.33
BVPS	447.59	487.11	571.32	661.08	755.93
Tangible BVPS	447.59	487.11	571.32	661.08	755.93
DPS	32.06	0.00	20.96	22.33	23.59
Payout ratio	27.6%	0.0%	20.0%	20.0%	20.0%
No. of shares outstanding (mn)	65.9	65.8	65.8	65.7	65.7
Profitability	**2006**	**2007**	**2008e**	**2009e**	**2010e**
Total interest income / avg. interest-earning assets [Yield on assets]	11.1%	10.7%	10.5%	10.4%	10.3%
Total interest expenses / avg. interest-bearing liabilities [Cost of funds]	-8.1%	-8.1%	-8.1%	-8.1%	-8.1%
Yield on assets - cost of funds [Interest spread]	3.1%	2.6%	2.4%	2.3%	2.2%
Net interest income / avg. total assets [Net interest margin, NIM]	3.4%	2.9%	2.6%	2.5%	2.5%
Net fee and commission income / avg. total assets [Net fee margin]	0.1%	0.3%	0.3%	0.3%	0.4%
Net profit / avg. shareholders' equity [Return on equity, ROE]	28.7%	17.2%	19.8%	18.1%	16.6%
Net profit / avg. total assets [Return on assets, ROA]	1.5%	0.9%	1.1%	1.0%	1.0%
Efficiency	**2006**	**2007**	**2008e**	**2009e**	**2010e**
Total operating expenses / total income [Cost income ratio, CIR]	45.5%	66.0%	56.2%	57.7%	58.6%
Total operating expenses / avg. total assets [Cost asset ratio]	1.7%	2.3%	1.8%	1.9%	1.9%
Personnel expenses / total income	-18.2%	-22.6%	-24.5%	-26.6%	-28.4%
Personnel expenses / avg. no. of employees [Avg. staff costs, HUF mn)]	-9.4	-9.5	-9.1	-9.6	-9.8
Asset quality	**2006**	**2007**	**2008e**	**2009e**	**2010e**
Risk provisions (P&L) / avg. loans to customers (gross) [Risk costs]	0.2%	0.1%	0.2%	0.2%	0.2%
Risk provisions (P&L) / net interest income [Risk earnings ratio]	2.4%	2.1%	2.9%	3.2%	3.5%
Capital adequacy	**2006**	**2007**	**2008e**	**2009e**	**2010e**
Total equity / total assets [Equity ratio]	5.5%	5.2%	5.4%	5.7%	5.9%
P&L structure	**2006**	**2007**	**2008e**	**2009e**	**2010e**
Net interest income / total income	90.9%	82.0%	80.6%	77.7%	76.8%
Net fee and commission income / total income	3.4%	8.1%	9.2%	10.5%	11.3%
Net trading result / total income	3.7%	6.8%	6.7%	6.3%	6.1%
Non-interest income / total income	9.1%	18.0%	19.4%	22.3%	23.2%
Personnel expenses / total operating expenses	40.0%	34.2%	43.5%	46.2%	48.4%
Effective tax rate	-22.4%	-19.1%	-22.0%	-22.0%	-22.0%
Balance sheet structure	**2006**	**2007**	**2008e**	**2009e**	**2010e**
Loans to customers / deposits from customers [Loan deposit ratio]	n.m.	n.m.	n.m.	n.m.	n.m.
Loans to customers / total assets	39.5%	43.1%	45.0%	48.1%	51.4%
Deposits from customers / total assets	0.0%	0.6%	0.6%	0.7%	0.8%
Growth rates	**2006**	**2007**	**2008e**	**2009e**	**2010e**
Net interest income y/y	3.4%	-3.0%	3.3%	6.9%	7.2%
Net fee and commission income y/y	57.1%	156.4%	20.6%	26.0%	16.5%
Total income y/y	5.5%	7.6%	5.2%	10.8%	8.5%
Personnel expenses y/y	8.1%	33.4%	13.8%	20.8%	15.5%
Total operating expenses y/y	23.9%	56.0%	-10.4%	13.7%	10.2%
Operating profit y/y	-8.0%	-33.6%	35.1%	6.5%	5.5%
Profit before taxes y/y	-8.0%	-33.6%	35.1%	6.5%	5.5%
Net profit y/y	-9.8%	-30.7%	30.2%	6.5%	5.5%
Loans and advances to customers y/y	24.1%	25.2%	17.5%	17.5%	17.5%
Total assets y/y	11.6%	14.8%	12.5%	10.0%	10.0%
Deposits from customers y/y	n.a.	n.a.	25.0%	25.0%	20.0%
Total liabilities y/y	11.0%	15.2%	12.2%	9.7%	9.7%
Shareholders' equity y/y	24.2%	8.7%	17.2%	15.6%	14.3%

Source: Company data, Erste Bank estimates

Komercijalna banka — maintain Reduce

Serbia / Banking & insurance

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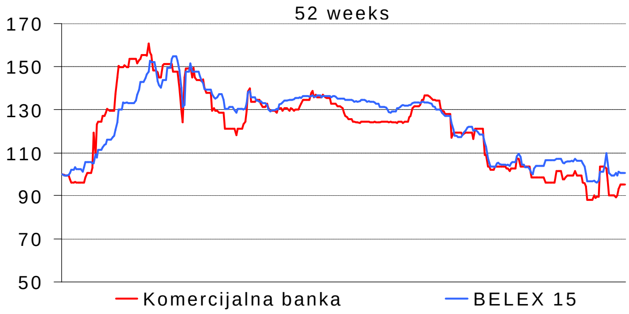
Share price (RSD)	78,000	Reuters	KMBN.BEL	Free float	34.7%
Number of shares (mn)	0.951	Bloomberg	KMBN SG	Shareholders	State (42.6%)
Market capitalization (RSD mn / EUR mn)	66,168.3 / 830.4	Div. ex-date	n.a.		EBRD (25%)
Index w eight (BELEX15)	15.5%	**Target price**	**70,840**	Homepage:	w w w .kombank.com

RSD mn	2007	2008e	2009e	2010e
Total income	9,275	12,466	15,272	20,319
Operating profit	3,098	2,049	3,527	6,612
Profit before taxes	3,211	2,059	3,537	6,622
Net profit	3,159	1,944	3,339	5,938
EPS (RSD)	3,724	2,281	3,666	6,054
BVPS (RSD)	22,961	27,447	35,574	44,929
Div/share (RSD)	0.0	0.0	0.0	0.0
P/E (x)	20.9	34.2	21.3	12.9
P/BV (x)	3.4	2.8	2.2	1.7
Dividend yield	0.0%	0.0%	0.0%	0.0%

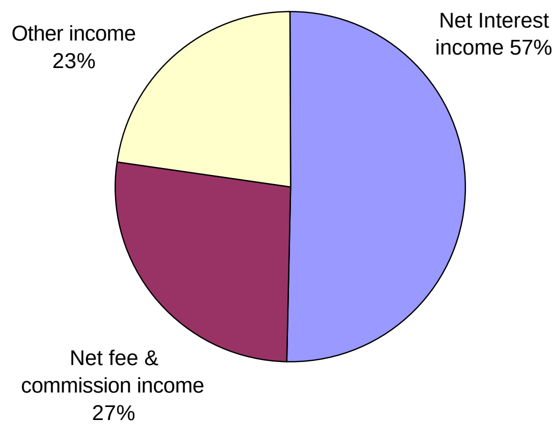


Performance	12M	6M	3M	1M
in AED	-39.5%	-17.9%	11.2%	4.0%
in USD	-39.1%	-19.8%	15.9%	7.0%

Company description

Komercijalna Banka (KB) was founded in 1970 and has been listed on the Belgrade Stock Exchange since 2006. The bank has two strategic investors, the Republic of Serbia (42.6%) and EBRD (25.0%). The remaining shares are free float. With a market share of 8.4% (No. 4), KB is the biggest domestic player left in the Serbian banking market. It is the market leader in the FX savings segment and has a very strong deposit base. Facing declining market shares, it is currently conducting a strategic shift towards the fast growing retail lending segment and aiming for a broader regional scope (Montenegro, Bosnia-Herzegovina and Macedonia). After the privatizations of the last few years, there are only a few state-owned banks left, among which KB is the biggest. Although we regard KB as one of the most promising privatization stories left, we expect this to come after dressing the bride (stronger presence in the Balkan region and improvement of profitability) and under a more certain political climate.

Total income breakdown (2007)



Source: Company data

Strength/Opportunities

- Biggest domestic player, ranked fourth in terms of total assets
- Market leader in FX savings segment, with strong deposit base
- Privatization play (depending on further political development)
- Strategic shift towards retail lending (higher growth and profitability)
- Only domestic player with regional strategy
- Long-term catch-up potential of banking sector in Serbia
- Strong growth rates in all market segments

Weakness/Threats

- Diminishing market shares
- High FX exposure on liability side, possibly covered by off-balance sheet items
- Implementation risk - new regional markets
- Low profitability, expected to improve in mid term
- High uncovered current account deficit
- Current political instability

Investment story

No. 4 in Serbia with 8.4% market share

Komercijalna Banka (KB) is the biggest domestic player in the Serbian banking market (No. 4 in terms of total assets 2007), with a strong foothold on the deposit side. Due to tough competition and the focus on the slower growing corporate segment, KB faced slightly declining market shares in the past. Due to a strategic re-orientation towards retail business and a regional expansion strategy, we expect KB's loan book growth to be more or less in line with the market in the mid term.

Reduce, target price RSD 70,840

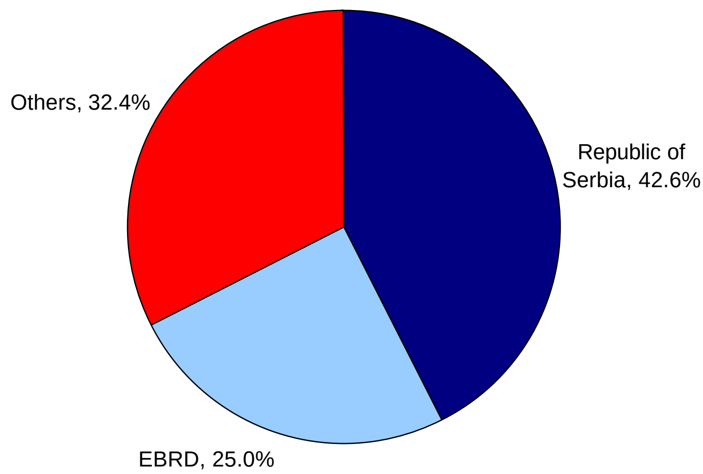
Although we expect profitability to improve (from a very low level of around 7% ROE in 2006) in the next few years (mainly based on improving efficiency) to around 15% in the mid term, the currently high valuation is not justified, in our opinion. Although we regard KB as a possible privatization story (including a takeover premium of 20% in our base case), we stick to our Reduce recommendation, with a target price of RSD 70,840.

Strategy

Biggest domestic player

Komercijalna Banka (KB) is the biggest domestic player left in the highly fragmented and foreign-dominated Serbian banking market. KB operates around 38 branches and 278 business units throughout the Republic of Serbia, Montenegro and Bosnia-Herzegovina and was ranked fourth in terms of total assets (2007). Its position in the core banking business is even stronger, with a market share in the lending business of around 13%.

Shareholder structure



Source: Company data

Strong on deposit side

KB's strong deposit base results in a very sound loan/deposit ratio of around 75% (2007). In the FX savings segment, KB is the market leader; in terms of total customer deposits, it reached a market share of around 16% in 2007.

Privatization play

After the privatizations of the last few years, there are only a few state-owned banks left, among which KB is the biggest. After the issue of new rights early this year, the Republic of Serbia holds directly 42.6%. We expect the privatization of KB in a couple of years, after dressing the bride (stronger presence in the Balkan region and improvement of profitability) and depending on the further political development in Serbia.

Re-orientation towards more profitable retail business

Driven by tough competition in the corporate lending segment, KB is shifting its focus towards the more profitable and faster growing retail lending segment. The still high proportion of corporate loans and the quickly growing competition led to further diminishing market shares, but at decreasing dynamics. The re-orientation proved effective, reducing the proportion of corporate loans in the book to 64% in 2006, from 69% a year ago.

Regional expansion strategy

Besides the strategic shift towards retail business, KB also started to expand abroad. Following the branch openings in Bosnia-Herzegovina and Montenegro in 2006, KB is currently short-listed for the acquisition of Macedonia's Izvozna and Kreditna Banka. Opening an affiliate in Germany is also scheduled.

New share issue

According to an announcement, the bank sold 48.2% of the 72,000 shares it offered in its 20th issue. The Serbian government paid RSD 3.25bn for 29,024 shares, while the EBRD took 5,655 shares for RSD 633mn. The stockholders exercised their pre-emption rights and bought the new shares at RSD 112,000 a share. KB's shares have a nominal value of RSD 10,000. The state now controls about 42.6% of the company while the EBRD owns 24.7%.

Earnings review

Unconsolidated, SAS RSDmn	**Reported 1Q 2008**	**Reported 1Q 2007**	**y/y**
Net interest income	1,388.0	1,064.2	30.4%
Net provisions	-94.0	253.3	-137.1%
Net fee & commission inc.	725.0	652.5	11.1%
Pre-tax profit	401.0	327.5	22.4%
Net profit	n.a	n.a	n.a.
Net interest margin (on TA, %)	3.38%	3.54%	-0.17%p
Risk / earnings ratio (%)	6.8%	-23.8%	30.6%p
Cost / income ratio (%)	77.7%	95.1%	-17.5%p
ROE (%)	n.a	n.a	n.a.
Capital adequacy ratio (%)	n.a	n.a	n.a.

Source: Company data

Double-digit pre-tax profit growth

In 1Q08, KB reached a pre-tax profit of RSD 401mn (+22.4% y/y), driven by strong dynamics in net interest income (+30.4% y/y) and net fee & commission income (+11.1% y/y), but NIM also further decreased to around 3.38%.

Improving CIR, but still at high level

Based on the strong top line growth, CIR decreased to 77% from 95%, but is still at a relatively high level. The high cost basis is driven by higher marketing and staff costs, stemming from the strategic re-orientation and expansion strategy.

1H08 net profit target: RSD 1.07bn

KB targets net profit of around RSD 1.07bn in 1H08. NII is expected to be the main growth driver and should come in at around RSD 3.03bn, supported by strong growth in total assets to around RSD 160.9bn at the end of June 2008.

Financial outlook

Lower sector dynamics

Due to lending restrictions imposed by the NBS, cross-border financing is a big issue in Serbia. Taking the off-balance sheet items into account, Serbia has one of the highest penetration rates (135% of GDP 2007) in the SEE region. We therefore expect the high growth rates observed in recent years (CAGR 03-07: 38.9%) to approach a more sustainable level (CAGR 07-12e: 22.7%), with consumer and mortgage loans remaining the main growth driver.

Stable market shares

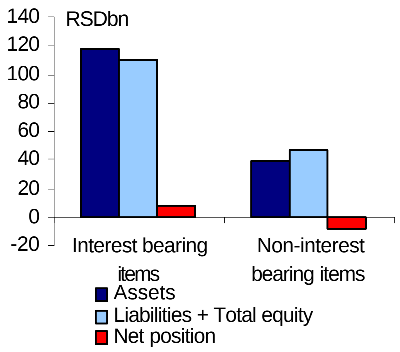
Due to tough competition and KB's loan book structure, the bank lost market shares in the last couple of years. Based on KB's re-orientation towards retail lending and its expansion strategy, this trend already reversed in 2007, resulting in a slightly higher market share of 8.4% (compared to 8% in 2006). We expect KB to grow more or less in line with the Serbian banking market and therefore forecast stable market shares in the mid term.

Improving profitability

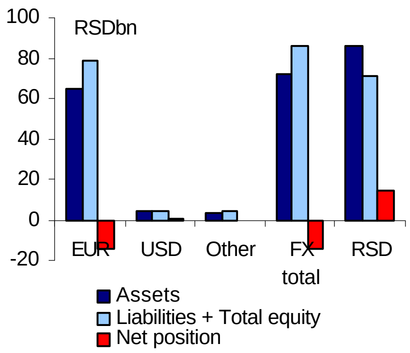
The changing loan structure and strong deposit base should help KB to hold its NIM at around 4% in the mid term (2007: 4.1%). Net interest income will remain the growth driver on the top line, but we expect a stronger contribution from net F&C income in the future. KB's profitability is currently burdened by higher marketing, staff and other costs related to the expansion of the branch network. Coming from a CIR of around 75% in 2007, we expect CIR to decrease to around 46% in the mid term. As we regard the current level of risk cost (risk provisions (P&L) / avg. total loans) - 4% in 2006 - to be very high, we modeled them to decrease to 1.5% in the mid term. The current equity ratio of 12.3% looks very conservative at first sight; however, taking the off-balance sheet items into account, it amounts to 8.8%. Based on the stage of development of the Serbian banking market and the high FX exposure of KB, we used a conservative approach and increased the equity ratio to 15% in the mid term. Taking all this into account, we expect KB to improve its profitability substantially, to 15% (from 7% in 2006).

Snapshot of loan book risk exposure

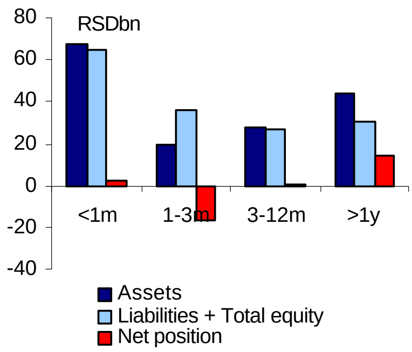
Interest rate risk exposure (2007, RSDbn)



Currency risk exposure (2007, RSDbn)



Liquidity risk exposure (2007, RSDbn)



Source: Company data

Financial Statements (IFRS, RSDmn, 31/12)

Income Statement	2006	2007	2008e	2009e	2010e
Net interest income	4,634.0	5,410.5	7,211.4	8,947.7	11,295.2
Risk provisions for loans and advances	-2,223.5	784.5	-2,500.7	-2,807.4	-3,549.7
Net interest income after risk provisions	2,410.6	6,195.1	4,710.7	6,140.3	7,745.5
Net fee and commission income	4,212.9	5,190.5	6,347.0	0.0	0.0
Dividend income	76.1	1.0	143.8	176.8	217.5
Trading result	1,967.1	457.7	557.7	607.7	2,100.0
Result on financial instruments	-548.3	67.8	96.8	101.6	106.7
Other income	291.2	238.5	243.3	248.1	253.1
Total income	**8,975.2**	**9,275.4**	**12,465.8**	**15,272.4**	**20,319.5**
Personnel expenses	-2,614.4	-3,145.1	-3,739.4	-4,370.2	-5,166.7
Other administrative expenses	-2,804.2	-3,320.0	-3,618.8	-3,944.4	-4,299.4
Depreciation and amortization	-327.0	-380.0	-418.0	-459.7	-505.7
Other expenses	-127.3	-117.1	-140.1	-163.1	-186.1
Total expenses	**-5,872.8**	**-6,962.2**	**-7,916.2**	**-8,937.5**	**-10,157.9**
Operating profit before risk provisions	**3,102.4**	**2,313.3**	**4,549.6**	**6,334.8**	**-10,157.9**
Operating profit	**878.9**	**3,097.8**	**2,048.9**	**3,527.4**	**6,611.8**
Extraordinary result	14.5	112.9	10.0	10.0	10.0
Profit/loss before taxes	**893.5**	**3,210.6**	**2,058.9**	**3,537.4**	**6,621.8**
Income taxes	45.5	5.0	0.0	0.0	-331.1
Profit/loss after taxes	**938.9**	**3,215.6**	**2,058.9**	**3,537.4**	**6,290.7**
Minority interests + preferred shares dividend	-53.0	-56.8	-115.3	-198.1	-352.3
Net profit/loss	**885.9**	**3,158.8**	**1,943.6**	**3,339.3**	**5,938.5**
Adjusted profit/loss before taxes	893.47	3210.65	2058.93	3537.42	6621.83
Adjusted net profit/loss	885.93	3158.75	1943.63	3339.32	5938.46

Balance Sheet	2006	2007	2008e	2009e	2010e
Cash and balances w ith central banks	44,359.6	48,783.0	60,816.2	73,784.1	90,976.6
Loans and advances to banks - net	1,296.2	1,975.9	2,430.3	2,989.3	3,676.9
Loans and advances to customers - net	52,525.7	97,796.5	125,794.6	159,759.1	201,296.5
Interest-earning financial assets	471.2	435.4	535.6	658.8	810.3
Interest-earning assets	**98,652.7**	**148,990.8**	**189,576.7**	**237,191.3**	**296,760.3**
Non-interest-earning assets	389.2	586.1	720.8	886.6	1,090.6
Intangible and tangible assets	7,205.0	7,603.3	9,352.0	11,503.0	14,148.7
Other assets	1,060.9	770.5	947.7	1,165.7	1,433.8
Total assets	**107,307.8**	**157,950.6**	**200,597.3**	**250,746.7**	**313,433.3**
Deposits from banks	5,499.0	5,443.7	5,421.5	6,366.0	7,107.1
Deposits from customers	82,677.6	129,389.2	167,559.0	206,097.6	255,561.0
Debt securities issued	0.0	0.0	0.0	0.0	0.0
Interest-rate-related derivatives	0.0	0.0	0.0	0.0	0.0
Interest-bearing liabilities	**88,176.5**	**134,832.9**	**172,980.5**	**212,463.5**	**262,668.1**
Non-interest-rate-related derivatives	0.0	0.0	0.0	0.0	0.0
Provisions	1,158.2	1,173.7	1,197.2	1,436.7	1,724.0
Other liabilities	1,997.8	2,465.9	2,515.2	3,018.2	3,621.9
Subordinated capital	0.0	0.0	0.0	0.0	0.0
Total liabilities	**91,332.5**	**138,472.5**	**176,692.9**	**216,918.5**	**268,014.0**
Minorities	0.0	0.0	0.0	0.0	0.0
Shareholders' equity	**15,975.3**	**19,478.1**	**23,904.4**	**33,828.2**	**45,419.3**
Total liabilities and equity	**107,307.8**	**157,950.6**	**200,597.3**	**250,746.7**	**313,433.3**

Other figures	2006	2007	2008e	2009e	2010e
Tangible shareholders' equity	15,975.3	19,478.1	23,904.4	33,828.2	45,419.3
Off-balance sheet items	53,230.9	64,566.1	83,936.0	106,598.7	134,314.3
No. of shares outstanding (mn)	0.85	0.85	0.87	0.95	1.01
Weighted average no. of shares (basic) mn	0.69	0.85	0.85	0.91	0.98
Weighted average no. of shares (diluted) mn	0.69	0.85	0.85	0.91	0.98
Number of employees (FTE)	2,984.0	3,249.0	3,449.0	3,599.0	3,799.0

Source: Company data, Erste Bank estimates

Ratios

Per share figures (RSD)	2006	2007	2008e	2009e	2010e
EPS basic	1,285	3,724	2,281	3,666	6,054
EPS diluted	1,285	3,724	2,281	3,666	6,054
BVPS	18,832	22,961	27,447	35,574	44,929
Tangible BVPS	18,832	22,961	27,447	35,574	44,929
DPS	0.00	0.00	0.00	0.00	0.00
Payout ratio	0.0%	0.0%	0.0%	0.0%	0.0%
No. of shares outstanding (mn)	0.848	0.848	0.871	0.951	1.011
Profitability	**2006**	**2007**	**2008e**	**2009e**	**2010e**
Total interest income / avg. interest-earning assets [Yield on assets]	7.1%	6.0%	6.0%	5.9%	5.9%
Total interest expenses / avg. interest-bearing liabilities [Cost of funds]	-2.7%	-2.4%	-2.4%	-2.4%	-2.4%
Yield on assets - cost of funds [Interest spread]	4.4%	3.6%	3.6%	3.5%	3.5%
Net interest income / avg. total assets [Net interest margin, NIM]	5.0%	4.1%	4.0%	4.0%	4.0%
Net fee and commission income / avg. total assets [Net fee margin]	2.8%	2.3%	2.4%	2.3%	2.3%
Net profit / avg. shareholders' equity [Return on equity, ROE]	7.1%	17.8%	9.0%	11.6%	15.0%
Net profit / avg. total assets [Return on assets, ROA]	1.0%	2.4%	1.1%	1.5%	2.1%
Efficiency	**2006**	**2007**	**2008e**	**2009e**	**2010e**
Total operating expenses / total income [Cost income ratio, CIR]	65.4%	75.1%	63.5%	58.5%	50.0%
Total operating expenses / avg. total assets [Cost asset ratio]	6.4%	5.2%	4.4%	4.0%	3.6%
Personnel expenses / total income	-29.1%	-33.9%	-30.0%	-28.6%	-25.4%
Personnel expenses / avg. no. of employees [Avg. staff costs, RSD mn)]	-0.92	-1.01	-1.12	-1.24	-1.40
Asset quality	**2006**	**2007**	**2008e**	**2009e**	**2010e**
Risk provisions (P&L) / avg. loans to customers (gross) [Risk costs]	3.9%	-0.9%	2.0%	1.7%	1.7%
Risk provisions (P&L) / net interest income [Risk earnings ratio]	48.0%	-14.5%	34.7%	31.4%	31.4%
Capital adequacy	**2006**	**2007**	**2008e**	**2009e**	**2010e**
Total equity / total assets [Equity ratio]	14.9%	12.3%	11.9%	13.5%	14.5%
P&L structure	**2006**	**2007**	**2008e**	**2009e**	**2010e**
Net interest income / total income	51.6%	58.3%	57.8%	58.6%	55.6%
Net fee and commission income / total income	28.5%	33.4%	33.8%	34.0%	31.2%
Net trading result / total income	21.9%	4.9%	4.5%	4.0%	10.3%
Non-interest income / total income	48.4%	41.7%	42.2%	41.4%	44.4%
Personnel expenses / total operating expenses	44.5%	45.2%	47.2%	48.9%	50.9%
Effective tax rate	5.1%	0.2%	0.0%	0.0%	-5.0%
Balance sheet structure	**2006**	**2007**	**2008e**	**2009e**	**2010e**
Loans to customers / deposits from customers [Loan deposit ratio]	77.7%	84.0%	84.4%	87.1%	88.5%
Loans to customers / total assets	59.9%	68.8%	70.5%	71.6%	72.2%
Deposits from customers / total assets	77.0%	81.9%	83.5%	82.2%	81.5%
Growth rates	**2006**	**2007**	**2008e**	**2009e**	**2010e**
Net interest income y/y	30.4%	16.8%	33.3%	24.1%	26.2%
Net fee and commission income y/y	4.8%	21.3%	35.9%	23.2%	22.3%
Total income y/y	17.6%	3.3%	34.4%	22.5%	33.0%
Personnel expenses y/y	33.5%	20.3%	18.9%	16.9%	18.2%
Total operating expenses y/y	38.3%	18.5%	13.7%	12.9%	13.7%
Operating profit y/y	57.5%	252.5%	-33.9%	72.2%	87.4%
Profit before taxes y/y	60.1%	259.3%	-35.9%	71.8%	87.2%
Net profit y/y	30.8%	256.5%	-38.5%	71.8%	77.8%
Loans and advances to customers y/y	38.6%	69.2%	30.0%	27.0%	26.0%
Total assets y/y	40.0%	47.2%	27.0%	25.0%	25.0%
Deposits from customers y/y	33.2%	56.5%	29.5%	23.0%	24.0%
Total liabilities y/y	35.0%	51.6%	27.6%	22.8%	23.6%
Shareholders' equity y/y	76.9%	21.9%	22.7%	41.5%	34.3%

Source: Company data, Erste Bank estimates

Komercni banka — maintain Accumulate

CZECH REPUBLIC / Banking & insurance

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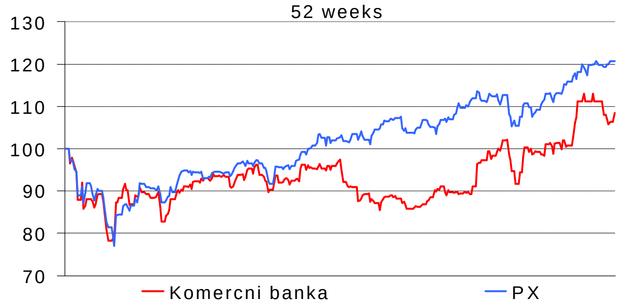
Share price (CZK)	4,183.0	Reuters	BKOM.PR	Free float	30.5%
Number of shares (mn)	38.0	Bloomberg	KOMB CP	Shareholders	SocGen (60.35%)
Market capitalization (CZK mn / EUR mn)	158,995.2 / 6,572.5	Div. ex-date	28/05/07		Investors Bank & Trust (6.98%)
Index w eight (PX)	13.4%	**Target price**	**4,700**	Homepage:	w w w .kb.cz

CZK mn	**2007**	**2008e**	**2009e**	**2010e**
Total income	29,774	33,077	36,168	38,919
Operating profit	14,328	15,849	16,954	18,384
Profit before taxes	14,328	15,849	16,954	18,384
Net profit	11,188	12,477	13,678	14,817
EPS (CZK)	294.3	328.3	359.8	389.8
BVPS (CZK)	1,305.0	1,436.0	1,580.0	1,736.0
Div/share (CZK)	180.0	197.0	215.9	233.9
P/E (x)	14.2	12.7	11.6	10.7
P/BV (x)	3.0	2.8	2.5	2.3
Dividend yield	4.3%	4.7%	5.2%	5.6%

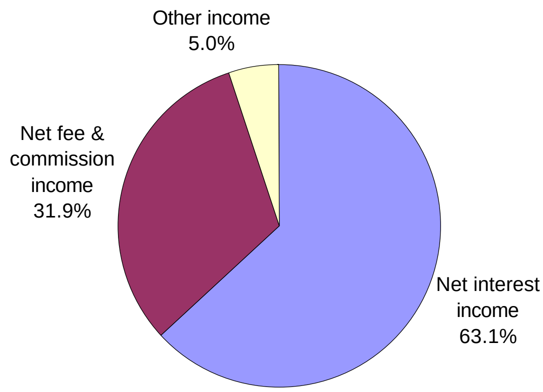


Performance	**12M**	**6M**	**3M**	**1M**
in CZK	5.7%	-0.7%	6.1%	-4.2%
in USD	25.6%	8.7%	11.5%	-0.8%

Company description

Komercni banka offers commercial, retail and investment banking services. They comprise commercial, mortgage, consumer and general purpose cash loans, advice on M&A transactions and sponsor credit cards. Komercni is the third largest bank in the Czech Republic, with an 18% market share and 1.5mn clients. The distribution network includes 378 retail branches and 649 ATMs. The bank redirected its strategy from corporate to retail, with a particular focus on mortgages and consumer loans. The retail loan book is growing at rates of 25-30% y/y. The bank is 60% owned by Société Générale.

Total income breakdown (2007)



Source: Company data

Strength/Opportunities

- Strengthening position in fast growing retail market
- Strong foothold in mortgage market (acquisition of MPSS)
- Strong franchise among Czech customers (1.5mn clients at KB bank alone)
- Slightly improving net interest margin
- Further improving CIR, despite low level (45.7%)
- Improved asset quality: standard loans account for 90% of loan portfolio

Weakness/Threats

- Still low interest environment with thin spreads of EURIBOR
- Competition for big-ticket lending squeezes margins
- Flat fee & commission income dynamics suffer from decreasing transaction fees
- Increasing cost of risk, due to higher risk profile (strongly growing retail lending)

Investment story

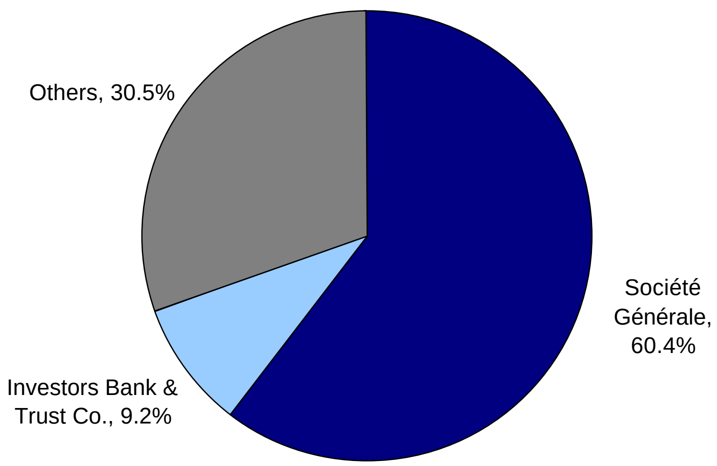
No. 3 in CZ, with 18% market share

Komercni banka is the No. 3 bank in the Czech Republic, with an 18% market share (in terms of total assets). Based on the still relatively low interest rate environment in the Czech Republic (reference rate of 3.75%), we expect Komercni to grow 14% on the top line in FY08e, due to 20% volume growth and better deposit margins. With operating costs up 10%, we foresee the cost/income ratio improving to 46%, which is a very good level compared to CEE peers. However, with expected bottom line growth of 12% in 2008, Komercni is definitely not a growth story. Nonetheless, based on a comfortable 63% loan/deposit ratio, we regard it as a safe haven in a funding quality-focused environment.

Accumulate, target price CZK 4,700

We have based Komercni's target price on our dividend discount model, indicating a fair value of CZK 4,700 in a 12-month horizon. At present, the KB share trades at P/BV 08e of 2.9x (24% premium to peers), and 12.7x P/E 08e which is a 8% discount. We increase our target price to CZK 4,700 (from CZK 4,400) and reiterate our Accumulate recommendation.

Shareholder structure



Source: Company data

1Q08 fully in line with expectations

Good 17% bottom line growth

Komercni banka reported good 1Q08 results, with 17% annual bottom line growth to CZK 3bn, which is fully in line with both our and consensus estimates. In terms of income growth, net interest income accelerated to +17% y/y (+13% y/y in 4Q07), mainly driven by 24% loan growth (mortgage loans +30% y/y, consumer loans +28% y/y, SME loans +35% y/y, corporate loans +20% y/y) and wider deposit spreads, due to rate hikes (+25bp in 1Q08), with 10% deposit base expansion. However, the pressure on loan margins continued. Net fee & commission income again grew only at a single-digit pace (+4.3% y/y, vs. +3.8% y/y in 4Q07), due to the expanding client base and higher transaction fees (+7% y/y), and despite decreasing fees from asset management products, which were affected by the negative financial market development.

Operating costs grew by 12% y/y

Operating costs accelerated in 1Q08 to 12% annual growth (+4% in 4Q07), driven by 18% higher G&A expenses, due to marketing efforts and higher inflation, as well as a 3.8% increase of personnel costs (headcount +3.5%). The cost of risk increased by 15% y/y, which was below the 24% loan growth, resulting in a stable risk/earnings ratio of 9%.

Accelerating income and cost pace

In our view, the 1Q08 figures are fully in line with both our and consensus expectations. The pace of the sustainable income sources accelerated (compared to 4Q07) to 17% (+13%) annual growth of NII and 4.3% (+3.8%) of net F&C income, which we regard as promising for the coming quarters. However, operating costs accelerated, driven by inflation and marketing, which might continue in the coming quarters.

Earnings review

Consolidated, IFRS CZKmn	**Reported 1Q 2008**	**Reported 1Q 2007**	**y/y**	**Consensus 1Q 2008e**	**Reported vs. Cons.**	**Erste Bank 1Q 2008e**	**Reported vs. EB**
Net interest income	5,074	4,357	16.5%	5,053	0.4%	5,075	0.0%
Net provisions	-458	-398	15.1%	-420	9.0%	-398	15.1%
Net fee & commission inc.	1,954	1,873	4.3%	2,341	-16.5%	2,350	-16.9%
Trading result	766	715	7.1%	394	94.4%	350	118.9%
Total income	7,845	6,974	12.5%	7,789	0.7%	7,815	0.4%
Total expenses	-3,569	-3,188	12.0%	-3,441	3.7%	-3,443	3.7%
Operating profit	3,818	3,388	12.7%	n.a.	n.a.	3,974	-3.9%
Pre-tax profit	3,747	3,320	12.9%	3,879	-3.4%	3,874	-3.3%
Net profit	3,021	2,591	16.6%	3,034	-0.4%	3,022	0.0%
Capital adequacy ratio (%)	9.8%	11.2%	-1.4%p				
Net interest margin (on TA, %)	3.03%	2.87%	0.15%p				
Cost / income ratio (%)	45.5%	45.7%	-0.2%p				
ROE (%)	23.5%	20.4%	3.1%p				
Risk / earnings ratio (%)	9.0%	9.1%	-0.1%p				

Source: Company date, Erste Bank estimates

Financial outlook

FY08e: 12% bottom line growth

We have upgraded our FY08 financial model based on the good set of 1Q08 figures. We think that Komercni banka can grow at a double-digit pace this year, with net profit up 12% y/y to CZK 12.5bn. The main driver could remain net interest income, which we foresee at 14% above last year's figure, due mainly to 20% loan growth, 10% deposit growth and an interest rate hike-driven improved net interest margin of 3.05% (+10bp vs. 2007). In our view, both corporate loan and retail loan demand provide a broad basis for loan book growth in 2008. However, mortgage and consumer loans could contribute the most. In contrast, net fee & commission income growth will stay in single digits (+5% y/y), due mainly to transaction fees and despite lower fees from asset management products and flat loan fees (affected by higher commissions paid to agents).

Operating costs: +10% y/y

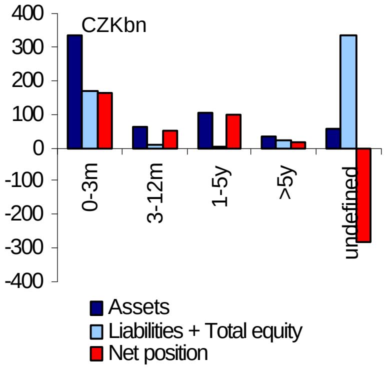
On the cost side, we expect KB's personnel expenses to rise by 9% y/y, driven by 4% headcount increases. Moreover, other G&A expenses could grow by 10.4%, due to stronger marketing efforts and inflation effects (maintenance, energy and property costs). The cost of risk may return to a normalized level of a 10% risk/earnings ratio, mainly due to slowing GDP growth and the increasing proportion of retail loans.

Comfortable loan/ deposit ratio of 63%

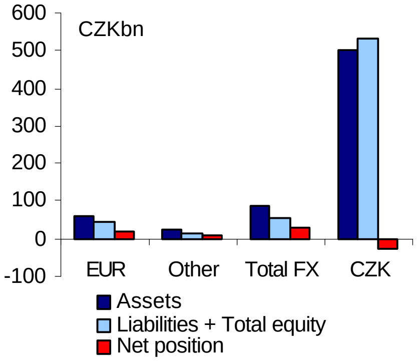
As a result, we see further improvements for Komercni's profitability (24% ROE 08e vs. 22.5% in 2007) and efficiency (46% cost/income ratio 08e vs. 46.5% in 2007). In terms of balance sheet structure and funding, we forecast KB's loan/deposit ratio increasing to 63% (58% in 2007), which is very comfortable for the future loan growth. Our 72% estimate for 2010 is still a relaxed loan/deposit ratio level compared to the CEE peers.

Snapshot of loan book risk exposure

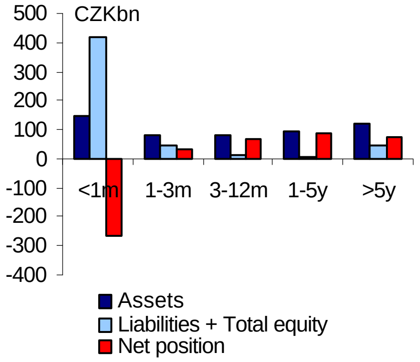
Interest rate risk exposure (2007, CZKbn)



Currency risk exposure (2007, CZKbn)



Liquidity risk exposure (2007, CZKbn)



Source: Company data

Financial Statements (IFRS, CZKmn, 31/12)

Income Statement	**2006**	**2007**	**2008e**	**2009e**	**2010e**
Net interest income	16,274	18,674	21,256	23,415	25,140
Risk provisions for loans and advances	-1,536	-1,651	-2,073	-2,659	-2,596
Net interest income after risk provisions	14,738	17,023	19,182	20,756	22,544
Net fee and commission income	8,769	9,283	9,752	10,393	11,192
Dividend income	183	109	120	132	145
Trading result	1,273	1,566	1,801	2,071	2,278
Result on financial instruments	0	0	0	0	0
Other income	105	142	149	157	164
Total income	**26,604**	**29,774**	**33,077**	**36,168**	**38,919**
Personnel expenses	-5,170	-5,909	-6,453	-6,979	-7,475
Other administrative expenses	-5,570	-6,175	-6,817	-7,499	-8,174
Depreciation and amortization	-1,660	-1,474	-1,636	-1,816	-2,016
Other expenses	-733	-237	-249	-261	-274
Total expenses	**-13,133**	**-13,795**	**-15,155**	**-16,555**	**-17,939**
Operating profit	**11,935**	**14,328**	**15,849**	**16,954**	**18,384**
Extraordinary result	0	0	0	0	0
Profit/loss before taxes	**11,935**	**14,328**	**15,849**	**16,954**	**18,384**
Income taxes	-2,724	-3,103	-3,328	-3,221	-3,493
Profit/loss after taxes	**9,211**	**11,225**	**12,521**	**13,733**	**14,891**
Minority interests	3	-37	-44	-55	-74
Net profit/loss	**9,214**	**11,188**	**12,477**	**13,678**	**14,817**
Adjusted profit/loss before taxes	11,935	14,328	15,849	16,954	18,384
Adjusted net profit/loss	9,214	11,188	12,477	13,678	14,817

Balance Sheet	**2006**	**2007**	**2008e**	**2009e**	**2010e**
Cash and balances w ith central banks	15,000	10,957	11,961	12,198	12,690
Loans and advances to banks - net	208,697	203,691	197,580	197,580	197,580
Loans and advances to customers - net	252,504	304,521	365,678	427,622	487,238
Interest-earning financial assets	101,262	118,765	130,492	132,516	134,641
Interest-earning assets	**577,463**	**637,934**	**705,711**	**769,916**	**832,149**
Non-interest-earning assets	0	0	0	0	0
Intangible and tangible assets	13,838	14,507	14,815	15,133	15,462
Other assets	6,789	9,378	10,785	12,079	13,287
Total assets	**598,090**	**661,819**	**731,310**	**797,128**	**860,898**
Deposits from banks	14,594	13,598	16,339	17,733	19,052
Deposits from customers	481,294	540,756	594,832	648,366	700,236
Debt securities issued	24,349	27,917	32,105	33,710	35,395
Interest-rate-related derivatives	0	0	0	0	0
Interest-bearing liabilities	**520,237**	**582,271**	**643,275**	**699,809**	**754,684**
Non-interest-rate-related derivatives	0	0	0	0	0
Provisions	2,273	1,692	1,895	1,933	1,972
Other liabilities	19,321	21,198	24,378	28,034	30,838
Subordinated capital	6,002	6,004	6,004	6,004	6,004
Total liabilities	**547,833**	**611,165**	**675,552**	**735,781**	**793,497**
Minorities	580	1,060	1,174	1,291	1,419
Shareholders' equity	**49,677**	**49,594**	**54,585**	**60,056**	**65,983**
Total liabilities and equity	**598,090**	**661,819**	**731,310**	**797,128**	**860,898**

Other figures	**2006**	**2007**	**2008e**	**2009e**	**2010e**
Tangible shareholders' equity	46,126	46,043	51,034	56,505	62,432
Off-balance sheet items	173,932	216,146	237,761	261,537	287,690
No. of shares outstanding (mn)	38.0	38.0	38.0	38.0	38.0
Weighted average no. of shares (basic) mn	38.0	38.0	38.0	38.0	38.0
Weighted average no. of shares (diluted) mn	38.0	38.0	38.0	38.0	38.0
Number of employees (FTE)	8,266	8,534	8,875	9,142	9,416

Source: Company data, Erste Bank estimates

Ratios

Per share figures (CZK)	2006	2007	2008e	2009e	2010e
EPS basic	242	294	328	360	390
BVPS	1,307	1,305	1,436	1,580	1,736
Tangible BVPS	1,214	1,211	1,343	1,487	1,643
DPS	150	180	197	216	234
Payout ratio	61.9%	61.2%	60.0%	60.0%	60.0%
No. of shares outstanding (mn)	38.0	38.0	38.0	38.0	38.0
Profitability	**2006**	**2007**	**2008e**	**2009e**	**2010e**
Total interest income / avg. interest-earning assets [Yield on assets]	4.8%	5.5%	5.7%	5.7%	5.6%
Total interest expenses / avg. interest-bearing liabilities [Cost of funds]	-2.0%	-2.8%	-2.9%	-2.8%	-2.8%
Yield on assets - cost of funds [Interest spread]	2.8%	2.8%	2.8%	2.8%	2.8%
Net interest income / avg. total assets [Net interest margin, NIM]	2.9%	3.0%	3.1%	3.1%	3.0%
Net fee and commission income / avg. total assets [Net fee margin]	1.6%	1.5%	1.4%	1.4%	1.4%
Net profit / avg. shareholders' equity [Return on equity, ROE]	18.2%	22.5%	24.0%	23.9%	23.5%
Net profit / avg. total assets [Return on assets, ROA]	1.7%	1.8%	1.8%	1.8%	1.8%
Efficiency	**2006**	**2007**	**2008e**	**2009e**	**2010e**
Total operating expenses / total income [Cost income ratio, CIR]	49.7%	46.5%	46.0%	45.9%	46.3%
Total operating expenses / avg. total assets [Cost asset ratio]	2.4%	2.2%	2.2%	2.2%	2.2%
Personnel expenses / total income	-19.6%	-19.9%	-19.6%	-19.4%	-19.3%
Personnel expenses / avg. no. of employees [Avg. staff costs, CZK '000)]	-647	-703	-741	-775	-806
Asset quality	**2006**	**2007**	**2008e**	**2009e**	**2010e**
Risk provisions (P&L) / avg. loans to customers (gross) [Risk costs]	0.7%	0.6%	0.6%	0.7%	0.6%
Risk provisions (P&L) / net interest income [Risk earnings ratio]	9.4%	8.8%	9.8%	11.4%	10.3%
Capital adequacy	**2006**	**2007**	**2008e**	**2009e**	**2010e**
Total equity / total assets [Equity ratio]	8.4%	7.7%	7.6%	7.7%	7.8%
P&L structure	**2006**	**2007**	**2008e**	**2009e**	**2010e**
Net interest income / total income	61.6%	62.9%	64.5%	65.0%	64.8%
Net fee and commission income / total income	33.2%	31.3%	29.6%	28.8%	28.9%
Net trading result / total income	4.8%	5.3%	5.5%	5.7%	5.9%
Non-interest income / total income	38.4%	37.1%	35.5%	35.0%	35.2%
Personnel expenses / total operating expenses	39.4%	42.8%	42.6%	42.2%	41.7%
Effective tax rate	-22.8%	-21.7%	-21.0%	-19.0%	-19.0%
Balance sheet structure	**2006**	**2007**	**2008e**	**2009e**	**2010e**
Loans to customers / deposits from customers [Loan deposit ratio]	54.2%	58.1%	63.4%	68.0%	71.8%
Loans to customers / total assets	43.6%	47.5%	51.5%	55.3%	58.4%
Deposits from customers / total assets	80.5%	81.7%	81.3%	81.3%	81.3%
Growth rates	**2006**	**2007**	**2008e**	**2009e**	**2010e**
Net interest income y/y	11.1%	14.7%	13.8%	10.2%	7.4%
Net fee and commission income y/y	0.4%	5.9%	5.1%	6.6%	7.7%
Total income y/y	7.8%	12.3%	11.1%	9.3%	7.6%
Personnel expenses y/y	2.7%	14.3%	9.2%	8.2%	7.1%
Total operating expenses y/y	6.4%	5.0%	9.9%	9.2%	8.4%
Operating profit y/y	3.4%	21.0%	10.6%	6.9%	8.4%
Profit before taxes y/y	3.2%	20.1%	10.6%	7.0%	8.4%
Net profit y/y	2.8%	21.4%	11.5%	9.6%	8.3%
Loans and advances to customers y/y	33.2%	20.4%	20.0%	17.0%	14.0%
Total assets y/y	16.4%	10.7%	10.5%	9.0%	8.0%
Deposits from customers y/y	23.9%	12.4%	10.0%	9.0%	8.0%
Total liabilities y/y	18.4%	11.6%	10.5%	8.9%	7.8%
Shareholders' equity y/y	-3.2%	-0.2%	10.1%	10.0%	9.9%

Source: Company data, Erste Bank estimates

OTP Bank — maintain Buy

HUNGARY / Banking & insurance

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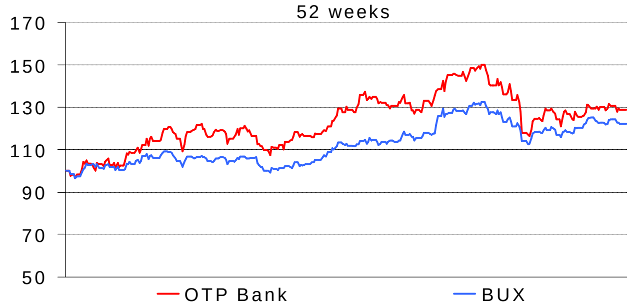
gernot.jany@erstebank.at

Share price (HUF)	6,705.0	Reuters	OTPB.BU	Free float	95.5%
Number of shares (mn)	258.7	Bloomberg	OTP HB	Shareholders	-
Market capitalization (HUF mn / EUR mn)	1,734,375.1 / 7,056.9	Div. ex-date			
Index weight (BUX)	34.0%	**Target price**	**8,500**	Homepage:	www.otp.hu

HUF mn	2007	2008e	2009e	2010e
Total income	654,879	716,838	829,987	948,217
Operating profit	248,952	272,553	309,051	355,601
Profit before taxes	248,952	436,553	309,051	355,601
Net profit	208,208	365,028	256,102	294,677
EPS (HUF)	795.6	1,411.2	990.1	1,139.2
BVPS (HUF)	3,462.3	4,414.2	5,153.2	5,955.4
Div/share (HUF)	0.0	233.1	297.0	341.8
P/E (x)	8.3	4.8	6.8	5.9
P/BV (x)	1.9	1.5	1.3	1.1
Dividend yield	0.0%	3.5%	4.4%	5.1%

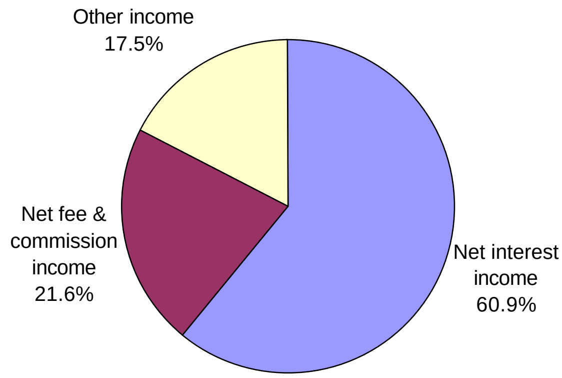


Performance	12M	6M	3M	1M
in HUF	-33.6%	-21.5%	-1.6%	-8.7%
in USD	-33.1%	-18.7%	2.8%	-8.2%

Company description

OTP is a pure CEE player, focusing on retail and commercial banking. It is the only CEE-based bank with a regional expansion strategy. Including its home market Hungary, where (with a 23% market share in terms of total assets) it has a very strong position, it is active in nine counties. OTP is also No. 1 in Montenegro (CKB) and No. 2 in Bulgaria (DSK), with respective market shares of 34% and 12%. It is also present in Slovakia, Romania, Serbia, Croatia, Ukraine and Russia. After the numerous acquisitions seen in 2006, OTP is currently focusing on the integration of its new subsidiaries and is eyeing only small acquisitions in the near term. Early this year, OTP sold its insurance arm OTP Garancia to the French insurer Groupama, including a regional partnership between the two companies. Besides the 8% stake held by Groupama, OTP has no strategic investor.

Total income breakdown (2007)



Source: Company data

Strength/Opportunities

- High profitability (ROE 07: 25%)
- Only CEE-based bank with clear regional expansion focus
- Strong position in Hungary (No.1), Bulgaria (No. 2) and Montenegro (No. 1)
- Presence in fast growing markets in SEE and CIS
- Good quality of loan portfolio (NPLs at 4.2%)
- High catch-up potential and growth rates in banking markets in which OTP operates

Weakness/Threats

- Increasing competition in CEE puts pressure on margins
- Re-pricing and refinancing of subsidized mortgage loans in HU
- Direct and indirect negative effects from austerity package and growth dent in HU
- Potential increase in credit risk, due to rising FX exposure in HU and RO
- Integration risk, due to numerous acquisitions in 2006

Investment story

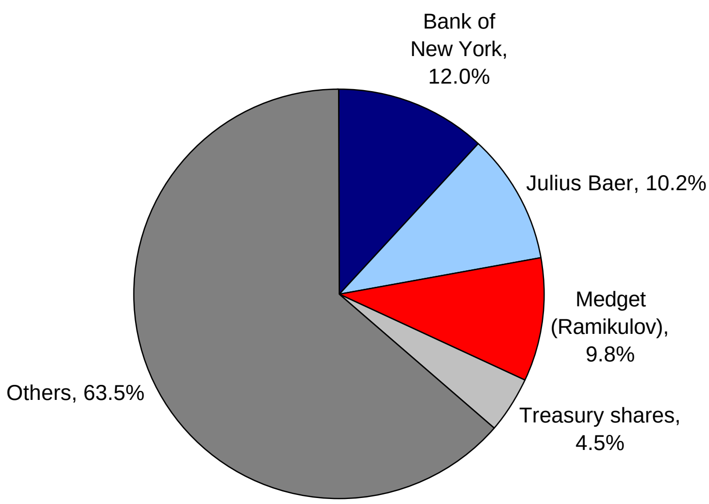
Deep value in CEE banking sector

Foreseeing slower growth and declining margins in its home market of Hungary (growth dent, re-pricing of subsidized residential mortgage loans, increasing competition, etc.), OTP took a proactive approach and expanded its business model to other counties in CEE. Especially after its heavy acquisition tour in 2006, when it acquired companies in Russia, Ukraine, Montenegro and Serbia, OTP can bee seen as a pure CEE player with a broad regional focus. Currently, OTP is focusing on the integration of its new subsidiaries and targets only small acquisitions. After the recent disposal of its insurance arm Garancia, OTP will focus on its core banking business, but will cooperate with the French insurer Groupama in the form of a CEE bancassurance partnership. Despite the gaining importance of the subsidiaries in Russia, Ukraine and Bulgaria, we expect OTP's NIM to decline to 4% in the mid term (NIM 07: 5.5%), mainly due to increasing competition in the banking markets in CEE. Taking a slightly increasing CIR, a more or less stable risk/earnings ratio and a constant equity ratio into account, we expect OTP's ROE to decline to around 18% in the mid term, from the 25% reached in 2007.

Buy, target price HUF 8,500

As with the whole banking sector in CEE, the stock price of OTP has been under heavy pressure since it topped in mid-2007. Besides the overall bad sentiment toward financials, the weak performance was driven by integration problems, especially in Russia and Serbia. Based on that, the chronic discount to its CEE peers widened in the last couple of months to current levels of 35% (P/BV) and 45% (P/E). The fundamental undervaluation is also underpinned by our three-stage DDM, which shows upside potential of around 27%. We therefore reiterate our Buy recommendation on OTP with a 12-month target price of HUF 8,500.

Shareholder structure



Source: Company data

Strategy

Regional CEE player

With its recent acquisitions, OTP has expanded its presence to nine CEE countries. OTP is No. 1 in Hungary and Montenegro and No. 2 in Bulgaria, with respective market shares of 23%, 34% and 12%. It is also present in Slovakia, Croatia, Romania, Serbia, Russia and Ukraine. In the near term, OTP will take a break from acquisitions and concentrate on integration of its new subsidiaries and business expansion, but management has not ruled out small acquisitions if they constitute a good opportunity.

Tougher environment in HU

With a market share of 23%, OTP is the clear No. 1 in the Hungarian banking market. Historically, OTP has been benefiting from a favorable business climate for banks in Hungary, resulting in NIM and ROE of above 6% and above 30%, respectively. Due to adverse changes in the residential mortgage subsidy system, direct and indirect negative effects from the austerity package and the growth dent, the ongoing trend towards FX loans and increasing competition, NIM of OTP core (HU) declined to 5.56% in 1Q08 and ROE reached 18%.

Stronger focus on SEE and CIS

Foreseeing slower growth and declining margins in its home market in Hungary, OTP took a proactive approach and expanded its business model to other counties in CEE. In the mid term, OTP expects the net profit contribution of its foreign subsidiaries to increase to 50% (from the current 30%). The highest growth is expected in the CIS region, the contribution of which should increase to 25%, followed by Bulgaria with 10%.

Disposal of insurance arm Garancia

To focus on its core banking business, OTP decided to sell its insurance arm Garancia to the French insurance company Groupama for a total consideration of HUF 164bn. The deal also includes a regional bancassurance partnership agreement. Groupama further agreed to acquire a strategic 8% stake in OTP. We de-consolidated Garancia and booked an extraordinary gain of HUF 164bn in 2Q08, accordingly.

Earnings review

Consolidated, IFRS	**Reported**	**Reported**		**Consensus**	**Reported**	**Erste Bank**	**Reported**
HUFbn	**1Q 2008**	**1Q 2007**	**y/y**	**1Q 2008e**	**vs. Cons.**	**1Q 2008e**	**vs. EB**
Net interest income	109.2	102.9	6.1%				
Net interest income (adj.) [1)]	112.5	99.9	12.6%	115.4	-2.5%	112.0	0.4%
Net provisions	-12.3	-11.0	11.6%	-15.7	-21.8%	-17.4	-29.4%
Net fee & commission inc.	39.6	35.3	12.2%	n.a.	n.a.	38.7	2.3%
Pre-tax profit	67.8	60.9	11.4%	n.a.	n.a.	64.5	5.1%
Net profit	55.3	50.5	9.5%	54.5	1.5%	55.3	0.1%
NIM (on TA, %)	4.99%	5.65%	-0.66%p				
NIM adj. (on TA, %)	5.15%	5.56%	-0.41%p				
Cost / income ratio adj. (%)	52.2%	52.0%	0.20%p				
ROE after taxes (%)	24.4%	25.6%	-1.2%p				
ROE adj.(%)	24.9%	24.8%	0.1%p				
Risk costs to avg. loans (adj.)	0.82%	0.97%	-0.2%p				
Risk / earnings ratio (%)	10.9%	11.0%	-0.1%p				
Capital adequacy ratio (%)	0.0%	11.1%	-11.1%p				

Source: Company date, Erste Bank estimates

Net profit in line with our expectations, above consensus

OTP reported sound 1Q08 figures, in line with our estimates and slightly above the consensus. With net profit growth of 9.5%, the company is on good track to reach its targeted bottom line growth of around 10%.

Mixed picture on subsidiary level

In the first quarter of 2008, we saw various one-offs and a changed reporting scheme. Based on an improving loan quality in some subsidiaries, OTP reduced its provisioning, which had a positive impact on the bottom line. The bottom line of the Hungarian core business came in above our expectations (+6.1% y/y). Net profit of foreign subsidiaries improved by 37% y/y, mainly due to the superior performance of DSK in Bulgaria (+45% y/y), Slovakia (+41% y/y) and Croatia (+36% y/y), resulting in an increase of the net profit contribution to 30%, from 26% a year before. The performance of the subsidiaries in Russia (+12% y/y) and Ukraine (-2% y/y) was comparably low. Whereas OTP is still facing problems in Russia, the weak performance of the operation in Ukraine is driven by higher provisioning, despite a high loan quality.

Financial outlook

Guidance: Bottom line growth for 2008 at least 10%; target 2010 confirmed

Guidance 2008:		2007 actual	2008 target
OTP Group	Net profit growth	11.1%	at least 10%
	CIR	59.1%	mid 50s
	ROE	24.7%	somwhat lower than 2007
	CAR	11.0%	above 9,5%
OTP Core (HU)	Net profit growth	11.7%	around 0%
	CIR	48.0%	stable
Investsberbank (RU)	Net profit growth	n.a.	around 50%
	CIR	67.2%	around 60%
	ROE	17.9%	around 20%
CJSC OTP (UA)	Net profit growth	n.a.	above 30%
	CIR	45.6%	slight increase
	ROE	25.7%	above 20%
DSK (BG)	Net profit growth	21.0%	slightly moderating
	CIR	39.0%	similar to 2007
	ROE	24.7%	stable

At first sight, the 0% growth in the Hungarian core business looks very disappointing. The main reasons for this low expectation are:

1) Re-pricing of subsidized residential mortgage loans
2) Significant drop in government subsidies
3) Significantly increasing IFRS tax burden

Overall, this will (according to management) result in a shortfall of net profit by around HUF 22bn, bringing the expected bottom line growth down from 15% to 0%. Besides the guidance for 2008 of at least 10% net profit growth, OTP confirmed its net profit target for 2010 of around HUF 408bn.

Short-term estimates in line with guidance…

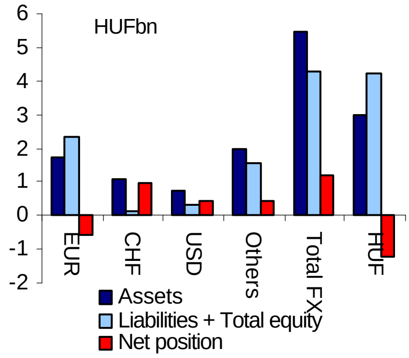
In 2008, we expect OTP to reach net profit of around HUF 365bn. Adjusting the bottom line for the extraordinary gain resulting from the disposal of Garancia of HUF 164bn, we get net profit of HUF 228bn (+9.5% y/y), in line with our previous estimate and slightly below OTP's guidance.

…but we are more cautious in mid term

Despite the gaining importance of the subsidiaries in Russia, Ukraine and Bulgaria, we expect NIM of OTP to decline to 4% in the mid term (NIM 07: 5.5%), mainly due to increasing competition in the banking markets in CEE and a tougher business environment in Hungary. Taking a slightly increasing CIR, a more or less stable risk/ earnings ratio and a constant equity ratio into account, we expect OTP's ROE to decline to around 18% in the mid term, from the 25% reached in 2007. Our mid-term estimates are therefore far more cautious than those of OTP.

Snapshot of loan book risk exposure

Currency risk exposure (2007, HUFbn)



Source: Company data

Financial Statements (IFRS, HUFmn, 31/12)

Income Statement	2006	2007	2008e	2009e	2010e
Net interest income	355,944	431,692	468,961	535,177	599,812
Risk provisions for loans and advances	-23,997	-58,184	-65,255	-75,504	-82,475
Net interest income after risk provisions	331,947	373,508	403,706	459,672	517,337
Net fee and commission income	112,900	152,885	177,695	212,951	254,147
Dividend income	901	993	275	329	383
Trading result	-3,691	14,855	15,155	10,353	8,463
Result on financial instruments	0	0	0	0	0
Other income	35,066	54,454	54,752	71,177	85,412
Total income	**501,120**	**654,879**	**716,838**	**829,987**	**948,217**
Personnel expenses	-106,804	-147,831	-178,876	-221,358	-261,756
Other administrative expenses	0	0	0	0	0
Depreciation and amortization	-26,465	-35,627	-39,190	-43,109	-47,420
Other expenses	-125,252	-164,285	-160,965	-180,965	-200,965
Total expenses	**-258,521**	**-347,743**	**-379,030**	**-445,432**	**-510,141**
Operating profit	**218,602**	**248,952**	**272,553**	**309,051**	**355,601**
Extraordinary result	0	0	164,000	0	0
Profit/loss before taxes	**218,602**	**248,952**	**436,553**	**309,051**	**355,601**
Income taxes	-31,506	-40,404	-70,940	-52,539	-60,452
Profit/loss after taxes	**187,096**	**208,548**	**365,613**	**256,512**	**295,149**
Minority interests	-45	-340	-585	-410	-472
Net profit/loss	**187,051**	**208,208**	**365,028**	**256,102**	**294,677**
Adjusted profit/loss before taxes	218,602	248,952	436,553	309,051	355,601
Adjusted net profit/loss	187,051	208,208	227,898	256,102	294,677

Balance Sheet	2006	2007	2008e	2009e	2010e
Cash and balances with central banks	532,625	353,243	464,370	529,059	568,688
Loans and advances to banks - net	602,616	654,788	802,115	942,485	1,083,858
Loans and advances to customers - net	4,347,091	5,582,437	6,865,279	8,458,942	10,180,267
Interest-earning financial assets	868,107	1,077,377	1,141,394	1,329,949	1,519,850
Interest-earning assets	**6,350,439**	**7,667,845**	**9,273,158**	**11,260,435**	**13,352,663**
Non-interest-earning assets	70,938	9,892	12,118	14,238	16,374
Intangible and tangible assets	464,716	541,909	663,839	780,010	897,012
Other assets	211,333	242,228	277,685	326,280	375,222
Total assets	**7,097,426**	**8,461,874**	**10,226,800**	**12,380,964**	**14,641,271**
Deposits from banks	660,416	798,154	976,656	1,270,586	1,587,948
Deposits from customers	4,232,153	5,038,372	6,048,625	7,151,301	8,295,861
Debt securities issued	781,316	985,265	1,280,845	1,633,077	2,000,519
Interest-rate-related derivatives	0	0	0	0	0
Interest-bearing liabilities	**5,673,885**	**6,821,791**	**8,306,126**	**10,054,964**	**11,884,327**
Non-interest-rate-related derivatives	0	0	0	0	0
Provisions	0	0	0	0	0
Other liabilities	384,602	443,342	387,338	493,855	604,973
Subordinated capital	250,726	301,164	391,513	499,179	611,495
Total liabilities	**6,309,213**	**7,566,297**	**9,084,977**	**11,047,999**	**13,100,795**
Minorities	3,110	5,353	6,810	7,950	9,188
Shareholders' equity	**785,103**	**890,224**	**1,135,013**	**1,325,015**	**1,531,288**
Total liabilities and equity	**7,097,426**	**8,461,874**	**10,226,800**	**12,380,964**	**14,641,271**

Other figures	2006	2007	2008e	2009e	2010e
Tangible shareholders' equity	785,103	890,224	1,135,013	1,325,015	1,531,288
Off-balance sheet items	n.a	n.a	n.a	n.a	n.a
No. of shares outstanding (mn)	262.7	258.7	258.7	258.7	258.7
Weighted average no. of shares (basic) mn	259.2	261.7	258.7	258.7	258.7
Weighted average no. of shares (diluted) mn	261.9	260.1	258.7	258.7	258.7
Number of employees (FTE)	26,866	33,085	36,394	40,943	45,037

Source: Company data, Erste Bank estimates

Ratios

Per share figures (HUF)	2006	2007	2008e	2009e	2010e
EPS basic	722	796	1,411	990	1,139
BVPS	2,989	3,442	4,388	5,122	5,920
Tangible BVPS	2,989	3,442	4,388	5,122	5,920
DPS	154	0	233	297	342
Payout ratio	21.6%	0.0%	30.0%	30.0%	30.0%
No. of shares outstanding (mn)	263	259	259	259	259
Profitability	**2006**	**2007**	**2008e**	**2009e**	**2010e**
Net interest income / avg. total assets [Net interest margin, NIM]	5.8%	5.5%	5.0%	4.7%	4.4%
Net fee and commission income / avg. total assets [Net fee margin]	1.8%	2.0%	1.9%	1.9%	1.9%
Net profit / avg. shareholders' equity [Return on equity, ROE]	28.1%	24.9%	36.0%	20.8%	20.6%
Net profit / avg. total assets [Return on assets, ROA]	3.0%	2.7%	3.9%	2.3%	2.2%
Efficiency	**2006**	**2007**	**2008e**	**2009e**	**2010e**
Total operating expenses / total income [Cost income ratio, CIR]	51.6%	53.1%	52.9%	53.7%	53.8%
Total operating expenses / avg. total assets [Cost asset ratio]	4.2%	4.5%	4.1%	3.9%	3.8%
Personnel expenses / total income	-21.3%	-22.6%	-25.0%	-26.7%	-27.6%
Personnel expenses / avg. no. of employees [Avg. staff costs, HUF mn)]	-4.8	-4.9	-5.1	-5.7	-6.1
Asset quality	**2006**	**2007**	**2008e**	**2009e**	**2010e**
Risk provisions (P&L) / avg. loans to customers (gross) [Risk costs]	0.6%	1.1%	1.0%	1.0%	0.9%
Risk provisions (P&L) / net interest income [Risk earnings ratio]	6.7%	13.5%	13.9%	14.1%	13.8%
Capital adequacy	**2006**	**2007**	**2008e**	**2009e**	**2010e**
Total equity / total assets [Equity ratio]	11.1%	10.6%	11.2%	10.8%	10.5%
P&L structure	**2006**	**2007**	**2008e**	**2009e**	**2010e**
Net interest income / total income	71.0%	65.9%	65.4%	64.5%	63.3%
Net fee and commission income / total income	22.5%	23.3%	24.8%	25.7%	26.8%
Net trading result / total income	-0.7%	2.3%	2.1%	1.2%	0.9%
Non-interest income / total income	29.0%	34.1%	34.6%	35.5%	36.7%
Personnel expenses / total operating expenses	41.3%	42.5%	47.2%	49.7%	51.3%
Effective tax rate	-14.4%	-16.2%	-16.3%	-17.0%	-17.0%
Balance sheet structure	**2006**	**2007**	**2008e**	**2009e**	**2010e**
Loans to customers / deposits from customers [Loan deposit ratio]	105.7%	114.3%	117.0%	121.9%	126.5%
Loans to customers / total assets	63.0%	68.1%	69.2%	70.4%	71.7%
Deposits from customers / total assets	59.6%	59.5%	59.1%	57.8%	56.7%
Growth rates	**2006**	**2007**	**2008e**	**2009e**	**2010e**
Net interest income y/y	19.8%	21.3%	8.6%	14.1%	12.1%
Net fee and commission income y/y	14.1%	35.4%	16.2%	19.8%	19.3%
Total income y/y	15.1%	30.7%	9.5%	15.8%	14.2%
Personnel expenses y/y	12.1%	38.4%	21.0%	23.8%	18.3%
Total operating expenses y/y	20.1%	34.5%	9.0%	17.5%	14.5%
Operating profit y/y	13.8%	13.9%	9.5%	13.4%	15.1%
Profit before taxes y/y	13.8%	13.9%	75.4%	-29.2%	15.1%
Net profit y/y	18.2%	11.3%	75.3%	-29.8%	15.1%
Loans and advances to customers y/y	35.7%	28.7%	22.9%	23.2%	20.3%
Total assets y/y	36.1%	19.2%	20.9%	21.1%	18.3%
Deposits from customers y/y	23.5%	19.0%	20.1%	18.2%	16.0%
Total liabilities y/y	35.1%	19.9%	20.1%	21.6%	18.6%
Shareholders' equity y/y	43.5%	13.4%	27.5%	16.7%	15.6%

Source: Company data, Erste Bank estimates

Sector Report

Pekao — from Accumulate to Hold

POLAND / Banking & insurance

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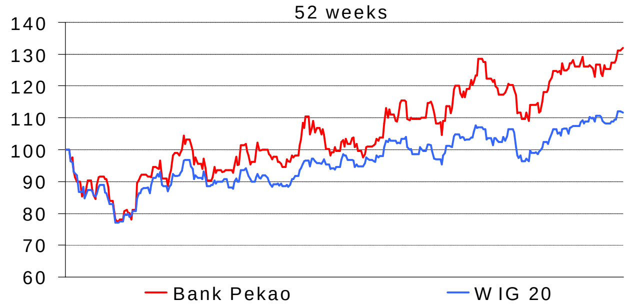
Share price (PLN)	168.0	Reuters	BAPE.WA	Free float	40.7%
Number of shares (mn)	262.3	Bloomberg	PEO PW	Shareholders	UniCredit (59.3%)
Market capitalization (PLN mn / EUR mn)	43,993.7 / 13,000.9	Div. ex-date	14/05/07		
Index weight (WIG 20)	13.6%	**Target price**	**184**	Homepage:	www.pekao.com.pl

PLN mn	2007	2008e	2009e	2010e
Total income	5,603	8,317	9,429	10,660
Operating profit	2,582	4,321	4,967	5,742
Profit before taxes	2,600	4,757	4,967	5,742
Net profit	2,155	3,865	4,030	4,657
EPS (PLN)	8.2	14.7	15.4	17.7
BVPS (PLN)	56.0	61.9	66.4	69.9
Div/share (PLN)	9.6	8.8	10.8	14.2
P/E (x)	20.4	11.4	10.9	9.5
P/BV (x)	2.9	2.6	2.4	2.3
Dividend yield	5.7%	5.3%	6.4%	8.5%

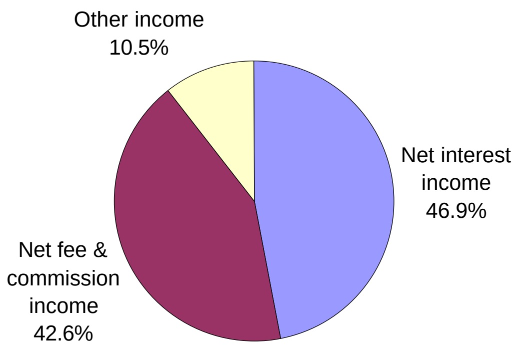


Performance	12M	6M	3M	1M
in PLN	-34.2%	-27.9%	-8.2%	-12.5%
in USD	-26.3%	-22.9%	-3.9%	-12.4%

Company description

Pekao has become the No. 1 Polish bank by total assets, with some 14% market share after the integration of 285 branches of Bank BPH. It offers a wide range of services to retail and corporate customers. The bank is focused on the development of strategic products, such as mortgage lending, SME lending, credit card business and fund management. Pekao has an asset management joint venture with Pioneer, the largest asset management group in Poland (21% market share). The bank has the second largest distribution network, with more than 1,000 branches and 3,000 ATMs. Italy's UniCredit is the strategic investor in Pekao, with a 59% stake. The migration process of BPH branches and customers to Pekao was finished at the end of May.

Total income breakdown (2007)



Source: Company data

Strength/Opportunities

- Strong franchise in Polish market
- Wide distribution network
- No. 1 position in asset management market
- High margins and sustainable profitability
- Despite low cost base, CIR further improved
- Benefits from comeback of corporate lending business

Weakness/Threats

- Relatively late implementation of integrated IT platform
- Low growth in volumes compared to market
- Weak position in Internet banking
- Market share erosion in retail (both lending and deposits)
- Management capacity bound to migration and integration of BPH

Investment story

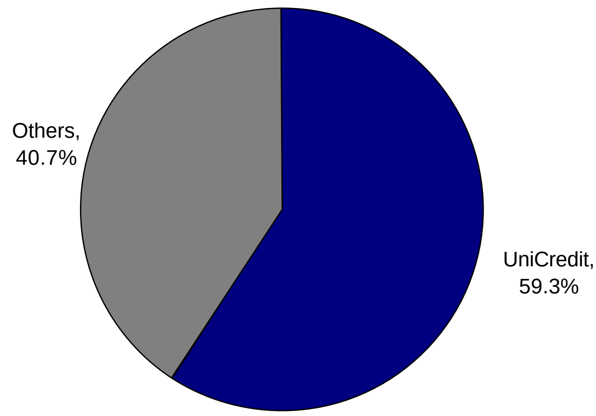
Poland's No. 1 is losing market share

With the integration of 285 branches of Bank BPH as of November 30, 2007, Pekao became the No. 1 bank in Poland in terms of total assets (14% market share). However, the integration process and migration projects have required lots of management capacity and, as a result, the new Pekao lost 100bp of its market share in 1Q08 to 16% in the Polish loan market and even more on the deposit side. We therefore expect quite a weak financial performance in 2008, resulting in flat bottom line growth (adjusted, on a pro forma basis), mainly driven by net interest income (+12% y/y pro forma) and 2.5% lower operating costs (pro forma). The promised take-off in terms of growth potential and synergies might not come before 2009. When it does come, we would wait for at least one quarter's worth of evidence before upgrading our forecasts.

Target price: PLN 184

Our Pekao valuation model is based on a dividend discount model. The peer group multiples are as follows: the P/BV 08e of 2.72x indicates a 15% premium to the peers (2.4x) and the P/E 08e of 11.4x shows a discount of 18% (13.8x). We reduce our Accumulate recommendation to Hold as well as the target price to PLN 184.

Shareholder structure



Source: Company data

1Q08 results below expectations

Pro forma, adjusted net profit growth 4.1% y/y

Bank Pekao reported net profit of PLN 1,138mn for 1Q08 (+127% y/y, +23% y/y based on pro forma 1Q07 figures including BPH-285), 5% below our expectation, but 3% better than the consensus. However, the sustainable income sources were also below the consensus. On a pro forma basis, net fee & commission income was down 14% y/y, due to lower commissions on investment products, whereas net interest income improved 11% y/y and offset the F&C income decrease. Overhead costs were under control with a 3.6% y/y increase (pro forma), mainly due to integration and expansion costs in Ukraine. Net provisions decreased 51% y/y (pro forma), due to the good macroeconomic situation, resulting in a low 4.5% risk/earnings ratio (-5.6%p). Additionally, positive one-offs in 1Q08 included a gain of PLN 420mn from the sale of the corporate part of Centralny Dom Maklerski Pekao (CDM) and a gain of PLN 179mn from the sale of a 10% stake in CU PTE reported from BPH in 1Q07. Adjusted for these one-offs, Pekao's net profit growth would have been only 4.1% y/y.

Weak loan growth, decreasing deposits

The main business drivers' pace diminished in 1Q08. As of March 31, gross loans were up only 1.2% q/q, mainly due to 1.5% q/q higher corporate loans. Retail loans grew only 0.5% q/q, which was also due to increased interest rates for zloty loans and the resulting diminishing demand. Pekao still retains its strategy to grant only zloty loans. On the deposit side, Pekao reported decreasing volumes (-3.6% q/q), mainly on corporate deposits (-9.4% q/q), which was a trend observed in the Polish market in general. Retail deposits were up 4.1% q/q, also driven by shifts from mutual funds (-20% q/q, including negative valuation).

Disappointing top line

In our view, Pekao reported mixed results, which were below our expectations, but above the consensus on the bottom line. The sustainable income sources were disappointing (due in part to the financial market environment), resulting in lower fee income. We appreciate the strict cost control, but we do not expect the low provisioning to be sustainable in the coming quarters.

Earnings review

Consolidated, IFRS PLNmn	Reported 1Q 2008	Reported 1Q 2007	y/y	Reported 1Q 2008	Pro forma 1Q 2007	y/y	Reported vs. Cons.	Erste Bank 1Q 2008e	Reported vs. EB
Net interest income	1,122.7	593.1	89.3%	1,122.7	1,012.0	10.9%	-6.8%	1,133.0	-0.9%
Net provisions	-50.3	-43.6	15.4%	-50.3	-101.8	-50.6%	n.a.	-55.0	-8.6%
Net fee & commission inc.	610.9	517.1	18.1%	610.9	708.3	-13.8%	-3.0%	660.0	-7.4%
Total income	2,340.8	1,221.5	91.6%	2,340.8	2,115.1	10.7%	n.a.	1,998.0	17.2%
Total expenses	-929.2	-594.3	56.4%	-929.2	-896.9	3.6%	n.a.	-967.0	-3.9%
Operating profit	1,361.3	583.6	133.2%	1,361.3	1,116.4	21.9%	n.a.	976.0	39.5%
Pre-tax profit	1,398.7	617.4	126.5%	1,398.7	1,150.2	21.6%	n.a.	1,436.0	-2.6%
Net profit	1,137.5	502.1	126.6%	1,137.5	926.6	22.8%	2.8%	1,191.9	-4.6%
Capital adequacy ratio (%)	10.6%	14.7%	-4.1%p	10.6%	14.7%	-4.1%p			
Net interest margin (on TA, %)	3.64%	3.36%	0.29%p	3.64%	3.25%	0.39%p			
Cost / income ratio (%)	39.7%	48.7%	-9.0%p	39.7%	42.4%	-2.7%p			
ROE (%)	29.9%	22.2%	7.7%p	29.9%	25.5%	4.4%p			
Risk / earnings ratio (%)	4.5%	7.3%	-2.9%p	4.5%	10.1%	-5.6%p			
Net profit adjusted for one-offs	787.5	817.5	-3.7%				n.a.	843.3	-6.6%

Source: Company date, Erste Bank estimates

Financial outlook

Flat pro forma, adjusted bottom line FY08

Adjusted for one-offs and on a pro forma basis, Pekao reported a weak 1Q08 set of figures, with only 4.1% bottom line growth. Due to the quite hefty loss of market share within just one quarter (-100bp to 16% in the Polish loan market and -138bp to 19.7% in deposits), we would not expect strong improvements in the next few quarters. As a result, our FY08 forecasts show only a flat bottom line on a pro forma basis (pro forma inclusion of BPH-285 for 12 months in 2007) and adjusted for positive one-offs of PLN 436mn. In contrast, net profit for FY08 is expected at PLN 3,865mn, which is 79% higher than the reported net profit for FY07 (BPH-285 included as of November 30, 2007).

NII as main driver with 12% pro forma growth

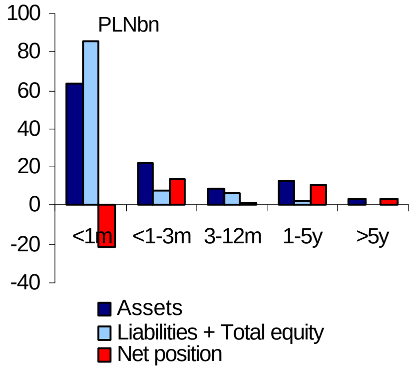
The main driver is net interest income (+12% y/y on a pro forma basis), based on 15% higher loan volumes and 3.5% higher deposits at an improved net interest margin of 3.8% (vs. 3.64% in 1Q08). However, the net interest income growth might be partly offset by 12% lower net fee & commission income, which will be mainly affected by weaker mutual fund fees and brokerage fees. On the cost side, we expect 2.5% lower operating expenses (pro forma basis), thanks to prolonged cost control and first synergies. Until 2009, Pekao management expects total synergies of PLN 360mn, compared to the previous PLN 240mn forecast. Net provisions are seen to stay at low levels (5.8% risk/earnings ratio), due to the good asset quality and mostly PLN-denominated loan portfolio.

Loan/deposit ratio below 100%

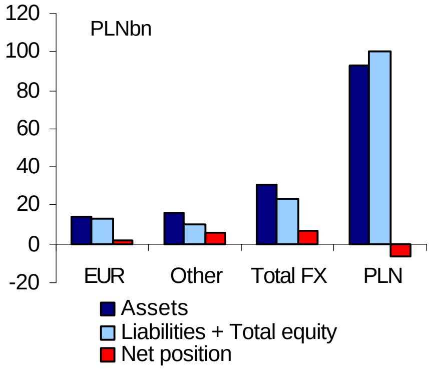
Pekao had a very favorable loan/deposit ratio of 83% in 2007. However, with the weak deposit growth, this may change in the coming years. For 2008, we expect an increase of nearly 10%p to 92%. Still, compared to other Polish banks, Pekao provides a relaxed funding structure, a conservative FX policy, a sufficient equity ratio of 12% and - with UniCredit - a strong parent company.

Snapshot of loan book risk exposure

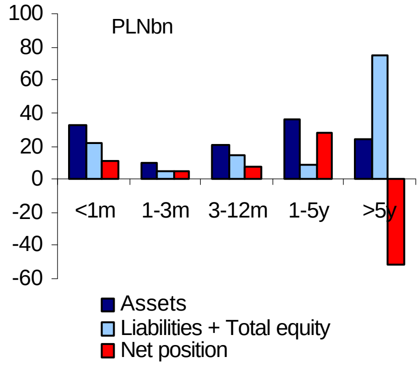
Interest rate risk exposure (2007, PLNbn)



Currency risk exposure (2007, PLNbn)



Liquidity risk exposure (2007, PLNbn)



Source: Company data

Financial Statements (IFRS, PLNmn, 31/12)

Income Statement	2006	2007	2008e	2009e	2010e
Net interest income	2,379.3	2,718.1	4,824.7	5,504.3	6,048.4
Risk provisions for loans and advances	-222.3	-192.3	-280.5	-373.8	-491.7
Net interest income after risk provisions	2,157.0	2,525.8	4,544.2	5,130.5	5,556.7
Net fee and commission income	1,855.9	2,161.4	2,568.8	2,885.4	3,451.7
Dividend income	178.7	191.1	242.4	274.4	300.1
Trading result	292.0	351.4	492.0	565.8	650.6
Result on financial instruments	0.0	0.0	0.0	0.0	0.0
Other income	169.9	180.6	189.6	199.1	209.1
Total income	**4,875.9**	**5,602.6**	**8,317.4**	**9,429.0**	**10,659.9**
Personnel expenses	-1,208.7	-1,397.5	-1,919.3	-2,156.6	-2,377.6
Other administrative expenses	-820.0	-1,000.3	-1,320.3	-1,412.8	-1,483.4
Depreciation and amortization	-318.4	-338.8	-379.4	-417.3	-459.1
Other expenses	-127.1	-91.8	-96.4	-101.2	-106.3
Total expenses	**-2,474.2**	**-2,828.3**	**-3,715.5**	**-4,087.9**	**-4,426.4**
Operating profit	**2,179.5**	**2,581.9**	**4,321.4**	**4,967.3**	**5,741.8**
Extraordinary result	19.1	18.1	435.6	0.0	0.0
Profit/loss before taxes	**2,198.6**	**2,600.0**	**4,757.0**	**4,967.3**	**5,741.8**
Income taxes	-408.9	-437.6	-880.1	-923.9	-1,068.0
Profit/loss after taxes	**1,789.7**	**2,162.5**	**3,877.0**	**4,043.4**	**4,673.9**
Minority interests	-2.2	-7.0	-12.4	-12.9	-16.4
Net profit/loss	**1,787.5**	**2,155.5**	**3,864.6**	**4,030.4**	**4,657.5**
Adjusted profit/loss before taxes	2,179.5	2,581.9	4,321.4	4,967.3	5,741.8
Adjusted net profit/loss	1,768.4	2,137.4	3,509.6	4,030.4	4,657.5

Balance Sheet	2006	2007	2008e	2009e	2010e
Cash and balances w ith central banks	3,580.4	5,122.3	4,607.4	5,518.2	4,520.4
Loans and advances to banks - net	10,589.1	16,989.3	16,139.9	16,139.9	16,462.7
Loans and advances to customers - net	32,668.5	69,672.5	80,253.5	94,901.4	110,320.4
Interest-earning financial assets	17,531.3	26,526.9	25,268.9	24,969.9	25,951.9
Interest-earning assets	**64,369.3**	**118,311.0**	**126,269.6**	**141,529.5**	**157,255.3**
Non-interest-earning assets	216.0	453.2	453.2	453.2	453.2
Intangible and tangible assets	2,107.0	2,768.2	3,111.8	3,432.1	3,734.9
Other assets	1,011.3	2,563.7	2,948.3	3,302.0	3,632.2
Total assets	**67,703.7**	**124,096.2**	**132,782.9**	**148,716.8**	**165,075.7**
Deposits from banks	4,055.3	9,942.1	11,114.0	12,880.1	14,664.0
Deposits from customers	51,793.6	89,944.1	93,092.1	103,332.3	114,698.8
Debt securities issued	0.0	3,716.8	5,946.8	7,730.9	9,277.1
Interest-rate-related derivatives	0.0	0.0	0.0	0.0	0.0
Interest-bearing liabilities	**55,848.8**	**103,603.0**	**110,153.0**	**123,943.2**	**138,639.9**
Non-interest-rate-related derivatives	0.0	0.0	0.0	0.0	0.0
Provisions	223.9	379.8	425.4	467.9	514.7
Other liabilities	2,738.3	5,366.1	5,902.7	6,788.1	7,466.9
Subordinated capital	0.0	0.0	0.0	0.0	0.0
Total liabilities	**58,811.1**	**109,348.9**	**116,481.1**	**131,199.3**	**146,621.5**
Minorities	16.7	80.5	89.2	95.8	100.9
Shareholders' equity	**8,875.9**	**14,666.8**	**16,212.6**	**17,421.8**	**18,353.3**
Total liabilities and equity	**67,703.7**	**124,096.2**	**132,782.9**	**148,716.8**	**165,075.7**

Other figures	2006	2007	2008e	2009e	2010e
Tangible shareholders' equity	8,875.9	14,612.2	16,158.1	17,367.2	18,298.7
Off-balance sheet items	19,117.0	38,716.8	41,128.9	43,692.8	46,418.2
No. of shares outstanding (mn)	166.8	261.9	262.1	262.3	262.5
Weighted average no. of shares (basic) mn	166.8	175.6	262.0	262.2	262.4
Weighted average no. of shares (diluted) mn	166.9	175.8	262.0	262.2	262.4
Number of employees (FTE)	15,647	22,926	24,989	26,489	27,813
Number of branches	n.a.	1,058	1,088	1,138	1,168

Source: Company data, Erste Bank estimates

Ratios

Per share figures (PLN)	2006	2007	2008e	2009e	2010e
EPS basic	10.7	12.3	14.8	15.4	17.8
BVPS	53.2	56.0	61.9	66.4	69.9
Tangible BVPS	53.2	55.8	61.7	66.2	69.7
DPS	9.00	9.60	8.85	10.76	14.20
Payout ratio	84.0%	74.3%	60.0%	70.0%	80.0%
No. of shares outstanding (mn)	166.8	261.9	262.1	262.3	262.5
Profitability	**2006**	**2007**	**2008e**	**2009e**	**2010e**
Total interest income / avg. interest-earning assets [Yield on assets]	5.8%	4.9%	6.3%	6.4%	6.4%
Total interest expenses / avg. interest-bearing liabilities [Cost of funds]	-2.8%	-2.5%	-3.0%	-3.0%	-3.0%
Yield on assets - cost of funds [Interest spread]	3.1%	2.4%	3.3%	3.4%	3.4%
Net interest income / avg. total assets [Net interest margin, NIM]	3.7%	2.8%	3.8%	3.9%	3.9%
Net fee and commission income / avg. total assets [Net fee margin]	2.9%	2.3%	2.0%	2.1%	2.2%
Net profit / avg. shareholders' equity [Return on equity, ROE]	20.7%	18.3%	25.0%	24.0%	26.0%
Net profit / avg. total assets [Return on assets, ROA]	2.8%	2.2%	3.0%	2.9%	3.0%
Efficiency	**2006**	**2007**	**2008e**	**2009e**	**2010e**
Total operating expenses / total income [Cost income ratio, CIR]	51.7%	51.9%	45.7%	44.3%	42.4%
Total operating expenses / avg. total assets [Cost asset ratio]	3.8%	2.9%	2.9%	2.9%	2.8%
Personnel expenses / total income	-25.3%	-25.6%	-23.6%	-23.4%	-22.8%
Personnel expenses / avg. no. of employees [Avg. staff costs, PLN '000)]	-77	-72	-80	-84	-88
Asset quality	**2006**	**2007**	**2008e**	**2009e**	**2010e**
Risk provisions (P&L) / avg. loans to customers (gross) [Risk costs]	0.6%	0.3%	0.4%	0.4%	0.5%
Risk provisions (P&L) / net interest income [Risk earnings ratio]	9.3%	7.1%	5.8%	6.8%	8.1%
Capital adequacy	**2006**	**2007**	**2008e**	**2009e**	**2010e**
Total equity / total assets [Equity ratio]	13.1%	11.9%	12.3%	11.8%	11.2%
P&L structure	**2006**	**2007**	**2008e**	**2009e**	**2010e**
Net interest income / total income	49.7%	49.9%	59.3%	59.7%	58.0%
Net fee and commission income / total income	38.8%	39.7%	31.6%	31.3%	33.1%
Net trading result / total income	6.1%	6.4%	6.0%	6.1%	6.2%
Non-interest income / total income	50.3%	50.1%	40.7%	40.3%	42.0%
Personnel expenses / total operating expenses	48.9%	49.4%	51.7%	52.8%	53.7%
Effective tax rate	-18.6%	-16.8%	-18.5%	-18.6%	-18.6%
Balance sheet structure	**2006**	**2007**	**2008e**	**2009e**	**2010e**
Loans to customers / deposits from customers [Loan deposit ratio]	70.6%	82.9%	92.1%	97.9%	102.3%
Loans to customers / total assets	54.0%	60.1%	64.6%	68.0%	71.1%
Deposits from customers / total assets	76.5%	72.5%	70.1%	69.5%	69.5%
Growth rates	**2006**	**2007**	**2008e**	**2009e**	**2010e**
Net interest income y/y	1.2%	14.2%	77.5%	14.1%	9.9%
Net fee and commission income y/y	16.9%	16.5%	18.8%	12.3%	19.6%
Total income y/y	3.4%	13.9%	49.3%	13.3%	13.1%
Personnel expenses y/y	-0.2%	15.6%	37.3%	12.4%	10.3%
Total operating expenses y/y	-3.4%	14.3%	31.4%	10.0%	8.3%
Operating profit y/y	14.2%	16.3%	70.4%	14.9%	15.8%
Profit before taxes y/y	17.3%	18.3%	83.0%	4.4%	15.6%
Net profit y/y	16.2%	20.6%	79.3%	4.3%	15.6%
Loans and advances to customers y/y	9.3%	103.8%	15.0%	18.0%	16.0%
Total assets y/y	9.2%	83.3%	7.0%	12.0%	11.0%
Deposits from customers y/y	10.6%	73.7%	3.5%	11.0%	11.0%
Total liabilities y/y	9.8%	85.9%	6.5%	12.6%	11.8%
Shareholders' equity y/y	5.6%	65.2%	10.5%	7.5%	5.3%

Source: Company data, Erste Bank estimates

PKO BP — from Hold to Accumulate

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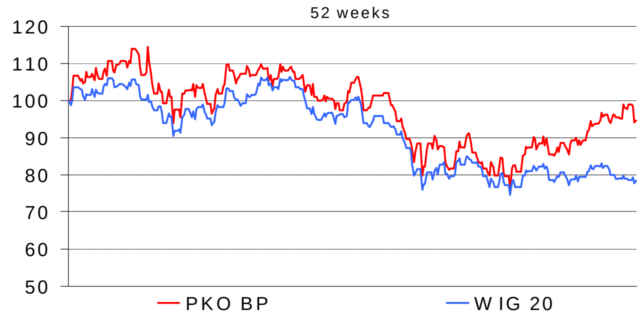
POLAND / Banking & insurance

Share price (PLN)	48.0	Reuters	PKOB.WA	Free float	48.5%
Number of shares (mn)	1000.0	Bloomberg	PKO PW	Shareholders	State Treasury (51.5%)
Market capitalization (PLN mn / EUR mn)	47,990.0 / 14,181.9	Div. ex-date	18/07/07		
Index w eight (WIG 20)	14.2%	**Target price**	**55**	Homepage:	w w w .pkobp.pl

PLN mn	2007	2008e	2009e	2010e
Total income	8,109	9,768	11,332	12,838
Operating profit	3,609	4,647	5,656	6,520
Profit before taxes	3,609	4,647	5,656	6,520
Net profit	2,904	3,738	4,550	5,234
EPS (PLN)	2.9	3.7	4.5	5.2
BVPS (PLN)	11.9	14.2	16.9	20.0
Div/share (PLN)	1.09	1.50	1.82	2.09
P/E (x)	16.5	12.8	10.5	9.2
P/BV (x)	3.9	3.3	2.7	2.3
Dividend yield	2.3%	3.1%	3.8%	4.4%

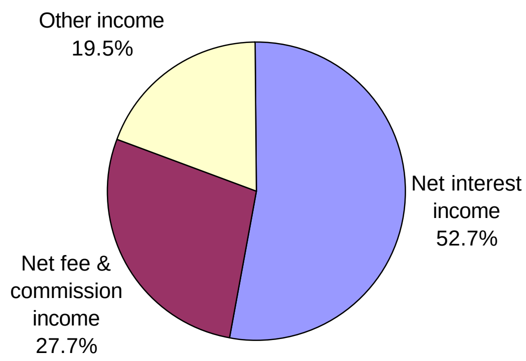


Performance	12M	6M	3M	1M
in PLN	-12.4%	-6.3%	12.9%	-3.1%
in USD	-1.8%	0.2%	18.2%	-3.0%

Company description

PKO BP is a universal commercial bank offering services to retail and corporate clients. The bank was established in 1919 as a state-owned company and was floated on the Warsaw Stock Exchange on November 10, 2004. After the IPO, the state Treasury still holds 52% of the shares. After the integration of BPH-285 into Pekao, PKO BP is currently the second largest player on the Polish market, with a 12.6% market share in terms of total assets. PKO BP's strong position in retail banking can be seen as its greatest asset. Meanwhile, its No. 3 position in the Polish investment fund market (with a 12% market share) reflects the retail dominance.

Total income breakdown (2007)



Source: Company data

Strength/Opportunities

- Strong position in retail banking supported by large branch network (1,257 outlets)
- Among most recognized banks in Poland (81% brand recognition)
- Loan quality better than at many other Polish banks
- Strong growth of consumer loans, mortgage loans and credit cards
- CIR improved to 53% (59%)
- Good funding quality (loan/deposit ratio 88%)

Weakness/Threats

- High staffing level
- Natural fluctuation policy and upgrade to average salary levels slowly increases personnel costs
- Management board replacements
- CIR still above Polish peers

Investment story

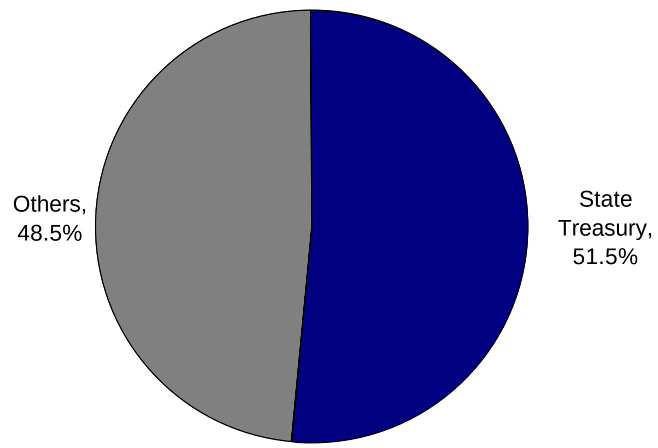
One of most strongly growing CEE banks

In an environment of rising funding costs, PKO BP's strong deposit base, 36% of which is based on fixed interest rates, helped to lift net interest margins above 5% in 1Q08. Its deposit structure and widespread branch network provides a relatively cheap basis for further loan growth, particularly in the SME and mortgage market. Due to accelerating top line growth at a moderate operating cost increase, we see PKO BP (with 29% bottom line growth) as one of the most strongly growing banks in our CEE coverage universe in FY08. Moreover, profitability and efficiency will further improve, resulting in 29% ROE and 49% CIR. However, with new CEO Jerzy Pruski replacing the whole management board only recently, we would not be surprised if the coming quarters show a diminishing pace.

Accumulate, target price PLN 55

Our valuation of PKO BP is based on our dividend discount model, which calculates a fair value per share of PLN 55. For verification of our findings, we used the peer group multiples, of which the 2008 P/BV of 3.4x indicates a 44% premium to the peers' 2.4x. However, the 2008 P/E of 12.8x shows a discount of 7%. With better ROEs, PKO BP is very close to the regression line (P/BV 08 vs. ROE 08) in our regression analysis. We think that the share provides some upside from the current level and therefore raise our recommendation from Hold to Accumulate. Our unchanged target price of PLN 55 provides 15% upside potential.

Shareholder structure



Source: Company data

1Q08: Good set of numbers

Increasing NIM

In 1Q08, PKO BP reported strong 41% y/y bottom line growth (PLN 951mn), which was 7% below our expectation, but 3% above the consensus. The main driver was net interest income, which accelerated to 38% annual growth, from 28% y/y in 4Q07. This was due to 1.4%p higher deposit margins and the loan portfolio growth of 29% y/y. Net fee & commission income was up 11% y/y, as a result of the increased number of bank cards and related transactions, as well as 8% y/y higher fees from banking account services. Operating costs were up 7.7% y/y, mainly due to 9.9% y/y higher personnel costs and 15% y/y higher depreciation (IT system modules). Net provisions turned negative to PLN -27mn, as a result of increased corporate loan and consumer and credit card loan portfolio write-offs. The main business drivers were mortgage loans (+37% y/y), SME loans (+52% y/y) and consumer loans (+23% y/y).

Still double-digit F&C income growth

In our view, the 1Q08 numbers are strong with 41% annual bottom line growth, albeit at a diminishing pace (+50% y/y in 4Q07). We would have expected even stronger net interest income growth, due to the new deposit product and the past rate hikes. Nonetheless, 38% y/y is one of the highest growth rates in the Polish market. Moreover, double-digit F&C income growth in 1Q08 is quite unique in Poland. With costs under control and without the contribution of positive net provisions, we like the quality of the 1Q08 results.

Earnings review

Consolidated, IFRS	Reported	Reported		Consensus	Reported	Erste Bank	Reported
PLNmn	1Q 2008	1Q 2007	y/y	1Q 2008e	vs. Cons.	1Q 2008e	vs. EB
Net interest income	1,427.3	1,035.2	37.9%	1,411.0	1.2%	1,509.7	-5.5%
Net provisions	-26.8	0.8	n.a.	n.a.	n.a.	-50.0	-46.5%
Net fee & commission inc.	590.8	533.7	10.7%	603.0	-2.0%	602.0	-1.9%
Trading result	81.4	128.4	-36.6%	n.a.	n.a.	40.0	103.5%
Total income	2,161.3	1,803.2	19.9%	n.a.	n.a.	2,391.7	-9.6%
Total expenses	-947.9	-880.1	7.7%	n.a.	n.a.	-1,065.0	-11.0%
Operating profit	1,186.7	871.1	36.2%	n.a.	n.a.	1,276.7	-7.0%
Pre-tax profit	1,190.0	872.6	36.4%	n.a.	n.a.	1,280.2	-7.0%
Net profit	951.2	672.5	41.4%	925.0	2.8%	1,024.2	-7.1%
Capital adequacy ratio (%)	11.7%	13.8%	-2.1%p				
Net interest margin (on TA, %)	5.13%	4.05%	1.08%p				
Cost / income ratio (%)	43.9%	51.7%	-7.9%p				
ROE (%)	30.7%	25.8%	4.9%p				
Risk / earnings ratio (%)	1.9%	-0.1%	2.0%p				

Source: Company date, Erste Bank estimates

Financial outlook

FY08e: 29% net profit growth

Based on PKO BP's strong 1Q08 performance, we have upgraded our financial model and forecasts for the coming years. In our view, PKO BP has the potential to become one of the most strongly growing banks in our CEE banking coverage. For FY08, we expect 29% annual bottom line growth, mainly due to the strong increase of net interest income at moderate cost growth. The bank's key income source is foreseen to grow by 24% y/y, driven by 25% higher loan volumes (particularly SME and mortgage loans) and 15% deposit growth at a 40bp higher net interest margin of 4.8%. A margin level of more than 5%, as seen in 1Q08, might not be sustainable, since we expect funding costs to rise. However, in a rising interest rate environment, PKO BP benefits from its high proportion of fixed interest rate deposits (36%; see graph on interest rate risk exposure).

Moderate 8% cost growth

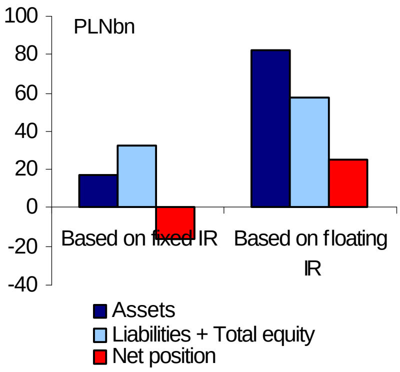
In our FY08 forecast, net fee & commission income growth will fall to +13.5% y/y, caused by weaker assets under management (-20% as of April 30, compared to year-end 2007) and the brokerage business. On the cost side, we expect prolonged operating cost control (+8% y/y), driven by a 19% y/y increase of G&A expenses, but helped by just 1.3% higher personnel expenses (ongoing headcount reduction of approx. 1,500 people). However, net provisions should return towards a normalized level of a 5.4% risk/ earnings ratio, indicating slightly deteriorating asset quality (based on the economic slowdown).

Loan/deposit ratio to rise to 99%

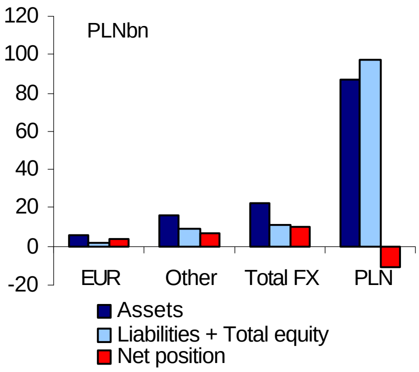
Based on the strong 24.5% loan growth, we foresee total assets increasing by 20% this year. With customer deposits up 15% y/y, the loan/deposit ratio is going to rise to 99%, from 91% in 2007. We have also included PLN 4bn in funding needs from the wholesale market. With its expected good financial performance, PKO BP's profitability should rise to 29% ROE 08 and its efficiency to improve to below a 50% cost/income ratio. However, there is still room for the bank's very ambitious previously announced targets for 2012, i.e. ROE of 30%, CIR <40%.

Snapshot of loan book risk exposure

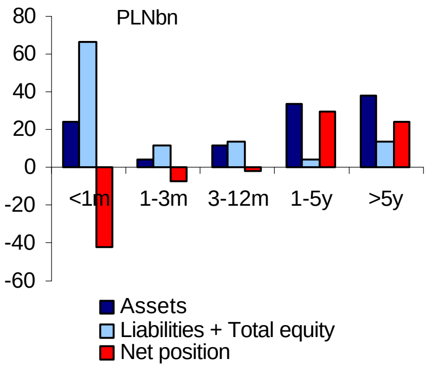
Interest rate risk exposure (2007, PLNbn)



Currency risk exposure (2007, PLNbn)



Liquidity risk exposure (2007, PLNbn)



Source: Company data

Financial Statements (IFRS, PLNmn, 31/12)

Income Statement	2006	2007	2008e	2009e	2010e
Net interest income	3,832.2	4,643.7	5,754.2	6,653.0	7,557.8
Risk provisions for loans and advances	-0.7	-56.6	-309.6	-434.2	-581.0
Net interest income after risk provisions	3,831.5	4,587.1	5,444.6	6,218.8	6,976.8
Net fee and commission income	1,866.3	2,335.2	2,651.3	3,166.4	3,669.8
Dividend income	50.3	17.0	148.9	185.6	186.6
Trading result	453.6	455.5	523.8	602.4	662.7
Result on financial instruments	0.0	0.0	0.0	0.0	0.0
Other income	805.7	657.2	690.1	724.6	760.8
Total income	**7,008.0**	**8,108.7**	**9,768.2**	**11,332.0**	**12,837.6**
Personnel expenses	-2,255.3	-2,288.7	-2,317.8	-2,345.0	-2,368.1
Other administrative expenses	-1,238.8	-1,413.3	-1,681.8	-2,018.2	-2,421.8
Depreciation and amortization	-317.9	-380.6	-433.8	-481.6	-529.7
Other expenses	-493.9	-360.3	-378.3	-397.2	-417.1
Total expenses	**-4,305.8**	**-4,442.9**	**-4,811.7**	**-5,242.0**	**-5,736.7**
Operating profit	**2,701.5**	**3,609.2**	**4,646.9**	**5,655.9**	**6,519.9**
Extraordinary result	0.0	0.0	0.0	0.0	0.0
Profit/loss before taxes	**2,701.5**	**3,609.2**	**4,646.9**	**5,655.9**	**6,519.9**
Income taxes	-494.0	-667.8	-859.7	-1,046.3	-1,206.2
Profit/loss after taxes	**2,207.4**	**2,941.4**	**3,787.3**	**4,609.5**	**5,313.7**
Minority interests	-58.4	-37.8	-49.2	-59.9	-79.7
Net profit/loss	**2,149.1**	**2,903.6**	**3,738.0**	**4,549.6**	**5,234.0**
Adjusted profit/loss before taxes	2,701.5	3,609.2	4,646.9	5,655.9	6,519.9
Adjusted net profit/loss	2,149.1	2,903.6	3,738.0	4,549.6	5,234.0

Balance Sheet	2006	2007	2008e	2009e	2010e
Cash and balances with central banks	4,628.1	4,682.6	5,763.0	5,704.7	6,041.7
Loans and advances to banks - net	13,430.9	5,292.6	5,821.9	6,345.8	6,853.5
Loans and advances to customers - net	58,906.6	76,417.1	95,135.0	115,363.1	134,905.2
Interest-earning financial assets	20,479.7	16,790.3	17,662.7	18,637.3	19,143.6
Interest-earning assets	**97,445.3**	**103,182.7**	**124,382.6**	**146,050.9**	**166,943.9**
Non-interest-earning assets	180.2	178.6	178.6	178.6	178.6
Intangible and tangible assets	3,599.1	4,003.6	4,276.7	4,539.7	4,787.6
Other assets	801.5	1,204.1	1,444.9	1,661.6	1,861.0
Total assets	**102,026.0**	**108,569.0**	**130,282.8**	**152,430.8**	**173,771.1**
Deposits from banks	4,353.0	4,704.4	6,062.3	6,656.4	7,298.2
Deposits from customers	83,507.2	86,610.6	99,602.2	111,554.4	121,594.3
Debt securities issued	43.7	178.9	2,861.8	5,723.5	8,012.9
Interest-rate-related derivatives	0.0	0.0	0.0	0.0	0.0
Interest-bearing liabilities	**87,903.9**	**91,493.8**	**108,526.3**	**123,934.3**	**136,905.5**
Non-interest-rate-related derivatives	0.0	0.0	0.0	0.0	0.0
Provisions	428.2	454.3	508.8	519.0	529.4
Other liabilities	3,513.0	3,026.6	3,783.3	4,540.0	5,220.9
Subordinated capital	0.0	1,614.9	3,229.8	6,459.5	10,981.2
Total liabilities	**91,845.1**	**96,589.7**	**116,048.2**	**135,452.8**	**153,637.0**
Minorities	102.3	58.1	70.8	84.5	100.2
Shareholders' equity	**10,078.3**	**11,920.9**	**14,163.8**	**16,893.5**	**20,033.9**
Total liabilities and equity	**102,025.7**	**108,568.7**	**130,282.8**	**152,430.8**	**173,771.1**

Other figures	2006	2007	2008e	2009e	2010e
Tangible shareholders' equity	9,872.7	11,686.9	13,929.7	16,659.5	19,799.9
Off-balance sheet items	24,899.7	28,231.9	31,055.1	33,539.5	35,551.9
No. of shares outstanding (mn)	1,000.0	1,000.0	1,000.0	1,000.0	1,000.0
Weighted average no. of shares (basic) mn	1,000.0	1,000.0	1,000.0	1,000.0	1,000.0
Weighted average no. of shares (diluted) mn	1,000.0	1,000.0	1,000.0	1,000.0	1,000.0
Number of employees (FTE)	31,955	30,659	29,126	27,670	26,286
Number of branches	1,239	1,233	1,225	1,220	1,220

Source: Company data, Erste Bank estimates

Ratios

Per share figures (PLN)	2006	2007	2008e	2009e	2010e
EPS basic	2.1	2.9	3.7	4.5	5.2
BVPS	10.1	11.9	14.2	16.9	20.0
Tangible BVPS	9.9	11.7	13.9	16.7	19.8
DPS	0.98	1.09	1.50	1.82	2.09
Payout ratio	45.6%	37.5%	40.0%	40.0%	40.0%
No. of shares outstanding (mn)	1,000.0	1,000.0	1,000.0	1,000.0	1,000.0
Profitability	**2006**	**2007**	**2008e**	**2009e**	**2010e**
Total interest income / avg. interest-earning assets [Yield on assets]	5.9%	6.4%	6.9%	6.7%	6.6%
Total interest expenses / avg. interest-bearing liabilities [Cost of funds]	-2.1%	-2.1%	-2.2%	-2.2%	-2.2%
Yield on assets - cost of funds [Interest spread]	3.8%	4.3%	4.7%	4.5%	4.4%
Net interest income / avg. total assets [Net interest margin, NIM]	4.0%	4.4%	4.8%	4.7%	4.6%
Net fee and commission income / avg. total assets [Net fee margin]	1.9%	2.2%	2.2%	2.2%	2.3%
Net profit / avg. shareholders' equity [Return on equity, ROE]	22.9%	26.4%	28.7%	29.3%	28.3%
Net profit / avg. total assets [Return on assets, ROA]	2.2%	2.8%	3.1%	3.2%	3.2%
Efficiency	**2006**	**2007**	**2008e**	**2009e**	**2010e**
Total operating expenses / total income [Cost income ratio, CIR]	61.4%	54.8%	49.3%	46.3%	44.7%
Total operating expenses / avg. total assets [Cost asset ratio]	4.4%	4.2%	4.0%	3.7%	3.5%
Personnel expenses / total income	-32.2%	-28.2%	-23.7%	-20.7%	-18.5%
Personnel expenses / avg. no. of employees [Avg. staff costs, PLN '000)]	-69	-73	-78	-83	-88
Asset quality	**2006**	**2007**	**2008e**	**2009e**	**2010e**
Risk provisions (P&L) / avg. loans to customers (gross) [Risk costs]	0.0%	0.1%	0.4%	0.4%	0.5%
Risk provisions (P&L) / net interest income [Risk earnings ratio]	0.0%	1.2%	5.4%	6.5%	7.7%
Capital adequacy	**2006**	**2007**	**2008e**	**2009e**	**2010e**
Total equity / total assets [Equity ratio]	10.0%	11.0%	10.9%	11.1%	11.6%
P&L structure	**2006**	**2007**	**2008e**	**2009e**	**2010e**
Net interest income / total income	54.7%	57.3%	58.9%	58.7%	58.9%
Net fee and commission income / total income	26.6%	28.8%	27.2%	28.0%	28.6%
Net trading result / total income	6.5%	5.6%	5.4%	5.3%	5.2%
Non-interest income / total income	45.3%	42.7%	41.1%	41.3%	41.1%
Personnel expenses / total operating expenses	52.4%	51.5%	48.2%	44.7%	41.3%
Effective tax rate	-18.3%	-18.5%	-18.5%	-18.5%	-18.5%
Balance sheet structure	**2006**	**2007**	**2008e**	**2009e**	**2010e**
Loans to customers / deposits from customers [Loan deposit ratio]	73.4%	91.0%	98.5%	106.7%	114.5%
Loans to customers / total assets	60.1%	72.6%	75.3%	78.1%	80.1%
Deposits from customers / total assets	81.8%	79.8%	76.5%	73.2%	70.0%
Growth rates	**2006**	**2007**	**2008e**	**2009e**	**2010e**
Net interest income y/y	8.1%	21.2%	23.9%	15.6%	13.6%
Net fee and commission income y/y	53.2%	25.1%	13.5%	19.4%	15.9%
Total income y/y	6.8%	15.6%	20.5%	16.0%	13.3%
Personnel expenses y/y	9.9%	1.5%	1.3%	1.2%	1.0%
Total operating expenses y/y	1.0%	3.2%	8.3%	8.9%	9.4%
Operating profit y/y	26.2%	33.3%	28.7%	21.7%	15.3%
Profit before taxes y/y	24.7%	33.6%	28.8%	21.7%	15.3%
Net profit y/y	23.9%	35.1%	28.7%	21.7%	15.0%
Loans and advances to customers y/y	23.1%	28.5%	24.5%	21.3%	17.0%
Total assets y/y	11.4%	6.4%	20.0%	17.0%	14.0%
Deposits from customers y/y	8.8%	3.7%	15.0%	12.0%	9.0%
Total liabilities y/y	10.9%	5.2%	20.1%	16.7%	13.4%
Shareholders' equity y/y	15.4%	18.3%	18.8%	19.3%	18.6%

Source: Company data, Erste Bank estimates

Raiffeisen International — maintain Buy

AUSTRIA / Banking & insurance

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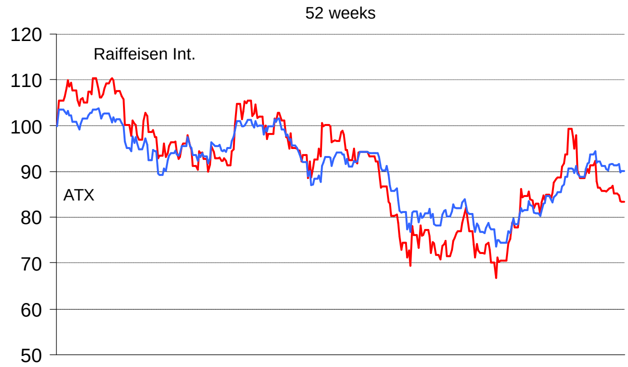
Share price (EUR)	92.48	Reuters	RIBH.VI	Free float	31.5%
Number of shares (mn)	153.7	Bloomberg	RIBH AV	Shareholders	RZB (68.5%)
Market capitalization (EUR mn)	14,227	Div. ex-date	13/06/07		
Index weight (ATX)	11.1%	**Target price**	**114**	Homepage:	www.ri.co.at

EUR mn	**2007**	**2008e**	**2009e**	**2010e**
Total income	3,948	4,987	6,089	7,203
Operating profit	1,211	1,527	1,943	2,378
Profit before taxes	1,238	1,527	1,943	2,378
Net profit	841	1,055	1,314	1,609
EPS (EUR)	5.80	6.82	8.49	10.41
BVPS (EUR)	37.88	43.39	50.25	58.67
Div/share (EUR)	0.93	1.37	1.71	2.10
P/E (x)	15.9	13.6	10.9	8.9
P/BV (x)	2.4	2.1	1.8	1.6
Dividend yield	0.7%	1.5%	1.8%	2.3%

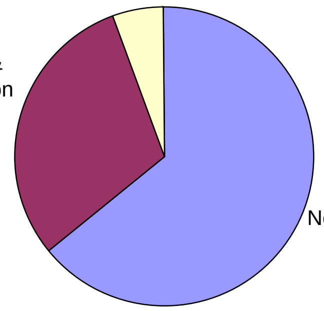


Performance	**12M**	**6M**	**3M**	**1M**
in EUR	-22.6%	-9.1%	18.7%	-8.7%

Company description

RI is the holding company for 16 network banks and 16 leasing companies covering the entire CEE region (including Belarus, Ukraine and Russia). RI manages customer loans of EUR 50bn in CEE and is striving to become a retail bank, having entered many countries by first addressing corporate customers. RI is now focused on retail and middle market segments. The strong market position in SEE and the former CIS region helps RI to actively influence the respective banking markets. In 2005, RI acquired the second largest Ukrainian bank, Bank Aval. With the acquisition of Russia's Impexbank, RI is now one of the largest foreign players in Russia. Following the successful capital increase last year, RI is funded for further growth.

Total income breakdown (2007)



Source: Company data

Strength/Opportunities

- Strong market position in SEE and CIS regions
- First mover advantage in many countries
- Network banks in 16 CEE countries
- Strong asset and profit growth: RI offers one of most dynamic growth stories
- Experienced management board
- Excellent strategic fit of recent acquisitions

Weakness/Threats

- Low market share in CZ, PL & HU
- Branch network expansion puts pressure on costs
- Political and legal insecurity in some of RI's markets
- Still low retail exposure despite higher focus on retail
- Increasing loan / deposit ratio (119%)

Investment story

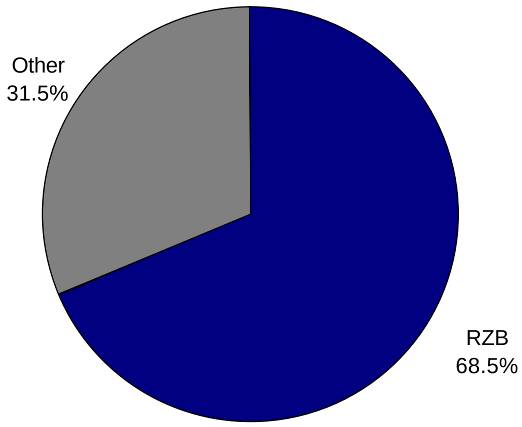
Among most strongly growing players in CEE

In the last few years, Raiffeisen International has been shifting its regional focus to the rapidly expanding SEE and CIS regions and its strategy from the traditional heavy focus on corporates towards a more balanced approach, with a middle market and retail focus. The latter will be supported by a branch network expansion, aiming for 720 new branches by 2010 (to a total of 3,750). Despite being an Austrian company, RI is a 100% pure CEE play, with a broad network of more than 3,000 branches in 16 countries. The expansion strategy puts RI among the most strongly growing banks in CEE, with 24% annual growth in the next three years. This is slightly below our previous 26% growth expectations, mainly because of the declining loan growth pace, particularly in the CIS region. However, with the widespread presence, the risk of an economic slowdown is well diversified.

New target price of EUR 114, Buy recommendation

We have based the target price for the Raiffeisen International share on our 3-stage dividend discount model, which indicates a 12-month equity value of EUR 114. To check the DDM's plausibility, we also did a peer group valuation. The peer group regression P/BV08e vs. ROE08e suggests an equity value in 12 months of EUR 97. The peer group currently trades at 13.8x P/E 08e vs. RI's 13.6x, indicating a 12-month equity value of EUR 104. Based on the peers' P/BV 08e of 2.4x, RI (with 2.1x) currently trades at a 10% discount. Based on our DDM, we set the target price at EUR 114, providing 23% upside potential for the RI share. We reiterate our Buy recommendation.

Shareholder structure



Source: Company data

Good 1Q08 results again affected by CE region

32% bottom line growth

Raiffeisen International reported good 1Q08 figures, with net profit of EUR 254mn, up 32% y/y, after 38% annual growth in 4Q07. This was 3% below the consensus, but 2% above our estimates, due mainly to lower provisioning and slightly lower net interest income compared to our expectations. As expected, the main driver was net interest income, up 41% y/y (-0.6% q/q), due to an accelerating margin increase of 31bp y/y (vs. +21bp y/y in 4Q07), mainly coming from Russia, and a slightly diminishing pace of customer loan growth (35% y/y, vs. 40% y/y in 4Q07). The strongest growth of the loan book came from sovereigns (+9% q/q), followed by SMEs (+8% q/q) and private individuals (+7% q/q, of which mortgage loans were up 8% q/q). Net fee & commission income (+20% y/y, -7% q/q) lost some pace, due to lower income from corporate bond transactions.

Operating costs increased 23%

Operating costs were up 23% in 1Q08 (-10% q/q), driven by staff expenses (+26% y/y) and office space expenses (+36% y/y). Net provisions were up 23% y/y, driven by new allocations to specific provisions in some CE units, whereas provisioning for the CIS region declined by 40% y/y, thanks to the release of portfolio-based provisions in Russia. Based on a stable NPL ratio of 2.11% in CIS, management currently sees no deterioration of credit quality, either in corporate or in retail lending. However, the low 9% risk/earnings ratio might increase to 15-17% in the future.

Strong CIS and SEE, but CE affected by provisioning

From the regions, we received another mixed picture in 1Q08. The strongest pre-tax profit performance again came from CIS (+65% y/y), mainly due to the low provisioning and 49% annual net interest income growth. SEE grew 30% y/y in 1Q08, thanks to 39% top line growth and despite 57% higher provisioning. Pre-tax profit in the CE region was down 3.8% y/y in 1Q08, mainly due to 114% y/y higher provisioning. From the sustainable income sources, net interest income growth remained at the high levels seen in the previous quarters in all regions. However, net fee & commission income lost some pace and came down to 10% (CIS) and 25% levels (CE, SEE).

Strong NII dynamics appreciated

RI's 1Q08 results were in line with our expectations, which we had already adapted after the mixed regional picture in 4Q07 (provisions in CE) and the indications from previous 1Q08 reports of CEE banks (lower net fee & commission income growth). We appreciate the strong dynamics of net interest income, although we have seen some margin pressure in CIS (-76bp q/q to a still strong 5.05%), due to higher deposit rates and higher wholesale funding costs. We will watch out for the CIS margin development, since management is still convinced that they are able to pass on higher funding costs to customers and maintain NIM (at least on the asset side). Moreover, we will keep an eye on net F&C income, since the pricing for syndicated loans not only includes an interest component (+65bp margin for the recent USD 1bn loan in Russia), but also a fee component. Management confirmed the net profit target of about EUR 1bn, which we regard as conservative.

Earnings review

Consolidated, IFRS	**Reported**	**Reported**		**Consensus**	**Reported**	**Erste Bank**	**Reported**
EURmn	**1Q 2008**	**1Q 2007**	**y/y**	**1Q 2008e**	**vs. Cons.**	**1Q 2008e**	**vs. EB**
Net interest income	711.1	505.0	40.8%	720.0	-1.2%	727.0	-2.2%
Net provisions	-93.0	-75.9	22.5%	-114.0	-18.4%	-99.0	-6.1%
Net fee & commission inc.	330.8	275.1	20.2%	357.0	-7.3%	335.0	-1.3%
Trading result	37.5	35.6	5.3%	26.0	44.2%	9.0	316.7%
Total expenses	-584.4	-476.5	22.6%	-606.0	-3.6%	-580.0	0.8%
Pre-tax profit	369.6	292.5	26.4%	374.0	-1.2%	362.8	1.9%
Net profit	254.4	192.6	32.1%	262.0	-2.9%	249.4	2.0%
Tier 1 ratio (credit risk, %)	10.2%	9.3%	0.9%p				
Net interest margin (on TA, %)	3.81%	3.50%	0.31%p				
Cost / income ratio (%)	55.8%	56.4%	-0.6%p				
ROE (%)	17.3%	18.9%	-1.6%p				
Risk / earnings ratio (%)	13.1%	15.0%	-2.0%p				
Pre-tax profit	**Reported**	**Reported**		**Consensus**	**Reported**	**Erste Bank**	**Reported**
EURmn	**1Q 2008**	**1Q 2007**	**y/y**	**1Q 2008e**	**vs. Cons.**	**1Q 2008e**	**vs. EB**
CE	110.1	114.5	-3.8%	121.0	-9.0%	108.0	1.9%
SEE	126.8	97.6	29.9%	118.0	7.5%	114.8	10.5%
CIS	132.7	80.3	65.3%	135.0	-1.7%	139.8	-5.1%
RI Group	**369.6**	**292.4**	**26.4%**	**374.0**	**-1.2%**	**362.6**	**1.9%**

Source: Company date, Erste Bank estimates

Financial outlook

FY08e: 25% bottom line growth

We have upgraded our financial model, based on the good set of figures reported for 1Q08. We expect RI's bottom line to grow 25% this year to EUR 1,055mn, which is slightly above the company's guidance of "about EUR 1bn". The main driver will be net interest income, which might grow 31% y/y, based on 28% loan growth, 21% deposit growth and a 10bp y/y better net interest margin of 3.86%. The latter is mainly coming from deposit margin improvements, based on rate hikes in SEE and the CE region, rather than the CIS countries, where deposit rates increased significantly. RI is trying to pass higher funding costs on to the asset side, which might not be fully accepted by the clients and may result in slower loan growth.

Flat CIR, due to network expansion

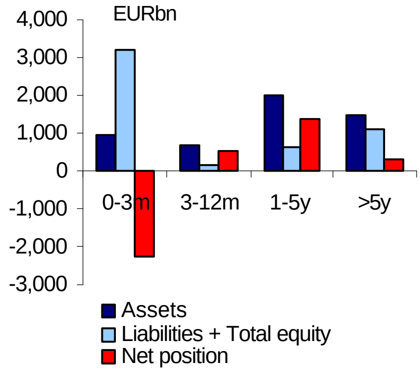
Net fee & commission income should grow by 21% y/y, driven by payment transfers and FX business, and despite the slowing asset management and securities business. On the cost side, we foresee 24% higher personnel costs, due to the ongoing network expansion (+240 new branches to be opened in 2008) and double-digit wage increase. We see both operating costs and total income up 26% y/y, resulting in a flat cost/income ratio of 60%. Following some individual cases and general provisioning in 2007, we expect a slightly better risk/earnings ratio of 14.4% this year.

Wholesale funding to close funding gap

Due to strong customer loan growth (CAGR 07-10e: 25%), mainly coming from SEE and CE, and with a slowing tendency (of course) from CIS countries, as well as slower growth on the deposit side (CAGR 07-10e: 19%), we expect the loan/deposit ratio to increase to 128% in 2008 (+7%p). With 63% of total funding stemming from customer deposits, 18% from medium- and long-term funding, as well as 17% from short-term funding (as of March 31, 2008), RI regards its funding strategy as stable in the current market situation. Moreover, RI benefits from its good reputation on the syndicated loan market (successful closing of a USD 1bn syndicated loan for Raiffeisenbank in Russia), as well as access to the deposit-generating Austrian Raiffeisen banking sector (via RZB). During the 1Q08 conference call, management also stated that the securitization business is improving gradually, which could remove some assets in a stretched balance sheet.

Snapshot of loan book risk exposure

Liquidity risk exposure (2007, EURbn)



Source: Company data

Financial Statements (IFRS, EURmn, 31/12)

Income Statement	2006	2007	2008e	2009e	2010e
Net interest income	1,763.9	2,418.8	3,162.8	3,841.0	4,523.9
Risk provisions for loans and advances	-308.9	-357.0	-456.5	-611.8	-697.0
Net interest income after risk provisions	1,455.0	2,061.9	2,706.3	3,229.2	3,826.9
Net fee and commission income	933.3	1,249.8	1,505.8	1,877.3	2,237.0
Dividend income	103.2	-9.2	-3.7	0.0	21.5
Trading result	179.5	97.7	102.6	118.0	129.8
Result on financial instruments	0.0	0.0	0.0	0.0	0.0
Other income	152.5	191.1	219.8	252.7	290.6
Total income	**3,132.4**	**3,948.3**	**4,987.2**	**6,089.0**	**7,202.8**
Personnel expenses	-824.8	-1,084.8	-1,340.7	-1,641.4	-2,000.9
Other administrative expenses	-687.8	-876.6	-1,139.6	-1,253.6	-1,366.4
Depreciation and amortization	-181.1	-222.6	-278.2	-342.2	-410.6
Other expenses	-156.8	-196.2	-245.2	-296.7	-350.1
Total expenses	**-1,850.5**	**-2,380.2**	**-3,003.7**	**-3,533.9**	**-4,128.0**
Operating profit	**973.1**	**1,211.1**	**1,527.0**	**1,943.4**	**2,377.8**
Extraordinary result	506.6	26.5	0.0	0.0	0.0
Profit/loss before taxes	**1,479.6**	**1,237.6**	**1,527.0**	**1,943.4**	**2,377.8**
Income taxes	-205.2	-264.1	-328.3	-415.9	-506.5
Profit/loss after taxes	**1,274.4**	**973.5**	**1,198.7**	**1,527.5**	**1,871.4**
Minority interests	-92.2	-132.2	-143.8	-213.8	-262.0
Net profit/loss	**1,182.1**	**841.3**	**1,054.9**	**1,313.6**	**1,609.4**
Adjusted profit/loss before taxes	973.1	1,211.1	1,527.0	1,943.4	2,377.8
Adjusted net profit/loss	675.6	814.7	1,054.9	1,313.6	1,609.4

Balance Sheet	2006	2007	2008e	2009e	2010e
Cash and balances w ith central banks	4,063.6	3,664.2	4,420.9	4,193.6	4,142.4
Loans and advances to banks - net	8,202.4	11,053.2	13,263.8	15,916.6	15,916.6
Loans and advances to customers - net	34,105.9	47,731.6	61,008.3	76,104.1	93,511.9
Interest-earning financial assets	6,506.9	7,036.2	8,594.7	10,675.2	12,888.2
Interest-earning assets	**52,878.9**	**69,485.2**	**87,287.8**	**106,889.5**	**126,459.2**
Non-interest-earning assets	59.9	67.9	81.5	97.8	117.4
Intangible and tangible assets	2,276.5	2,290.4	2,390.1	2,484.1	2,570.5
Other assets	651.7	899.3	1,169.1	1,461.3	1,753.6
Total assets	**55,867.0**	**72,742.8**	**90,928.5**	**110,932.8**	**130,900.7**
Deposits from banks	13,813.6	19,927.0	26,829.5	34,454.8	40,277.3
Deposits from customers	33,156.3	40,457.3	48,953.3	58,254.4	68,740.2
Debt securities issued	1,421.7	2,320.4	3,480.6	4,524.8	5,882.3
Interest-rate-related derivatives	0.0	0.0	0.0	0.0	0.0
Interest-bearing liabilities	**48,391.6**	**62,704.7**	**79,263.5**	**97,234.1**	**114,899.8**
Non-interest-rate-related derivatives	0.0	0.0	0.0	0.0	0.0
Provisions	217.6	315.0	409.5	532.4	665.5
Other liabilities	1,252.0	1,569.2	2,118.5	2,754.0	3,442.5
Subordinated capital	1,416.2	1,531.8	1,531.8	1,531.8	1,531.8
Total liabilities	**51,277.4**	**66,120.7**	**83,323.2**	**102,052.2**	**120,539.5**
Minorities	603.9	794.7	934.0	1,158.3	1,351.5
Shareholders' equity	**3,985.7**	**5,827.4**	**6,671.3**	**7,722.2**	**9,009.7**
Total liabilities and equity	**55,867.0**	**72,742.8**	**90,928.5**	**110,932.8**	**130,900.7**

Other figures	2006	2007	2008e	2009e	2010e
Tangible shareholders' equity	3,146.5	5,070.4	5,914.3	6,965.2	8,252.7
Off-balance sheet items	10,290.1	12,679.3	13,947.3	15,342.0	16,876.2
No. of shares outstanding (mn)	142.5	153.8	153.8	153.7	153.6
Weighted average no. of shares (basic) mn	142.6	145.0	154.7	154.7	154.7
Weighted average no. of shares (diluted) mn	142.6	145.0	154.7	154.7	154.7
Number of employees (FTE)	49,173	55,550	59,439	63,005	66,785
Number of branches	2,848	3,015	3,255	3,500	3,750

Source: Company data, Erste Bank estimates

Ratios

Per share figures (EUR)	2006	2007	2008e	2009e	2010e
EPS basic	8.29	5.80	6.82	8.49	10.41
BVPS	27.97	37.88	43.39	50.25	58.67
Tangible BVPS	22.08	32.96	38.46	45.33	53.74
DPS	0.71	0.93	1.37	1.71	2.10
Payout ratio	8.6%	17.1%	20.0%	20.0%	20.0%
No. of shares outstanding (mn)	143	154	154	154	154
Profitability	**2006**	**2007**	**2008e**	**2009e**	**2010e**
Total interest income / avg. interest-earning assets [Yield on assets]	7.0%	7.4%	7.7%	7.8%	7.6%
Total interest expenses / avg. interest-bearing liabilities [Cost of funds]	-3.4%	-3.8%	-4.1%	-4.2%	-4.2%
Yield on assets - cost of funds [Interest spread]	3.5%	3.6%	3.6%	3.5%	3.4%
Net interest income / avg. total assets [Net interest margin, NIM]	3.7%	3.8%	3.9%	3.8%	3.7%
Net fee and commission income / avg. total assets [Net fee margin]	1.9%	1.9%	1.8%	1.9%	1.9%
Net profit / avg. shareholders' equity [Return on equity, ROE]	34.8%	17.1%	16.9%	18.3%	19.2%
Net profit / avg. total assets [Return on assets, ROA]	2.4%	1.3%	1.3%	1.3%	1.3%
Efficiency	**2006**	**2007**	**2008e**	**2009e**	**2010e**
Total operating expenses / total income [Cost income ratio, CIR]	59.1%	60.3%	60.2%	58.0%	57.3%
Total operating expenses / avg. total assets [Cost asset ratio]	3.8%	3.7%	3.7%	3.5%	3.4%
Personnel expenses / total income	-26.3%	-27.5%	-26.9%	-27.0%	-27.8%
Personnel expenses / avg. no. of employees [Avg. staff costs, EUR '000)]	-21	-21	-23	-27	-31
Asset quality	**2006**	**2007**	**2008e**	**2009e**	**2010e**
Risk provisions (P&L) / avg. loans to customers (gross) [Risk costs]	1.0%	0.9%	0.8%	0.9%	0.8%
Risk provisions (P&L) / net interest income [Risk earnings ratio]	17.5%	14.8%	14.4%	15.9%	15.4%
Capital adequacy	**2006**	**2007**	**2008e**	**2009e**	**2010e**
Total equity / total assets [Equity ratio]	8.2%	9.1%	8.4%	8.0%	7.9%
P&L structure	**2006**	**2007**	**2008e**	**2009e**	**2010e**
Net interest income / total income	56.3%	61.3%	63.4%	63.1%	62.8%
Net fee and commission income / total income	29.8%	31.7%	30.2%	30.8%	31.1%
Net trading result / total income	5.7%	2.5%	2.1%	1.9%	1.8%
Non-interest income / total income	43.7%	38.7%	36.6%	36.9%	37.2%
Personnel expenses / total operating expenses	44.6%	45.6%	44.6%	46.4%	48.5%
Effective tax rate	-13.9%	-21.3%	-21.5%	-21.4%	-21.3%
Balance sheet structure	**2006**	**2007**	**2008e**	**2009e**	**2010e**
Loans to customers / deposits from customers [Loan deposit ratio]	105.5%	120.7%	127.7%	134.1%	139.8%
Loans to customers / total assets	62.6%	67.1%	68.7%	70.4%	73.4%
Deposits from customers / total assets	59.3%	55.6%	53.8%	52.5%	52.5%
Growth rates	**2006**	**2007**	**2008e**	**2009e**	**2010e**
Net interest income y/y	46.7%	37.1%	30.8%	21.4%	17.8%
Net fee and commission income y/y	53.8%	33.9%	20.5%	24.7%	19.2%
Total income y/y	54.8%	26.0%	26.3%	22.1%	18.3%
Personnel expenses y/y	49.4%	31.5%	23.6%	22.4%	21.9%
Total operating expenses y/y	43.7%	28.6%	26.2%	17.7%	16.8%
Operating profit y/y	71.1%	24.5%	26.1%	27.3%	22.4%
Profit before taxes y/y	160.2%	-16.4%	23.4%	27.3%	22.4%
Net profit y/y	209.2%	-28.8%	25.4%	24.5%	22.5%
Loans and advances to customers y/y	41.5%	39.6%	28.0%	25.0%	23.0%
Total assets y/y	37.3%	30.2%	25.0%	22.0%	18.0%
Deposits from customers y/y	33.2%	22.0%	21.0%	19.0%	18.0%
Total liabilities y/y	37.0%	28.9%	26.0%	22.5%	18.1%
Shareholders' equity y/y	42.3%	46.2%	14.5%	15.8%	16.7%

Source: Company data, Erste Bank estimates

Appendix - CEE Overview

Macro economic data	Eurozone	Czech Republic	Hungary	Poland	Slovakia	Slovenia	Croatia	Albania	Bosnia & Herzeg.	Bulgaria	Romania	Serbia	Monte-negro	Russia	Ukraine
Total population (mn)	312.7	10.3	10.1	38.1	5.4	2.0	4.4	3.2	3.8	7.6	21.5	7.4	0.6	142.0	46.4
Nominal GDP (EUR, mn)	8,861,500	128,450	100,966	307,132	54,817	33,542	37,477	8,031	10,481	29,078	121,399	29,859	2,400	940,501	103,415
GDP per capita (EUR)	28,343	12,477	10,039	8,055	10,142	16,613	8,517	2,550	2,725	3,806	5,646	4,035	3,840	6,623	2,230
Real GDP yoy (%)	2.6	6.6	1.3	6.5	10.4	6.2	5.6	5.5	5.7	6.0	6.0	7.3	n.a.	8.1	7.6
CPI yoy (average, %)	2.1	2.9	8.0	2.6	2.8	3.6	2.9	2.9	1.9	8.4	4.8	6.8	n.a.	9.0	12.8
Nominal wages yoy (%)	2.9	7.5	8.0	8.8	7.2	6.1	6.2	n.a.	n.a.	15.0	22.6	28.0	n.a.	26.0	29.7
Unemployment (%)	7.3	6.6	7.7	11.4	8.4	7.7	9.8	13.7	n.a.	7.8	4.1	20.0	n.a.	7.0	6.9
Local currency vs. EUR yoy (year average, %)	0.0	2.0	4.9	2.9	9.3	n.a.	-0.3	-0.5	0.0	0.0	5.4	4.7	0.0	-2.7	-8.8
Current account balance (% of GDP)	0.0	-3.2	-5.0	-3.7	-5.3	-3.3	-8.6	-7.9	-15.4	-19.0	-13.9	-14.9	n.a.	6.0	-4.2
3M interest rate (average, %)	4.3	3.1	7.7	4.6	4.3	4.1	5.6	n.a.	n.a.	0.0	7.8	11.3	n.a.	4.8	9.6
Current account balance covered by FDI (%)	n.a.	128.0	82.4	104.3	27.5	n.a.	112.8	n.a.	n.a.	n.a.	41.7	43.1	n.a.	n.a.	155.9

Banking sector data	MU-13	CZ	HU	PL	SK	SI	HR	AL	BA	BG	RO	RS	ME	RU	UA
Number of banks	n.a.	n.a.	n.a.	n.a.	26	24	33	16	32	29	41	36	n.a.	1,243	198
Market share of top 5 banks (% of TA)	n.a.	72.1	54.3	44.5	68.1	61.2	76.4	n.a.	61.6	54.9	58.1	44.0	83.6	42.4	34.1
Total assets (EUR mn)	22,300,000	137,691	112,480	236,448	50,132	43,493	45,917	4,915	9,980	30,212	71,909	21,217	2,976	562,470	80,792
Total assets (% of GDP)	251.7	103.8	112.3	72.9	91.0	129.7	122.3	60.3	95.2	103.9	64.1	70.3	124.0	61.4	84.1
Total loans to non-financial sector (% of GDP)	114.6	50.0	61.1	37.5	46.2	79.6	75.4	29.0	58.4	66.7	39.0	34.6	93.6	38.2	59.9
Loans to private enterprises (% of GDP)	49.5	20.8	28.7	13.9	21.9	51.9	33.5	18.2	25.8	42.7	18.0	20.4	56.0	26.5	36.5
Loans to households (% of GDP)	54.3	19.8	23.3	22.2	16.4	20.3	41.1	10.3	27.7	22.8	17.7	12.8	33.1	9.8	22.5
Housing loans (% of GDP)	38.8	17.2	12.4	10.1	11.0	8.0	16.4	n.a.	n.a.	10.4	3.5	3.1	n.a.	2.3	6.5
Consumer loans (% of GDP)	7.0	3.3	9.5	7.8	2.2	8.2	n.a.	n.a.	n.a.	12.5	13.6	n.a.	n.a.	n.a.	15.4
Total deposits from non-financial sector (% of GDP)	100.2	66.4	46.2	36.1	60.2	56.5	72.2	35.0	59.2	68.6	31.9	33.9	87.1	23.7	39.8
Loans in foreign currency (% of GDP)	4.4	6.5	34.5	9.5	11.3	5.4	4.6	20.9	6.0	33.7	19.9	3.0	n.a.	9.6	29.9
Shareholders' equity (% of GDP)	n.a.	10.0	9.0	8.9	7.9	11.0	19.3	n.a.	12.3	10.9	6.3	14.6	9.9	8.1	9.8
Total assets yoy (%)	12.9	18.2	16.9	16.8	17.5	24.8	12.4	26.5	32.8	40.0	48.1	31.9	107.9	44.1	76.2
Total loans to non-financial sector yoy (%)	10.8	26.3	13.4	31.6	25.1	32.3	14.6	50.4	28.5	66.7	64.2	39.2	165.2	52.5	74.1
Loans to private enterprises yoy (%)	14.1	17.1	12.0	27.5	23.6	35.3	10.6	43.0	29.8	76.5	54.8	34.5	197.5	50.5	62.3
Loans to households yoy (%)	6.0	33.3	24.4	37.5	27.8	26.7	18.0	59.1	30.0	58.8	82.8	50.4	155.5	57.0	95.6
Housing loans yoy (%)	7.0	35.6	16.2	50.4	30.1	36.4	22.5	n.a.	n.a.	67.4	76.8	58.3	n.a.	116.3	127.2
Consumer loans yoy (%)	5.4	26.2	38.5	32.4	15.4	20.0	n.a.	n.a.	n.a.	52.2	n.a.	n.a.	n.a.	n.a.	98.3
Total deposits from non-financial sector yoy (%)	12.3	17.0	9.2	11.4	12.6	8.4	18.9	10.7	37.3	41.5	33.6	46.4	94.4	44.8	52.7
Loans in foreign currency yoy (%)	17.0	20.2	34.9	16.9	32.7	-84.4	-9.9	53.0	18.8	85.9	84.0	-15.7	n.a.	38.1	75.4
Shareholders' equity yoy (%)	n.a.	11.1	16.7	7.8	5.5	24.5	30.3	n.a.	22.1	n.a.	23.3	48.9	59.3	57.8	63.5
Loan / deposit ratio (%)	114.4	75.3	132.1	103.8	76.7	141.1	104.4	82.6	98.6	97.3	122.2	102.0	107.4	161.4	150.4
FX loan exposure (%)	3.8	12.9	56.4	25.2	24.6	6.8	6.1	72.3	10.2	50.6	51.0	8.7	n.a.	25.2	49.9
Equity ratio (%)	n.a.	9.6	8.0	12.2	8.7	8.5	15.8	n.a.	13.0	10.5	9.9	20.8	8.0	13.2	11.6

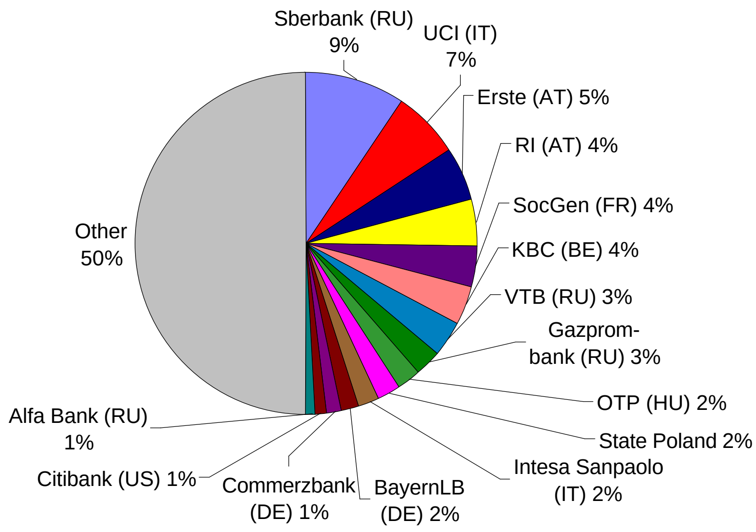
Source: Local national banks, Datastream, WIIW, Erste Group Research

Appendix - CEE Overview

CEE-8* weighted average - Selected macro data	2006	2007	2008f	2009f
GDP, real grow th %	6.3	6.2	5.3	5.5
Inflation, eoy %	4.2	6.6	6.2	4.5
Unemployment rate, %	10.6	8.8	7.8	7.2
Current Account, % of GDP	-5.2	-6.0	-6.6	-6.7
Budget balance, % of GDP	-3.5	-2.5	-2.9	-2.9
3M rates, avg. %	6.6	6.0	7.8	6.8

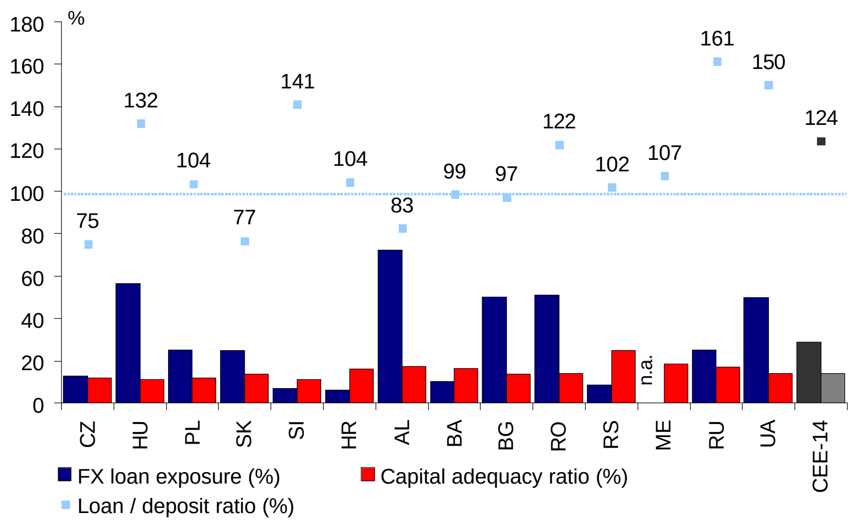
** CEE-8 countries: CZ, HR, HU, PL, RO, RS, SK, UA. Source: Erste Bank Research*

Market shares CEE-14 2007 (based on total assets)**



Source: Local Central Banks, Company data, Erste Bank Research

Funding and FX exposure CEE-14**



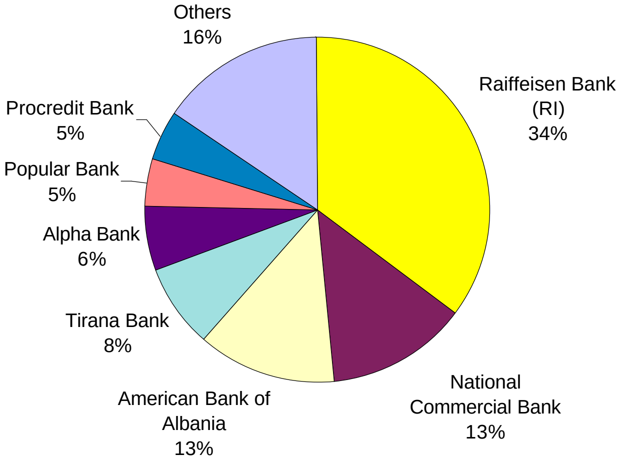
*** CEE-14: AL, BA, BG, CZ, HR, HU, ME, PL, RO, RS, RU, SI, SK, UA.*
Source: Local Central Banks, Erste Bank Research

Appendix - Country Fact Sheets

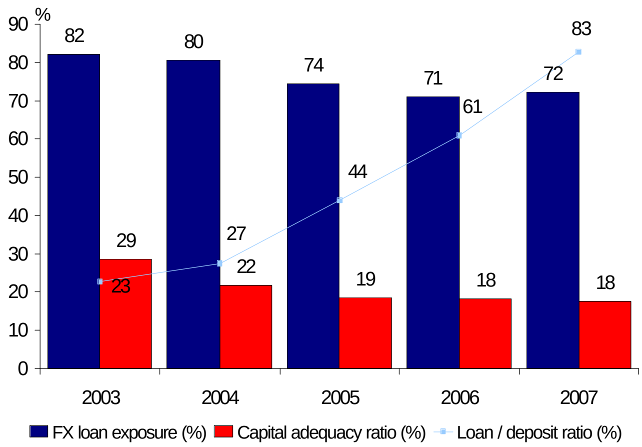
Albania - Selected macro data	2006	2007	2008f	2009f
Nominal GDP, in loc. cur. mn.	893,877	993,000	1,050,000	1,100,000
GDP per capita (PPP in USD)	6,010	6,100	6,500	7,000
GDP, real grow th %	5.0	5.5	6.0	6.4
Inflation, avg.%	2.4	2.9	3.1	3.1
Unemployment rate, %	13.9	13.7	13.0	12.5
Current Account, % of GDP	-7.2	-7.9	-8.0	-8.0
Money Market Rate, eoy,%	5.5	6.0	6.3	6.0
EUR/ALL, eoy	123.9	121.4	122.7	122.0

Soruce. Datastream, Bank of Albania, Erste Bank Research

Market shares 2007 (based on total assets)



Funding and FX exposure



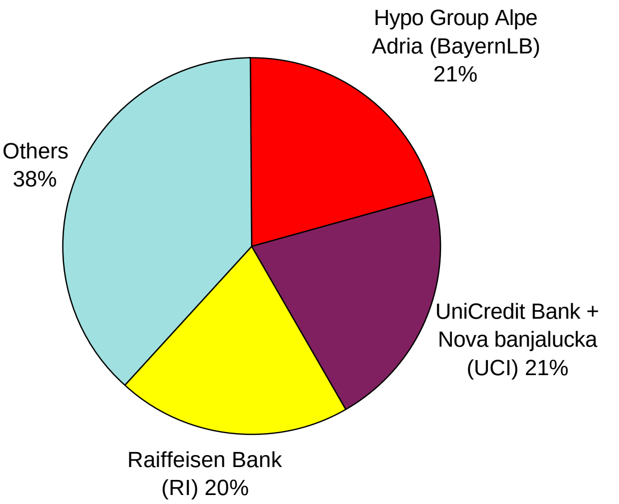
Banking sector data (ALL mn)	2001	2002	2003	2004	2005	2006	2007
Number of banks	n.a.	n.a.	n.a.	n.a.	17	17	16
Market share of top 5 banks (% of TA)	n.a.	n.a.	n.a.	n.a.	91.1	75.2	n.a.
Total assets	254,296	283,995	314,235	345,113	396,564	473,196	598,575
Total loans to non-financial sector	27,941	38,652	50,584	69,422	121,266	191,211	287,555
Loans to private enterprises	23,404	31,533	28,296	47,879	82,760	126,512	180,955
Loans to households	3,990	7,085	12,289	21,428	38,437	64,470	102,587
Total deposits from non-financial sector	186,211	193,952	224,322	253,311	276,469	314,467	347,998
Deposits from private enterprises	17,203	15,875	11,780	16,325	23,598	32,620	45,500
Deposits from households	162,372	171,946	201,236	223,852	242,395	269,365	289,530
Loans in foreign currency	22,829	30,519	41,537	55,859	90,228	135,845	207,793
Total assets (% of GDP)	43.1	45.0	44.0	44.7	48.5	53.0	60.3
Total loans to non-financial sector (% of GDP)	4.7	6.1	7.1	9.0	14.8	21.4	29.0
Loans to private enterprises (% of GDP)	4.0	5.0	4.0	6.2	10.1	14.2	18.2
Loans to households (% of GDP)	0.7	1.1	1.7	2.8	4.7	7.2	10.3
Total deposits from non-financial sector (% of GDP)	31.5	30.7	31.4	32.8	33.8	35.2	35.0
Deposits from private enterprises (% of GDP)	2.9	2.5	1.6	2.1	2.9	3.7	4.6
Deposits from households (% of GDP)	27.5	27.2	28.2	29.0	29.7	30.2	29.2
Loans in foreign currency (% of GDP)	3.9	4.8	5.8	7.2	11.0	15.2	20.9
Total assets yoy (%)	3.2	11.7	10.6	9.8	14.9	19.3	26.5
Total loans to non-financial sector yoy (%)	20.2	38.3	30.9	37.2	74.7	57.7	50.4
Loans to private enterprises yoy (%)	70.0	34.7	-10.3	69.2	72.9	52.9	43.0
Loans to households yoy (%)	-52.6	77.6	73.5	74.4	79.4	67.7	59.1
Total deposits from non-financial sector yoy (%)	12.7	4.2	15.7	12.9	9.1	13.7	10.7
Deposits from private enterprises yoy (%)	8.3	-7.7	-25.8	38.6	44.6	38.2	39.5
Deposits from households yoy (%)	14.9	5.9	17.0	11.2	8.3	11.1	7.5
Loans in foreign currency yoy (%)	54.0	33.7	36.1	34.5	61.5	50.6	53.0
Inhabitants per bank branch	n.a.	n.a.	n.a.	n.a.	24,685	16,579	n.a.
Loan / deposit ratio (%)	15.0	19.9	22.5	27.4	43.9	60.8	82.6
FX loan exposure (%)	81.7	79.0	82.1	80.5	74.4	71.0	72.3
Capital adequacy ratio (%)	n.a.	n.a.	28.5	21.6	18.6	18.1	17.5

Source: Bank of Albania, Erste Bank Research

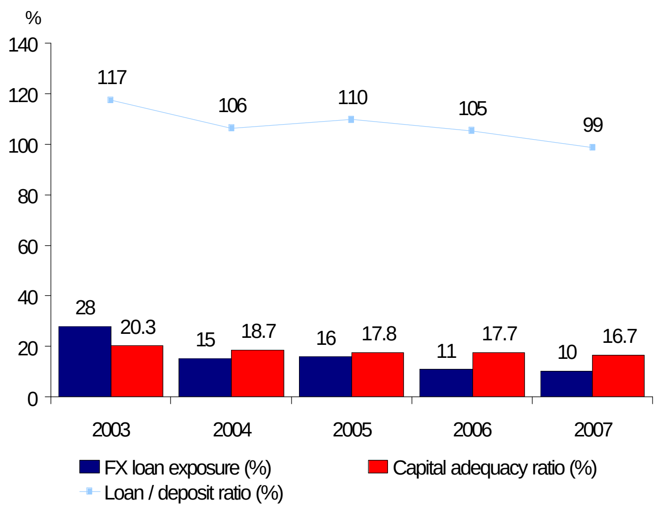
Appendix - Country Fact Sheets

Bosnia and Herzegowina- Selected macro data	2006	2007	2008f	2009f
Nominal GDP, in loc. cur. mn.	18,000	20,500	21,000	23,000
GDP per capita (PPP in USD)	8,000	8,200	8,500	8,700
GDP, real grow th %	6.2	5.7	5.3	5.3
Inflation, avg.%	7.5	1.9	3.9	2.6
Unemployment rate, %	n.a.	n.a.	n.a.	n.a.
Current Account, % of GDP	-11.0	-15.4	-14.0	-13.5
Short term lending rate, eoy,%	8.0	7.9	6.6	-6.5
EUR/BAM, eoy	1.956	1.956	1.956	1.956

Market shares 2007 (based on total assets)



Funding and FX exposure



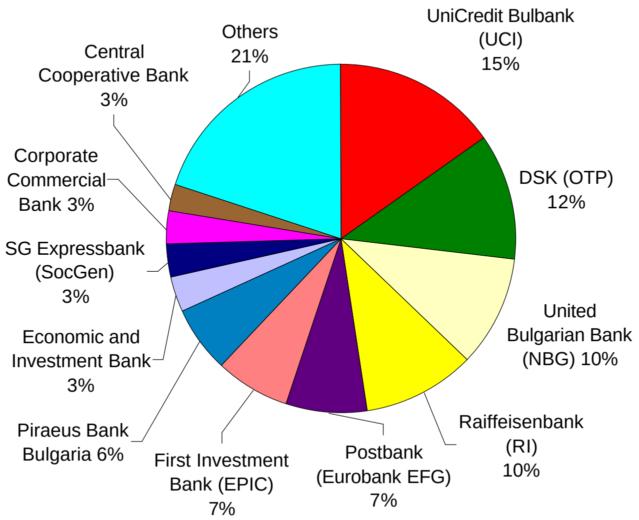
Banking sector data (BAM mn)	2001	2002	2003	2004	2005	2006	2007
Number of banks	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	32
Market share of top 3 banks (% of TA)	n.a.	n.a.	n.a.	n.a.	n.a.	64.7	61.6
Total assets	5,575	6,345	7,688	9,400	11,875	14,699	19,520
Total loans to non-financial sector	3,339	4,281	5,122	5,927	7,544	9,308	11,964
Loans to private enterprises	1,143	1,442	1,860	2,478	3,244	4,076	5,290
Loans to households	682	1,456	1,966	2,628	3,453	4,374	5,685
Total deposits from non-financial sector	3,271	3,724	4,366	5,578	6,876	8,839	12,138
Deposits from private enterprises	691	727	702	993	1,261	1,578	1,915
Deposits from households	1,447	1,621	1,926	2,489	3,187	4,101	5,165
Loans in foreign currency	n.a.	n.a.	1,436	912	1,199	1,029	1,222
Total assets (% of GDP)	50.9	54.5	62.5	72.4	75.2	81.7	95.2
Total loans to non-financial sector (% of GDP)	30.5	36.7	41.6	45.7	47.8	51.7	58.4
Loans to private enterprises (% of GDP)	10.4	12.4	15.1	19.1	20.5	22.6	25.8
Loans to households (% of GDP)	6.2	12.5	16.0	20.2	21.9	24.3	27.7
Total deposits from non-financial sector (% of GDP)	29.8	32.0	35.5	43.0	43.5	49.1	59.2
Deposits from private enterprises (% of GDP)	6.3	6.2	5.7	7.6	8.0	8.8	9.3
Deposits from households (% of GDP)	13.2	13.9	15.7	19.2	20.2	22.8	25.2
Loans in foreign currency (% of GDP)	n.a.	n.a.	11.7	7.0	7.6	5.7	6.0
Total assets yoy (%)	30.7	13.8	21.2	22.3	26.3	23.8	32.8
Total loans to non-financial sector yoy (%)	10.7	28.2	19.6	15.7	27.3	23.4	28.5
Loans to private enterprises yoy (%)	30.6	26.2	28.9	33.3	30.9	25.6	29.8
Loans to households yoy (%)	77.5	113.6	35.0	33.6	31.4	26.6	30.0
Total deposits from non-financial sector yoy (%)	67.4	13.9	17.2	27.8	23.3	28.5	37.3
Deposits from private enterprises yoy (%)	43.6	5.3	-3.5	41.5	27.0	25.2	21.3
Deposits from households yoy (%)	176.9	12.0	18.8	29.2	28.1	28.7	25.9
Loans in foreign currency yoy (%)	n.a.	n.a.	n.a.	-36.5	31.4	-14.2	18.8
Loan / deposit ratio (%)	102.1	115.0	117.3	106.3	109.7	105.3	98.6
FX loan exposure (%)	n.a.	n.a.	28.0	15.4	15.9	11.1	10.2
Capital adequacy ratio (%)	n.a.	20.5	20.3	18.7	17.8	17.7	16.7

Source: Datastream, Local statistics, Erste Bank Research

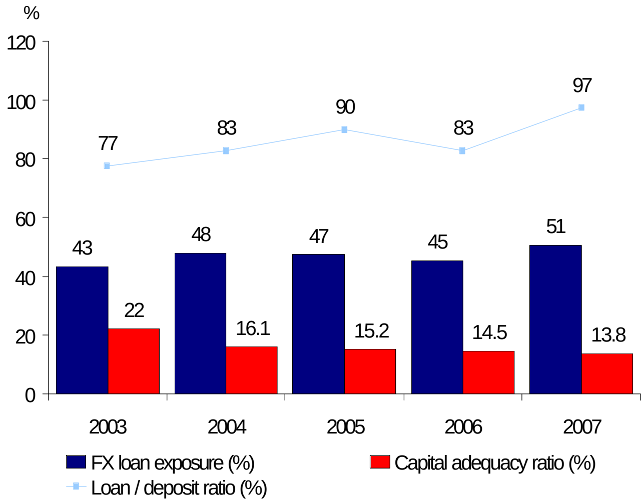
Appendix - Country Fact Sheets

Bulgaria - Selected macro data	2006	2007	2008f	2009f
Nominal GDP, in loc. cur. mn.	49,091	56,870	64,860	73,000
GDP per capita (PPP in USD)	10,180	11,050	12,350	13,100
GDP, real growth %	6.1	6.0	5.7	5.6
Inflation, avg.%	7.3	8.4	7.7	5.6
Private Consumption, real growth %	7.1	6.0	5.5	5.0
Fixed Capital Formation, real growth %	17.6	17.6	15.2	12.4
Unemployment rate, %	9.6	7.8	7.00	6.8
Nominal Wages, growth %	10.00	15.00	9.00	7.40
Current Account, % of GDP	-15.7	-19.0	-18.0	-17.0
Money Market Rate, eoy,%	2.8	3.9	4.0	4.3
EUR/BGN, eoy	1.956	1.956	1.956	1.956

Market shares 2007 (based on total assets)



Funding and FX exposure



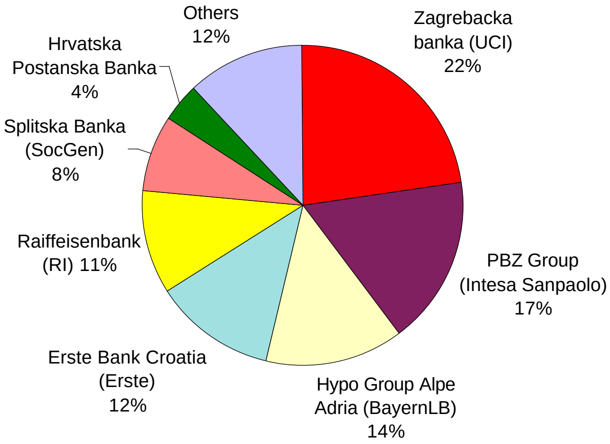
Banking sector data (BGN mn)	2001	2002	2003	2004	2005	2006	2007
Number of banks	36	34	35	35	34	32	29
Number of branches	n.a.	n.a.	n.a.	5,606	5,629	5,569	n.a.
Market share of top 5 banks (% of TA)	n.a.	n.a.	n.a.	60.3	58.8	53.6	54.9
Total assets	12,221	14,557	17,324	24,917	32,851	42,195	59,090
Total loans to non-financial sector	4,146	6,034	9,376	13,811	18,379	22,771	37,951
Total deposits from non-financial sector	8,648	10,047	12,113	16,732	20,446	27,560	39,005
Loans in foreign currency	1,524	2,646	4,061	6,629	8,709	10,324	19,190
Total assets (% of GDP)	41.1	44.9	50.0	64.2	76.8	86.0	103.9
Total loans to non-financial sector (% of GDP)	14.0	18.6	27.1	35.6	42.9	46.4	66.7
Loans to private enterprises (% of GDP)	10.6	14.2	19.3	24.3	27.1	28.0	42.7
Loans to households (% of GDP)	2.8	3.7	6.1	9.8	14.4	16.6	22.8
Housing loans (% of GDP)	n.a.	n.a.	1.2	2.6	4.7	7.2	10.4
Consumer loans (% of GDP)	n.a.	n.a.	4.9	7.2	9.7	9.5	12.5
Total deposits from non-financial sector (% of GDP)	29.1	31.0	35.0	43.1	47.8	56.1	68.6
Deposits from private enterprises (% of GDP)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Deposits from households (% of GDP)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Loans in foreign currency (% of GDP)	5.1	8.2	11.7	17.1	20.3	21.0	33.7
Total assets yoy (%)	25.0	19.1	19.0	43.8	31.8	28.4	40.0
Total loans to non-financial sector yoy (%)	37.2	45.5	55.4	47.3	33.1	23.9	66.7
Loans to private enterprises yoy (%)	35.4	46.0	44.9	41.3	22.8	18.8	76.5
Loans to households yoy (%)	46.3	45.3	75.0	79.3	63.0	32.1	58.8
Housing loans yoy (%)	n.a.	n.a.	n.a.	147.0	101.2	73.4	67.4
Consumer loans yoy (%)	n.a.	n.a.	n.a.	63.1	49.1	12.0	52.2
Total deposits from non-financial sector yoy (%)	35.3	16.2	20.6	38.1	22.2	34.8	41.5
Loans in foreign currency yoy (%)	40.9	73.6	53.5	63.2	31.4	18.5	85.9
Inhabitants per bank branch	n.a.	n.a.	n.a.	1,384	1,373	1,379	n.a.
Loan / deposit ratio (%)	47.9	60.1	77.4	82.5	89.9	82.6	97.3
FX loan exposure (%)	36.8	43.9	43.3	48.0	47.4	45.3	50.6
Capital adequacy ratio (%)	n.a.	25.2	22.0	16.1	15.2	14.5	13.8

Source: Datastream, Focus Economics, Local statistics, Erste Bank Research

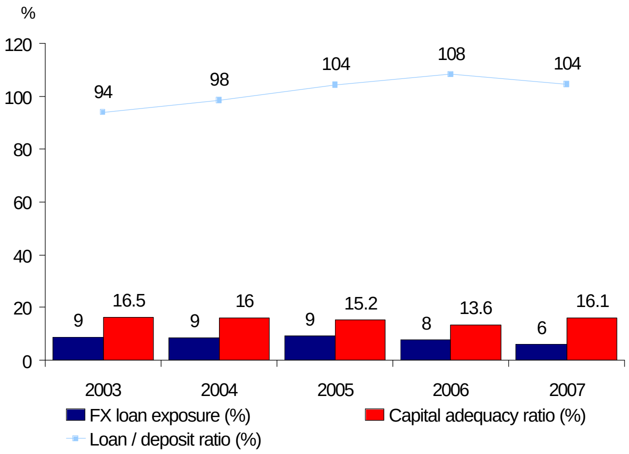
Appendix - Country Fact Sheets

Croatia - Selected macro data	2006	2007	2008f	2009f
Nominal GDP, in loc. cur. mn.	250,590	275,078	301,230	325,645
GDP per capita (PPP in USD)	13,250	14,400	15,600	16,800
GDP, real growth %	4.8	5.6	4.6	4.8
Inflation, avg.%	3.2	2.9	5.2	3.2
Private Consumption, real growth %	3.5	6.2	3.9	3.8
Fixed Capital Formation, real growth %	10.9	6.5	6.3	9.0
Unemployment rate, %	10.5	9.8	9.4	9.0
Nominal Wages, growth %	6.2	6.2	7.3	6.5
Current Account, % of GDP	-7.9	-8.6	-8.1	-7.9
Money Market Rate, eoy,%	4.6	6.9	6.0	5.0
10 Year Yield, eoy, %	4.7	5.5	5.3	5.0
EUR/HRK, eoy	7.4	7.3	7.3	7.3

Market shares 2007 (based on total assets)



Funding and FX exposure



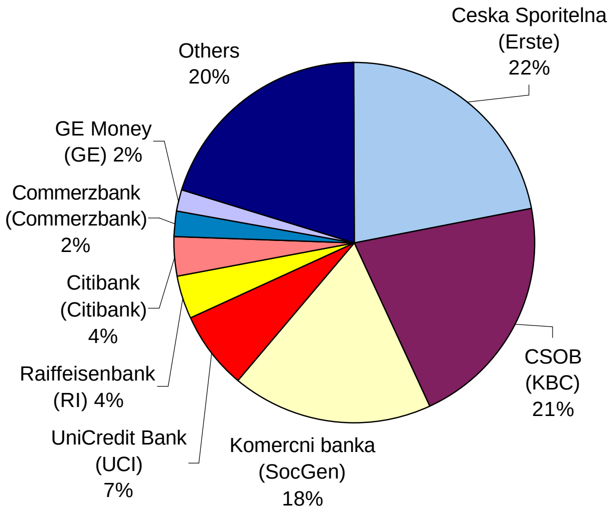
Banking sector data (HRK mn)	2001	2002	2003	2004	2005	2006	2007
Number of banks	43	46	41	37	34	33	33
Market share of state-owned banks (% of TA)	5.0	4.0	3.4	3.1	3.4	4.2	6.3
Market share of foreign banks (% of TA)	89.3	90.2	91.0	91.3	91.3	90.8	89.2
Market share of top 5 banks (% of TA)	n.a.	n.a.	n.a.	n.a.	n.a.	79.2	76.4
Total assets	142,606	165,622	195,278	225,546	255,320	299,258	336,349
Total loans to non-financial sector	74,284	96,218	110,374	125,708	147,341	180,968	207,331
Loans to private enterprises	42,882	51,723	53,810	58,643	67,018	83,387	92,265
Loans to households	30,122	43,073	55,001	65,277	78,556	95,689	112,925
Total deposits from non-financial sector	97,231	106,222	117,721	127,813	141,406	167,005	198,606
Loans in foreign currency	7,531	10,557	9,879	10,859	13,430	13,992	12,605
Total assets (% of GDP)	86.1	91.4	98.4	104.9	110.4	119.4	122.3
Total loans to non-financial sector (% of GDP)	44.8	53.1	55.6	58.5	63.7	72.2	75.4
Loans to private enterprises (% of GDP)	25.9	28.5	27.1	27.3	29.0	33.3	33.5
Loans to households (% of GDP)	18.2	23.8	27.7	30.4	34.0	38.2	41.1
Housing loans (% of GDP)	5.7	6.8	8.5	10.0	11.9	14.7	16.4
Total deposits from non-financial sector (% of GDP)	58.7	58.6	59.3	59.5	61.1	66.6	72.2
Deposits from private enterprises (% of GDP)	12.2	14.6	15.6	15.6	14.8	17.2	19.7
Deposits from households (% of GDP)	43.8	40.7	40.7	41.2	42.9	44.9	45.3
Loans in foreign currency (% of GDP)	4.5	5.8	5.0	5.1	5.8	5.6	4.6
Total assets yoy (%)	29.7	16.1	17.9	15.5	13.2	17.2	12.4
Total loans to non-financial sector yoy (%)	23.1	29.5	14.7	13.9	17.2	22.8	14.6
Loans to private enterprises yoy (%)	19.5	20.6	4.0	9.0	14.3	24.4	10.6
Loans to households yoy (%)	29.3	43.0	27.7	18.7	20.3	21.8	18.0
Housing loans yoy (%)	14.4	30.8	36.7	26.6	28.8	33.9	22.5
Total deposits from non-financial sector yoy (%)	47.5	9.2	10.8	8.6	10.6	18.1	18.9
Deposits from private enterprises yoy (%)	32.3	31.5	16.8	8.3	2.0	26.1	25.3
Deposits from households yoy (%)	51.8	1.7	9.6	9.6	12.1	13.4	10.5
Loans in foreign currency yoy (%)	15.6	40.2	-6.4	9.9	23.7	4.2	-9.9
Loan / deposit ratio (%)	76.4	90.6	93.8	98.4	104.2	108.4	104.4
FX loan exposure (%)	10.1	11.0	9.0	8.6	9.1	7.7	6.1
Capital adequacy ratio (%)	n.a.	17.4	16.5	16.0	15.2	13.6	16.1

Source: Local statistics, Erste Bank Research

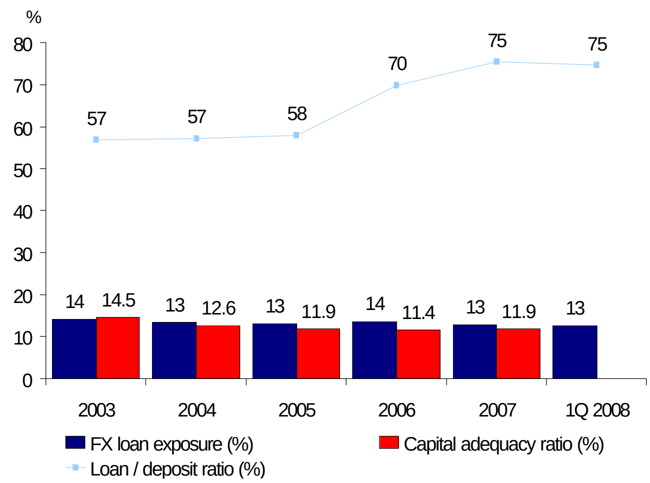
Appendix - Country Fact Sheets

Czech Republic - Selected macro data	2006	2007	2008f	2009f
Nominal GDP, in loc. cur. mn.	3,231,576	3,568,717	3,877,298	4,219,529
GDP per capita (PPP in USD)	20,600	22,350	24,000	26,000
GDP, real growth %	6.4	6.6	4.3	5.4
Inflation, avg.%	2.5	2.9	6.1	4.3
Private Consumption, real growth %	5.4	6.1	3.6	3.7
Fixed Capital Formation, real growth %	5.5	5.6	5.8	7.9
Unemployment rate, %	8.1	6.6	6.3	6.1
Nominal Wages, growth %	6.4	7.5	9.2	7.8
Current Account, % of GDP	-3.0	-3.2	-3.6	-2.2
Money Market Rate, eoy,%	2.7	4.1	4.1	4.6
10 Year Yield, eoy, %	4.1	4.7	4.5	4.7
EUR/CZK eoy	28.0	26.9	25.9	25.3

Market shares 2007 (based on total assets)



Funding and FX exposure



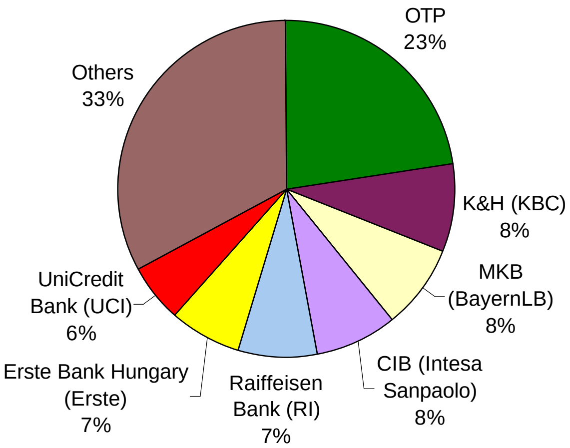
Banking sector data (CZK bn)	2001	2002	2003	2004	2005	2006	2007
Number of banks	119	84	77	70	56	57	n.a.
Number of branches	1,751	1,722	1,670	1,785	1,825	1,877	n.a.
Market share of top 5 banks (% of TA)	68.4	65.7	65.8	64.0	65.5	76.7	72.1
Total assets	2,831	2,566	2,574	2,640	2,907	3,134	3,704
Total loans to non-financial sector	942	892	951	1,010	1,179	1,413	1,784
Total assets (% of GDP)	120.4	104.1	99.9	93.8	97.3	97.0	103.8
Total loans to non-financial sector (% of GDP)	40.1	36.2	36.9	35.9	39.5	43.7	50.0
Loans to private enterprises (% of GDP)	22.6	17.6	16.6	16.3	17.6	19.6	20.8
Loans to households (% of GDP)	5.9	7.3	9.1	11.1	13.8	16.4	19.8
Housing loans (% of GDP)	2.4	5.6	7.4	9.1	11.4	14.0	17.2
Consumer loans (% of GDP)	1.2	1.4	1.7	1.9	2.5	2.9	3.3
Total deposits from non-financial sector (% of GDP)	61.2	67.1	64.9	62.7	68.0	62.7	66.4
Deposits from private enterprises (% of GDP)	12.4	13.7	14.2	13.7	15.0	16.1	17.2
Deposits from households (% of GDP)	39.0	37.3	37.2	36.2	36.1	36.3	36.1
Loans in foreign currency (% of GDP)	7.2	5.7	5.2	4.8	5.1	5.9	6.5
Total assets yoy (%)	-1.5	-9.4	0.3	2.6	10.1	7.8	18.2
Total loans to non-financial sector yoy (%)	-10.3	-5.3	6.5	6.3	16.7	19.9	26.3
Loans to private enterprises yoy (%)	-26.8	-18.3	-1.3	7.3	14.2	20.8	17.1
Loans to households yoy (%)	13.6	28.3	31.9	32.4	32.4	28.6	33.3
Housing loans yoy (%)	28.4	147.6	37.0	33.7	33.7	32.5	35.6
Consumer loans yoy (%)	-21.1	23.9	27.0	23.4	35.5	24.7	26.2
Total deposits from non-financial sector yoy (%)	15.9	14.8	1.1	5.5	15.2	-0.3	17.0
Deposits from private enterprises yoy (%)	21.8	15.2	9.1	4.7	16.5	16.2	18.0
Deposits from households yoy (%)	10.9	0.0	4.4	6.4	5.7	8.9	9.8
Loans in foreign currency yoy (%)	-24.9	-17.1	-4.6	0.3	13.1	25.5	20.2
Inhabitants per bank branch	5,879	5,978	6,164	5,767	5,641	5,485	n.a.
Loan / deposit ratio (%)	65.4	54.0	56.9	57.3	58.0	69.8	75.3
FX loan exposure (%)	18.1	15.8	14.1	13.4	13.0	13.6	12.9
Capital adequacy ratio (%)	n.a.	14.3	14.5	12.6	11.9	11.4	11.9
Non-performing loans ratio (%)	n.a.	9.2	6.4	4.9	4.1	3.6	2.6

Source: Local statistics, Erste Bank Research

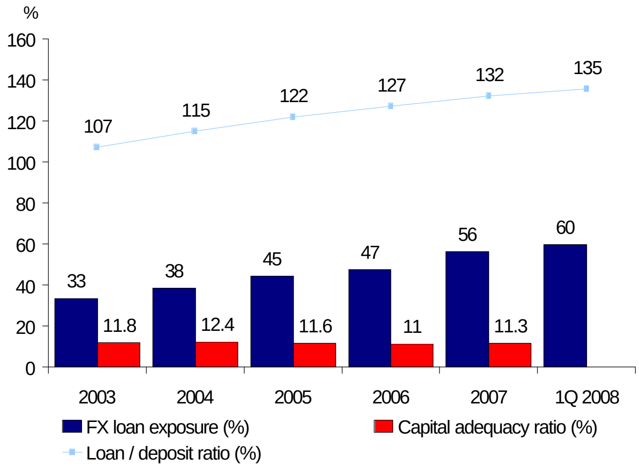
Appendix - Country Fact Sheets

Hungary - Selected macro data	2006	2007	2008f	2009f
Nominal GDP, in loc. cur. mn.	23,757,230	25,373,909	27,079,825	28,868,448
GDP per capita (PPP in USD)	18,250	19,200	20,200	21,500
GDP, real grow th %	3.9	1.3	2.2	3.2
Inflation, avg.%	3.9	8.0	6.4	4.0
Private Consumption, real grow th %	1.9	-0.3	0.2	2.9
Fixed Capital Formation, real grow th %	-2.8	1.0	2.5	5.1
Unemployment rate, %	7.5	7.7	7.8	7.6
Nominal Wages, grow th %	8.1	8.0	7.5	6.0
Current Account, % of GDP	-6.1	-5.0	-4.6	-4.2
Money Market Rate, eoy,%	8.1	7.5	8.4	6.8
10 Year Yield, eoy, %	6.7	7.1	7.3	6.2
EUR/HUF, eoy	251.8	253.4	245.0	242.0

Market shares 2007 (based on total assets)



Funding and FX exposure



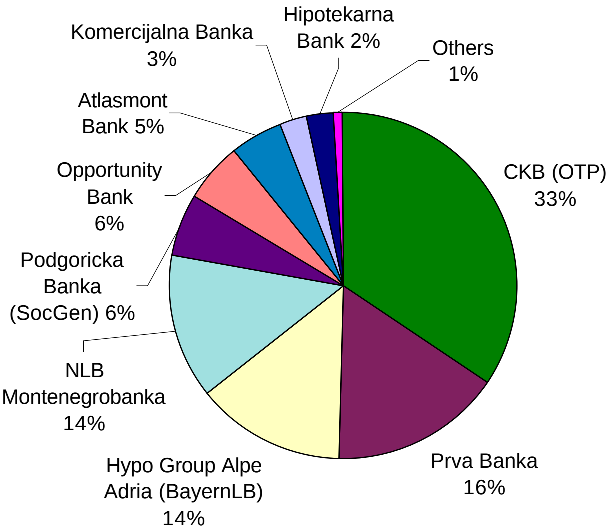
Banking sector data (HUF bn)	2001	2002	2003	2004	2005	2006	2007
Number of banks	240	227	222	217	214	212	n.a.
Number of branches	2,950	2,992	3,003	2,987	3,125	3,243	n.a.
Market share of top 5 banks (% of TA)	56.4	54.5	52.1	52.7	53.2	53.3	54.3
Total assets	10,276	11,808	14,657	17,077	20,298	24,371	28,497
Total loans to non-financial sector	4,856	6,227	8,126	9,637	11,505	13,666	15,496
Total deposits from non-financial sector	5,912	6,666	7,580	8,400	9,444	10,744	11,727
Loans in foreign currency	1,439	1,833	2,722	3,691	5,126	6,483	8,746
Total assets (% of GDP)	67.3	68.7	77.4	82.4	92.0	102.6	112.3
Total loans to non-financial sector (% of GDP)	31.8	36.2	42.9	46.5	52.2	57.5	61.1
Loans to private enterprises (% of GDP)	22.8	21.5	23.3	24.2	25.9	27.3	28.7
Loans to households (% of GDP)	5.7	8.5	12.4	14.5	17.2	20.0	23.3
Housing loans (% of GDP)	2.4	4.5	8.0	9.2	10.4	11.4	12.4
Consumer loans (% of GDP)	1.7	2.0	2.9	3.5	5.5	7.3	9.5
Total deposits from non-financial sector (% of GDP)	38.7	38.8	40.0	40.5	42.8	45.2	46.2
Deposits from private enterprises (% of GDP)	11.7	12.5	12.6	12.1	12.8	15.2	15.2
Deposits from households (% of GDP)	24.3	23.4	24.3	24.7	25.7	25.0	24.9
Loans in foreign currency (% of GDP)	9.4	10.7	14.4	17.8	23.2	27.3	34.5
Total assets yoy (%)	13.6	14.9	24.1	16.5	18.9	20.1	16.9
Total loans to non-financial sector yoy (%)	17.7	28.2	30.5	18.6	19.4	18.8	13.4
Loans to private enterprises yoy (%)	9.5	5.8	19.8	13.3	14.2	13.7	12.0
Loans to households yoy (%)	53.7	67.2	60.7	27.6	26.4	25.5	24.4
Housing loans yoy (%)	91.4	116.2	93.1	26.6	19.5	18.2	16.2
Consumer loans yoy (%)	44.3	31.7	65.2	30.9	65.8	44.0	38.5
Total deposits from non-financial sector yoy (%)	16.4	12.8	13.7	10.8	12.4	13.8	9.2
Deposits from private enterprises yoy (%)	14.7	20.0	11.9	4.5	12.8	27.9	6.8
Deposits from households yoy (%)	15.4	8.3	14.6	11.4	10.7	4.6	6.5
Loans in foreign currency yoy (%)	3.9	27.4	48.5	35.6	38.9	26.5	34.9
Inhabitants per bank branch	3,458	3,401	3,377	3,387	3,230	3,107	n.a.
Loan / deposit ratio (%)	82.1	93.4	107.2	114.7	121.8	127.2	132.1
FX loan exposure (%)	29.6	29.4	33.5	38.3	44.6	47.4	56.4
Capital adequacy ratio (%)	n.a.	13.0	11.8	12.4	11.6	11.0	11.3
Non-performing loans ratio (%)	n.a.	n.a.	n.a.	2.0	3.5	3.8	4.5

Source: Local statistics, Erste Bank Research

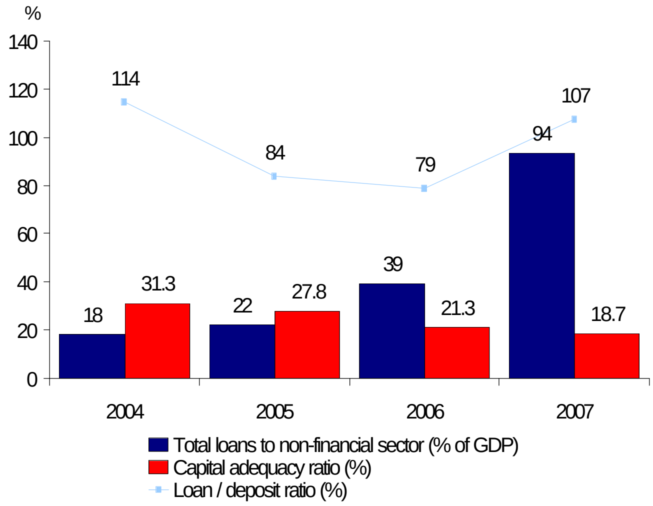
Appendix - Country Fact Sheets

Montenegro - Selected macro data	2006	2007	2008f	2009f
Nominal GDP, in EUR mn.	2,148	2,400	n.a.	n.a.
GDP, real grow th %	8.6	7.0	6.3	6.0
Inflation, avg.%	2.1	4.2	5.0	4.0
Unemployment rate, %	n.a.	n.a.	n.a.	n.a.
Current Account, % of GDP	-24.7	-40.0	-39.0	-35.0
Lending rate, eoy,%	n.a.	n.a.	n.a.	n.a.

Market shares 2007 (based on total assets)



Funding and FX exposure



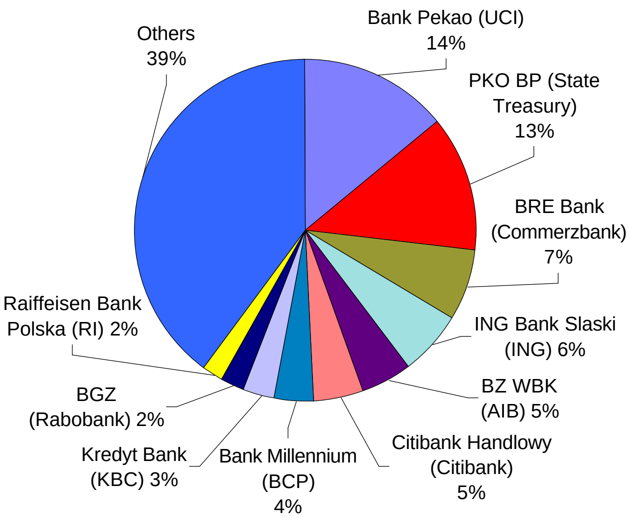
Banking sector data (EUR mn)	2003	2004	2005	2006	2007
Number of banks	n.a.	n.a.	10	10	n.a.
Number of branches	n.a.	n.a.	n.a.	124	n.a.
Market share of top 5 banks (% of TA)	n.a.	n.a.	n.a.	n.a.	83.6
Total assets	350	444	696	1,431	2,976
Total loans to non-financial sector	199	278	376	847	2,247
Loans to private enterprises	113	166	213	451	1,343
Loans to households	50	74	104	311	795
Total deposits from non-financial sector	205	243	448	1,076	2,091
Deposits from private enterprises	86	79	137	288	622
Deposits from households	45	79	176	499	1,019
Total assets (% of GDP)	24.4	28.9	41.2	66.6	124.0
Total loans to non-financial sector (% of GDP)	13.9	18.1	22.2	39.4	93.6
Loans to private enterprises (% of GDP)	7.9	10.8	12.6	21.0	56.0
Loans to households (% of GDP)	3.5	4.8	6.2	14.5	33.1
Total deposits from non-financial sector (% of GDP)	14.3	15.8	26.5	50.1	87.1
Deposits from private enterprises (% of GDP)	6.0	5.1	8.1	13.4	25.9
Deposits from households (% of GDP)	3.1	5.2	10.4	23.2	42.5
Total assets yoy (%)	5.3	27.1	56.6	105.7	107.9
Total loans to non-financial sector yoy (%)	60.9	39.6	35.4	125.4	165.2
Loans to private enterprises yoy (%)	66.5	47.3	28.0	112.4	197.5
Loans to households yoy (%)	124.7	49.2	40.2	198.3	155.5
Total deposits from non-financial sector yoy (%)	5.4	18.4	84.6	140.2	94.4
Deposits from private enterprises yoy (%)	34.8	-8.6	74.0	110.0	116.2
Deposits from households yoy (%)	167.1	77.9	121.7	184.1	104.1
Inhabitants per bank branch	n.a.	n.a.	n.a.	5,032	n.a.
Loan / deposit ratio (%)	97.1	114.4	83.9	78.8	107.4
Capital adequacy ratio (%)	n.a.	31.3	27.8	21.3	18.7

Source: Local statistics, Erste Bank Research

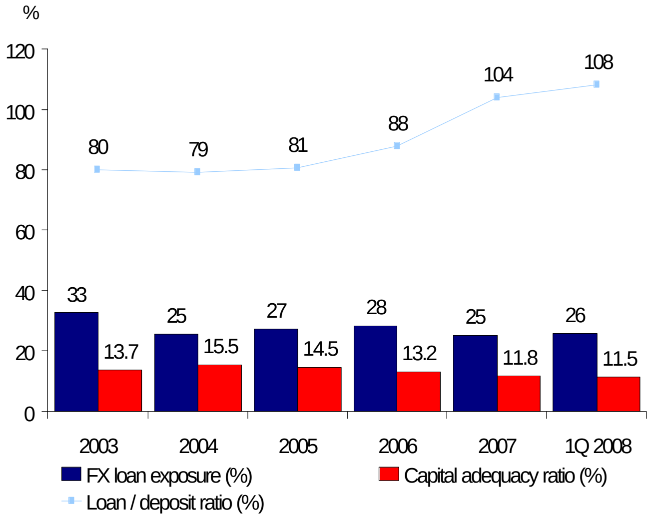
Appendix - Country Fact Sheets

Poland - Selected macro data	2006	2007	2008f	2009f
Nominal GDP, in loc. cur. mn.	1,060,194	1,161,851	1,277,234	1,398,638
GDP per capita (PPP in USD)	14,250	15,600	16,800	18,000
GDP, real growth %	6.1	6.5	5.5	5.7
Inflation, avg.%	1.3	2.6	3.8	3.2
Private Consumption, real growth %	4.9	5.2	5.2	5.1
Fixed Capital Formation, real growth %	15.6	20.4	13.2	15.4
Unemployment rate, %	14.9	11.4	9.3	8.0
Nominal Wages, growth %	4.9	8.8	8.2	7.2
Current Account, % of GDP	-3.2	-3.7	-5.0	-5.6
Money Market Rate, eoy,%	4.2	5.7	6.5	5.2
10 Year Yield, eoy, %	5.2	5.9	5.6	5.1
EUR/PLN, eoy	3.8	3.6	3.5	3.4

Market shares 2007 (based on total assets)



Funding and FX exposure



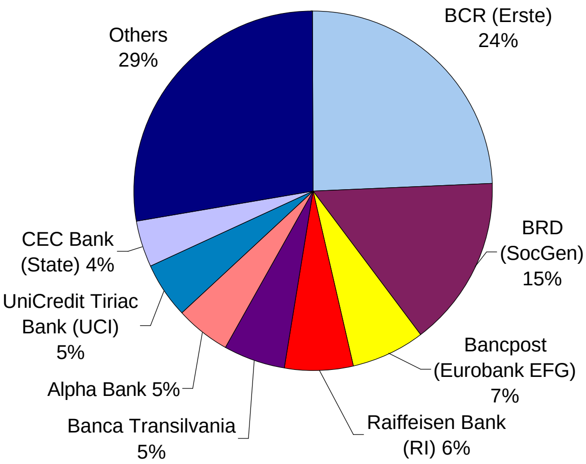
Banking sector data (PLN mn)	2001	2002	2003	2004	2005	2006	2007
Number of banks	711	664	658	653	649	649	n.a.
Number of branches	4,080	4,302	4,394	5,005	5,085	5,187	n.a.
Market share of top 5 banks (% of TA)	54.7	53.4	52.3	50.2	48.6	48.3	44.5
Total assets	497,527	500,228	526,165	577,119	630,854	724,974	846,958
Total loans to non-financial sector	209,139	217,441	232,884	241,329	267,647	330,811	435,265
Loans in foreign currency	54,820	61,891	76,131	61,355	72,854	93,998	109,851
Total assets (% of GDP)	63.8	61.9	62.4	62.4	64.2	68.4	72.9
Total loans to non-financial sector (% of GDP)	26.8	26.9	27.6	26.1	27.2	31.2	37.5
Loans to private enterprises (% of GDP)	12.5	12.8	12.8	11.5	11.1	11.9	13.9
Loans to households (% of GDP)	10.6	11.1	12.1	12.5	14.3	17.7	22.2
Housing loans (% of GDP)	1.8	2.5	3.5	3.9	5.1	7.3	10.1
Total deposits from non-financial sector (% of GDP)	37.1	34.8	34.5	33.0	33.7	35.5	36.1
Deposits from private enterprises (% of GDP)	5.7	5.5	6.7	7.6	8.4	9.9	10.6
Deposits from households (% of GDP)	28.8	26.8	25.2	22.7	22.5	22.6	22.6
Loans in foreign currency (% of GDP)	7.0	7.7	9.0	6.6	7.4	8.9	9.5
Total assets yoy (%)	10.7	0.5	5.2	9.7	9.3	14.9	16.8
Total loans to non-financial sector yoy (%)	7.8	4.0	7.1	3.6	10.9	23.6	31.6
Loans to private enterprises yoy (%)	7.0	6.3	4.7	-1.3	2.1	16.0	27.5
Loans to households yoy (%)	14.7	8.5	13.6	13.3	22.0	33.2	37.5
Housing loans yoy (%)	46.6	41.9	47.7	21.1	40.8	54.1	50.4
Consumer loans yoy (%)	5.7	2.4	3.2	10.0	20.5	22.0	32.4
Total deposits from non-financial sector yoy (%)	12.4	-2.8	3.5	4.9	8.7	13.6	11.4
Deposits from private enterprises yoy (%)	18.6	1.2	27.2	23.0	18.6	25.9	17.7
Deposits from households yoy (%)	11.6	-3.3	-2.0	-1.3	5.2	8.4	9.8
Loans in foreign currency yoy (%)	21.6	12.9	23.0	-19.4	18.7	29.0	16.9
Inhabitants per bank branch	9,373	8,884	8,692	7,627	7,504	7,350	n.a.
Loan / deposit ratio (%)	72.3	77.4	80.1	79.1	80.7	87.9	103.8
FX loan exposure (%)	26.2	28.5	32.7	25.4	27.2	28.4	25.2
Capital adequacy ratio (%)	n.a.	13.8	13.7	15.5	14.5	13.2	11.8
Non-performing loans ratio (%)	17.4	20.5	20.6	14.5	10.8	7.3	5.2

Source: Local statistics, Erste Bank Research

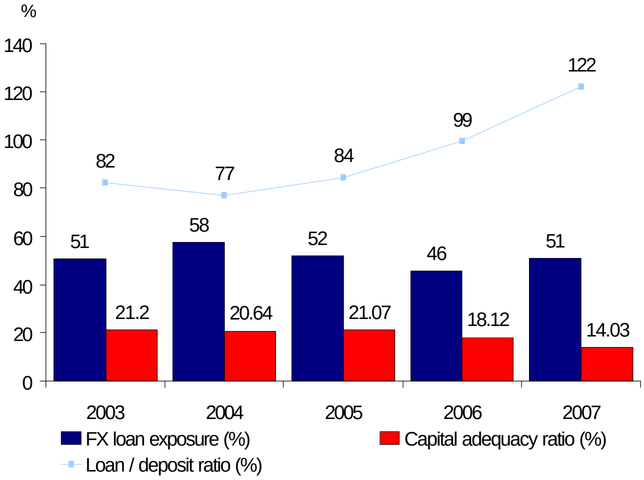
Appendix - Country Fact Sheets

Romania - Selected macro data	2006	2007	2008f	2009f
Nominal GDP, in loc. cur. mn.	344,536	404,709	470,189	540,764
GDP per capita (PPP in USD)	9,725	10,550	11,400	12,300
GDP, real growth %	7.9	6.0	6.1	6.0
Inflation, avg.%	6.6	4.8	7.8	4.9
Private Consumption, real growth %	11.4	10.2	8.8	7.8
Fixed Capital Formation, real growth %	19.3	28.9	18.0	14.0
Unemployment rate, %	5.2	4.1	4.0	3.9
Nominal Wages, growth %	18.9	22.6	16.8	13.2
Current Account, % of GDP	-10.4	-13.9	-15.0	-15.0
Money Market Rate, eoy,%	8.6	8.4	9.5	7.5
EUR/RON, eoy	3.4	3.6	3.5	3.5

Market shares 2007 (based on total assets)



Funding and FX exposure



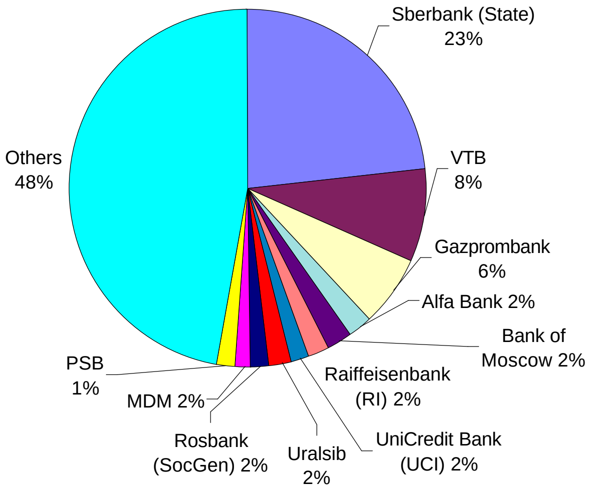
Banking sector data (RON mn)	2001	2002	2003	2004	2005	2006	2007
Number of banks	n.a.	n.a.	n.a.	n.a.	39	38	41
Market share of state-owned banks (% of TA)	n.a.	n.a.	n.a.	n.a.	12	14.9	12.8
Market share of foreign banks (% of TA)	n.a.	n.a.	n.a.	n.a.	68.9	78.8	79.4
Market share of top 5 banks (% of TA)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	58.1
Total assets	34,922	47,471	61,329	90,946	129,972	175,191	259,471
Total loans to non-financial sector	15,625	22,252	33,189	43,987	63,220	96,096	157,751
Total deposits from non-financial sector	23,488	32,813	40,276	56,997	74,946	96,581	129,058
Loans in foreign currency	7,072	11,200	16,784	25,335	32,715	43,741	80,468
Total assets (% of GDP)	29.9	31.3	31.0	36.9	45.1	50.8	64.1
Total loans to non-financial sector (% of GDP)	13.4	14.7	16.8	17.8	21.9	27.9	39.0
Loans to private enterprises (% of GDP)	7.5	8.2	8.9	9.5	11.2	13.7	18.0
Loans to households (% of GDP)	0.7	1.4	3.8	4.8	7.4	11.4	17.7
Housing loans (% of GDP)	n.a.	n.a.	n.a.	1.3	1.8	2.3	3.5
Consumer loans (% of GDP)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	13.6
Total deposits from non-financial sector (% of GDP)	20.1	21.7	20.4	23.1	26.0	28.0	31.9
Deposits from private enterprises (% of GDP)	4.5	4.5	4.3	10.8	12.3	13.5	13.6
Deposits from households (% of GDP)	10.6	10.5	9.7	11.0	11.9	12.8	16.6
Loans in foreign currency (% of GDP)	6.1	7.4	8.5	10.3	11.4	12.7	19.9
Total assets yoy (%)	51.7	35.9	29.2	48.3	42.9	34.8	48.1
Total loans to non-financial sector yoy (%)	46.4	42.4	49.2	32.5	43.7	52.0	64.2
Loans to private enterprises yoy (%)	55.4	42.0	42.6	33.4	37.6	45.6	54.8
Loans to households yoy (%)	86.8	162.6	261.0	58.3	80.2	83.9	82.8
Housing loans yoy (%)	n.a.	n.a.	n.a.	n.a.	59.2	53.0	76.8
Total deposits from non-financial sector yoy (%)	47.4	39.7	22.7	41.5	31.5	28.9	33.6
Deposits from private enterprises yoy (%)	40.7	31.1	25.1	210.9	33.4	30.9	17.8
Deposits from households yoy (%)	57.1	28.5	21.2	41.3	26.3	28.9	52.6
Loans in foreign currency yoy (%)	58.6	58.4	49.9	50.9	29.1	33.7	84.0
Loan / deposit ratio (%)	66.5	67.8	82.4	77.2	84.4	99.5	122.2
FX loan exposure (%)	45.3	50.3	50.6	57.6	51.7	45.5	51.0
Capital adequacy ratio (%)	28.8	25.0	21.2	20.6	21.1	18.1	14.0
Off-balance sheet as % of total assets (%)	n.a.	n.a.	n.a.	n.a.	15.1	17.1	15.3
Non-performing loans ratio (%)	n.a.	n.a.	n.a.	n.a.	7.5	7.4	8.2

Source: Local statistics, Erste Bank Research

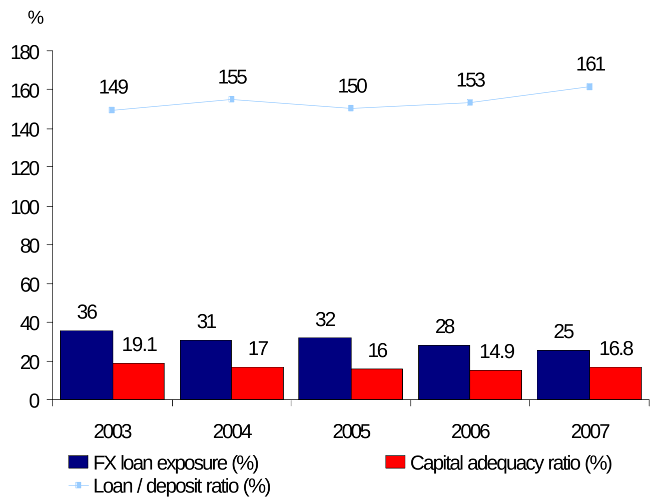
Appendix - Country Fact Sheets

Russia - Selected macro data	2006	2007	2008f	2009f
Nominal GDP, in loc. cur. mn.	26,883,000	32,989,000	39,000,000	46,000,000
GDP per capita (PPP in USD)	13,190	14,000	16,000	17,000
GDP, real growth %	7.4	8.1	6.8	6.4
Inflation, avg.%	9.7	9.0	12.0	10.0
Private Consumption, real growth %	11.1	12.9	11.4	10.0
Fixed Capital Formation, real growth %	17.5	20.8	18.0	15.0
Unemployment rate, %	7.2	7.0	7.0	6.9
Nominal Wages, growth %	25.5	26.0	24.5	22.0
Current Account, % of GDP	9.6	6.0	3.4	2.7
Money Market Rate, eoy,%	6.3	6.9	6.0	5.2
EUR/RUB, eoy	34.72	35.93	35.17	33.80

Market shares 2007 (based on total assets)



Funding and FX exposure



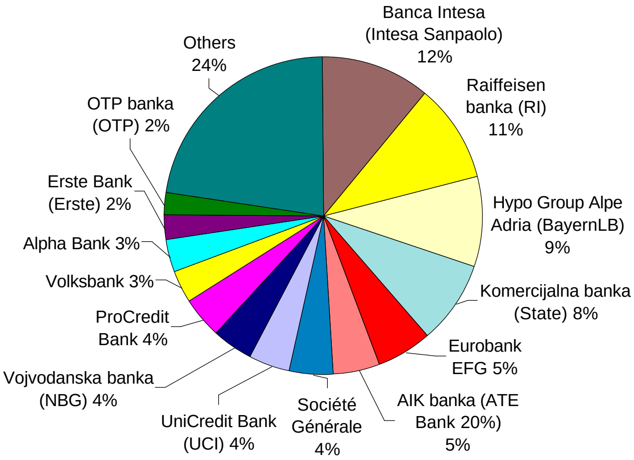
Banking sector data (RUB mn)	2001	2002	2003	2004	2005	2006	2007
Number of banks	1,953	1,773	1,612	1,464	1,356	1,293	1,243
Number of branches	3,433	3,326	3,219	3,238	3,295	3,281	3,455
Market share of top 5 banks (% of TA)	n.a.	n.a.	n.a.	n.a.	40.4	41.7	42.4
Total assets	3,155,894	4,143,441	5,600,685	7,136,859	9,750,306	14,045,561	20,241,056
Total loans to non-financial sector	1,355,143	1,846,437	2,764,457	3,979,124	5,593,392	8,258,880	12,598,796
Total deposits from non-financial sector	942,461	1,323,312	1,852,439	2,567,217	3,724,430	5,388,430	7,803,888
Loans in foreign currency	494,849	744,971	982,943	1,215,752	1,779,100	2,301,051	3,177,431
Total assets (% of GDP)	35.3	38.3	42.3	42.6	45.1	52.2	61.4
Total loans to non-financial sector (% of GDP)	15.2	17.0	20.9	23.8	25.9	30.7	38.2
Loans to private enterprises (% of GDP)	13.3	14.9	17.4	19.0	19.4	21.6	26.5
Loans to households (% of GDP)	1.1	1.3	2.3	3.7	5.5	7.7	9.8
Housing loans (% of GDP)	n.a.	n.a.	n.a.	0.3	0.6	1.3	2.3
Total deposits from non-financial sector (% of GDP)	10.5	12.2	14.0	15.3	17.2	20.0	23.7
Deposits from private enterprises (% of GDP)	2.8	2.6	2.4	3.4	4.3	5.7	7.8
Deposits from households (% of GDP)	7.7	9.7	11.6	11.8	12.7	14.1	15.6
Loans in foreign currency (% of GDP)	5.5	6.9	7.4	7.3	8.2	8.6	9.6
Total assets yoy (%)	33.6	31.3	35.2	27.4	36.6	44.1	44.1
Total loans to non-financial sector yoy (%)	56.3	36.3	49.7	43.9	40.6	47.7	52.5
Loans to private enterprises yoy (%)	56.1	35.4	42.6	38.7	31.3	38.6	50.5
Loans to households yoy (%)	111.5	50.2	110.8	106.5	90.6	75.1	57.0
Housing loans yoy (%)	n.a.	n.a.	n.a.	n.a.	131.0	178.6	116.3
Total deposits from non-financial sector yoy (%)	47.7	40.4	40.0	38.6	45.1	44.7	44.8
Deposits from private enterprises yoy (%)	26.5	9.6	12.9	80.5	66.0	64.8	67.5
Deposits from households yoy (%)	57.4	51.7	47.1	28.4	39.3	37.7	35.4
Loans in foreign currency yoy (%)	39.4	50.5	31.9	23.7	46.3	29.3	38.1
Inhabitants per bank branch	n.a.	n.a.	n.a.	44,309	43,320	43,347	41,102
Loan / deposit ratio (%)	143.8	139.5	149.2	155.0	150.2	153.3	161.4
FX loan exposure (%)	36.5	40.3	35.6	30.6	31.8	27.9	25.2
Capital adequacy ratio (%)	n.a.	19.1	19.1	17.0	16.0	14.9	16.8

Source: Datastream, Focus Economics, Local statistics, Erste Bank Research

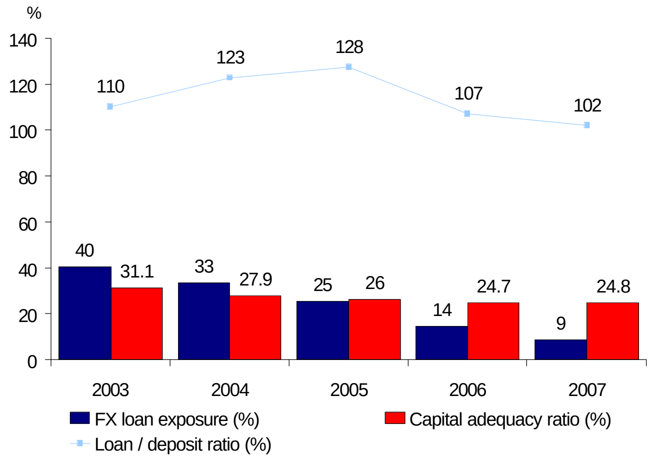
Appendix - Country Fact Sheets

Serbia - Selected macro data	2006	2007	2008f	2009f
Nominal GDP, in loc. cur. mn.	2,086,205	2,391,095	2,748,926	3,085,901
GDP per capita (PPP in USD)	7,030	7,700	8,400	9,100
GDP, real growth %	5.7	7.3	6.3	6.8
Inflation, avg.%	12.8	6.5	6.5	4.8
Unemployment rate, %	20.9	20.0	19.0	18.0
Nominal Wages, growth %	24.7	28.0	20.0	15.0
Current Account, % of GDP	-11.7	-14.9	-13.2	-12.9
Money Market Rate, eoy,%	15.6	10.3	10.0	9.5
10 Year Yield, eoy, %	5.7	5.6	5.3	5.2
EUR/RSD, eoy	79.0	79.2	78.0	76.0

Market shares 2007 (based on total assets)



Funding and FX exposure



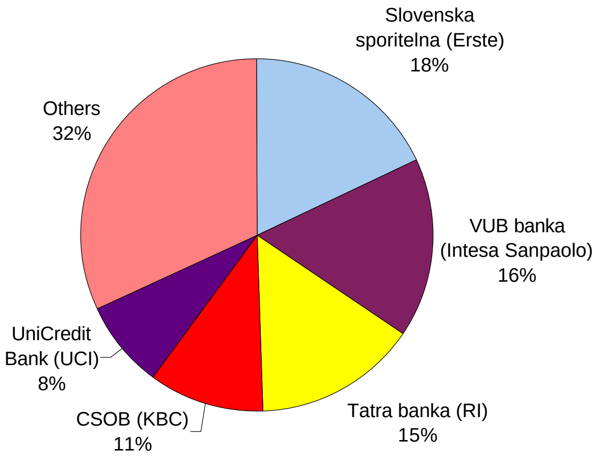
Banking sector data (RSD mn)	2001	2002	2003	2004	2005	2006	2007
Number of banks	n.a.	n.a.	47	43	40	37	36
Number of branches	n.a.	n.a.	292	300	327	413	464
Market share of top 5 banks (% of TA)	n.a.	n.a.	n.a.	n.a.	n.a.	42.9	44.0
Total assets	899,329	359,007	451,868	614,971	914,191	1,274,287	1,681,266
Total loans to non-financial sector	263,640	171,873	228,429	334,850	509,379	594,336	827,412
Total deposits from non-financial sector	102,110	166,041	207,215	272,505	398,991	554,027	810,866
Loans in foreign currency	175,211	79,652	92,316	112,050	129,494	85,362	71,991
Total assets (% of GDP)	102.3	35.2	38.6	43.0	52.2	61.1	70.3
Total loans to non-financial sector (% of GDP)	30.0	16.8	19.5	23.4	29.1	28.5	34.6
Loans to private enterprises (% of GDP)	23.9	14.1	15.8	17.3	20.1	17.4	20.4
Loans to households (% of GDP)	0.6	1.6	2.5	4.6	7.5	9.7	12.8
Housing loans (% of GDP)	n.a.	n.a.	n.a.	n.a.	1.3	2.3	3.1
Total deposits from non-financial sector (% of GDP)	11.6	16.3	17.7	19.0	22.8	26.6	33.9
Deposits from private enterprises (% of GDP)	6.1	6.1	7.1	7.3	7.4	9.1	12.8
Deposits from households (% of GDP)	3.1	5.6	7.1	8.6	11.8	13.8	17.5
Loans in foreign currency (% of GDP)	19.9	7.8	7.9	7.8	7.4	4.1	3.0
Total assets yoy (%)	12.6	-60.1	25.9	36.1	48.7	39.4	31.9
Total loans to non-financial sector yoy (%)	18.3	-34.8	32.9	46.6	52.1	16.7	39.2
Loans to private enterprises yoy (%)	16.3	-31.3	28.6	33.8	41.5	3.5	34.5
Loans to households yoy (%)	85.2	205.8	81.8	126.2	98.7	54.2	50.4
Housing loans yoy (%)	n.a.	n.a.	n.a.	n.a.	n.a.	103.2	58.3
Total deposits from non-financial sector yoy (%)	85.8	62.6	24.8	31.5	46.4	38.9	46.4
Deposits from private enterprises yoy (%)	53.6	15.1	34.6	24.1	25.0	46.2	61.3
Deposits from households yoy (%)	309.7	107.7	44.9	48.5	67.4	39.1	45.9
Loans in foreign currency yoy (%)	5.3	-54.5	15.9	21.4	15.6	-34.1	-15.7
Inhabitants per bank branch	n.a.	n.a.	26,027	25,333	23,242	17,947	15,948
Loan / deposit ratio (%)	258.2	103.5	110.2	122.9	127.7	107.3	102.0
FX loan exposure (%)	66.5	46.3	40.4	33.5	25.4	14.4	8.7
Capital adequacy ratio (%)	0.0	25.6	31.1	27.9	26.0	24.7	24.8
Off-balance sheet as % of total assets (%)	n.a.	n.a.	n.a.	n.a.	79.4	91.3	91.1
Non-performing loans ratio (%)	n.a.	n.a.	n.a.	n.a.	n.a.	33.0	30.1

Source: Local statistics, Erste Bank Research

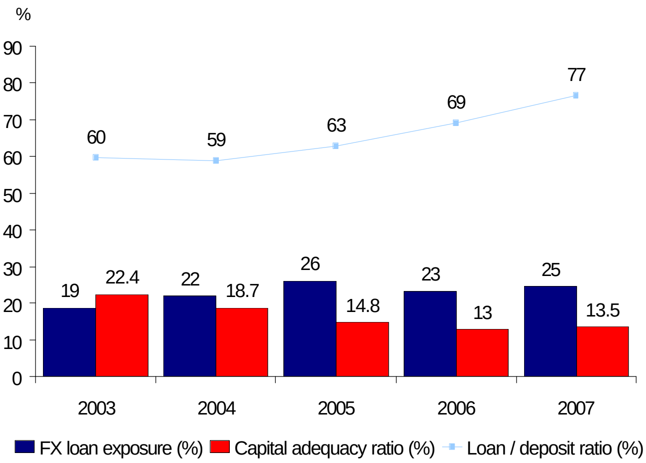
Appendix - Country Fact Sheets

Slovakia - Selected macro data	2006	2007	2008f	2009f
Nominal GDP, in loc. cur. mn.	1,659,573	1,851,787	2,056,000	2,262,176
GDP per capita (PPP in USD)	17,900	20,000	21,900	23,600
GDP, real growth %	8.5	10.4	7.6	6.0
Inflation, avg.%	4.5	2.8	4.2	4.0
Private Consumption, real growth %	5.9	7.1	5.8	5.5
Fixed Capital Formation, real growth %	6.6	7.1	8.0	6.0
Unemployment rate, %	10.4	8.4	7.3	6.8
Nominal Wages, growth %	8.0	7.2	8.0	8.3
Current Account, % of GDP	-7.2	-5.3	-3.7	-3.5
Money Market Rate, eoy,%	4.7	4.3	3.7	4.7
10 Year Yield, eoy, %	4.3	4.8	4.8	5.1
EUR/SKK, eoy	34.6	33.6	30.1	30.1

Market shares 2007 (based on total assets)



Funding and FX exposure



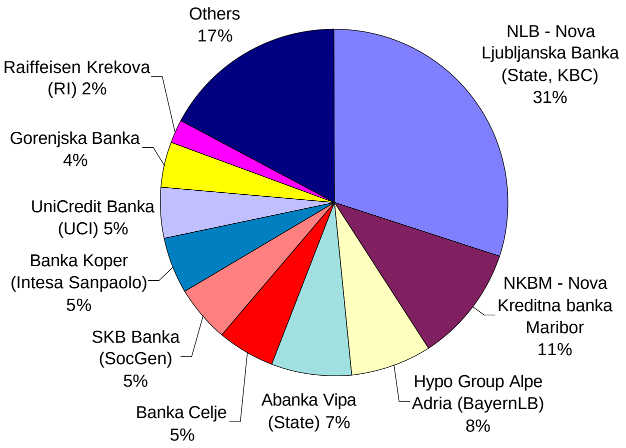
Banking sector data (SKK mn)	2001	2002	2003	2004	2005	2006	2007
Number of banks	21	20	21	21	23	24	26
Number of branches	1,052	1,020	1,057	1,113	1,142	1,175	n.a.
Market share of top 5 banks (% of TA)	66.1	66.4	67.5	66.5	67.8	68.0	68.1
Total assets	931,324	1,017,292	1,019,452	1,227,517	1,433,481	1,433,422	1,684,575
Total loans to non-financial sector	336,400	345,900	392,800	408,000	570,342	683,552	855,071
Total deposits from non-financial sector	599,300	629,500	658,900	693,000	906,104	990,514	1,115,114
Loans in foreign currency	54,100	59,300	73,900	89,800	148,814	158,307	210,142
Total assets (% of GDP)	91.4	91.8	83.4	90.1	96.5	86.4	91.0
Total loans to non-financial sector (% of GDP)	33.0	31.2	32.1	30.0	38.4	41.2	46.2
Loans to private enterprises (% of GDP)	22.6	20.3	19.1	14.8	18.4	19.8	21.9
Loans to households (% of GDP)	5.1	5.5	7.0	8.6	12.2	14.3	16.4
Housing loans (% of GDP)	n.a.	n.a.	5.0	6.4	8.0	9.4	11.0
Consumer loans (% of GDP)	n.a.	n.a.	1.5	1.5	1.7	2.2	2.2
Total deposits from non-financial sector (% of GDP)	58.8	56.8	53.9	50.9	61.0	59.7	60.2
Deposits from private enterprises (% of GDP)	18.0	19.0	21.0	21.8	17.9	18.0	17.9
Deposits from households (% of GDP)	38.4	35.9	31.3	27.0	27.5	28.3	28.6
Loans in foreign currency (% of GDP)	5.3	5.4	6.0	6.6	10.0	9.5	11.3
Total assets yoy (%)	9.2	9.2	0.2	20.4	16.8	0.0	17.5
Total loans to non-financial sector yoy (%)	-17.4	2.8	13.6	3.9	39.8	19.8	25.1
Loans to private enterprises yoy (%)	-27.1	-2.2	3.8	-13.8	35.4	20.4	23.6
Loans to households yoy (%)	18.5	18.1	38.8	37.1	55.1	31.5	27.8
Housing loans yoy (%)	n.a.	n.a.	n.a.	41.6	36.0	32.0	30.1
Consumer loans yoy (%)	n.a.	n.a.	n.a.	7.7	24.9	45.5	15.4
Total deposits from non-financial sector yoy (%)	12.1	5.0	4.7	5.2	30.8	9.3	12.6
Deposits from private enterprises yoy (%)	18.2	14.9	22.0	15.6	-10.7	12.7	11.0
Deposits from households yoy (%)	9.5	1.7	-3.9	-3.8	10.9	15.0	13.1
Loans in foreign currency yoy (%)	14.4	9.6	24.6	21.5	65.7	6.4	32.7
Inhabitants per bank branch	5,113	5,274	5,090	4,838	4,719	4,590	n.a.
Loan / deposit ratio (%)	56.1	54.9	59.6	58.9	62.9	69.0	76.7
FX loan exposure (%)	16.1	17.1	18.8	22.0	26.1	23.2	24.6
Capital adequacy ratio (%)	n.a.	21.3	22.4	18.7	14.8	13.0	13.5

Source: Local statistics, Erste Bank Research

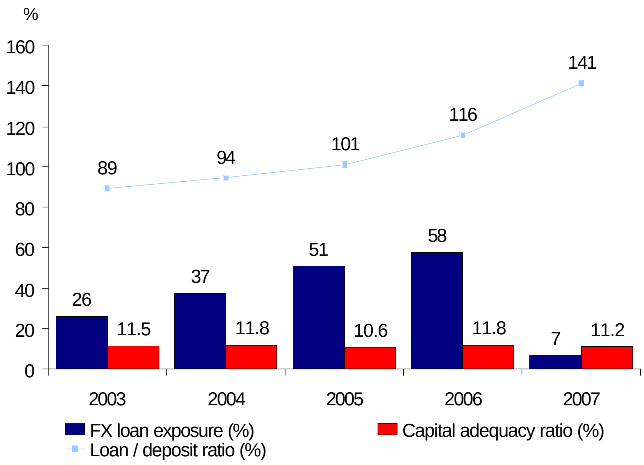
Appendix - Country Fact Sheets

Slovenia - Selected macro data	2006	2007	2008f	2009f
Nominal GDP, in EUR mn.	29,822	32,500	35,800	38,800
GDP per capita (PPP in USD)	24,870	26,990	29,100	30,900
GDP, real growth %	5.7	6.2	4.8	4.3
Inflation, avg.%	2.5	3.6	4.2	3.1
Private Consumption, real growth %	4.0	3.0	3.4	3.2
Fixed Capital Formation, real growth %	8.4	17.0	8.6	6.0
Unemployment rate, %	9.4	7.7	8.1	7.50
Current Account, % of GDP	-2.8	-3.3	-2.4	-1.90
Nominal Wages, growth %	4.8	6.1	6	5.60
Money Market Rate, eoy,%	3.4	4.1	3.7	3.80

Market shares 2007 (based on total assets)



Funding and FX exposure



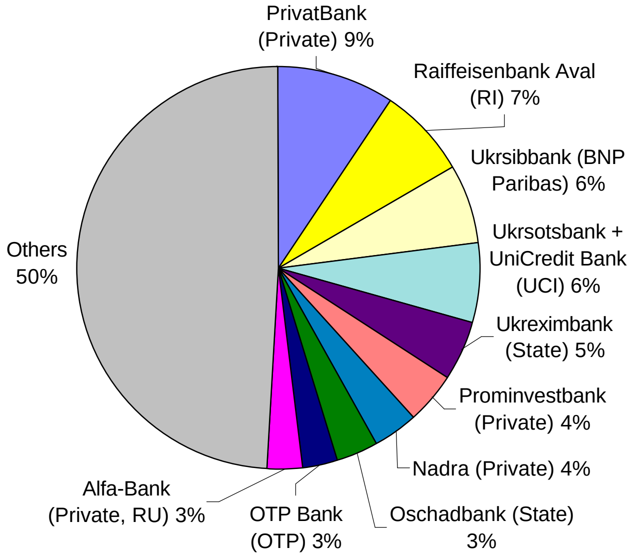
Banking sector data (EUR mn)	2001	2002	2003	2004	2005	2006	2007*
Number of banks	69	50	33	24	25	24	24
Number of branches	717	721	720	706	693	686	n.a.
Number of employees	11,258	11,543	11,397	11,534	11,632	11,714	n.a.
Market share of top 5 banks (% of TA)	67.6	68.4	66.4	64.6	63.0	n.a.	61.2
Total assets	19,108	20,053	21,565	24,461	30,151	34,842	43,493
Total loans to non-financial sector	9,054	9,330	10,457	13,905	16,139	20,194	26,716
Total deposits from non-financial sector	10,809	11,624	11,745	14,722	15,970	17,472	18,935
Deposits from private enterprises	2,267	2,450	2,458	2,596	3,164	3,372	3,658
Deposits from households	6,727	7,157	7,478	10,093	10,640	11,452	12,542
Total assets (% of GDP)	84.2	86.1	86.2	91.7	106.7	114.4	129.7
Total loans to non-financial sector (% of GDP)	39.9	40.1	41.8	52.1	57.1	66.3	79.6
Loans to private enterprises (% of GDP)	25.9	25.5	27.1	32.1	36.9	42.3	51.9
Loans to households (% of GDP)	11.1	10.7	10.8	12.8	15.2	17.7	20.3
Housing loans (% of GDP)	n.a.	0.9	1.1	3.0	4.8	6.4	8.0
Consumer loans (% of GDP)	n.a.	n.a.	n.a.	6.9	7.0	7.5	8.2
Total deposits from non-financial sector (% of GDP)	47.6	49.9	47.0	55.2	56.5	57.4	56.5
Deposits from private enterprises (% of GDP)	10.0	10.5	9.8	9.7	11.2	11.1	10.9
Deposits from households (% of GDP)	29.6	30.7	29.9	37.8	37.6	37.6	37.4
Total assets yoy (%)	23.6	14.1	10.7	14.8	23.1	15.6	24.8
Total loans to non-financial sector yoy (%)	17.4	12.0	15.4	34.6	15.9	25.2	32.3
Loans to private enterprises yoy (%)	24.1	10.0	17.6	27.8	21.6	23.6	35.3
Loans to households yoy (%)	8.2	7.7	11.2	28.8	24.9	25.7	26.7
Housing loans yoy (%)	n.a.	n.a.	34.7	207.1	71.4	43.0	36.4
Consumer loans yoy (%)	n.a.	n.a.	n.a.	n.a.	7.0	16.2	20.0
Total deposits from non-financial sector yoy (%)	26.7	16.9	4.0	26.9	8.4	9.5	8.4
Deposits from private enterprises yoy (%)	12.9	17.5	3.3	6.9	21.7	6.7	8.5
Deposits from households yoy (%)	32.4	15.7	7.6	36.6	5.3	7.7	9.5
Inhabitants per bank branch	2,778	2,768	2,773	2,829	2,887	2,929	n.a.
Loan / deposit ratio (%)	83.8	80.3	89.0	94.4	101.1	115.6	141.1
FX loan exposure (%)*	17.6	22.1	26.0	37.4	51.0	57.6	6.8
Capital adequacy ratio (%)	n.a.	11.9	11.5	11.8	10.6	11.8	n.a.

**) implementation of Euro as of 1.1.2007*

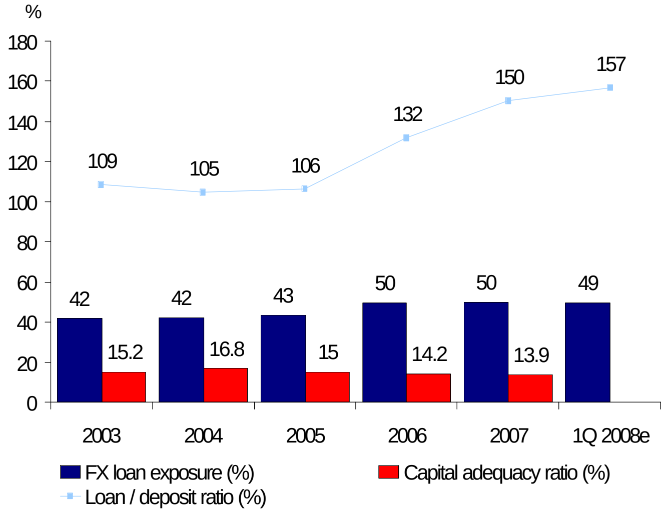
Source: Datastream, Focus Economics, Local statistics, Erste Bank Research

Ukraine - Selected macro data	2006	2007	2008f	2009f
Nominal GDP, in loc. cur. mn.	537,667	712,945	908,090	1,098,788
GDP per capita (PPP in USD)	7,770	8,600	9,400	10,100
GDP, real growth %	7.1	7.6	6.6	6.0
Inflation, avg.%	9.2	12.8	24.0	13.6
Private Consumption, real growth %	14.4	17.1	8.7	10.0
Fixed Capital Formation, real growth %	18.7	24.8	10.0	10.0
Unemployment rate, %	7.4	6.9	6.5	6.1
Nominal Wages, growth %	29.4	29.7	33.0	25.0
Current Account, % of GDP	-2.9	-4.2	-5.8	-7.0
Money Market Rate, eoy,%	15.0	8.7	13.8	10.5
10 Year Yield, eoy, %	n.a.	n.a.	n.a.	n.a.
EUR/UAH, eoy	6.7	7.4	6.5	5.9

Market shares 2007 (based on total assets)



Funding and FX exposure



Banking sector data (UAH mn)	2001	2002	2003	2004	2005	2006	2007
Number of banks	189	182	179	182	186	193	198
Number of branches	n.a.	n.a.	n.a.	n.a.	n.a.	1,410	n.a.
Total assets	47,591	63,896	100,234	134,348	213,878	340,179	599,396
Total loans to non-financial sector	28,373	42,035	67,835	88,579	143,418	245,226	426,863
Total deposits from non-financial sector	25,674	39,467	62,480	84,598	134,754	185,917	283,875
Loans in foreign currency	12,528	17,572	28,272	37,372	62,144	121,443	213,065
Total assets (% of GDP)	23.3	28.3	37.5	38.9	48.4	63.3	84.1
Total loans to non-financial sector (% of GDP)	13.9	18.6	25.4	25.7	32.5	45.6	59.9
Loans to private enterprises (% of GDP)	13.0	16.9	21.5	20.7	24.0	29.9	36.5
Loans to households (% of GDP)	0.8	1.6	3.7	4.7	8.1	15.3	22.5
Total deposits from non-financial sector (% of GDP)	12.6	17.5	23.4	24.5	30.5	34.6	39.8
Deposits from private enterprises (% of GDP)	6.5	7.4	9.0	10.0	11.5	12.2	13.4
Deposits from households (% of GDP)	5.7	8.7	12.4	12.3	16.9	20.2	23.5
Loans in foreign currency (% of GDP)	6.1	7.8	10.6	10.8	14.1	22.6	29.9
Total assets yoy (%)	28.2	34.3	56.9	34.0	59.2	59.1	76.2
Total loans to non-financial sector yoy (%)	45.0	48.2	61.4	30.6	61.9	71.0	74.1
Loans to private enterprises yoy (%)	45.7	43.4	50.5	24.7	48.2	51.3	62.3
Loans to households yoy (%)	42.9	134.4	170.3	63.1	121.0	130.0	95.6
Housing loans yoy (%)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	127.2
Consumer loans yoy (%)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	98.3
Total deposits from non-financial sector yoy (%)	37.0	53.7	58.3	35.4	59.3	38.0	52.7
Deposits from private enterprises yoy (%)	18.8	26.9	43.2	43.0	48.3	28.7	45.7
Deposits from households yoy (%)	66.6	70.4	68.5	28.0	75.9	45.6	53.6
Loans in foreign currency yoy (%)	39.1	40.3	60.9	32.2	66.3	95.4	75.4
Inhabitants per bank branch	n.a.	n.a.	n.a.	n.a.	n.a.	33,082	n.a.
Loan / deposit ratio (%)	110.5	106.5	108.6	104.7	106.4	131.9	150.4
FX loan exposure (%)	44.2	41.8	41.7	42.2	43.3	49.5	49.9
Capital adequacy ratio (%)	n.a.	18.0	15.2	16.8	15.0	14.2	13.9

Source: Local statistics, Erste Bank Research

Appendix - Abbreviations

ALL	Albanian Lek
BAM	Bosnian Convertible Marks
BCR	Banca Comerciala Romana
bn	Billion
BGN	Bulgarian Lew
CAGR	Compounded annual growth rate
CE	Central Europe
CEE	Central Eastern Europe
CIR	Cost/Income ratio
CIS	Commonwealth of Independent States
CPI	Consumer price index
CZK	Czech Koruna
DDM	Dividend Discount Model
EC	European Commission
ECB	European Central Bank
EU	European Union
FDI	Foreign direct investment
FX	Foreign exchange
GDP	Gross domestic product
HRK	Croatian Kuna
HUF	Hungarian Forint
HVB	Hypo Vereinsbank
IMF	International Monetary Fund
IRB	Internal rating based
KB	Komercni banka
M&A	Mergers & acquisitions
ME	Montenegro
mn	Million
n.a.	Not available
n.m.	Not meaningful
NIM	Net interest margin
NII	Net interest income
NLB	Nova Lublijanska Banka
NPL	Non-performing loans
P&L	Profit & loss statement
PLN	Polish Zloty
PTP	Pre-tax profit
qoq	Quarter on quarter
RI	Raiffeisen International
ROA	Return on Assets
ROE	Return on Equity
RON	Romanian Leu
RSD	Serbian Dinar
RUB	Russian Ruble
RWA	Risk weighted assets
RZB	Raiffeisen Zentralbank
SAA	Stabilisation and Association Agreement
SEE	South Eastern Europe
SME	Small and medium enterprises
SIT	Slovenian Tolar
SKK	Slovak Koruna
UAH	Ukrainian Hrywnja
UCI	UniCredito Italiano
USD	United States Dollar
yoy	Year on year

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Appendix - Rating History

Rating history

AIK Banka	Date	Product	Rating	Price	Target price
	19. Feb 08	SR	initial rating: Accumulate	9,182.00	10,450.00

Banca Transilvania	Date	Product	Rating	Price	Target price
	19. Feb 08	SR	initial rating: Accumulate	0.73	0.85

BRD GSG	Date	Product	Rating	Price	Target price
	19. Feb 08	SR	initial rating: Buy	17.60	24.86

BZ WBK	Date	Product	Rating	Price	Target price
	6. Mar 07	ER	under review	223.50	under review
	7. May 07	SR	Accumulate	305.40	360.00
	23. Aug 07	ER	Accumulate	254.00	360.00

FHB	Date	Product	Rating	Price	Target price
	22. Feb 07	CR	Dow ngrade to Hold	1,950.00	1,970.00
	6. Mar 07	ER	Hold	1,860.00	1,970.00
	7. May 07	SR	Hold	2,290.00	2,330.00
	23. Aug 07	ER	Hold	2,111.00	2,330.00
	3. Dec 07	CR	Hold	1,583.00	1,720.00

Komercijalna banka	Date	Product	Rating	Price	Target price
	19. Feb 08	SR	initial rating: Reduce	92,000.00	87,900.00

Komercni Banka	Date	Product	Rating	Price	Target price
	6. Mar 07	ER	Accumulate	3,335.00	3,800.00
	7. May 07	SR	Accumulate	3,825.00	4,400.00
	23. Aug 07	ER	Accumulate	3,865.00	4,400.00

OTP	Date	Product	Rating	Price	Target price
	10. Jan 07	CR	Buy	8,399.00	10,600.00
	6. Mar 07	ER	Buy	7,930.00	10,600.00
	7. May 07	SR	Buy	9,601.00	11,600.00
	23. Aug 07	ER	Buy	8,705.00	11,000 (11,600)

Pekao	Date	Product	Rating	Price	Target price
	6. Mar 07	ER	Hold	222.10	190.00
	7. May 07	SR	Accumulate	264.00	300.00
	23. Aug 07	ER	Accumulate	241.00	300.00

PKO BP	Date	Product	Rating	Price	Target price
	6. Mar 07	ER	Hold	42.80	34.00
	7. May 07	SR	Hold	50.40	55.00
	23. Aug 07	ER	Hold	52.50	55.00

Raiffeisen Intl.	Date	Product	Rating	Price	Target price
	7. May 07	SR	Accumulate	104.30	122.00
	23. Aug 07	ER	Accumulate	104.37	122.00
	4. Oct 07	CN	from Accumulate to Buy	105.25	133.00

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Appendix - Disclosures

Erste Bank rating definitions

Buy	> +20% to target price
Accumulate	+10% < target price < +20%
Hold	0% < target price < +10%
Reduce	-10% < target price < 0%
Sell	< -10% to target price

Our target prices are established by determining the fair value of stocks, taking into account additional fundamental factors and news of relevance for the stock price (such as M&A activities, major forthcoming share deals, positive/negative share/sector sentiment, news) and refer to 12 months from now. All recommendations are to be understood relative to our current fundamental valuation of the stock. The recommendation does not indicate any relative performance of the stock vs. a regional or sector benchmark.

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Company	Disclosure	Comment
AIK Banka	--	--
Banca Transilvania	--	--
BRD GSG	--	--
BRE Bank	--	--
BZ WBK	--	--
FHB	--	--
Komercijalna Banka	--	--
Komercni Banka	2	--
OTP	--	--
Pekao	--	--
PKO BP	--	--
Raiffeisen International	2	--

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CEE Banks: CEE 4–2 Euroland

Günter Hohberger

Gernot Jany, CFA

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1. Negative banking sentiment

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- **US sub-prime crisis still dominates the sentiment of the global banking sector**
- **Sentiment shifted from direct effects (i.e. asset write-offs and capital needs) to indirect effects, i.e. slowing economic growth and increasing funding costs**
- **Unlike Western European peers, CEE banks are not involved in sub-prime related investments → no asset write-offs, no emergency capital increases**
- **However, the share price performance of CEE banks (6M: -19%) is as bad as that of Western European banks (6M: -21%)**

	Performance in EUR terms			
	1M	**3M**	**6M**	**12M**
CEE banks	-9%	7%	-19%	-25%
Western European banks	-11%	4%	-21%	-35%

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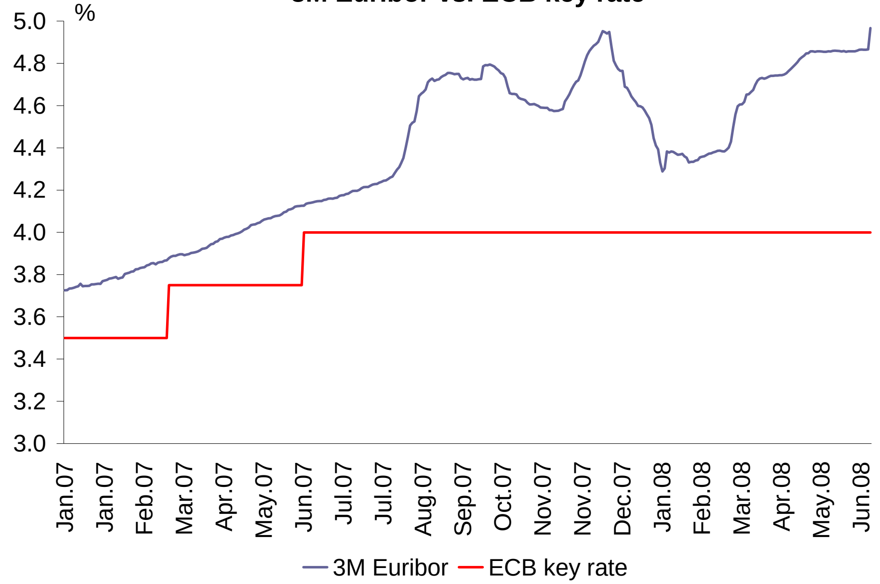
2. Rising funding costs

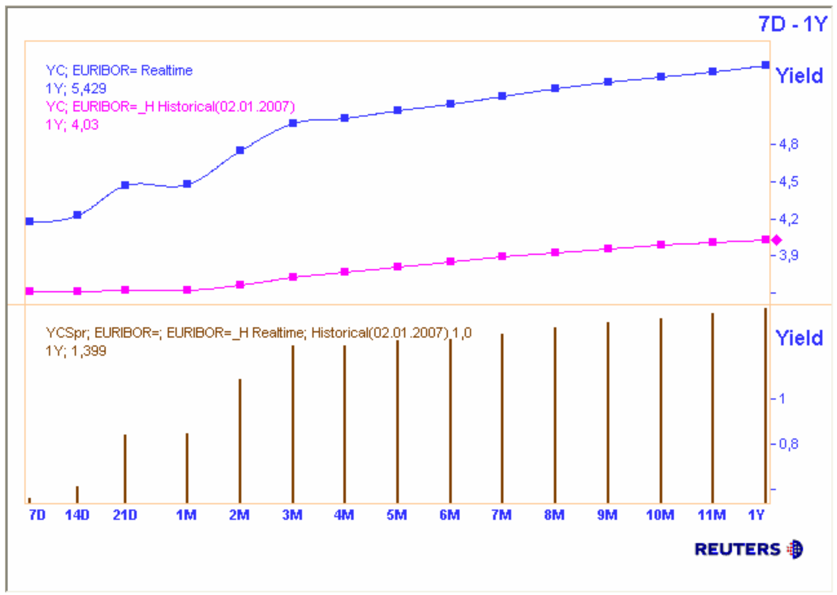
- **3M Euribor increased by 125bp to 4.97%, from 3.725% at the beginning of 2007**
- **As a result, funding ability and funding quality have become an issue in the last couple of months, in order to secure asset growth at a reasonable price**

3M Euribor vs. ECB key rate



Source: Bloomberg, ECB

Euribor yield curve, current vs. beginning of 2007



Source: Reuters

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3. Funding quality and FX exposure

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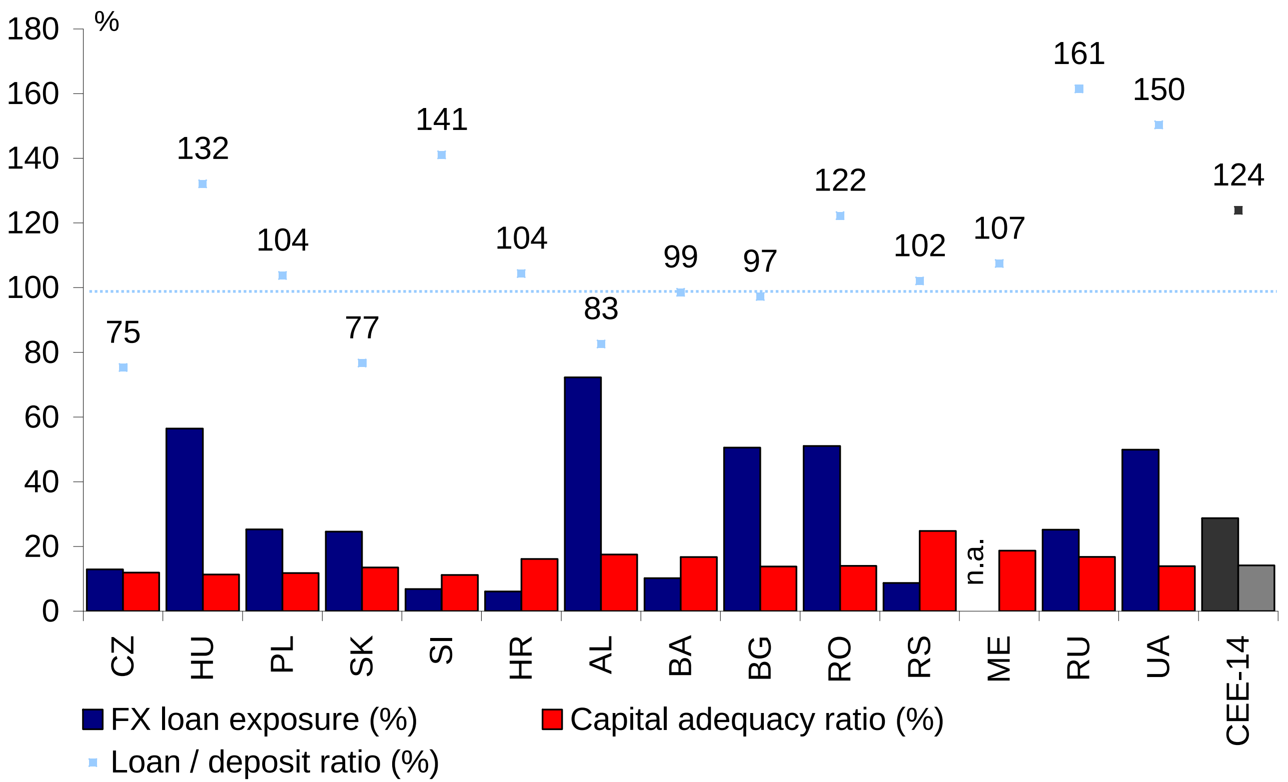
Funding quality and FX exposure 2007



Source: National Banks, Erste Group Research

- **Stretched loan / deposit ratio in Russia (161%), Ukraine (150%), Slovenia (141%), Hungary (132%) and Romania (122%)**
- **Medium loan / deposit ratio on the 100% level in most SEE countries**
- **Relaxed loan / deposit ratio in Czech Republic, Slovakia, Albania**
- **>50% FX exposure in Hungary, Bulgaria, Romania, Ukraine**
- **Czech Republic, Croatia, Serbia provide safe haven FX exposure**

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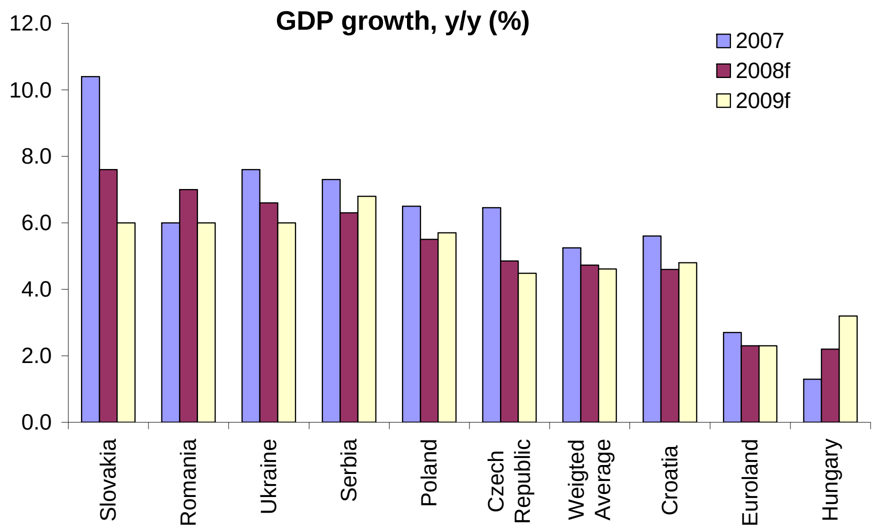
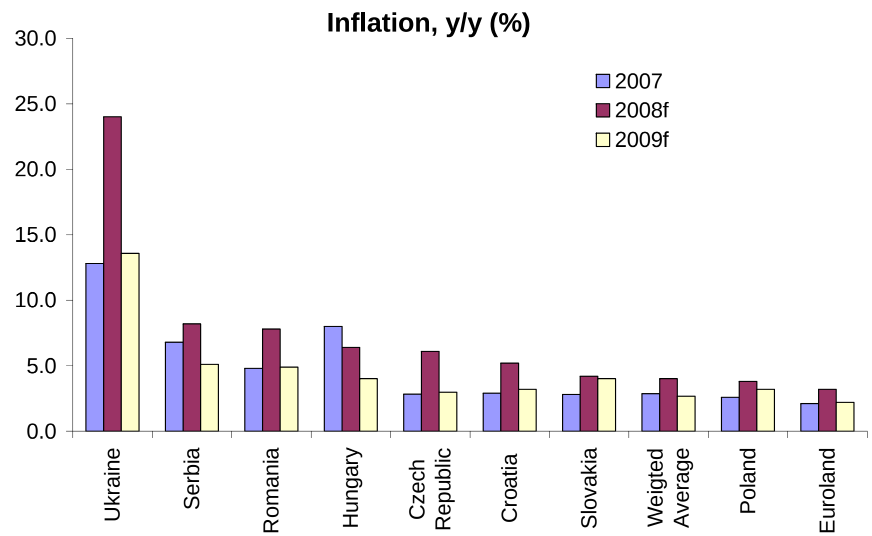
4. Macro concerns (1)
Slowing GDP growth, rising inflation

- **CEE economies to slow down moderately in 2008 due to Euroland slowdown and decelerating consumer demand (limited employment growth, inflation, interest rate hikes)**
- **Competitive advantage of CEE countries to remain for many years (unit labor cost gap) and continues to attract foreign investments**
- **Inflation fueled by rising energy and food prices (higher weight in CEE)**
- **Pre-emptive interest rate hikes were justified and will prolong**





Source: Bloomberg, Erste Bank Research

4. Macro concerns (2)
Current account deficits in spotlight

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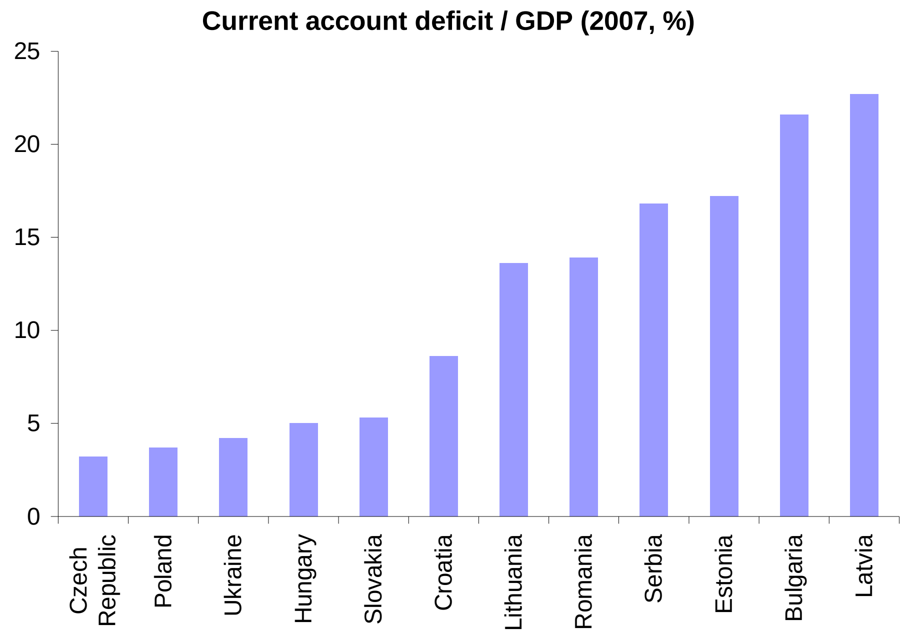
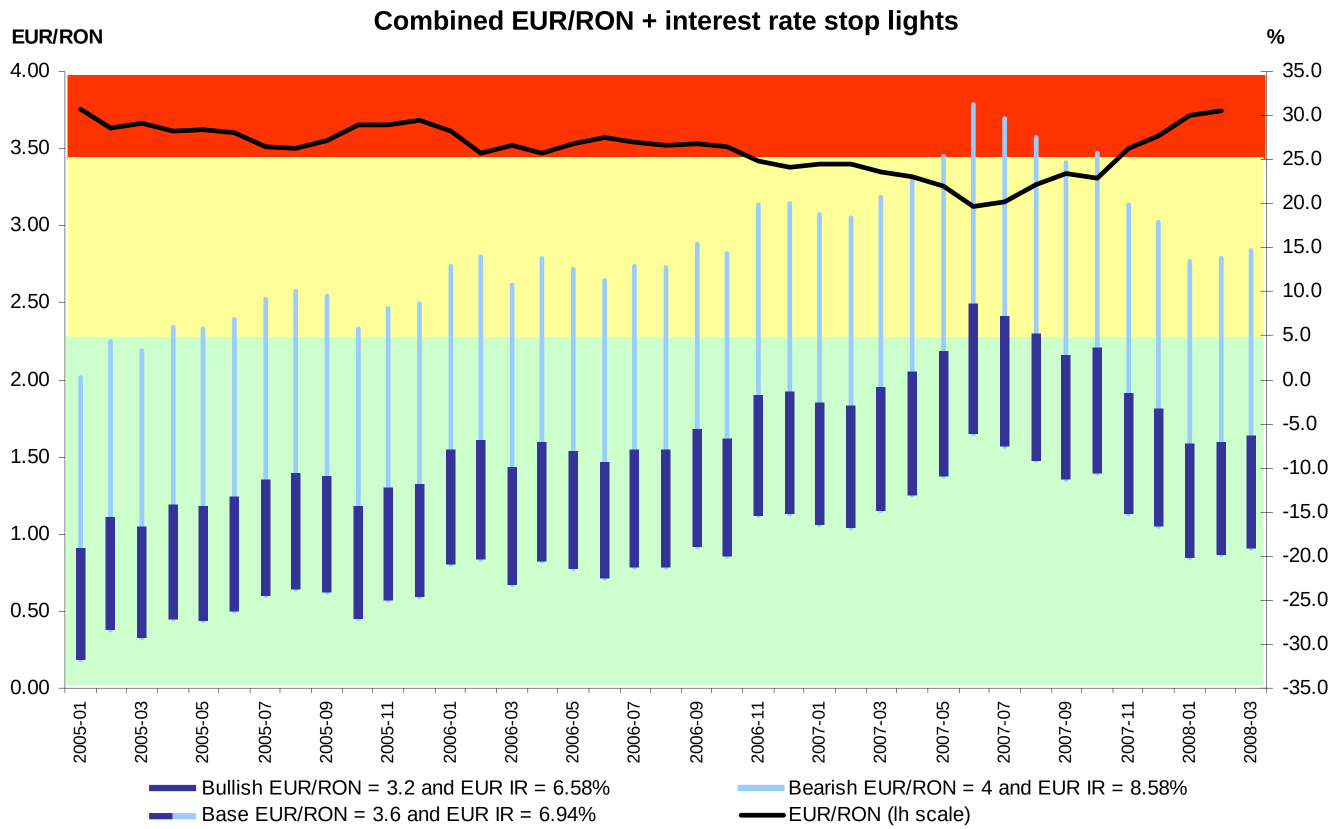
- CEE economies that have been driven by strong domestic demand (Balkan and Baltic states) faced growing external imbalances, some >20% of GDP (Bulgaria, Latvia)
- Financing has become more challenging in liquidity squeeze and widened spreads environment → rely on FDI inflows or growing external debt

- Romania's flexible exchange rate regime faced periods of strong sell-offs
- Fears about economic vulnerability and the impact of a weaker currency on the economy, particularly on banks (FX exposure)
- Romania's C/A deficit to GDP to remain flat this year
- C/A deficit partly financed by FDI inflows (estimated at 6% of GDP) and further growth of external borrowing (mainly private sector)



Source: Erste Bank Research, Consensus Forecasts

4. Macro concerns (3)
RO: FX risk and interest rate risk



Source: NBR, Reuters, Erste Group Research

- **C/A deficit not as bad as it looks: backed by FDI and remittances, consumption on declining trend**
- **RON depreciation causes concerns on growing loan default**
- **Timing of loan drawing limits FX related risk**
- **In base scenario only 14/39 months bear risk of 5-10% increase of instalment**

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5. Banking sector drivers (1)
Strong loan growth, high FX exposure

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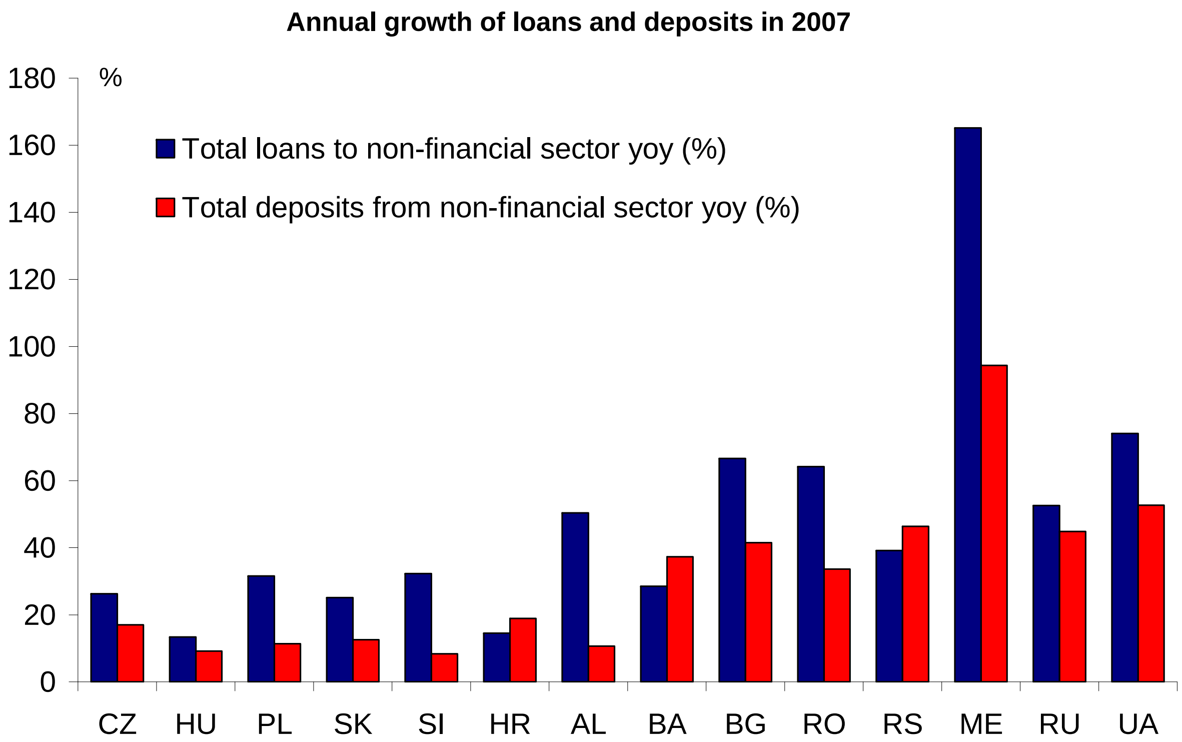

Source: National Banks, Erste Group Research

- **>50% loan growth in Bulgaria, Romania, Ukraine and Russia driven by retail loans**
- **~80% FX loan growth in Bulgaria, Romania, Ukraine resulted in FX exposure >50%**
- **Fastest deposit growth in Ukraine, Serbia and Russia**

5. Banking sector drivers (2)
Still lots of catch-up potential

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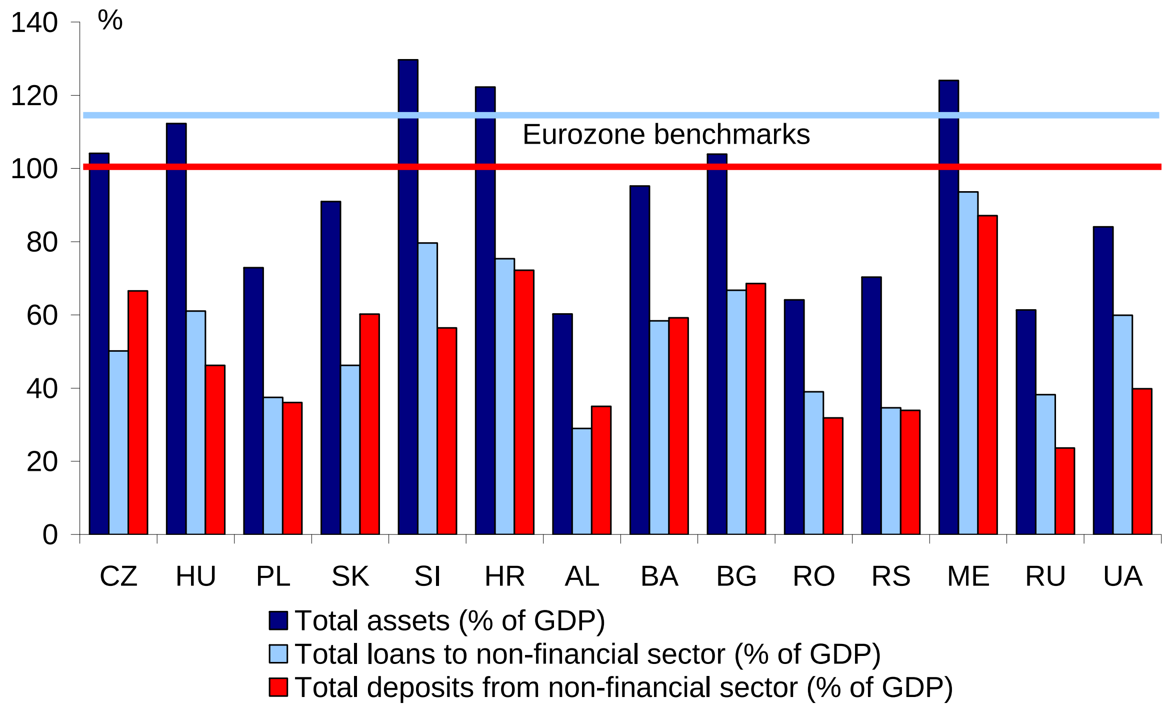
Penetration rates 2007



Source: National Banks, Erste Group Research

- **Deposits/GDP are closer to Euro levels as the growth on the deposit side started earlier**
- **Loans/GDP for most CEE countries provide >100% catch-up potential to Euroland levels**
- **Banking markets will grow at higher pace than GDP for years**

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6. Financials & valuation (1)

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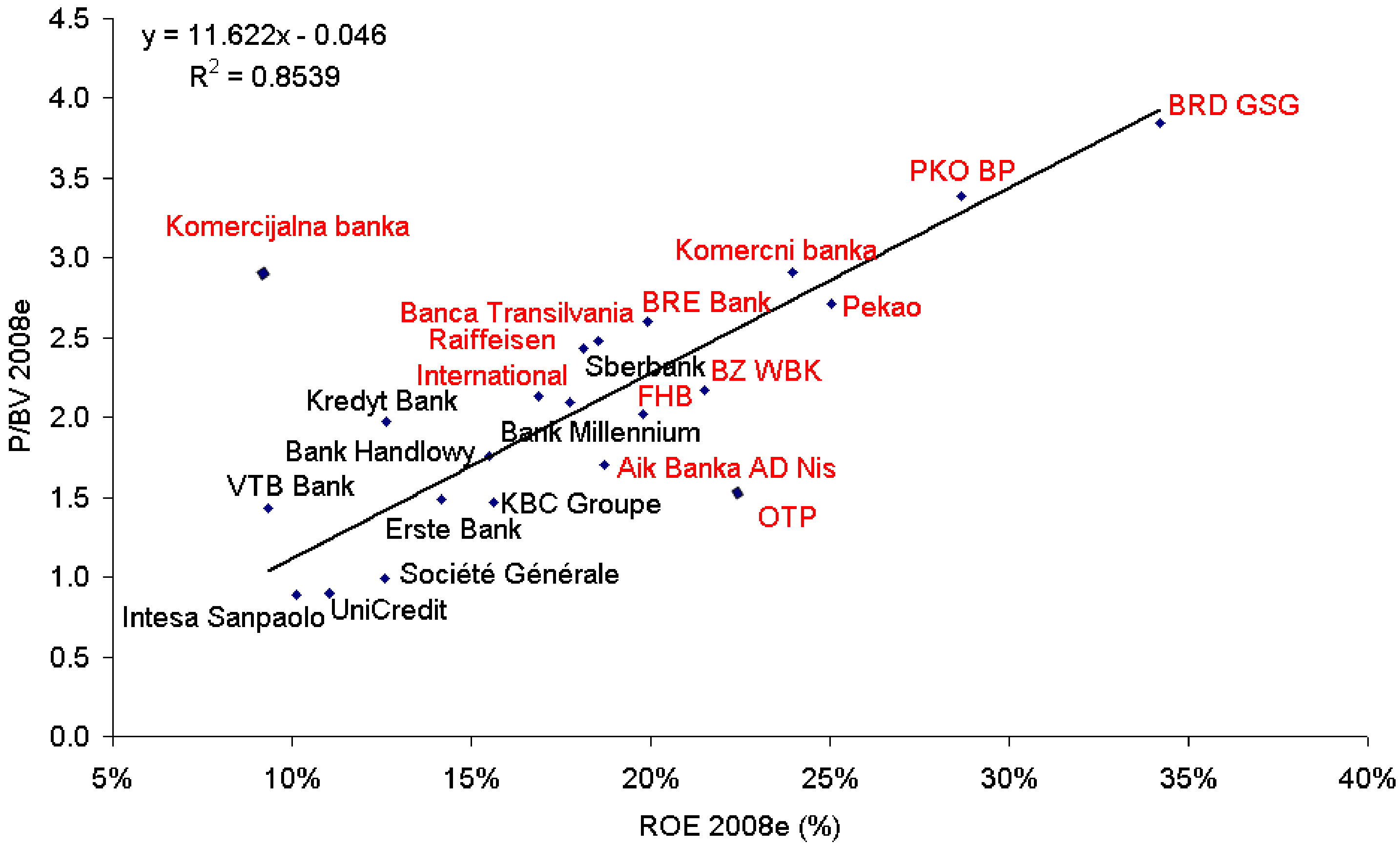
Regression P/BV vs. ROE 2008e



Prices as of June 17, 2008

Source: JCF, Erste Group Research

Note: Regression adjusted for outliner (OTP and Komercijalna)

- **Valuation premiums of >20% in PL and RO have disappeared**
- **P/BV returned to levels below 4x**
- **High R^2: most premiums and discounts are justified by corresponding ROE**
- **Value play OTP: Large discount not justified, due to high profitability**
- **Growth play RI: Deserves higher premium, due to strong growth and regional diversification**

6. Financials & valuation (2)

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Peer group valuation

Company	**P/BV**				**P/E**				**Dividend yield**				**ROE**			
	2006	**2007**	**2008e**	**2009e**	**2006**	**2007**	**2008e**	**2009e**	**2006**	**2007**	**2008e**	**2009e**	**2006**	**2007**	**2008e**	**2009e**
Aik Banka AD Nis	2.8x	2.0x	1.7x	1.4x	12.6x	13.0x	9.8x	8.3x	0.4%	0.4%	0.6%	0.7%	26.2%	19.4%	18.7%	18.7%
Banca Transilvania	5.4x	3.6x	2.5x	2.0x	35.2x	26.1x	15.9x	11.3x	0.0%	0.0%	0.0%	0.0%	17.6%	16.0%	18.5%	19.6%
BRD GSG	6.6x	4.9x	3.8x	2.9x	21.6x	14.8x	12.6x	10.0x	1.7%	2.7%	3.8%	3.9%	33.9%	38.0%	34.2%	32.6%
BRE Bank	4.4x	3.4x	2.6x	2.1x	29.0x	18.1x	14.8x	10.9x	0.0%	0.0%	0.0%	0.0%	16.9%	21.3%	19.9%	21.0%
BZ WBK	2.8x	2.5x	2.2x	1.9x	14.4x	11.5x	10.9x	9.0x	4.0%	2.0%	2.8%	4.4%	20.7%	23.0%	21.5%	22.4%
FHB	2.6x	2.4x	2.0x	1.7x	10.0x	14.4x	11.0x	10.4x	2.8%	0.0%	1.8%	1.9%	28.7%	17.2%	19.8%	18.1%
Komercijalna banka	4.1x	3.4x	2.8x	2.2x	60.7x	20.9x	34.2x	21.3x	0.0%	0.0%	0.0%	0.0%	7.1%	17.8%	9.0%	11.6%
Komercni banka	3.2x	3.2x	2.9x	2.6x	17.3x	14.2x	12.7x	11.6x	3.6%	4.3%	4.7%	5.2%	18.2%	22.5%	24.0%	23.9%
OTP Bank	2.2x	1.9x	1.5x	1.3x	9.3x	8.4x	7.6x	6.8x	2.3%	0.0%	3.5%	4.4%	28.1%	24.9%	22.5%	20.8%
Pekao	3.2x	3.0x	2.7x	2.5x	15.7x	13.7x	11.4x	10.9x	5.4%	5.7%	5.3%	6.4%	20.7%	18.3%	25.0%	24.0%
PKO BP	4.8x	4.0x	3.4x	2.8x	22.3x	16.5x	12.8x	10.5x	2.0%	2.3%	3.1%	3.8%	22.9%	26.4%	28.7%	29.3%
Raiffeisen Int.	3.3x	2.4x	2.1x	1.8x	11.2x	15.9x	13.6x	10.9x	0.8%	1.0%	1.5%	1.8%	17.5%	17.1%	16.9%	18.3%
Bank Handlowy	2.1x	1.9x	1.8x	1.7x	17.5x	13.1x	11.3x	9.6x	4.7%	6.4%	6.7%	7.5%	12.1%	14.7%	15.5%	17.3%
Bank Millennium	3.1x	2.6x	2.1x	1.8x	23.1x	13.9x	11.8x	10.0x	2.1%	2.5%	2.8%	3.1%	13.4%	18.3%	17.7%	18.2%
Kredyt Bank	2.8x	2.4x	2.0x	1.8x	12.4x	13.9x	15.6x	12.7x	1.7%	1.8%	2.2%	2.8%	22.3%	17.1%	12.6%	14.0%
Sberbank	5.0x	2.8x	2.4x	2.0x	18.2x	16.4x	13.4x	10.6x	0.4%	0.6%	0.9%	1.3%	27.3%	17.0%	18.1%	18.9%
VTB Bank	2.4x	1.4x	1.4x	1.3x	15.5x	15.6x	15.3x	12.2x	0.4%	0.7%	1.3%	1.6%	15.8%	9.1%	9.3%	10.7%
Erste Bank	1.9x	1.8x	1.5x	1.3x	15.2x	12.5x	10.5x	8.7x	1.4%	1.6%	1.9%	2.3%	12.2%	14.1%	14.2%	14.9%
Intesa Sanpaolo	1.5x	0.9x	0.9x	0.9x	10.9x	10.8x	8.8x	7.6x	10.1%	10.1%	7.7%	9.3%	13.7%	8.5%	10.1%	11.3%
KBC Groupe	1.6x	1.6x	1.5x	1.3x	10.0x	9.2x	9.4x	8.3x	4.2%	4.8%	4.9%	5.4%	16.1%	17.1%	15.6%	16.2%
Société Générale	1.0x	1.0x	1.0x	0.9x	5.2x	30.3x	7.9x	6.6x	8.6%	1.5%	5.8%	7.0%	18.8%	3.4%	12.6%	13.9%
UniCredit	1.1x	0.9x	0.9x	0.9x	8.6x	8.3x	8.2x	6.8x	5.8%	6.3%	6.4%	7.3%	12.9%	11.5%	11.0%	12.4%
Mean EB coverage	**3.8x**	**3.1x**	**2.5x**	**2.1x**	**21.6x**	**15.6x**	**13.9x**	**11.0x**	**1.9%**	**1.5%**	**2.2%**	**2.7%**	**21.5%**	**21.8%**	**21.6%**	**21.7%**
Mean CEE banks	**3.6x**	**2.8x**	**2.4x**	**2.0x**	**20.3x**	**15.3x**	**13.8x**	**11.0x**	**1.9%**	**1.8%**	**2.4%**	**2.9%**	**20.6%**	**19.9%**	**19.5%**	**20.0%**
Mean CEE exposure	**1.4x**	**1.2x**	**1.1x**	**1.1x**	**10.0x**	**14.2x**	**8.9x**	**7.6x**	**6.0%**	**4.9%**	**5.3%**	**6.3%**	**14.8%**	**10.9%**	**12.7%**	**13.7%**
Mean all banks	**3.1x**	**2.5x**	**2.1x**	**1.8x**	**18.0x**	**15.1x**	**12.7x**	**10.2x**	**2.8%**	**2.5%**	**3.1%**	**3.6%**	**19.2%**	**17.9%**	**18.0%**	**18.5%**

Prices as of June 17, 2008
Source: JCF, Erste Group Research

6. Financials & valuation (3)

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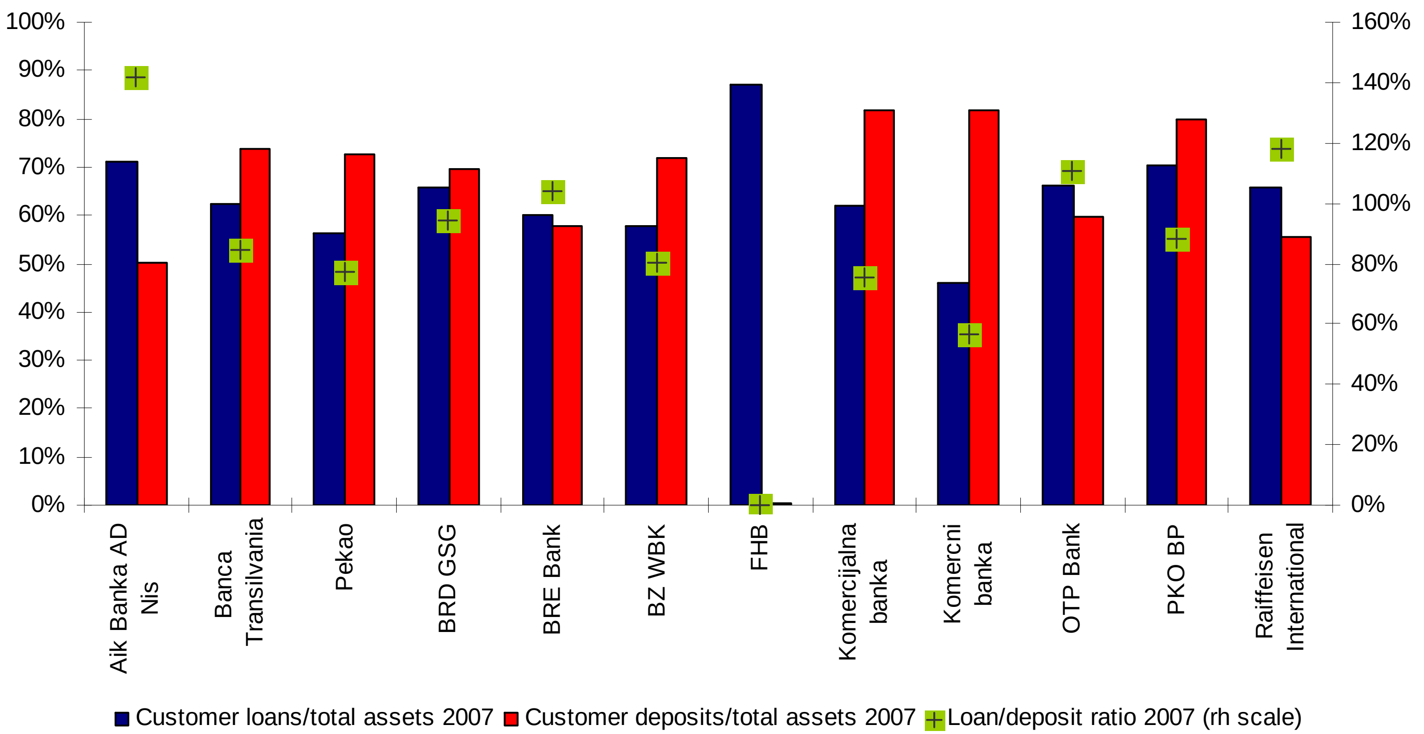
Funding quality of CEE banks (2007)



Source: Erste Group Research

- **BRD, BRE, OTP, Raiffeisen in the range of 100% loan/deposit ratio**
- **Aik Banka's LTD ratio quite stretched**
- **FHB almost zero deposits**
- **Komercijalna banka, Komercni, Pekao, Transilvania, BZ WBK, PKO BP, with relaxed LTD ratio**

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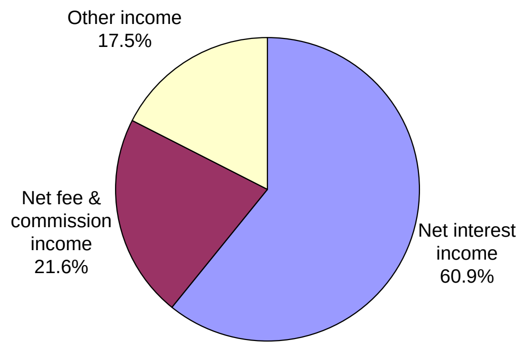
7. Our team A in CEE (1)
OTP (Buy, HUF 8,500)

- **Value play trading at heavy discounts**
  - clear regional expansion strategy (9 countries)
  - strong position in Hungary, Bulgaria and Montenegro
  - presence in fast growing markets in SEE and CIS
  - still high margins and profitability
  - highly attractive valuation

- **Risks**
  - re-pricing of subsidized mortgage loans in HU
  - negative effects from austerity package and growth dent in HU
  - potential increase in credit risk, due to rising FX exposure in HU and RO
  - integration of foreign subsidiaries

Total income breakdown (2007)



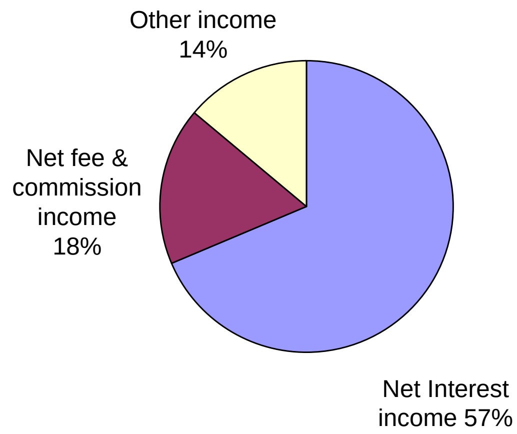
7. Our team A in CEE (2)

Raiffeisen International (Buy, EUR 114)

- **Growth play with country diversification**
  - network banks in 16 CEE countries
  - first mover advantage in many countries
  - strong market position in SEE and CIS regions
  - excellent acquisition track record
  - experienced management
  - strong asset and profit growth

- **Risks**
  - low market shares CZ, PL & HU
  - branch network expansion puts pressure on costs
  - political and legal insecurity in some of RI's markets
  - still low retail exposure
  - increasing loan/deposit ratio (2007: 119%)

Total income breakdown (2007)



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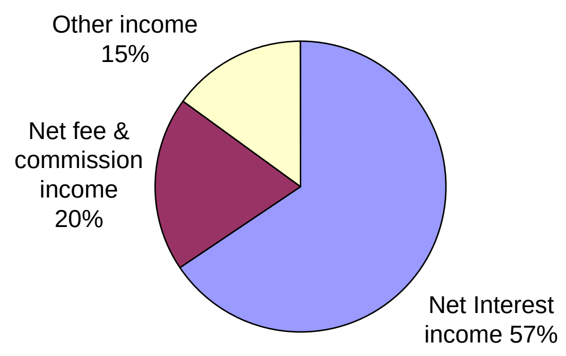
8. Our team B in CEE (1)
BRD GSG (Accumulate, RON 25.60)

- **One of the most profitable banks in CEE**
  - No. 2 in RO, with an even stronger foothold in high growth & high margin retail and SME segment
  - Highly efficient and profitable, despite fast network expansion (currently around 800 branches)
  - Strong geographic coverage
  - Support from parent company (funding, know how)
- **Risks**
  - Highest valuation in CEE banking sector
  - Increasing competition puts pressure on margins
  - Vulnerable to RON depreciation, due to high FX exposure

Total income breakdown (2007)



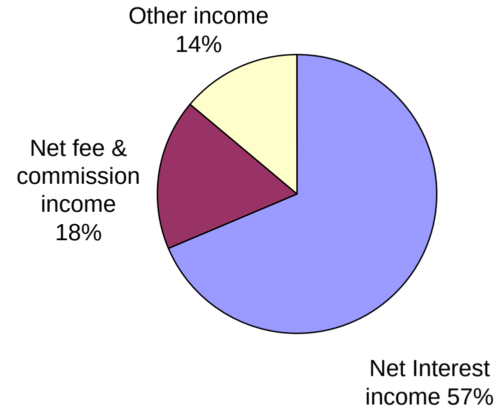
8. Our team B in CEE (2)

AIK Banka (Accumulate, RSD 9,660)

- **Highly efficient corporate bank**
  - Quickly improving market position (No. 6)
  - Strong position in high growth & margin SME business
  - Outstanding profitability, based on high margins and cost efficiency
  - Possible takeover target (Greek ATE Bank holds 20%)

- **Risks**
  - Higher business risk, due to focus on corporate and SME segment
  - Weak deposit base (high loan/deposit ratio), but improving fast

Total income breakdown (2007)



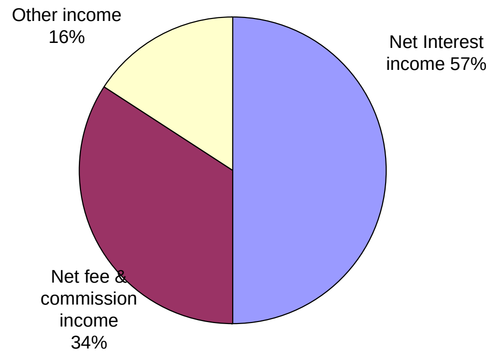
8. Our team B in CEE (3)

Banca Transilvania (Accumulate, RON 0.51)

- **Strong growth and improving profitability**
  - No. 2 position in high growth & high margin SME segment
  - Pole position in asset management
  - Strong position in the fast growing region around Cluj
  - Strong branch network of around 430 units
  - Higher focus on efficiency can boost profitability
  - Potential takeover target, lacking strategic investor

- **Risks**
  - Higher business risk, due to focus on SME segment
  - Regional bias of branch network coverage
  - Profitability currently depressed, due to fast network expansion
  - Vulnerable to RON depreciation, due to high FX exposure

Total income breakdown (2007)



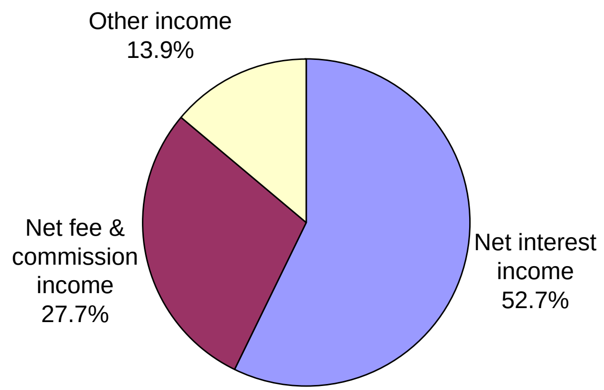
8. Our team B in CEE (4)

PKO BP (Accumulate, PLN 55)

- **Strong profitability and huge deposit base**
  - strong position in retail banking
  - among most recognized banks in PL
  - above average loan quality in PL
  - strong growth of consumer loans, mortgage loans and the credit card business
  - CIR improved to 53% (59%)
  - good funding quality (loan/deposit ratio 88%)

- **Risks**
  - high staff level
  - increasing personnel costs
  - management board replacements
  - CIR still above Polish peers

Total income breakdown (2007)



8. Our team B in CEE (5)

Komercni banka. (Accumulate, CZK 4,700)

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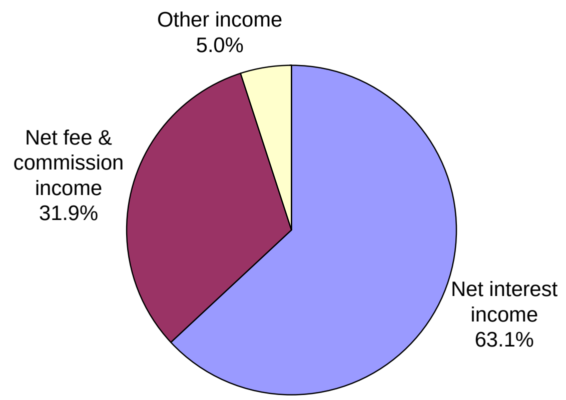
- **Highly efficient value play with relaxed balance sheet**
  - strengthening position in fast growing retail market
  - strong foothold in mortgage business
  - strong franchise among Czech customers
  - slightly improving NIM
  - further improving CIR despite low level (45.7%)
  - improved asset quality

- **Risks**
  - still low interest environment with thin spreads
  - competition for big-ticket lending squeezes margins
  - flat F&C income dynamics suffer from decreasing asset management fees and flat loan fees
  - increasing cost of risk, due to higher risk profile

Total income breakdown (2007)



Appendix

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- **Peer group comparison**
- **Valuation methodologies**
- **Disclosures**

Peer group comparison

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Peer group comparison

Company	Market	Net profit / loss				EPS (EUR)				CAGR	DPS (EUR)				BVPS (EUR)			
(EUR mn)	Cap.	2006	2007	2008e	2009e	2006	2007	2008e	2009e	06-09e	2006	2007	2008e	2009e	2006	2007	2008e	2009e
Aik Banka AD Nis	725	47	56	75	91	8.21	7.91	10.49	12.38	14.7%	0.45	0.45	0.58	0.70	36.74	51.68	60.41	72.09
Banca Transilvania	1,248	31	45	80	115	0.00	0.01	0.01	0.01	46.2%	0.00	0.00	0.00	0.00	0.02	0.03	0.05	0.06
BRD GSG	4,132	192	279	1,370	420	0.27	0.40	0.56	0.59	29.0%	0.10	0.16	0.22	0.23	0.90	1.20	1.54	2.07
BRE Bank	3,344	411	184	970	1,124	4.25	7.10	10.49	11.43	39.1%	0.00	0.00	0.00	0.00	25.37	33.17	43.40	54.51
BZ WBK	3,239	224	283	298	359	3.08	3.87	4.09	4.93	17.0%	1.78	0.89	1.23	1.97	16.06	17.61	20.47	23.43
FHB	309	31	22	28	30	0.47	0.33	0.43	0.45	-1.3%	0.13	0.00	0.09	0.09	1.82	1.98	2.33	2.69
Komercijalna banka	822	11	39	24	41	15.97	46.26	28.34	45.54	41.8%	0.00	0.00	0.00	0.00	233.94	285.23	340.96	441.92
Komercni banka	6,578	381	463	516	566	10.03	12.18	13.58	14.89	14.1%	6.21	7.45	8.15	8.93	54.07	53.98	59.41	65.37
OTP Bank	7,061	761	848	928	1,043	2.94	3.24	5.74	4.03	11.1%	0.62	0.00	0.95	1.21	12.17	14.01	17.86	20.85
Pekao	13,019	529	638	1,144	1,193	3.17	3.63	4.37	4.55	12.8%	2.66	2.84	2.62	3.18	15.75	16.57	18.31	19.66
PKO BP	14,202	636	859	1,106	1,346	0.64	0.86	1.11	1.35	28.4%	0.29	0.32	0.44	0.54	2.98	3.53	4.19	5.00
Raiffeisen International	14,227	594	841	1,055	1,314	8.29	5.36	6.82	8.49	26.8%	0.71	0.93	1.37	1.71	27.97	37.88	43.39	50.25
Bank Handlowy	2,997	172	229	267	304	1.31	1.75	2.02	2.38	21.9%	1.07	1.46	1.54	1.71	10.83	11.93	13.07	13.73
Bank Millennium	1,789	79	128	155	178	0.09	0.15	0.18	0.21	32.1%	0.04	0.05	0.06	0.06	0.68	0.83	1.00	1.16
Kredyt Bank	1,510	122	109	103	121	0.45	0.40	0.36	0.44	-0.9%	0.10	0.10	0.12	0.15	2.01	2.33	2.81	3.12
Sberbank	47,478	2,311	2,851	3,655	4,682	0.12	0.13	0.16	0.21	19.8%	0.01	0.01	0.02	0.03	0.44	0.79	0.91	1.10
VTB Bank	15,830	862	1,012	1,027	1,323	0.30	0.30	0.31	0.39	8.5%	0.02	0.03	0.06	0.08	1.92	3.29	3.29	3.62
Erste Bank	14,866	932	1,175	1,458	1,733	3.10	3.76	4.47	5.40	20.3%	0.65	0.75	0.90	1.10	25.31	26.72	31.53	36.24
Intesa Sanpaolo	47,954	2,559	7,250	5,769	6,202	0.35	0.35	0.43	0.50	12.9%	0.38	0.38	0.29	0.35	2.54	4.10	4.25	4.43
KBC Groupe	28,035	3,431	3,280	2,883	3,185	7.82	8.52	8.30	9.40	6.3%	3.31	3.78	3.80	4.20	48.51	49.90	53.13	57.99
Société Générale	42,820	5,221	947	4,403	5,132	11.54	1.98	7.62	9.03	-7.8%	5.18	0.90	3.50	4.20	61.27	57.54	60.50	65.17
UniCredit	54,875	5,448	6,566	7,093	7,918	0.48	0.50	0.50	0.60	7.9%	0.24	0.26	0.26	0.30	3.70	4.32	4.55	4.82

Prices as of June 17, 2008

Source: JCF, Erste Group Research

Valuation methodologies

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- **Recommendation based on Dividend Discount Model**
  - **3-stage DDM**, due to growth pattern of banks operating in emerging markets
  - **<u>Stage I</u>**: explicitly forecast EPS until 2012
  - **<u>Stage II:</u>** gradually declining growth rates, profitability and cost of equity to more sustainable levels (10 years)
  - **<u>Stage III:</u>** determination of terminal value by multiplying BVPS 2022 with P/BV derived by Gordon Growth Model

- **Peer group valuation to check plausibility**
  - Regression of **P/BV 08e vs. ROE 08e** (highest R^2)
  - Average of **P/E ratios** for the years 2008-2009

Disclosures

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Company	Disclosure	Comment
AIK Banka	--	--
Banca Transilvania	--	--
BRD GSG	--	--
BRE Bank	--	--
BZ WBK	--	--
FHB	--	--
Komercijalna Banka	--	--
Komercni Banka	2	--
OTP	--	--
Pekao	--	--
PKO BP	--	--
Raiffeisen International	2	--