CEE equity markets sentiment remains volatile, but region keeps appeal in terms of risk

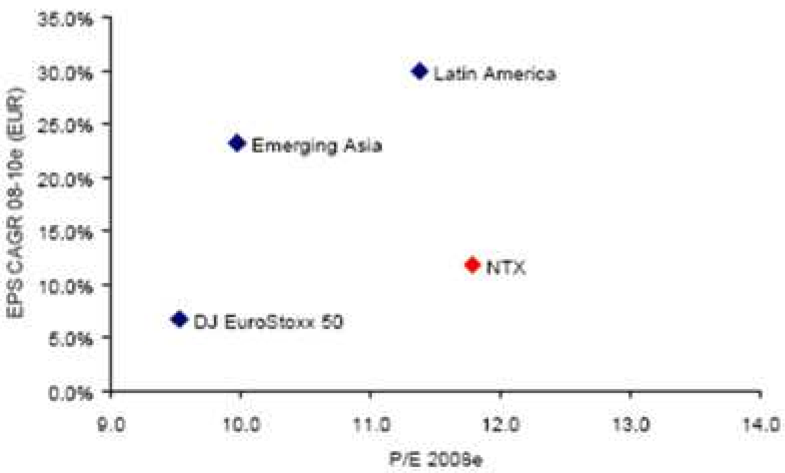
29.09.2008

- Due to sentiment, CEE markets not expected to outperform developed markets
- Erste Group analysts recommend large caps over small caps / converging over emerging markets / defensive over cyclical
- Poland, Austria, Czech Republic overweight

Global market turmoil has created purely sentiment driven markets. With growth now seen as a synonym to risk (in particular if debt financed) emerging markets, and consequently also CEE, are markets suffering in competition with developed markets. While sentiment rules, CEE markets, as any other emerging market, are not expected to outperform developed markets in this situation.

“The fundamental argument for emerging market growth still holds in our view and, even though sentiment doesn’t acknowledge any kind of decoupling, we still see good arguments for the CEE region”, says Henning Esskuchen, co-head of CEE Equity research at Erste Group. "If one has to decide which emerging market to choose, we see some advantage in CEE markets, based on the fact that they are actually converging markets, receiving a lower risk profile than pure emerging markets”, he continues.

NTX vs peers



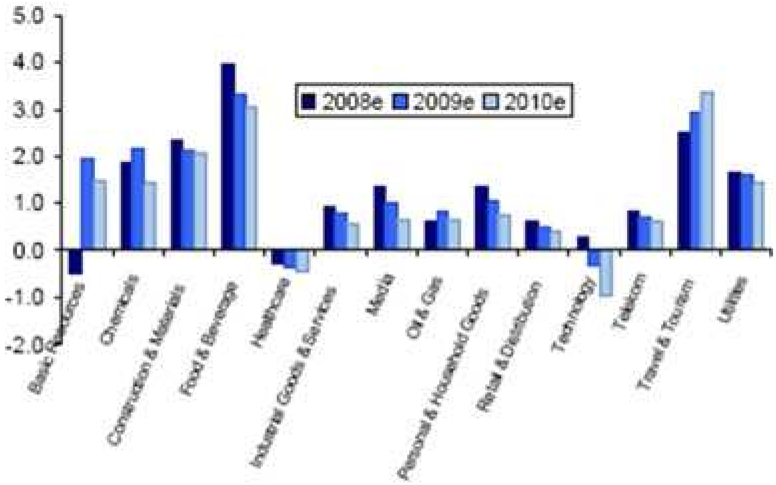
Source: Factset, European Commission, Erste Group

Erste Group analysts say a decrease in growth of 1% in Eurozone growth would result in 0.5% in CEE growth in general. However, there are significant differences among individual countries in CEE. Poland and Romania will see very limited impact, due to their robust domestic demand. Assuming a flat development in the Eurozone, that will enhance Poland's GDP growth to some 4-4.5%, while Romania will fall into a 5-6% bracket. Open economies such as Hungary and the Czech Republic will certainly face a more severe situation. However, Erste Group’s analysts see the evolution in developed Europe mostly driven by sentiment and assume that falling commodity prices and resulting lower inflation pressure (potentially even accompanied by a rate cut) may lift purchasing power and the willingness to spend in Q2 2009.

Apart from their proposed country allocation, Erste Group analysts summarize their positioning as following: large cap over small cap / converging market over emerging market / defensive over cyclical.

One of the main triggers for concern regarding implications for the real economy is the availability of financing and the burden of financial results on corporate results. In an attempt to develop an overview on the indebtedness and self-financing power, Erste Group analysts look at net debt relative to EBITDA on sector level.

Net Debt / EBITDA*



"Overall, we find little divergence of CEE sectors compared to their western peers as based on EuroStoxx sector indices. In some cases the multiple is even significantly lower (pharma, retail, technology, telecom, utilities). The criteria of indebtedness also indicates that construction & materials, basic resources and travel & tourism (cyclical anyway) may not be good ideas", points out Henning Esskuchen.

"As financial institutions within CEE repeatedly point out, they have very limited or no exposure to toxic assets and the need for write-offs has only been seen in some Austrian companies, on a limited scale. Fundamentals are still sound as confirmed by quarterly numbers and sound margins could be supported/replaced by some volume effect, once interest rates begin to fall. Corporate development will continue in the region and in particular retail banks should be well funded (in particular based on the current flight into conservative forms of saving) to finance this", Esskuchen concludes.

Erste Group analysts' allocation proposal:

We remain overweight on Poland and Austria, the first one in particular due to its robust resistance to any slowdown in the Eurozone. The risk for Poland obviously is that we see further negative news flow on economic development - but we would like to stress again that this would be primarily owed to a cyclical development. Even though the Polish monetary council still carefully watches inflation, its tone has become more dovish these days and a shift in focus towards support of economic growth could be expected.

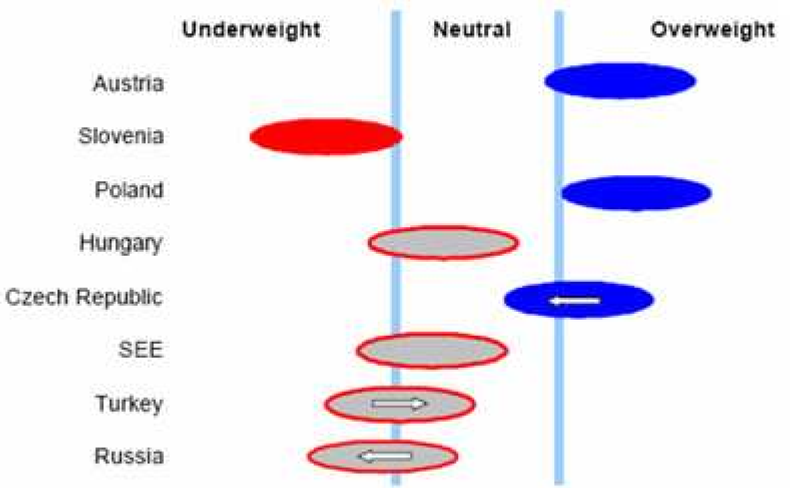
Hungary, as a potential victim of Eurozone weakness and its ongoing pain of the austerity program along with rising prices, was put on a neutral rating.

The Czech Republic, as a traditionally safe harbour in the region, was put at overweight, slightly reducing the model outcome however.

Slovenia came out as an underweight, mostly on valuation

South-Eastern Europe between neutral and underweight, since in particular Romania is still a pretty attractive market, but would probably not find many buyers in this environment.

Finally, Turkey and Russia were placed as an underweight. In our last report, Russia recommended itself as an attractive place. However, corporate governance and geopolitical issues, as well as falling commodity prices, have put the market back.



ERSTE GROUP

CEE Equity Strategy

September 22, 2008

4Q 2008

Sentiment most important market mover - markets to remain volatile at best

Emerging markets not in favor - CEE still best choice in terms of risk

ZEW indicates slightly improving current situation in CEE

Large caps over small caps / converging over emerging markets / defensive over cyclical - Poland, Austria, Czech Republic overweight

Pharmaceuticals best in net cash

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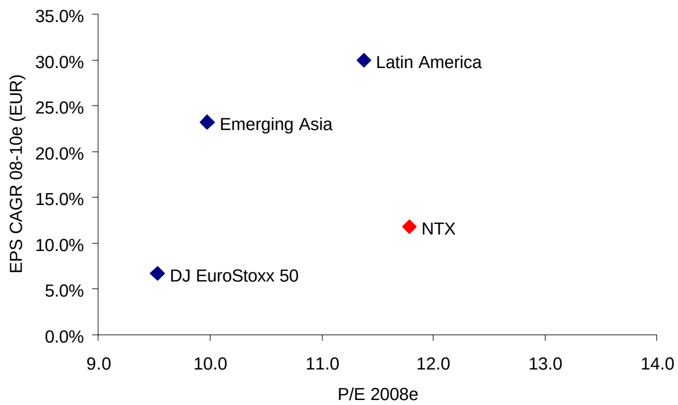
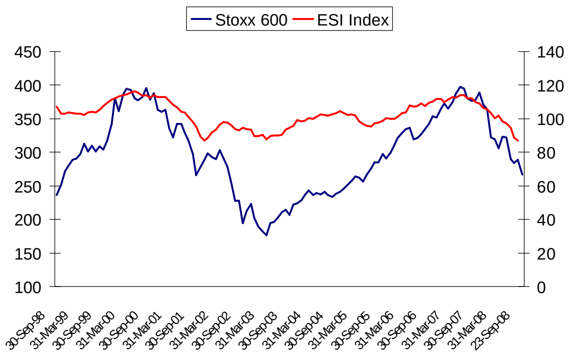
Summary

Global market turmoil has created purely sentiment driven markets. Based on latest data on global funds flows indicate not only high risk aversion towards equity in general, but we also observe a rather massive escape into developed markets, namely US markets. Outflows from emerging markets are substantial. Reportedly, investors seek shelter in value stocks rather than in growth and Western markets (like all other markets) should offer lots of value after the recent sell-off, even accounting for any real impact of the current financial crisis. With growth now apparently being seen as a kind of synonym to risk (in particular if debt financed) emerging markets and consequently, also CEE markets suffer in competition to developed markets. Since sentiment rules we would not expect CEE markets as any other emerging market to outperform developed markets in this situation.

NTX vs peers



European Sentiment indicator



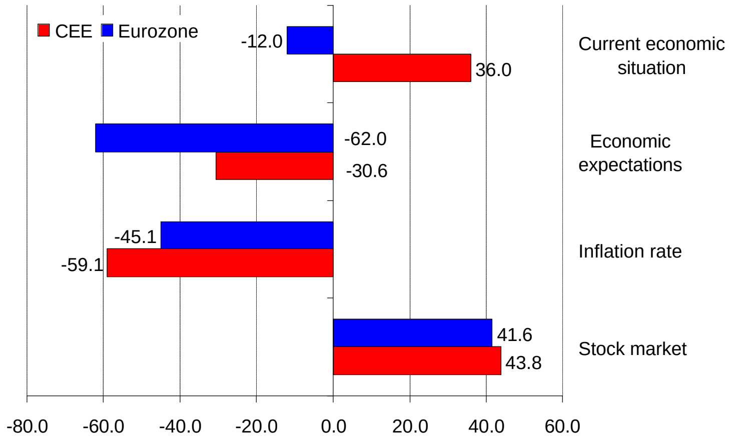
Source: Factset, European Commission, Erste Group

However, the fundamental argument for emerging market growth still holds in our view and even though sentiment does acknowledge any kind of decoupling, we would still see some good arguments for the CEE region. If one has to decide which emerging market to choose, we see some advantage for CEE markets, based on the fact that they are actually converging markets, receiving a lower risk profile than pure emerging markets. The argument would simply be that other emerging markets have to deliver much higher growth in order to reach a somewhat similar or even lower valuation than CEE (in this case the regional New Europe Blue Chip Index). The sandwich position of the NTX between its emerging market peers and the EuroStoxx illustrates this difference in risk.

The recent ZEW/Erste sentiment indicator in fact posted some slightly improving prospects for the region. The economic expectations for Central and Eastern Europe once again slightly improved in September. The CEE sentiment indicator increased by 0.7 points to currently minus 30.6 points. A rising share of financial market experts (61.2 percent) forecasts an unchanged development of the business cycle in the CEE-region within the next six months. The assessment of the current economic situation in the region improved considerably by 19.4 points to 36.0 points. Due to the declining oil price the inflation risks in the CEE countries are evaluated to be lower compared to the survey in August. Moreover, the analysts remain optimistic about the developments at the stock markets in the region. A separate analysis of 16 answers that came in after the announcement of Lehman Brothers' bankruptcy and Merrill Lynch's sale to Bank of America on September14 shows that neither the economic expectations nor the stock market forecasts for the CEE-region have deteriorated in the course of these incidents.

Summary

ZEW/Erste sentiment indicator - results of September survey



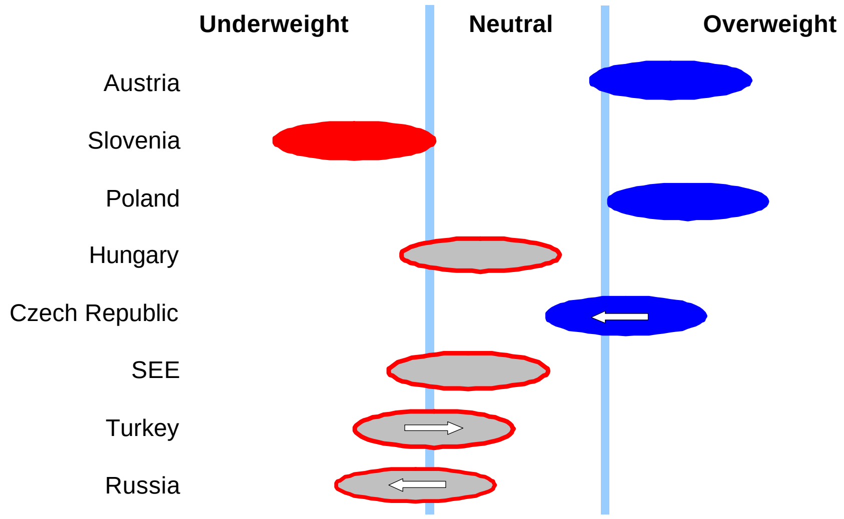
Source: ZEW

Since real implications of the current financial crisis on real economy are among the most prominent topics right now, we developed a quick view to find out, what impact a slowdown of growth in Euroland on CEE could have. A decrease in growth of one percentage point in Eurozone growth would result in half a percentage point in CEE growth in general. However, there are quite some differences among single countries in CEE. Poland and Romania would see very limited impact, due to their robust domestic demand. Assuming a flat development in the Eurozone would push Poland's GDP growth to some 4-4.5%, while Romania would fall into a 5-6% bracket. Open economies such as Hungary and the Czech Republic would face certainly a more severe situation. However, we see the development in developed Europe mostly as driven by sentiment and assuming that falling commodity prices and resulting lower inflation pressure (potentially even accompanied by a rate cut) could lift purchasing power and the willingness to spend already in 2Q 2009.

Based on the latest summary available by Emerging Portfolio Research funds managed for value are outperforming funds managed for growth (US equity funds). Since more or less most of stocks can be considered as value opportunities after the recent sell-off, the additional irony is obviously that growth is primarily considered as risk, which creates an additional obstacle for emerging markets. In the second week of September, another USD 2.23bn were pulled out of emerging market funds, at the benefit of US funds, which were considered as a safe(r) haven, after the rescue attempts of the US government. Globally, Russian and BRIC funds had to face outflows now for about 10 to 11 weeks in a row. MEA funds suffered as well. Also sentiment towards Turkey was said to deteriorate. Falling commodity prices were said to be also one of the main factors pushing flows out of diversified global emerging market funds, which are supposed to have said goodbye to USD 11bn since beginning of the year. In total all emerging market funds (GEM, regional) so far had outflows of USD 28.6bn since the beginning of 2008 (5% of assets managed at the beginning of 2008). For the same period last year, these funds enjoyed inflows of USD 10.7bn.

While any technical allocation model is facing its limitations in this kind of market environment, we still use our model as a starting point and with qualitative adjustments we arrive at a proposed country allocation. We remain overweight on Poland and Austria, the first one in particular due to its robust resistance to any slowdown in the Eurozone. The risk for Poland obviously is that we see further negative news flow on economic development, but we would like to stress again that this would be primarily owed to a cyclical development. Even though the Polish monetary council still carefully watches inflation, its tone has become more dovish these days and a shift in focus towards support of economic growth could be expected. Hungary, as a potential victim of Eurozone weakness and its ongoing pain of the austerity program along with rising prices was put on a neutral rating. The Czech Republic as a traditionally safe harbour in the region was put at overweight, slightly reducing the model outcome, however. Slovenia came out as an underweight mostly on valuation and we see South-Eastern Europe between neutral and underweight, since in particular Romania is still a pretty attractive market, but should not find many buyers in this environment. Finally, Turkey and Russia were placed as an underweight. In our last report, Russia recommended itself as an attractive place. However, corporate governance and geopolitical issues, as well as falling commodity prices have put the market back.

Erste Group Allocation Proposal



Arrows indicate deviation from pure model results; Source: Erste Group

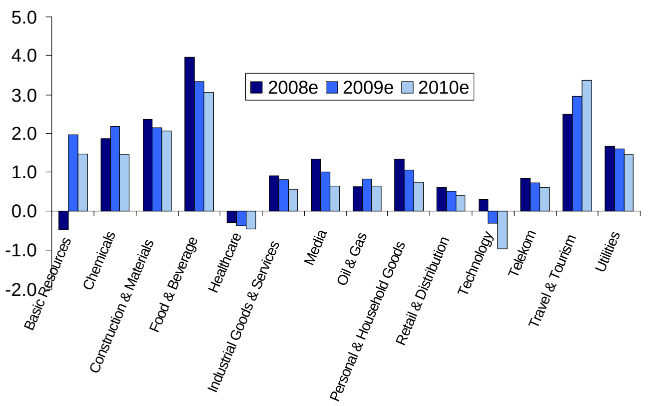
Apart from our proposed country allocation we would summarize our positioning as following: Large cap over small cap / converging market over emerging market / defensive over cyclical. The argument of size just follows the obvious line that in volatile markets it seems to be always recommendable to be in liquid stocks of reasonable size. The argument of favoring converging markets (CEE) at the expense of emerging markets (Russia, Turkey) has been presented earlier already and is a simple risk consideration. Also, we think that classic positioning in defensive sectors should not be the worst idea, given the outlook of weaker growth.

In terms of sectors we would look at financials again, even though this might sound brave. However, being the closest proxy to the current crisis, banking stocks are sold off most and offer the most immediate recovery potential as soon as positive news flows appears.This, however, might still take some time. As for CEE financial institutions we do not get tired to repeat that they have very limited to no exposure to toxic assets and the need for write offs has been limited to some Austrian companies, on a still limited scale. Fundamentals are still sound as confirmed by quarterly numbers and sound margins could be supported/replaced by some volume effect, once interest rates are falling. Corporate development will continue in the region and in particular retail banks should be well funded (in particular based on the current flight into conservative forms of saving) to finance this.

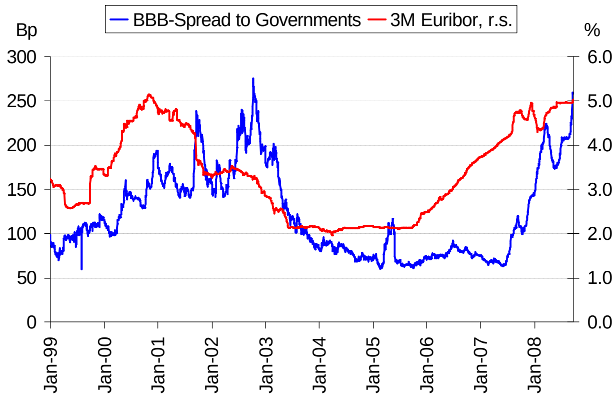
One of the main trigger for concerns on implications on the real economy is the availability of financing and the burden of financial results on corporate results. In an attempt to develop an overview on the indebtedness and self-financing power, we looked at net debt relative to EBITDA on a sector level, based on our CEE coverage.

Summary

Net Debt / EBITDA*



Corporate spread development



**Sectors based on Erste Group sector aggregates; Source: Datastream, Bloomberg, Erste Group*

At a first glance the real estate sector distorts the picture (net debt/EBITDA 2008 18.8), hence we have taken it out of our comparison, event though the high multiple is somewhat natural for the sector. Generally, we still see value in the sector and the recent sell-off is somewhat overdone, comparing it to NAV and book value. However, we would definitely use the ability of financing current development projects as the main criterion, when looking at the sector.

Overall, we find little divergence of CEE sectors compared to their western peers as based on EuroStoxx sector indices. In some cases the multiple is even significantly lower (Pharma, retail, technology, telecom, utilities). The criterion of indebtedness also indicates that construction & materials, basic resources and travel & tourism (cyclical anyway) might not be good ideas.

This comparison kicks out the food & beverage sector as a potential defensive investment choice. In particular Polish companies have been on an expansion trip, which has left its marks in balance sheets. This is actually a pity, since Polish companies to some extend do not only satisfy basic food requirements, but have headed into higher margin products, benefiting from increasing purchasing power.

Among defensive options, the pharmaceutical sector is somewhat eye-catching, with appealing financial situation and the outlook of the still by far not saturated healthcare markets in CEE. Namely, the exposure to Russia - regardless of any turmoil on the Russian market - keeps the sector sexy in our view. Telcos would be another choice, with reasonable debt levels (for T-Hrvatski Telekom and Telefonica O2 CR even net cash) and appealing dividend yields. As an interest-sensitive play utilities should be also a beneficiaries of falling interest rates, while the still sound development of energy price should continue to raise some interest for the sector.

Other ideas would be oil & gas, as well as technology. For the latter the amazingly low level of net debt/EBITDA is one argument. Also the regional consolidation should still have lots of value creating potential. The flip side of the coin, however, should be seen in the fact that the most expansive firm in the region - Asseco - to some extend relies on sourcing financial needs via IPOs of subsidiaries, which should prove to be difficult these days. In our recent sector report on oil & gas, we summarized as an appealing factor, that profitability of companies in the sector is still very strong and the outlook remains sound too.

USA

Stock market

Bleak market review

From a fundamental point of view the situation on the US equity market has further worsened. The crisis in the financial sector is showing no signs of letting off - in fact, quite the opposite is the case:

In a spectacular rescue mission, the distressed mortgage financiers Freddie Mac and Fannie Mae were placed under the administration of the Federal Housing Finance Agency (FHFA) and were thus de facto nationalised at the beginning of September. This step taken by the US treasury secretary will probably result in a few hundred billions of dollars of future costs to the budget. It is impossible to make a more accurate estimate at this point in time.

Whereas this step ensured that creditors' rights remained intact, shareholders had to absorb dramatic share price losses. One of the consequences of this misery is that risk capital investors will look twice at US financial shares next time before being prepared to assume high risks that are not justified by the potential return.

With the nationalisation of the aforementioned mortgage financiers the US Ministry of Finance also set a precedence which has rightly lead the potential capital investors to re-evaluate the situation. This was one of the reasons why the US authorities waited so long before taking this radical step.

The next shock followed suit in the US financial sector: The long-standing investment house Lehman Brothers became insolvent at the middle of September and had to file for protection from creditors. The dramatic fall of Lehman Brothers proved that distressed financial companies were having an ever more difficult time persuading shareholders into providing them with additional, badly needed funds for survival.

Almost at the same time as Lehman Brothers reported its insolvency, the takeover of Merrill Lynch by Bank of America was made public. Merrill Lynch also had to contend with the problem of illiquid assets that were difficult to value. In all likelihood, Bank of America did not agree to this takeover for economic reasons. The negative consequences will become apparent over the coming quarters in the form of falling profitability of Bank of America.

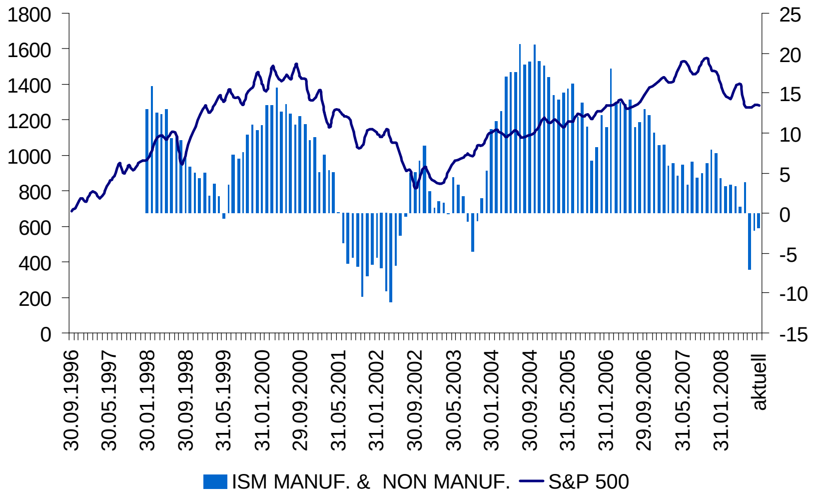
American International Group (AIG), the world's largest insurance company, was also faced with severe liquidity problems around mid-September, and the share price slumped by more than 80% within just a few days. The US government seems to be evaluating possible ways of bailing out AIG.

Due to the continued dire situation some financial houses have found themselves in, the S&P500 shed about 10% of its value in the third quarter. The substantial decrease in the oil price since the beginning of August has also put massive selling pressure on the companies commanding a comparatively heavy weighting, i.e. the oil and gas shares.

The most important economic data such as unemployment and industrial output were signalling the sustained weakness of the US economy. Given this downbeat set of indicators, the short yet sharp appreciation of the dollar in July and August came as a surprise to many market participants who were unable to explain this movement in its entirety with fundamentals. The necessity of repatriating liquid funds to the USA as well as the weak European economy were probably the driving forces behind the short-lived strength of the dollar vis-à-vis the euro.

The sentiment of the US purchase managers is only slightly negative (please refer to the chart below), a fact which can be considered positive in view of the difficult situation in the current economic environment.

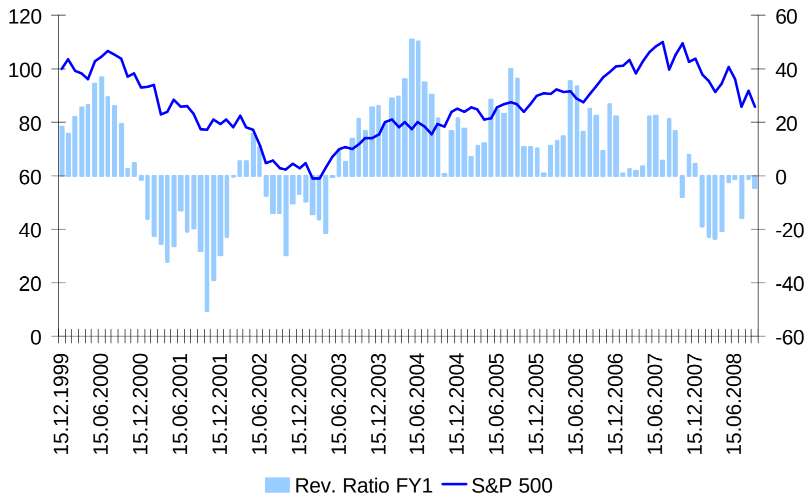
ISM-Index



Source: Bloomberg, own calculations

Unfortunately there is nothing to suggest the imminent recovery of the weak company earnings of US shares, in other words there are no facts that would support optimism yet. The S&P 500 revision ratio continues to indicate a clear overhang of negative earnings revisions, albeit less significantly so than in previous months. The following chart illustrates this scenario:

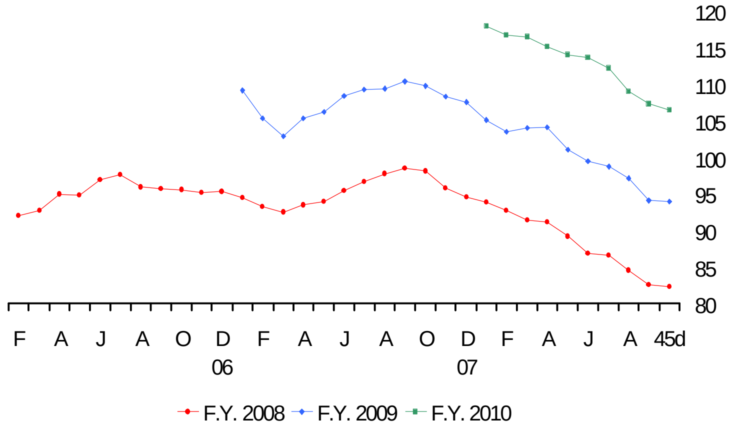
Revision Ratio S&P 500



Source: Factset, own calculations

The development of the estimated earnings indicates a further decline in company profitability. This should turn into a stress factor for the equity market in the coming months, since a number of important factors such as for example the aforementioned appreciation of the US dollar will have a more negative effect on the results of international companies than has been anticipated by many market participants so far.

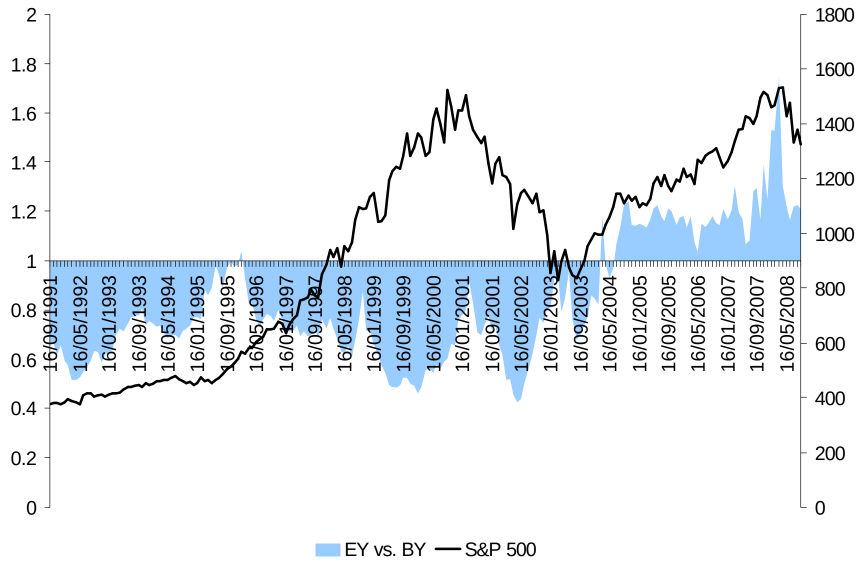
EPS-Forecast S&P 500 (in USD)



Source: Factset

The relation of earnings yield to bond yield (see the chart below) indicates that US shares are slightly more attractive than bonds. However, one has of course to bear in mind that the risk profiles of these two asset classes are very different.

S&P 500: US Stocks vs. Bonds

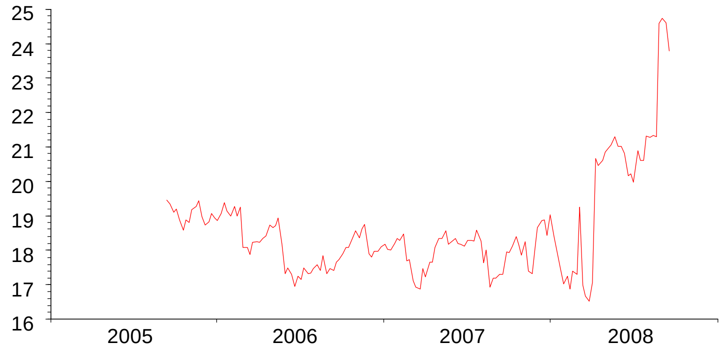


Source: Bloomberg, own calculations

Profit slowdown implies higher PE-ratio

The current P/E of 24x of the S&P 500 is very high; therefore long-term share return on this level is below average. This means that from a fundamental point of view there are many reasons to underweight US shares at the moment.

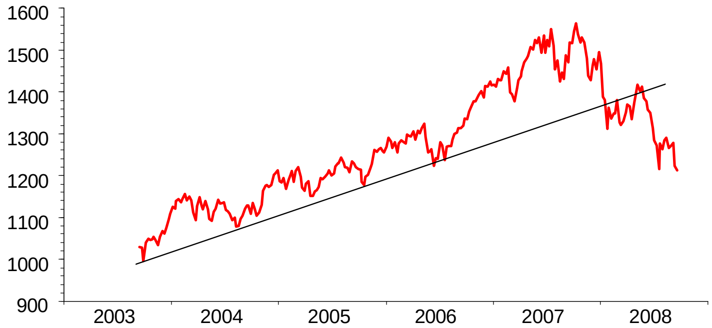
S&P 500: PE



Source: Thomson Datastream

Technical situation:

S&P 500



Source: Thomson Datastream

The main US index continued its downward trend in the past quarter. One particularly negative aspect is the fact that important upward trend lines have remained broken for months and that the few rebounds in the downward trend were not fuelled by increasing volumes.

Outlook

No signs of a trend reversal yet

Having seen our earlier expectations with regard to the development of the main US index come almost precisely true in the past quarter, we should now point out that the time is not yet ripe for a swift trend reversal. We have neither experienced a strong decline with high volumes nor weeks of sideways movement with strongly above-average levels of volatility in the S&P 500.

From today's perspective it is therefore obvious that the main US index remains in weak condition. It seems definitely too early for a year-end rally. We will issue a statement to this effect as soon as concrete signals begin to manifest themselves. The presumably weak development of company results will remain an important fundamental stress factor for US equities. We cannot see this situation change in the foreseeable future.

At the moment risks outweigh opportunities when it comes to shares, which is why we continue to recommend underweighting this asset class and in particular US shares. We also advise to avoid US financials, given that the cleansing of the market in this sector has only just started and will take numerous quarters to finish.

In terms of seasonalities caused by presidential elections, it is possible to establish a relationship between elections and the performance of equity indices.

The following table, which illustrates the development of the Dow Jones index in election years and thereafter (1900 - 2008), highlights the fact that the average performance of the index is at its peak in the third year after an election. This means that statistically speaking, the next peak performance can be expected for the year 2011.

Performance Dow Jones Index

	Election year			
	t=0	**t+1**	**t+2**	**t=3**
Mean (%)	**8.3**	**5.3**	**3.0**	**14.0**

Source: Bloomberg, own calculations

Euroland

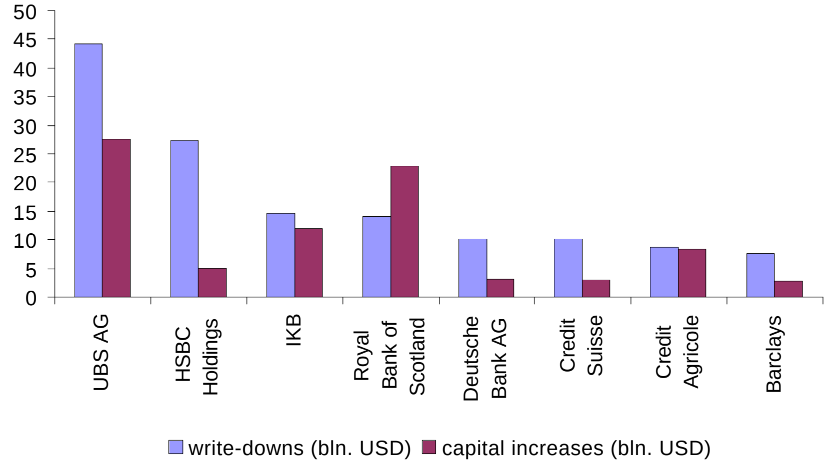
Stock market

Review of the last quarter

The European equity markets did not take the latest data about the economic slow-down and the bad news from the US financial sector lightly at all and continued their downward trend. Neither the lower oil price nor the weaker euro managed to lend much support to the markets. Some large banks such as the Swiss UBS or the British HBOS suffered heavy losses, even though their shares had already fallen way below their 2002 lows.

The following chart shows the current volume of write-downs of large European banks and their capital increases already executed.

European Banks: write-downs and capital increases

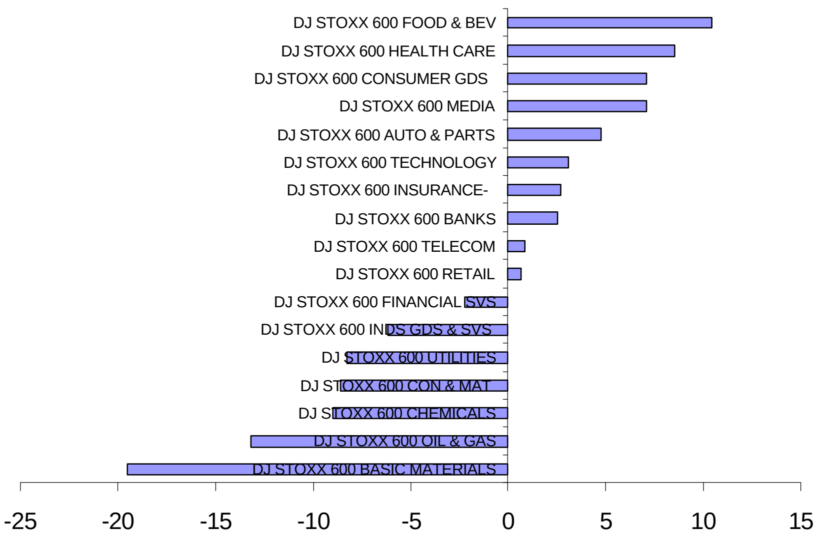


Source: Bloomberg

The onslaught of negative news from the US financial industry lead many investors to take refuge in defensive sectors such as food and beverages as well as healthcare.

The following chart highlights the different development of the most important sectors of the DJ Stoxx index within the course of the third quarter.

Sector performances (%)



Source: Datastream, own calculations

Interestingly, equity indices that are heavy on the commodity side such as for example the Russian RTX or the Norwegian OBX have substantially underperformed the majority of the other European indices.

Sentiment indicator ZEW index receding

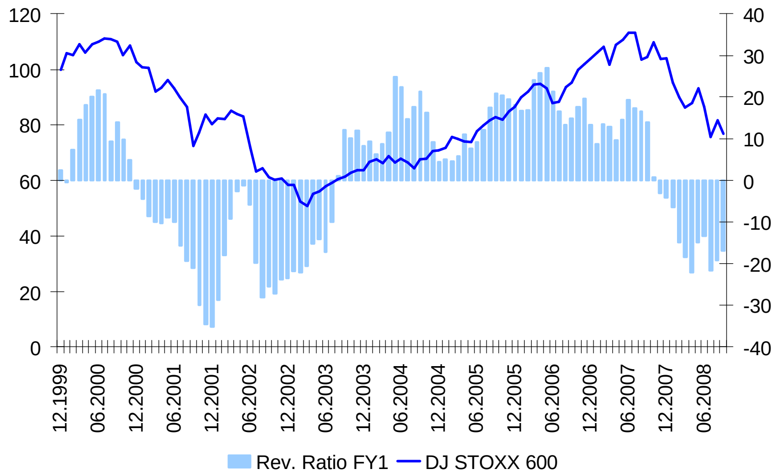
The ZEW index decreased from 17 to -9.2 (N.B. the consensus had expected a decline to 10). However, future expectations brightened: the consensus had expected -62 points, when actually the index improved to -55 points - a development probably caused by the falling oil price and the most recent weakness of the euro. Order intake in the industrial sector fell short of expectations, recording a yoy decline of 7.4%.

Revisions remain clearly negative

The earnings forecasts for the Dow Jones Stoxx 600 were again strongly negative at the end of the third quarter. Although the sentiment has somewhat brightened up, the picture remains the most pessimistic in five years. Interestingly, share prices were ahead of revisions yet again, whereas the European indices were already heading south in the summer of 2007, analyst estimates only followed with a time lag of numerous months.

Sector-wise, the most significant revisions have been seen in oil & gas, chemicals, and cyclical consumer goods. Classic defensives such as food, pharmaceuticals, and non-cyclical consumer goods, on the other hand, were relatively solid.

Earnings revision DJ Stoxx 600

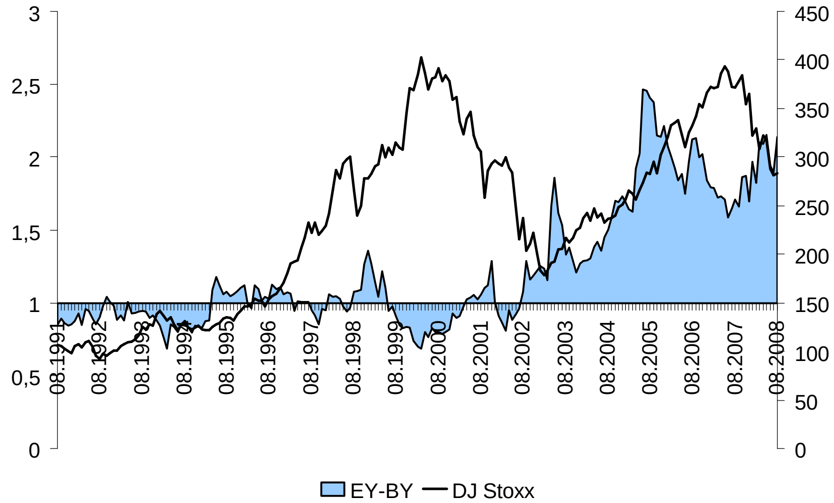


Source: Factset, own calculations

Earnings yield considerably higher than bond yield

The difference between earnings yields (i.e. inverse P/E) and bond yields is just one indicator highlighting the fact that European shares are currently traded at attractive prices. The following chart shows the current valuation of the Stoxx 600 according to this yardstick. Earnings yields are currently about twice as high as bond yields. This goes to underline the favourable valuation of European shares relative to European bonds, as well as the limited downside risk.

Earnings- vs. Bond-yield



Source: Datastream, own calculations

EuroStoxx50 still caught in a downward trend, momentum accelerating

The month of September has yet again lived up to its reputation of being the most volatile month of the year: the European blue-chips index, EuroStoxx50, is currently testing its year-low at high volumes and clearly above-average spreads. After a short-lived bear-market rally from mid-July, the index continued its downswing. The failure to clear the resistance at 3,400 points shows that the bears are still dominating the market. The upswing dynamics as signalled by the short-term overbought/oversold indicators have gradually come down and most recently the 50- and 200-days average has been sustainably broken on the way down.

The other technical indicators (i.e. on-balance volume, MACD, RSI) support this bearish scenario: The MACD keeps indicating falling prices, and there are currently no signs of a trend reversal. The RSI would suggest going short and so does the momentum. The sentiment indicators (e.g. the put/call ratio) do not draw a more optimistic picture either.

EuroStoxx50 Index

Source: Bloomberg

The scenario is not much better in the strategically relevant monthly chart. The support at 3,000 to 3,100 points is currently in danger of being broken, with the nearest index target of the EuroStoxx50 situated at around 2,950 points. After that, the next support is only at 2,600 points. In a positive scenario, the index would stabilise in the support area of 3,000 to 3,100 and then rise to the Fibonacci projections of 3,370 or 3,541. However, given that the current downward trend is still intact, we consider this scenario as unlikely.

Outlook

We expect the speculation on interest rate cuts in Europe to eventually trigger a phase of stabilisation as well as the turn-around. In our opinion this should happen during the fourth quarter. Until then, we will have to overcome a few turbulent weeks; luckily the stronger season has just started at the stock exchange. The substantially lower oil price supports both companies and consumers. The stock exchange will realise this sooner or later - for the time being of course it is still pure fear over potentially even more banks and insurance companies going over Jordan that dominates the markets.

Overall we therefore recommend holding fundamentally and financially sound companies, where the lower prices have been caused by broad sell-offs rather than by specific problems. It is already very late for selling cyclicals seeing that the massive share price losses were recorded within a small time window, which is why prices are already very low now. The same is true for property shares, which have come to price in the worst-case scenario; in spite of the low prices, however, there are hardly any buyers in this category. It is only the financially unstable companies or those still commanding high valuations where we would advise to sell at this stage.

Given that the valuations of European equities are substantially more attractive than those of their American counterparts, there is also significantly more upward potential in the former. In our asset allocation we therefore recommend overweighting European shares since they will benefit above average from an improved economic environment during the next upswing. Overall, however, we are still upholding our advice to underweight equities.

CEE Macro Economy

Unsustainbale growth rates in CEE should weaken

The sharp Q2 economic slowdown in Euroland and likelihood of Q3 (and beyond) stagnation will have an impact on CEE economies. The first signs of cooling have already been detected in several countries. This, however, is due not only to the weaker Eurozone performance, but also to the unsustainable growth levels seen in most CEE countries in the past. Of course, in the current environment, the downward risk for the US economy has increased. The main concern is that recent events might restrict lending to households and corporates for an extended period of time. This would, of course, be felt in the Eurozone and ultimately in CEE. Eurozone stagnation in 2009 would have varying effects on the CEE countries, but should not reduce growth by more than 0.5 percentage points. However, our core scenario remains moderate but positive growth in the Eurozone in 2009. Therefore, there will be a slowdown in the region, but growth rates should remain solid - the more so as price pressures will recede, increasing consumer purchasing power. Moreover, interest rates are high in most countries, so central banks can give faltering economies additional support, if necessary.

Stagnation in Eurozone should cost CEE 0.5ppt in growth

Interest rate cuts not likely anytime soon

That said, this is unlikely to happen this year. Inflation, while falling, should remain elevated for some time, and one or two quarters of weaker growth will not be enough to reduce price pressures. An exception to the rule could be the Czech Republic, where interest rates may soon be cut, as the central bank is not content with the highly valued currency.

CZK again safe haven

The recent turmoil has shown the "usual" crises patterns in CEE exchange rates: "risky" currencies lost ground, while the Czech crown proved a safe haven once again. The surprise was the relatively good performance of the Polish zloty. We believe these movements will be reversed sooner or later but, given recent experience, we consider it too daring to forecast an end to the financial turmoil. Nevertheless, the US Treasury and the Fed have been able to manage the crisis to now, and a calming of the situation seems more likely than continued deterioration.

In a nutshell: expect concerns about major-market economic growth to continue and CEE economies to show lower but still solid growth rates. Falling inflation could trigger speculation about interest rate cuts, but this, in our view, would be premature. Currencies will continue to be strongly influenced by developments in major markets.

CEE Macro Economy

Macro economic overview

GDP growth (%)	2006	2007	2008f	2009f
Czech Republic	6.8	6.6	4.3	4.1
Croatia	4.8	5.6	4.0	4.8
Hungary	3.9	1.3	2.3	2.8
Poland	6.2	6.6	5.3	4.6
Romania	7.9	6.0	8.3	6.0
Russia	7.4	8.1	7.8	6.7
Serbia	5.7	7.5	6.8	7.0
Turkey	6.9	4.6	4.1	4.7

CPI (%), avg	2006	2007	2008f	2009f
Czech Republic	2.5	2.8	6.3	2.8
Croatia	3.2	2.9	6.6	3.8
Hungary	3.9	8.0	6.5	4.2
Poland	1.3	2.6	4.4	3.9
Romania	6.6	4.8	7.8	4.9
Russia	9.0	11.8	13.0	10.8
Serbia	12.8	6.5	11.3	7.2
Turkey	9.7	8.4	10.4	7.9

Unemployment (%)	2006	2007	2008f	2009f
Czech Republic	8.1	6.6	5.5	6.7
Croatia	10.5	9.7	9.4	9.0
Hungary	7.5	7.7	7.8	7.6
Poland	14.8	11.4	8.9	8.4
Romania	5.2	4.1	4.0	3.9
Russia	6.9	5.7	5.8	5.6
Serbia	20.9	18.1	17.5	16.8
Turkey	9.9	9.9	10.1	9.9

3M rates (average, %)	2006	2007	2008f	2009f
Czech Republic	2.3	3.1	3.9	3.5
Croatia	4.5	5.6	6.3	5.5
Hungary	7.0	7.7	8.4	7.9
Poland	4.2	4.6	6.4	6.1
Romania	8.8	7.8	11.5	9.4
Russia	45.1	42.2	n.a.	n.a.
Serbia	22.1	11.3	15.2	12.8
Turkey	12.8	11.2	n.a.	n.a.

C/A (%GDP)	2006	2007	2008f	2009f
Czech Republic	-3.1	-2.5	-2.1	-1.8
Croatia	-7.9	-8.6	-9.7	-9.6
Hungary	-6.0	-5.0	-4.4	-4.2
Poland	-2.7	-3.7	-5.0	-5.6
Romania	-10.4	-14.0	-13.7	-12.8
Russia	9.5	5.9	7.6	3.6
Serbia	-9.8	-13.2	-14.1	-14.8
Turkey	-6.0	-5.8	-6.3	-6.2

Budget Balance (%GDP)	2006	2007	2008f	2009f
Czech Republic	-2.9	-1.9	-1.8	-2.0
Croatia	-3.0	-2.3	-2.5	-2.8
Hungary	-9.2	-5.5	-3.8	-3.4
Poland	-3.8	-2.0	-2.5	-2.3
Romania	-1.6	-2.3	-2.7	-2.7
Russia	7.4	5.7	6.2	4.5
Serbia	-1.5	-1.9	-1.7	-0.4
Turkey	-0.5	-1.6	-2.0	-1.8

Source: Erste Group Research, Focus Economics

CEE Macro Economy

Given the recent turbulence on US financial markets, how would Eurozone stagnation in 2009 affect growth forecasts?

Our macro team has developed a quick review of potential impacts of Eurozone weakness on CEE economies

"Poland is a more closed economy than its neighbors in the central Europe, so it should weather any slowdown in the Eurozone. The domestic demand will remain relatively solid and will help to cushion the economy against adverse external developments. If the Eurozone GDP stayed flat, the growth of Polish economy would fall to 4.0-4.5% territory."
Maria Hermanova, Ceska sporitelna

"As the Czech economy is very open (exports and imports both accounted for approx. 3/4-4/5 of annual GDP in 2007), slowdown to zero of the European economy in 2009 would shave another at least 50 bps. off our current expectation of 4% growth in 2009. This number could be even lower since our prognosis takes into account the effect of Hyundai factory beginning to operate in 2009 - this effect, however, would probably not be as strong as originally thought with EMU economy teetering on the brink of recession."
Martin Lobotka, Ceska sporitelna

"Strong investments in the last 4 years fully supported by hefty FDIs (over EUR 30bn during 2005-2008) coupled with the fact that a significant part of the economic growth in Romania can be still generated from internal resources (e.g. agriculture which has a high significant potential, infrastructure projects, improved tax collections etc), should make Romania grow between 5% and 6% in 2009 as compared to more than 8% in 2008."
Lucian Anghel, Banca Commerciala Romania

"Stagnation of the eurozone would likely lead to lower Slovak exports and overall GDP growth. We assume relatively low sensitivity of Slovak economy to the slow-down in the eurozone growth. The main reason is low labor costs in Slovakia. If the economic growth stagnates in the EMU next year instead of expected increase by 1.2%, the Slovak growth would reach 5.6-5.8% instead of 6.0% expected currently."
Maria Valachyova, Slovenska sporitelna

"Current 2009 GDP forecast for Croatia is being exposed to downside risk, due to recent global turbulences affecting exports performance. Still growth structure is dominantly domestic demand driven, thus significant downward revision due to international developments is not expected and is estimated up to 0.5pp on annual level."
Alen Kovac, Erste Steiermärkische Croatia

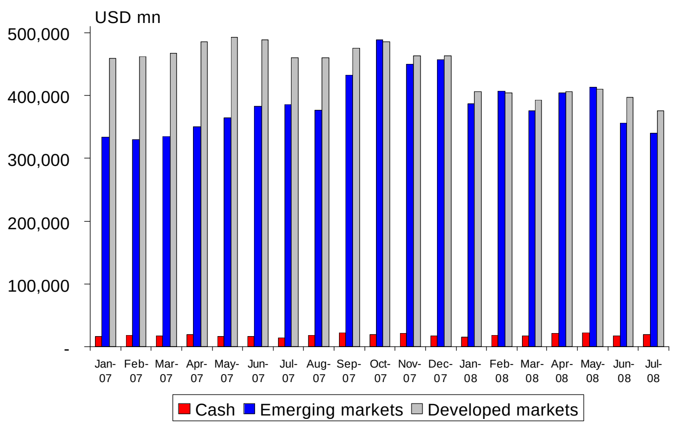
"Slower Eurozone growth would reduce demand for Hungarian exports, would eliminate the last engine of growth in the country. Hungary's strong exposure to the Eurozone economy is visible already in the latest industrial output and trade balance figures, both of which lagged expectations. Based on the lower growth in external demand, we were forced to cut our 2009 GDP forecast below 3%, and we see further downside risks."
Orsolya Nyeste, Erste Bank Hungary

"Ukraine's main export volume in 1H2008 came to CIS countries (35.5%), Europe (28.6%) and Asia (23%). Slowdown in European economy would definitely hurt Ukrainian economic growth, but Ukraine is more dependant on emerging markets economies for growth, and even much more on internal consumption. Slowdown of European economy may bring some positive effect if it followed by price decreases, as Ukraine mostly imports food and mineral products from Europe."
Maryan Zablotskyy, Erste Bank Ukraine

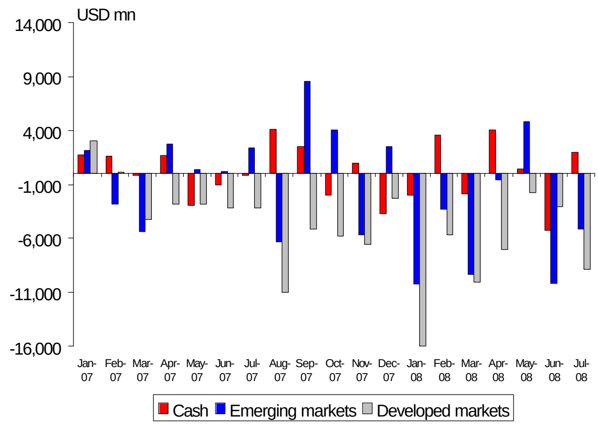
Fund Flow

Based on the latest summary available by Emerging Portfolio Research funds managed for value are outperforming funds managed for growth (US equity funds). Since more or less most of stocks can be considered as value opportunities after the recent sell-off, the additional irony is obviously that growth is primarily considered as risk, which creates an additional obstacle for emerging markets. In the second week of September, another USD 2.23bn were pulled out of emerging market funds, at the benefit of US funds, which were considered as a safe(r) haven, after the rescue attempts of the US government. Globally, Russian and BRIC funds had to face outflows now for about 10 to 11 weeks in a row. MEA funds suffered as well. Also sentiment towards Turkey was said to deteriorate. Falling commodity prices were said to be also one of the main factors pushing flows out of diversified global emerging market funds, which are supposed to have said goodbye to USD 11bn since beginning of the year. In total all emerging market funds (GEM, regional) so far had outflows of USD 28.6bn since the beginning of 2008 (5% of assets managed at the beginning of 2008). For the same period last year, these funds enjoyed inflows of USD 10.7bn.

Total holdings, eop



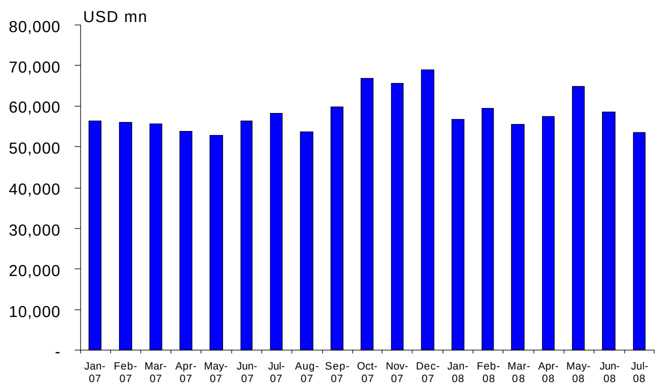
Net purchases/sales



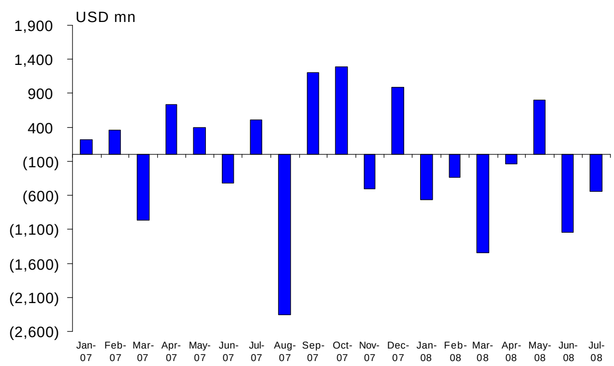
Source: Emerging Portfolio Research; ***Total holdings:*** *market value of all holdings for all funds covered*
Net purchases/sales: *change in market value of holdings - increase (decrease) of market value of holdings*

By the time we went to press detailed numbers on holdings were not yet available, but what was evident until July was an increase in cash by 11% m/m. Holdings in emerging markets and developed markets decreased by 4.6% and 5.4% m/m, respectively. Holdings in emerging Europe decreased by 8.3% m/m in July, mostly driven down by Russia and Ukraine, which lost 17.7%, contrary to our core region which actually gained. In July, Turkey still saw net purchasing (7.5% of holdings bop), as well as Romania, Croatia and Bulgaria (3.8% of holdings bop). All other markets were sold on a net bases.

Emerging Europe: total holdings, eop...



...net purchases/sales

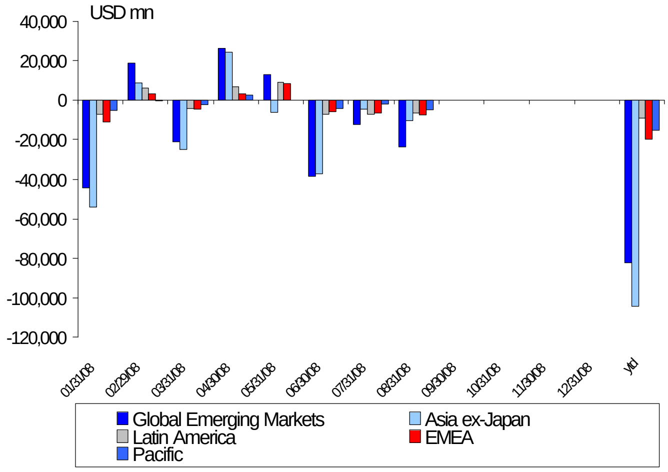


Source: Emerging Portfolio Research; ***Total holdings:*** *market value of all holdings for all Emerging Europe funds covered*
Net purchases/sales: *change in market value of holdings - increase (decrease) of market value of holdings for all Emerging Europe funds covered*

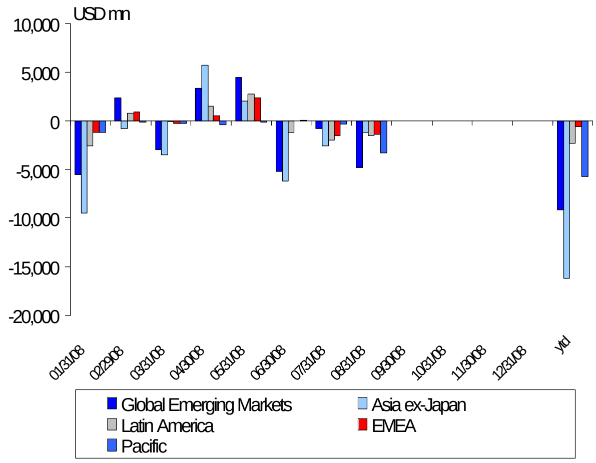
Fund Flow

Monthly net changes and flows were negative for all regions, with still Asia ex-Japan suffering the biggest redemption on ytd bases. EMEA did still relatively well on monthly redemptions in August, reaching USD 609mn ytd, but including portfolio changes the picture changes to the worse again more or less in line with its emerging market peers. All told, global emerging market funds have seen redemptions of about 2.6% as a percentage of holdings at the beginning of the year.

Monthly net change



Monthly flows

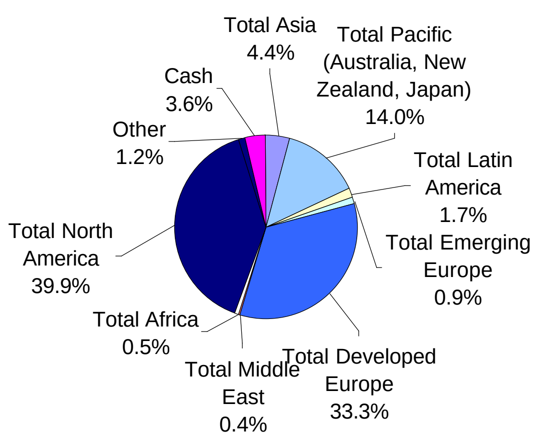


Source: Emerging Portfolio Research; ***Monthly net change:*** *change in assets minus forex change = portfolio change + monthly flows /* ***Monthly flows****: change in assets minus portfolio change, minus forex change = contribution/redemption to funds*

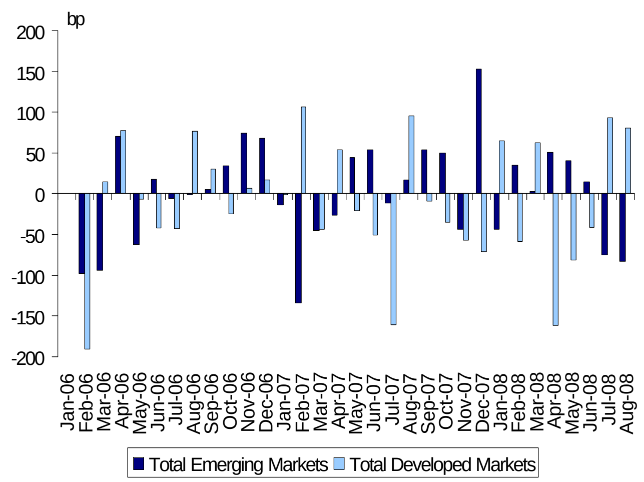
Developed markets were striking back in weighting in global equity funds in August for the second month in a row. North America was the biggest gainer, adding some 220bps in weight. Gains for developed markets would have been even higher, if not developed Europe and Total Pacific had lost in weight (94bps and 53bps, respectively). While emerging markets lost about 80bps, the biggest loser was actually again Emerging Europe (again Russia leaving its footprint).

Emerging markets - weight in Global Equity Funds

Current...



...over time



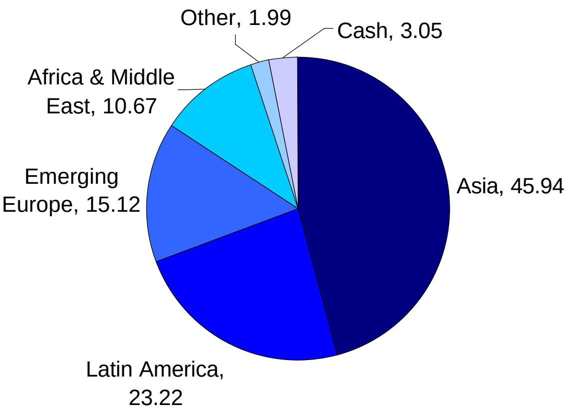
Source: Emerging Portfolio Research

Fund Flow

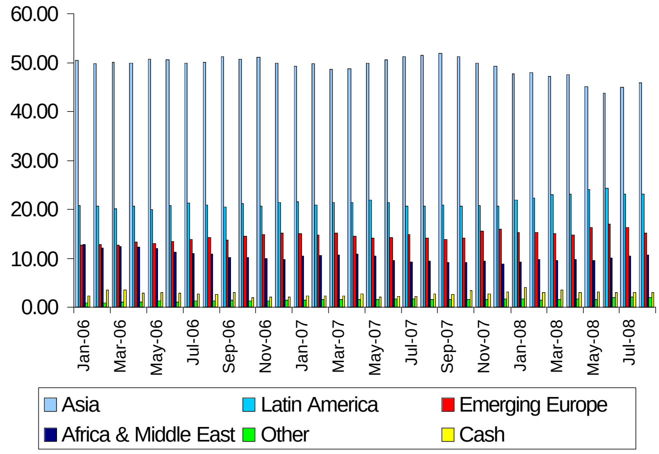
Emerging Europe, consequently also lost weight in global emerging market funds. The region gave back some 122bps, mostly at the benefit of emerging Asia, which gained by some 102bps. Interestingly, cash continued to increase, nevertheless at a much lower pace.

Emerging Europe - weight in Global Emerging Market Funds

Current...

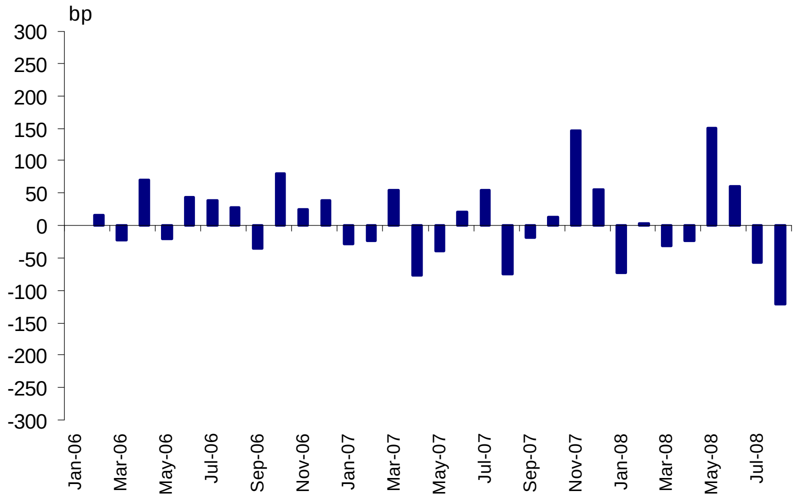


...over time



Source: Emerging Portfolio Research

Change in weigthing - Emerging Europe within Global Emerging Market Funds

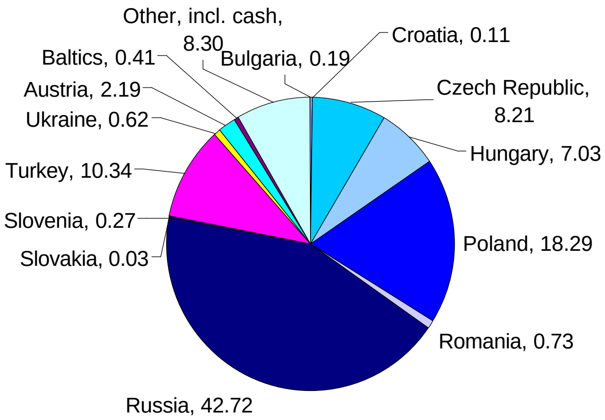


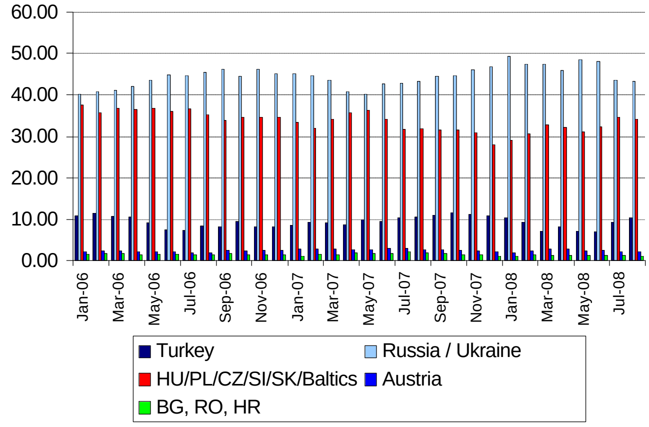
Source: Emerging Portfolio Research

While in our previous issue of the CEE Equity strategy, Russia was the most dominant gainer in weight among emerging Europe funds, this time the picture is different - dramatically. May 2008 was the last month that Russia gained in weight. Since then it decreased continuously, with the biggest drop actually in July (-470bps). Consequently, the market saw its weighting being reduced from 48% in May to merely 42.7% right now. Even though the market was said to loose earlier, at least in emerging Europe funds Turkey could increase its weight by 117bps, followed by the Czech Republic (+30bps) Poland, finally lost some 85bps.

Fund Flow

Emerging Europe - country weighting in Emerging Europe Funds

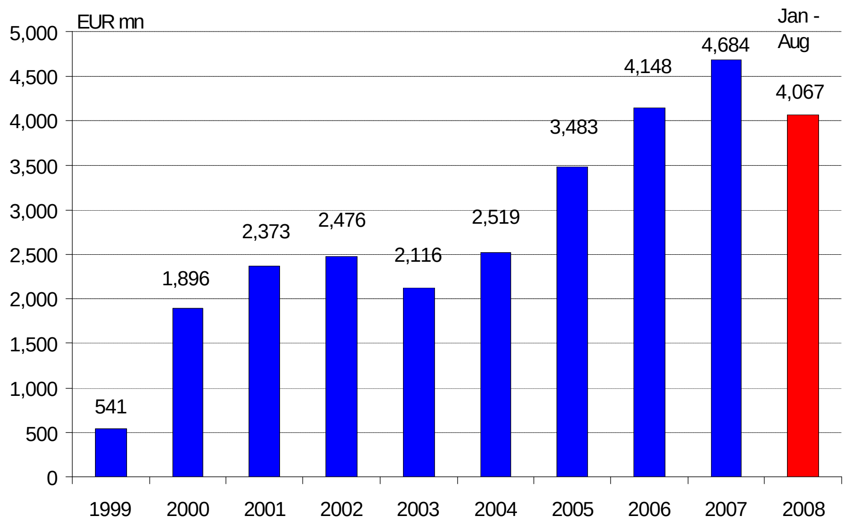




Source: Emerging Portfolio Research

Even though transfers into the Polish pension system were some 12% y/y lower in August, the accumulated transfers so far account for 80% of last year's total contribution.

Transfers into Polish pension system

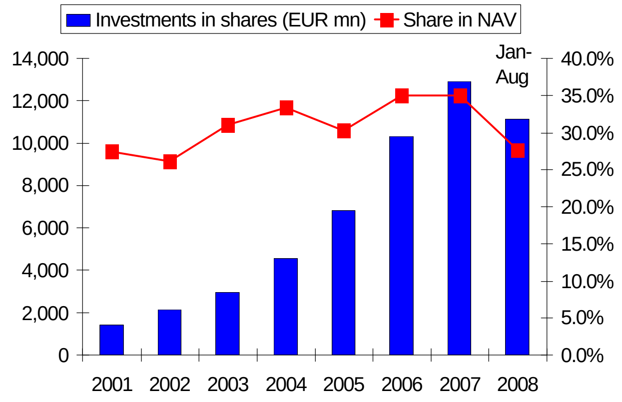


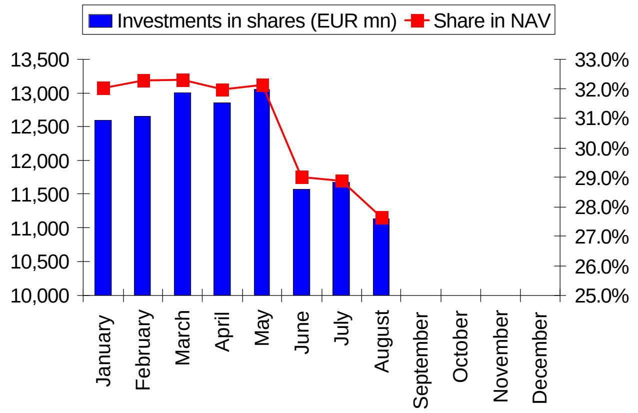
Source: ZUS

The unpleasant news, however, is that the share of equity investments in NAV continued to decline to another record low of 27.6%, well below last years 35% (eop). While negative performance is obviously biting into NAV, bonds increased their weight in assets only moderately from 67.7% in July to 68.1% in August. Cash increased again its weight from 3.5% in July to 4.2% in August 2008.

Fund Flow

Polish pension funds - development in share investments

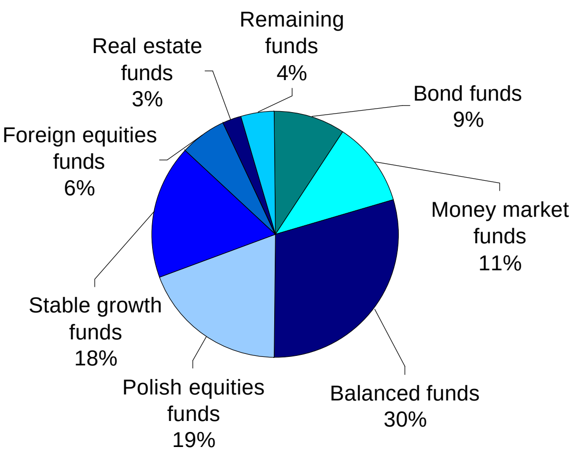




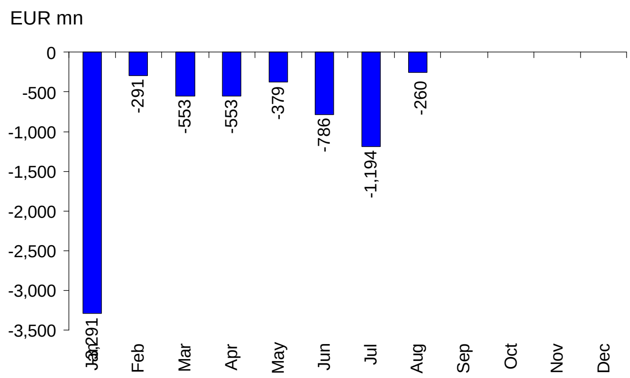
Source: Parkiet, Rzeczpospolita, PAP

Even though we do not have fresh data yet, it should be fair to assume that the already low equity portion within the asset allocation of Polish mutual funds has fallen further. Also these funds again felt the nervousness of retail investors, with redemption reaching EUR 260mn (net) in August. To find something positive at least, it should be fair to say that at least the trend of cash outflows is turning into a more moderate direction again. Whatsoever, we would not expect the trend of cash outflows to reverse anytime soon. What is also an inconvenient development is the fact that the portion of Polish investments held by local mutual funds weakened to 77.5%, while domestic investments used to amount to 81% at the end of 2007.

Current breakdown of Polish Mutual funds

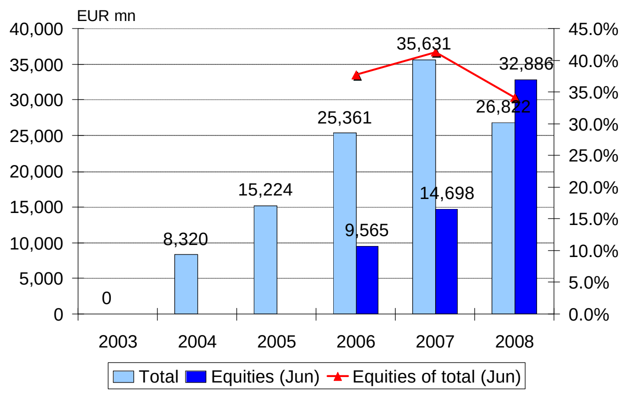


Net cash inflows (2008)

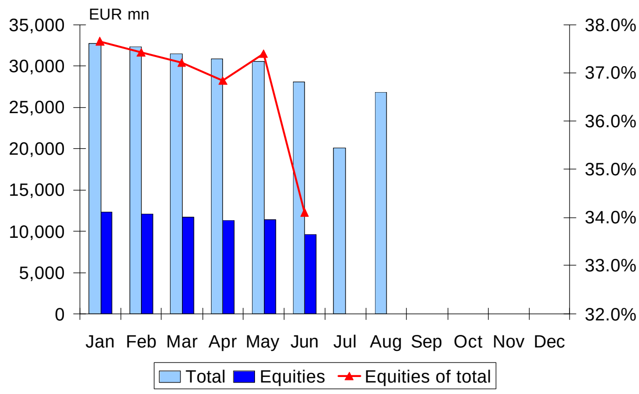


Development of equity portion...

...annually...



...and on a monthly basis



Source: Analyze Online

ZEW Indicator CEE

Slightly improved prospects for the economic development in Central and Eastern Europe

The economic expectations for Central and Eastern Europe improve slightly once again in September. The CEE sentiment indicator increases by 0.7 points to currently minus 30.6 points. A rising share of financial market experts (61.2 percent) forecasts an unchanged development of the business cycle in the CEE-region within the next six months. The assessment of the current economic situation in the region improves considerably by 19.4 points to 36.0 points. Due to the declining oil price the inflation risks in the CEE countries are evaluated to be lower compared to the survey in August. Moreover, the analysts remain optimistic about the developments at the stock markets in the region. A separate analysis of 16 answers that came in after the announcement of Lehman Brothers' bankruptcy and Merrill Lynch's sell to Bank of America on 14th of September shows that neither the economic expectations nor the stock market forecasts for the CEE-region have deteriorated in the course of these incidents.

Economic outlook for CEE countries, Austria and the Eurozone

In the September survey, the ZEW-Erste Group Bank Sentiment Indicator CEE that shows the balance of positive and negative assessments of the economic outlook within the next six months, increases slightly once again and now stands at minus 30.6 points. The share of experts with pessimistic expectations decreases more strongly than the number of participants who predict an improvement of the economic development in the CEE-region. However, a growing majority of experts, 61.2 percent, expects no change at all. For Austria, the balance for the economic expectations has declined by 7.9 points to minus 36.5 points. This development can be attributed to the fact that the share of analysts forecasting an improving economic development decreases more strongly than the proportion of the respondents who expect the economic momentum to worsen. Both categories lost in favour of the percentage of experts who expect no change at all. The economic expectations for the Eurozone worsen significantly and, consequently, the respective balance declines by 21.6 points to minus 62.0 points.

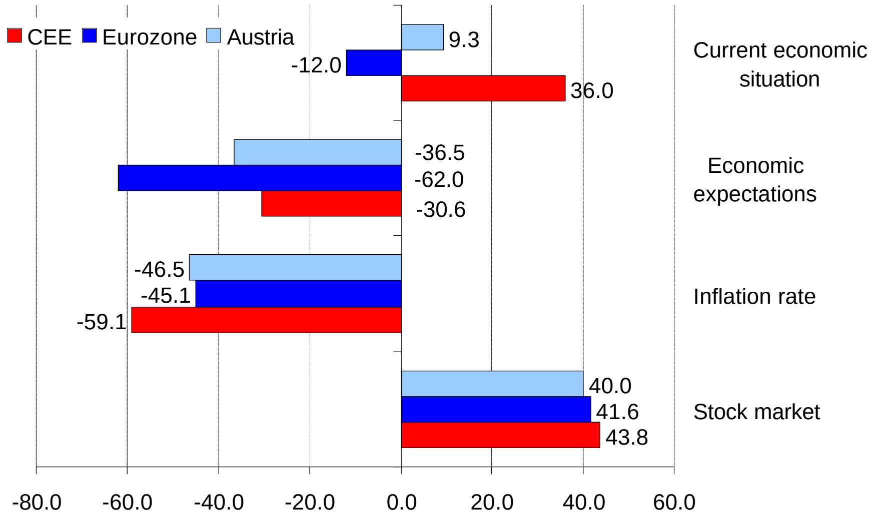
Compared to the last month's results, considerably more survey participants assess the current economic situation in the CEE-region in September as "good". The balance increases by 19.4 points to 36.0 points. In contrast, the balance for the current economic situation in Austria decreases by 5.4 points to 9.3 points and the one for the Eurozone loses 5.7 points to minus 12.0 points. Nevertheless, more than 70.0 percent of the respondents consider the economic conditions in Austria and the Eurozone to be "normal."

The financial market experts regard the inflation risks in all analysed CEE countries and the CEE-region within the next six months to be lower compared to the August survey. The corresponding balance for the CEE-region drops by 7.0 points to minus 59.1 points and the indicator for Austria decreases marginally to minus 46.5 points. The balance for the Eurozone is the only one that increases in September but remains negative at minus 45.1 points. Consistent to the anticipated lower inflation rates, a growing majority (59.6 percent) of the survey respondents forecasts a cut in the short-term interest rate in the Eurozone within the next six months.

The expectations of the survey participants for the three stock market indices - NTX (CEE-region), ATX (Austria) and Euro Stoxx 50 (Eurozone) - have not changed considerably in September and remain optimistic.

ZEW Indicator CEE

ZEW indicator



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

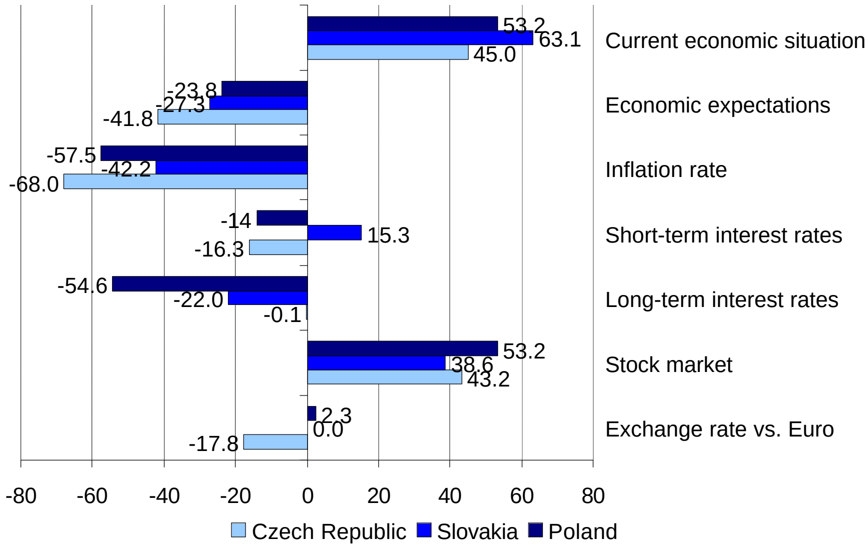
Czech Republic, Poland and Slovakia: good current economic situation

The share of financial market experts who assess the current economic situation in the three countries as "good" increases significantly in the current survey. The balances for Poland and Slovakia grow markedly by 22.8 points and 20.6 points to 53.2 points and 63.1 points respectively. In contrast to the August survey, the economic expectations for Poland and Slovakia brighten up in September. The indicator for Poland gains 14.5 points and now stands at minus 23.8 points. The indicator for Slovakia increases by 5.4 points to minus 27.3 points. For the Czech Republic the survey participants expect a worsening economic development within the next six months. The indicator loses 7.1 points and achieves minus 41.8 points. Despite the negative values of the sentiment indicators clear majorities of the participants forecast unchanged business cycles.

The downward movement of the inflation risk evaluation continues in September. In all three countries the financial market experts anticipate falling inflation rates. Consequently, the three balances describing the inflation risk assessment drop in the current survey. In contrast, the expectations for the short-term interest rates are mixed. Due to the already very low level of the Czech benchmark lending rate, which is the lowest in the European Union, a significant share of the analysts (65.1 percent) neither expect the Czech National Bank to continue its expansionary policy after the August quarter-point cut of the key interest rate, nor to switch to increasing interest rates. At the same time the balance for the interest rate expectations in Slovakia is positive at 15.3 points. This indicates that the share of participants anticipating a raise of the interest rate predominate the proportion of experts who count on a cut. For Poland a clear majority of the survey participants (67.4 percent) expects the short-term interest rates to remain unchanged within the next six months.
The analysts' expectations with regard to the stock market development are clearly positive. The balance for the Czech stock market index PX 50 drops slightly to 43.2 points but remains at the highest level among the three countries.

ZEW Indicator CEE

ZEW indicator on country levels



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

Hungary, Romania and Croatia: clearly improved economic conditions

The financial market experts' assessment of the current economic situation in Hungary, Romania and Croatia improves significantly in September. The balances for Romania and Croatia soar by 31.8 points and 20.2 points, reaching 22.9 points and 31.8 points respectively. After an increase by 18.8 points in September, the valuation of the current economic circumstances in Hungary (minus 2.0 points) is on the verge of turning positive, too. The upward shift in the view of the respondents follows mainly from an increased share of the analysts considering the current business situation in the three countries to be "good".

According to the experts, the future prospects for Croatia recover considerably. In spite of remaining in the red, the corresponding balance climbs 13.5 points to currently minus 12.5 points, switching positions with Romania again. The forecast for the latter economy rests nearly unchanged at minus 19.1 points. In line with the results of the previous months, Hungary remains the only country featuring a predominantly positive business outlook. The respective indicator drops 10.2 points reaching 0.1 points.

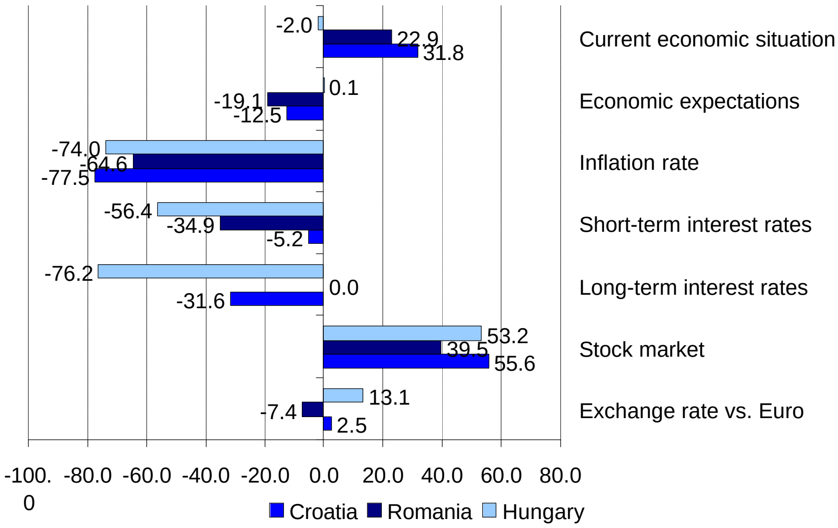
Last month's results were characterised by a strong tendency towards falling inflation rates against the background of the declining oil price and strong CEE currencies. The view of the financial analysts on the expected price level has not changed much in September, which can be deduced from the balances for Hungary and Romania remaining at highly negative values.

With regard to the anticipated inflation in Croatia, however, the proportion of the participants counting on falling rates nearly doubled, which results in a huge decline of the corresponding balance by 49.6 to minus 77.5 points - the lowest value in this category. Overall, more than 75 percent of the financial experts forecast declining inflation rates for all three countries.

Taking these assessments into consideration, it is not astonishing that a growing majority of the respondents expect falling interest rates in the short as well as in the long-run, as a contractionary monetary policy does no longer seem to be necessary, which already became apparent last month. Accordingly, all respective balances

ZEW Indicator CEE

ZEW indicator on country levels



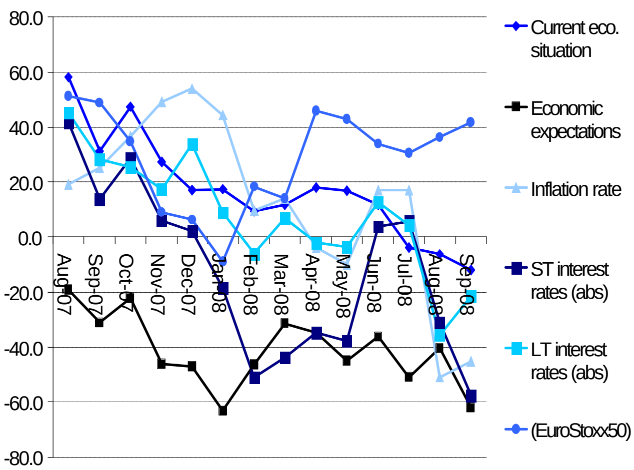
Balance of positive and negative assessment category chosen by respondents of the Financial Market Survey CEE; Source: ZEW

decline and are located in the negative range, now. Especially with regard to Romania and Croatia the shift towards declining interest rates has been very pronounced.

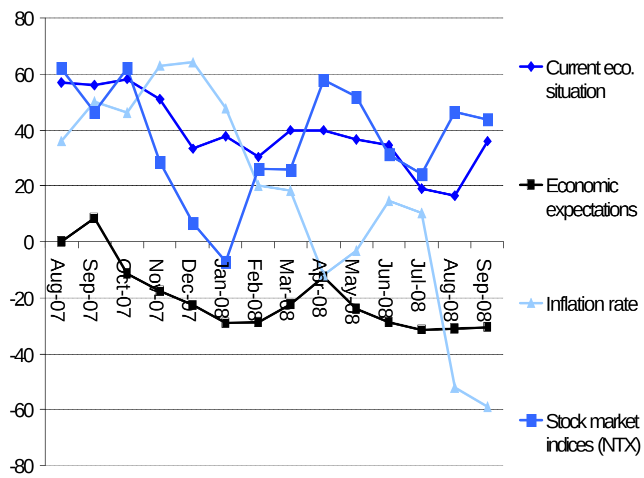
Concerning stock market expectations, the financial experts remain very optimistic. Nearly unchanged majorities of 66.7 percent, 68.1 percent and 55.8 percent of the analysts anticipate rising stock prices for Croatia, Hungary and Romania. The balance for the Croatian stock index CROBEX remains the highest one among all analysed stock market indices.

ZEW indicator development

For Eurozone...



...and CEE



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

Special question: The prices for real estate in CEE

The markets for commercial and residential real estate in the Central and Eastern European area have been experiencing significant increases in prices over the last decade.

Especially the improving economic conditions and incomes in the emerging economies, leading to a greater demand for real estate, and the growing interest of foreign investors in the CEE-region are highly relevant for the recent development on the property markets.

Within the first part of this month's special question, we asked the financial experts to rank potential demand drivers according to their respective significance for the rise in prices on the CEE real estate markets. In doing so, we differentiated between commercial and residential properties.

In the first case, the respondents attach most importance to the strong business conditions in the CEE-area, believing that the increasing prosperity, due to the stable economic growth, fosters the local demand for office space. 62.0 percent of the experts consider the impact of the positive economic circumstances on the prices for commercial real estate to be "high". Furthermore, clear majorities of over 85.0 percent of the financial analysts believe that the dynamic growth in the retail sector, the restructuring of the national economies towards services and the improvement of the infrastructure have at least a medium influence on the soaring property prices. In the context of growing retail activities, supported by the enhanced infrastructure network in the CEE-countries, commercial real estate are needed for logistic facilities, shopping centres or large stores.

The impact of foreign direct investments, aiming at high yields and new business chances, on the price development at the commercial property markets is assessed likewise by the participants in the survey (86.0 percent). Interestingly, clear majority of the financial experts (90.0 percent) hold the view that pure speculation motives play a minor or merely average role in this regard. According to the experts, the impact of the interest rates is a demand driver of "middle importance" on the market for commercial properties.

The financial analysts' valuations concerning the factors leading to the increase in prices of the residential properties resemble in many respects the outcomes for commercial real estate in the CEE-region, but show some specific differences, too. An overwhelming majority of the participants (82.0 percent) consider the strongly positive income development in Central and Eastern Europe to be the main trigger for the rising demand for housing. In line with the above mentioned results, speculation motives have only little bearing on the price development at the CEE residential property markets, as most financial analysts describe the respective influences as low or average. The impact of investment purposes on the prices for housing is considered to be rather moderate, too. In contrast to the commercial real estate, this holds for foreign investments as well.

About 85.0 percent of the analysts evaluate the impact of interest rates and often low housing quality on the demand for real estate as average or high.
Additionally, we were interested in the experts' view on the current price level at the CEE property markets. With regard to the commercial properties, most experts (63.0 percent) evaluate the current prices as appropriate. Still, the share of the participants perceiving an overvaluation (27.0 percent) clearly outweighs the analysts who consider the prices for office space to be undervalued (11.0 percent).

ZEW Indicator CEE

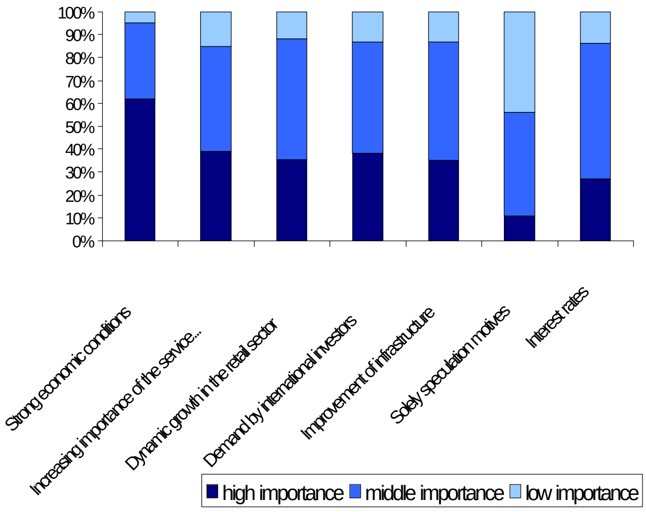
As to residential real estate, the majority of the experts, namely 37.0 percent, believe that the costs for housing, having risen markedly over the last years, do no longer correspond to the actual demand and market characteristics.

In spite of perceiving an overvaluation of private real estate, a clear majority of the respondents expect further price hikes for housing in the long-run (five years), whereas in the case of office space the proportion of the expects anticipating no price change slightly prevails. It is remarkable, that only one in ten analysts count on falling prices at the CEE markets for both commercial and residential properties.

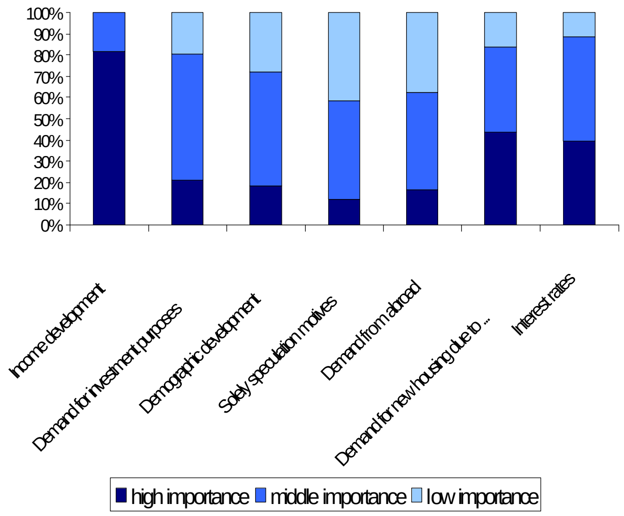
Source: ZEW

Which are in your opinion the main demand and price drivers in the CEE real estate markets?

Commercial properties



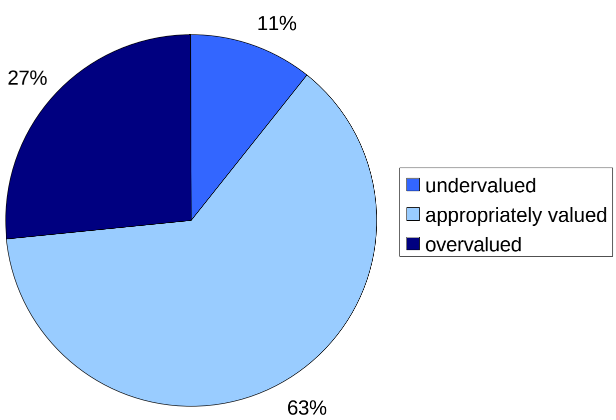
Residential properties



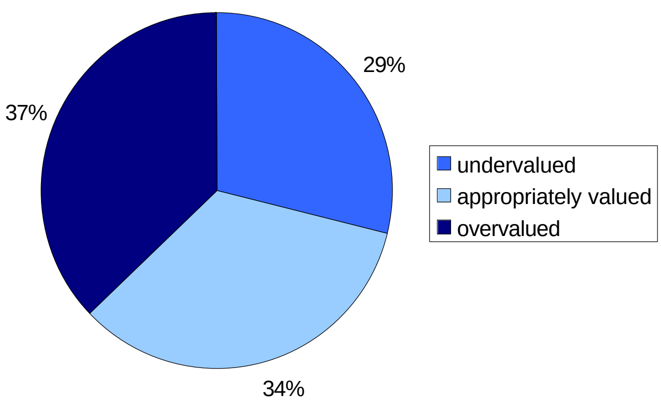
Source: ZEW

How do you assess the current prices for real estates in the CEE-region?

Commercial properties



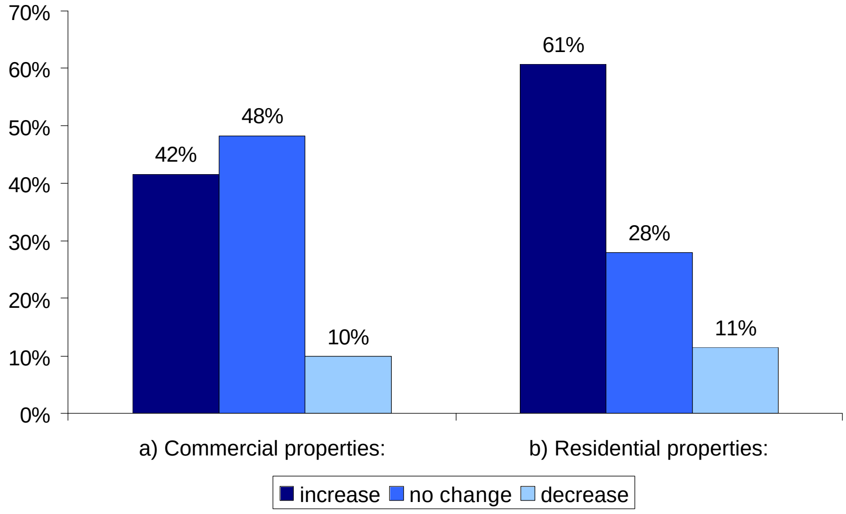
Residential properties



Source: ZEW

ZEW Indicator CEE

In the long-run (five years) the prices for real estates in the CEE-region will...



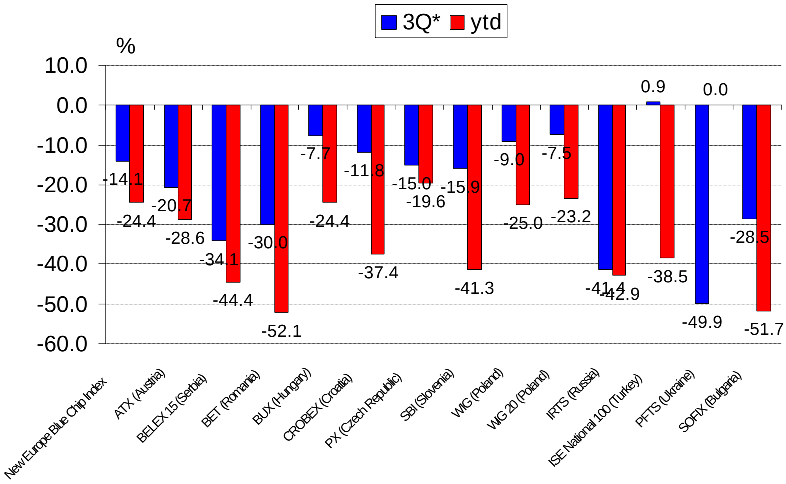
Source: ZEW

Explanation: Mode of operation / ZEW indicator
The indicators reflect the difference between the percentage of analysts who are optimistic and the percentage of analysts who are pessimistic. The possible outcome of the balance lies between -100 and +100 points. Positive values of the balance indicate that the number of participants expecting a rise in a particular variable outweigh the number of participants with negative expectations.

CEE Country Allocation

Expecting positive returns from any kind of planned allocation proved to be wishful thinking in the third quarter. At least our proposed overweight on Poland has helped to limit losses, as did the overweight on Hungary. Also Prague did relatively well in this turbulent environment. The cautious approach to South-Eastern Europe and Turkey should have prevented the worst. Russia, however, was the biggest unpleasant surprise. While signs were improving for the Russian market, several major factors finally turned the market into one of the worst performers.

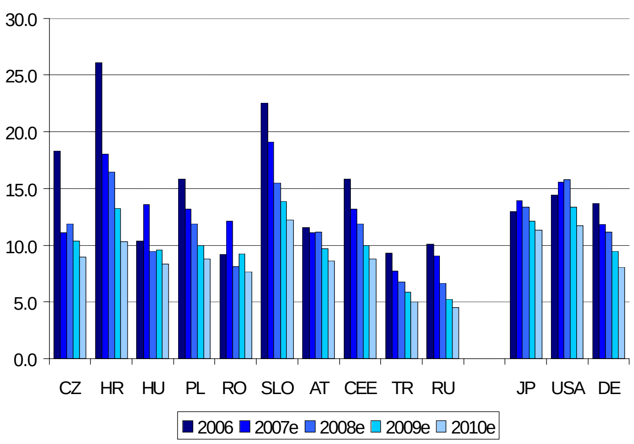
Performance overview (in EUR)



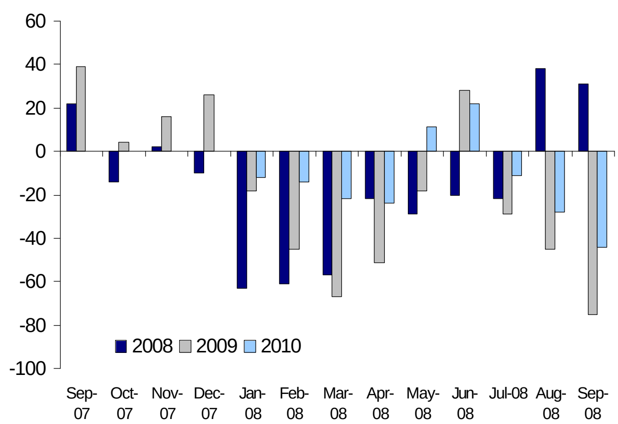
** 3Q = 3month performance as of 22.09.2008; Source: Factset Partners, Erste Group*

As far as we can dare to talk about fundamental merits these days, valuations across the board look attractive and the recent massive sell-off has left attractive levels for more or less all markets in our coverage, also compared to western peers. While this does not seem to be much of an argument these days, at least we still feel confident with consensus valuations as well as with our own, since earnings revisions have bitten already strongly into corporate profit outlooks for 2009 and 2010. Previous revisions for 2008 apparently were already seen as too harsh and were turned into a more positive picture again.

Consensus valuation



Earnings revision rate CEE*



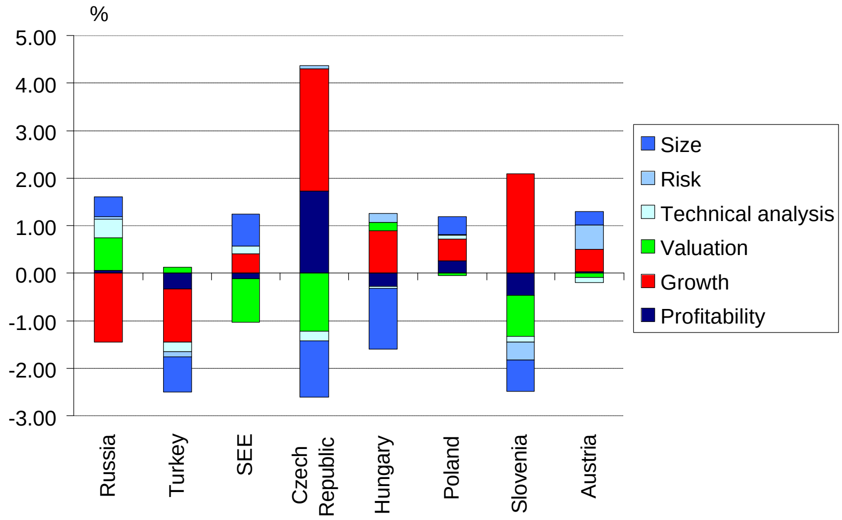
**Austria,Czech Republic,Hungary, Poland, Romania Source: JCF Quant, own calculations*

CEE Country Allocation

In general the expected returns as yielded by our allocation model interestingly came out with negative expectations based on valuation. This would fit to the general view that valuation/fundamentals are generally not an argument right now, but it is rather sentiment that rules. On the other side growth contributed strongly to expected returns overall. This, however, might not turn into to much of an argument, since growth is probably seen as the biggest question mark in an environment of global weakening and the assumed search for value rather than for risky growth.

Generally, in market environments like this, the value of a mostly fundamentally oriented, mechanical allocation model might be limited. We are aware of this, but we still use our model as a starting point and try to work in other factors, not too much relying on the model outcome in our proposed allocation - as usual.

Summary of return of components



Source: Erste Group

Austria - overweight The recent ZEW/Erste sentiment indicator yields a further deteriorating view on both, the current situation as well as for the economic outlook. In particular the economic outlook, however, was by far not as dramatically cut as for the Eurozone. This should reflect also the fact that Austria is among the strongest beneficiaries of CEE growth on which the survey's view actually improved. The Austrian market receives quite some support from growth, risk and size, within our model. We would subscribe to that, given the combined growth outlook of CEE and Austria in the middle of it, while the market is still the biggest in the region (leaving Russia and Turkey aside). If we would assume that markets calm down finally and the search for value starts, in the first phase of some careful optimism, Austria should benefit from that as well - with a 12-month forward P/E of 8.8 vs. and historical average of 13.3. Hence, we simply confirm the overweight outcome of our model, actually improving our view on the Austrian market compared to our last report.

Poland - overweight Based on the model outcome Poland receives the strongest scores on growth and size. The argument of size is not new, but still valid. The growth outlook on a consensus level is also still intact, with 20% expected for the WIG 20 still in 2008. 2009 should see some reduced growth outlook of only 4%, while 2010 indicates already a recovery with 15% seen as the growth level for the local blue chip index. Also, the view as expressed in the ZEW sentiment indicator has been improving for Poland, both for the current situation as well as for the economic outlook. In a scenario of weaker growth in the Eurozone, we actually see Poland as the market being sheltered most by the support of still strong domestic demand. On the flip side of the coin, however, we have to acknowledge that industrial output has been weaker recently and growth overall will slow down along with the economic cycle. While inflation remains a topic given the still strong wage growth, the monetary council became a bit more dovish in its recent statements, indicating that growth might need some support also on the rate side. However, we do not expect a rate cut anytime soon. Even though valuation seems to be among the highest in the region (12-month forward P/E of 10.5 vs. average of 13.5) we still see this level as comfortable. The market lost support from its domestic investor base, but we could imagine that at least local pension funds sooner or later will increase their exposure to domestic equity again. In summary we confirm the overweight as yielded by our model.

Hungary - neutral to underweight

While one of the biggest obstacles for a lasting recovery of the Hungarian economy - inflation, showed some improving figures lately, it would be too early to bet on rate cuts in our view. Even though the short-term outlook is seen as improving, the long-term view actually deteriorated slightly, as presented in the recent ZEW survey. This would somehow fit to our view that Hungarian is among the most exposed economies to any slowdown in Eurozone growth, given the current lack of any impetus from domestic demand. Consensus valuation is still pretty low, which however, receives its justification by the weak outlook on earnings growth for the BUX. As per our allocation model, profitability is the strongest contributor to negative expected returns. Surprisingly, growth came out as a positive return contributor - an argument, which we tend to soften. Consequently, we put Hungary on a neutral weighting, with a trend even to a moderate underweight.

Czech Republic - soft overweight

Similar to Hungary we see the Czech Republic as quite exposed to any Eurozone slowdown in growth. Also domestic demand showed signs of stagnation and we would expect the Czech National Bank to deliver rate cuts, as soon as inflation becomes less of a threat, turning its attention more to growth considerations. In line with this view, also the ZEW indicator yielded a deteriorating view on the economic outlook. While growth and profitability are the strongest contributors to positive expected returns in our allocation model (consensus growth seen at 30% for 2008 and 26% for 2009), we should add that numbers for the local index PX also depend on foreign listings (Erste Group, Vienna Insurance Group). On the other side we acknowledge that Prague is always seen as a stable harbor in CEE (also confirmed by currency). Hence, we argue a bit against the model outcome and place the Czech market at a softer overweight.

Slovenia - underweight

Slovenia remains were our model has put it. The arguments remain the same as in our previous reports, since on a relative scale nothing has changed compared to other regional markets. - Underweight.

SEE - neutral to underweight

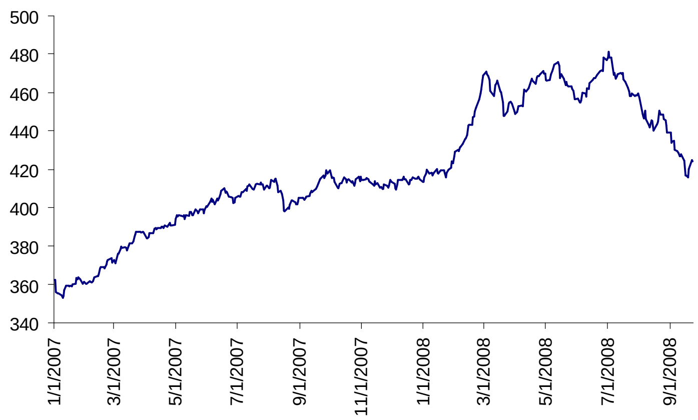
South-Eastern Europe came out with moderate positive returns expected, with growth as being one of the main contributors. Serbia still carries quite some risk, even though the political side calmed down. Overall, Croatia remains an expensive market in our universe with a P/E of 16 for 2008 and 13 for 2009 (similar to Slovenia). Romania, however, remains our favorite out of this group. The ZEW indicator posted a nice improvement on current situation, while the outlook remained stable. GDP growth remained more than strong and prominent concerns about the economy's development neither came true yet, nor are there indications that it could easily get as worth as some have expected. Consequently, in our scenario of weaker Eurozone growth Romania would be second best in terms of protection delivered by domestic growth. However, even if we assume a moderate improvement in sentiment and returning interest in equity investments, we see SEE markets only in the second place of recovery. Hence, we rate the region somewhere between neutral and underweight.

CEE Country Allocation

Turkey - underweight

Turkey was placed at a strong underweight by our model, with positive impetus coming only from valuation. While political uncertainties have been solved to some extend, the current market sentiment still does not seem to tolerate the potential risk of the market. However, given the huge loss in performance in a market that still has a lot of potential, sound upside could be realized as quickly as the market went down earlier. Hence, we veto a bit against the model outcome and soften the underweight.

Commodity price development (CRB spot index)

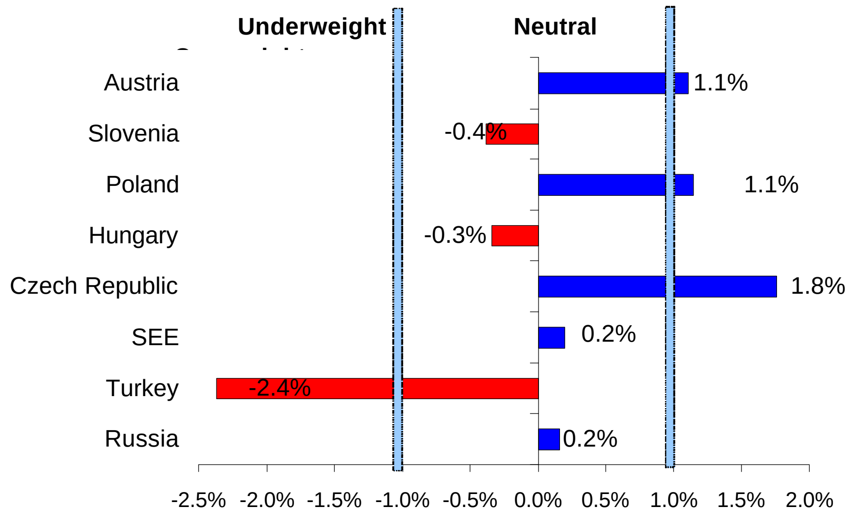


Source: Datastream

Russia - underweight

Russia was awarded with some moderate positive expected returns. Even though we reckon that the market could easily swing to the positive side strongly (as demonstrated recently), we prefer to move the market more to the underweight side for several reasons. Firstly, corporate governance issues were already seen as critical and the market has seen harsh reactions to interventions (e.g. Mechel). Given now a situation where state agencies are supposed to accumulate shares on the market in order to stabilize, this is certainly a helpful tool in the short-term but might raise some concerns on increased state ownership in the long run. Secondly, geopolitical issues (Georgia) might be overshadowed by the current market crisis, but still exist. On the macro side it will be helpful for growth, when mandatory reserve requirements are reduced to record lows (on rouble deposits), but this might fire back in the mid-term, given an inflation rate in the neighborhood of 13% for this year. Finally, the fundamental base for the country is getting weaker, with commodity prices falling.

Allocation based on expected returns



Source: Erste Group

Appendix

Factor model description

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

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

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

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

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

In total, the model relies on 16 single factors.

We start our model view with Dezember 1998. Via a multiple-regression, we try to identify a relationship between our chosen factors at the end of a period and the observed return for the next period (in our case, we look at quarters). We run this multiple-regression for the first year of chosen history and summarize the results of the regression by calculating an average regression coefficient (b) for the first year for each factor.

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

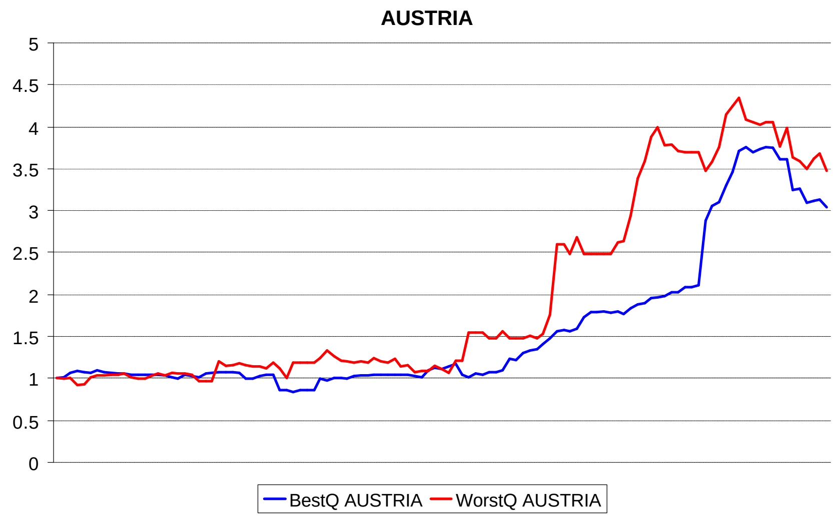
To cut it short, the model yields expected returns for each stock in our universe, which we finally aggregate to country levels.

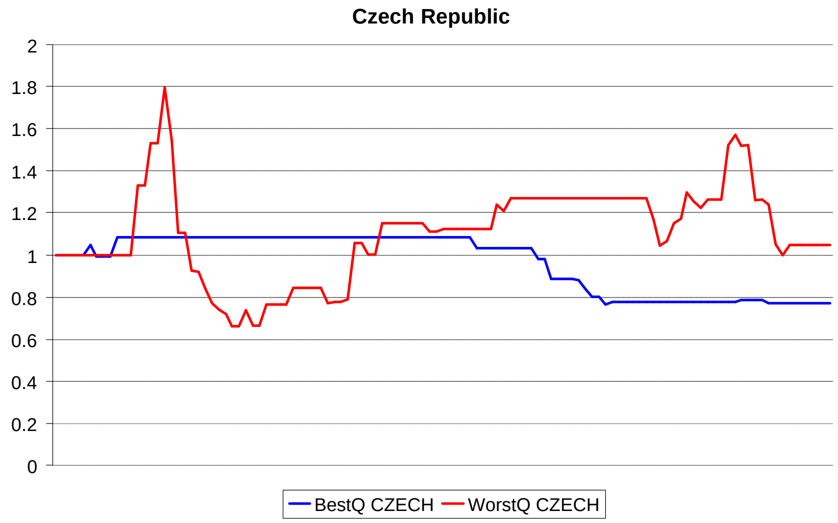
In order to check the outcome of our model, we run a forward looking back test, e.g. how much any portfolio based on the model outcome would have made in terms of return. We differentiate between quartiles and would expect the top quartile to have outperformed the bottom quartile. The outcome indeed indicates that the model works, at least for markets with rather good data quality and - even more importantly - a higher number of stocks being traded. Hence, this already demonstrates the downside of our approach, given the fact that some markets simply offer a limited amount of stocks, which are frequently traded and for which reliable data is available. However, based on this, we would not question the entire approach, but would clearly stress the functionality of our tool: It is an allocation indication, NOT a tradable mechanism. Hence, we allow ourselves to put the pure outcome of the model on a relative scale and use our own judgment to formulate a final view.

Finally, for interpretation of the outcome of our model, we use the overall expected return by country, as well as the spread between the high and low (top - last quartile) expected return stocks. The expected return by countries is the forecast, which is the actual state of the factors for each stock in the universe multiplied by the average of the coefficients (b) for each factor from last year's regressions. Since the expected return of each stock is composed of the sum of the expected return components for each factor, we can extract the information regarding from which factor the largest contribution to the expected return comes. Knowing this for each stock and each factor and aggregating on a country level gives us the average contribution of the factor to the total expected return for a country.

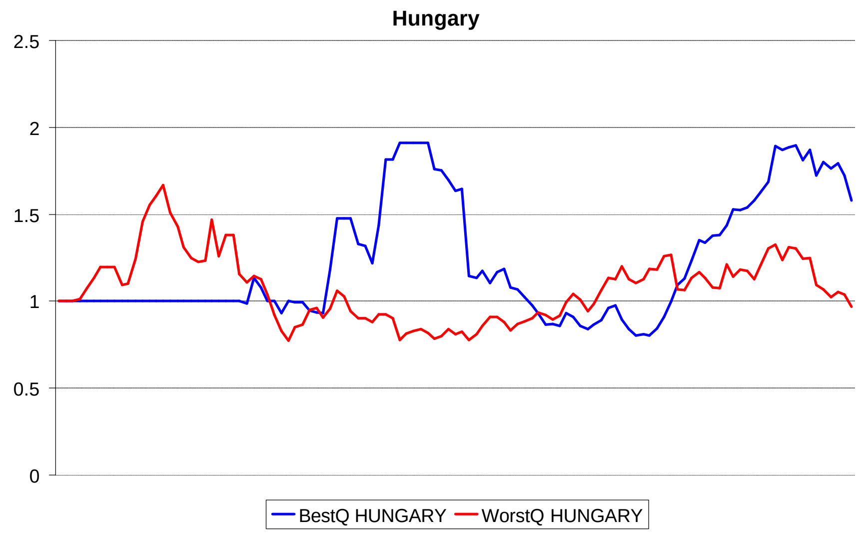
We have run a backtest, checking what our allocation model would have yielded. The following charts show the expected returns both for the best and the worth quartile.

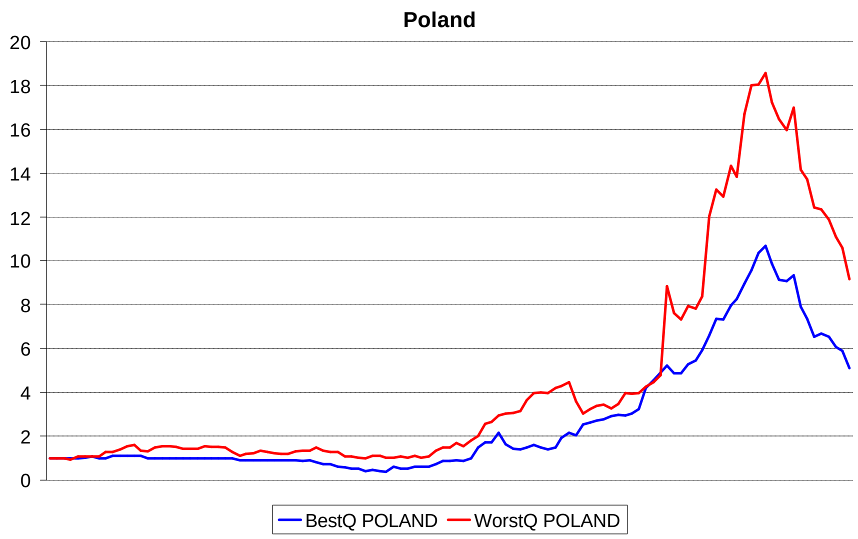
Backtest results

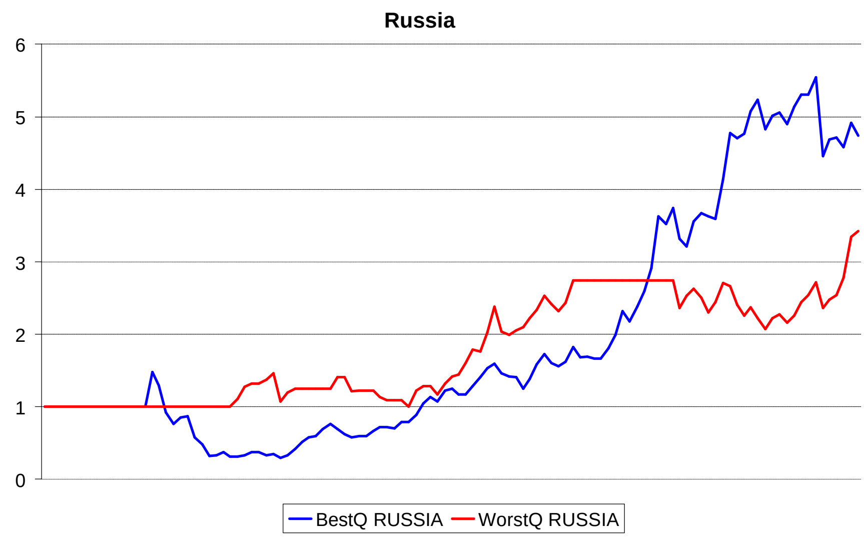




Appendix


Hungary
2.5
2
1.5
1
0.5
0
BestQ HUNGARY
WorstQ HUNGARY


Poland
20
18
16
14
12
10
8
6
4
2
0
BestQ POLAND
WorstQ POLAND


Russia
6
5
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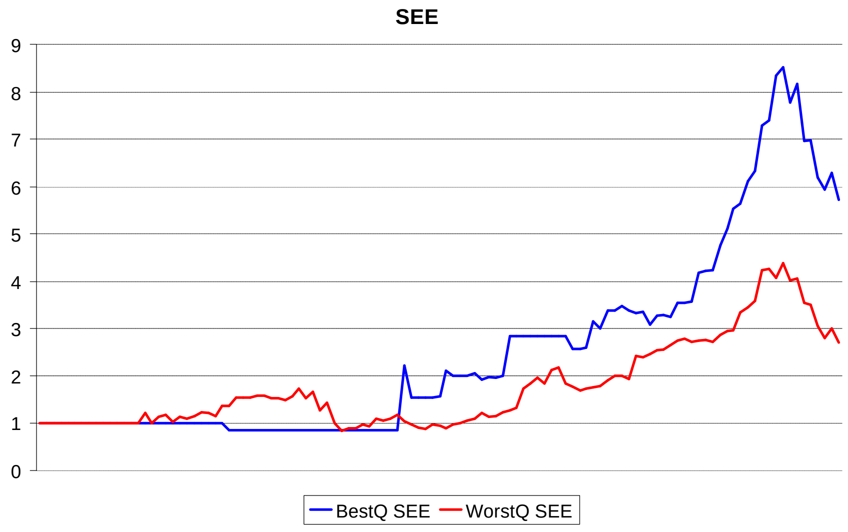
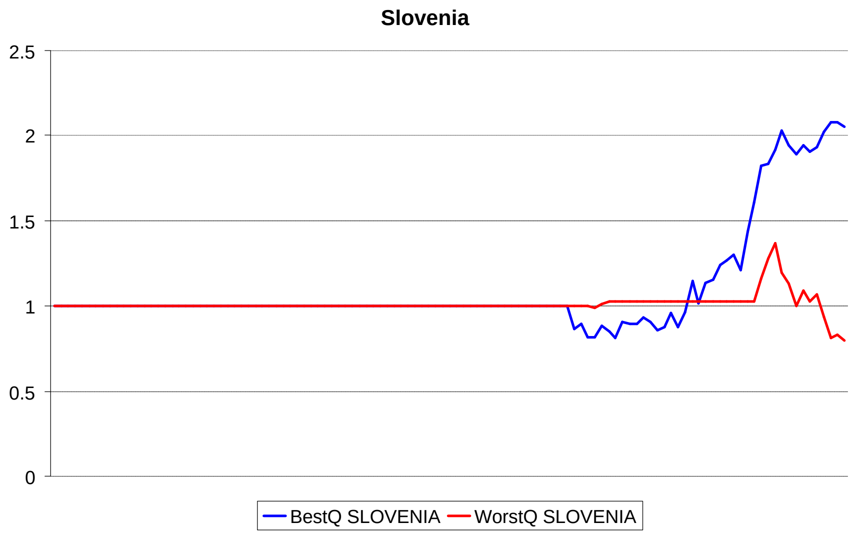
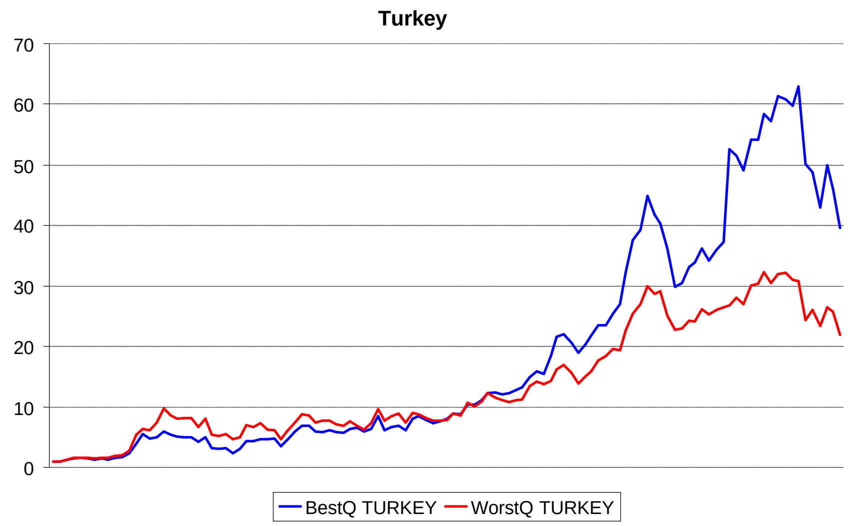
BestQ RUSSIA
WorstQ RUSSIA

Appendix







Source: Erste Group

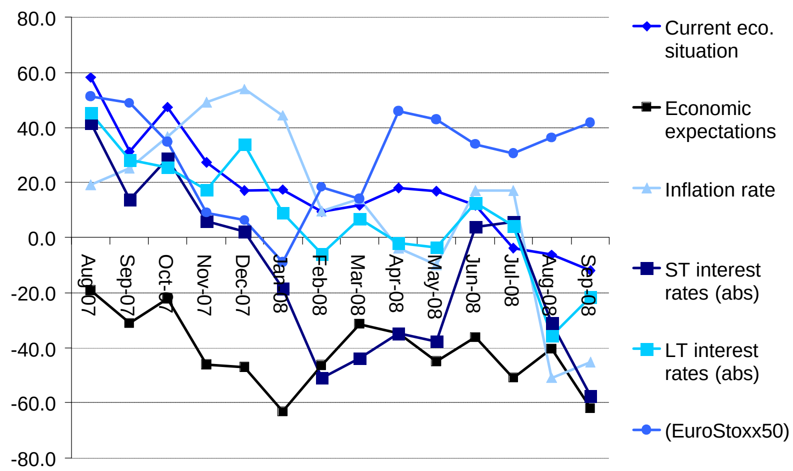
Appendix

ZEW sentiment indicator

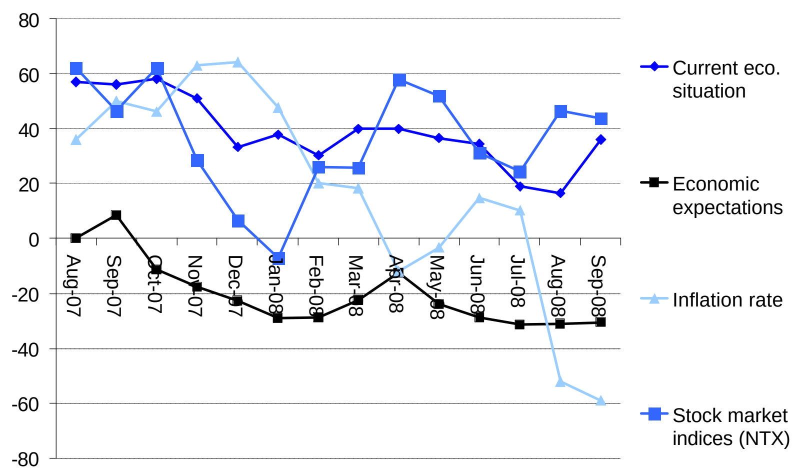
ZEW (Centre for European Economic Research, Mannheim, Germany) and Erste Bank joint established a sentiment indicator. Each month financial experts in the region are asked to give their assesment on various indicator for the CEE region. Here we show the development of the ZEW indicator over time, aggregated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

ZEW indicator development

EUROZONE	Sep-07	Oct-07	Nov-07	Dec-07	Jan-08	Feb-08	Mar-08	Apr-08	May-08	Jun-08	Jul-08	Aug-08	Sep-08
Current eco. situation	31.2	47.2	27.4	17.0	17.4	9.4	11.8	18.0	16.9	11.8	-3.8	-6.3	-12.0
Economic expectations	-31.3	-22.2	-46.0	-47.1	-63.3	-46.4	-31.4	-34.7	-44.8	-36.3	-51.0	-40.4	-62.0
Inflation rate	25.1	36.5	49.0	54.0	44.2	9.7	14.0	-4.0	-9.9	17.0	17.0	-50.9	-45.1
ST interest rates (abs)	13.8	28.9	6.0	2.0	-18.6	-50.9	-43.8	-34.8	-37.9	3.8	5.6	-31.3	-57.5
LT interest rates (abs)	28.2	25.5	17.4	34.0	9.0	-6.0	6.8	-2.2	-3.5	12.6	4.1	-35.6	-21.7
(EuroStoxx50)	48.8	34.8	8.9	6.4	-9.0	18.4	14	45.8	42.9	34.0	30.7	36.3	41.6
Exchange rates (vs. Euro)	-	-	-	-	-	-	-	-	-	-	-	-	-



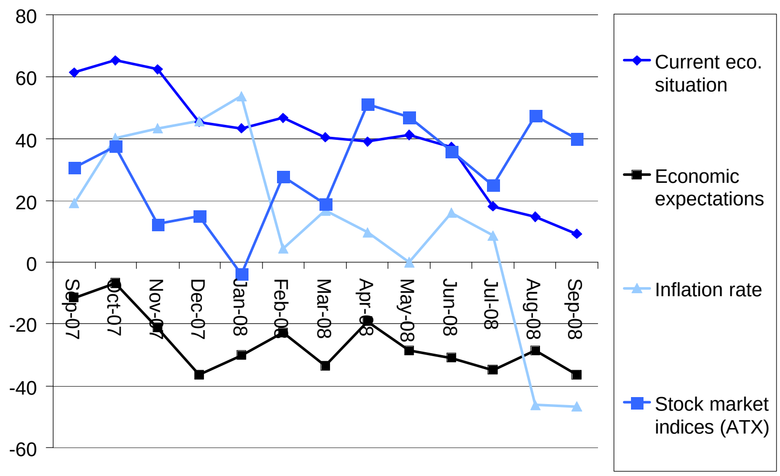
CEE	Sep-07	Oct-07	Nov-07	Dec-07	Jan-08	Feb-08	Mar-08	Apr-08	May-08	Jun-08	Jul-08	Aug-08	Sep-08
Current eco. situation	56	58.2	51.0	33.2	37.9	30.2	40.0	40.0	36.7	34.5	19.0	16.6	36.0
Economic expectations	8.3	-11.4	-17.7	-22.7	-29.0	-28.8	-22.4	-12.5	-24.1	-28.7	-31.4	-31.3	-30.6
Inflation rate	50.0	46.0	62.8	64.0	47.6	20.0	18.4	-12.0	-3.3	14.6	10.2	-52.1	-59.1
ST interest rates (abs)	-	-	-	-	-	-	-	-	-	-	-	-	-
LT interest rates (abs)		-	-	-	-	-	-	-	-	-	-	-	-
Stock market indices (NTX)	46.3	61.9	28.6	6.6	-7.3	26.1	25.7	57.7	51.8	31.3	24.4	46.5	43.8
Exchange rates (vs. Euro)	-	-	-	-	-	-	-	-	-	-	-	-	-



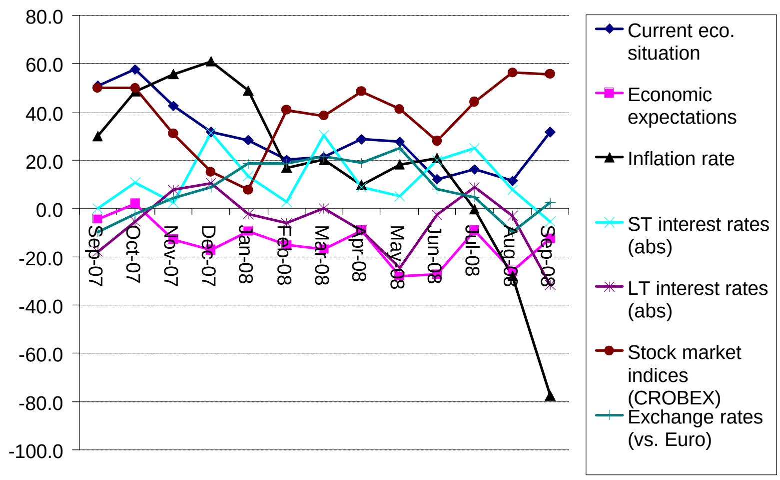
Appendix

ZEW indicator development (continued)

AUSTRIA	Sep-07	Oct-07	Nov-07	Dec-07	Jan-08	Feb-08	Mar-08	Apr-08	May-08	Jun-08	Jul-08	Aug-08	Sep-08
Current eco. situation	61.4	65.2	62.5	45.5	43.4	46.7	40.5	39.0	41.3	37.2	18.2	14.7	9.3
Economic expectations	-11.6	-6.8	-21.3	-36.5	-30.1	-22.7	-33.4	-19.1	-28.6	-30.8	-34.8	-28.6	-36.5
Inflation rate	19.1	40.1	43.3	45.6	53.8	4.6	16.7	9.8	0.0	16.0	8.6	-46.1	-46.5
ST interest rates (abs)	-	-	-	-	-	-	-	-	-	-	-	-	-
LT interest rates (abs)		-	-	-	-	-	-	-	-	-	-	-	-
Stock market indices (ATX)	30.6	37.5	12.3	15.0	-4.0	27.8	19.0	51.1	47.0	36.0	24.9	47.5	40.0
Exchange rates (vs. Euro)	-	-	-	-	-	-	-	-	-	-	-	-	-



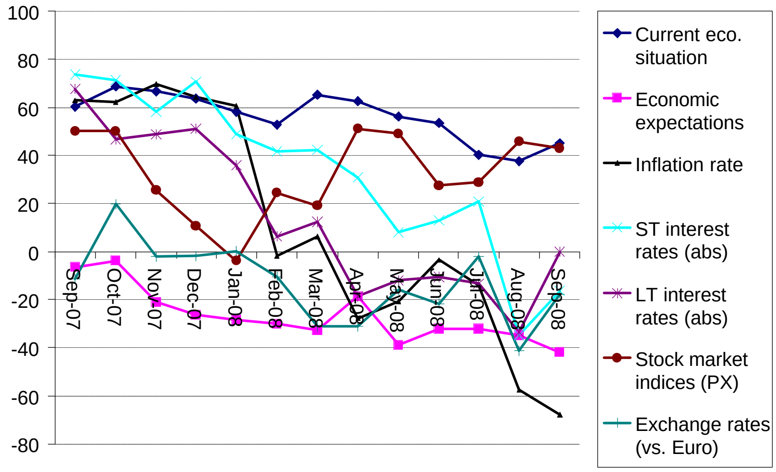
CROATIA	Sep-07	Oct-07	Nov-07	Dec-07	Jan-08	Feb-08	Mar-08	Apr-08	May-08	Jun-08	Jul-08	Aug-08	Sep-08
Current eco. situation	51.1	57.8	42.6	31.9	28.3	20.5	21.4	28.9	27.7	12.3	16.2	11.6	31.8
Economic expectations	-4.2	2.2	-12.8	-17.0	-9.4	-15.0	-16.6	-9.1	-28.0	-27.2	-8.9	-26.0	-12.5
Inflation rate	30.2	48.7	55.8	61.0	49.1	17.1	20.5	10.0	18.4	20.9	-0.1	-27.9	-77.5
ST interest rates (abs)	0.1	11.0	2.6	31.4	13.6	2.8	30.6	8.8	5.2	20.0	24.9	7.8	-5.2
LT interest rates (abs)	-17.6	-5.4	7.7	10.6	-2.4	-5.9	0.0	-9.1	-24.5	-2.5	8.9	-2.8	-31.6
Stock market indices	50	50	31.0	15.3	7.9	40.9	38.5	48.7	41.4	28.0	44.4	56.5	55.6
Exchange rates (vs. Euro)	-9.6	-2.4	4.5	8.9	18.7	18.7	21.6	19.1	24.9	8.3	5.0	-9.7	2.5



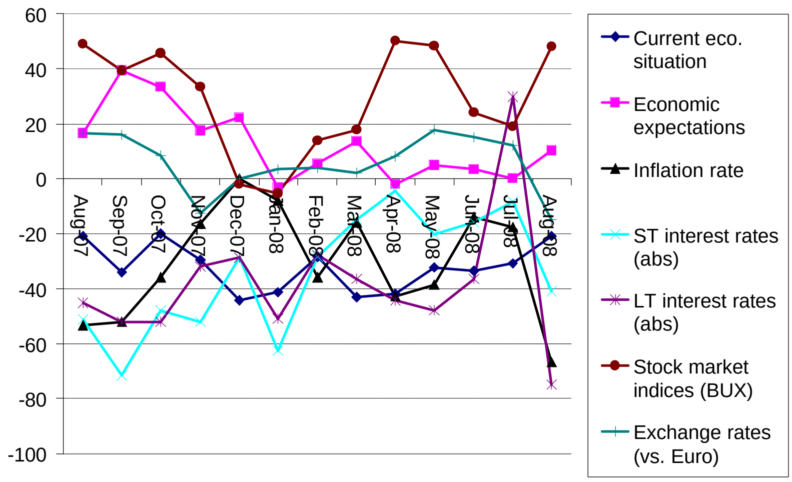
Appendix

ZEW indicator development (continued)

CZECH REPUBLIC	Sep-07	Oct-07	Nov-07	Dec-07	Jan-08	Feb-08	Mar-08	Apr-08	May-08	Jun-08	Jul-08	Aug-08	Sep-08
Current eco. situation	60.3	68.5	66.7	63.5	58.3	52.8	65.3	62.5	56.1	53.6	40.5	37.5	45.0
Economic expectations	-6.5	-3.9	-20.9	-26.3	-28.3	-30.1	-32.7	-18.7	-39.0	-32.1	-32.1	-34.7	-41.8
Inflation rate	63.0	62.4	69.6	64.2	60.4	-1.8	6.3	-27.7	-20.8	-3.6	-14	-57.5	-68.0
ST interest rates (abs)	73.8	71.2	58.1	70.8	48.9	41.7	42.3	31.0	7.9	12.9	20.8	-34.9	-16.3
LT interest rates (abs)	67.5	46.6	48.8	51.1	36.0	6.4	12.5	-18.6	-12.0	-10.7	-13.4	-33.4	-0.1
Stock market indices (PX)	50.0	50.0	25.6	10.7	-3.9	24.5	19	51	49.0	27.4	29.0	45.6	43.2
Exchange rates (vs. Euro)	-11.1	19.9	-2.2	-1.9	0.1	-10.4	-31.1	-31.2	-16.1	-21.6	-2.0	-41.2	-17.8



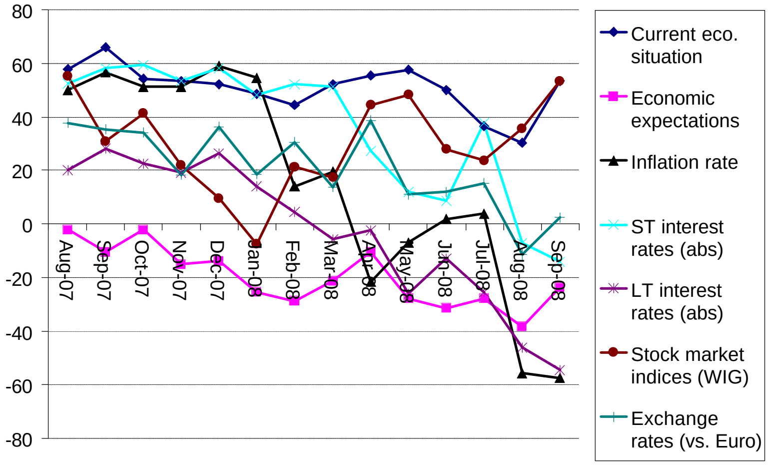
HUNGARY	Sep-07	Oct-07	Nov-07	Dec-07	Jan-08	Feb-08	Mar-08	Apr-08	May-08	Jun-08	Jul-08	Aug-08	Sep-08
Current eco. situation	-34.0	-19.9	-29.5	-44.2	-41.3	-28.4	-43.2	-42.0	-32.2	-33.4	-30.7	-20.8	-2.0
Economic expectations	39.2	33.3	17.6	22.2	-3.3	5.5	13.6	-2.0	4.8	3.4	0.0	10.3	0.1
Inflation rate	-52.0	-36.0	-16.4	0.0	-8.0	-35.9	-15.7	-42.8	-38.7	-14.0	-17.7	-66.7	-74.0
ST interest rates (abs)	-71.4	-48.0	-52.1	-28.8	-62.4	-28.5	-15.0	-4.4	-20.4	-15.7	-8.2	-41.0	-56.4
LT interest rates (abs)	-52.1	-52.1	-32.0	-28.8	-50.8	-27.7	-36.6	-44.4	-48.0	-36.6	29.6	-74.9	-76.2
Stock market indices (BUX)	39.4	45.5	33.4	-2.1	-5.2	14.0	17.8	50.0	48.2	24.1	19.1	47.9	53.2
Exchange rates (vs. Euro)	16.0	8.4	-12.6	0.0	3.4	3.9	2.1	8.3	17.9	15.1	12.0	-14.8	13.1



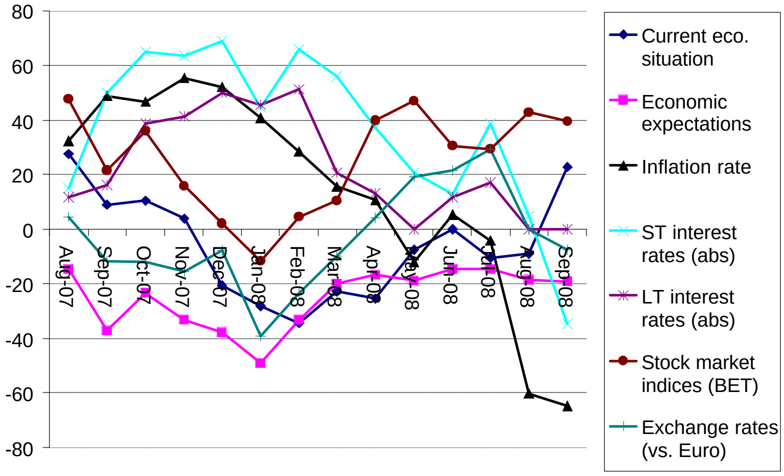
Appendix

ZEW indicator development (continued)

POLAND	Sep-07	Oct-07	Nov-07	Dec-07	Jan-08	Feb-08	Mar-08	Apr-08	May-08	Jun-08	Jul-08	Aug-08	Sep-08
Current eco. situation	66	54.2	53.2	52.0	48.4	44.3	52.1	55.3	57.4	50.0	36.7	30.4	53.2
Economic expectations	-10.6	-2.0	-14.9	-13.7	-25.4	-28.8	-21.3	-10.6	-28.0	-31.4	-28.0	-38.3	-23.8
Inflation rate	56.6	51.1	51.2	59.1	54.4	14.0	19.6	-21.7	-7.0	1.9	4.0	-55.6	-57.5
ST interest rates (abs)	58.1	59.4	53.4	58.0	48.2	52.2	51.2	27.2	12.0	8.8	37.8	-7.3	-14.0
LT interest rates (abs)	28.1	22.5	19.1	26.3	14.0	4.5	-5.6	-2.4	-26.0	-13.0	-25.6	-46.2	-54.6
Stock market indices (WIG)	30.9	41.4	21.9	9.6	-7.6	21.3	17.5	44.4	48.1	28.0	23.8	35.6	53.2
Exchange rates (vs. Euro)	35.5	34.1	18.2	36.2	18.6	30.5	13.9	38.6	11.2	12.0	15.3	-11.4	2.3



ROMANIA	Sep-07	Oct-07	Nov-07	Dec-07	Jan-08	Feb-08	Mar-08	Apr-08	May-08	Jun-08	Jul-08	Aug-08	Sep-08
Current eco. situation	9.0	10.6	4.0	-20.8	-28.2	-34.6	-22.8	-25.5	-7.4	-0.1	-10.5	-8.9	22.9
Economic expectations	-37.2	-23.4	-33.4	-37.8	-49.0	-33.4	-20.0	-16.9	-19.0	-14.8	-14.7	-18.7	-19.1
Inflation rate	48.7	46.6	55.5	52.0	40.7	28.5	15.5	10.9	-12.0	5.4	-4.3	-60.1	-64.6
ST interest rates (abs)	50.1	65.0	63.6	68.9	44.6	65.9	56.0	37.3	20.8	12.8	38.7	4.9	-34.9
LT interest rates (abs)	16.2	38.6	41.4	50.1	45.5	51.3	20.6	13.1	0.1	11.8	17.2	-	-
Stock market indices (BET)	21.7	36.0	16.0	2.1	-11.7	4.5	10.5	40.0	47.1	30.7	29.5	42.8	39.5
Exchange rates (vs. Euro)	-11.8	-12	-15.5	-7.8	-39.2	-23.4	-9.8	4.2	19.2	21.5	29.5	0.1	-7.4



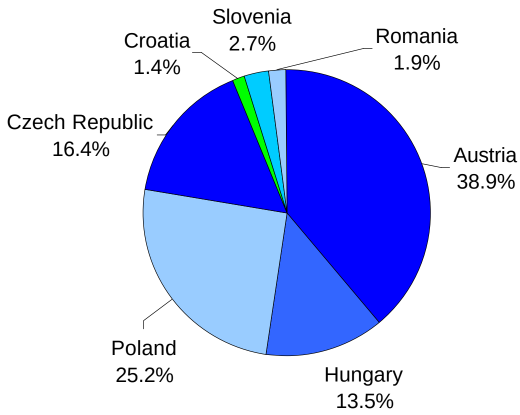
Note: Financial experts were asked about their expectations for the next 6 months. Balances refer to the differences between positive and negative assessments. Source: ZEW

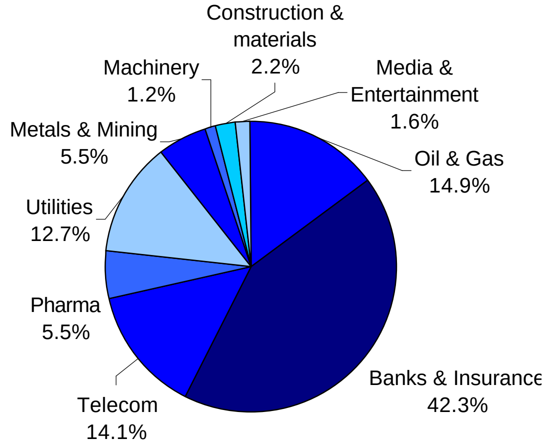
Appendix

New Europe Blue Chip Index (NTX)

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

Current index structure





Rank	Company	Country	Sector	Free float EUR	Weight
1	CEZ	Czech Republic	Utility	10,166,078,766	9.43%
2	Erste Group	Austria	Banks & Insurance	10,104,753,133	9.38%
3	OMV	Austria	Oil & Gas	8,111,250,000	7.53%
4	OTP Bank	Hungary	Banks & Insurance	7,803,155,080	7.24%
5	Bank Pekao	Poland	Banks & Insurance	6,834,072,004	6.34%
6	PKO BP	Poland	Banks & Insurance	6,828,499,860	6.34%
7	Raiffeisen International	Austria	Banks & Insurance	4,980,293,500	4.62%
8	Telekom Austria	Austria	Telecom	4,674,750,000	4.34%
9	TP SA	Poland	Telecom	4,649,308,646	4.31%
10	Verbund	Austria	Utility	3,473,414,000	3.22%
11	MOL	Hungary	Oil & Gas	3,362,112,457	3.12%
12	PKN Orlen	Poland	Oil & Gas	3,304,321,311	3.07%
13	Voestalpine	Austria	Metals & Mining	3,144,896,506	2.92%
14	Komercni banka	Czech Republic	Banks & Insurance	3,048,262,892	2.83%
15	Krka	Slovenia	Pharmaceuticals	2,946,390,400	2.73%
16	KGHM	Poland	Metals & Mining	2,776,219,950	2.58%
17	Telefonica O2 CR	Czech Republic	Telecom	2,703,195,123	2.51%
18	Vienna Insurance Group	Austria	Banks & Insurance	2,420,480,000	2.25%
19	CME	Czech Republic	Media & Entertainment	1,723,373,537	1.60%
20	Richter Gedeon	Hungary	Pharmaceuticals	1,680,288,456	1.56%
21	Magyar Telekom	Hungary	Telecom	1,661,171,971	1.54%
22	Wienerberger	Austria	Construction & materials	1,605,079,814	1.49%
23	Hrvatski Telekom	Croatia	Telecom	1,535,906,562	1.43%
24	BRE Bank	Poland	Banks & Insurance	1,453,536,598	1.35%
25	BRD-Group SG	Romania	Oil & Gas	1,354,414,859	1.26%
26	Andritz	Austria	Engineering	1,327,560,000	1.23%
27	Intercell	Austria	Oil & Gas	1,274,595,912	1.18%
28	PGNiG	Poland	Banks & Insurance	1,273,495,863	1.18%
29	STRABAG SE	Austria	Construction & materials	789,200,756	0.73%
30	Banca Transilvania	Romania	Banks & Insurance	743,306,183	0.69%
	Total			**107,753,384,141**	**100.00%**

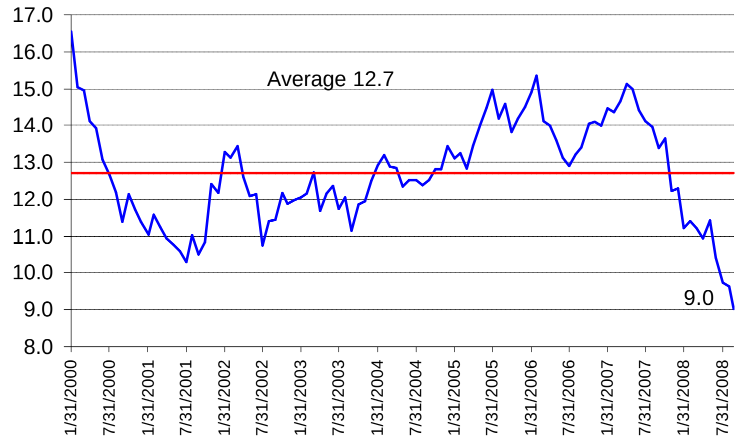
Source: Vienna Stock Exchange, Erste Group

Appendix

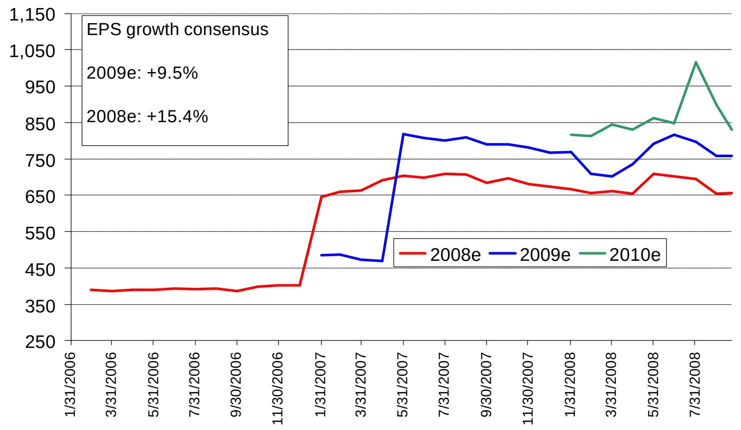
Regional valuation and sentiment

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

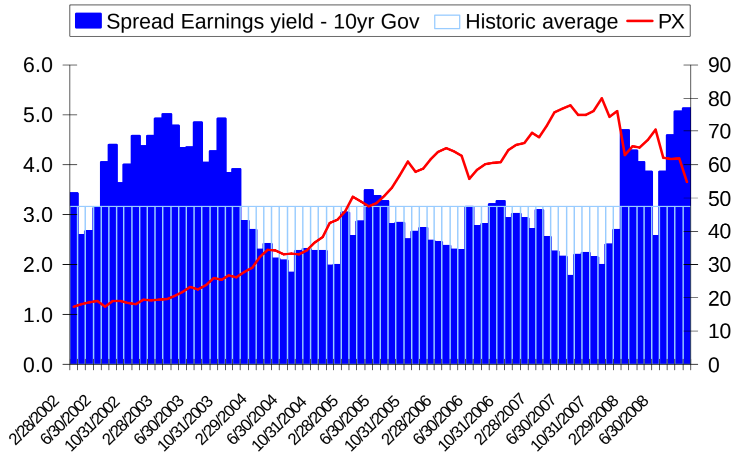
Regional forward PER vs historical average



Development of EPS consensus estimates



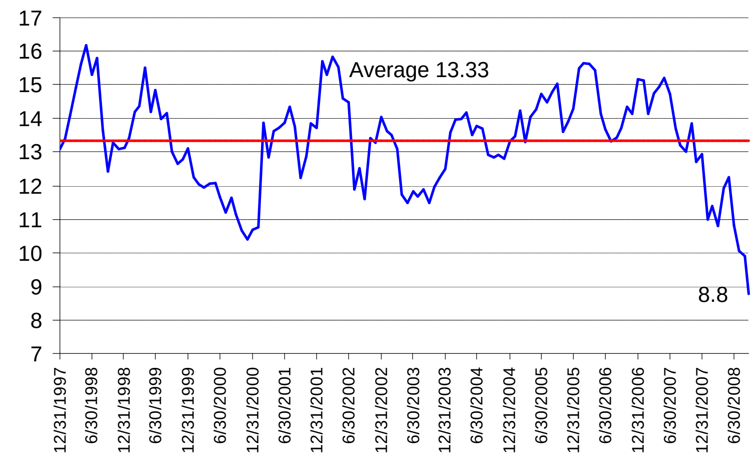
Development of risk premium



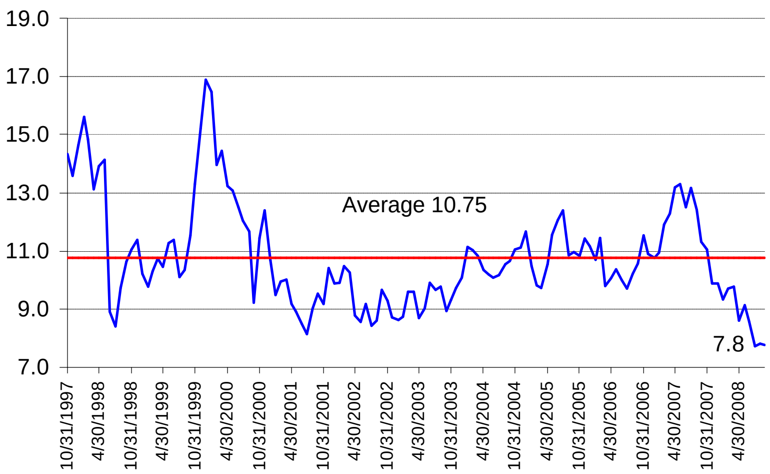
Source: Factset, Erste Group

Appendix

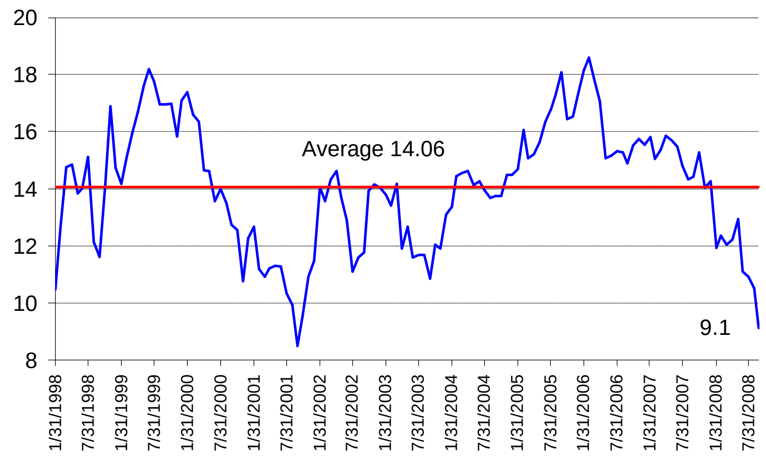
Forward PER vs historical average - ATX



Forward PER vs historical average - BUX



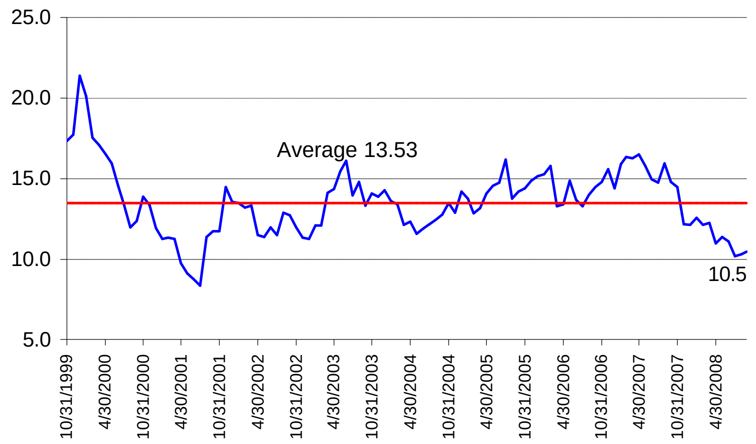
Forward PER vs historical average - PX



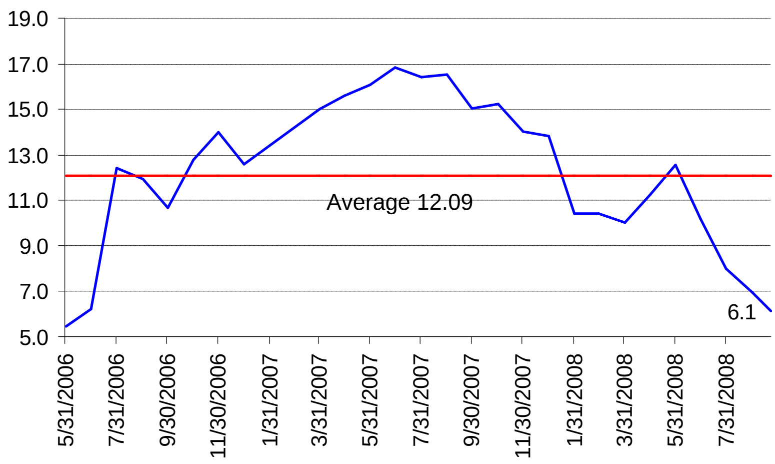
Source: Factset, Erste Group

Appendix

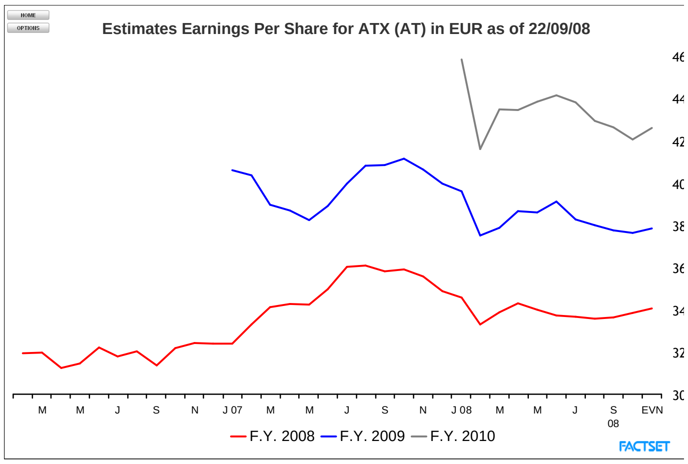
Forward PER WIG 20



Forward PER Romania



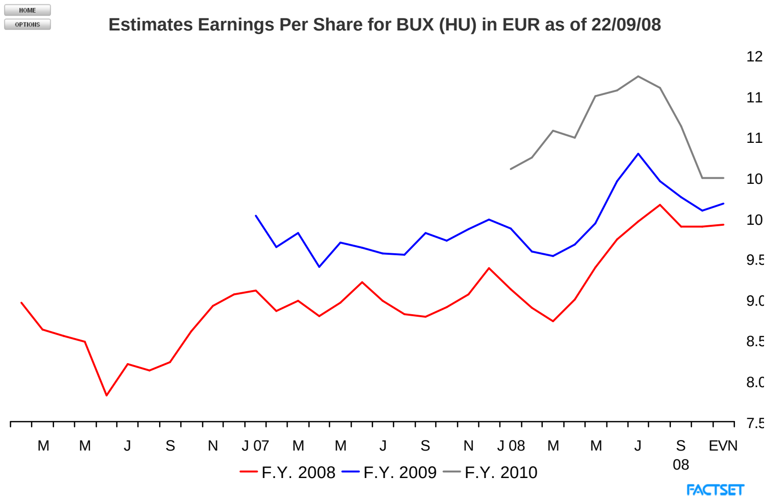
Consensus trend - EPS (EUR)

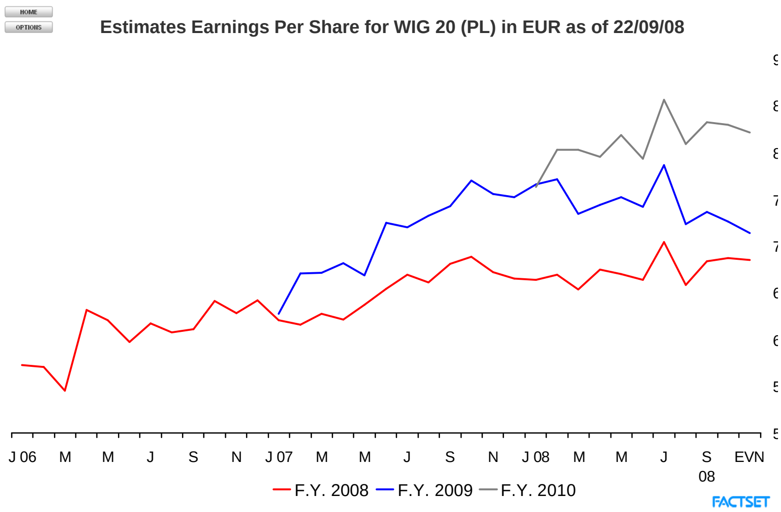


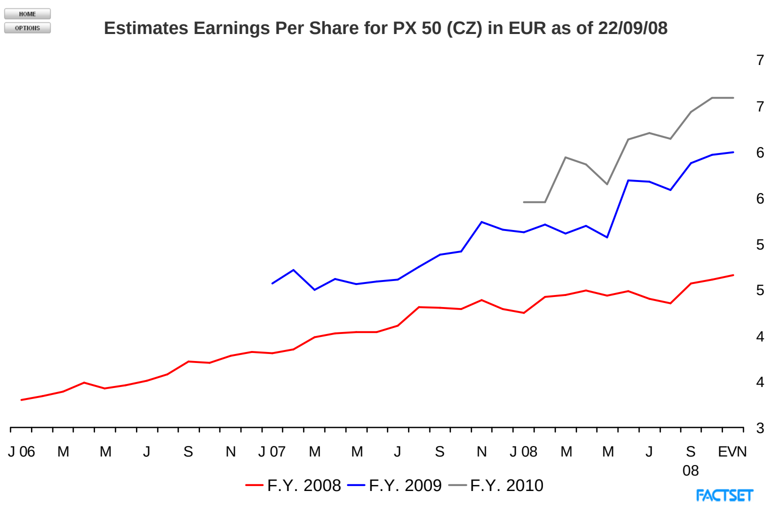
Source: Factset, Erste Group

Appendix

Consensus trend - EPS (EUR), continued

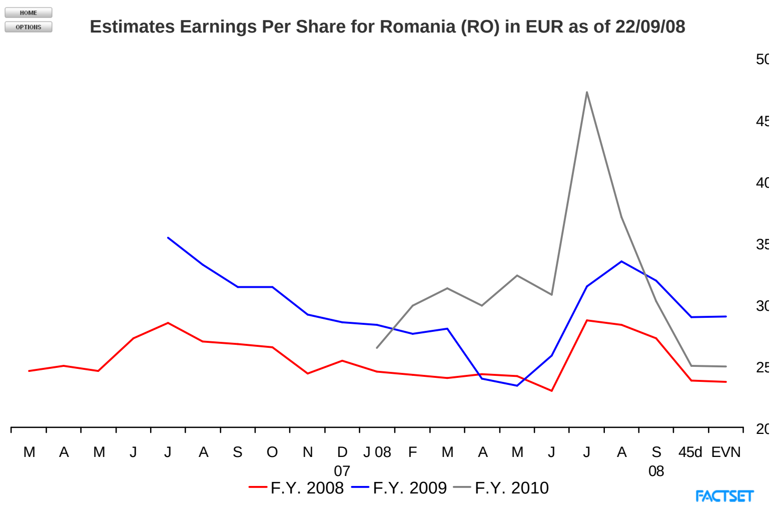




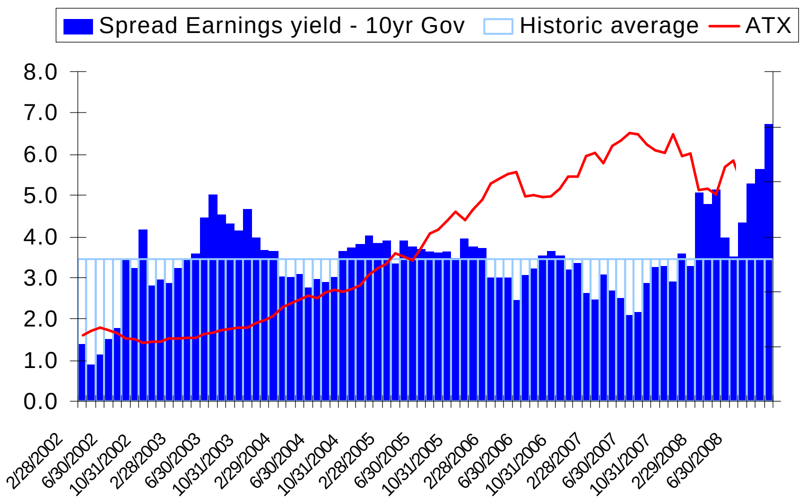


Source: Factset, Erste Group

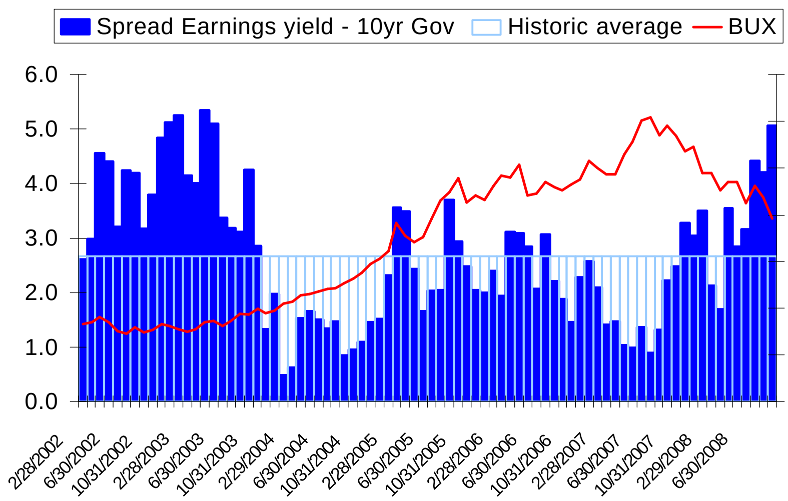
Appendix



Development of risk premium - ATX



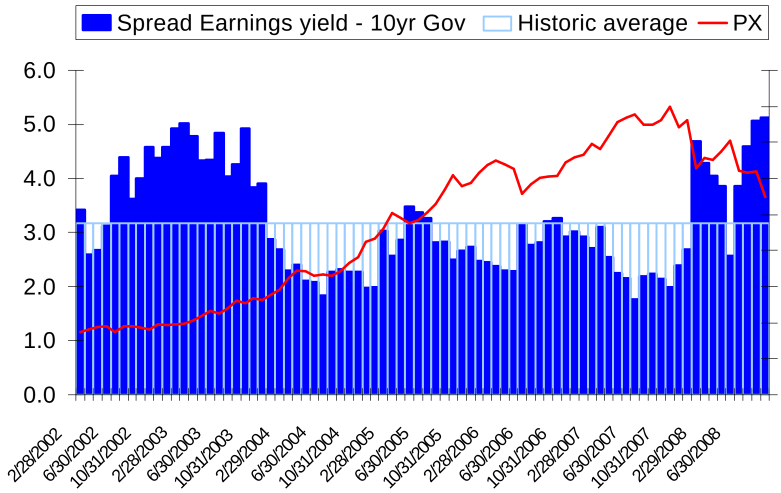
Development of risk premium - BUX



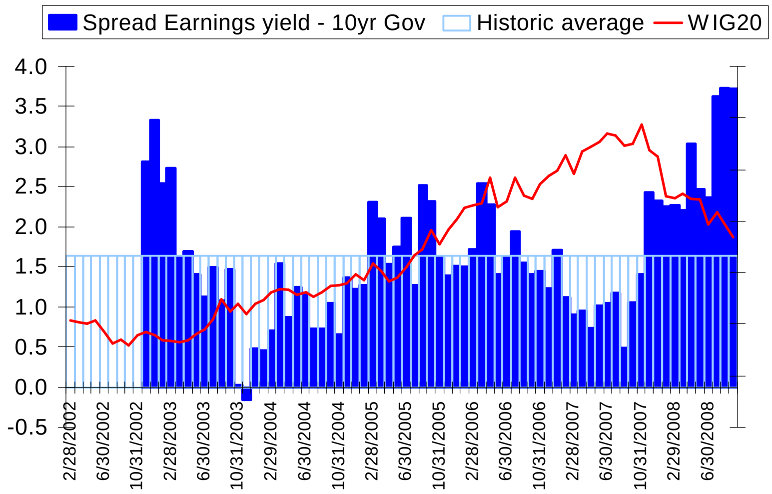
Source: Factset, Erste Group

Appendix

Development of risk premium - PX



Development of risk premium - WIG 20



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