Restructuring Central Europe
Evolution of NPLs

April 2012

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Introduction

The credit boom of the new millennium, followed by a sharp recession in most Central European countries from 2009 onwards, contributed to a marked increase in NPL[1] portfolios around the region. Credit growth was halted by global liquidity shocks resulting in a reduced willingness to lend by European banks and their corresponding financial institutions, but the general economic downturn also lead to reduced demand for financing. Local banks faced continuous deterioration of their loan books and lack of fresh lending making NPL ratios deteriorate significantly.

Nevertheless countries in the CE region differ in many aspects in terms of NPLs. Generally, development of NPLs is driven by declines in GDP, previous overheated credit growth and its structure, a rise in unemployment, and a decline in property prices. We believe there are other unique factors in the current economic downturn, such as: the overall liquidity concern of the banking sector; the issue of sovereign debts; local issues like a high proportion of FX indebtedness or the introduction of banking tax, which, in one way or the other, all contributed to the evolution of the NPL portfolios in some of these countries. In our white paper study covering Poland, the Czech Republic, Slovakia, Hungary, Slovenia, Romania and Croatia we try to provide a high level overview of recent developments of local economies and reveal main differences in portfolio issues, which might also result in different approaches in remediation.

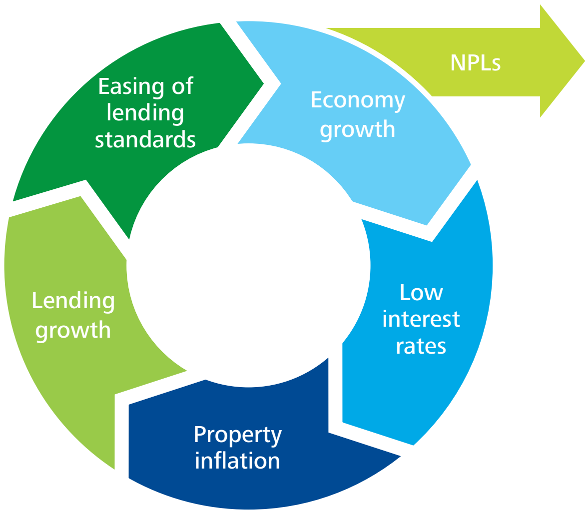
We hope with the first edition of this white paper we can provide readers with useful insights into, and comparative analyses of, the NPL markets in our region. Our aim is to provide regular information on developments of the NPL market of our region. We would also be happy to receive your feedback which you can discuss with your usual Deloitte contact, or with any of our experts listed in the back of the paper.

Overview of the evolution of NPL portfolios

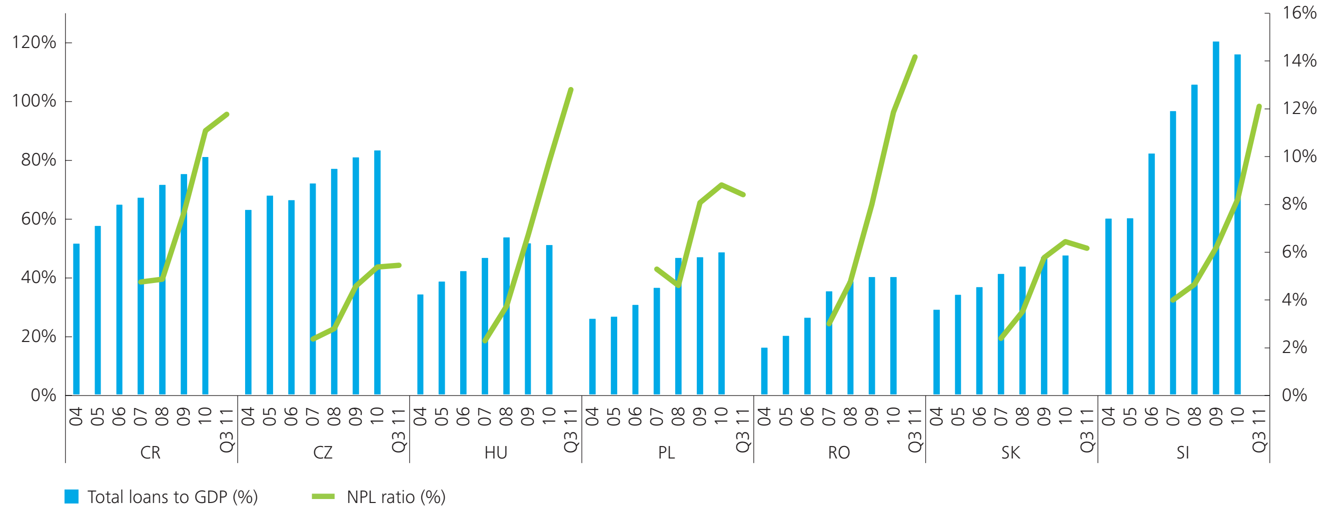
Countries in our region demonstrated considerable growth in lending in the years prior to the crisis. During the growth years the large number of development projects and the overall demand for lending on the basis of growth on the relative low banking penetration of these countries resulted in an extraordinary growth allowing banks to expand their presence in the region.

Certain studies[2] suggest that in economic prosperity lenders are generally less rigorous in screening debtors as bank strategies and personal incentive schemes are all aimed at growth. As a result banks tend to lend to relatively riskier debtors. This is fuelled by low interest rates which boost corporate and collateral values and, in the longer term, also contribute to increasing loan to value ratios.

Our analysis shows a fairly strong correlation between total loans to GDP as an indicator of debt financed advanced spending and NPLs. There are two exceptions: Czech Republic, where, despite the relatively high level of loans to GDP, NPL ratios are lower; and Romania, where low debt penetration still developed significant non performing portfolios. We believe the macroeconomic fundamentals of the Czech Republic are much more solid and, as such, only a lower level of loans become non performing. While in Romania the property bubble is to blame for the high amount of NPLs.



Total loans to GDP and NPL ratio

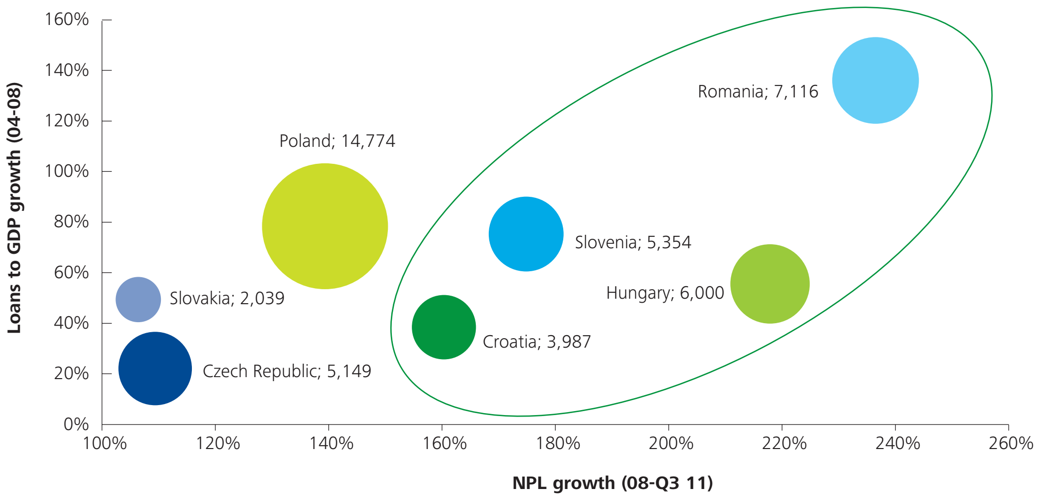


Source: IMF, National Banks
Note: No Total loans to GDP data for 2011. Latest NPL data for Croatia as of Q2 2011

Out of our seven countries, lending growth was most significant in Slovenia, where the loan to GPD ratio of the economy doubled over the five years to 2009, reaching 121% of GDP and then reducing to 116%. Growth in 2009 was clearly the result of an 8% dip of real term GDP, following growth rates of 6.9% and 3.6% of GDP in 2007 and 2008 respectively. On the other hand the lowest growth of overall indebtedness was in the Czech Republic, which grew by 32% over the same period. Interestingly, among the countries in our study, the NPL ratio of the banking sector is currently the lowest in the Czech Republic. While NPL growth seems to be leveling out in the Czech Republic, Poland and Slovakia, there is still no sign of a peak in cases of Croatia, Hungary, Romania or Slovenia, where the share of NPLs already exceed 12% and are growing.

If we only consider pre crisis lending growth as a driver of NPL portfolios' evolution beyond 2008, the relationship is even more evident (see chart below). NPL volumes at least doubled in all countries since 2008, but the countries with highest NPL rates above grew the most and, with the exception of Hungary, the relationship between higher pre crisis credit growth and later NPL growth is clearly visible. In Hungary the higher relative NPL volume growth to pre-crisis credit growth can be explained by a high portion of FX loans and recent foreign exchange rate shocks, while relatively modest NPL growth of Poland, despite a significant credit boom prior to 2008, is mainly a result of a higher base. The ratio of loans to GDP in Poland was only 26.4% in 2004 (only Romania was lower at 16.6% in that year) thus producing considerable growth over the last few years, while the NPL rate was well above 5% even before the crisis. As a result NPL growth post crisis – which has already passed its peak of 8.7% in 2010 – is among the lowest ones among these countries.

Loans to GDP and NPL growth



Source: Local national banks, IMF, Deloitte analysis
Note: Bubble size: Q3 2011 NPL volume (EURmn), Q2 2011 data in case of Croatia

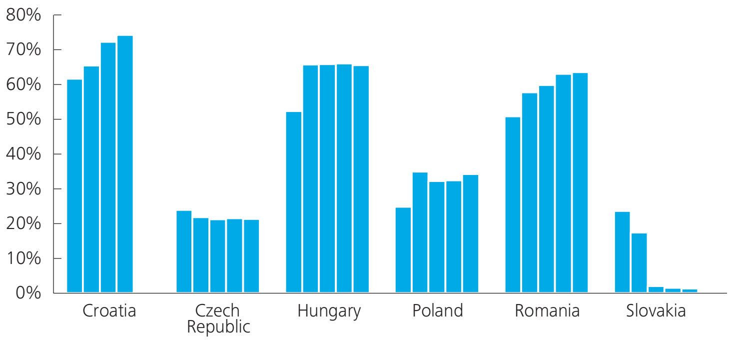
In some countries low interest rates were not available in local currencies. On the back of cheap FX funding of their mother banks, local banks started to provide low interest FX denominated loan products to both corporate and retail clients. While corporates can theoretically cover debt service on such loans through their export revenues, retail borrowers, assuming the relatively stable exchange rates of the era of prosperity would continue, started to build up their own uncovered positions.

By 2010, lending in foreign currency reached 74.3%, 66.1% and 63% of total outstanding loans in Croatia, Hungary and Romania respectively. In Slovakia euro zone accession eliminated most of the FX element in lending. In Croatia FX deposits are also relatively high and there was therefore no significant open FX position built up, but in the cases of Hungary and Romania increased FX loans combined with sharp devaluation of the local currency contributed to the increase of NPL volumes. In Hungary the regulator has banned new FX mortgage lending, while in Croatia it has also been restricted, but FX vulnerability remained a somewhat unique root cause of Central European NPLs.

Project financing related to large scale commercial and residential property developments was a substantial segment of lending growth in other countries in the study as well. The economic downturn resulted in a large number of these ongoing projects being put on hold or even abandoned. Banks are struggling with repossessed properties with limited or no alternative usage and NPL portfolios are usually property heavy.

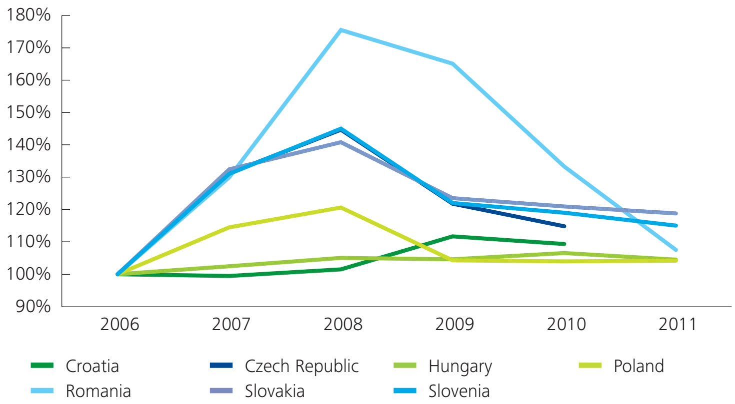
Falling property prices heavily impacted LTV ratios. Average prices in Romania are now back at 2006 levels after experiencing a 76% increase in just two years prior to the crisis. Czech and Slovak property price bubbles were less severe and their landing seems to be softer as well. On the other hand Hungarian property prices were rather flat over the last few years and it was not the fall of property prices that made LTV ratios skyrocket but rather the depreciation of the local currency that resulted in CHF mortgage loans significantly exceeding the value of the underlying property.

Share of FX lending (2007 - Q3 2011)



Source: National banks
Note: Slovenia joined the Eurozone as of January 2007

Property price indices



Source: Local statistical offices
Note: For Slovenia Q1 2007 is the basis. No 2011 data for Croatia and the Czech Republic.

NPLs – what next?

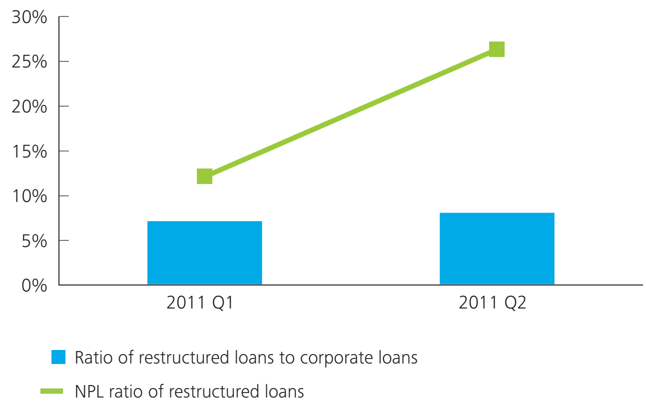
Restructuring of loans is on the agenda in all countries rolling over problematic pre workout cases – obviously with different emphasis. Restructuring can be a useful tool to remedy the debtors' situation; however statistics (where available) indicate that restructured loans have a significantly higher chance to become non performing again. This shows that banks' restructuring moves are not necessarily successful either as they are done too late, or do not provide enough headroom for the debtor. As a result the build-up of NPL portfolios are delayed through restructured cases and immediate decline of ratios is not expected.

In its study, the IMF investigated the movement of NPL ratios during the financial crises in 15 countries between 1994 and 2008[3]. They concluded that NPL ratios tend to rise rapidly in a crisis (year "t" indicates the year of highest growth of NPL) but suggest that NPL ratios will only decline over a longer term, remaining over 200% of pre-crisis levels for a number of years thereafter.

Looking at the relative NPL growth rates in our countries since 2007 we again see the preeminence of Poland, Slovakia and the Czech Republic. NPL ratios of these countries all seem to have peaked already with levels well below the benchmarks calculated by the IMF. It should be noted though that countries analyzed by the IMF were all developing countries, while Poland, Slovakia and the Czech Republic tend to perform closer to more developed Western European economies in terms of NPLs.

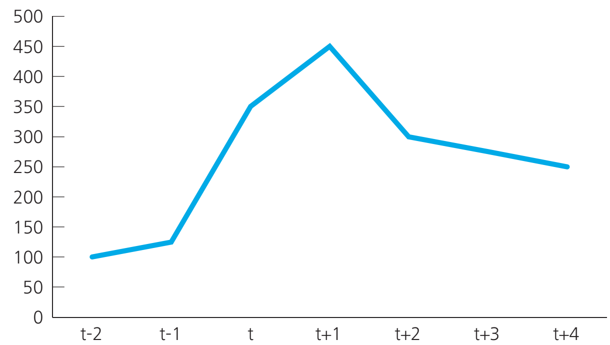
Although this is a fairly simplistic approach to a complex situation, applying this NPL pattern to the current crisis in Central Europe would suggest the NPL rate in the Czech Republic will level out around 4% in the next two years, in Poland it will stay around 6 to 6.5%, and Slovakia it will be between 4 and 4.5%. In the Czech Republic and Slovakia the risks are around the planned austerity measures for 2012 and their potential impact on economic performance and consequently on the quality of corporate and retail loans.

NPL of restructured loans, Hungary



Source: National Bank of Hungary

NPL ratios with large increases in year t



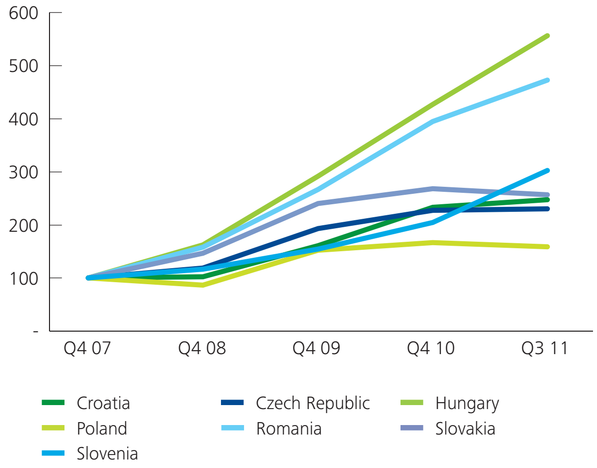
Source: IMF

In other countries peak NPL rates are still ahead of us. For Hungary analysts expect this to be around 16% in 2012-2013 dragged mainly by negative credit growth. In Romania and Croatia it is expected that NPL rates will further increase although growth rates in these countries seem to be slowing. For both countries risks related to foreign exchange lending are present and depreciation of local currency could put sudden pressure on NPL levels. In Slovenia a gloomy outlook for the economy and heavy leverage of the corporate sector predicts further increase of the NPL ratio.

Banks in Central Europe were mostly successful in maintaining profitability during the crisis. However in some countries banks suffered significant decline in profit levels:

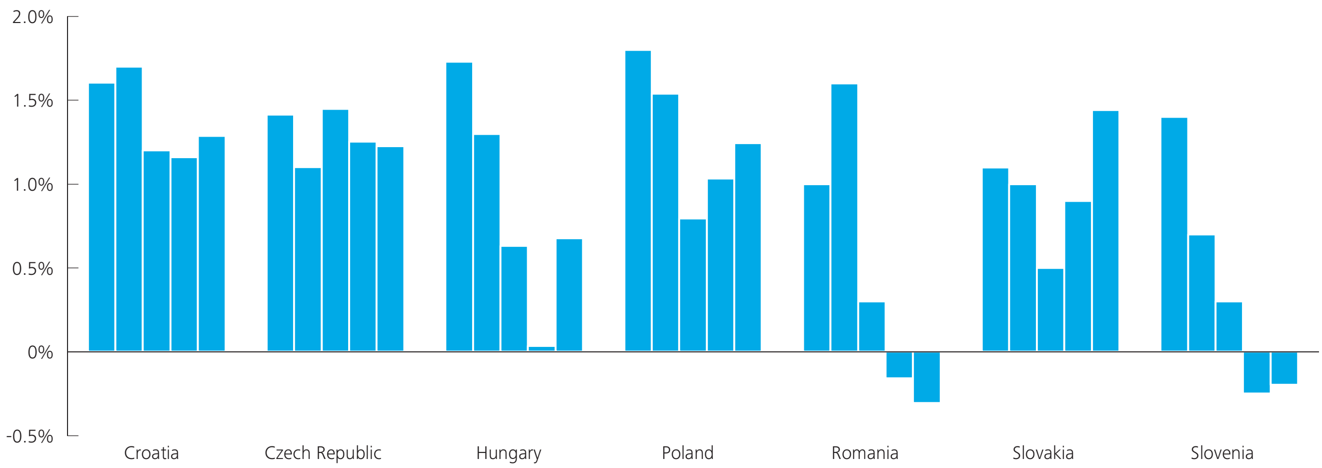
- In Hungary provisioning related to high NPL ratios and the extraordinary banking tax had a major impact on the profitability of local banks. The effects of the early repayment scheme introduced at end of September 2011 are estimated to result in a loss of HUF 210bn for the sector's total capital in 2011 and 2012[4]. According to the Hungarian Financial Authority, ROA of the sector is to decrease further by 0.7%, while CAR will decrease by 0.9% as a result of this single measure.

Relative NPL ratio growth



Source: Deloitte analysis

ROA of the banking sector (2007 - Q3 2011)



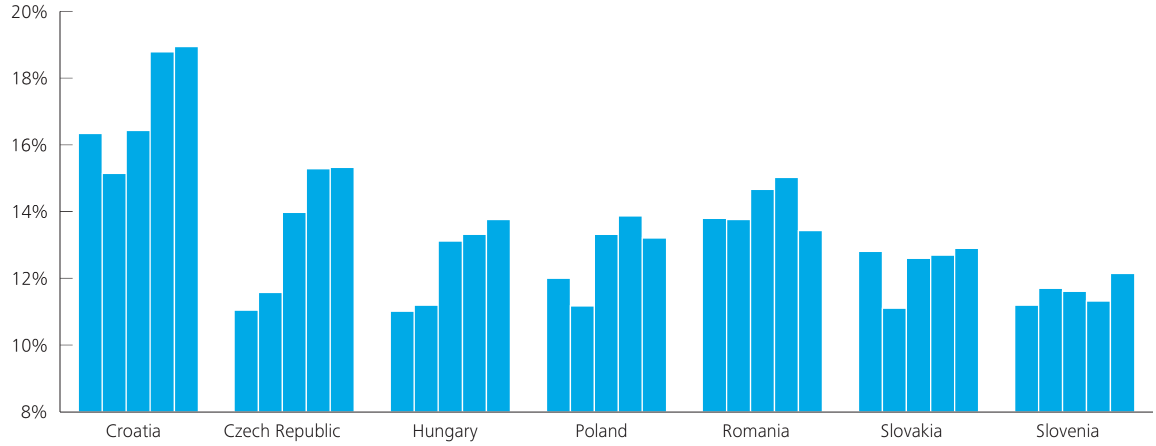
Source: National banks; 2011 data is not Q3 but Q2 in case of Croatia and Hungary

- The Romanian banking system witnessed a steep decline during 2010, with a net loss of almost EUR 100 million after a period of 12 years of continuous posting of net profits, partly as a result of a 57% increase in NPL provisions. The decline continued during 2011 when the Q3 loss was approximately EUR 203 million. The provisions continued rising, in Q3 2011 alone an amount of almost RON 3 billion (EUR 700 million) was recorded.
- The main reason for the loss of 101.2 mEUR of the Slovenian banking sector in 2010 was also high impairment and provisioning costs and the banking system recorded a negative ROE of 2.4%.

Detailed data sheets for banks in the region are included in the appendices.

Nevertheless, capital adequacy ratios in all countries are sound, partly as a result of capital increases by mother banks.

Capital adequacy of the banking sector (2007 - Q3 2011)



Source: National banks; 2011 data is not Q3 but Q2 in case of Croatia and Hungary

Remedial tools

There is no question that the high NPL levels are not sustainable and banks and regulators will make every effort for resolution. High NPL's are holding back economic recovery as lending activity is hindered with capital locked down and banks with high NPL tend to charge higher interest rate to cover losses. Non-performing assets also trap capital available for lending and distract management time. According to a study conducted by the IMF[5], a doubling of the NPL ratio reduces real term credit growth by 7 to 10 percentage points.

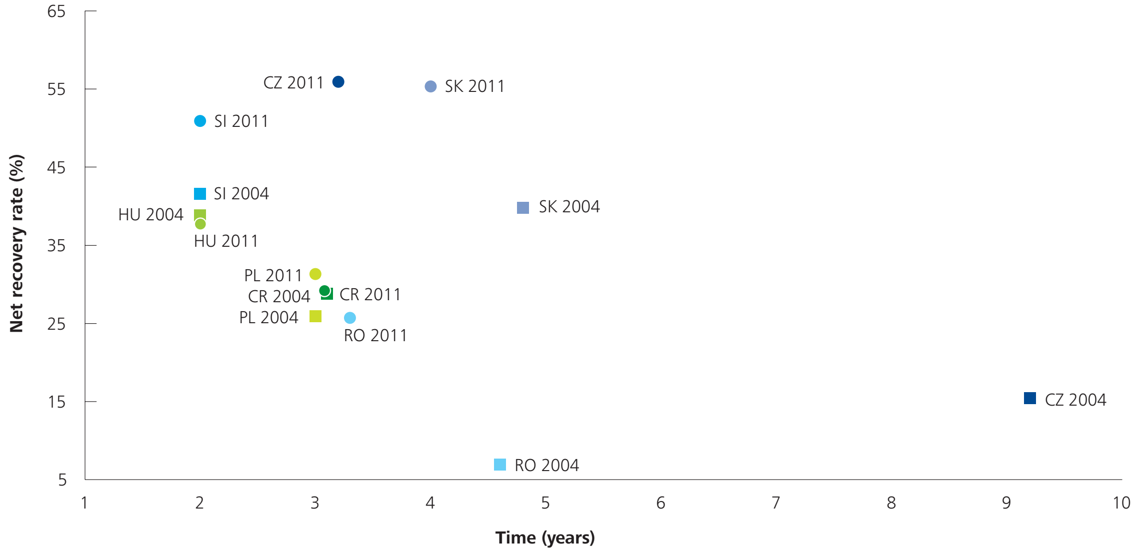
Losses realized also erode capital and with the forthcoming introduction of Basel III regulations from 2013 onwards, capital is becoming king. Banks are therefore strengthening their internal workout functions, usually at the cost of their sales teams and front offices, and actively looking for solutions that provide the highest recovery without further losses to the balance sheet. Nevertheless the large numbers of workout cases overload in house workout capacities.

Regulators continuously support recovery efforts by amending legal requirements and, as a result, recovery conditions have been improved over the last decade in most of these countries. The World Bank monitors development of recovery conditions on an annual basis[6]. According to its database, the highest recovery rates in a formal insolvency procedure are currently in the Czech Republic, Slovakia and Slovenia, while Croatia and Romania provide the lowest return. Since 2004 the Czech Republic showed the most improvement by raising their net recovery rate by 40 percentage points and reducing the time of insolvency procedures by six years, but the cost level still remained at a fairly high level. According to the Word Bank, this was achieved by the introduction of restrictions related to setoffs in insolvency cases and suspending the obligation to file for bankruptcy for some insolvent debtors.

Hungary and Croatia are still at the same position they were in 2004 for all three indicators, despite a few legal efforts to make progress in both countries. In Hungary the bankruptcy law encourages insolvent companies to consider reaching agreements with creditors out of court so as to avoid bankruptcy. In Croatia professional requirements for bankruptcy trustees were set out and they also reduced statutory time requirements.

All other countries managed to improve their insolvency circumstances. Both Poland and Slovenia increased their net recovery levels and lowered costs, while the average time of the procedures remained the same. In Poland the process of dealing with distressed companies

Development of recovery conditions (2004 to 2011)



Source: World Bank

was eased with an amendment to its bankruptcy law introducing the option of "pre-bankruptcy" reorganization for companies facing financial difficulties. Slovenia simplified and streamlined the insolvency process and also strengthened professional requirements for insolvency administrators. Romania and Slovakia succeeded in substantially augmenting the net recovery levels and also improved the time consumed by the process. Romania amended its insolvency law to shorten the duration of insolvency proceedings and introduced –inter alia- a procedure for out-of-court workouts.

Given the relatively large share of foreign banks in the region, establishment of state supported "bad loan banks" (as in Germany) and state recapitalization of the banking sector did not happen in CE and is not expected in the near future. Governments' intervention might still be necessary if risks are already at the macro banking level. Such intervention can be in the form of state owned asset management companies taking over certain, dedicated distressed portfolios. In Hungary, the Government is in the process of launching the National Asset Management Company that aims to take over mortgage properties from distressed private debtors, where such proceeds shall be used by the debtor to pay down the underlying debt. Some 5000 properties are planned to be purchased in 2012 and the previous owner can stay in the property as a lessee.

Such governmental interventions would obviously have an effect on capital (in Hungary the purchase price of the properties is set between 35% - 55% of the market price) but could relieve banks' collection departments from costly and lengthy collection procedures and support revival of lending activities.

Banks are also active in addressing issues related to their non-performing loans. Property developments are being taken back by the banks and warehoused for better times, but this usually does not solve the valuation issue and also puts extra burden on the banks in terms of property management tasks, or by the obsolescence of unfinished projects.

Outsourcing is a useful tool used by the banks to share risks with third party collection companies, and is usually applied in retail cases, where banks pass on collection tasks to specialist firms who use all soft and hard collection measures to recover individual receivables on a success fee basis. In these cases receivables remain on the balance sheet of the bank, and as such not requiring immediate provisioning that would be applicable in a disposal below carrying value, while late work out resources at the bank can also be reduced. This is especially frequent in Poland, where a few large debt collection players with sufficient funding capabilities dominate the outsourcing market and banks also have the habit of passing over receivables with DPD above 90 days.

Disposal of retail unsecured NPL portfolios are also fairly common in these countries. Apart from Poland and Romania where larger collection firms operate with available funding this usually involves rather smaller tranches of older receivables (EUR 5 to 10 mn face value) which are put to the market fairly frequently. Given the small equity ticket sizes, even smaller local players in these countries have the necessary funding for these transactions. Pricing can differ significantly by country and age of portfolio. At the same time, mortgage NPL transaction market is pretty much frozen in every country of our study.

Non performing corporate loans are rather dealt with on a case by case basis by the internal workout teams of banks. When it comes to portfolios, the number of actual transactions is reducing significantly. This is partly caused by the usually larger ticket sizes, which in most cases would require an international investor to step in with sufficient funding as selling banks willingness or capability to refinance portfolio deals are generally limited. Also, lack of transactions can also be reasoned by difference in pricing. While banks' internal provisioning usually does not involve present value calculations of future recoveries and when it comes to disposal their cost of capital usually equals funding cost, investors' return requirements are much higher. As a result valuations are frequently differing and potential immediate provisioning need is also a concern of sellers.

However there is a viable investor appetite. In our experience blue chip international distressed portfolio investors tend to team up with a local collection firms in their respective first portfolio acquisitions in CE countries thereby combining availability of funding and local collection know-how. Also alternative tools are being implemented such as collection outsourcing, vendor financing or various joint venture structures to bridge the gap between the two sides.

In an NPL disposal, packaging of the tranche(s) is key. One rather valuable receivable can make a number of less appealing ones also sellable if being bound together – a tool banks are frequently using. This obviously depends on the investment appetite and focus of the distressed portfolio investor, and a good understanding of that in a disposal process is inevitable. Up until recently NPL disposals were hindered by the perceived risk related to potential taxable nature of such transactions. In its October 2011 decision the European Court of Justice clarified that no taxable factoring services arise in cases where terminated and matured debts are acquired below their face value[7]. This provided clarity to the situation as up until this decision in certain countries prevailing rules stipulated a VAT taxable base for the difference between a "theoretical" economic value and the purchase price paid for the receivables. Because of this VAT risk many banks and financial institutions were hesitating to transfer their non-performing loans.

A more sophisticated approach towards the management of non-performing loans is the establishment of "bad banks" or "distressed asset vehicles". Technical setup of these units can range between a specialized internal department to a fully separated individual legal entity, potentially transferred within the banking group.

A number of objectives can support development of a distressed asset vehicle (DAV):

- Ring fencing of the bad portfolio from other assets of the bank;
- Cleaning the balance sheet of the operational bank thereby improving risk weighted asset and capital adequacy;
- Improving workout efficiency by setting up dedicated teams for winding up the NPL portfolio and;
- Measurability of collection activity;
- Freeing up management time;
- Transparency in reporting; and
- Funding and taxation implications.

Beside its benefits there are a number of critical factors to be successful when setting up a DAV. Being a closed ended structure, personal incentives should be tailored and job uncertainties of DAV employees shall be properly managed. Separation of the portfolio should be efficient and the transition period minimized. Implementation of operational and IT structures are also key and duplication of certain functions will obviously have extra cost implications.

Certain benefits of a DAV can be obtained without setting up a separate unit for non-performing loans. We have seen banks reallocating portfolios of toxic assets within their regional group to benefit from higher capital adequacy ratio of another member bank. This however only affects the location of the assets (and related RWA implications) but does not actually improve collection prospects.

Hungary

Hungary is a rather open economy with significant exposure to global economic trends and investor sentiment. Hence global recession fears concerning the Eurozone debt crisis have a significant effect on Hungary's economic performance and macroeconomic indicators.

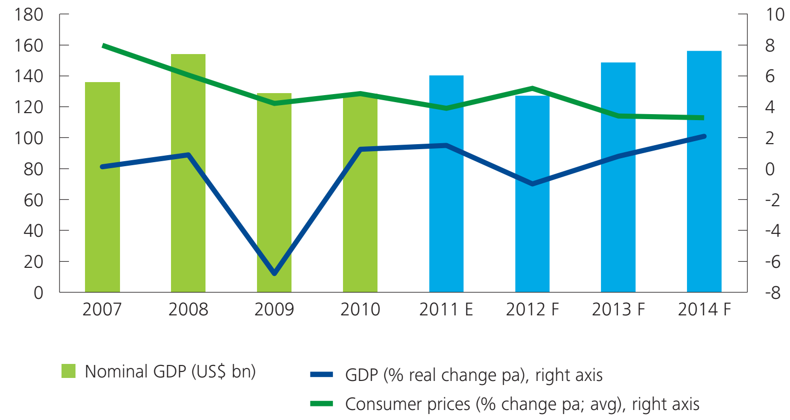
None of the GDP components are set to fuel growth in the forthcoming years. Domestic consumption is anemic because of the high indebtedness of households in FX loans and the weakening of the forint. (Note that as of 30 Sept 2011 approximately 66% of total debts of the households were denominated in FX, mostly in CHF). The rising 5-year sovereign CDS spread of Hungary increases the funding costs of the Hungarian government through the climbing government bond yields and creates tension in the budget as a result of higher interest expenses. In addition, at the end of November 2011, Moody's Investor Service downgraded Hungary by one notch below the investment grade with a negative outlook, with Standard & Poor's following in December with a similar move.

Banks operating in Hungary also have to endure the nuisance of higher funding costs and corporate interest rates curbing investments. Net export is also frail, since Hungary's key export markets are also decelerating and face recession fears. Corporate defaults are at record high: according to Dun & Bradstreet the default rate in 2011 was 3.54%, up from 3.21% in 2010 that was already deemed a high rate. On the whole Hungary's economic recovery is likely to be slow because the deteriorating external financial and economic environment affects Hungary negatively in numerous ways.

The repayment ability of households is negatively affected not only by the strong CHF exchange rate but the persistently slack labor market conditions. In line with declining economic performance, unemployment rate is on the rise, from below 8% level pre crisis; it is now around 11% and is feared to remain there in the forthcoming years.

Eight banks dominate the Hungarian banking sector in terms of total assets (80%), own capital (84%) and net interest income (78%).

GDP and consumer prices

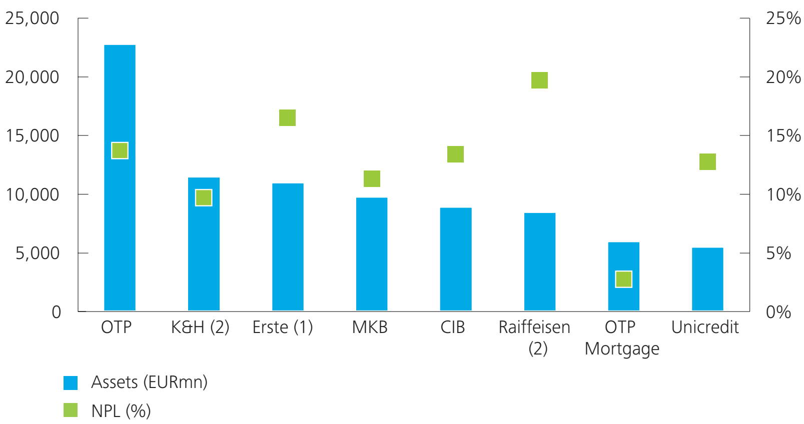


Source: EIU

Unemployment and real wages

Source: EIU

Hungarian banks, 2010



Source: Banks' data disclosure
Note: (1) Total assets and NPL% as of Q3 2011; (2) NPL% as of Q3 2011

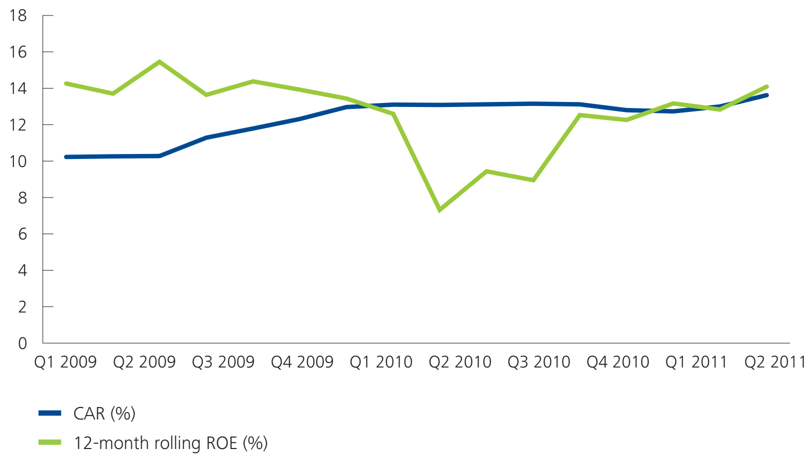
The circumstances in which banks in Hungary are operating are challenging. The first unfavorable measure was the introduction of an extraordinary tax (bank tax or crisis tax) on the financial sector that laid a quite high tax burden on banks, even compared internationally. In the first three quarters of 2011 almost HUF 100 billion was paid to the budget under this label, impacting profits of banks. Nevertheless capital adequacy of the sector is still strong.

Poor economic conditions, high FX indebtedness of debtors and one off losses of the banking sector made both the demand and supply sides of the market withhold from new funding. This phenomenon can be observed in the net negative credit flow of both retail and corporate segments. Increase in lending is only expected from 2013.

In order to curb FX exposure of households the government introduced an option of early repayment. This allows FX mortgage loan takers to repay their loans at preferential fixed exchange rates far below current market rates. Losses entailed by early repayment substantially impact banking profits. In its recent commentary the HFSA estimates the early repayment scheme, introduced end of September 2011, will have an estimated loss of HUF 210bn on the sector's total capital in Q4 2011 and Q1 2012.

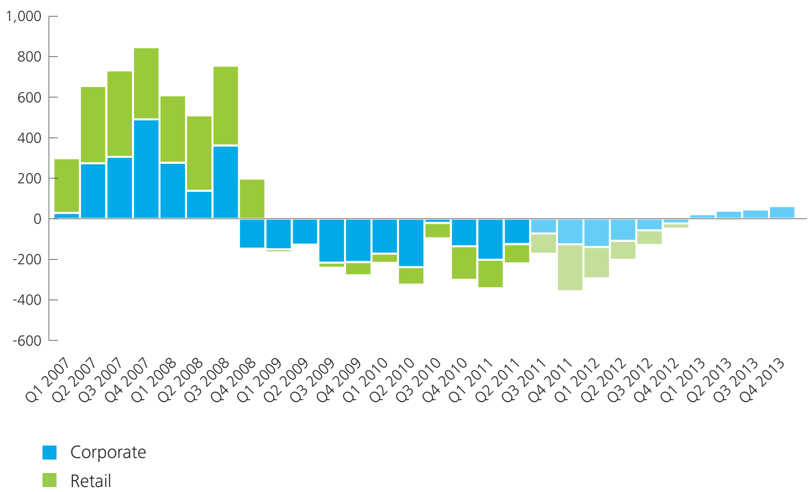
Lack of new loans by the banking sector alone squeezes the denominator of the NPL ratio. At the same time shrinking collateral values put further pressure on banks' profitability stemming from the large quantity of real estate collateral behind mortgage loans. The high supply of residential properties in the market cannot be absorbed by the weakened demand which results in the decrease of housing prices. Housing prices (real term, adjusted with inflation) are back at the levels where they were in 2000. This phenomenon has a negative effect on LTV ratios, leading to further portfolio impairment needs.

CAR and ROE



Source: NBH

Net credit flow (HUF bn)



Source: NBH
Note: Projection from Q3 2011 onwards

Industrial real estate market is not in a good shape either. Vacancy rates were already quite high in 2010 and they could even climb in H1 2011, while tenant activity is also falling. As for supply, developers still hold the position that they will not launch new projects until there is significant vacant space on the market. As far as demand is concerned many firms are looking for adequate space and scouting for opportunities, but they are staying cautious and thus the number of concrete transactions remains relatively low.

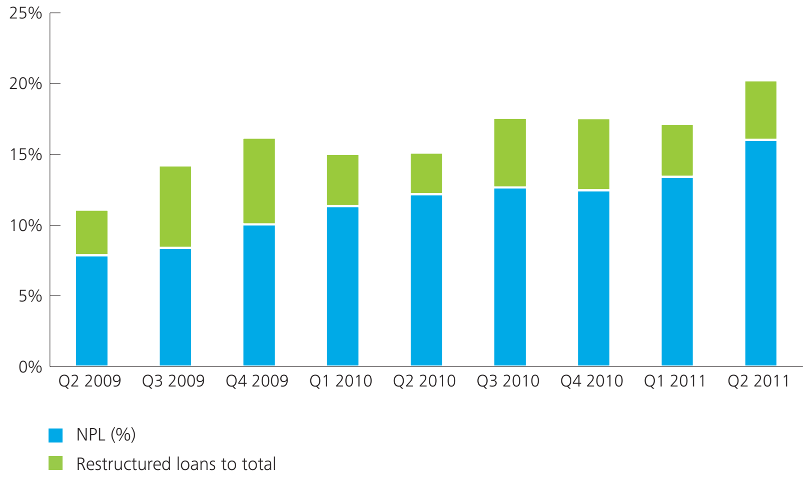
According to the December 2011 risk report of the HFSA, cleaning of non performing loan portfolios is progressing slowly due to the unfavorable market conditions and represents a heavy burden on profitability of financial institutions through risk provisions and workout costs.

Unfavorable economic and financial circumstances result in portfolio quality impairments. NPL ratios are rising steadily in both corporate and retail segments but in the past few quarters the cost of provisioning does not seem to match them, particularly in the corporate segment.

One country specific factor concerning restructured loans is the provisioning policies on them. If a restructured loan is still performing after six months, banks have the opportunity to apply a 1% provision charge on such loans which is below the average annual loan loss expense of 2-3% of the sector. If a loan was performing before the restructuring not even this six-month monitoring period is required. Hence banks are somewhat encouraged to restructure their loans and by doing that to defer the potential realization of losses on NPLs.

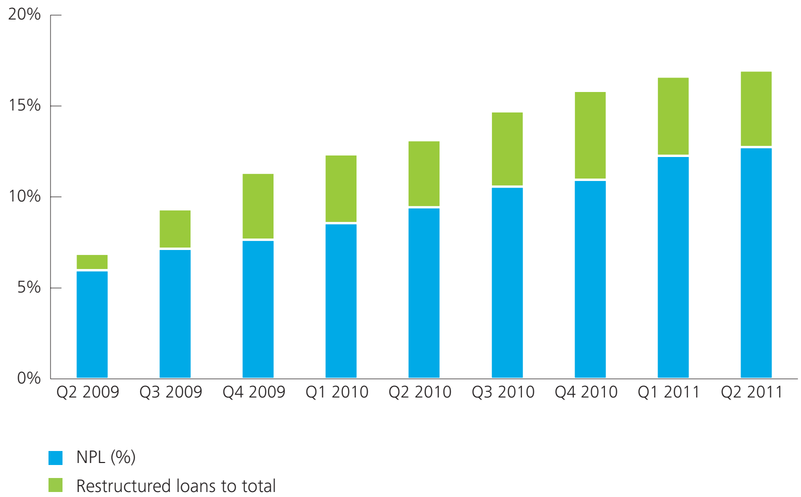
As of June 30 2011, NPLs and restructured loans together amount to more than 20% of total loans in the corporate segment and the figure for retail loans is above 17%, which is also disconcertingly high.

Corporate NPL% and restructured loans



Source: Hungarian National Bank

Retail NPL% and restructured loans



Source: Hungarian National Bank

Restructuring is sometimes only a temporary adjournment of the problem, since the performance of restructured loans is startling. The NPL ratio of restructured loans in Q2 2011 was more than 26% after 12% the prior quarter. This indicates that that a certain portion of restructured loans will likely be never performing again. In terms of the future the ratio of NPLs and re-defaults of previously restructured loans is expected to rise further in 2012, while loan loss provisioning may stagnate or even decline at certain banks.

The coverage ratio is creeping north and could not keep up with the massive upward trend of cost of provisioning. Recently cost of provisioning has wilted giving the coverage ratio chance to catch up.

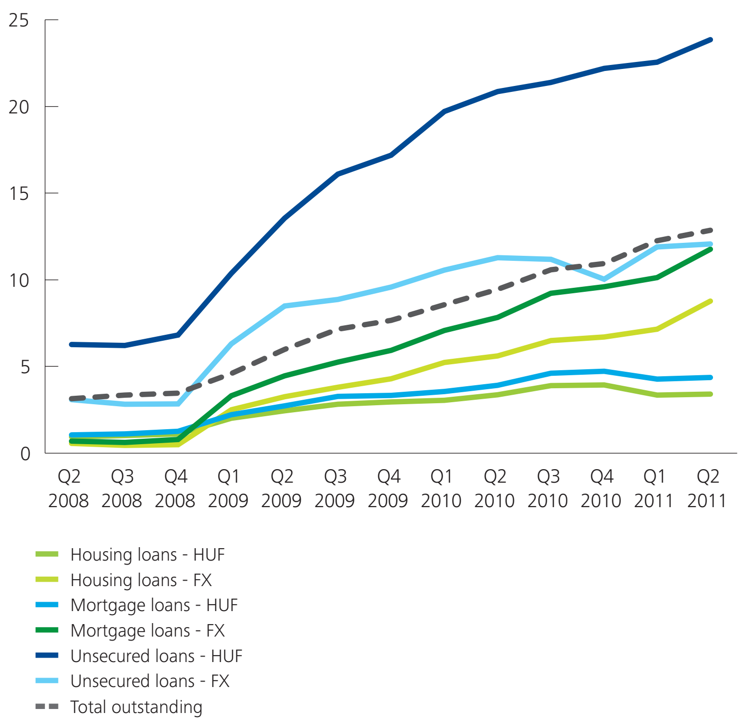
When observing the respective NPL ratios of retail loan classes, we see that portfolio deterioration is mainly due to the persistently strong CHF. NPL ratios of forint-denominated loans were basically constant in the past few quarters, while the ratios of FX denominated loans showed a continuous rise. As an exception the NPL ratio of unsecured forint-denominated loans has also skyrocketed, bombarding the 25% level, since these loans were generally disbursed to increasingly risky customers in a bid to stimulate profitability with remarkable spreads.

In the midterm further growth of NPL ratios is likely due to the decrease of overall lending levels. Since those individuals who had the sufficient funds, or were eligible for HUF denominated refinancing, to benefit from the early repayment option for their FX retail loans were rather the less problematic debtors, this move is likely to deteriorate further the quality of the remainder of the retail loan portfolios of the banking sector. Weak profitability of the sector is also limiting willingness to realize further losses on portfolios.

Provisioning

Source: NBH

Respective NPL ratios of retail loan classes



Source: NBH

Romania

Romania was one of the last EU countries hit by the recession and most probably its recovery will also lag behind other EU members. Real GDP shrank by 7.1% y/y in 2009 and it contracted by further 1.3 % in 2010, reflecting the negative impact on private consumption of the government's austerity measures and the increase in VAT. EIU predicts real GDP growth of 2% and 1.5% for 2011 and 2012 respectively.

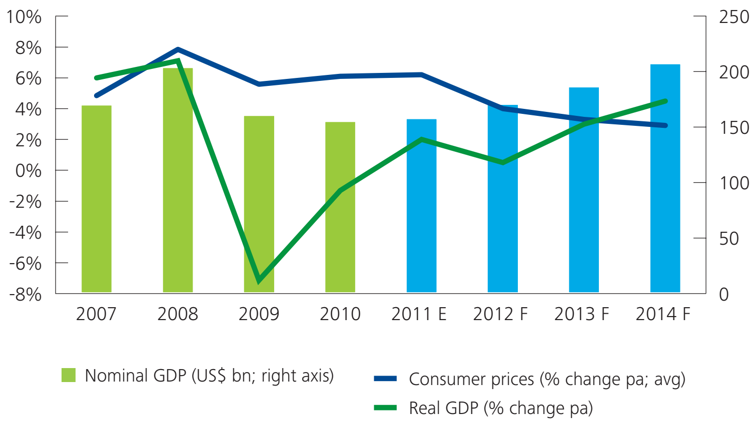
To reach target fiscal numbers, further deeply unpopular measures have to be implemented by the government such as cuts in public-sector employment and a freeze on public-sector wages and pensions, which will not affect growth positively. According to EIU forecasts the government will be able to bring the deficit within 3% of GDP by 2012. The level of government debt of Romania (33% in 2011) is far behind the EU average of 80%. The current-account balance is negative but not significantly (-3.8% in 2011).

From the strong pre-crisis levels of summer 2007, the RON weakened 40% against the EURO and 50% against CHF up to the beginning of 2009. The EURRON exchange rate could stabilize at these levels, contrary to the CHFRON. As for CDS premia, in the midst of the crisis the CDS spread of Romania was above 700 bps, then returned to a calmer average of 300bps, but it has been rising again recently fuelled by euro zone debt crisis woes and recession fears.

Unemployment rate peaked in 2009 fuelled by the economic crisis, but has been falling and is estimated to be 4.8% in 2011 which corresponds to pre-crisis level of 4.4%. EIU forecast unemployment rate to decline further to some 3.8% by 2014, but the possible deterioration of global sentiment and entailing economic roadblocks still mean substantial downward risks. Real wage growth plunged backed to zero in 2010 after the stellar years of 2007 (16.9%) and 2008 (14.6%).

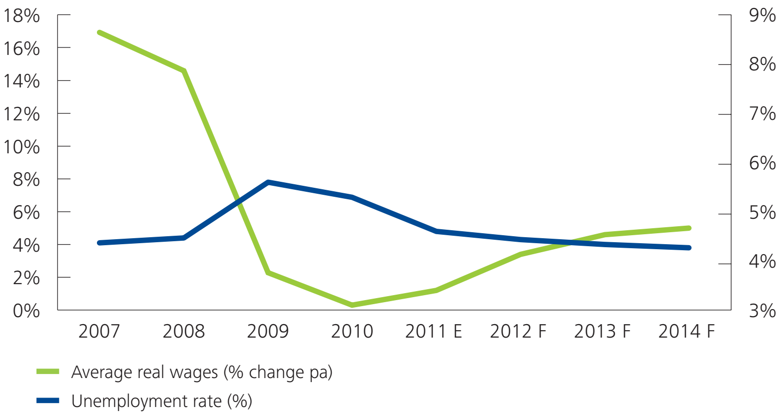
The Romanian banking sector is dominated by foreign capital, since 85% of total assets are possessed by banks with foreign capital. The top 5 banks own 53% of total assets with Greek banks having 15.5% market share. This results in some vulnerability to the sector due to the limited capacity of mother banks to fund capital needs of local subsidiaries in case of a stress scenario.

GDP and consumer prices



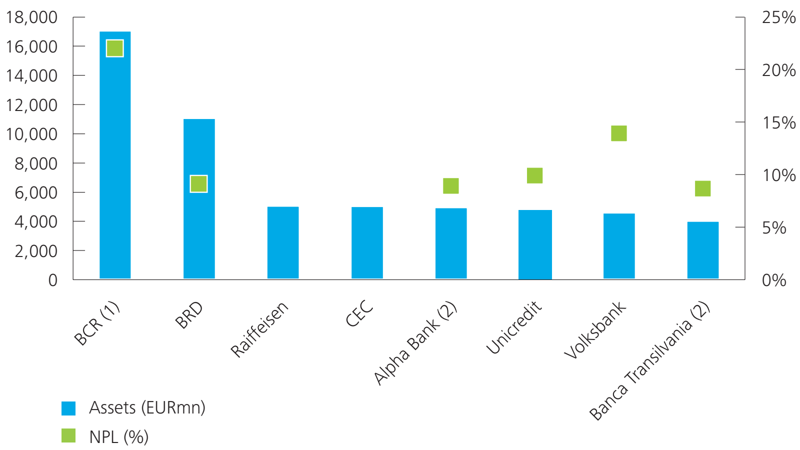
Source: EIU

Unemployment and real wages



Source: EIU

Romanian banks, 2010



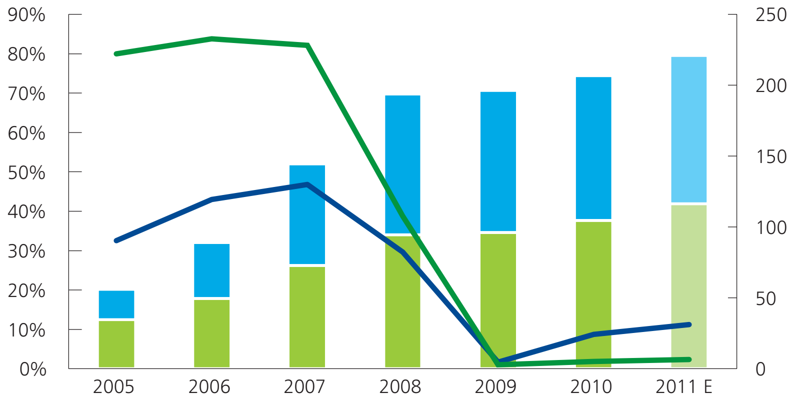
Source: Banks' data disclosure
Note: (1) Total assets and NPL% as of Q3 2011; (2) NPL% as of Q3 2011

Lending growth in Romania was enormous prior to the crisis, growing over 80% p.a. for three consecutive years – but has practically fallen back to zero in 2009. Lending activity improved slightly in the second half of 2010, resulting in an annual growth rate of 5% by the end of 2010. Growth was driven by corporate lending, while the recovery is expected to be slower in the case of retail lending. Retail lending was supported by a Government aided mortgage loan program launched in 2010. In the first 11 month of 2011 corporate lending increased by 11%.

FX lending was also significant in Romania with the majority of FX loans in EUR. The relative share of FX denominated loans reached 64% by Q3 2011. Growth was present in both corporate and retail segments and was just partially caused by the depreciation of the RON versus the EUR which was around 25% between 2007 and Q2 2009, while EUR loans grew by some 125% during the same period. The exchange rate stabilized thereafter but FX loan balances crept further.

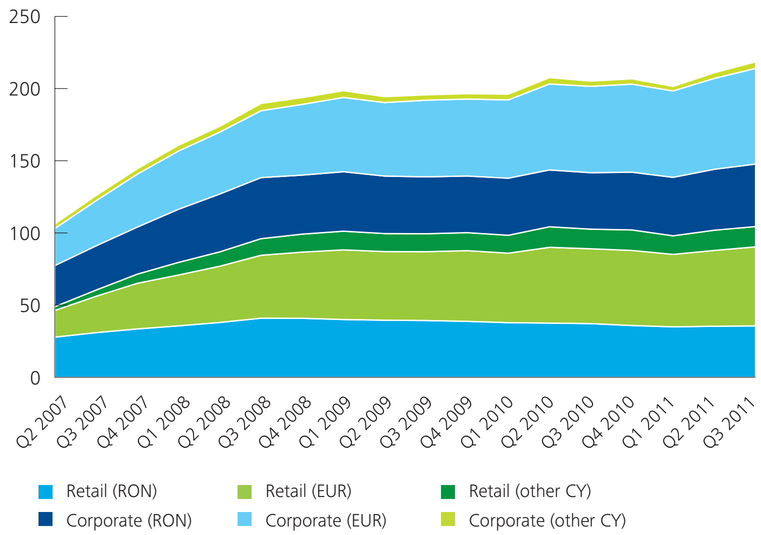
The Romanian banking system weathered the financial crisis being well capitalized, maintaining a sound CAR around 13% in all the recent years. As of September 2011 the capital adequacy of the banking sector was at 13.4%. Furthermore parent institutions of the nine largest foreign-owned banks in Romania declared commitment towards their Romanian subsidiaries that preserved financial stability and confidence in the market. Indeed, their commitment is paramount since ROE was -3.4% in September 2011 and if the economic turbulence persists further losses are to come and will eat into capital buffers.

Credit growth y/y and outstanding amount (RON bn)



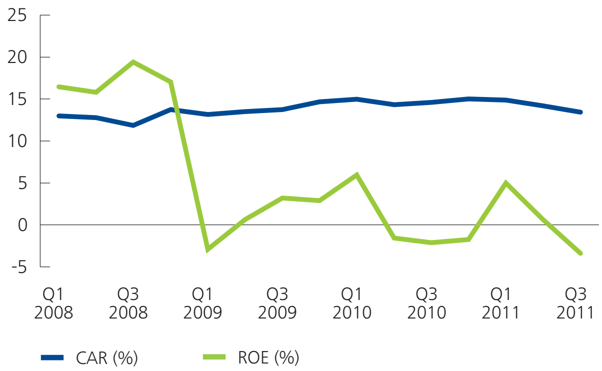
Source: NBR

Lending volume, CY split (RON bn)



Source: NBR

CAR and ROE



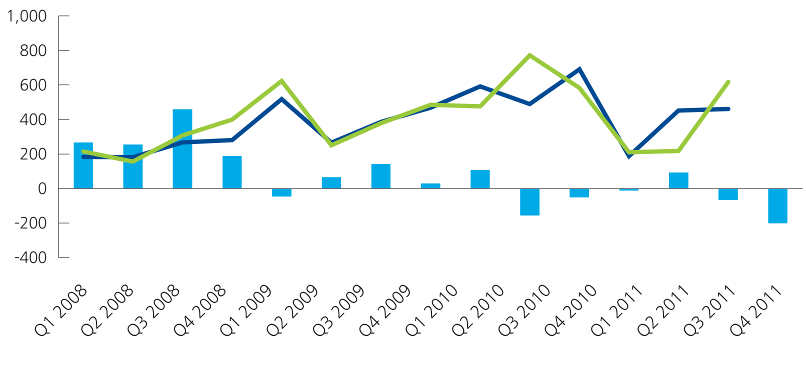
Source: NBR

As for provisioning a logical negative correlation between profits and provisioning levels is visible. Provisioning levels peaked in Q2-Q3 2010, plunged back in Q4 2010 but have been increasing since then, putting downward pressure on profits.

For NPL portfolios in Romania it was not the FX loss or the low unemployment but rather the plummeting real estate prices that put the strongest pressure on LTV ratios. The price bubble of residential real estates exploded in 2008 after nearly tripling in Bucharest and doubling for the whole country during 2006-2008. At the same time real estate transaction activity dropped significantly in 2009, but it is already showing slight recovery in terms of transaction volumes. However transaction turnovers could not catch up indicating a lack of bigger transactions. As such, the frail real estate market demand is not likely to be able to absorb the huge supply of mortgage loan collaterals if banks try to exit the loans by selling these real estates.

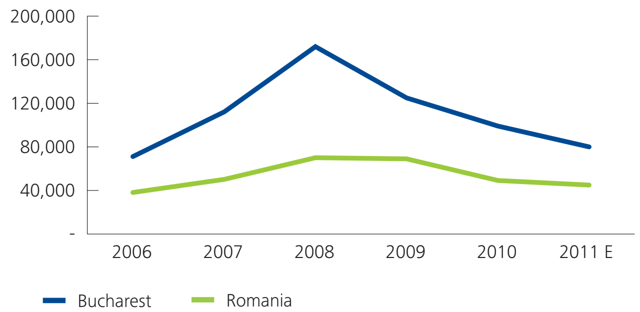
There is not much good news concerning portfolio quality either. In September 2011, NPL ratio reached 14.2% while total volume peaked around RON 31bn. In 2012 growth of the NPL ratio is expected to slow down with continuous lending activity of banks. However recent increase of FX share in retail lending presents a tangible risk for retail debtors that could hit retail portfolio quality in the mid-term.

Evolution of profitability (EUR mn)



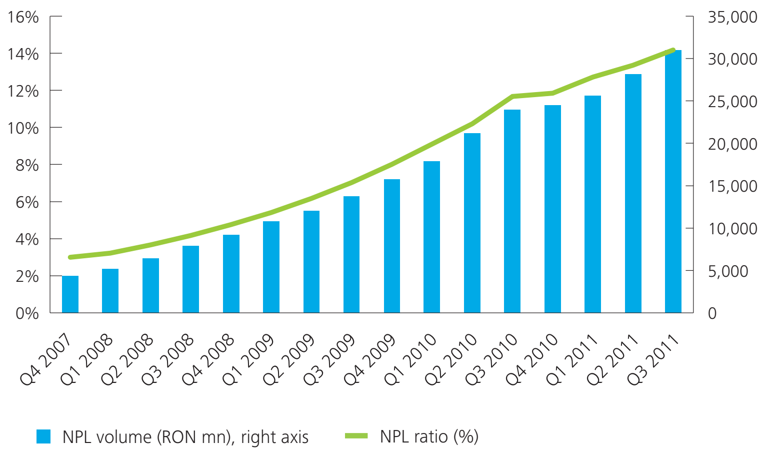
Source: Intellinews

Average dwelling prices (euro)



Source: NIS

NPLs



Source: IMF, NBR

Poland

Poland is the largest of the CEE economies and so far has experienced continuous GDP growth throughout the crisis.

In Q3 2011 the Polish GDP grew by 4.2% on a y/ y basis, exceeding former forecasts, which is a stellar number in an absolute and relative sense as well. Growth was fuelled by domestic demand and net export, however henceforth it is a question whether they will be resistant enough to deteriorating global economic circumstances. The weakening of the PLN trimmed back the disposable income of FX-indebted households and as such curbed consumer spending. Export revenue growth is depressed by the forecast and feared euro zone recession, since main export markets of Poland are getting more and more cautious. Inflation is above the NBP's target (2.5% +/- 1%) climbing to 4% due to higher indirect taxes and high commodity prices, but it is forecast to decline below 3% in coming years.

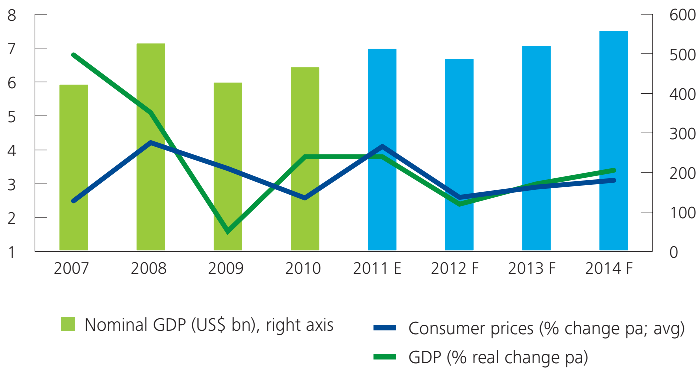
The economic health of Poland is not reflected only by its GDP growth but also its fiscal indicators. Government debt is far below the Maastricht criterion (60% of GDP) since the constitution sets a limit on public debt of 60% of GDP and other laws impose severe restrictions on budgetary freedom if public debt exceeds 55% of GDP. The state budget deficit is also under Maastricht limit (3% of GDP) and is quite stable with no detrimental volatility. Although the current-account deficit has widened in the past two years to 5%, EIU forecasts this to narrow back to 3.5% by 2013.

As a result of the market turmoil triggered by global recession fears and the euro zone debt crisis the PLN - simultaneously with all riskier emerging currencies – started to weaken. To support the PLN the NBP intervened several times and remained committed to do so in the future should the situation demand it.

The major concern for the Polish economy is its loose labor market and high unemployment rate, 12.4% is estimated for 2011 by the EIU. Although a downward trend is forecast, this is not reassuring enough, since the unemployment rate is forecast to be above 11% even in 2014. Average real wages are still growing but have pared earlier growth rates (above 5%) to a rate of about 1%.

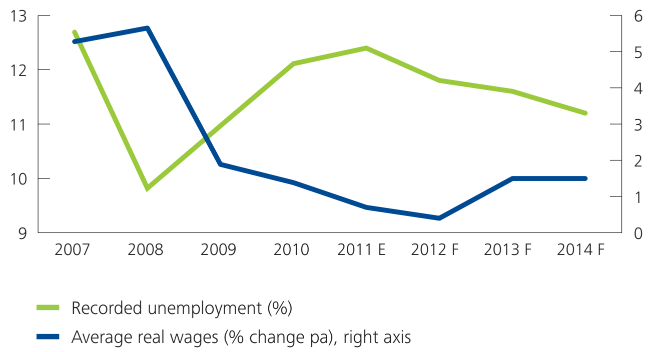
The Polish banking sector is rather diversified with no major concentration of assets. The top 10 banks provide for 60% of all assets. The state related PKO BP has the largest market share with some 15% of total assets of the sector.

GDP and consumer prices



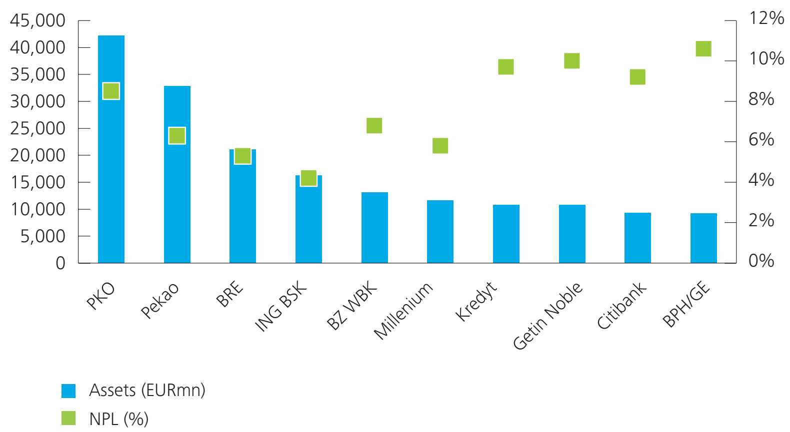
Source: EIU

Unemployment and real wages



Source: EIU

Polish banks, 2010



Source: Banks' data disclosure

After a little recoil in 2009, lending activity shows no signs of decline - fuelled mainly by retail (mortgage) lending. Retail mortgage loans were growing by an average 13% (y/y) during Q1-Q3 2011, while the same number for corporate loans and consumer loans were 5% and negative 2% respectively. Growth rate of corporate loans experienced negative values especially in late 2009, but recovered in 2011 and show a Q3 2011 growth of a 13% (y/y).

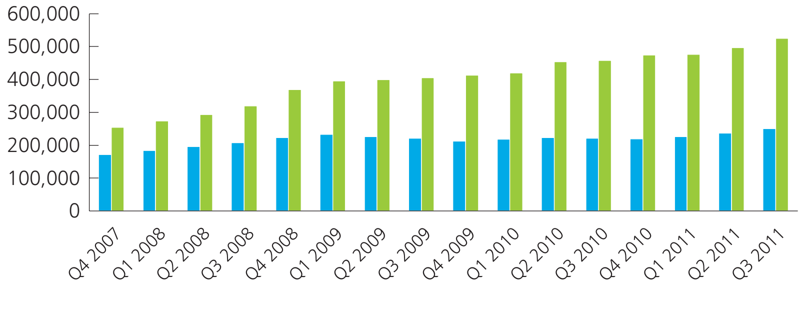
The growth rates and tendencies described above are adequate and highlight the performance of the Polish economy but they are highly vulnerable to the deterioration of global sentiment.

The Polish banking sector is well capitalized and no serious problems can be observed concerning its profitability. Naturally the stellar pre-crisis levels decreased but 10% for ROE and 0.8% for ROA were strong supports and in the past four of five quarters profitability ratios rose again. The inverse movement of net provisioning is quite expressive since it experienced its peak at 1.1% for four quarters before starting to subside to reach 0.65% in Q3 2011. In Q3 2011 the reported quarterly net earnings of the banking sector was PLN 4 bn, being the net of PLN 4.4 bn reported profits and PLN 0.4 bn reported losses. In the corresponding period of 2010, net earnings were PLN 3 bn showing a massive 33% gain in net earnings.

The capital position and loss absorption capacity of the Polish banking sector is sound. In Q3 2011 the capital adequacy ratio of the banking sector was 13.2% which is only a slight decrease from the same number in Q3 2010 of 13.9% so not even the newly supposed higher regulatory CAR of 9% would make them vacillate. The distribution of CARs in the banking sector is illuminating. While in Q3 2008 banks with CARs under 11% possessed 65% of total assets, in the dark period of Q3 2009 this number plummeted to 15% as banks wanted to ensure themselves higher resilience to shocks. Furthermore while in Q3 2009, banks with CARs above (the considerably high level of) 16% owned 7.7% of total assets, the same number jumped to 28% in Q3 2010 and is still above 24% in Q3 2011.

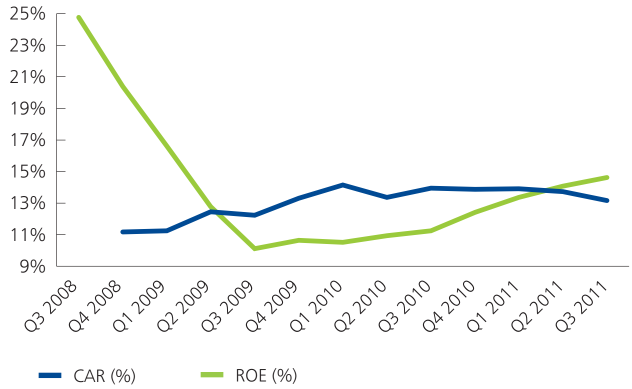
The currency structure of new mortgage loans needs examination since the actual engine of lending growth is the mortgage segment. The contraction of CHF denominated loans in favor of PLN and EUR denomination shores up Poland's robustness to external FX shocks.

Lending volume (PLNmn)



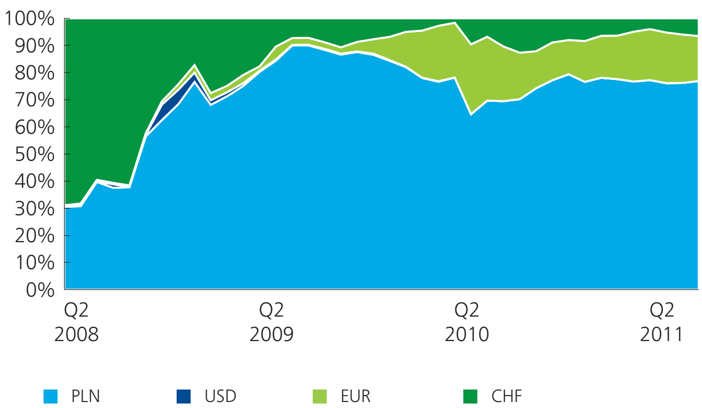
Source: NBP

CAR and ROE



Source: NBP

Currency structure of new housing loans to households



Source: NBP

Property prices are less of an issue for banking NPLs in Poland. The positive economic performance translates into the growing property leasing activity in the industrial sector. The total take-up in Q3 2011 amounted to over 540,000 square sqm, with almost 70% new deals. The improvement in the warehouse leasing market is confirmed by the average vacancy rate in Poland, which dropped to 12%.

Residential prices decreased an average 5% in the primary and 2% in the secondary market each quarter since Q2 2008. Supply surpasses demand, and in Q2 and Q3 2011 the number of flats offered for sale in Poland's six biggest residential property markets rose by over 20% compared to the corresponding period in 2010. The growth of supply is likely to continue, since the number of permits granted to developers for construction projects increased by 23% in Q1-Q3 2011 compared to the same period in 2010. Although banks' lending policies are tightening, demand was stimulated by the government program "First family home". However phasing out of this program could contribute to decline in the growth of demand.

The absolute amount of NPL loans started to rise dynamically in Q4 2008. After leveling out slightly above PLN 50 bn since Q3 2010, they seem to creep up again in Q3 2011. This increase stems from retail mortgage loans and not loans for corporations. Corporate NPL reached its peak in Q4 2010 and has been reducing since then to arrive to a level of 10.7% in Q3 2011.

On the other hand retail NPL ratios are climbing, contributing to the increase of NPL numbers. In Q3 2011 there was PLN 21bn consumer NPL and PLN 7 bn mortgage NPL outstanding with NPL ratios of 18.2% and 2.2%, respectively and these numbers are supposed to lift further.

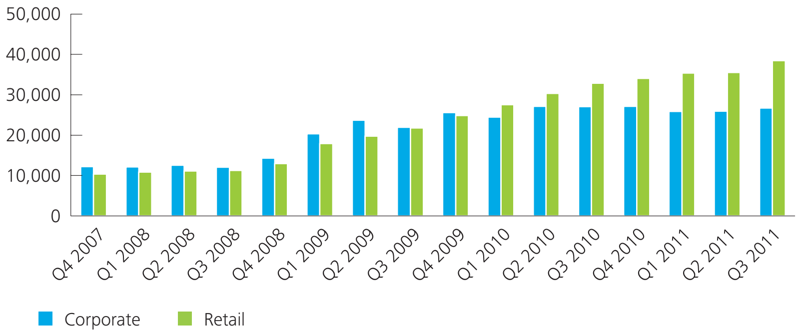
Poland has a very active retail NPL market with two major collection companies active in the market, Kruk and Ultimo. They are both well-funded and regularly buy retail NPLs of banks (Kruk also does outsourced collection). Given the presence of these large players and many other smaller collection firms, retail NPLs of the banking sector are actively managed through continuous disposals of non performing receivables.

Although Poland has the largest NPL volume among the selected countries, it has a history of higher NPL rates and current NPL ratios are also above those of the Czech Republic or Slovakia, we feel that the strong performance of the economy, sound capitalization and profitability of its banking sector and the active secondary NPL market all make NPL levels more manageable.

Residential RE market

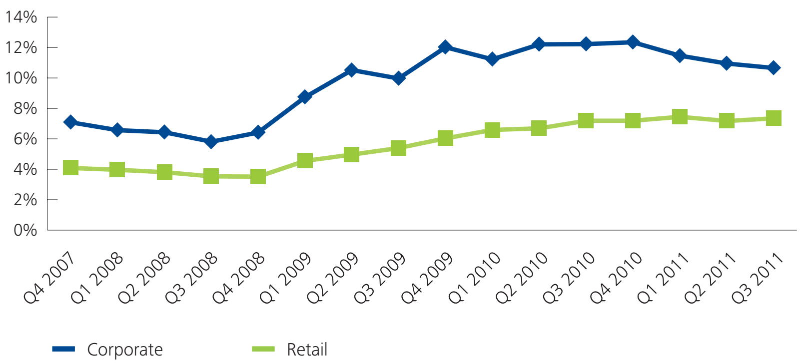
Source: NBP

NPL volume (PLNmn)



Source: NBP

NPL ratios



Source: NBP

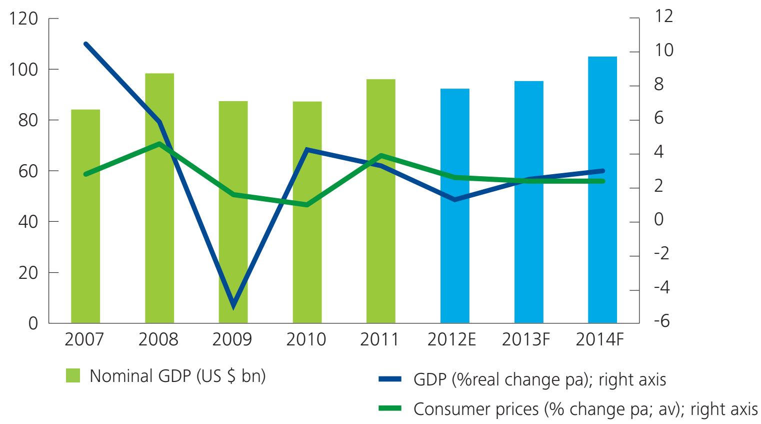
Slovakia

Since Slovakia has had an open economy with a growth model based on expansion of export capacity supported by FDI. The country is highly dependent on external demand for durable goods which was the key in recovery so far. Although this benefited Slovakia in 2010, as the economic activity in its main trading partners rebounded strongly from the global recession, it has left it exposed to the current euro zone debt crisis. At the same time domestic consumption is rather sluggish due to high unemployment and stagnation of real wage growth. In the light of the deteriorating economic growth prospects for some of Slovakia's main trading partners (notably Germany and the Czech Republic) stemming from the intensification of the euro zone debt crisis, the EIU has substantially revised its outlook for Slovakia.

After the real GDP growth of 3.3% in 2011 confirmed by the Statistical Office of the Slovak Republic, the EIU changed its forecast of growth in 2012 to 1.3% (up from 0.8%) and an average annual growth between 2013 and 2016 to 3.0% (previously 2.7%). As for price stability, an upward inflationary trend can be observed considering that CPI was 1.0% in 2010 which soared to 3.9% in 2011. However the EIU expects CPI to average 2.5% in 2012-2014 as monetary policy is tightened.

Slovakia is undergoing an excessive deficit procedure under EU rules as, based on the NBS reports, its government deficit reached 7.9% in 2010. However government measures led to reduction of the budget deficit to 4.6% in 2011. In March 2012 a new parliamentary election resulted in victory for the Social Democratic party which will be capable to form a stable government backed by simple majority in the parliament. Mr. Fico, the leader of the winning party, already declared a will to adopt the current state budget targets. As initially indicated an increase in tax revenues is expected through adjustments to the existing 19% flat rate income tax. As a result tax burdens for selected groups of individuals and corporates may be increased and there is also a further increase of bank levy from current 0.4% to 0.7% of selected deposits (mainly corporate and institutional)[8]. The bank levy was implemented in 2012 with the objective of generating further fiscal revenues of app. EUR 80 mn annually with the current 0.4% rate. Elevated to 0.7% it could bring additional EUR 100 ml to the hands of the state.

GDP and consumer prices



Source: EIU March 2012, Slovak Statistical Office

Unemployment and real wages

Source: EIU March 2012, Slovak Statistical Office

The new government envisages fiscal consolidation measures will reduce the deficit to 3.8% of GDP in 2012 and meet the EU-mandated limit of 3.0% of GDP in 2013. For 2011 the EIU estimated public debt at 46.6%. Current-account deficit is estimated to be 8.9% in 2011 and expected to increase slightly in the forthcoming years.

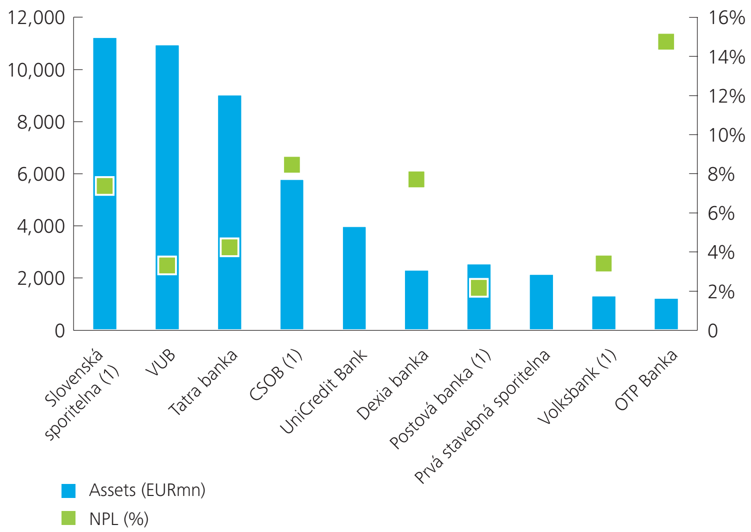
Slovakia, as a euro zone member since 2009, is not exposed to external shocks on its local currency, like other CEE countries. On the other hand Slovakia can't effectively react to excessive strengthening or weakening its currency, e.g. by means of the interventions of National Bank and has to bear all disadvantages (advantages) resulting from export/import that can influence consumption in Slovakia and production placement abroad. With the intensification of the euro zone debt crisis, as of today the euro has weakened about 10% against USD since calmer times of the summer of 2011.

The Slovak economy faces a problem with its high level of unemployment. Since unemployment bottomed out at 7.7% in 2008, it has been surging and reached 13.5% in 2011. According to the EIU forecasts unemployment will remain elevated (11.1%) even in 2014. Naturally high unemployment stimulates the rise of NPL volumes.

The Slovak banking sector is dominated by the top 3 players who manage over 50% of assets, 68% of equity and 68% of net profit related to total financial sector. The major shareholders of the top 3 are Erste Group, Intesa Sanpaolo and Raiffeisen. The 4th and 5th players also have substantial assets and equity; their mothers companies are KBC and UniCredit.

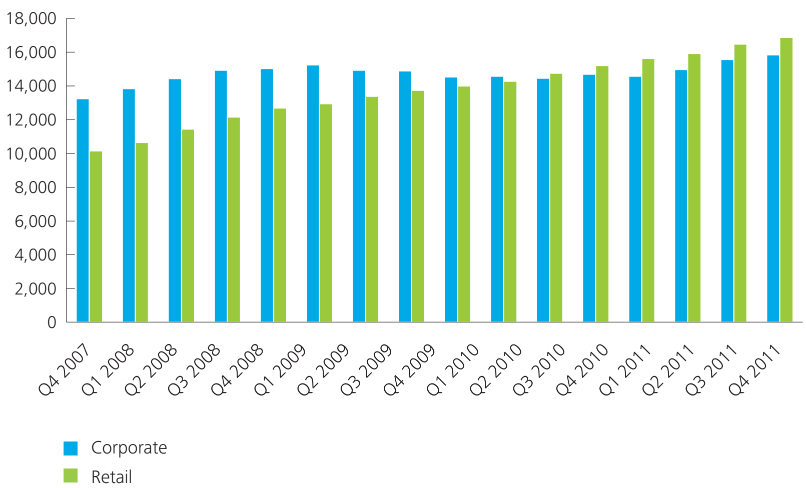
Naturally corporate lending recoiled due to the crisis and lending growth was negative for 3 consecutive quarters in 2009 but rebounded then and a 1.3% annual average growth was observed from the 1st quarter of 2010 to the 3rd quarter of 2011.

Slovakian banks, 2011



Source: Bank's data disclosure
Note: Total assets and NPL % as of Q3 2011; (1) NPL % as of 31 Dec 2010

Lending volume (EUR mn)



Source: NBS

In Q3 2011 corporate and retail lending exceeded EUR 15.8bn and EUR 16.8bn respectively. Distribution of retail loans has also been stable in the past year, with the dominance of loans for housing. At the moment loans for housing total 70%, consumer loans 20% and the remaining 10% are other loans.

The average growth of retail lending bottomed out at 2.5% in 2009 and, in comparison with corporate lending, retail lending avoided depression even during the financial crisis. Average growth rate of retail lending from January 2010 to September 2011 did not reach the pre-crisis level, so there is still room for growth.

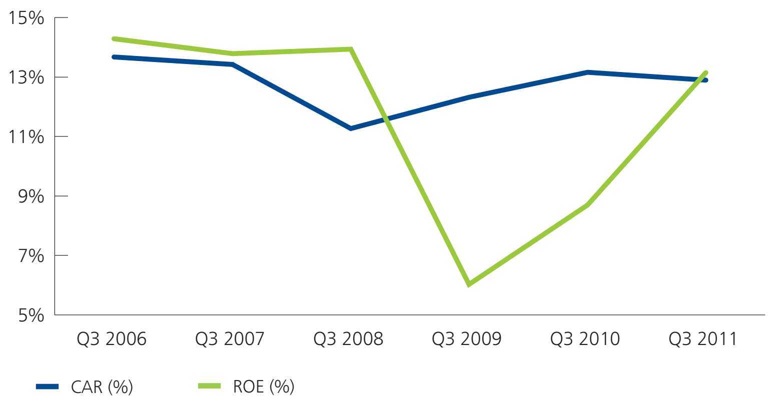
The effect of the crisis on banking profitability can be seen on ROE, NII from loans and also net provisioning, but the recovery was fast and both ROE and NII from loans are creeping towards their pre-crisis levels. Average capital adequacy (CAR) of the Slovak banking sector was 12.9% as at 31 September 2011.

In respect to LTV ratios, the residential real estate market is not performing well. Prices have been diminishing for fourteen consecutive quarters, the last quarter when growth was recorded was Q2 2008. Since the peak euro/m2 price in Q2 2008, a 20% price fall has been seen. The same prices were prevalent in Q2-Q3 2007.

When examining NPL volume increases it is clearly visible that there are more significant problems with corporate loans. In Q2-Q4 2009 the average quarterly increase in corporate NPLs was almost EUR 150 million, but retail NPL increase also hit EUR 90 million in Q3 2009 and Q1 2010. The last four quarters since Q3 2010 were much less turbulent, corporate NPLs only grew by an average of EUR 13 million, while retail NPLs shrank by a quarterly average of EUR 14 million.

NPL ratios are in line with NPL volume changes but with increasing loan volumes they are on a downward trend. The corporate NPL ratio is way above the retail ratio, but at least seems to be in a sedate declining trend.

CAR and ROE

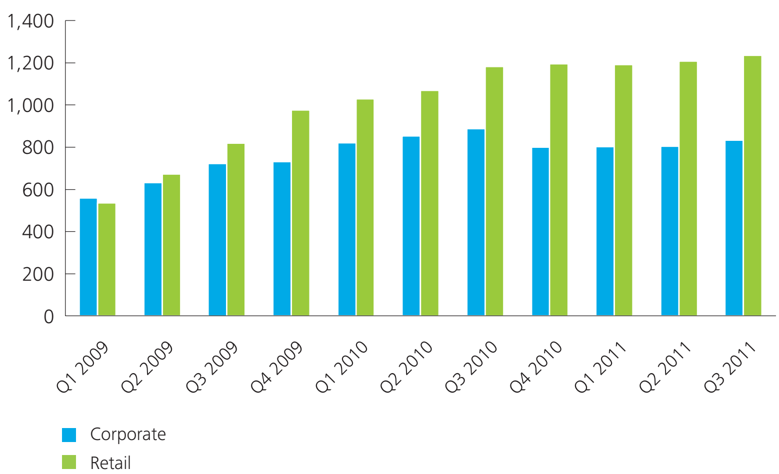


Source: NBS

Residential RE prices

Source: NBS

NPL volume (EUR mn)

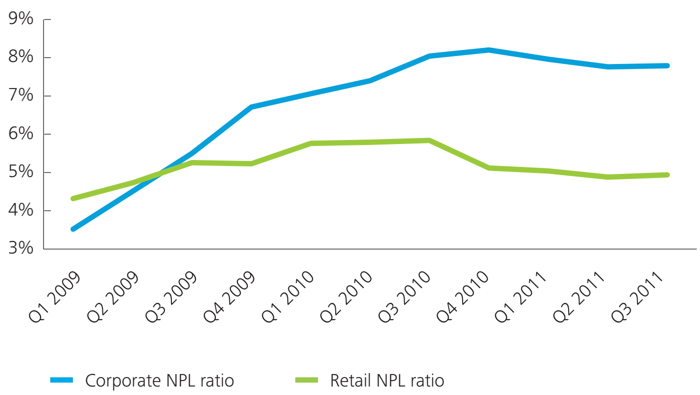


Source: NBS

Having said all of the above, the retail portfolio of the Slovak banking sector is much less impaired than the portfolio of other CEE banking sectors' because Slovakia is a euro zone member state so FX denominated lending was not an issue, and thus Slovakia was not exposed to external exchange rate shock and such substantial retail portfolio quality deterioration.

We note that planned austerity measures of the new government could pose a threat to economic growth and hold back new lending activity which, accompanied with rather high level of unemployment, could contribute to another rise in absolute and relative levels of NPLs in the near future. Sound profitability and capital adequacy of the banking sector will however support handling of portfolio quality issues.

NPL ratios



Source: NBS

Czech Republic

The Czech economy grew by 1.7% in 2011, and the EIU has significantly revised its growth forecast for 2012, to just 0.5% from the previous 1.5%, owing to faltering external demand from export markets in the euro zone, which is a crucial factor for an open economy like the Czech Republic. Also some fiscal austerity and weaker domestic consumption contributes to the slowdown of the economy. If the external environment improves, a gradual recovery is expected to start in 2013 with an average annual growth of 2.7% between 2013 and 2016. CPI avg. was 1.9% in 2011 and forecast to stay within the target range of 1-3% set by CNB in 2012-2016. In short run, changes to the taxation system can have impact of inflation.

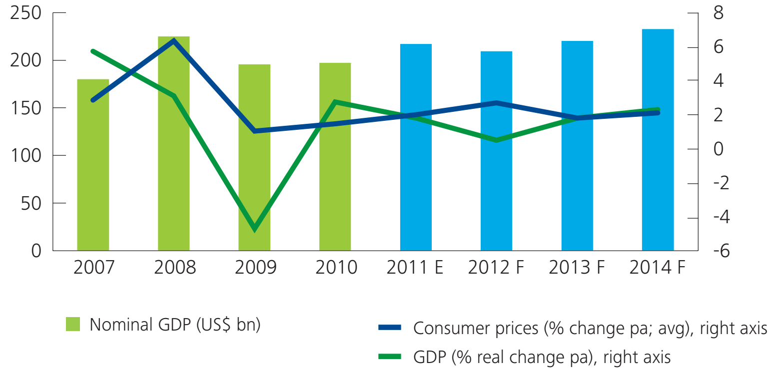
The budget deficit was 3.6% of GDP in 2011. The government aims to bring the deficit to less than 3% by 2013 by implementing austerity measures, primarily spending cuts in welfare subsidies and public-sector wages and VAT increases. However the EIU forecasts the deficit to be above 3%, even in 2014 reflecting risks related to the sustainability of fiscal improvement. Public debt was slightly over 41% in 2011, which is far below the EU (and euro zone) average. According to EIU forecasts public debt will rise gradually to 47% in 2014, but despite that the Czech Republic should face few problems in financing its borrowings over this period. The current-account deficit is considered stable since it has been, and forecast to be, around 3% in the foreseeable future.

The CNB was supposed to cut further its benchmark interest rate to stimulate growth but it has left it unchanged amid fears about rising inflation and the weakening currency.

The koruna has been fairly stable against the euro, notwithstanding that depreciation could be observed in Q3-Q4 2011 owing to the deterioration of the euro zone debt crisis and fragile investor sentiment.

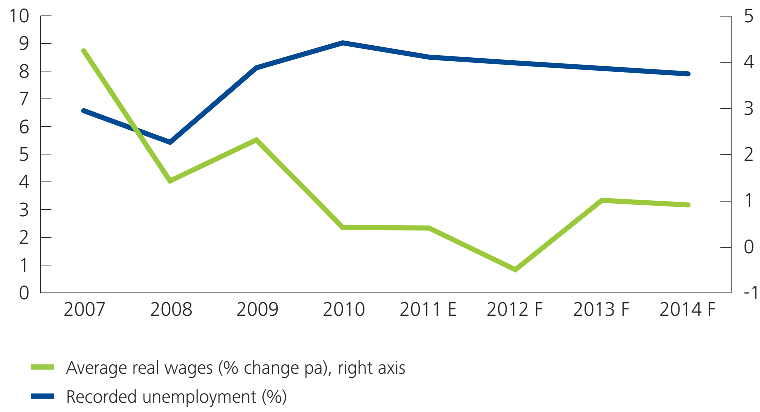
Recorded unemployment has been stable at around 9% since 2010, while the EIU forecasts unemployment to descend slightly and be under 8% by 2014.

GDP and consumer prices



Source: EIU

Unemployment and real wages



Source: EIU

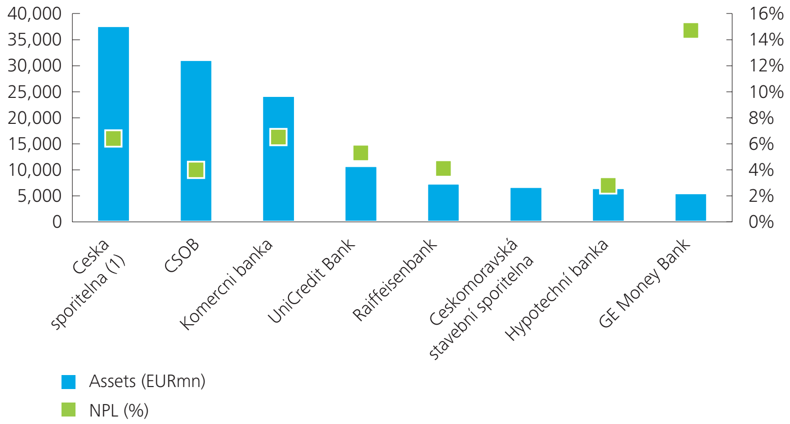
The Czech banking sector is stable due to solid macroeconomics. Low inflation benefited CZK denominated household lending in the past and LTV ratios are low. The sector is dominated by the top 3 players since they possess approximately 60% of assets and equity of the top 12 total and 70% of net profit. Their major shareholders are KBC, Erste Group and Société Générale.

The volume of corporate loans hit its peak in Q4 2008 with an amount of almost CZK 1,700 bn, with lacklustre quarterly growth of 0.7% which slumped back from 4.6% in the previous quarter. Growth was then negative for six consecutive quarters and the outstanding volume dropped to CZK 1,540 bn in Q2 2010. A mild recovery started with an average quarterly growth of 1.4% in the past five quarters, and outstanding volume was CZK 1,650 bn in Q3 2011, so it is creeping towards its earlier peak.

Retail lending growth is driven by mortgage loans which accounted for 76% of retail loans in Q3 2011, while consumer credit stood for 20% and the reaming 4% was for other loans, and this distribution has been consistent for a lengthy period. Contrary to corporate lending, retail lending did not have to struggle with negative growth and had growth of 1.3% in Q2-Q3 2011 also influenced by increase of VAT by 2012 stimulating purchases in 2011. The total outstanding amount is approaching CZK 1,000 bn.

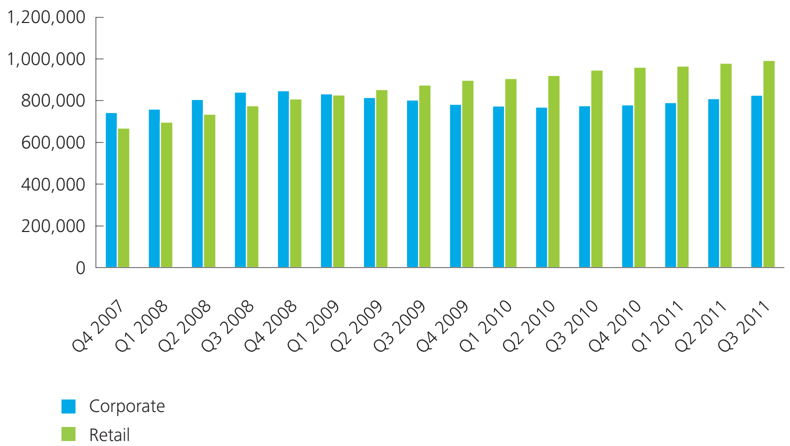
The profitability of the Czech banking sector is still good, and not even the crisis could really eat into it. Naturally there were drops in both net profit and consequently ROE, but ROE has not dipped under 20% which is an enviable performance in international comparison. Since Q3 2010 the CAR of the Czech banking sector is above 15% (16% in Q2 2011), and according to CNB stress tests not even a double dip could bring it down under 11%.

Czech banks, 2010



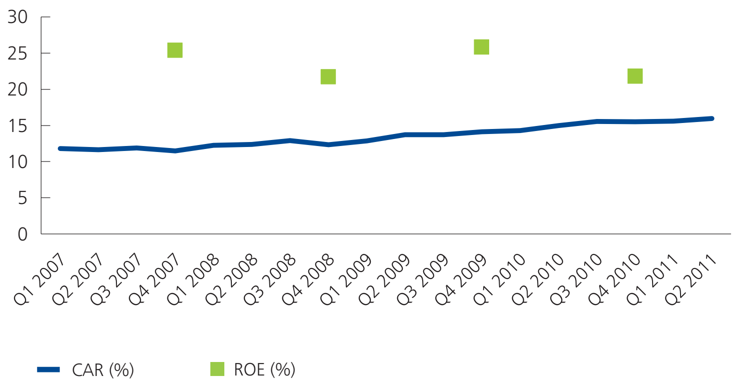
Source: Banks' data disclosure
Note: (1) Total assets and NPL% as of Q3 2011

Lending volume (CZKmn)



Source: CNB

CAR and ROE



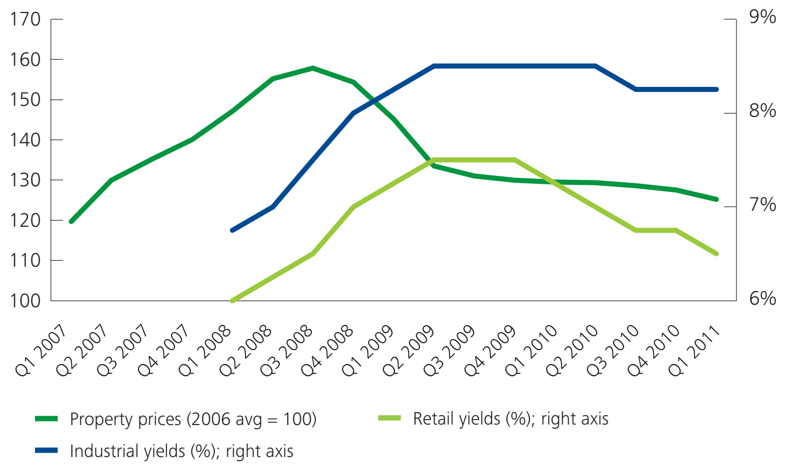
Source: CNB

Real estate market conditions are impacting the denominator of LTV ratios, since property prices have been decreasing for ten consecutive quarters, though not with a high intensity. Retail yields also turned south in Q1 2010 and have shed 1 percentage point up to Q1 2011, while industrial yields could settle at quite high levels. The number of property market transactions halved from the end of 2007 to Q2 2010 but show a slight recovery since then.

The corporate NPL ratio is much higher than the retail NPL ratio. Corporate NPL ratio experienced its peak at 9.5% in Q3 2010 and has been declining since then to 8.5% in Q3 2011. The retail NPL ratio is –not surprisingly- fuelled by consumer credit and has been faltering around 5% for several quarters with no growth worth mentioning. The mortgage NPL ratio has been doing the same but at a lower level of 3%. Logically, despite quasi constant NPL ratios, NPL amounts were buoyed by gaining new loan portfolios. Banks are actively managing distressed debtors, and the share of restructured loans are also rising, especially in the corporate and retail consumer credit segments.

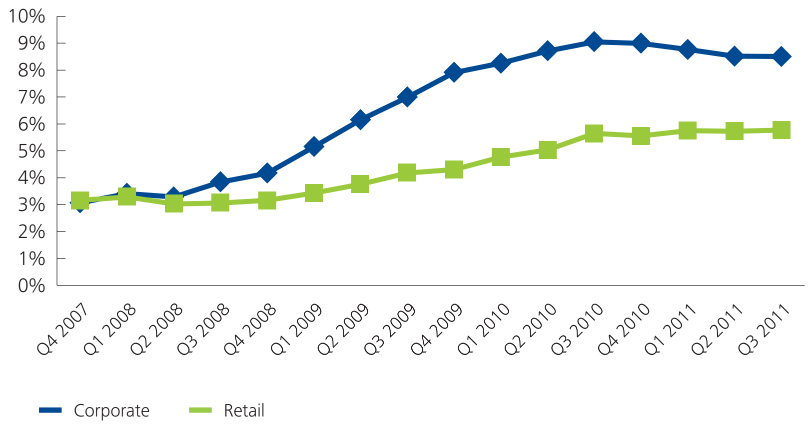
The announced fiscal consolidation plans of the Czech government could hold back economic growth in the short term. However banks seem to have sufficient profitability and capitalization should NPL levels rise again.

Property prices and yields



Source: CNB

NPL%



Source: CNB

Croatia

Following a contraction of 6% in 2009 and a further 1.2% in 2010, the economy is estimated to have grown marginally by 0.2% in 2011 by the EIU, reflecting the growth slowdown in the euro zone –which is Croatia's main export market- and the worsening of the debt crisis.

Private consumption is also expected to contract in 2012, owing to unfavorable labor market conditions, tight credit growth, the erosion of disposable incomes by the depreciation of the kuna against the Swiss franc, and sluggish wage growth. The EIU forecasts a return to modest growth in 2013 and an annual average growth of 2% in 2013-16. As for price stability, CPI was 1.9% in 2010, 2.6% is estimated for 2011 and pursuant to EIU forecasts, CPI will, practically speaking, remain at these levels in the forthcoming years.

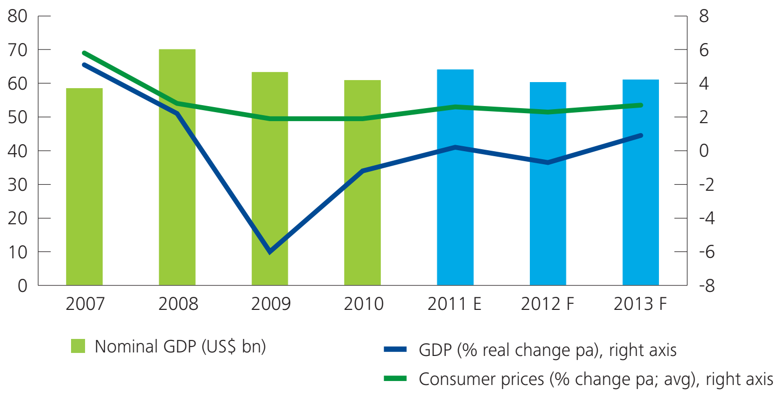
The general budget deficit is significantly above the stipulated Maastricht criterion of 3%, as it was 4.5% in 2010 and estimated to be 5.4% in 2011, exceeding the government's target deficit of 4.3% owing to weaker revenue intake and a slight increase in spending. According to EIU forecasts, the budget deficit will still be around 5% in 2013 and then have a moderate narrowing to around 4% up to 2016. Public debt thrives ss a consequence of recurring substantial budget deficits. It amounted to 41.2% of the GDP in 2010, is estimated to be 43.6% in 2011 and forecast to be 49% in 2013 by the EIU. Rising public debt will put a strain on government finances, nevertheless it is still not disconcertingly high in international comparison. The current-account deficit slumped from 8.6% in 2008 to 1.5% in 2010 and the EIU estimates (for 2011) and forecasts about the same levels in the following years.

The kuna has been stable against the euro for long period, and not even the crisis could provoke turbulence, showing the robust commitment of the CNB to stabilise the exchange rate and join the EU's ERM 2. The USDHRK exchange rate has been in a 5 to 6 range, while the CHFHRK rate was rising constantly till the enactment of the Swiss National Bank's arbitrary 1.2 level.

The crisis resulted in a considerable deterioration in the Croatian labor market since unemployment soared from around 9% to 12.5% and is forecast to stay around current high levels in the near future.

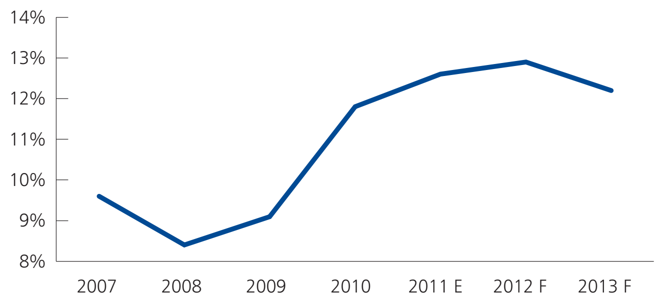
The Croatian banking sector has several dominant players, as the top 5 possess 80 to 90% of the sector's assets, and net profit. At the same time there is a large number of very small players which projects consolidation of the market.

GDP and consumer prices



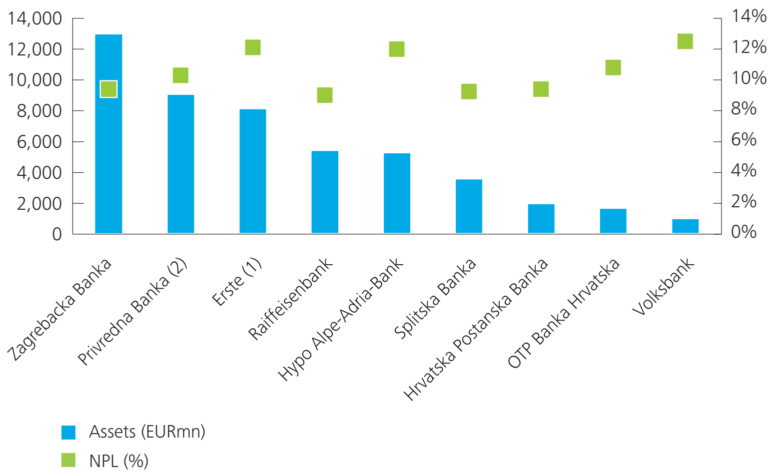
Source: EIU

Unemployment rate



Source: EIU

Croatian banks, 2010



Source: Banks' data disclosure
Note: (1) Total assets and NPL% as of Q3 2011; (2) NPL% as of Q3 2011

The financing of the Croatian corporate sector provides a special phenomenon, since the majority of their financing is supplied by external debtors and not domestic banks. External debt dominates financing, amounting to 47% of GDP in March 2011, while domestic banks account for 34%. In 2007, 2008 and 2009 external debt grew by 40%, 29% and 13% respectively, while in 2010 growth was 9%. Consequently the corporate sector is highly vulnerable to FX movements.

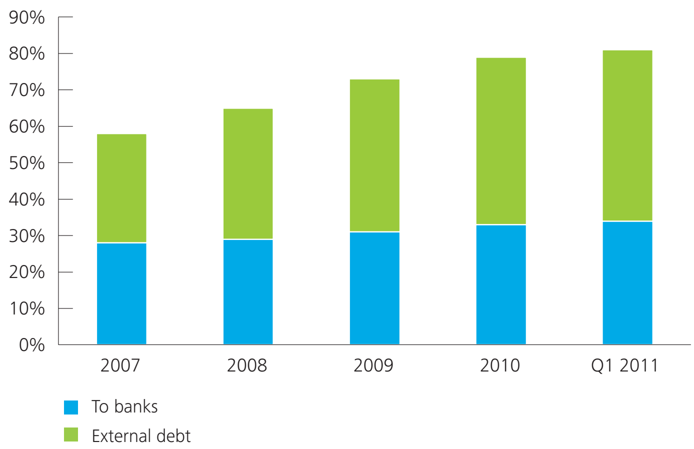
Currency risk is a significant issue for domestic banks as well in view of the fact that their portfolio quality is strongly dependent on FX rates. In a 2009-2010-Q1 2011 on average 57% of their loans are FX indexed kuna loans, 17% are FX denominated loans and the remaining 26% are kuna loans. Approximately 80% of non-kuna loans are euro loans while the rest are CHF denominated. At the same time the banking sector has substantial FX deposits, thereby its exposure to FX shocks are limited somewhat.

Corporate lending showed stellar performance prior to the crisis but pared earlier growth rates in 2007 (9.8%) and 2008 (13.2%). Growth was positive even in the gloomiest year in 2009 (1.9%). In 2010 and 2011 (Oct/Oct) growth could recover to a moderate pace coming close to sustainable levels. In July 2011 corporate lending volume exceeded HRK 120 bn, equal to 35% of GDP. A substantial amount of interest rate risk is also faced by corporations, considering that loans with interest rates variable within a year account for around 90% of total corporate loans.

Retail lending grew by 17.4% in 2007, 11.3% in 2008 but contracted 3% in 2009 with the intensification of the crisis. In 2010 and 2011 (Oct/Oct) there was a sluggish recovery. The pre-crisis volume peak was HRK 127 bn, and this has been surpassed since then, but not by much, as outstanding volume was HRK 129 bn in October 2011. Regarding currency structure, in Q3 2008 34% of retail loans were FX, while the same number in Q1 2011 was 25%. Practically speaking half of retail loans are mortgage loans.

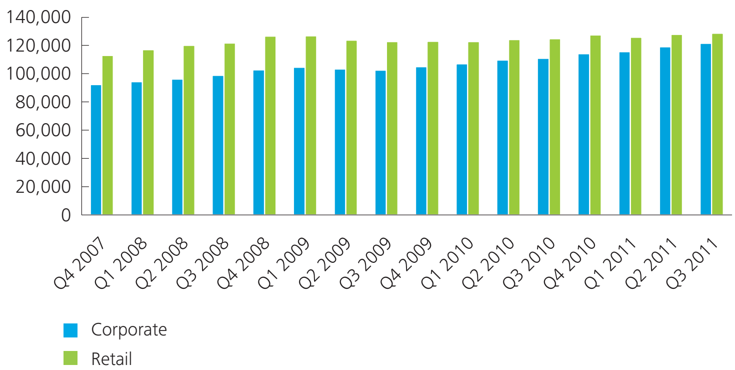
Residential real estate prices have been decreasing for 5 consecutive quarters by a quarterly average of 4.8% which is bad news to banks as it erodes the value of collateral and entails higher, undesirable LTV ratios.

Corporate debt (as % of GDP)



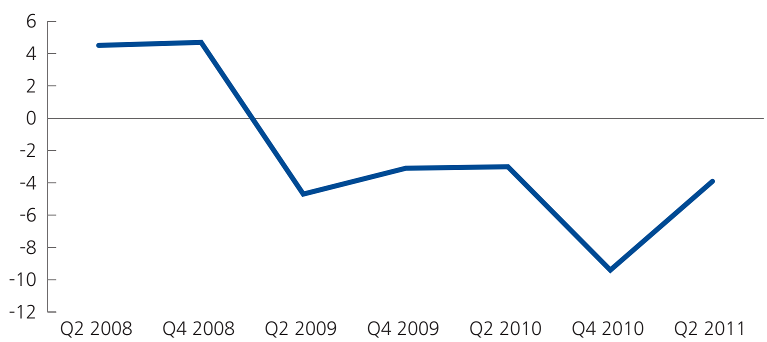
Source: CNB

Lending volume (HRKmn)



Source: CNB

Residential real estate prices (y on y change, %)



Source: IMF

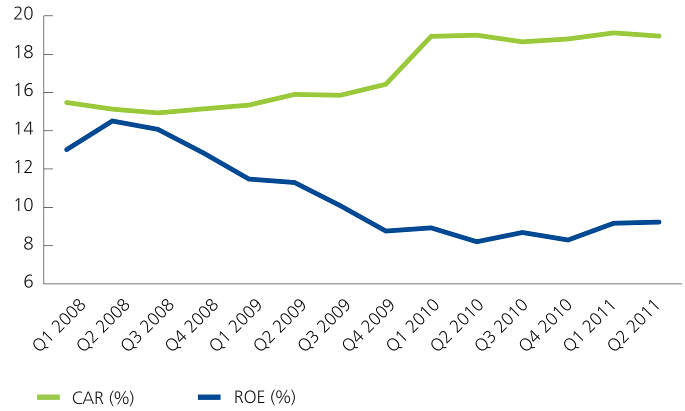
The profitability of the Croatian banking sector has seen better days and the crisis weighed on it. ROE peaked at 14.5% in Q2 2008 but then declined down to 8.8% in Q4 2009 and has been faltering around 9% since then. CAR of the banking sector was already sound prior to the crisis but banks further adjusted to the turbulence and thus CAR has been hovering around a robust 19% since Q1 2010.

The dynamic NPL growth seemed to subside in Q1 and Q2 of 2011. In Q2 2011 the NPL ratio was 11.8%, and NPL volume amounted to nearly HRK 34 bn. The corporate NPL ratio was already 7.5% in December 2008, lifted to 13% by the end of 2009 and was 19% in March 2011.

The inverse relationship of the coverage ratio and provisioning is visible, however the coverage ratio has "only" shed 10 percentage points since the stellar times of pre-crisis 2006 which is not a disconcerting performance. Moreover, after a long period of incessant decrease, NPL coverage ratio showed its first rise in Q3 2011.

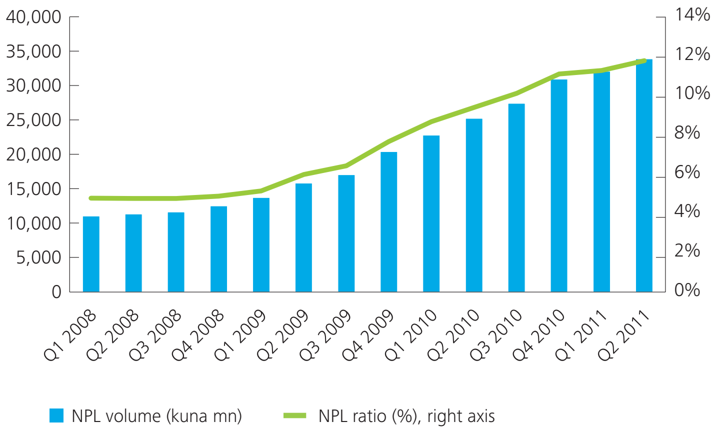
Growth of NPL in the mid term is likely due to weak growth prospects of the economy and lack of new credits by the banking sector. Further risk resides in the high FX exposure of the debtors which makes the National Bank's intervention for managing exchange rates inevitable.

CAR and ROE



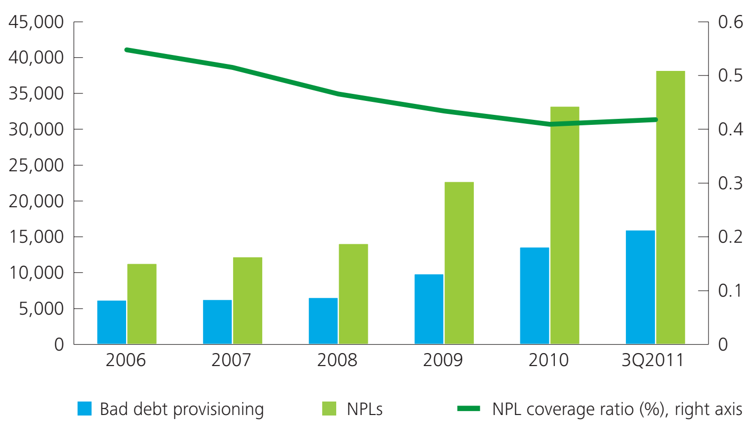
Source: IMF

NPLs



Source: IMF

Provisioning (HRKmn)



Source: CNB

Slovenia

Slovenia experienced the deepest recession among our selected countries and has fairly weak recovery prospects. Real GDP is estimated to have grown by 0.6% in 2011 and forecast to turn into recession in 2012, contracting by 0.5% and mirroring unfavorable trends in the euro zone. The lacklustre recovery was driven by a slight upturn in external demand, however this has faltered in recent months.

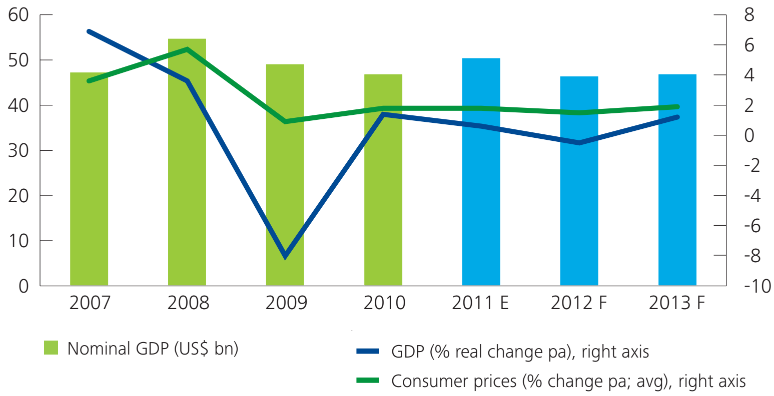
Domestic demand has also remained sluggish and, as in previous years, household consumption will be constrained in 2012 by continuing high unemployment, and by the onerous debt service burdens faced by many consumers after years of high borrowing. The EIU forecast that real GDP growth will pick up gradually from 2013 in tandem with increased demand from Slovenia's main euro zone partners and Balkan markets. CPI was 1.8% in 2010 and estimated to remain the same in 2011 and to hover around this level in 2012-13 as well, since the government's limit on increases in public-sector pay and pensions and continuing high unemployment do not leave room for upward inflationary pressure.

The general budget deficit ballooned in 2009 (6%) and 2010 (5.6%), hence the government is committed to rein it and bring it under the stipulated 3% by 2013, which –according to EIU forecasts- seems to be possible. To achieve the target they would even resort to the sell offs of large state-owned stakes in –inter alia- the banking sector, which is disproportionately state-owned. Public debt as a percentage of GDP surged almost 20 percentage points from 2008 (22.4%) to 2011 (41.9%), which is substantial but, the EIU forecasts it will not rise further in 2012-13. The current-account showed a significant deficit in 2008 (6.1%) but could rebound then to a minimal deficit of 0.4% in 2011 and is forecast to turn positive by 2013.

Slovenia is the member of the euro zone, consequently it is not jeopardized by external shocks on its domestic currency, contrary to many other CEE countries. With the deterioration of the euro zone debt crisis, the EUR has recently weakened 10% against the USD and this trend is forecast to prevail owing to stronger economic growth in the US than in the euro zone, and the potential for the bloc to fragment.

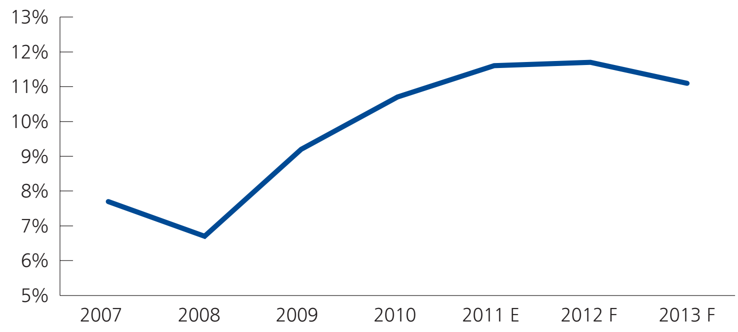
Unemployment amounted to 10.7% in 2010, is estimated to reach 11.6% in 2011 and forecast to be above 11% in 2013 which is not in favor of the improvement in the NPL situation.

GDP and consumer prices



Source: EIU

Unemployment rate



Source: EIU

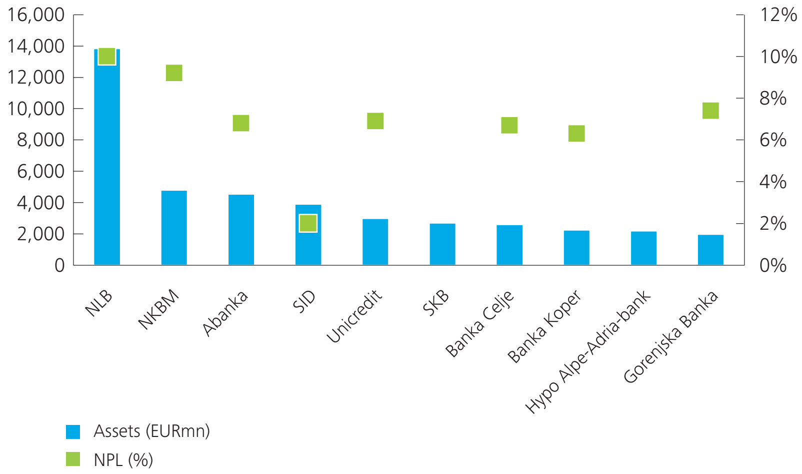
The Slovenian banking sector is dominated by state owned institutions, as NLB, NKBM and SID are all in state hands. The major shareholder of Abanka is Triglav Insurance owned by the state.

The banking sector was hit hard by the crisis. Strong pre-crisis loan growth resulted in high leverage of corporates reaching 72.3% of GDP in 2010. Corporate lending recoiled in Q3 2011 as banks tightened their lending standards to evade further portfolio quality deterioration and corporations also tried to deleverage their accumulated debt as market circumstances were worsening. Corporate lending growth was minor in 2009 (1.3%) and 2010 (0.7%) and turned negative in Q3 2011 (-5%). The proportion of loans tied to the CHF is under 5% in the banking sector which means limited currency risk. Interest rate risk, however, is much more relevant as the proportion of new corporate loans with a variable interest rate is around 95%.

Retail lending weathered the crisis in a better condition, and grew in 2009 (7%) and 2010 (9.4%), and had growth of 4% (y on y) in Q3 2011. Nevertheless it also has to be borne in mind that the volume of retail lending is still less than the half of corporate lending. Analysis of retail lending growth shows that housing loans have been driving growth since their growth rate has been higher than the growth rate of consumer loans, with an average of 15-20 percentage points in the past years. In Q3 2011 housing loans grew by around 10%, while consumer loans contracted about 2%. Interest rate risk is also present at the retail segment, as the proportion of loans with a variable interest rate is around 95% as for housing loans and 55% in case of consumer loans. In February 2011the breakdown of retail loan stocks showed housing loans were 53%, and consumer loans accounted for 31%, while the same numbers in 2008 were 44% and 37% respectively.

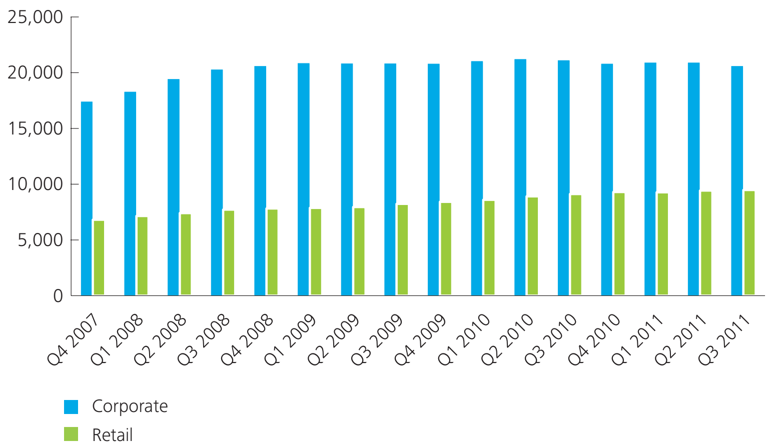
An interesting feature of the Slovene banking sector is the relatively high exposure towards non residents – amounting to some 5% of total gross loans (not included in the corporate and retail split above). This gives an additional country risk element to the outstanding loan balances.

Slovenian banks, 2010



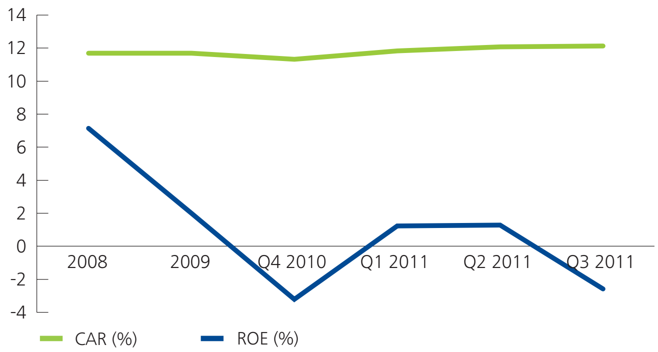
Source: Banks' data disclosure

Lending volume (EURmn)



Source: NBS

CAR and ROE



Source: IMF

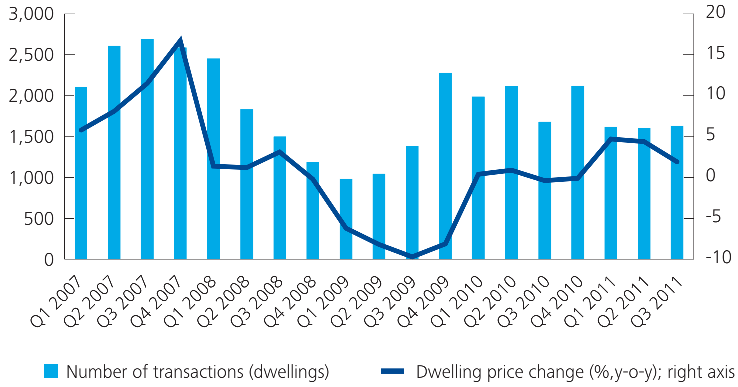
An increase in impairments resulted in a loss for the sector in 2010. ROE shed 10 percentage points between 2008 and 2010 declining to negative 3%, and about the same in Q3 2011. ROA also decreased between 2008 and 2010 from 0.5% to negative 0.2%. Capital adequacy of the banking sector has been hovering around 12% for some time which, for the time being, is not disconcertingly low but current and potential future losses can put a downward pressure on it. This is also likely to limit funding support by the sector to kick start the engine of the economy.

Residential real estate prices decreased by a quarterly average of 8% in 2009 and have crept up by an average of 1.7% in the last 7 quarters from Q1 2010 to Q3 2011. Despite the fragile (residential) real estate market, average LTV ratios were not too high in 2010. In case of corporate loans it was 67.1%, and for housing loans it was 57.9% and the most securely collateralized were non-housing loans to households with a ratio of 41%.

The NPL ratio of the sector was 12.1% in Q3 2011 after increasing almost 2.5 percentage points from the value of Q1 2011 (9.7%) which means a 25% increase in the last two quarters. If we sever banks formerly reporting especially high lending growth, their NPL ratios are 2-3 percentage points higher than that of others. The volume of NPLs as of Q3 2011 was nearly EUR 5,400 million, or 15% of GDP. Observing retail and corporate NPL ratios separately, it can be seen that corporate NPL ratios are much higher than retail numbers and a gap has been widening between them. While corporate and retail NPL ratios were 6.6% and 3.8% in Q4 2009, the same numbers were 12.3% and 4% in Q4 2010, so corporate NPLs surged while retail ratios remained essentially unchanged.

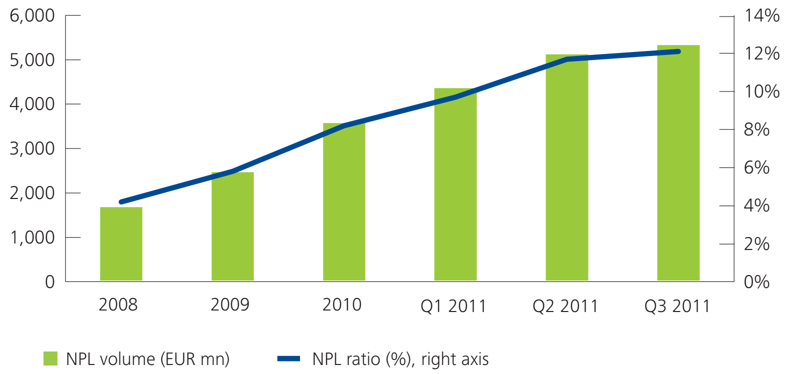
The collateral coverage of corporate loans is the highest, higher than those of housing loans, which at first sight is surprising but can be explained by residential real estate market trends. Logically non-housing LTVs are the lowest and are about to drop below 40%, while LTVs of corporate and housing loans show some signs of stabilization at current levels.
In Slovenia the weak economic prospects, accompanied with high unemployment, raise gloomy prospects for overall asset quality of the banking sector. Profitability issues limit capacity of banks for impairment without further capital increases, and loans to non-residents bring additional country risk to the table. We expect increasing workout activities for Slovenian banks to come.

Residential real estate market



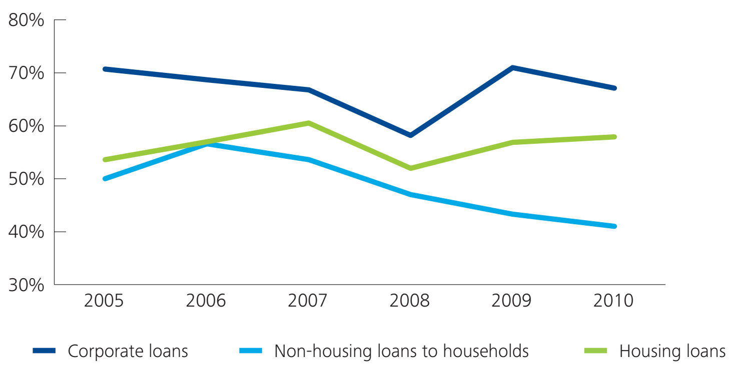
Source: SORS

NPLs



Source: IMF, NBS

LTV for real estate collateral



Source: Bank of Slovenia

Key macroeconomic indicators

	2007	2008	2009	2010	2011 E	2012 F	2013 F	2014 F
Romania								
Consumer prices (% change pa; avg)	4.8	7.8	5.6	6.1	6.2	4.0	3.3	2.9
Real GDP (% change pa)	6.0	7.1	-7.1	-1.3	2.0	0.5	3.0	4.5
Nominal GDP (US$ bn)	170.6	204.3	161.1	155.8	158.4	171.2	187.0	207.7
Unemployment rate (%)	4.1	4.4	7.8	6.9	4.8	4.3	4.0	3.8
Average real wages (% change pa)	16.9	14.6	2.3	0.3	1.2	3.4	4.6	5.0
Budget balance (% of GDP)	-2.6	-4.8	-7.3	-6.5	-4.3	-2.8	-2.5	-2.4
Public debt (% of GDP)	18.7	20.4	28.8	31.8	33.0	32.3	31.2	30.9
Current account balace (% of GDP)	-13.5	-11.6	-4.3	-4.0	-3.8	-4.1	-5.2	-5.4
Hungary								
Consumer prices (% change pa; avg)	8.0	6.0	4.2	4.9	3.9	5.2	3.4	3.3
GDP (% real change pa)	0.1	0.9	-6.8	1.3	1.5	-1.0	0.8	2.1
Nominal GDP (US$ bn)	136.1	154.2	128.8	128.6	140.3	127.1	148.6	156.2
Recorded unemployment (%)	7.3	7.8	10.0	11.2	10.9	10.6	10.5	10.5
Average real wages (% change pa)	0.0	1.3	-3.5	-3.3	0.5	-1.2	0.6	0.9
Budget balance (% of GDP)	-5.0	-3.6	-4.3	-4.2	1.2	-4.4	-4.2	-4.0
Public debt (% of GDP)	67.0	72.9	78.4	81.3	82.0	81.6	80.9	80.1
Current-account balance (% of GDP)	-7.3	-7.2	-0.2	1.1	1.5	1.6	0.7	0.2
Poland								
Consumer prices (% change pa; avg)	2.5	4.2	3.5	2.6	4.1	2.6	2.9	3.1
GDP (% real change pa)	6.8	5.1	1.6	3.8	3.8	2.4	3.0	3.4
Nominal GDP (US$ bn)	425.1	529.4	430.5	469.2	515.8	490.0	522.7	561.3
Recorded unemployment (%)	12.7	9.8	11.0	12.1	12.4	11.8	11.6	11.2
Average real wages (% change pa)	5.3	5.6	1.9	1.4	0.7	0.4	1.5	1.5
Budget balance (% of GDP)	-1.4	-1.9	-1.8	-3.2	-2.6	-1.9	-2.0	-2.2
Public debt (% of GDP)	44.6	46.7	49.3	52.8	54.4	54.8	54.7	54.3
Current-account balance (% of GDP)	-6.2	-6.6	-4.0	-4.5	-5.2	-4.8	-3.6	-3.5
Slovakia								
Consumer prices (% change pa; avg)	2.8	4.6	1.6	1.0	4.0	2.4	2.1	2.5
GDP (% real change pa)	10.5	5.9	-4.9	4.2	3.0	0.8	2.0	2.5
Nominal GDP (US$ bn)	84.2	98.4	87.6	87.5	98.8	95.3	98.3	110.0
Recorded unemployment (%)	8.4	7.7	11.4	12.5	13.0	12.7	11.8	10.9
Average real wages (% change pa)	4.5	3.4	1.3	2.3	-0.4	1.2	2.1	1.9
Budget balance (% of GDP)	-1.6	-2.0	-8.0	-7.7	-4.9	-4.5	-2.9	-2.9
Public debt (% of GDP)	26.6	27.8	35.5	41.0	42.9	45.3	45.6	42.3
Current-account balance (% of GDP)	-5.3	-6.5	-3.2	-3.6	-3.0	-2.6	-2.9	-3.4

	2007	2008	2009	2010	2011 E	2012 F	2013 F	2014 F
Czech Republic								
Consumer prices (% change pa; avg)	2.9	6.3	1.0	1.5	2.0	2.7	1.8	2.1
GDP (% real change pa)	5.7	3.1	-4.7	2.7	1.8	0.5	1.8	2.3
Nominal GDP (US$ bn)	180.5	225.4	196.2	197.7	217.3	209.8	220.6	232.9
Recorded unemployment (%)	6.6	5.4	8.1	9.0	8.5	8.3	8.1	7.9
Average real wages (% change pa)	4.2	1.4	2.3	0.4	0.4	-0.5	1.0	0.9
Budget balance (% of GDP)	-0.8	-2.8	-5.9	-4.5	-4.4	-3.7	-3.5	-3.2
Public debt (% of GDP)	28.3	29.2	34.8	37.9	41.3	44.1	45.8	46.7
Current-account balance (% of GDP)	-4.4	-2.1	-2.5	-3.0	-3.2	-2.7	-3.1	-3.1
Slovenia								
Consumer prices (% change pa; avg)	3.6	5.7	0.9	1.8	1.8	1.5	1.9	n/a
GDP (% real change pa)	6.90	3.60	-8.00	1.40	0.60	-0.50	1.20	n/a
Nominal GDP (US$ bn)	47.4	54.8	49.2	47.0	50.5	46.5	47.0	n/a
Recorded unemployment (%)	7.70	6.70	9.20	10.70	11.60	11.70	11.10	n/a
Budget balance (% of GDP)	-0.1	-1.8	-6	-5.6	-4.6	-4.1	-2.8	n/a
Public debt (% of GDP)	22.90	22.40	31.40	33.60	41.90	42.20	40.90	n/a
Current-account balance (% of GDP)	-4.7	-6.1	-1.3	-0.8	-0.4	-0.2	0.7	n/a
Croatia								
Consumer prices (% change pa; avg)	5.80	2.80	1.90	1.90	2.60	2.30	2.70	n/a
GDP (% real change pa)	5.10	2.20	-6.00	-1.20	0.20	-0.70	0.90	n/a
Nominal GDP (US$ bn)	58.7	70.2	63.5	61.1	64.2	60.5	61.3	n/a
Recorded unemployment (%)	9.60	8.40	9.10	11.80	12.60	12.90	12.20	n/a
Budget balance (% of GDP)	-0.90	-0.90	-3.30	-4.50	-5.40	-5.30	-4.90	n/a
Public debt (% of GDP)	32.90	29.20	35.10	41.20	43.60	46.00	49.00	n/a
Current-account balance (% of GDP)	-7.30	-8.58	-5.00	-1.40	-1.30	-0.75	-0.97	n/a

Source: EIU

Property price index (2006 = 100%, annual basis index)

Country	2006	2007	2008	2009	2010	2011
Croatia	100%	99%	102%	112%	109%	n/a
Czech Republic	100%	131%	145%	122%	115%	n/a
Hungary	100%	102%	105%	105%	107%	104%
Poland	100%	115%	121%	104%	104%	104%
Romania	100%	130%	176%	165%	133%	108%
Slovakia	100%	132%	141%	124%	121%	119%
Slovenia	100%	131%	145%	122%	119%	115%

Source: BIS (Bank for International Settlements)

In case of Romania and Croatia, also includes data by the respective central statistical offices.

FX rate index (beginning of 2007 =100, basis index)

	H1 2007	H2 2007	H1 2008	H2 2008	H1 2009	H2 2009	H1 2010	H2 2010	H1 2011	H2 2011
Croatia (EURHRK)	99%	100%	99%	100%	99%	99%	98%	101%	100%	103%
Czech Republic (EURCZK)	104%	95%	86%	98%	94%	96%	93%	91%	88%	94%
Hungary (EURHUF)	98%	100%	97%	103%	114%	106%	111%	109%	104%	120%
Poland (EURPLN)	99%	94%	88%	104%	118%	108%	108%	105%	104%	118%
Romania (EURRON)	93%	106%	108%	118%	124%	125%	129%	126%	125%	127%
Slovakia (EURUSD)	102%	111%	119%	105%	106%	109%	95%	98%	106%	98%
Slovenia (EURUSD)	102%	111%	119%	105%	106%	109%	95%	98%	106%	98%

Source: Central Banks

Key lending indicators

	2007	2008	2009	2010	Q3 2011
Romania (RON mn)					
Retail (RON)	33,573	40,941	38,810	35,915	35,654
Retail (EUR)	31,595	45,812	48,948	51,995	54,747
Retail (other CY)	6,340	12,451	12,460	14,190	14,052
Retail loans total	71,508	99,205	100,218	102,100	104,453
Corporate (RON)	32,577	40,870	39,216	39,978	43,253
Corporate (EUR)	36,646	48,942	53,305	60,985	66,220
Corporate (other CY)	3,733	4,717	3,673	3,656	4,518
Corporate loans total	72,955	94,529	96,194	104,618	113,991
Total loans	144,463	193,734	196,412	206,718	218,444
Hungary (HUF bn)					
Corporate (HUF)	n/a	2,730	2,454	2,381	2,325
Retail (HUF)	n/a	2,090	2,002	2,091	2,165
Corporate (FX)	n/a	4,217	3,880	3,623	3,599
Retail (FX)	n/a	5,040	4,717	5,104	4,954
Retail loans total	n/a	7,130	6,719	7,194	7,119
Corporate loans total	n/a	6,947	6,334	6,004	5,924
Total loans	n/a	14,077	13,053	13,198	13,043
Poland (PLN mn)					
Retail (PLN)	n/a	n/a	78,053	101,040	119,199
Retail (CHF)	n/a	n/a	129,956	145,124	167,679
Retail (other CY)	n/a	n/a	9,641	20,653	33,072
Retail loans total	n/a	n/a	332,925	383,981	437,729
Corporate (PLN)	n/a	n/a	165,694	167,804	191,428
Corporate (other CY)	n/a	n/a	56,819	54,735	73,183
Corporate loans total	n/a	n/a	222,513	222,539	264,611
Total loans	n/a	n/a	555,438	606,520	702,340
Slovakia (EUR mn)					
Corporate loans total	13,470	15,478	14,941	15,124	16,285
Consumer loans	1,379	1,694	1,910	3,120	3,138
Loans for house pruchase	6,773	8,536	9,469	10,849	11,991
Other loans	1,949	2,382	2,570	1,620	1,678
Retail loans total	10,101	12,612	13,949	15,589	16,807
Total loans	23,571	28,090	28,890	30,713	33,092
Czech Republic (CZK mn)					
Corporate loans total	743,195	847,484	782,607	780,487	825,853
Consumer loans	137,702	169,088	185,581	199,206	197,563
Mortgage	510,945	613,590	684,297	728,141	755,666
Other loans	20,114	25,680	28,086	33,434	39,369
Retail loans total	668,761	808,358	897,964	960,781	992,598
Total loans	1,411,956	1,655,842	1,680,571	1,741,268	1,818,451
Slovenia (EUR mn)					
Corporate loans total	17,413	20,599	20,812	20,828	20,599
Consumer credit	2,743	2,884	2,900	2,833	2,760
Loans for house purchase	2,668	3,395	3,927	4,837	5,130
Other lending	1,407	1,548	1,586	1,612	1,577
Retail loans total	6,818	7,827	8,413	9,282	9,467
Total loans (only ret+corp)	24,231	28,426	29,225	30,110	30,066
Croatia (HRK mn)					
Corporate loans total	92,265	102,780	104,898	114,090	121,553
Retail loans total	112,925	126,551	122,894	127,533	128,753
Total loans	205,190	229,331	227,792	241,623	250,306

Source: IMF, Central Banks

NPL	Q4 07	Q4 08	Q4 09	Q4 10	Q3 11	Note
Croatia	4.8%	4.9%	7.7%	11.1%	11.8%	*Q2 2011 data*
Czech Republic	2.4%	2.8%	4.6%	5.4%	5.5%	
Hungary	2.3%	3.7%	6.7%	9.8%	12.8%	
Poland	5.3%	4.6%	8.1%	8.8%	8.4%	
Romania	3.0%	4.8%	8.0%	11.9%	14.2%	
Slovakia	2.4%	3.5%	5.8%	6.4%	6.2%	
Slovenia	4.0%	4.7%	6.2%	8.2%	12.1%	

Source: IMF, Central Banks

CAR	Q4 07	Q4 08	Q4 09	Q4 10	Q3 11	Note
Croatia	16.3%	15.1%	16.4%	18.8%	18.9%	
Czech Republic	11.0%	11.6%	14.0%	15.3%	15.3%	
Hungary	11.0%	11.2%	13.1%	13.3%	13.8%	
Poland	12.0%	11.2%	13.3%	13.9%	13.2%	
Romania	13.8%	13.8%	14.7%	15.0%	13.4%	
Slovakia	12.8%	11.1%	12.6%	12.7%	12.9%	
Slovenia	11.2%	11.7%	11.6%	11.3%	12.1%	

Source: IMF, Central Banks

ROE	Q4 07	Q4 08	Q4 09	Q4 10	Q3 11	Note
Croatia	14.0%	12.8%	8.8%	8.3%	9.2%	*Q2 2011 data*
Czech Republic	27.8%	20.7%	26.4%	19.7%	18.7%	
Hungary	21.8%	17.0%	8.3%	0.4%	8.1%	*Q2 2011 data*
Poland	22.9%	20.7%	11.2%	13.2%	16.0%	*2007 annual*
Romania	9.4%	17.0%	2.9%	-1.7%	-3.4%	*2007 annual*
Slovakia	16.5%	14.1%	6.5%	12.3%	14.2%	*2007-2010 annual*
Slovenia	16.3%	8.1%	3.9%	-3.2%	-2.6%	*2007-2009 annual*

Source: IMF, Central Banks

ROA	Q4 07	Q4 08	Q4 09	Q4 10	Q3 11	Note
Croatia	1.6%	1.7%	1.2%	1.2%	1.3%	
Czech Republic	1.4%	1.1%	1.4%	1.3%	1.2%	
Hungary	1.7%	1.3%	0.6%	0.0%	0.7%	
Poland	1.8%	1.5%	0.8%	1.0%	1.2%	*2007 annual*
Romania	1.0%	1.6%	0.3%	-0.2%	-0.3%	*2007 annual*
Slovakia	1.1%	1.0%	0.5%	0.9%	1.4%	*2007-2010 annual*
Slovenia	1.4%	0.7%	0.3%	-0.2%	-0.2%	*2007-2009 annual*

Source: IMF, Central Banks

Note: all data are analyzed quarterly except when noted otherwise.

FX share of lending (% of total)	Q4 07	Q4 08	Q4 09	Q4 10	Q3 11	Note
Croatia	61.7%	65.5%	72.3%	74.3%	n/a	
Czech Republic	23.9%	21.8%	21.2%	21.6%	21.4%	
Hungary	52.4%	65.8%	65.9%	66.1%	65.6%	
Poland	24.8%	35.0%	32.2%	32.5%	34.2%	
Romania	50.9%	57.8%	59.9%	63.0%	63.6%	
Slovakia	23.6%	17.4%	2.0%	1.5%	1.3%	
Slovenia	n/a	n/a	n/a	n/a	n/a	

Source: IMF, Raiffeisen Bank CEE Banking Report (Oct 2011) for certain Q4 07 data

Lending growth index (2007 as 100, basis index)	Q4 07	Q4 08	Q4 09	Q4 10	Q3 11	Note
Croatia	100	114	118	124	129	
Czech Republic	100	113	115	121	126	
Hungary	100	113	106	107	102	
Poland	100	119	122	138	156	
Romania	100	132	134	142	150	
Slovakia	100	129	102	107	114	
Slovenia	100	119	127	129	130	

Source: IMF, Central Banks

Loans to GDP (%)	2004	2005	2006	2007	2008	2009	2010
Croatia	52%	58%	65%	68%	72%	76%	82%
Czech Republic	64%	68%	67%	72%	78%	81%	84%
Hungary	35%	39%	43%	47%	54%	52%	52%
Poland	26%	27%	31%	37%	47%	47%	49%
Romania	17%	21%	27%	36%	39%	41%	41%
Slovakia	30%	35%	37%	42%	44%	47%	48%
Slovenia	61%	61%	83%	97%	106%	121%	116%

Source: IMF

Key financials of major banks

Romania

Rank	Bank	Assets 2010 (EUR mn)	Equity 2010 (EUR mn)	Net Profit 2010 (EUR mn)	NPL ratio 2010	Note
1	BCR	17,087	1,644	17	22.0%	*All data Sept 2011*
2	BRD	11,097	893	142	9.1%	
3	Raiffeisen	5,089	470	91	10.3%	*Net profit: Consolidated figure; NPL ratio: Sept 2011, Southeastern Europe*
4	CEC Bank	5,066	393	8	n/a	
5	Alpha Bank	4,982	413	7	8.9%	*Net profit and NPL ratio Sept 2011*
6	Unicredit Tiriac	4,772	487	40	9.9%	
7	Volksbank	4,616	348	(36)	13.9%	
8	Banca Transilvania	4,044	441	16	8.7%	*Net profit Jun 2011; NPL ratio Sept 2011*
	Banking sector total	**89,906**			**11.9%**	

Source: Intelace Research Top 200 banks in CEE; Annual reports

Hungary

Rank	Bank	Assets 2010 (EUR mn)	Equity 2010 (EUR mn)	Net Profit 2010 (EUR mn)	NPL ratio 2010	Note
1	OTP Bank Nyrt.	22,810	2,771	447	13.7%	
2	K&H Zrt.	11,528	420	104	9.7%	*NPL ratio Sept 2011*
3	Erste Bank Hungary Nyrt.	11,030	387	(151)	16.5%	*All data Sept 2011*
4	MKB Bank Zrt.	9,806	701	(440)	11.3%	
5	CIB Bank Zrt.	8,950	865	(84)	13.4%	*All consolidated figures*
6	Raiffeisen Bank Zrt.	8,495	544	(31)	19.7%	*All consolidated figures; NPL ratio Sept 2011, Southeastern Europe*
7	OTP Jelzálogbank Zrt.	6,009	284	39	2.8%	
8	UniCredit Bank Hungary Zrt.	5,549	649	67	12.8%	*All consolidated figures*
9	Magyar Fejlesztési Bank Zrt.	4,266	434	n/a	n/a	
10	Budapest Bank Nyrt.	3,229	388	28	n/a	
	Banking sector total	**121,268**			**7.8%**	

Source: Intelace Research Top 200 banks in CEE; Annual reports

Poland

Rank	Bank	Assets 2010 (EUR mn)	Equity 2010 (EUR mn)	Net Profit 2010 (EUR mn)	NPL ratio 2010	Note
1	PKO	42,232	5,354	836	8.5%	
2	Pekao	32,860	5,009	644	6.3%	
3	BRE	21,091	1,649	131	5.3%	
4	ING BSK	16,270	1,373	177	4.2%	
5	BZ WBK	13,140	1,542	232	6.8%	
6	Millenium	11,629	964	81	5.8%	
7	Kredyt	10,859	711	28	9.7%	
8	Getin Noble	10,767	829	110	10.0%	
9	Citibank	9,268	1,622	189	9.2%	
10	BPH/GE	9,169	986	(34)	10.6%	
	Banking sector total	**292,962**			**7.8%**	

Source: Intelace Research Top 200 banks in CEE; Annual reports

Slovakia

Rank	Bank	Assets 2010 (EUR mn)	Equity 2010 (EUR mn)	Net Profit 2010 (EUR mn)	NPL ratio 2010	Note
1	Slovenská sporitelna	11,310	1,005	147	7.6%	*All data Sept 2011*
2	Vseobecná úverová banka	10,493	1,020	149	6.0%	
3	Tatra banka	8,762	849	94	7.7%	*All consolidated figures*
4	Ceskoslovenská obchodná banka	5,254	609	45	8.0%	
5	UniCredit Bank Slovakia	4,222	422	12	6.7%	
6	Dexia banka Slovensko	2,624	76	1	7.9%	
7	Postová banka	2,567	201	55	2.2%	*All consolidated figures*
8	Prvá stavebná sporitelna	2,125	253	29	n/a	
9	Volksbank Slovensko	1,330	127	2	3.4%	
10	OTP Banka Slovensko	1,254	89	(3)	7.1%	
	Banking sector total	**54,695**			**6.1%**	

Source: Intelace Research Top 200 banks in CEE; Annual reports

Czech Republic

Rank	Bank	Assets 2010 (EUR mn)	Equity 2010 (EUR mn)	Net Profit 2010 (EUR mn)	NPL ratio 2010	Note
1	Ceská sporitelna	37,652	3,083	391	6.4%	*Assets, Equity and NPL ratio Sept 2011; Net Profit 1-9 2011 period*
2	Ceskoslovenská obchodní banka	31,112	2,326	511	4.0%	
3	Komercní banka	24,226	2,754	480	6.5%	
4	UniCredit Bank Czech Republic	10,781	1,246	120	5.3%	
5	Raiffeisenbank	7,417	557	73	4.1%	
6	Ceskomoravská stavební sporitelna	6,741	384	81	n/a	
7	Hypotechní banka	6,514	841	74	2.8%	
8	GE Money Bank	5,571	1,037	128	14.7%	
	Banking sector total	**173,214**			**6.2%**	

Source: Intelace Research Top 200 banks in CEE; Annual reports

Slovenia

Rank	Bank	Assets 2010 (EUR mn)	Equity 2010 (EUR mn)	Net Profit 2010 (EUR mn)	NPL ratio 2010	Note
1	Nova Ljubljanska banka	13,830	986	(183)	10.0%	
2	Nova KBM	4,807	375	9	9.2%	
3	Abanka Vipa	4,551	364	7	6.8%	
4	SID banka Ljubljana	3,896	328	6	2.0%	
5	UniCredit Banka	2,996	197	13	6.9%	
6	SKB banka	2,692	277	27	n/a	
7	Banka Celje	2,598	298	5	6.7%	
8	Banka Koper	2,260	266	17	6.3%	
9	Hypo Alpe-Adria-bank	2,188	167	(26)	n/a	
10	Gorenjska Banka	1,981	367	21	7.4%	
	Banking sector total	**50,290**			**3.6%**	

Source: Intelace Research Top 200 banks in CEE; Annual reports

Croatia

Rank	Bank	Assets 2010 (EUR mn)	Equity 2010 (EUR mn)	Net Profit 2010 (EUR mn)	NPL ratio 2010	Note
1	Zagrebacka Banka	13,012	1,927	173	9.4%	*2011 data*
2	Privredna Banka Zagreb	9,114	1,400	116	10.3%	*NPL ratio Sept 2011*
3	Erste & Steiermarkische Bank	8,172	861	72.5	12.8%	*Assets, Equity Sept 2011; NPL ratio 2011, Net Profit 1-9 2011 period*
4	Raiffeisenbank Austria	5,470	767	51	9.0%	*2011 data, CEE segment*
5	Hypo Alpe-Adria-Bank	5,327	806	31	12.0%	*2011 data, CEE segment*
6	Splitska Banka	3,619	449	23	n/a	*2011 data*
7	Hrvatska Postanska Banka	2,027	160	7	9.4%	
8	Otp Banka Hrvatska	1,726	201	10	10.8%	
9	Volksbank	1,045	225	5	12.5%	
	Banking sector total	**53,028**			**11.2%**	

Source: Intelace Research Top 200 banks in CEE; Annual reports

Endnotes

1 In line with generally accepted terminology, we define non performing loans (NPLs) as loans overdue by at least three months (90 days past due or "DPD")

2 In the wake of the crisis: dealing with distressed debt across the transition region, EBRD, January 2010

3 Nonperforming loans in Central and Eastern Europe: Is this time different? Global Financial Stability Report April 2010. Countries analyzed were Argentina, Chile, Colombia, the Dominican Republic, Indonesia, Malaysia, Mexico, Peru, the Philippines, South Africa, Taiwan, Thailand, Turkey, Uruguay and Venezuela.

4 Net effect on capital also considering 30% deductibility from banking tax - total loss is HUF 336bn. Some 160 thousand FX retail mortgage loan contracts were prepaid until the deadline of January 31 2012, corresponding to 18% of FX retail mortgage loans (source: Hungarian Financial Authority).

5 In: Regional Economic Outlook: Europe October 2011. IMF analyzed data of 900 banks of 21 countries of emerging Europe.

6 Doing Business 2012, Word Bank. Resolving Insolvency.

7 October 27 2011 decision of the European Court of Justice re Finanzamt Essen-Nordöst v. GFKL Financial Services AG, C-93/10.

8 Bank levy is charged on selected liabilities defined as the sum of liabilities reported in balance sheet lowered by the amount of positive equity, financial resources provided to the subsidiary of the foreign bank on the long term basis, subordinated debt and protected deposits.

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