Restructuring Central Europe
Evolution of NPLs

2nd Edition, June 2013

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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. Many 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, Croatia, Slovenia, Serbia, Romania and Bulgaria 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 second edition of this white paper we can provide readers with updated 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 Deloitte contact, or with any of our experts listed in the back of the paper.

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")

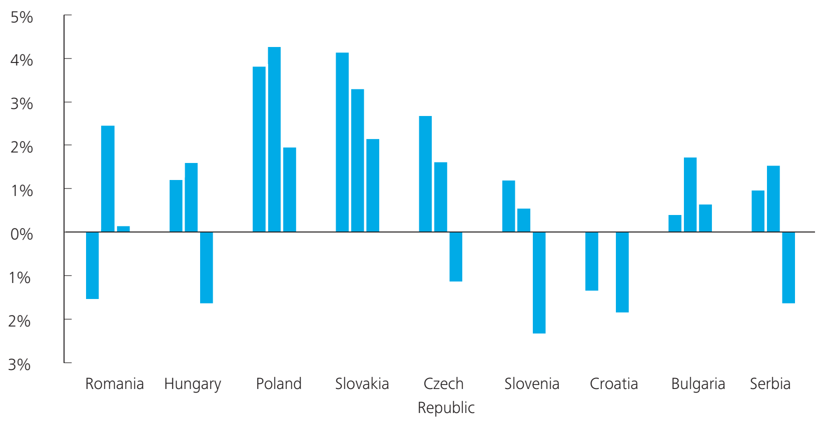
Recent evolution of key NPL metrics

In the aftermath of the economic crisis, signs of a fragile economic recovery were visible in the CEE region in 2011, as six countries out of the analyzed nine could struggle out of recession or show higher GDP growth. Naturally, this moderate recovery gave a glimmer of hope for economic actors that the NPL situation might improve. However, these optimistic expectations were shattered in 2012 when all nine countries, without exception, posted trimmed growth rates or even slid back to a double-dip recession due to resurgent agitation.

As the main impetus for NPL growth are economic downturn and the ensuing high unemployment, both NPL ratios and volumes went on rising in 2012 in seven countries out of the observed nine, while there was a stagnation in the Czech Republic and a meager abatement in Slovakia. In the seven countries with still climbing NPLs the average NPL ratio increase was 2.1% point from 2011 to Q3 2012, while the NPL volume thrived by EUR 5.3 bn altogether in the corresponding period.

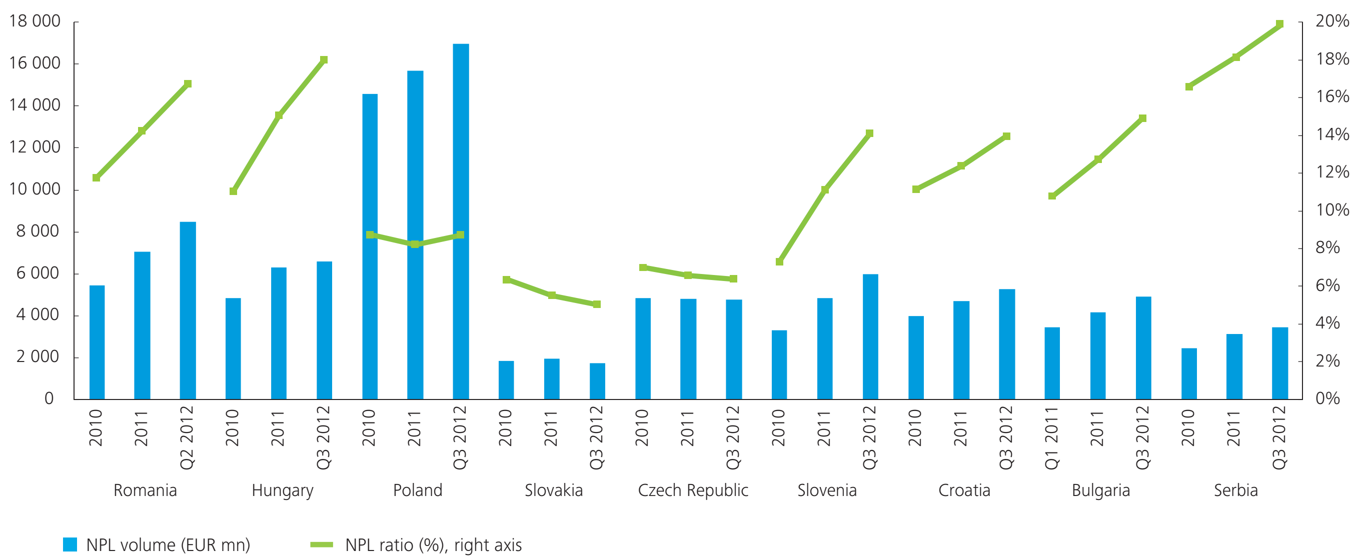
As the above described resurgent economic turmoil and the entailed exacerbated NPL situation prove, the worst might not be behind us and therefore studies like this to provide insights to current developments and to propose possible solutions and remedial tools to banking portfolio headaches still have, or even an amplified relevance.

Real GDP change (2010 - 2012)



Source: EIU

Evolution of key NPL metrics (2010 Q3 2012)



Source: National Banks, IMF
Note: Q2 2012 latest data for Romania, Q1 2011 data for Bulgaria instead of ye 2010

Overview of the evolution of NPL portfolios

Our analysis shows a fairly strong correlation between total loans to GDP as an indicator of debt financed advanced spending and NPLs. There are three exceptions: the Czech Republic, where, despite the relatively high level of loans to GDP, NPL ratios are lower; and Romania and Serbia, where relatively low debt penetration still developed significant non performing portfolios.

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 the other six countries where the share of NPLs are growing further.

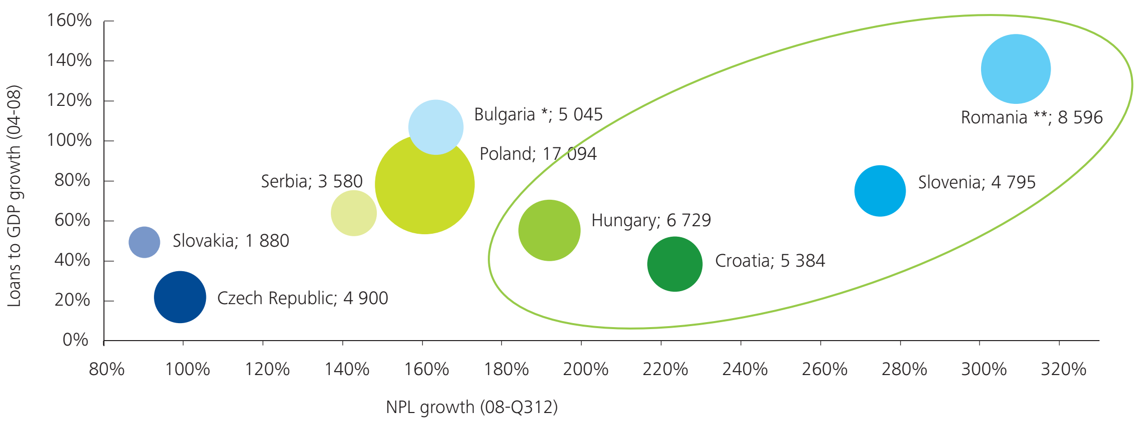
Total loans to GDP and NPL ratio

Source: IMF, National Banks
Note: Q2 2012 latest NPL data for Romania, Q1 2011 NPL data for Bulgaria instead of ye 2010

If we only consider pre crisis lending growth as a driver of NPL portfolios' evolution beyond 2008, the relationship is even more evident. NPL volumes at least doubled in all countries since 2008.

Banks are struggling with repossessed properties with limited or no alternative usage and NPL portfolios are usually property heavy.

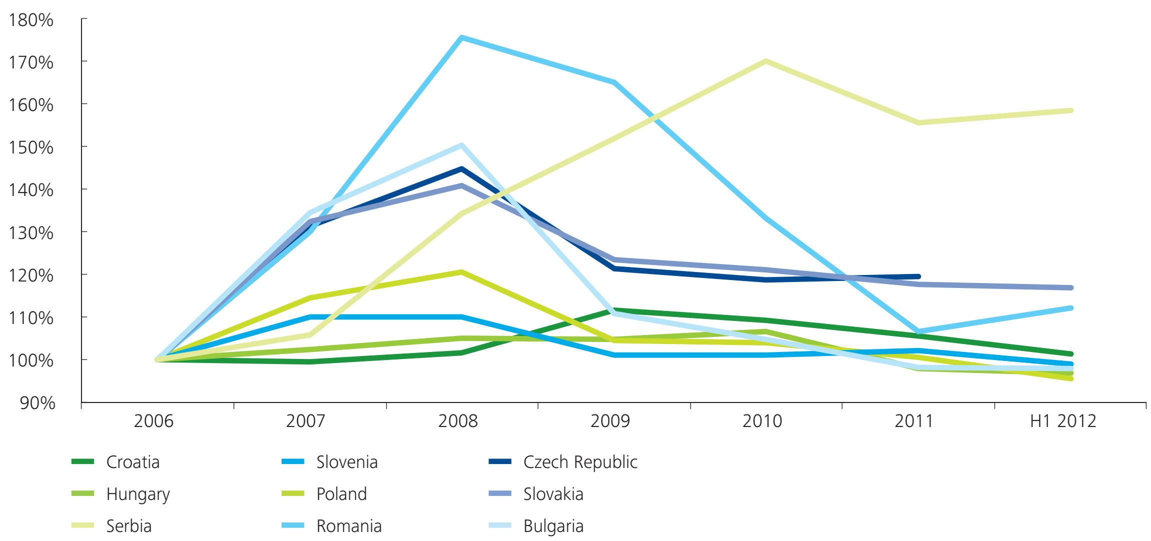
Loans to GDP growth, subsequent NPL growth and NPL volumes (EUR mn)



Source: Local national banks, IMF, Deloitte analysis
Notes: Bubble size: Q3 2012 NPL volume (EURmn)
** NPL growth for Bulgaria was calculated from Q4 2009 to Q3 2012 for illustrative reasons since a calculation from Q4 2008 would imply a 583% growth*
*** Q2 2012 NPL data for Romania*

Falling property prices heavily impacted LTV ratios. Average prices in Romania are now close to 2006 levels again 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 while in case of Poland we cannot talk about a bubble but only a 20% price increase from 2006 to 2008, the same 20% plunge in 2009 and a gradual meltdown since then. 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. No significant price movements were registered in Croatia and Slovenia, whereas Bulgaria showed a bubble similar to the Czech Republic and Slovakia with a bit bigger amplitude, a higher peak at 150%, a 40% points plummeting in 2009 and a continuous abatement since then. The most unique pattern is shown by Serbia where property prices still stand at app. 160% of their values in 2006.

Property price indices



Source: BIS, Local statistical offices
Note: For Slovenia Q12007 is the basis

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. The proportion of restructured loans becoming non-performing again is app. 30% while an additional 30% of restructured loans is becoming past due up to 90 days 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 restructuring cases time and again to adjourn the problem (`ever-greening`) and immediate decline of ratios is not expected.

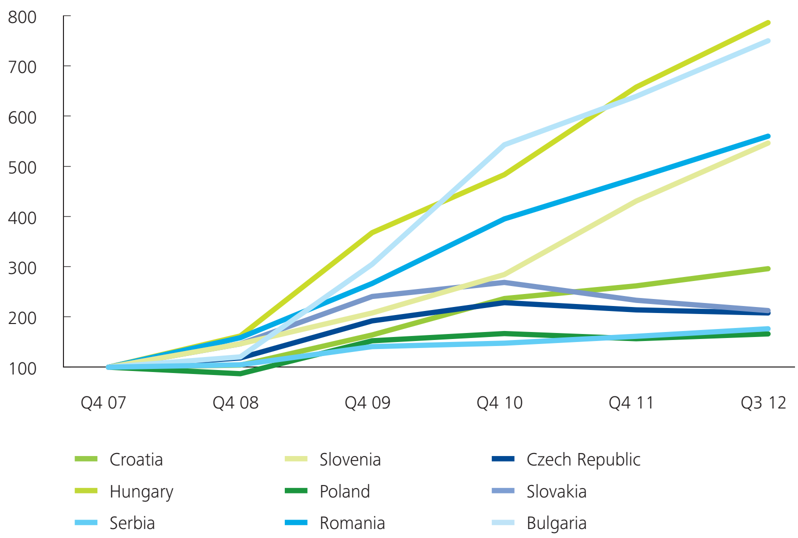
Looking at the relative NPL growth rates in our countries since 2007 we again see the preeminence of Poland, Slovakia and the Czech Republic. NPL ratios of these countries all seem to have peaked already.

In other countries peak NPL rates are still ahead of us. In Serbia, NPL ratio is high (around 20%) and still thriving, however, due to the already high basis in Q4 2007 (app. 11%) the relative growth is not so robust. Croatian NPL ratios are still on a steady rise mainly spurred by a woefully high unemployment around 20% implying a 300% relative growth since Q4 2007. Nonetheless, the most contaminated countries are Hungary, Bulgaria, Romania and Slovenia. In Hungary, on the corporate side no sign of a turnaround has been seen in the portfolio deterioration hence NPL ratio may rise further. Concerning retail loans the launch of debtor assistance programs may help slow down the further deterioration in portfolio quality. In general, the bulk of portfolio quality problems derive from FX lending and significant depreciation of the Forint. In Bulgaria and Slovenia, FX rates are not to blame for poor and still deteriorating portfolio quality but structural problems in the economy such as the heavy leverage of the corporate sector in Slovenia. In Romania, RON depreciated significantly against both EUR and CHF in the crisis and its aftermath as well which could not be offset by feeble economic fundamentals.

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 and unremittingly growing NPL ratios, the massive early repayment and the prolonged extraordinary banking tax has a major impact on the profitability of local banks. In addition a new transaction tax will be introduced from 2013.
- The Romanian banking system witnessed a steep decline during 2010, with a net loss of around 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 annual loss was EUR 180 million, while H1 2012 losses were EUR 43 mn. Provisions in H1 2012 were around EUR 340 mn, which is a bit lower than the corresponding data of 2011. The market share of loss making banks surged from 21.9% in 2011 to 44.6% in 2012, while only 21 banks out of 41 could record profits.

Relative NPL ratio growth



Source: Deloitteanalysis

- After many profitable years the Slovenian banking sector was first in the red in 2010 with a loss of EUR 100 mn and a ROE of minus 2.4%, but in 2011 performance deteriorated further with a loss of EUR 436 mn and hence a plummeting ROE to minus 12.5%, which execrable performance was attributable to increasing impairment and provisioning costs. According to the Bank of Slovenia, in 2012, due to almost EUR 1.5 bn impairment and provisioning costs, net loss of the banking sector amounted to EUR 664 mn; ROE decreased to around minus 16% while ROA was minus 1.4%.

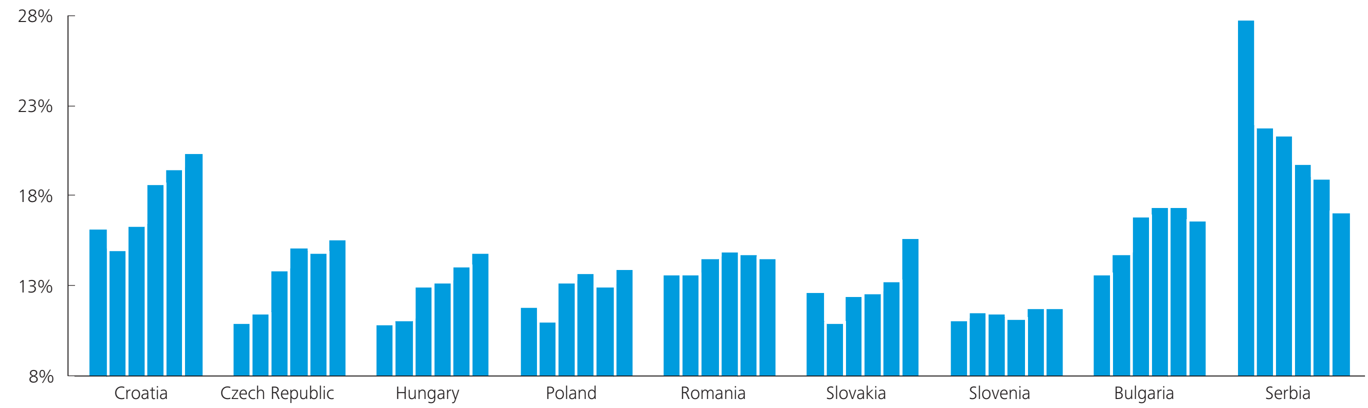
Detailed data sheets for banks in the region are included in the appendices.

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

ROA of the banking sector (2007 - Q3 2012)

Source: National banks
Note: Latest data for Bulgaria and Serbia as of Q2 2012

Capital adequacy of the banking sector (2007 - Q3 2012)



Sourc: National banks
Note: Latest data for Bulgaria and Serbia as of Q2 2012

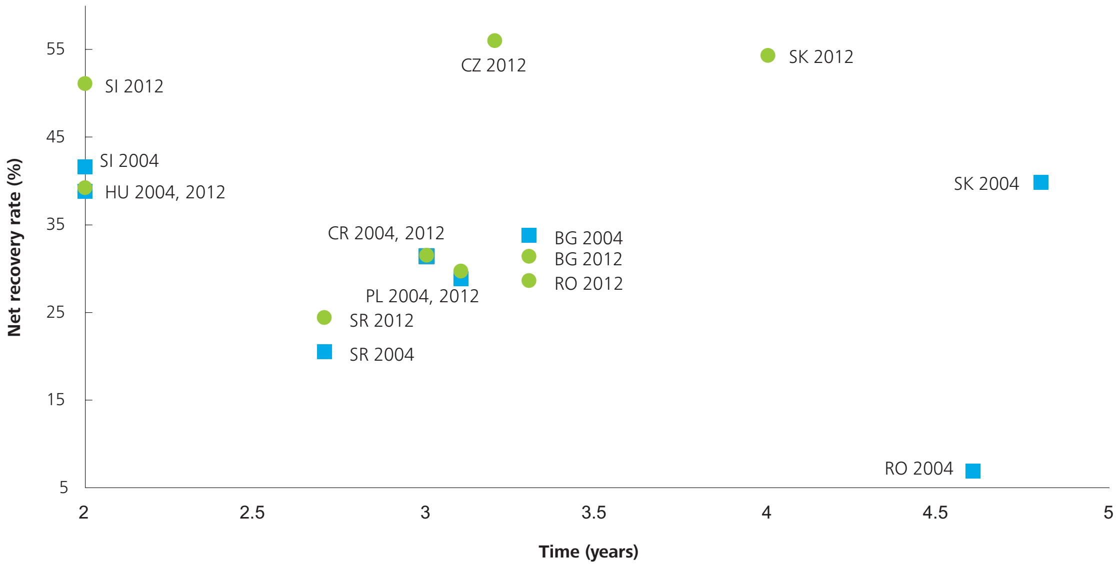
Remedial tools

Current NPL levels are not sustainable. 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. Banks strengthened their internal workout functions 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[2]. According to its database, the highest recovery rates in a formal insolvency procedure are currently in the Czech Republic, Slovakia and Slovenia, Hungary is in the middle, while Poland, Croatia, Romania and Bulgaria provide lower returns. The lowest returns can be achieved in Serbia but in a comparably shorter time, and Bulgaria also has to be mentioned as a laggard, since it is the only country out of the analyzed nine where recovery conditions could not improve but even deteriorated during the observed period.

Given the relatively large share of foreign banks in the region, establishment of state supported "bad loan banks" (as in Germany or Spain) 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 such as the scheme implemented in Hungary. In Hungary, the Government launched the National Asset Management Company in spring 2012 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 while and the previous owner can stay in the property as a lessee. Albeit initial operations were a bit wobbly acquiring a mere 1700 properties by the end of November 2012, plans for the future are still considerably optimistic of purchasing an overall 15 and 25 thousand properties by the end of 2013 and 2014.

Development of recovery conditions (2004 to 2012)



Source: WorldBank
Note: The CZ 2004 point is not displayed for illustrative reasons, since its time data is 9.2 years (net recovery rate is 15.4%).

2 Doing Business 2012, Word Bank. Resolving Insolvency.

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 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 mainly unsecured retail older receivables (EUR 5 to 10 mn face value) which are put to the market fairly frequently. 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.

"There are a number of activities and a number of assets on the balance sheet which are likely to generate continuing losses and which need to be separated from the healthy bank. In that sense it is a good bank, bad bank split. Accepting that and facing up to the reality would be the right way forward."

Sir Mervyn Allister King – Governor, Bank of England
(House of Lords, March 6, 2013, related to Royal Bank of Scotland)

As a more sophisticated approach towards the management of non-performing loans several banks started considering the separation of their good/core and bad/non-core portfolios. 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 such strategies:

- Ring fencing of the bad non-core 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.

	Pros	Cons	Examples
In-house Distressed Asset Vehicle: establishment of a RE vehicle within group to repossess RE assets	• Simplest to adopt • Flexibility on internal operating model • Management model most similar to normal banking operations • Less uncertainties for staff and less HR disturbance	• Market discipline reduced • More difficult to enforce proactive and rigorous approach	• UniCredit • AIB • Lloyds
In-house Non-Core Unit / Bad Bank	• Easier to provide with distinct, independent leadership and operating model • Easier to include assets from across Bank Group's operations • Less uncertainties for staff and less HR disturbance	• Rearrangement of accounting and external reporting • No legal separation at outset may limit exit possibilities in future • Requires adoption of project management techniques	• Citibank • RBS • HSH Nordbank
Full legal separation: Non-Core Bank / Bad Bank	• "Hard" market message • Enhances ability of "good" bank to focus on the future with no distractions • Increases attractiveness of the "good bank" for the exit • Might result in short term capital release	• Most complex: full legal and operating separation and detailed project focus required at outset • More difficult to combine assets and/or businesses from different originating units/ jurisdictions • Potential motivation issue needs to be addressed by proper incentivization system	• Nordbanken • Swedbank • Northern Rock • West LB • Hypo Real Estate

The separation of good/core and bad/non-core portfolios is a complex exercise, requiring the heavy involvement of the management. Some of the key considerations during such separation are the following:

- Portfolio selection: Depending on the selected portfolio (bad/non-performing or non-core assets) the accounting, tax and legal implications might be different. In case of core/non-core separation, asset and liability products also need to be treated differently.
- Legal method of separation: There are various legal solutions to separate good/bad, core/non-core assets (internal separation, portfolio outsourcing, portfolio assignment, transfer of business units, de-merger of business units) implying different consolidation, capital and operational consequences.
- Accounting / funding: Different separation solutions might have different consolidation / deconsolidation and capital implications (there are solutions potentially resulting in capital release).
- Tax: Certain methods of portfolio transfer might imply VAT/CIT issues. Stamp duty issues might arise in case of transferring RE backed portfolios. Certain solutions might require the revaluation of the portfolio, which might have immediate provisioning implications. Transfer pricing implications of funding non-performing or non-core portfolios should also be carefully investigated.
- Operations: In case of legal separation, operational interlinks are in the focus of the regulators in relation to consolidation / deconsolidation. The key challenges to be dealt with are interlinks and data protections. In case the separated portfolio is transferred, data migration needs to be carefully planned and implemented.
- HR: Clear and timely communication to employees is critical in retaining them throughout the transition period. Incentive scheme needs to be aligned with the run-down strategy in order to avoid value deterioration.
- Timing and communication: The time needed to complete the transaction largely depends on the method of transfer. In case the method is subject to regulatory approval, the process is more time-consuming. A comprehensive and coherent communication strategy is key to ensure both internal) and external support.

Poland

Evolution of key metrics since the last issue of the study:

Macro	2011	2012	Change (% point)
GDP (% real change pa)	4.3%	2.0%	-2.3% !
Consumer prices (% change pa; avg)	4.2%	3.7%	-0.5%
Recorded unemployment (%)	12.4%	12.8%	0.4%
Budget balance (% of GDP)	-1.7%	-3.7%	-2.1% !
Public debt (% of GDP)	53.4%	53.8%	0.4%

Banking sector	2011	2012	Change (%)
Retail loans (PLN mn)	530,209	531,397	0.2%
Corporate loans (PLN mn)	264,293	272,105	3.0%
NPL volumes	**2011**	**Q3 2012**	**Change (%)**
Retail NPLs (PLN mn)	38,448	39,843	3.6%
Corporate NPLs (PLN mn)	27,261	31,122	14.2% !
NPL ratios	**2011**	**Q3 2012**	**Change (% point)**
Retail NPL ratio	7.3%	7.5%	0.3%
Corporate NPL ratio	10.3%	11.3%	1.0%
Key ratios	**2011**	**Q3 2012**	**Change (% point)**
CAR (%)	13.1%	14.1%	1.0%
ROE (%)	16.1%	14.5%	-1.6%
ROA (%)	1.3%	1.2%	-0.1%
L/D (%)	116.1%	113.7%	-2.4%
FX share of lending (%)	34.4%	32.1%	-2.3%

In alignment with all other countries of the study, Poland also saw deteriorating figures in 2012. Real GDP growth was halved in 2012 from 4.3% to 2.0% contributing to a 2.1% points thrive in the budget deficit which is now above the stipulated 3%, however, reined demand entailed a moderate 0.5% point decrease in inflation. Unemployment and public debt climbed slightly.

Retail lending was frozen while corporate lending could also post only an anaemic gain.

Retail NPL volumes increased by 3.6%, while corporate NPL outstanding surged by 14.2%.

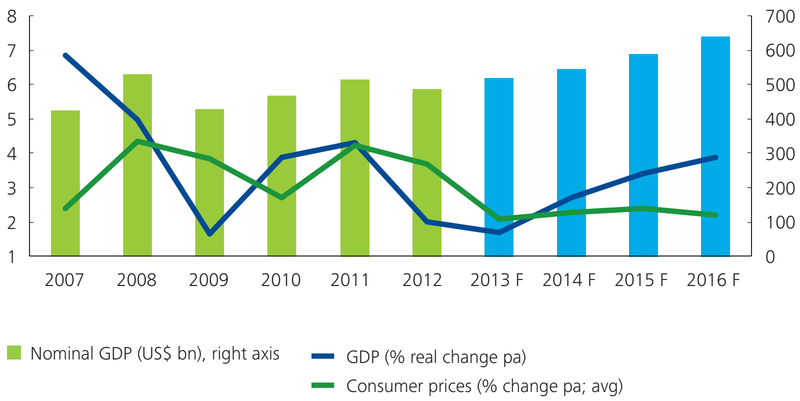
Corporate NPL ratio was already higher and grew further by a percentage point, while the lower retail NPL ratio hardly budged.

CAR augmented by a percentage point to 14.1% and L/D decreased moderately but it is still well above 100%. As per profitability, both ROE and ROA were curtailed, however, these are still the second highest values behind the Czech Republic amongst the nine countries of the study. FX share of lending dwindled by 2.3% points from a comparably low level of 34.4%.

Poland, the most solid economy in the CEE region is still growing, at a pared pace though.

The Polish economy grew by 2.0% in 2012, halving the pace of growth compared to 2011 (4.3%). The main reason for this is the considerably weaker domestic demand which was the main impetus for growth throughout the crisis but which, in all likelihood, will not be able to spur the economy in 2013 and so as it did before and consequently quasi the same growth rate of 1.7% is forecast for 2013. Net export is the major component that can significantly contribute to growth, however, the economic situation of Germany (buying around 27% of Polish exports) is paramount just like the health of the euro zone which slid into recession in 2012. Inflation (average 3.7% in 2012) was hardly above the target range of NBP (1.5%-3.5%) due to short term upward inflationary pressures such as high global commodity and fuel prices but forecast to stay well in the target range in the upcoming years.

GDP and consumer prices



Source: EIU

After an exemplary budget deficit of 1.7% in 2011, 2012 saw a 2 percentage points higher 3.7% which is the highest in the past years and exceeds the Maastricht limit. Level of public debt was 53.8% in 2012 (53.4% in 2011) which are all well below the Maastricht criterion. As for public debt, 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. Current-account deficit was 3.5% in 2012 and is forecast to remain around this level in the following years.

In alignment with all emerging currencies PLN weakened precipitously in the crisis but strengthened back to much calmer levels after the global turmoil. Q4 2011 and May 2012 saw higher rates again but aside from these temporary turbulences PLN was pretty stable. CDS spread of Poland plunged to end-2012 to around 80 bps which is close to pre-crisis levels and far below highest mid-crisis values of 400 bps.

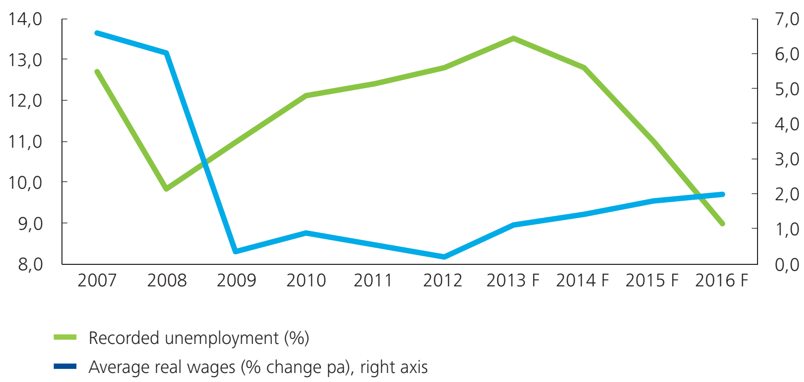
Unemployment rate is still one of the major sources of concern since it has been on the rise for long arriving to 12.8% in 2012 and is forecast to creep further in 2013, however, EIU forecasts a significant improvement from 2014 to 2016. Average real wages could hardly budge (0.2% growth) in 2012 but are forecast to be able to climb gradually, even if really moderately, in the following years.

Concentration is not a real issue in the Polish banking sector as top 10 banks possessed 57% of total assets in 2011. Notwithstanding, PKO and Pekao, the two leading players stood for almost a quarter of total assets and the proportion is even higher if equity and profits are observed.

Overall lending is still increasing in Poland but the pace has been trimmed back significantly. After the relatively subdued 5.8% y/y growth of 2009, lending could gain by 10.9% and 14.6% in 2010 and 2011 respectively, however, Q3 2012 loans outstanding was only 1.6% higher than the end-2011 values.

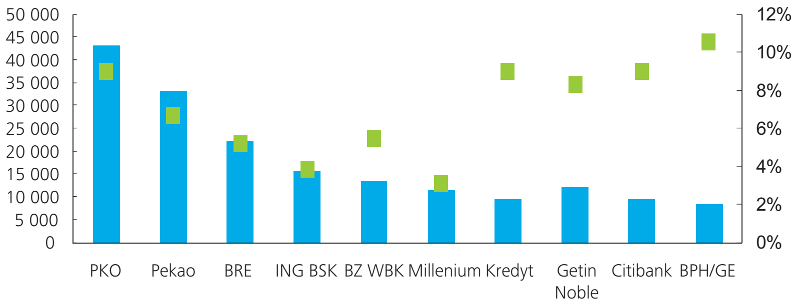
Another crucial change can be observed in the distribution of new loans taken by companies and households, since while retail lending grew much more dynamically in 2009-2010, in 2011 and 2012 corporate lending took the baton as the main impetus for lending growth.

Unemployment and real wages



Source: EIU

Polish banks, 2011



Source: Banks' data disclosure

Lending volume and growth

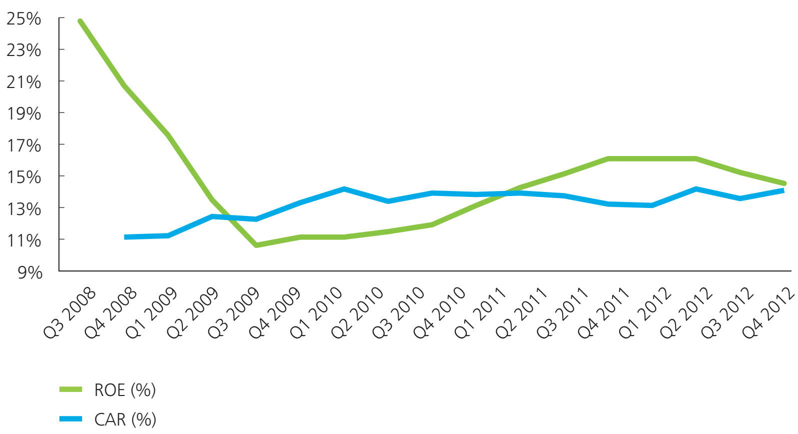
Source: NBP

Banking sector of Poland has been well capitalized for long with no considerable volatility, as the CAR of the banking sector was 13.1% as of Q4 2011 and 14.1% as of Q3 2012. ROE numbers, however, are even more astounding, as achieving 16.1% as of Q4 2011 and 14.5% as of Q3 2012 in these troublesome times is simply stellar compared to peer countries. Out of the nine countries comprised in our study only the Czech Republic can be proud of higher ROE values, 18.3% as of Q4 2011 and an astonishing 22.2% as of Q2 2012. Overall profit of the banking sector was a record high EUR 3.6 bn in 2011 and Q1-Q3 2012 profit was EUR 2.9 bn.

Provision coverage ratio of NPLs stood around 70% in 2010 and 2011 which reflects a prudent attitude in comparison e.g. with Hungary or the Czech Republic where the corresponding ratios were 45% and 49.4% in 2011.

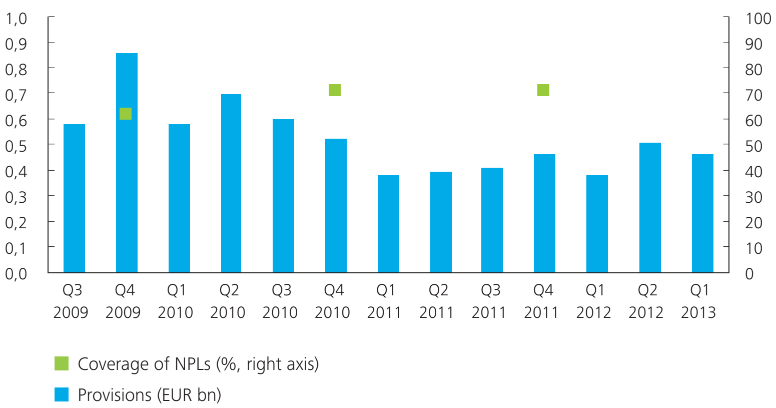
FX share of lending has not been disconcertingly high or growing dynamically in Poland since it was 25% in 2007 and 32.1% as of Q2 2012. Decomposing the overall loan portfolio of the banking sector it is visible that FX share of lending has been significantly higher in the retail segment than in the corporate segment, fuelled by CHF denominated mortgage lending. Indeed, as the chart depicts there were periods when CHF lending was prevalent but was later subdued by PLN lending and also some EUR lending, which has also been on the wane recently. It also has to be mentioned that there are much less risks inherent in EUR lending compared to CHF lending in Poland since Polish economic performance correlates much severely with that of the Eurozone than that of Switzerland.

ROE and CAR



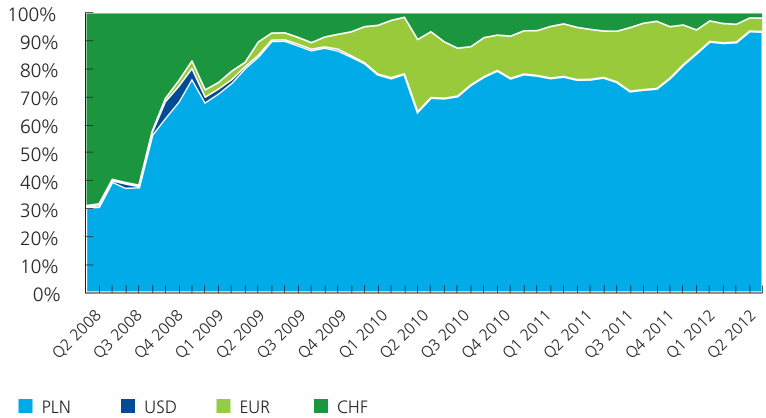
Source: NBP

Provisioning and NPL coverage



Source: NBP

Currency structure of new housing loans to households



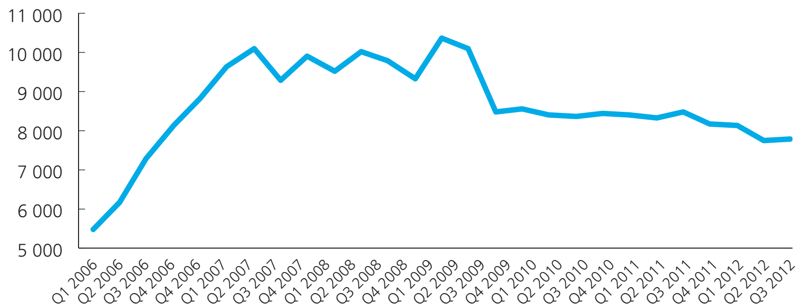
Source: NBP

Residential property prices catapulted in 2006 by increasing over 50%, were dithering around 10 000 PLN per square meter during 2007-2009 and only the end of 2009 could bring a significant decrease of around 15%. Since then prices have been trending further downwards even if at a moderate pace. Pursuant to a recent simulation of NBP even a relatively strong further decline (10% which can be deemed a strong price fall in the Polish market) in residential property prices would not result in a significantly increased vulnerability of banks via the unfavourable revaluation of collateral base of the housing loan portfolio. The government`s "First family home" programme was phased out by end-2012, hence a factor which provided a support for housing prices was eliminated. One compensating factor could be the "Home for the young" programme which is scheduled for mid-2013 the latest.

Overall NPL volumes picked up significantly in 2009, gaining 85% within a year. 2010 and 2011 saw subsiding increases of 21% and 7.5% respectively, while they seem to perk up again as Q1-Q3 2012 brought an 8% increase which could have finally resulted in a rise over 10% for entire 2012. Overall NPL volume growth was driven by retail NPLs in 2010-2011 but corporate NPLs seem to have taken the baton since they thrived by 14% in Q1-Q3 2012 while retail NPLs grew by only 4% throughout the same period. For comparison, retail NPLs increased by 37% and 13% in 2010 and 2011, respectively, whereas the corresponding data for corporate NPLs was 6% and 1%. In summary, Polish banking sector was afflicted by an overall NPL volume of around EUR 17.3 bn (PLN 71 bn) as of September 2012 out of which EUR 9.8 bn (57% proportion) was retail and EUR 7.5 bn (43% proportion) was corporate.

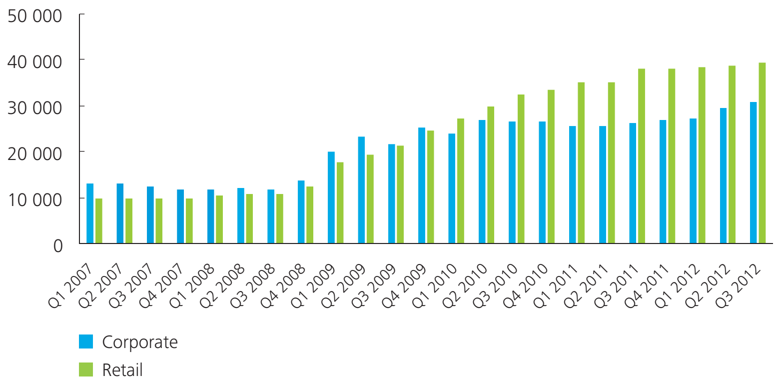
Corporate NPL ratio melted 2% points from 12.3% to 10.3% between Q2 2010 and Q4 2011 but regained 1% point to arrive at 11.3% at Q3 2012 which chimes together with the statement above that corporate lending has been the main impetus for recent NPL volume growth. Pursuant to NBP analyses, corporate portfolio deterioration was mainly attributable to large companies, especially in the construction industry. Retail NPL ratio is considerably lower with no measurable volatility, as it was in the 7.2%-7.5% range between Q3 2010 and Q3 2012.

Residential property prices



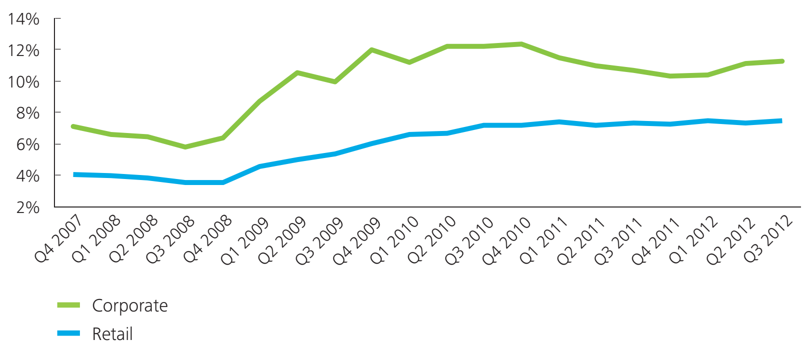
Source: BIS

NPL volume (PLNths)



Source: NBP

NPL ratios

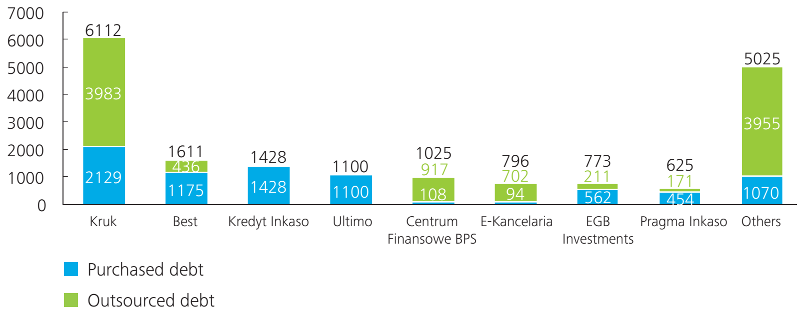


Source: NBP

Poland has a buoyant NPL market with four active players in debt purchase in 2011, Kruk, Best, Kredyt Inkaso and Ultimo. The market leader is Kruk both in terms of purchased debt and outsourced debt. The debt collection market is dominated by the aforementioned top four players since in 2011 they possessed 72% in the debt purchase submarket (Kruk stood for 26% itself) and 43% in the outsourced debt submarket (Kruk accounted for 38%). Stemming from this vivid debt collection market, NPLs of banks are actively managed via recurring sales of non-performing exposures.

Albeit NPL volumes are the highest in Poland amid the nine countries of the study (induced, of course, by size matters as well), they have been actively managed by the vivid NPL secondary market bolstered by the solid macroeconomic performance. Notwithstanding, recent slower economic growth, widening budget deficit and increasing unemployment provide a tailwind for deterioration in household budgets which may lead to frictions in disposable incomes and hence lower than assumed repayments.

Polish debt collection market 2011 (nominal value, PLNm)



Source: Kruk

Czech Republic

Evolution of key metrics since the last issue of the study:

Macro	2011	2012	Change (% point)
GDP (% real change pa)	1.7%	-1.2%	-2.9% ● !
Consumer prices (% change pa; avg)	3.9%	3.6%	-0.3% ●
Recorded unemployment (%)	13.2%	12.8%	-0.4% ●
Budget balance (% of GDP)	-3.1%	-5.0%	-1.9% ● !
Public debt (% of GDP)	41.2%	44.9%	3.7% ●

Banking sector	2011	2012	Change (%)
Retail loans (CZK mn)	1,008,965	1,044,983	3.6% ●
Corporate loans (CZK mn)	828,055	844,376	2.0% ●
NPL volumes	**2011**	**Q3 2012**	**Change (%)**
Retail NPLs (CZK mn)	54,291	58,569	7.9% ● !
Corporate NPLs (CZK mn)	67,876	62,713	-7.6% ● !
NPL ratios	**2011**	**Q3 2012**	**Change (% point)**
Retail NPL ratio	5.4%	5.7%	0.3% ●
Corporate NPL ratio	8.2%	7.4%	-0.8% ●
Key ratios	**2011**	**Q3 2012**	**Change (% point)**
CAR (%)	15.0%	15.7%	0.7% ●
ROE (%)	18.3%	20.9%	2.6% ●
ROA (%)	1.2%	1.4%	0.2% ●
L/D (%)	79.1%	75.5%	-3.6% ●
FX share of lending (%)	22.2%	22.1%	-0.1% ●

Czech macro data were not reassuring but the banking sector performed relatively well in 2012.

The Czech Republic slid back into a double-dip recession by shedding 2.9% points of real GDP growth which contributed to the 1.9% point widening of the budget deficit and consequently a 3.7% points augmentation in public debt. Consumer prices and unemployment gravitated at a moderate pace.

Retail and corporate loans could perform a nominal increase, however, both shrank in real terms.

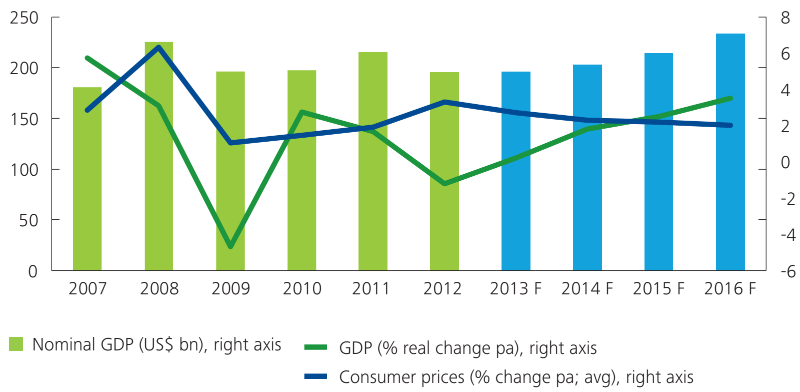
Retail and corporate NPL stocks showed inverse movements, as retail NPLs thrived by 7.9%, corporate NPLs contracted by 7.6%. Chiming together with NPL volume trends, retail NPL ratio increased, while that of corporate was on the wane.

As per key ratios of the banking sector, all indicators shifted to a positive direction, even if slightly in some cases. The already robust CAR of 15% further solidified by 0.9% point, profitability ratios also improved from already reassuring bases, ROE surpassed the stellar 20% level reinforcing the Czech banking sector as the most profitable one out of the nine.

There has been significant differences between GDP components of the Czech Republic since the crisis, as export have propelled growth while domestic demand has been dampened. The Czech economy is particularly export oriented, having one of the highest export/GDP ratio (above 75%) in the EU and hence being exposed to economic shocks in core export markets such as Germany and other Eurozone countries, but also Asia, especially China. Domestic demand was subdued by depressed household consumption, fiscal tightening and falling fixed investments.

Due to the aforementioned unfavourable circumstances GDP shrank by 1.2% in 2012 after growing by 1.7% in 2011. The near future does not appear to be better either since further fiscal stabilisation measures such as indirect tax increases and public sector wage cuts are expected to curb domestic demand and the prospects of export are also gloomy with the continuing recession of the Eurozone and the weakened performance of Germany, the Czech Republic`s main export country, buying around 30% of Czech export. Consequently, only an anaemic 0.2% growth is forecast for 2013 and a bit more solid 1.8% gain in 2014. Albeit VAT increases restrained the budget deficit, they exerted an upward inflationary pressure which resulted in the inflation going marginally beyond the target band of 1-3% to 3.1%, in which it was moving for three consecutive years from 2009 to 2011. Nonetheless, it is forecast to be muted again gradually in the following years, going back to the target range with values of 2.7% and 2.3% in 2013 and 2014, respectively.

GDP and consumer prices



Source: EIU

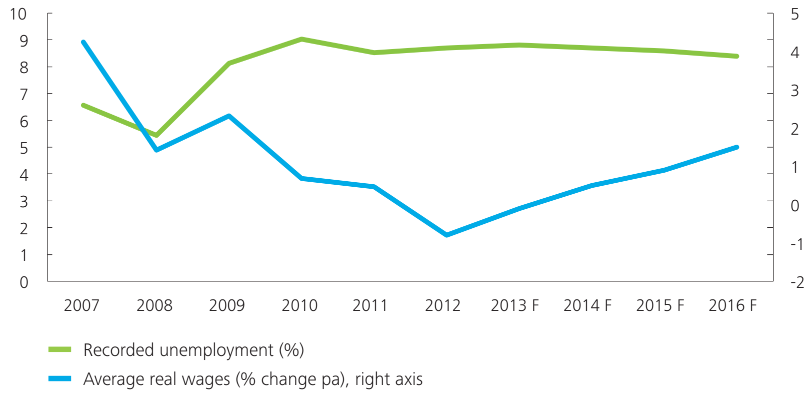
The budget deficit amounted to 4.8% of GDP in 2010, was reduced to 3.1% in 2011 but swelled again to 5% in 2012 owing to the unsatisfactory fiscal consolidation of the government, formerly planned mainly on the revenue side via –inter alia- VAT increases. However, additional VAT rises are imposed from 2013, furthermore the government approved amendments to encourage fiscal prudence. As a result, the deficit is forecast to decrease under the stipulated 3% and achieve 2.7% by 2014. Public debt was 45% in 2012 and projected to stay around these levels in the following years causing scarce financing problems for the Czech Republic. The current-account showed a slight deficit of 1.6% in 2012 and forecast to flatten out at this extent in the forthcoming years.

The koruna weakened 25% against the euro in the turbulence of the crisis from EURCZK 23 to 29, but began to appreciate dynamically after it and has been stabilised in the EURCZK 24-26 range since the beginning of 2010. CDS premium of the Czech Republic catapulted from pre-crisis 50 bps to 350 bps in most depressed days of the crisis, but assuaged back then and has been dithering around 100bps except for a temporary surge to 200 bps in 2011 year end.

As per EIU data, unemployment rate has been between 8-9% since 2009 and forecast to hardly budge and stay at the 8.6% level of 2012 in the following years likewise. Keeping unemployment in the aforementioned range in such tumultuous times can be recorded as an achievement, since unemployment rates of all other analysed CEE countries of our study have been above the Czech values, except for Romania.

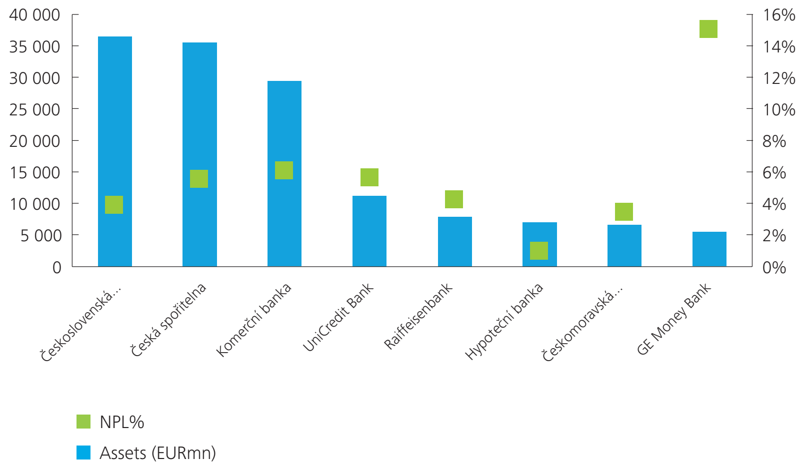
Banking sector of the Czech Republic is stable, shored up by reassuring macroeconomics. The sector is overwhelmed by foreign owners as around 97% of banking assets are controlled by foreign entities. The top 3 players dominate the market since they possess 57% of assets. Their major shareholders are KBC, Erste Group and Société Générale. One specialty of the Czech banking system is the traditionally low LTD ratio. Among the nine analysed counties of our study only the Czech Republic and Slovakia had LTD ratios below 100% as of June 2012, 75% and 89%, respectively. These characteristics make Czech and Slovak subsidiaries very precious for their mother banks, particularly in times of liquidity frictions. For instance, the Czech National Bank aroused concerns during the crisis if domestic resources would be transferred to finance parent groups.

Unemployment and real wages



Source: EIU

Czech banks, 2011



Source: Banks' data disclosure

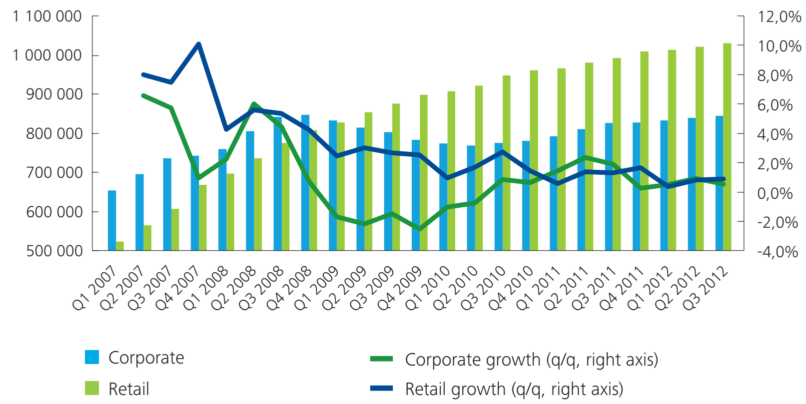
The volume of corporate loans peaked in Q4 2008 with an amount of CZK 847 mn, then decreased by almost CZK 80 mn to Q2 2010 but has been thriving for nine consecutive quarters with an average quarterly growth of 1% to arrive to CZK 844 mn in Q3 2012, basically back to the Q2 2008 peak, hence it took 15 quarters to climb back and bombard pre-crisis volume levels again.

Retail lending shows a smoother pattern with practically no volatility. Although growth rates have been pared, no quarter has shown negative growth so far, however, Q1-Q3 2012 performed only a tepid 0.7% average quarterly growth which could be an early warning of disappearing impetus for future gain. Growth is still driven by mortgage loans, as due to favourable lending conditions both new loans and refinanced mortgage loans spur growth. Mortgage loans accounted for 77% of retail loans in Q3 2012, while consumer credit stood for 19% and the remaining 4% was for other loans, which distribution has been consistent for a longer period. In Q4 2011 total outstanding of retail loans surpassed CZK 1000 mn and stood at CZK 1030 mn in Q3 2012.

The profitability of the Czech banking sector has been rock solid for long and weathered even the crisis without disconcerting decrease, staying above 20% in most turbulent periods as well. Although Q2-Q4 2011 had seen ROE under 20% for three quarters in a row, it could pick up again to 22.2% in Q2 2012 and stayed above 20% in Q3 2012 as well. Having said the above, it is not surprising that the Czech Republic has the highest ROE amongst the nine countries in our study. CAR of the Czech banking sector has been above a reassuring 15% since Q3 2010, and stood at 15.7% as of Q3 2012, which was the second highest value behind Croatia (20.2%) among the nine countries of the study.

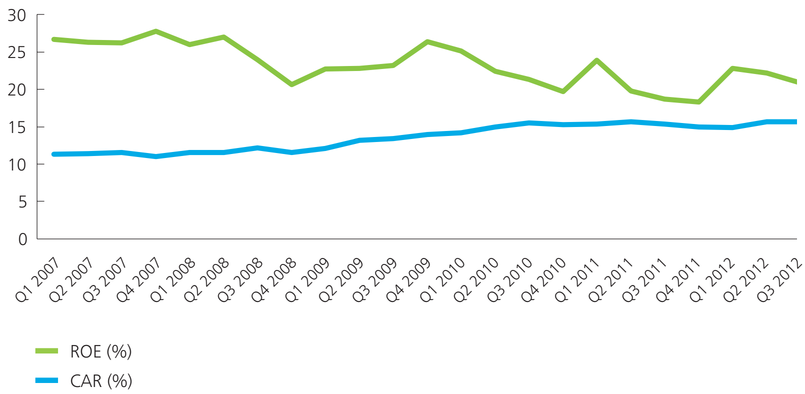
Property prices decreased remarkably due to the crisis, however, Q1 2010 could provide a support against further fall at 135% and prices have been faltering around these levels since then. Owing to former prudent lending attitude of banks, average LTV ratio of housing mortgages was 56.7% as of March 2012, which is a good figure and implies that the value of the underlying collateral is sufficient to secure the claims of banks.

Lending (CZK mn)



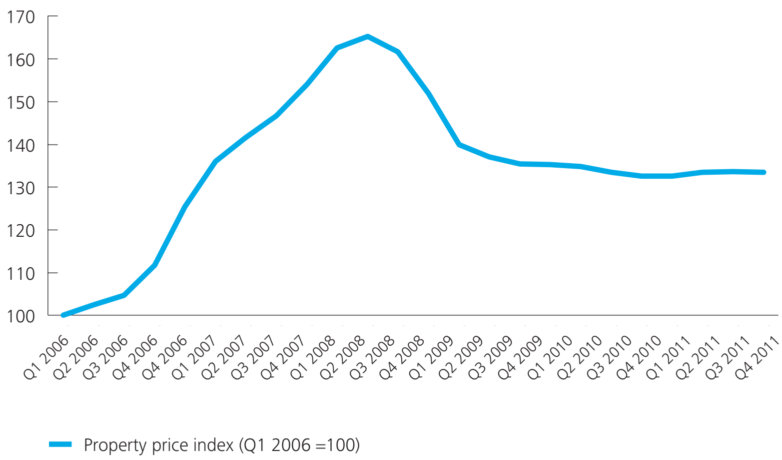
Source: NBS

ROE and CAR



Source: IMF

Property prices

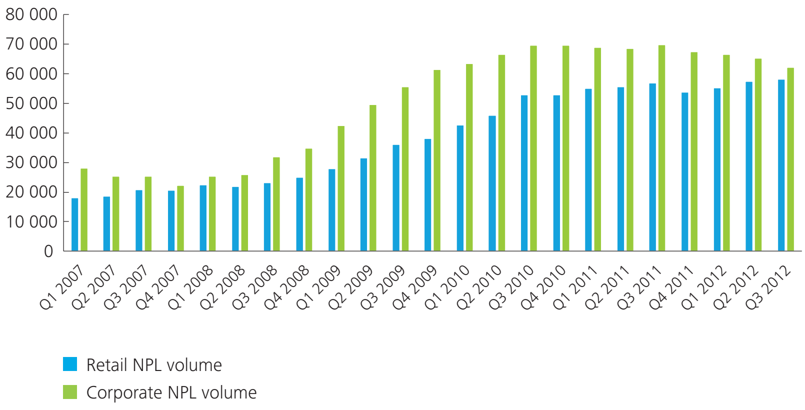


Source: CNB

Both corporate and retail NPL volumes thrived dynamically during 2008-2010, especially in 2009, when overall NPL volume grew by 65%, composed of a 51% retail and a 75% corporate NPL volume increase, respectively. During the Q1 2011-Q3 2012 period overall NPL volume could not climb further as growth in retail NPLs was offset by the shrinkage in corporate NPLs, in combination with write-offs of default loans. As of Q3 2012, total NPL volume was CZK 121 mn with almost an equal distribution between corporate (CZK 63 mn) and retail (CZK 58 mn) NPLs.

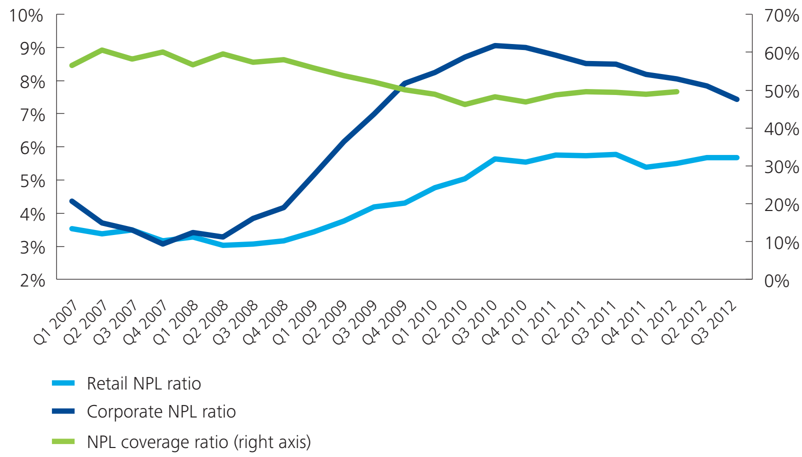
The crisis severed corporate and retail NPL ratio, as corporate NPL ratio shifted gears and skyrocketed from mid-2008, while retail NPL ratio was also increasing steadily, however, at a slower pace. Corporate NPL ratio had almost tripled when arrived to its peak of 9.1% in Q3 2010 and has been melting down since then, standing at 7.4% as of Q3 2012. Albeit retail NPL ratio was rising more moderately than corporate NPL ratio, it seems not be able to decrease for long, dithering around 5.6-5.7% since Q3 2010. NPL coverage ratio has been around 50% which can be deemed as a lower ratio in comparison with parsed peer countries of our study.

NPL volume (CZK mn)



Source: CNB

NPL ratios and NPL coverage



Source: CNB

Slovakia

Evolution of key metrics since the last issue of the study:

Macro	2011	2012	Change (% point)
GDP (% real change pa)	3.3%	2.2%	-1.1%
Consumer prices (% change pa; avg)	3.9%	3.6%	-0.3%
Recorded unemployment (%)	13.2%	12.8%	-0.4%
Budget balance (% of GDP)	-4.8%	-4.7%	0.1%
Public debt (% of GDP)	43.3%	48.4%	5.1% !

Banking sector	2011	2012	Change (%)
Retail loans (EUR mn)	17,249	18,757	8.7%
Corporate loans (EUR mn)	15,535	15,235	-1.9%
NPL volumes	**2011**	**Q3 2012**	**Change (%)**
Retail NPLs (EUR mn)	819	815	-0.5%
Corporate NPLs (EUR mn)	1,253	1,065	-15.0% !
NPL ratios	**2011**	**Q3 2012**	**Change (% point)**
Retail NPL ratio	4.7%	4.4%	-0.3%
Corporate NPL ratio	8.1%	6.9%	-1.1%
Key ratios	**2011**	**Q3 2012**	**Change (% point)**
CAR (%)	13.4%	15.8%	2.4% !
ROE (%)	6.9%	11.2%	4.3% !
ROA (%)	0.7%	1.2%	0.5% !
L/D (%)	90.6%	90.9%	0.3%
FX share of lending (%)	1.6%	1.7%	0.1%

Although real GDP growth recoiled by a third, some heartening data were also marked in 2012 in Slovakia.

Beyond the 1.1% point shrinkage in real GDP growth, another disappointing data is the 5.1% points increase in public debt buoyed by the 4.7% budget deficit in 2012. Consumer prices and unemployment somewhat subsided.

Retail loans could thrive by 8.7% while corporate loans contracted at a moderate pace.

Retail NPL volumes remained quasi the same whereas corporate NPLs plunged by 15% abating strains in banks` balance sheets. Further portfolio quality deterioration seems to have been arrested as both retail and corporate NPL ratios decreased.

CAR gained by 2.4% points to almost 16% while both ROE and ROA improved markedly arriving to the 3rd place amid analysed countries.

L/D remained practically the same around 90%, whereas FX share of lending is not an issue having euro as the national currency.

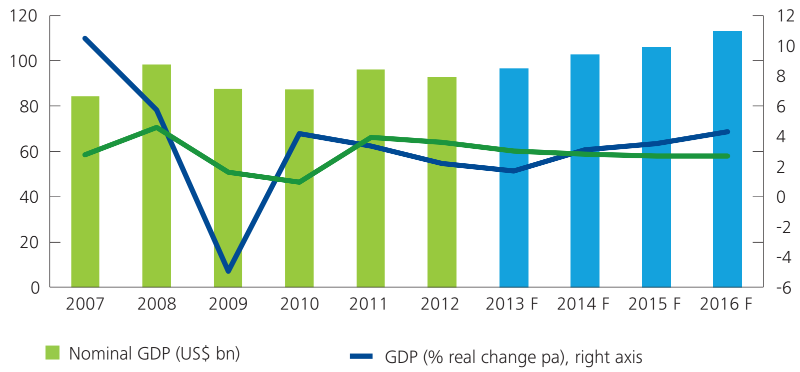
Having an economic growth model based on the expansion of the export through FDI, Slovakia is especially dependent on external demand of durable good and hence highly exposed and vulnerable to external shocks. Main trading partners of Slovakia are Germany and the Czech Republic whose economic performance is vital in light of the aforementioned. Germany has evaded recession so far but shows signs of weakening, whereas the Czech Republic slid into a 1.2% recession in 2012.

GDP growth decelerated to 2.2% in 2012 from 3.2% in 2011 due to weakening external demand from the Eurozone and dented domestic demand due to the government`s drive for fiscal consolidation. As woes concerning the Eurozone are feared to remain and dampened domestic demand is also expected to stay as a restraining factor of growth in the short run, the same moderate growth of 1.7% is forecast for 2013 and only a tepid acceleration of a 3.1% gain is projected for 2014. Inflation was 3.6% in 2012 fuelled mainly by food price inflation but forecast to assuage timidly to 3.1% by 2014.

The crisis blew a massive hole on the state budget as deficit was 2% in 2008 and elevated to around 8% in 2009-2010. It was abated to 4.7% by 2012 and forecast to subside further to 3% in 2013-2014 but much depends on the implementation of supplementary austerity measures aimed at cost-cutting in 2013. Stemming from the aforementioned, Slovakia is undergoing an excessive deficit procedure under EU rules. Public debt lags deeply behind EU average of 83% with its value of 48.4% as of 2012 and forecast to remain at these levels in the following years as well. Current-account balance was quasi zero in 2011, but a 2% surplus was marked in 2012 which is projected to dwindle back to 0.8% by 2014.

Being the member of the Eurozone, Slovakia is not exposed to external shocks on its local currency like almost all other CEE countries in our study and hence foregoes several problem factors which afflict numerous CEE countries with an own national currency. On the other hand, Slovakia has a restrained room for monetary policy manoeuvres and thus a limited ability to respond to external impacts. CDS premium of Slovakia peaked above 300 bps in late 2011 (higher than in the midst of the crisis in 2009) but has fallen to around 100 bps recently.

GDP and consumer prices



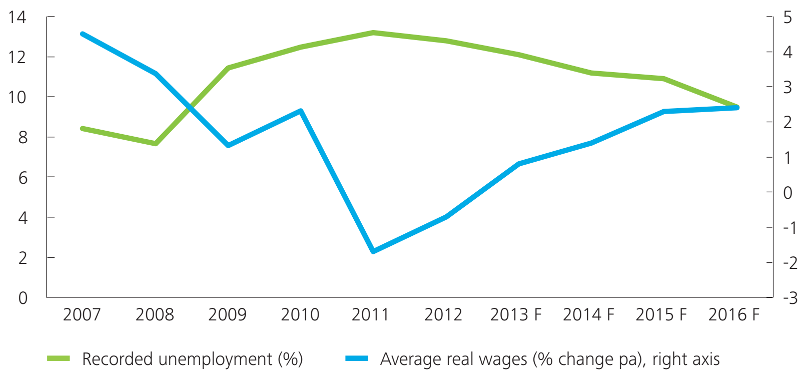
Source: EIU, Slovak Statistical Office

Unemployment soared form 7.7% in 2008 to 13.2% in 2011, posing a massive threat to the Slovak economy. 2012 brought a meagre meltdown to 12.8% and a further gradual, even if moderate, decrease is projected for 2013-14 arriving to 11.2% in 2014. Average real wages decreased again in 2012 (by 0.7%) after the 1.7% shrinkage of 2011, nonetheless, a lacklustre recovery is forecast for the following years.

Banking sector of Slovakia is dominated by the top 3 players who possess over 55% of total assets while in case of the top 5 the ratio is 74%. There is no state-owned bank amongst the top 5 but sizeable banking groups stand behind the top 5 as follows in order: Erste Group, Intesa Sanpaolo, Raiffeisen, KBC and UniCredit.

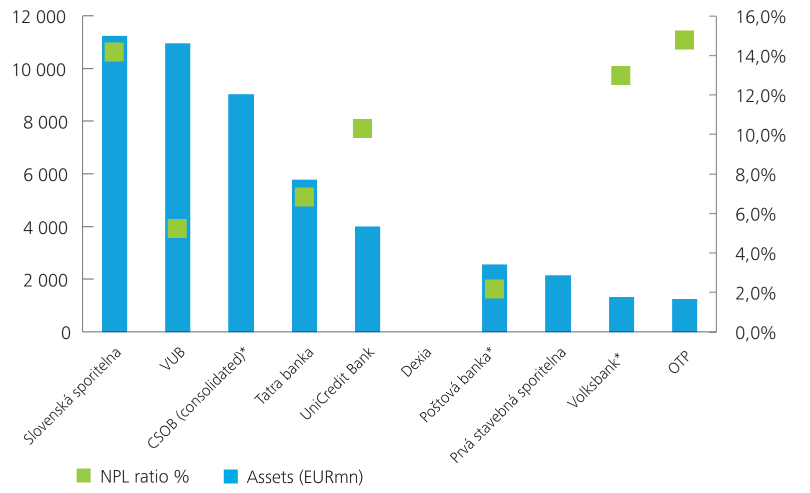
After a significant overall lending growth of 19% in 2008, the crisis hit Slovakia in 2009 and trimmed back lending dynamics. Average yearly lending growth was a bit above 5% throughout 2009-2011, spurred solely by retail lending (average yearly growth of 11%) as corporate lending came to a standstill and could not grow in the observed period. During Q1-Q3 2012 lending thrived merely by 2.7% composed of a 6.2% gain in retail lending and a 1.2% decrease in corporate lending.

Unemployment and real wages



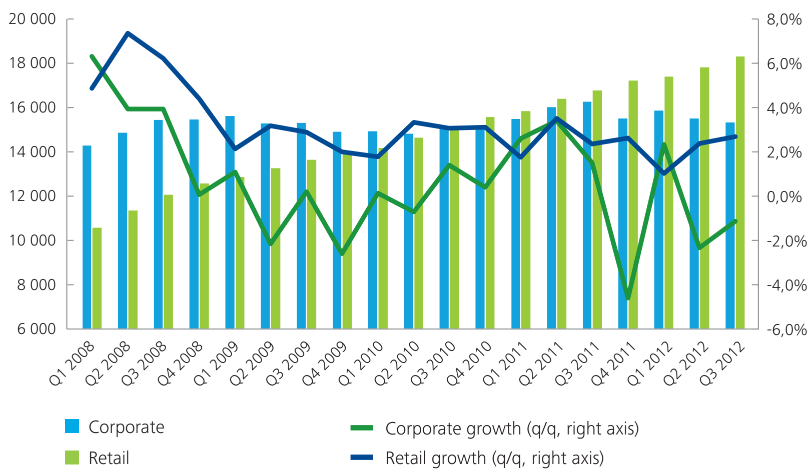
Source: EIU, Slovak Statistical Office

Slovakian banks 2011



Source: Banks' data disclosure

Lending (EUR mn)



Source: NBS

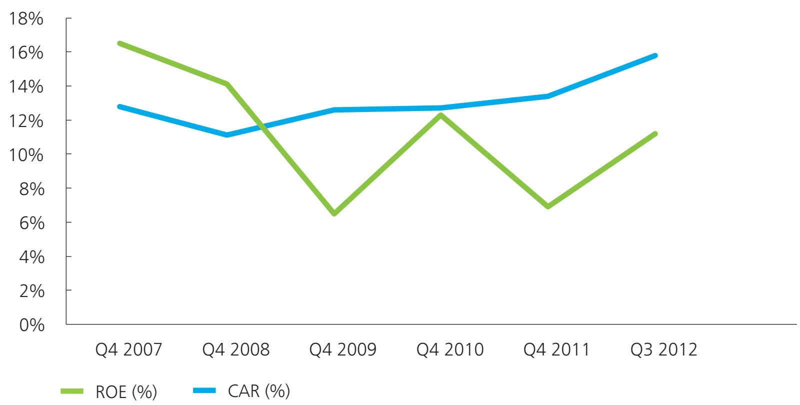
One clear message of the chart is that retail lending surpassed corporate lending in terms of volumes during the analysed period. At the beginning of 2008 the proportion of retail loans amounted to 43%, whereas in Q3 2012 this proportion was already 54%.

The Slovak banking sector is soundly capitalised with a CAR of 15.8% as of Q3 2012. Capital adequacy has been on the rise for long owing to –inter alia – retained profits (46% of 2011 profits were retained) and NBS` prudent corresponding recommendations. ROE data highlight that the banking sector still performs relatively well, however, former high returns have been pared. The fluctuation of ROE can be explained by the variation of provisions and thus net profit. For instance, Q1-Q3 2011 provisions were altogether EUR 147 mn but Q4 2011 saw provisions to skyrocket to EUR 261 mn which is 78% more in the sole fourth quarter than in the first three quarters. Besides the extremity of Q4 2011, H1 2011 profit was EUR 431 mn while H1 2012 profit was EUR 275 mn, also implying a harsh fall of 36%.

Pursuant to LTV ratios, residential real estate prices peaked in Q2 2008 and started to decrease then buoyed by the downward pressure owing to the crisis, however, the slope of the downtrend has been getting lower, what is more, some tepid gain was recorded in Q3 2012.

Overall NPL volumes reached EUR 2 bn in Q3 2010, remained at this level till Q4 2011 and some slight meltdown could be observed in Q1-Q3 2012. Retail NPL volumes have been teetering around EUR 800 mn since Q1 2010 with no considerable volatility. Q2 2012 saw the lowest level (EUR 750 mn) since Q1 2010 and might have given a glimmer of hope for further retail NPL contraction, however, Q3 2012 data increased back to EUR 815 mn again. Corporate NPLs seems to have topped out in Q3 2011 (EUR 1,25 bn) and have been trending downwards since then arriving to EUR 1.05 bn in Q3 2012.

ROE and CAR

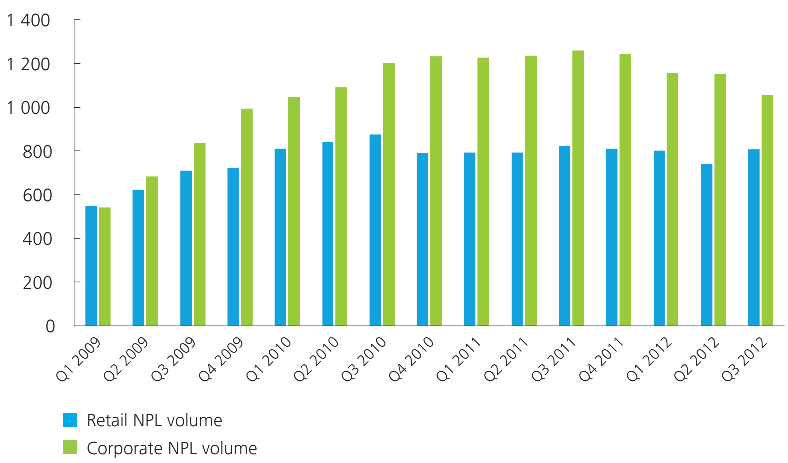


Source: NBS

Residential RE prices

Source: BIS

NPL volume (EUR mn)

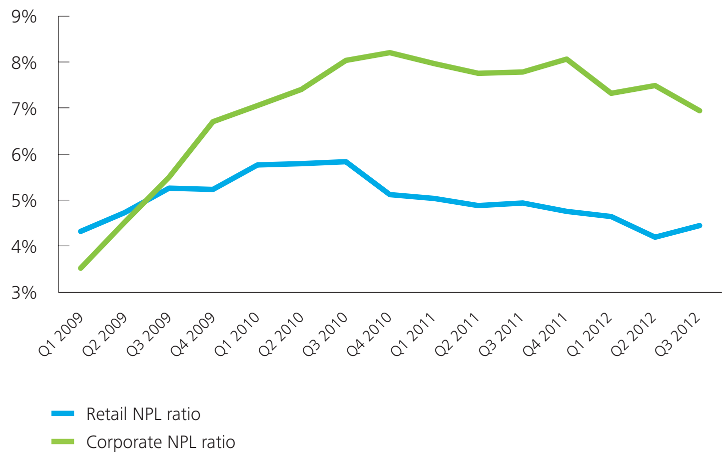


Source: CNB

Slovakia is in the fortunate situation, unlike most other CEE countries, that both retail and corporate NPL ratios are gravitating, even if only at a moderate pace. Retail NPL ratio hit its highest value of 5.8% in Q1-Q3 2010 and has been receding sedately since then to 4.4% in Q3 2012. Corporate NPL ratio culminated in Q4 2010 at 8.2% and has abated to 6.9% by Q3 2012, shedding a bit more than a percentage point throughout 7 quarters, so the pace has been staid in this case as well. As a result of the above retail and corporate NPL ratio movements, overall NPL ratio peaked at 6.9% in Q3 2010 and dwindled to 5.3% in Q2 2012.

Having said all of the above, NPL ratios of the Slovak banking sector are much lower than those of most other CEE countries (out of the 9 countries analysed in our study, only the Czech Republic has an even lower NPL ratio) since being member of the Eurozone and not having a vulnerable own currency shielded them from external shocks which afflicted most other CEE countries and consequently banking portfolios.

NPL ratios



Source: CNB

Hungary

Evolution of key metrics since the last issue of the study:

Macro	2011	2012	Change (% point)	
GDP (% real change pa)	1.6%	-1.7%	-3.3%	● !
Consumer prices (% change pa; avg)	3.9%	5.7%	1.8%	●
Recorded unemployment (%)	10.9%	10.9%	0.0%	
Budget balance (% of GDP)	4.2%	-2.8%	-7.0%	● !
Public debt (% of GDP)	80.8%	81.3%	0.5%	●

Banking sector	2011	2012	Change (%)	
Retail loans (HUF bn)	6,763	5,687	-15.9%	● !
Corporate loans (HUF bn)	5,786	5,157	-10.9%	● !
NPL volumes	**2011**	**Q3 2012**	**Change (%)**	
Retail NPLs (HUF bn)	886	909	2.6%	●
Corporate NPLs (HUF bn)	1,013	1,074	6.1%	●
NPL ratios	**2011**	**Q3 2012**	**Change (% point)**	
Retail NPL ratio	13.1%	15.8%	2.7%	● !
Corporate NPL ratio	17.5%	20.6%	3.1%	● !
Key ratios	**2011**	**Q3 2012**	**Change (% point)**	
CAR (%)	14.2%	15.0%	0.8%	●
ROE (%)	-4.0%	2.9%	6.9%	● !
ROA (%)	-0.4%	0.3%	0.7%	●
L/D (%)	132.7%	118.2%	-14.5%	● !
FX share of lending (%)	64.7%	59.4%	-5.3%	●

Trends in 2012 were ambivalent in Hungary with disconcerting and positive data likewise.

Hungary posted the largest real GDP growth fall amongst the nine countries in 2012 with a 3.3% point dip in tandem with Serbia. Consumer prices also perked up by 1.8% point while budget deficit fell by 7% points, however, it is attributable to a one-off item which generated a one-time surplus in 2011. Unemployment and public debt remained quasi unchanged.

Both retail and corporate loans contracted remarkably which is due to the early repayment scheme (in the retail segment) and banks` subdued propensity to lend.

NPL volumes went on rising, especially in the corporate segment, fuelling total NPLs to arrive around HUF 2,000 bn by Q3 2012. Retail and corporate NPL ratios also climbed higher, exceeding 15% and 20%, respectively.

CAR increased by 0.8% point to 15%, while profitability ratios turned positive with a 6.9% point improvement in ROE. L/D decreased markedly from the highest level out of the nine countries and FX share of lending also abated attenuating FX risks.

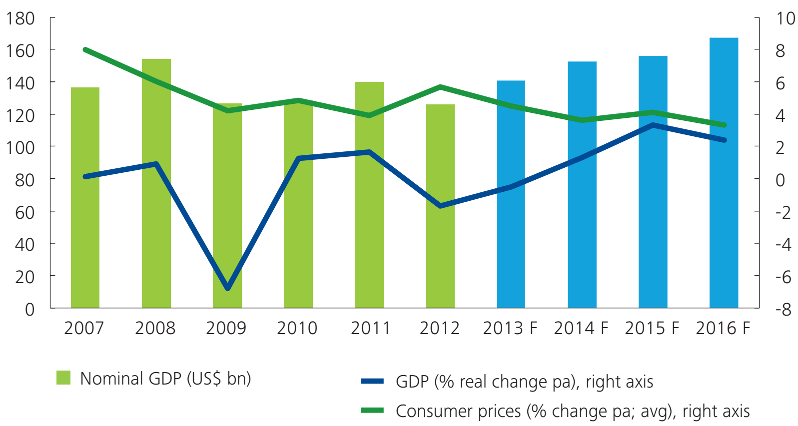
Being a small and open economy, Hungary is remarkably vulnerable to and dependant on prevailing global and European economic winds and investor confidence. In Germany, the country with which Hungary correlates the most economically, GDP could increase by 0.9% in 2012 and forecast to perform quasi the same timid growth of 0.8% in 2013 and a bit more solid gain of 1.6% in 2014.

Hungary was mired in recession in 2012 since three out of four components (except for net export) of the GDP contracted entailing a 1.7% GDP shrinkage. Recession is forecast to persist in 2013 as well by a 0.5% GDP decrease, however, a fragile 1.3% growth is forecast for 2014, while for the EU 27 a 0.0% and 1.2% growth is forecast for 2013 and 2014, respectively, which is also quite a frail growth trajectory. Private consumption was still anaemic (3.7% decline in 2012) due to wage freezes, tax increases, higher inflation and the early repayment all eroding disposable incomes. Nonetheless, the most disappointing is the component of gross fixed investments which plunged by 10.0% in 2012 and forecast to decrease by a further 6.0% in 2013 as the propensity of companies to invest is subdued.

The dismantling of the private pension system provided an enormous one-off increase in governmental revenues in 2011, allowing Hungary to achieve a surplus in the budget balance of 4.2% of GDP. The government introduced two further consolidation packages in October 2012 due to which budget deficit was just below the stipulated 3% of GDP in 2012 and is forecast not to exceed 3.5% in 2013 and 2014 either, regardless, fundamental problems are still significant since the tax-generating capacity of the economy is lacklustre. Public debt stood at 81% of GDP in 2012 and forecast to increase by an average 1% point in the forthcoming years. The current-account registered minor surpluses of 1.5% and 0.5% in 2011 and 2012 respectively, but forecasts claim that gradually thriving deficits are to come in the upcoming years reaching 3.5% by 2015.

Since the peaks in early January 2012 all Hungarian forint, CDS spread of Hungary and yields of Hungarian government bonds have been trending downwards easing pressures on FX loan indebted households (as of Q2 2012 FX share of lending was 59.4%, with mostly CHF denomination), the funding costs of the Hungarian government and hence the state budget. Nevertheless, the further one notch downgrade of S&P (from BB+ to BB) in late November 2012 exacerbated the situation as both HUF rate and CDS picked up. Moody`s was also mulling a downgrade due to the dimmed growth outlook of Hungary and the tattered policy credibility of the government.

GDP and consumer prices



Source: EIU

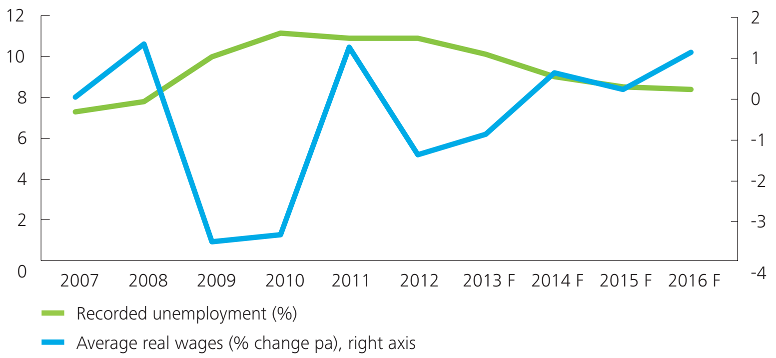
Four non-executive members were appointed to the (at that time) seven-person Monetary Policy Committee (MPC) in early 2011 by the government who were reinforced by the new governor Gyorgy Matolcsy and two more new MPC members in March 2013 who represent a dovish stance in monetary policy and consequently MPC has cut the reference interest rate by 25 percentage points in eight consecutive decisions from 7% to 5%. The promulgated goal is to spur growth via lower interest rates and enhance companies` willingness to take credit and invest. Due to VAT and consumption tax increases and the incessant benchmark rate cuts inflation thrived in 2012 by almost 2% points from 3.9% to 5.8%. Corporate defaults are at record high: according to Dun & Bradstreet the yearly default rate in Q3 2012 was 4.21% up from 3.54% in 2011 and 3.21% in 2010. Moreover, pursuant to D&B if the current trends carry on prevailing, the default rate can rise over 5% by mid-2013.

The repayment ability of households is negatively affected by the perseveringly slack labour market conditions. In line with poor economic performance, unemployment rate has been hovering around 11% in 2010-12 from the below 8% pre crisis level, nevertheless, it is forecast to dwindle to 9.0% in 2014. After the 1.2% increase in 2011, average real wages decreased again by 1.4% in 2012 and further contraction is forecast for 2013.

Eight banks dominate the Hungarian banking sector which stand for 68% of total assets and 69% of total equity.

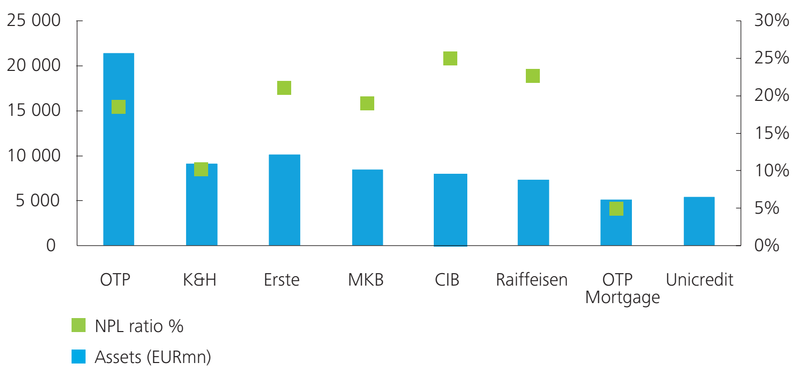
The environment in which banks in Hungary are operating is still challenging. The effects of the early repayment scheme introduced at end of September 2011 and open for five months until February 2012 -during which almost 170 thousand FX mortgage loans were repaid denting FX mortgage loans outstanding by a crucial 23%- entailed around EUR 1.3 bn overall losses for banks, notwithstanding 30% of these losses could be deducted from the bank levy hence real loss of banks exceeded EUR 0.9 bn eating harshly into profitability. Another negative implication of the early repayment is that banks lost their best retail mortgage customers together with a long term stable income stream.

Unemployment and real wages



Source: EIU

Hungarian banks, 2011



Source: Banks' data disclosure

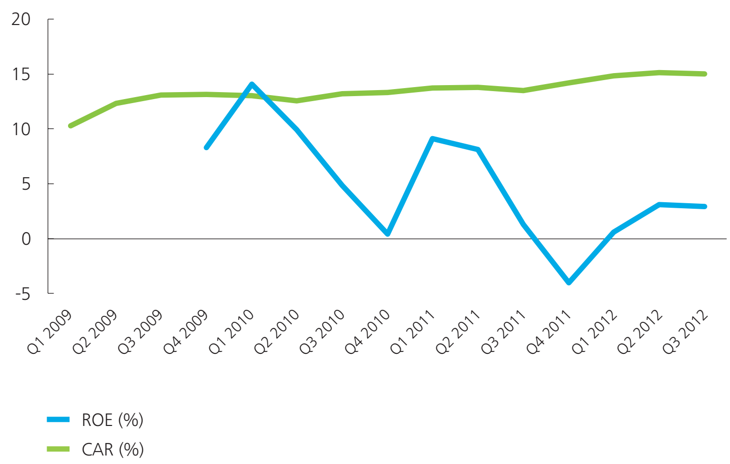
Moreover, formerly it was alleged that the bank levy would be halved from 2013, however, the government has announced that the full amount stays in 2013 and onwards. Another bane afflicting the banking sector is the new transaction tax coming into effect from 2013 which was eventually doubled compared to the initial announcements and which is imposed on cash transactions. As per the expected overall amount, EUR 0.8 bn is planned in the state budget from this tax in 2013. Since banks are not willing to incur further losses the burdens of the transaction tax might be (completely) shifted to clients.

Albeit capital adequacy of the banking sector was still solid at 15.0% as of Q3 2012, ROE has been trending downwards for years and despite the recent Q1-Q3 2012 pickup, year-end 2012 see disappointing data again.

The contraction in lending continued in both the corporate and household segments throughout 2012 H1. Both segments experienced persistently tight lending conditions and dented demand since both banks and loan takers are ring-fencing against the economic downturn and decrease risk tolerance. Due to the quasi frozen supply and demand corporate lending in Hungary is among the weakest in Europe. On the retail side the early repayment scheme exerted an extremely strong downward pressure on retail loans outstanding. Prospects for the future are also gloomy, as NBH forecasts corporate lending to fall by 5.3% in 2013 and to decrease further by 4.1% in 2014, while the corresponding data for retail lending is 3.4% and 2% for 2013 and 2014, respectively.

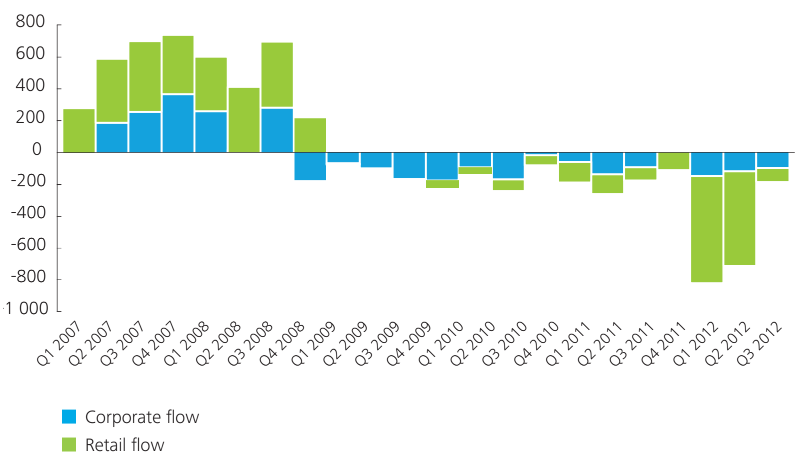
Being the denominator of the NPL ratio, the contraction of total loans fuel higher NPL to total loans proportions. The massive supply of residential properties still cannot be soaked up by the anaemic demand which entails subdued housing prices. Since the harsh plunge in 2009 nominal housing prices could not recover and seem to be flattening out and hence cannot ease the pressure on banks' profitability deriving from the large quantity of real estate collateral behind mortgage loans. These trends also exert a negative effect on LTV ratios and necessitate further portfolio impairments.

ROE and CAR



Source: NBH

Net credit flow (HUF bn)



Source: NBH

As for industrial real estate market further deterioration is hoped to be arrested since vacancy rates have been flattening out since 2009 and total industrial stock could not thrive further in H1 2012 compared to 2011 thus seem to be plateauing at 1.8 million square meters since developers do not deliver new projects to market. As far as demand is concerned many firms are looking for appropriate space and mapping out possibilities, but they are staying heedful and thus the number of actual transactions completed remains comparably low.

The proportion of non-performing loans went on increasing steadily both in the corporate and retail segments during H1 2012. In the case of corporate loans, this was mainly attributable to actual portfolio deterioration, whereas in the case of household loans the contraction in the outstanding stock due to the early repayment scheme also markedly worsened the NPL ratio. Corporate NPL ratio exceeded 20% and stood at 20.9%, while retail NPL ratio was 16.2% as of Q3 2012.

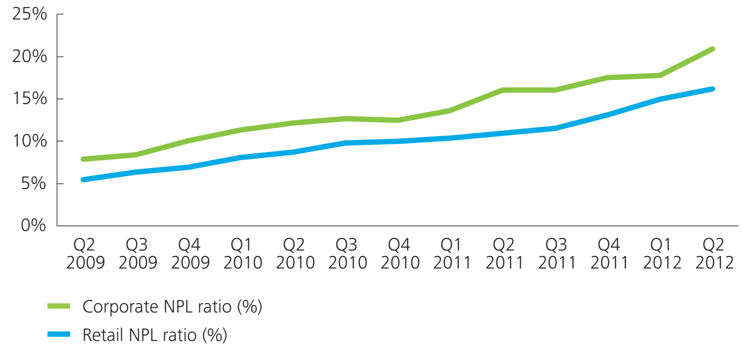
Chiming together with NPL ratios, NPL volumes also have been one a dynamical rise for years and no topping out is visible yet. Total NPL volumes catapulted by 63% in 2009 then showed a yearly average growth of 31% in 2010-2011 and although H1 2012 brought a more moderate 9% gain, one should wait for H2 numbers to ponder real deceleration. Corporate and retail NPLs have been quite symmetric in terms of both volumes and growth, regardless of 2010 when retail NPLs soared by 54% whilst corporate NPLs grew by (also a sound) 17%.

Re-defaults of restructured loans outstanding also played a significant role in the increase. Albeit banks generally use the institute of restructuring to postpone the problem and defer realizing losses, it is not a solution as restructured cases do not tend to perform better after restructuring. In addition, country specific regulations on restructured loans and corresponding provisioning also shepherd banks towards restructuring.

FHB bank residential propery price index and vacancy rates

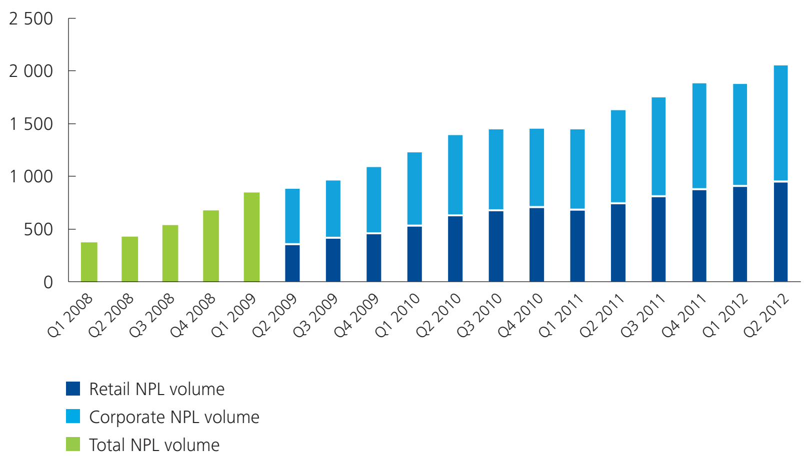
Source: FHB Bank, Colliers

Corporate and retail NPL ratios



Source: NBH

NPL volume (HUF bn)



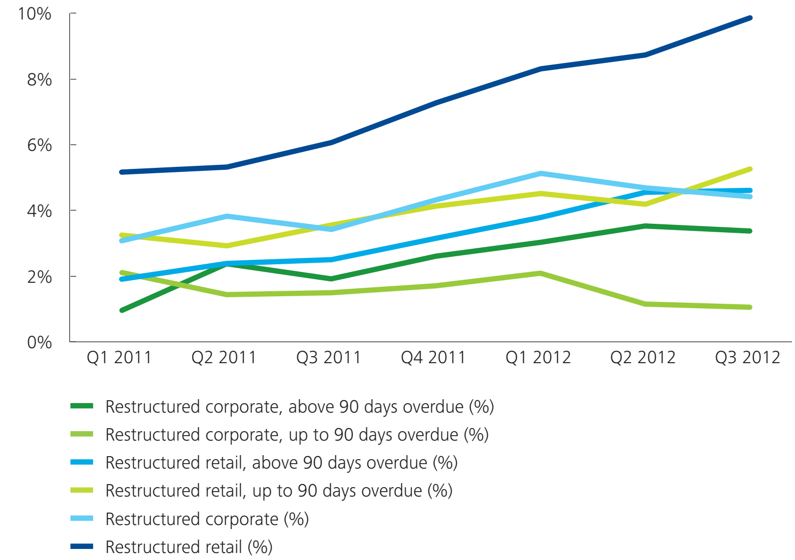
Source: NBH

As of Q2 2012, NPLs and restructured loans together amounted to around 25% of total loans both in the corporate and retail segments which is also disconcertingly high. As per Q3 2012 9.9% of retail loans outstanding were restructured while the corresponding data for corporate loans was a less disappointing 4.4%, nonetheless, on the whole it has to be borne in mind that the corporate NPL ratio is higher than the retail NPL ratio.

The provision coverage ratio of NPLs is creeping north in both retail and corporate segments but the trend is stronger in the corporate segment. Pursuant to absolute levels, as of Q2 2012 provision coverage ratio stayed at quasi the same levels in the retail and corporate segments at 47% and 49%, respectively. Cost of provisioning was walking hand in hand in the two segments till Q3 2011 when cost of provisioning of the retail segment surged due to the early repayment scheme. Decomposed data say that in Q4 2011 two thirds of cost of provisioning was attributable to the early repayment programme. Notwithstanding that H1 2012 saw lower cost of provisioning levels, no fundamental portfolio quality improvements can be seen that could justify or predict lower provisioning costs.

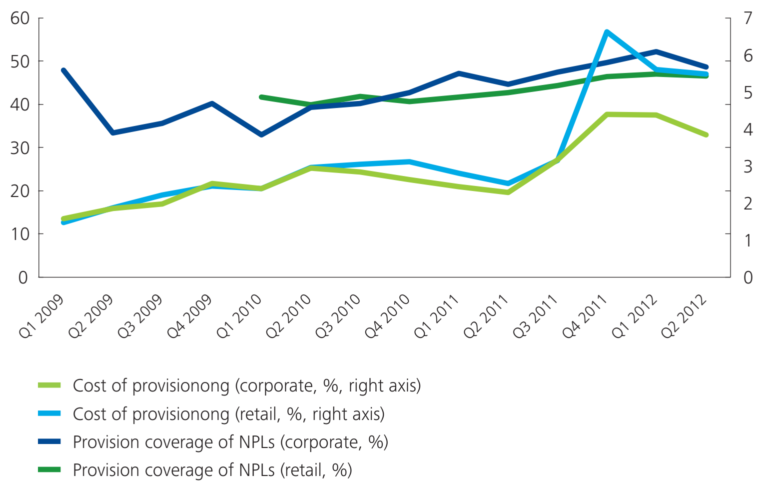
Respective NPL ratios of retail loan classes still highlight that FX denomination is the primary trigger of portfolio deterioration since HUF denominated loans perform remarkably better than FX denominated exposures. Unsecured HUF loans which were really popular before the crisis still show the highest NPL ratio, however, it could not increase further in H1 2012. Contrarily, NPL ratios of FX housing and mortgage loans picked up in H1 2012, buoying the way of overall retail NPL ratio towards even higher values. Of course, it has to be embedded in mind that the early repayment scheme significantly decreased the denominator of retail FX housing and mortgage NPL ratios and could not measurable diminish the numerator since debtors with loans past due more than 90 days are not likely to have been able to participate in the programme and repay their loans.

Corporate and retail restructured loan ratios



Source: NBH

Provisioning

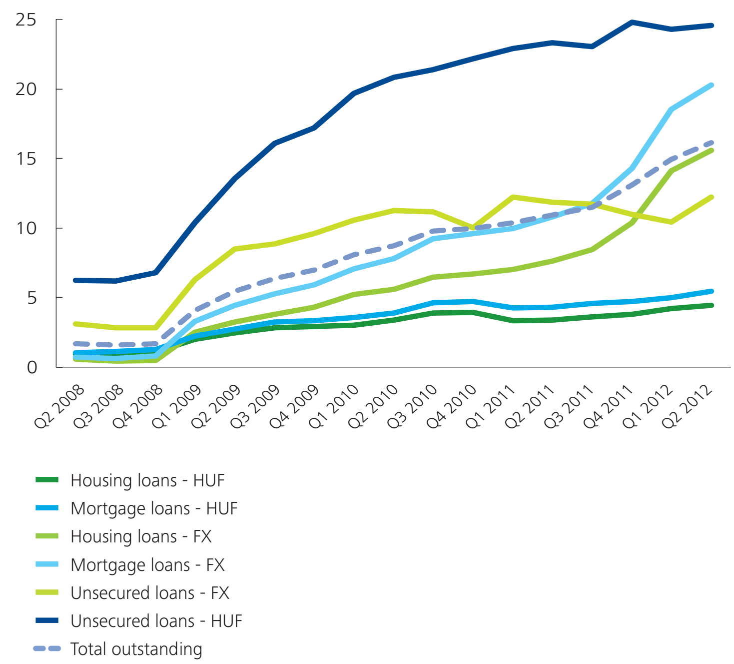


Source: NBH

Pursuant to the NPL market in Hungary, gross value of sold retail receivables of the banking sector has been rising steadily as total gross sales in 2009-2012 were HUF 48, 87, 126, 160 billion, respectively. Q3 2012 already posted a historic high with HUF 39 bn, but Q4 2012 saw an even higher value of almost HUF 57 bn. Since the beginning of 2011 both net value to gross value and selling price to gross value ratios have been melting down which is logical as the more impaired (and thus the worse quality) the given loan is, the lower the selling price is supposed to be. Net value to gross value was 62% in Q1 2011 which trended down to 42% by Q4 2012, while the corresponding data for selling price to gross value ratio were 43% and 23%. Q4 2012 booked another record as it witnessed the lowest selling price to net value ratio (and hence the highest discount ever), at 56%. According to market information, the most loans are sold by the market leader OTP Bank to its own debt collection entity.

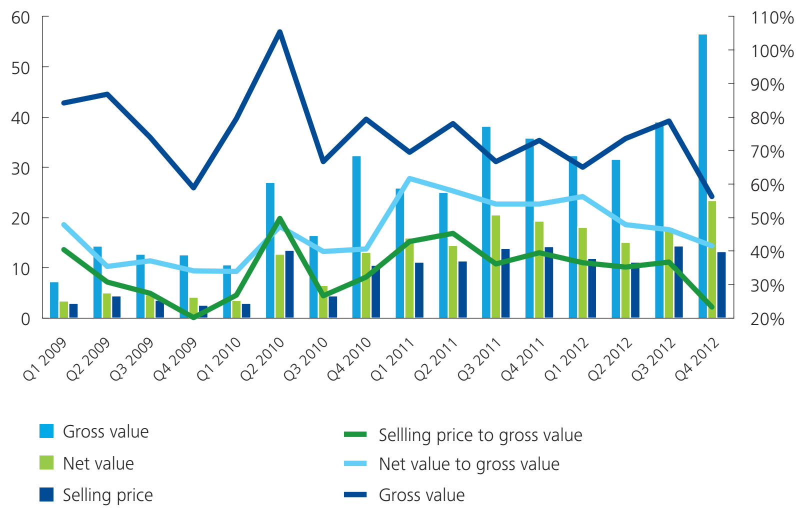
Eventually, not much optimism is reasonable concerning NPL ratios in the future either, since subdued lending attributable to lacklustre supply and demand curb the denominator, while dimmed economic outlook, disappointing corporate performance and high unemployment spur the numerator.

Respective NPL ratios of retail loan classes



Source: NBH

Sold retail receivables of the banking sector (HUF bn)



Source: NBH

Croatia

Evolution of key metrics since the last issue of the study:

Macro	2011	2012	Change (% point)
GDP (% real change pa)	0.0%	-1.9%	-1.9% !
Consumer prices (% change pa; avg)	2.3%	3.4%	1.1%
Recorded unemployment (%)	17.7%	19.5%	1.8% !
Budget balance (% of GDP)	-4.7%	-4.0%	0.7%
Public debt (% of GDP)	64.0%	64.6%	0.6%

Banking sector	2011	2012	Change (%)
Retail loans (HRK mn)	128,058	126,268	-1.4%
Corporate loans (HRK mn)	163,659	154,689	-5.5%
NPL volumes	**2011**	**Q3 2012**	**Change (%)**
Retail NPLs (HRK mn)	11,021	11,759	6.7%
Corporate NPLs (HRK mn)	25,254	28,602	13.3% !
NPL ratios	**2011**	**Q3 2012**	**Change (% point)**
Retail NPL ratio	8.6%	9.3%	0.7%
Corporate NPL ratio	15.4%	18.5%	3.1%
Key ratios	**2011**	**Q3 2012**	**Change (% point)**
CAR (%)	19.6%	20.5%	0.9%
ROE (%)	8.7%	7.6%	-1.1%
ROA (%)	1.2%	1.1%	-0.1%
L/D (%)	103.0%	95.0%	-8.0%
FX share of lending (%)	75.1%	73.6%	-1.5%

As the table illuminates, the overall picture of Croatia turned bleaker from 2011 to 2012.

Concerning macro issues, four out of five indicators worsened of which the most painful are the near 2% downturn in real GDP implying a double-dip recession and the 1.8% point further augmentation of unemployment which is now approaching the critical 20% level. Albeit budget balance could contract by 0.7% points, the 2012 year-end 4% is still above the Maastricht criterion.

Lending also tumbled, especially in the corporate segment, whereas NPL volumes and ratios are still on the rise and mirror a markedly more contaminated corporate business.

Profitability ratios were pared somewhat in 2012 which are quasi the median values of the nine countries of the study. The traditionally high CAR gained further above 20%, L/D shrank by 8% points to 95% while FX share of lending also dwindled moderately which is not a vital issue since the volatility of the Kuna is curbed.

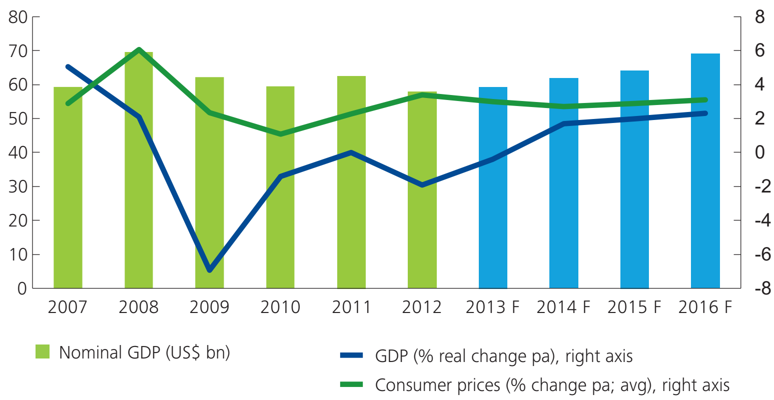
After contractions of 6.9% and 1.4% in 2009 and 2010, respectively, the economy stagnated in 2011 with zero growth and shrank anew by 1.9% in 2012. All GDP components were in negative territories in 2012 owing to fiscal consolidation, high unemployment and tight credit conditions, but gross fixed investments and private consumption tumbled the most.

EIU forecasts GDP to decrease further by 0.4% in 2013 as owing to –inter alia- increases in taxes and sluggish wage growth private consumption will be dampened, and export is also projected to be frail due to the continuing recession of the euro zone, the main export market of Croatia. Notwithstanding, Croatia`s EU accession in 2013 is an upside risk that may spur the propensity of economic actors to invest and hence boost economic growth. Growth is forecast to return in 2014 with a gain of 1.3%. The VAT increase in March and rising global food prices increased inflationary pressures and thus inflation perked up by a percentage point to 3.4% in 2012 but forecast to dwindle back slightly under 3% in 2013 and stay there for the following years.

The budget deficit ballooned from 2008 (0.9%) to 2011 (4.7%) due to the crisis and abated to 4.0% in 2012, still markedly overrunning the official target of 2.9%. EIU forecasts budget deficit to subside gradually in the upcoming years due to fiscal consolidation in a piecemeal fashion, entailing –inter alia- public-sector job cuts and sales of non-controlling stakes in state companies, such as an insurer and a bank. Public debt also swelled from 2008 (41.7%) to 2011 (64.0%) but pursuant to forecasts it will not creep further and basically remain at these levels in the forthcoming years. Current-account deficit was compressed from 2008 (8.7%) to 2012 (0.3%), however, a slight gradual increase in predicted for the future.

The volatility of the Kuna is not an issue in Croatia as HRK has been stable against the euro for long and not even the market tumult of the crisis could trigger disconcerting turbulence, attributable to the National Bank`s firm commitment to stabilise FX rates via interventions backed by a robust FX reserve as international collateral, which, observing the amount of external debt of the corporate sector, is paramount indeed. CDS soared from pre-crisis 100 bps to 600 bps, dwindled then back to around 200-300 bps, however, 2011 year end and mid-2012 saw CDS bombarding 550 bps anew. Nonetheless, H2 2012 brought some relief and CDS was around 250 bps at 2012 year end.

GDP and consumer prices



Source: EIU

The continuing recession exacerbated labour market conditions significantly, as unemployment increased by 6% points from already a high basis of 13.5% in 2008 to the estimated peak of 19.5% in 2012, which is excruciatingly high. Although it is forecast to decrease somewhat in the forthcoming years, it is projected to still be around 17% even in 2015.

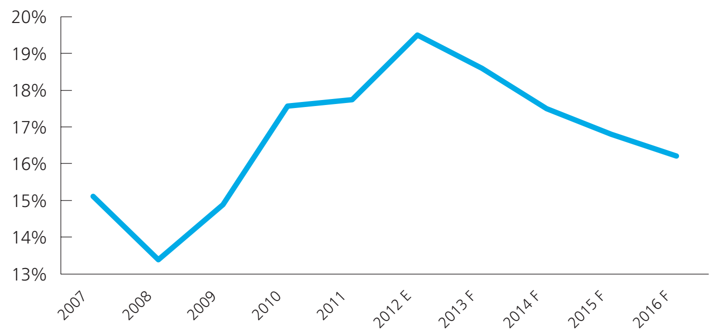
The Croatian banking sector is highly concentrated, as the market leader Zagrebacka Banka (owned by Unicredit) possesses 29% market share in terms of total assets, the top 3 (with Intesa Sanpaolo`s Privredna Banka Zagreb and Erste`s Steiermarkische Bank) account for 63% of the market, while the top 5 (with Raiffeisenbank Austria and Hypo Alpe-Adria-Bank) stand for 83% of the overall banking market.

As of June 2012, there were 32 banks in the Croatian banking market, out of which 17 were foreign owned, 13 private domestic banks and 2 state owned banks. Nonetheless, the really relevant picture can be seen when observing proportions in total assets, since as of June 2012 foreign owned banks stood for 90.6% of total assets, whilst the same figures for private domestic banks and state owned banks were 4.8% and 4.5%, respectively, and this distribution has been quasi the same for many years, hence there has been an overwhelming prevalence of foreign banks for long.

The financing of Croatian corporate debt shows a unique pattern, as the majority of their financing is provided by external creditors and not domestic banks. As of March 2012, financing amounting to 43% of GDP was supplied by external creditors, while the corresponding figure for domestic banks was 36%. The growth rate of external debt was higher than that of debt for domestic banks from 2003 to 2010, however, in 2011 external debt was stagnating, while debt to domestic banks grew by 10% and Q1 2012 saw external debt even to contract in parallel with a 8% thrive in domestic bank debt. As a vital consequence of the piles of external debt, the corporate sector is highly exposed and thus vulnerable to FX movements.

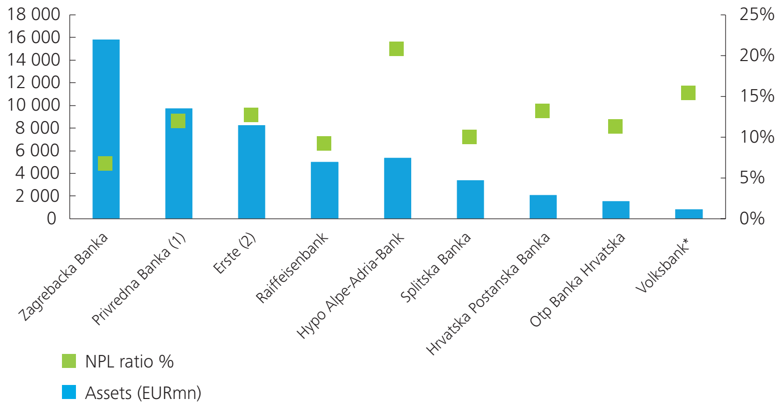
Beyond external debt, there are significant FX risks inherent in domestic banks` portfolios as well, since as of March 2012 75% of their loans were indexed (56%) of denominated (19%) in foreign currencies, mainly euro (85%) and the remainder in Swiss franc (14%). Notwithstanding, it also has to be borne in mind that 67% of deposits are also denominated or indexed to foreign currencies, serving as a natural hedge.

Unemployment



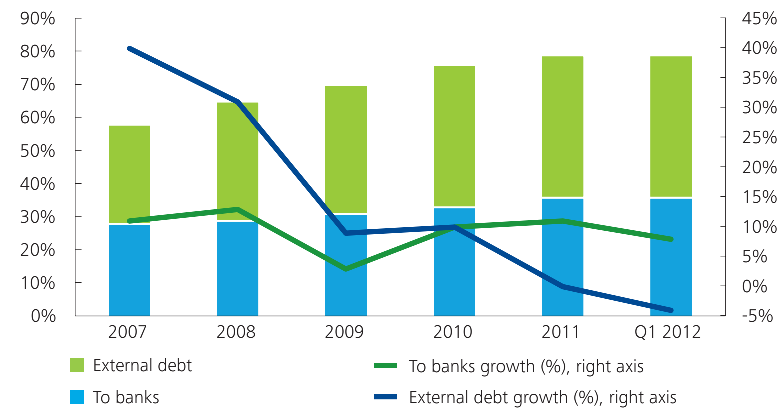
Source: EIU

Croatian banks, 2011



Source: Banks' data disclosure

Corporate debt (as % of GDP)



Source: NBH

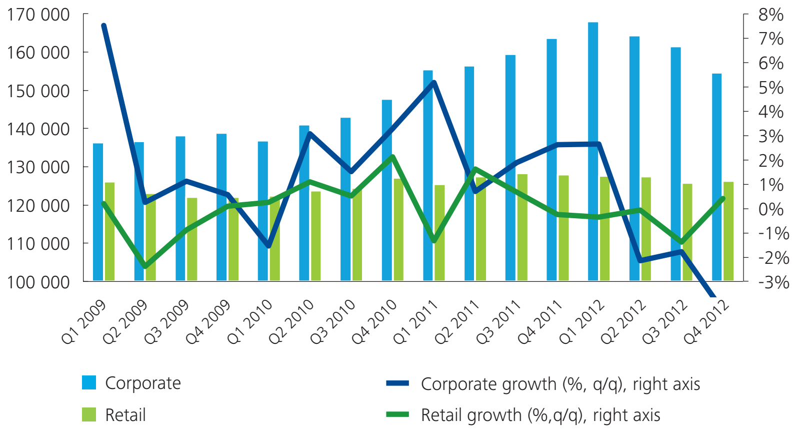
There have been considerable differences between corporate and retail lending in Croatia, as solely corporate lending could propel lending growth while retail lending froze at the end of 2008 and hence retail loans outstanding stood at the same level in Q3 2012 as it did in Q4 2008. Corporate lending, however, could show an average yearly growth of 9% between 2009 and 2011, but contracted slightly by 1.3% in Q1-Q3 2012. Concerning interest rate risk, as of September 2012, 90% of granted loans had variable interest rates within a year, however, the corresponding proportion for received loans and deposits was 85%, consequently the net open interest rate risk position was limited.

Residential property prices have been gravitating for years putting a downward pressure on the denominator of LTV ratios via eroding collateral values. The housing market is still depressed, and no signs of recovery are visible.

Profitability of the Croatian banking sector was exacerbated by the crisis as ROE shed 8% points from 16% to 8% from Q1 2007 to Q2 2010 and has been dithering around 8-9% since then which is not a stellar performance when it is about equity returns, but still the 4th highest ROE amid the nine countries of our study as of Q2 2012. CAR of the banking sector has traditionally been high and surpassed 20% in Q3 2012 which is astoundingly high and means the highest CAR just before Serbia.

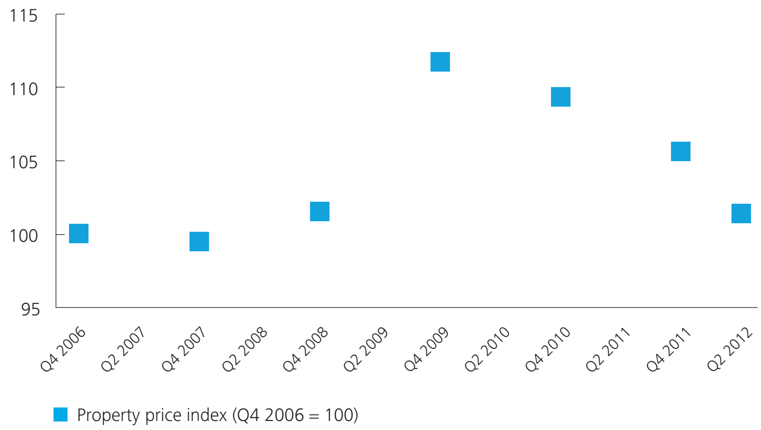
Both corporate and retail NPL volumes were increasing dynamically throughout 2009-2010 and the growth continued in 2011-Q3 2012, however, at a less dizzying pace. During 2009-2010 corporate and retail NPLs thrived by a yearly average of 67% and 41% respectively, 2011 saw a trimmed gain of 21% and 11%, while NPL growth abated somewhat further to 13.3% and 6.7% in Q1-Q3 2012, respectively. One vital explanatory factor of the aforementioned deceleration of NPL volume growth is a heavier reliance on the restructuring and refinancing of loans which –keeping in mind the average re-default rates of restructured loans- may not solve the core problem and hence only a tool to defer the problem.

Lending (HRKmn)



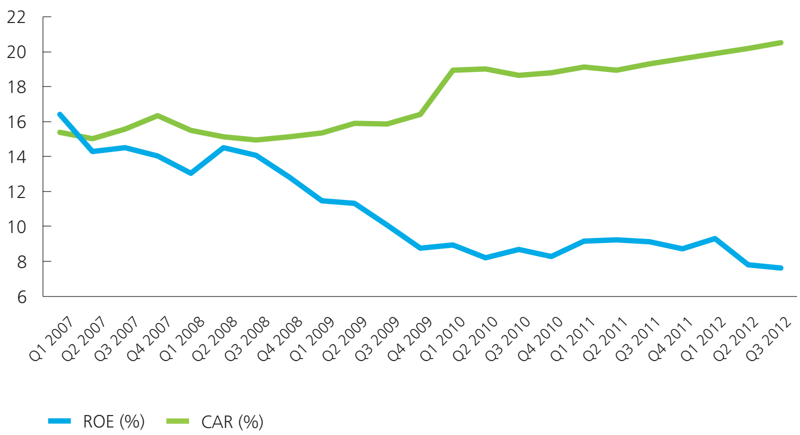
Source: CNB

Property prices



Source: CNB

ROE and CAR

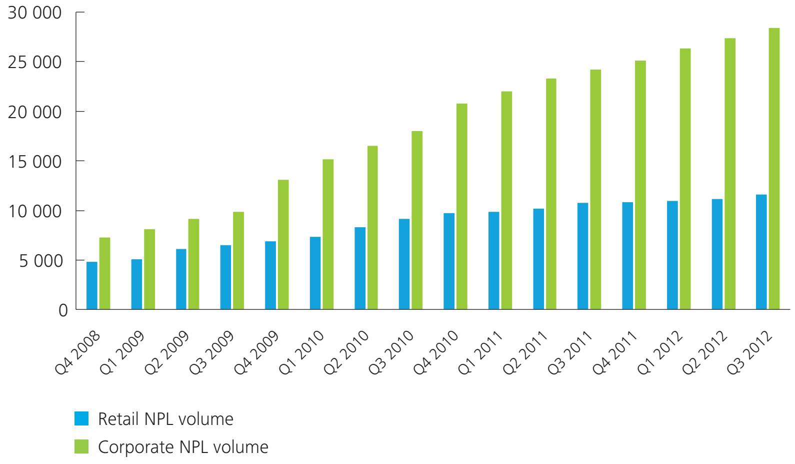


Source: IMF

Logically, NPL ratios chime together with NPL volumes, thus it is not surprising that corporate NPL ratio is much higher than that of the retail segment and the elevation of the former has also been more vehement. Corporate NPL ratio more than tripled between Q4 2008-Q3 2012, gaining 17% points from 7.5% as of Q4 2008 to 24.5% as of Q3 2012, while retail NPL ratio was also trending upwards steadily and more than doubled during the above period by increasing by 5.4% points from 4% as of Q4 2008 to 9.4% as of Q3 2012. NPL ratio growth was spurred and buoyed by dedicated corporate and retail banks, while NPL growth in universal banks was markedly lower. In 2011, all banks reported a (significant) portfolio quality deterioration which weighed (heavily) on their profitability. Consequently, arrest or halt of further portfolio quality deterioration would be paramount, however, observing the current macroeconomic situation and the forecast recession trajectory for 2013, it may be arduous.

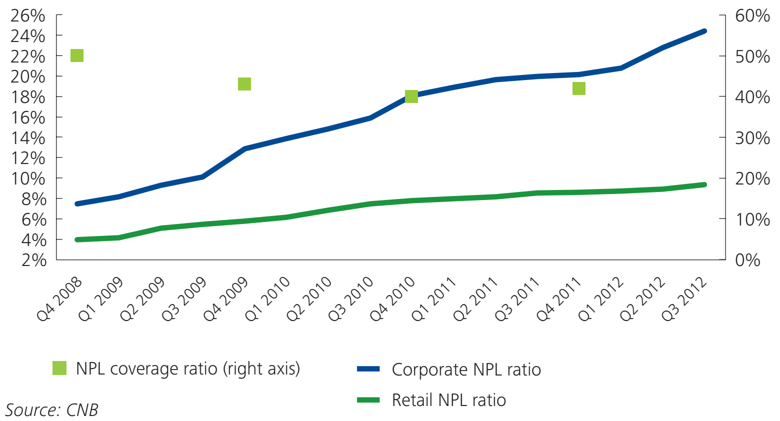
NPL coverage ratio has been hovering around 40% for years which it is among the lowest values amongst the nine countries of the study.

NPL volume (HRK mn)



Source: CNB

NPL ratios and NPL coverage



Source: CNB

Slovenia

Evolution of key metrics since the last issue of the study:

Macro	2011	2012	Change (% point)
GDP (% real change pa)	0.6%	-2.4%	-3.0% !
Consumer prices (% change pa; avg)	1.8%	2.6%	0.8%
Recorded unemployment (%)	11.8%	12.0%	0.2%
Budget balance (% of GDP)	-6.3%	-4.4%	1.9%
Public debt (% of GDP)	41.9%	45.4%	3.5%

Banking sector	2011	2012	Change (%)
Retail loans (EUR mn)	10,239	10,049	-1.9%
Corporate loans (EUR mn)	24,288	22,577	-7.0%
NPL volumes	**2011**	**Q3 2012**	**Change (%)**
Retail NPLs (EUR mn)	461	n.a.	n.a. !
Corporate NPLs (EUR mn)	4,493	5,658	25.9% !
NPL ratios	**2011**	**Q3 2012**	**Change (% point)**
Retail NPL ratio	4.5%	n.a.	n.a.
Corporate NPL ratio	18.5%	23.9%	5.4%
Key ratios	**2011**	**Q3 2012**	**Change (% point)**
CAR (%)	11.9%	11.9%	0.0%
ROE (%)	-11.8%	-2.5%	9.3%
ROA (%)	-0.9%	-1.9%	-1.0%
L/D (%)	101.1%	n.a.	n.a.
FX share of lending (%)	0.0%	0.0%	0.0%

Slovenia had to face several disappointing trends in 2012.

Slovenia was mired in a double-dip recession in 2012 after suffering a 3% point downturn in real GDP growth. Although budget deficit narrowed by 1.9% points, it is still 4.4% which swelled public debt by 3.5% points.

Both retail and corporate loans contracted, by 1.9% and 7.0%, respectively, denting the denominator of NPL ratios and thus exerting an upward pressure on NPL ratios themselves.

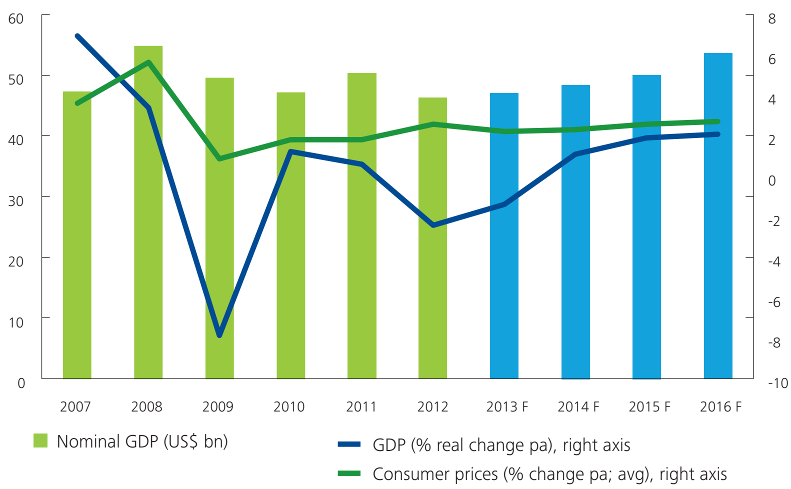
NPL volumes and ratios catapulted in tandem spurred by corporate portfolios the quality of which deteriorated with remarkable rapidity. Corporate NPL volumes thrived by more than 25%, while corporate NPL ratio increased by 5.4% points and now bombards the 25% level.

CAR remained unchanged at 11.9% while ROE could substantially improve but is still negative, just like ROA. Slovenia had to endure the deepest recession amid the nine countries of our study, with a GDP plummeting by 7.8% in 2009. Albeit 2010 and 2011 brought some sluggish recovery of 1.2% and 0.6% GDP growth respectively, Slovenia had to face recession anew in 2012 with a GDP contraction of 2.4%, mirroring anaemic domestic demand due to high unemployment, onerous debt service burdens and a 11% plunge in gross fixed investments owing to the prolonged euro zone recession which undermined business confidence.

Prospects for 2013 are bleak as well, since EIU forecasts a further 1.4% GDP shrinkage attributable to the tumbling euro zone economy and the need for further austerity measures to achieve the desired fiscal consolidation, which tend to restrain recovery. Although a tepid growth of 1.1% is forecast for 2014, there are several uncertainty factors revolving around the future performance of the Slovenian economy, just like in case of many other countries of our study. CPI stood at 1.8% in 2011 and perked up somewhat in 2012 to 2.6% due to increases in excise duties and utility prices. Inflation is forecast to stay reined around 2.2% in 2013-2014 as well, owing to weak household consumption and lower international oil prices.

The expansionary fiscal policy of the previous government blew a hole in the budget balance hence budget deficit ballooned to 6.3% in 2011. Although they embarked upon a fiscal consolidation programme later, it was derailed by political turmoil. The current government has also introduced austerity measures such as public-sector wage cuts, tighter control over pensions and social benefits thus budget deficit contracted by almost 2% points to 4.4% in 2012. As per EIU forecasts, 2013 will see the deficit just under the stipulated 3% Maastricht criterion, while a 2.5% deficit is projected for 2014. Public debt doubled from 2008 (22.4%) to 2012 (45.4%) which seems disconcerting when observing the dynamics, however, the 2008 basis and current levels are still relatively low. Moreover, forecasts state that it will not creep further but remain at current levels in 2013-2014 likewise. The current-account showed a substantial deficit in 2008 (6.1%) but bounced back then and arrived to a 0.9% surplus in 2012. An average 2.2% surplus is predicted for 2013-2014 fuelled by the robust service surplus which is promising from one angle, but the fact that it is partially attributable to dampened domestic demand, shades the picture a bit.

GDP and consumer prices



Source: EIU

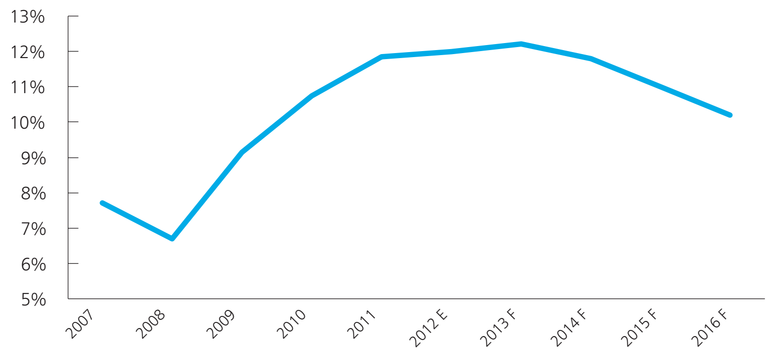
Being the member of the euro zone, there are much less currency risks inherent in being an economic actor in Slovenia, compared to almost all other countries of our study. Although EURUSD has shown some volatility and some analyses claim that there is an appreciable risk that the euro zone will fragment (,which would wreak havoc on the Slovenian economy), these risks are not commensurable with currency risks which may loom over other CEE countries having their own national currencies. CDS premium of Slovenia culminated around 250 bps in the crisis, however August 2012 saw it around 500 bps which is surprising as EURUSD hit a two year low around that time which should have supported Slovenia as well. CDS then assuaged back to around 250 bps by end 2012 which implies a meaningful improvement, nonetheless, it is still the level of the peak in the crisis.

Unemployment rate has been trending upwards incessantly since 2008, with a decreasing slope though. The manageable 6.7% in 2008 thrived by 5.3 percentage points to 12% by 2012 which, worsened by the double-dip recession and further austerity measures, prompted (sometimes even violent) public protests. As per EIU forecasts, unemployment will remain around current levels in 2013-2014 likewise.

The Slovenian banking sector is dominated by state-owned institution as NLB (1st), NKBM (2nd) and SID (4th) are all possessed by the state, implying a 41.6% market share based on total assets as of year-end 2011. NLB excels in terms of market share as it stood for 17.3% of the overall market, the same market share that top 2-3-4 banks accounted for altogether. The major shareholders of 3rd and 5th players are Zavarovalnica Triglav and UniCredit.

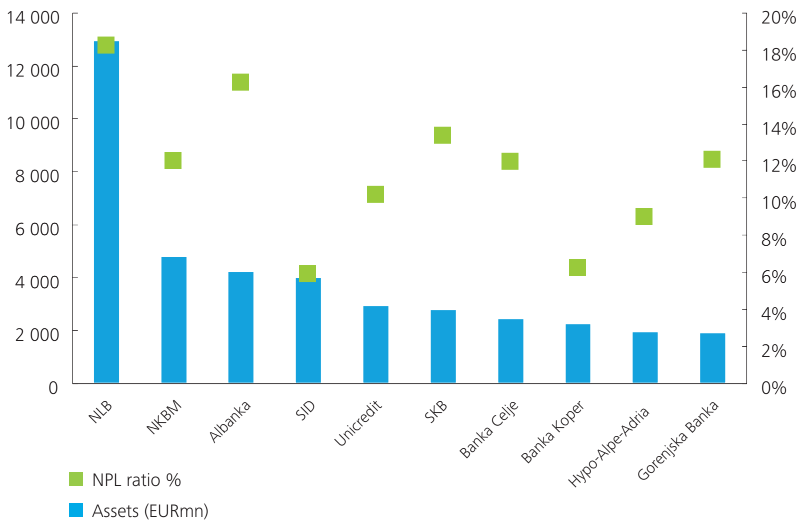
Patterns of lending in Slovenia in past years chime together with many other countries of our study, remarkable pre-crisis lending growth followed by a standstill which finally turned into a moderate contraction. Rapid growth above 30% in 2007 was halved in 2008 to 15%, ensued by an insignificant yearly average 1.7% trudge in 2009-2011, which eventually transformed into a 2.2% shrinkage in Q1-Q3 2012. The aforementioned dynamics are valid for both corporate and retail lending, except for the 2009-2010 period when corporate lending was already stagnating while retail lending could still perform a yearly average growth of 7%. It has to be noted though, that corporate lending then (and at present likewise) accounted for around 70% of overall lending, hence the basis was remarkably higher for retail lending to gain from.

Unemployment



Source: EIU

Slovenian banks, 2011

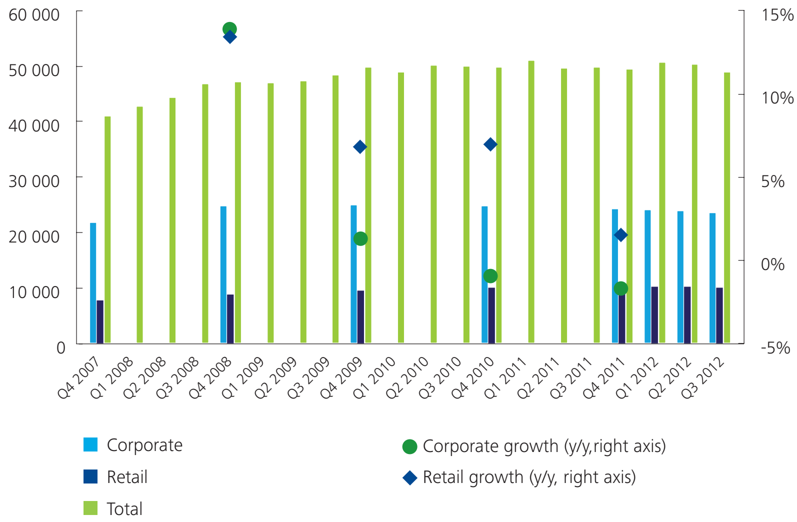


Source: Banks' data disclosure

FX risk is not an issue in the Slovenian banking system as Slovenia is a euro zone member country and thus overwhelming majority of loans are denominated in EUR, the proportion of CHF loans is merely around 5%. Interest rate risk, however, is coming more and more into the forefront as the quasi zero cumulative interest rate gap up to one and two years of the banking sector throughout former years, increased to an EUR 2.8 bn negative gap by the end of 2010 and the trend continued in 2011 arriving to an EUR 5.2 negative gap by year-end 2011. Stemming from this significant (as of year-end 2011 the gap was equal to 17% of total retail and corporate loans) negative gap, a more intense rise in interest rates could do much damage to the banking sector. Notwithstanding, observing the current muted euro zone inflation and prolonged recession, ECB is highly unlikely to raise the base rate, what is more further cuts are much more probable, which perhaps is one major reason for the massive negative interest rate gap of the Slovenian banking sector.

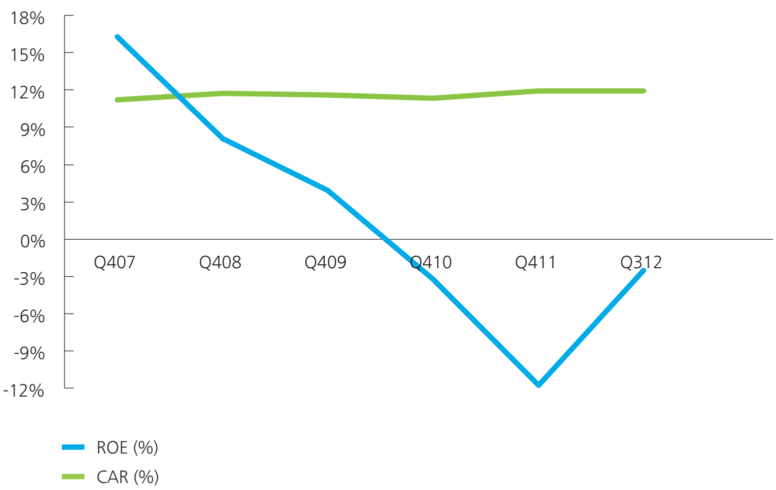
The crisis ate extremely harshly into the profitability of the Slovenian banking sector as ROE plummeted between 2007 and 2011. ROE shed 28% points during the aforementioned period which is an immense fall and also the highest amid the nine countries of our study behind Hungary, where the corresponding figure was 26% points, while the average of all nine countries was 13% points. Although the severely high EUR 1.2 bn impairments and provisioning costs wreaked havoc on ROE already in 2011, year 2012 was even more worse as based on data provided by the Bank of Slovenia, net loss of the banking sector in 2012 amounted to EUR 664.2 mn, meaning ROE of minus 16.36% (ROA of minus 1.39%); this is mainly due to EUR 1.482 bn impairments and provisioning costs in 2012. The Slovenian banking sector is not exemplary in terms of capital adequacy and hence shock absorbing capacity either as it has been having the lowest CAR among the nine countries of the study since 2009 with an average of a bit below 12% while the average of the others has been 15-16%. Numerous Slovene banks will require recapitalization in 2013, the largest NLB and 2nd largest NKBM have not specified the exact amounts needed yet and the 3rd largest ABanka has already unsuccessfully sought a EUR 50 mn recapitalization several times. According to the Bank of Slovenia, NPLs (C, D and E rated claims of total claims) of the Slovene banking sector stood at EUR 7.1 billion as of November 2012, and provision formation was only available of around EUR 4 billion, highlighting the need for significant further impairments to be performed by year end.

Lending (EUR mn)



Source: NBS

ROE and CAR

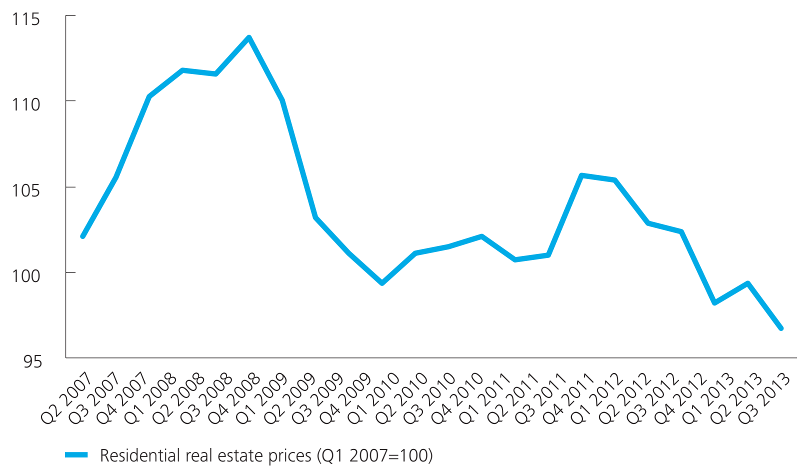


Source: IMF

After the plunge in the crisis residential property prices turned north again but the upward impetus was not sufficient so it began to decrease anew in Q3 2011 and 2012 saw prices below Q1 2007 levels again. Albeit the residential real estate market is frail, LTV ratios are not disconcertingly high. In 2011 in case of corporate loans it was 71.2%, and for housing loans it was 54.7% and the most securely collateralized were non-housing loans to households with a ratio of 42.3%.

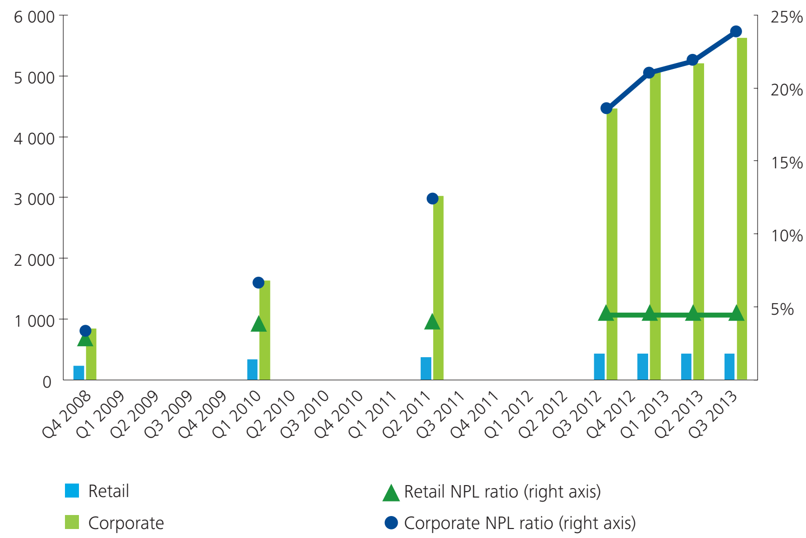
NPL metrics of the corporate and retail segments used to be in the same dimension but an enormous rift has evolved between them throughout past years. Corporate loans outstanding has been accounting for around 70% of overall lending for long, while retail lending has not soared and has been more prudent (unlike in several other CEE countries), thus retail NPL ratio and hence retail NPL volume have remained curbed. Performance of the highly leveraged corporate sector was hit hard by the crisis, thus debt service burdens became more and more onerous and consequently corporate NPL ratio skyrocketed. Not surprisingly, the most acute sector is the construction sector with an NPL ratio of 61.8% as of November 2012, fuelling gravely the corporate NPL ratio. High volumes of corporate loans together with the soaring corporate NPL ratio resulted in a substantial amount of corporate NPLs of EUR 5.7 bn as of November 2012. Sliding down from almost 80% in 2008, NPL coverage ratio as of year-end 2011 was 47.6% (50.5% as of November 2012 – based on BSI data; C, D and E weighted average), which was one of the lowest values amongst the nine countries of the study, while the provision coverage of D and E rated claims was 65.9% as of November 2012.

Residential RE prices



Source: BIS

NPLs (EUR mn)



Source: NBS

Serbia

Evolution of key metrics since the last issue of the study:

Macro	2011	2012	Change (% point)
GDP (% real change pa)	1.6%	-1.7%	-3.3% !
Consumer prices (% change pa; avg)	11.2%	7.3%	-3.9%
Recorded unemployment (%)	23.7%	25.9%	2.2% !
Budget balance (% of GDP)	-4.9%	-5.8%	-0.9%
Public debt (% of GDP)	45.1%	60.6%	15.5% !

Banking sector	2011	2012	Change (%)
Retail loans (EUR mn)	5,613	5,907	5.2%
Corporate loans (EUR mn)	12,379	11,741	-5.2%
NPL volumes	**2011**	**Q3 2012**	**Change (%)**
Retail NPLs (EUR mn)	511	598	16.9% !
Corporate NPLs (EUR mn)	2,764	2,982	7.9% !
NPL ratios	**2011**	**Q3 2012**	**Change (% point)**
Retail NPL ratio	9.1%	10.1%	1.0%
Corporate NPL ratio	22.3%	24.7%	2.4%
Key ratios	**2011**	**Q3 2012**	**Change (% point)**
CAR (%)	19.1%	17.2%	-1.9%
ROE (%)	6.4%	6.2%	-0.3%
ROA (%)	1.2%	1.3%	0.0%
L/D (%)	125.6%	124.5%	-1.1%
FX share of lending (%)	69.0%	74.4%	5.4%

Economic performance of Serbia was alarming in 2012 with several worrisome data.

In terms of real GDP growth contraction Serbia posted the worst record in 2012 in tandem with Hungary with a 3.3% point decline. Budget deficit swelled by 0.9% point to 5.8% while public debt soared by a depressing 15.5% points arriving above 60%. Unemployment surpassed 25% and although inflation could assuage, it happened from really high bases.

Lending dynamics were mixed as retail loans gained by 5.2%, while corporate loans contracted by the same proportion.

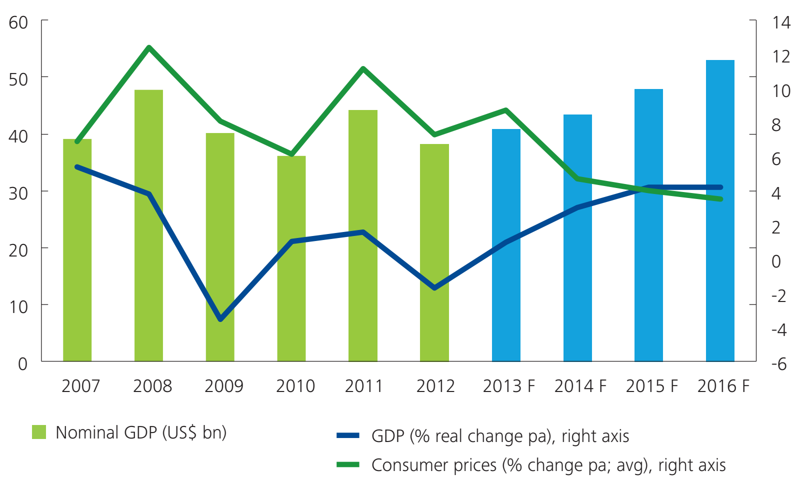
Retail NPLs picked up by 16.9% but from quite low bases, however, corporate NPLs thrived 7.9% from already high levels. Both retail and corporate NPL ratios went on augmenting arriving to 10.1% and 24.7%, respectively.

CAR decreased by 1.9% point but remained solid, while profitability ratios hardly budged. L/D did not basically change from the comparably quite high 125% level and FX share of lending increased extending the vulnerability to FX risks.

The 3.5% GDP fall of 2009 was followed by a lacklustre recovery in 2010 and 2011 when GDP could thrive by 1% and 1.6% respectively, which was shattered by a double-dip recession of 1.7% in 2012. The returned recession was attributable to a setback in export, particularly in the agricultural segment due to a draught-affected disastrous harvest, whereas private consumption and gross fixed investments could perform even better than in 2011. EIU forecasts a meagre 1% GDP gain in 2013 and a picked-up 3.0% in 2014. Considerably high and also volatile inflation is an issue in Serbia. Average CPI was 9.1% in the 2007-2009 period which abated back to 6.2% in 2010, switched gears and accelerated to 11.2% in 2011 and assuaged back anew to 7.3% in 2012. CPI is forecast to perk up somewhat to 8.7% in 2013, however, a massive disinflation is expected with a CPI of 4.7% in 2014 owing to subdued domestic demand curbed by fiscal austerity measures.

Fiscal data of Serbia are bleak as there are considerable deficits in the state budget and current-account as well, accompanied by a comparably high public debt level. Budget deficit has been inflating unremittingly since 2007 from 2% to 5.8% in 2012, nevertheless, the government now seems to be really committed towards fiscal prudence and discipline which is mirrored by the fact that 2012 was the first year for many years when the budget was adopted within the deadline. The target deficit for 2013 is 3.6% which seem to be a bit too optimistic and therefore EIU forecasts a deficit of 4.3% in 2013 and 3.5% in 2014, which would still be a significant improvement and a promising convergence towards the 3% Maastricht criterion. As a result of incessant budget deficits and poor economic performance public debt doubled between 2007 and 2012 from 30% to 60% of GDP, nonetheless, in accordance with projected fiscal consolidation and recovering economic growth it is expected to dwindle slightly back to 57% by 2014. Continuous and substantial current-account deficits are also a bane afflicting the Serbian economy. Average current-account deficit was 20.4% in 2007-2008 due to excessive domestic demand and the low competitiveness of exports, which is excruciatingly high and implies that immense amounts of money were gushing out of the country which was really detrimental. Average deficit of 2009-2011 was curtailed to 8.6% but 2012 saw a deficit of 10.7% anew, which is forecast to subside to 7.5% by 2014.

GDP and consumer prices



Source: EIU

The dinar has been depreciating steadily against both EUR and CHF for long as it has weakened around 45% since the beginning of 2007 and about 15% since the start of 2010 against EUR, while the corresponding data for CHF are even more disappointing with 100% and 65% respectively, putting a suffocating debt service pressure on FX debt laden corporates and households, as FX share of lending in Serbia was 74% as of Q2 2012. Moreover, depreciation of the dinar weighs heavily on the state as well, since around 85% of public debt was denominated in other currencies as of year-end 2011. The dinar is likely to remain subject to turbulence in 2013 as well, reflecting skittishness in financial markets caused by the sovereign debt crisis and concerns about fiscal policy developments in Serbia. In the longer run it also has to be borne in mind that the liberalization of the capital account may trigger greater speculative inflows and FX rate volatility. CDS spread of Serbia followed the typical pattern in the crisis by skyrocketing in the turbulence and abating back then but since the beginning of 2010 there are no Bloomberg quotations for Serbian CDS.

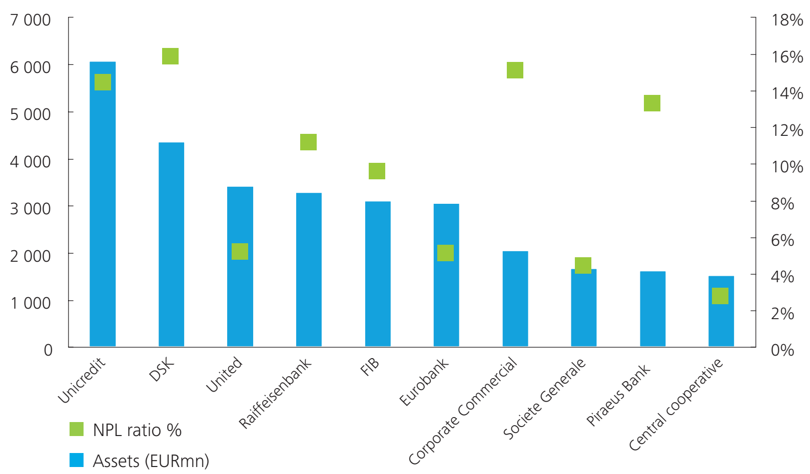
Unemployment rate in Serbia with its 25.9% in 2012 is by far the highest amid the nine countries of our study, moreover, it is among the highest in global comparison likewise with quasi the same values like those of Greece or Spain. Unemployment has been high and rising dynamically for long, consequently there is much tension in the country and hence a heightened risk of social unrest due to falling living standards. The population has no appetite for painful structural reforms, such as reducing the bloated public sector or increasing labor market flexibility. Notwithstanding, unemployment rate is forecast to decrease gradually to a still very high level of 20.2% by 2015 after a projected culmination at 28.4% in 2013. Average real wage growth arrived to a two year long stagnation in 2009-2010 from a stellar level of 14.5% in 2007 and picked up then again reaching a 6.6% gain in 2012. A further 7.2% and 8.4% rise is projected for 2013 and 2014 respectively, which might help somewhat to lower the risk of public agitation.

The first two market players could be separated from the others in terms of size, while top 3-5 players have just the same size and top 6-8 banks are also close to them. The top two, Banca Intesa and the state-owned Komercijalna Banka, possess a 24% percent in the market, while 3-5 players, UniCredit, Raiffeisen and Societe Generale, stand for 20% of the market.

Unemployment and real wages

Source: EIU

Serbian banks, 2011



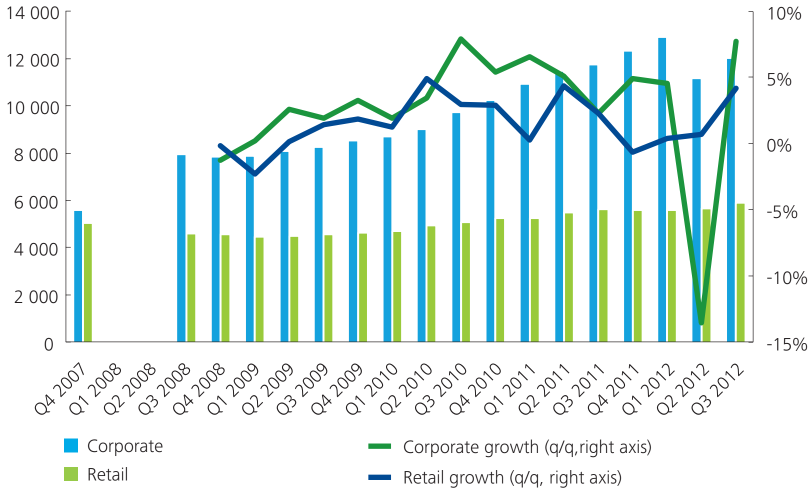
Source: Banks' data disclosure

Lending growth was 17% in 2008, dwindled back to 6% in 2009 but perked up again to 17% and 16% in 2010-2011 respectively, due to a Government Decree of subsidized liquidity loans, consumer loans and investment loans. However, 2012 saw a stagnation owing to the elections as the government was reluctant to make decisions since everyone was cognizant that the new political party will come into power and hence economic processes decelerated at a remarkable pace between February and June entailing plunging corporate lending.

While at year-end 2007 corporate and retail loans were at approximately the same levels, the gap has widened significantly since then in favor of corporate lending, particularly in 2008 when retail loans contracted by 9% whereas corporate loans increased steadily by 40%. The dim 2009 brought a trimmed growth of 8% for corporate lending while retail lending could climb into positive territories by increasing by a tepid 1%. 2010 experienced resurgence (20% corporate and 13% retail gain) owing to the introduced Government Decree with preferential interest rates only both retail and corporate loan types. In 2011, when the government subsidies were halved, corporate lending could still preserve its impetus for a 20% growth anew, while retail lending halved its increase to 6.5%. Nonetheless, in Q1-Q3 2012 corporate lending shrank by 2.5% (due to a 13.5% tanking in Q2 2012 amid insecure environment induced by the elections), while retail lending could gain again by a moderate 5%. As of Q3 2012 the proportion of corporate loans was 67% and has been hovering around these levels for long. As already detailed above in the macro section, FX risk is a momentous peril inherent in lending in Serbia, as FX share of lending was 74% as of Q2 2012 and the dinar depreciated significantly against EUR and even more drastically against CHF in the crisis, and has not been performing well since then either.

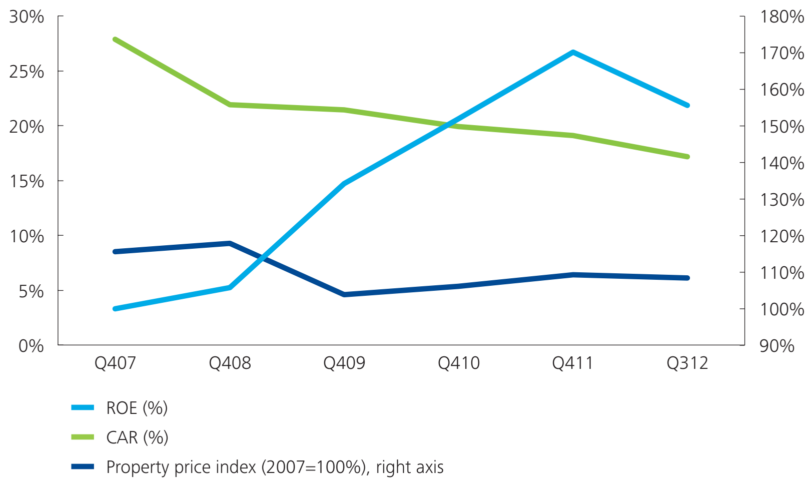
Capital adequacy of the Serbian banking sector has been gravitating from a quasi inefficiently high level of 28% at year-end 2007 arriving to 17.2% by Q2 2012 which is still the 2nd highest value behind 20.2% of Croatia, assuring fair enough shock absorbing capacities for potential future losses. For the matter, the national regulator requires a 12% capital adequacy ratio, which is considerably prudent as it is 4% points higher than the 8% Basel II stipulated minimum. As ROE has not turned negative, CAR was not abating due to losses eating into solvency capital but thriving lending and thus RWAs.

Lending (EUR mn)



Source: SNB

CAR and ROE and Property prices



Source: SNB

Interestingly, the crisis could not markedly deteriorate ROE of the banking sector contrary to several other CEE countries, as Serbia recorded the by far the lowest ROE decrease between 2007 and 2011 by solely a 2% point abatement, while the average of the other eight countries of the study was 14%.

Property prices in Serbia show a unique pattern as conversely to all other eight countries property prices could not substantially fall post crisis and are still well above pre-crisis levels ensuring a tailwind for collateral values. Consequently, mortgage LTV ratios have been fluctuating around the reassuring 62-67% levels since 2008.

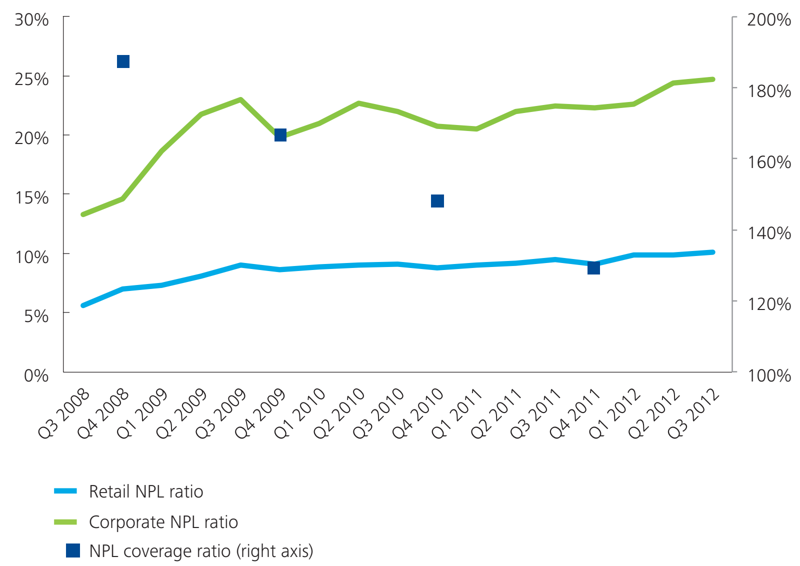
NPL volumes have been trending upwards steadily for long, nevertheless, growth seemed to tail off in Q1-Q3 2012, which might have been induced by the Q2 2012 slump in lending due to the elections. Overall NPL volumes increased by 22% in 2008, soared by 43% in the bleak 2009 and performed an average 25% growth in 2010-2011, while Q1-Q3 2012 saw a pared 9% gain which might be explained by the elections. The chart clearly illuminates that overall NPL volumes have been spurred by corporate NPLs with a 34% average yearly growth in 2009-2011, notwithstanding, the explicit dominance of corporate NPLs might enshroud the fact that retail NPLs also showed a 17% average yearly gain in the corresponding period. In Q1-Q3 2012 retail NPLs carried on thriving by 17% while corporate NPL growth experienced a harsh setback to 8%.

Between Q3 2008 and Q3 2009 both corporate and retail NPL ratios elevated dynamically, thriving by 9.7 percentage points (implying a 73% gain) and 3.5 percentage points (implying a 62% growth) respectively. This surge was followed by some fluctuation around these levels while portfolio quality deterioration picked up anew in 2012, arriving to 24.7% and 10.1% corporate and retail respective NPL ratios. Pursuant to NPL coverage, Serbia has been possessing by far the highest values amongst the nine countries of the study for long, however, NPL coverage figures have been sliding downwards from 188% in 2008 arriving to 128% in 2011, which is still outstandingly the highest.

NPL volume (EUR mn)

Source: SNB

NPL ratios and NPL coverage



Source: SNB

Romania

Evolution of key metrics since the last issue of the study:

Macro	2011	2012	Change (% point)
GDP (% real change pa)	2.5%	0.2%	-2.3% !
Consumer prices (% change pa; avg)	5.8%	3.4%	-2.4%
Recorded unemployment (%)	5.1%	4.3%	-0.8%
Budget balance (% of GDP)	-4.1%	-2.5%	1.6%
Public debt (% of GDP)	31.2%	33.8%	2.6%

Banking sector	2011	2012	Change (%)
Retail loans (RON mn)	104,255	103,935	-0.3%
Corporate loans (RON mn)	115,372	119,376	3.5%
NPL volumes	**2011**	**Q2 2012**	**Change (%)**
Total NPLs (RON mn)	31,407	37,656	19.9% !
NPL ratios	**2011**	**Q2 2012**	**Change (% point)**
Total NPL ratio	14.3%	16.8%	2.5%
Key ratios	**2011**	**Q3 2012**	**Change (% point)**
CAR (%)	14.9%	14.7%	-0.2%
ROE (%)	-2.6%	-0.3%	2.3%
ROA (%)	-0.2%	0.0%	0.2%
L/D (%)	111.2%	111.0%	-0.2%
FX share of lending (%)	63.4%	63.7%	0.3%

Tendencies in Romania were ambivalent in 2012 with both positive and devastating data.

Real GDP growth of 2011 was trimmed back to quasi zero by a substantial 2.3% points while public debt also swelled somewhat by 2.6 percentage points. Dampened demand entailed a 2.4% points abatement in consumer prices, budget deficit also dwindled under the Maastricht criterion, while unemployment could further subside from an already remarkably low level of 5.1% in 2011 which was by far the lowest value amid the nine countries of the study.

Retail lending came to a standstill whereas corporate loans outstanding climbed moderately. The most disconcerting is the 20% surge in total NPL volumes while total NPL ratio also thrived by 2.5% points.

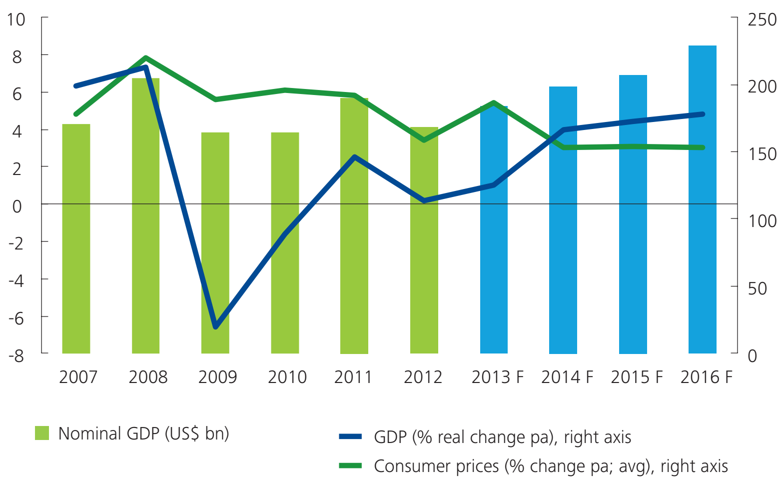
CAR, L/D and FX share of lending remained quasi the same while ROA changed sign and became somewhat positive. The most heartening development is ROE`s 2.3% points improvement, however, it is still slightly negative.

The Romanian real GDP fell by 6.6% and 1.6% in 2009 and 2010 respectively, however 2011 showed a promising 2.5% growth. 2012 performed only a scant 0.2% gain though due to extreme weather conditions and an entailing bad harvest. EIU predicts real GDP to thrive by a modest 1.0% in 2013 and a more reassuring 4.0% in 2014. Pursuant to inflation there was a huge difference between H1 and H2 of 2012 since while inflation muted to historical lows (1.8%) in H1 2012, it enhanced again in H2 2012 resulting in a still abated 3.4% average for 2012 but an amplified 5.2% at the end of 2012. EIU forecasts say that inflation will converge to the healthy 3% level in the following years.

The budget deficit amounted to 2.5% of GDP in 2012, dwindling gradually under the 3% Maastricht criterion from 7.3% in 2009. The government plans to introduce new lower income tax rates for those earning smaller incomes which are opposed by the IMF because of woes of a budget deficit in excess of 3%. EIU forecasts budget deficit to flatten out at current levels in the following years. The level of government debt of Romania (34% in 2012) is far behind the EU average of 83% and is not forecast to gain measurably in the following years either. The current-account balance is negative (-3.9% in 2012) and forecast to widen further to 6.7% by 2014.

RON weakened significantly during the crisis against EUR and CHF likewise but while EURRON could somewhat stabilise at early 2009 levels, CHFRON went on climbing and RON could only stop weakening at much higher mid-2011 levels. CDS premia of Romania culminated above 700 basis points during the most turbulent period of the crisis while mid-2012 saw almost 500 basis points and the spread dwindled to around 200 basis points in H2 2012 reflecting the improving risk profile of Romania in the eyes of investors.

GDP and consumer prices



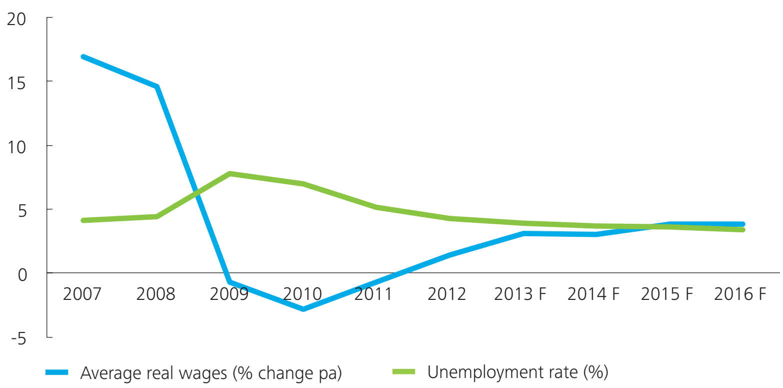
Source: EIU

2009 saw unemployment rate to peak at 7.8% but it has been abating since then arriving to 4.3% in 2012 and is forecast to dwindle further under 4% in the following years. Real wage growth slumped back to a 3% decrease in 2010 after the stellar pre-crisis years of 2007 (16.9% growth) and 2008 (14.6%). A growth of 1.4% was marked in 2012 and an average 3% increase is forecast for 2013-14.

Foreign capital is prevalent in the Romanian banking sector as 81% of total assets are owned by banks with foreign capital. Concentration is moderate since the top 5 banks own 55% of total assets. Austrian-owned banks have the highest market share (38% in June 2012), followed by Romanian (18%) and Greek (13%) backed banks, while in 2011 Greek banks possessed the 2nd place.

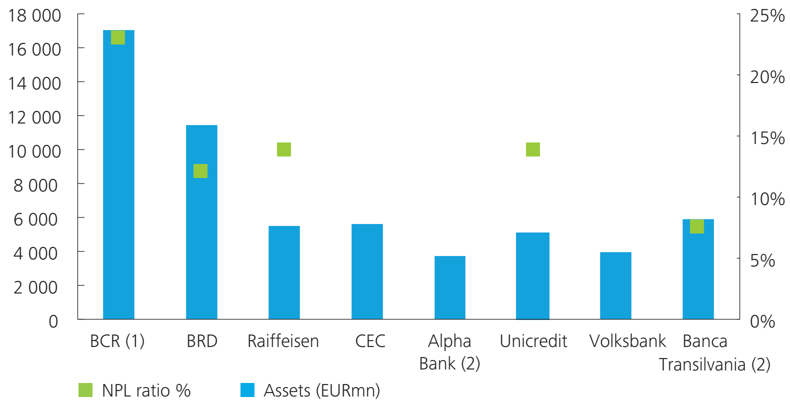
After the dizzying pre-crisis growth rates lending growth plunged back to zero in 2009 and recovery has been tepid since then. Retail lending practically has not budged since 2009 and corporate lending growth is also staid. The inhibiting factors are the negative output gap and certain restrictive supply-side conditions. Nonetheless, there are recent advancements such as the improvement of economic dynamics, some restoration of economic sentiment among economic agents and an entailing downward adjustment of lending rates. The proportion of loans taken by companies has been increasing for two years in a row to 53.6% in mid-2012 (46.4% taken by households) while two years ago the distribution was exactly the inverse, pointing to the emerge of a sustainable pattern of credit institutions` activity.

Unemployment rate and real wages



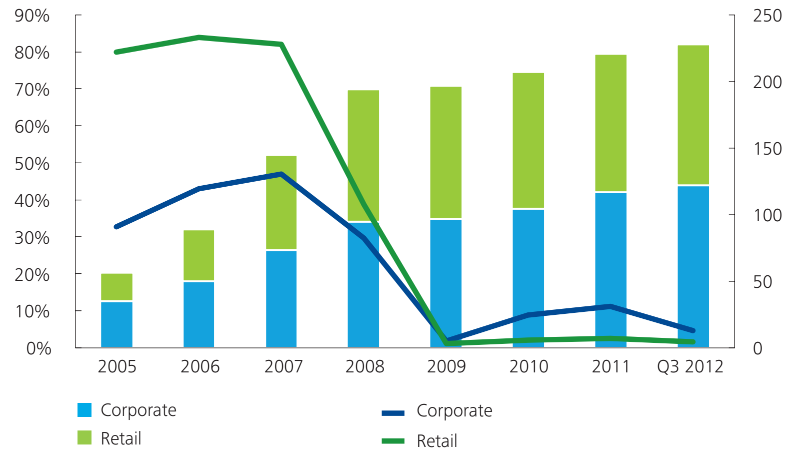
Source: EIU

Romanian banks, 2011



Source: Banks' data disclosure
Note: (1) Total assets and NPL% as of Q32011; (2) NPL % as of Q32011

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

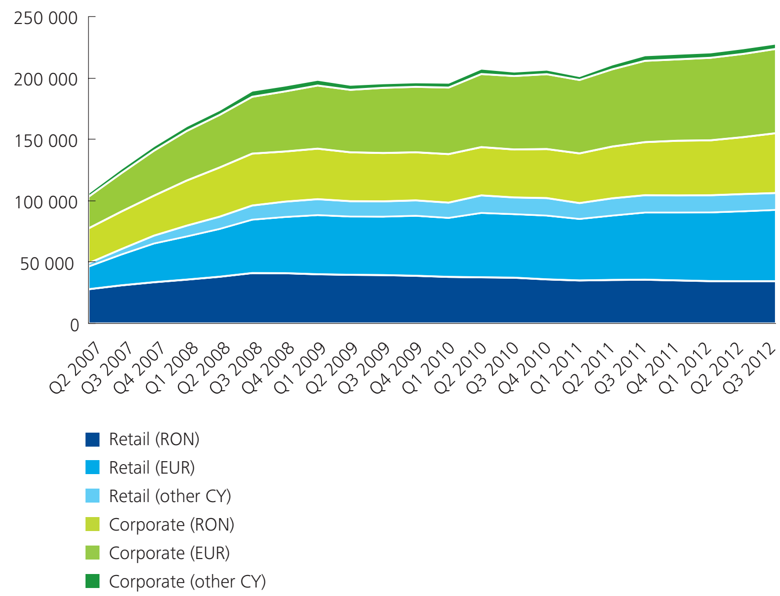


Source: SNB

FX lending was significant in Romania before the crisis as FX share of lending stood at 51% in 2007 and thrived further since then arriving to 63.7% in Q2 2012. As the chart above depicts, the overwhelming majority of FX loans were denominated in EUR. Recently, growth has merely been present in the corporate segment where the proportion of newly granted RON and FX loans has been equal. Observing the chart it also has to be borne in mind that RON depreciated by around 7% between mid-2011 and the end of 2012.

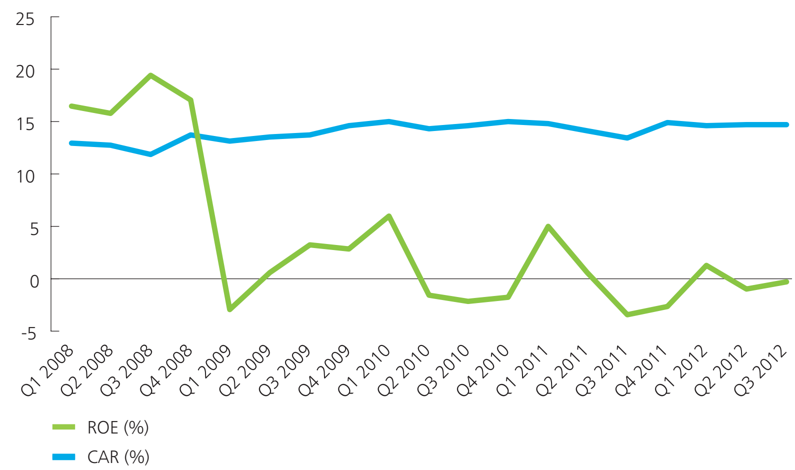
Comfortable and stable capitalisation is a fundamental positive feature of the Romanian banking sector owing to the central banks prudent supervisory measures and to the fulfilment by parent banks of their commitment to maintain adequate capital levels in their subsidiaries in Romania. The CAR of the banking sector was 14.7% as of Q3 2012 that implies a sufficient loss absorbing capacity. ROE has been teetering between positive and negative territories since the cratering induced by the crisis. The Romanian banking system witnessed a steep decline in profits during 2010, with a net loss of around EUR 100 million after a period of 12 years of continuous posting of net profits. The profit shortfall continued during 2011 when the annual loss was EUR 180 million, while H1 2012 losses amounted to EUR 43 mn.

Lending volume, CY split (RON mn)



Source: SNB

CAR and ROE



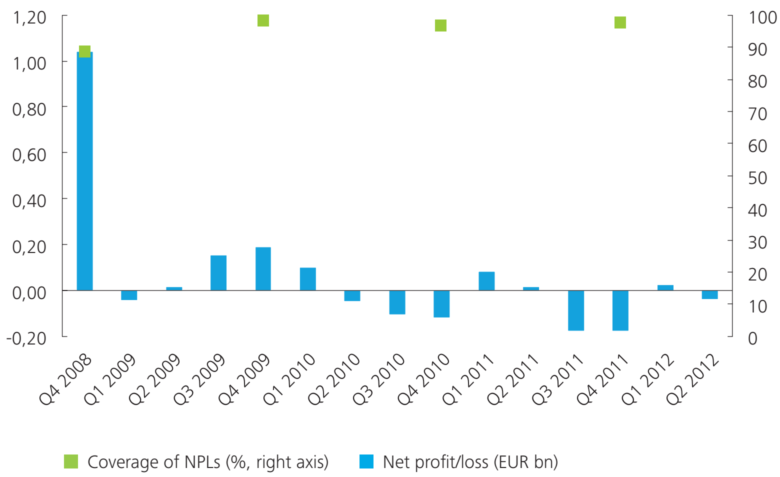
Source: NBR

The Romanian banking system witnessed a steep decline during 2010, with a net loss of around EUR 100 million after a period of 12 years of continuous posting of annual net profits, partly as a result of a 57% increase in NPL provisions. The decline continued during 2011 when the annual loss was EUR 180 million, while H1 2012 losses were EUR 43 mn. Provisions in H1 2012 were around EUR 340 mn, which is a bit lower than the corresponding data of 2011. The market share of loss making banks surged from 21.9% in 2011 to 44.6% in 2012, while only 21 banks out of 41 could record profits. Nevertheless, provision coverage of NPLs has been just below 100% for years so the Romanian banking system allocates provisions on NPLs extremely prudently. For comparison, Poland, the Czech Republic and Hungary had 70.9%, 49.4% and 45% NPL coverage ratios for 2011 which also highlights Romania`s exemplary heedfulness.

Banks in Romania are loaded with repossessed dwellings but unfortunately these properties cannot be sold on the market with acceptable returns since residential prices have been falling incessantly since H1 2008, putting a downward presure on the denominator of LTV ratios. One positive recent development is that price fall has been decelarting as in 2011 and H1 2012 it was not as severe as it had been before.

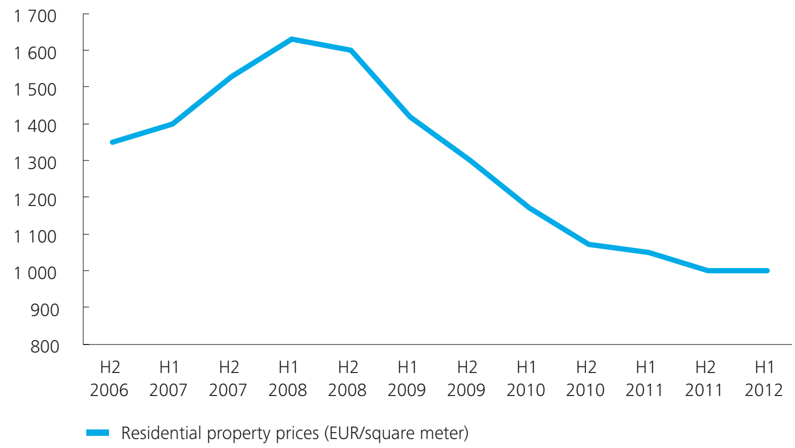
NPLs, which pose one of the most menacing threats for the banking system, continued to rise in terms of both volume and ratio as in 2011 NPL volume and ratio were RON 31.4 bn and 14.3%, whereas in Q2 2012 the corresponding numbers were RON 37.7 bn and 16.8%. Further portfolio deterioration is clearly visible from the aforementioned data, the pace has been slowing down measurably though.

Profitability and NPL coverage



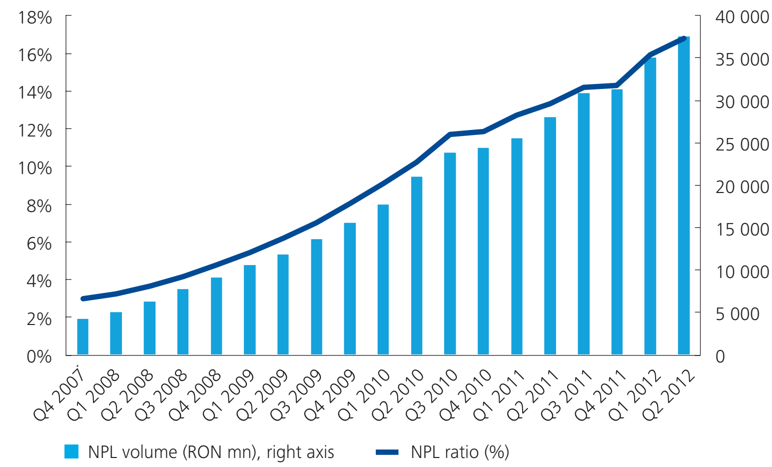
Source: NBR

Residential property prices



Source: BIS

NPLs



Source: IMF, NBR

Bulgaria

Evolution of key metrics since the last issue of the study:

Macro	2011	2012	Change (% point)
GDP (% real change pa)	1.8%	0.7%	-1.1%
Consumer prices (% change pa; avg)	4.2%	2.9%	-1.3%
Recorded unemployment (%)	9.6%	10.9%	1.3%
Budget balance (% of GDP)	-2.0%	-0.3%	1.7%
Public debt (% of GDP)	16.3%	15.5%	-0.8%

Banking sector	2011	2012	Change (%)
Retail loans (EUR mn)	9,465	9,400	-0.7%
Corporate loans (EUR mn)	23,978	23,640	-1.4%
NPL volumes	**2011**	**Q3 2012**	**Change (%)**
Retail NPLs (EUR mn)	1,149	1,173	2.1%
Corporate NPLs (EUR mn)	3,128	3,872	23.8% !
NPL ratios	**2011**	**Q3 2012**	**Change (% point)**
Retail NPL ratio	12.1%	12.5%	0.3%
Corporate NPL ratio	13.0%	16.0%	2.9% !
Key ratios	**2011**	**Q3 2012**	**Change (% point)**
CAR (%)	17.5%	16.7%	-0.8%
ROE (%)	5.8%	6.8%	1.1%
ROA (%)	0.8%	0.8%	0.1%
L/D (%)	106.1%	100.2%	-5.9%
FX share of lending (%)	63.7%	66.5%	2.8%

Despite some positive changes, the overall picture turned dimmer in Bulgaria as well in 2012.

Real GDP growth was pared by 1.1% point but a double-dip could be evaded. Tepid demand supported the 1.3% point abatement in consumer prices and budget deficit also narrowed by 1.7% point, nonetheless, unemployment rose and exceeded 10%.

Both retail and corporate loans shrank moderately by around 1%.

Retail NPLs grew by 2.1% while corporate NPLs surged by 23.8% and amounted to app. EUR 3.9 bn by Q3 2012.

NPL ratios elevated further, particularly the corporate, which gained 2.9% points and arrived at 16%.

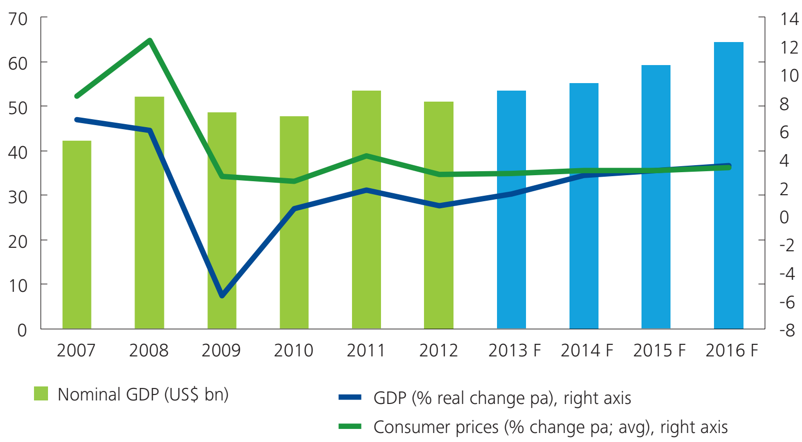
CAR dwindled by 0.8% point but remained solid at 16.7%, while ROE improved slightly by 1.1% point. L/D gravitated by 5.9% points but stayed above 100%, FX share of lending also somewhat subsided.

The Bulgarian economy declined by 5.7% in the trough of 2009 and recovery has been sluggish since then with meagre GDP increases of 0.5% and 1.8% in 2010 and 2011 and an anaemic gain of 0.7% in 2012.

Two GDP factors, exports and gross fixed investments, moved with the largest amplitude and hence exerted the most significant effects on GDP in 2010 and 2011, however, in the reserve direction. Exports thrived by 14.7% and 12.8% in 2010-2011 respectively, nonetheless, gross fixed investments plunged by 19.6% and 7.9% during the same period, offsetting the impacts of each other. In 2012, gross fixed investments could finally rise by 1.5%, but owing to the weakening economic performance of the euro zone, Bulgaria`s main export partner, exports could only perform a lacklustre 0.3% creep in 2012 and therefore could not propel growth like it did in 2010-2011. Inflation is not really an issue in Bulgaria even not if it was pushed up somewhat to 4.2% in 2011 from the average 2.6% of 2009-2010 due to international upward inflationary pressures like increasing non-oil commodity prices. 2012 saw CPI just below 3% again and inflation is forecast to be 3% and 3.2% in 2013-14 respectively.

Interestingly, the budget balance resulted in an average surplus around 3% in 2007-2008, then the crisis exacerbated the situation resulting in an average deficit of 2.3% in 2009-2011, while deficit dwindled back to 0.3% in 2012 owing to the government`s commitment towards further fiscal consolidation. EIU projects budget deficit to remain reined and be 1.2% and 0.3% in 2013-14, respectively. Public debt has been around 16% since 2010 which is by far the lowest among the parsed countries of our study and the second lowest in the whole European Union behind Estonia and projected to stay around these levels in the upcoming years likewise. Baneful current-account deficits above 20% of GDP in 2007-2008 could be curbed and muted to around zero by 2011. A minor 1.1% deficit was marked in 2012 and quasi the same values are forecast for the following years.

GDP and consumer prices



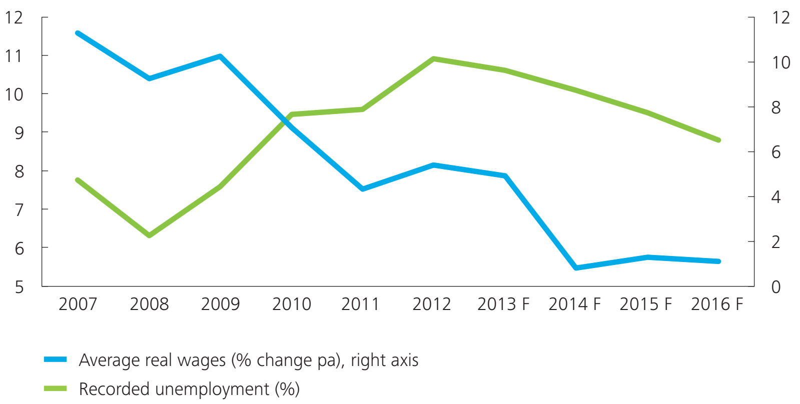
Source: EIU

BGN is pegged to the EUR (and formerly Deutsche Mark) since 1997 at EURBGN 1.956 hence Bulgaria is not exposed to sovereign FX rate volatility, unlike other countries of the study. Consequently, a Currency Board operates that has amassed robust FX reserves as international collateral to defend its currency. Following the Guidotti-Greenspan rule, the Currency Board manages FX reserves to always be higher than the short-term external debt of the country. The short-term external debt coverage of FX reserves stood at a reassuring 137% as of April 2012. CDS spread of Bulgaria hit its peak around 700 bps in the crisis, then abated back and was fluctuating in the 200-400 bps band between Q3 2009 and Q3 2012 but year-end 2012 saw CDS dwindling further to around 100 bps, which is quite a low level compared to other countries of the study but healthy macro data (only one year of recession, muted inflation, curbed budget deficit, prominently low level of public debt) and pegged FX rate may justify the risk perception of the market.

Unemployment has been rising steadily since 2008, thriving 4.6% points form 6.3% to 10.9% in 2012 exerting a detrimental effect on NPL ratios, nonetheless, it is projected to have peaked in 2012 and thus subside moderately to 10.1% by 2014. Average real wage growth has also been trending downwards from 11.3% in 2007 to 5.4% in 2012, which value still excels in comparison with other analysed countries, however, it is predicted to shed 4.6% points and only grow by a tepid 0.8% in 2014.

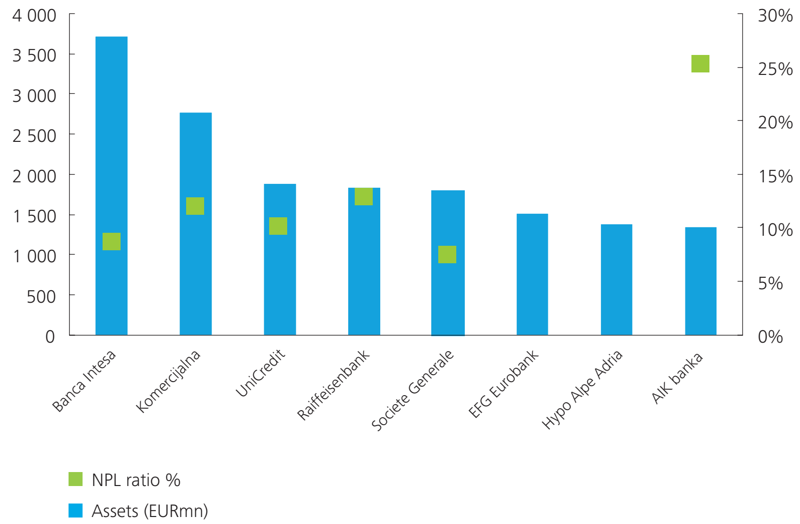
The Bulgarian banking sector is relatively concentrated as top 3 and 5 players stand for 35% and 52% of the overall market based on total assets respectively, while 6-10 players possess 25% market share. The number one UniCredit Bulbank excels in terms of assets, equity and net profit likewise, having a 15% market share. The 2nd DSK Bank is owned by OTP, 3rd United Bulgarian Bank by National Bank of Greece Group, 4th is Raiffeisenbank while the 5th First Investment Bank is owned by two Bulgarian private individuals. As of June 2012, market share of EU bank subsidiaries was 68.5%, while domestic banks accounted for merely 25%, which is not surprising bearing in mind that top 4 banks are foreign owned.

Unemployment rate and real wages



Source: EIU

Bulgarian banks, 2011



Source: Banks' data disclosure

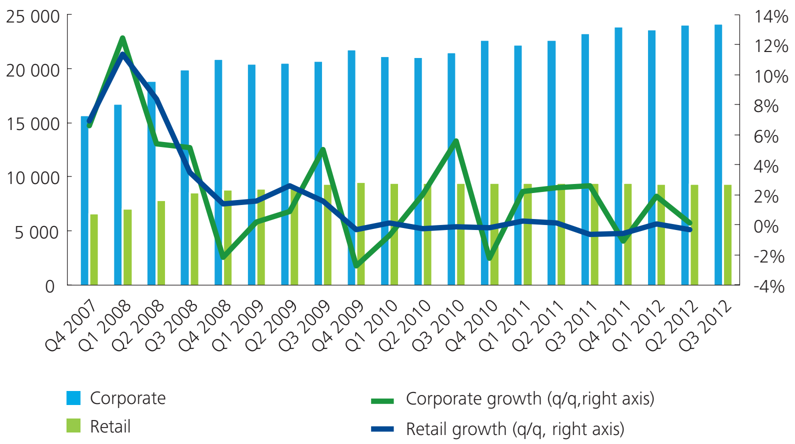
As self-evident phenomenon, the crisis curtailed lending harshly in Bulgaria as well, as 33% lending growth in both corporate and retail segments in 2008 was trimmed back to 4% and 7.5% respectively in 2009. After this plunge corporate and retail lending parted and continued on different trajectories as retail lending could not grow since then but came to a standstill and has been faltering around the same levels, while corporate lending has been able to perform a 4-5% yearly growth which is still curbed but at least growth. As per the distribution of corporate and retail lending, weight of corporate lending has been the highest among the nine countries of the study (in tandem with Serbia) with values above 70%. Taking into account this lowest proportion of retail lending, it might be surprising that the retail segment has been unable to grow for years neither in relative, nor in absolute terms, however, there might be growth reserves in retail lending that could be realized in an improving international and thus domestic economic environment.

Since BGN is pegged to the euro, FX risk is not an issue in Bulgaria, and the reliance on the stability of the Currency Board is visible from the denomination structure of loans as well, since more than 60% of loans outstanding are denominated in EUR and around 35% in BGN. On the deposit side the proportion of EUR is around 50% while BGN deposits account for about 45%, leaving quasi the same 5% for other currencies, just like in the case of loans.

The Bulgarian banking sector entered the crisis with already a sound capital adequacy with a CAR of 13.8% as of Q4 2007 but adjusted further to turbulence and amassed massive capital buffers arriving to a CAR of 16.7% as of Q2 2012 due to two factors, the persevering commitment of banks to maintain robust capital bases and hence a conservative dividend policy, and the continued prudent and proactive regulatory requirements. Although splendid pre-crisis profitability of ROE values above 20% were pared, ROE could stabilize around 6-7% and never turned negative unlike in a few other countries of the study, yields of 6-7% are not sufficient when it is about equity returns.

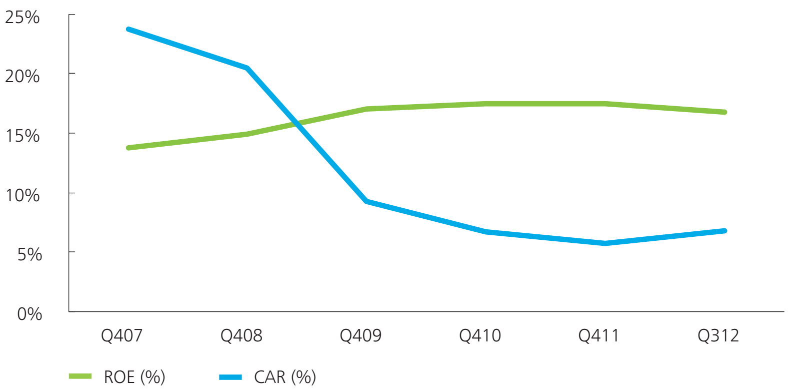
After showing the unique rise and fall pattern of pre-crisis exuberance and the ensuing crash, residential real estate prices went on to decrease by a diminishing slope and mid-2011 could withstand further price meltdowns thus prices flattened out around 90% levels of Q1 2007 prices.

Lending (EUR mn)



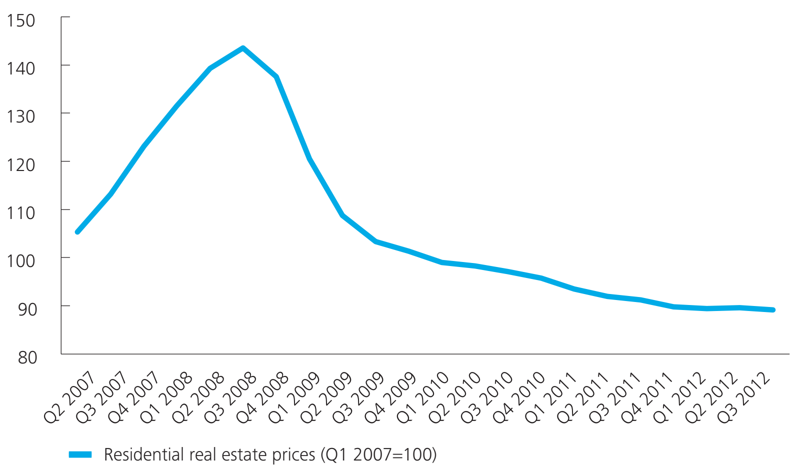
Source: BNB

CAR and ROE



Source: IMF, BNB

Residential RE prices



Source: BIS

From a bank perspective this is comfortable concerning LTV ratios, nonetheless, knowing that 70% of overall lending is corporate lending, proportion of residential properties in the collateral structure of banks is lower compared to other CEE countries, which amplifies the significance of industrial real estate markets, which are also stagnating.

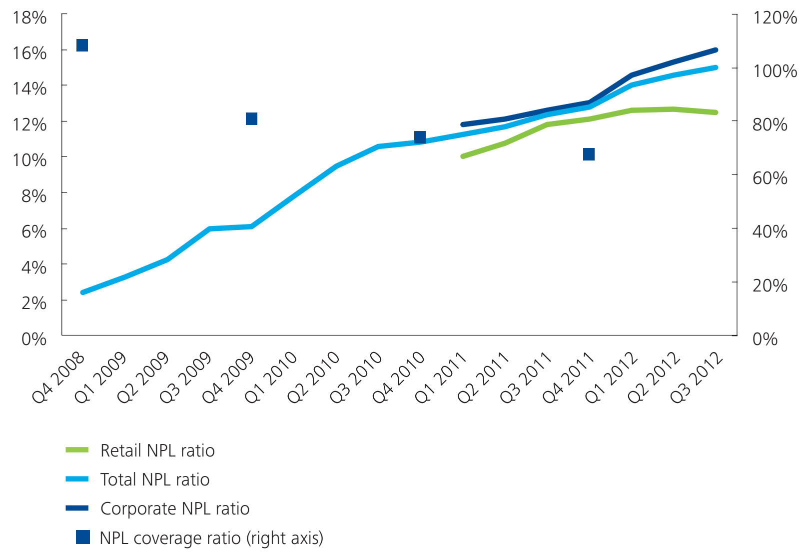
NPL volumes showed a dizzying yearly average surge above 100% throughout 2008-2010, then growth recoiled to 22% in 2011 and 18% in Q1-Q3 2012, which is still high bearing in mind frozen lending, and therefore put a detrimental upward pressure on NPL ratios. As the chart depicts, overall NPL volumes are fuelled by corporate NPLs which is a straightforward implication of the above discussed prevalence of corporate lending.

Overall NPL ratio only climbed from 2% to 2.4% in 2007, however, soared to 6.1% in 2009 buoyed by turbulence which implies a 150% growth, while 2010 also saw a 80% increase arriving to 10.9% by year-end. Corporate and retail NPL ratios were quite close to each other until Q4 2011, when the gap began to widen as further retail portfolio quality deterioration was arrested while corporate NPL ratio carried on increasing. In alignment with aforementioned, retail NPL ratios might have already topped out, while corporate NPL ratio is still on the rise, spurring overall NPL volumes. NPL coverage has been sliding downwards for years, from a prudent 109% in 2008 to 69% in 2011, as banks have been unwilling to make provisions weighing on profitability, nevertheless, current levels still cannot be considered low amid the nine CEE countries of the study, but they are around the average.

NPL volume (EUR mn)

Source: BNB

NPL ratios and NPL coverage



Source: BNB

Key macroeconomic indicators

	2007	2008	2009	2010	2011	2012	2013F	2014F	2015F
Romania									
Consumer prices (% change pa; avg)	4.8	7.8	5.6	6.1	5.8	3.4	5.4	3.0	3.1
Real GDP (% change pa)	6.3	7.3	-6.6	-1.6	2.5	0.2	1.0	4.0	4.4
Nominal GDP (US$ bn)	170.6	204.3	164.3	164.4	189.8	167.9	183.7	198.6	207.1
Recorded unemployment (%)	4.1	4.4	7.8	7.0	5.1	4.3	3.9	3.7	3.6
Average real wages (% change pa)	16.9	14.6	-0.7	-2.8	-0.7	1.4	3.1	3.0	3.8
Budget balance (% of GDP)	-3.1	-4.8	-7.3	-6.4	-4.1	-2.5	-2.3	-2.1	-2.3
Public debt (% of GDP)	19.1	20.8	26.2	28.5	31.2	33.8	35.8	35.8	35.6
Current account balace (% of GDP)	-13.5	-11.6	-4.2	-4.4	-4.3	-3.9	-4.0	-6.7	-7.6
Hungary									
Consumer prices (% change pa; avg)	8.0	6.0	4.2	4.9	3.9	5.7	4.5	3.6	4.1
Real GDP (% change pa)	0.1	0.9	-6.8	1.3	1.6	-1.7	-0.5	1.3	3.3
Nominal GDP (US$ bn)	136.1	154.2	126.6	128.6	139.7	126.2	140.8	152.5	155.9
Recorded unemployment (%)	7.3	7.8	10.0	11.2	10.9	10.9	10.1	9.0	8.5
Average real wages (% change pa)	0.0	1.3	-3.5	-3.4	1.2	-1.4	-0.9	0.6	0.2
Budget balance (% of GDP)	-5.1	-3.7	-4.5	-4.4	4.2	-2.8	-3.1	-3.4	-3.7
Public debt (% of GDP)	67.0	73.0	79.8	81.4	80.8	81.3	82.5	83.0	84.2
Current account balace (% of GDP)	-7.3	-7.2	-0.1	1.2	1.5	0.5	-0.8	-1.3	-3.6
Poland									
Consumer prices (% change pa; avg)	2.4	4.3	3.8	2.7	4.2	3.7	2.1	2.3	2.4
Real GDP (% change pa)	6.8	5.0	1.7	3.9	4.3	2.0	1.7	2.7	3.4
Nominal GDP (US$ bn)	425.1	529.3	429.6	469.0	513.5	485.6	517.5	544.6	588.8
Recorded unemployment (%)	12.7	9.8	11.0	12.1	12.4	12.8	13.5	12.8	11.0
Average real wages (% change pa)	6.6	6.0	0.4	0.9	0.5	0.2	1.1	1.4	1.8
Budget balance (% of GDP)	-1.4	-1.9	-1.8	-3.2	-1.7	-3.7	-3.3	-3.0	-2.4
Public debt (% of GDP)	44.6	46.7	49.4	52.8	53.4	53.8	52.8	51.8	51.1
Current account balace (% of GDP)	-6.2	-6.6	-4.0	-4.7	-4.3	-3.5	-3.2	-3.4	-3.9
Slovakia									
Consumer prices (% change pa; avg)	2.8	4.6	1.6	1.0	3.9	3.6	3.0	2.8	2.7
Real GDP (% change pa)	10.5	5.8	-4.9	4.2	3.3	2.2	1.7	3.1	3.5
Nominal GDP (US$ bn)	84.2	98.3	87.5	87.2	96.1	92.7	96.8	102.7	106.1
Recorded unemployment (%)	8.4	7.7	11.4	12.5	13.2	12.8	12.1	11.2	10.9
Average real wages (% change pa)	4.5	3.4	1.3	2.3	-1.7	-0.7	0.8	1.4	2.3
Budget balance (% of GDP)	-1.6	-2.0	-8.0	-7.7	-4.8	-4.7	-3.0	-2.9	-2.3
Public debt (% of GDP)	26.6	27.9	35.6	41.1	43.3	48.4	49.8	48.6	47.9
Current account balace (% of GDP)	-5.3	-6.6	-2.6	-2.5	0.1	2.0	1.5	0.8	0.7

	2007	2008	2009	2010	2011	2012	2013F	2014F	2015F
Czech Republic									
Consumer prices (% change pa; avg)	2.9	6.3	1.0	1.5	1.9	3.3	2.7	2.3	2.2
Real GDP (% change pa)	5.7	3.1	-4.7	2.7	1.7	-1.2	0.2	1.8	2.5
Nominal GDP (US$ bn)	180.5	225.4	196.2	197.7	215.2	195.4	196.3	203.0	213.9
Recorded unemployment (%)	6.6	5.4	8.1	9.0	8.5	8.7	8.8	8.7	8.6
Average real wages (% change pa)	4.2	1.4	2.3	0.7	0.5	-0.8	-0.1	0.5	0.9
Budget balance (% of GDP)	-0.7	-2.2	-5.8	-4.8	-3.1	-5.0	-3.0	-2.7	-1.9
Public debt (% of GDP)	28.3	29.2	34.8	38.1	41.2	44.9	45.0	44.7	43.6
Current account balace (% of GDP)	-4.4	-2.1	-2.5	-3.8	-3.0	-1.6	-2.1	-2.2	-2.2
Slovenia									
Consumer prices (% change pa; avg)	3.6	5.7	0.9	1.8	1.8	2.6	2.2	2.3	2.6
Real GDP (% change pa)	7.0	3.4	-7.8	1.2	0.6	-2.4	-1.4	1.1	1.9
Nominal GDP (US$ bn)	47.4	54.8	49.5	47.2	50.3	46.3	47.0	48.4	50.1
Recorded unemployment (%)	7.7	6.7	9.2	10.7	11.8	12.0	12.2	11.8	11.0
Average real wages (% change pa)	2.2	2.5	2.6	2.0	0.2	-0.7	1.2	1.4	2.1
Budget balance (% of GDP)	0.3	-0.3	-5.5	-6.0	-6.3	-4.4	-2.9	-2.5	-1.1
Public debt (% of GDP)	22.9	22.4	31.2	33.4	41.9	45.4	45.6	44.0	40.0
Current account balace (% of GDP)	-4.7	-6.1	-0.7	-0.6	0.0	0.9	2.2	2.3	2.0
Croatia									
Consumer prices (% change pa; avg)	2.9	6.1	2.4	1.1	2.3	3.4	3.0	2.7	2.9
Real GDP (% change pa)	5.1	2.1	-6.9	-1.4	0.0	-1.9	-0.4	1.7	2.0
Nominal GDP (US$ bn)	59.4	69.6	62.2	59.5	62.5	57.9	59.4	61.9	64.2
Recorded unemployment (%)	15.1	13.4	14.9	17.6	17.7	19.5	18.6	17.5	16.8
Average real wages (% change pa)	2.2	0.8	0.2	-0.5	-0.4	-1.9	1.3	1.8	2.1
Budget balance (% of GDP)	-0.9	-0.9	-3.4	-4.6	-4.7	-4.0	-4.0	-3.9	-3.7
Public debt (% of GDP)	40.6	41.7	50.7	59.6	64.0	64.6	62.8	61.9	61.2
Current account balace (% of GDP)	-7.3	-8.7	-4.9	-1.5	-0.7	-0.3	-0.5	-1.0	-1.8
Bulgaria									
Consumer prices (% change pa; avg)	8.4	12.3	2.8	2.4	4.2	2.9	3.0	3.2	3.2
Real GDP (% change pa)	6.8	6.0	-5.7	0.5	1.8	0.7	1.5	2.8	3.2
Nominal GDP (US$ bn)	42.2	52.1	48.7	47.8	53.6	51.1	53.4	55.2	59.2
Recorded unemployment (%)	7.7	6.3	7.6	9.5	9.6	10.9	10.6	10.1	9.5
Average real wages (% change pa)	11.3	9.2	10.2	7.1	4.3	5.4	4.9	0.8	1.3
Budget balance (% of GDP)	3.3	2.9	-0.9	-4.0	-2.0	-0.3	-1.2	-0.3	-0.3
Public debt (% of GDP)	17.2	13.7	14.6	16.3	16.3	15.5	15.6	16.1	17.7
Current account balace (% of GDP)	-20.7	-22.9	-8.8	-1.2	0.9	-1.1	-0.7	-1.0	-2.4

	2007	2008	2009	2010	2011	2012	2013F	2014F	2015F
Serbia									
Consumer prices (% change pa; avg)	6.9	12.4	8.1	6.2	11.2	7.3	8.7	4.7	4.0
Real GDP (% change pa)	5.4	3.8	-3.5	1.0	1.6	-1.7	1.0	3.0	4.2
Nominal GDP (US$ bn)	39.2	47.7	40.2	36.1	44.2	38.3	40.8	43.4	47.8
Recorded unemployment (%)	18.8	14.4	16.9	20.1	23.7	25.9	28.4	24.3	20.2
Average real wages (% change pa)	14.5	6.5	-0.2	-0.7	4.8	6.6	7.2	8.4	6.8
Budget balance (% of GDP)	-2.0	-2.3	-4.5	-4.8	-4.9	-5.8	-4.3	-3.5	-3.0
Public debt (% of GDP)	30.9	29.2	34.8	42.9	45.1	60.6	59.0	57.0	55.0
Current account balace (% of GDP)	-18.3	-22.5	-7.9	-8.6	-9.3	-10.7	-8.8	-7.5	-6.3

Source: EIU

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

Country	2006	2007	2008	2009	2010	2011	H1 2012
Croatia	100%	99%	102%	112%	109%	106%	101%
Czech Republic	100%	131%	145%	121%	119%	120%	n/a
Hungary	100%	102%	105%	105%	107%	98%	97%
Poland	100%	115%	121%	104%	104%	101%	96%
Romania	100%	130%	176%	165%	133%	107%	112%
Slovakia	100%	132%	141%	124%	121%	118%	117%
Slovenia	100%	110%	110%	101%	101%	102%	99%
Bulgaria	100%	135%	150%	111%	105%	98%	98%
Serbia	100%	106%	134%	152%	170%	156%	159%

Source: BIS (Bank for International Settlements)

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	H1 2012	H2 2012
Croatia (EURHRK)	99%	100%	99%	100%	99%	99%	98%	101%	100%	103%	103%	104%
Czech Republic (EURCZK)	104%	95%	86%	98%	94%	96%	93%	91%	88%	94%	93%	91%
Hungary (EURHUF)	98%	100%	97%	103%	114%	106%	111%	109%	104%	120%	113%	114%
Poland (EURPLN)	99%	94%	88%	104%	118%	108%	108%	105%	104%	118%	111%	108%
Romania (EURRON)	93%	106%	108%	118%	124%	125%	129%	126%	125%	127%	133%	131%
Slovakia (EURUSD)	102%	111%	119%	105%	106%	109%	95%	98%	106%	98%	95%	97%
Slovenia (EURUSD)	102%	111%	119%	105%	106%	109%	95%	98%	106%	98%	95%	97%
Bulgaria (EURBGN)	101%	100%	100%	100%	100%	100%	100%	100%	100%	101%	102%	101%
Serbia (EURRSD)	103%	104%	103%	116%	123%	126%	137%	139%	134%	138%	154%	148%

Source: Central Banks

Key lending indicators

	2007	2008	2009	2010	2011	Q3 2012
Romania (RON mn)						
Retail (RON)	33,573	40,941	38,810	35,915	35,045	34,433
Retail (EUR)	31,595	45,812	48,948	51,995	55,352	58,102
Retail (other CY)	6,340	12,451	12,460	14,190	13,858	13,698
Retail loans total	71,508	99,205	100,218	102,100	104,255	106,233
Corporate (RON)	32,577	40,870	39,216	39,978	44,609	48,751
Corporate (EUR)	36,646	48,942	53,305	60,985	66,275	68,655
Corporate (other CY)	3,733	4,717	3,673	3,656	4,488	4,345
Corporate loans total	72,955	94,529	96,194	104,618	115,372	121,751
Total loans	**144,463**	**193,734**	**196,412**	**206,718**	**219,627**	**227,984**
Hungary (HUF bn)						
Corporate (HUF)	2,972	2,730	2,454	2,381	2,210	2,290
Retail (HUF)	2,167	2,090	2,002	2,091	2,220	2,371
Corporate (FX)	3,439	4,217	3,880	3,623	3,576	2,925
Retail (FX)	3,190	5,040	4,717	5,104	4,543	3,381
Retail loans total	n/a	7,130	6,719	7,194	6,763	5,752
Corporate loans total	n/a	6,947	6,334	6,004	5,786	5,215
Total loans	**n/a**	**14,077**	**13,053**	**13,198**	**12,549**	**10,967**
Poland (PLN mn)						
Retail (PLN)	n/a	n/a	78,053	101,040	121,156	137,524
Retail (CHF)	n/a	n/a	129,956	145,124	163,526	147,365
Retail (other CY)	n/a	n/a	9,641	20,653	32,962	32,792
Retail loans total	n/a	n/a	332,925	383,981	434,092	430,160
Corporate (PLN)	n/a	n/a	165,694	167,804	192,865	211,532
Corporate (other CY)	n/a	n/a	56,819	54,735	71,428	64,493
Corporate loans total	n/a	n/a	222,513	222,539	264,293	276,025
Total loans	**n/a**	**n/a**	**555,438**	**606,520**	**698,385**	**706,185**
Slovakia (EUR mn)						
Corporate loans total	13,470	15,478	14,941	15,124	15,535	15,352
Consumer loans	1,379	1,694	1,910	3,120	n/a	n/a
Loans for house pruchase	6,773	8,536	9,469	10,849	n/a	n/a
Other loans	1,949	2,382	2,570	1,620	n/a	n/a
Retail loans total	10,101	12,612	13,949	15,589	17,249	18,321
Total loans	**23,571**	**28,090**	**28,890**	**30,713**	**32,784**	**33,673**
Czech Republic (CZK mn)						
Corporate loans total	743,195	847,484	782,607	780,487	828,055	844,376
Consumer loans	137,702	169,088	185,581	199,206	196,092	194,439
Mortgage	510,945	613,590	684,297	728,141	772,866	796,247
Other loans	20,114	25,680	28,086	33,434	40,007	39,395
Retail loans total	668,761	808,358	897,964	960,781	1,008,965	1,030,081
Total loans	**1,411,956**	**1,655,842**	**1,680,571**	**1,741,268**	**1,837,020**	**1,874,457**
Slovenia (EUR mn)						
Corporate loans total	21,786	24,790	25,078	24,783	24,288	23,673
Consumer credit	2,743	2,884	2,900	2,833	n/a	n/a
Loans for house purchase	2,668	3,395	3,927	4,837	n/a	n/a
Other lending	1,407	1,548	1,586	1,612	n/a	n/a
Retail loans total	7,836	8,860	9,454	10,102	10,239	10,096
Total loans	**29,622**	**33,650**	**34,531**	**34,886**	**34,527**	**33,769**
Croatia (HRK mn)						
Corporate loans total	92,265	126,760	138,944	147,810	163,659	161,455
Retail loans total	112,925	125,923	122,195	127,139	128,058	125,759
Total loans	**205,190**	**252,682**	**261,139**	**274,950**	**291,717**	**287,214**

	2007	2008	2009	2010	2011	Q3 2012
Bulgaria (EUR mn)						
Corporate loans total	15,782	21,007	21,851	22,775	23,978	24,229
Retail loans total	6,632	8,874	9,542	9,499	9,465	9,402
Total loans	**22,414**	**29,881**	**31,393**	**32,274**	**33,443**	**33,631**
Serbia (EUR mn)						
Corporate loans total	5,620	7,897	8,557	10,279	12,379	12,070
Retail loans total	5,070	4,611	4,672	5,269	5,613	5,917
Total loans	**10,690**	**12,509**	**13,229**	**15,548**	**17,992**	**17,988**

Source: Central Banks, IMF

NPL	Q4 07	Q4 08	Q4 09	Q4 10	Q4 11	Q3 12	Note
Croatia	4.8%	4.9%	7.8%	11.2%	12.4%	14.1%	
Czech Republic	3.1%	3.7%	6.0%	7.1%	6.7%	6.5%	
Hungary	2.3%	3.7%	8.5%	11.1%	15.1%	18.1%	
Poland	5.3%	4.6%	8.1%	8.8%	8.3%	8.8%	
Romania	3.0%	4.8%	8.0%	11.9%	14.3%	16.8%	*Q2 2012 data*
Slovakia	2.4%	3.5%	5.8%	6.4%	5.6%	5.1%	
Slovenia	2.6%	3.8%	5.4%	7.4%	11.2%	14.2%	
Bulgaria	2.0%	2.4%	6.1%	10.9%	12.8%	15.0%	
Serbia	11.3%	11.8%	15.9%	16.7%	18.2%	19.9%	

Source: IMF, Central Banks

CAR	Q4 07	Q4 08	Q4 09	Q4 10	Q4 11	Q3 12	Note
Croatia	16.3%	15.1%	16.4%	18.8%	19.6%	20.5%	
Czech Republic	11.0%	11.6%	14.0%	15.3%	15.0%	15.7%	
Hungary	11.0%	11.2%	13.1%	13.3%	14.2%	15.0%	
Poland	12.0%	11.2%	13.3%	13.9%	13.1%	14.1%	
Romania	13.8%	13.8%	14.7%	15.0%	14.9%	14.7%	
Slovakia	12.8%	11.1%	12.6%	12.7%	13.4%	15.8%	
Slovenia	11.2%	11.7%	11.6%	11.3%	11.9%	11.9%	
Bulgaria	13.8%	14.9%	17.0%	17.5%	17.5%	16.7%	*Q2 2012 data*
Serbia	27.9%	21.9%	21.4%	19.9%	19.1%	17.2%	*Q2 2012 data*

Source: IMF, Central Banks

ROE	Q4 07	Q4 08	Q4 09	Q4 10	Q4 11	Q3 12	Note
Croatia	14.0%	12.8%	8.8%	8.3%	8.7%	7.6%	
Czech Republic	27.8%	20.7%	26.4%	19.7%	18.3%	20.9%	
Hungary	21.8%	17.0%	8.3%	0.4%	-4.0%	2.9%	
Poland	22.9%	20.7%	11.2%	13.2%	16.1%	14.5%	*2007 annual*
Romania	9.4%	17.0%	2.9%	-1.7%	-2.6%	-0.3%	2007 annual
Slovakia	16.5%	14.1%	6.5%	12.3%	6.9%	11.2%	*2007-2010 annual*
Slovenia	16.3%	8.1%	3.9%	-3.2%	-11.8%	-2.5%	*2007-2009 annual*
Bulgaria	23.8%	20.5%	9.3%	6.7%	5.8%	6.8%	*Q2 2012 data*
Serbia	8.5%	9.3%	4.6%	5.4%	6.4%	6.2%	*Q2 2012 data*

Source: IMF, Central Banks

ROA	Q4 07	Q4 08	Q4 09	Q4 10	Q4 11	Q3 12	Note
Croatia	1.6%	1.7%	1.2%	1.2%	1.2%	1.1%	
Czech Republic	1.4%	1.1%	1.4%	1.3%	1.2%	1.4%	
Hungary	1.7%	1.3%	0.6%	0.0%	-0.4%	0.3%	
Poland	1.8%	1.5%	0.8%	1.0%	1.3%	1.2%	*2007 annual*
Romania	1.0%	1.6%	0.3%	-0.2%	-0.2%	0.0%	2007 annual
Slovakia	1.1%	1.0%	0.5%	0.9%	0.7%	1.2%	*2007-2010 annual*
Slovenia	1.4%	0.7%	0.3%	-0.2%	-0.9%	-1.9%	*2007-2009 annual*
Bulgaria	2.4%	2.1%	1.1%	0.9%	0.8%	0.8%	*Q2 2012 data*
Serbia	1.7%	2.1%	1.0%	1.1%	1.2%	1.3%	*Q2 2012 data*

Source: IMF, Central Banks

FX share of lending (% of total)	2007	2008	2009	2010	2011	Q212
Croatia	61.7%	65.5%	72.3%	74.3%	75.1%	73.6%
Czech Republic	23.9%	21.8%	21.2%	21.6%	22.2%	22.2%
Hungary	52.4%	65.8%	65.9%	66.1%	64.7%	59.4%
Poland	24.8%	35.0%	32.2%	32.5%	34.4%	32.1%
Romania	50.9%	57.8%	59.9%	63.0%	63.4%	63.7%
Slovakia	23.6%	17.4%	2.0%	1.5%	1.6%	1.7%
Slovenia	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Bulgaria	50.6%	57.2%	58.6%	61.3%	63.7%	66.5%
Serbia	n/a	80.0%	70.9%	65.5%	69.0%	74.4%

Source: IMF, Central Banks

Lending growth index (2007 as 100, basis index)	2007	2008	2009	2010	2011	Q212
Croatia	100	123	127	134	142	140
Czech Republic	100	117	119	123	130	133
Hungary	100	112	103	105	99	87
Poland	100	139	147	163	187	189
Romania	100	134	136	143	152	158
Slovakia	100	119	123	130	139	143
Slovenia	100	114	117	118	117	114
Bulgaria	100	133	140	144	149	150
Serbia	100	117	124	145	168	168

Source: IMF, Central Banks

Loans to GDP (%)	2004	2005	2006	2007	2008	2009	2010	2011
Croatia	52%	58%	65%	68%	72%	76%	82%	75%
Czech Republic	64%	68%	67%	72%	78%	81%	84%	87%
Hungary	35%	39%	43%	47%	54%	52%	52%	52%
Poland	26%	27%	31%	37%	47%	47%	49%	53%
Romania	17%	21%	27%	36%	39%	41%	41%	43%
Slovakia	30%	35%	37%	42%	44%	47%	48%	52%
Slovenia	61%	61%	83%	97%	106%	121%	116%	88%
Bulgaria	34%	40%	43%	61%	70%	74%	73%	76%
Serbia	26%	32%	31%	37%	42%	52%	62%	66%

Source: IMF

Key financials of major banks - 2011

Romania

Rank	Bank	Assets (EUR mn)	Equity (EUR mn)	Net Profit (EUR mn)	NPL ratio
1	BCR	17,130	1,819	-121	22.7%
2	BRD	11,565	1,412	117	12.2%
3	Raiffeisen	5,619	626	101	14.1%
4	CEC Bank	5,744	433	15	n/a
5	Alpha Bank	3,829	286	-27	n/a
6	Unicredit Tiriac	5,173	501	24	14.1%
7	Volksbank	4,104	225	-164	n/a
8	Banca Transilvania	6,030	555	70	7.1%
	Banking sector total	**90,886**			**14.1%**

Source: Annual reports

Hungary

Rank	Bank	Assets (EUR mn)	Equity (EUR mn)	Net Profit (EUR mn)	NPL ratio
1	OTP Bank Nyrt.	21,578	3,303	491	18.6%
2	K&H Zrt.	9,302	581	16	10.3%
3	Erste Bank Hungary Zrt.	10,329	551	-530	21.1%
4	MKB Bank Zrt.	8,664	251	-400	19.0%
5	CIB Bank Zrt.	8,038	646	-188	25.0%
6	Raiffeisen Bank Zrt.	7,545	210	-270	22.7%
7	OTP Jelzálogbank Zrt.	5,296	190	27	5.0%
8	UniCredit Bank Hungary Zrt.	5,597	467	45	n/a
9	Magyar Fejlesztési Bank Zrt.	4,408	683	-139	n/a
10	Budapest Bank Nyrt.	2,971	361	15	n/a
	Banking sector total	**111,934**			**16.1%**

Source: Annual reports

Poland

Rank	Bank	Assets (EUR mn)	Equity (EUR mn)	Net Profit (EUR mn)	NPL ratio
1	PKO	43,066	5,152	926	9.0%
2	Pekao	33,096	4,822	706	6.7%
3	BRE	22,324	1,823	276	5.2%
4	ING BSK	15,742	1,449	214	3.9%
5	BZ WBK	13,342	1,541	262	5.5%
6	Millenium	11,478	1,035	113	3.1%
7	Kredyt	9,483	692	80	9.0%
8	Getin Noble	12,112	918	230	8.3%
9	Citibank	9,545	1,455	179	9.0%
10	BPH/GE	8,373	1,038	53	10.6%
	Banking sector total	**312,693**			**7.5%**

Source: Annual reports

Slovakia

Rank	Bank	Assets (EUR mn)	Equity (EUR mn)	Net Profit (EUR mn)	NPL ratio
1	Slovenská sporitelna	11,349	1,039	195	7.6%
2	Vseobecná úverová banka	11,131	1,115	176	3.0%
3	Tatra banka	9,160	1,051	139	n/a
4	Ceskoslovenská obchodná banka	5,741	564	55	3.9%
5	UniCredit Bank Slovakia	3,850	224	31	5.8%
6	Dexia banka Slovensko	n/a	n/a	n/a	n/a
7	Postová banka	3,199	372	9	1.4%
8	Prvá stavebná sporitelna	2,224	70	28	n/a
9	Volksbank Slovensko	1,597	42	-5	7.3%
10	OTP Banka Slovensko	1,221	98	1.36	8.2%
	Banking sector total	**55,774**			**5.8%**

Source: Annual reports

Czech Republc

Rank	Bank	Assets (EUR mn)	Equity (EUR mn)	Net Profit (EUR mn)	NPL ratio
1	Ceskoslovenská obchodní banka	36,472	2,338	455	3.9%
2	Ceská sporitelna	35,504	3,176	548	5.5%
3	Komercní banka	29,393	3,187	396	6.0%
4	UniCredit Bank Czech Republic	11,244	1,289	47	5.6%
5	Raiffeisenbank	7,903	630	90	4.2%
6	Hypotechní banka	7,048	952	107	0.9%
7	Ceskomoravská stavební sporitelna	6,654	390	84	3.4%
8	GE Money Bank	5,489	1,170	179	15.0%
	Banking sector total	**178,720**			**6.0%**

Source: Annual reports

Slovenia

Rank	Bank	Assets (EUR mn)	Equity (EUR mn)	Net Profit (EUR mn)	NPL ratio
1	Nova Ljubljanska banka	12,980	956	-233	17.9%
2	Nova KBM	4,811	373	-83	12.0%
3	Abanka Vipa	4,258	231	-147	15.9%
4	SID banka Ljubljana	4,029	332	6	5.8%
5	UniCredit Banka	2,945	241	15	10.0%
6	SKB banka	2,791	280	7	13.2%
7	Banka Celje	2,456	181	-19	12.3%
8	Banka Koper	2,250	268	18	6.5%
9	Hypo Alpe-Adria-bank	1,978	160	-31	9.3%
10	Gorenjska Banka	1,912	337	2	12.4%
	Banking sector total	**52,400**			**11.5%**

Source: Annual reports

Croatia

Rank	Bank	Assets (EUR mn)	Equity (EUR mn)	Net Profit (EUR mn)	NPL ratio
1	Zagrebacka Banka	15,966	2,330	201	6.8%
2	Privredna Banka Zagreb	9,891	1,644	174	12.0%
3	Erste & Steiermarkische Bank	8,410	923	100	12.8%
4	Raiffeisenbank Austria	5,176	751	44	9.3%
5	Hypo Alpe-Adria-Bank	5,539	722	6	20.9%
6	Splitska Banka	3,571	461	19	10.1%
7	Hrvatska Postanska Banka	2,227	166	11	13.3%
8	Otp Banka Hrvatska	1,704	186	1	11.4%
9	Volksbank	1,000	209	0	15.5%
10	Banking sector total	54,282			12.4%
	Banking sector total	**312,693**			**7.5%**

Source: Annual reports

Bulgaria

Rank	Bank	Assets (EUR mn)	Equity (EUR mn)	Net Profit (EUR mn)	NPL ratio
1	UniCredit Bulbank	6,085	1,027	119	14.4%
2	DSK Bank	4,375	676	44	16.1%
3	United Bulgarian Bank	3,432	574	15	5.3%
4	Raiffeisenbank (Bulgaria)	3,296	484	26	11.3%
5	First Investment Bank	3,119	244	19	9.5%
6	Eurobank EFG Bulgaria	3,066	406	8	5.2%
7	Corporate Commercial Bank	2,066	196	31	14.9%
8	Societe Generale Expressbank	1,681	219	24	4.6%
9	Piraeus Bank Bulgaria	1,641	316	27	13.5%
10	Central Cooperative Bank	1,535	170	7	3.0%
	Banking sector total	**39,273**			**14.9%**

Source: Annual reports

Serbia

Rank	Bank	Assets (EUR mn)	Equity (EUR mn)	Net Profit (EUR mn)	NPL ratio
1	Banca Intesa a.d.	3,740	767	95	8.5%
2	Komercijalna banka a.d.	2,790	439	35	12.0%
3	UniCredit banka a.d.	1,898	404	45	10.1%
4	Raiffeisen banka a.d.	1,855	526	49	12.8%
5	Societe Generale banka a.d.	1,809	324	13	7.6%
6	EFG Eurobank a.d.	1,534	418	29	n/a
7	Hypo Alpe Adria banka a.d.	1,402	315	13	n/a
8	AIK banka a.d.	1,368	448	29	25.1%
	Banking sector total	**27,732**			**18.8%**

Source: Annual reports

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