CEE Banking
Sector Report

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This report is the first part of a two part series. The second part containing company updates will be published before the end of 2005.

CEE Banking Sector Report
Summary

Central and Eastern Europe is a large and highly dynamic region with outstanding prospects for growth and prosperity. Despite the rapid growth of the banking sectors in CEE the markets in the region remain underbanked, thereby providing ample opportunities for the banks in the region to tap this potential to meet the demand for a full range of banking services. While the more advanced banking sectors in the new EU member countries and Croatia made further visible progress in the catch-up process, the markets in South East Europe and the former CIS (that are in an earlier stage of development) also succeeded in pushing forward market oriented reforms and the privatisation process.

Central and Eastern Europa is a large and highly dynamic region with outstanding prospects

Over the last few years mortgage loans have become one of the most important and most dynamic business fields in an increasing number of CEE countries. Romania and Bulgaria were the latest countries to join the new EU member states and Croatia in the mortgage boom. Notwithstanding the high growth rates of recent yeas, even Croatia and Hungary, where mortgage loans reached al level of around 10% of GDP at year end 2004, have plenty of room to catch up to the Eurozone level of more than 34% of GDP.

Mortgage loans have become an important and dynamic business field

At the micro level the trends have not changed substantially in the past year. The concentration process is going on and has found its temporary climax in the announced merger of UniCredit and the HVB network in CEE. Due to the rising importance of retail and SME banking size increasingly becomes an issue with regard to banks' profitability and efficiency. Eroding interest margins in the region, higher capital requirements due to fast asset growth and Basel 2 implementation issues might also serve as a catalyst for consolidation.

The consolidation process is going on while privatisation opportunities come to an end

Privatisations in the region - apart from the CIS countries - will approach an end after the two major transactions in Romania (BCR and CEC) and the privatisation of Vojvodjanska banka in Serbia. Still there will be opportunities to grow via acquisitions as local, non-strategic investors or international banking groups with limited CEE exposure might consider exiting the marktet given higher acquisition premiums as the number of potential takeover candidates decreases.

Privatisations in the region outside the CIS will approach an end

The CEE business has become more relevant in nearly all banking groups active in the region due to above average market growth and appreciating CEE currencies. From a regional perspective SEE and CIS countries have gained importance caused by faster loan growth in these regions. Therefore banks with high exposure towards these regions were able to increase their market share - also supported by rising M&A activity in SEE and CIS countries -, while banks with the main focus on CE countries were to a large extent not able to defend their overall market shares in CEE, unless they had a strong focus on the fast growing retail business.

Banks with high exposure towards SEE and CIS countries have outperformed the sector

And the boom goes on

CEE banking sectors continue to soar in 2004

Introduction

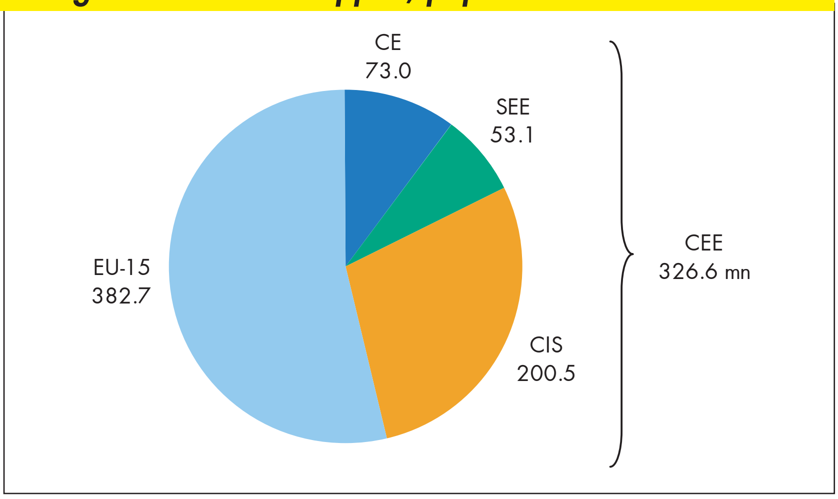
Central and Eastern Europe is a large and highly dynamic region

While we are proud of the overwhelmingly positive response to last year's re-launch of our CEE Banking Sector Report, it also placed us under a lot of pressure with regard to a follow-up in 2005. It would have been impossible to provide the extensive data in the Report without the profound support and the smooth cooperation of more than 20 colleagues from 15 countries throughout RZB Group.

Before starting we need to address a word of caution to our readers. Gathering comparable data for the CEE banking sector is all but an easy task. Figures are often revised and the methodology and structure of published data can vary to a considerable degree. While we have put great effort in processing all information, we can only provide the data to the best of our knowledge. Since the majority of the data was collected in early summer 2005, we restricted ourselves to year-end 2004 figures. Any data revision since then might not be accounted for. We are certain, however, that you will find our analysis of interest and benefit to you.

Central and Eastern Europe (CEE) is a large and highly dynamic region with outstanding prospects for growth and prosperity. Despite the rapid growth of the banking sectors, the people living and working in the region remain underbanked, thereby providing ample opportunities for the banks in the region to tap the demand for a full range of banking services. In the first part of this report, we analyse the general developments of the CEE banking sector, focusing on the key regional trends and characteristics. This is followed by a country section in which we provide a detailed overview of the banking sector in the individual countries. The third part focuses on the international banks active in the region, particularly those that are listed on the various stock exchanges.

A huge market to be tapped, population in mn



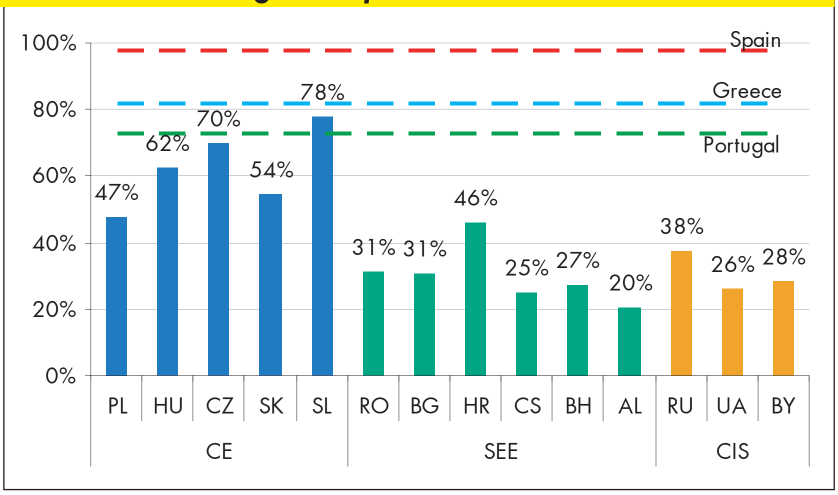
Data as of year-end 2004
Source: Eurostat, wiiw, Raiffeisen RESEARCH

Definition of sub-regions

Division into three sub-regions for analytical purposes

In order to facilitate the analysis and to be able to deduce meaningful results therefrom the CEE region was divided into three sub-regions. This follows the common categorisation that takes into account the stage of integration with the EU, the economic development, and the degree of financial intermediation and the development of the banking sector. The three regions to which we refer to in the rest of this publication are defined as follows:

Still considerable growth potential



GDP per capita (at PPP) in per cent of EU-25 avgerage
Data as of year-end 2004
Source: Thomson Financial Datastream, wiiw, Raiffeisen RESEARCH

Central Europe (CE)

The new member countries from central Europe that joined the European Union in May 2004, namely Poland, Hungary, Czech Republic, Slovakia and Slovenia. After taking over the *acquis communautaire* before entering the EU, these countries are clearly the most advanced in terms of legal and institutional reforms in the region. These are also the countries that boast the highest GDP per capita, the smallest share of the state and the highest share of foreign investors, both in the industrial and the banking sector, and also the highest degree of financial intermediation.

Still, the overall size of the banking sector is small compared to the Eurozone and the degree of intermediation also remains rather low. Bank restructuring and privatisation is largely completed and the CE banking sectors are characterised by the highest market share (close to 100% in some countries) of foreign-owned banks. Clearly there remains considerable potential and need for further growth in CE, not only for the economies but also for the banking sector.

South East Europe (SEE)

The three candidate countries - Romania, Bulgaria and Croatia - and the markets of the western Balkans, namely Serbia, Bosnia and Herzegovina and Albania. We also included Kosovo separately as an independent banking sector has developed. This is clearly the most heterogeneous of the three regions both economically and with regard to EU integration. Romania and Bulgaria already finished their EU membership negotiations and, in the case of a positive monitoring report by the EU Commission in November 2005, are scheduled to join the Union in 2007. Croatia is expected to start membership negotiations in 2006. Serbia, Bosnia and Herzegovina and Albania, on the other hand, have yet to sign *Stabilization and Association Agreements* (SAA) with the European Union as a first step towards eventual EU membership that is expected, even by optimists (like us), no earlier than 2014. The SEE region also boasts both the country with the highest degree of financial intermediation in all CEE countries in terms of credits in percent of GDP (Croatia) as well as the lowest (Albania).

Bank restructuring and privatisation has made huge strides during the last few years and the market share of foreign-owned banks has steadily increased, improving banking services and boosting competition. Despite triple-digit credit growth rates in some of the countries (coming from very low levels) the degree of financial intermediation remains low in SEE with the notable exception of Croatia and Bosnia and Herzegovina, leaving ample room for further growth. Further legal and institutional reforms that are necessary in the process of EU integration should have a positive lasting effect on the development of the banking sectors as well.

The European countries of the former Commonwealth of Independent States (CIS)

Russia, Ukraine and Belarus. Russia and Ukraine are the two largest and most populous countries in CEE. Russia's banking sector is also the largest individual market in CEE in terms of total banking assets. While banking regulation still has some shortcomings and the sector as a whole is in need for further consolidation, the recent developments of the Russian banking sector have been promising.

After suffering through a particularly severe and lengthy recession caused by the transformation from the Soviet planned economic system and further economic and political crises, the GDP per capita level in the Ukraine has yet to reach the level of 1991 despite the staggering real GDP growth of no less than 12% in 2004. However, the peaceful "Orange Revolution" has triggered sweeping changes the political landscape in Ukraine and the prospects for fundamental reforms have greatly improved.

Belarus, on the other hand, has remained a planned economy to this day. All three countries have enjoyed exceptional economic growth in recent yeas as well as solid dynamics of the banking sectors. In particular, retail lending has skyrocketed, albeit from very low starting levels. At less than 4% of GDP, the level of credits to households is only about a third of the average level in CE and SEE, underpinning the considerable growth potential.

Banking sector reforms and ownership structure

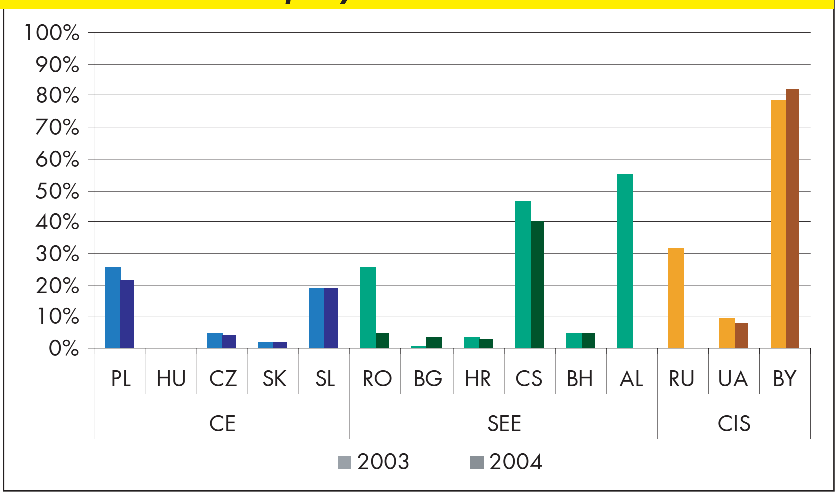
Further visible progress in the catch-up process, and in pushing forward market oriented reforms and the privatisation process

While the more advanced banking sectors in CE continued to make visible progress in the catch-up process, the markets in SEE and CIS that are in an earlier stage of development also succeeded in pushing forward market-oriented reforms and the privatisation process. The focus shifted from fundamental reforms to more advanced ones, such as the implementation of international accounting standards and more efficient regulation and supervision of the banking industry. Although there is still a lot of room left for further improvement in some areas (in particular bankruptcy legislation), a number of countries in SEE made significant progress on legal and institutional reforms that are required to advance in the process of EU integration.

Most of the banking sectors in CE already firmly in the hands of international banks

The privatisation of state-owned banks is the most straightforward measure and has proven to be a very efficient step to improve the efficiency of the banking markets. With most of the banking sectors in CE already firmly in the hands of international banks, there are only a few state banks still left to be privatised. In Poland the state reduced its majority stake in the biggest Polish bank, PKO, through a public offering on the Polish Stock Exchange in November 2004. In December 2004 Dutch Rabobank acquired a 35.3% stake in BGZ, the tenth largest Polish bank, with the EBRD buying an additional 15% stake from the state. This leaves Slovenia as the one country in CE with still a relatively large market share of majority state-owned banks at around 19% of total banking assets, a ratio that probably will not change in the near future.

Market share of majority state-owned banks



For Bosnia and Herzegovina the available statistics state <5%, no data for Russia 2004
Data as of year-end 2004
Source: Local central banks, Raiffeisen RESEARCH

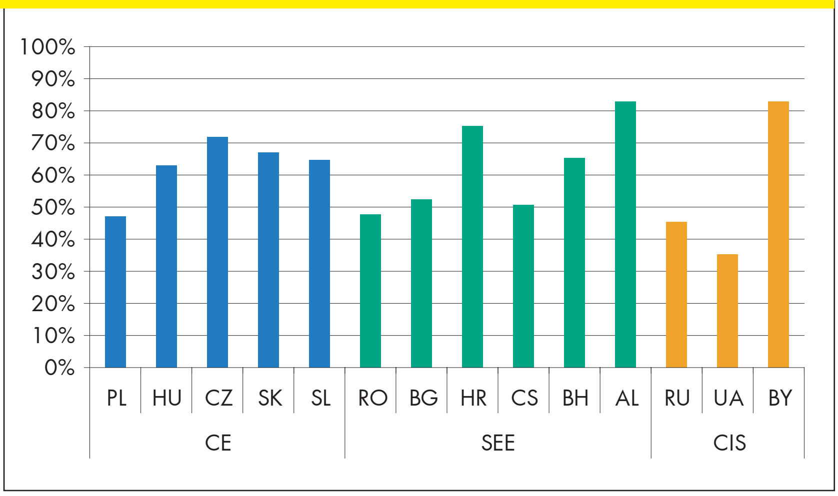
In SEE the privatisation process also continued, particularly in Serbia

In SEE, the privatisation process also continued, even though there was a notable slowdown compared with 2003. The exception was Serbia which completed the privatisation of four smaller banks: Eksimbanka (HVB), Jubanka (Alpha Bank), Novosadska banka (Erste) and Meridian bank (Credit Agricole) - the last three in early 2005. At the same time, the preparations for the privatisation of the fourth-biggest Serbian bank in terms of asset, Vojvodjanska banka, and other smaller banks continues. In Bulgaria the privatisation process was already finalised in 2003. In the case of Romania the privatisation process of BCR, the biggest Romanian bank, and CEC, the fourth-largest bank, is scheduled to be completed in 2005/2006. In Albania there are just two minority state stakes left to be sold (Italian Albanian Bank and United Bank of Albania) after the privatisation of the former Savings Bank of Albania, the largest bank in Albania, which was acquired by Raiffeisen International in early 2004.

In Russia and Belarus dominant positions in the market are held by state-owend banks

In Russia, dominant positions in the market are held by banks either owned directly by the state (Sberbank and Vneshtorgbank) or by state-owned companies (Gazprombank). Sberbank alone holds close to 60% of private deposits. Neither of those banks is expected to be subject to privatisation anytime soon. In Ukraine, there are still two majority state-owned banks, Oshadbank and Ukreximbank, both of which are expected to be privatised in the foreseeable future. The earlier stage of economic transition is also reflected in the ownership structure of the Belarusian banking sector. Three out of the four largest banks in Belarus are state-owned and the total market share of majority state-owned banks increased above 80% in 2004.

Market concentration



Market share of top five banks in per cent of asstets as of end 2004
Source: Local central banks, Raiffeisen RESEARCH

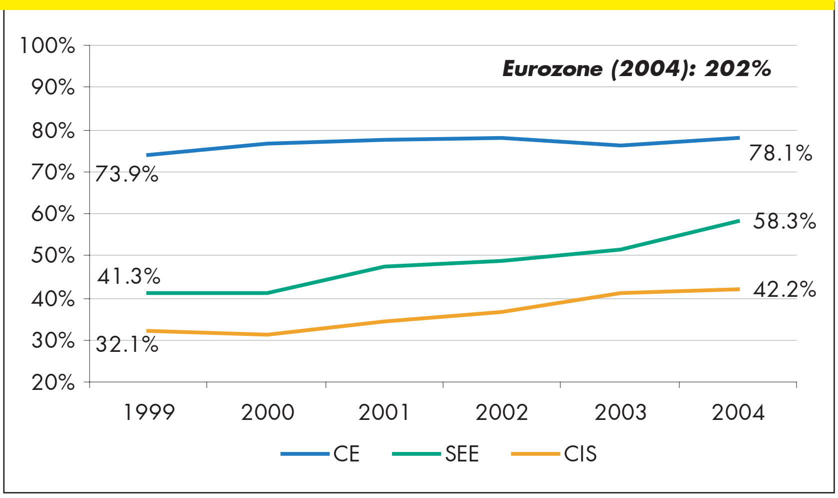
Financial intermediation and the structure of lending

CE remains the region with the largest aggregate banking sector in terms of total assets in EUR, despite the rapid growth of banking assets in SEE and CIS. Croatia remains the exception, with the level of financial intermediation, as measured by banking assets and loans as a percentage of GDP being by the far the highest in all of CEE, and, despite restrictive measures by the central bank, continuing to grow powerfully. Nonetheless, the level of financial intermediation even in Croatia continues to lag behind the Eurozone, leaving room for future expansion.

Private and foreign-owned banks are aggressively penetrating the market, speeding up the catch-up process

The growing number of private and mainly foreign-owned banks that are aggressively penetrating the market, heating up competition and improving both the quality and the range of banking products offered are in fact speeding up the catch-up process in which the CEE countries will gradually approach the higher levels of financial intermediation in the Eurozone. Compared with the rapid growth of banking assets in SEE, the banking sectors of the CIS countries have yet to fully demonstrate their ability to tap the vast growth potential that should be achievable dependant on the continuation of above average economic growth, further progress in economic reforms, market liberalisation and more effective regulation and supervision.

Levels of financial intermediation



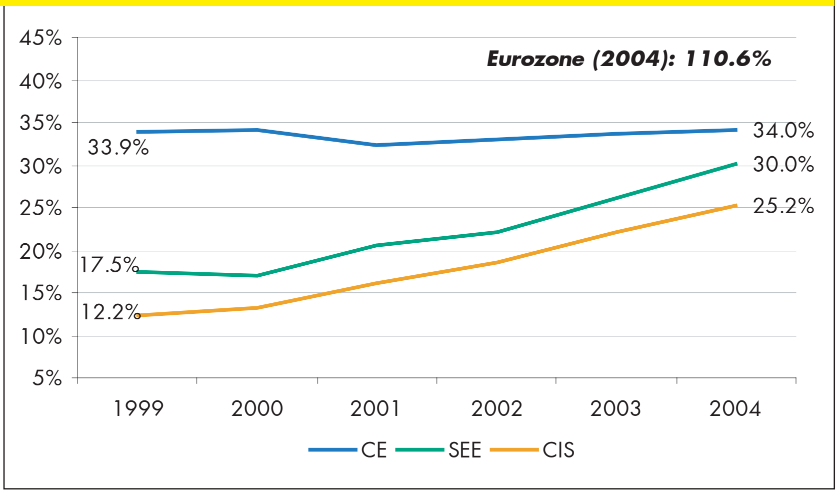
Total banking assets, in per cent of GDP
Source: Local central banks, Raiffeisen RESEARCH

The gap between the CEE countries and the Eurozone remains substantial, underscoring the considerable potential for further credit expansion

Total loans as a percentage of GDP continued to record strong growth in 2004 in SEE and CIS on the back of rising demand in rapidly expanding economies, further reducing the gap to CE. Still, the gap between the CEE countries and the Eurozone remains substantial, underscoring the considerable potential for further credit expansion. After a period of clearing up loan portfolios in the course of banking restructuring and privatisation, the ratio of total credits measured as a percentage of GDP appears to have bottomed out in the Czech Republic and Slovakia. However, the pace of credit expansion in both countries has yet to exceed nominal GDP growth. It remains to be seen whether the SEE and CIS countries will experience a similar period of consolidation as was evident in the case of the CE countries.

Given the fact that bank privatisation has to a large degree been completed in SEE, with foreign-owned banks achieving a large market share and following well established lending policies, there does not seem to be a systematic need for any substantial consolidation in that respect. Such a case cannot be as easily drawn for the CIS countries, but given the exceptional pace of economic expansion and based on the reported ratios for banking profitability and efficiency the overall health of the respective banking sectors appear to have improved over the past few years.

Total credits (to non-banks)



In per cent of GDP
Source: Local central banks, Raiffeisen RESEARCH

In EUR terms, credits to private enterprises recorded accelerated growth in CE and SEE and maintained high growth in the CIS countries. As in the case of total credits, the development of credits extended to companies in CE has gone through a period of consolidation in the process of bank restructuring and privatisation that appears to have been left behind in 2004.

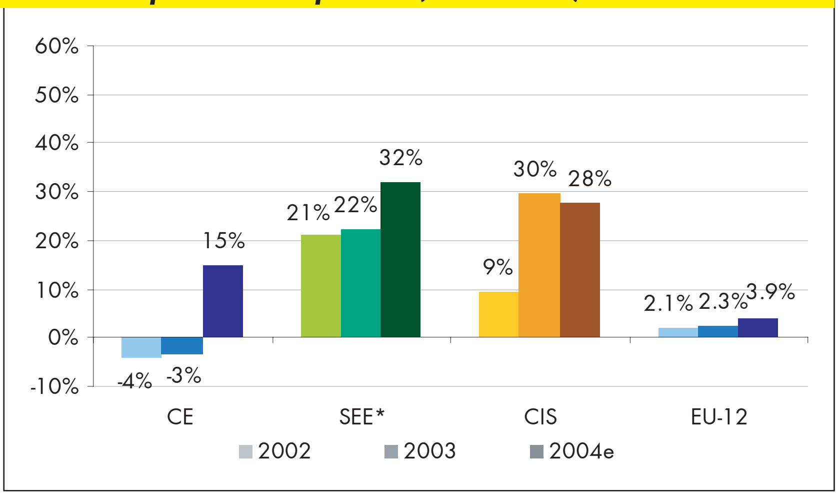
Credits to private enterprises recorded accelerated growth in CE and SEE and maintained high growth in the CIS countries

Particularly the strong investment activity recorded in 2004 has fuelled the demand for corporate loans in all of the sub-regions we have observed. Interestingly, the market penetration of corporate loans expressed as a percentage of GDP in a number of SEE and CIS countries that have enjoyed particularly high dynamics in recent years in this segment – namely Bulgaria, Croatia, Ukraine, Bosnia and Herzegovina – has already exceeded the level recorded in the Czech Republic, Slovakia and Poland.

The relatively moderate level and expansion of credits to private companies in some of the new EU member countries can at least partially be explained by an easier access to foreign financing and the rising share of business activities of foreign (owned) companies, whose liquidity flows and funding needs are managed on a global basis.

However, the potential for a substantial expansion of corporate lending in CE is not exhausted yet, as the SME segment still has significant growth potential throughout all CEE.

Credits to private companies (non-banks)



Growth in EUR terms in per cent yoy
** excluding Serbia, Albania and Kosovo*
Source: Local central banks, Raiffeisen RESEARCH

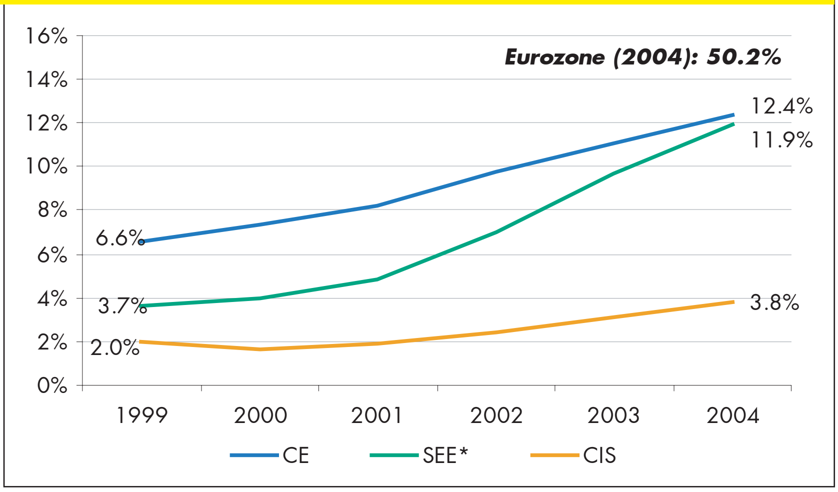
Credits to households are the key growth engine for the banking sectors in CEE

The key growth engine for the banking sectors in all CEE countries has been the boom in credits to households in recent years. Some of the countries, particularly in SEE and CIS have recorded up to triple digit growth rates in this segment, albeit starting from low levels. The amazing dynamics reflect both the strong demand from households to expand consumption and to invest in housing, and the pro-active lending policies of banks that are fighting for market shares in this lucrative and less risky segment, which also has much potential. Credit growth is also supported by rising income levels in the country and rising property prices that both allow households to increase their outstanding debt, and by steadily decreasing interest rates that make longer term loans feasible.

In some of the countries that are in an earlier stage of transformation, the legal and judicial reforms and the improvement of property rights (including in particular the setup of a reliable land register) that have been taking place in recent years, provided a jump start of this business. While the countries that have a lower level of household credits measured as a percentage of GDP - particularly the SEE (with the exception of Croatia and Bosnia and Herzegovina) and the CIS countries - clearly recorded the highest dynamics in this segment, virtually all CEE countries have displayed a clear catch-up pattern towards the levels seen in the Eurozone.

Even Slovenia and the Czech Republic, which have a rather low level of credits to households in per cent of GDP compared with its relatively high GDP per capita and have recorded less strong dynamics in the years before, were starting to record strong growth in this segment in 2004.

Credits to households



In per cent of GDP
** no data for Albania*
Source: Local central banks, Raiffeisen RESEARCH

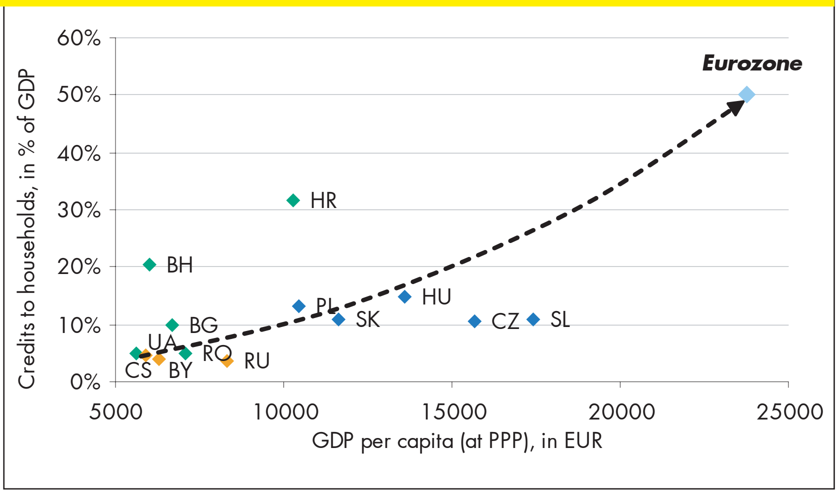
There are a number of countries in the CEE region, however, where the credit boom has raised concerns about the economic stability of the countries, triggering restrictive measures by some of the central banks. With loans often being used to buy imported consumer goods, the deficits of the foreign trade and current account balances have markedly increased in some countries.

In a number of countries the credit boom has raised concerns about the economic stability, triggering restrictive measures by some of the central banks

High current account deficits are especially troublesome if they cannot be financed by non-debt creating inflows (i.e. foreign direct investment or EU funds) and can seriously threaten a currency's stability. The central banks of Croatia, Bulgaria and Romania have all introduced a number of different measures to restrict credit growth, particularly denominated in foreign currency. However, monetary policy in general has to rely on rather blunt instruments (interest rates, reserve requirements) and it is almost impossible to curb the growth of consumer loans without also negatively affecting credits to enterprises, something the CEE countries can hardly afford.

If anything, the economies need more corporate lending, particularly to small and medium-sized enterprises, in order to raise the competitiveness of the domestic economy. Also in the case of Romania and Bulgaria, the foreign trade and current account balances are heavily affected by the strong increase of imports of capital goods, which will in the future expand the production base and, similar to the experience of some of the CE countries, lead to a significant improvement in the trade balance. Bulgaria is expected to record the third straight year with industrial output growing in double digits in 2005.

Credits to households



In per cent of GDP vs. GDP per capita
Data as of 2004
Source: Local central banks, wiiw, Raiffeisen RESEARCH

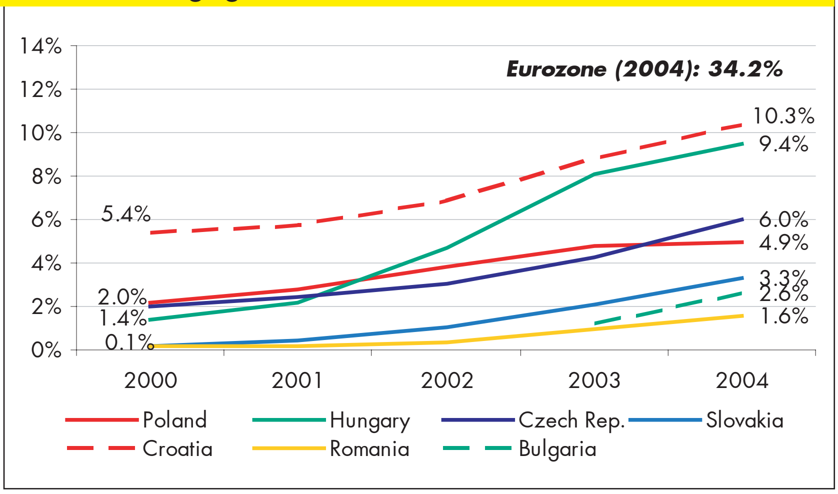
Mortgage loans

Mortgage loans are one of the most important and most dynamic business fields in the retail segment

Over the last few years, mortgage loans have become one of the most important and most dynamic business fields in the retail segment in an increasing number of CEE countries. Romania and Bulgaria were the latest countries joining the CE countries and Croatia in the mortgage boom. Romania has recorded triple digit growth in mortgage loans for each of the last three years, albeit coming from levels close to zero, and while data for Bulgaria have been available only since 2003, the volume of outstanding mortgage loans also more than doubled in 2004 to 2.6% of GDP, not a small number considering the short history of this market segment. It is also no coincidence that it is the countries of the second wave of EU enlargement were the first to develop this market as some of the legal and judicial requirements for the EU entry also provided the necessary framework for banks to grant mortgage loans on a larger scale (i.e. a reliable land register, the proper legislation and efficient court procedures).

This also demonstrates why mortgage loans have not been a significant factor to date in SEE and CIS. However, with the countries in SEE working hard to advance in the EU integration process, it is only a question of time when the legal and institutional framework will be set up in order for mortgage loans also to take off in this region. Notwithstanding the high growth rates of recent years, even Croatia and Hungary, where mortgage loans reached a level of around 10% of GDP at year-end 2004, have plenty of room to catch up to the Eurozone level of more than 34% of GDP.

Level of mortgage loans



In per cent of GDP
Source: Local central banks, Raiffeisen RESEARCH

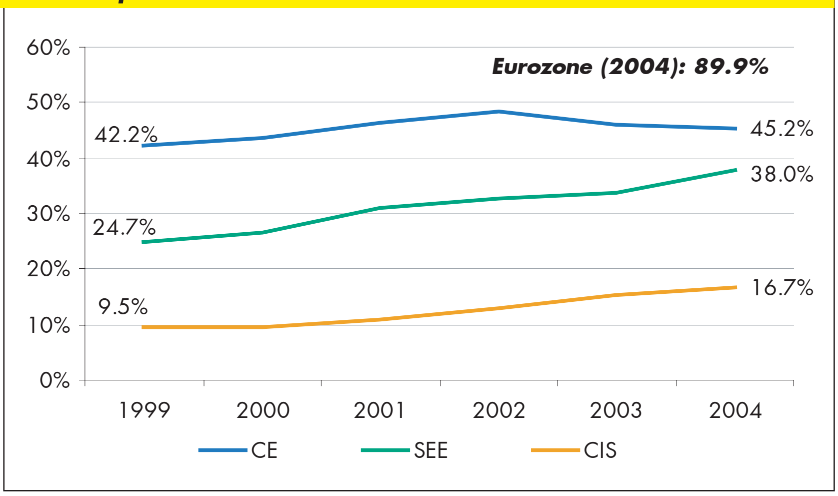
Deposits

With the credit boom ongoing in virtually all CEE countries, deposits have shown a much more moderate development and actually decreased as a percentage of GDP in CE for both total deposits and deposits from households in 2004. Another situation has prevailed in SEE, where the banks were able to extend the pronounced growth of deposits from recent years as the trust in the banking sector continued to improve hand in hand with the progress in bank privatisation. The same cannot really be said about the CIS countries, where total deposits continued to increase but deposits from households stagnated after a more pronounced growth in 2003.

A lot of savings are still hidden under the mattresses in the CIS countries

In general, the gaps between the ratios of total deposits to GDP in the CEE countries and the Eurozone are much smaller than the gap in all credit categories. Hungary, the Czech Republic and Croatia record the highest ratios of total deposits at around 65% of GDP, which compares favourably with approximately 90% of GDP in the Eurozone. With total deposits well below 20% of GDP it has to be assumed that a lot of savings are still hidden under the mattresses in the CIS countries.

Total deposits



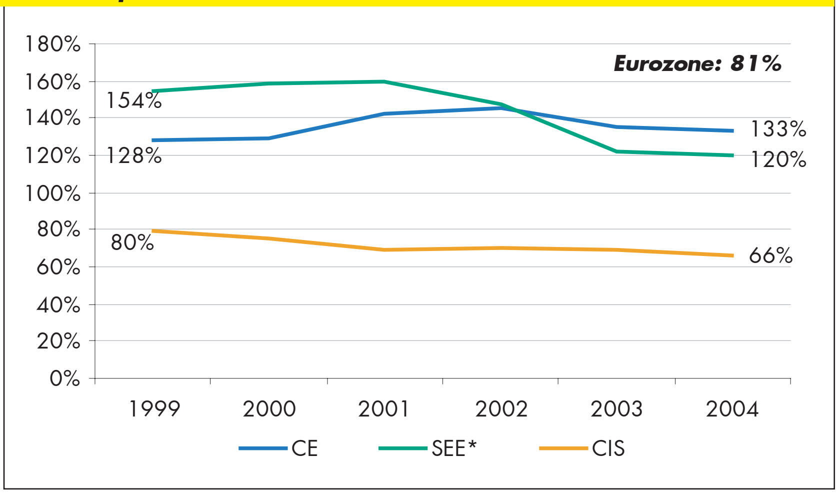
In per cent of GDP
Source: Local central banks, Raiffeisen RESEARCH

The ratio of total deposits as a percentage of GDP shows a significant and stable overhang of deposits in the CE and SEE

The ratio of total deposits to GDP shows a significant and stable overhang of deposits in the CE and SEE. Banks have to allocate substantial funds to state and other securities, something that has been very profitable in the past, but has become less attractive in recent years due to the steady decrease of interest rates and yields in the region. In the past the overhang of deposits was much higher even in SEE, but decreased significantly due to the lending boom.

The situation has been different in the CIS countries, where total deposits do not suffice cover total credits. While trust in the banking system has improved in recent years, the ratio actually deteriorated due to the rapid credit expansion.

Total deposits



In per cent of total credits
** no data available for Albania and Kosovo*
Source: Local central banks, Raiffeisen RESEARCH

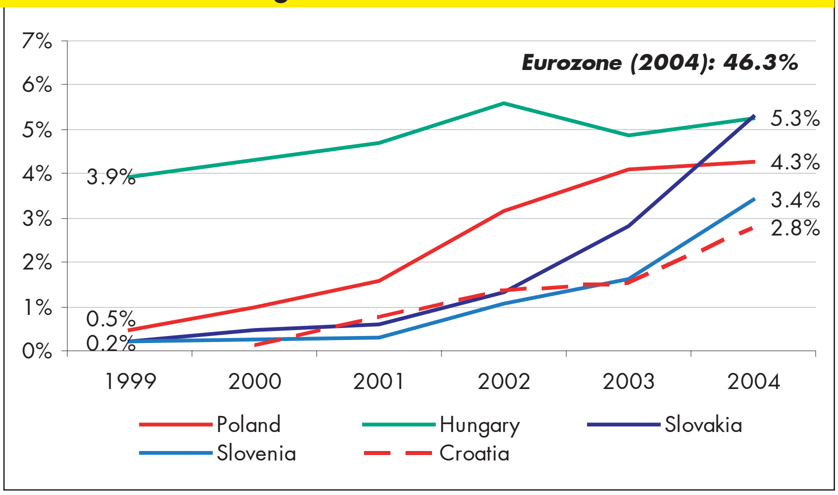
Alternative savings – mutual funds

Apart from the lending boom, there is another reason for the stagnant development of deposits from households: the emergence of alternative savings, particularly in the form of mutual funds. Mutual funds are promise higher yields by investing into more risky assets, offering their clients access to professionally managed diversified portfolios even for a rather small initial investment. It is also true that funds are much more profitable for banks than mere savings accounts, so marketing efforts have increasingly focused on this lucrative activity.

Alternative savings have boomed in CE and Croatia, particularly in the form of mutual funds

As for the development in the CEE countries we can observe signs of what could become a lasting boom in mutual funds in the CE countries and Croatia. Other countries like Romania and Bulgaria and some of the other SEE countries will probably follow soon. At the end of 2004 mutual fund holdings exceeded 5% of GDP only in Hungary and Slovakia, a level little more than a tenth of that recorded in the Eurozone (46.3% of GDP), which underscores the significant potential of this business.

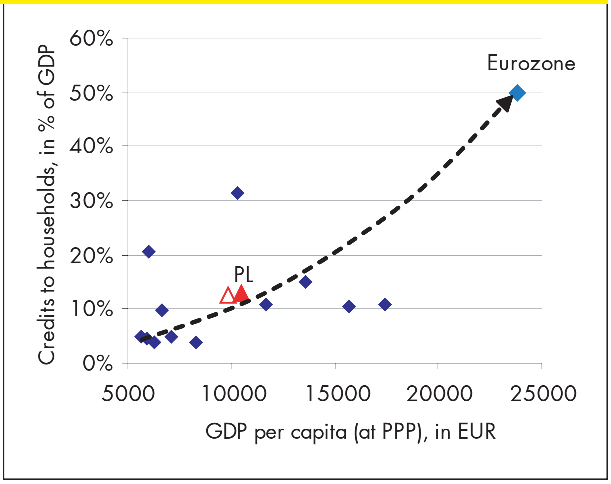
Mutual fund holdings



In per cent of GDP
Source: Local central banks, Raiffeisen RESEARCH

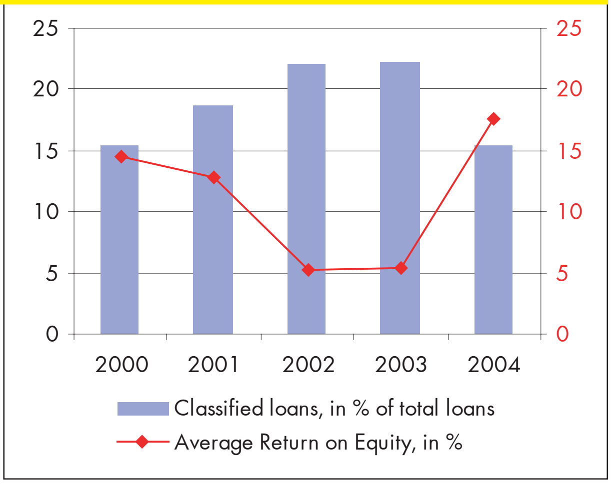
One year wonder?
solid developments after two year slump

Credits to households vs. GDP per capita



Data for 2004, 2003 for outlined triangle to illustrate dynamics
Source: NBP, Raiffeisen RESEARCH

Classified loans and RoE



Source: NBP, Raiffeisen RESEARCH

Following a decline in 2003, the Polish banking sector swung back into growth during 2004 in an environment of solid economic fundamentals, with GDP recording a growth of 5.4% yoy, the highest since 1997, and the PLN appreciating by more than 11% against the EUR. Total banking assets in Poland increased almost 27% in EUR terms and rose to 65.3% in terms of GDP. At the same time, classified loans significantly decreased while the average profitability of the banking sector as measured in Return on Assets and Return on Equity strongly improved in 2004. Despite the marked slowdown of GDP growth recorded in Q1 2005, the banking sector appears to have maintained the momentum built up in 2004

As in most other CEE countries the highest growth dynamics in the Polish banking sector were recorded in the retail business with credits to households, including the mortgage segment, growing 31% yoy in 2004. However, compared with some of its regional peers, the dynamics of the Polish banking sector were still not as buoyant despite comparable ratios for financial intermediation that still suggest a substantial growth potential over the medium to longer term horizon. On the deposit side, household deposits continued to decline as a percentage of GDP in 2004 as taxes and low interest offered by banks led households to look more into alternative savings, in particular investment funds. Corporate deposits, on the other hand, increased hand in hand with the strong improvement of corporate profits and represented an increasingly important source of financing for the banking sector.

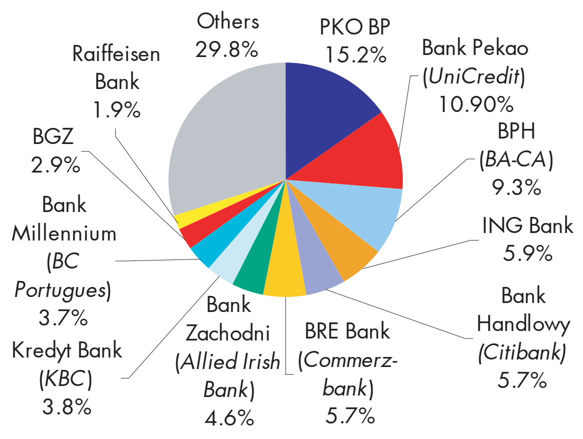
Key economic figures and forecasts

Population: 38.2 mn	***2001***	***2002***	***2003***	***2004***	***2005e***	***2006f***
Nominal GDP (EUR bn)	207.3	202.7	185.6	197.4	237.9	270.9
Real GDP (% yoy)	1.0	1.4	3.8	5.4	2.8	4.5
GDP per capita (EUR at PPP)	9,250	9,620	9,800	10,470	10,780	11,260
Industrial output (% yoy)	0.6	1.4	3.6	3.6	2.6	5.6
Unemployment rate (avg, %)	16.2	19.7	19.9	19.5	19.0	18.0
Nominal industrial wages (% yoy)	7.2	3.5	3.0	4.5	3.6	3.9
Producer prices (avg, % yoy)	1.6	1.0	2.6	7.0	1.1	1.9
Consumer prices (avg, % yoy)	5.5	1.9	0.7	3.5	2.2	1.9
Consumer prices (eop, % yoy)	3.6	0.8	1.7	4.4	1.5	1.9
General budget balance (% of GDP)	(3.8)	(3.6)	(3.9)	(4.7)	(4.5)	(4.0)
Current account balance (% of GDP)	(2.9)	(2.7)	(2.0)	(1.5)	(0.6)	(1.3)
Gross external debt (% of GDP)	39.3	40.0	45.3	47.1	41.0	-
Official FX-Reserves (EUR bn)	29.0	27.4	27.3	25.9	28.9	29.5
PLN/EUR (avg)	3.67	3.85	4.40	4.53	4.04	3.78
PLN/USD (avg)	4.10	4.08	3.89	3.64	3.28	2.96

Source: Thomson Financial Datastream, wiiw, Raiffeisen RESEARCH

The market share of the five largest banks in Poland decreased by more than two percentage points to 47%, a rather low degree of market concentration compared with most of its regional peers. The pending merger of the Italian UniCredit with the HVB-Group would result in the largest banking group in Poland. UniCredit's Bank Pekao and HVB/BACA's Bank BPH were the second and third largest banks in terms of assets, with a combined market share of 20.2% of total sector assets as at year-end 2004. Other major developments in the banking sector have included the IPO of PKO BP in November 2004, when 37.7% (including the shares of the employees) was floated on the Warsaw Stock Exchange, and Rabobank's acquisition of a 35% stake (EBRD also bought a 15% stake) in formerly fully state-owned BGZ, Poland's tenth largest bank.

Market share



Per cent of total assets; data from year-end 2004
Source: NBP, Raiffeisen RESEARCH

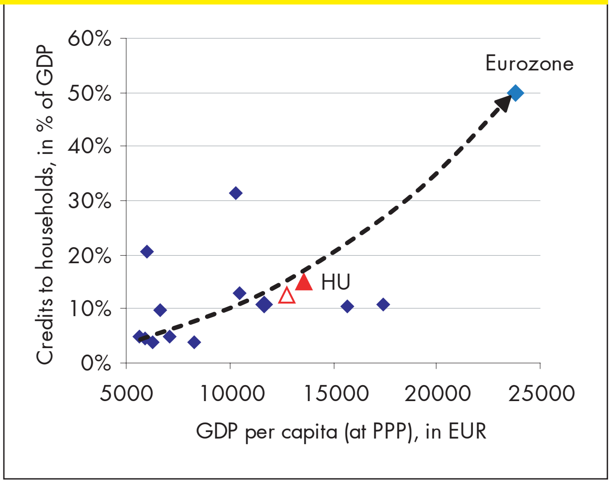
Overview of banking sector developments

Balance-sheet data	**2000**	**2001**	**2002**	**2003**	**2004**
Total assets, EUR mn	116,994.4	141,564.7	124,757.2	111,830.2	141,889.9
growth in % yoy	28.0	21.0	(11.9)	(10.4)	26.9
in % of GDP	62.3	65.6	69.6	64.7	65.3
Total credits, EUR mn	50,353.4	59,382.3	54,087.2	49,371.2	59,264.4
growth in % yoy	26.0	17.9	(8.9)	(8.7)	20.0
in % of GDP	26.8	27.5	30.2	28.6	27.3
Credits to private enterprises, EUR mn	23,559.1	27,588.3	25,679.8	22,917.9	26,211.0
growth in % yoy	28.8	17.1	(6.9)	(10.8)	14.4
in % of GDP	12.5	12.8	14.3	13.3	12.1
Credits to households, EUR mn	18,697.7	23,475.1	22,322.0	21,612.6	28,354.2
growth in % yoy	35.9	25.6	(4.9)	(3.2)	31.2
in % of GDP	10.0	10.9	12.4	12.5	13.1
Mortgage loans, EUR mn	4,117.7	5,999.4	6,867.7	8,236.2	10,708.0
growth in % yoy	48.2	45.7	14.5	19.9	30.0
in % of GDP	2.2	2.8	3.8	4.8	4.9
Credits in foreign currency, EUR mn	8,787.9	12,524.1	12,942.9	14,943.5	14,197.3
growth in % yoy	47.1	42.5	3.3	15.5	(5.0)
in % of GDP	4.7	5.8	7.2	8.6	6.5
Credits in foreign currency, in % of total credits	17.5	21.1	23.9	30.3	24.0
Total deposits, EUR mn	66,757.3	82,114.3	69,921.3	61,654.9	74,916.2
growth in % yoy	25.0	23.0	(14.8)	(11.8)	21.5
in % of GDP	35.5	38.0	39.0	35.7	34.5
Deposits from households, EUR mn	52,193.2	63,731.2	53,963.7	45,074.2	51,532.5
growth in % yoy	29.9	22.1	(15.3)	(16.5)	14.3
in % of GDP	27.8	29.5	30.1	26.1	23.7
Total deposits, in % of total credits	132.6	138.3	129.3	124.9	126.4
Structural information					
Number of banks	74	71	62	60	57
Market share of state-owned banks, in % of total assets	23.9	24.6	26.4	25.8	21.6
Market share of foreign-owned banks, in % of total assets	72.5	72.0	70.9	71.6	67.6
Profitability and efficiency					
Return on Assets (RoA)	1.1	1.0	0.5	0.5	1.4
Return on Equity (RoE)	14.5	12.8	5.2	5.4	17.6
Capital adequacy, in % of risk weighted assets	12.9	15.1	13.8	13.6	15.6
Classified loans, in % of total credits	15.5	18.6	22.0	22.2	15.5
Average interest rate spread	7.2	8.8	7.4	6.7	6.6

Source: NBP, Raiffeisen RESEARCH

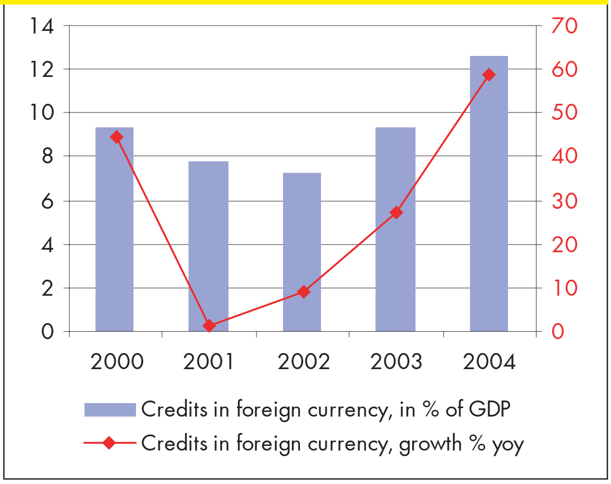
Booming FX credits
as domestic rates remain relatively high

Credits to households vs. GDP per capita



Data for 2004, 2003 for outlined triangle to illustrate dynamics
Source: Central Bank of Hungary, Raiffeisen RESEARCH

Credits to households



Source: Central Bank of Hungary, Raiffeisen RESEARCH

The Hungarian banking sector has experienced another successful year. Total banking assets in EUR terms increased by almost one quarter and reached 83% in terms of GDP at year-end 2004. Economic growth, accompanied by rising household incomes, translated into dynamic growth of both credits and deposits. The profitability of the Hungarian banks remained impressive and the health of the sector improved, as witnessed by the decline of the share of non-performing loans vs. total credits to below the 2% mark. Apart from the strong position of OTP, the Hungarian banking sector remains relatively fragmented, although the share of the seven largest banks, measured by total assets, slightly increased. While competition in the segment of corporate credits has further intensified, institutional concentration of the housing loan segment is still a hindrance for stronger competition.
After a couple of years of subdued growth of foreign currency credits, Hungarian companies and households, in particular, increased their indebtedness in foreign currency in 2004. The volume of credits in foreign currency recorded a growth of almost 60% yoy with the overall share of foreign currency credits coming close to one third of total outstanding credits, up from only one quarter in 2003. The rapid growth in foreign currency lending of Hungarian households was stimulated principally by the more favourable interest rate conditions compared with forint denominated loans. The favourable conditions of these loans attracted additional demand from households, which was eagerly accepted by the banking market. Although HUF interest rates are expected to decrease further, the interest rate differential still remains significant and as a result, foreign currency lending is expected to

Key economic figures and forecasts

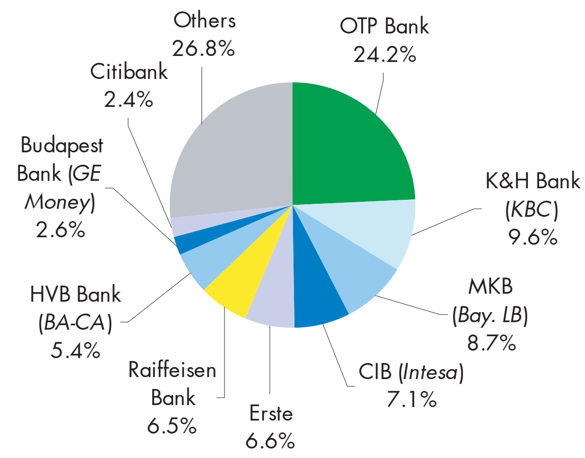
Population: 10.1 mn	***2001***	***2002***	***2003***	***2004***	***2005e***	***2006f***
Nominal GDP (EUR bn)	57.8	68.9	72.6	80.8	92.8	100.3
Real GDP (% yoy)	3.8	3.5	2.9	4.0	3.6	3.8
GDP per capita (EUR at PPP)	11,500	12,350	12,770	13,620	14,360	15,880
Industrial output (% yoy)	4.1	2.0	6.4	8.3	6.5	7.0
Unemployment rate (avg, %)	5.8	6.0	5.9	6.6	7.2	7.2
Nominal industrial wages (% yoy)	14.4	12.6	10.0	10.0	7.0	6.0
Producer prices (avg, % yoy)	5.2	(1.8)	2.4	3.5	4.2	3.8
Consumer prices (avg, % yoy)	9.2	5.3	4.7	6.7	3.8	1.8
Consumer prices (eop, % yoy)	6.8	4.8	5.7	5.5	4.0	1.7
General budget balance (% of GDP)	(3.7)	(8.5)	(6.2)	(6.0)	(4.8)	(4.5)
Current account balance (% of GDP)	(6.2)	(7.0)	(8.9)	(8.8)	(7.9)	(7.4)
Gross external debt (% of GDP)	64.6	56.0	63.4	68.0	65.0	-
Official FX-Reserves (EUR bn)	12.1	10.0	10.2	10.5	11.6	12.4
HUF/EUR (avg)	256.7	243.0	253.5	251.7	246.8	246.9
HUF/USD (avg)	286.5	255.8	224.0	202.4	195.8	192.9

Source: Thomson Financial Datastream, wiiw, Raiffeisen RESEARCH

remain strong. However, households are at the same time taking a significant currency risk and in the event of a marked depreciation of the Hungarian forint the quality of the banking loan portfolios would very likely suffer.

Corporate lending, which has reached one of the highest levels as a percentage of GDP throughout the CEE region, recorded another year of solid growth supported by strong investment activity and the expansion of local companies. Additionally, banks are moving more and more into the SME segment, helping to finance its increasing need for capital. Despite the current deceleration of economic growth, corporate lending is expected to expand further due to the persistant growth of corporate investment.

Market share



Per cent of total assets; data from year-end 2004
Source: Central Bank of Hungary, Raiffeisen RESEARCH

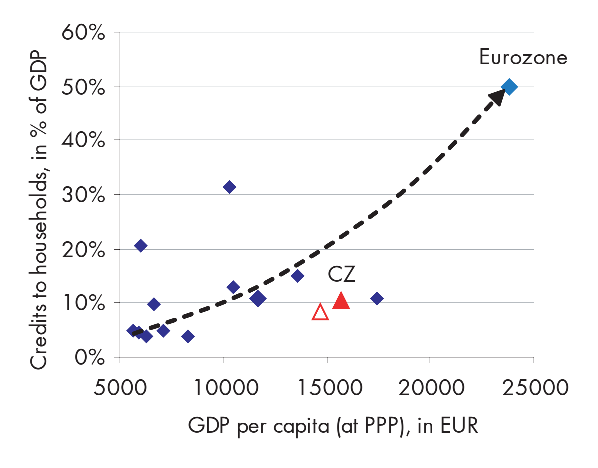
Overview of banking sector developments

Balance-sheet data	**2000**	**2001**	**2002**	**2003**	**2004**
Total assets, EUR mn	33,839.1	41,214.6	49,172.6	54,797.1	68,280.0
growth in % yoy	9.9	21.8	19.3	11.4	24.6
in % of GDP	68.2	68.4	69.3	78.2	83.0
Total credits, EUR mn	14,463.9	17,984.0	22,339.1	26,095.2	33,339.6
growth in % yoy	27.2	24.3	24.2	16.8	27.8
in % of GDP	29.1	29.8	31.5	37.2	40.5
Credits to private enterprises, EUR mn	12,001.1	14,154.0	15,635.8	16,692.7	20,364.8
growth in % yoy	28.9	17.9	10.5	6.8	22.0
in % of GDP	24.2	23.5	22.0	23.8	24.7
Credits to households, EUR mn	2,245.6	3,537.0	6,219.1	8,864.2	12,231.9
growth in % yoy	21.7	57.5	75.8	42.5	38.0
in % of GDP	4.5	5.9	8.8	12.6	14.9
Mortgage loans, EUR mn	709.7	1,310.5	3,308.2	5,698.9	7,776.8
growth in % yoy	-	84.7	152.4	72.3	36.5
in % of GDP	1.4	2.2	4.7	8.1	9.4
Credits in foreign currency, EUR mn	4,640.2	4,707.7	5,132.9	6,535.1	10,384.5
growth in % yoy	44.6	1.5	9.0	27.3	58.9
in % of GDP	9.3	7.8	7.2	9.3	12.6
Credits in foreign currency, in % of total credits	32.1	26.2	23.0	25.0	31.1
Total deposits, EUR mn	18,487.5	23,063.0	26,926.3	27,217.4	32,046.9
growth in % yoy	17.5	24.7	16.8	1.1	17.7
in % of GDP	37.2	38.3	37.9	38.8	38.9
Deposits from households, EUR mn	12,117.3	15,031.9	16,995.3	17,350.4	20,873.4
growth in % yoy	9.6	24.1	13.1	2.1	20.3
in % of GDP	24.4	24.9	23.9	24.7	25.4
Total deposits, in % of total credits	127.8	128.2	120.5	104.3	96.1
Structural information					
Number of banks	39	38	37	38	35
Market share of foreign-owned banks, in % of total assets	66.7	63.0	78.3	81.9	80.4
Profitability and efficiency					
Return on Assets (RoA)	1.3	1.6	1.7	1.9	2.2
Return on Equity (RoE)	13.8	15.7	18.3	21.1	26.5
Capital adequacy, in % of risk weighted assets	15.2	15.6	12.2	11.9	11.8
Classified loans, in % of total credits	3.1	2.8	3.6	3.2	1.9
Average interest rate spread	3.4	3.1	2.8	2.5	3.9

Source: MNB, Raiffeisen RESEARCH

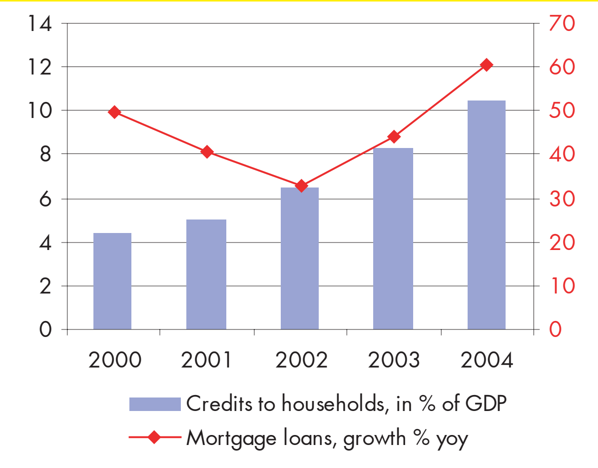
Credit cards on the rise
as an alternative to overdraft accounts

Credits to households vs. GDP per capita



Data for 2004, 2003 for outlined triangle to illustrate dynamics
Source: Czech National Bank, Raiffeisen RESEARCH

Credits to households



Source: Czech National Bank, Raiffeisen RESEARCH

The Czech banking sector benefited from particularly robust real GDP growth exceeding 4% yoy in 2004. Busy investment and production activity, together with strong private demand in the real estate market, ended the two-year decline of the Czech banking sector's total assets in EUR terms. The excellent economic performance has also been reflected in a decline of classified loans. Their share in total loans has decreased over the past five years, to 10.8% at year-end 2004.

One of the most evident features of the Czech banking market is its high concentration. In 2004 the market share of the three largest banks (with assets over EUR 15bn each) was over 62% of total assets. The share of foreign-owned banks and branches of foreign banks to total assets of the Czech banking industry has grown to almost 95%. The principal event that can, at least to some extent, alter the current market situation is the on-going merger process of UniCredit and HVB. The combined assets of HVB Bank Czech Republic and UniCredit's Zivnostenska banka represented over 8% of the total banking assets in the Czech Republic as at year-end 2004. Therefor the merger would increase the market share of the group of larger banks by around 2%, but it will be even more significant regard into deposits (namely retail). As a result, the concentration of the Czech banking sector will increase even further.

The sector has strongly focused on retail banking, a market segment that still has considerable long-term growth potential. Favourable demographic factors and historically low market interest rates have boosted credit demand by households. The amount of outstanding credits to households grew by more than 43% in EUR terms in 2004, powered upward

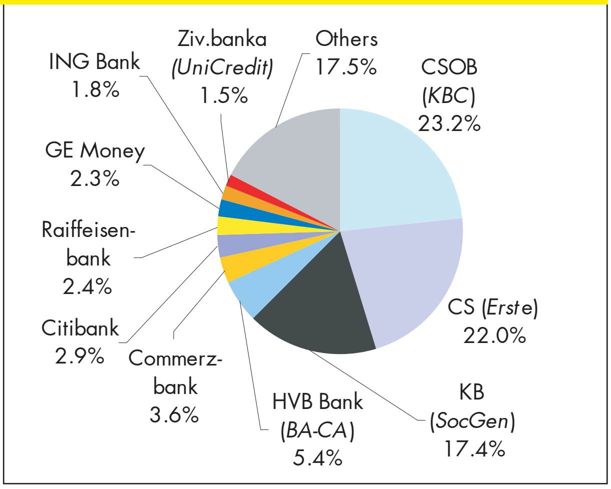
Key economic figures and forecasts

Population: 10.2 mn	***2001***	***2002***	***2003***	***2004***	***2005e***	***2006f***
Nominal GDP (EUR bn)	67.9	78.4	80.3	86.2	98.1	107.8
Real GDP (% yoy)	2.6	1.5	3.2	4.4	4.5	3.8
GDP per capita (EUR at PPP)	13,470	14,260	14,660	15,650	16,340	17,060
Industrial output (% yoy)	10.6	4.8	5.8	9.5	7.0	6.0
Unemployment rate (avg, %)	8.5	9.2	9.9	10.2	9.8	9.6
Nominal industrial wages (% yoy)	6.5	6.0	5.7	6.9	7.0	6.5
Producer prices (avg, % yoy)	2.9	(0.5)	(0.3)	5.7	3.5	4.0
Consumer prices (avg, % yoy)	4.7	1.8	0.1	2.8	1.9	2.6
Consumer prices (eop, % yoy)	4.1	0.6	1.0	2.8	2.3	2.6
General budget balance (% of GDP)	(5.9)	(6.8)	(11.7)	(3.0)	(3.8)	(3.4)
Current account balance (% of GDP)	(5.4)	(5.6)	(6.3)	(5.2)	(3.1)	(2.8)
Gross external debt (% of GDP)	24.1	28.9	26.6	24.2	22.0	-
Official FX-Reserves (EUR bn)	16.4	22.6	21.3	20.9	24.6	21.0
CZK/EUR (avg)	34.1	30.8	31.8	31.9	29.9	29.0
CZK/USD (avg)	38.0	32.7	28.2	25.7	23.7	22.7

Source: Thomson Financial Datastream, wiiw, Raiffeisen RESEARCH

by the 60.3% increase in mortgage loans in EUR terms. Credit cards are also becoming an ever more popular instrument with the number of issued cards increasing by more than 83% in 2004. Nonetheless, the market penetration of credit cards remains rather low even in comparison with some of the neighbouring CEE countries. However, at the same time Czech households are extensively overdrawing their banking accounts at markedly higher interest-rate costs. Once households become more familiar with an effective usage of banking products, one will witness a rapid expansion of the currently underdeveloped credit card business in the country. Similarly, the market segment of alternative savings products (pension funds, life insurance and mutual funds), which has already enjoyed remarkable growth, is expected to expand reapidly over the foreseeable future.

Market share



Per cent of total assets; data from end 2004
Source: Czech National Bank, Raiffeisen RESEARCH

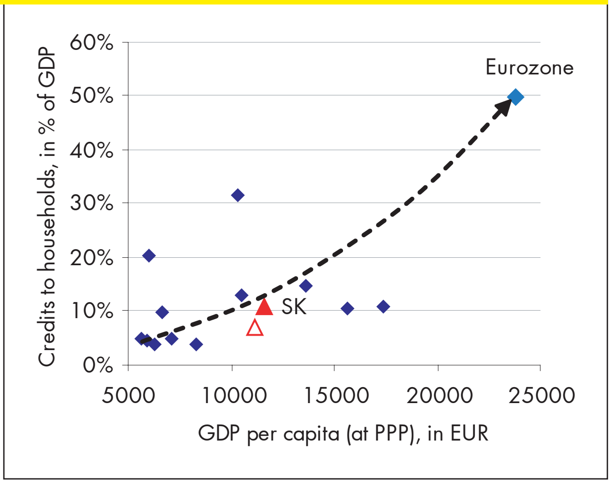
Overview of banking sector developments

Balance-sheet data	**2000**	**2001**	**2002**	**2003**	**2004**
Total assets, EUR mn	76,831.0	85,647.3	81,620.3	79,426.0	86,709.6
growth in % yoy	10.5	11.5	(4.7)	(2.7)	9.2
in % of GDP	125.4	118.3	106.8	100.9	97.1
Total credits, EUR mn	31,000.3	31,160.1	29,794.3	30,776.1	34,620.1
growth in % yoy	(0.0)	0.5	(4.4)	3.3	12.5
in % of GDP	50.6	43.0	39.0	39.1	38.8
Credits to private enterprises, EUR mn	20,698.2	16,563.5	13,702.5	13,210.9	15,099.3
growth in % yoy	(7.0)	(20.0)	(17.3)	(3.6)	14.3
in % of GDP	33.8	22.9	17.9	16.8	16.9
Credits to households, EUR mn	2,710.2	3,639.8	4,974.7	6,508.3	9,302.5
growth in % yoy	26.5	34.3	36.7	30.8	42.9
in % of GDP	4.4	5.0	6.5	8.3	10.4
Mortgage loans, EUR mn	1,248.2	1,757.3	2,335.4	3,363.7	5,393.1
growth in % yoy	49.8	40.8	32.9	44.0	60.3
in % of GDP	2.0	2.4	3.1	4.3	6.0
Credits in foreign currency, EUR mn	6,454.3	5,321.2	4,464.4	4,139.7	4,431.3
growth in % yoy	(7.0)	(17.6)	(16.1)	(7.3)	7.0
in % of GDP	10.5	7.3	5.8	5.3	5.0
Credits in foreign currency, in % of total credits	20.8	17.1	15.0	13.5	12.8
Total deposits, EUR mn	35,414.6	45,031.3	52,338.6	51,575.4	57,902.5
growth in % yoy	6.6	27.2	16.2	(1.5)	12.3
in % of GDP	57.8	62.2	68.5	65.5	64.9
Deposits from households, EUR mn	22,450.8	27,179.5	27,319.6	27,721.0	31,304.8
growth in % yoy	9.0	21.1	0.5	1.5	12.9
in % of GDP	36.6	37.5	35.8	35.2	35.1
Total deposits, in % of total credits	114.2	144.5	175.7	167.6	167.3
Structural information					
Number of banks	40	38	37	35	35
Market share of state-owned banks, in % of capital	23.6	4.3	4.1	4.6	4.5
Market share of foreign-owned banks, in % of total assets	75.4	93.3	94.2	95.0	94.8
Profitability and efficiency					
Return on Assets (RoA)	0.7	0.7	1.2	1.2	1.3
Return on Equity (RoE)	13.1	16.6	27.4	23.7	23.6
Capital adequacy, in % of risk weighted assets	14.8	15.4	14.3	14.5	12.7
Classified loans, in % of total credits	28.9	20.8	15.8	11.2	10.8
Average interest rate spread	3.8	4.1	4.0	3.9	5.1

Source: CNB, Raiffeisen RESEARCH

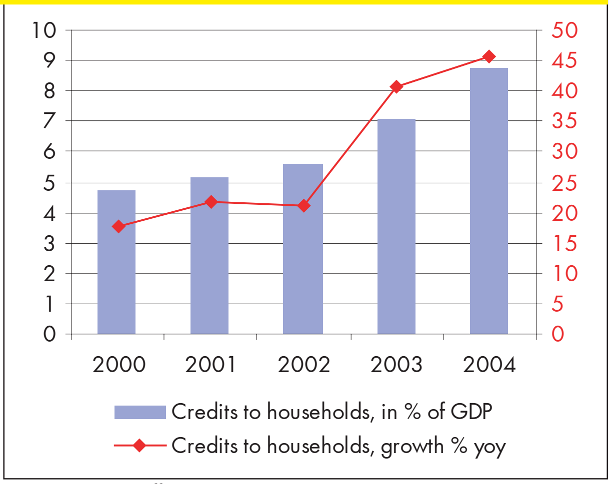
Strong dynamics continue
in a very solid fundamental environment

Credits to households vs. GDP per capita



Data for 2004, 2003 for outlined triangle to illustrate dynamics
Source: NBS, Raiffeisen RESEARCH

Credits to households



Source: NBS, Raiffeisen RESEARCH

In 2004 the Slovak banking sector exceeded the impressive results of the previous year. Riding on the back of an acceleration of real GDP growth to 5.5% yoy, and a strong appreciation of the SKK by close to 6%, banking assets in Slovakia increased 25% in EUR terms, rising to 87.4% of GDP - from 82% in 2003. At the same time, classified loans decreased to 4.6% of total credits, and the average Return on Equity in the sector improved to 13.5%.The major dynamics were again recorded in the retail business with credits to households growing 45.8% yoy in 2004, an even higher growth rate than the year before. Within this segment mortgage loans remained the most relevant factor. After growing in triple digits for five consecutive years, mortgage loans again increased by around 85% yoy in 2004. However, at 3.3% to of GDP, mortgage loans hardly appear to be a saturated market, particularly when compared with the level of 34% of GDP recorded in the Eurozone.

The market share of the five largest banks in Slovakia increased slightly to 67% of total assets in 2004, representing a rather high degree of market concentration. The pending merger of the Italian UniCredit with the HVB-Group would result in the fourth largest bank in Slovakia. HVB-Bank and UniBanka (UniCredit) were the fifth and seventh largest banks in terms of assets with a combined market share of 9.6% of total banking sector assets at end 2004. HVB-Bank traditionally has a strong foothold in corporate banking, particularly in the large corporate segment, while UniBanka has established a country wide branch network of 69 branches and focuses more on SME and retail busi-

Key economic figures and forecasts

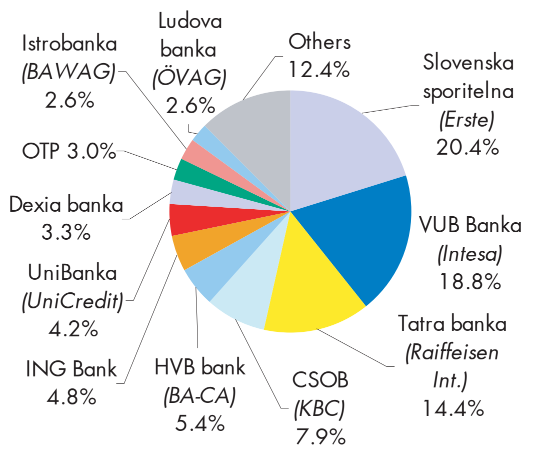
Population: 5.4 mn	**2001**	**2002**	**2003**	**2004**	**2005e**	**2006f**
Nominal GDP (EUR bn)	23.3	25.7	29.0	33.1	37.5	41.8
Real GDP (% yoy)	3.8	4.4	4.5	5.5	5.2	5.7
GDP per capita (EUR at PPP)	10,050	10,880	11,180	12,040	12,770	13,640
Industrial output (% yoy)	7.4	6.7	5.5	4.0	3.0	7.5
Unemployment rate (avg, %)	19.2	18.5	17.5	18.1	16.8	16.1
Nominal industrial wages (% yoy)	10.2	7.3	6.5	8.0	8.5	6.7
Producer prices (avg, % yoy)	6.7	2.1	8.3	3.4	2.9	2.3
Consumer prices (avg, % yoy)	7.1	3.3	8.5	7.5	2.8	3.1
Consumer prices (eop, % yoy)	6.4	3.4	9.3	5.9	4.1	2.6
General budget balance (% of GDP)	(7.3)	(5.7)	(3.5)	(3.3)	(4.2)	(4.2)
Current account balance (% of GDP)	(8.4)	(8.0)	(0.8)	(3.5)	(4.1)	(3.5)
Gross external debt (% of GDP)	53.7	49.3	50.6	52.6	58.5	-
Official FX-Reserves (EUR bn)	5.4	9.7	10.8	12.0	13.0	12.5
SKK/EUR (avg)	43.3	42.7	41.5	40.1	38.3	37.2
SKK/USD (avg)	48.4	45.3	36.7	32.3	30.4	29.1

Source: Thomson Financial Datastream, wiiw, Raiffeisen RESEARCH

ness. It remains to be seen, however, to what degree the process of consolidation and restructuring will be a distraction to the new merged bank in a period when its competitors are aggressively penetrating a rapidly growing market.

Deposits from households decreased as a percentage of GDP for the fifth consecutive year. Apart from the credit boom, one of the key reasons for this was the emergence of alternative saving forms, particularly mutual funds, whose assets under management increased by 121.9% yoy in 2004, the third year in a row with triple digit growth, achieving 5.3% in terms of GDP. As in the case of mortgage loans, this booming market is far from saturation when compared with the level of 46% of GDP recorded in the Eurozone.

Market share



Per cent of total assets; data from year-end 2004
Source: NBS, Raiffeisen RESEARCH

Overview of banking sector developments

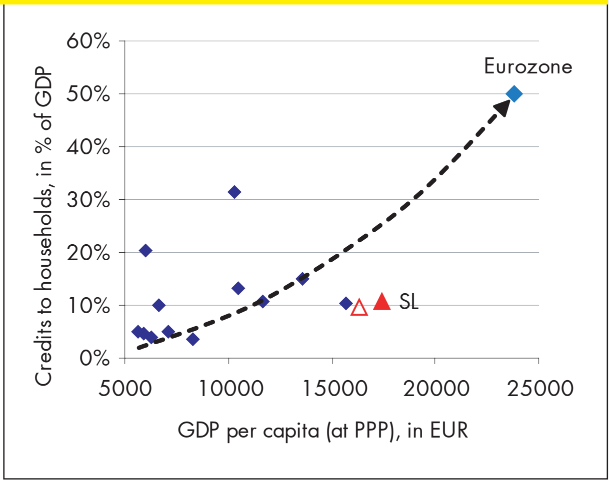
Balance-sheet data	***2000***	***2001***	***2002***	***2003***	***2004***
Total assets, EUR mn	19,250.7	21,721.4	24,304.1	23,941.5	30,023.6
growth in % yoy	6.2	12.8	11.9	(1.5)	25.4
in % of GDP	90.7	92.0	92.3	82.0	87.4
Total credits, EUR mn	9,266.5	7,910.7	8,423.9	9,768.8	11,598.5
growth in % yoy	(4.2)	(14.6)	6.5	16.0	18.7
in % of GDP	43.6	33.5	32.0	33.5	33.8
Credits to private enterprises, EUR mn	6,804.3	5,005.4	5,006.3	5,252.4	5,144.3
growth in % yoy	(5.3)	(26.4)	0.0	4.9	(2.1)
in % of GDP	32.0	21.2	19.0	18.0	15.0
Credits to households, EUR mn	996.5	1,213.1	1,469.7	2,067.8	3,014.1
growth in % yoy	17.7	21.7	21.2	40.7	45.8
in % of GDP	4.7	5.1	5.6	7.1	8.8
Mortgage loans, EUR mn	29.5	112.8	277.7	610.2	1,127.6
growth in % yoy	306.7	282.2	146.3	119.8	84.8
in % of GDP	0.1	0.5	1.1	2.1	3.3
Credits in foreign currency, EUR mn	1,269.4	1,361.7	1,438.2	1,985.4	2,599.3
growth in % yoy	(10.8)	7.3	5.6	38.0	30.9
in % of GDP	6.0	5.8	5.5	6.8	7.6
Credits in foreign currency, in % of total credits	13.7	17.2	17.1	20.3	22.4
Total deposits, EUR mn	13,855.464	15,861.389	18,489.598	19,347.586	21,805.830
growth in % yoy	15.1	14.5	16.6	4.6	12.7
in % of GDP	65.3	67.2	70.2	66.3	63.5
Deposits from households, EUR mn	6,917.3	7,562.6	7,752.1	7,851.6	8,233.9
growth in % yoy	5.3	9.3	2.5	1.3	4.9
in % of GDP	32.6	32.0	29.4	26.9	24.0
Total deposits, in % of total credits	149.5	200.5	219.5	198.1	188.0
Structural information					
Number of banks	23	21	21	22	22
Market share of state-owned banks, in % of total assets	59.4	9.5	4.4	1.8	1.8
Market share of foreign-owned banks, in % of total assets	40.6	90.5	95.6	96.3	96.7
Profitability and efficiency					
Return on Assets (RoA)	1.5	1.0	1.2	1.2	1.2
Return on Equity (RoE)	9.5	14.4	13.6	12.9	13.5
Capital adequacy, in % of risk weighted assets	12.5	19.8	21.3	21.7	19.0
Classified loans, in % of total credits	20.7	20.9	9.2	6.4	4.6
Average interest rate spread	4.6	4.1	4.5	4.3	5.3

Source: NBS, Raiffeisen RESEARCH

After the entry to EU and ERM II

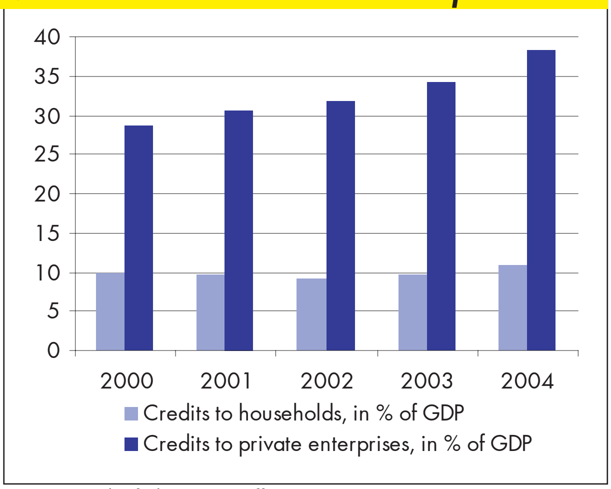
Stable Tolar, puzzling interest rate spread

Credits to households vs. GDP per capita



Data for 2004, 2003 for outlined triangle to illustrate dynamics
Source: Bank of Slovenia, Raiffeisen RESEARCH

Credits to households and enterprises



Source: Bank of Slovenia, Raiffeisen RESEARCH

With the EU entry in May 2004 and the subsequent entry to the ERM II in June, the Slovenian banking sector experienced two landmark events during 2004. As a result of the ERM II entry, the exchange rate of the Tolar has remained very close to its central parity of 239.64 and interest rates have dropped sharply, although still displaying a notable spread to the Eurozone. In a favourable economic environment - with real GDP growth of 4.6% yoy, the highest since 1999, and average inflation dropping to 3.6% yoy - Slovenian banking sector assets recorded a 9% increase in EUR terms, rising to 91.2% in terms of GDP.

After fluctuating between 9.5-10% of GDP over the last few years, credits to households finally showed signs of life in 2004 with a growth of slightly more than 20% yoy in EUR terms. Despite having the highest GDP per capita in the whole CEE region, credits to households as a proportion of GDP are lower in Slovenia than in Poland and Hungary and only about a third of the level in Croatia. An explanation for this may lie in the more conservative mentality of Slovenes, but the recent success of foreign-owned banks in extending this business segment suggests that there remains considerable market potential to be tapped in the coming years.

The market share of the five largest banks decreased notably to below 65% in 2004, although this is still a quite high degree of market concentration. All five banks within this group lost relative market share in 2004 as the smaller foreign-owned banks penetrated the market aggressively, particularly in the retail segment.

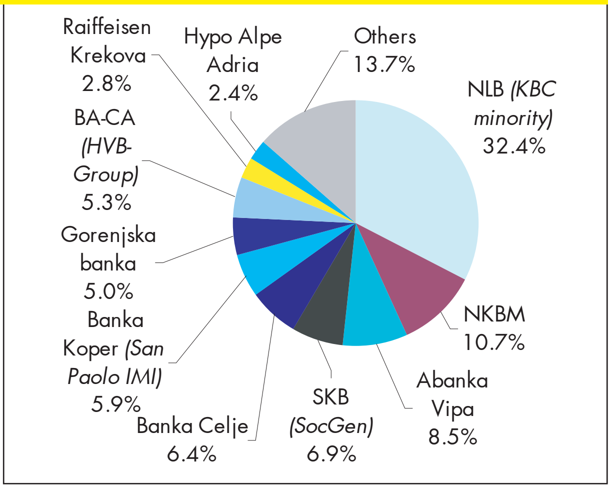
Key economic figures and forecasts

Population: 2.0 mn	**2001**	**2002**	**2003**	**2004**	**2005e**	**2006f**
Nominal GDP (EUR bn)	21.9	23.4	24.6	26.0	27.3	28.8
Real GDP (% yoy)	2.7	3.3	2.5	4.6	2.8	3.5
GDP per capita (EUR at PPP)	15,230	15,870	16,340	17,420	18,000	18,630
Industrial output (% yoy)	2.9	2.5	1.4	5.0	1.0	4.0
Unemployment rate (avg, %)	11.8	11.3	11.0	10.4	10.2	9.8
Nominal industrial wages (% yoy)	10.8	8.6	7.5	7.0	5.0	4.5
Producer prices (avg, % yoy)	8.9	5.1	2.5	4.0	2.0	3.0
Consumer prices (avg, % yoy)	8.4	7.5	5.5	3.6	2.5	2.0
Consumer prices (eop, % yoy)	7.1	7.2	4.6	3.2	2.0	2.0
General budget balance (% of GDP)	(1.3)	(2.9)	(1.8)	(1.9)	(2.3)	(1.7)
Current account balance (% of GDP)	0.2	1.4	(0.4)	(0.7)	(0.7)	(0.9)
Gross external debt (% of GDP)	47.4	48.9	54.2	59.2	63.0	-
Official FX-Reserves (EUR bn)	4.9	6.7	6.8	6.5	7.0	7.5
SIT/EUR (avg)	217.2	227.0	234.0	239.0	239.5	239.5
SIT/USD (avg)	242.5	240.1	206.8	192.2	190.1	187.1

Source: Thomson Financial Datastream, wiiw, Raiffeisen RESEARCH

While one had expected a rapid convergence of local money-market rates to those in the Eurozone following Slovenia's entry to ERM II, the Bank of Slovenia has maintained a notable interest rate spread of more than 1% over the EURIBOR to keep a lid on any potential inflationary tendencies. At the same time it has kept the Tolar very close to its central parity rate and is likely to continue to do so until the final fixation of the Tolar exchange rate for the Eurozone entry, a situation that has created some arbitrage opportunities for market participants. How long the Bank of Slovenia will want to maintain this policy is open to question, but with inflation having dropped to 1.7% yoy in June 2005, according to EU methodology, Slovenia is in good shape for the one-year assessment period and is generally expected to meet all critera for the Eurozone entry in 2007.

Market share



Per cent of total assets; data from year-end 2004
Source: BSI, Raiffeisen RESEARCH

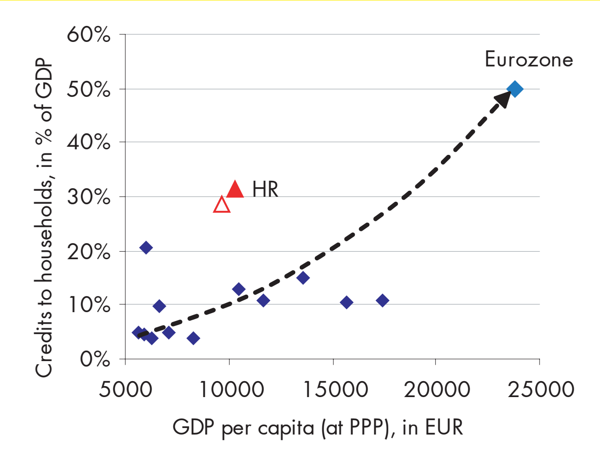
Overview of banking sector developments

Balance-sheet data	***2000***	***2001***	***2002***	***2003***	***2004***
Total assets, EUR mn	15,040.5	17,489.1	20,092.7	21,582.1	23,555.1
growth in % yoy	10.7	16.3	14.9	7.4	9.1
in % of GDP	75.1	81.4	87.0	88.8	91.2
Total credits, EUR mn	7,709.4	8,635.2	9,482.6	10,640.6	12,691.3
growth in % yoy	9.8	12.0	9.8	12.2	19.3
in % of GDP	38.5	40.2	41.1	43.8	49.1
Credits to private enterprises, EUR mn	5,734.5	6,589.8	7,353.0	8,321.1	9,891.3
growth in % yoy	11.4	14.9	11.6	13.2	18.9
in % of GDP	28.6	30.7	31.8	34.3	38.3
Credits to households, EUR mn	1,975.0	2,045.4	2,129.7	2,319.5	2,800.0
growth in % yoy	5.5	3.6	4.1	8.9	20.7
in % of GDP	9.9	9.5	9.2	9.5	10.8
Credits in foreign currency, EUR mn	1,233.8	1,519.8	2,056.7	2,726.0	3,940.0
growth in % yoy	-	23.2	35.3	32.5	44.5
in % of GDP	6.2	7.1	8.9	11.2	15.3
Credits in foreign currency, in % of total credits	16.0	17.6	21.7	25.6	31.0
Total deposits, EUR mn	10,163.5	12,457.7	13,685.9	13,919.6	14,706.1
growth in % yoy	8.1	22.6	9.9	1.7	5.7
in % of GDP	50.7	58.0	59.3	57.3	56.9
Deposits from households, EUR mn	5,999.7	7,809.7	8,448.1	8,865.6	9,563.1
growth in % yoy	16.9	30.2	8.2	4.9	7.9
in % of GDP	30.0	36.4	36.6	36.5	37.0
Total deposits, in % of total credits	131.8	144.3	144.3	130.8	115.9
Structural information					
Number of banks	25	21	20	20	20
Market share of state-owned banks, in % of capital	-	40.7	20.3	19.4	19.1
Market share of foreign-owned banks, in % of total assets	15.3	15.6	34.7	36.0	36.2
Profitability and efficiency					
Return on Assets (RoA)	1.1	0.4	1.1	1.0	1.1
Return on Equity (RoE)	11.4	4.7	13.0	12.8	13.3
Capital adequacy, in % of risk weighted assets	13.5	11.8	11.9	11.6	11.8
Classified loans, in % of total credits	12.4	12.8	13.3	13.6	13.5
Average interest rate spread	4.1	3.1	3.3	2.9	2.6

Source: BSI, Raiffeisen RESEARCH

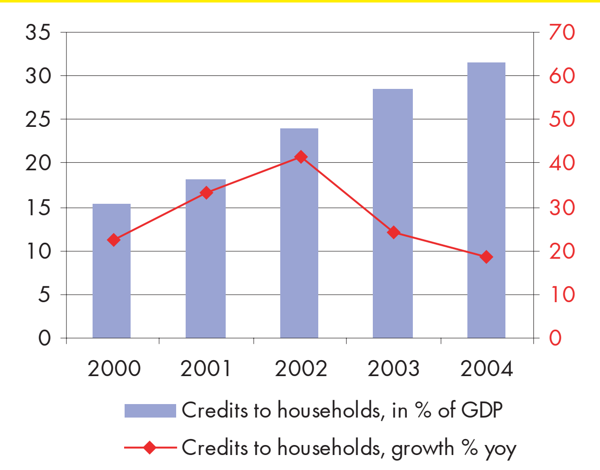
CNB on the brake
market consolidation continues

Credits to households vs. GDP per capita



Data for 2004, 2003 for outlined triangle to illustrate dynamics
Source: CNB, Raiffeisen RESEARCH

Credits to households



Source: CNB, Raiffeisen RESEARCH

In 2004 development of the Croatian banking sector was characterised by a deceleration in banking asset growth, which was mainly influenced by the Croatian National Bank's (CNB) restrictive measures introduced during 2003 and 2004. These measures have been directed to curb the aggressive bank lending activities in foreign currency over the last few years. The measures imposed include a maximum foreign currency assets/liabilities ratio of 35%, which had been the major constraint on the banks' credit growth in 2004 and was reduced to 32% in February 2005. Also, an obligatory marginal reserve amounting to 24% of the net growth of funding sources from non-residents and connected legal entities, on a monthly basis, applied since 9 August 2004. This mandatory reserve rate was further increased to 30% in February 2005 and to 40% in May 2005.

While slowing down compared with the previous years, total banking assets still recorded a 12.3% growth in EUR terms in 2004. Measured by the level of financial intermediation as a percentage of GDP, Croatia leads all CEE countries in terms of total banking assets, total credits and credits to households. With a continuing demand for loans, banks have emphasised additional effort in the collection of deposits from households. It is also worth noting that the overall quality of banking assets has continued to improve and, despite the general slowing trend of the growth of balance sheet positions, as well as decreasing interest rate spread, the profitability of the banking sector increased. These trends clearly indicate the significant improvement in cost management and overall efficiency, which is the outcome of continually increasing competition

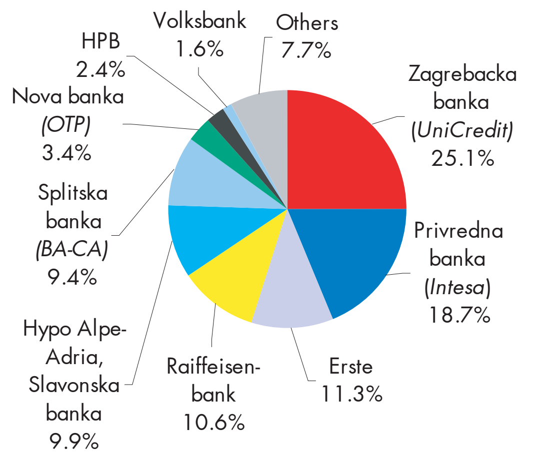
Key economic figures and forecasts

Population: 4.4 mn	**2001**	**2002**	**2003**	**2004**	**2005e**	**2006f**
Nominal GDP (EUR bn)	22.2	24.2	25.5	27.6	29.8	31.6
Real GDP (% yoy)	3.8	5.2	4.3	3.8	3.5	4.0
GDP per capita (EUR at PPP)	8,600	9,260	9,680	10,290	10,780	11,270
Industrial output (% yoy)	6.4	5.5	4.1	3.7	4.5	4.0
Unemployment rate (avg, %)	22.0	22.3	19.5	18.2	18.0	17.5
Nominal industrial wages (% yoy)	5.2	7.4	5.2	4.9	5.1	5.0
Producer prices (avg, % yoy)	3.6	(0.4)	1.9	3.5	2.8	2.9
Consumer prices (avg, % yoy)	3.8	1.7	1.8	2.1	3.2	2.6
Consumer prices (eop, % yoy)	2.4	1.8	1.7	2.7	3.0	2.9
General budget balance (% of GDP)	(6.8)	(6.0)	(6.3)	(4.9)	(4.4)	(3.7)
Current account balance (% of GDP)	(3.7)	(8.7)	(6.9)	(4.6)	(4.5)	(4.3)
Gross external debt (% of GDP)	57.9	62.2	77.6	82.1	77.5	-
Official FX-Reserves (EUR bn)	5.3	5.6	6.5	6.4	7.6	7.1
HRK/EUR (avg)	7.47	7.41	7.56	7.50	7.41	7.46
HRK/USD (avg)	8.34	7.83	6.68	6.03	5.88	5.83

Source: Thomson Financial Datastream, wiiw, Raiffeisen RESEARCH

in the Croatian banking market. This goes hand in hand with the consolidation process that will reach its climax with the pending merger of Italian Unicredit and the HVB-Group.
Unicredit's Zagrebacka banka, the largest bank in Croatia in terms of total assets, and HVB's Splitska banka would account for a market share of almost 35% of total banking assets. Thus, the CNB can be expected to insist on the new group selling one of the two, most likely HVB's Splitska banka, which had a market share of 9.5% in terms of total assets at the end of 2004. The eventual buyer will considerably change the current situation in the local banking market. In late 2004, Hungarian OTP Bank entered the market with the purchase of a majority stake of Nova banka, which accounts for a market share of 3.5% of total banking assets.

Market share



Per cent of total assets; data from year-end 2004
Source: CNB, Raiffeisen RESEARCH

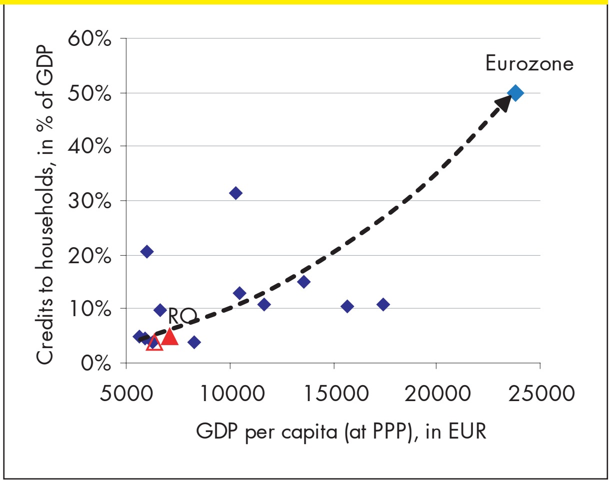
Overview of banking sector developments

Balance-sheet data	**2000**	**2001**	**2002**	**2003**	**2004**
Total assets, EUR mn	14718.7	20139.4	23398.6	26692.5	29975.6
growth in % yoy	20.9	36.8	16.2	14.1	12.3
in % of GDP	73.3	89.6	97.1	105.7	110.6
Total credits, EUR mn	7790.4	9897.1	13094.4	14888.6	16833.8
growth in % yoy	8.0	27.0	32.3	13.7	13.1
in % of GDP	38.8	44.0	54.3	59.0	62.1
Credits to private enterprises, EUR mn	4160.4	5202.1	6317.4	6463.5	6977.0
growth in % yoy	-	25.0	21.4	2.3	7.9
in % of GDP	20.7	23.1	26.2	25.6	25.7
Credits to households, EUR mn	3066.2	4087.1	5787.5	7192.6	8533.3
growth in % yoy	22.3	33.3	41.6	24.3	18.6
in % of GDP	15.3	18.2	24.0	28.5	31.5
Mortgage loans, EUR mn	1086.8	1282.2	1661.2	2209.5	2797.2
growth in % yoy	11.7	18.0	29.6	33.0	26.6
in % of GDP	5.4	5.7	6.9	8.8	10.3
Credits in foreign currency, EUR mn	959.6	1176.5	1630.0	1536.0	1917.5
growth in % yoy	7.2	22.6	38.5	-5.8	24.8
in % of GDP	4.8	5.2	6.8	6.1	7.1
Credits in foreign currency, in % of total credits	12.3	11.9	12.4	10.3	11.4
Total deposits, EUR mn	9563.8	13957.2	15091.7	16085.5	17600.0
growth in % yoy	30.9	45.9	8.1	6.6	9.4
in % of GDP	47.6	62.1	62.6	63.7	64.9
Deposits from households, EUR mn	6287.8	9841.5	9915.5	10573.1	11586.1
growth in % yoy	25.1	56.5	0.8	6.6	9.6
in % of GDP	31.3	43.8	41.1	41.9	42.8
Total deposits, in % of total credits	122.8	141.0	115.3	108.0	104.6
Structural information					
Number of banks	43	43	46	41	37
Market share of state-owned banks, in % of total assets	5.7	5.0	4.0	3.4	3.1
Market share of foreign-owned banks, in % of total assets	84.1	89.3	90.2	91.5	91.3
Profitability and efficiency					
Return on Assets (RoA)	1.4	0.9	1.6	1.6	1.7
Return on Equity (RoE)	10.7	6.6	13.7	14.5	16.5
Capital adequacy, in % of risk weighted assets	21.3	18.5	17.2	16.0	14.1
Classified loans, in % of total credits	9.5	7.3	5.9	5.1	4.5
Average interest rate spread	7.1	6.8	9.4	9.8	9.6

Source: CNB, Raiffeisen RESEARCH

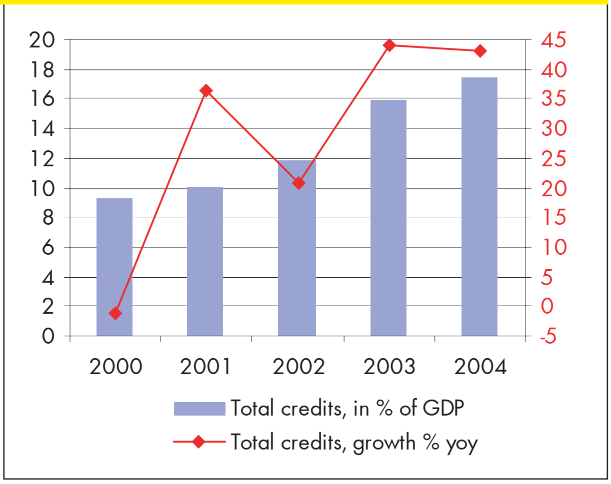
Skyrocketing growth coming from modest levels

Credits to households vs. GDP per capita



Data for 2004, 2003 for outlined triangle to illustrate dynamics
Source: NBR, Raiffeisen RESEARCH

Total credits



Source: NBR, Raiffeisen RESEARCH

The Romanian banking sector bears no resemblance today to that of the crisis years of the past, and in 2004 continued its significant upward trend. The restructuring process and ongoing economic reforms, culminating in the finalisation of Romania's EU membership negotiations, also helped to regain the confidence of both clients and investors in the local banking sector. The outstanding economic growth and the rapid expansion of lending contributed to more than 50% growth in total banking assets in EUR terms in 2004, the highest asset growth in the whole CEE region for the year. Although the size of the banking sector measured as a percentage of GDP has recovered almost to its pre-crisis level (40%), it still remains low compared with Romania's regional peers.

The ongoing privatisation process of the biggest Romanian bank BCR (Banca Comerciala Romana, accounting for more than 25% of total banking assets) and the fourth-largest bank CEC (Savings Bank) will increase the share of foreign banks of total banking assets to above the current level of 62%. Seven out of the ten largest banks are foreign-owned and their market share has gradually increased. The privatisation process is expected to ensure that competition among banks will further intensify, at the same time improving the overall quality of banking services. Lively investment and consumption demand greatly contributed to the further significant increase in outstanding credits, which has almost doubled in volume over the past two years to 17.5% of GDP. Mortgage loans are fueling the credit boom, as in many of the other CEE countries. The outstanding volume of mortgage loans more than doubled in each of the last three years. Despite the rapid credit expansion, the pro-

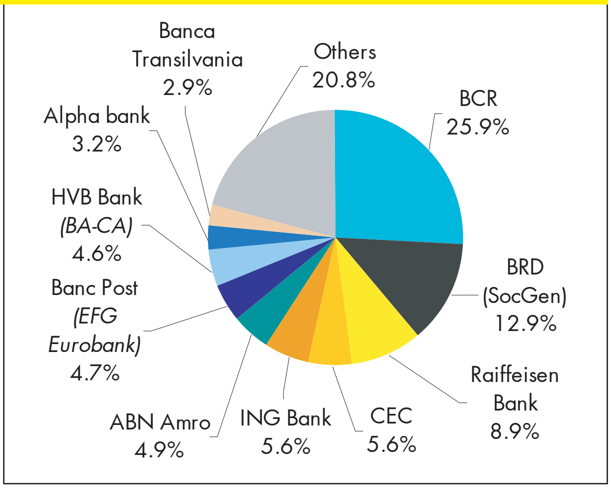
Key economic figures and forecasts

Population: 21.7 mn	**2001**	**2002**	**2003**	**2004**	**2005e**	**2006f**
Nominal GDP (EUR bn)	44.9	48.5	50.7	58.9	78.1	92.9
Real GDP (% yoy)	5.7	5.1	5.2	8.3	5.5	5.0
GDP per capita (EUR at PPP)	5,440	6,040	6,330	7,070	7,930	8,800
Industrial output (% yoy)	8.4	6.0	3.1	5.3	4.5	5.0
Unemployment rate (avg, %)	9.0	10.2	7.6	6.8	6.0	6.0
Nominal industrial wages (% yoy)	51.6	24.3	19.6	23.0	20.0	18.0
Producer prices (avg, % yoy)	40.3	24.5	19.6	18.6	13.5	11.0
Consumer prices (avg, % yoy)	34.5	22.5	15.3	11.9	8.5	7.7
Consumer prices (eop, % yoy)	30.3	17.8	14.1	9.3	8.0	7.0
General budget balance (% of GDP)	(3.2)	(2.5)	(2.0)	(1.1)	(1.0)	(0.5)
Current account balance (% of GDP)	(5.5)	(3.3)	(6.0)	(7.5)	(8.7)	(9.1)
Gross external debt (% of GDP)	30.3	30.9	31.3	30.7	27.5	-
Official FX-Reserves (EUR bn)	4.4	5.9	6.4	10.8	17.5	19.0
RON/EUR (avg)	2.60	3.13	3.76	4.05	3.58	3.45
RON/USD (avg)	2.91	3.31	3.32	3.26	2.84	2.70

Source: Thomson Financial Datastream, wiiw, Raiffeisen RESEARCH

portion of total credits to GDP remains one of the lowest among the CEE countries, promising substantial potential for many years to come.
High credit demand in an environment of falling, but still high, local currency interest rates and the positive outlook for the domestic currency have led Romanian households to increasingly turn their focus to foreign currency credits, a move mirrored in other CEE countries. Thus, the outstanding volume of credits in foreign currency increased by almost two thirds, accounting for 51.3% of total credits at year end 2004. Although the National Bank of Romania adopted restrictive measures aiming at cooling down consumption growth and the credit boom of households, both supply and demand for loans have remained very strong.

Market share



Per cent of total assets; data from year-end 2004
Source: NBR, Raiffeisen RESEARCH

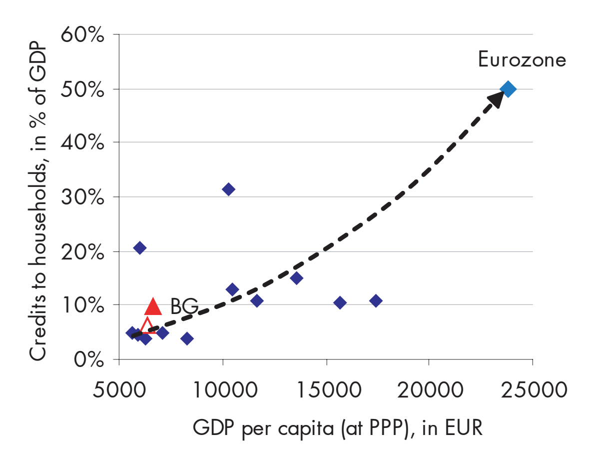
Overview of banking sector developments

Balance-sheet data	***2000***	***2001***	***2002***	***2003***	***2004***
Total assets, EUR mn	9,647.3	12,630.3	13,694.3	15,014.9	23,053.2
growth in % yoy	(2.9)	30.9	8.4	9.6	53.5
in % of GDP	28.9	30.2	31.6	32.4	38.3
Total credits, EUR mn	3,110.0	4,241.4	5,118.4	7,366.3	10,539.6
growth in % yoy	(1.2)	36.4	20.7	43.9	43.1
in % of GDP	9.3	10.1	11.8	15.9	17.5
Credits to private enterprises, EUR mn	2,389.2	3,236.7	3,615.5	4,363.8	6,035.6
growth in % yoy	(0.6)	35.5	11.7	20.7	38.3
in % of GDP	7.2	7.7	8.3	9.4	10.0
Credits to households, EUR mn	176.6	286.6	598.5	1,824.4	2,993.8
growth in % yoy	10.3	62.3	108.8	204.8	64.1
in % of GDP	0.5	0.7	1.4	3.9	5.0
Mortgage loans, EUR mn	46.0	62.3	153.3	437.0	936.4
growth in % yoy	(22.9)	35.5	146.1	185.1	114.3
in % of GDP	0.1	0.1	0.4	0.9	1.6
Credits in foreign currency, EUR mn	1,484.5	1,999.1	2,551.4	3,311.4	5,406.1
growth in % yoy	(4.4)	34.7	27.6	29.8	63.3
in % of GDP	4.5	4.8	5.9	7.2	9.0
Credits in foreign currency, in % of total credits	47.7	47.1	49.8	45.0	51.3
Total deposits, EUR mn	6,605.8	8,424.2	9,397.0	9,795.5	14,370.2
growth in % yoy	3.7	27.5	11.5	4.2	46.7
in % of GDP	19.8	20.1	21.7	21.2	23.9
Deposits from households, EUR mn	3,252.1	4,419.2	4,534.7	4,667.4	6,148.7
growth in % yoy	(2.3)	35.9	2.6	2.9	31.7
in % of GDP	9.8	10.6	10.5	10.1	10.2
Total deposits, in % of total credits	212.4	198.6	183.6	133.0	136.3
Structural information					
Number of banks	41	41	39	38	39
Market share of state-owned banks, in % of capital	38.4	34.6	29.9	25.7	4.8
Market share of foreign-owned banks, in % of total assets	50.9	55.2	56.4	58.2	62.1
Profitability and efficiency					
Return on Assets (RoA)	1.5	3.1	2.6	2.2	2.1
Return on Equity (RoE)	12.5	21.8	18.3	15.6	17.0
Cost income ratio	62.4	57.8	62.0	63.9	-
Capital adequacy, in % of risk weighted assets	23.8	28.8	25.0	21.1	18.8
Classified loans, in % of total credits	6.4	3.9	2.8	33.1	32.5
Average interest rate spread	20.8	19.6	18.3	15.4	14.5

** to private sector; Source: NBR, Raiffeisen RESEARCH*

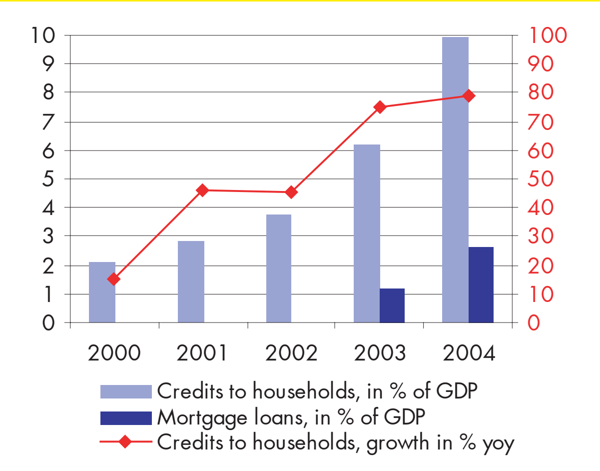
Banking boom
mortgage loans provide additional boost

Credits to households vs. GDP per capita



Data for 2004, 2003 for outlined triangle to illustrate dynamics
Source: BNB, Raiffeisen RESEARCH

Credits to households and mortgage loans



Source: BNB, Raiffeisen RESEARCH

After finalising privatisation in the banking sector in 2003, the banking sector recorded phenomenal developments in 2004 in virtually every aspect. The completion of EU membership negotiations in the course of 2004 also provided a boost to business activities, particularly with respect to foreign direct investment and real GDP growth which reached 5.6% yoy, the highest since the start of transition. Total banking assets increased by 43.8% yoy in 2004, more than double the growth rate of 2003. Despite the restrictive measures implemented by the Bulgarian National Bank in 2004 credit growth actually accelerated, which can in part be attributed to the emergence of mortgage loans as a particularly booming banking product. Mortgage loansonly started in a serious manner in 2003, and, with a level of 2.6% of GDP by the end of 2004, there is ample room and need for strong growth of this business for many years to come. Despite the booming lending activity, the credit portfolio of the banking sector remained in good shape, with classified loans decreasing to 7.1% of total loans. The fast growth of the banking sector also resulted in a drop of the average capital adequacy ratio to 16.6% at the end of 2004, howerver remaining well above the required minimum.

The market share of the five largest banks in Bulgaria decreased quite notably to 52.2% at the end of 2004, a moderate degree of market concentration compared with some of the other markets in the region. Raiffeisenbank Bulgaria managed to move into the group of the five largest banks after ranking seventh at the end of 2003. The pending merger of the Italian UniCredit with the HVB-Group

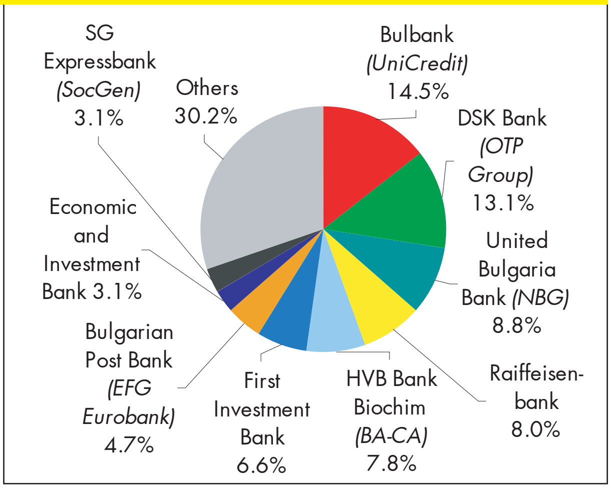
Key economic figures and forecasts

Population: 7.8 mn	***2001***	***2002***	***2003***	***2004***	***2005e***	***2006f***
Nominal GDP (EUR bn)	15.2	16.5	17.7	19.4	21.4	23.7
Real GDP (% yoy)	4.1	4.9	4.3	5.6	5.5	5.5
GDP per capita (EUR at PPP)	5,820	6,070	6,340	6,680	7,220	7,840
Industrial output (% yoy)	2.2	4.6	14.0	17.7	12.0	10.0
Unemployment rate (avg, %)	17.5	17.5	14.2	12.7	11.5	10.5
Nominal industrial wages (% yoy)	3.9	4.1	4.4	7.9	8.5	7.5
Producer prices (avg, % yoy)	3.8	1.3	4.9	5.9	6.5	5.0
Consumer prices (avg, % yoy)	7.4	5.8	2.3	6.1	4.5	5.0
Consumer prices (eop, % yoy)	4.8	3.8	5.6	4.0	4.0	5.0
General budget balance (% of GDP)	(0.9)	(0.6)	0.0	1.7	1.0	0.0
Current account balance (% of GDP)	(7.3)	(5.6)	(8.5)	(7.5)	(9.0)	(8.0)
Gross external debt (% of GDP)	78.6	65.1	60.2	63.0	62.0	-
Official FX-Reserves (EUR bn)	3.7	4.2	5.0	6.4	7.0	7.5
BGN/EUR (avg)	1.96	1.96	1.96	1.96	1.96	1.96
BGN/USD (avg)	2.18	2.06	1.73	1.58	1.55	1.53

Source: Thomson Financial Datastream, wiiw, Raiffeisen RESEARCH

will have a significant impact on the Bulgarian banking market. UniCredit's Bulbank is the largest bank in terms of assets (third in terms of loans). In late 2004, HVB Bank Biochim acquired Hebros Bank, which was the eleventh largest bank, with a market share of about 3% of total assets. HVB Bank Biochim was the fifth-largest bank in terms of assets at the year-end 2004. Whilst a merger of Bulbank with HVB Bank Biochim would create the dominant banking institution in Bulgaria, with a market share of almost 25% of total assets, it is also notable that Bulbank - like most of the other formerly state-owned banks - has lost market share in recent years, and the difficult process of consolidation and restructuring could distract the new merged bank in a period when its competitors are aggressively penetrating a rapidly growing market.

Market share



Per cent of total assets; data from year-end 2004
Source: BNB, Raiffeisen RESEARCH

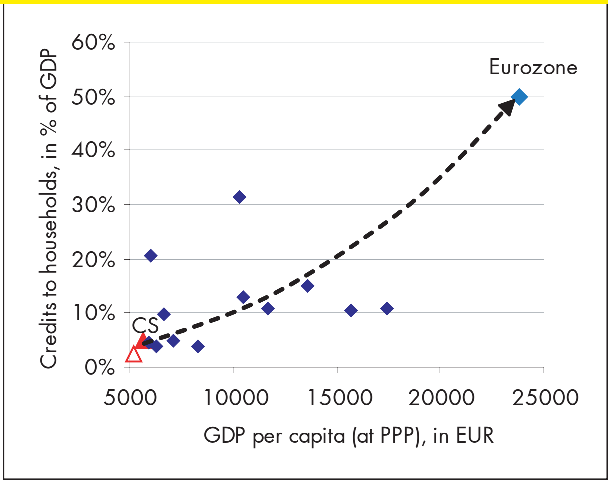
Overview of banking sector developments

Balance-sheet data	***2000***	***2001***	***2002***	***2003***	***2004***
Total assets, EUR mn	4,997.1	6,248.2	7,442.9	8,857.4	12,740.0
growth in % yoy	18.8	25.0	19.1	19.0	43.8
in % of GDP	36.5	41.1	45.0	50.3	65.1
Total credits, EUR mn	1,545.3	2,119.7	3,085.1	4,609.0	7,061.4
growth in % yoy	26.0	37.2	45.5	49.4	53.2
in % of GDP	11.3	14.0	18.7	26.2	36.1
Credits to private enterprises, EUR mn	1,192.8	1,615.4	2,358.4	3,519.3	4,987.6
growth in % yoy	45.0	35.4	46.0	49.2	41.7
in % of GDP	8.7	10.6	14.3	20.0	25.5
Credits to households, EUR mn	290.9	425.6	618.3	1,082.3	1,940.1
growth in % yoy	14.9	46.3	45.3	75.0	79.3
in % of GDP	2.1	2.8	3.7	6.2	9.9
Mortgage loans, EUR mn	-	-	-	208.8	515.6
growth in % yoy	-	-	-	-	147.0
in % of GDP	-	-	-	1.2	2.6
Credits in foreign currency, EUR mn	553.2	779.3	1,352.9	2,009.7	3,389.3
growth in % yoy	28.6	40.9	73.6	48.6	68.6
in % of GDP	4.0	5.1	8.2	11.4	17.3
Credits in foreign currency, in % of total credits	35.8	36.8	43.9	43.6	48.0
Total deposits, EUR mn	3,638.5	4,885.7	5,768.5	6,950.3	9,984.7
growth in % yoy	16.5	34.3	18.1	20.5	43.7
in % of GDP	26.6	32.2	34.9	39.5	51.1
Deposits from households, EUR mn*	1,835.5	2,578.3	2,905.0	3,506.2	4,535.2
growth in % yoy	16.5	34.3	18.1	20.7	29.3
in % of GDP	13.4	17.0	17.6	19.9	23.2
Total deposits, in % of total credits	235.5	230.5	187.0	150.8	141.4
Structural information					
Number of banks	35	35	35	35	35
Market share of state-owned banks, in % of total assets	17.2	17.6	14.2	0.4	3.4
Market share of foreign-owned banks, in % of total assets	71.5	70.6	72.4	82.2	74.6
Profitability and efficiency					
Return on Assets (RoA)	3.0	2.7	2.0	2.0	2.1
Return on Equity (RoE)	21.9	20.5	15.6	18.7	20.0
Capital adequacy, in % of risk weighted assets	35.6	31.3	25.2	22.2	16.6
Classified loans, in % of total credits	8.2	7.0	5.5	8.0	7.1
Average interest rate spread	12.0	11.6	10.3	9.5	9.1

Source: BNB, Raiffeisen RESEARCH

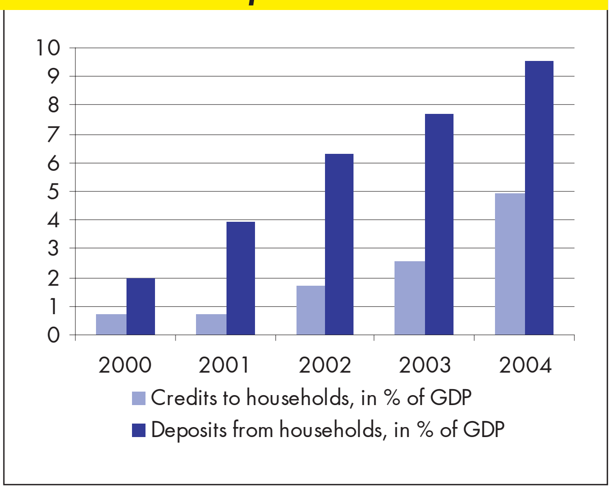
Privatisation underway
foreign banks took the opportunity

Credits to households vs. GDP per capita



Data for 2004, 2003 for outlined triangle to illustrate dynamics
Source: NBS, Raiffeisen RESEARCH

Credits to and deposits from households



Source: NBS, Raiffeisen RESEARCH

The privatisation process made slow but steady progress in 2004 . The state focused on restructuring and preparing its banks for privatisation, which has actually taken off in 2005. Foreign-owned banks were able to benefit from such a market development. This is clearly reflected in the increase of their market share of total banking assets, jumping to 35% at year-end of 2004 as compared with only 20% in 2003. Thus, five foreign-owned banks were ranked among the ten largest banks in Serbia by end 2004 compared with only two in 2003. These banks had also generated the lending boom recorded in 2004, when total credits increased by more than 30% in EUR terms to reach a level of 20% to GDP. Among them Raiffeisenbank stands out as the clear market leader after only three years in operation, being the largest bank in Serbia in terms of total assets, loans and deposits.

In 2004, following years of consolidation and restructuring of the state banks, both total banking assets and total credits recorded a strong growth. Despite having almost doubled in the year, credits to households still only reached a level of 5% of GDP at the end of 2004, one of the lowest ratios in the CEE region, which underscores the substantial potential of the Serbian market, in particular in SME and mortgage lending. Although public confidence in the banking sector still has room for improvement, retail deposits have steadily increased in recent years and should surpass 10% of GDP during 2005.

Key economic figures and forecasts

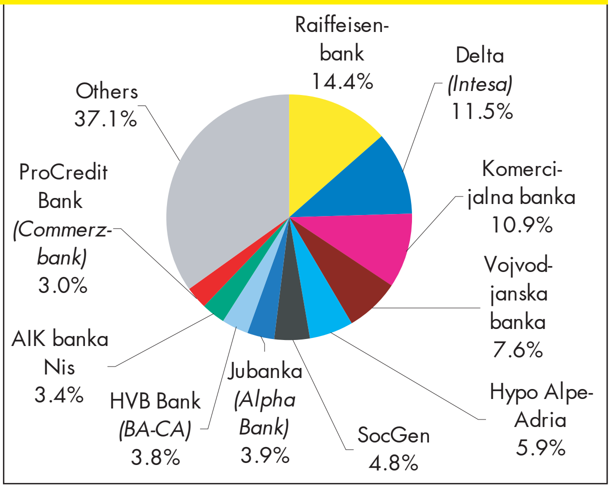
Population: 7.6 mn	**2001**	**2002**	**2003**	**2004**	**2005e**	**2006f**
Nominal GDP (EUR bn)	11.9	15.1	16.8	18.0	19.1	21.0
Real GDP (% yoy)	5.1	4.5	2.4	8.6	5.0	5.0
GDP per capita (EUR at PPP)	4,500	4,940	5,140	5,600	6,690	7,780
Industrial output (% yoy)	0.1	1.8	(3.0)	7.1	4.0	5.0
Unemployment rate (avg, %)	26.8	29.0	31.7	31.7	32.5	33.0
Nominal wages, whole economy (% yoy)	130.0	51.7	25.5	23.7	21.5	16.0
Producer prices (avg, % yoy)	87.7	8.8	4.6	9.1	10.0	8.0
Consumer prices (avg, % yoy)	93.3	21.5	11.8	9.9	16.0	13.0
Consumer prices (eop, % yoy)	40.7	14.8	7.8	13.7	14.5	12.5
General budget balance (% of GDP)	(1.3)	(5.5)	(4.0)	(2.5)	(2.0)	(2.5)
Current account balance (% of GDP)	(3.3)	(10.0)	(9.2)	(13.1)	(13.7)	(15.0)
Gross external debt (% of GDP)	105.9	71.2	64.7	57.6	58.5	-
Official FX-Reserves (EUR bn)	1.3	2.2	2.8	3.1	4.5	4.7
CSD/EUR (avg)	59.5	60.8	65.3	72.6	82.9	88.4
CSD/USD (avg)	66.4	64.2	57.7	58.4	65.8	69.1

Source: Thomson Financial Datastream, wiiw, Raiffeisen RESEARCH

Development in early 2005 was marked by fundamental changes for the banking sector whose impact will become increasingly visible throughout the year: With the arrival of major competitors such as Intesa, Credit Agricole and, most recently Erste, competition which has been intensifying already since late 2004, will soon reach levels that are generally witnessed in the most advanced markets in the CEE region.

Thus, further market consolidation and mergers of niche players, having a market share of 1% or less on total assets, can be expected. More importantly, a substantial decrease of margins is also envisaged.

Market share



Per cent of total assets; data from year-end 2004
Source: NBS, Raiffeisen RESEARCH

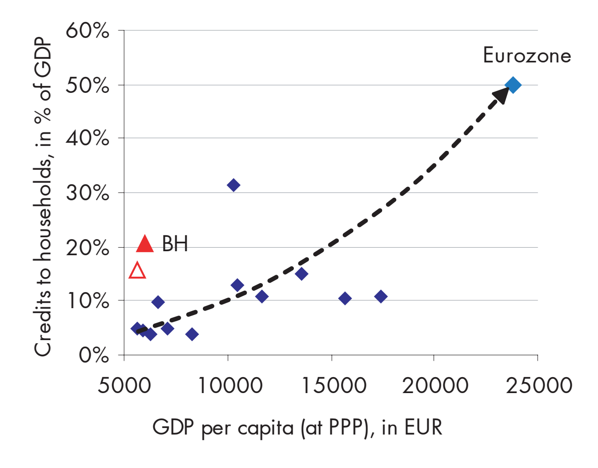
Overview of banking sector developments

Balance-sheet data	***2000***	***2001***	***2002***	***2003***	***2004***
Total assets, EUR mn	10891.4	14940.0	5364.5	4953.3	6069.8
growth in % yoy	(10.0)	37.2	(64.1)	(7.7)	22.5
in % of GDP	179.9	126.0	35.9	30.9	36.9
Total credits, EUR mn	3477.1	3936.0	2487.2	2507.0	3302.2
growth in % yoy	(13.2)	13.2	(36.8)	0.8	31.7
in % of GDP	57.4	33.2	16.6	15.6	20.1
Credits to households, EUR mn	42.6	83.7	260.1	409.9	814.9
growth in % yoy	(66.7)	96.5	210.6	57.6	98.8
in % of GDP	0.7	0.7	1.7	2.6	5.0
Credits in foreign currency, EUR mn	3007.5	3122.8	1061.6	751.7	724.1
growth in % yoy	20.7	3.8	(66.0)	(29.2)	(3.7)
in % of GDP	49.7	26.3	7.1	4.7	4.4
Credits in foreign currency, in % of total credits	86.5	79.3	42.7	30.0	21.9
Total deposits, EUR mn	920.4	1674.9	2402.2	2955.2	3523.1
growth in % yoy	(40.0)	82.0	43.4	23.0	19.2
in % of GDP	15.2	14.1	16.1	18.4	21.4
Deposits from households, EUR mn	119.3	467.0	940.4	1233.7	1564.9
growth in % yoy	(36.6	291.4	101.4	31.2	26.9
in % of GDP	2.0	3.9	6.3	7.7	9.5
Total deposits, in % of total credits	26.5	42.6	96.6	117.9	106.7
Structural information					
Number of banks	86	49	50	47	43
Market share of state-owned banks, in % of total assets	72.4	84.9	58.7	46.5	40.0
Market share of foreign-owned banks, in % of total assets	0.3	2.1	12.8	20.0	36.8
Profitability and efficiency					
Return on Assets (RoA)	(7.5)	(27.9)	(8.3)	(0.3)	(1.0)
Return on Equity (RoE)	(37.6)	(75.2)	(20.0)	(0.8)	(4.9)
Cost income ratio	62.3	79.3	70.0	80.0	53.4
Capital adequacy, in % of risk weighted assets	0.6	27.0	27.0	31.0	25.0
Classified loans, in % of total credits	30.9	8.9	20.9	-	23.2
Average interest rate spread	71.6	28.4	16.5	12.1	11.0

Source: NBS, Raiffeisen RESEARCH

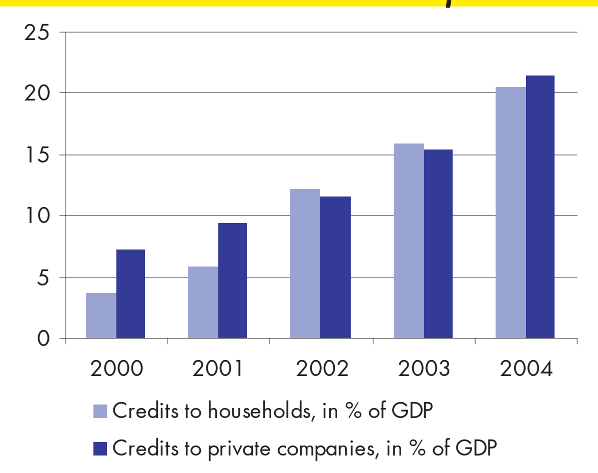
Small market
but steadily growing

Credits to households vs. GDP per capita



Data for 2004, 2003 for outlined triangle to illustrate dynamics
Source: CBBH, Raiffeisen RESEARCH

Credits to households and enterprises



Source: CBBH, Raiffeisen RESEARCH

The banking sector of Bosnia and Herzegovina, one of the smaller markets in the CEE region, has exhibited stable growth following the trend set up four years ago. Low inflation, falling interest rates and continued economic expansion fuelled the demand for banking services. Total banking assets approached EUR 5 bn, or 72% of GDP, the second highest ratio among SEE countries. The reliability of the banking system, improvement in management, intensity of competition, the introduction of new products, the implementation of international accounting standards and regulations in the banking industry and enhanced supervision have all contributed to an overall improvement in efficiency and profitability of the banking sector. However, a further strengthening of the regulatory and supervisory capacities and reconciliation with EU directives and Basel II accords are still required.

In 2004 the five largest banks increased their market share to 65% of total banking assets. Foreign-owned banks contributed significantly to the growth in the banking sector and their market share increased to above 80% in terms of total banking assets. The three largest banks - Raiffeisen Bank, Hypo Alpe-Adria and Zagrebacka banka (UniCredit) - account for more than half of total banking assets. This high level of market concentration and the ongoing consolidation process, which has led to a reduction in the number of banks, is expected to continue. The pending merger of UniCredit with the HVB-Group will combine the second and fourth largest banks in Bosnia and Herzegovina, with a combined market share close to that of the current market leader, Raiffeisen Bank.

Key economic figures and forecasts

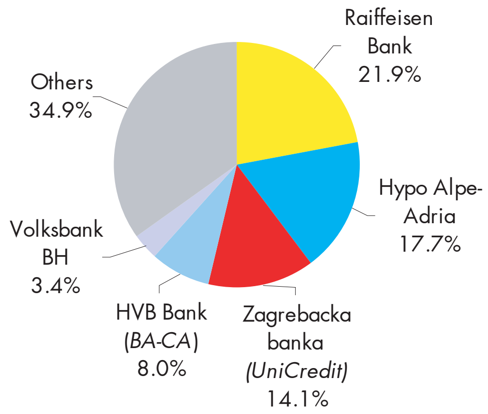
Population: 3.8 mn	***2001***	***2002***	***2003***	***2004***	***2005e***	***2006f***
Nominal GDP (EUR bn)	5.4	6.0	6.3	6.6	7.1	7.6
Real GDP (% yoy)	4.5	5.5	3.0	5.0	5.8	6.0
GDP per capita (EUR at PPP)	5,200	5,490	5,610	6,010	6,270	6,550
Industrial output (% yoy)	(2.0)	11.5	3.8	12.0	7.0	10.0
Unemployment rate (avg, %)	40.0	40.5	41.5	42.0	41.0	41.0
Nominal wages, whole economy (% yoy)	18.4	0.7	3.5	4.2	4.5	4.5
Producer prices (avg, % yoy)	2.4	0.6	0.8	1.5	2.0	2.3
Consumer prices (avg, % yoy)	3.1	0.4	0.6	0.4	0.5	0.6
Consumer prices (eop, % yoy)	0.9	0.2	0.6	0.4	0.6	0.7
General budget balance (% of GDP)	(4.9)	(3.7)	(1.3)	(1.1)	(0.5)	(0.5)
Current account balance (% of GDP)	(16.9)	(22.1)	(24.5)	(23.3)	(23.1)	(21.0)
Gross external debt (% of GDP)	42.2	36.8	32.7	30.7	28.5	-
Official FX-Reserves (EUR bn)	1.4	1.3	1.4	1.4	1.5	1.6
BAM/EUR (avg)	1.96	1.96	1.96	1.96	1.96	1.96
BAM/USD (avg)	2.18	2.07	1.73	1.57	1.55	1.53

Source: Thomson Financial Datastream, wiiw, Raiffeisen RESEARCH

The smooth and gradual acceleration of both credit and deposit growth should ensure a continuation of the banking sector's growth. With a steady increase of corporate loans and an even faster growth in household lending the ratio of total credto its GDP has become one of the highest in all CEE countries. The expected continuation of a favourable economic development and ongoing structural reforms should provide the basis for further growth of both the outstanding amount of credits, and of deposits, particularly in the SME segment that still seems to be underdeveloped.

Also, recent advances in the privatisation and restructuring of state enterprises are expected to increase the need for larger-sized loans from local banks. The banking sector of Bosnia & Herzegovina, and its economy as a whole, would also profit from an acceleration of the EU integration process.

Market share



Per cent of total assets; data from year-end 2004
Source: CBBH, Raiffeisen RESEARCH

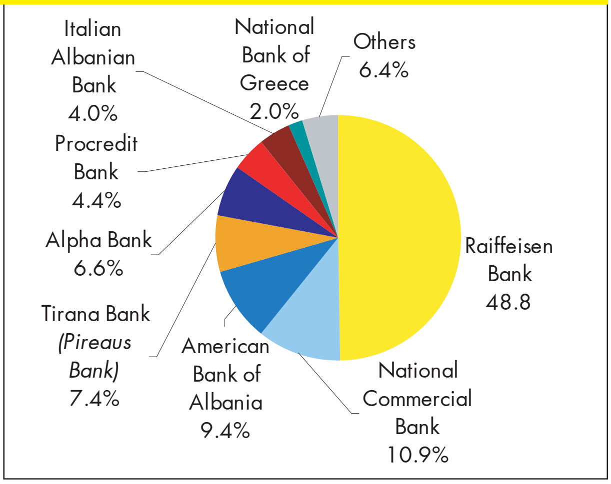
Overview of banking sector developments

Balance-sheet data	***2000***	***2001***	***2002***	***2003***	***2004***
Total assets, EUR mn	1604.2	2290.7	2801.8	3930.8	4764.0
growth in % yoy	9.3	42.8	22.3	40.3	21.2
in % of GDP	31.2	40.9	47.0	62.7	71.7
Total credits, EUR mn	812.4	1048.2	1619.4	2118.8	2789.8
growth in % yoy	12.3	29.0	54.5	30.8	31.7
in % of GDP	15.8	18.7	27.2	33.8	42.0
Credits to private enterprises, EUR mn	373.6	523.7	688.1	965.3	1428.9
growth in % yoy	(7.1)	40.2	31.4	40.3	48.0
in % of GDP	7.3	9.3	11.6	15.4	21.5
Credits to households, EUR mn	193.6	330.8	723.3	993.5	1361.0
growth in % yoy	12.5	70.8	118.7	37.3	37.0
in % of GDP	3.8	5.9	12.1	15.9	20.5
Total deposits, EUR mn	1070.4	1699.1	2125.9	2680.6	3534.1
growth in % yoy	14.3	58.7	25.1	26.1	31.8
in % of GDP	20.8	30.3	35.7	42.8	53.2
Deposits from households, EUR mn	274.1	739.3	832.6	1002.1	1302.4
growth in % yoy	32.3	169.7	12.6	20.4	30.0
in % of GDP	5.3	13.2	14.0	16.0	19.6
Total deposits, in % of total credits	131.8	162.1	131.3	126.5	126.7
Structural information					
Number of banks	56	49	39	36	33
Market share of state-owned banks, in % of total assets	10	<10	<5	<5	<5
Market share of foreign-owned banks, in % of total assets	50	60	>70	>75	>80
Profitability and efficiency					
Return on Assets (RoA)	(1.7)	(0.8)	(0.3)	0.6	0.6
Return on Equity (RoE)	(7.8)	(5.0)	(1.6)	3.7	5.3
Cost income ratio	-	60.3	60.2	62.1	66.4
Capital adequacy, in % of risk weighted assets	28.4	25.1	20.6	20.3	18.7
Classified loans, in % of total credits	-	-	25.0	21.2	15.9
Average interest rate spread, BAM	-	-	8.8	7.7	4.2

Source: CBBH, Raiffeisen RESEARCH

Favourable developments
financial intermediation with room for growth

Market share



Per cent of total assets; data from year-end 2004
Source: Bank of Albania, Raiffeisen RESEARCH

Key economic figures and forecasts

Population: 3.2 mn	*2002*	*2003*	*2004*	*2005e*
Nominal GDP (EUR bn)	5.1	5.5	6.6	7.5
Real GDP (% yoy)	3.4	6.0	6.0	6.0
GDP per capita (EUR at PPP)	4,080	4,270	4,560	4,860
Industrial output (% yoy)	1.8	2.7	3.1	3.5
Unemployment rate (avg, %)	16.0	15.2	14.7	15.0
Consumer prices (avg, % yoy)	5.2	2.3	2.9	2.5
Gen. budget balance (% of GDP)	(6.0)	(4.6)	(4.6)	(5.0)
C/A balance (% of GDP)	(8.4)	(6.6)	(4.4)	(5.0)
Gross external debt (% of GDP)	22.0	20.3	18.5	-
Official FX-Reserves (EUR bn)	0.8	0.8	1.0	1.2
ALL/EUR, avg	132.4	137.6	127.6	124.2
ALL/USD, avg	140.2	121.9	102.6	98.6

Source: Thomson Financial Datastream, wiiw, Raiffeisen RESEARCH

Both the World Bank and the IMF have commented favourably on recent progress in improving the efficiency and the supervision of the financial system in Albania. Positive developments in 2004 include the increase of the number of banks operating in Albania, now up to 16, and increases in bank branches and ATMs. Total banking assets recorded a strong growth in 2004, increasing 35% in EUR terms in an environment of stable economic growth and an appreciating local currency (lek). The increasing trust in the banking sector is also reflected in the rise of deposits as a percentage of GDP, after years of stagnation. Low inflation (2.9% yoy on average in 2004) allowed the Central Bank of Albania, which aims at maintaining inflation within a range of 2-4% yoy, to lower its key interest rates. Total credits recorded strong growth in 2004 but their ratio to GDP remains the lowest in the region, underlining both the current stage of development of the sector and the potential for future growth.
Today, the largest banks have a majority foreign ownership. Raiffeisen Bank, the former Savings Bank of Albania, is the largest bank with a market share of almost 49% of total assets as at year-end 2004. In 2005 the stakes of two banks that are still held by the state, Italian Albanian Bank (40%) and United Bank of Albania (40%), are to be sold. One can anticipate the positive trend in the banking system to continue, in particular in lending to the real economy.

Overview of banking sector developments

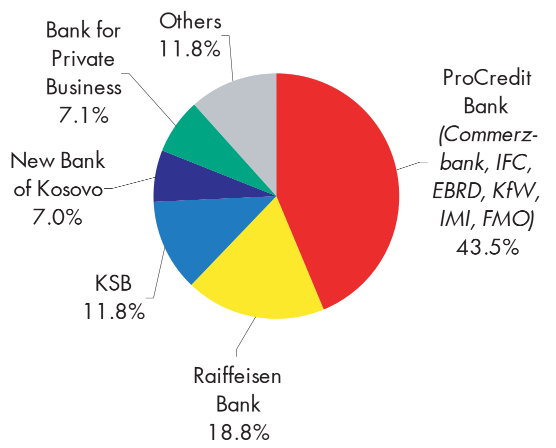
Balance-sheet data	*2000*	*2001*	*2002*	*2003*	*2004*
Total assets, EUR mn	2,042.2	2,638.8	2,420.1	2,486.2	3,375.1
growth in % yoy	11.2	29.2	(8.3)	2.7	35.8
in % of GDP	49.1	52.2	50.1	49.5	51.0
Total credits, EUR mn	167.3	227.0	275.5	340.9	548.5
growth in % yoy	-	35.6	21.4	23.7	60.9
in % of GDP	4.0	4.5	5.7	6.8	8.3
Total deposits, EUR mn	1,725.5	2,164.0	2,061.3	2,124.0	2,974.6
growth in % yoy	10.8	25.4	(4.7)	3.0	40.0
in % of GDP	41.5	42.8	42.6	42.3	45.0
Deposits from households, EUR mn	1,065.6	1,229.5	1,137.7	1,106.5	-
growth in % yoy	7.7	15.4	(7.5)	(2.7)	-
in % of GDP	25.6	24.3	23.5	22.0	-
Total deposits, in % of total credits	1,031.1	953.5	748.3	623.1	542.3
Structural information, profitability and efficiency					
Number of banks	13	13	14	14	16
Market share of state-owned banks, in % of total assets	64.8	59.2	54.1	55.0	0.0
Market share of foreign-owned banks, in % of total assets	35.2	40.0	45.0	45.0	97.1
Return on Assets (RoA)	2.1	1.5	1.2	1.2	1.3
Return on Equity (RoE)	20.6	21.6	19.1	19.5	21.1
Capital adequacy, in % of risk weighted assets	35.3	31.6	28.5	25.3	21.6
Classified loans, in % of total credits	42.6	6.9	5.6	5.1	5.6
Average interest rate spread (ALL)	16.0	15.0	7.9	7.7	10.5

Source: Bank of Albania, Raiffeisen RESEARCH

Small market
dynamic growth

The Kosovo banking market is small and its short history dates back only to 2000. This helps to explain why it belongs to one of the least developed banking markets among CEE countries in terms of its ratios of banking assets and total credits to of GDP. Total banking assets reached 42% of GDP at year end 2004, a significant jump from 32.4% in 2003 and 13.8% in 2000. Both credits to enterprises and to households recorded strong growth. Irrespective of declining lending rates, the profitability of banks has further improved. The two largest banks are majority foreign-owned. ProCredit Bank, the successor of Micro Enterprise Bank, accounted for 43.5% of total assets at year end 2004 and Raiffeisen Bank Kosovo increased its market share to 19%. Despite the dynamic expansion of lending in the Kosovo banking sector, the sector is still in its early stages of development. Household lending as a percent of GDP has not exceeded 5% GDP as at year-end 2004. Although the market penetration of credits to enterprises is higher in relative terms, the overall level of banking intermediation remains low, offering substantial room for further expansion in terms of both quantity and quality of banking services.

Market share



Per cent of total assets; data from year-end 2004
Source: BPK, Raiffeisen RESEARCH

Key economic figures and forecasts

Population: 2.0 mn	***2002***	***2003***	***2004***	***2005e***
Nominal GDP (EUR bn)	2.4	2.4	2.5	2.5
Real GDP (% yoy)	(2.9)	(1.4)	3.7	(0.5)
GDP per capita (EUR)	1,288	1,252	1,274	1,227
Consumer prices (avg, % yoy)	3.6	1.1	0.0	(1.5)
Gen. budget balance (% of GDP)	4.4	1.9	(5.3)	(3.9)
C/A balance (% of GDP)	(36.0)	(31.1)	(30.2)	(29.1)
Worker's remittances (EUR mn)	341	341	341	345
Foreign assistance (EUR mn)	887	688	568	519

Source: BPK, Raiffeisen RESEARCH

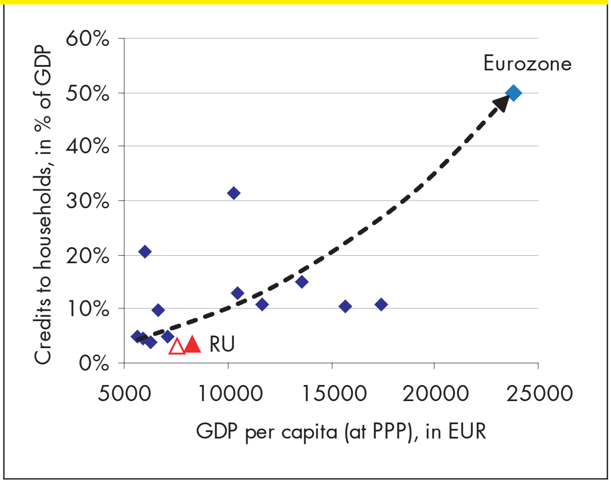
Overview of banking sector developments

Balance-sheet data	***2000***	***2001***	***2002***	***2003***	***2004***
Total assets, EUR mn	103.0	519.0	471.2	581.5	797.0
growth in % yoy	-	404.1	(9.2)	23.4	37.1
in % of GDP	13.8	45.0	36.3	32.4	42.1
Total credits, EUR mn	3.1	25.9	86.5	232.8	373.7
growth in % yoy	-	723.3	233.8	169.1	60.5
in % of GDP	0.4	2.2	6.7	13.0	19.7
Credits to private enterprises, EUR mn	3.1	24.9	80.8	193.7	290.0
growth in % yoy	-	691.5	224.1	139.9	49.7
in % of GDP	0.4	2.2	6.2	10.8	15.3
Credits to households, EUR mn	-	-	5.7	38.9	83.7
growth in % yoy	-	-	-	583.2	115.3
in % of GDP	-	-	0.4	2.2	4.4
Total deposits, EUR mn	93.0	492.3	427.2	515.8	696.1
growth in % yoy	-	429.3	(13.2)	20.7	35.0
in % of GDP	12.5	42.7	32.9	28.7	36.7
Deposits from households, EUR mn	-	317.6	227.8	273.7	368.2
growth in % yoy	-	-	(28.3)	20.2	34.5
in % of GDP	-	27.5	17.6	15.2	19.4
Total deposits, in % of total credits	2954.3	1899.4	493.9	221.6	186.3
Structural information					
Number of banks	1	7	7	7	7
Market share of foreign-owned banks, in % of total assets	100.0	74.2	73.1	63.8	62.0
Profitability and efficiency					
Return on Assets (RoA)	-	1.3	0.6	1.1	1.1
Return on Equity (RoE)	-	32.8	8.2	14.4	19.3
Capital adequacy, in % of risk weighted assets	7.3	1.9	1.6	1.4	12.5
Average interest rate spread	-	12.5	12.9	11.6	11.8

Source: BPK, Raiffeisen RESEARCH

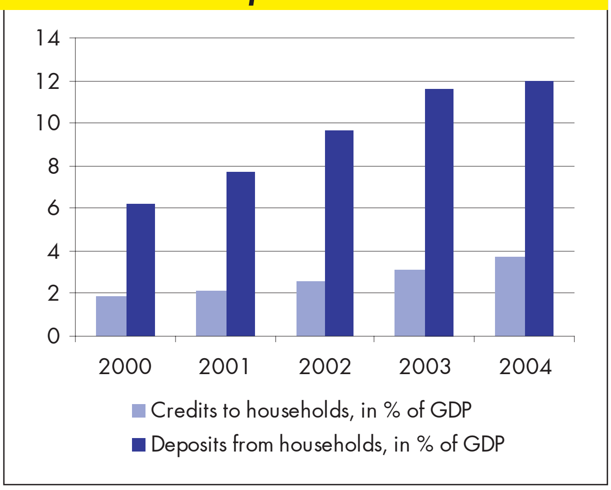
Large market, huge potential
foreign bank activities increased in 2004

Credits to households vs. GDP per capita



Data for 2004, 2003 for outlined triangle to illustrate dynamics
Source: CBR, Raiffeisen RESEARCH

Credits to and deposits from households



Source: CBR, Raiffeisen RESEARCH

The Russian banking sector is by far the largest in the CEE region and total banking assets increased to EUR 181.6 bn as at year-end 2004, a growth of 28.5% compared with 2003. However, the banking sector still remains relatively small in relation to the size of the Russian economy with banking assets only accounting for 40.9% of GDP. The Russian banking sector is, paradoxically, both strongly concentrated and highly fragmented at the same time. There were some 1,500 banks operating in Russia in 2004 with over 1,100 institutions being licensed to collect private deposits. However, the top five banks accounted for 46.9% of total banking assets as at year-end 2004, and for 65.8% of retail deposits (Sberbank alone holds close to 60% of private deposits). Dominant positions in the market are held by banks either owned directly by the state (Sberbank and Vneshtorgbank) or by state-owned companies (Gazprombank).

Most banks are generally small and either serve as treasuries for industrial groups and regional businesses or are used for operations not always in line with standard banking practices. Foreign banks, on the other hand, are bound by Russian legislation, which requires them to work through subsidiaries and prohibits them from opening branches directly. Moreover, the ratio of their capitalisation to that of the Russian banking system as a whole is regulated by the Central Bank. Still, foreign banks are increasingly active in corporate and retail banking. Raiffeisenbank, Citibank, International Moscow Bank and Commerzbank are already counted among Russia's top 30 banks.

The fastest growing segment of the Russian banking sector is retail loans, which doubled in 2004. However, about half of the market is controlled by

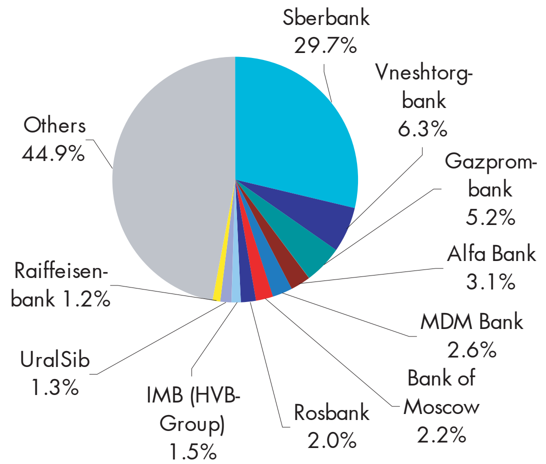
Key economic figures and forecasts

Population: 143.4 mn	**2001**	**2002**	**2003**	**2004**	**2005e**	**2006f**
Nominal GDP (EUR bn)	345.8	366.1	380.1	468.9	573.1	664.8
Real GDP (% yoy)	5.1	4.7	7.3	7.2	5.5	5.0
GDP per capita (EUR at PPP)	6,480	7,010	7,530	8,300	9,660	10,850
Industrial output (% yoy)	5.0	3.8	8.9	7.3	4.5	4.0
Unemployment rate (avg, %)	9.0	8.0	8.3	8.2	7.9	7.9
Nominal industrial wages (% yoy)	52.0	26.8	24.7	24.0	21.6	16.7
Producer prices (avg, % yoy)	17.5	10.5	16.5	23.4	19.5	12.5
Consumer prices (avg, % yoy)	21.6	15.8	13.6	11.0	12.7	9.7
Consumer prices (eop, % yoy)	18.6	15.1	12.0	11.7	12.0	10.0
General budget balance (% of GDP)	2.4	1.4	1.6	4.4	7.0	4.0
Current account balance (% of GDP)	11.0	8.4	8.2	10.3	13.1	6.3
Gross external debt (% of GDP)	49.0	40.2	39.1	33.1	28.2	-
Official FX-Reserves (EUR bn)	36.5	42.0	58.0	88.9	162.6	178.6
RUB/EUR (avg)	26.1	29.7	34.7	35.8	35.5	35.6
RUB/USD (avg)	29.2	31.4	30.7	28.8	28.2	27.8

Source: Thomson Financial Datastream, wiiw, Raiffeisen RESEARCH

Sberbank, mainly due to its regionally developed branch network. The market still remains attractive for international banks: BNP Paribas came close to acquiring Russian Standard Bank in late 2004, but the parties could not finally agree upon the price. Recent large mergers and acquisitions include GE Capital's purchase of the mid-size consumer finance, DeltaBank for USD 100 mn in November 2004 and Banca Intesa's purchase of a 75% stake in SME-focused KMB-Bank (founded by the EBRD) for USD 90 mn in May 2005.
The banking system has quickly recovered from its mini-crisis in mid 2004, but still suffers from a lack of trust. The Central Bank and the government have tried to solve this problem by introducing deposit insurance and tougher control over banking activities. However, households still, at least partly, prefer to keep their savings outside the banking system.

Market share



Per cent of total assets; data from year-end 2004
Source: CBR, Raiffeisen RESEARCH

Overview of banking sector developments

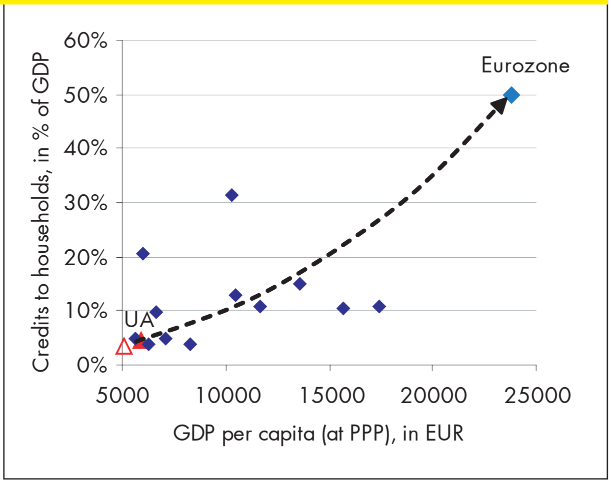
Balance-sheet data	***2000***	***2001***	***2002***	***2003***	***2004***
Total assets, EUR mn	90,380.6	119,135.3	125,142.4	152,509.1	188,753.9
growth in % yoy	53.0	31.8	5.0	21.9	23.8
in % of GDP	32.3	35.3	38.3	42.2	42.5
Total credits, EUR mn	36,583.5	55,397.8	61,278.3	79,246.2	111,819.9
growth in % yoy	66.9	51.4	10.6	29.3	41.1
in % of GDP	13.1	16.4	18.8	21.9	25.2
Credits to private enterprises, EUR mn	29,202.2	44,977.4	48,707.2	62,628.5	80,025.5
growth in % yoy	78.6	54.0	8.3	28.6	27.8
in % of GDP	10.4	13.3	14.9	17.3	18.0
Credits to households, EUR mn	5,216.2	7,087.8	8,420.2	11,374.6	16,367.5
growth in % yoy	32.2	35.9	18.8	35.1	43.9
in % of GDP	1.9	2.1	2.6	3.1	3.7
Credits in foreign currency, EUR mn	14,076.2	18,680.6	22,500.0	26,766.0	32,153.9
growth in % yoy	26.0	32.7	20.4	19.0	20.1
in % of GDP	5.0	5.5	6.9	7.4	7.2
Credits in foreign currency, in % of total credits	38.5	33.7	36.7	33.8	28.8
Total deposits, EUR mn	26,618.6	36,676.9	41,145.7	52,393.8	70,175.3
growth in % yoy	57.0	37.8	12.2	27.3	33.9
in % of GDP	9.5	10.9	12.6	14.5	15.8
Deposits from households, EUR mn	17,337.6	26,049.7	31,609.3	41,932.6	52,985.3
growth in % yoy	57.1	50.2	21.3	32.7	26.4
in % of GDP	6.2	7.7	9.7	11.6	11.9
Total deposits, in % of total credits	72.8	66.2	67.1	66.1	62.8
Structural information					
Number of banks	2,034	1,953	1,773	1,612	1,529
Market share of state-owned banks, in % of total assets	-	32.4	31.6	31.7	-
Market share of foreign-owned banks, in % of total assets	-	-	-	<4	5.5
Profitability and efficiency					
Return on Assets (RoA)	0.9	2.4	2.6	2.6	2.6
Return on Equity (RoE)	8.0	19.4	18.0	17.8	17.3
Capital adequacy, in % of risk weighted assets	19.0	20.3	19.1	19.1	14.9
Classified loans, in % of total credits	7.7	6.2	5.6	5.0	5.3
Average interest rate spread	21.5	16.8	17.6	15.7	15.9

Source: CBR, Raiffeisen RESEARCH

Embracing the change

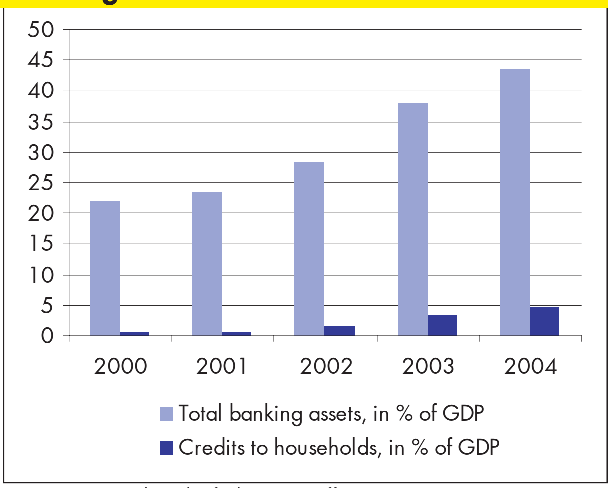
Orange Revolution boosted confidence

Credits to households vs. GDP per capita



Data for 2004, 2003 for outlined triangle to illustrate dynamics
Source: National Bank of Ukraine, Raiffeisen RESEARCH

Banking assets and credits to households



Source: National Bank of Ukraine, Raiffeisen RESEARCH

Ukraine has experienced a fundamental change of its political landscape in the aftermath of the peaceful "Orange Revolution". This event had been triggered by allegations of corruption, voter intimidation and direct electoral fraud during the Presidential run-off election of 21 November 2004, as reported by numerous domestic and foreign observers. In response to the political change foreign investors' interest in the country markedly picked up, although it still has been somewhat muted by the uncertainty regarding the extent of re-privatisation. In an economic environment of 12% real GDP growth, the highest in CEE in 2004, the Ukrainian banking sector continued to post strong dynamics. Total sector assets increased to 43.5% to GDP at year-end 2004, up from 37.9% in 2004 and twice that the figure year-end 2000. The rising inflation that was triggered by the political turmoil has become a concern to the National Bank, which has in turn raised its base rate and tried to stem inflationary pressures by letting the hryvnia exchange rate appreciate against the USD, to which it had been pegged since 1999.

The banking market in Ukraine is the least concentrated one in CEE with the five largest banks accounting for slightly more than 35% of total sector assets. The number of banks operating in Ukraine increased to 182 in 2004, up from 156 the previous year. In a very recent development (August 2005) Raiffeisen International announced the acquisition of 93.5% in Bank Aval, the second largest bank in Ukraine in terms of assets. Even before the deal, Raiffeisenbank Ukraine was the largest foreign-owned bank with a market share of

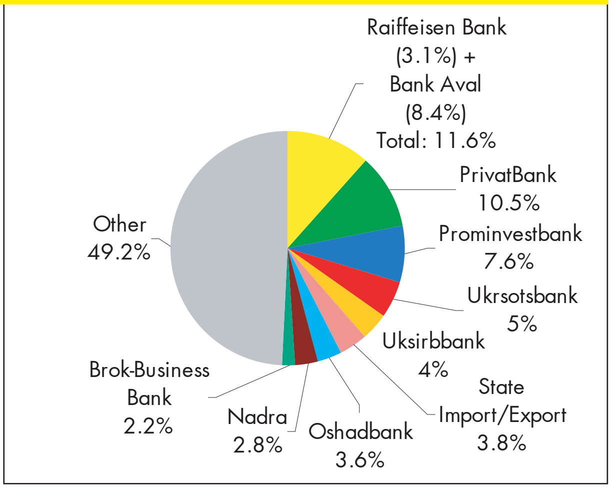
Key economic figures and forecasts

Population: 47.3 mn	**2001**	**2002**	**2003**	**2004**	**2005e**	**2006f**
Nominal GDP (EUR bn)	38.0	42.4	49.4	64.8	80.5	101.6
Real GDP (% yoy)	9.2	5.2	9.4	12.0	5.5	6.5
GDP per capita (EUR at PPP)	4,230	4,610	5,120	5,920	6,910	7,980
Industrial output (% yoy)	14.3	7.0	15.8	12.5	5.0	7.5
Unemployment rate (avg, %)	3.7	3.8	3.6	3.5	3.5	3.2
Nominal wages, whole economy (% yoy)	32.7	20.8	21.9	25.7	27.9	22.5
Producer prices (avg, % yoy)	8.6	3.1	7.8	20.4	14.0	18.0
Consumer prices (avg, % yoy)	12.0	0.8	5.2	9.9	12.9	10.5
Consumer prices (eop, % yoy)	6.1	(0.6)	8.2	9.9	11.0	9.0
General budget balance (% of GDP)	1.6	(0.8)	0.2	(4.1)	(3.0)	(2.5)
Current account balance (% of GDP)	3.6	7.7	5.8	11.3	9.5	8.0
Gross external debt (% of GDP)	36.3	28.9	38.6	34.7	31.0	-
Official FX-Reserves (EUR bn)	3.4	4.1	5.4	7.8	10.7	12.5
UAH/EUR (avg)	4.81	5.03	6.02	6.60	6.24	6.02
UAH/USD (avg)	5.37	5.33	5.33	5.31	4.95	4.70

Source: Thomson Financial Datastream, wiiw, Raiffeisen RESEARCH

3.1% of total assets as at the year-end of 2004. It would become the market leader with the eventual merger with Bank Aval, totaling around 11.6%. The market share of the two majority state-owned banks, Oshadbank and Ukreximbank, further decreased in terms of assets in 2004. Both of these banks are expected to be privatised in the foreseeable future with Austria's Erste Bank already having announced its interest in the Savings Bank (Oshadbank). Given the surge of interest of international banks in the region over the last years, the size and potential of the Ukrainian market and the decreasing number of remaining privatisation opportunities in the region the Ukrainian government can expect strong competition in the privatisation process.

Market share



Per cent of total assets; data as of year-end 2004 reflecting ownership structure as of end of August 2005
Source: National Bank of Ukraine, Raiffeisen RESEARCH

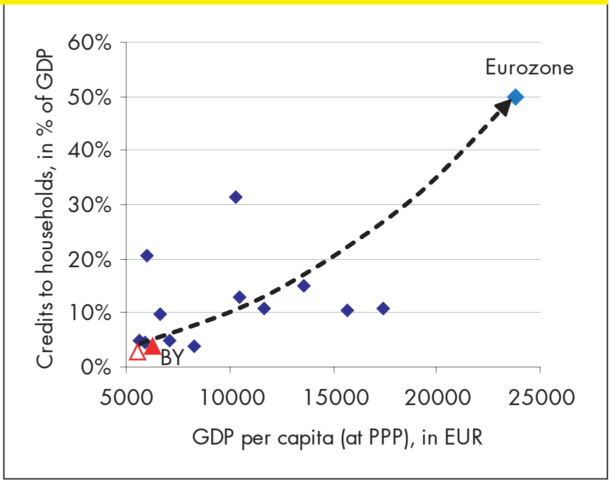
Overview of banking sector developments

Balance-sheet data	**2000**	**2001**	**2002**	**2003**	**2004**
Total assets, EUR mn	7342.4	10191.7	11548.4	15045.2	19592.5
growth in % yoy	24.9	38.8	13.3	30.3	30.2
in % of GDP	21.8	23.3	28.3	37.9	43.5
Total credits, EUR mn	3870.8	6076.1	7597.3	10182.1	12367.2
growth in % yoy	72.1	57.0	25.0	34.0	21.5
in % of GDP	11.5	13.9	18.6	25.7	27.5
Credits to private enterprises, EUR mn	3677.0	5772.4	6998.3	8833.1	10174.7
growth in % yoy	73.6	57.0	21.2	26.2	15.2
in % of GDP	10.9	13.2	17.1	22.3	22.6
Credits to households, EUR mn	193.8	303.7	598.8	1348.8	2038.3
growth in % yoy	48.0	56.7	97.2	125.3	51.1
in % of GDP	0.6	0.7	1.5	3.4	4.5
Credits in foreign currency, EUR mn	1781.0	2682.9	3175.9	4243.6	5217.8
growth in % yoy	53.7	50.6	18.4	33.6	23.0
in % of GDP	5.3	6.1	7.8	10.7	11.6
Credits in foreign currency, in % of total credits	46.0	44.2	41.8	41.7	42.2
Total deposits, EUR mn	3705.5	5497.9	6816.7	9210.9	11582.6
growth in % yoy	59.8	48.4	24.0	35.1	25.7
in % of GDP	11.0	12.6	16.7	23.2	25.7
Deposits from households, EUR mn	1340.8	2427.8	3488.8	4849.6	5753.2
growth in % yoy	62.7	81.1	43.7	39.0	18.6
in % of GDP	4.0	5.6	8.5	12.2	12.8
Total deposits, in % of total credits	95.7	90.5	89.7	90.5	93.7
Structural information					
Number of banks	149	149	153	156	182
Market share of state-owned banks, in % of assets	-	-	12.0	9.5	7.7
Market share of foreign-owned banks, in % of total assets	-	-	7.0	7.5	7.1
Profitability and efficiency					
Return on Assets (RoA)	(0.1)	1.2	1.2	1.0	1.1
Return on Equity (RoE)	(0.5)	7.5	8.0	7.6	8.4
Capital adequacy, in % of risk weighted assets	-	20.7	18.5	14.4	16.8
Classified loans, in % of total credits	13.7	6.6	5.0	3.7	3.2
Average interest rate spread	21.9	16.2	13.4	10.7	7.8

Source: NBU, Raiffeisen RESEARCH

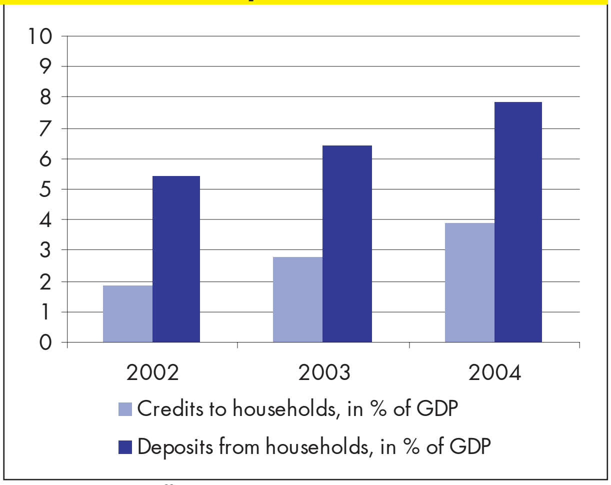
Some hiccups in 2004
Banks stretched to fund credit growth

Credits to households vs. GDP per capita



Data for 2004, 2003 for outlined triangle to illustrate dynamics
Source: NBRB, Raiffeisen RESEARCH

Credits to and deposits from households



Source: NBRB, Raiffeisen RESEARCH

In an environment of particularly strong GDP growth - 11% - and a stable exchange rate against the USD, the banking sector in Belarus recorded a pronounced growth in total assets of 31.9% yoy in EUR terms (44.3% yoy in BYR terms) in 2004. However, the banking sector still remains relatively local with total banking assets only accounting for 29.6% of GDP at year-end 2004.Of the 32 banks operating in Belarus, 27 have a proportional share of foreign capital, including 8 banks that are fully foreign-owned. However, the market share of majority state-owned banks increased to 82% of total banking assets at the end of 2004. The sector is also highly concentrated with the five largest banks commanding a market share of more than 80%. Belarusbank, by far the largest bank in the country, alone accounts for almost 42% of total banking assets. Among the five largest banks, Priorbank, in which Raiffeisen International holds a majority stake, remains the only foreign-owned bank.

Credits of all categories recorded a very strong growth in 2004. However, in early 2005 the banking sector appeared to have lost the will to maintain the pace of credit expansion, resulting in a pronounced slowdown of credit growth. First, the reduction was connected with liquidity problems of the two largest state-banks – Belarusbank and Belagroprombank – in the period from October to December 2004. As a result, these banks suspended the issuance of household credits at the beginning of 2005. Credit growth to small and medium-sized enterprises also tailed off as a result of the slowdown in business activity. In the meantime the situation has normalised after the liquidity problems

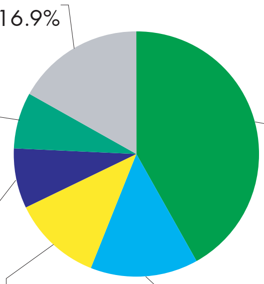
Key economic figures and forecasts

Population: 9.8 mn	**2001**	**2002**	**2003**	**2004**	**2005e**	**2006f**
Nominal GDP (EUR bn)	13.5	15.3	15.4	18.4	22.5	25.7
Real GDP (% yoy)	4.7	5.0	6.8	11.0	9.0	7.5
GDP per capita (EUR at PPP)	4,740	5,130	5,550	6,320	7,560	8,650
Industrial output (% yoy)	5.9	4.5	7.1	15.6	10.0	8.0
Unemployment rate (avg, %)	2.3	3.0	3.1	2.5	1.8	1.8
Nominal wages, whole economy (% yoy)	102.0	48.0	30.0	38.0	36.0	30.0
Producer prices (avg, % yoy)	72.0	41.0	38.0	24.2	19.0	12.0
Consumer prices (avg, % yoy)	61.0	43.0	29.0	18.1	12.0	8.5
Consumer prices (eop, % yoy)	46.0	35.0	25.0	14.4	10.0	8.0
General budget balance (% of GDP)	(1.3)	(0.6)	(1.3)	0.1	(0.7)	(1.0)
Current account balance (% of GDP)	(3.6)	(2.3)	(2.9)	(4.4)	(2.2)	(1.9)
Gross external debt (% of GDP)	20.6	19.1	17.6	16.8	15.0	-
Official FX-Reserves (EUR bn)	0.4	0.4	0.4	0.6	1.1	1.2
BYR/EUR, avg	1,248	1,687	2,348	2,686	2,728	2,803
BYR/USD, avg	1,394	1,784	2,075	2,160	2,165	2,190

Source: Thomson Financial Datastream, wiiw, Raiffeisen RESEARCH

of the two largest state-owned banks were solved by increasing their authorised funds. They have also been helped by the continuing strong growth of deposits from households, despite lower deposit rates.
While foreign currency credit costs remained virtually unchanged, interest rates on BYR credits fell during 2004. As a result the share of foreign currency credits, which are mainly taken up by state-owned enterprises, declined, a trend that continued into 2005. After a more difficult period for the banking sector in the first half 2005, characterised by an increase in bad loan provisions and a deterioration of average Return on Assets, the situation is expected to improve. This should be due to the realisation of government programmes and of state subsidies to industrial enterprises.

Market share



Per cent of total assets; data from year-end 2004
Source: NBRB, Raiffeisen RESEARCH

Overview of banking sector developments

Balance-sheet data	***2000***	***2001***	***2002***	***2003***	***2004***
Total assets, EUR mn	1,884.1	4,464.4	3,218.4	3,758.4	4,956.1
growth in % yoy	(8.9)	137.0	(27.9)	16.8	31.9
in % of GDP	22.6	36.2	12.1	27.7	29.6
Total credits, EUR mn	1,551.8	1,959.5	1,768.7	2,065.9	3,082.7
growth in % yoy	(4.5)	26.3	(9.7)	16.8	49.2
in % of GDP	18.6	15.9	13.5	15.2	18.4
Credits to private enterprises, EUR mn	-	-	805.7	1,329.3	2,105.9
growth in % yoy	-	-	-	65.0	58.4
in % of GDP	-	-	6.1	9.8	12.6
Credits to households, EUR mn	-	-	241.1	374.3	653.8
growth in % yoy	-	-	-	55.2	74.7
in % of GDP	-	-	1.8	2.8	3.9
Credits in foreign currency, EUR mn	-	-	918.6	1,041.4	1,350.5
growth in % yoy	-	-	-	13.4	29.7
in % of GDP	-	-	7.0	7.7	8.1
Credits in foreign currency, in % of total credits	-	-	51.9	50.4	43.8
Total deposits, EUR mn	-	1,473.4	1,591.7	1,850.5	2,501.0
growth in % yoy	-	-	8.0	16.3	35.2
in % of GDP	-	11.9	12.1	13.6	14.9
Deposits from households, EUR mn	-	591.5	710.3	868.0	1,314.4
growth in % yoy	-	-	20.1	22.2	51.4
in % of GDP	-	4.8	5.4	6.4	7.8
Total deposits, in % of total credits	-	75.2	90.0	89.6	81.1
Structural information					
Number of banks	-	-	28	30	32
Market share of state-owned banks, in % of total assets	-	87.4	79.6	78.3	82.0
Market share of foreign-owned banks, in % of total assets	4.5	9.6	8.7	10.2	12.0
Profitability and efficiency					
Return on Assets (RoA)	-	-	1.0	1.5	1.4
Return on Equity (RoE)	-	-	4.4	6.1	6.3
Capital adequacy, in % of risk weighted assets	24.4	20.7	24.2	27.3	19.9
Classified loans, in % of total credits	11.7	12.2	7.0	3.3	3.2
Average interest rate spread	-	27.7	24.4	13.5	9.4

Source: EB, Raiffeisen RESEARCH

Market players in CEE
the competitive landscape

Insatiable appetite for CEE assets

At the micro level the trends have not changed substantially in the past year. The concentration process is going on and has found its temporary climax in the announced merger of UniCredit and the HVB network in CEE. The number of banks in the region decreased from 2,198 to 2,119 (excl. CIS countries from 392 to 376) in 2004 while the market share of international banks in CEE has increased. Not including CIS countries, around 77% of total banking assets are controlled by international banking groups. In Ukraine and Russia foreign shareholdings are still below 10% of the total market.

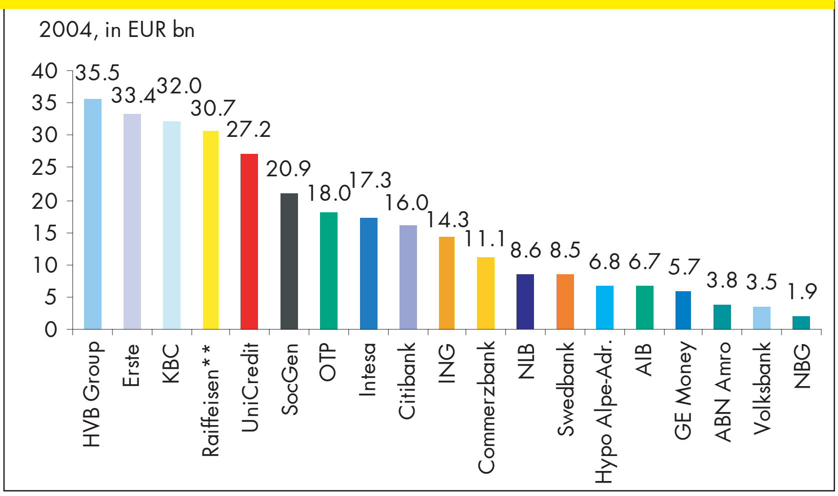
Still the same players on the field

The market players in CEE banking are the same as last year and - including BA-CA - Austrian banks still take a lead in the region. With a strong presence in the fast growing Balkan countries Italian as well as Greek banks have taken a fast track in gaining importance in CEE apart from the Austrians. Some international players are still underrepresented in the region but announced that their appetite for CEE assets would increase substantially (e.g. Citigroup and Deutsche Bank). While OTP remains the only "local" bank following an explicit regional expansion strategy, PKO BP has also announced to intensify cross-border efforts.

Just before the UniCredit deal HVB Group/BA-CA has taken the No. 1 position in CEE in terms of total assets

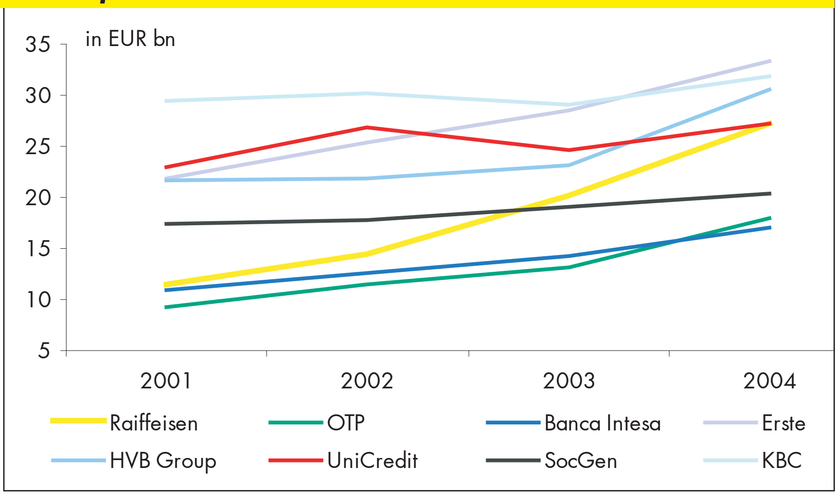
When ranking banking groups in terms of assets controlled by majority ownership, HVB Group/BA-CA has taken the No. 1 position due to its acquisition of the majority stake in the International Moscow Bank, its merger with Banca Tiriac in Romania plus minor acquisitions in Bulgaria and Romania. By ranking the banks according to their assets weighted by ownership stakes the picture differs a bit mainly due to HVB/BA-CA and UniCredit holding only 71% and 52%, respectively, of their Polish "crown jewels".

Consolidated total assets* of international banks in CEE



CEE: PL, CZ, SK, HU, SL, LT, LI, ES, RO, BG, HR, CS, BH, AL, KO, RU, UA, BY, MK, MD
** data as of Dec. 2004, representing ownership structure as of Aug. 2005*
*** incl. Bank Aval*
Source: Company data, local central banks

Development of consolidated total assets in CEE

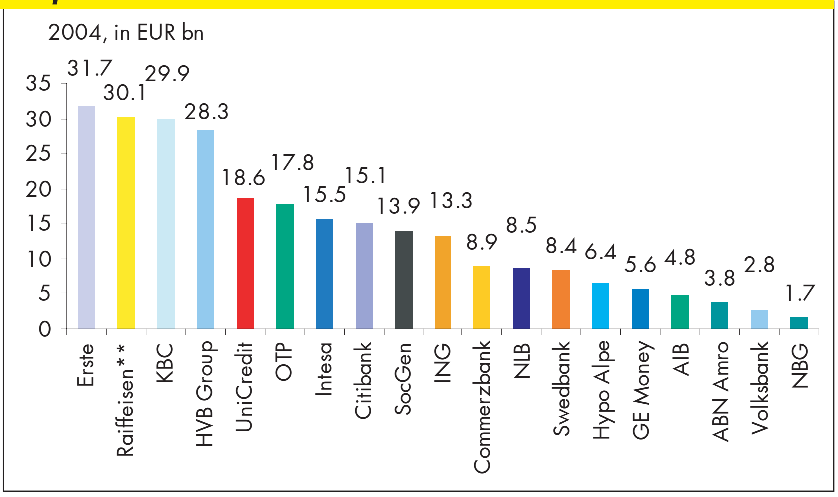


Source: Company data, local central banks

Compound annual growth rates (CAGR) of CEE assets 2001-2004:

Raiffeisen:	**33%**
OTP:	**25%**
Banca Intesa:	**16%**
Erste Bank:	**15%**
HVB Group:	**12%**
UniCredit:	**6%**
SocGen:	**5%**
KBC:	**3%**

Proportional total assets* of international banks in CEE

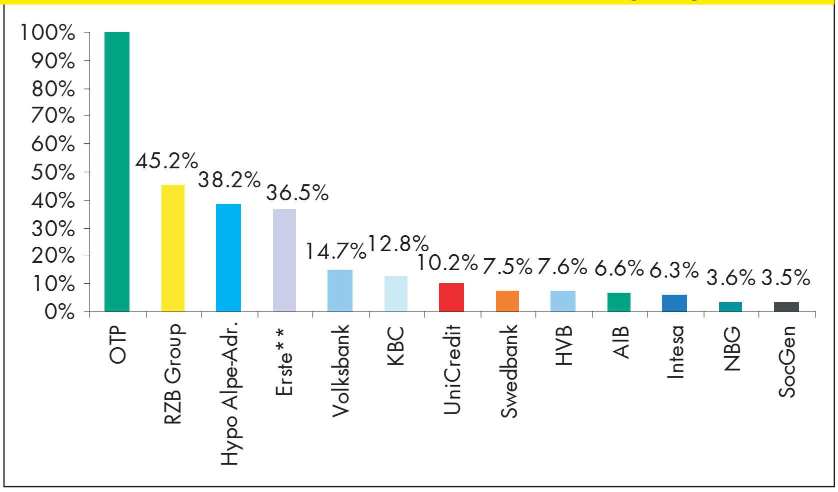


CEE: PL, CZ, SK, HU, SL, LT, LI, ES, RO, BG, HR, CS, BH, AL, KO, RU, UA, BY, MK, MD
* data as of Dec 2004, representing ownership structure as of Aug. 2005
** incl. Bank Aval
Source: Company data, local central banks

The relative importance of the CEE business has increased during the past year due to above average market growth of the CEE banking sector and higher acquisition/consolidation activity compared to the European average. Still, the CEE exposure in percent of total group assets differs substantially among the CEE players. Hypo Alpe-Adria also has a strong footprint in the region through its presence in Slovenia, Croatia, Serbia and Bosnia. Among the listed banks - apart from local banks and the pure CEE players OTP and Raiffeisen International - Erste Bank still offers the highest exposure to CEE countries.

The relative importance of the CEE business has increased at most banking groups

Share of assets* of CEE subsidiaries in % of group assets



** data as of Dec 2004, representing ownership structure as of Aug. 2005*
*** Erste Bank adjusted for Austrian savings banks in the cross-guarantee system*
Source: Company data, local central banks

Market entry in Balkan countries was the trend in 2004/05

Over the past year many banks have increased their country presence via market entries in the Balkan countries. Especially in Serbia many players like Erste Bank, Intesa and the Greek Alpha Bank used the opportunity to enter the market via privatisation of state banks. Still, there are only two groups with banking operations in more than 10 countries: HVB Group (primarily via its Austrian CEE competence centre BA-CA) and Raiffeisen International, both covering 15 markets. The merger of the CEE network of UniCredit and HVB Group would only add Turkey to the portfolio of countries of the joint group.

Branch presence is still the key to retail and SME

Branch presence still seems the key to retail and SME banking in CEE. Banks with a long tradition and an extensive branch network not only in urban areas (e.g. OTP) tend to generate higher margins. As against the situation in Western Europe most CEE countries cannot be considered "overbranched" and the marketing of higher value products (mortgages, asset management etc.) requires personal support for customers. Therefore it is not surprising that the key initiative of most banks is branch expansion and branch modernisation. In this respect the trend clearly goes towards small branches in top locations with 6-8 employees per branch supported by larger regional business centres.

Market presence* and branch networks

	PL	HU	CZ	SK	SL	EE	LT	LI	BG	RO	HR	AL	CS	BH	KO	MK	BY	RU	UA	Number of countries	Number of branches
BACA + HVB	466	43	24	27	11	1	2	2	223	71	111		39	33				23	3	15	1079
Raiffeisen Int. 1)	91	72	52	113	15				53	206	40	84	28	63	22		43	21	1378	15	2281
ING	332	34	1	2					2	13								1	1	8	386
Citigroup	184	22	7	6					1	7								16	1	8	244
Volksbank		28	19	41	9					14	15		5	10						8	141
UniCredito	784		36	69					94	31	122			65						7	1201
SocGen 2)	110		338		56				90	212			26					55		7	887
Erste Bank		142	647	333							120		71							5	1313
OTP		437		68					323	15	92									5	935
Banca Intesa		59	1	235							204							50		5	549
Commerzbank	73	1	3	1														1		5	79
KBC	350	153	210	79																4	792
GE Money	200	60	140	60																4	460
Swedbank/Hansab.						96	67	118										n.a.		4	281
National Bank of Greece									110	29			15			48				4	202
Hypo Alpe Adria					9						50		13	51						4	123
Allied Irish	388																			1	388

... Number of branches per country

Minority interest stakes

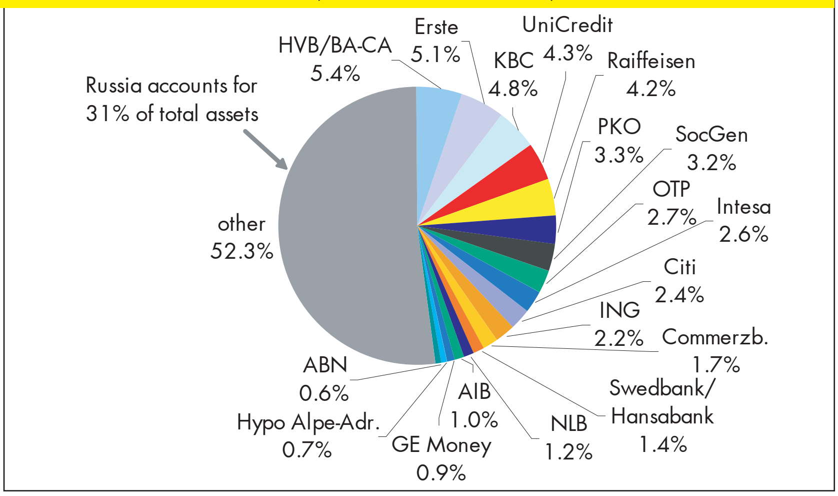
** Majority stakes only, data as at 31 Dec. 2004, reflecting ownership structure as at 31 December 2004*
1) thereof 41 branches operated by leasing subsidiaries; incl. Bank Aval
2) incl. Eurobank/PL and Promek/RU
Source: Company data

TOP 20 banks in CEE, 2004

Ranking 2004	Ranking 2003	Bank	Majority owner	Assets EUR mn	Loans EUR mn	Deposits EUR mn	Outlets
1	1	Sberbank	Central Bank of Russia (60%)	53,913	36,387	42,524	1,011
2	2	PKO BP	Polish State (62%)	21,605	10,126	17,805	1,271
3	3	CSOB	KBC (90%)	18,684	7,589	13,551	210
4	4	Ceska sporitelna	Erste Bank (98%)	17,682	6,503	12,980	647
5	6	Bank Pekao	UniCredit (53%)	15,482	6,782	10,401	782
6	5	Komercnì banka	Societe Generale (60%)	14,022	4,769	11,241	335
7	8	Bank BPH	BA-CA (71%)	13,233	6,808	7,709	457
8	7	OTP Bank Hungary	OTP (100%)	12,418	1,313	2,341	426
9	15	Vneshtorgbank	Russian Government (100%)	11,412	5,569	3,639	56
10	> 20	Gazprom	Gazprom plc.	9,502	5,769	3,849	32
11	12	ING Bank Slaski	ING Bank NV (88%)	8,592	2,522	6,441	332
12	10	Bank Handlowy w Warszawie	Citibank (89%)	8,310	2,385	4,241	184
13	13	BRE Bank	Commerzbank AG	8,040	3,391	3,519	77
14	9	NLB	Slovenian State (35%), KBC (34%)	7,641	3,638	4,949	223
15	11	Zagrebacka banka	UniCredit (82%)	7,515	2,960	3,730	130
16	16	Kereskedelmi ès Hitelbank (K&H)	KBC (60%)	6,555	4,741	3,985	153
17	14	Bank Zachodni WBK	Allied Irish Bank (71%)	6,508	3,004	4,604	387
18	19	BCR	Romanian State (37%)	5,981	2,723	4,479	323
19	> 20	MKB (Bay. LB)	Bayerische Landesbank (90%)	5,941	4,338	2,994	50
20	> 20	Alfa Bank	AB Holding plc (100%)	5,557	3,617	2,527	31

Source: Company data, local central banks

Market shares in CEE (in % total assets)



CEE: PL, CZ, SK, HU, SL, LT, LI, ES, RO, BG, HR, CS, BH, AL, KO, RU, UA, BY
Source: Company data, local central banks

To provide a closer look at the market shares of the banking groups in the region we have split CEE into three regions as already indicated earlier in the report. Looking at the overall CEE region, including Russia, the picture is a bit distorted as Russian banks account for around 30% of total banking assets.

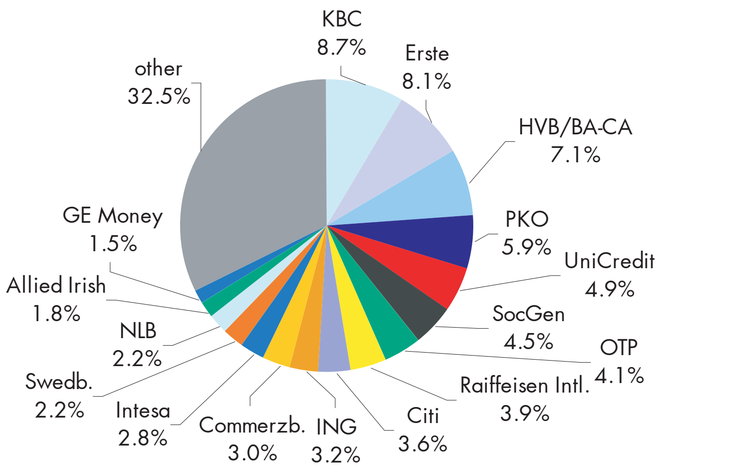
SEE and CIS countries have gained importance

From a regional perspective SEE and CIS countries have gained importance caused by the faster loan growth in these regions. As we calculated market shares based on assets in EUR terms this trend was supported by an overall stronger appreciation of SEE currencies and the Russian rouble. As a result, SEE markets widened their overall share from 11.0% at the end of 2003 to 12.3% 2004 and the CIS countries from 31.2% in 2003 to 31.5% in 2004.

Banks focusing on CE countries faced difficulties to defend their overall CEE market shares

Therefore banks with a high exposure towards SEE and CIS were able to increase their market shares (also supported by M&A activity - e.g. HVB Group, Raiffeisen International), while banks with the main focus on CE countries were to a large extent not able to defend their overall market shares (e.g. KBC). A strong focus on the fast growing retail business also helped to improve the position. Therefore Erste Bank and OTP were able to defend their market shares despite having most of their assets in the less dynamic CE region. The top gainers among international banks in the region have been HVB Group, increasing its share from 4.4% to 5.4%, and Raiffeisen International, posting a rise in market share from 3.6% to 4.2% in terms of total assets. The joint market share of UniCredit and HVB Group - however not considering possible divestitures (especially in Croatia) would stand at 9.7%.

Market shares in CE* (in % total assets)



** CE: PL, CZ, SK, HU, SL, LT, LI, ES*
Source: Company data, local central banks

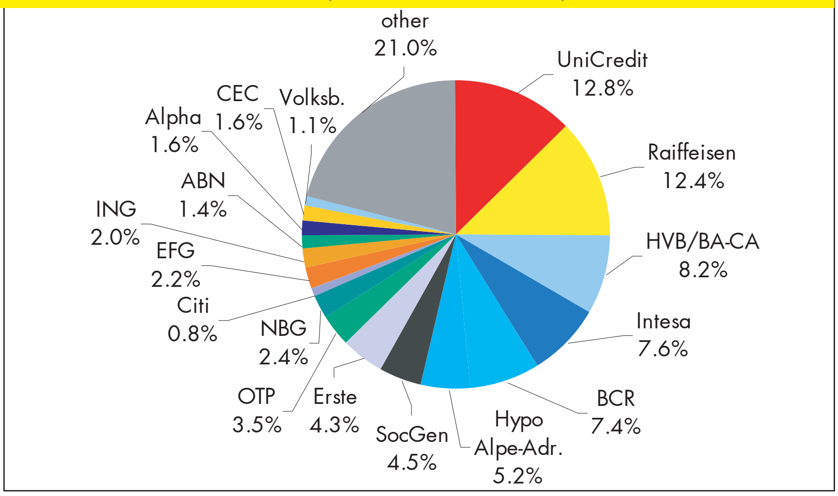
Central Europe (CE)

The market shares in the CE countries are driven by Polish banks as Poland accounts for 38.2% of CE banking assets. Poland is still the most contested market and some international players have focused their CEE operations on Poland (Allied Irish: 71% stake in BZ-WBK, Commerzbank: 72% stake in BRE Bank, Banco Comercial Portugues: 50% stake in Bank Millennium, unless BCP succeeds in the tender for BCR).

Without major M&A transactions in the new EU member countries (not considering UniCredit & HVB) there were no significant changes in the ranking of the top-10 banking groups in the region. A joint banking group of UniCredit and HVB/BA-CA would of course jump to the No. 1 position with a market share of around 12% in CE.

Looking at country-specific details BA-CA subsidiary Bank BPH was able to gain market share in Poland, due to some extent to its more aggressive expansion strategy in mortgage lending at the expense of the two market leaders PKO BP and Bank Pekao (UniCredit). In the Czech Republic Ceska sporitelna (Erste) was able to reduce the gap to the market leader CSOB due to a stronger retail focus. In Slovakia Tatrabanka (Raiffeisen) posted the strongest growth among the top players in the market and in Hungary MKB (BayernLB), Erste and Raiffeisen could increase their respective market shares in terms of total assets.

Market shares in SEE (in % total assets)*



** SEE: RO, BG, HR, CS, BH, AL, KO, MK*
Source: Company data, local central banks

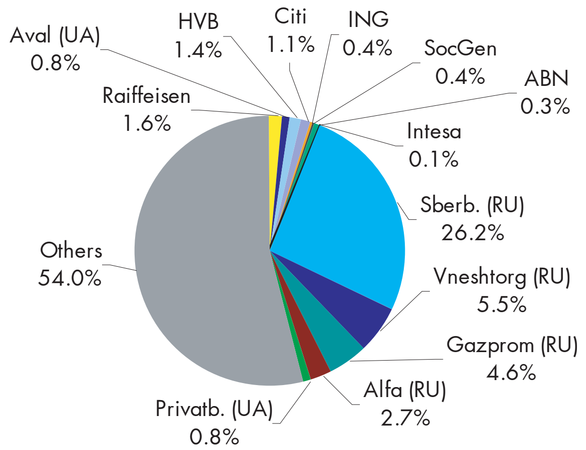
South East Europe (SEE)

There was more M&A activity in the SEE region. However the ranking did not change substantially as the big privatisation deals in Romania (BCR and CEC) have not yet been decided (at the closing date for this report). Only UniCredit and Raiffeisen International have a market share exceeding 10% in the SEE region. The market share of UniCredit has dropped slightly as its SEE flagship Zagrebacka banka - Croatian operations accounting for 73% of UniCredit's SEE assets - registered slower growth in line with the Croatian market. Raiffeisen International was able to increase its market share from 10.3% to 12.4% due to its high exposure towards the faster growing Romanian and Serbian markets and due to the acquisition of the Albanian Savings Bank.

Also HVB Group and OTP were able to widen their market shares by 1.8%p and 1.2%p supported M&A activity in the region. In spite of the acquisition of the Serbian Delta Bank, Banca Intesa fell back from 8.9% to a 7.6% market share in the SEE region as the group is not represented in the rapidly expanding Romanian and Bulgarian markets.

Also the Greek banks (National Bank of Greece, EFG Eurobank and Alpha) are very active in the region and have already reached a joint market share of around 6.3% in SEE. The current privatisation of two substantial players in Romania will reshape the competitive landscape in the region as BCR accounts for 7.4% and CEC for 1.6% of total SEE assets.

Market shares in CIS*



in % total assets
** CIS: RU, UA, BY*
Source: Company data, local central banks

The European countries of the former Commonwealth of Independent States (CIS)

The CIS market is of course dominated by the Russian banking sector accounting for 88% of regional sector assets. The Russian giant Sberbank, with total assets of EUR 53.9 bn, alone accounts for more than 26% of the CIS markets and 8.2% of total CEE banking assets. Among international players Raiffeisen International takes the lead posting a 1.6% market share excluding Bank Aval and 2.4% including the Ukrainian retail bank. Through its majority stake in International Moscow Bank HVB Group gained size in the region as well. While we currently see a lot of acquisition activity with regard to international banks buying smaller Russian banks (e.g. Société Générale: Rusfinance, Promek and DeltaCredit; Banca Intesa: KMB) their market share in the region remains below 0.5%. Besides Raiffeisen International and HVB only Citibank is able to a acquire more than 1% of the CIS market.

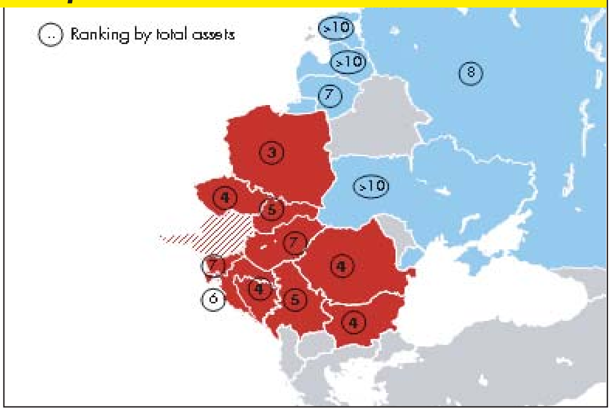
Ukraine has become a target for many CEE players

While being neglected by the international banking community for a long time the Ukrainian banking sector has shifted into the focus of attention since the change in the political landscape. After the current acquisition of Bank Aval some other banks (e.g. Oshadbank, Ukrsotsbank) might be for sale within the next three years. PKO Bank Polski has acquired a small Ukrainian subsidiary of Kredyt Bank to enter the market. Several international banks (OTP, Erste, Alfa Bank, Banca Intesa, Vneshtorgbank) have a strong interest to expand into the country.

Strategic positioning of international banks in CEE

HVB/Bank Austria-Creditanstalt

CEE presence



Source: Company data, local central banks

CEE subsidiaries, 2004

in EUR mn	Assets	Stake	Op.Inc.	PBT	Outl.
Bank BPH/PL	12,708	71%	627	230	466
HVB Hungary	3,844	100%	184	86	43
HVB Czech R.	4,681	100%	142	73	24
HVB Slovakia	1,638	100%	49	27	27
HVB Splitska/HR	2,845	53%	104	36	111
HVB Romania	1,065	100%	43	24	12
Banca Tiriac/RO	676	n.a.	n.a.	n.a.	59
HVB Bioch.&Hebr./BG	1,314	100%	72	26	223
HVB Serb.&Eksimb./CS	365	100%	n.a.	5	39
HVB Central Profit/BH	383	53%	19	1	33
BA-CA Lubljana/SL	1,251	100%	33	13	11
HVB Latvia	305	100%	n.a.	n.a.	2
HVB Lithuania	435	100%	n.a.	n.a.	2
HVB Ukraine	160	91%	7	2.7	3
IMB/RU	2,661	53%	33	13	23

Source: Company data

No. 1 in terms of CEE assets

As of December 2004 HVB-BACA ranked No. 1 in terms of CEE assets (100% consolidated without adjusting for minority stakes). In the past year the group has shown strong M&A activity in the SEE region with the acquisitions of Hebros Bank in Bulgaria (total assets: EUR 390 mn), Serbia's Eksimbank (total assets: EUR 163 mn) and the merger of Banca Tiriac with HVB Romania thus creating the No. 4 in the biggest SEE market overtaking CEC, ING and ABN Amro. By subscribing a new share issue of the International Moscow Bank (IMB) in October last year, HVB raised its stake in Russia's No. 8 bank from 43% to 53% becoming the No. 1 foreign controlled bank in the country. At the end of last year IMB posted assets of EUR 2.66 bn and reported a profit before tax of EUR 91 mn.

Biggest concentration in Poland via Bank BPH

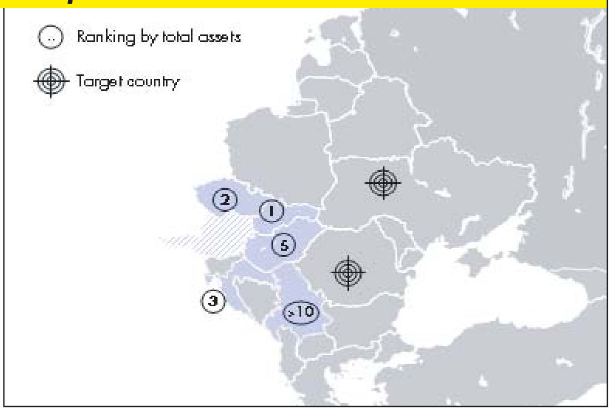
Poland displays by far the biggest concentration in CEE as Bank BPH accounts for 42% of BA-CA CEE assets (45% of pre-tax CEE profits) or 37% of HVB Group's CEE assets. After merging BPH and PBK the new bank was able to gain market share through its quite aggressive expansion strategy, especially with regard to retail clients (e.g. strong marketing of CHF mortgages). Therefore the Polish entity outpaced other CE banks in terms of growth. The strongest dynamics, however, is visible in the SEE region with assets in Romania and Bulgaria more than doubling organically on a yoy basis.

Organisation of CEE operations within UniCredit group still open

With regard to the pending takeover offer of UniCredit the position of Bank Austria as a holding for the CEE region remains unclear at the moment. Active expansion activity seems to have stopped for the moment and one expect no further acquisition activity from BA-CA / HVB Group at the moment. It is still not certain whether UniCredit will either contribute its and HVB's CEE assets into Bank Austria, thereby increasing its stake in the company or create a separate holding for its own CEE assets chaired by the CEO of BA-CA.

Erste Bank

CEE presence



Source: Company data, local central banks

CEE subsidiaries, 2004

in EUR mn	Assets	Stake	Op.Inc.	PBT	Outl.
Ceska sporitelna/CZ	19,052	98%	811	295	647
Slovenska sporitelna/SK	6,126	100%	240	83	333
Erste Bank HU	4,760	100%	237	31	142
Erste Bank CR	3,360	60%	112	43	120
Novosadska b./SC	133	83%	n.a.	(28)	71

Source: Company data

Clear focus on retail

Erste Bank focuses on retail banking in the region and targets large corporates on a selective basis. With the two "sporitelnas" the Austrian banking group ranks No. 1 in Slovakia and No. 2 in the Czech Republic. After the acquisition of Posta Bank in Hungary Erste took over the No. 5 position in Hungary and ranks No. 3 in Croatia head-to-head with Raiffeisen International in both countries. The bank launched a broad group synergy programme last year, targeting cost savings of EUR 80 mn until 2008.

Second-largest branch network in CE without a presence in Poland

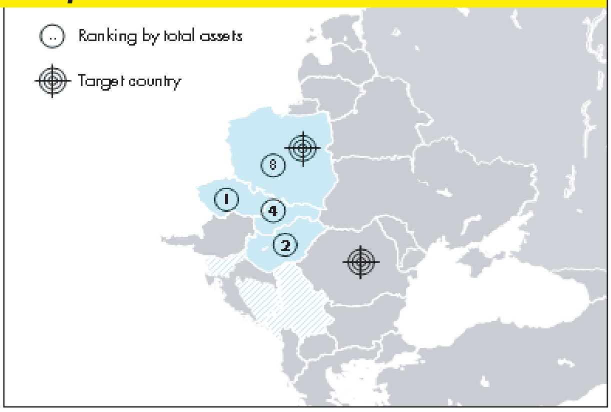
Erste Bank ranks No. 2 with regard to the number of branches in CE, closely following Polish PKO, but without having a presence in the biggest CE country. By acquiring an 83.3% stake in Novosadska banka Erste group increased its presence to five CEE countries. Erste agreed to pay EUR 73.2 mn, implying a price/book multiple of 3.3 based on 2004 figures. While being the No. 2 in the region of Vojvodina, Novosadska banka (total assets 2004: EUR 132 mn) only occupies the No. 12 position with a market share of around 2% in the whole country. The plan is to grow the bank organically in a quite aggressive way by increasing the branch network from 76 to 110 outlets, establishing commercial centres and widening the product range in order to grab a 10% market share by 2010. In addition Erste is currently interested in the small Serbian Niska Banka.

Romania and Ukraine on the target list

While being outbid in the tender for the Bulgarian retail bank DSK in 2003, Erste is now very keen on entering the Romanian market and participates in the ongoing privatisations of BCR and CEC. CEC, as a savings bank which requires some restructuring effort, would be a better fit for Erste and would most likely not require a capital increase. However, it seems that putting all egges into just one Romanian basket would be too risky. Therefore Erste also participates in the BCR tender. Ukraine is another target market for the group. Having been interested in Raiffeisen's recent acquisition Bank Aval as well, the most likely target is now Oshadbank (savings bank). It is likely that the privatisation process for the No. 4 bank will start in 2006.

KBC Group

CEE presence



Source: Company data, local central banks

CEE subsidiaries, 2004

in EUR mn	Assets	Stake	Op.Inc.	PBT	Outl.
CSOB Gr./CZ&SK	18,460	90%	770	293	210
CSOB/SK	1,671	90%	72	21	79
K&H/HU	6,535	59%	388	101	153
Kredyt Bank/PL	5,313	86%	293	43	350
NLB Group/SL	9,871	34%	409	155	155

Source: Company data

Focused on CE & minority stake in NLB

KBC as one of the major players in terms of assets holds majority stakes in four CE countries. The bank controls CSOB, the market leader in the Czech Republic and the No. 4 in Slovakia, K&H, Hungary's second largest bank and Kredyt Bank with a 4% market share in Poland. In addition KBC holds a 34% stake in Slovenia's largest bank NLB, which recently acquired the Serbian Continental and the Bosnian CBS Bank and Tuzlanska banka.

Bankassurance concept should boost cross-selling

KBC focuses on its bankassurance concept also in CEE. Enhanced cross-selling is seen as the centrepiece of this strategy. To achieve this the group implemented joint management responsibility for the bank and insurance businesses. The group intends to considerably strengthen its asset management. While it holds a market share of > 23% in the Czech Republic, the market shares in the other countries are still at 10% (Hungary) or below 10%. For the last three years the CEE management's attention has been focused on restructuring issues. The turnaround of Kredyt bank, implementation of a new branch organisation, streamlining IT systems and the integration of asset management companies have been major initiatives in recent years.

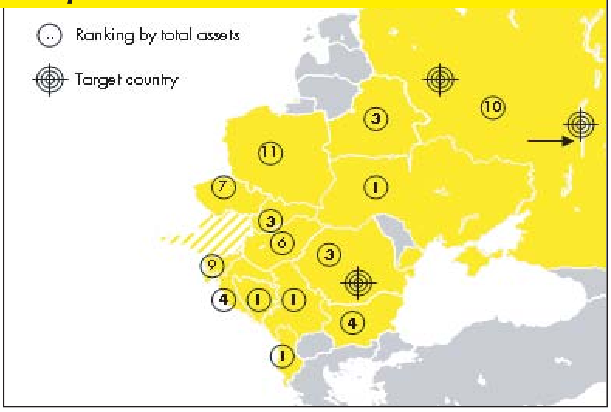
Now Romania has a higher priority than Poland

KBC's search for an opportunity to boost its market position in Poland via an acquisition has been unsuccessful in the past few years. The management does not expect an opportunity to come up in the next two years and considers pursuing an organic growth initiative in this country. The capital earmarked for an acquisition in Poland might be used for BCR, which according to the management is the last privatisation that would fit KBC's expansion criteria (substantial size, benefiting from EU convergence process) apart from targeting the majority in NLB. Other countries are not an issue at the moment. Without considering any acquisition the group targets an average (CAGR) of 10-15% volume (RWA) and net profit growth until 2007, a loan-loss ratio < 0.5% and cost/income < 60% for its CEE banking operations.

Raiffeisen CENTROBANK

Raiffeisen International

CEE presence



Source: Company data, local central banks

CEE subsidiaries, 2004

in EUR mn	Assets	Stake	Op.Inc.	PBT	Outl.
Raiffeisen B. HU	4,317	100%	205	75	72
Raiffeisen B. PL	2,691	100%	131	29	91
Tatra banka/SK	4,326	87%	193	68	113
Raiff. Krekova/SL	669	98%	20	1.2	15
Raiffeisen B. CZ	2,077	100%	72	13	52
Raiffeisen B. AL	1,647	100%	46	23	84
Raiffeisen B. B&H	1,053	100%	54	13	63
Raiffeisen B. BG	1,026	100%	41	15.5	53
Raiffeisen B. HR	3,187	100%	102	30	40
Raiffeisen B. RO	2,085	100%	135	27	206
Raiffeisen B. KO	150	100%	16	5	22
Raiffeisen B. CS	875	90%	50	15.6	28
Raiffeisen B. RU	2,097	100%	103	52	20
Priorbank/BY	480	61%	53	15	43
Raiffeisen B. UA	627	100%	36	14	14
Bank Aval/UA	1,573	93%	179	38	1378
Raiffeisen Leasing*	1,784	n.a.	n.a.	n.a.	41**

** Leasing companies in HU, PL, SK, SL, CZ, BH, BG, HR, CS, RU, KZ*
*** already included in bank branches*
Source: Company data

Pioneer in CEE

Raiffeisen Banking group pioneered CEE with its market entry in Hungary in 1987. Until 1999, the group expanded through the establishment of own network banks. Since 2000 organic growth has been completed by eight acquisitions. The bank follows a quite selective expansion strategy in CE countries with substantial growth targets in Hungary, where the management intends to increase its branch network from 72 to 120 outlets by 2006. While in Slovakia Tatra banka capitalises on the strong investment environment through its No. 1 position in corporate banking, the SME business is at the focus in Poland and the Czech Republic.

Strong growth in the SEE region

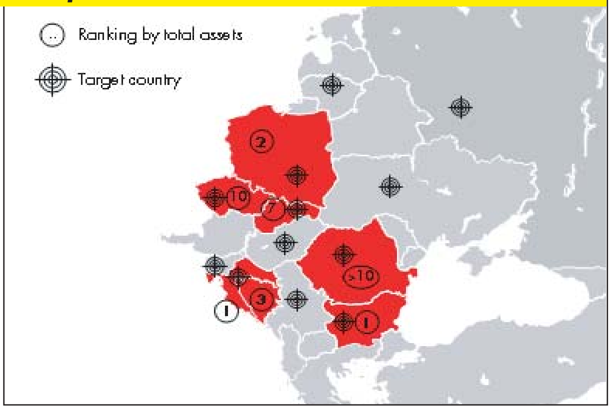
The focal point of expansion is seen in SEE and CIS countries. Especially in Bulgaria - where the bank managed to grow faster than its competitors HVB Biochim and United Bulgarian - Raiffeisen advanced from the No. 7 to the No. 4 position in terms of assets (No. 5 considering a merger of HVB Biochim and Hebros Bank). Also in Serbia the bank follows an aggressive retail expansion to defend its No. 1 position. Ranking 3rd in Romania with a market share of 9% at the beginning of the year, Raiffeisen participates in the privatisation of CEC (5.5% market share) and would position the bank in a two-brand strategy targeting the lower end of the retail market.

No. 1 international bank in CIS after acquisition of Bank Aval

With the recently announced acquisition of Bank Aval Raiffeisen will become the market leader in Ukraine. The integration of this acquisition (so far the largest) will be one of the main tasks for the next years. While being quite cautious in Belarus (12% market share) the Russian subsidiary is currently expanding into the regions outside Moscow putting strong emphasis on the retail and SME businesses. Besides Romania (CEC) and Russia the "STAN" countries seem the most likely target countries for acquisitions in the medium term.

UniCredit

CEE presence



Source: Company data, local central banks

CEE subsidiaries, 2004

in EUR mn	Assets	Stake	Op.Inc.	PBT	Outl.
Pekao/PL	13,896	53%	1016	392	784
Zagrebacka/HR,BH	8,371	82%	362	156	187*
Bulbank/BG	1,840	85%	100	54	94
Zivnosteka/CZ	1,527	97%	46	4	36
Unibanka/SK	1,266	77%	44	36	69
UniCredit/RO	320	100%	13	24	31

** thereof 65 in Bosnia*

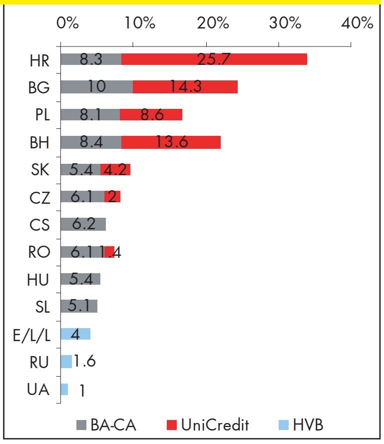
Source: Company data

From No. 5 to No. 1 in CEE by acquiring a German bank

Ranking No. 5 in terms of CEE assets the Italian bank will become the overall market leader in the region once the takeover of HVB Group (including BA-CA and Bank BPH) is set. Similar to HVB Group the current group's centre of gravity in CEE is Poland via its 53% stake in the country's No. 2, Pekao. Not including Turkey, Pekao contributes 64% of the group's CEE revenues. Another heavyweight is Croatia's market leader Zagrebacka Banka (23% of CEE revenues) with operations in Bosnia & Herzegovina as well. With loan growth exceeding 50% Bulgaria's Bulbank and UniCredit Romania are the fastest growing CEE subsidiaries. While Bulgaria's No. 1 in terms assets (No. 3 in terms of loan volume) is contributing 6% to CEE revenues, Romania as well as operations in the Czech Republic and Slovakia are lacking size to have a significant impact on the group level.

The major challenge in CEE seems to be the merger of Bank BPH and Pekao. The combined entity would represent around 21% of local banking sector assets - compared to 15% of the market leader PKO - and would create the largest bank in the region behind the Russian Sberbank. However it is still unclear which bank will take the leading role in a likely merger process and whether local authorities will impose restrictions. While there could also be some minor restrictions in Bulgaria as the combined entity would have a market share of 23%, it is almost sure that there will be some sanctions in Croatia as the joint market share would exceed 33%. It is therefore quite likely that HVB Splitska banka might be up for sale.

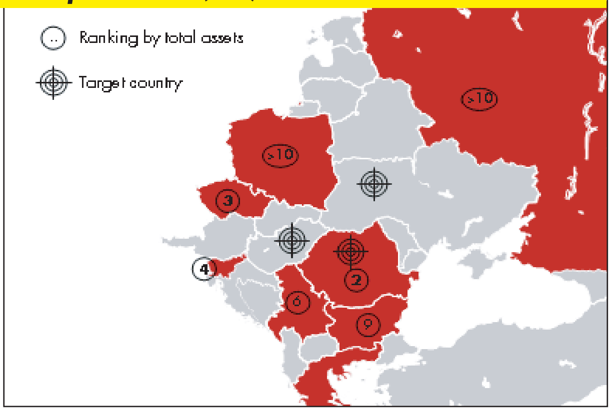
Combined market shares (UniCredit, HVB/BA-CA)



Source: Company data, local central banks

Société Générale (SG)

CEE presence (SG)



Source: Company data, local central banks

CEE subsidiaries SG, 2004

in EUR mn	Assets	Stake	Op.Inc.	PBT	Outl.
Komercni Banka/CZ	14,715	60%	745	400	338
BRD/RO	2,935	58%	275	106	212
SKB Slovenia	1,615	100%	75	26	56
SG Express/BG	392	98%	33	14	90
SG Yugoslav B./CS	288	99%	19	3	26
SG Vostok/RU	402	99%	n.a.	n.a.	7
DeltaCredit/RU	app. 210	100%	n.a.	n.a.	n.a.
Rusfinance/RU	app. 130	51%	n.a.	n.a.	n.a.
Promek/RU	n.a.	100%	n.a.	n.a.	48
Eurobank/PL	app. 250	n.a.	n.a.	n.a.	110

Source: Company data

Back to CEE growth

Via its majority stakes in the universal banks Komercni Banka, Banca Romana Pentru Dezvoltare (BRD) and SKB Banka, SG holds strong positions in the Czech Republic, Romania and Slovenia. The bank recently came back to a more aggressive acquisition strategy outside of France with a strong focus on retail and specialised financial services (e.g. consumer credits, vehicle leasing and vendor and equipment finance).

SG's latest strikes have focused on consumer finance in Russia and Poland

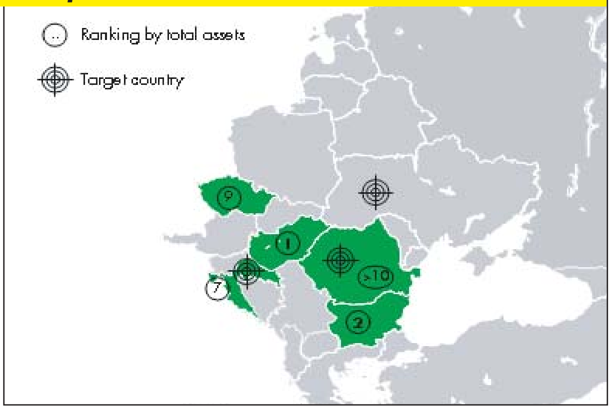
The announced purchase of the Russian mortgage specialist DeltaCredit (deal to be closed in November) adds the Russian retail portfolio to SG, which already hold a majority stake in the consumer credit house Rusfinance, the car loan specialist Promek Bank and Banque Société Générale Vostok (BSGV). With a lending portfolio of around USD 200 mn DeltaCredit controls about a fifth of Russia's USD 1 bn housing loan market. Still, it remains unclear how SG will integrate these companies. BSGV, the 100% subsidiary, still sticks to its expansion plans and wants to have 30 branches opened by year-end.

Despite No. 2 in Romania short-listed for CEC

In April SG announced the acquisition of the Polish consumer credit market specialist Eurobank. The company operates 110 sales branches and has around EUR 240 mn in loans outstanding. The management intends to grow further in CEE but has not indicated possible target countries and acquisition criteria. According to some financial articles Ukraine and Hungary should be focus countries for SG. Despite holding the No. 2 position in Romania with a 13% market share at the end of 2004 SG is short-listed for the privatisation of CEC. In addition SG is said to be interested in Germany's Commerzbank, which holds a controlling stake in Poland's BRE bank.

OTP

CEE presence



Source: Company data, central banks

CEE subsidiaries, 2004

in EUR mn	Assets	Stake	Op.Inc.	PBT	Outl.
OTP Bank	12,406	100%	1154	588	437
Hungarian subsidiaries	5,404	n.a.	595	113	n.a.
OTP Banka SK	873	97%	31	2	68
DSK Group/BG	1,668	100%	149	52	323
RoBank/RO	181	100%	8	0	15
OTP Bank Cr./HR	1,065	98%	43	24	92

Source: company data

Uncontested No. 1 in Hungary and leading retail bank in Bulgaria...

OTP is the uncontested No. 1 in Hungary with a market share of around 25% in terms of banking assets. Running a network of 437 branches in Hungary the bank has a dominant position in retail loans (40% market share), retail deposits (35% market share) and has a very strong position in several retail products like mortgages, bank cards, car financing insurance products, etc. Based on higher margins generated domestically - OTP clients turn out to be less price sensitive than the average - the bank had enough capital for its expansion strategy.

... but Slovak and Romanian operations are lacking size for a retail bank

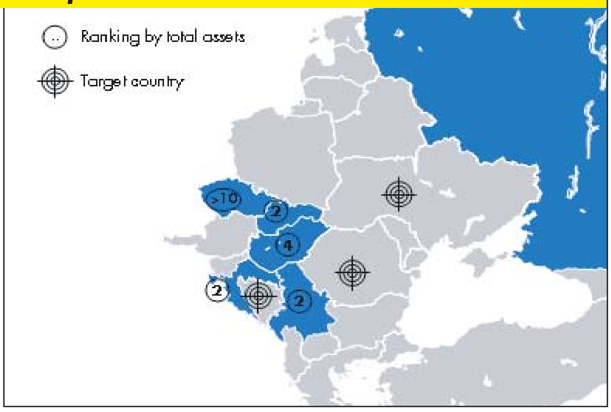
With DSK the group has taken over the No. 1 retail bank in Bulgaria, the fastest growing bank (+73% loan growth in 2004) and among the largest institutions in the country. While OTP proved very successful in markets with a strong market position (Hungary, Bulgaria) the operations in Slovakia (market share 2.8%) turned out to be less profitable (cost/income 04: 96%). Also in Romania it will be challenge to turn RoBank, with a 1% market share, into a successful local player. Therefore we assume that OTP is very interested in acquiring other local players. Especially the savings bank CEC should be a good fit in terms of retail focus. Last year OTP entered the Croatian market by acquiring Nova Banka - now renamed to OTP Bank Croatia - for 2.6 times book value. While targeting a 10% market share within 5 years, the current business plan is based on a 5% share at the beginning. Therefore we expect that OTP is quite interested in other targets in the country (e.g. Kreditna Banka, Splitska Banka if available for sale).

Ukraine, Romania and Croatia on top of the target list

In its business plan OTP targets to more than double group assets by 2009 (05e-09e: CAGR 17.4%) based on organic growth. Despite eroding interest margins the company also wants to double net profits by boosting fee products and bringing down the cost/income ratio from 56% to below 50%. Besides further expansion into Romania (CEC short-listed) and Croatia a market entry into Ukraine as a neighbouring country is on top of the to-do list according to the management. We assume that OTP's war chest reaches up to EUR 1.3 bn, therefore substantial acquisitions in all three countries within the next year are rather unlikely.

Banca Intesa

CEE presence



Source: Company data, local central banks

CEE subsidiaries, 2004

in EUR mn	Assets	Stake	Op.Inc.	PBT	Outl.
VUB/SK*	5,653	97%	241	77	235
CIB/HU	4,915	100%	197	65	59
Privredna/HR	5,794	76%	258	107	204
Delta/CS	691	75%	147	23	144
KMB /RU acq. in April	245	n.a.	n.a.	n.a.	50

** + 1 branch in CZ*
Source: Company data

Retail and SME initiatives launched in existing markets

During the past year Banca Intesa increased its country presence from four to six (seven) by entering Serbia and Russia via acquisitions (plus launching a takeover bid for the Bosnian ABS Banka). Controlling Hungary's No. 4 (CIB Bank, which focused more on corporate banking in the past) the group tries to raise its retail market share by increasing its branch network from 59 to more than one hundred outlets and by partnering with retailers. Also in Slovakia and Croatia - No. 2 in both countries - the group intends to strengthen its retail position and launch SME initiatives. Banks have been assigned regional product competence centres within the CEE network of Banca Intesa. In this context VUB is responsible for consumer credits, Privredna Banka for credit cards and CIB for leasing products. Not including the acquisitions mentioned below, the management intends to increase operating income in the CEE region by 8.5% and pre-tax profits by 12% on an annual basis (CAGR) until 2007.

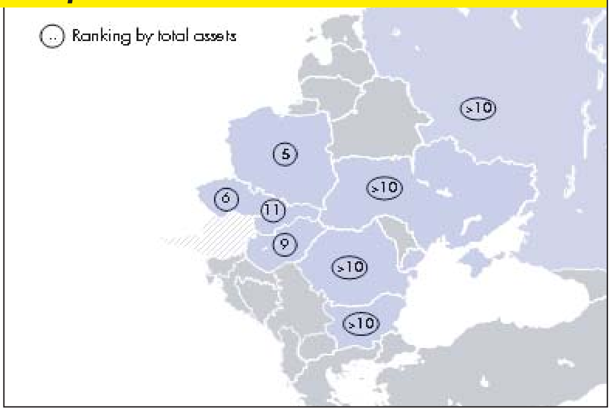
Russia, Serbia and Bosnia & Herzegovina are new ...

... Romania and Ukraine are on the target list

In spring Banca Intesa launched a takeover bid for the acquisition of 90% plus one share of Serbian Delta Banka for EUR 333 mn, which corresponds to a multiple of 3.2 times 2004 book value. Delta Banka is the second largest bank in Serbia and Montenegro in terms of total assets (EUR 691 mn), operating a branch network of 144 outlets. In August the bank launched a takeover bid for 100% of ABS Banka - a relatively small bank in Bosnia & Herzegovina with total assets of EUR 73 mn, a market share of around 1% and a network of 9 branches and 40 agencies. With the acquisition of a 75% stake in KMB for USD 90 mn (at a multiple of 3.7 times book value) Banca Intesa strengthened its Russian operations which were previously focusing on Italian corporates in Russia. KMB had total assets of EUR 246 mn and loans of EUR 178 mn as of end of last year and is specialised in SME lending and leasing. Intesa is not yet represented in Romania and is participating in the privatisation of BCR (but not interested in CEC).

Citibank

CEE presence



Source: Company data, local central banks

CEE subsidiaries, 2004

in EUR mn	Assets	Stake	Op.Inc.	PBT	Outl.
Citib. Handlowy/PL	8,266	89%	425	105	184
Citib. Czech Rep.	2,488	100%	96	20	7
Citib. Slovakia	753	n.a.	n.a.	n.a.	6
Citib. Rt./HU	1,686	100%	201	60	22
Citib. Romania*	412	100%	32	5	7
Citib. Bulgaria	182	100%	5	2	1
Citib. Russia	2,057	100%	153	93	12
Citib. Ukraine	156	100%	12	8	1
Citib. Kazachstan	n.a.	100%	n.a.	n.a.	n.a.

** 2003 figures as 2004 not available*
Source: Company data

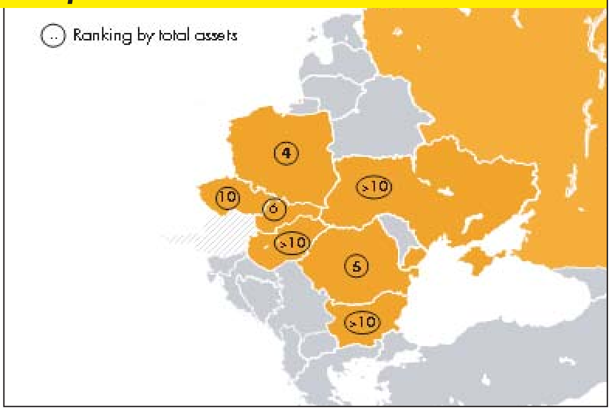
Aggressive move in growth areas including CEE announced to defend the global No. 1 rank

Citigroup offers a wide country presence in CEE especially focusing on CE and CIS countries. The strongest position is in Poland, where Citibank Handlowy ranks No. 5 on the local market. To defend its position as the biggest bank in the world Citigroup is planning an aggressive programme of bank acquisitions in growth markets in Asia, Latin America and Eastern Europe.

Currently Citigroup does not appear on the short list of one of the two privatisation targets in Romania. Anyway we believe that the group is not so much considering individual bank acquisitions in CEE but is more likely to target a banking group with already substantial CEE exposure in several countries (similar to the UniCredit deal, or UniCredit as a whole).

ING

CEE presence



Source: Company data, local central banks

CEE subsidiaries, 2004

in EUR mn	Assets	Stake	Op.Inc.	PBT	Outl.
ING Bank Slaski/PL	8,547	89%	371	92	332
ING Bank CZ	1,760	100%	28	8	1
ING Bank SK	1,431	100%	22	9	2
ING Bank HU	n.a.	n.a.	n.a.	n.a.	34
ING Bank RO	1,275	100%	366	n.a.	13
ING Bank BG	342	n.a.	10	3	2
ING Bank RU	676	100%	37	21	1
ING Bank UA	226	100%	9	5	1

Source: Company data

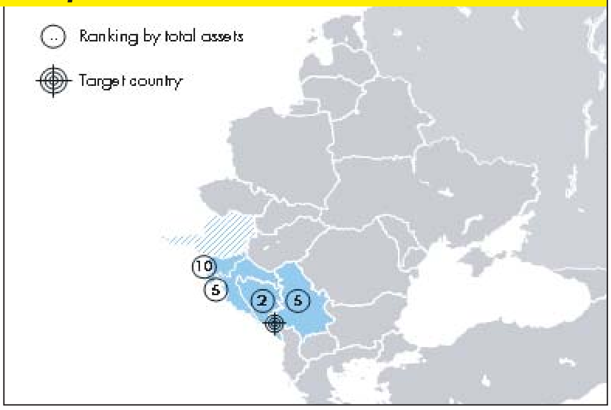
An early mover with less aggressive moves in the region

With its stake in ING Bank Slaski (No. 4) Poland is clearly the centre of gravity for ING's CEE banking operations. The group offers a broad range of banking, insurance and asset management services in most countries. ING can be considered an early mover in most CEE countries - for example, the group entered Romania in 1994 as the first foreign bank to offer a full service branch. However as other market participants pursued a more aggressive expansion in recent years ING has lost market share in CEE. A likely scenario for the region would be to enter CEE markets after Germany and Austria via the group's direct banking division ING Direct.

According to management statements ING group is interested to improve its position in Poland via acquisitions. Ranking No. 5 in Romania the bank is not participating in the current privatisation of the two state controlled banks.

Hypo Alpe-Adria

CEE presence



Source: Company data, local central banks

CEE subsidiaries, 2004

in EUR mn	Assets	Stake	Op.Inc.	PBT	Outl.
Hypo Alpe-Adr./HR	2,256	100%	101	27	26
Slavonska b./HR	729	95%	n.a.	8	24
Hypo Alpe-Adr./SL	565	100%	20	5	9
Hypo Alpe-Adr./BH*	847	100%	44	8	51
Hypo Alpe-Adr./CS	360	100%	n.a.	7	13
CEE Leasing comp.	2,028	n.a.	n.a.	49	n.a.

* Hypo Alpe-Adria Bank, Mostar & Hypo Alpe-Adria Bank, Banka Luka
Source: Company data

Focus on Alps-Adriatic region with the intention to remain independent

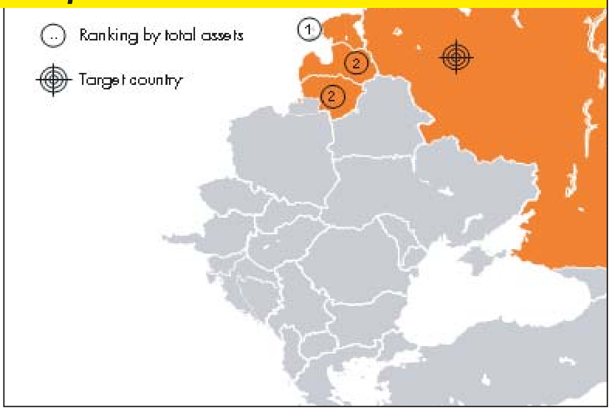
Hypo Alpe-Adria pursues the strategy of developing a strong and independent regional financial services group in the Alps to the Adriatic region including the southern part of Germany, Austria, the northern part of Italy, Slovenia, Croatia, Bosnia-Herzegovina, and Serbia-Montenegro. The bank is majority owned (52%) by the federal Province of Carinthia and a 48% stake is controlled by the insurance company Grazer Wechselseitige Versicherungs AG. The group might be an interesting target for international banks intending to increase their exposure in the Adriatic region. However, a "strategic partnering" seems very unlikely given the company's strategic cornerstones and recent announcements of the group's CEO and shareholder's representatives. The management plans an IPO in 2007/2008 and has placed an EUR 500 mn pre-IPO exchangeable bond.

Expansion in Montenegro

In Croatia the group especially targets long-term infrastructure financing and the private housing segment. Slavonska Banka remains a regional niche player with corporate and retail businesses. In Bosnia the group operates a branch network of 51 outlets and ranks among the top 5 banks in the country. In Serbia the bank managed to gain the No. 5 position last year overtaking many banks which have been "stuck" in the privatisation process. By increasing its branch network the group targets to defend its position in this SEE market, where competition is expected to rise after the privatisation process approaches the end. While the management does not intend to increase its country presence substantially for the time being expansion in Montenegro is currently on the focus list as well.

Swedbank/Hansabank

CEE presence



Source: Company data, local central banks

CEE subsidiaries, 2004

in EUR mn	Assets	Stake	Op.Inc.	PBT	Outl.
Hansapank/EE	3,850	100%	201	115	96
Hansabanka/LT	1,849	100%	109	50	67
Hansabankas/LI	2,352	100%	98	29	120
Hansabank/RU	223	100%	14	5	n.a.
Kvest bank/RU	n.a.	n.a.	n.a.	n.a.	n.a.

Source: Company data

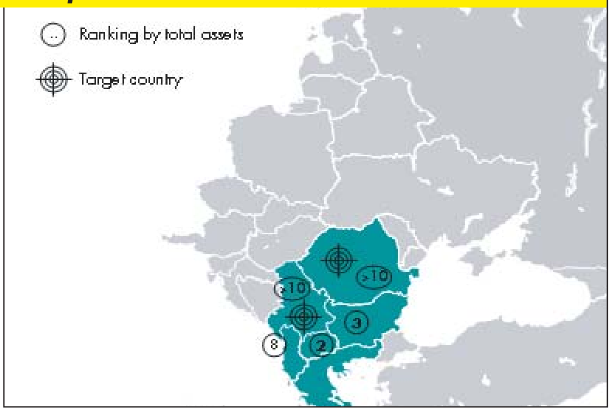
After becoming a strategic shareholder in Hansabank in 1998 Swedbank bought out minorities early this year and currently owns more than 99% in Hansabank. In the Baltics the group intends to leverage its No. 1 position and to use opportunities in the retail business.

Expansion from the Baltics into Russia

Starting their Russian operations in 2002 with a focus on leasing business Hansabank expanded into a wider range of corporate banking. This year the company completed the acquisition of the Moscow-based Kvest bank, which is focusing on corporate customers as well. Hansabank initiated a restructuring process and increased the bank's equity to EUR 81 mn. The group's strategy in Russia is to offer corporate banking and trade finance services in the Moscow, St. Petersburg and Kaliningrad regions. Russian operations currently have a loan portfolio of EUR 283 mn. The strategy is to concentrate on serving Baltic, Scandinavian and existing Russian corporate customers and to increase the loan & leasing portfolio to EUR 1 bn in 2006.

National Bank of Greece (NBG)

CEE presence



Source: Company data, local central banks

CEE subsidiaries, 2004

in EUR mn	Assets	Stake	Op.Inc.	PBT	Outl.
United Bulg./BG	1,125	100%	97	50	110
B.Romaneasca/RO	n.a.	97%	n.a.	9	29
Stopanska B./MC	480	73%	n.a.	0	48
NBG Serbia	n.a.	75%	n.a.	(1)	15

Source: Company data

Expanding in the SEE region

NBG is quite active in the Balkan region controlling the Bulgarian No. 3, United Bulgaria Bank. Based on current SEE ventures the bank intends to increase its capital allocation by 65% to EUR 510 mn until 2007. NBG expects to generate EUR 128 mn in pre-tax profits abroad (11.5% of group profits) by 2007. The group plans to expand in the SEE region also via acquisitions. Further M&A targets should enhance the existing franchise value through its retail segment potential based on a strong customer base, branch network and deposit base. The overall aim is to reach a critical size in the respective local markets. In Bulgaria the group has a strong position in credit cards with a market share of 16%. In Serbia the bank claims a 7% market share in household lending.

Romania and Serbia is on NBG's task list

Starting from a market share of only 1% Banca Romaneasca, taken over by NBG in 2003, targets to expand aggressively by increasing its branch network from 28 outlets to 47 this year and to 80 outlets by the end of 2007. After being outbid by BA-CA at Banca Tiriac, NBG has now been short-listed as potential buyer of BCR and is interested in CEC as well in case of an unsuccessful bid for BCR.

Also NBG is said to be interested in lifting its position in Serbia (appr. No. 15) by participating in the privatisation of Vojvodanska Banka, the No. 4 with assets of EUR 464 mn at the end of last year. Turkey seems not to be a target at the moment.

Other consolidation players in the market

EFG Eurobank targeting Poland

Also the management of ***EFG Eurobank*** is determined to grow in CEE. The bank was quite active in acquiring post banks in Bulgaria (assets EUR 597 mn), Romania (Bancpost: total assets EUR 1,082 mn in 2004) and Serbia. In Serbia EFG Eurobank has increased the branch network of the small Post Banka from one to 15 outlets and has recently announced to take over a majority stake in Serbia's National Savings Bank (No. 18 in terms of assets: EUR 122 mn), operating a network of 70 branches. In Romania EFG tries to lift its market presence by participating in the privatisation of CEC. Quite surprisingly the Greek bank intends to enter the Polish market rather aggressively after its attempts to buy a local bank failed. Within three years the management wants to set up a retail-focused bank with a branch network of 200 outlets from scratch but also considers cooperating with another group that does already have a sales network in Poland.

PKO to go abroad in OTP's footsteps

PKO Bank Polski still is Poland's biggest lender and also on the lookout for potential acquisitions around CEE. The management intends to specify its strategy by year-end but, according to its CEO, is keeping a close eye on countries including Croatia, Romania and Bulgaria after acquiring the small Ukraininan subsidiary of its Polish rival Kredyt bank (KBC) last year. More saturated markets such as the Czech Republic and Hungary are not on the target list, nor is Russia - which is considered too risky by the management.

BayernLB & Commerzbank: Exit or more of CEE?

Bavaria's ***BayernLB*** holds a 90% stake in the Hungarian No. 3, MKB. Lacking further CEE exposure we considered the exit strategy quite likely, having in mind the current valuation of MKB's rival OTP and other M&A multiples in Hungary. However recently the CEO of BayernLB stated that the banking group intended to increase its CEE exposure and to use MKB as a bridge head. Especially Poland would be an interesting market according to company sources.

Apart from individual branches in Hungary, the Czech Republic, Slovakia and Russia ***Commerzbank*** only has a substantial CEE presence in Poland via its 72% stake in the corporate banking specialist BRE bank, which is currently expanding its retail business. Last year the management announced to intensify its CEE ambitions in the Balkans by building up a retail and SME presence in Bulgaria and Croatia and by making a purchase in Romania. So far we have not seen moves in this direction and the bank is also not participating in the privatisation of BCR and CEC in Romania.

NLB to expand in SEE

When KBC acquired its 34% stake in Slovenia's No. 1 ***Nova Lubljanska banka*** (32% market share) the two banks agreed that all of KBC's purchases in SEE would be done through NLB. KBC is keen to raise its stake in NLB to above 50% but we do not expect immediate action in this respect. NLB controls two Bosnian banks (LHB banka and Razvojna banka), which the bank intends to merge in 2006. The group recently signed an agreement to buy 98.4% of the Serbian No. 19 Kontinental Banka for EUR 45.5 mn. NLB Group also plans to merge its two Montenegrin entities Montenegrobanka and Euromarket banka to become the largest bank in the Montenegrin region and also holds a 74% stake in the Macedonian Tutunska banka. NLB group recently bought a 7.7% stake in Russia's fifteenth-largest bank Promsvyazbank and considers going for a controlling share of the bank - this strategy, however does not fit with the SEE expansion strategy and is also not in line with regard to the expansion plans of its shareholder KBC. Being a minority shareholder in the small Bulgarian West East Bank NLB would like to set up or acquire a universal bank in Bulgaria and also considers a market entry in Albania and Romania.

Implications of a KBC majority in NLB

The Slovenian market leader also would like to increase its stake in the country's fifth-largest bank Banka Celje from 37% to 50%. However the National Bank of Slovenia has recently indicated that NLB would have to reduce its stake in Banka Celje if KBC acquires the majority in NLB Group.

Consolidation
further opportunities in CEE

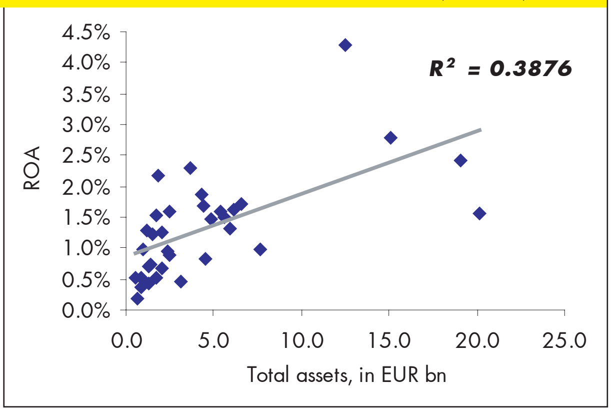
So far the correlation between size and profitability/efficiency within the CEE banking universe is observable but not very significant. There could be several reasons for this:

- Corporate banking - where economies of scales are less important - still was the main source of income for most banks as retail banking is still underdeveloped in most CEE countries
- Higher interest rate margins in some countries also provided a fertile ground for smaller banks and complicated cross-border comparison
- Only a few banks focused on realising cross-border synergies in the past
- Restructurings or massive expansion into retail banking distorted the P&L accounts of some local banks in the last few years

Correlation between size and profitability is still low but on the rise

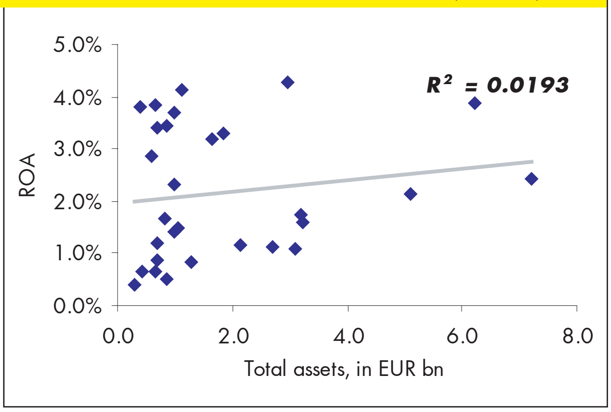
Still it is observable that market leaders tend to have a cost advantage in nearly all markets and that the correlation between size and profitability has increased within the last three years, which could be explained by the rising importance of the retail business and the privatisation of inefficient state controlled banks. This is also underlined by a higher correlation (size/profitability) among CE banks compared to SEE players.

Total assets/ROA of CE banks (2004)



Source: Company data

Total assets/ROA of SEE banks (2004)



Source: Company data

We believe that (1) the rising importance of the retail and SME business, (2) therefore growing standardisation of banking products, (3) the interest margin convergence towards the EU level, (4) Basel 2 implementation issues and (5) an increasing focus on cross-border synergies will further increase the correlation of size and profitability and therefore justify consolidation attempts of the market participants in CEE.

While privatisations in the region apart from the CIS countries will come to an end, there are still opportunities for growth via acquisitions.

In general there appear to be four possibilities to acquire banking exposure in the region:

1. Through privatisation
2. Purchase from non-strategic shareholders
3. Purchase from another banking group
4. Purchase a bank with CEE presence

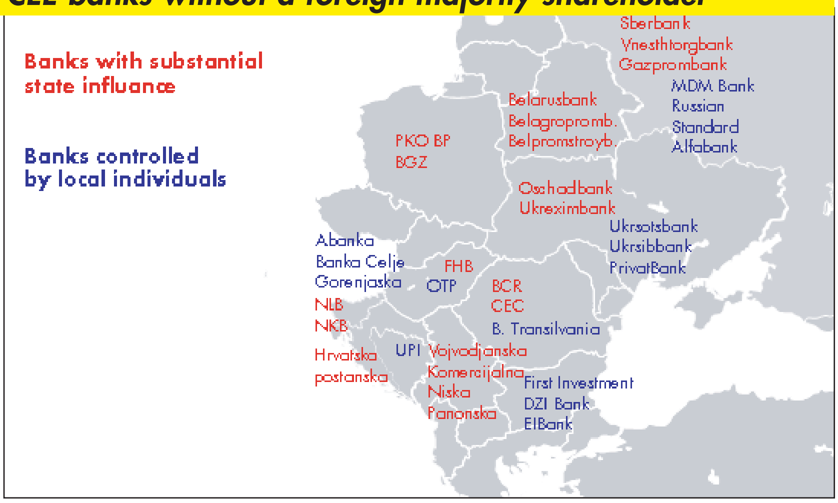
More and more players want to assume an active role in consolidation + nobody is willing to leave = acquisition premiums rise

We believe that investors in target companies will continue to demand meaningful acquisition premiums, which might scare off market participants with traditionally very conservative acquisition guidelines. On the other hand, we assume that auditors will play a more important role in the acquisition process due to the new IFRS 3 regulation. With regular goodwill amortisation in the past, auditors usually only demanded an impairment once a substantial deviation of the business plan was visible and usually accepted the initial goodwill in the first place. The above-mentioned expansion plans in the CEE region indicate that market participants clearly believe to have the opportunity to create shareholder value via ongoing consolidation even if they pay prices far exceeding the net asset value of the company. As the chances to enter CEE markets via privatisation cease market premiums paid for the remaining targets tend to go up.

High asset growth and strict capital requirements are catalysts for M&A activity

Besides SEE also CIS countries are on the target list of several international players. Since 2000 M&A activity in the Russian banking sector has risen substantially. Although growing year-by-year the number of regional deals is still much smaller than the number of statements expressing the wish to strike them. And also in the CIS countries sellers become aware of the market potential and ask for increasing premiums as witnessed by the cancelled deal for the purchase of about 50% of the Russian Standard bank by BNP Paribas. However rapidly growing assets increase the pressure on banks' capital adequacy. Central banks' requirements have also become stricter in many cases (e.g. the National Bank of Ukraine raised the minimum capital adequacy ratio from 8% to 10% last year) to keep loan growth under control. Under these circumstances local banks have to consider the involvement of "capital rich" foreign banks to fund further growth.

CEE banks without a foreign majority shareholder



Source: Company data, local central banks, Reuters, Dow Jones

Raiffeisen CENTROBANK

1. Actual or potential privatisations

While in CE countries the wave of banking sector privatisation has come to an end in the last few years the race for the last opportunities in SEE has already started. Only the CIS countries could provide further privatisation targets for the coming years.

Romania: Nine banks remain in the race for the privatisation of Romania's uncontested No. 1 bank ***Banca Comerciala Romana (BCR)*** controlling around 25% of Romanian banking assets. While ABN Amro has pulled out of the privatisation process Deutsche Bank, Dutch-Belgian group Fortis, KBC, Banca Intesa, BNP Paribas, Belgian Dexia, the National Bank of Greece, Banco Comercial Portugues and Erste Bank should place their final bids until October 17. The government has announced to negotiate with the two best bidders afterwards. Interested candidates can either acquire 50% plus one share or the whole 61.8% stake controlled by the state, EBRD and IFC. Currently, the state owns 36.8%, the EBRD and the IFC each have 12.5% plus one share, the bank's employees own 8% and five Financial Investment Companies (SIFs) around 30%.

BCR (RO)

in EUR mn	*2003*	*2004*
Total assets	4,601	6,229
Loans	2,096	2,810
Deposits	3,390	4,379
Shareholders' equity	780	925
Operating income	485	556
Pre-tax profit	95	208
Employees	13,029	13,573
Outlets	297	323
Return on Equity	9.0%	18.1%

Source: Company data

After two failed attempts to sell BCR the Romanian state has sold a 25% stake in its largest bank to a consortium of EBRD and IFC in 2002 for USD 222 mn implying a company valuation (excl. a strategic premium) of around EUR 730 mn at that time. Bearing in mind the current valuation of Romanian banks (e.g. BRD < 15% market share has a MCap of EUR 2.4 bn) and the premium an investor would have to pay for the clear No. 1 position we consider a valuation of around EUR 3 bn for the whole bank quite likely.

The privatisation of the Romanian Savings Bank, ***Casa de Economii si Consemnatiuni (CEC)*** - finalisation scheduled after closing of the BCR deal - is one of the last chances to acquire (1) a big retail bank in the region and (2) a bank with a substantial market share in Romania.

CEC (RO)

in EUR mn	*2003*	*2004*
Total assets	989	1,283
Loans	166	162
Deposits	822	1,055
Shareholders' equity	127	146
Operating income	67	74
Pre-tax profit	5	9
Employees	9,497	9,209
Outlets	1,510	1,407
Return on Equity	1.6%	12.0%

Source: Company data

The privatisation agency has short-listed eight foreign banks (Dexia, National Bank of Greece, EFG Eurobank, Société Générale, Erste Bank, Raiffeisen International, OTP and Banca Monte dei Paschi di Siena) after Rabobank withdrew from the bidding process.

CEC ranks No. 5 among Romanian banks (considering the announced merger of Banca Tiriac and HVB Romania) controlling 5.5% of Romanian banking assets at the end of last year. Being caught in a restructuring process after financial troubles and waiting for a new strategic owner the bank developed less dynamically compared to other major players in the market. However considering the retail focus of the bank, its 2 mn clients and the largest retail network of the country CEC could be considered a sleeping giant among Romanian banks.

Poland: After selling 35.3% of the local No. 10 ***BGZ*** to the Dutch Rabobank and 15% to EBRD, management announced that the state had postponed the decision on further privatisation measures - most likely via the stock exchange - until 2007. While the Treasury denies further privatisation plans of the national giant ***PKO BP*** there has been

Vojvodjanska banka (CS)

in EUR mn	2003	2004
Total assets	550	461
Loans	308	207
Deposits	284	292
Shareholders' equity	99	50
Operating income	67	77
Pre-tax profit	0	-84
Employees	2,756	2,415
Outlets	206	n.a.
Return on Equity	2.1%	neg.

**substantial restructuring expenses in 2004*
Source: Company data

Hrvarska postanska banka (HR)

in EUR mn	2003	2004
Total assets	678	696
Loans	325	355
Deposits	547	542
Shareholders' equity	74	81
Operating income	34	41
Pre-tax profit	11	8
Outlets	uses network of Cr. post	
Return on Equity	15.4%	9.5%

Source: Company data

Nova Kreditna (SL)

in EUR mn	2003	2004
Total assets	2271	2469
Loans	1204	1471
Deposits	1688	1777
Shareholders' equity	203	222
Operating income	119	116
Pre-tax profit	25	24
Employees	1571	1577
Outlets	101	n.a.
Return on Equity	7.4%	5.2%

Source: Company data

Oschadbank (UA)

in EUR mn	2003	2004
Total assets	842	765
Loans	274	248
Deposits	782	447
Shareholders' equity	n.a.	85
Net profit	n.a.	0
Outlets	n.a.	app. 7000
Return on Equity	n.a.	0.2%

Source: Company data

speculation that the state might reduce its 53% stake in the company to help the bank acquire a foreign target.

Also in ***Serbia*** the privatisation process will come to an end next year. In addition to several smaller banks ***(Niska Banka, Panonska Banka, Credy Banka, Privredna Banka Pancevo, Nacionalna Stedionica)*** only ***Vojvodjanska*** banka - the local No. 4 with a 7% market share - is still up for sale according to the government. ***Komercialna banka*** is said to remain under majority control of Serbian investors. According to the ministry of finance, negotiations about the sale of Vojvodjanska banka are to start in September, and BA-CA as well as the National Bank of Greece have already expressed interest. However it is questionable whether BA-CA is still interested under the current circumstances.

Croatia: The Croatian Postbank (***Hrvatska postanska banka***) represents the only substantial Croatian bank in state hands. The main shareholders in HPB are the Croatian Privatisation Fund with 37% and state-owned postal operator Hrvatska Posta with 33.56%. Still there is no plan to privatise HPB in the near future.

Slovenia: With ***Nova Ljubljanska banka*** and ***Nova kreditna banka*** the state still has controlling stakes in the No. 1 and No. 2 of the country, which together account for 43% of banking assets in the country. Attempts to fully privatise both banks in 2001 and 2002 turned out to be very unpopular and so only a minority stake of 34% in NLB was sold to KBC. As the Slovenian market is quite competitive although the state controls the two largest banks there is not a lot of pressure for the EU Commission to speed up privatisation efforts. The government indicated that it would like to secure one of the two largest Slovenian banks under local control in the long run, but to list both on the Slovenian stock exchange.

Russia: None of the major Russian banks still controlled by the state are scheduled for privatisation to a strategic shareholder at the moment. While ***Vnestorgbank*** was rumoured to be a candidate, an IPO in 2006 is currently the more likely scenario. Also we do not assume that the City of Moscow will divest its Bank of Moscow anytime soon.

Ukraine: With the Ukrainian Export/Import Bank (***Ukreximbank***) and the State savings bank (***Oschadbank***) the No. 6 and No. 7 in terms of assets are fully in state hands. Recently the two banks have sorted out means of closer cooperation. While up to date no plans to privatise Ukreximbank have been publicly discussed - on the contrary the management of the bank pushes for legislation to preserve the state's stake of 75% + 1 share in the bank - government officials have already mentioned a possible privatisation of Oschadbank. As of March 30 the savings bank reported total assets of EUR 783 mn and equity capital of EUR 51 mn. In 2004 Oschadbank lost market share from 5.6% to 3.8% in terms of assets.

Belarus: According to the National Bank's chairman his organisation is currently in talks with five unnamed foreign banks including Russian banks to sell controlling stakes in several major Belarusian banks.

2. Banks without a foreign strategic owner

Romania: Last year the Romanian mid-sized bank ***Banca Transilvania*** - with a strong presence in the Transilvanian region - outperformed the market in terms of asset growth. The bank has aggressively expanded its distribution network to currently 45 branches and 122 agencies and targets especially SME and retail clients. With a market share of 3% in terms of assets the bank ranks No. 9 within the Romanian banking universe. With EBRD and a group of Transilvanian entrepreneurs as the bank's main shareholders Banca Transilvania has been considered a take-over candidate for several years, which is also reflected by the company's share price trading above 4 times book value at the Bucharest Stock Exchange. We assume that the "takeover-appetite" might grow after closing of the BCR and the CEC privatisation. However the CEO recently stated that a sale before 2007 was very unlikely.

Bulgaria: Among Bulgaria's top-10 banks there are 3 companies without a foreign strategic owner. ***First Investment Bank*** ranks No. 6 in terms of assets. The bank acts as a universal bank and has a strong pillar in trade finance (around 40% market share). Increasing its distribution network to 74 outlets the bank is shifting its focus towards SME and retail clients and already ranks among the top three banks in the card business. The majority of the shares are held by the two founding shareholders. Recently EBRD sold its 20% stake of the shares to two undisclosed investment funds. ***DZI Bank*** (formerly known as Roseximbank) is part of the Bulgarian DZI group which also includes the former state insurance monopoly DZI and a pension fund. With a distribution network of 116 outlets the bank acts as a universal bank pursuing a bank-assurance strategy. The management also considers expansion into other SEE countries, especially Macedonia. Commercial credits make up 3/4 of the bank's portfolio. The deposit base of the bank is worth BGL 824 mn. The bank is controlled by its CEO Emil Kyulev plus several European institutional investors and is listed on the stock exchange in Sofia. The ***Economic and Investment Bank*** (EIB) is Bulgaria's ninth-biggest bank with assets totalling EUR 400 mn at the end of last year. The bank's credit portfolio amounted to EUR 194 mn, while deposits stood at EUR 360 mn in December 2005. Recently the Icelandic businessman Thor Björgolfson is said to have acquired a 35% stake in the bank.

Bosnia & Herzegovina: UPI Banka Sarajevo, with total assets of EUR 196 mn in December 2004 ranking No. 6 among Bosnian banks, is still the largest domestically controlled bank in the country. EBRD holds a 20% stake in the company. The bank has 18 branches and a workforce of around 200 employees.

Slovenia: Besides NLB and NKBM three other top-10 banks in the country are not controlled by international banks. With total assets of EUR 2.0 bn and 44 branches ***Abanka Vipa*** is the third-largest bank in the country. The bank has a market share of 9% in terms of customer loans and client deposits and seems slightly more profitable than the sector average with a cost/income ratio of 56% and a return on equity of

Banca Transilvania (RO)

in EUR mn	2003	2004
Total assets	339	654
Loans	197	349
Deposits	239	480
Shareholders' equity	49	73
Operating income	47	64
Pre-tax profit	11	19
Employees	1,491	2,032
Outlets	67	131
Return on Equity	17.4%	24.0%

Source: Company data

First Investment Bank (BG)

in EUR mn	2003	2004
Total assets	526	839
Loans	316	511
Deposits	303	431
Shareholders' equity	46	55
Operating income	34	42
Pre-tax profit	10	11
Employees	41	74
Outlets	736	968
Return on Equity	24.1%	22.3%

Source: Company data

UPI Banka (BH)

in EUR mn	2003	2004
Total assets	134	195
Loans	79	98
Deposits	103	157
Shareholders' equity	15	17
Operating income	9	9
Pre-tax profit	2	2
Employees	n.a.	191
Outlets	n.a.	18
Return on Equity	n.a.	12.3%

Source: Company data

Abanka (SL)

in EUR mn	2003	2004
Total assets	1808	1998
Loans	1191	1359
Deposits	1234	1307
Shareholders' equity	138	148
Operating income	81	86
Pre-tax profit	22	23
Employees	800	812
Outlets	44	44
Return on Equity	13.5%	12.2%

Source: Company data

13%. Slovenia's largest insurer, Zavarovalnica Triglav, is the largest shareholder of the bank with a 30% stake and also supports the plans of the new CEO to expand into SEE markets. ***Banka Celje***, Slovenia's No. 5 with EUR 1.5 bn in assets and 36 branches, is to some extent dominated by its largest shareholder NLB holding a 37% stake. A further engagement of KBC in NLB could however cause the Slovenian market leader to reduce or sell its stake in Banka Celje, which would then open the doors for another strategic partner. ***Gorenjaska Banka*** claims a 5% market share and argues to be one of the most profitable banks in the region with a ROE of 23%. The bank's main shareholder is the Slovenian chemical, trade and tourism conglomerate Sava, which holds around 40% of the shares.

Ukraine: Shareholders of ***Ukrsotsbank***, the fifth-largest bank in Ukraine in terms of assets (EUR 720 mn) seems to be in acquisition talks with the Russian Alfa Bank according to local media sources. The bank has a market share of around 4% in terms of assets and operates a network of 500 branches. Also the country's largest bank ***Privatbank*** as well as four other banks among the Ukrainian top-10 financial institutions are controlled by Ukrainian shareholders leaving room for M&A activity in the next years.

3. Acquisition from another banking group

The following banks have international majority shareholders with only a limited CEE exposure. In one or another case the strategic partner could revise its CEE engagement which is concentrated on one country and exit the region should an exciting price be offered. At the moment however all market participants announced to rather increase their CEE exposure than to depart from the region.

Waiting for further consolidation in Poland

Poland has been considered a key market in this respect. Several players have been trying to increase their market shares via acquisitions for quite some time. But nobody wanted to leave so that consolidation seems to work only via the acquisition of an international bank with operations in Poland (e.g. HVB/BA-CA or now UniCredit/HVB). ***BZ-WBK*** has been considered a take-over candidate in recent years, but Allied Irish, having paid more than 4 times book value for Bank Zachodni, seems eager to stay at least for the time being. Also Commerzbank has put some efforts in restructuring ***BRE Bank*** and to expand in the upscale retail banking segment. Being itself confronted with take-over speculation the German banking group rather considers increasing its CEE exposure. Also Banco Comercial Portugues completed the operational turnaround in ***Bank Millenium*** but the management admits that the bank has not yet reached the optimal scale. The Portugese bank is short-listed for the privatisation of BCR, which is rather a sign of increasing interest in the region.

In Hungary ***MKB*** might be an example for disinvestment of an international bank as its main shareholder Bayrische Landesbank does not seem to pursue a long-term CEE strategy, although recent statements by the management again signalled more appetite for CEE assets.

After combining Zagrebacka (UniCredit) and ***HVB Splitska banka*** UniCredit might be forced to sell the subsidiary of HVB Group due to high market concentration in Croatia - the market share exceeds 33%. As at the end of June HVB Splitska banka reported total assets of EUR 3.1 bn, shareholders' equity of EUR 233 mn and a return on equity (ROE) before taxes of 17.5%.

4. Acquisiton of a CEE network bank or a bank with CEE exposure

If you can't buy a CEE bank, buy a bank with many CEE banks

"If you can't buy a CEE bank, buy a bank with many CEE banks" seemed to be the credo for the UniCredit/HVB deal. Therefore also other banks with extensive CEE operations could become a target for international players that want to increase their CEE exposure. Especially HSBC, Deutsche Bank or Citigroup could be possible consolidation players in this respect. ***Erste Bank*** and ***OTP*** are frequently mentioned as targets. However despite a high free float in both banks the current shareholder structures leave actually no room for a hostile takeover and both managements clearly state not to look for a strategic partner for the time being. The Slovenian market leader with its SEE network ***Nova Ljubljanska banka*** would be an interesting target as well. However it is very unlikely that KBC would divest its minority stake even if there is no possibility to acquire a controlling stake in the near future. Also ***Hypo Alpe-Adria*** would be a good fit for a banking group that intends to increase its Balkan exposure. But core shareholders and management intend to continue operations without a strategic partner.

Key abbreviations

CEE	Central and Eastern Europe	
CE	The new EU member countries from Central Europe	
	Poland	(PL)
	Hungary	(HU)
	Czech Republic	(CZ)
	Slovakia	(SK)
	Slovenia	(SL)
SEE	The markets from South East Europe	
	Croatia	(HR)
	Romania	(RO)
	Bulgaria	(BG)
	Serbia	(SR)
	Bosnia a. H.	(BH)
	Albania	(AL)
	Kosovo	(KO)
CIS	The European countries of the former Commonwealth of Independent States	
	Russia	(RU)
	Ukraine	(UA)
	Belarus	(BY)
GDP	Gross Domestic Product	
PPP	Purchasing Power Parity	
yoy	Year on year	
FX	Foreign exchange	
bn	billion	
mn	million	
C/I	Cost income ratio	
CAGR	Compound annual growth rate, average growth per year	
MS	Market share	
NIM	Net interest margin	
NII	Net interest income	
Op. Inc.	Operating Income	
Outl.	(Banking) Outlets	
PBT	Profit before tax	
ROA	Return on Assets	
ROE	Return on Equity	
RWA	Risk-weighted assets	
SME	Small and medium-sized enterprises	

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