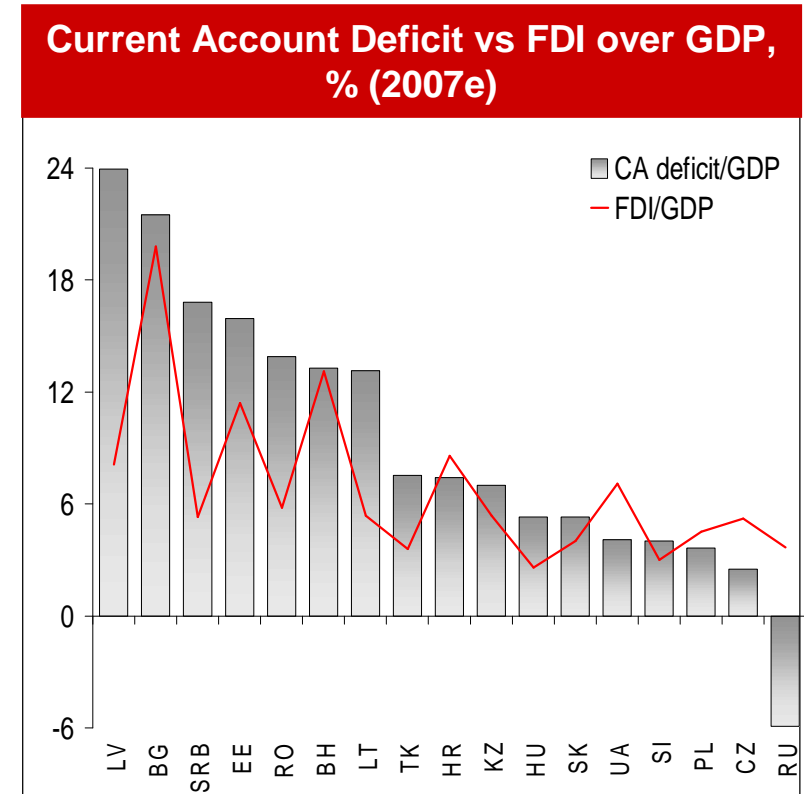
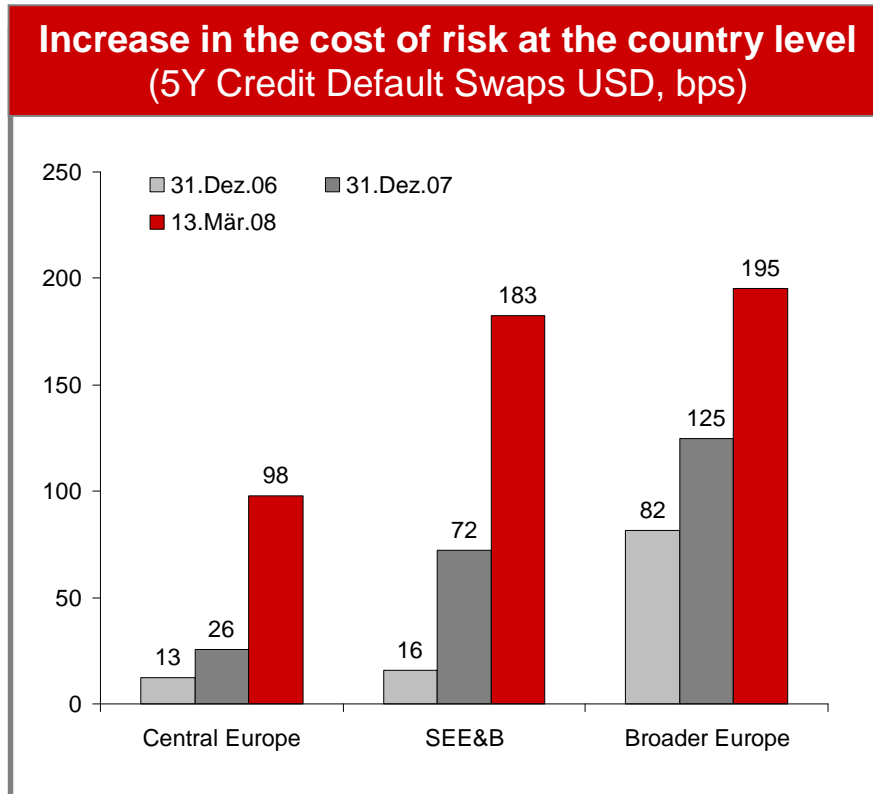
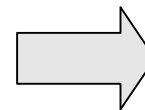


Overview -Risks:

Re-pricing of risk at the international level to affect the banking industry in CEE

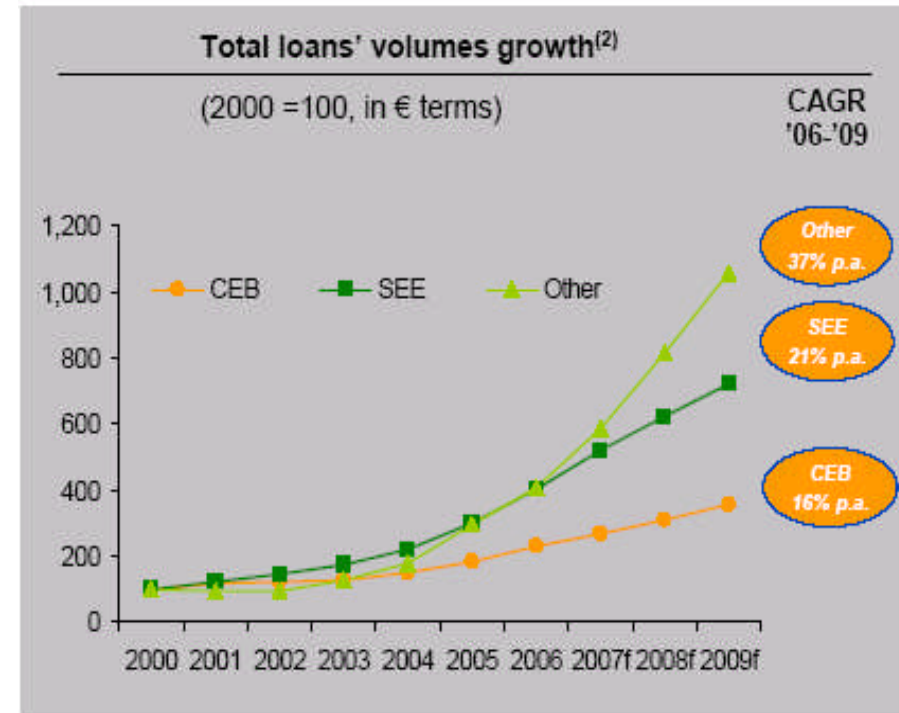
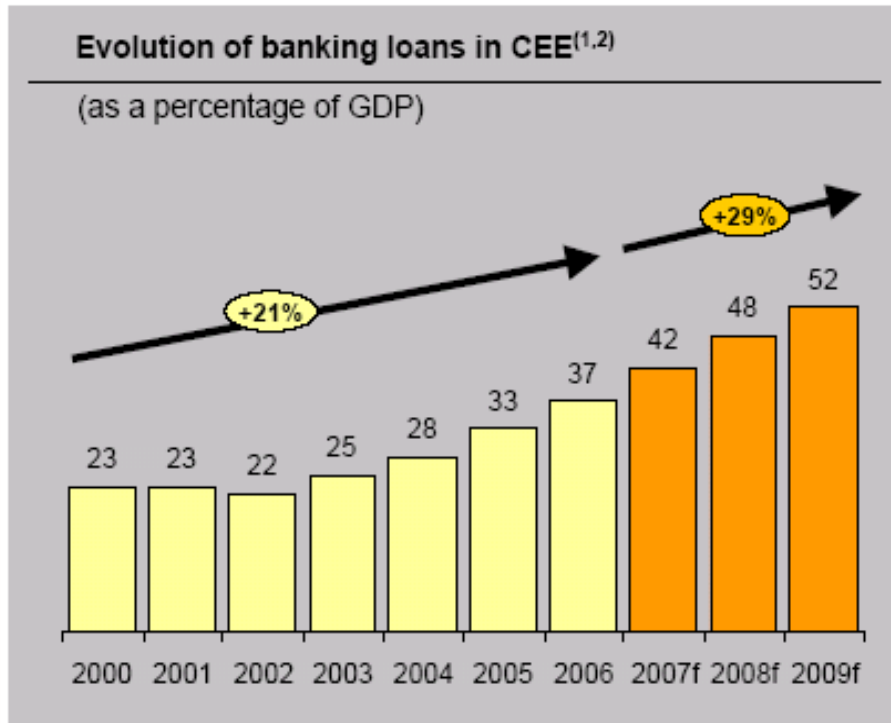


- High uncertainty and volatility
- International liquidity crunch and credit squeeze
- Lower growth in the US and expected lower growth in Europe
- Increasing risk aversion and repricing of risk at the international level



A new international environment - but local vulnerabilities exist

Growth of banking loans in CEE⁽¹⁾ continues



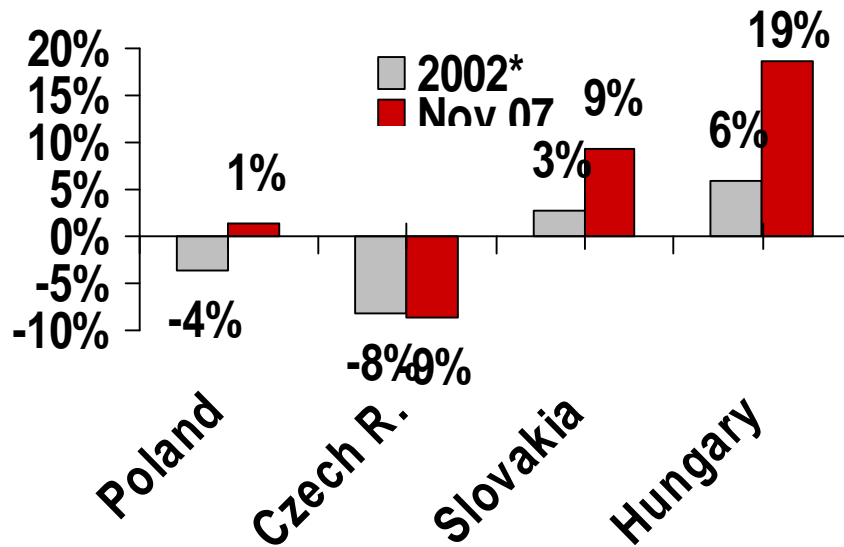
- (1) CEE including BG, BIH, HR, CZ, EE, LT, HU, PL, RO, RU, SK, SI, SRB, UA and TK; LV excluded
 (2) Total loans include general govt, non-financial corporations

Central Europe :

Impact of the international liquidity crisis on financial indicators in Central Europe, Hungary in particular

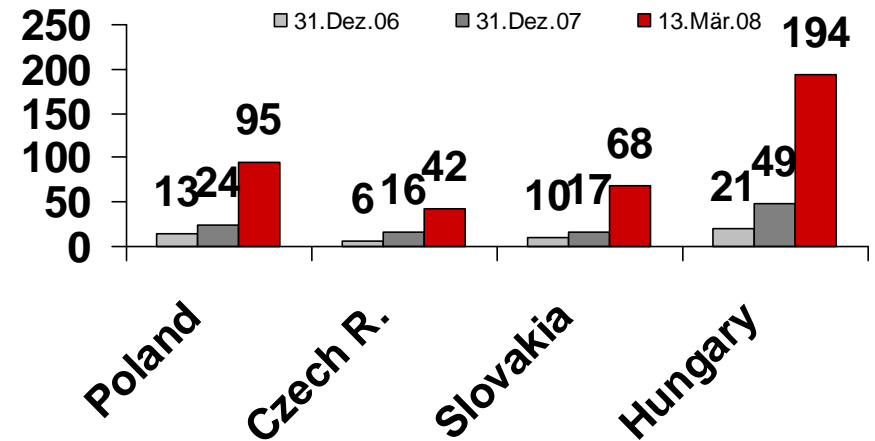
Banking sector dependency on foreign funding

(Ext liabilities- Ext Assets)/Total Assets



Increase in the cost of risk at the country level

(5Y Credit Default Swaps USD, bps)



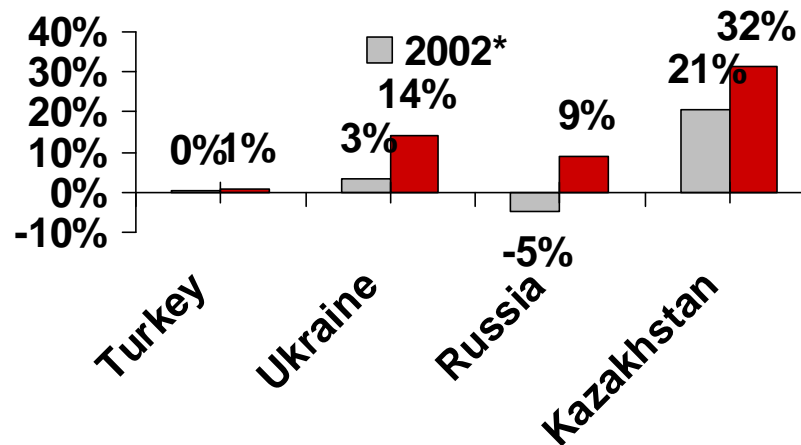
Special attention should be focused on Hungary, due to the high dependency on foreign funding of the Hungarian banking sector

* For Slovakia 2003.

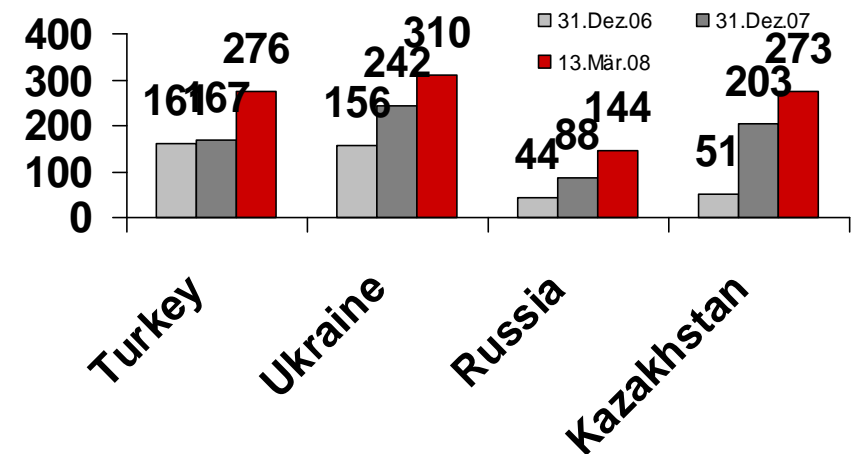
Broader Europe :

External influences from the international environment have different impacts on respective countries (referring to the banking sector)

Banking Sector dependency on foreign funding
(Ext Liabilities- Ext Assets)/Tot. Assets (%)



Increase in the cost of risk
(5Y Credit Default Swaps USD, bps)



- Banks need of foreign funding and strong increase of cost of risk indicate **Kazakhstan** banking sector as vulnerable. A liquidity crunch is likely to translate into a bank credit squeeze
- Some funding problems might emerge, most probably affecting only a few players, with no systemic consequences, in both Russia and Ukraine
- While remaining sensitive to capital market volatility, Turkey is relatively less likely to face constraints to lending growth

* For Ukraine and Kazakhstan 2003. ** For Russia Sept. 07 and Turkey Oct.07

CONCLUSIONS

- The new international environment is characterized by lower US and European growth, leading to higher uncertainty and volatility and a general re-pricing of risk
 - Despite this new int. environment, in **Central & Eastern Europe** usual growth drivers will hold, although the growth cycle has peaked in 2006–2007. However, most countries were relying on external savings to finance growth and, in the context of a general re-pricing of risk, this might lead to some deceleration in credit expansion
 - Central Europe (PL, SK, CZ, HU, SI) is likely to be generally untouched. We expect some cyclical tightening, on the wake of rising inflationary pressures and rising production capacity constraints and some possible negative impact from lower European growth
 - South Eastern Europe and the Baltic are more likely to feel the impact of a deteriorated international scenario and to face some deceleration in credit growth. Given the strong growth of the last years and overheating concerns, this works in line with Central Banks aspirations
 - Broader Europe countries (KZ, RU, UA, TK) are mostly sensitive to international re-pricing of risk. A liquidity crunch is visible and translating into a bank credit squeeze in Kazakhstan. Funding problems for banks might emerge (most probably affecting only a few relatively small players, with no systemic consequences) in both Russia and Ukraine. We believe however resources and commitment are enough to preserve long term potential of the economy in Kazakhstan and to prevent major setbacks even in the short to medium term in the other two countries. Though remaining sensitive to capital market volatility, Turkey is relatively less likely to face any constraint to bank lending growth
 - On the overall, we believe the region will handle the challenges successfully, but risks and costs are increasing
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