

“South-East Europe on the move – the most successful emerging market“



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Agenda



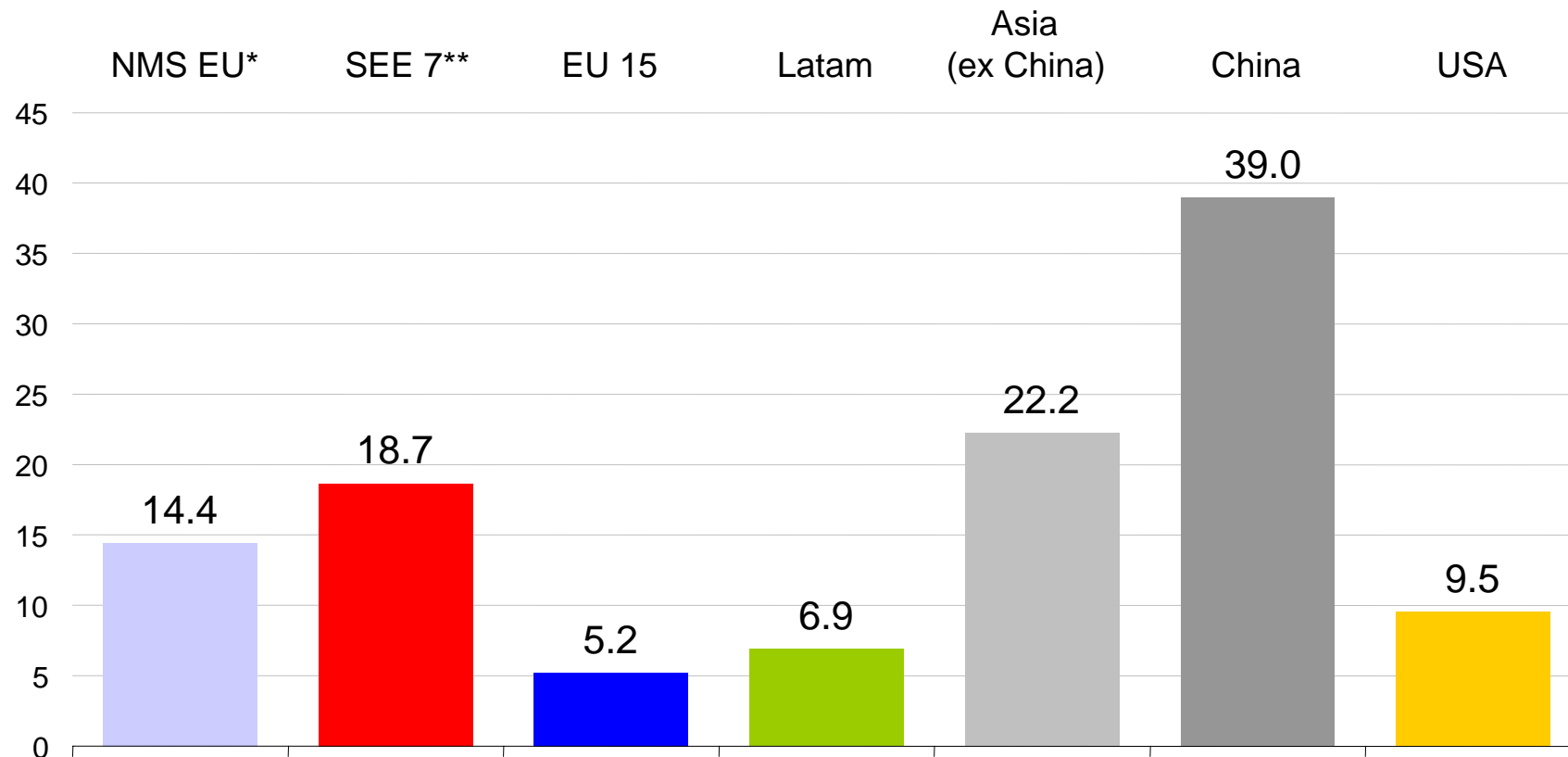
- **South-East Europe (SEE):
Europe's most dynamic region on its way to the EU**
- The banking sector in South-East Europe
- Annex: BA-CA in South-East Europe

SEE: Europe's most dynamic region on its way to the EU

- Remarkably high economic growth rates since 2000
- Successful monetary stabilisation as prerequisite for sustainable growth
- High unemployment and foreign trade are still the main weaknesses of the economies
- Start of structural reforms paves the way for tapping the full potential
- SEE remains the most dynamic economic region in Europe

SEE has outperformed the New Member States since 2000

Real GDP
(% change, 2000 to 2004)



Source: BA-CA Economics Department

*NMS8=CZ,H,PL,SI,SK,EST,LIT,LV

**SEE7=AL,BiH,BG,HR,MK,ROM,SCG

GDP growth averages around 5 % p.a. in SEE

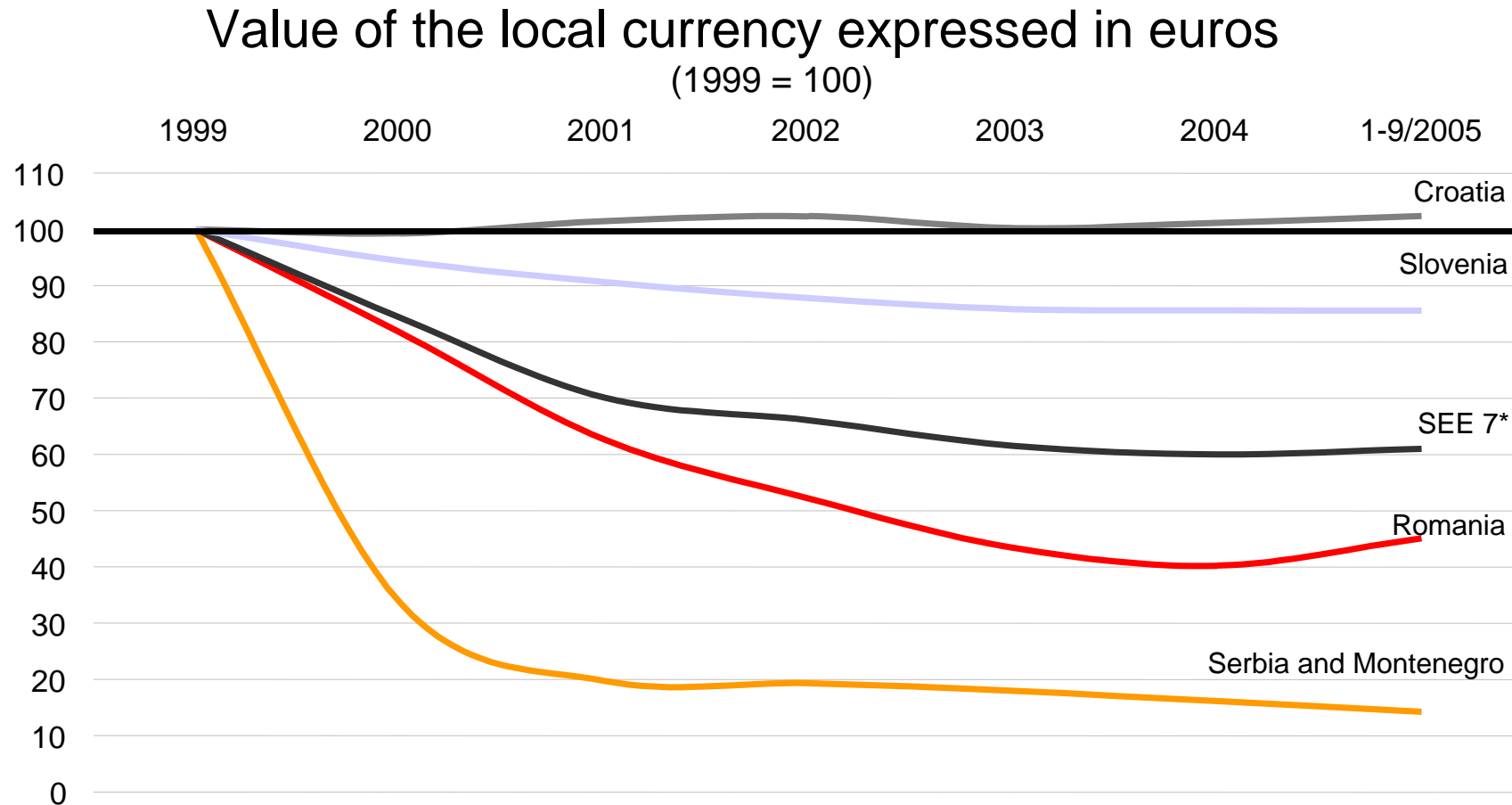
Real GDP (change against previous year in %)

	2000-2004	2005	2006
Albania	5.8	6.0	6.0
Bosnia and Herzegovina	4.8	5.5	6.0
Bulgaria	4.9	5.3	6.0
Croatia	4.1	3.5	3.7
FYR Macedonia	1.3	3.5	4.0
Romania	5.3	4.7	6.3
Serbia and Montenegro	4.8	4.5	4.5
SEE 7*	4.8	4.6	5.5
Slovenia	3.4	3.8	4.0

Source: National statistics, BA-CA Economics Department

*SEE7=AL,BiH,BG,HR,MK,ROM,SCG

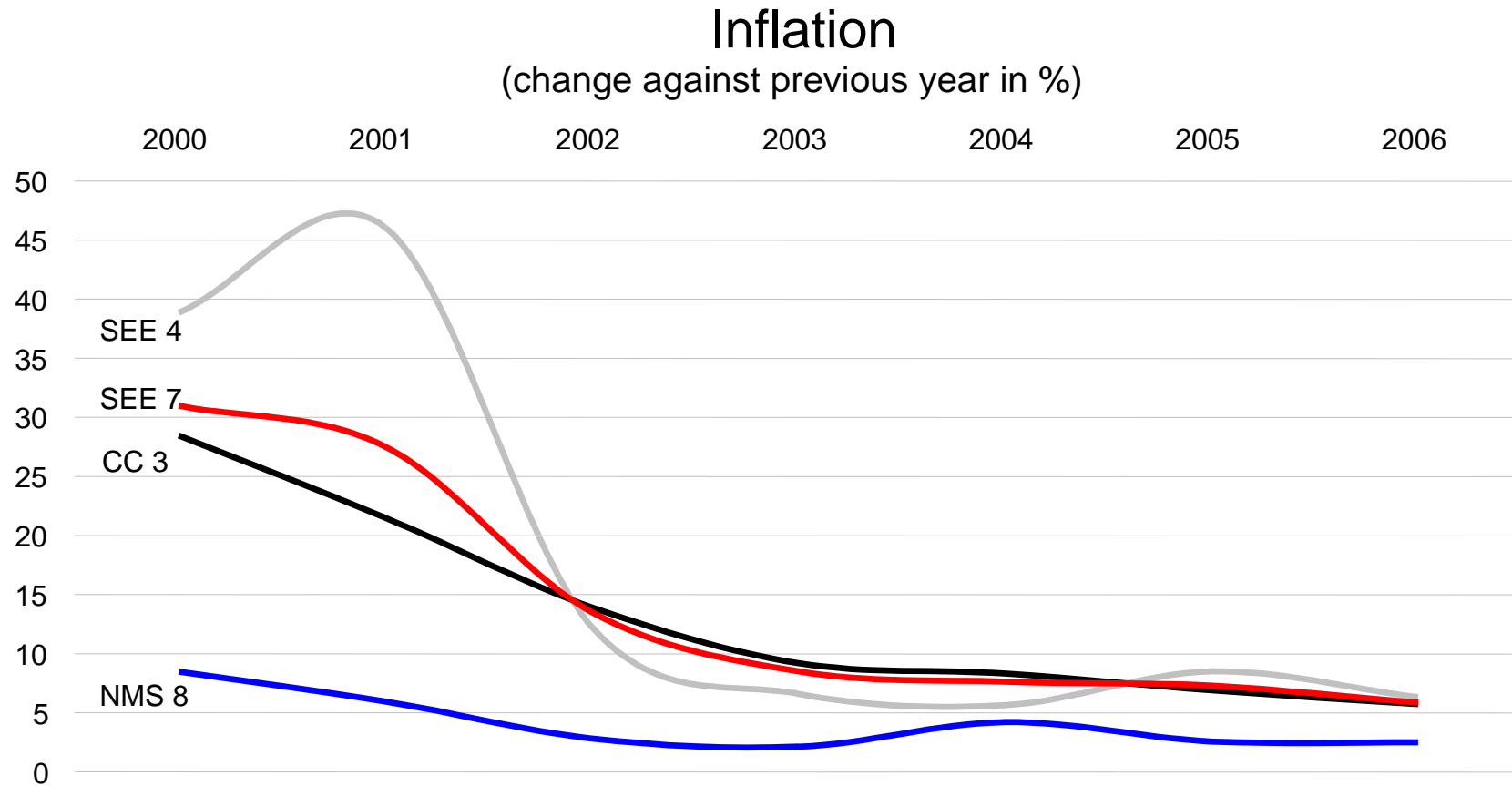
Successful monetary stabilisation: exchange rate under control



Source: National statistics, BA-CA Economics Department

**SEE7=AL,BiH,BG,HR,MK,ROM,SCG

Inflation slows down

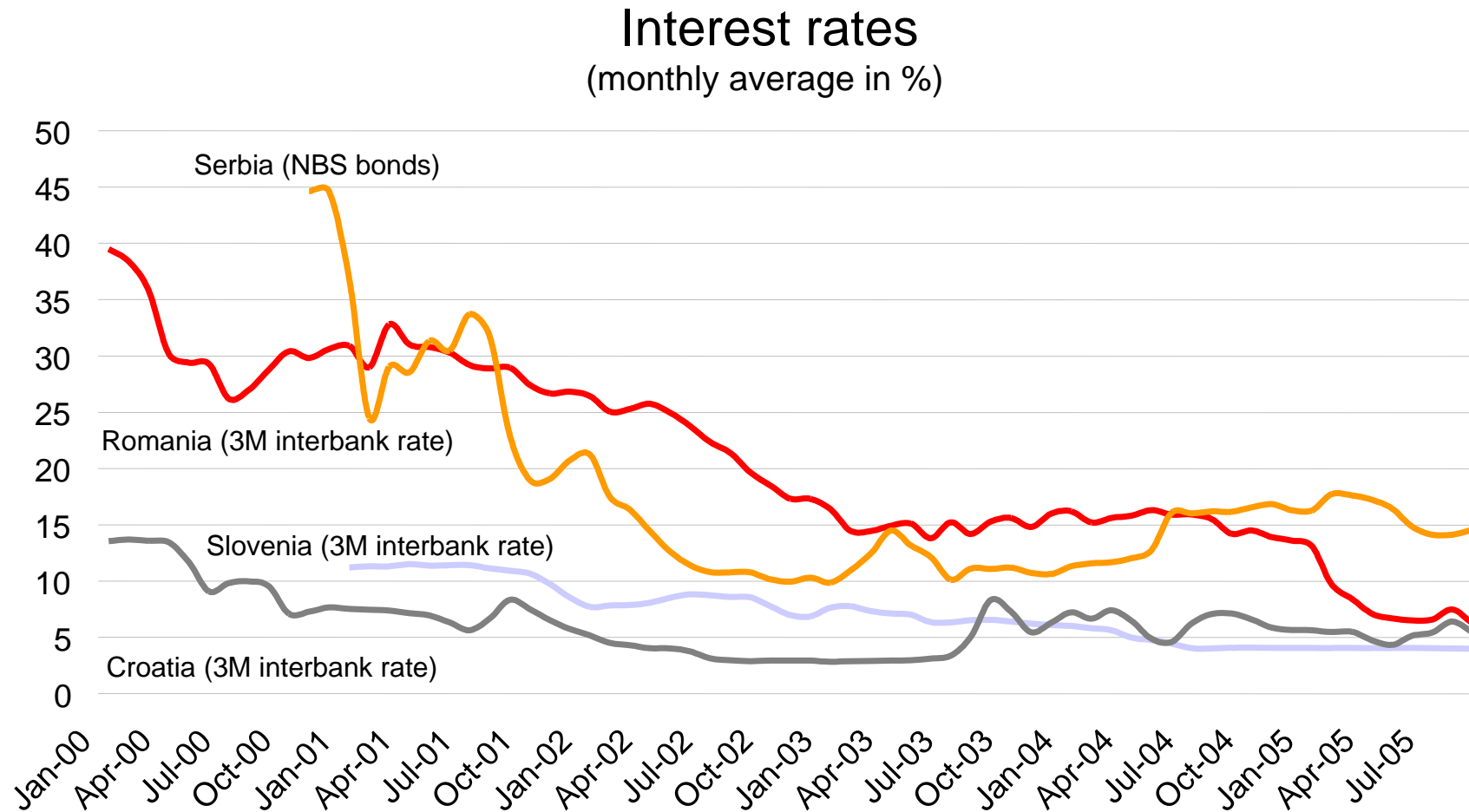


NMS8 = New Member States: CZ,H,PL,SI,SK,EST,LIT,LV
 CC3 = EU candidate countries: BG,HR,ROM

SEE4 = AL,BiH,MK,SCG
 SEE7 = CC3 + SEE4

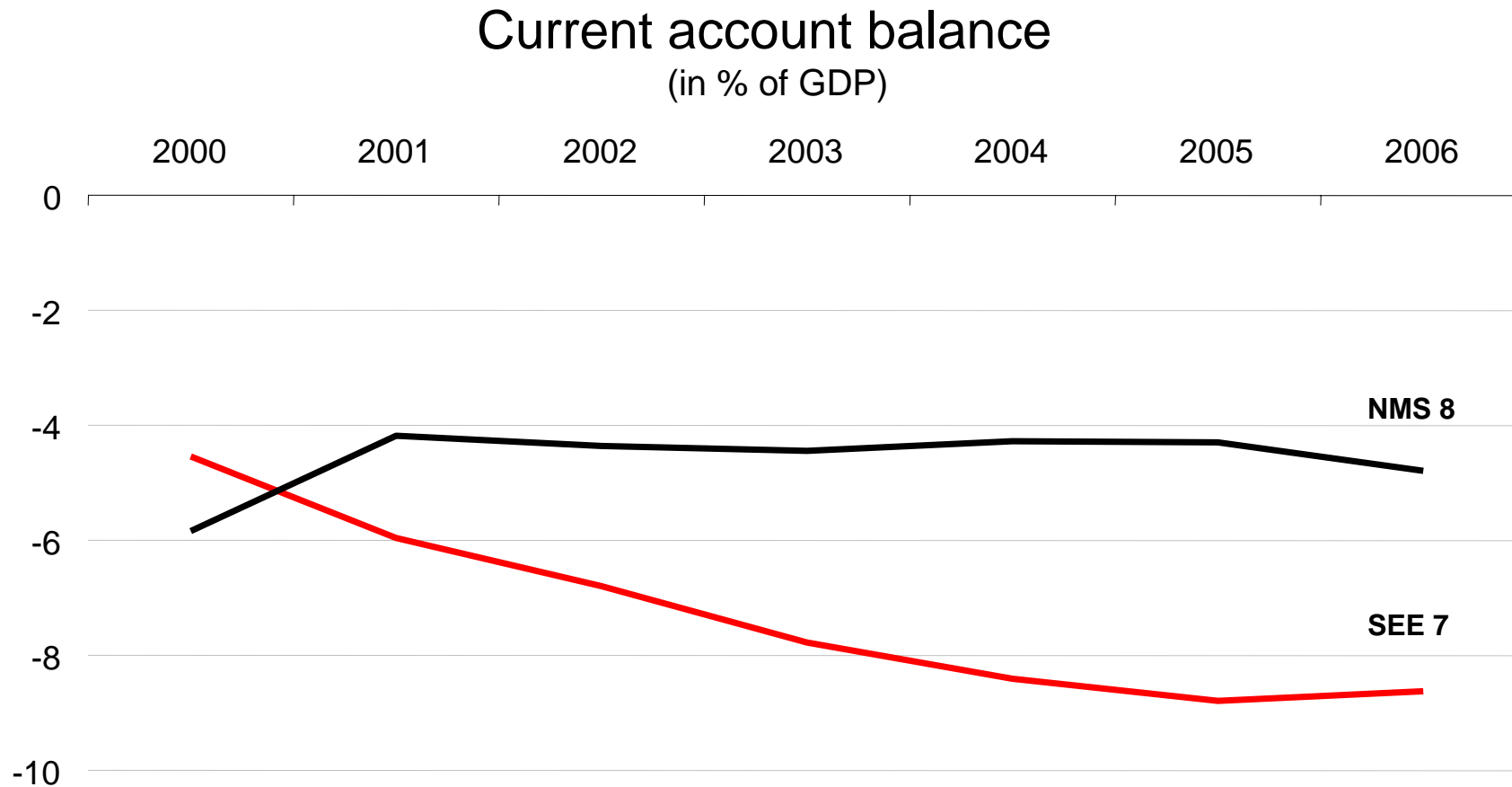
Source: BA-CA Economics Department

Interest rates decrease



Source: BA-CA Economics Department

Foreign trade remains main weakness of the region

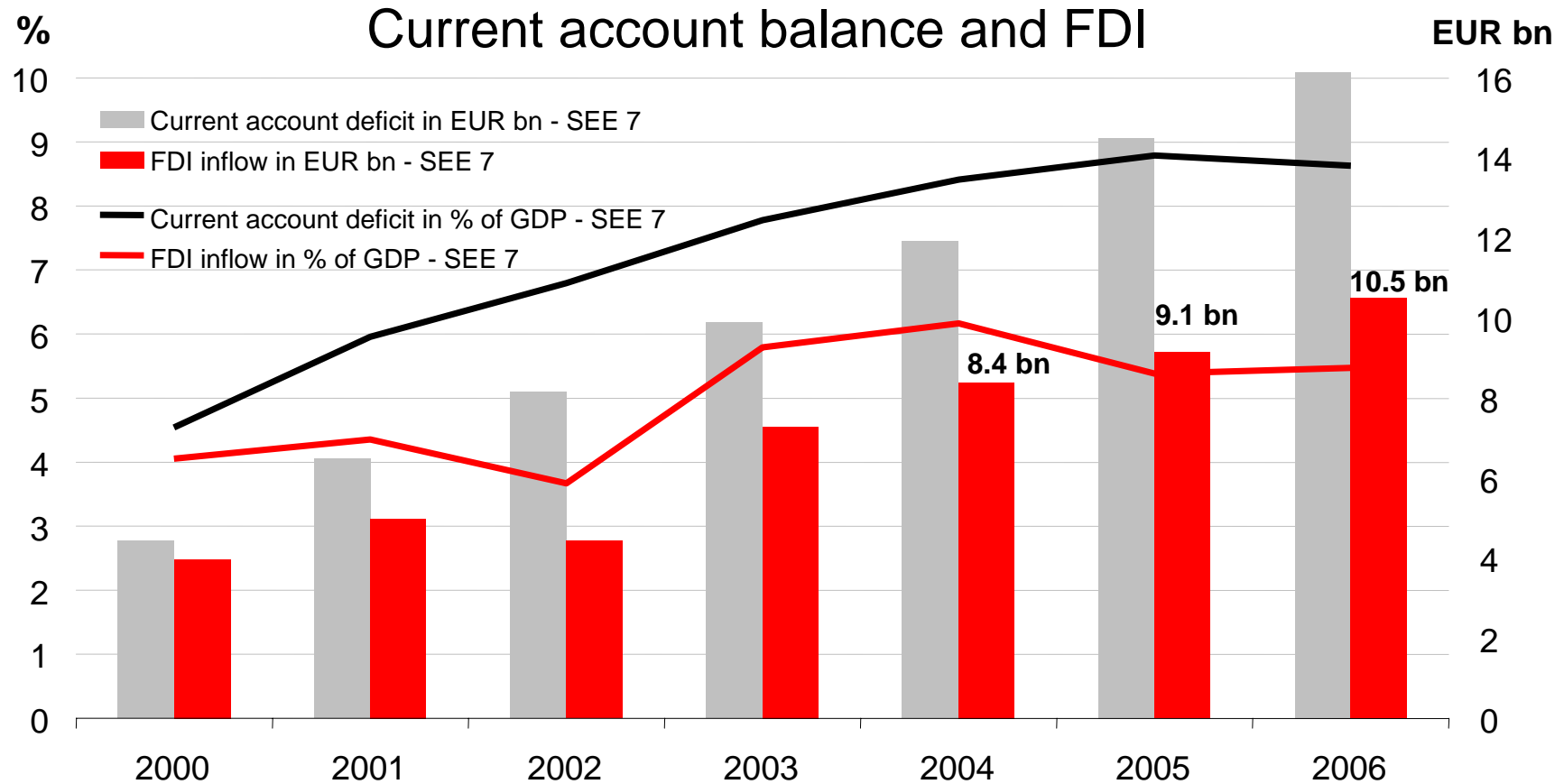


NMS8=CZ,H,PL,SI,SK,EST,LIT,LV

SEE7=AL,BiH,BG,HR,MK,ROM,SCG

Source: National statistics, BA-CA Economics Department

Steady increase of FDI inflows in SEE as EU accession draws nearer



NMS8=CZ,H,PL,SI,SK,EST,LIT,LV

SEE7=AL,BiH,BG,HR,MK,ROM,SCG

Source: National statistics, BA-CA Economics Department

Outlook

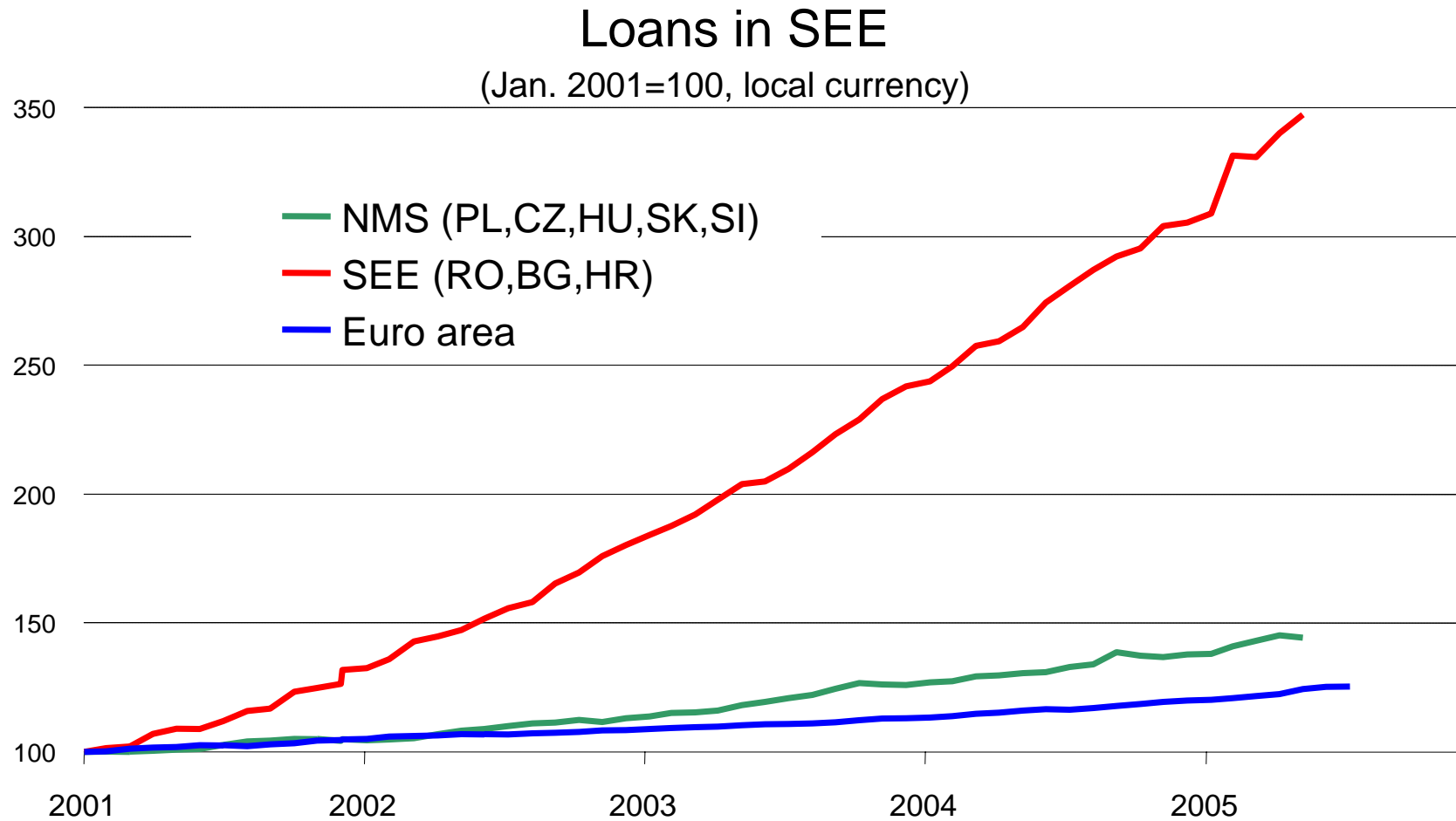
- Approximation to EU initiates structural reforms and accelerates pace of reforms.
 - Cautious monetary policy and stable exchange rates support favourable inflation outlook. Inflation will fall to below 6% in 2006.
 - Cautious fiscal policies: the budget deficits in the SEE countries will amount to an average of only 1.5% of GDP in the next two years.
 - Recent changes in tax policies improve payment discipline of companies and support FDI.
 - Current account deficits remain high at almost 9% of GDP on average, but the financing structure in most of the countries is favourable.
 - Rising FDI inflows cover a high share of the financing gap, accelerate structural change and establish export-oriented companies.
- GDP growth will reach around 5% p.a. in the region and the chance to tap the full growth potential in the medium term increases.

Agenda



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- **The banking sector in South-East Europe**
- Annex: BA-CA in South-East Europe

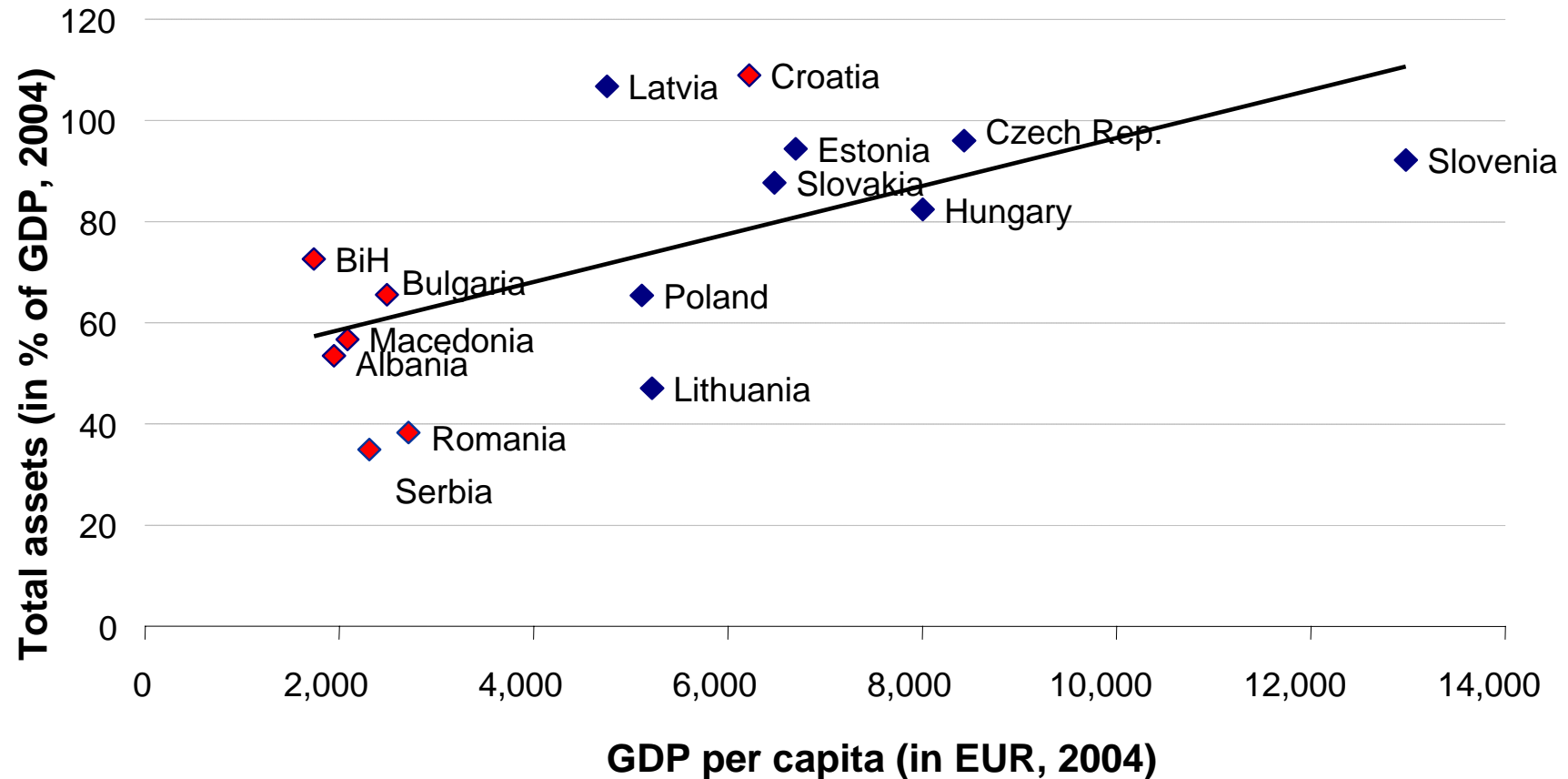
SEE - strong credit growth in recent years



Source: BA-CA Economics Department

Intermediation and income level

Financial intermediation and GDP per capita



Source: BA-CA Economics Department

Overview SEE banking market

2004	Number of banks	Total assets	Market share		Total assets	Total loans		Loans to households	Total deposits	
		EUR bn	Foreign banks ²⁾	Top 5	in % of GDP	in % of GDP ³⁾	Growth rate ⁴⁾ p.a., 2000-2004	per capita in EUR	in % of GDP	Growth rate ⁴⁾ p.a., 2000-2004
SEE 7	224	82	72	63	58	30	29	323	34	32
NMS 8	205	359	75	58	78	34	10	822	45	4
Slovenia	19	24	38	64	91	46	16	1,586	51	13
Euro area	2,287	15,705	24	54	206	102	4	12,398	73	6
Albania	16	3	89	77	53	9	31	53	42	13
Bosnia and Herzegovina	33	5	70	61	73	45	18	352	41	31
Bulgaria	35	13	80	55	66	35	45	287	39	24
Croatia	37	30	91	74	109	62	21	1,961	60	18
FYR Macedonia	21	2	48	76	57	17	15	112	30	18
Romania	39	23	66	60	38	18	43	135	24	38
Serbia	43	7	38	47	39	20	9	111	20	49

1) In % of total assets

2) Pro rata basis

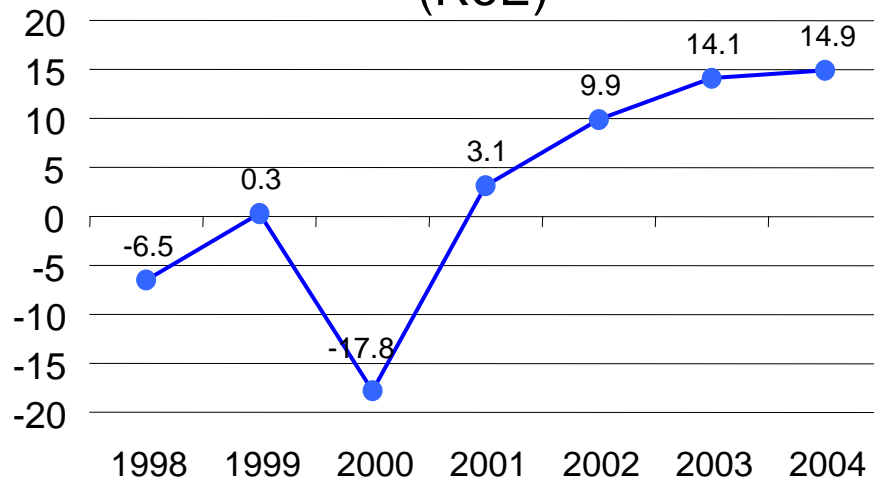
3) Albania: excluding loans to the state

4) Per annum in local currency

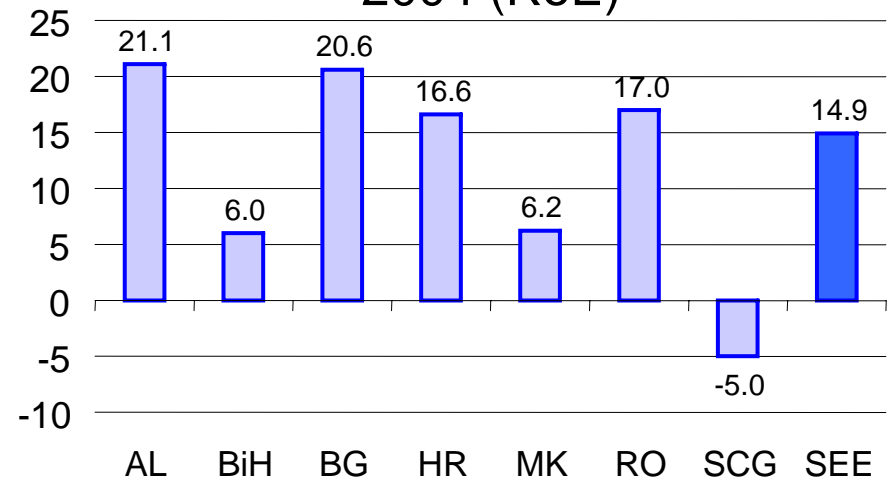
Source: National banks, BA-CA Economics Department

Profitability

Banking market profitability in SEE (RoE)



Banking market profitability in SEE 2004 (RoE)



Source: BA-CA Economics Department

Profitability of top banks in SEE*

2004	NMS**	SEE***	Euro area
Return on equity after tax (in % of equity capital)	15	20	11
Return on assets after tax (in % of total assets)	1.5	2.0	0.5
Net interest income (in % of total assets)	3.3	4.6	1.2
Loan loss provisions (in % of total assets)	0.30	0.48	0.26
Cost/income ratio (in % of total income)	62	59	64

*) unweighted average, top 7 to 10 banks per country, market share 72%

***) PL, HU, CZ, SK, SI

***) HR, RO, BG

Source: BA-CA Economics Department

Factors that have contributed to financial deepening in recent years

	Loans in % of GDP ¹⁾			Market share of privatised banks ²⁾		Market share of foreign banks ^{2, 3)}		Non-performing loans in % of total loans	
	2000	2004	2000-2004, change p.a.	2000-2004, average	2004	2000-2004, average	2004	2000-2004, average	2004
Bulgaria	11	35	6.0	88	98	75	79	5.7	3.5
Croatia	39	62	5.7	96	97	75	88	6.5	4.5
Bosnia and Herzegovina	31	45	3.5	82	95	52	66	6.7	3.3
FYR Macedonia	11	17	1.6	98	98	49	48	22.5	13.2
Romania	13	18	1.3	65	93	45	59	5.9	8.1
Albania	4	9	1.1	54	100	47	89	11.0	4.2
Serbia	52	20	-7.9	43	65	20	37	19.3	23.3
SEE 7 average	23	30	2	75	92	52	67	11	9

blue means above (for non-performing loans under) average

1) Albania: excluding loans to the state

2) In % of total assets

3) Pro rata basis

Source: National banks, BA-CA Economics Department

Loans to households: strong growth continues, potential still exists

Country	Loans to households		Loans to households			Loans to households ²⁾		
	in EUR bn 2004	in % of household deposits 2004	Growth rate p.a. ¹⁾ 2000-2004, in %	in % of GDP 2004	per capita, in EUR 2004	Growth rate p.a. ¹⁾ 2004-2008, in %	in % of GDP 2008	per capita, in EUR 2008
Albania	0.2	7	26	3	53	26	5	136
Bosnia and Herzegovina	1.3	100	58	20	352	16	28	648
Bulgaria	2.2	49	67	12	287	24	18	673
Croatia	8.7	74	29	32	1,979	10	36	2,887
FYR Macedonia	0.2	29	41	5	112	22	9	247
Romania	2.9	32	130	5	135	30	9	466
Serbia	0.9	50	72	5	111	41	12	316
SEE 7	16.5	52	53	12	323	20	15	665
NMS	60.0	46	24	13	822	15	17	1,445
of which Slovenia	3.2	32	11	12	1,586	12	15	2,463
Euro area	3,804.3	91	6	50	12,397			

1) Per annum in local currency

2) Forecast

Source: National banks, BA-CA Economics Department

Household deposits: stronger growth than in NMS

Country	Household deposits in EUR bn 2004	Household deposits			Household deposits ²⁾		
		Growth rate ¹⁾ , in %	in % of GDP	per capita, in EUR	Growth rate ¹⁾ , in %	in % of GDP	per capita, in EUR
		2000-2004	2004	2004	2004-2008	2008	2008
Albania	2.4	14	40	774	11	40	1,207
Bosnia and Herzegovina	1.3	42	20	352	16	27	637
Bulgaria	4.6	16	24	591	16	29	1,069
Croatia	11.8	17	43	2,662	7	44	3,509
FYR Macedonia	0.8	34	18	382	11	22	575
Romania	9.0	39	15	415	22	20	1,100
Serbia	1.8	83	10	221	30	17	458
SEE	31.8	29	22	622	16	26	1,153
NMS	129.6	6	28	1,777	6	27	2,343
of which Slovenia	9.8	16	37	4,908	5	36	6,055
Euro area	4,160.0	6	55	13,556			

1) Per annum in local currency

2) Forecast

Source: National banks, BA-CA Economics Department

Outlook loans and deposits 2004-2008

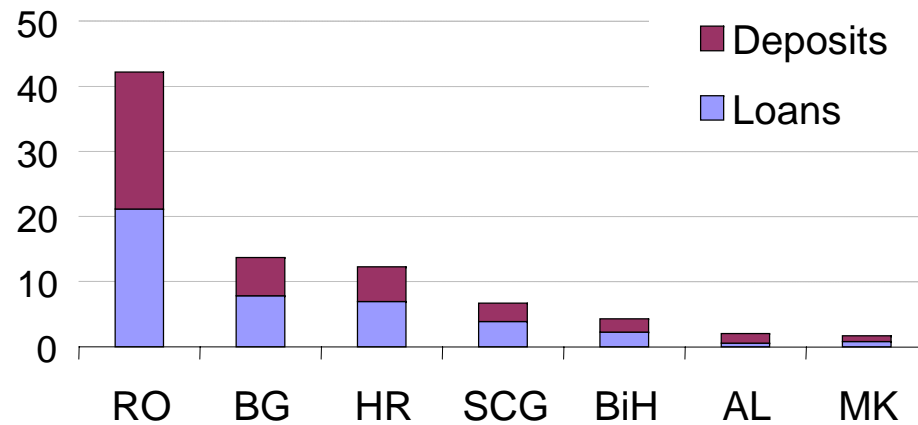
Country	Loans		Deposits		Loans		Deposits		Loans	Deposits
	in EUR bn		in EUR bn		in % of GDP		in % of GDP		Growth rate ¹⁾ , p.a. in %	Growth rate ¹⁾ , p.a. in %
	2004	2008	2004	2008	2004	2008	2004	2008	2004-2008	2004-2008
Albania	0.5	1.1	2.6	4.0	9	12	42	43	19	12
Bosnia and Herzegovina	3.0	5.2	2.7	4.8	45	59	41	54	15	15
Bulgaria	6.9	14.7	7.7	13.5	35	52	39	48	21	15
Croatia	17.0	24.0	16.6	21.9	62	68	60	62	9	7
FYR Macedonia	0.7	1.5	1.3	2.1	17	29	30	40	21	14
Romania	10.9	32.0	14.2	35.2	18	27	24	30	25	20
Serbia	3.8	7.7	3.7	6.5	20	35	20	29	29	25
SEE 7	42.9	86.4	48.8	88.2	30	38	34	39	19	17
NMS	156.9	255.3	207.4	286.6	34	41	45	46	12	3
of which Slovenia	11.9	18.6	13.2	16.9	46	56	51	51	12	6

1) Per annum in local currency

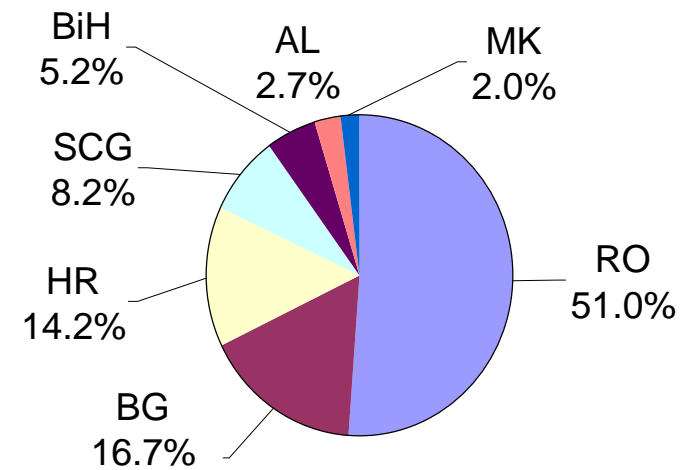
Source: National banks, BA-CA Economics Department

New business in loans and deposits 2005-2008

New business in SEE
2005-2008, in EUR bn



New business in SEE by country
2005-2008, in %



Source: BA-CA Economics Department

Summary

- SEE will remain Europe's fastest-growing banking market in the coming years, with annual growth rates of 19% for loans and 17% for deposits.

- Even if the privatisation process has been almost concluded in many countries, the next few years will see some consolidation effects in South-East Europe's banking sector:
 - The completion of the privatisation process above all in Romania (2nd and 12th most important banks in SEE being sold) and Serbia.
 - With 224 banks (about 43 in Serbia, 33 in Bosnia), SEE has more banks than the NMS, although the region has 40% fewer inhabitants.
 - About 2/3 of the banks (144) have a local market share of less than 2%.
 - About 60% of the banks had total assets of less than 100 mn euros in 2004.

- The banking sector has enjoyed greater profitability in recent years, and this trend will continue.

- The region's top banks, which in 2004 were more profitable than the top banks in the NMS, will be able to maintain their lead on account of the strong growth and stable economic conditions, although margins will decline. There is still potential in the areas of fees, commissions and risk.

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International banking groups in SEE

International banking groups in SEE by country of origin

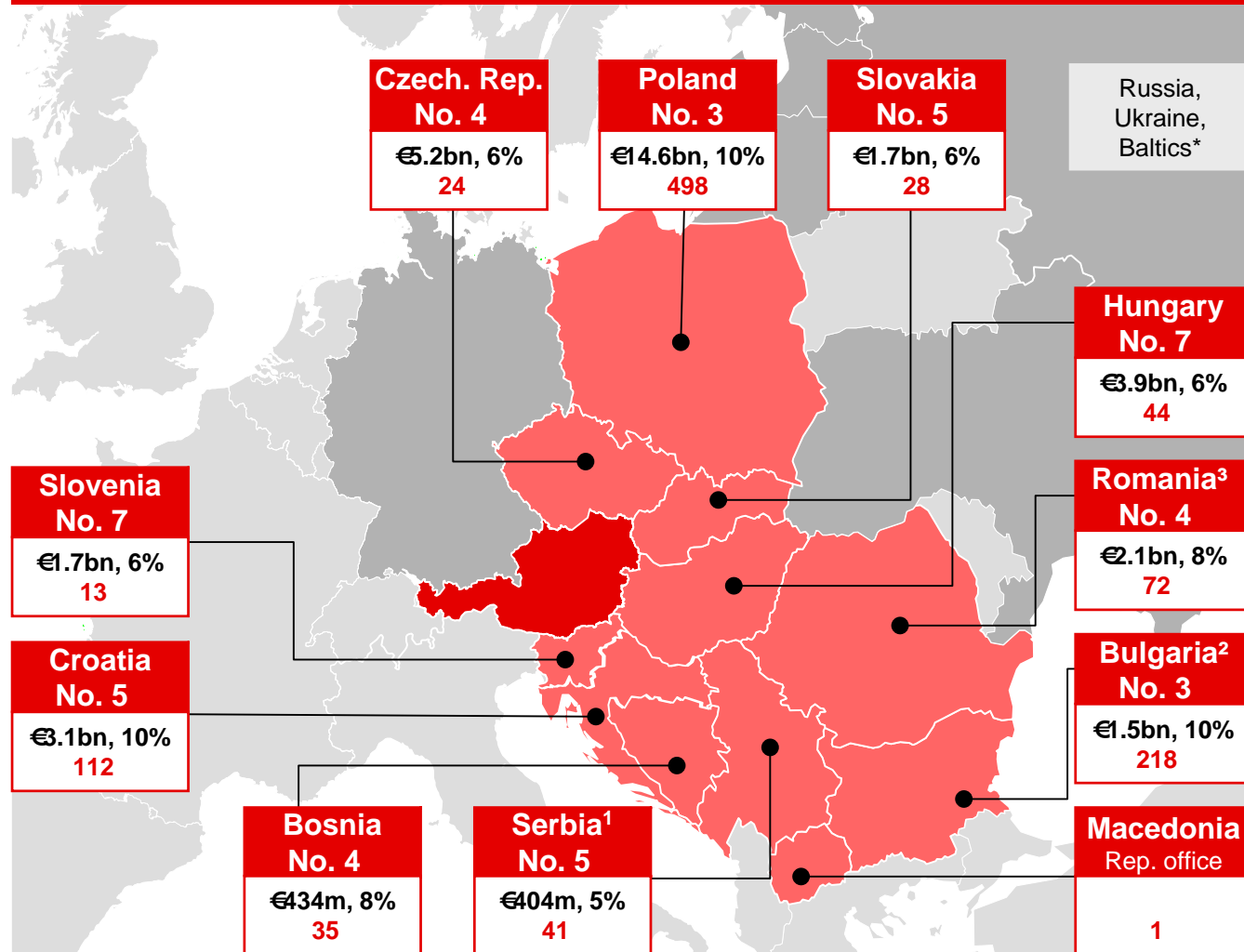
Rank	Country of origin	Total assets (majority holding = 100%)	Market share	Total assets (pro rata basis)	Market share
2004		in EUR bn	in %	in EUR bn	in %
1	Austria¹⁾	24.9	30.2	24.0	29.1
2	Italy	16.5	20.0	13.4	16.2
3	Greece	5.9	7.2	5.2	6.3
4	France	3.3	4.0	2.3	2.8
5	Hungary	2.9	3.5	2.8	3.4
6	Netherlands	2.8	3.4	2.8	3.4
7	USA	2.1	2.6	2.6	3.2
8	Germany	0.7	0.8	1.8	2.1
9	Turkey	0.6	0.8	0.4	0.5
10	Slovenia	0.1	0.2	0.1	0.2

1) BA-CA and HVB holdings are reported under Austria

Source: National banks, BA-CA Economics Department

BA-CA: The leading network banking group in CEE/SEE with an extensive coverage throughout the region

Ranking, market share by total assets as of March 2005, total assets and number of offices as of 30 June 2005



CEE region

€41bn
total assets
(BA-CA and HypoVereinsbank)

€36.6bn
total assets
(BA-CA network banks incl. leasing units)

1,100 offices

18,500 employees

4.7m customers

¹ incl. Eksimbanka (Serbia)
² incl. Hebros Bank (Bulgaria)
³ incl. Banca Tiriac
 * managed by HypoVereinsbank

From Budapest to Bucharest – 30 Years BA-CA in CEE/SEE



BA-CA's further expansion in SEE since 11/2004

■ Bulgaria

- Acquisition of Hebros Bank at the beginning of November 2004.
- Integration process with HVB Bank Biochim ongoing; the joint bank is a strong number 4 on the Bulgarian banking market with total assets of 1.5 billion euros, 218 branches serving more than 600,000 customers; 10 per cent market share.

■ Serbia

- Acquisition of Eksimbanka at the end of November 2004, integration process with HVB Bank Serbia and Montenegro successfully finalized on 4 October 2005.
- The new "HVB Bank Serbia and Montenegro" is the fifth-largest bank in Serbia with 41 branches, some 400 billion euros total assets and more than 70,000 customers.
- Target until 2008: to rank among the top 3 banks in Serbia.

■ Romania

- Banca Tiriac:
 - Signing of an agreement with Ion Tiriac to merge HVB Bank Romania with Banca Tiriac in May 2005; merger agreement closed in September 2005; operational merger process has started and is expected to be finalised in the first half of 2006.
 - The joint bank is a strong number 4 on the Romanian banking market with 2.1 billion total assets, 72 branches serving more than 720,000 customers.
- Building society "HVB Banca pentru Locuinte":
 - Started in September 2005.
 - Owners: Vereinsbank Victoria Bauspar AG / Germany (55%), BA-CA / Austria (35%), HVB Bank Romania / Romania (10%)
 - Sales partners: CreditCoop with some 1,000 sales outlets, 72 branches of HVB Bank Romania and Banca Tiriac plus some additional 1,000 sales agents.

Bank Austria Creditanstalt: The number 1 in Austria, key player in CEE/SEE

