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UBS Investment Research

Banks and emerging Europe

Global Equity Research

Europe Including UK

Banks, Ex-S&L

Sector Comment

Back in the USSR

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www.ubs.com/investmentresearch

Alastair Ryan
Analyst
alastair.ryan@ubs.com
+44 20 7568 3238

Eurobanks team

44 20 7568 0757

Daniele Brupbacher
Analyst
daniele.brupbacher@ubs.com
+41-44-239 1493

Andreas Hakansson
Analyst
andreas.hakansson@ubs.com
+46-8-453 7309

Alexander Kyrtsis
Analyst
alexander.kyrtsis@ubs.com
+44-20 7568 1689

Matteo Ramenghi
Analyst
matteo.ramenghi@ubs.com
+39-02-7210 0286

Dmitry Vinogradov, CFA
Analyst
dmitry.vinogradov@ubs.com
+7-495-6482362

Tomasz Walkowicz
Analyst
tomasz.walkowicz@ubs.com
+44-20-7568 0069

■ 'We will bury you?'

Rhetoric in recent days on the likelihood of Eastern Europe 'burying' western banking systems has been reminiscent of the infamous remark by secretary Khrushchev, translated as "we will bury you". We believe he was mistranslated, actually saying "we will show you where the crayfish winter" and that the threat this time around is similarly misunderstood.

■ Upgrading Erste, downgrading Raiffeisen and Swedbank

We are beginning to despair of a sensible policy response to Ukraine's myriad problems, leaving us uncomfortable at exposures there – we downgrade Raiffeisen in a related report today. However, we also believe the outlook for profitability and funding in many markets is surprisingly resilient. Indeed, Poland, the Czech Republic and Slovakia – in banking terms collectively more than twice the size of risky Ukraine, Serbia, Bulgaria and the Baltics – are probably the most robust economies in the EU. We are upgrading convergence-economy dominated Erste to Buy.

■ Convergence Europe – a modest liquidity issue

Emerging market crises usually crystallise with a liquidity event. The nature of funding for bank exposures in convergence Europe – essentially local deposits or intra-group lending – makes this difficult to picture. The gross figures are trivial in a eurozone context. As ever, Russia and Ukraine are more 'classically' emerging.

■ Key stocks: Downgrading Swedbank to Sell

We remain Sellers of OTP, VTB, BRE Bank, Millennium and add Swedbank. We see good value and capital options at Erste, NBG and SocGen, all now Buys.

Key stocks

Key buys	P/adj NAV 08E	Key sells	P/adj NAV 08E
Erste	0.5	BCP	0.8
NBG	1.0	BRE Bank	0.8
SocGen	0.6	Millennium	0.4
		OTP	0.6
		Swedbank	0.3
		VTB	0.3

Source: UBS estimates

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Alastair Ryan
Analyst
alastair.ryan@ubs.com
+44 20 7568 3238

Eurobanks team

44 20 7568 0757

Daniele Brupbacher
Analyst
daniele.brupbacher@ubs.com
+41-44-239 1493

Andreas Hakansson
Analyst
andreas.hakansson@ubs.com
+46-8-453 7309

Alexander Kyrtsis
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alexander.kyrtsis@ubs.com
+44-20 7568 1689

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Analyst
matteo.ramenghi@ubs.com
+39-02-7210 0286

Dmitry Vinogradov, CFA
Analyst
dmitry.vinogradov@ubs.com
+7-495-6482362

Tomasz Walkowicz
Analyst
tomasz.walkowicz@ubs.com
+44-20-7568 0069

Back in the USSR

Khrushchev may never really have said "we will bury you" along with his famous shoe-bashing moment at the United Nations – one translation is that he was actually saying "we will show you where the crayfish winter". Nevertheless, the overblown image of an ominous, unknowable threat from Eastern Europe to the future of western civilisation has been brought clearly to mind in recent weeks as fears of a wave of defaults and currency collapses have swept the markets. Reality is more complex and, we believe, more balanced.

- Banks in the region (as elsewhere) have generally spent the last several years in very benign conditions, which will tend to have left them under-prepared for a violent downswing such as is upon us now.
- Many banks engaged in practices which were obviously full of fat-tail risk. FX consumer lending and intra-group funding at the wrong price were particular favourites, but the recent FX options controversy in Poland adds another to this rogues' gallery.
- Government policy was generally assumed to be economically reasonable. This assumption is being severely tested in Ukraine and may yet be in Russia.

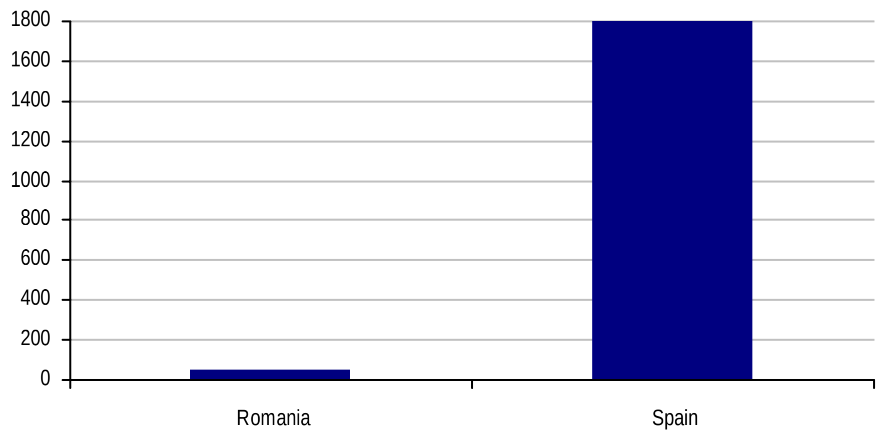
This has powered the narrative of inevitable collapse in the press. However, for many countries and banking systems there are mitigating circumstances, which we believe are key:

- Being in the EU matters. A lot. While many still draw a distinction between eastern and western European EU members, there is no practical legal distinction and, indeed, the Czech Republic and Slovenia have GDP per capita figures not dissimilar to 'old' EU members such as Greece and Portugal, with superior debt and deficit dynamics. EU member states that play by the rules should expect the EU and supra-national agencies to provide very substantial funding and currency swaps. We would regard 'playing the game' as embracing the appropriate combination of fiscal austerity and currency devaluation – with a nil devaluation sometimes being 'appropriate', as in the case of the Baltics.
- Most funding in EU member states is long term, by which we mean not withdrawable. FDI may well grind to a halt but the stock can't just disappear. Perhaps more relevantly, most financial debt is intra-bank so an exit can only be achieved, even if desired, as existing loans expire.
- Banks don't want to leave. Emerging Europe is certainly going to be a source of heartache in the immediate future, but we continue to regard convergence as a sure thing over time, driving superior GDP growth (for more on this, see page 20). Given that pre-impairment margins are high and levels of financial intermediation are low, the combination of higher growth at higher returns is one we can imagine few seeking to exit from, other than through a sale of businesses as a going concern.
- The source of much concern in the region is not the levels of debt, but the term and currency. This makes the issue then to a significant degree a timing 'thing', or a rollover thing. These are far less pernicious than simply having

too much debt to reasonably support, or having overbuilt a property market to such a degree that there is almost no clearing price for assets, such as is the case in parts of Spain and Ireland.

- It isn't that big a deal. While exposures in the region are large compared with the tiny market values currently put on parent bank equity, the likely loss incurred in these loan books is small. It won't be Romania that stresses the Euro, it is far more likely to be a banking system of the magnitude of Spain (see Chart 1 below).

Chart 1: Total loans (€ bn)



Source: National statistics

It's an EU thing. But a manageable one

While the Austrians have been grabbing the headlines with their high proportionate exposures to Eastern Europe, it has slipped past many that two of the four big Austrian banks are owned by others – the Italians (Unicredit) and the Germans (Hypo Alpe Adria). In addition, other Italian (Intesa) and German (Commerzbank, Deutsche) banks have significant locally-incorporated banks in the region. As do the Dutch, Greeks, Nordics, Portuguese, Irish and Belgians.

No more than €31 billion in losses and €100 billion in funding

This is a socialised problem but equally a relatively modest one. We detail in the Appendix that few countries exhibit the full 'crisis' combination of high government debt, high private sector debt and high FX borrowing. Those that do are (fortunately) small enough to be predominantly an issue for the Swedish banks. We estimate in this report stress losses in what remain unlikely economic outcomes of €31 billion on a regional loan book of €500 billion. Given deposits are €400 billion, the funding gap is similarly a modest one. Clearly, for certain individual stocks these are definitive numbers should they crystallise, but for the EU there are bigger issues elsewhere.

Downgrading Swedbank to Sell, Raiffeisen to Neutral

In conjunction with this note, we have today published a separate note on Swdebank called 'Too much uncertainty', and one on Raiffeisen called 'Downgrade to Neutral'. We believe a nuanced take on the economic prospects for different countries is essential. However, we have relatively few positive ratings. While we remain confident in its risk management, Raiffeisen is in an uncomfortable position with its Ukraine exposure, hence our Neutral rating. We have also cut Swedbank to Sell, predominantly due to higher ongoing loan impairments in the Baltics.

We remain Sellers of OTP, with its Ukrainian and Russian exposures in particular looking exposed, given very rapid growth in 2007 and 2008, and their heavy intra-group funding requirements. VTB remains a Sell on dilution risks. And both BRE Bank and Millennium remain on the Sell list thanks to their heavy dependence on FX mortgage sales being compounded by their heavy involvement in the corporate FX options controversy still playing out in Poland.

Upgrading Erste to Buy

On the other side, we've published a separate note on Erste Bank total entitled 'Upgrade to Buy' in which we make the case that Erste retains considerably more options than its €2 billion market value alone might suggest. Its market-leading businesses in the relatively stable Czech and Slovak Republics provide sufficient earnings to offset even extreme shocks in Romania. We also believe that the Austrian government is likely to remain supportive of the country's banks, as their strategies have been thoroughly consistent with national goals of re-establishing Austria's centrality to European trade and investment. As a result, a dilutive equity call still seems a distant risk. Trading on a normalised PE of 2x, with a regional loan/deposit ratio of 94% and a retail franchise with typical market shares between 10-25%, we now rate the shares a Buy.

We start the body of this report with an analysis of how bad things could get for individual companies and countries in what we would characterise as a "worst we can imagine" economic environment.

The worst we can imagine

We tend to think that there is no sense in worrying about a worst-case outcome, as we are unlikely to be around in our current employment to experience the end of society as we know it. However, it is clearly appropriate to worry about still-unlikely but quite possible outcomes in a period like this. Here, we try to capture it for ex-Communist Europe through a combination of loan book exposures and loan losses compared with pre-impairment profits over a two-year period.

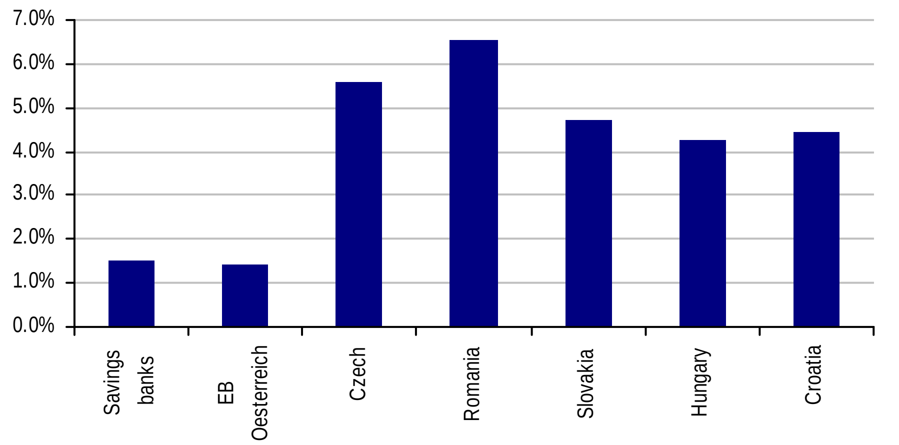
A bank or a consumer finance company?

Some more recently established banks in the region are, in substance, more consumer finance companies than full-service banks. Where income is dominated by lending and in particular by fees and spreads made as loans are extended; and where funding is dominated by the wholesale markets, the outlook is challenging indeed. We believe it will be a difficult call whether to allow such banks to fail in certain markets, as they have little brand equity and will likely require multiples of their current book to be injected in order to absorb losses ahead and then go on to build a better rounded franchise. However, these are essentially challenges for Greek banks and those in Ukraine. The substantial majority of banks in the region have attractive business cases for their parents even where convergence is not guaranteed.

Pre-impairment margins are high

Pre-provision profits are typically high in emerging Europe. We see a fundamental difference between a 'dead' business model such as buying CDOs with short-dated money (30bp spread as long as short money remains endlessly available and virtually free, for the 15 year duration of the asset) and emerging market banking. If pre-provision margins are as high as 600bp, it is possible to deal with even relatively sharp rises in loan impairments without gigantic capital raisings. Chart 2 shows recent data for Erste, emphasising just how much better margins are in emerging Europe than back home. This is a powerful support for the banks.

Chart 2: Erste pre-impairment margins Q1-Q3 2008



Source: Company data

And funding is deposit-heavy

Most banks in the region are funded mainly by deposits. Not as much as most would like under current circumstances, but nonetheless predominantly deposit funded. A branch infrastructure and local funding means that these are ‘real’ businesses as opposed to your classic cross-border funded real-estate lending operation with a few people in an office in the capital. For sure, the dividing line is a blurred one, and some parents will be wishing that they had not extended the loans to fund a significant part of their subsidiaries’ balance sheets.

ECB deals with the liquidity issue

But the question then boils down to whether the parent companies will have the ability to continue to fund and capitalise their local banks. These are reasonable questions with the parents including Irish, Austrian, German, Portuguese and Greek banks. However, we believe that the first issue – liquidity – is a non-issue. Eurozone banks can post a very wide range of collateral with the ECB for cash and for most, except the Austrians, the east European exposures account for modest proportions of the total balance sheet. Total banking assets for European banks in emerging Europe are around €500 billion and the gap between loans and deposits for the European banks perhaps €100 billion in total. These are not of a scale likely to prove in any way definitive for the Eurozone.

This is not to say there are no risks…

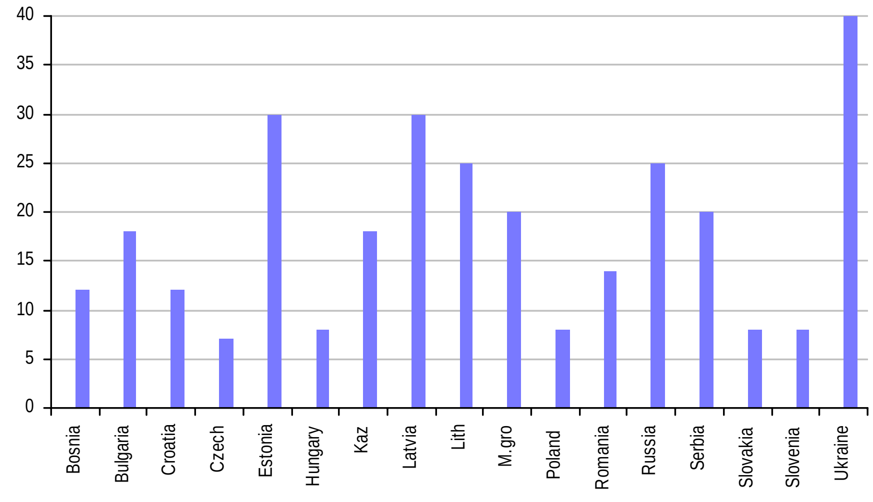
There are possible outcomes for shareholders where there is nothing left. Being a bank in a failed state generally involves becoming a failed bank also, unless the parent has sufficient capital resources. And given tiny market capitalisations, many banks have effectively no access to fresh equity from institutional avenues. We are then in the realm of governments. However, even here we believe the odds remain supportive: growing into new EU member states seems a business goal likely to be favoured by politicians. We therefore turn now to what we would characterise as ‘worst we can imagine’ outcomes.

Worst-we-can-imagine up to 40%, 2 year loss

Chart 3 shows the proportion of loans in various countries that we believe could, in extreme but plausible economic conditions, be written off through banks’ profit and loss accounts over 2009 and 2010. The figures are not forecasts for individual banks, which will have idiosyncratic exposures and underwriting standards (note for example that post the 1998 crisis, Raiffeisen saw bad debts less than a fifth of the Russian sector’s). They are clearly subjective and seek to capture an ugly combination of bad politics, forced devaluations and deep recession.

We believe that a continuation of the current Ukrainian policy path could lead to banks’ having to write off as much as 40% of their loan book through the P&L over the next two years. Nowhere else is quite so difficult, but we have little visibility in the Baltics beyond everything clearly pointing in the wrong direction, so would suggest 30% would be an outsized but possible outcome, if currency pegs break. At the other extreme, we see a very poor outcome in the Czech Republic as 700bp loan losses over the two years – ‘modest’ in comparison, though still a run rate of close to seven times 2008’s 53bp.

Chart 3: "Worst we can imagine" loan losses 2009-2010 % book



Source: UBS estimates

By way of context, in Poland in the early part of this decade, with central bank rates up to 24%, 1% GDP growth and a falling zloty, the peak bad debt charge was 680bp at Pekao over two years (the chart is in the Appendix). At the other extreme, non-performing loans post the 1998 Russian crisis hit 40% (note though that we are forecasting 2-year cumulative P&L impairments here, not NPLs).

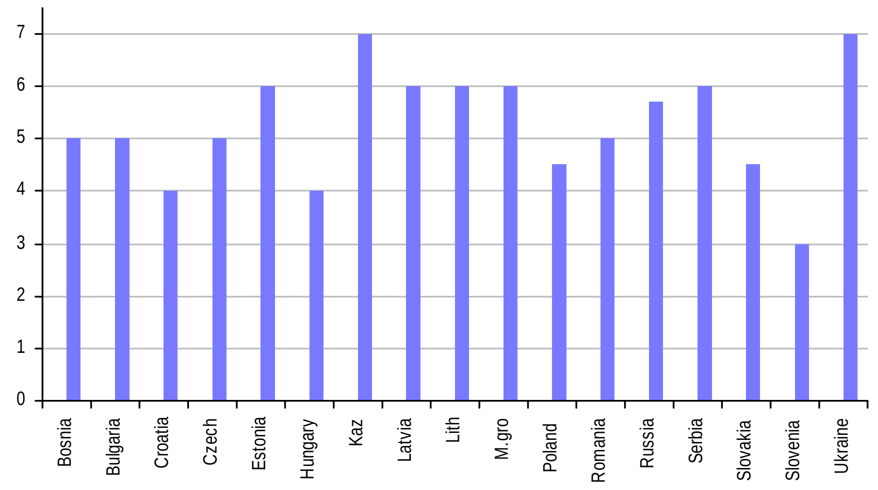
In the Appendix, we also provide IMF data on 21 historical banking crises and using certain assumptions believe the data suggests two conclusions which fit with our analysis:

- There isn't a 'typical' crisis. The worst (Bulgaria) was seven times the least bad (Croatia) in magnitude
- For what it's worth bearing the above point in mind, a mean peak annual crisis P&L impairment charge could be regarded as 840bp of loans

Don't forget pre-impairment profits

Against these very large numbers need to be offset the significant pre-impairment profits the banks generate. These range from 300bp to 700bp or so annually. Much of the debate in recent weeks has tended to ignore daily profitability in thinking about risks.

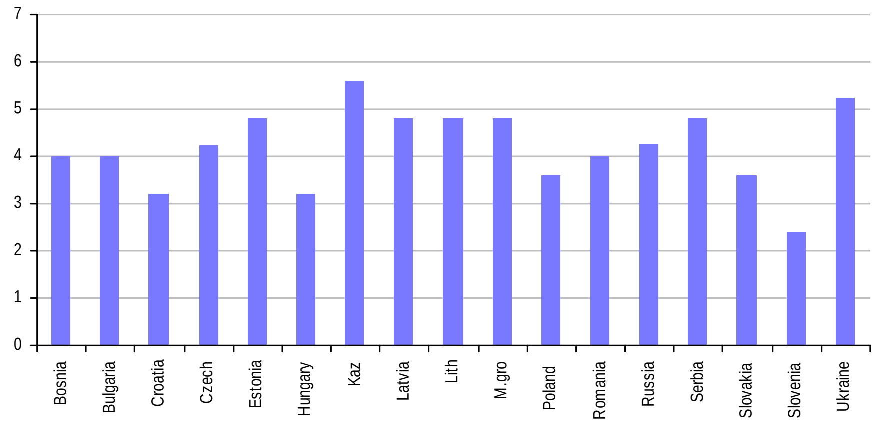
Chart 4: Recent annual pre-impairment margins (%)



Source: Company data, national statistics, UBS estimates

We recognise that income falls as loans become impaired. However, we see deposit spreads as likely holding up – economies in crisis tend to have high rates – and loan repricing has already been aggressive. Therefore, as highlighted in chart 4, we see 'stress' margins typically 20% below the recent industry margins detailed in chart 5.

Chart 5: 'Stress' pre-impairment margins (%)

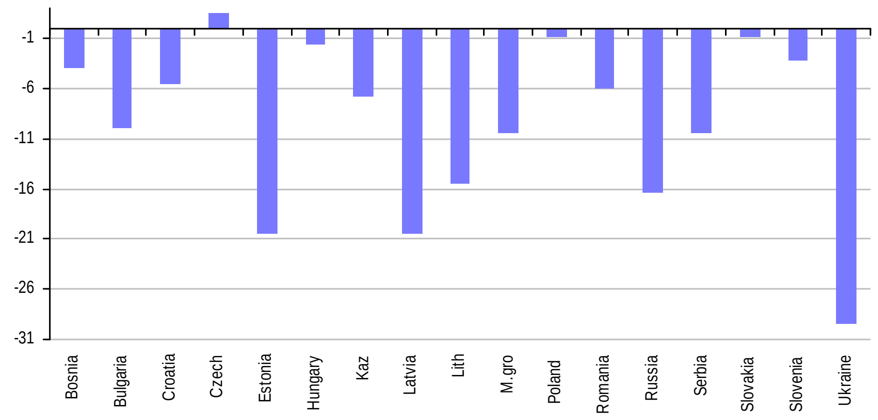


Source: UBS estimates

Pre-tax losses from nothing to 30% of loans

We then combine the two year cumulative P&L impairment with two years' stressed pre-impairment profits to generate potential pre-tax losses as a proportion of the total loan book in the various countries as follows. Banks in Ukraine could in an extreme outcome see pre-tax losses of 30% of their loan books over two years, while we struggle to see deposit-margin-rich Czech banks losing money at all.

Chart 6: "Worst we can imagine" loss pre-tax over two years % loans



Source: UBS estimates

On the subsequent landscape pages, we provide detail on the regional loan books of the active western banks. It is important that the countries with the worst possible outcomes are typically quite small by assets for the western banks. We then turn back to 'worst-we-can-imagine' losses in Euro for our stocks.

Table 1: Banks with significant cross-border loan exposures, most recent figures (€ bn)

Company	Bosnia	Bulgaria	Croatia	Czech	Estonia	Hungary	Kaz	Latvia	Lith	M.gro	Poland	Romania	Russia	Serbia	Slovakia	Slovenia	Ukraine
AIB											12						
Alpha Bank												5		1			0
BCP											8	0					
BNP Paribas																	5
Commerzbank											15						
Dexia Group															2		
DnB NOR								2	2								
Erste Group			4	18		7						12		0	6		1
Eurobank EFG		2									5	6		2			1
Fortis											4						
Intesa San Paolo	0		8			9								3	8	2	
KBC Group		1		20		7					7		3		4		
Marfin Popular					0							1	0	0			0
NBG		3												1			
Nordea					2			3	2								
OTP Group		4	2							1							2
Piraeus Group		3										4		1			0
Raiffeisen International	2	3	5	4		9					7	5	12	2	8	1	6
SEB					4			4	7								
Soc Gen		1	3	14						0		8	12	1		2	
Swedbank					8			7	6								2
UniCredit	2	5	11	10	0	7	6	1	0		36	4	10	1	4	2	5
Total	5	21	32	66	14	39	6	17	17	1	94	45	38	11	32	8	22

Source: Company data, UBS estimates

Combining the maths for potential losses by country and gross exposures would look like this

Table 2: Cumulative loss (€ bn) in "worst we can imagine" case

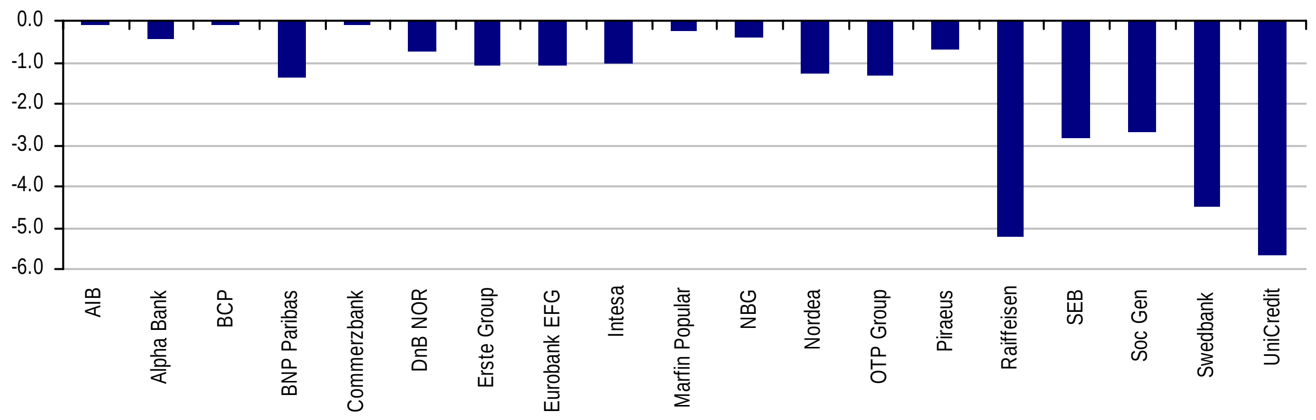
Company	Bosnia	Bulgaria	Croatia	Czech	Estonia	Hungary	Kaz	Latvia	Lith	M.gro	Poland	Romania	Russia	Serbia	Slovakia	Slovenia	Ukraine
AIB	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0
Alpha Bank	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.3	0.0	-0.1	0.0	0.0	0.0
BCP	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0
BNP Paribas	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-1.4
Commerzbank	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0
DnB NOR	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.4	-0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Erste Group	0.0	0.0	-0.2	0.3	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	-0.7	0.0	0.0	0.0	0.0	-0.2
Eurobank EFG	0.0	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.3	0.0	-0.2	0.0	0.0	-0.3
Intesa San Paolo	0.0	0.0	-0.5	0.0	0.0	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.3	-0.1	-0.1	0.0
Marfin Popular	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.1
NBG	0.0	-0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.1	0.0	0.0	0.0
Nordea	0.0	0.0	0.0	0.0	-0.3	0.0	0.0	-0.6	-0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
OTP Group	0.0	-0.4	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	-0.7
Piraeus Group	0.0	-0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.3	0.0	-0.1	0.0	0.0	-0.1
Raiffeisen International	-0.1	-0.3	-0.3	0.1	0.0	-0.1	0.0	0.0	0.0	0.0	-0.1	-0.3	-2.0	-0.2	-0.1	0.0	-1.8
SEB	0.0	0.0	0.0	0.0	-0.8	0.0	0.0	-0.9	-1.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Soc Gen	0.0	-0.1	-0.1	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.5	-2.0	-0.1	0.0	-0.1	0.0
Swedbank	0.0	0.0	0.0	0.0	-1.6	0.0	0.0	-1.4	-0.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.6
UniCredit	-0.1	-0.5	-0.6	0.2	0.0	-0.1	-0.4	-0.2	0.0	0.0	-0.3	-0.2	-1.7	-0.1	0.0	-0.1	-1.5
Total	-0.2	-2.1	-1.8	1.0	-2.8	-0.6	-0.4	-3.5	-2.7	-0.1	-0.8	-2.7	-6.3	-1.2	-0.3	-0.3	-6.6

Source: UBS estimates

A €5 billion hit for some

Translated, this 'top down, worst-we-can-imagine' loss reaches €5 billion for several of our banks. This is not a loss forecast: there will be myriad idiosyncrasies between banks. Indeed, Commerzbank and BCP could well lose considerably more than these forecasts suggest, as a result of aggressive FX option writing and large books of recently-generated CHF mortgages. And it may well be that Russian industry losses peak at much lower levels than we anticipate, thanks to a higher oil price or the central bank managing to stabilise the Rouble before the population loses faith in it and the banking system. Also, as noted above, Raiffeisen in particular has a strong track record through fifteen or so prior banking crises of outperforming industry averages.

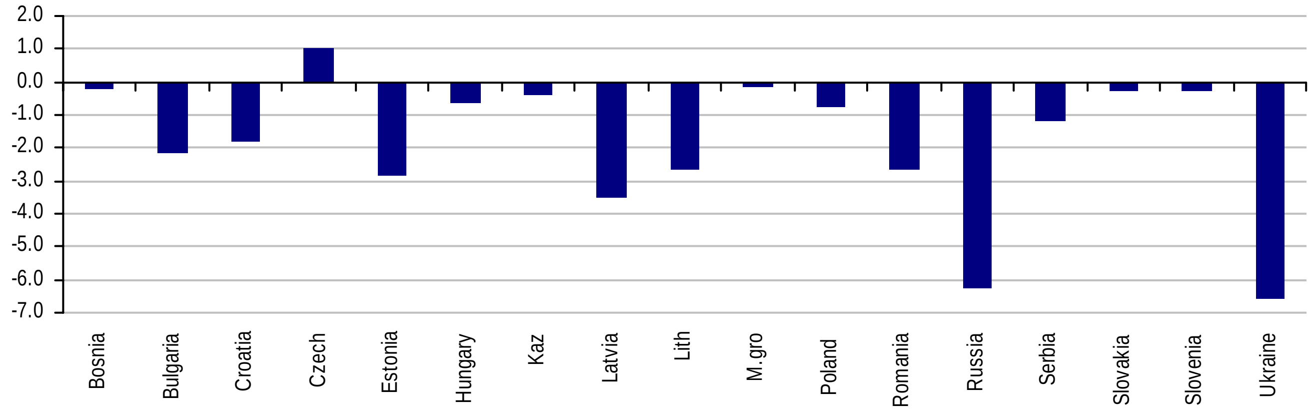
Chart 7: Maximum loss (stylised) € bn



Source: UBS estimates

By country, it is of course Ukraine that dominates losses in this severe stress test. Total losses for the European banks are €31 billion. This is perhaps a fraction of what many have come to believe is the likely outcome.

Chart 8: Maximum loss by country of origin (€ bn)



Source: UBS estimates

What losses of this proportion – even still-unlikely losses – demand is a consideration of where the capital would come from to fund them. It is to this that we now turn.

Common or preferred, sir?

With the typical bank stock down 90% or so, one might expect to find us with a preponderance of Buy ratings, given our longer-term constructive view on the convergence states. We do have Buy ratings, but relatively few. This is in many ways a timing issue:

Assume that most banks were appropriately capitalised for the situation as was in mid-2007. The economic deterioration has been outside any reasonable expectation from then and it would be reasonable to assume that a bank would hold more capital against a given bucket of risk than it did back then. But few have raised equity; indeed only Raiffeisen, SocGen, Unicredit (modestly) and the Swedish banks have come to market, while Erste and Raiffeisen (through its parent) may benefit from loss-bearing preferred shares.

Tiny market capitalisations make common highly dilutive

Share prices have fallen so much that raising sufficient equity now to move the risk dial perceptibly is not possible for many, or would be prohibitively dilutive. Those who have waited thus far will likely have to seek to survive on what they have, or throw themselves upon their respective governments. This brings us on to the issue of fresh equity, or an equity-substitute such as loss-bearing preferred shares.

Loss-bearing preferred shares could be much more attractive

In Austria, both Erste and Raiffeisen (as well as Unicredit's Bank Austria) are likely to receive government capital in the near future. The quality of this is mainly 'classic' preferred – deeply subordinated and counting as core capital from a regulatory perspective, but not loss-bearing *pari passu* with common equity. We regard this form as a reasonable but only temporary substitute for equity: significant losses not rapidly recovered still require common equity, or loss-bearing preferreds for the bank to return to normal course of business.

We do believe that the Austrian government package is likely flexible and that some of the upcoming capital could be in the form of loss-bearing preferreds. Perhaps more importantly, most of the package remains undrawn and we believe the 'funding' piece could reasonably be expected to be transformed into a 'capital' piece should circumstances require. With the principles established, we believe that both Austrian banks could well be able to raise loss-bearing preferreds in a period of stress. This is very significant in their ability to avoid dilutive equity issuance – essentially because the government capital is issued at par, while common equity would likely be being issued at no more than 0.2x NAV.

Table 3: Loss-bearing preferreds: illustrative example

Classic prefs	Opening	P&L loss	Closing
		20	
Equity	60		40
Preferred	40		40
%			
Equity	60%		50%
Preferred	40%		50%
Loss-bearing prefs		20	
Equity	60		48
Preferred	40		32
%			
Equity	60%		60%
Preferred	40%		40%

Source: UBS estimates

As an illustrative example, were Erste to gain €2 billion in loss-bearing prefs in place of needing to raise the same in equity capital, the EPS dilution would be in the order of 15% instead of 60%.

Table 4: Dilution from loss-bearing prefs vs common (illustrative), Erste (€ bn)

Pre-impairment profit	3.0
Normalised impairments	1.2
Normalised pre-tax profit	1.8
Tax	20%
Minorities	0.2
Normalised net profit	1.2
Current share count (m)	317
Normalised EPS (€)	3.91
Capital raised through a common share issue	2.0
Share price	7
Shares issued @ 40% discount	476
Normalised EPS (€)	1.56
Capital raised through loss-bearing preferred issue	2.0
After tax coupon	9%
Normalised, diluted earnings	1.06
Normalised EPS (€)	3.34

Source: UBS estimates

Judging a state's willingness to provide this kind of capital involves delving into politics, a naturally challenging proposition for investors and one we recognise necessarily embeds a lower multiple on the stocks involved. Commerzbank has already received €18 billion of this form of capital from the German authorities, while BNP Paribas has received €5 billion from the French.

Pursuing goals aligned with Austrian policy

We believe the likely political support for Austrian banks' eastern expansion remains substantial: Austria's geographical and historical context makes Central and East European involvement an essential goal rather than a sideline. The two Austrian banks, Erste and Raiffeisen, are in our view amongst the more robust players in the region, having been aggressive in building out or buying diversified, well-funded and market-leading businesses – as well as having been amongst the more cautious in terms of percentage balance sheet growth in the last eighteen months of the boom.

Picking stocks: buy Erste

We believe the two major Austrian-owned banks have built their businesses sensibly, with high market shares, diversified portfolios and deposit funding the dominant features. Allowing the banks to make rational decisions in periods of economic stress should not prove politically challenging, in our view. This underpins our confidence in upgrading Erste to Buy (see separate Erste note published today, entitled ‘Upgrade to Buy’) and while we have cut our rating on Raiffeisen to Neutral (Raiffessen: ‘Downgrade to Neutral’), this reflects the unpredictable cost of exposure to the Ukraine, rather than concern over the sustainability of the business.

Erste has a market value almost the same as Komercni Banka, suggesting that the market is placing no value whatever on the businesses Erste controls outside of its equivalent Czech bank, Ceska Sporitelna.

Baltics still a real challenge for the Swedish banks

We believe that Swedbank and SEB have been pro-active in raising capital sufficient to deal with what we are likely to experience – a very poor but not catastrophic outcome in the Baltics. The next twelve months will certainly be challenging though – a real-economy fall in GDP of close to double-digits is unlikely to make the authorities popular and we would expect the debate around devaluation to remain live as the economies decline. Through the decision to fund a large proportion of local balance sheets from the parent company, the Swedish banks have created an uncomfortable situation for themselves which we believe will sit on their valuations in spite of the comfortable current capitalisations: a decision that may politically become a logical one for the local governments in the Baltics could prove very expensive for the parents. Swedbank joins our Sell list today (see our Swedebank note: ‘Too much uncertainty’).

Greek banks – a need to kick off consolidation

The Greek banks have perhaps the greatest strategic challenge. For most banks in the region, the dye is set: this is their primary business and they will stand or fall according to their performance. In contrast, many of the regional operations of the Greek banks are relatively recent and are, in substance, wholesale-funded consumer finance operations rather than full-service banks. This must make the temptation to put certain businesses into run-off a strong one. We believe the only logical way out is for the banks to start the process of domestic consolidation in order to provide the P&L capacity to manage regional exposures appropriately. We remain Buyers of NBG given its strong liquidity, good balance sheet qualities and high pre-provision margin. No exposure to Ukraine and a modest balance sheet in Bulgaria render it "safer" than some of its peers. Rising loan losses from the Turkish subsidiary should be offset by a resilient Greek balance sheet, consisting of 40% residential mortgages

Problem children in Poland

We believe that Commerzbank and BCP have a real challenge in what to do with their Polish businesses. Both Millennium and BRE Bank have been leaders in Swiss Franc mortgage lending and the FX options contoversy. The former is finished as a positive P&L driver and may yet return as a bad debt problem; the latter is continuing to crystallise significant losses. Without the revenues from writing these products, neither bank looks attractively profitable and it seems quite possible that the losses incurred will be enough to push both into needing fresh equity. There seems no clear reason why the Polish authorities would be supportive of banks in this position that have western parents. Shareholders in both ought to expect a rough ride. We are Sellers of BCP, Millennium and BRE Bank.

Elsewhere in Poland, we see potential value in Pekao, clean of both CHF lending and FX options, although with corporates and the (relatively small) Ukrainian loan book likely driving sharply higher NPLs, we are waiting for a more compelling entry point. Similarly with PKO BP, value is emerging but earnings momentum is poor – and PKO has the added disadvantage of a likely (if well-anticipated) share issue ahead.

Hungary – foreign adventures set to prove expensive

The issue for OTP is not its domestic business, which even in the recessionary economy we anticipate for 2009 is likely to be cash generative. It is not even its largest foreign exposure, DSK, as we expect the Bulgarian currency peg to hold and NPL formation to be a manageable issue. It is rather the newer businesses in Ukraine, Romania and Russia where a significant dependence on group funding meets likely falling income and sharply rising NPLs. We believe the potential for capital draw-downs is significant as a result and have little visibility as to the willingness of the Hungarian authorities to provide this at rates attractive to current shareholders. We are Sellers.

Russia – dilutive capital increases a possibility

In Russia, we believe there are considerable uncertainties around both the policy response to the present withdrawal of credit from much of the real economy; and the way that Sberbank and VTB fit within this. Given sharply increasing NPLs, to 15% at Sberbank and over 20% at VTB by the end of 2010, according to our forecasts, we see little incentive for investors to be involved at present. We recently downgraded Sberbank to Neutral and are Sellers of VTB.

French banks – better Russia than Ukraine. Buy SocGen

The French banks have very different positions. SocGen has loans of €40 billion in the region, a multiple of BNP's €5 billion. But it is BNP that has the greatest challenge, in our view. While SocGen built a portfolio of generally well-funded and diversified banks, BNP went hard into an intra-group funded Ukrainian expansion. Therefore, while SocGen likely has profits from some countries – in particular, Komercni Bank in the Czech Republic – sufficient to offset much of the impairment likely in Russia, BNP is exposed to the full effect of its bull-market expansion. SocGen is a better-capitalised group than BNP and therefore seems further from a rights issue than BNP. As such, on comparable valuations, we are Buyers of SocGen and Neutral on BNP.

Italy: capital remains an issue for Unicredit

Unicredit, having built up a regional footprint second to none and characterised by the conservative and dominant Pekao in Poland, subsequently looks likely to have been impacted disproportionately, first by last-minute adventures in

Ukraine and Kazakhstan and then by difficulty in coming to terms with the severity of these risks. As a result the group finds itself tightly capitalised and with a market value having fallen so far that it has few options beyond the governments (plural as it has locally capitalised operations in many countries, including Austria) should it need to address the issue.

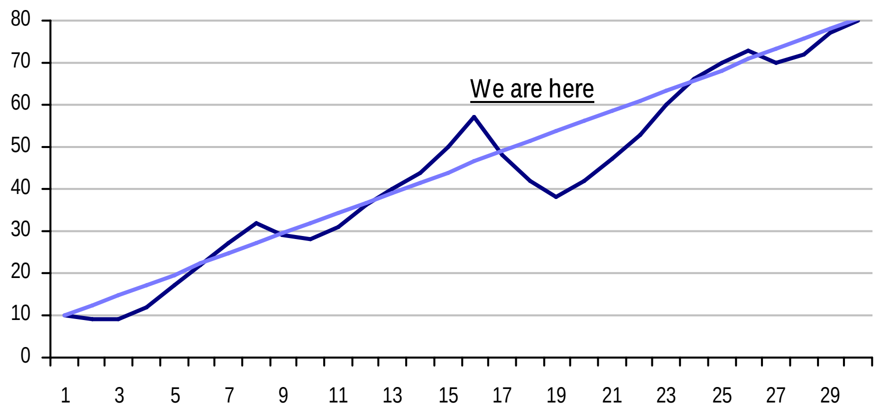
Differentiate between economies

The pace of economic deterioration in emerging Europe has been as dramatic as pretty much everywhere else. What has also been a particularly notable regional feature has been the divergence of approaches to the arrival of a different world. This has reflected existing imbalances, but also importantly the nominal anchors for domestic policy and international support. That is, convergence economies have tended to 'play the game' and introduce austerity packages when funding conditions deteriorated – and have found this being met by very substantial external support. The €20 billion for Hungary and €7.5 billion for Latvia are templates for what the Bulgarians, Romanians and the like can reasonably expect. In contrast, the Ukrainian saga serves to demonstrate what can happen when the authorities have nothing concrete to aim for and all options are apparently open.

Convergence is a sure thing

We retain our firm view that convergence is a 'sure thing' for those economies already in the EU – it is just a question of time before levels of GDP per capital approach those of the established members. If convergence is perhaps a thirty or forty year process, the most advanced are perhaps half way through (Poland introduced its free market reforms on 1 January 1990). The uncomfortable period we are entering is one where local growth goes from above-trend to sharply below. It may well take a number of years before nominal GDP (in Euro) recovers the levels of summer 2008, but we believe markets can be forward-looking when outcomes are predictable.

Chart 9: A 30-year convergence process: actual and trend

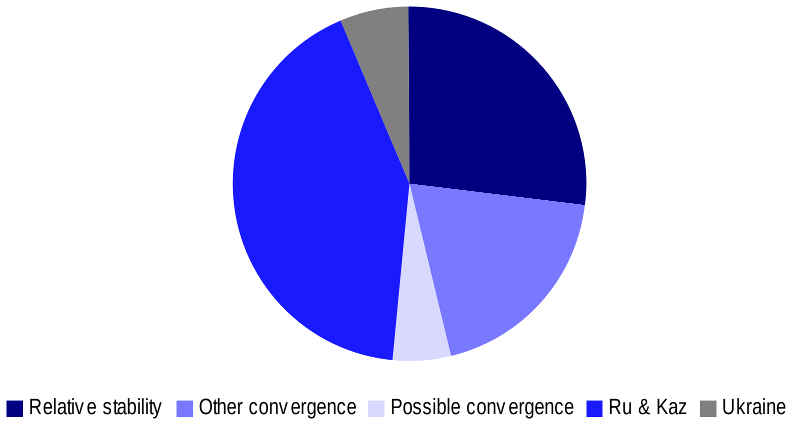


Source: UBS estimates

Why does convergence matter so much? Because equity markets – and therefore companies – are essentially about growth. And convergence drives excess growth. The new EU members offer legal systems becoming increasingly like those in old EU states, with labour productivity comparable and labour costs a fraction of those back home – particularly following recent currency declines. Margins on banking products are typically higher than in 'old' Europe and levels of penetration much lower.

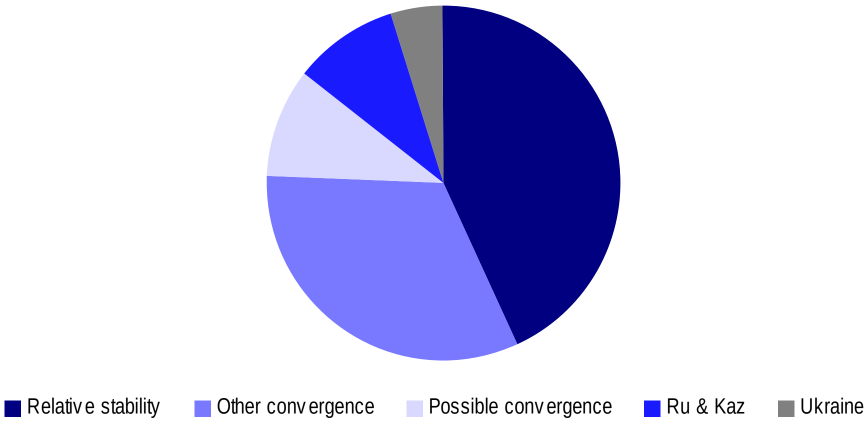
These arguments were a staple of a thousand corporate presentations through the good times and we suspect will be little mentioned except where necessary over the next twelve or eighteen months. But we believe them to remain essential to an understanding of likely outcomes in the region: they raise the bar for all stakeholders faced with a challenge of whether to prioritise the long-term or the immediate. It is an active debate what the Ukraine will look like several years hence; we believe it is not for the EU members: they will look more like the old EU states, in form and substance. Convergence economies account for half of regional banking assets, but for more than 85% of assets for West European banks active in the region, as highlighted in charts 10 and 11.

Chart 10: Regional asset distribution (%) total



Source: National statistics, UBS estimates

Chart 11: regional asset distribution for EU banks (%)



Source: Company data, UBS estimates

We now briefly discuss the banking environment in the countries. For a considerably more in-depth analysis of the macroeconomic picture, please see the frequent output of our economics team, in particular CIS economist Clemens Grafe and Central Europe economist Gyorgy Kovacs.

Poland, Czech, Slovakia: wishing we were there

In Poland, already one of the economies least exposed to an abrupt change in external economic and funding conditions, an embrace of the long-established safety valve of allowing the always free-floating currency to depreciate sharply has positioned the economy as a relative outperformer compared with almost any other in the EU. Those banks that did not overextend FX loans should survive and eventually prosper as a result. Accounting for 14% of regional banking assets, this emphasises the need to differentiate when considering the risks of being swept away in this flood.

Together with the Czech Republic and Slovakia, where FX lending was never a feature and funding remains wholly in the form of deposits, one quarter of regional assets seem no cause for undue concern

Ukraine: situation still deteriorating

At the other extreme, we note that the Ukraine, which was a net creditor less than a year ago (FX reserves exceeded government debt), might no longer be one this year; meanwhile the Hryvnia exchange rate has fallen from 5 through its current 9 with no end yet in sight. In such an environment, it is not unthinkable that the banking system could come under extreme pressure and all the good work done by, for example, Raiffeisen in making its business diverse and substantially deposit funded could mean nothing.

Russia – as always, a political debate

In Russia, nervousness can only be heightened by the large proportion of central bank reserves – over US$200 billion – expended on seeking to maintain historical exchange rates. Even absent a conclusion that policy is at best detached from economic interests, the economy is likely to struggle in the near term thanks to the oil price’s decline.

Russian corporates have a poor track record at repaying their debts; Russian banks historically even more so. In this light, high non-performing loans seem to be a given and very high non-performing loans a possibility. However, Russia is a broader issue than for the banks considered here – most lending that is likely to prove problematic is in the Eurobond market and widely distributed. We also note that, on the positive side, depositor confidence has held up and that the Rouble has recently stabilised – both of which, if sustained, could keep loan losses lower than we forecast.

In between; fixed currencies make for a challenge

In between lie the Balkans, the Baltics and Hungary. We believe the key differences here are between the floating and fixed peg economies. with the availability and the cost of money having changed so sharply, and with all as relatively open economies and therefore knocked by the decline in external GDP, all are set to suffer from recession in 2009 and likely 2010 as well. Those with flexible exchange rates can ameliorate some of this and the 20% declines to date of the HUF and the RON go some way towards making the adjustment less painful in nominal local GDP. As much again may be enough.

Those without have to take the whole thing in nominal terms, something not really tried on this scale in democracies. Wages will have to fall sharply in the

Baltics and combined with lost GDP from lower exports and the wonderful circular reference of lower credit availability, multi-year recessions seem unavoidable. The risk of Bulgaria experiencing the same outcome is clear.

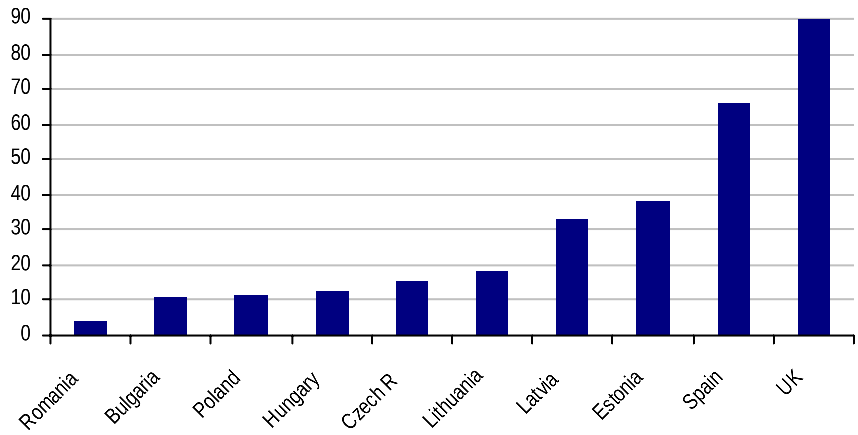
Appendix: key figures

Table 5: Central Europe key banking figures

	Czech R	Hungary	Poland	Bulgaria	Romania	Estonia	Latvia	Lithuania
Private sector loans / deposits	77	132	98	134	127	176	237	185
Private sector credit / GDP	48	59	42	71	40	103	86	59
Rise in credit / GDP, 2003-07 (in pp)	16	20	14	33	22	58	50	37
FX loans % of total	8	57	25	53	55	84	88	62
Household loans % of total loans	45	41	58	37	49	46	49	45
Lending growth to private sector	24	16	30	53	63	22	21	35
o/w Lending growth household	30	23	35	49	77	20	17	40
Mortgages % of total loans	32	21	27	15	10	37	38	31
Mortgage loans / GDP	15	13	11	11	4	38	33	18

Source: National statistics, UBS estimates

Chart 12: mortgages/GDP (%) 2008



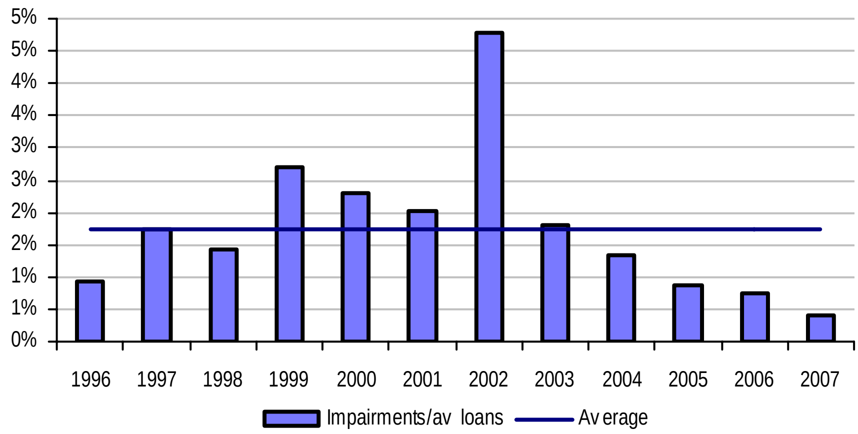
Source: National statistics, UBS estimates

Table 6: Current account financing (12 month cumulative until Q2 2008) %

	Czech	Hungary	Poland	Bulgaria	Romania	Estonia	Latvia	Lithuania
Current account deficit (% of GDP)	-2.5	-6.3	-4.5	-24.1	-14.1	-14.3	-20.3	-13.3
-- FDI (% of GDP)	4.6	4.2	2.7	18.5	7.2	5.6	5.4	2.9
-- Portfolio (% of GDP)	0.1	-1.2	-0.6	-1.7	0.0	0.4	0.8	-0.3
-- Other (trade credit, med/long term loans) / GDP	-0.2	4.6	7.7	20.2	10.2	10.4	15.2	10.3
-- Transfers captured in capital account / GDP	1.0	1.8	1.6	1.6	0.7	1.4	2.5	2.3
Basic balance (C/A - FDI) (% of GDP)	2.1	-2.1	-1.8	-5.6	-6.9	-8.7	-14.9	-10.4
External debt (% of GDP, Q1 2008)	44.6	126.1	58.2	110.9	52.0	127.0	143.7	79.7
Private	35.7	90.8	36.5	100.8	43.6	124.9	136.1	67.6
o/w inter-company lending	4.6	36.3	11.7	39.4	10.6	24.3	11.6	8.7
o/w banks	14.3	37.2	10.1	21.4	17.1	71.6	93.2	38.5
o/w other private sector	16.9	17.3	14.7	40.0	15.9	28.9	31.3	20.4
Public (including central bank)	8.8	35.3	21.7	10.2	8.4	2.2	7.6	12.1
Short term external debt	14.8	17.1	12.9	37.1	15.5	39.0	50.3	19.9
Private	14.8	15.7	9.1	37.1	15.3	38.5	50.2	19.7
o/w banks	10.5	11.2	4.3	16.0	7.3	26.3	40.5	10.3
Public (including central bank)	0.0	1.4	3.8	0.0	0.2	0.6	0.1	0.2
Reserves								
Foreign reserves (USD)	38.1	27.4	85.0	20.3	38.9	4.0	6.7	7.4
FX reserves to short-term external debt	135.6	111.0	143.9	128.5	142.3	46.4	45.2	89.6
Change in FX reserves (vs. end-07)	0.5	0.9	7.5	1.3	-0.4	0.3	0.2	-0.6
Dominant reserve currency	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR

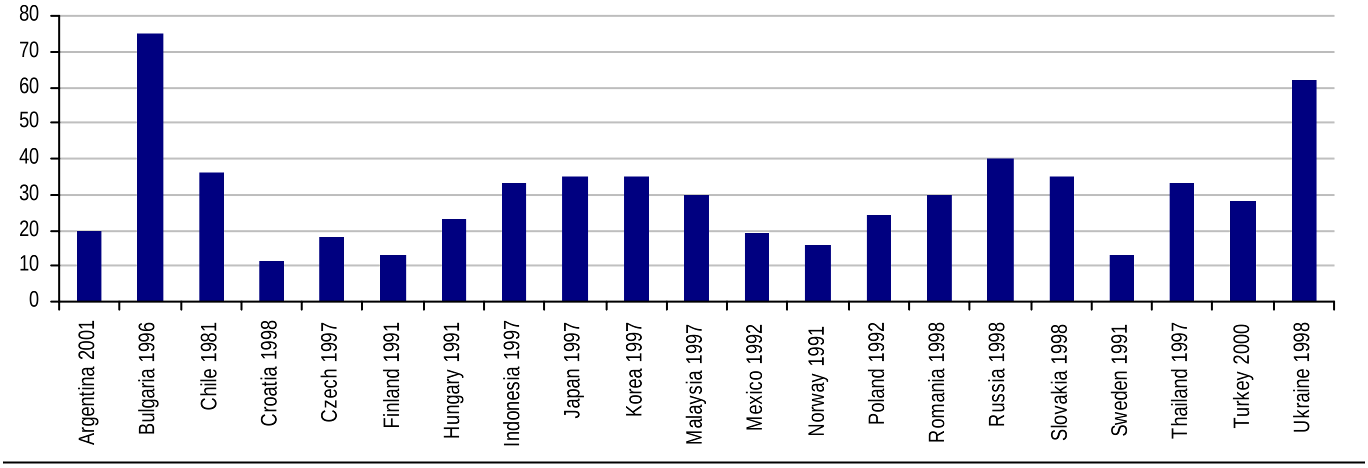
Source: National sources, World Bank, IMF, BIS, UBS estimates

Chart 13: Pekao loan losses % average loans, 1996-2007



Source: Company data

Chart 14: Previous banking crises: peak non-performing loans (%)



Source: IMF

Assuming peak NPLs were 5x opening NPLs, that P&L impairments were raised equal to 70% of NPLs over two years, P&L impairment charges would have reached an annual average of 840bp for a 'typical' banking collapse.

Table 7: NPLs and impairments in historical banking crises (%)

	Peak NPLs	Change in NPLs	Impairments raised (2 years)	Annual impairment
Argentina 2001	20	16	11	6
Bulgaria 1996	75	60	42	21
Chile 1981	36	29	20	10
Croatia 1998	11	9	6	3
Czech 1997	18	14	10	5
Finland 1991	13	10	7	4
Hungary 1991	23	18	13	6
Indonesia 1997	33	26	18	9
Japan 1997	35	28	20	10
Korea 1997	35	28	20	10
Malaysia 1997	30	24	17	8
Mexico 1992	19	15	11	5
Norway 1991	16	13	9	4
Poland 1992	24	19	13	7
Romania 1998	30	24	17	8
Russia 1998	40	32	22	11
Slovakia 1998	35	28	20	10
Sweden 1991	13	10	7	4
Thailand 1997	33	26	18	9
Turkey 2000	28	22	16	8
Ukraine 1998	62	50	35	17
Average	30	24	17	8

Source: IMF, UBS estimates

Price performance

	Price (Local) 23-Feb-09	Rating	Reuters Code	Target Price (Local)	Target Upside (%)	Free Float Factor	Free Float Source	Mkt Cap ($ m)	52-Week High	52-Week Low	vs High (%)	Absolute (%) Local 1W	1M	1Q	1Yr	YTD	Rel Local Market (%) Local 1W	1M	1Q	1Yr	YTD	Rel MSCI Banks & Div. Fin. (%) US$ 1W	1M	1Q	1Yr	YTD
						(1)		(2)			(3)													(4)		
Erste Bank	7.39	Buy	ERST.VI	15.00	103.0	0.60	MSCI	2,970	49.20	7.00	-85.0	-13.6	-27.9	-44.2	-80.6	-54.4	-4.3	-23.0	-42.2	-47.7	-45.4	-1.4	-21.1	-31.0	-48.3	-38.4
Raiffeisen International	14.85	Neutral	RIBH.VI	15.00	1.0	0.35	MSCI	2,919	110.20	13.00	-86.5	-1.2	6.4	-10.0	-82.6	-23.1	9.3	13.6	-6.8	-53.2	-7.9	12.7	16.4	11.3	-53.8	3.9
Austria					65.8			5,889			-85.5	-9.1	-15.4	-31.8	-81.3	-43.0	0.6	-9.7	-29.3	-49.7	-31.8	3.7	-7.4	-15.6	-50.3	-23.0
Société Générale	22.98	Buy	SOGN.PA	37.00	61.0	0.80	MSCI	15,983	78.45	22.49	-70.7	-8.6	-15.7	-16.5	-64.4	-36.2	-0.7	-11.9	-12.2	-36.8	-25.2	4.2	-7.7	3.3	-5.3	-13.8
France					53.1			57,783			-68.6	-10.4	-0.8	-24.4	-62.4	-25.5	-2.6	3.6	-20.5	-33.2	-12.7	2.2	8.6	-6.5	0.1	0.6
Commerzbank	2.75	Neutral	CBKG.DE	3.20	16.4	0.95	MSCI	4,128	23.90	2.75	-88.5	-8.0	-7.7	-49.5	-85.7	-58.6	2.0	-2.0	-47.0	-75.3	-49.4	4.9	1.0	-37.5	-62.0	-44.1
Germany					27.3			19,524			-81.1	-14.5	0.9	-19.4	-79.5	-43.0	-5.1	7.2	-15.4	-64.5	-30.3	-2.4	10.5	-0.2	-45.4	-23.0
Agricultural Bank of Gre	1.05	Sell	AGBr.AT	1.00	-4.8	0.25	MSCI	1,208	3.50	1.05	-70.0	-10.3	-14.6	-31.8	-69.7	-25.0	-2.0	-8.3	-19.6	-14.8	-13.5	2.4	-6.6	-15.7	-19.2	1.3
Alpha Bank	4.54	Neutral	ACBr.AT	6.00	32.2	0.90	MSCI	2,371	23.00	4.54	-80.3	-14.3	-17.8	-43.0	-78.3	-32.2	-6.5	-11.7	-32.7	-39.0	-21.8	-2.3	-10.0	-29.5	-42.2	-8.5
EFG Eurobank Ergasias	4.16	Neutral	EFGr.AT	5.90	41.8	0.60	MSCI	2,789	20.50	4.16	-79.7	-10.7	-8.0	-36.0	-78.3	-27.0	-2.5	-1.2	-24.5	-39.2	-15.8	1.8	0.7	-20.8	-42.3	-1.5
Marfin Popular Bank	1.52	Neutral	MRBr.AT	2.00	31.6	0.70	UBS	1,604	7.20	1.52	-78.9	-7.3	-11.1	-24.8	-79.2	-20.0	1.2	-4.5	-11.3	-41.5	-7.7	5.7	-2.7	-6.9	-44.6	8.0
National Bank of Greece	9.84	Buy	NBGr.AT	16.00	62.6	1.00	MSCI	6,211	39.20	9.84	-74.9	-21.8	-15.0	-26.9	-74.3	-25.5	-14.6	-8.8	-13.8	-27.7	-14.0	-10.8	-7.0	-9.6	-31.5	0.7
Piraeus Bank	4.14	Neutral	BOPr.AT	6.20	49.8	0.95	MSCI	1,734	22.84	4.14	-81.9	-13.8	-22.5	-41.9	-80.6	-35.3	-5.8	-16.7	-31.4	-45.6	-25.4	-1.6	-15.1	-28.1	-48.4	-12.7
Greece					49.2			15,917			-77.5	-16.6	-15.2	-32.5	-76.5	-27.5	-9.0	-8.9	-20.4	-34.1	-16.4	-4.9	-7.1	-16.5	-37.6	-2.1
Allied Irish Bank	0.58	*	ALBK.I	*	*	1.00	MSCI	646	14.66	0.46	-96.0	5.5	-21.6	-73.0	-95.8	-66.5	15.8	-12.9	-69.5	-86.8	-61.7	20.3	-14.2	-66.6	-88.8	-54.8
Ireland					NA			1,342			-95.5	-11.2	-28.0	-59.5	-94.8	-59.3	-2.5	-20.0	-54.1	-83.7	-53.4	1.3	-21.2	-49.9	-86.1	-45.0
UniCredit	0.93	Neutral	CRDI.MI	1.85	99.0	0.85	MSCI	16,103	5.08	0.90	-81.7	-23.2	-25.6	-42.8	-80.7	-46.7	-14.4	-18.7	-34.3	-60.9	-36.4	-12.4	-18.5	-29.2	-48.7	-28.1
Italy					66.7			69,331			-67.4	-17.4	-19.6	-28.4	-64.6	-33.2	-8.0	-12.1	-17.8	-28.1	-20.2	-5.8	-12.0	-11.4	-5.7	-9.8
Swedbank	26.10	Sell	SWEDa.ST	20.00	-23.4	0.70	MSCI	2,277	178.00	26.10	-85.3	-15.3	-11.2	-53.4	-84.4	-41.2	-7.1	-13.1	-57.1	-74.5	-37.5	-5.7	-7.8	-45.5	-65.5	-22.6
SEB	36.00	*	SEBa.ST	*	*	0.70	MSCI	2,830	168.50	34.40	-78.6	-23.9	4.7	-40.5	-76.9	-40.7	-16.6	2.5	-45.3	-62.4	-37.0	-15.3	8.7	-30.4	-49.1	-22.0
Nordic					3.4			34,094			-63.1	-13.9	2.7	-21.9	-59.5	-23.6	-6.1	1.8	-27.8	-32.6	-19.2	-3.5	8.2	-7.0	-8.7	2.4
BCP	0.62	Sell	BCP.LS	0.75	21.2	0.50	MSCI	3,693	2.20	0.62	-71.8	-20.1	-19.1	-11.6	-63.9	-24.0	-15.9	-15.9	-13.9	-37.1	-21.1	-8.9	-11.4	9.4	-4.0	2.5
Portugal					19.3			8,984			-66.2	-13.5	-12.7	-12.3	-60.6	-23.5	-8.9	-9.2	-14.6	-31.3	-20.6	-1.4	-4.4	8.4	4.9	3.3
OTP Bank	1,700	Sell	OTPB.BU	2,000	17.6	1.00	MSCI	2,033	7,615	1,700	-77.7	-27.4	-24.1	-27.0	-76.9	-40.9	-19.1	-13.7	-22.4	-46.5	-29.5	-15.3	-19.4	-19.1	-45.3	-29.2
Hungary					17.6			2,033			-77.7	-27.4	-24.1	-27.0	-76.9	-40.9	-19.1	-13.7	-22.4	-46.5	-29.5	-15.3	-19.4	-19.1	-45.3	-29.2
Halyk Savings Bank	2.08	Buy	HSBKq.L	28.00	1246.2	0.36	UBS	479	18.25	2.05	-88.6	-5.5	-18.4	-37.3	-88.1	-33.5	-6.0	21.6	27.5	-33.9	26.4	8.3	-8.8	-23.7	-63.1	-1.4
Kazkommertsbank	3.75	Buy (CBE)	KKGByq.L	22.00	486.7	0.41	UBS	1,078	19.00	2.90	-80.3	-29.0	-40.9	-49.6	-80.7	-50.0	-29.4	-12.0	2.6	7.5	-4.9	-18.6	-34.0	-38.6	-40.0	-25.8
Kazakhstan					699.8			1,557			-82.6	-22.4	-34.6	-46.2	-82.8	-45.4	-22.8	-2.6	9.6	-4.1	3.9	-11.0	-26.9	-34.4	-46.5	-19.0
Bank BPH	25.90	*	BPHW.WA	*	*	0.30	MSCI	203	93.90	25.90	-72.4	-18.0	-21.5	-18.3	-71.3	-26.4	-13.8	-7.4	-5.0	-35.8	-3.5	-2.8	-18.7	-15.7	-41.6	-12.2
Bank Handlowy	31.50	Buy	BAHA.WA	48.00	52.4	0.25	MSCI	1,122	94.50	28.00	-66.7	9.4	-12.2	-26.7	-62.5	-34.4	15.0	3.7	-14.9	-15.8	-14.0	29.7	-9.0	-24.5	-23.5	-21.7
Bank Millennium	1.45	Sell	BIGW.WA	1.85	27.6	0.35	MSCI	336	8.70	1.36	-83.3	-12.7	-27.5	-56.6	-80.6	-49.7	-8.1	-14.4	-49.5	-56.5	-34.0	3.5	-24.9	-55.2	-60.5	-39.9
BRE	100.70	Sell	BREP.WA	88.00	-12.6	0.30	MSCI	814	433.80	97.00	-76.8	-12.6	-27.8	-41.1	-76.9	-48.8	-8.1	-14.8	-31.6	-48.1	-32.8	3.6	-25.2	-39.3	-52.8	-38.8
BZ WBK	67.55	Buy	BZWB.WA	109.00	61.4	0.30	UBS	1,343	187.40	66.80	-64.0	-8.0	-19.1	-28.1	-62.3	-39.0	-3.2	-4.5	-16.5	-15.5	-20.1	9.1	-16.2	-25.9	-23.2	-27.3
ING Bank Slaski	202.10	Neutral	SLAS.WA	333.00	64.8	0.25	MSCI	717	560.00	202.10	-63.9	-29.5	-32.7	-49.5	-64.2	-53.0	-25.8	-20.6	-41.3	-19.7	-38.4	-16.4	-30.3	-47.9	-27.0	-43.9
Pekao	76.00	Neutral	BAPE.WA	81.00	6.6	0.45	MSCI	5,432	208.40	67.85	-63.5	-11.6	-29.6	-27.6	-60.2	-39.8	-7.1	-16.9	-15.9	-10.8	-21.0	4.8	-27.0	-25.4	-18.9	-28.1
PKO BP	19.35	Neutral	PKOB.WA	28.00	44.7	0.50	MSCI	5,275	52.50	19.35	-63.1	-16.3	-31.7	-32.1	-56.4	-45.5	-12.0	-19.4	-21.1	-2.2	-28.5	-0.8	-29.3	-30.0	-11.1	-35.0
Poland					29.4			15,242			-64.5	-13.0	-28.9	-31.0	-60.1	-42.6	-8.5	-16.1	-19.9	-10.5	-24.8	3.1	-26.4	-28.9	-18.7	-31.5
Bank of Moscow	19.50	Sell	MMBM.RTS	13.79	-29.3	0.02	UBS	2,400	55.75	19.50	-65.0	0.0	-9.3	-7.1	-59.5	-9.3	17.8	-12.6	4.1	62.8	10.8	14.6	1.4	13.1	25.6	34.5
Sberbank	0.39	Neutral (CBE)	SBER.RTS	0.53	37.1	0.40	MSCI	8,563	3.74	0.39	-89.7	-23.9	-15.1	-54.0	-88.6	-47.8	-10.4	-18.2	-48.4	-54.2	-36.2	-12.8	-5.1	-43.9	-64.7	-22.5
URSA Bank	0.26	Sell	URSA_p.R	0.13	-50.0	0.21	UBS	349	1.59	0.17	-83.6	-1.9	13.0	52.9	-83.3	14.3	15.6	8.9	71.5	-32.8	39.6	12.4	26.4	86.4	-48.1	69.5
Vozrozhdenie Bank	5.85	Sell	VZRZ.RTS	9.04	54.5	0.28	UBS	124	64.95	5.75	-91.0	-31.2	-31.2	-51.3	-91.0	-31.2	-18.9	-33.7	-45.3	-63.8	-15.9	-21.1	-23.1	-40.6	-72.0	2.1
VTB	1.04	Sell	VTBRq.L	0.91	-12.5	0.25	MSCI	3,497	8.57	1.02	-87.9	-19.4	-21.8	-50.5	-87.0	-52.1	-5.0	-24.7	-44.5	-47.5	-41.4	-7.6	-12.6	-39.7	-59.5	-28.9
Russia					25.4			14,934			-89.0	-22.5	-16.0	-51.0	-87.9	-47.0	-8.7	-19.1	-45.1	-51.4	-35.3	-11.1	-6.1	-40.3	-62.5	-21.5
Akbank	223.94	Neutral (CBE)	AKBNK.IS	275.00	22.8	0.30	MSCI	6,718	605.17	207.38	-63.0	-5.1	-17.9	8.0	-62.0	-28.1	0.1	-13.9	0.0	1.7	-11.0	8.7	-8.2	31.6	18.1	6.7
Albaraka Katilim Bankasi	114.92	Sell (CBE)	ALBRK.IS	134.00	16.6	0.21	UBS	310	436.50	114.92	-73.7	-5.0	-5.8	-8.2	-72.8	-16.0	0.2	-1.3	-15.0	-27.3	4.0	8.8	5.3	11.9	-15.7	24.6
Asya Katilim Bankasi	57.75	Sell (CBE)	ASYAB.IS	78.00	35.1	0.45	MSCI	520	371.61	57.23	-84.5	-7.3	-8.0	-16.5	-83.6	-23.6	-2.2	-3.6	-22.6	-56.0	-5.4	6.2	2.8	1.8	-48.9	13.4
Garanti	119.63	Buy (CBE)	GARAN.IS	190.00	58.8	0.50	MSCI	5,024	394.57	102.61	-69.7	-9.2	-7.4	7.4	-68.6	-29.4	-4.2	-2.9	-0.6	-16.1	-12.6	4.0	3.5	30.8	-2.6	4.8
Is Bank	193.29	Buy (CBE)	ISCTR.IS	322.00	66.6	0.35	MSCI	5,350	495.83	179.74	-61.0	-7.3	-8.2	2.6	-59.8	-27.6	-2.1	-3.7	-5.0	7.5	-10.4	6.2	2.6	25.1	24.8	7.4
Vakifbank	64.23	Sell (CBE)	VAKBN.IS	72.00	12.1	0.30	MSCI	1,606	254.27	61.09	-74.7	-8.4	-5.0	0.7	-74.3	-15.7	-3.3	-0.4	-6.7	-31.4	4.3	5.0	6.2	22.7	-20.4	25.0
YKB	97.24	Sell (CBE)	YKBNK.IS	112.00	15.2	0.20	MSCI	4,227	237.60	84.96	-59.1	-6.7	-6.0	-5.7	-53.3	-28.9	-1.5	-1.5	-12.7	25.0	-12.0	6.9	5.0	14.9	45.1	5.4
Turkey					43.2			23,755			-65.6	-7.3	-9.9	3.8	-64.1	-27.5	-2.2	-5.6	-3.9	-4.0	-10.3	6.2	0.7	26.5	11.5	7.6
Aggregates																										
Global Banks					39.0			1,957,717			-58.5	-11.2	-5.8	-13.4	-51.9	-24.2	-4.7	-3.0	-13.3	-14.2	-17.5	1.4	4.7	6.6	31.6	8.2
United Kingdom Domestic					40.3			43,432			-85.1	1.8	70.1	-38.2	-83.9	-44.3	9.5	78.5	-39.6	-75.0	-36.4	18.6	100.0	-26.2	-63.3	-17.7
Europe					35.4			511,753			-64.3	-12.7	-4.1	-20.1	-58.5	-29.4	-5.6	1.9	-16.6	-29.3	-17.8	0.2	7.5	-1.7	5.3	-2.1
EMEA					43.1			115,577			-55.7	-9.3	-9.8	-17.3	-52.9	-27.4	-4.8	-8.5	-16.4	-3.7	-15.3	4.2	0.3	0.3	20.0	2.2
Asia (ex-Japan)					47.8			678,095			-51.2	-4.9	2.4	4.7	-42.6	-7.1	-1.4	-6.5	-5.9	7.0	-16.7	8.4	13.5	27.4	69.7	34.7
Asia (ex-Japan, China)					33.7			219,346			-53.3	-5.7	-2.9	2.0	-47.5	-10.8	-2.4	-4.0	-1.9	0.2	-6.3	6.7	6.3	23.9	40.1	24.9
Latin America					44.0			98,806			-47.2	-8.9	-3.1	8.0	-35.2	-11.6	-1.7	-3.9	-10.8	9.5	-13.4	0.1	5.8	35.8	47.1	28.1
GEM					46.5			892,479			-51.2	-6.1	-0.2	2.2	-42.7	-10.6	-1.9	-6.3	-8.0	6.1	-16.0	6.5	10.5	24.9	59.9	29.1
Emerging					46.1			820,860			-51.0	-6.6	0.0	2.6	-42.4	-10.7	-2.2	-6.9	-8.7	4.6	-17.6	5.9	10.6	25.5	59.7	29.0
United States					39.4			242,106			-67.2	-19.7	-21.2	-29.4	-62.6	-45.1	-10.7	-11.8	-24.0	-31.9	-33.3	-8.0	-11.9	-13.9	16.1	-18.6
Europe (ex-UK)					33.3			372,777			-66.4	-14.6	-10.4	-18.2	-61.8	-28.5	-7.5	-4.1	-12.6	-31.9	-16.0	-2.7	-2.1	1.6	2.1	-3.3
Aggregates (inc non-Banks)																										
Global Financials					37.3			2,043,025			-58.8	-11.5	-5.7	-11.0	-52.4	-23.5	-4.9	-2.6	-10.5	-15.0	-16.2	1.0	4.7	9.4	30.9	9.4
United States Financials					31.7			315,562			-66.8	-19.5	-17.4	-14.8	-62.1	-37.1	-10.4	-7.5	-8.3	-31.0	-23.5	-7.7	-7.6	3.9	17.6	-6.7
United States Non-banks §					4.3			73,455			-65.1	-18.7	-3.8	37.3	-60.4	-8.5	-9.6	7.7	47.8	-27.9	11.2	-6.9	7.5	67.3	22.9	35.8

Source: UBS estimates. (1) Aggregate ratios are calculated on a market cap. weighted basis using a "Free Float Factor" to adjust the weighting. Where available, these aggregates have been calculated using factors obtained from MSCI/Factset, and where unavailable, the factors are source UBS. (2) Market capitalisation is calculated in US$m, based on outstanding shares (3) Current share price versus highest price. (4) Based on a UBS calculated weighted composite index based on the MSCI ACWIF Banks and the MSCI ACWIF Diversified Financials indices. * UBS Investment Bank is currently unable to display forecast data on this company. For further information please contact your local sales or research representative. § Excluded from Banks composite calculations. † UBS acts as stockbroker.

Core valuation

	Price (Local) 23-Feb-09	Adj EPS (Local) 07E	Adj EPS (Local) 08E	Adj EPS (Local) 09E	Adj EPS (Local) 10E	CAGR 09E/07E (%)	% vs Consensus 08E	% vs Consensus 09E	Adj P/E 08E	Adj P/E 09E	Adj P/E 10E	Net Yield (%) 08E	Net Yield (%) 09E	P/GOPS 08E	P/GOPS 09E	Price : Book Stated 08E	Price : Book Stated 09E	Price : Book Adjusted 08E	Price : Book Adjusted 09E	UBS Adj. RoE (%) 08E	UBS Adj. RoE (%) 09E	Adj IRP (%) 12m fwd	M. cap. : dep. 08E
			(1)			(2)	(3)							(4)						(5)		(6)	(7)
Erste Bank	7.39	3.62	1.89	0.88	1.54	-50.6	-44.9	-66.8	3.9x	8.4x	4.8x	4.0	4.8	1.4x	1.2x	0.29	0.28	0.53	0.51	5.4	2.5	9.4	2.2
Raiffeisen International	14.85	5.75	7.07	0.52	3.50	-69.9	+9.9	-88.5	2.1x	28.4x	4.2x	6.4	1.1	1.0x	1.0x	0.34	0.34	0.39	0.39	17.4	1.2	2.9	5.2
Austria						-57.6	-24.9	-74.7	3.0x	11.3x	4.6x	4.9	3.4	1.2x	1.1x	0.31	0.30	0.47	0.46	9.7	2.1	7.1	2.7
Société Générale	22.98	12.46	6.35	3.64	4.71	-46.0	NA	-14.2	3.6x	6.3x	4.9x	5.2	7.2	3.9x	3.9x	0.44	0.43	0.57	0.55	13.1	6.8	13.1	4.5
France						-34.6	+58.3	-2.5	3.8x	5.5x	4.1x	2.4	8.0	2.8x	2.3x	0.45	0.43	0.61	0.58	11.9	8.2	13.3	4.7
Commerzbank	2.75	1.91	-0.01	-1.15	-0.10	NA	NA	NA	-ve	-ve	-ve	0.0	0.0	0.9x	2.1x	0.17	0.26	0.19	0.29	0.0	-11.6	NA	1.9
Germany						-41.4	-66.4	-20.0	NA	4.8x	3.5x	2.0	3.0	15.1x	2.6x	0.25	0.29	0.33	0.38	-9.0	2.6	19.1	2.1
Agricultural Bank of Gre	1.05	0.19	0.12	0.00	0.00	-85.3	-7.5	-96.4	8.6x	+ve	+ve	0.0	0.0	4.0x	3.7x	0.76	0.76	0.78	0.77	8.1	0.3	NA	4.2
Alpha Bank	4.54	1.82	1.12	0.88	0.68	-30.6	-25.0	-23.7	4.0x	5.2x	6.7x	0.0	0.0	1.5x	1.4x	0.58	0.53	0.61	0.54	15.4	14.0	13.1	4.5
EFG Eurobank Ergasia	4.16	1.63	1.63	0.98	0.61	-22.7	+5.1	-21.0	2.6x	4.3x	6.8x	0.0	0.0	1.3x	1.2x	0.52	0.47	0.63	0.54	20.8	13.8	16.5	4.4
Marfin Popular Bank	1.52	0.47	0.49	0.35	0.29	-13.2	-7.6	-18.3	3.1x	4.3x	5.2x	3.6	4.2	1.8x	1.9x	0.34	0.32	0.63	0.52	11.1	7.7	17.1	4.8
National Bank of Greec	9.84	2.92	3.02	1.81	1.60	-21.1	-2.4	-28.5	3.3x	5.4x	6.1x	0.0	0.0	2.0x	2.1x	0.65	0.59	0.98	0.84	23.1	13.2	12.6	7.3
Piraeus Bank	4.14	1.69	1.63	0.94	0.74	-25.4	-5.0	-27.4	2.5x	4.4x	5.6x	0.0	0.0	1.6x	1.4x	0.43	0.39	0.47	0.42	17.1	10.1	16.5	4.4
Greece						-24.2	-6.0	-27.3	3.2x	4.9x	6.1x	0.3	0.4	1.8x	1.7x	0.55	0.50	0.72	0.63	19.4	12.3	14.1	5.5
Allied Irish Bank	0.58	2.06	1.17	-0.64	-0.95	NA	-18.3	NA	0.5x	-ve	-ve	52.8	0.0	0.2x	0.2x	0.05	0.05	0.06	0.06	10.3	-5.7	NA	0.6
Ireland						NA	-18.5	######	0.5x	NA	NA	33.5	0.0	0.2x	0.2x	0.05	0.05	0.05	0.05	10.0	-5.9	NA	0.4
UniCredit	0.93	0.48	0.32	0.28	0.37	-23.3	+5.1	+8.2	2.9x	3.3x	2.5x	0.0	5.4	1.2x	1.1x	0.24	0.22	0.24	0.22	8.6	6.9	27.6	3.5
Italy						-9.8	-4.1	+9.5	4.7x	4.8x	3.9x	0.8	7.0	2.1x	1.9x	0.35	0.33	0.45	0.42	7.4	7.3	16.9	6.0
Swedbank	26.10	23.38	14.08	1.63	6.63	-73.6	NA	-72.6	1.9x	16.0x	3.9x	14.7	3.1	1.1x	1.2x	0.23	0.23	0.30	0.30	14.1	1.5	6.7	4.0
SEB	36.00	20.25	14.06	6.37	9.47	-43.9	NA	+0.2	2.6x	5.6x	3.8x	16.3	6.9	1.7x	1.6x	0.30	0.29	0.42	0.40	12.5	5.3	16.4	3.0
Nordic						-42.4	NA	-29.5	3.8x	8.9x	6.3x	5.8	3.5	2.3x	2.6x	0.45	0.46	0.55	0.55	13.3	5.6	7.7	5.5
BCP	0.62	0.15	0.08	0.11	0.12	-15.1	NA	+2.1	7.8x	5.8x	5.1x	6.5	12.6	2.5x	2.6x	0.54	0.52	0.71	0.69	7.1	9.2	13.2	7.2
Portugal						-22.3	+3.9	-10.2	7.1x	6.6x	6.0x	5.9	8.6	2.8x	3.0x	0.55	0.53	0.65	0.62	7.8	8.2	10.9	7.1
OTP Bank	1,700	790.10	1,120	224.85	396.80	-46.7	NA	-59.1	1.5x	7.6x	4.3x	0.0	0.0	1.2x	1.5x	0.39	0.38	0.56	0.56	28.4	5.3	2.9	9.1
Hungary						-46.7	NA	-59.1	1.5x	7.6x	4.3x	0.0	0.0	1.2x	1.5x	0.39	0.38	0.56	0.56	28.4	5.3	2.9	9.1
Halyk Savings Bank	2.08	1.29	1.82	2.50	3.15	+38.9	NA	NA	1.1x	0.8x	0.7x	0.0	0.0	0.8x	0.6x	0.28	0.21	0.29	0.21	26.4	26.7	NA	4.8
Kazkommertsbank	3.75	1.39	1.82	1.95	2.17	+18.2	NA	NA	2.1x	1.9x	1.7x	0.0	0.0	1.3x	1.2x	0.38	0.31	0.38	0.31	20.7	17.9	NA	12.7
Kazakhstan						+24.0	NA	NA	1.7x	1.4x	1.2x	0.0	0.0	1.1x	0.9x	0.34	0.27	0.35	0.27	22.3	20.4	NA	8.7
Bank BPH	25.90	54.80	*	*	*	*	*	*	*	*	*	*	*	*	*	*	*	*	*	*	*	*	*
Bank Handlowy	31.50	6.31	5.21	4.75	5.23	-13.2	-8.2	-2.3	6.0x	6.6x	6.0x	3.3	3.8	4.1x	4.1x	0.73	0.67	0.73	0.67	12.1	10.5	9.2	20.6
Bank Millennium	1.45	0.54	0.50	0.18	0.32	-43.1	-6.8	-51.2	2.9x	8.2x	4.6x	0.0	0.0	1.7x	1.8x	0.44	0.42	0.44	0.42	15.9	5.2	7.6	3.9
BRE	100.70	24.01	28.89	6.25	9.86	-49.0	NA	-67.6	3.5x	16.1x	10.2x	0.0	0.0	2.4x	2.7x	0.77	0.73	0.77	0.73	23.8	4.7	0.7	7.9
BZ WBK	67.55	13.08	13.45	8.58	9.94	-19.0	NA	NA	5.0x	7.9x	6.8x	0.0	0.0	3.3x	3.5x	0.97	0.86	0.97	0.86	20.8	11.6	6.9	12.9
ING Bank Slaski	202.10	48.48	36.92	26.20	28.69	-26.5	+2.5	-30.6	5.5x	7.7x	7.0x	0.0	0.0	4.8x	4.0x	0.63	0.58	0.63	0.58	12.0	7.9	7.0	4.8
Pekao	76.00	12.27	13.46	9.01	9.72	-14.3	+3.2	-16.0	5.6x	8.4x	7.8x	2.7	2.4	4.4x	4.9x	1.25	1.13	1.25	1.13	23.0	14.0	5.9	21.9
PKO BP	19.35	2.90	3.57	2.93	3.31	+0.4	+0.3	-9.9	5.4x	6.6x	5.8x	0.0	0.0	3.7x	3.7x	1.34	1.05	1.34	1.05	27.1	17.8	9.3	17.5
Poland						-10.6	+1.0	-15.9	5.3x	7.6x	6.7x	1.2	1.1	3.8x	3.9x	1.13	0.97	1.13	0.97	23.7	14.6	7.4	15.5
Bank of Moscow	19.50	2.74	2.88	-1.06	0.43	NA	NA	NA	6.8x	-ve	45.8x	0.4	0.0	5.1x	-18.6x	1.19	1.27	1.19	1.27	18.2	-6.7	NA	17.4
Sberbank	0.39	0.19	0.18	-0.06	0.03	NA	-2.5	NA	2.2x	-ve	11.7x	0.0	0.0	1.6x	-6.3x	0.35	0.43	0.35	0.43	15.2	-5.9	NA	5.2
URSA Bank	0.26	0.12	0.10	-0.06	-0.03	NA	-6.7	NA	2.6x	-ve	-ve	28.2	31.2	2.0x	-4.1x	0.32	0.42	0.32	0.42	11.9	-8.8	NA	16.3
Vozrozhdenie Bank	5.85	3.15	4.11	-1.75	-0.06	NA	-5.6	NA	1.4x	-ve	-ve	0.3	0.0	1.0x	-3.3x	0.29	0.37	0.29	0.37	1102.8	-553.8	NA	3.7
VTB	1.04	0.50	-0.04	-0.25	-0.11	NA	NA	NA	-ve	-ve	-ve	0.0	0.0	20.5x	-4.2x	0.26	0.40	0.26	0.40	-5.3	-50.8	NA	7.0
Russia						NA	-2.7	NA	2.2x	NA	11.9x	0.5	0.5	2.0x	-5.7x	0.33	0.42	0.33	0.42	19.7	-19.0	NA	5.6
Akbank	223.94	51.09	48.27	39.53	45.46	-12.0	+2.7	+0.8	4.6x	5.7x	4.9x	6.7	6.9	1.6x	1.6x	0.99	0.84	0.99	0.84	18.3	16.1	9.0	20.0
Albaraka Katilim Banka	114.92	24.24	39.89	29.54	31.67	+10.4	-10.2	+15.5	2.9x	3.9x	3.6x	4.0	3.8	1.1x	1.2x	0.81	0.68	0.81	0.68	25.6	19.0	16.9	11.7
Asya Katilim Bankasi	57.75	21.25	22.48	17.06	17.77	-10.4	+10.8	+27.2	2.6x	3.4x	3.3x	0.0	0.0	0.8x	0.8x	0.62	0.56	0.62	0.56	25.8	17.4	20.6	12.2
Garanti	119.63	49.94	33.14	27.31	28.58	-26.1	NA	+1.0	3.6x	4.4x	4.2x	2.2	2.2	1.2x	1.3x	0.92	0.76	0.92	0.76	24.5	19.0	13.9	14.7
Is Bank	193.29	47.45	40.82	33.34	35.19	-16.2	-22.5	-14.7	4.7x	5.8x	5.5x	4.9	5.0	1.2x	1.2x	0.91	0.75	0.91	0.75	15.0	14.2	8.3	14.4
Vakifbank	64.23	31.69	21.81	16.55	16.39	-27.7	-15.0	-12.2	2.9x	3.9x	3.9x	9.7	2.9	0.8x	0.7x	0.48	0.42	0.48	0.42	14.0	11.6	16.6	6.9
YKB	97.24	13.85	21.71	17.58	18.38	+12.6	-10.0	-2.8	4.5x	5.5x	5.3x	5.2	5.3	1.3x	1.3x	1.17	0.95	1.17	0.95	24.1	18.9	9.1	15.8
Turkey						-15.5	-9.2	-3.0	4.0x	5.0x	4.7x	4.7	4.4	1.2x	1.2x	0.89	0.75	0.89	0.75	20.1	16.6	11.2	14.6
Aggregates																							
Global Banks						-16.6	+12.0	+7.3	6.6x	8.0x	6.1x	7.7	5.7	3.5x	3.0x	0.65	0.63	0.85	0.83	12.1	10.9	9.4	6.6
United Kingdom Domestic						-71.7	+135.6	-21.1	2.6x	13.8x	6.5x	11.2	0.6	1.0x	0.9x	0.25	0.26	0.29	0.32	-2.7	-0.5	5.0	3.2
Europe						-31.3	+0.8	+22.8	4.4x	7.0x	5.5x	6.7	5.7	2.3x	2.0x	0.47	0.47	0.62	0.62	8.9	7.6	10.8	5.4
EMEA						-13.0	-2.4	-18.2	4.5x	6.7x	6.1x	4.9	4.0	2.6x	3.0x	0.76	0.74	0.78	0.76	19.1	11.4	7.6	10.9
Asia (ex-Japan)						+7.8	+3.4	+6.7	7.9x	8.4x	7.0x	4.7	4.9	4.7x	4.5x	1.21	1.13	1.20	1.13	18.6	16.1	8.5	11.5
Asia (ex-Japan, China)						-10.2	-3.1	+1.9	8.4x	9.4x	7.5x	4.0	4.3	4.9x	4.9x	0.93	0.91	0.93	0.90	13.1	11.8	7.2	10.7
Latin America						+5.9	-6.5	-11.2	7.7x	7.6x	6.9x	4.5	4.6	3.4x	2.9x	1.71	1.52	1.66	1.48	23.8	21.3	9.2	36.3
GEM						+4.7	+1.4	-0.1	7.2x	8.0x	6.8x	4.7	4.7	4.0x	3.9x	1.16	1.10	1.16	1.10	19.5	16.3	8.6	12.9
Emerging						+6.7	+1.7	-0.9	7.0x	7.8x	6.8x	4.5	4.5	3.8x	3.7x	1.18	1.10	1.20	1.11	20.3	16.7	8.5	12.8
United States						-35.6	NA	-3.3	9.7x	10.7x	5.2x	15.0	5.6	5.5x	3.3x	0.43	0.43	0.77	0.78	3.6	4.8	8.2	5.0
Europe (ex-UK)						-24.6	-0.6	+49.0	4.1x	5.8x	4.8x	5.1	6.3	2.7x	2.2x	0.47	0.47	0.63	0.61	10.1	9.2	13.4	5.6
Aggregates (inc non-Banks)																							
Global Financials						-17.5	+11.6	+6.5	6.8x	8.1x	6.2x	7.5	5.6	3.6x	3.1x	0.65	0.63	0.84	0.82	11.8	10.7	9.3	6.7
United States Financials						-35.6	NA	-4.6	9.9x	10.7x	5.4x	12.7	5.0	6.1x	3.9x	0.46	0.46	0.75	0.76	4.5	5.2	8.2	5.3
United States Non-banks						-35.8	NA	-9.0	10.8x	10.5x	6.3x	4.4	2.8	9.5x	10.0x	0.65	0.63	0.70	0.68	7.5	6.7	8.2	16.7

Source: UBS estimates. Note: Aggregate ratios are calculated on a market cap. weighted basis using a "Free Float Factor" to adjust the weighting. Where available, these aggregates have been calculated using factors obtained from MSCI/Factset, and where unavailable, the factors are source UBS. For more information on the weights used and their source, consult the "Price Performance" tables in this publication. (1) Adjusted EPS adds back to earnings goodwill amortisation and abnormal items (2) Growth rates limited to ±300.0% (3) % vs consensus is the difference with the mean consensus, a positive number indicates that we are above consensus. Source IBES/Factset (4) GOPS stands for gross operating profit per share (post-depreciation, pre-provisions) (5) UBS adjusted attributable earnings [Attributable income adjusted for goodwill charges and abnormal items] / average equity (6) Earnings yield (excluding abnormals and goodwill charge) - bond yield (7) Current market cap / Customer deposits * UBS Investment Bank is currently unable to display forecast data on this company.

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UBS Investment Research: Global Equity Rating Allocations

UBS 12-Month Rating	Rating Category	Coverage[1]	IB Services[2]
Buy	**Buy**	53%	36%
Neutral	**Hold/Neutral**	36%	34%
Sell	**Sell**	10%	20%
UBS Short-Term Rating	**Rating Category**	**Coverage[3]**	**IB Services[4]**
Buy	**Buy**	less than 1%	43%
Sell	**Sell**	less than 1%	22%

1:Percentage of companies under coverage globally within the 12-month rating category.
2:Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.
3:Percentage of companies under coverage globally within the Short-Term rating category.
4:Percentage of companies within the Short-Term rating category for which investment banking (IB) services were provided within the past 12 months.

Source: UBS. Rating allocations are as of 31 December 2008.

UBS Investment Research: Global Equity Rating Definitions

UBS 12-Month Rating	Definition
Buy	FSR is > 6% above the MRA.
Neutral	FSR is between -6% and 6% of the MRA.
Sell	FSR is > 6% below the MRA.
UBS Short-Term Rating	**Definition**
Buy	Buy: Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.
Sell	Sell: Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.

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Forecast Stock Return (FSR) is defined as expected percentage price appreciation plus gross dividend yield over the next 12 months.
Market Return Assumption (MRA) is defined as the one-year local market interest rate plus 5% (a proxy for, and not a forecast of, the equity risk premium).
Under Review (UR) Stocks may be flagged as UR by the analyst, indicating that the stock's price target and/or rating are subject to possible change in the near term, usually in response to an event that may affect the investment case or valuation.
Short-Term Ratings reflect the expected near-term (up to three months) performance of the stock and do not reflect any change in the fundamental view or investment case.

EXCEPTIONS AND SPECIAL CASES

UK and European Investment Fund ratings and definitions are :
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Company Disclosures

Company Name	Reuters	12-mo rating	Short-term rating	Price	Price date
Alpha Bank[2c]	ACBr.AT	Neutral	N/A	€4.54	23 Feb 2009
Bank Millennium	BIGW.WA	Sell	N/A	PLN1.45	23 Feb 2009
BCP[2a, 4]	BCP.LS	Sell	N/A	€0.62	23 Feb 2009
BNP Paribas[2a, 3, 4, 5, 16, 22]	BNPP.PA	Neutral	N/A	€23.14	23 Feb 2009
BRE[22]	BREP.WA	Sell	N/A	PLN100.70	23 Feb 2009
Commerzbank[2a, 4, 5, 14, 16, 22]	CBKG.DE	Neutral	N/A	€2.75	23 Feb 2009
EFG Eurobank Ergasias[2c, 4, 5]	EFGr.AT	Neutral	N/A	€4.16	23 Feb 2009
Erste Bank[2c, 5]	ERST.VI	Suspended	N/A	€7.39	23 Feb 2009
Intesa SanPaolo[2b, 4, 6]	ISP.MI	Buy	N/A	€1.75	23 Feb 2009
Marfin Popular Bank	MRBr.AT	Neutral	N/A	€1.52	23 Feb 2009
National Bank of Greece[2a, 4, 5, 6, 16]	NBGr.AT	Buy	N/A	€9.84	23 Feb 2009
OTP Bank[2c, 4]	OTPB.BU	Sell	N/A	HUF1,700.00	23 Feb 2009
Pekao[22]	BAPE.WA	Neutral	N/A	PLN76.00	23 Feb 2009
Piraeus Bank[2c, 4, 6]	BOPr.AT	Neutral	N/A	€4.14	23 Feb 2009
PKO BP	PKOB.WA	Neutral	N/A	PLN19.35	23 Feb 2009
Raiffeisen International Bank Holding[4, 5]	RIBH.VI	Buy	N/A	€14.85	23 Feb 2009
Sberbank[2b, 20]	SBER.RTS	Neutral (CBE)	N/A	US$0.39	20 Feb 2009
SEB[1, 2a, 4, 5]	SEBa.ST	Suspended	N/A	SKr36.00	23 Feb 2009
Société Générale[2c, 4, 16]	SOGN.PA	Buy	N/A	€22.98	23 Feb 2009
Swedbank[2a, 4, 5, 16]	SWEDa.ST	Neutral	N/A	SKr26.10	23 Feb 2009
UniCredit[2c, 4, 16, 22]	CRDI.MI	Neutral	N/A	€0.93	23 Feb 2009
VTB[22]	VTBRq.L	Sell	N/A	US$1.04	23 Feb 2009

Source: UBS. All prices as of local market close.
Ratings in this table are the most current published ratings prior to this report. They may be more recent than the stock pricing date

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