Press release 24. September 2008

Financial crisis not yet over – Keep stock positions underweighted

- **Right now, the risks of US stocks are still higher than the opportunities**
- **Decline of inflation in Euroland with possible interest rate moves as of 2nd quarter 2009**
- **Dynamic on bond markets in Euroland is already strong**
- **Sideways movement of the yen versus the US dollar**
- **Relative strength of the Japanese stock market expected again**

In 3Q 2008, the impacts of the US financial crisis spread massively and liquidity pressure on many US investment banks became very severe leaving some unable to cope with the situation alone. The recent creation of a government pool of funds to takeover bad loans has helped briefly to ease the markets. Whether or not this will last can probably only be assessed fundamentally in the new year 2009. *"The worldwide financial crisis, which in its present form has reached a magnitude never seen before, has driven up risk premiums worldwide. The massive crisis of confidence and the helpless lack of orientation on the markets in some cases will weigh on sentiment in the financial markets in 4th quarter 2008 as well,"* said Fritz Mostböck, Head of Erste Group Research.

Therefore, the recommendation of Erste Bank is: **Overweight cash, bonds neutral, underweight stocks**

Asset Allocation for Q4 2008:

Neutral portfolio	
Cash	Overweight
Bonds	Neutral
Stocks	Underweight

International bond portfolio	
Europe	Neutral
USA	Slightly underweight
Japan	Neutral
Emerging Markets	Slightly overweight

International stock portfolio	
Europe	Overweight
USA	Underweight
Japan	Slightly overweight
Emerging Markets	Neutral

FX allocation	
Dollar block	Neutral

US Interest rate trend, bond market and currency: Relentless crisis, economy still sluggish
The crises that the US economy is grappling with (and thus also parts of the world) are persistent. The renewed worsening of the financial market crisis proves this point. *"We are expecting the economy to develop sluggishly in the coming months, with the financial market representing a downside risk. At the same time, the lower oil price might help to ease the situation somewhat. We do not expect the US Fed to cut interest rates even though the risk overshadowing this forecast has heightened in the past weeks,"* said Rainer Singer, Co-Head of CEE Macro Fixed Income Research at Erste Group. *"Yields on government bonds are expected to rise slightly as the crisis calms, but the weak economic data will contain this movement. The US dollar gained a lot of ground versus the EUR in the last few weeks, because the economic outlook for Euroland became surprisingly much gloomier. A further firming of the USD is not expected, because the risks threatening the US economy will remain substantial."*

US stock market: Key US index still ailing
Fundamentally, the situation on the US stock market deteriorated further in the past few months. A number of spectacular rescue missions were undertaken to save the financial institutions Freddie Mac, Fannie Mae, Merrill Lynch and AIG from collapse. The traditional investment firm, Lehman Brothers, announced its insolvency and filed for Chapter 11 creditor protection.
Hans Engel, market strategist for international stock markets at Erste Group stated: *"As things stand today, it is clear that the US leading index is still weak. It is definitely too early for a year-end rally. The feeble development of corporate earnings expected remains an important fundamental factor burdening US stocks. There is no change in sight any time soon in this context right now. At present, the risks carried by stocks are still higher than the opportunities, and for this reason, we stand by our recommendation to continue underweighting this asset class and, in particular, US stocks."*

Euroland: Interest rate trend and bond market – Speculations of a fast interest rate cut are premature
After the weak second quarter, Euroland is void of any positive impulses. Diminished consumer confidence and the sluggish business climate are consequences of inflation and of the insecurity prevailing over the magnitude of the economic slowdown. The ECB is still stuck in a tough spot, facing rising inflation and a gloomy economic outlook as well as the financial market crisis. Speculations of a rapid cut in interest rates are certainly premature, but analysts are expecting possible interest rate moves as of 2nd quarter 2009 should inflation decrease. Bond markets are already showing a strong dynamic. Should more weak economic indicators be released from Euroland, yields, especially at the short end, might decline some more. *Compared to US bonds, two-year EUR government bonds are expected to perform better*.

European stock market: Hold on to fundamentally and financially healthy companies
European stock markets were not able to ward off the negative effects of the latest indicators on the contracting US economy or the shocking news from the US financial sector and continued to trend downwards. Neither the decreasing oil price nor the weaker EUR served to support the markets up to now. *"Overall, it is recommendable to hold on to fundamentally and financially healthy companies at present. These low prices are being caused by the sell-offs and not by any specific problems. As regards cyclical stocks, it is now already too late to sell, because the massive price drops took place within very short periods and prices are now low.* In the case of stocks that are not financially stable or still highly valued, analysts now recommend selling. As European stocks are much more attractively valued than US stocks, these also have a much greater potential over the long term. Therefore, *overweighting European stocks is recommended in the regional asset allocation*.

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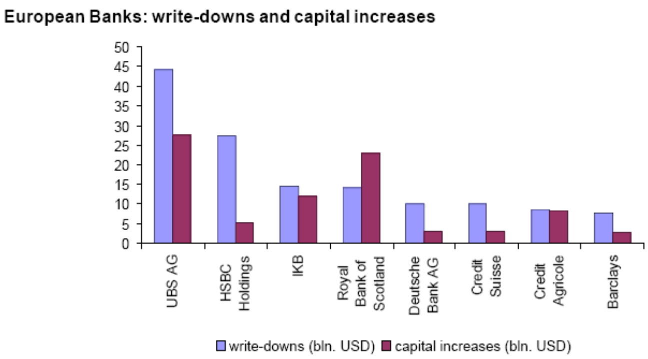
Japan: Economy, interest rates and currency – No further changes to interest rates expected

Japan's economy is now starting to bottom out. Exports dropped significantly in 2nd quarter and the losses due to price effects have become worse. This has sustainably put a damper on sentiment both among companies as well as households. Analysts believe that it will take some time until one may start to hope for a lasting recovery. The BoJ is keeping its focus on the economy side and is not expected to make any move before the Fed. Therefore, *analysts still do not expect any interest rate changes*. The current turmoil on the financial markets have caused the yen to firm rapidly versus the USD and volatility has increased. Additionally, the weakness of the EUR has lead to a 13% firming of the yen within one month. Excepting financial market turbulence, the yen is expected to move sideways vs. the US dollar.

Japanese stock market: Relative strength in technology sector and cyclical consumption

Erste Group analysts expect to see the stock market relatively strong again and recommend a slight overweighting of Japanese stocks in their current country allocation. As regards sector allocation, the recommendation is still to concentrate on the financial sector, which has been exaggeratedly harshly punished. Moreover, *analysts expect a relatively strong technology sector and cyclical consumer sector*.



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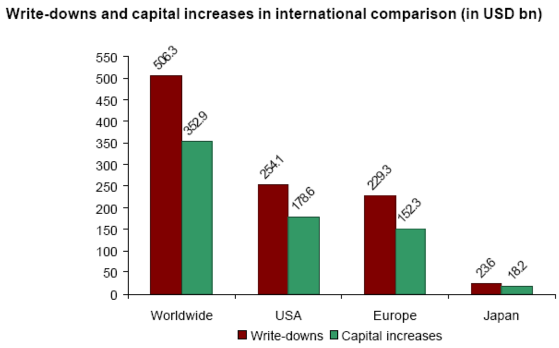

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