
CEE Region: rediscover the way to go

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Key findings

- **Catch-up potential in the CEE Region remains significant**, GDP per capita is still roughly one third of the euro-area average. **Enhancement of competitiveness indicators may only strengthen the growth path of the Region**, which however is already ahead of LATAM.
 - **Foreign capital played a key role before the crisis. After collapsing in the past few years, FDI flows are projected to increase going forward. Similarly, external trade is to remain a key driver of CEE countries' economic performance.**
 - Naturally, **CEE economic growth should outperform core Western European countries**, provided the right conditions are in place. **Investment rather than consumption is likely to drive growth** in the near term, as obsolete infrastructure is modernized and advanced technologies introduced.
 - **Lending activity is to accelerate in line with economic growth, driven by demand.** Banks face the challenge of adequately addressing evolving customer needs, as the Region remains largely dependent on bank financing. **Some specific segments call for immediate action** - i.e. SME financing, trade finance, tailored consumer loans, internet banking. DCM development is also supportive.
 - **Enhanced cooperation across banks, IFIs and regulators remains crucial to sustain the catch-up dynamics.**
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Economic developments – still a solid growth potential

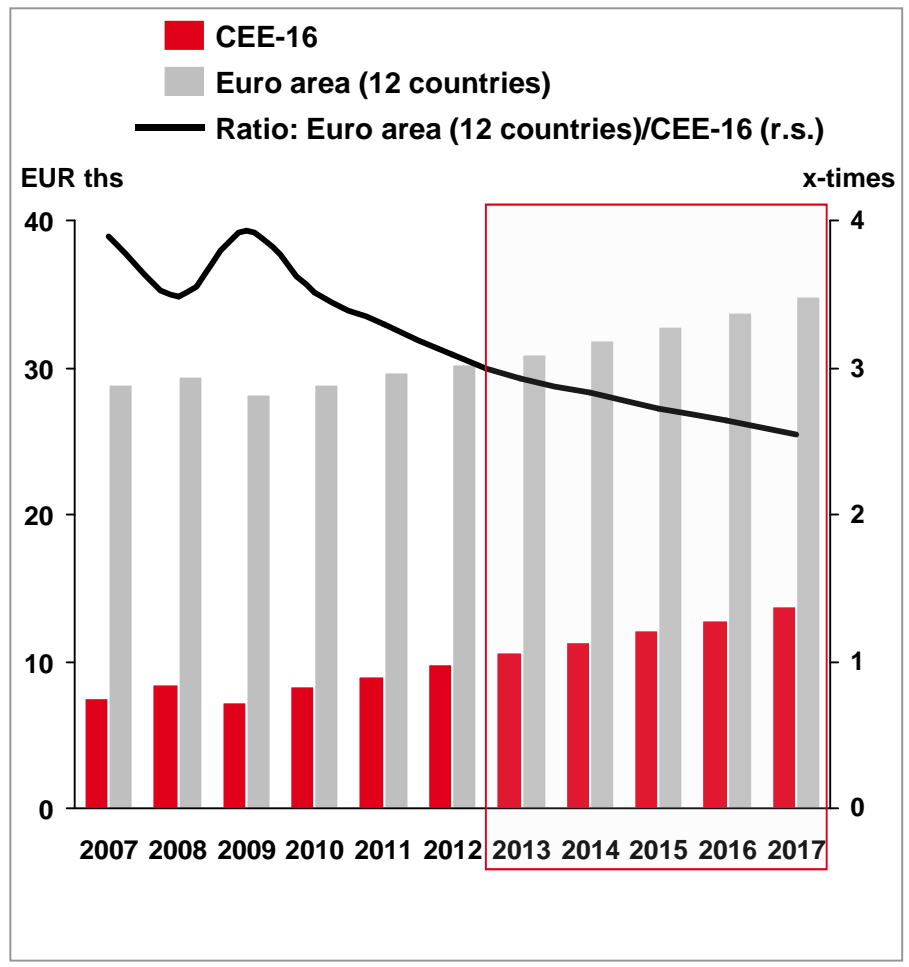
Credit dynamics – growth maintained, supply improving

UniCredit in CEE – leadership and commitment

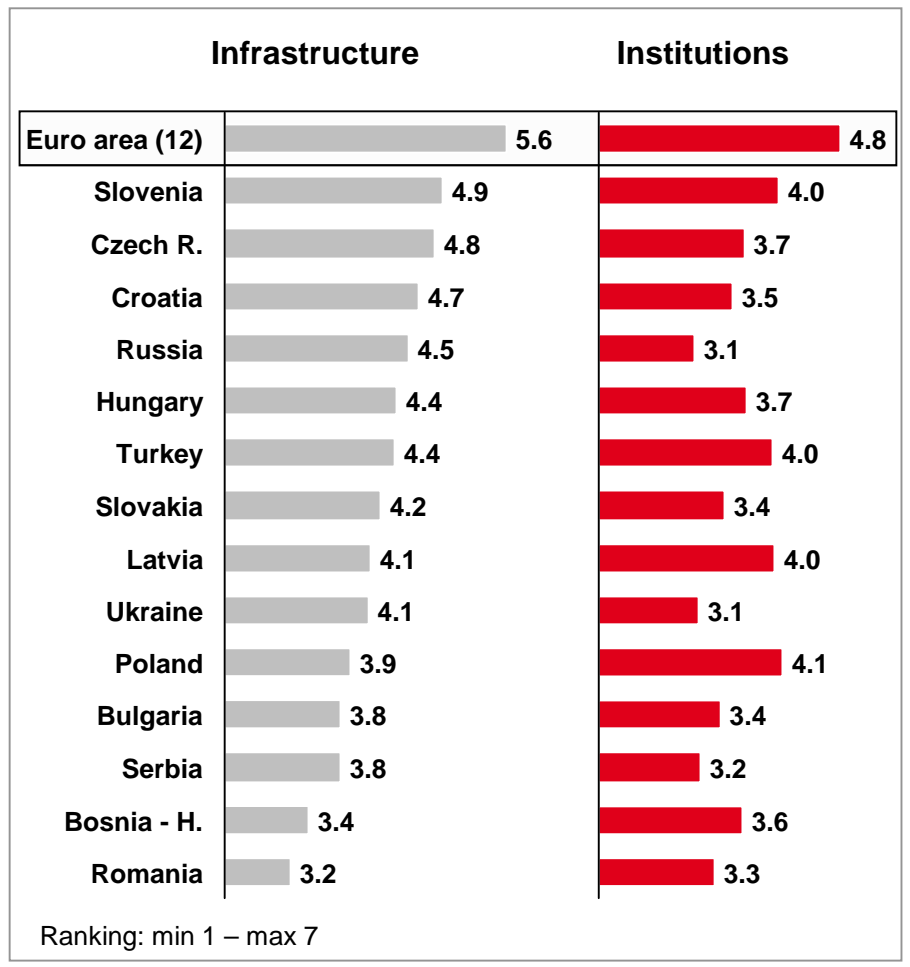


Long term potential of the CEE Region is intact. The “convergence” story continues to hold, with improvement in infrastructure and institutional environment to be supportive

GDP per capita in PPP



Competitiveness of Infrastructure and Institutions*



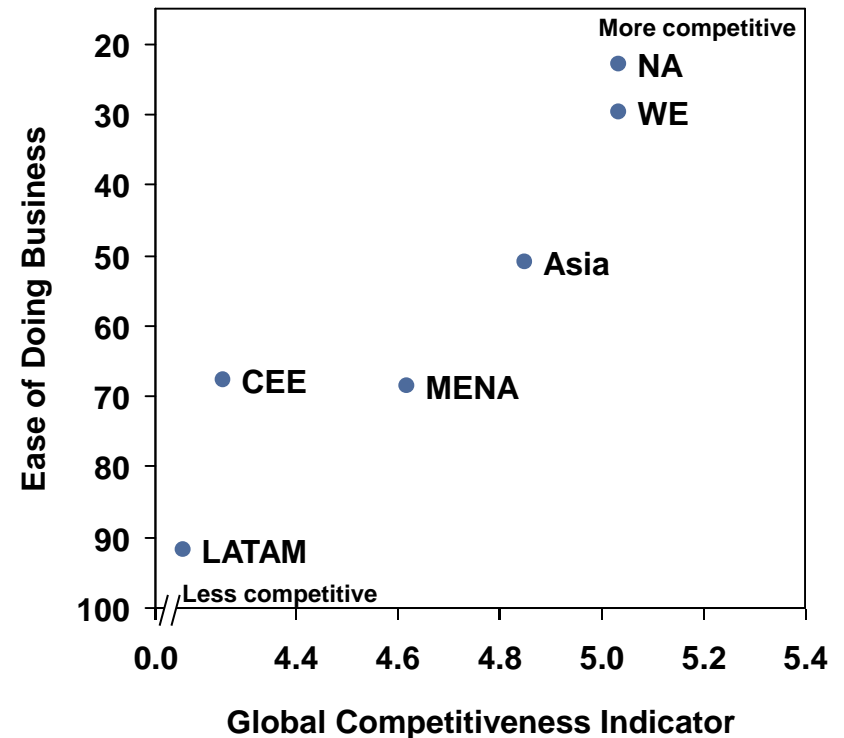
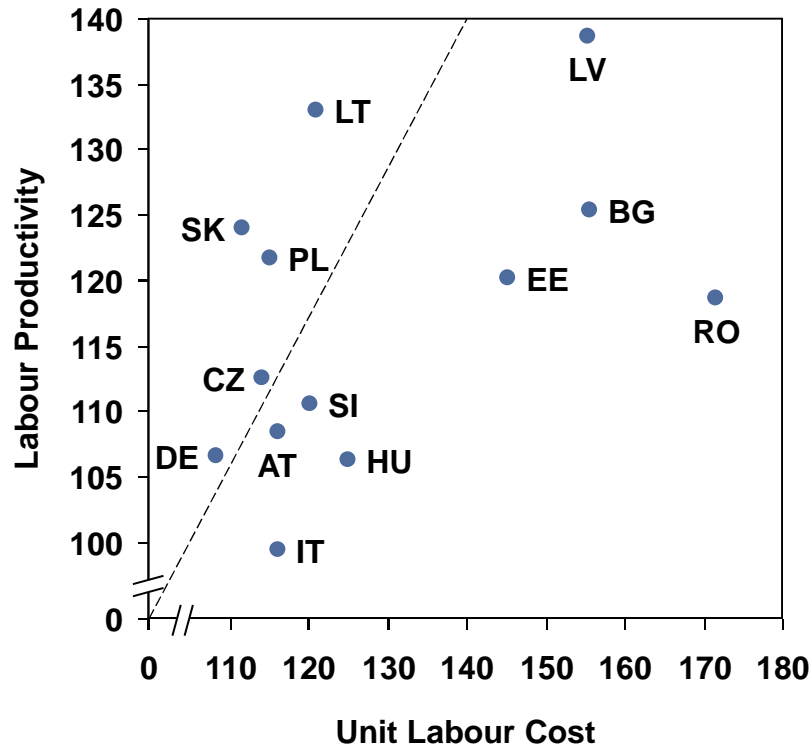
CEE-16: BG, BH, CZ, EE, HR, HU, LT, LV, PL, RO, RU, SI, SK, SRB, TK, UA; Euro area (12 countries): Austria, Belgium, Cyprus, Finland, France, Germany, Greece, Ireland, Italy, Netherlands, Portugal, Spain. *Infrastructure and Institutions as ranked in the Global Competitiveness Report 2012-2013 by World Economic Forum (Infrastructure: Transport, Electricity and telephony; Institutions: Burden of government regulations, Property rights, Intellectual property protection, Diversion of public funds, Public trust in politicians, Irregular payments and bribes, Judicial independence, Favoritism in decisions of government officials, Wastefulness of government spending, Efficiency of legal framework in setting disputes, Efficiency of legal framework in challenging regulations, Transparency of government policy making, Government services for improved business performance, Business costs of terrorism, Business costs of crime and violence, Organized crime, Reliability of policy services, Ethical behavior of firms, Strength of auditing and reporting standards, Protection of minority shareholder's interests, Strengths of investor protection etc. Sources: IMF World Economic Outlook, Eurostat, World Economic Forum, UniCredit CEE Strategic Analysis



Room for improvement in labour productivity (especially in some countries) as well as in competitiveness indicators highlights the catch-up potential. However, CEE already ahead of the LATAM Region

Productivity and Unit Labour cost, 2012 Index, 2005=100

Global Competitiveness Index and Ease of Doing Business, 2012



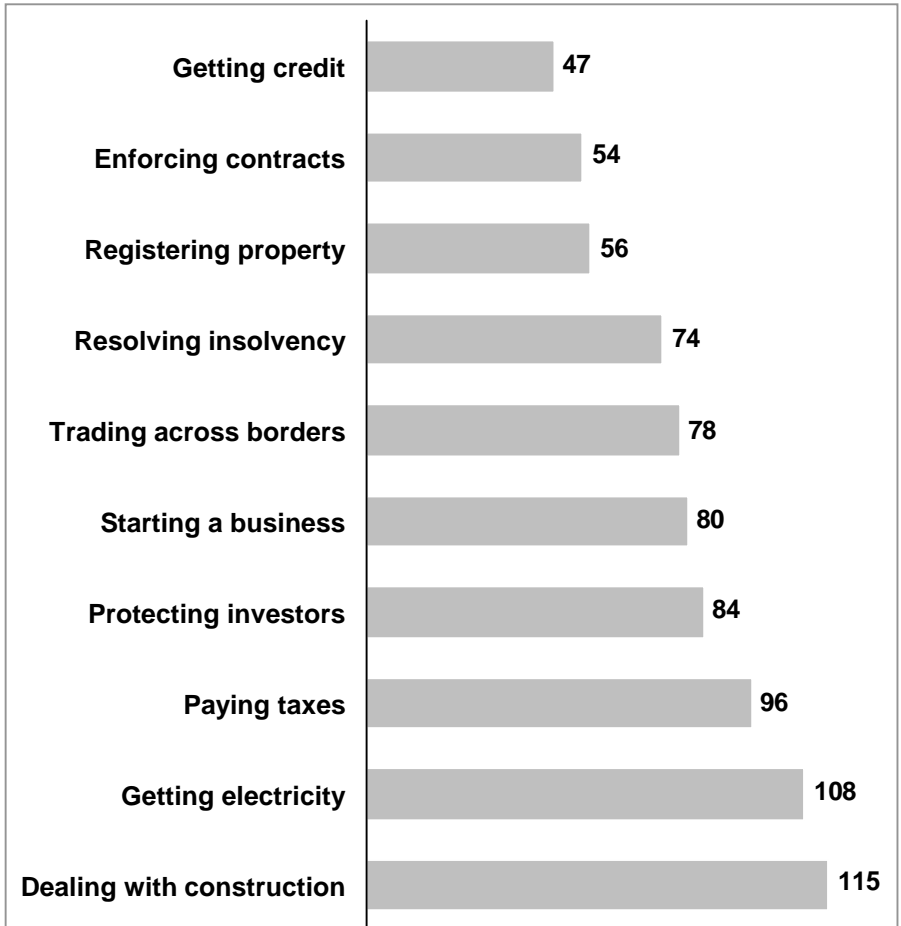
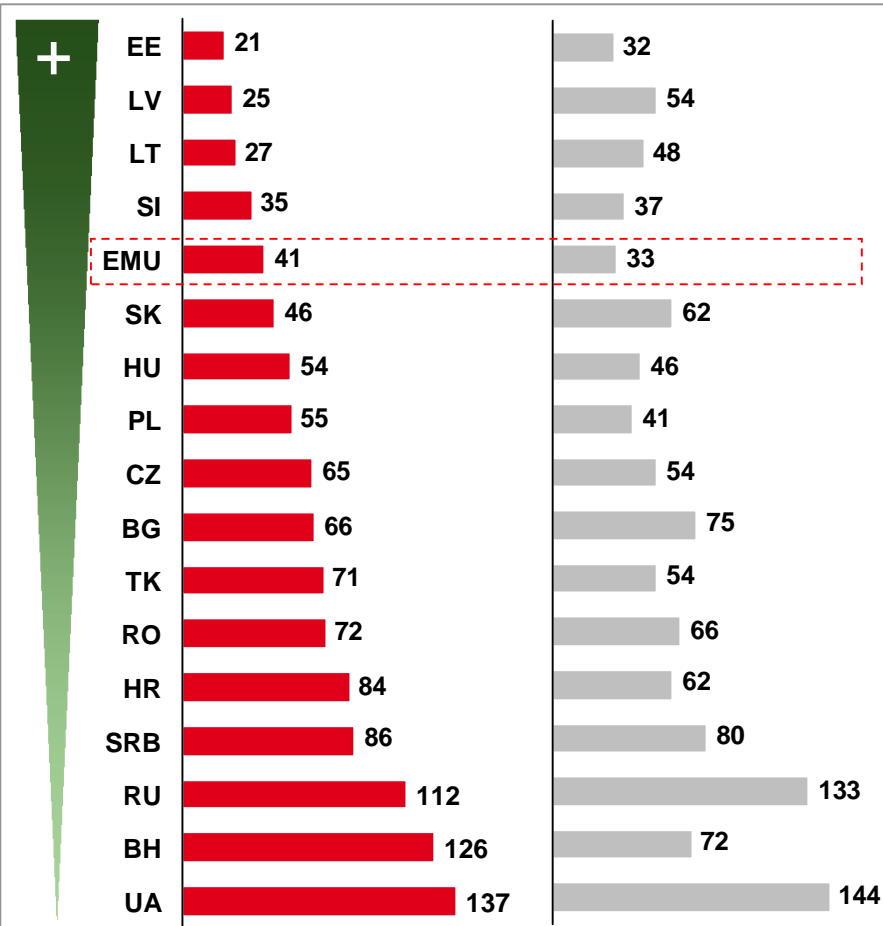
Note: The higher the CGI, the more competitive the Region. The lower the Ease of Doing Business scale (the higher the rank), the easier it is to do business within the Region.
Source: Eurostat, World Economic Forum: Global Competitiveness Index, World Bank: Ease of Doing Business



Differentiation across countries is clearly visible in ease of doing business as well as in corruption perception. Getting credit looks to be relatively easy, while others, from construction to insolvency resolution, deserve more attention

Ease of Doing Business (red) and Corruption Perception Index (grey), 2012

Components of Ease of Doing Business, CEE-16 overall ranking, 2012

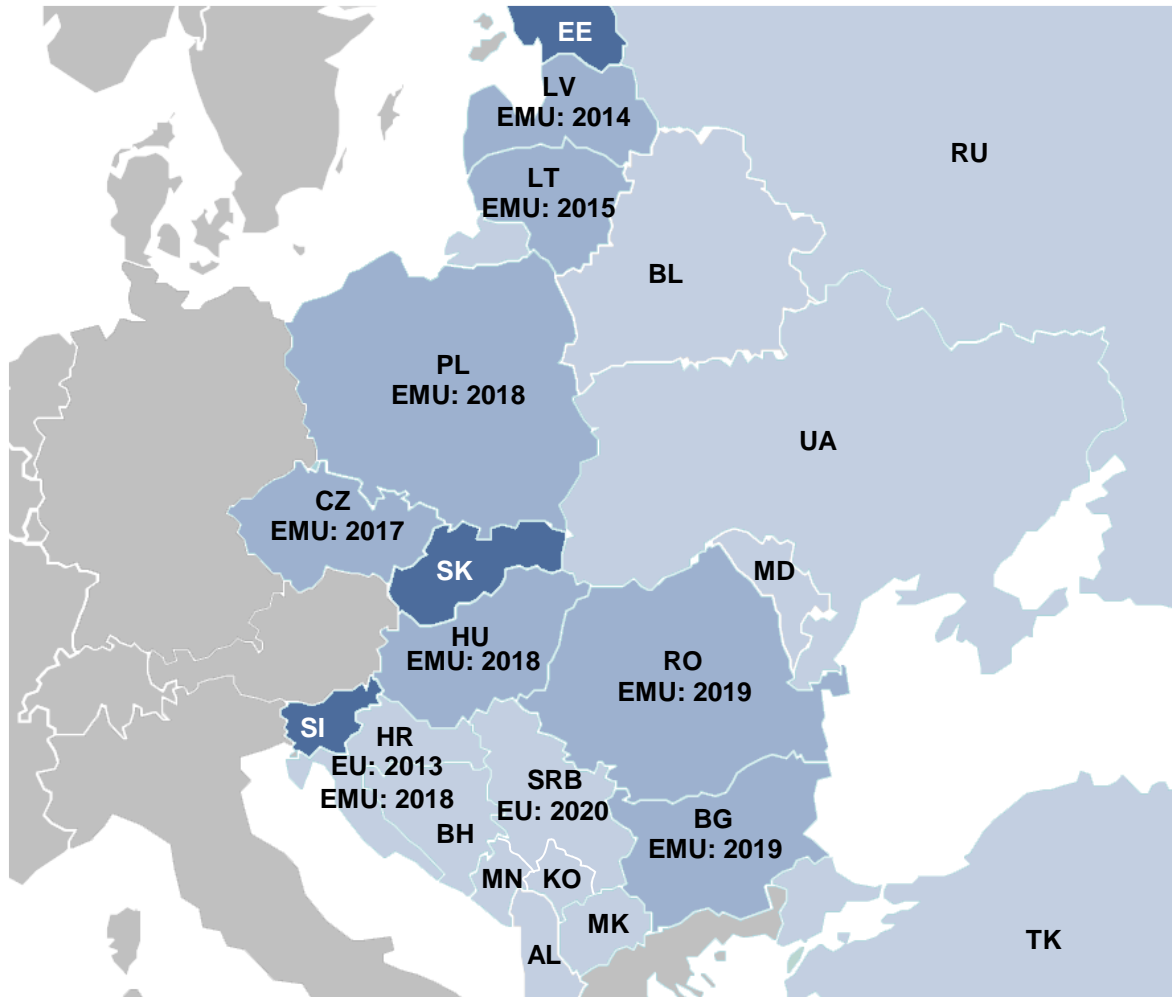


Note: The higher the ranking (the lower the number), the easier it is to do business within a country. The components ranking for the CEE-16 is a simple average of the rankings of single countries.
 Source: Transparency International: Corruption Perception Index, World Bank: Ease of Doing Business



The EU / EMU entry to give further boost to improving the business environment of the Region in the coming years

CEE Countries EU and EMU membership - status quo and perspectives



- ✓ 10 countries within the CEE Region are already members of the European Union...
- ✓ ...with Croatia joining the EU this year
- ✓ Turkey is also negotiating to join the EU
- ✓ 3 countries within the CEE Region have already joined the European Monetary Union...
- ✓ ...with Latvia and Lithuania joining the monetary community in the next two years

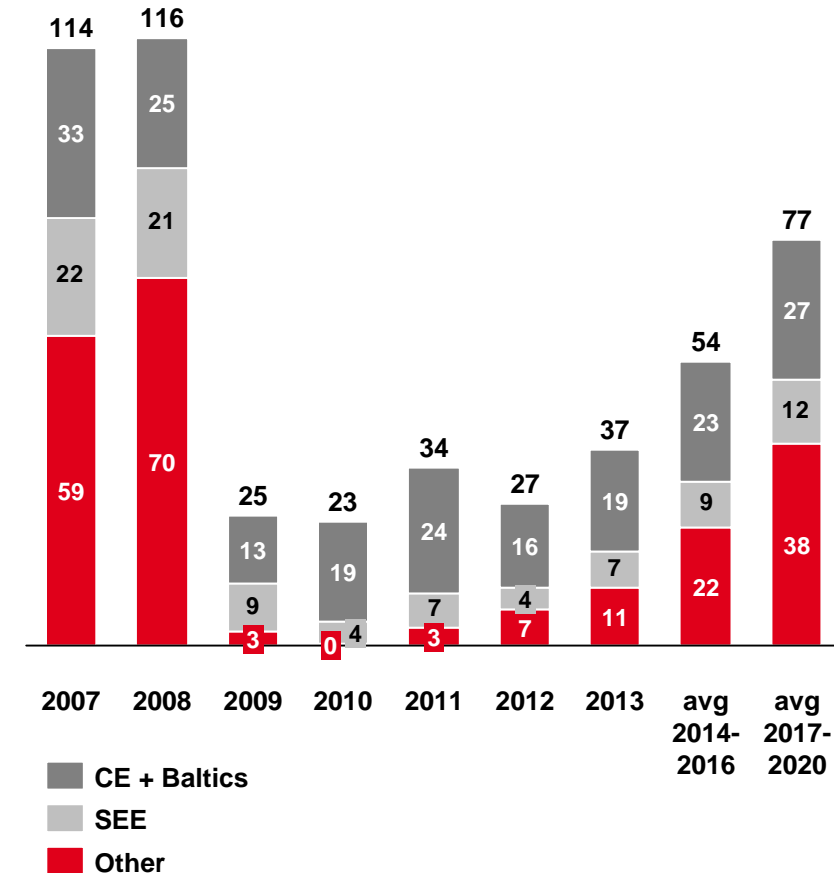
- Member of the EMU
- Member of the EU
- Not a member of the EU

Note: AL – Albania, BG – Bulgaria, BH – Bosnia-Herzegovina, BL – Belarus, CZ – Czech Republic, EE – Estonia, HR – Croatia, HU – Hungary, KO – Kosovo, LT – Lithuania, LV – Latvia, MD – Moldova, MK – Macedonia, MN – Montenegro, PL – Poland, RO – Romania, RU – Russia, SI – Slovenia, SK – Slovakia, SRB – Serbia, TK – Turkey, UA – Ukraine
Source: UniCredit CEE Strategic Analysis based on UniCredit Research data



After collapsing in the past few years, FDI flows to CEE are projected to increase gradually, comprising more sustainable projects

Net FDI flows in CEE (EUR bn)



Net FDI flows by country

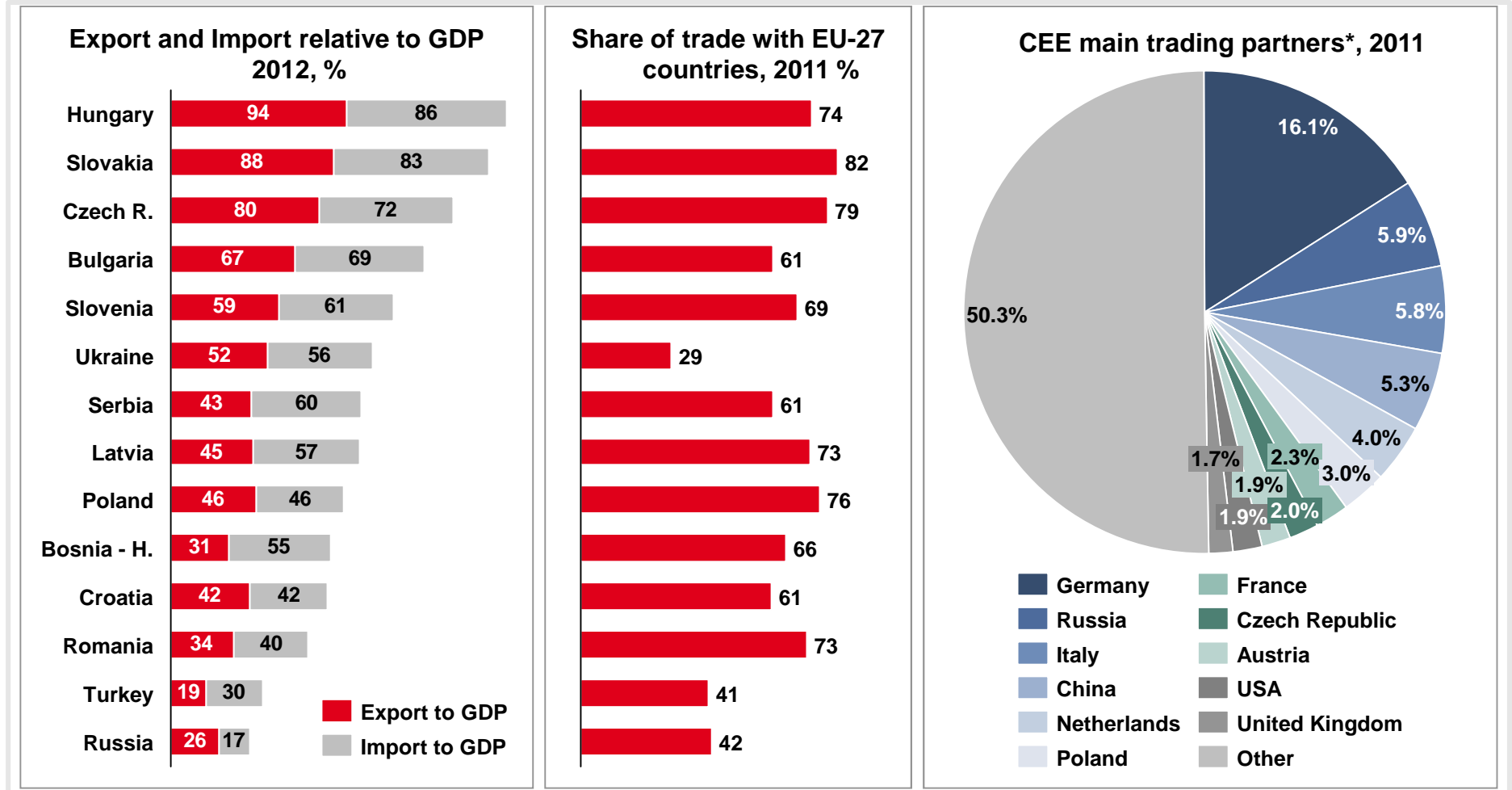
	Net FDI - % of GDP		Net FDI - EUR bn	
	2012	2013	2012	2013
Bulgaria	3.1	3.9	1.2	1.6
Bosnia-Herzegovina	3.2	3.4	0.4	0.5
Croatia	1.8	2.0	0.8	0.9
Czech Republic	5.5	4.2	8.4	6.5
Latvia	3.0	2.8	0.6	0.6
Hungary	1.5	2.1	1.5	2.1
Poland	0.8	2.3	2.9	9.0
Romania	1.2	1.4	1.6	2.0
Russia	-0.3	-0.1	-4.7	-1.1
Serbia	0.7	5.9	0.2	1.9
Slovakia	3.1	0.9	2.2	0.7
Slovenia	0.6	0.9	0.2	0.3
Turkey	1.0	1.0	6.5	6.9
Ukraine	3.8	4.1	5.1	5.3

Note: CE + Baltics includes: CZ, HU, LV, SI, SK, PL, SEE includes: BG, BH, HR, RO, SRB, Other includes: RU, TK, UA
 Source: UniCredit CEE Strategic Analysis based on UniCredit Research data



External trade to remain a key driver of CEE countries' economic performance, though close links with WE represent a source of vulnerability, at least for some of them. Russia and China among the top 5 trading partners

CEE Trade Flows

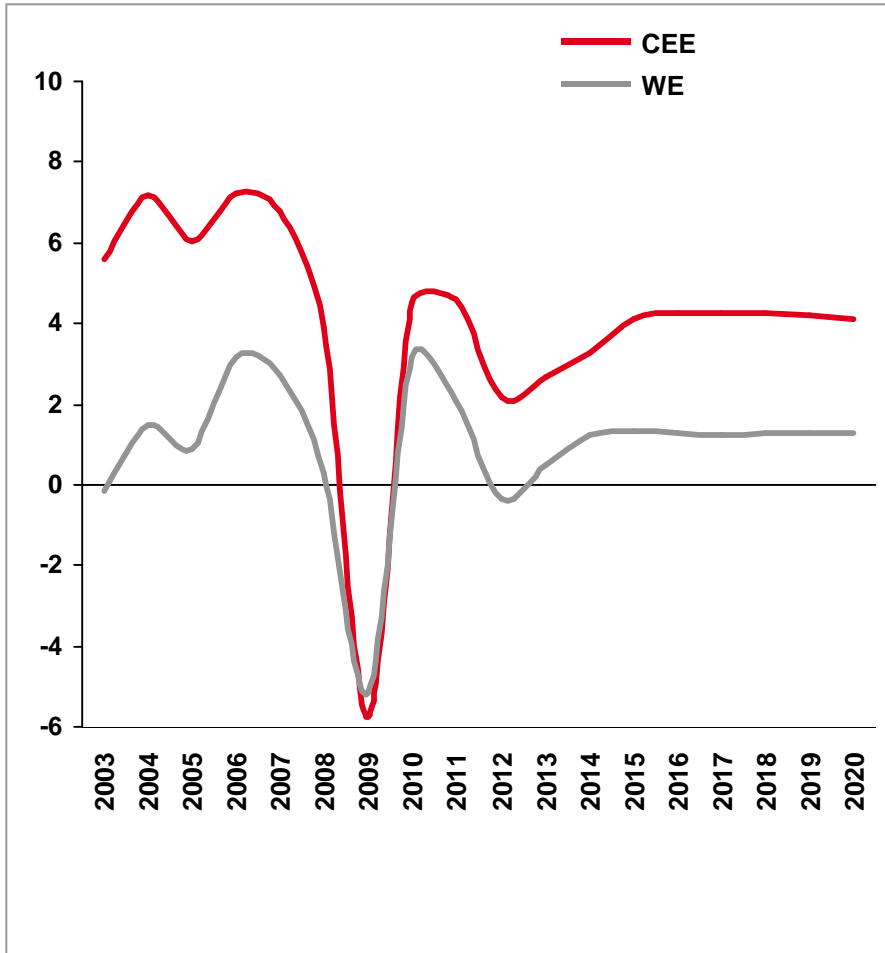


Note: *main trading partners refer to Top 10 trading partners for each country
 Source: IMF, UniCredit CEE Strategic Analysis based on UniCredit Research data

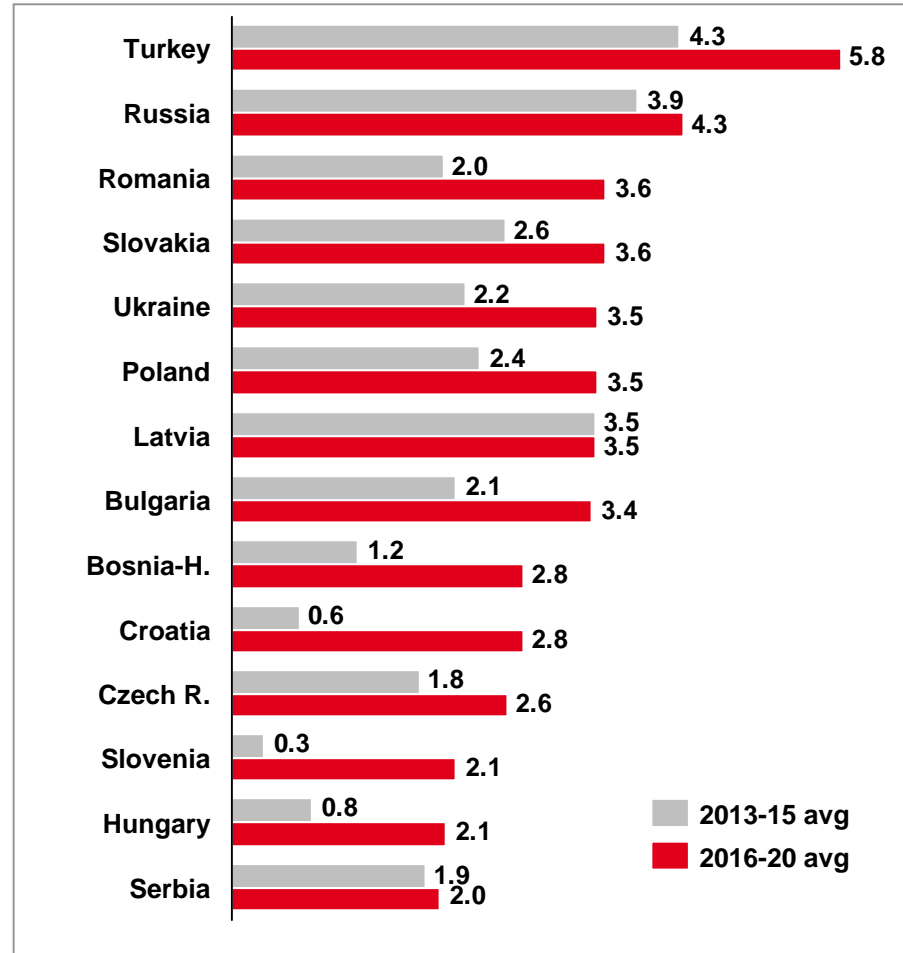


CEE GDP growth outpacing WE countries reflects the long-term potential of the Region. Cross country differentiation remains visible, with some markets showing sluggish performance in the short term, but recovering over the longer horizon

GDP growth: CEE vs WE countries, %



CEE GDP growth, %



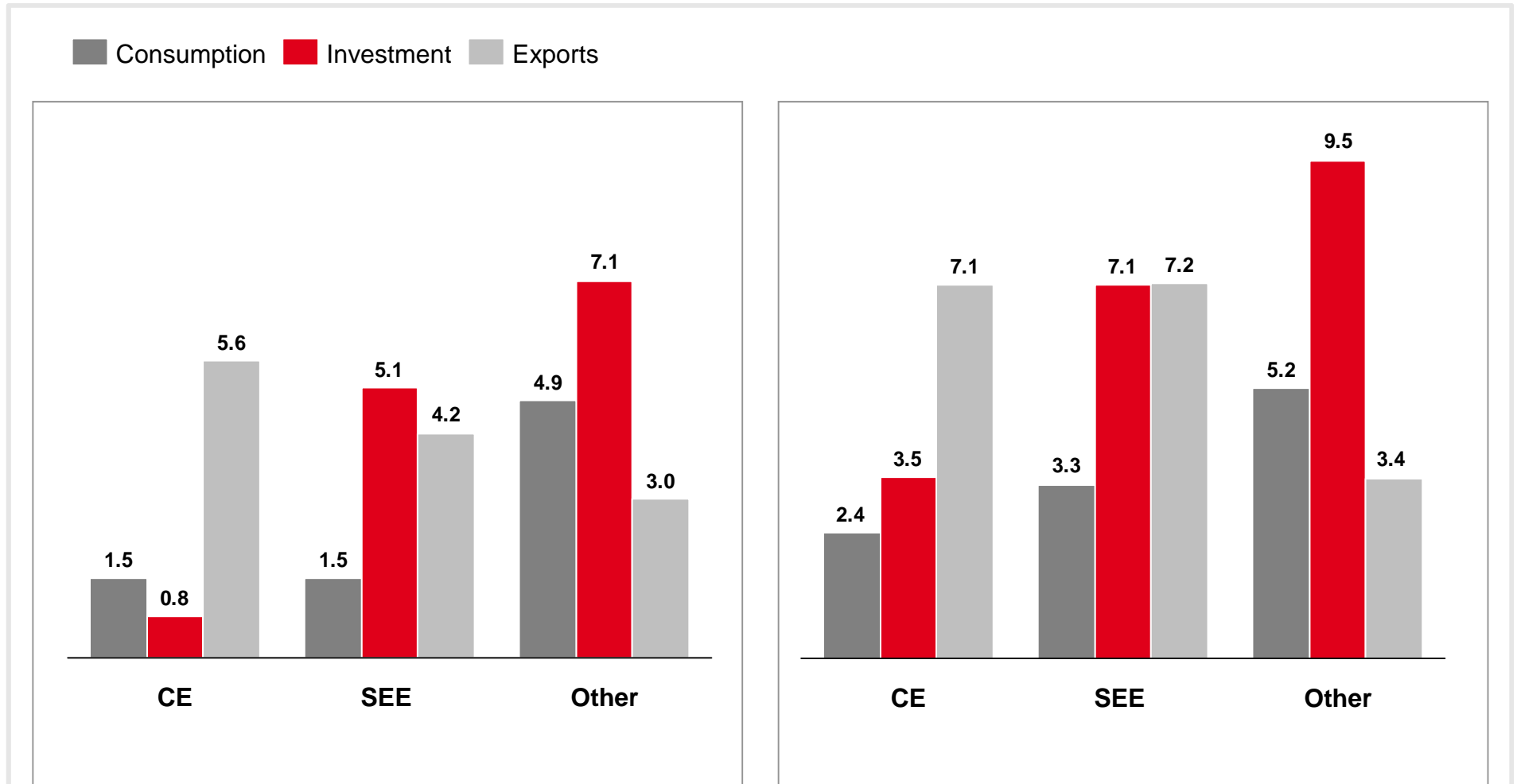
Note: CEE includes 14 countries: PL, HU, CZ, SK, SI, RO, BG, HR, TK, UA, RU, BiH, SRB, and LV; WE includes DE, IT, AT
Source: UniCredit CEE Strategic Analysis based on UniCredit Research data



CEE GDP growth will mainly be driven by exports and investments in the near term. Consumption to catch up gradually. In this respect, the Region is not homogenous either

Growth drivers 2013-15, avg growth rate, %

Growth drivers 2016-20, avg growth rate, %



Note: CE includes: CZ, HU, LV, SI, SK, PL; SEE includes: BG, RO and HR; Other includes RU, TK and UA
Source: UniCredit CEE Strategic Analysis based on UniCredit Research data



Economic developments – still a solid growth potential

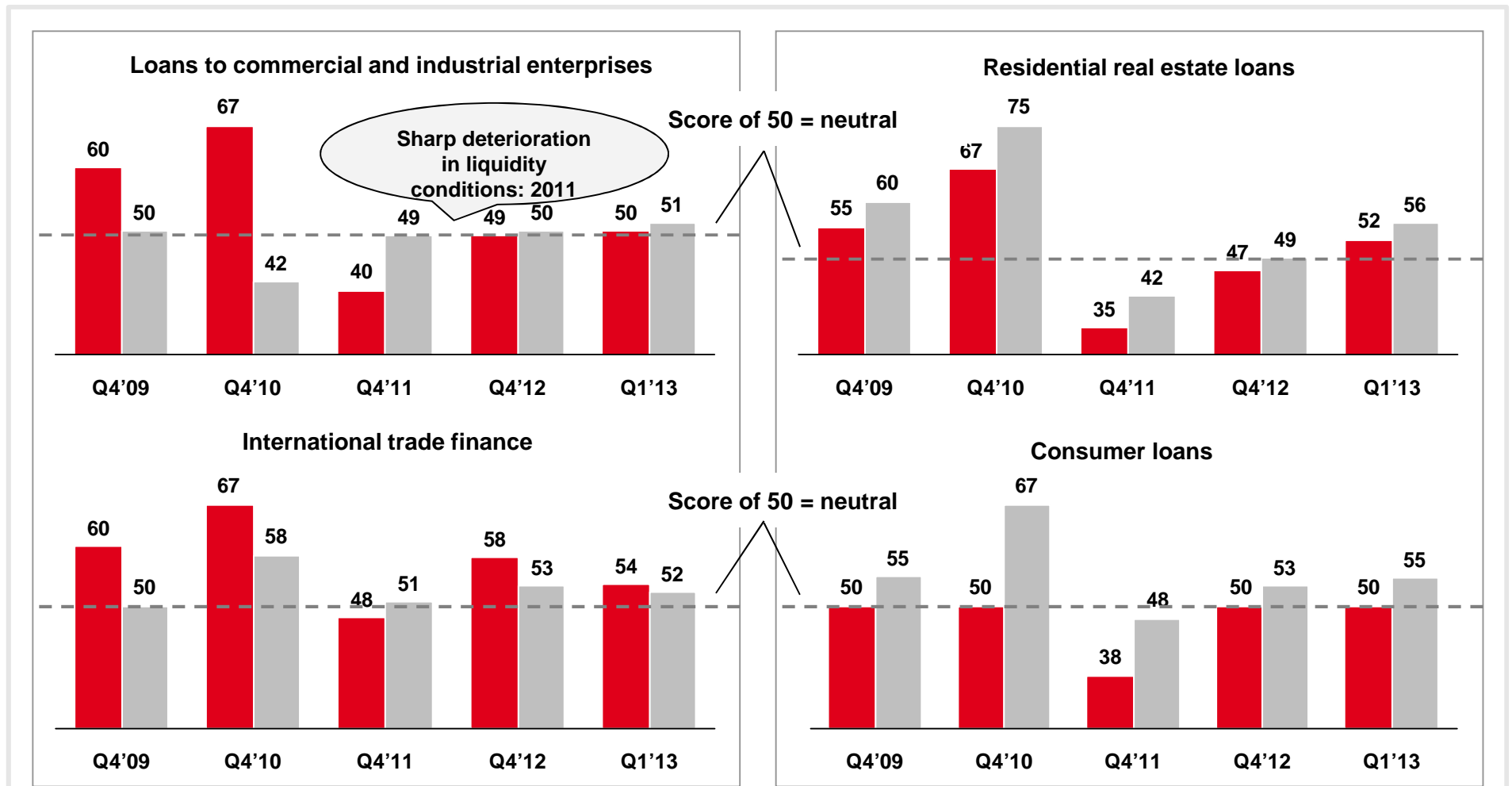
Credit dynamics – growth maintained, supply improving

UniCredit in CEE – leadership and commitment



Credit standards and willingness to lend improving, in general following dynamics in demand

Emerging Europe Bank Lending Conditions, Change Over the Past Three Months



Source: Institute of International Finance: Emerging Markets Bank Lending Conditions Survey

■ Credit standards/ Willingness to lend
■ Demand

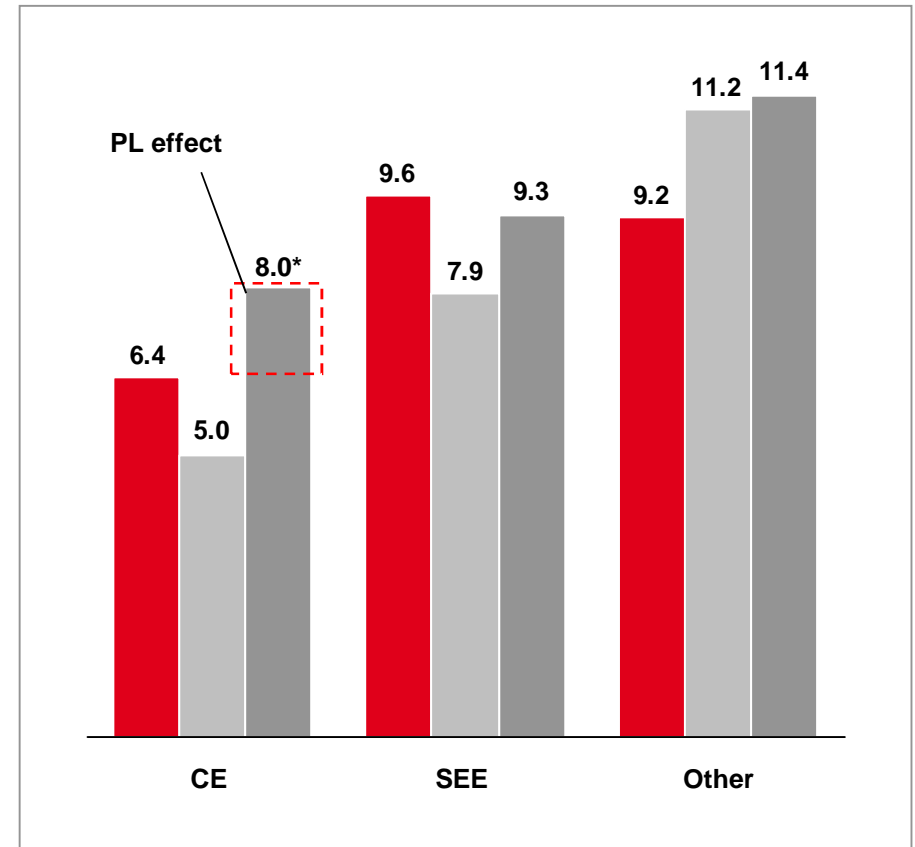
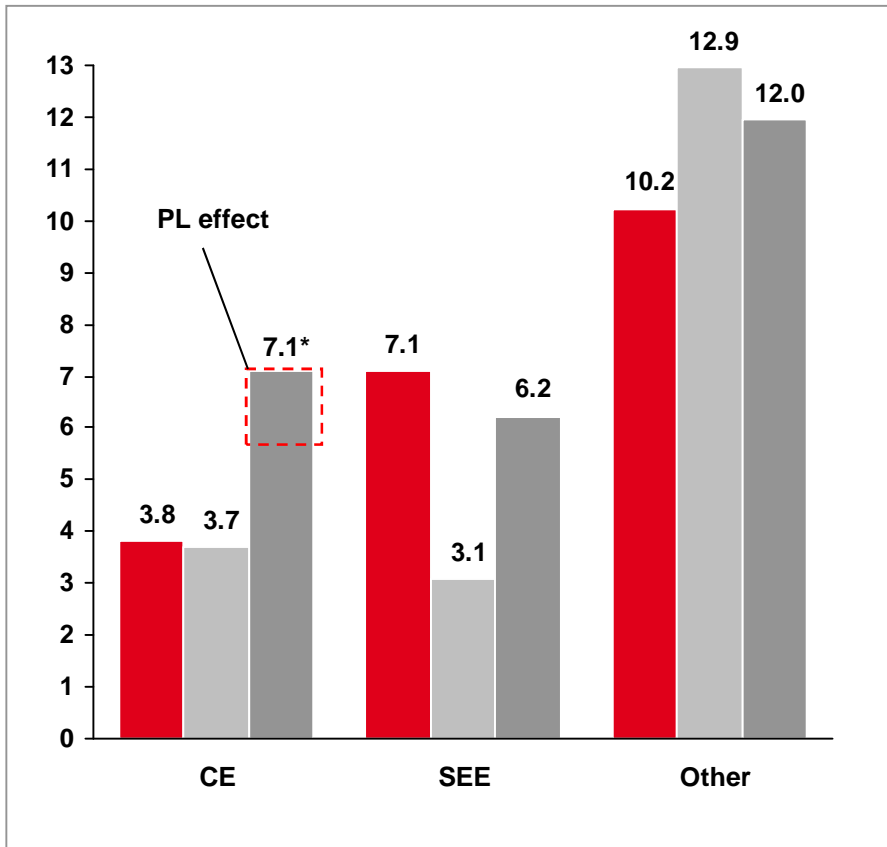


Lending growth to accelerate gradually supporting economic recovery. Corporate lending outpacing consumer loans in CE and SEE. Other countries, (Turkey and Russia) to outperform in retail lending

Lending growth, CAGR 2013-15, %

Lending growth, CAGR 2016-20, %

■ Corporate ■ Consumer Finance ■ Housing



Note: CE includes: CZ, HU, SI, SK, PL, LV. SEE includes: BG, RO and HR. Other includes: TK, RU and UA.

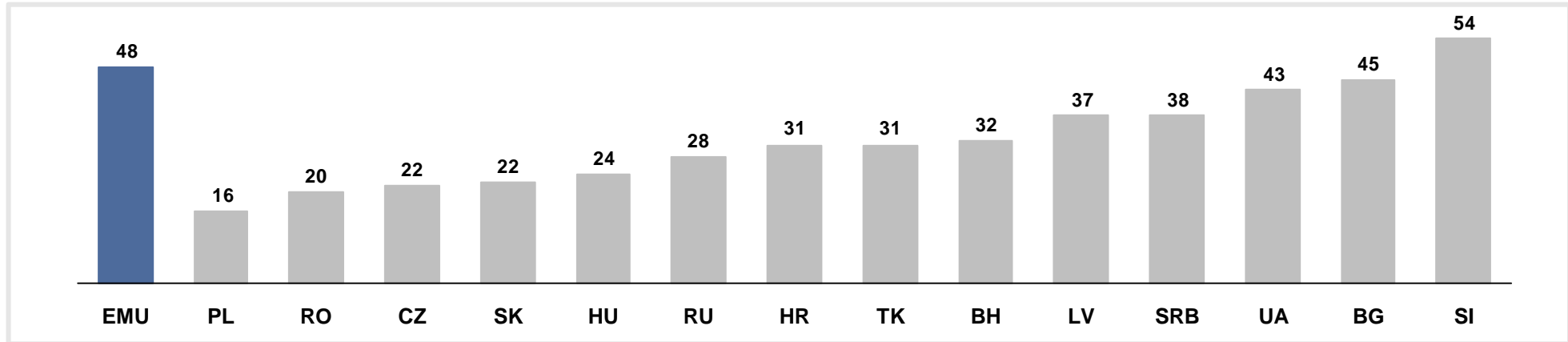
* without Poland, Housing Loans in CE would grow by 5.5% CAGR 2013-15 and 6.3% CAGR 2016-20

Source: UniCredit CEE Strategic Analysis

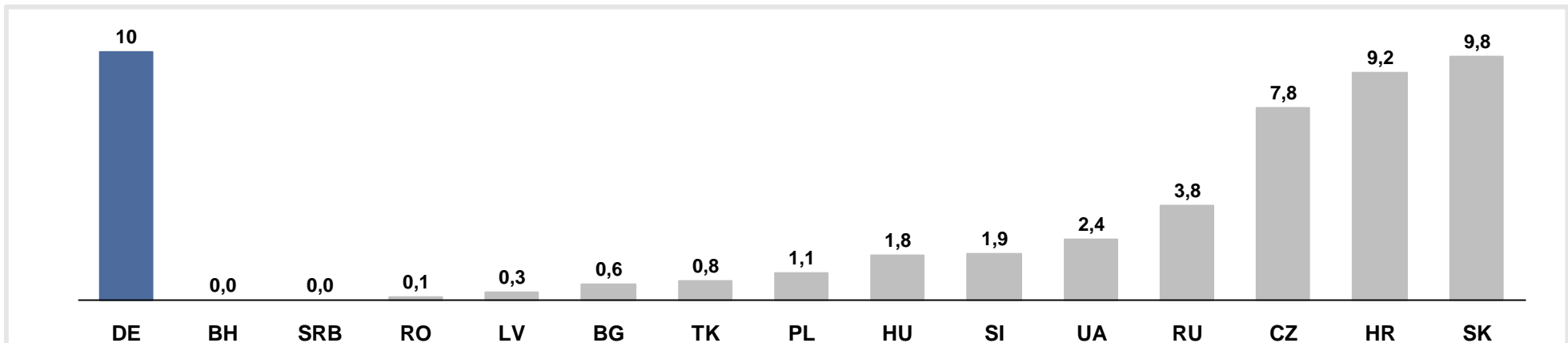


Lending penetration signals the potential of bank credit to corporates and even more of corporate bonds

Corporate loans penetration, % GDP, 2012



Corporate bonds penetration, % GDP, 2012



Note: EMU includes 17 countries.

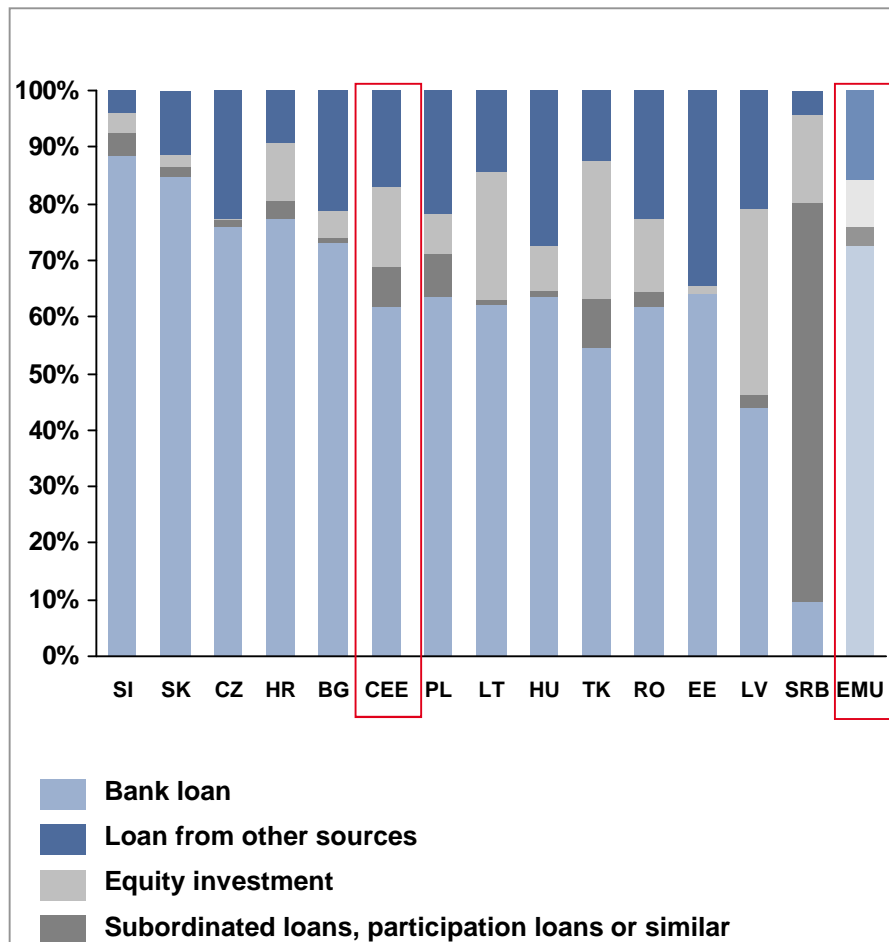
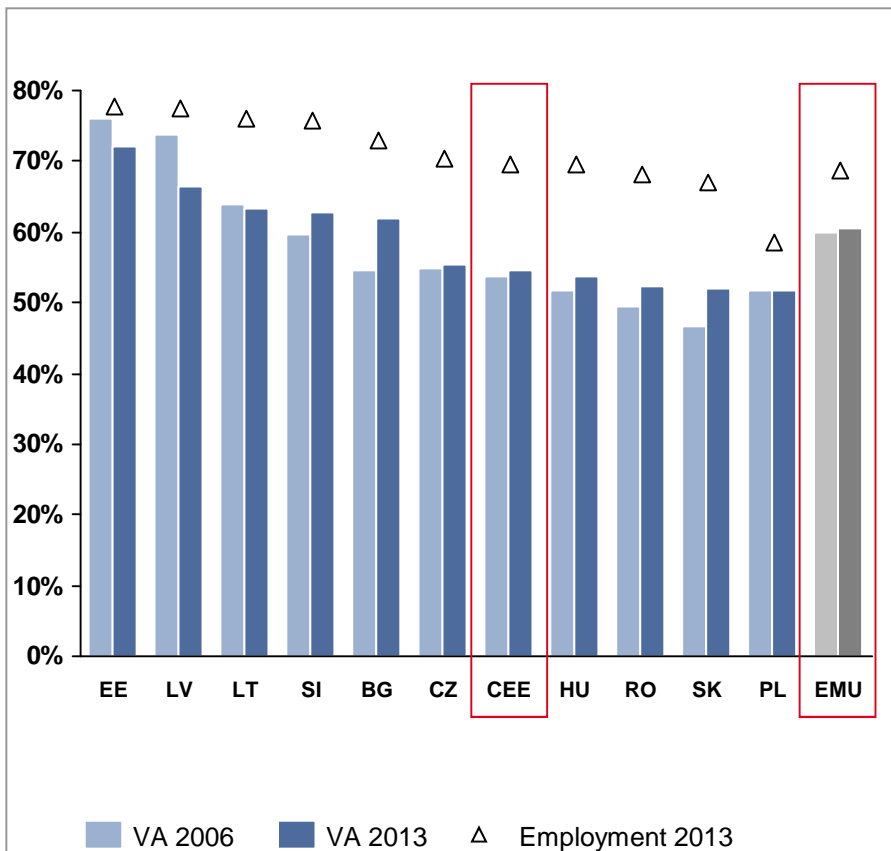
Source: UniCredit CEE Strategic Analysis, Bloomberg



Although one of the riskiest segments, SME to be one of the focal points of bank financing, considering the high relevance of this segment in CEE economies as well as SME's reliance on bank credit

SME, value added (% of GDP) and employment (1)

SMEs preferences for sources of financing growth (2)



Notes:

1) Estimates for 2013, based on 2005-2009 figures from the Structural Business Statistics Database (Eurostat). The estimates have been produced by Cambridge Econometrics

2) Survey on the Access to Finance of Small and Medium-sized Enterprises (SAFE) in 2011. Loan from other sources (e.g. trade credit, related company, shareholder, public sources)

Source: Eurostat, SAFE, CEE Strategic Analysis



Several programs are in place to support CEE economic growth and SME segment in particular, with commercial banks playing a pivotal role

Initiatives to support CEE economic growth

- **EU subsidized finance:**
 - In the period **2007-2013**, **EUR 180 bn** from the **Structural Funds** channelled to the Region. A similar amount could be available for **2014-2020**
 - **EIF Guarantees** within the “Competitive and Innovation Framework” (CIP), JEREMIE program, JASMINE, Risk Sharing Instruments
- **New Joint IFI Action Plan for Growth in CESEE:** **EIB, World Bank, EBRD** joint commitment of **EUR 30bn** for the period 2013-2014, addressing priority areas such as SMEs, renewable energy and energy efficiency, innovation
- **Other initiatives to support SMEs:**
 - **EIB:** EIB Global Loans, SME Finance Facilities
 - **EBRD:** EBRD-Facility with the aim of supporting SMEs, lease finance and energy efficiency projects
 - **MIGA / SACE** political risk insurance

Commercial Banks playing a pivotal role

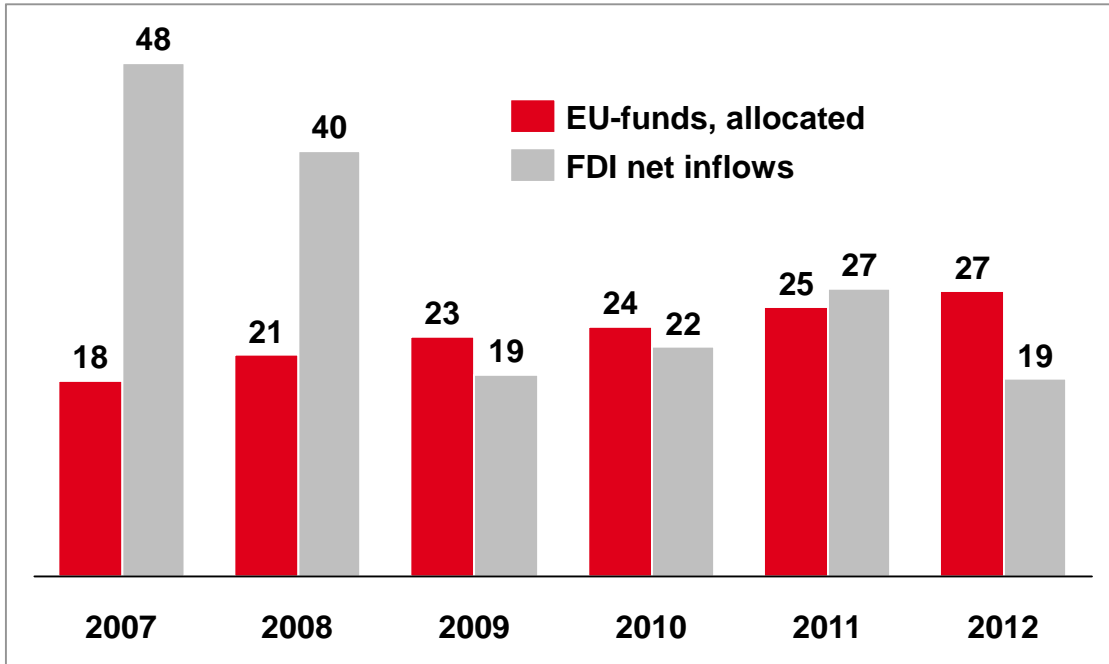
- **EU subsidized finance:**
 - **Co-financing:** EU normally finances only 50–85% of the project value
 - **Bridge Financing**
 - **Guarantees / Financial Engineering instruments:** strong focus on financial instruments such as CIP, JEREMIE, JASMINE, Risk Sharing Instruments
- **Commercial banks play** a leading role in channelling the funds of international financial institutions
 - Specific agreements among the financial institutions and main banks are in place

Note: The **JEREMIE** initiative offers the opportunity to use part of EU Structural Funds to finance SMEs by means of equity, loans or guarantees. **JASMINE** supports micro-finance institutions. **Risk Sharing Instrument** is an instrument which covers 50% of the principal and interest losses on each loan for SME's and small midcaps (according to the EU definition companies with fewer than 500 employees) with a focus on R&D and innovation. **CIP** is aimed to stimulate the provision of debt finance to SMEs at local level, start-up and growth of SMEs

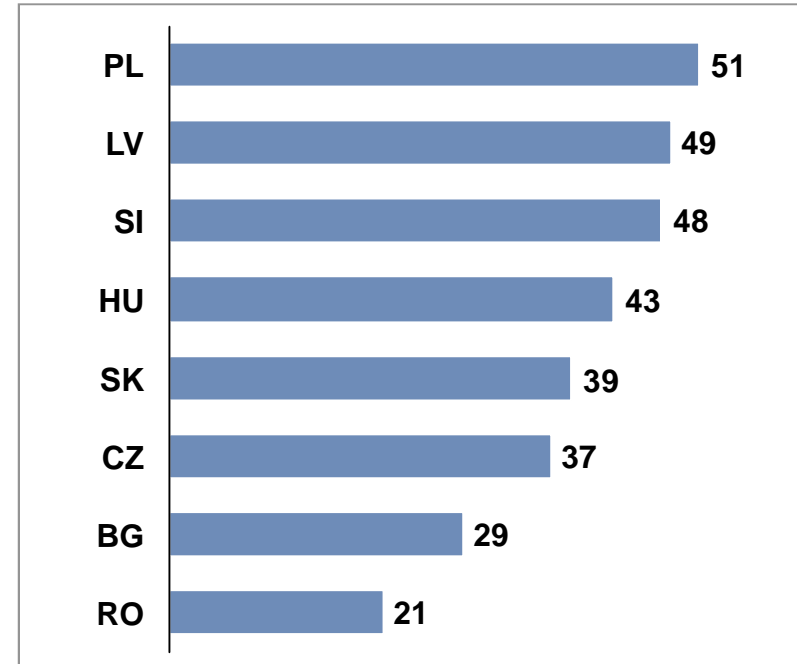


Especially in the most recent years, EU financing has represented a great part of funds available to the CEE Region. The positive impact of these funds to the Region will increase if higher absorption rates are reached

Relevance of EU-funding versus FDI in CEE*, EUR bn



Absorption of EU funds by country**, %



- Given the slowdown in private flows, **EU-subsidized finance has become increasingly important**
- **Obtaining higher absorption rates is vital in particular for some countries**
- **Commercial banks are increasingly involved in supporting the absorption of those funds**

* CEE: Bulgaria (BG), Czech Republic (CZ), Hungary (HU), Latvia (LV), Poland (PL), Romania (RO), Slovakia (SK), Slovenia (SI)

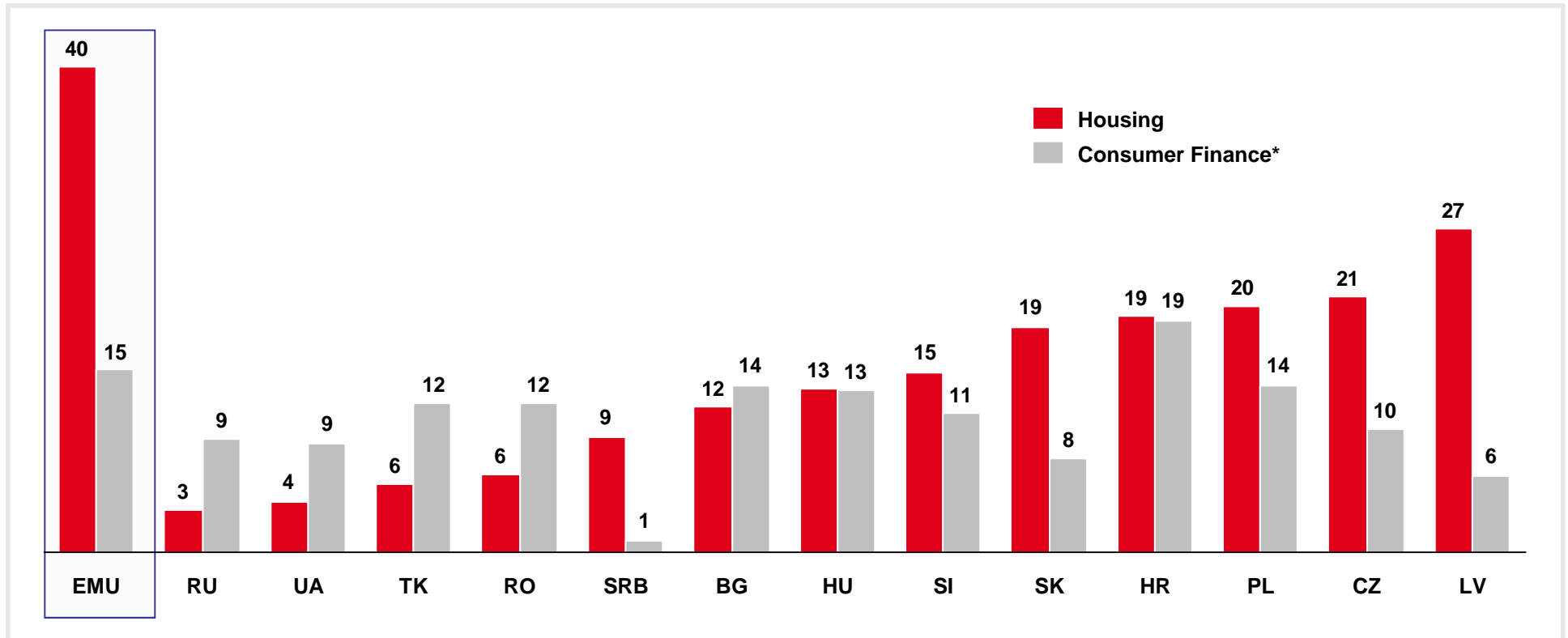
** Absorption rate as of November 2012 for the funds allocated from budget 2007-2013

Source: UniCredit CEE Strategic Analysis based on UniCredit Research data; EU Commission



Lending penetration of Retail also signals the potential of bank credit to this segment

Retail lending penetration, % GDP, 2012

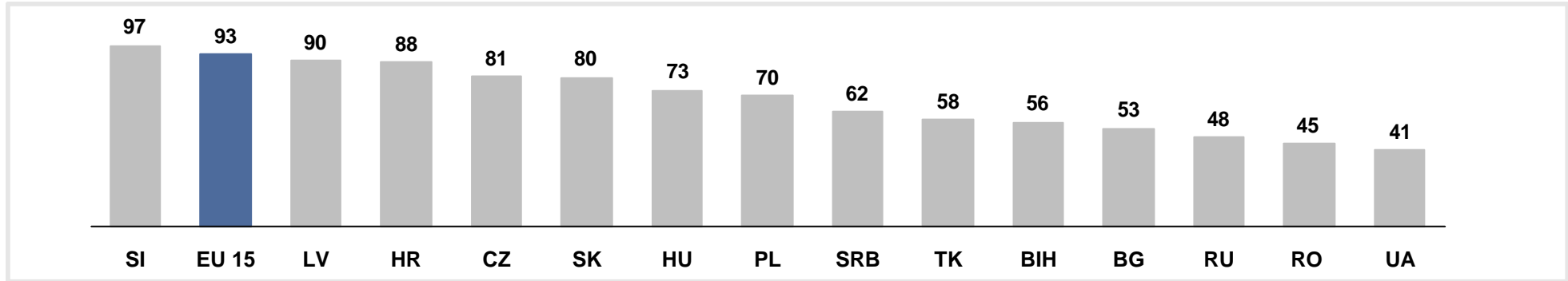


Note: EMU includes 17 countries; *Consumer finance includes consumer and other loans to households
Source: ECB, UniCredit CEE Strategic Analysis

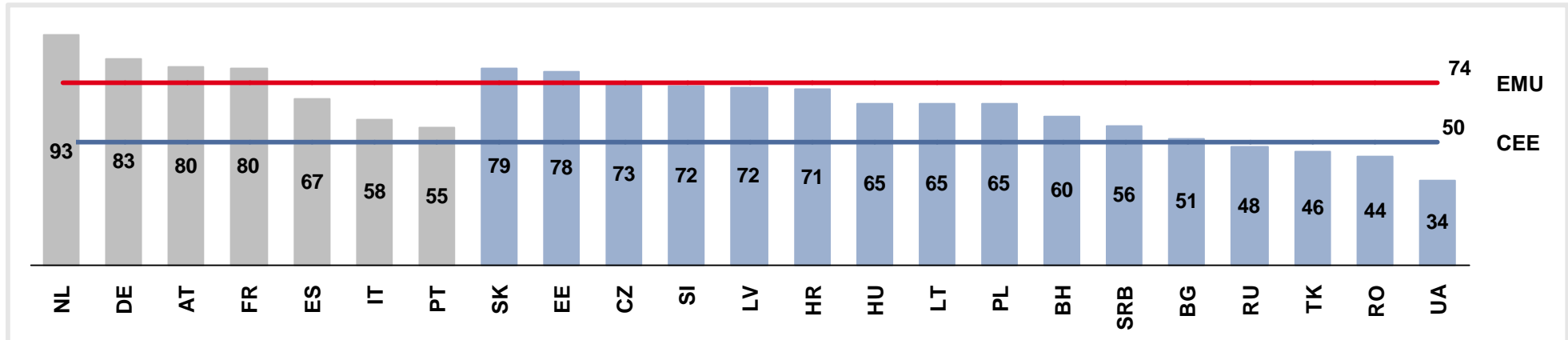


Retail market potential to be seen, not only in terms of lending opportunities, but also in terms of deposit gathering and using banking services, also through the internet banking

Share of population with a bank account, %



Internet users, % of population



Source: World Bank Database 2011, Internet World Stats 2012, UniCredit CEE Strategic Analysis



Prior to crisis cheaper FX lending expanded strongly in CEE, whilst the crisis brought stagnation. In some CEE economies, authorities introduced regulations limiting FX lending mainly to Retail. Future FX lending will be restrained

Share of FX lending in CEE*, %

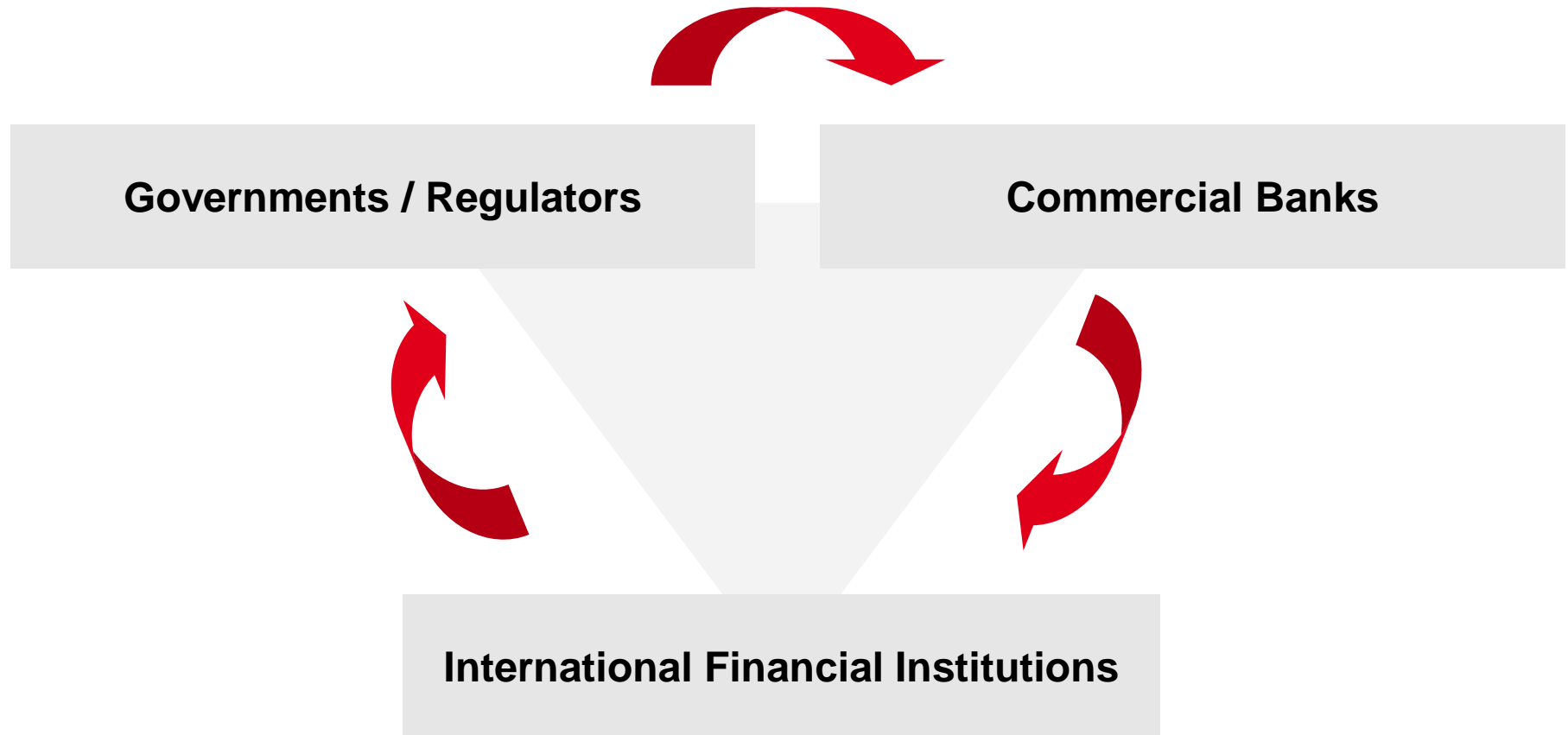


Regulations on FX lending

Hungary		<ul style="list-style-type: none"> Ban of FX-mortgage lending partially lifted, but conditions remain restrictive ERP in 2011/12: repayment of FX mortgages at fixed exchange rates
Romania		<ul style="list-style-type: none"> Consumer lending in FX curtailed through higher down payments and lower debt service to income ratios
Ukraine		<ul style="list-style-type: none"> Ban on retail FX lending
Serbia		<ul style="list-style-type: none"> Increased min down payment on FX loans (from 0 to 20% for mortgages and to 30% for other)
Turkey		<ul style="list-style-type: none"> FX lending allowed for commercial purposes only with average maturity >1 year & amount >USD 5M



Economic growth acceleration will likely stem from enhanced domestic competitiveness. Enhanced cooperation across banks, IFIs and regulators remains crucial to support this dynamic





Economic developments – still a solid growth potential

Credit dynamics – growth maintained, supply improving

UniCredit in CEE – leadership and commitment



- **Rock-solid pan-European commercial bank**
- **Leadership positions in Austria, Germany, Italy and Poland.** Strong presence in other **high-growth CEE countries**, including Turkey
- Strong presence in the **top financial centers** in the world, rounded off with a broad coverage including more than **9,300 branches**¹
- Network of 4,000 **correspondent banks** covering 150 countries
- Operating income: **EUR 5,709 mn (Q4 2012); EUR 25,049 mn (FY 2012)**
- Operating profit: **EUR 2,024 mn (Q4 2012); EUR 10,070 mn (FY 2012)**
- **Core Tier I at 10.84%** as of 31 December 2012²

¹ As of 31 December 2012; including all branches of subsidiaries consolidated proportionately, such as Koç Financial Services Group branches.

² At the end of December 2012 the Group's Core Tier I ratio is equal to 10.84%, improving by 17 bps vs September 2012, mainly thanks to RWA reduction. Fully loaded Basel 3 Common Equity Tier 1 ratio (CET 1) is equal to 9.2%. The sale of 9.1% stake of Pekao in January 2013 leads to additional 13 bps under Basel 3, whereas ATF disposal would provide a potential additional upside of 8 bps. The total reduction of RWA in the CIB division accounted for a reduction of EUR 32 bn Y/Y, while since 2010 RWA were reduced by EUR 53 bn before Basel 2.5 impact.

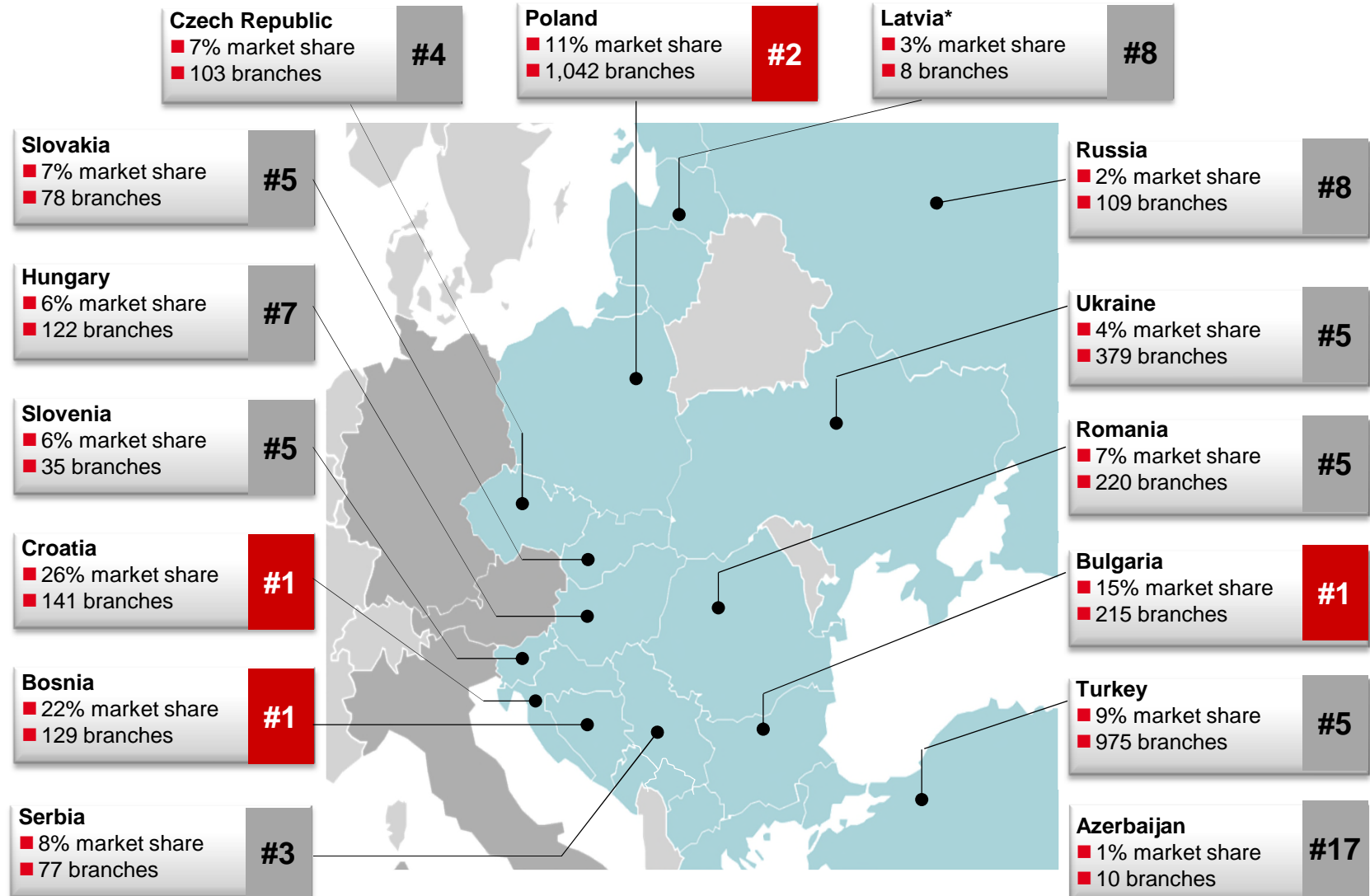


FIRST IN THE REGION IN TERMS OF NETWORK AND EXPERTISE PREFERRED PARTNER FOR LOCAL AND CROSS-BORDER BUSINESS

- With a clear understanding of the difficulties that come with managing a local business, we **offer customers our deep knowledge of CEE markets**. This includes expertise in local regulations and market practices, as well as fluency in the local languages. We support customers in running their businesses and finding new opportunities in a manner that takes into account the Region's varied commercial and political contexts.
 - We serve our customers through an **extensive network** that includes nearly 2,800 branches in 16 countries within CEE and through alternative channels (i.e. internet banking, mobile banking).
 - Throughout the Region, our local banks enable us to **support customers' cross-border operations and business development**. In fact, we serve approximately 10,000 customers from Italy, Germany and Austria who operate in CEE.
 - Our consistent and strong service quality makes us the **Region's leader in customer satisfaction**.
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Our unrivalled network in CEE



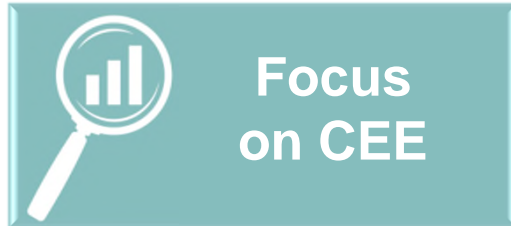
* incl. branches in Estonia & Lithuania

Note: Ranking and market shares in Total Assets as of December 31, 2012 (except AZ, CZ, PL and SI – as of September 30, 2012)

Source: Company data



UniCredit commitment for growth via various initiatives



#1 bank in the CEE Region*:

- with ~ € 56 bn loans and ~ € 42 bn deposits to/from CIB customers
- with ~ € 35 bn loans and ~ € 41 bn deposits to/from Retail and PB customers



Trends that matter:

- New branch and service models, “Branch of the Future” pilot in Bulgaria (less cash, smarter branches, more technology)
- Innovation in cards & payments business (mobile payments, touch-less biometric payments, etc.)



Cross-border services in UniCredit DNA**:

- approx. 4,000 German clients operating in CEE
- approx. 3,600 Italian clients operating in CEE
- and about 2,800 Austrian clients operating in CEE are being served

Notes:

* CEE Region including Poland

** active clients in CEE (excl. Poland)



International Financial Institutions play a pivotal role in UniCredit Group's SME lending activities

■ **FUNDING** provided by IFIs are:

- Among the few **instruments** available to **source medium / long term lending** at very competitive conditions
- Competitively priced **funding instrument** in **countries not having a deep wholesale & capital market**
- A source to **diversify CEE bank's funding base**

*Currently ca. 73%
of IFIs' funds
are dedicated to
CEE Banks' SME lending*

■ **RISK SHARING** (e.g. RSI programs, JEREMIE) provided by IFIs are:

- Among the few **instruments** available to **source long term funds to SME** at competitive conditions
- A **competitively priced protection instrument** for countries where similar insurances would otherwise be very costly



CEE Retail, Branch of the Future: a new customer experience



**Pilot branch opened on
March 19th, 2013 at**

UniCredit Bulbank



NOVELTIES

Retail operating model is changing

As a consequence, a **new branch format** has been designed on a **new customer experience**

In particular:

- **High street retail look 'n feel** – based on customer journey logic
- Introduction of **new technology** in branches – integrated **multichannel approach**
- **Serve first, sell second**
- **Increasing advisory activities** and supported shift of transactions to self-service
- **Customer experience** central role



DIRECT EFFECT ON 2 PILLARS

- **Better customer experience** (increasing revenue)
- **More efficient operational branch service model** (decreasing costs)



NEXT STEP

Qualitative and quantitative performance measurements



UniCredit professional support to its customers in CEE has been widely recognized

Cash Management & eBanking



- **Best Overall Bank for Cash Management in CEE** 2012 and 2013



- **Best Bank for Payments & Collections in CEE** 2012 and 2013



- **#1 Cash Management House in CEE** in 2012
- **#1 Domestic Cash Management House** in Bosnia & Herzegovina, Croatia, Czech Republic, Hungary, Poland, Romania and Slovenia in 2012
- **#2 Domestic Cash Management House** in Bulgaria, Slovakia, Kazakhstan in 2012
- **#3 Domestic Cash Management House** in Russia in 2012
- **Euomoney - Award of Excellence: Best Cash Management Bank in CEE, 2012**

Trade & Supply Chain Finance



- **Best Trade Finance Bank CEE** 2012 and 2013
- **Best Trade Finance Bank** in Bulgaria in 2013, Czech Republic in 2013, Russia in 2013, Poland in 2012, Ukraine in 2012 & 2013



- **Best Supply Chain Finance Provider in CEE** 2012



- **#3 Trade Finance Provider in CEE** 2012
- **#1 Trade Finance Provider** in Bosnia & Herzegovina, Bulgaria, Czech Republic, Serbia and Slovakia in 2012



- **Best Trade Bank in CEE** 2012



- **Best Bank in Eastern Europe in "Financial Supply Chain"** in 2012



- **Best Trade Bank in Eastern Europe** in 2012

Global Securities Services



- **Top rated by leading clients** in BG, HU, RO, SI, SK
- **Top rated by cross-border non-affiliate clients** in BG, KZ, RO, RU, UA
- **Top rated by domestic clients** in KZ, RO, RU, UA in Global Custodian Agent Bank Survey 2012



- **#1** in Sub-Custody Survey in Bosnia & Herzegovina, Bulgaria, Croatia, Czech Republic, Hungary, Poland, Serbia, Slovakia, Slovenia, Ukraine in 2012



- **Best Sub-Custodian Bank in CEE** 2012
- **Best Sub-Custodian Bank** in Croatia, Czech Republic, Hungary, Poland, Slovakia and Ukraine in 2012



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