
BANKING IN CEE: THE NEW GROWTH MODEL

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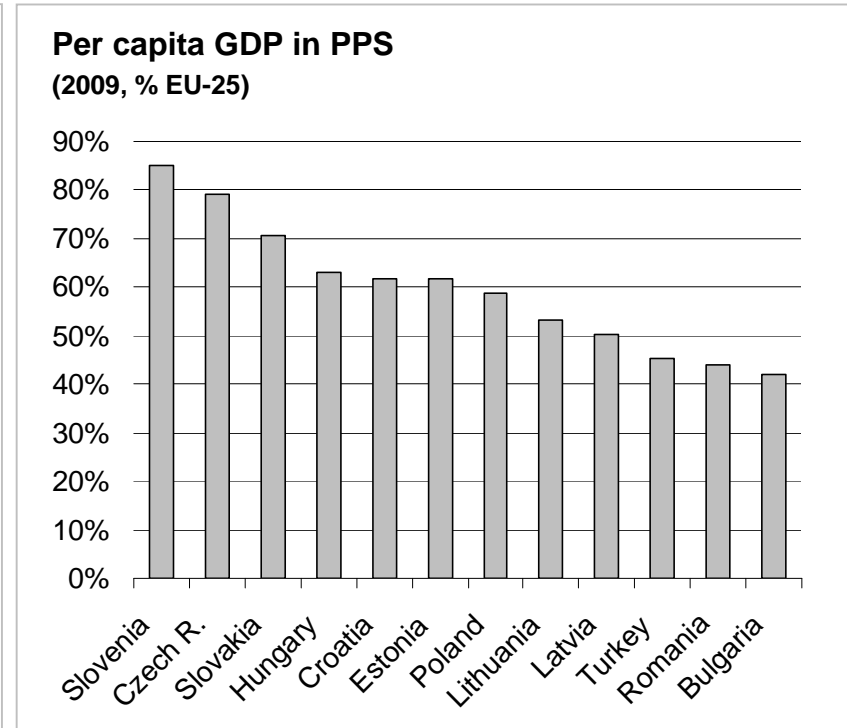
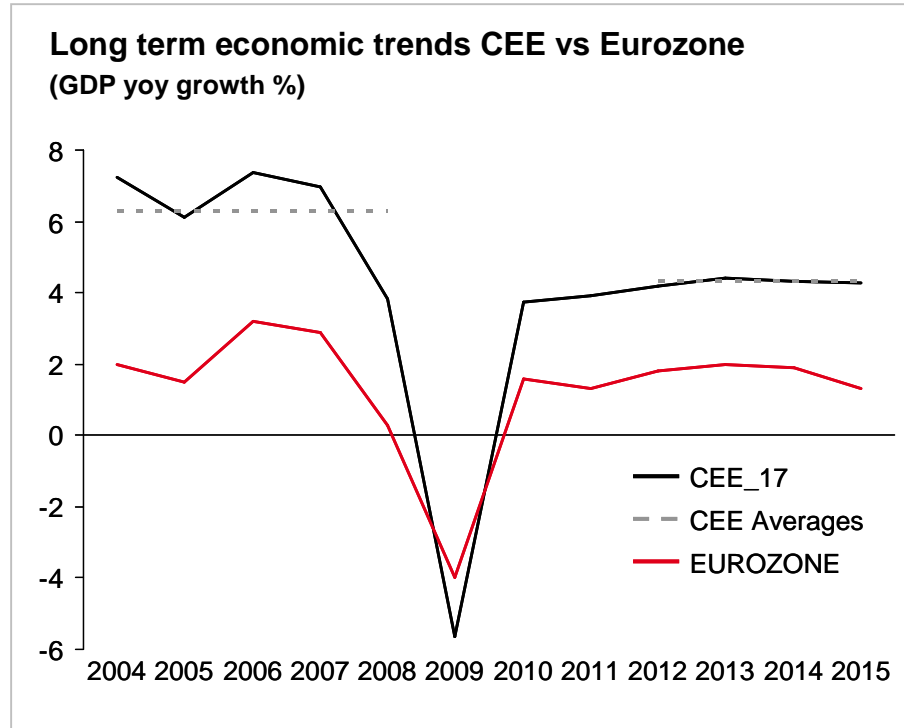
CEE banking study 2011: key findings

- The CEE convergence model holds
- CEE banking holds as an opportunity, with some reshaping of the banking model
- 2011 is the year of (moderate) recovery for CEE banking, with continued focus on efficiency and risk control
- The competitive environment is changing in the context of increasing regulatory risk, opening opportunities for re-positioning and some newcomers
- UniCredit is strongly committed to CEE and well positioned to take the upside, having enough capital, liquidity, risk appetite and good franchise

AGENDA

- **CEE economic outlook: convergence model vs short term risks**
- CEE banking: an opportunity, with some rebalancing
- 2011 the year of (moderate) recovery
- Changing competitive environment and regulatory risk
- UniCredit in CEE
- Conclusions

CEE economic convergence holds – long term potential growth at 4% above more mature economies but below pre-crisis



- Economic growth model based on the “convergence story”
 - Standards of living
 - Productivity and competitiveness

SOURCE: UniCredit Group CEE Strategic Analysis, UniCredit Research, Eurostat

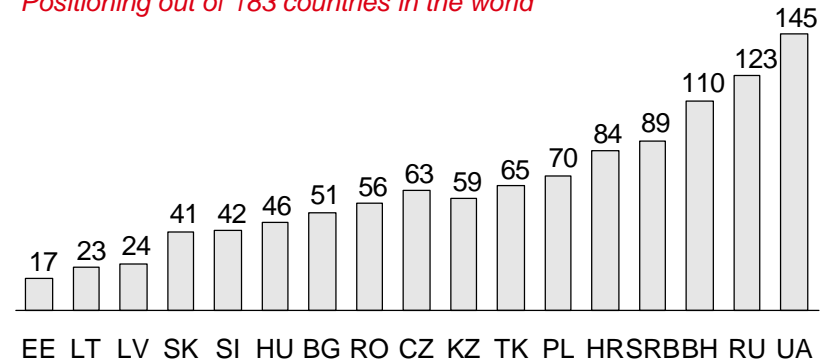
Countries differ in terms of timing of recovery, focus towards sustainable strategies and exposure to risk

CEE Macroeconomic forecasts

Real GDP % Yoy	2010e	2011f	2012f
Poland	3.8	4.4	3.9
Hungary	1.2	2.5	3.4
Czech R.	2.3	1.8	3.3
Slovakia	3.9	3.1	4.5
Slovenia	1.2	2.5	2.8
Lithuania	0.9	3.7	3.6
Latvia	-0.9	3.9	4.0
Estonia	2.4	3.9	4.0
Romania	-2.5	1.7	3.4
Bulgaria	0.1	2.8	3.5
Croatia	-1.5	1.6	2.0
Bosnia	0.5	1.8	2.5
Serbia	1.8	2.7	3.5
Turkey	7.4	4.1	5.1
Ukraine	4.0	5.0	5.0
Russia	3.4	4.3	4.1
Kazakhstan	6.0	5.3	5.5
CEE-17	3.6	3.8	4.2

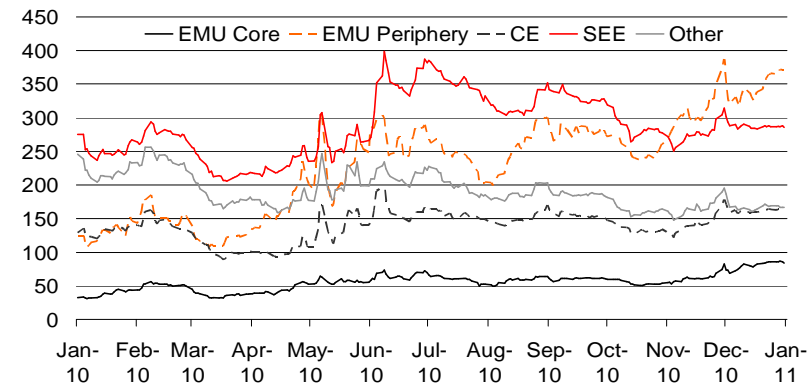
Quality of the business environment

World Bank Ease of doing business rank in 2010
Positioning out of 183 countries in the world



Cost of country risk by sub-regions⁽¹⁾

5Y CDS USD



1. EMU Core: AT, BE, DE, FI, FR, NL, FI; EMU Periphery: GR, ES, PT, IE, IT; CE: CZ, HU, PL, SK; SEE: BG, HR, SRB, RO; Other: RU, KZ, TK, UA

SOURCE: UniCredit Group CEE Strategic Analysis, World Bank, Bloomberg

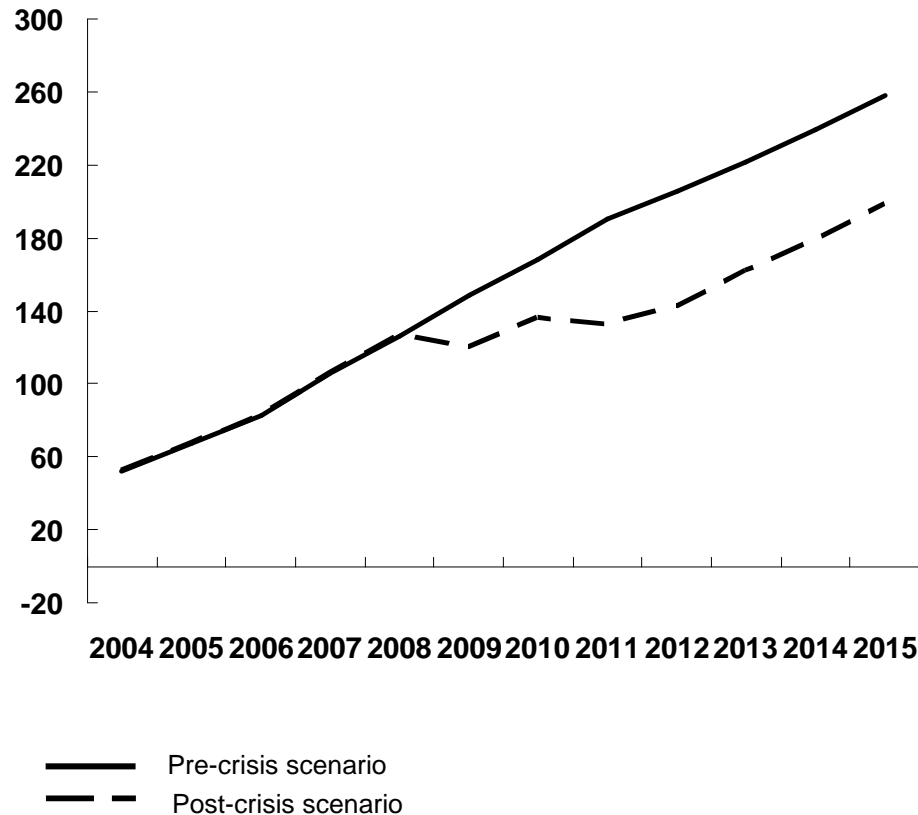
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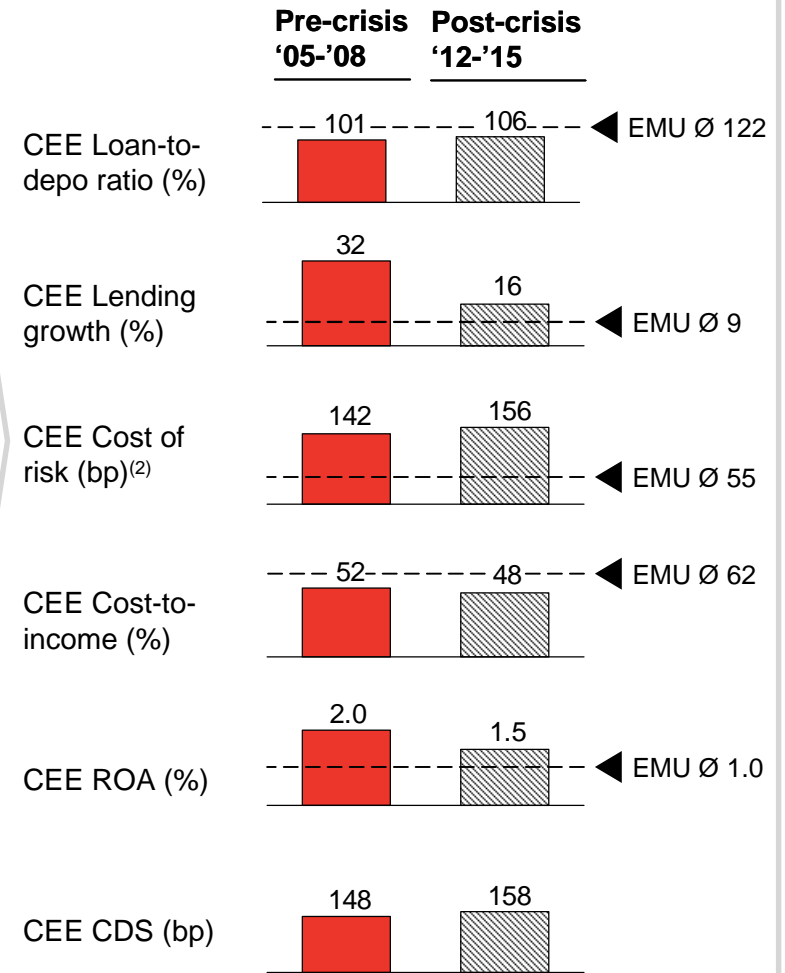
CEE banking holds as an opportunity, provided some rebalancing

CEE expected to recover towards a lower growth path...

CEE-17 total CEE banking revenues - bn euro

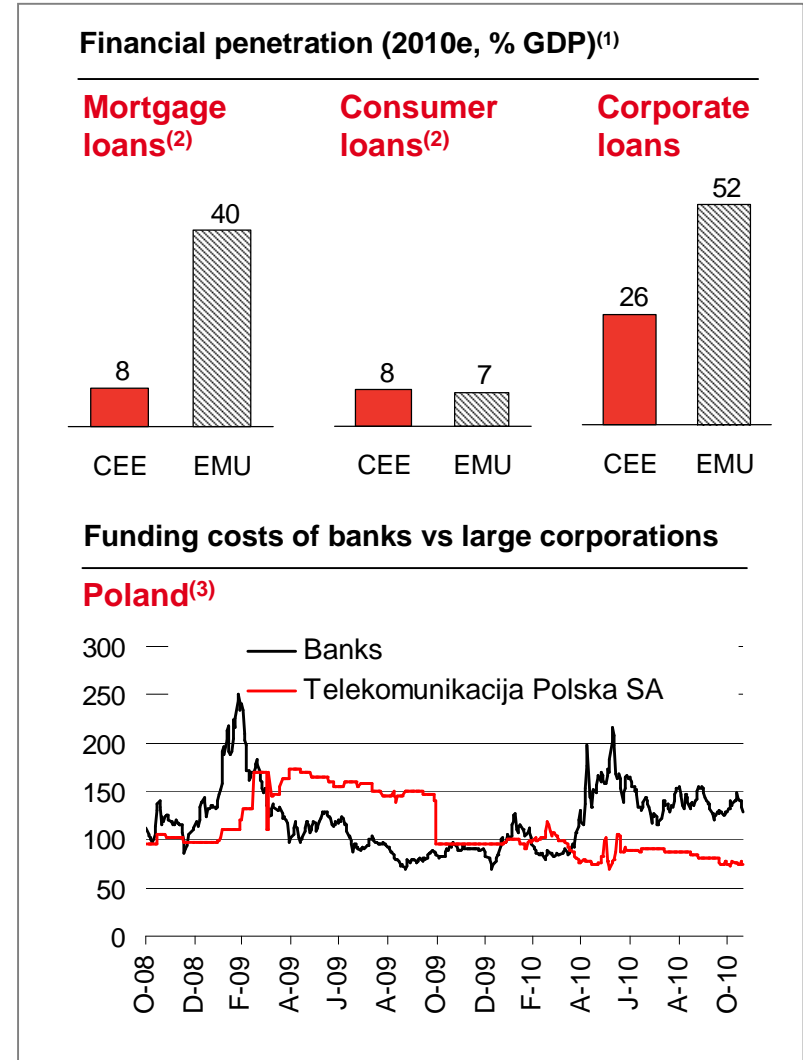
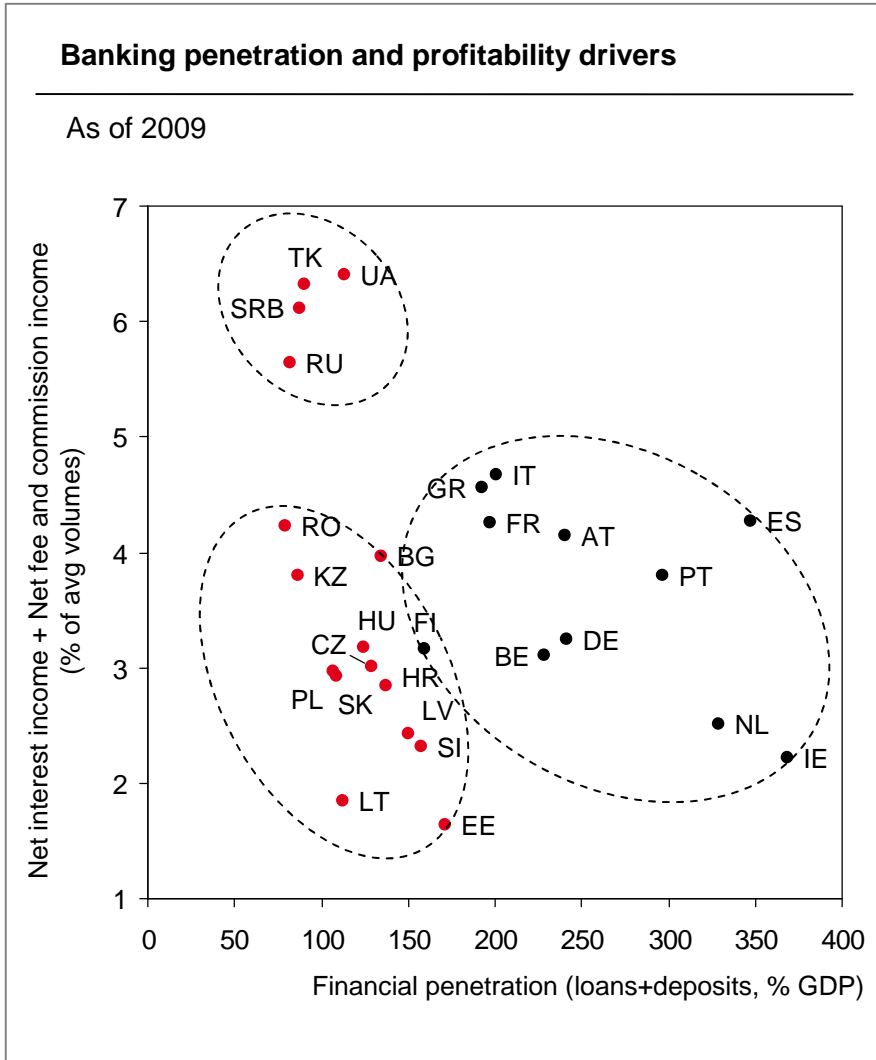


... yet maintaining a significant advantage vs. Western Europe⁽¹⁾



1. EMU average refers to 2005-2008
 2. 2005-07; EMU proxy including AT, DE, IT (2005-2008)
 SOURCE: UniCredit Group CEE Strategic Analysis, ECB

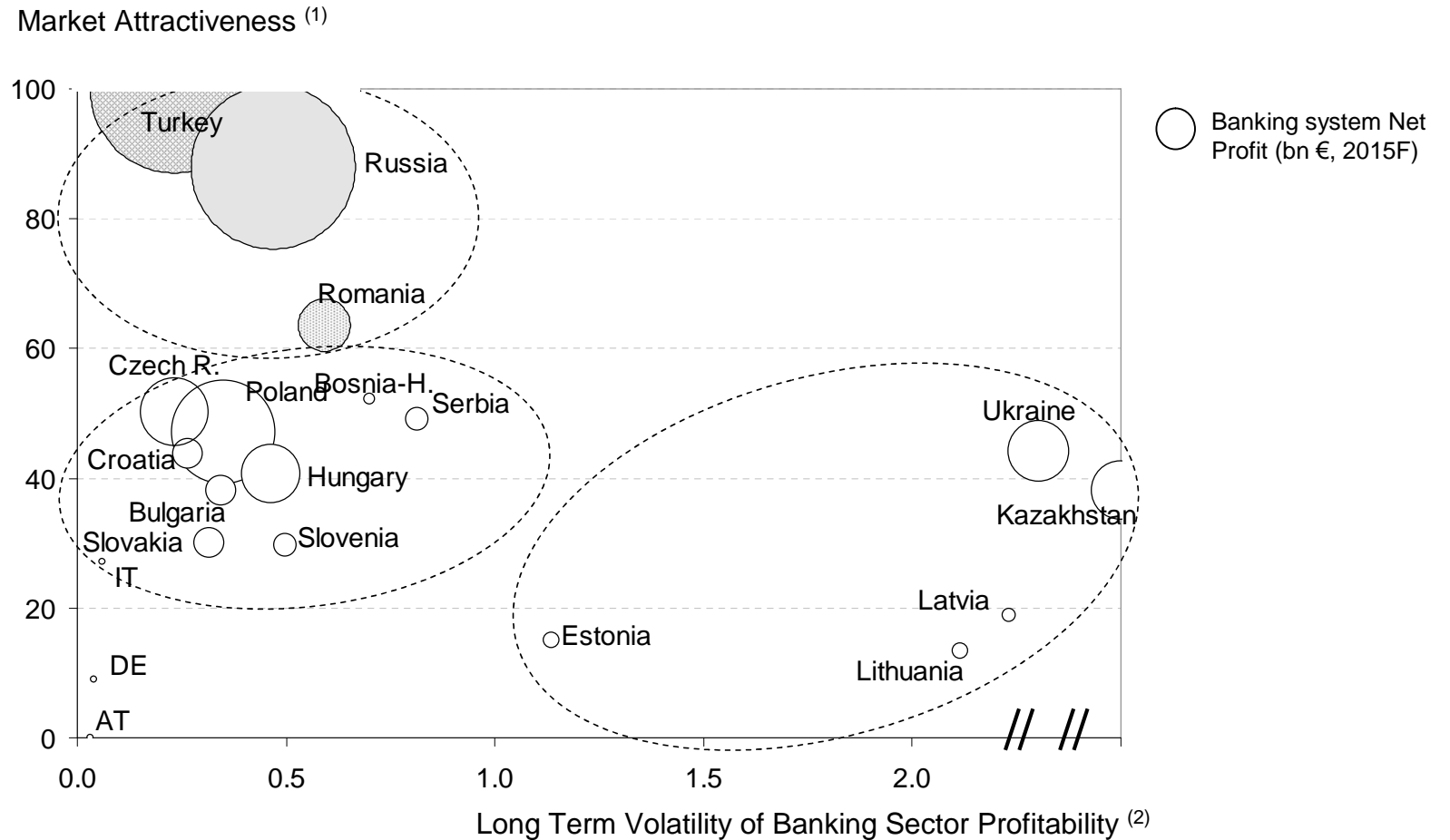
Financial products penetration gap holds as a base for the upside in CEE banking, but strategies towards new services and new segments penetration become a must



1. EMU-12 as of 2009
 2. CEE-9: PL, TK, RU, HR, BG, CZ, HU, RO, SK
 3. Sample of banks including UCG and Commerzbank
 SOURCE: UniCredit Group CEE Strategic Analysis

In a medium to long term view, banking systems in the region differ, in terms of risk/return opportunities

Long term market attractiveness, risk and size of CEE Profit pool

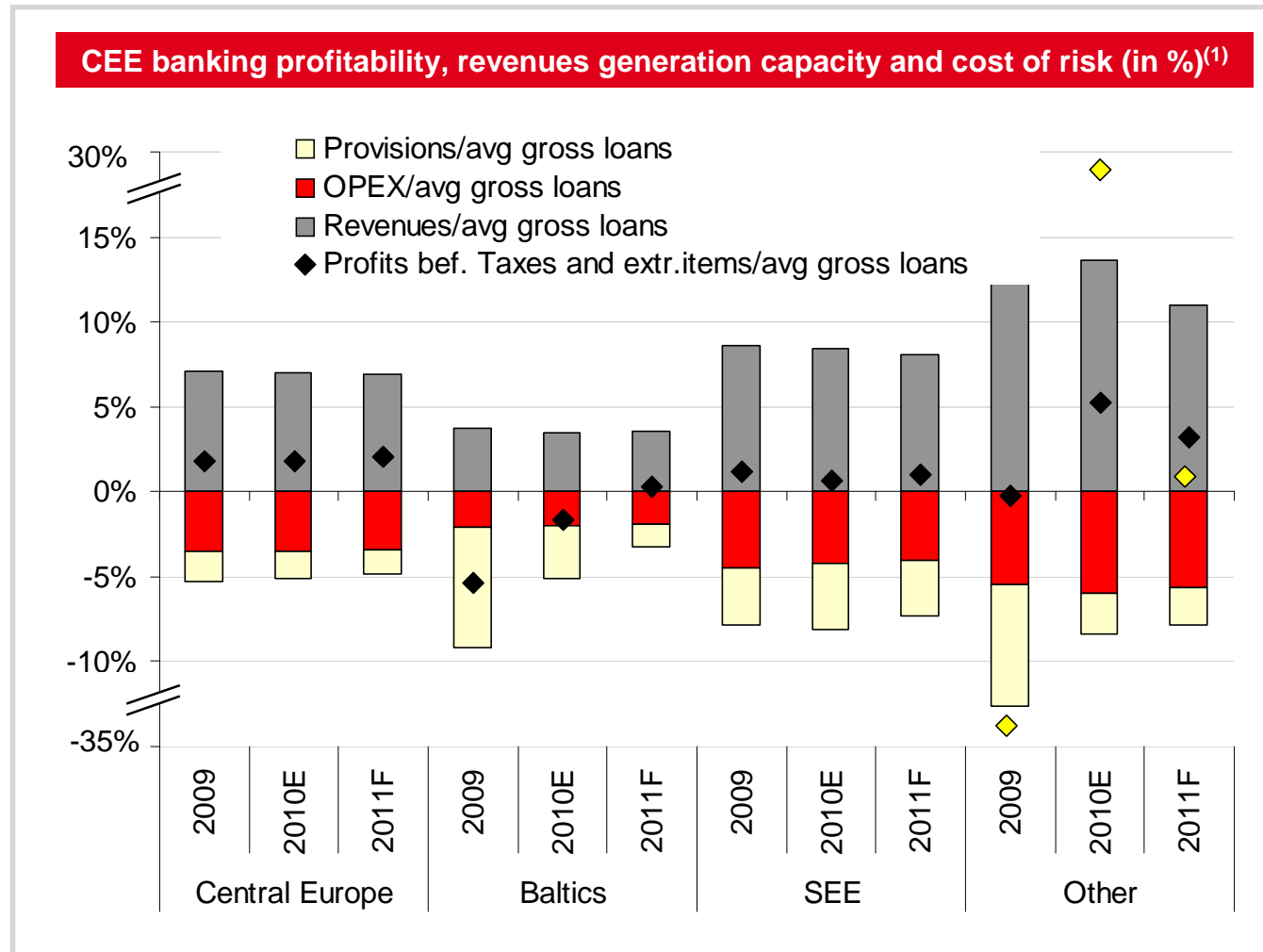


1. Market Attractiveness is an index ranked between 0 (low attractiveness) and 100 (high attractiveness). It is obtained by considering growth potential (50% weight) and profitability (50% weight). Growth potential is measured in terms of volumes growth, while profitability in terms of ROA.
 2. Long Term Volatility of Banking Sector Profitability means the standard deviation of banking system ROA.
 SOURCE: UniCredit Group CEE Strategic Analysis

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2011 is the year of the recovery, but the recovery path is going to be moderate



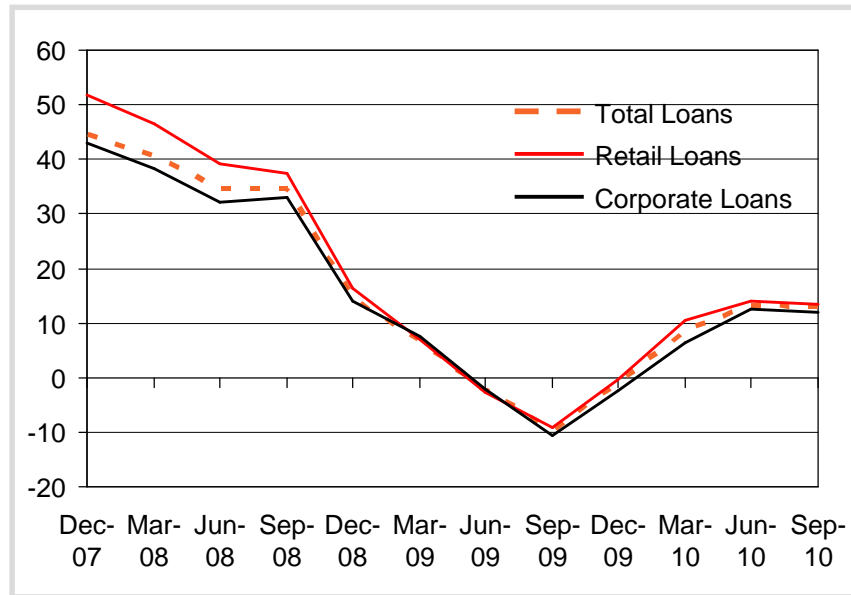
◆ Kazakhstan - Profits bef. taxes and extr. items (% avg loans)

1. Central Europe: PL, HU, SK, CZ, SI; SEE: BG, BiH, HR, RO, SRB; Other: RU, KZ, UA, TK
 SOURCE: UniCredit Group CEE Strategic Analysis

Out from a clear credit crunch – mostly demand driven

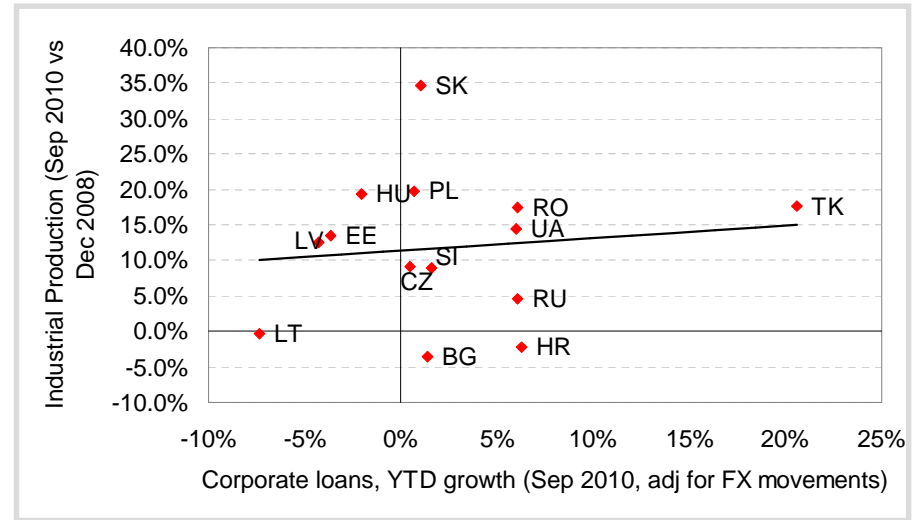
Lending activity gradually restarting

(yoy % growth, not adjusted for FX movements)



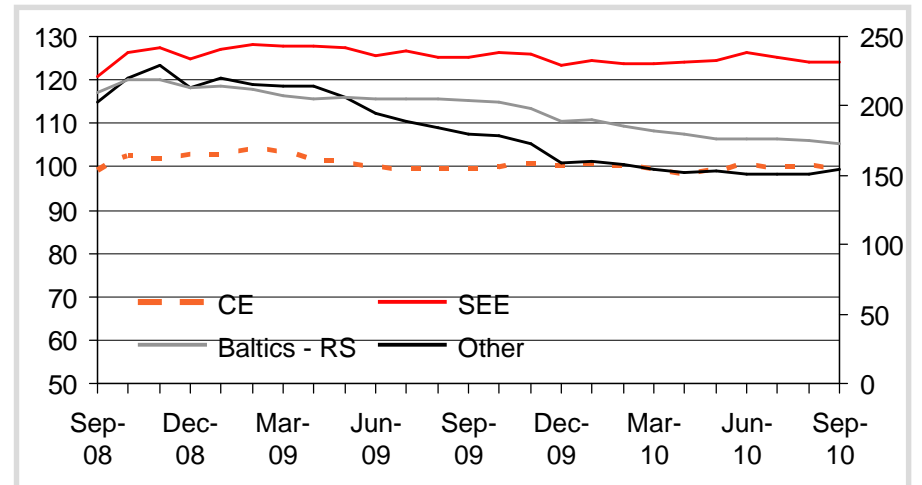
A demand driven credit crunch

(Correlation between corporate loans and industrial production, %)



Deleveraging not any more a must

Banks' loans-to-deposits ratio (%)⁽¹⁾

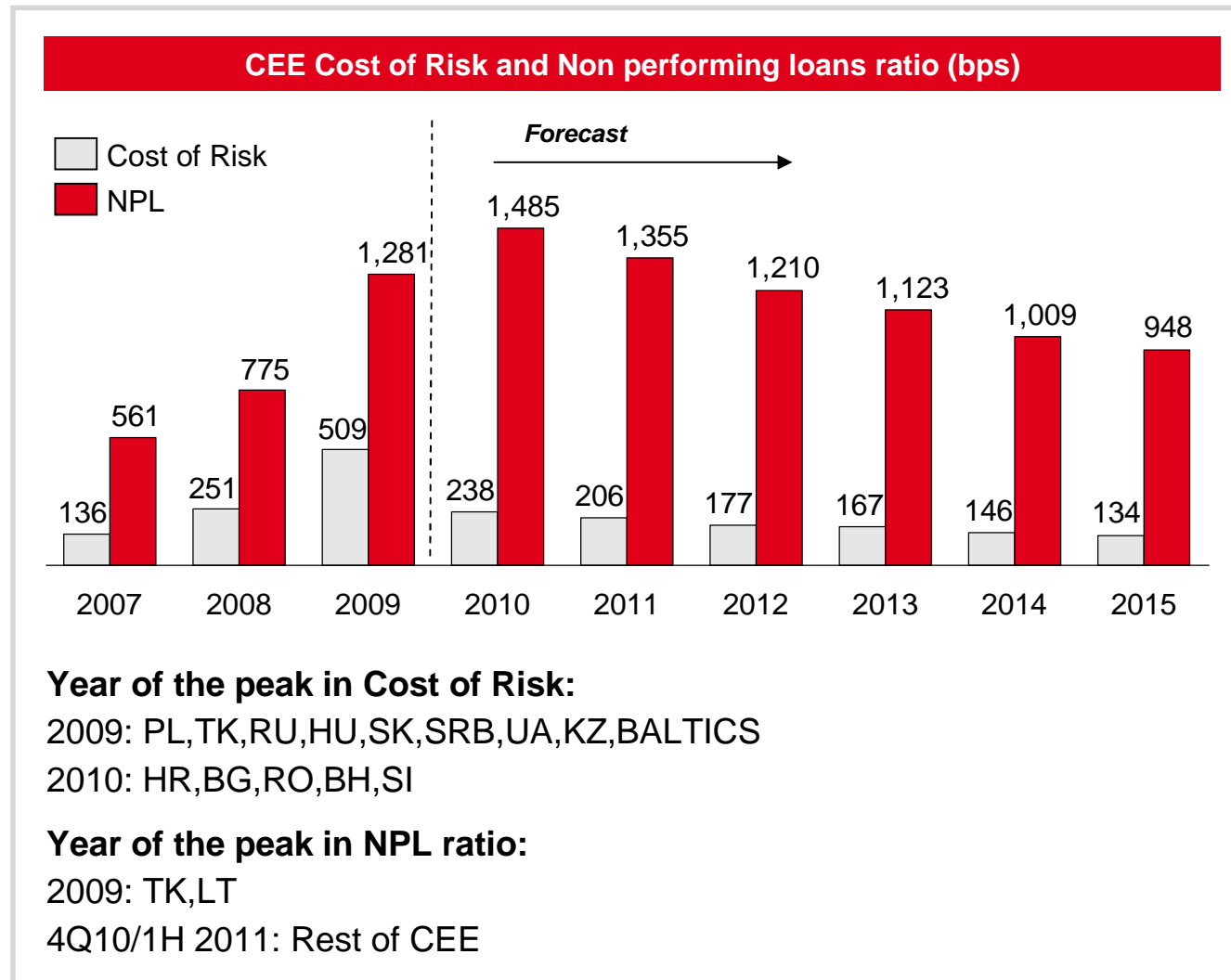


1. CE: CZ, HU, PL, SK, SI; SEE: BG, BiH, HR, RO, SRB;

Other: TK, UA, RU, KZ

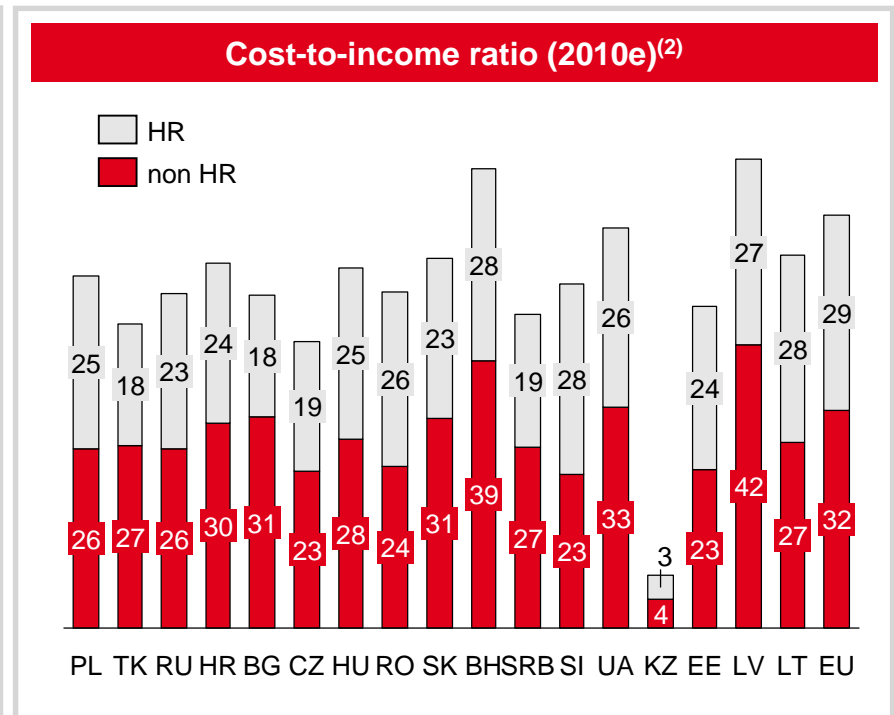
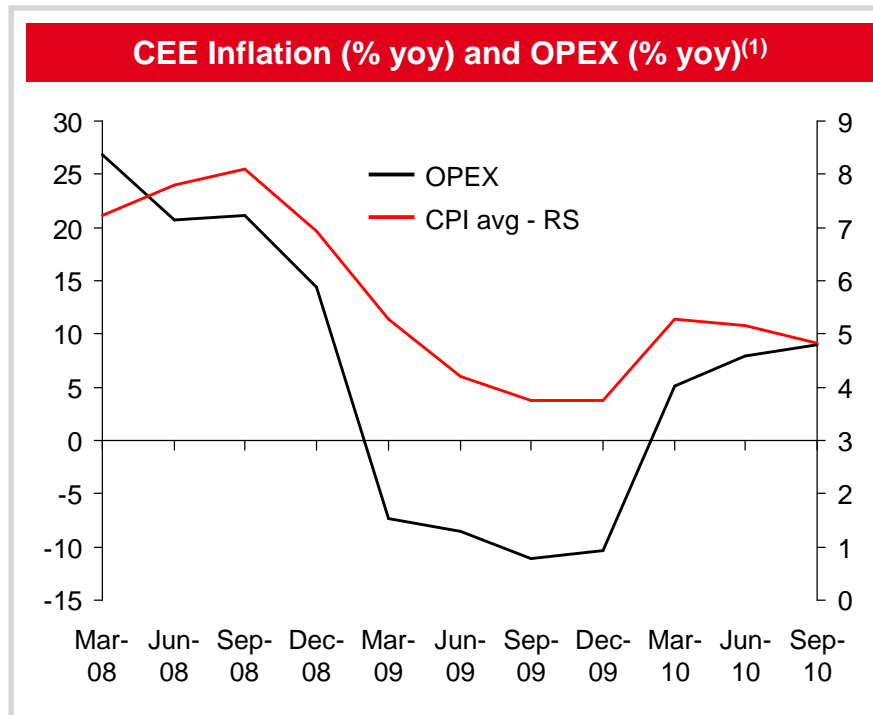
SOURCE: UniCredit Group CEE Strategic Analysis

Peak for non performing loans expected for end 2010/1H 2011 with cost of risk already decelerating



SOURCE: UniCredit Group CEE Strategic Analysis

Efficiency is a must, but so are investment for future growth



- During the crisis, banks in CEE strongly focused on cost efficiency measures
- Cost control will remain a focus in the medium-term in the context of a dynamic business environment
- While efficiency remains an important driver for future profitability, it is clear that those players who want to experience the region's upside, need to restart some investment activities

1.CEE including BG, CZ, EE, LT, LV, HU, PL, RO, SK, SI, TK

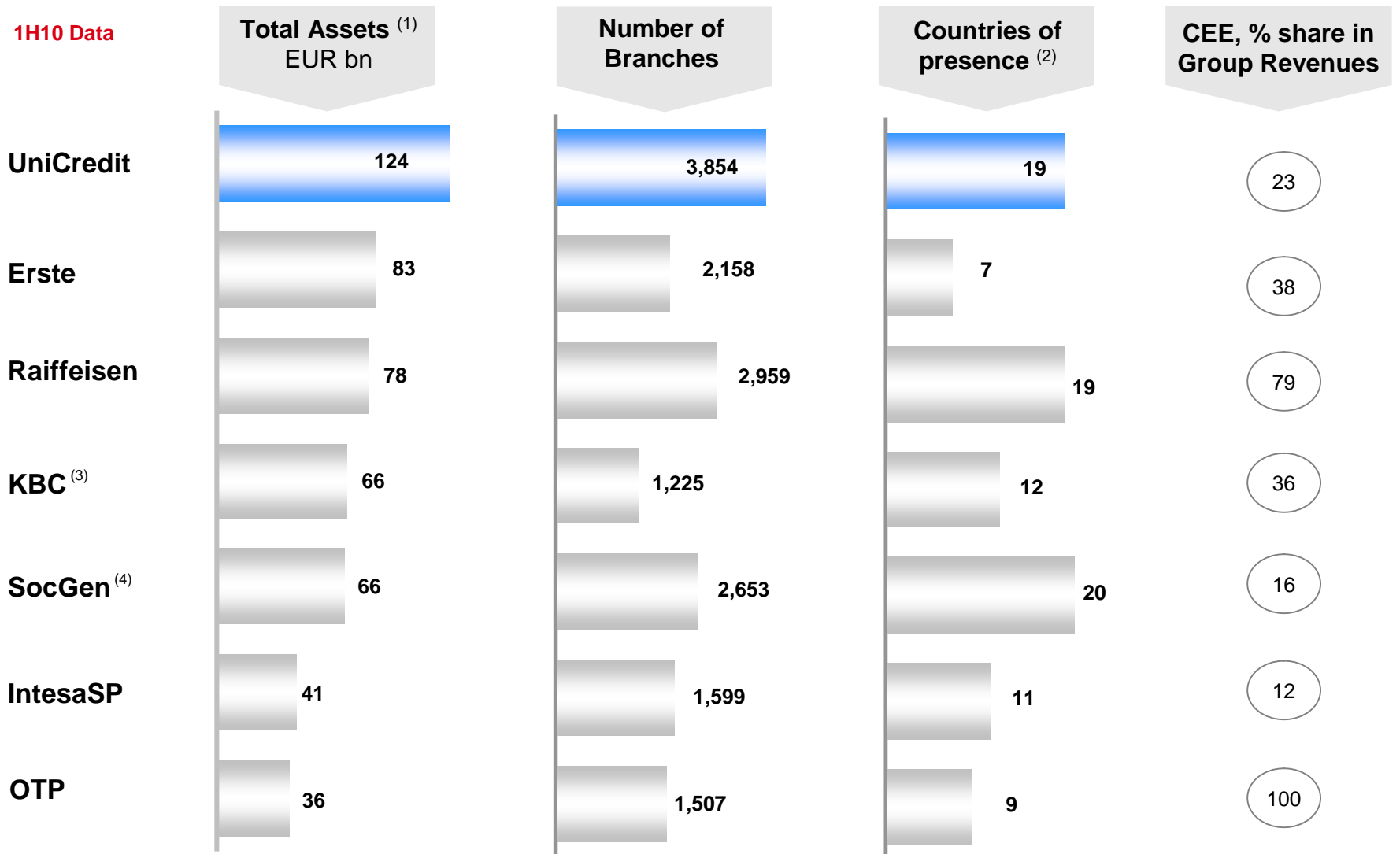
2.EU as of 2009

SOURCE: UniCredit Group CEE Strategic Analysis

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UniCredit with the best franchise network in CEE, also benefiting from Group diversification



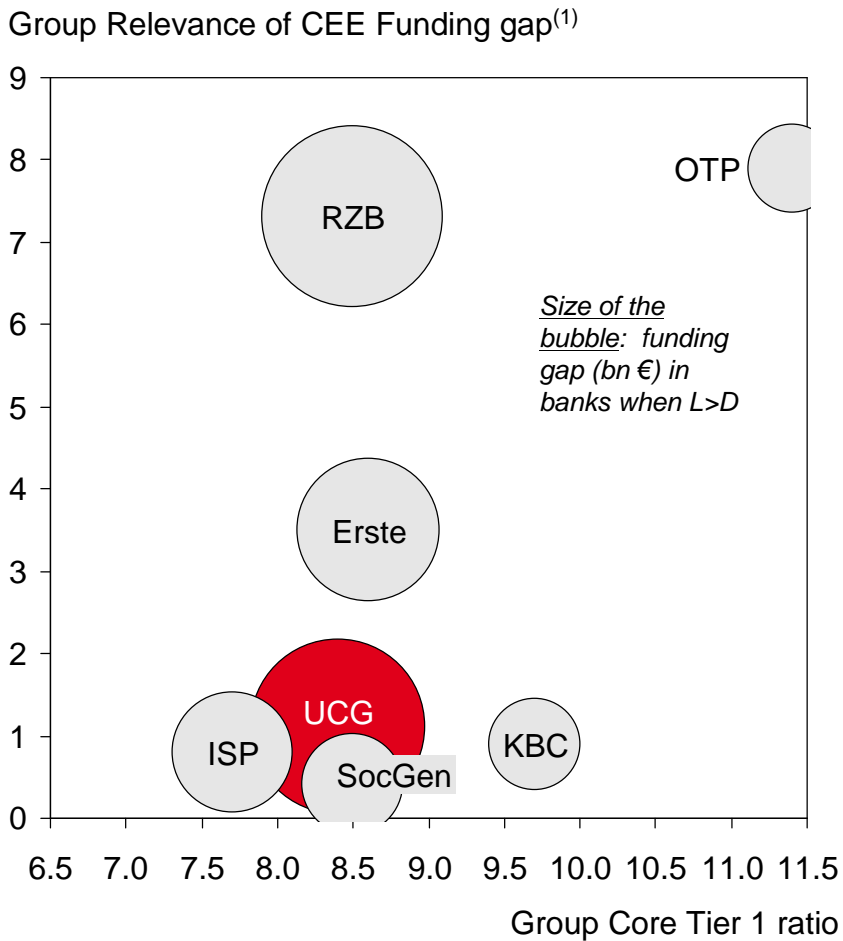
1. 100% of total assets for controlled companies (stake > 50%) and pro rata for non-controlled companies (stake < 50%), except for OTP and Raiffeisen International (Group reported data). 2. Including direct and indirect presence in the 25 CEE countries, excluding representative offices. 3. excluding subsidiaries in Russia, Serbia and Slovenia, except in countries of presence. 4. Data as of FY09, apart from total assets in CZ, RO, SRB, BG and AL.

Excluding Rusfinance in Russia

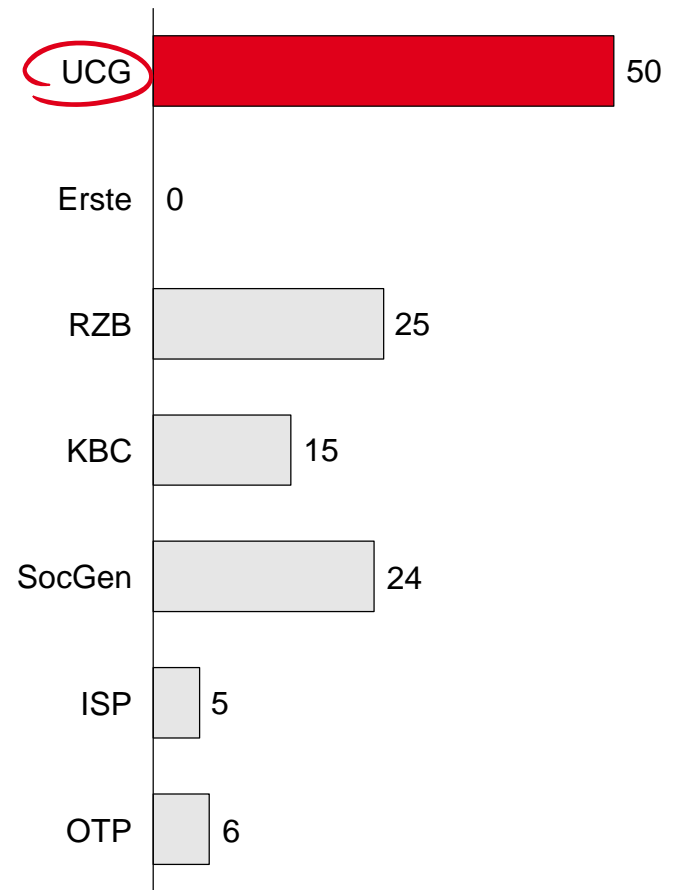
SOURCE: UniCredit CEE Strategic Analysis

Possibility to leverage on a solid funding and capital base, as well as good positioning will increasingly become key competitive factors

CEE funding gap vs. Group Core Tier 1 ratio (June.10)



Presence in attractive countries (June.10)⁽²⁾



1. Group relevance of CEE funding gap is the total CEE funding gap (when L>D) in % of group total assets

2. % of assets in Russia, Turkey and Poland

SOURCE: UniCredit Group CEE Strategic Analysis

Regulatory developments to be closely monitored – the risk is to penalise the cross-border banking model, which was the base for CEE economic and financial convergence

Regulatory Initiatives	Impact on CEE banking
<p>FX lending regulation</p>	<ul style="list-style-type: none"> ■ In the context of lack of long term funding in local currency and Euro convergence, FX lending was the driver of economic and financial convergence in the region ■ Development of local capital markets and long term local funding is a pre-condition for a full switch to local currency lending ■ No fix ban - but development of constructive solutions to strengthen local currency markets, based on countries specificities
<p>Tax on Banks</p>	<ul style="list-style-type: none"> ■ European bank levy and coordination issue with local initiatives ■ Purpose of the tax, size of the tax and possible double taxation are sensitive matters ■ Hungarian case
<p>Basle III</p>	<ul style="list-style-type: none"> ■ The direct impact on CEE from Basel III to be clearly perceivable but ‘not a game changer’: <ul style="list-style-type: none"> ■ On the quality and level of capital not a dramatic impact: <ul style="list-style-type: none"> ➢ CEE banks benefit from a stable oriented retail deposit base, low complexity of the asset structure in the context of high capital ratios and unused capital ➢ relevance of preferred shares and hybrid instruments is limited ■ The introduction of a leverage ratio is also most probably not binding ■ The impact from new liquidity standards should instead be stronger: <ul style="list-style-type: none"> ■ for short-term liquidity requirement, few countries, namely BG, RO, SRB and SK, should be significantly impacted in case of serious financial distress due to the relatively shorter-term liability base ■ for LT structural liquidity standard, the impact looks milder supported by the generally high capital base. Few countries could be more affected, namely RO, BG and HU, due to particularly low availability of LT funding and shorter term loan maturity structure ■ Still, the CEE region might end up being indirectly affected in case of shortfall or too binding constraints in terms of capital and funding (including limitations on optimal intra-group allocation) affecting international players active in CEE

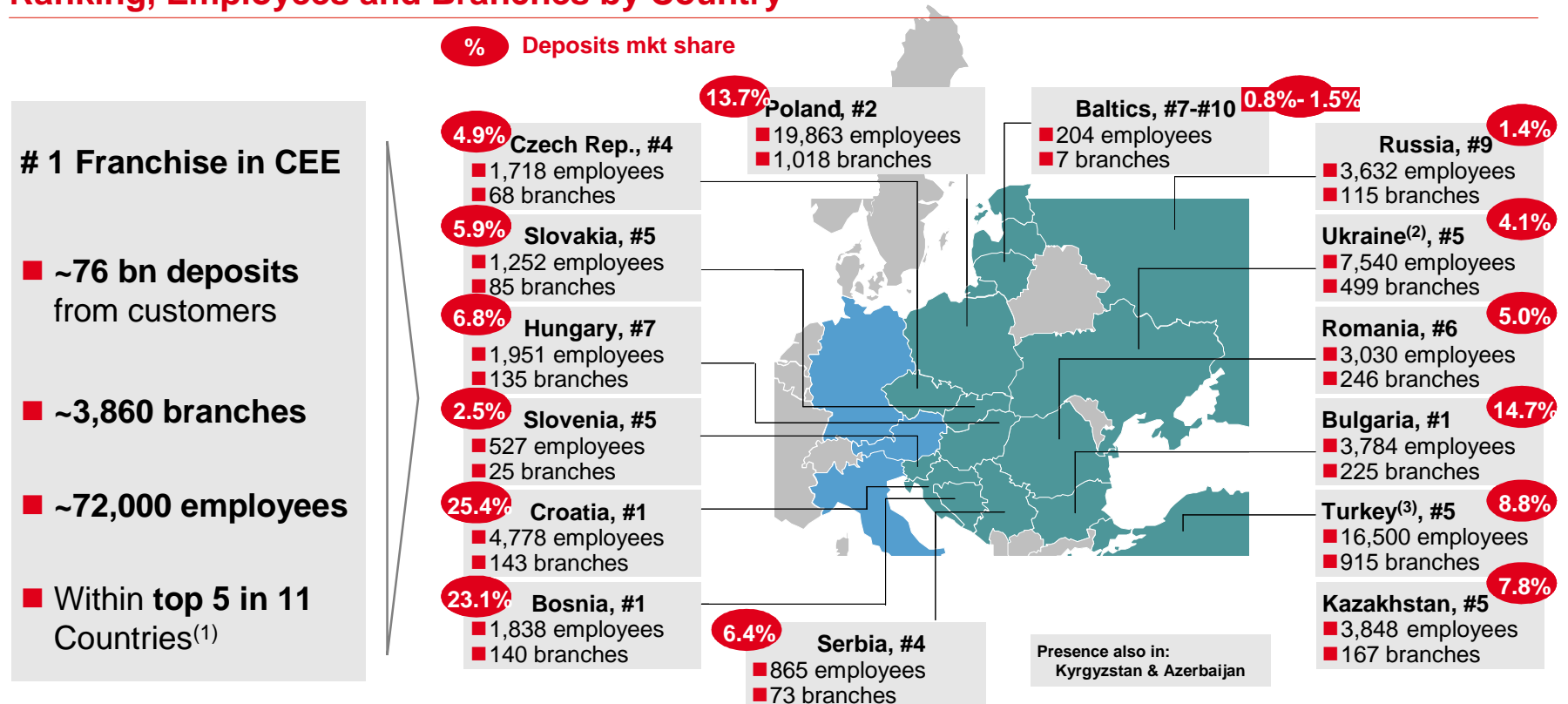
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UniCredit is the Leading Player thanks to its Unique Franchise with a Full Coverage

Overview

Ranking, Employees and Branches by Country⁽¹⁾



1 Franchise in CEE

- ~76 bn deposits from customers
- ~3,860 branches
- ~72,000 employees
- Within top 5 in 11 Countries⁽¹⁾

■ The leading player in the region, #1 by assets, branches and net profit

■ Strong market positioning:

✓ 6.4% market share in total assets, 6.1% in revenues as of Sep10

■ Leadership in AUM (~12 bn), Credit Cards (~8 mln), and leasing (~2 bn new business in 2009)

⁽¹⁾ Ranking by total assets as of Sep10 (CZ, RO and Baltics as of Dec09); Branches and FTEs at 100% as of Sep10; Deposits market share as of September 10 (Poland as of June 10)

⁽²⁾ Including 7 branches in Azerbaijan

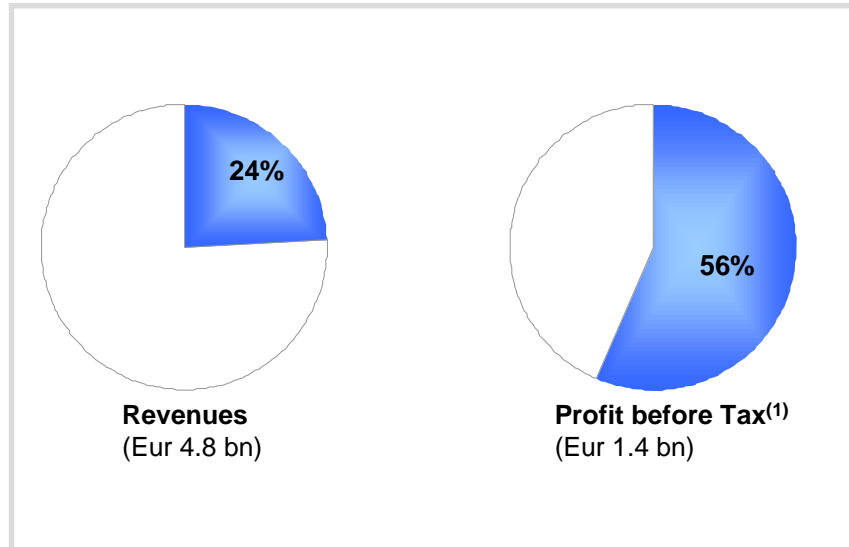
⁽³⁾ Including 41 branches in Kyrgyzstan

CEE is a Key Driver for Group Profitability

Overview

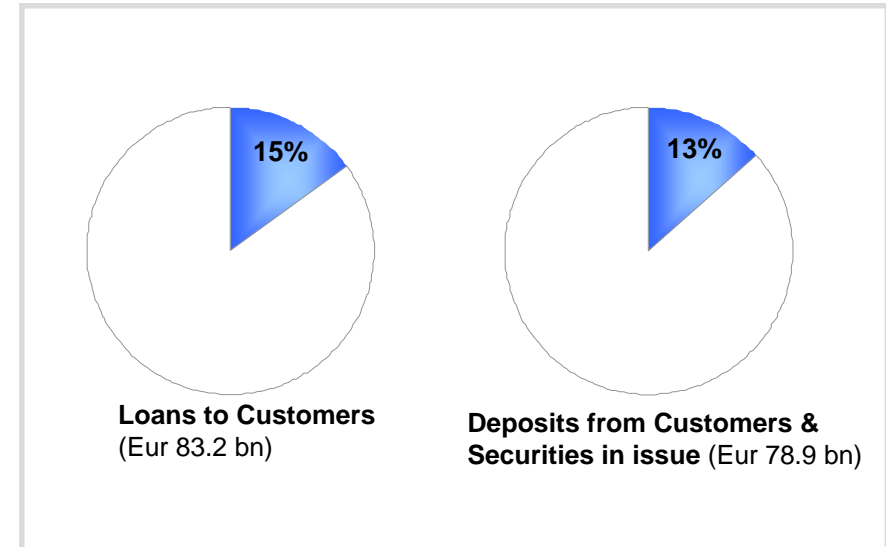
Revenues and PBT

(CEE as % of Total UniCredit – 9M10)



Loans and Deposits

(CEE as % of Total UniCredit – 9M10)



- CEE is a key pillar of UniCredit's diversified and balanced business model
- ~25% of revenues, ~15% of loans to customers, ~13% of deposits from customers
- Strong contribution to UniCredit profitability
- **Balanced loans / deposits structure:** Loans/Deposits ratio at ~1.1x as of Sep10

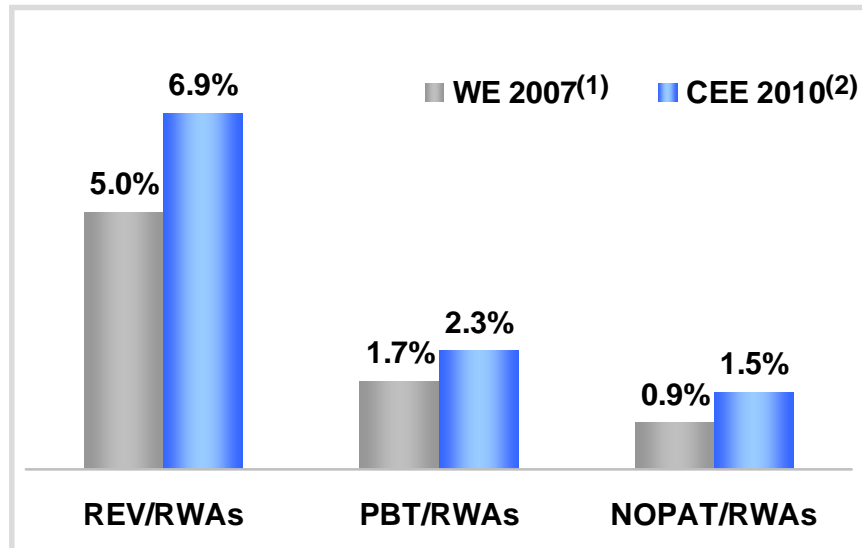
⁽¹⁾ Poland included at 100%; excluding minorities would be 52%. In calculating the ratio, corporate centers cost are not rebated over CEE countries

CEE Strategy: Key Messages

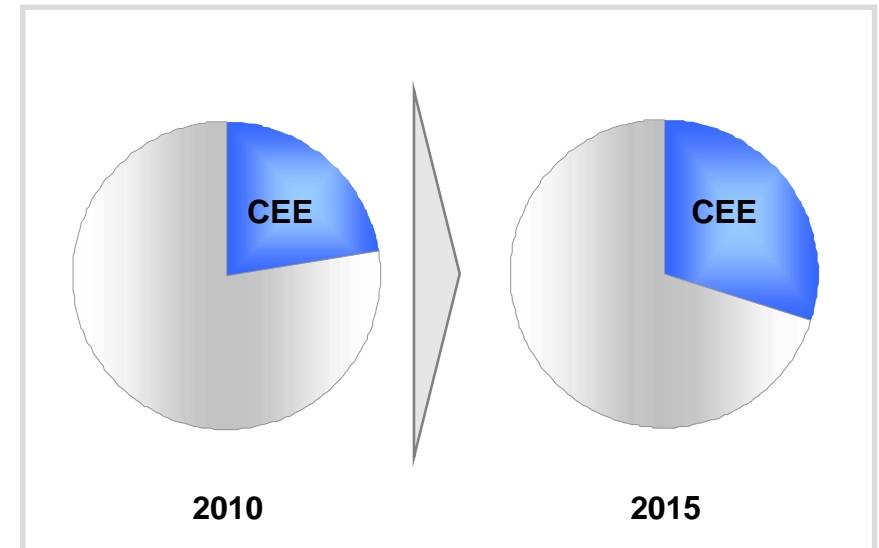
- **Higher Capital Allocation** in the Region
- Country portfolio managed to **Capture Higher Growth Opportunities**
- Room to **growth in Retail, leveraging on branch expansion and multichannel**
- **CIB/CEE cooperation** to maximize business opportunities

More Capital Allocation to Exploit UniCredit Engine for Growth

UniCredit Profitability Ratio



Group RWAs - CEE as % of Total UniCredit

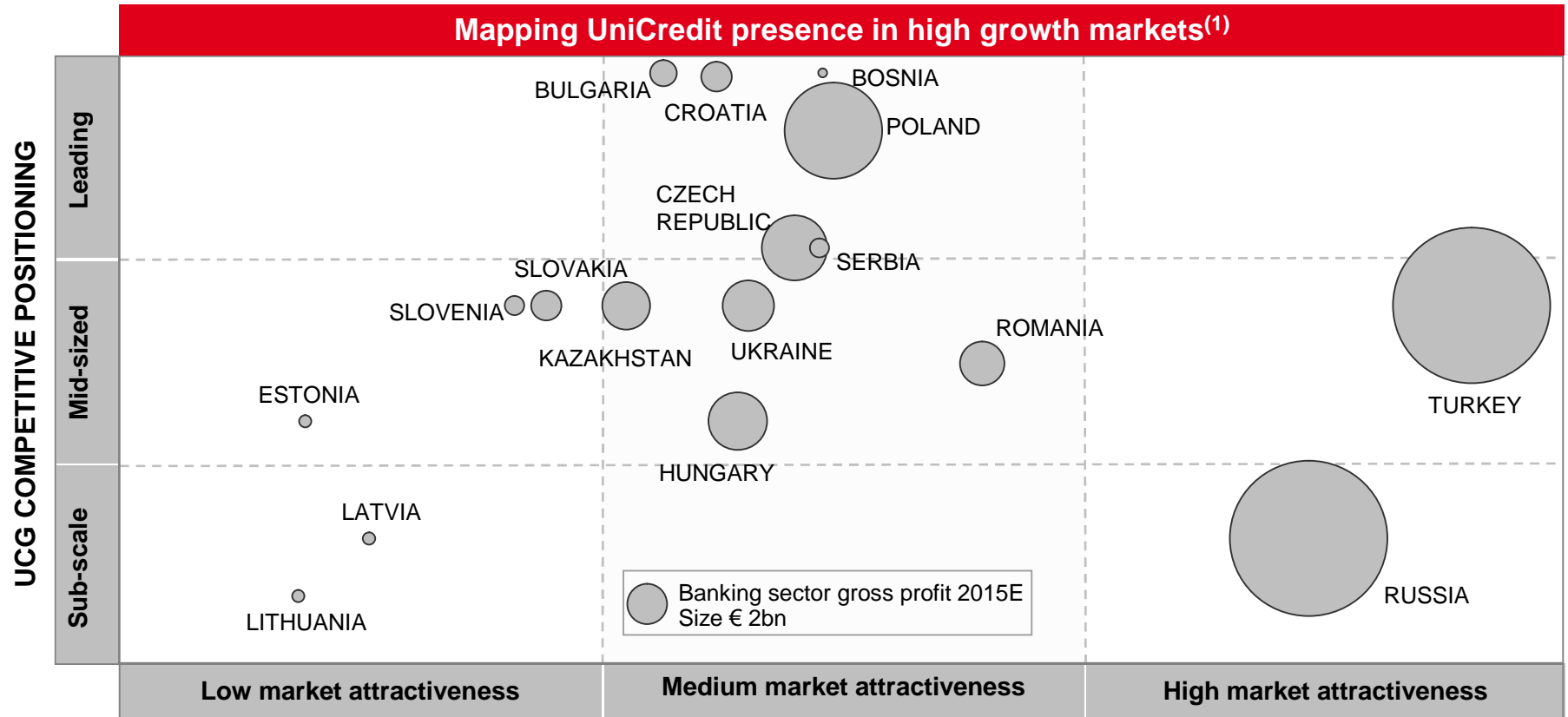


- UniCredit's **commitment to the region fully confirmed**
- Even under the current environment, **CEE risk/return in 2010** (bottom of the cycle) is still **above Western Europe in 2007** (top of the cycle)
- **CEE weight to be gradually increased** to exploit growth opportunities

(1) Italy, Germany, Austria

(2) Excluding Kazakhstan

Country Portfolio Managed to Capture Higher Growth Opportunities

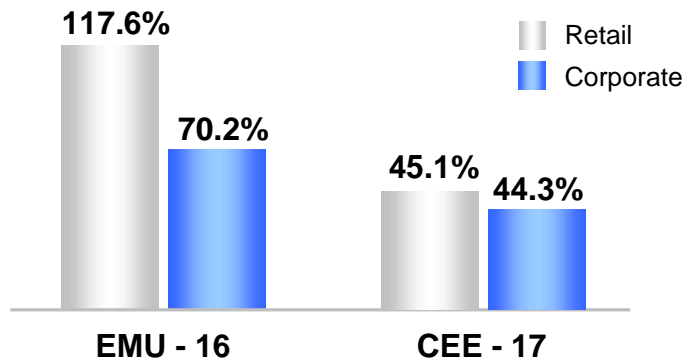


⁽¹⁾ Market Attractiveness is an index ranked between 0 (low) and 100 (high), obtained by considering volumes growth (50% weight) and risk-adj revenues over volumes (50% weight). Competitive positioning based on UniCredit ranking by total assets as of Sept10. Leading: ranking #1-4; mid-sized: ranking #5-8; sub-scale: ranking #<8

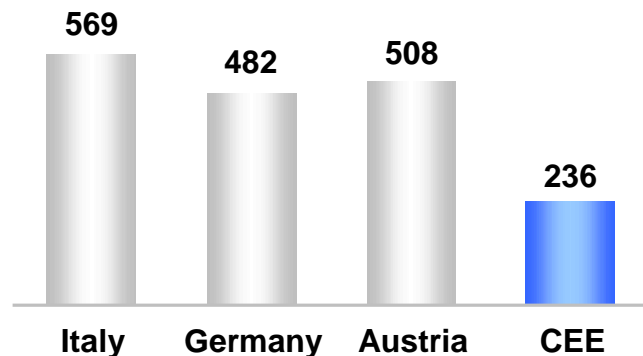
Retail: Branch Expansion and Multi-channel Banking

Banking Penetration: Still room for growth

Loans and Deposits/GDP, 2009

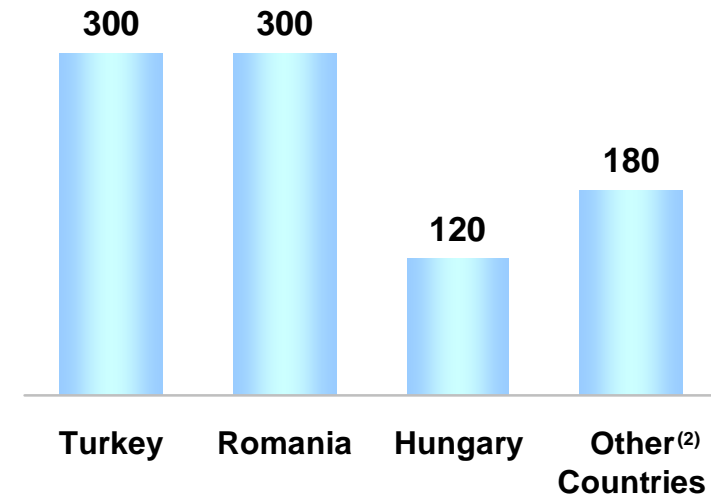


Number of branches per 1 mln inhabitants⁽³⁾



Network Development Plan

■ **New opening: ~900 branches⁽¹⁾** mainly in Countries where we have a proven track record in branch opening



Multi-channel Banking

■ **In combination with physical Network widening**

- ✓ Reduce cost to serve
- ✓ Increase customer satisfaction/retention
- ✓ Reach a widespread coverage

Source: UniCredit CEE Strategic Analysis

(1) Not included the optimization network process of ~ 100 branches in overlap or misplaced

(2) Mainly Russia, Bulgaria and Serbia

(3) 2008 figures for Italy, Germany and Austria; 2009 figures for CEE (2008 Slovenia, 1H09 Croatia)

Corporate & Investment Banking: Leveraging on Group's Product Lines Product Capabilities

CIB Product Lines

Financing & Advisory

Markets

Global Transaction Banking

Leasing

Selected Recent Achievements

- M&A CEE (excl. Russia and Turkey): #1 by Volume of deals (2005-1H 2010) (*Dialogic*)

- Best Equity House CEE 2010
- Best Overall EMEA Research 2009
- Best Investment Bank CEE 2009



- Best Overall Bank for Cash Management in CEE 2010 (*Global Finance*)
- Best Trade Bank in Eastern Europe (*Trade Finance*)
- Best Sub-Custodian Bank in CEE 2010 (*Global Finance*)


- Top 3 positions in 11 CEE countries⁽¹⁾

- "Best Banking & Finance Online Application - Czech Republic, 2010" *Internet Effectiveness Awards (IEA)*

UniCredit's Product Factories Will Enable to Fully Capture Business Opportunities in the CEE Region

Two Landmark Transactions Emphasize the Potential of the Cooperation CEE/CIB

Lukoil




USD 2,380,000,000
Structured Equity
Transaction

Arranger
Russia – Sep 2010

- High profile transaction, showing our **ability to develop strong cooperation** among **central CIB product expertise** and **CEE local coverage**, in order to perfectly meet customer's needs
- Clearly **one of the most important Strategic Equity transactions globally** this year ...
- ... proving **UniCredit's superior skills** in those transactions especially when they require coordination and effectiveness amongst different offices

Agrokor



EUR 352.000.000
Syndicated Term
Loan

Croatia - July 2010

- UniCredit's played the Role of **Coordinator** and **Mandated Lead Arranger**
- **Strong knowledge** and **long lasting relationship** with the client were key drivers of the success of the deal
- **Excellent coordination** between **Syndication, Corporate Structured Finance** and **local teams** enabled a **timely closing**

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- **Conclusions**

CONCLUSIONS

- The CEE convergence model holds
- CEE banking holds as an opportunity, based on remaining financial convergence potential. A new and more balanced banking model is emerging
- 2011 is the year of recovery of banking activities, but this is a pattern of moderate recovery, with still focus on efficiency and risk control
- The competitive environment is changing, with opening opportunities for re-positioning and some newcomers. Regulatory risk is increasing, with the main threat being limitations to the cross-border banking model which was the base of financial convergence so far
- UniCredit strongly committed to CEE, which remains the market for growth. UniCredit is well positioned to take the upside, having enough capital, liquidity, risk appetite and good franchise