BANKING OUTLOOK IN CENTRAL EASTERN EUROPE

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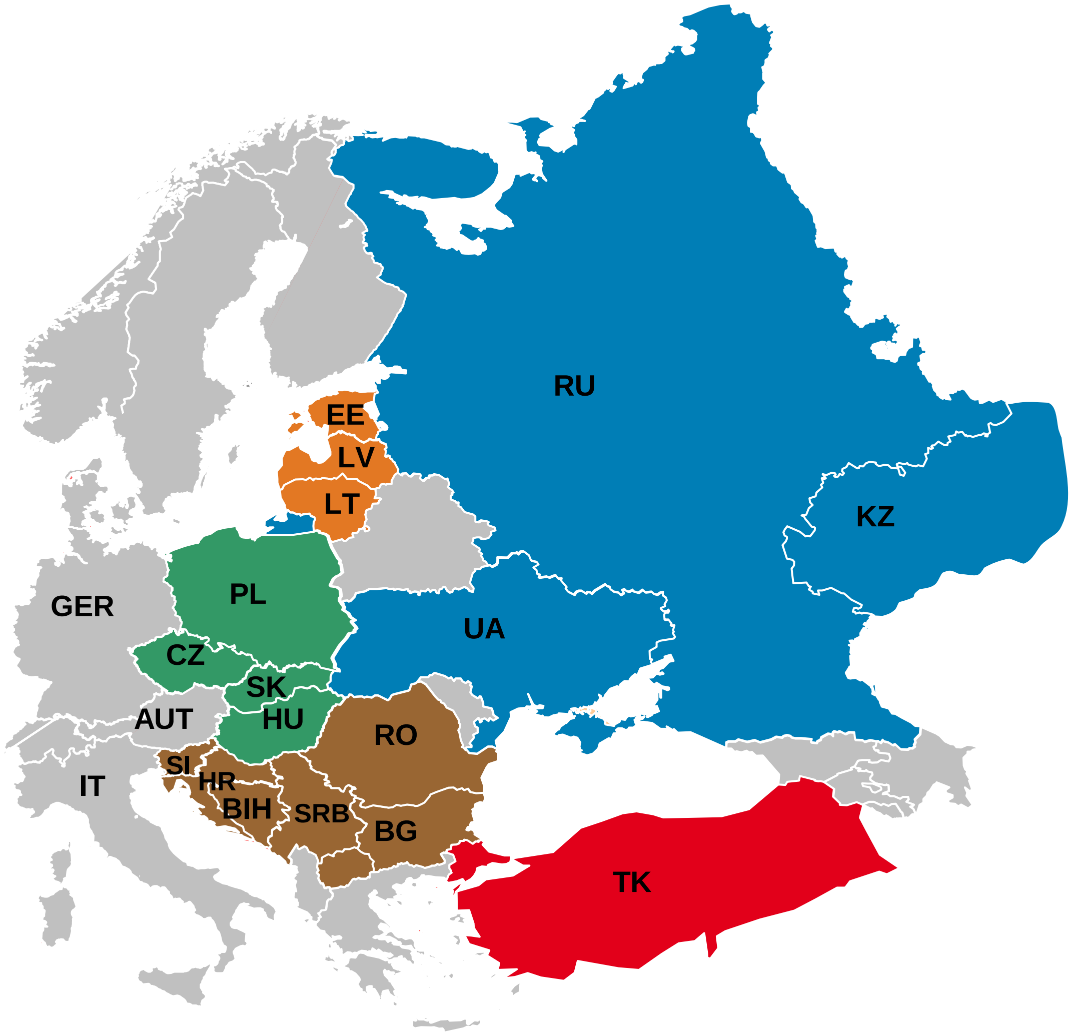
The banking sector‘s view on Central and Eastern Europe

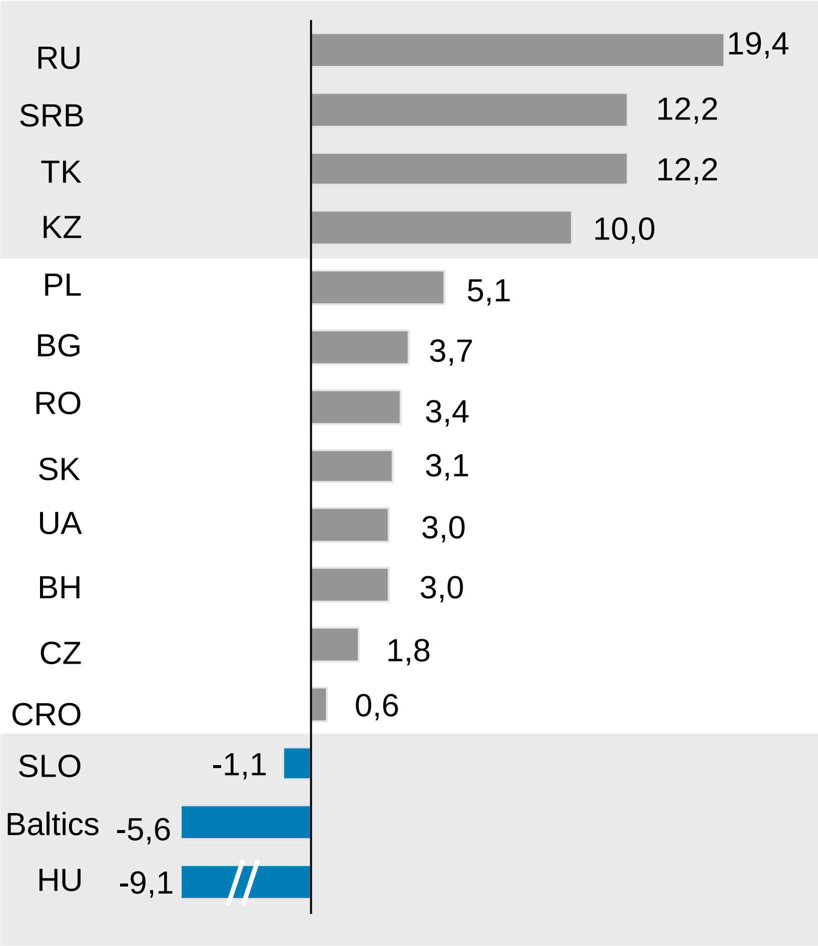


AGENDA

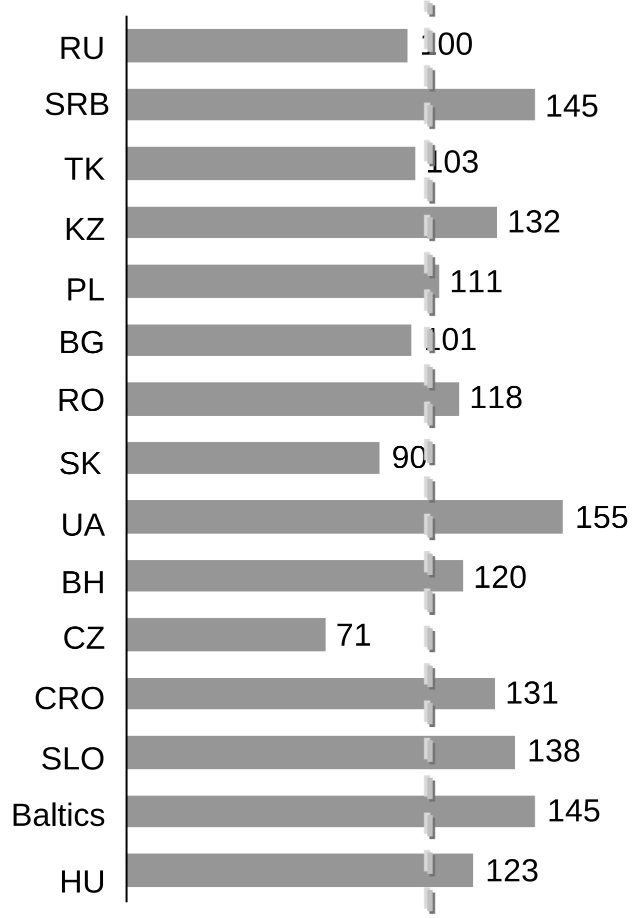
- CEE – Banking Sector Outlook
- Future Challenges & Outlook 2013

Lending growth generally higher where funding gap is lower (with exceptions)

Total Loans, 2012 forecast, % growth



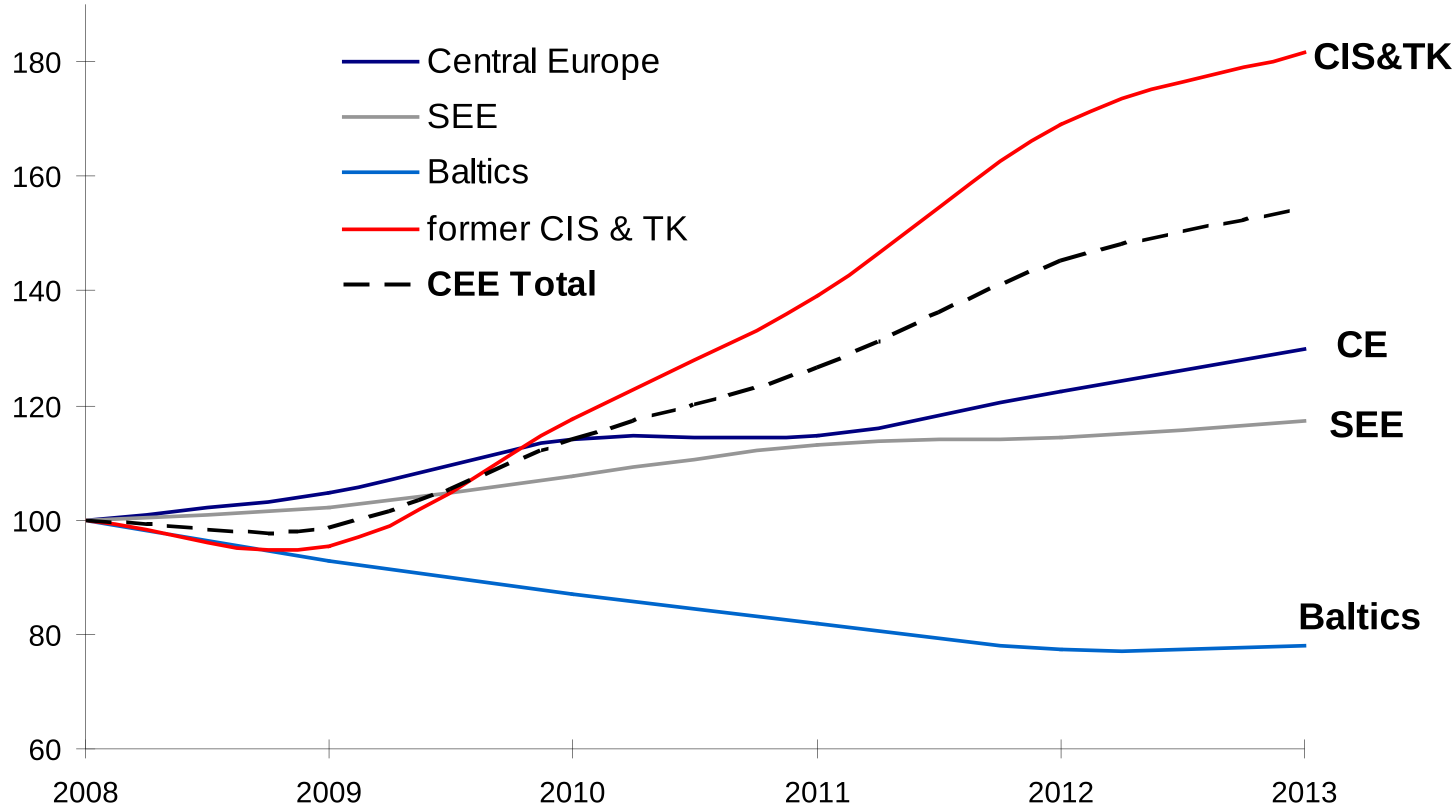
Loan-to-deposits ratio, % 2012 forecast



SOURCE: Central Banks, UniCredit CEE Strategic Analysis

In most sub-regions in CEE lending growth recovered since 2009, with Baltics being a clear exception

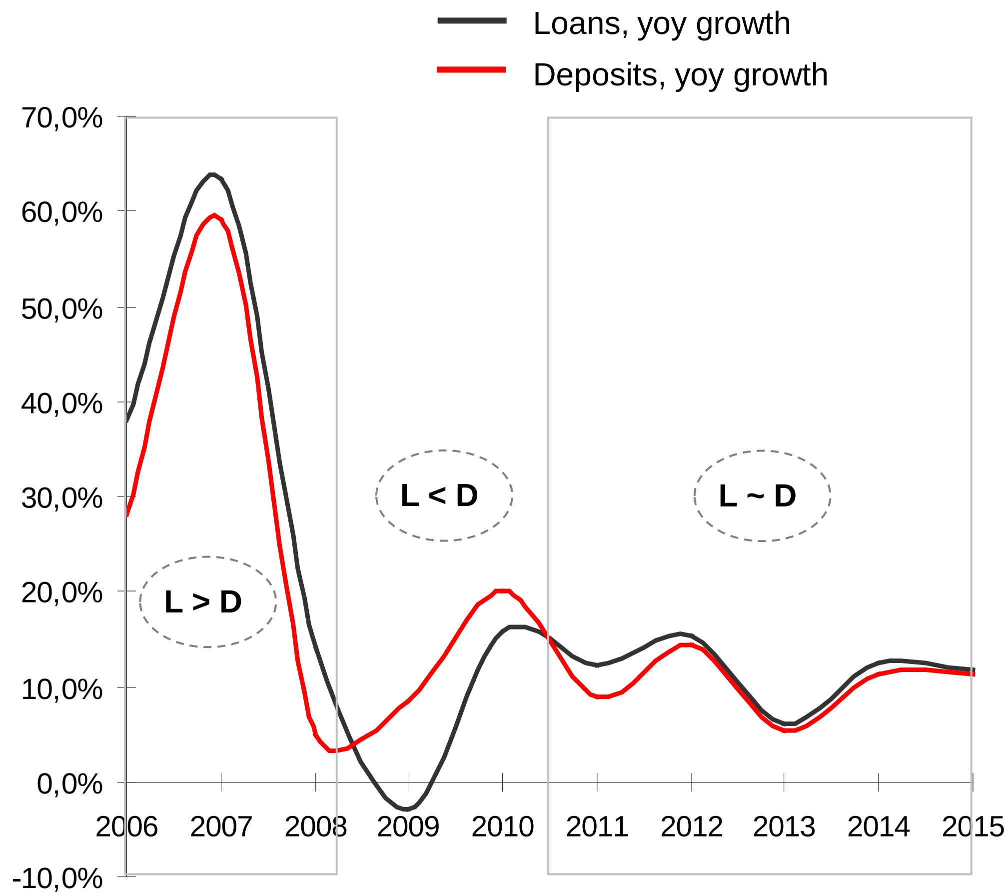
Lending growth in CEE - subregions



SOURCE: Central Banks, UniCredit CEE Strategic Analysis

CEE loans as well as deposits are expected to move in parallel aiming at a more balanced banking sector

Growth in Loans and Deposits in CEE



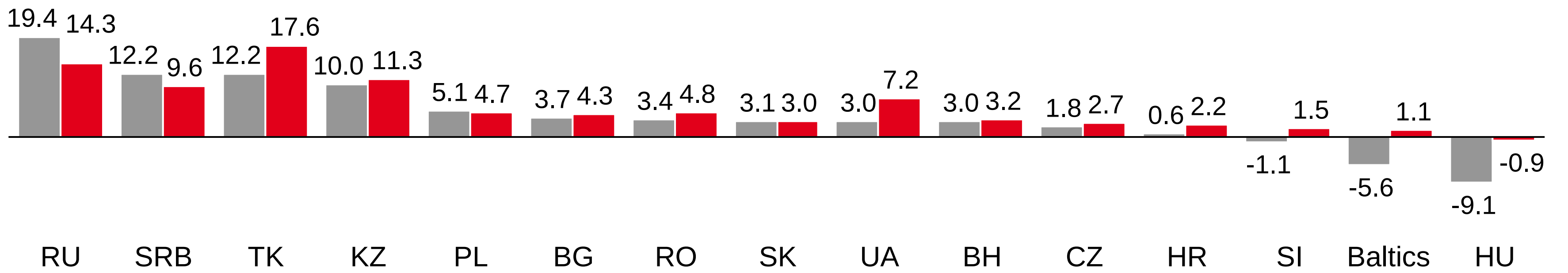
- Before the crisis loan growth was higher than deposit growth
- Since 2011 loan growth and deposits moving in close correlation.

SOURCE: Central Banks, UniCredit CEE Strategic Analysis

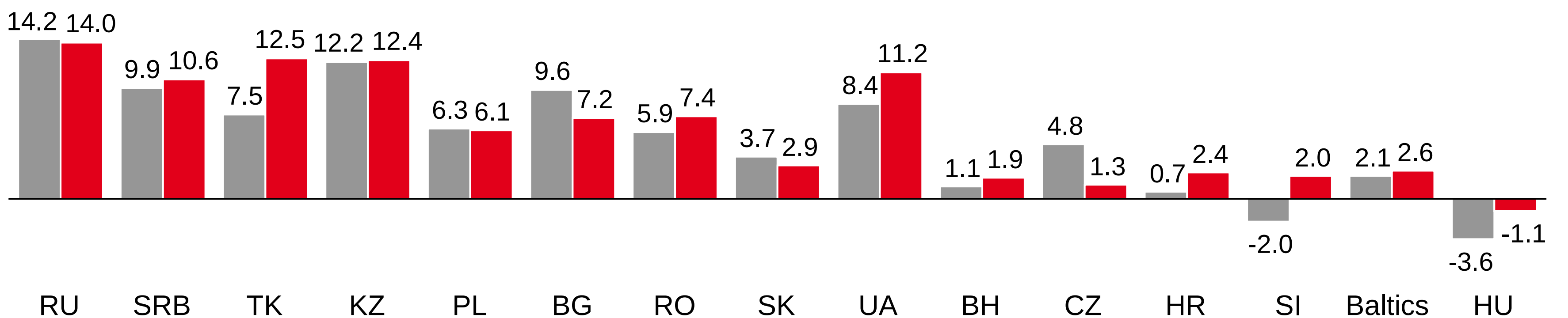
At single country level this trend is mainly confirmed, only Hungary is expected to show negative growth also in 2013

2012 2013

Total Loans, yoy % growth



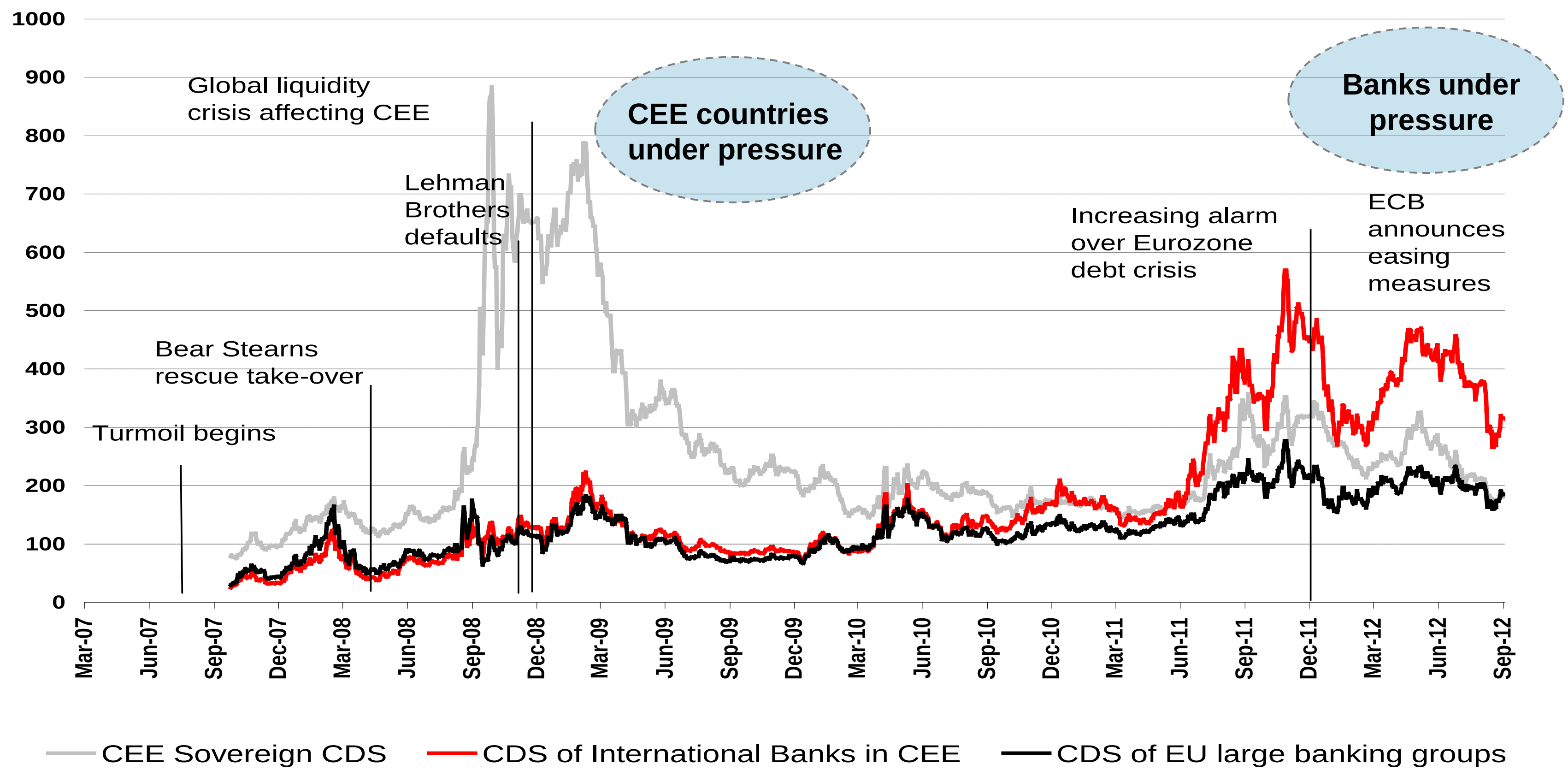
Total Deposits, yoy % growth



SOURCE: Central Banks, UniCredit CEE Strategic Analysis

Risk perception remains a key variable to monitor

Global banking and CEE regional risks (1) (5Y CDS, bp)

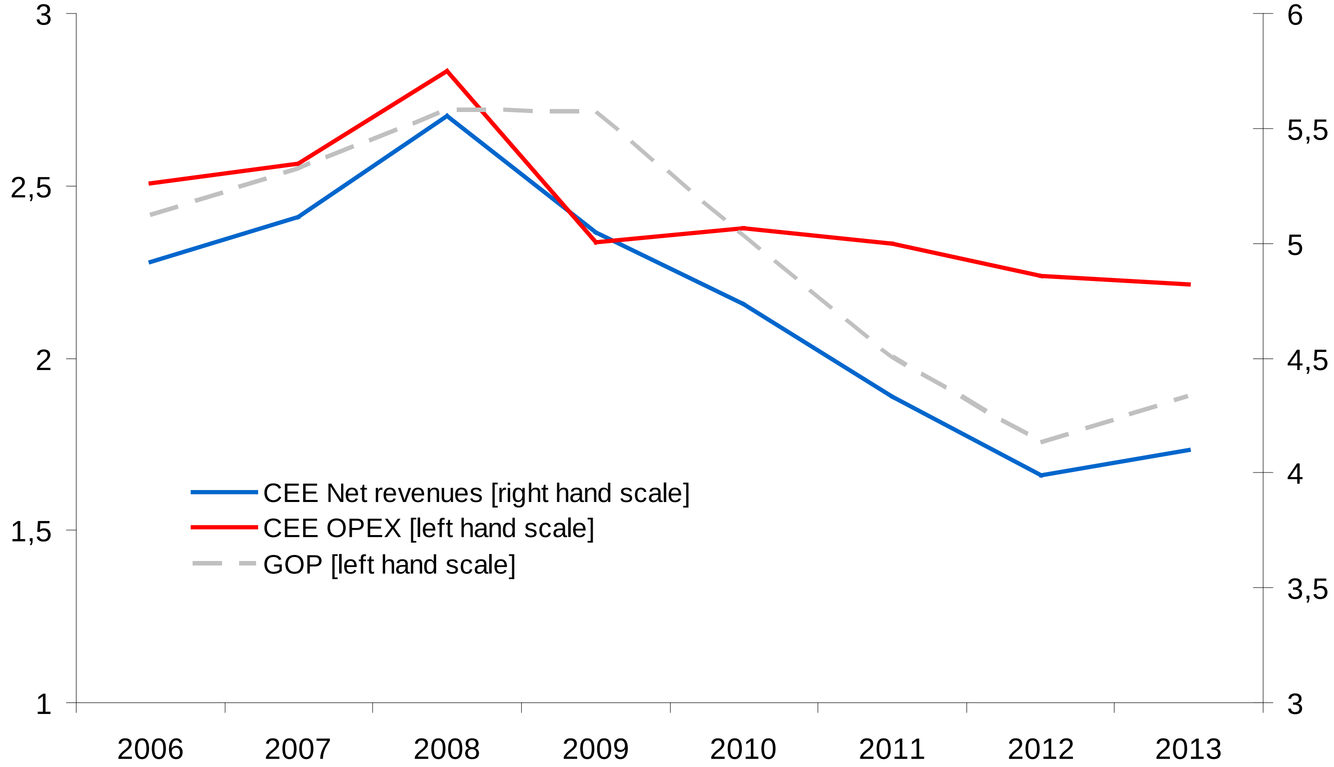


Note: (1) International banks in CEE include UCG, ERSTE, KBC, SOCGEN and INTESA; EU large banking groups include BARCLAYS, RBS, HSBC, BBVA, DB

SOURCE: Central Banks, UniCredit CEE Strategic Analysis

Revenue generation capacity reaching a bottom in 2012, expected to improve in 2013. Banks keep strong focus on costs.

Revenues, expenses and GOP in CEE, % on average volumes (L+D)

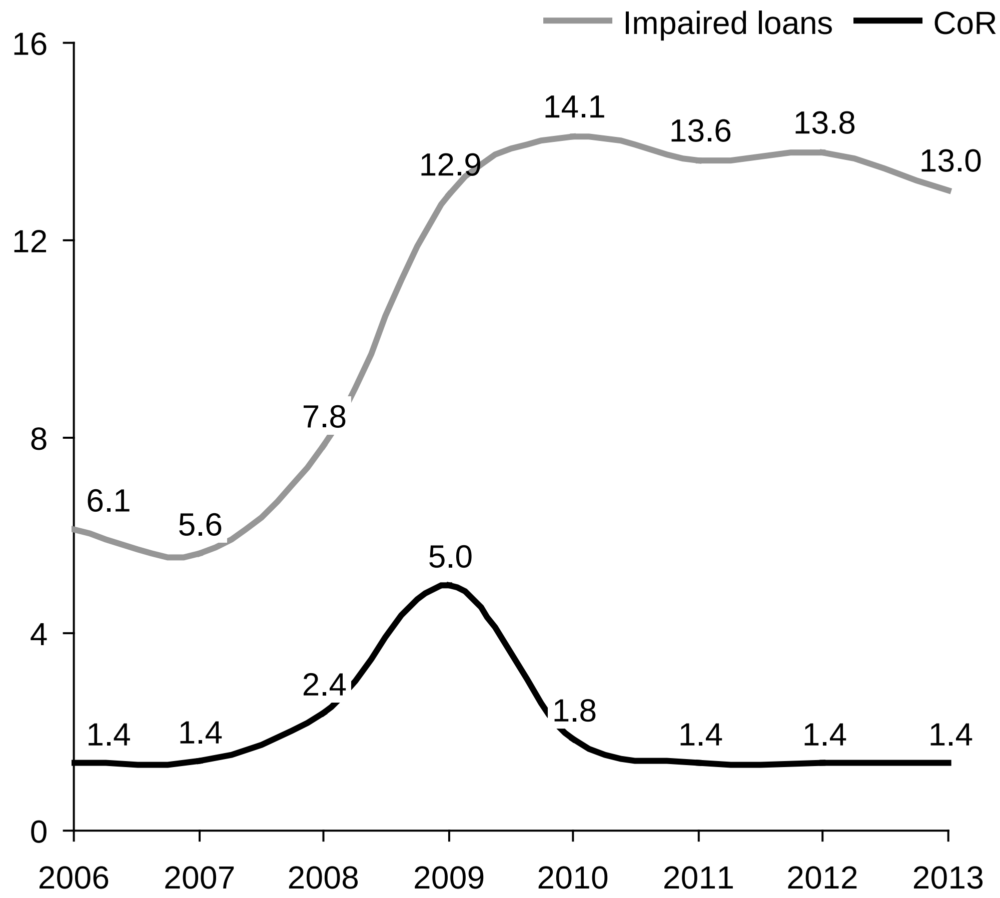


- CEE Net revenues and CEE OPEX over average volumes (Loans + Deposits) both follow a decreasing trend, but some stickiness on costs is jeopardizing Gross Operating Profits

SOURCE: Central Banks, UniCredit Group CEE Strategic Analysis

Gradual normalization in credit quality problems…

Impaired loans and CoR (% on lending) in CEE(1)



(1) CEE includes Poland, "Impaired Loans" = loans that are 90 days overdue (definition according to Basel 2 regulation, however, some local variations are possible). SOURCE: Central Banks, UniCredit CEE Strategic Analysis

…especially in countries with a high percentage of impaired loans during the crisis

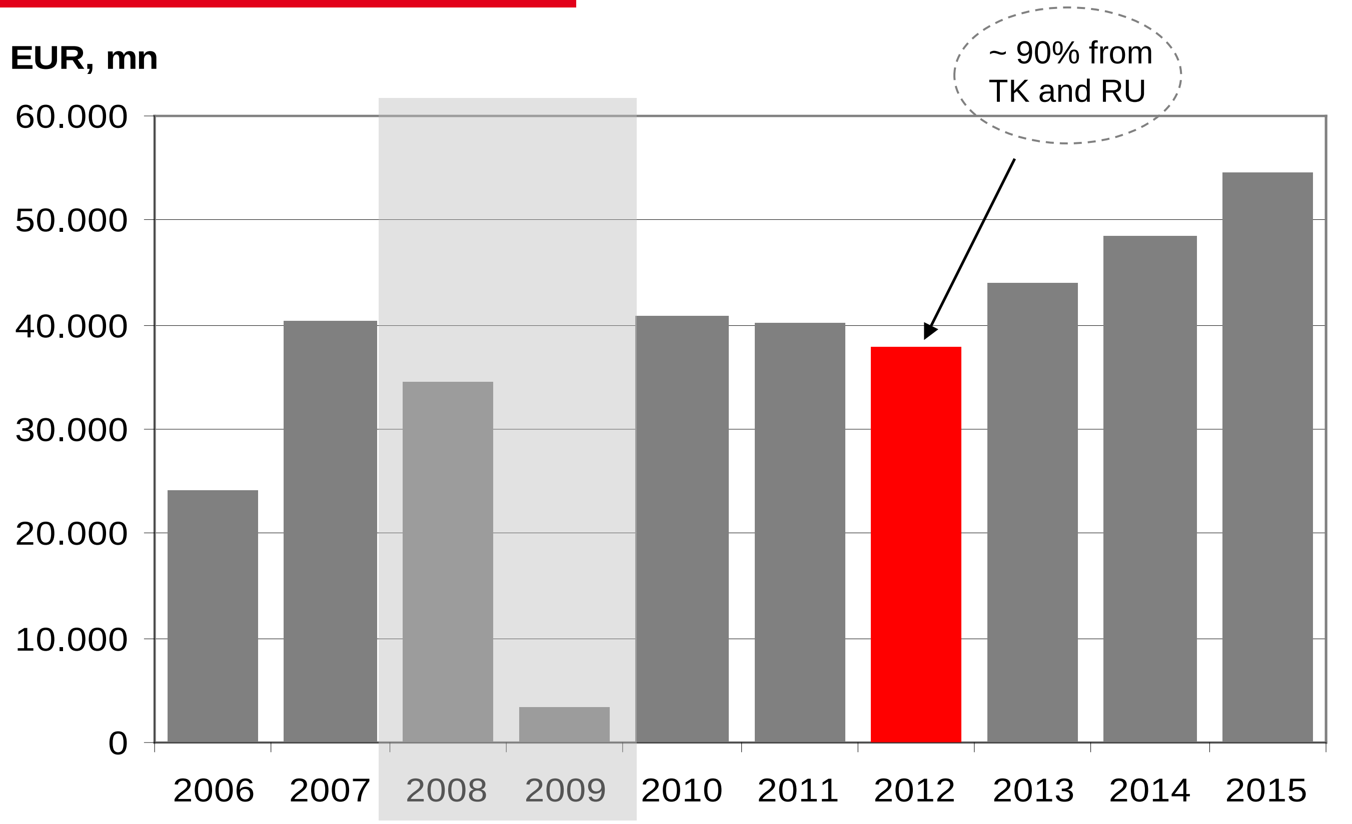
Impaired loans, %	2011	2012	2013	Δ 2012-13
Kazakhstan	34.4	34.1	33.9	-0.2
Ukraine	37.0	33.0	30.0	-3.0
Romania	22.9	26.1	23.6	-2.5
Hungary	17.3	20.0	18.5	-1.5
Serbia	19.0	20.0	19.0	-1.0
Bulgaria	14.7	18.9	19.3	+0.4
Russia	16.3	16.8	16.2	-0.6
Croatia	12.4	13.8	14.0	+0.2
Slovenia	11.3	13.3	13.1	-0.2
Bosnia-H.	11.8	12.9	13.8	+0.7
Baltics	13.2	11.5	10.7	-0.8
Poland	7.5	7.9	8.3	+0.4
Czech R.	6.2	6.3	6.5	+0.2
Slovakia	5.8	5.5	5.6	+0.1
Turkey	2.6	2.9	3.2	+0.3

SOURCE: Central Banks, UniCredit CEE Strategic Analysis

And a lower cost of risk can support profitability

CEE BANKING FORECAST

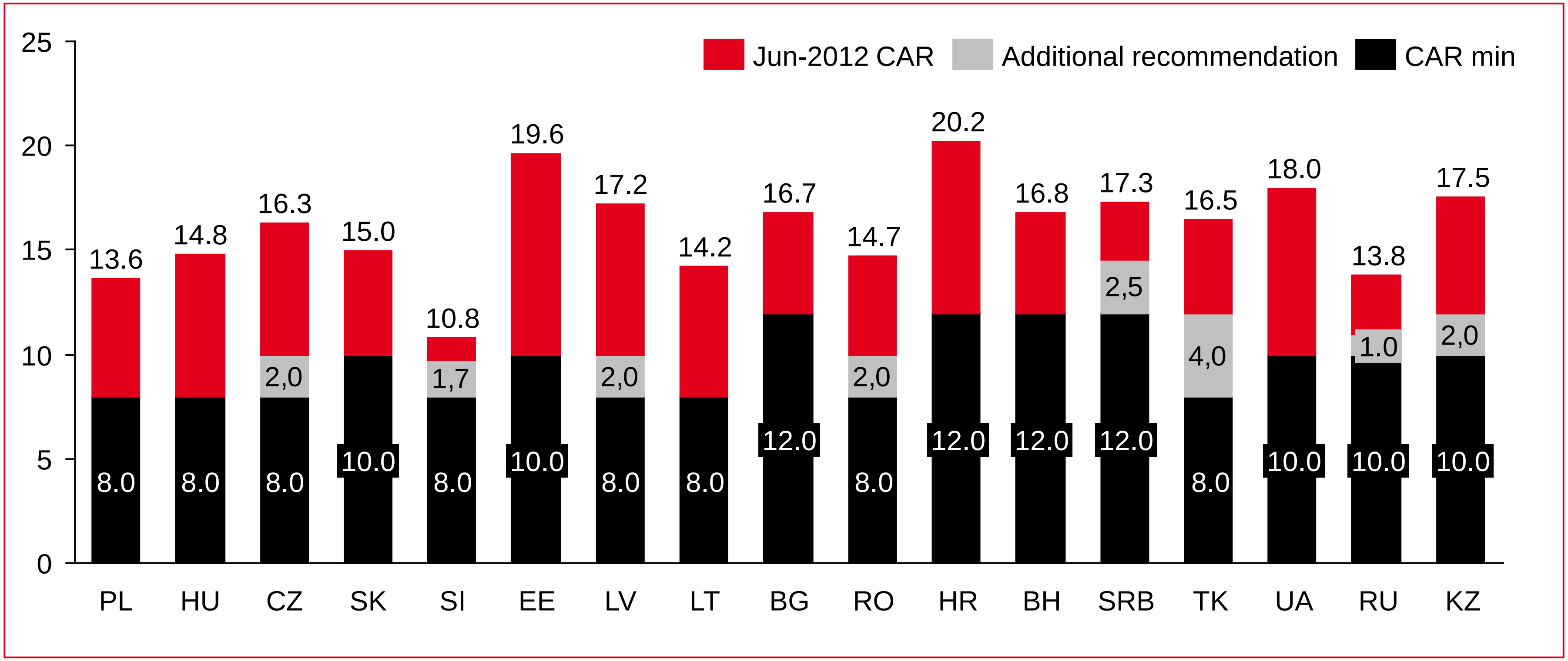
CEE (incl. PL) – Pre-tax profit (EUR, mn)



SOURCE: Central Banks, UniCredit CEE Strategic Analysis

CEE banking sectors with proper capital buffer

Capital Adequacy ratio, % (June 2012)



1 Bulgaria: Minimum is set at 12% However BNB requires banks to keep sufficient Capital buffer
2 Czech republic: Minimum CAR is 8%, but informal limit is 10%
3 Latvia Minimum is 8% but regulators strongly recommend keeping ratio above 10%
4 Serbia: Minimum set at12%, however dividend payout limited to ratios above 14.5%
5 Slovenia: Bank required to keep ratio of 1.216 between Pillar II and Pillar I capital requirement (8% * 1.216 = 9.7%)
6 Romania: Formalized minimum level is 8%, informal limit is 10%
7 Russia: Minimum 10% for banks , 11% for banks participating in deposit insurance system
8 Turkey: Although minimum is 8% according to legislation, local regulator recommends 12%, the banking system uses 12% as the effective minimum.

SOURCE: Central Banks, UniCredit CEE Strategic Analysis

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An increase in the regulatory pressures on banks also in CEE

- **Basel III**
- **Action against FX lending**
- **Bank levy**

- Domestic funding resources continue to become more important
- Loan growth is more and more closely tied to growth in deposits than it was in the past
- Liquidity coverage requirements & net stable funding ratios represent a major challenge and might intensify competition for deposits
- LLSFR of 110% (Loans to local funding ratio), introduced in Austria, affects lending in countries where loans/deposits ratio is already high

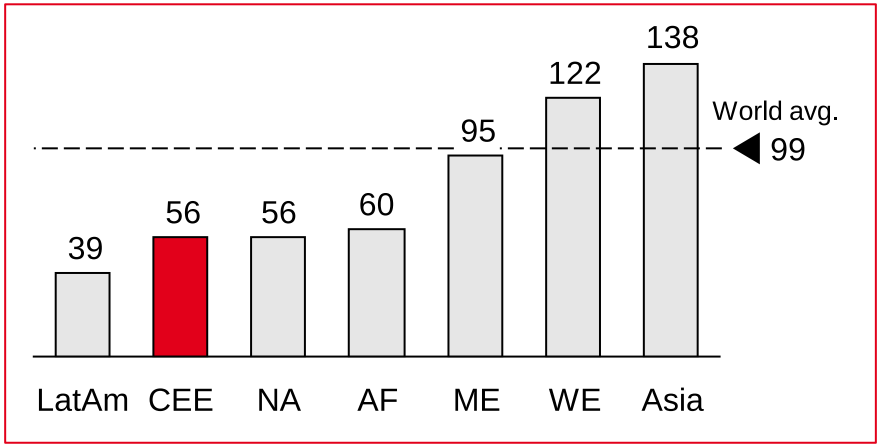
SOURCE: UniCredit Group CEE Strategic Analysis

The banking sector in Central and Eastern Europe: Outlook 2013

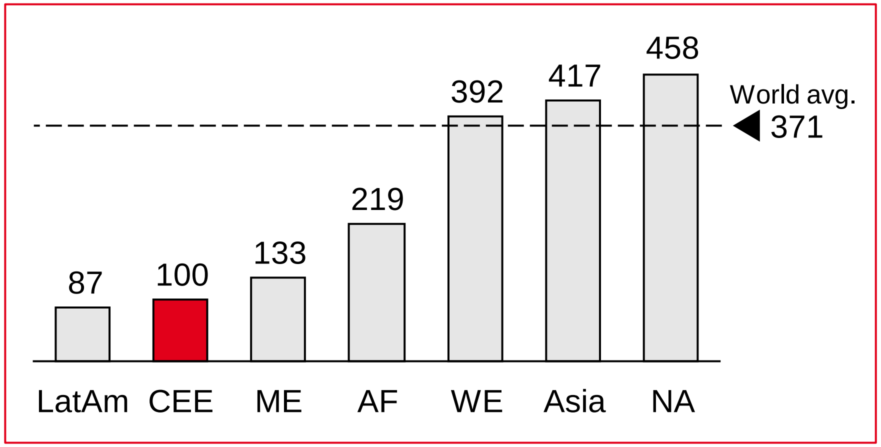
- **Generally tight funding / liquidity conditions** remain an issue to be carefully watched, a fully fledged credit crunch has been avoided in most of the countries
- **Credit quality problems – the major challenge for the banking sector worldwide - are gradually normalizing** especially in countries with a high percentage of impaired loans such as Kazakhstan, Ukraine and Romania
- A differentiated **regulatory environment** poses serious challenges for cross border banking groups
- **Poland, Turkey and Russia** emerge as having the **greatest growth potential** in the medium-long term. In other CEE countries the environment remains more challenging

The long term growth potential of the CEE region vs other markets are still visible, mainly driven by under-penetration…

Corporate volume/GDP (%, 2011)



Retail volume/Disposable income (%, 2011)



NA: North America; AF: Africa; ME: Middle East; WE: Western Europe; SOURCE: Economist Intelligence Unit (EIU), McKinsey Global Banking Pools

The banking sector in Central and Eastern Europe: Outlook 2013

- Some re-shaping of business strategy with a clearer focus on specific markets became visible - in 5 years time we expect to see a more consolidated, **less leveraged** and more resilient banking sector:
  - Focus on cost
  - Capital strengthening
  - Focus on Funding
  - Business reshuffle
- Banks are either choosing **selective growth** or **selective exit** from non-core markets
- In the **retail** sphere, multichannel banking becomes more and more important
- In the **corporate** banking area, consultancy, Fee&Commission business has a greater role – less eagerness for gaining market shares, more for quality of revenues. Risk management more and more important

UniCredit

M&A activity is again significant

What happened so far

VTB — EUR4.1bn → Russia — Bank of Moscow
Bank of Moscow ranked #6

SBERBANK (By your side)
- USD 3,5bn → Turkey — DenizBank: Denizbank is #10 player by assets
- EUR 0,5bn → CEE — Volksbank International: Entered into CEE market

Nb NOMOS BANK — Merger ⇄ Russia — Otkritie Financial Corporation
Merger creates #10 player

Santander — EUR4bn → Poland — BZ WBK; Merger ⇅ KB Kredyt Bank
Santander holds 76.5% of the merged lender and KBC 16.4%, 7.1% free floating

Raiffeisen — EUR0.5bn → Poland — Polbank EFG
RBI acquired a 70% stake, Eurobank EFG remained with 30%

National Bank of Greece — Merger ⇄ — Eurobank EFG
Greek banking groups merging

Opportunities still there

Hypo Group Alpe Adria: SEE subs (HR, SRB, SLO, ME, BiH and AT head office) on sale for ~EUR1.5bn

KBC: Units in SRB, RU, SLO to be sold

Nova KBM: In Slovenia, EUR100mn recapitalization needed, Gazprombank among potential buyers

THANK YOU!

Q & A