P R E S S   R E L E A S E

Vienna, January 22nd 2015

CEE Banking Study 2015:

Cross-country differentiation to remain the key feature of CEE banking

- **Slight acceleration in loan growth likely to be visible in CESEE, mainly driven by corporate lending**
- **External liabilities increasingly replaced by domestic funding, reducing past vulnerabilities**
- **Overall, CEE banking sector RoA is expected to remain comparable to 2014 levels, at around 1.0%**

Although lending growth in CESEE[1] has remained weak recently, a cross-country breakdown shows some more encouraging trends. A slight acceleration of lending growth is expected to proceed in CESEE - with corporate lending providing a boost by year end 2015 - while Russia will be affected by a significant deceleration. Some of the past vulnerabilities are being addressed as external liabilities have been replaced by domestic funding. With revenue-margins still under pressure, non-interest income is foreseen to be an important profitability driver. The CEE banking sector RoA is expected to remain comparable to 2014 levels, at around 1.0%. Overall, the differentiation across Central Eastern European countries in terms of banking developments will remain a key feature. These are some of the key findings of the latest CEE Banking Study, which was conducted by UniCredit´s CEE Strategic Analysis department and which covers 13 different countries.

[1] Central Eastern Europe (CEE) includes Bosnia, Bulgaria, Croatia, Czech Republic, Hungary, Poland, Romania, Russia, Serbia, Slovakia, Slovenia, Turkey, Ukraine; Central Europe and South Eastern Europe (CESEE) is CEE excluding Russia, Turkey and Ukraine; CE includes Czech Republic, Hungary, Slovakia, Slovenia, Poland; SEE includes Bosnia, Bulgaria, Croatia, Romania, Serbia.

Central and Eastern Europe remains a diverse region

"Central and Eastern Europe remains a diverse region. Thus the economy in Central and South-Eastern Europe is expected to grow this year by 2.5 percent, and by 2.9 percent in 2016, whereas the figures for the entire region will be 0.2 and 2.2 percent due to the contraction in Russia", said Gianni Franco Papa, newly appointed Head of CIB Division and outgoing Head of CEE Division at UniCredit, "Reform-minded economies in particular should grow this year, while states with pending structural problems will be in recession."

Looking forward, a slight acceleration in lending growth in CESEE is likely to be visible this year, mainly driven by corporate lending. If Poland and the Czech Republic will continue to drive lending recovery in Central Europe, Slovenia and Croatia might come back to mild positive lending growth by the end of 2015. For CEE as a whole, lending growth will be affected by a significant deceleration in Russia.

"In general corporate loans should increase by plus 12.4 percent in Central and Eastern Europe and by 3.5 percent in Central and South-Eastern Europe in 2015. The growth rates of retail loans should amount to plus 5.4 percent and 3.3 percent respectively", stated Carmelina Carluzzo, Deputy Head of CEE Strategic Analysis at UniCredit. In CEE deposits will gain 9.1 percent this year and 4.2 percent in CESEE.

New funding model, banking sector profitability stable

As external liabilities are increasingly replaced by domestic funding, mainly deposits and capital, local banking sectors in CESEE shift towards a more sustainable funding model. Thus the external-liabilities-to-total-assets ratio has continuously advanced and as of September 2014 stands at 13.5 percent. The loans-to-deposits ratio has improved from 98 percent to 96 percent from December 2013 to September 2014 indicating that local loans are more than fully covered by local deposits. This means that some of the past vulnerabilities have been addressed and the banking sector in the region is currently in a better shape to sustain future growth.

With margins remaining under pressure, CEE banks will need to widen their range of opportunities to improve their revenue generation capacity. Similar to Western Europe non-interest income will play a more relevant role in the future. “Overall, we expect the CEE banking sector to keep its profitability in 2015 with a return-on-assets ratio comparable to 2014, at around 1.0%. Geopolitical developments as well as changes in the external environment represent a source of uncertainty for our outlook. Non-performing loans in the region are likely to remain a challenge”, reckoned Gianni Franco Papa.

“Lower oil price is a double-sided coin. Although it clearly weighs on the Russian economy, lower oil price may prove a boost to European households´ and companies´ spending power. Further upside risks to our 2015 forecasts include a more accommodative monetary policy of the ECB and local central banks as well as reinforced efforts towards a greater harmonization of financial services regulations”, added Carmelina Carluzzo.

CEE 2020: UniCredit to further strengthen its regional leadership position

Taking into consideration today´s demanding and rapidly changing economic environment, UniCredit has launched a special program, “CEE 2020” which aims at new ways to generate growth and value creation and to develop a future-proof customer business. Supporting the Group´s 2013 – 2018 Strategic Plan the objective is to yield appropriate structures and processes for a sustainably healthy development of the CEE Division. “With around one third, our subsidiary banks in Central and Eastern Europe contribute strongly to UniCredit´s profitability. We intend to further strengthen our leading position in the CEE region, keeping a vigorous focus on customer proximity and leveraging on our broad geographical footprint and comprehensive expertise. Over the past years we have gained market share in most markets thanks to our ongoing investments while competitors were deleveraging, and we intend to continue to do so in the future”, noted Gianni Franco Papa, Head of CIB Division and Head of CEE Division.

UniCredit currently has a Common Equity Tier 1 ratio of 10.73 per cent and an unrivalled international network in approximately 50 countries. The Comprehensive Assessment by the ECB proved UniCredit´s solid capital position, which resulted in a 2016 CET1 of 6.8 percent under the stress test adverse scenario.

The Group is the prime partner for supporting customers' cross border business development and operations through its local banks in 14 countries with a seamless service model. It has unique in-depth knowledge of the various CEE markets and serves some 23,000 corporate customers operating in the region by its International Centers network. UniCredit people are dedicated to a strong quality service and committed to retain the Group's leading position in CEE, including high customer satisfaction.

UniCredit

UniCredit is a leading European commercial bank with strong roots in 17 countries.
Our overall global network embraces approximately 50 markets with around 8,600 branches and more than 148,000 employees (as of 30th September 2014).

In the CEE Region, UniCredit runs the largest and most diversified international banking network in 14 countries, with more than 3,420* branches and over 68,000* employees.

The Group operates in Austria, Azerbaijan, Bosnia and Herzegovina, Bulgaria, Croatia, the Czech Republic, Germany, Hungary, Italy, Poland, Romania, Russia, Serbia, Slovakia, Slovenia, Turkey and Ukraine (as of 30th September 2014).

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