PRESS RELEASE

Central and Eastern Europe will maintain a healthy growth pace in 2019

UniCredit presented its long term strategic perspectives on the region and on the key drivers for growth at a workshop hosted at the annual Euromoney CEE Forum in Vienna

- **CEE economic growth likely to maintain a healthy pace in 2019**
- **Consumption, FDI, EU funds and digital transformation will be the key growth drivers**
- **CEE banking shows significant potential**
- **The CEE region remains an important growth engine for UniCredit**

UniCredit hosted a workshop dedicated to the perspectives on and expectations for the CEE region based on its expertise, strategic research and ongoing monitoring of CEE markets during the annual Euromoney Forum. Please see below further details on the themes discussed.

ECONOMIC GROWTH IN CEE WILL LIKELY MAINTAIN A HEALTHY PACE IN 2019

In recent years, CEE has confirmed its ability to continue to generate growth. **The economic environment in CEE is expected to remain favourable also in 2019**: GDP growth is forecasted to stay solid in most countries (around 3 per cent or higher) although with some cyclical deceleration. Following the cyclical peak in 2017 (4.6 per cent excl. RU&TR) and average GDP growth of 3.7 per cent in 2018, the region's economic growth is likely to remain above potential in 2019 (around 3.2 per cent on average), but may slow in 2020 as a result of potentially weaker global trade[1].

The EU-CEE countries have the potential to outperform other EM regions thanks to CEE's lesser reliance on foreign capital inflows, larger scope for fiscal stimulus, looser financial conditions, access to EU funds and the positive impact of falling commodity prices. **Slovakia, Bulgaria and Hungary will show the most solid GDP growth in 2019 within the region.** The main constraints for CEE economic growth are: **tightening labour markets**, especially in the Czech Republic and Hungary, and a possible **hard Brexit,** which would be damaging due to new trade barriers that can dampen both CEE exports and investments. Slovakia and the Czech Republic are the most vulnerable CEE markets in relation to Brexit headwinds. Russia and Turkey may follow different trends as was the case in 2018.

THE DRIVERS OF GROWTH: CONSUMPTION, FDI, EU FUNDS AND DIGITAL TRANSFORMATION

Domestic demand, and especially **consumption**, driven by low unemployment and higher wages, will be the main sources of growth for CEE economies while export will be subject to a possible cyclical slowdown over the next few years.

Foreign direct investments, which have historically been one of the main drivers of the region's economic transformation - especially in terms of technology and knowledge transfer - will remain important although less than in the previous decade. In some sectors, CEE became the manufacturing arm of Western Europe[2] with FDI

---

[1] Additional information on the CEE Macroeconomic scenario is available in the "UniCredit CEE Quarterly 1Q 2019"

[2] The automotive sector is the most paradigmatic example. In the automotive sector all top 10 global players (from EU, USA, Japan) are producing in CEE and all top 10 tier one suppliers are in CEE as well. Vehicle production in CEE countries tripled in

gradually changing its scope to focus on more advanced industries, increasingly involving also the service sector[3]. The FDI over GDP ratio remained above around 2.5 per cent during 2016-18 and is expected to stay at similar level for the next few years. The role of international companies operating in the region stays relevant: the value-add from foreign companies is more than 40 per cent of the total value-add (a proxy of GDP) for countries such as Hungary, Slovakia, Romania and the Czech Republic[4], which are also the most integrated within the European value chain.

FDI is further complemented by the contribution from **EU funds** in the CEE countries that belong to the Union. EU funds represented 2.9 per cent of GDP on average in the period 2014-20 (EUR 150 billion for EU-CEE excluding Poland) with 2019-20 being the most important years in terms of the absorption of the funds.

Digital transformation presents additional opportunities for growth in the region. Internet penetration[5] in CEE countries increased by 20 per cent since 2010 and is now close to 75 per cent of the population, in terms of individual using internet. Mobile penetration[6] in CEE Countries is at 120 per cent, in terms of Mobile subscriptions per 100 inhabitants. These metrics in CEE countries are comparable to most Western European markets, but having had a higher speed of convergence in the last years.

SIGNIFICANT LONG TERM POTENTIAL IN CEE BANKING

Lending growth is expected to be rather strong in the CEE banking sector in 2019, around 4-4.5 per cent (CEE excl. RU and TK) with Retail lending - driven by higher disposable income, low unemployment, higher consumption - growing more than Corporate Lending. The increased interest in **Retail banking** over the last years is also visible when looking at the strategies of banks in terms of synergies with other business areas - such as insurance, asset management, leasing - and partnerships more generally. Lending by simplifying and streamlining the credit processes (i.e. consolidating platforms across multiple lending channels, optimising credit risk analysis) and *via* digitalisation (to improve the overall customer experience and channels) to offer customised options in terms of products and delivery still has some space for growth for CEE banks.

The current lending cycle is different from the past as the liquidity positions of CEE banks have improved and the situation in terms of credit quality is not comparable to the past (NPL ratio moved from 14 per cent in 2014 to 5 per cent in 2018 on average for CEE excl. Turkey and Russia).

In addition to healthy economic growth, **the long term potential** for CEE banking is also visible in the low **banking penetration** in terms of the loans to GDP ratio. While many eurozone countries have a loan/GDP ratio of more than 100 per cent, all CEE markets currently have a ratio lower than 70 per cent with Romania, Hungary, Serbia and Russia even lower than 50 per cent. Furthermore, the low **loan/deposit ratio**, significantly lower than some years ago (all CEE markets apart from TK have a L/D ratio below 100 per cent with most CEE markets – namely the Czech Republic, Hungary, Bulgaria, Romania, Slovenia, Croatia and Russia at around 70-75 per cent) also adds to this potential as well as **digital banking penetration**. Regarding the latter, there is currently a lower level of digital banking use in CEE, but it is increasing fast. The use of internet banking more than doubled between 2010 and 2017

---

the last 15 years, surpassing 6 million vehicles, many of them destined to export. Despite a strong presence of automotive producers already, new projects and FDIs are flowing in (the ones announced by Jaguar-Land Rover and BMW being those with the largest impact on the CEE economies, both of them surpassing EUR 1 bn each). Moreover, innovation in automotive (hybrid and electric cars, autonomous driving) can represent an additional opportunity for further investments in the region.

[3] The IT sector is a good example with both the outsourcing business process and the more advanced services (digital capabilities, Sofia hub, etc.) continuing to expand significantly.

[4] According to Eurostat data

[5] Percentage of individuals using the Internet, simple average of CEE countries excl. Poland, according to data from ITU (International Telecommunication Union)

[6] Mobile-cellular telephone subscriptions per 100 inhabitants, simple average of CEE countries excl. Poland, according to data from ITU (International Telecommunication Union)

in the Czech Republic, Hungary, Turkey, Serbia, Romania and Bulgaria. It has also consistently been significantly higher than the use of internet for online purchases in the region.

Going forward, the CEE banking sector will see the continuation of improvements in efficiency, the clean-up of the loan portfolio and more focus on revenues and growth. The race for market share continues and there is also room for M&A. In terms of **banking revenue** over previous years, net interest income (NII) has been recovering from the low levels of 2015-16 and in 2019 it is expected to make up two thirds of the revenues in the CEE banking sector. Costs are also increasing, feeling the pressure from wages, however the cost / income ratio is expected to remain stable in 2020-23 and not replicate the strong improvements seen in recent years. The cost of risk, in terms of LLP over gross lending, is expected to stay very low (at 77bps for CEE excl. RU&TK), but to "normalise" gradually. The improved asset quality – lower NPL translating into lower LLPs - has been the main driver of profitability in the last years: the **profitability** for CEE markets has been constantly growing year on year in 2013-17. The return on equity, for instance, is currently around 10 per cent at the banking system level (CEE excl. TK and RU) and is expected to remain at such levels.

"The economic progress in CEE in the past two decades has been remarkable. The CEE region is also well banked, highly liquid and characterised by a high level of competitiveness across all jurisdictions. With our solid leadership position and strong commitment to the region, UniCredit will continue to support the economic growth of the CEE markets in which we operate. The CEE division is and will continue to be the core growth engine of the Group," said **Carlo Vivaldi, Head of CEE Division at UniCredit** at the annual Euromoney Forum.

"The fast-changing business environment and challenges imposed by the digital landscape alongside the need to constantly improve customer experience have become one of the most important areas for companies to invest in. In today's competitive market, these are imperative for market leaders as customers expect their financial service providers to keep up with the pace of change. As a result, the interactions clients have with their bank are increasingly characterised by a growing degree of automation through digital processes," added **Andrea Diamanti, Head of CEE CIB and PB at UniCredit.**

2018 witnessed strong **M&A activity in the CEE** banking sector. Last year saw the ongoing orderly exit of Greek banks from South Eastern European markets, the consolidation in Russia among state banks under the guidance of the Central Bank and the announced privatisations in Slovenia and Serbia. Following a dynamic 2018, we would expect to see similarly strong market activity in 2019 driven by the South Eastern European markets thanks to deals and IPOs that have already been announced, reduction of risk exposures by some regional groups, and as a result of privatisations in certain countries (i.e. Slovenia and Serbia).

CEE REGION - A KEY GROWTH ENGINE FOR UNICREDIT

"CEE continues to be an important growth engine for the Group with a further strengthened leadership position and continued strong client growth in 2018. We are the largest lender in the CEE region (EUR 64.2 billion[7]) with 11.7 per cent market share in lending and solid growth in the last 5 years[8]. UniCredit is ranked as #1 in CEE overall in terms of total assets[9], and in the top 5 in most individual CEE countries[10]", said **Carlo Vivaldi, Head of CEE Division at UniCredit**.

UniCredit's customer base in CEE is constantly growing towards the target of 2.6 million net new customers by the end of 2019. The quality of the portfolio is also improving, with the ratio of gross NPEs reduced by 229 basis points (to 6.5 per cent) in 9M18 when compared to 9M17.

[7] As of September 2018
[8] as of September 2018, excl. Turkey, incl. Russia
[9] as of June 2018, incl. Turkey
[10] as of June 2018

As a result, the return on allocated capital stands at 15.7 per cent in the first nine months of 2018, once again underlining the strong profitability of the CEE division.

Furthermore, mobile banking users are expected to grow from 38.2 per cent of all customers in 3Q2018 to 47 per cent over the next year.

UniCredit's success in the region is based on its solid franchise - one of the largest and most diversified in CEE - with strong local coverage and relationship management and the ability to leverage global product lines, "best-in-class" services and the know-how of the Group to best serve its customers. UniCredit's market position in CEE provides local banks with a substantial competitive advantage thanks to strong brand recognition, access to international markets, sharing of best practice and significant economies of scale.

Vienna, 15 January 2019

Enquiries: UniCredit Media Relations
mediarelations@unicredit.eu

About UniCredit:

UniCredit is and will remain a simple successful pan-European Commercial Bank, with a fully plugged in CIB, delivering a unique Western, Central and Eastern European network to its extensive client franchise: 26 million customers. UniCredit meets the evolving needs of its clients with a full commercial offer which harnesses strong synergies between the different business divisions, including CIB, Commercial Banking, and Wealth Management.

UniCredit offers its clients both local and international expertise by providing unparalleled access to market leading products and services in its 14 core markets through its European banking network: Italy, Germany, Austria, Bosnia and Herzegovina, Bulgaria, Croatia, Czech Republic, Hungary, Romania, Russia, Serbia, Slovakia, Slovenia and Turkey. Leveraging on an international network of representative offices and branches, UniCredit serves clients in another 18 countries worldwide.

For more information, please go to www.unicreditgroup.eu/en