CEE Banking through the cycle

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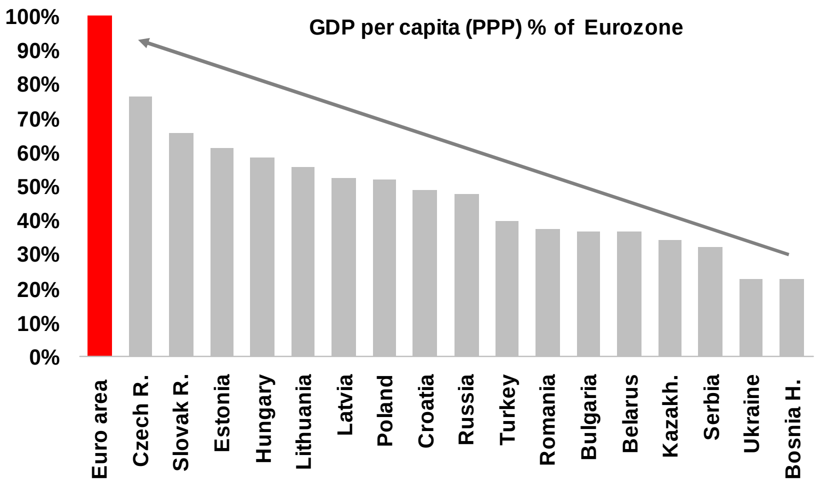
Agenda

- **The current environment**
- Banking through the crisis
- UniCredit positioning
- Conclusions

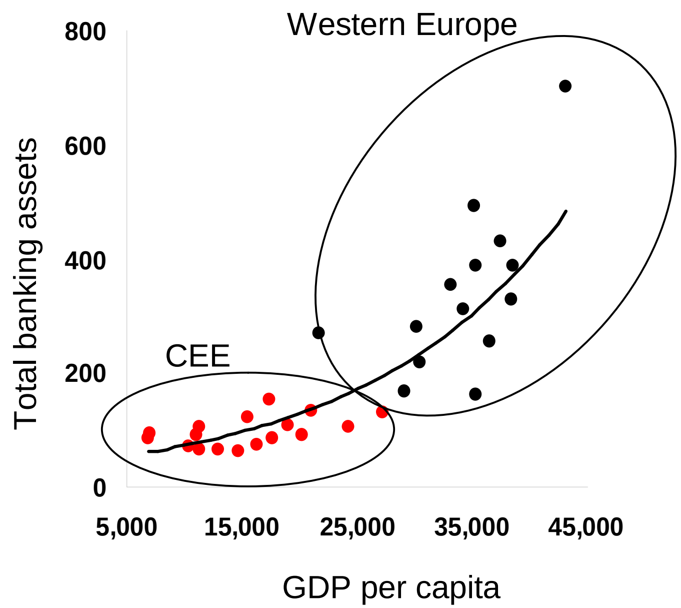
The long term potential of the CEE region is intact

Real income convergence in CEE (1)



Financial deepening process

(% of GDP and PPS in dollar terms)



The story of economic and income convergence towards the standards of western countries, as well as the potential related to the banking sector penetration gap, continue to hold

(1) CEE incl. new EU member states+Croatia and Turkey; calculated based on GDP per capita expressed in dollar terms

Source: UniCredit Group CEE Strategic Analysis, IMF, ECB

The effect of the international crisis is amplified by domestic vulnerabilities

INTERNATIONAL

- **Banking crisis**
  - toxic assets
  - lack of confidence on the financial industry
  - cost and availability of funding
  - deleveraging
  - new capital adequacy standards
- **Global recession**
- **Commodity cycle**

MACRO

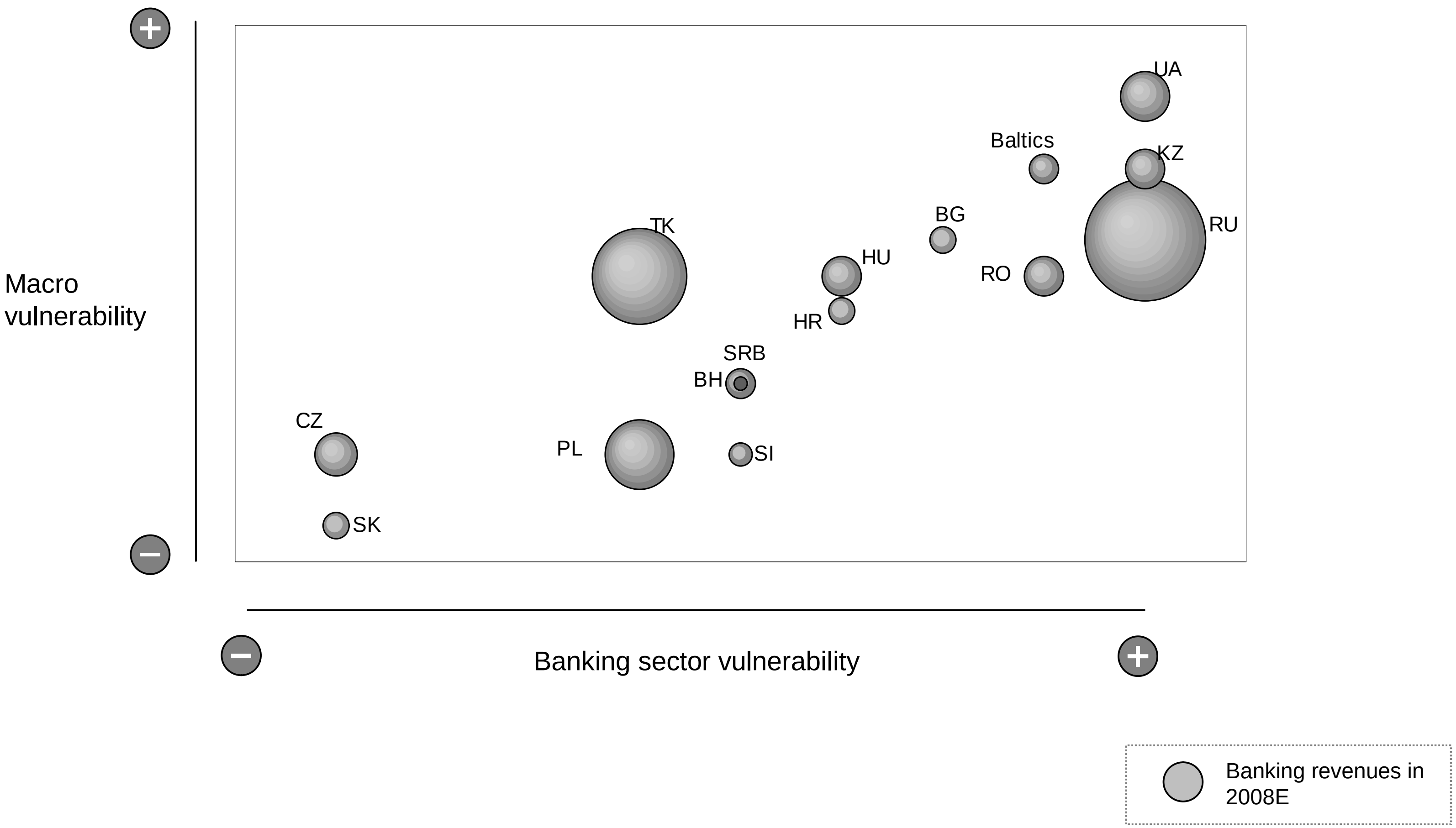
- **Dependency on capital inflows of all economic sectors** (consumption and investment boom financed through external savings)
- **Dependency on international demand** (industrial sector part of the international production chain)
- **Dependency on commodities in RU, KAZ, UKR**

BANKING

- **Imported lack of confidence in banks** (relevant mom outflows of deposits in Oct. in BH (-11.2%), LT and LV (both -3.6%), HR (-2.6%), SI (-1%) and UA (-4.3%or -10% netted by the devaluation of the local currency)
- **Banking sector fully dependent on foreign funding to finance lending growth**
- **Credit boom in the last years**
- **FX lending both in retail and corporate** (28% and 32% respectively)
- **Real Estate market boom**

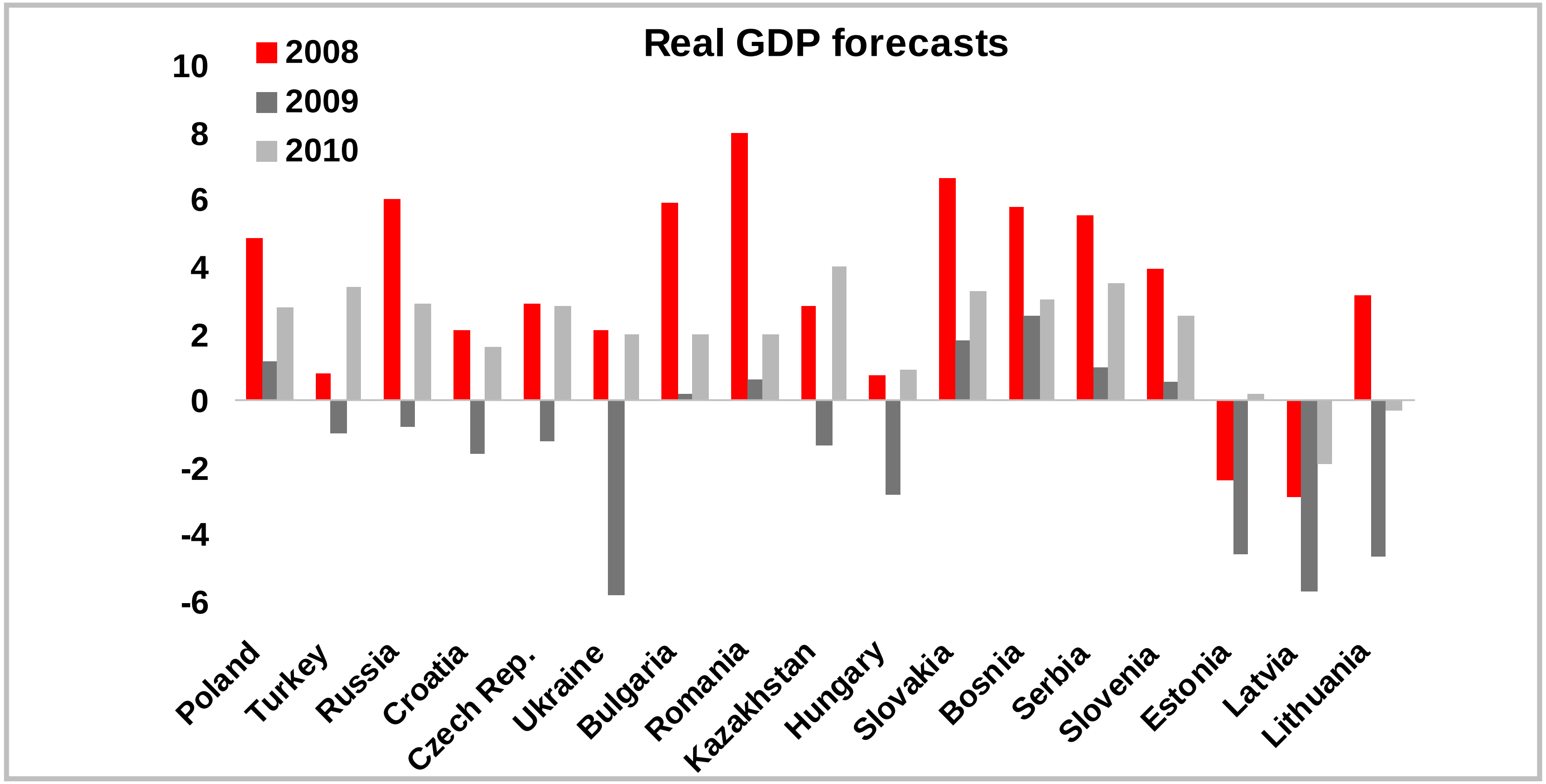
Quite different group of countries – ranging from those mostly influenced by a cyclical downturn, to those more tight on the macro and on the banking side

CEE Macroeconomic vulnerability vs Banking vulnerability



Source: UniCredit Group CEE Strategic Analysis

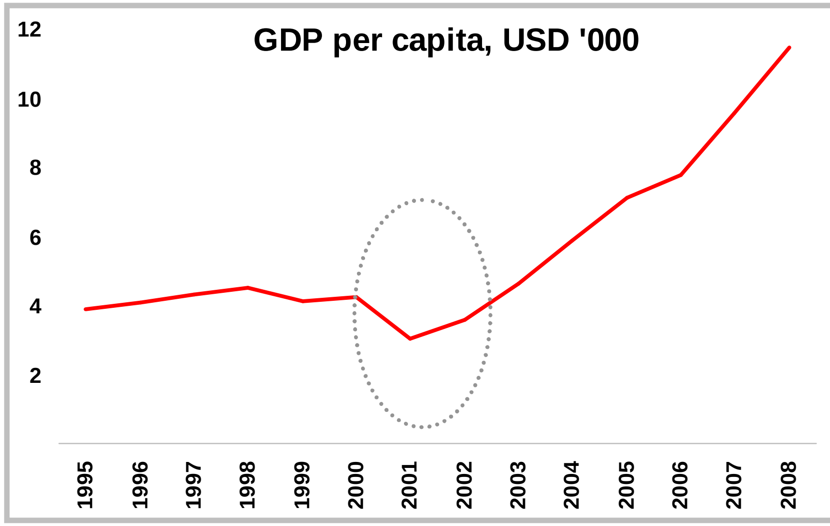
A very challenging 2009, but slowdowns in emerging markets tend to be short lived …

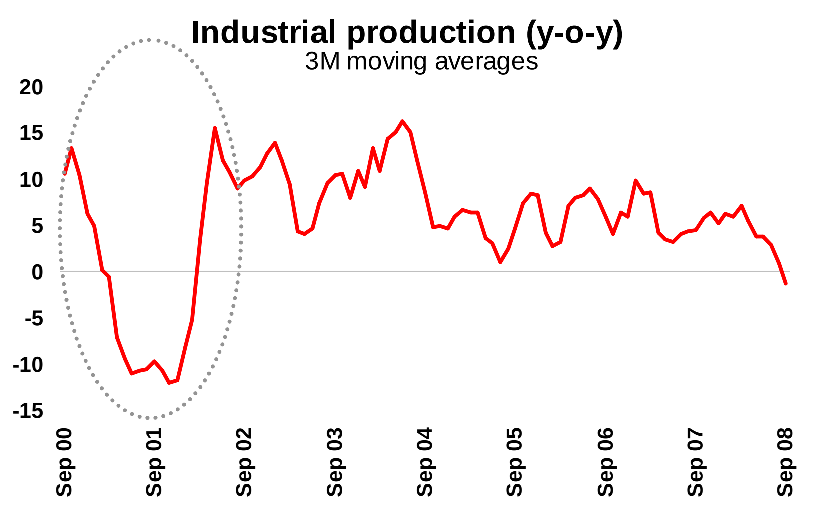


- Growth recovery following Asian crisis was rapid, alongside a significant reduction in external financing risks
- CEE well placed for growth recovery in 2010

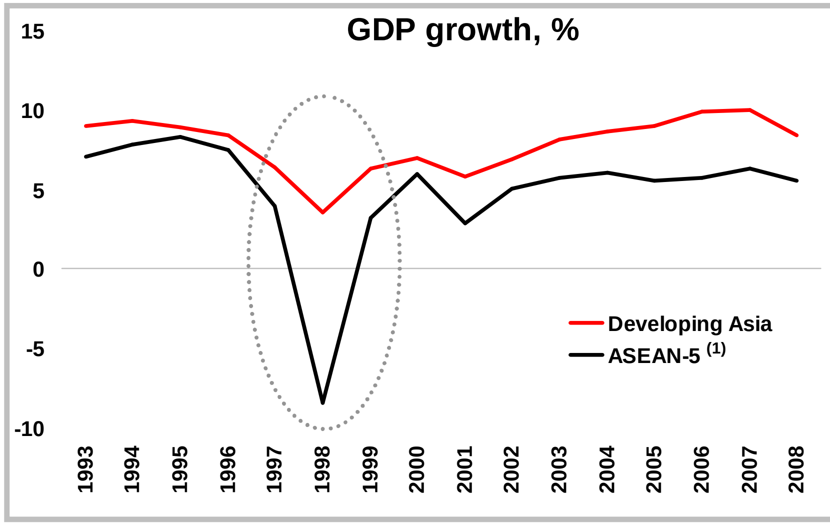
… as latest crises in Turkey and Asia proved

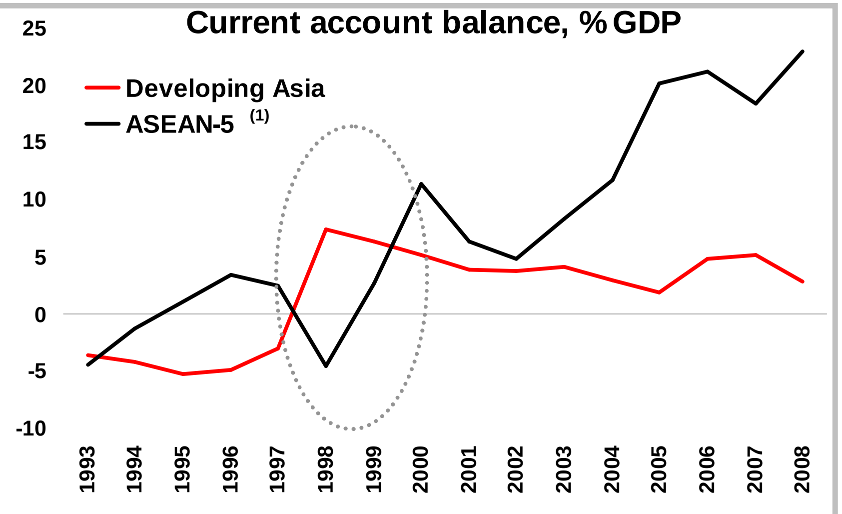
TURKEY 2000-2002





ASIA 1997-1999





(1) ASEAN-5: Indonesia, Malaysia, Philippines, Singapore and Thailand

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M-T Strategies for banks in the current environment

Key constrains

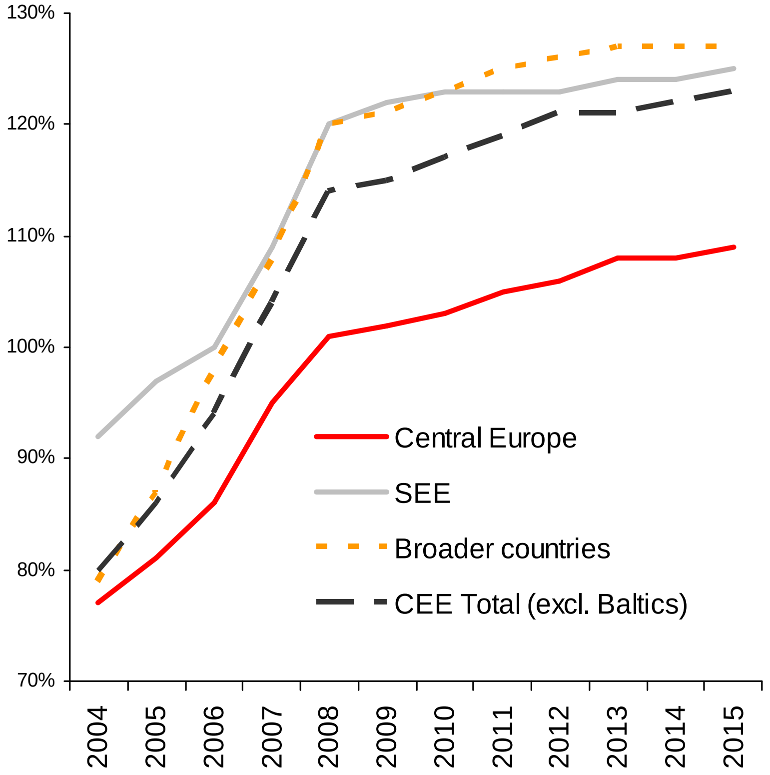
- The region will remain dependent on external funding
- L/D ratio will remain a key constraint
- Banking penetration will continue to increase
- Change in demand - lower V.A. products / services, with lower margins
- Higher cost of risk
- Substantial change in the competitive framework (state and new foreign)

Competitive advantage

- Good access to external funding remains a clear competitive advantage
- Advantage for the systemic / retail banks, able to attract deposits
  - Focus on rich / more balanced countries
  - Potential where money under the mattress + AuM exist
- Focus on diversification of target segments & full range of services, with size and economies of scale being relevant
- In depth restructuring of the machine, with search for strong efficiency at the country and at the organisational level
- Reshape the positioning, taking new opportunities or finding appropriate niche role

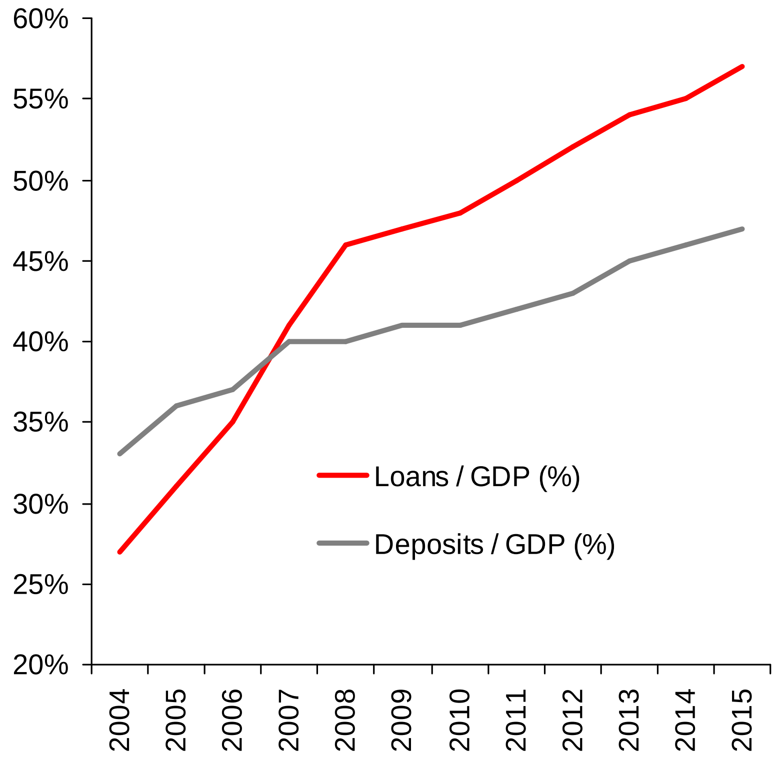
A more balance funding structure will emerge, but banking penetration will continue to increase, even if at a lower pace

Loan growth strongly tied to deposits expansion (Loans / deposits ratio, %)



Banking penetration still increasing

(Loans and Deposits[1], % on GDP)



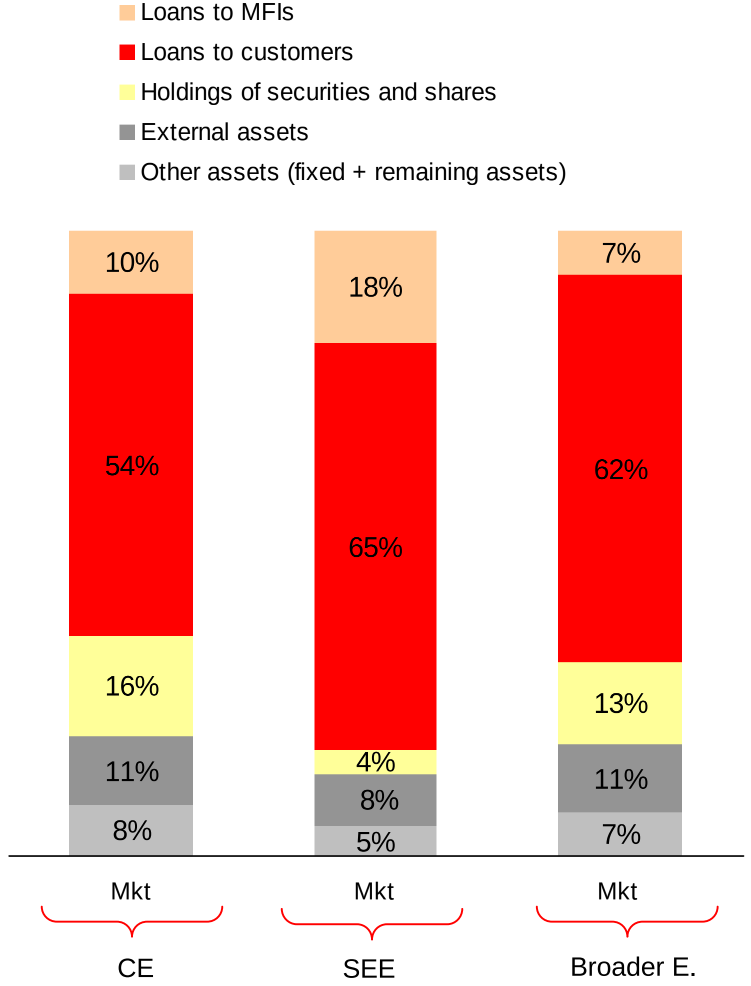
(1) At constant exchange rates

Source: UniCredit Group CEE Strategic Analysis

Some opportunities from reshaping the balance sheet, but banking in the region will remain dependent on external funding

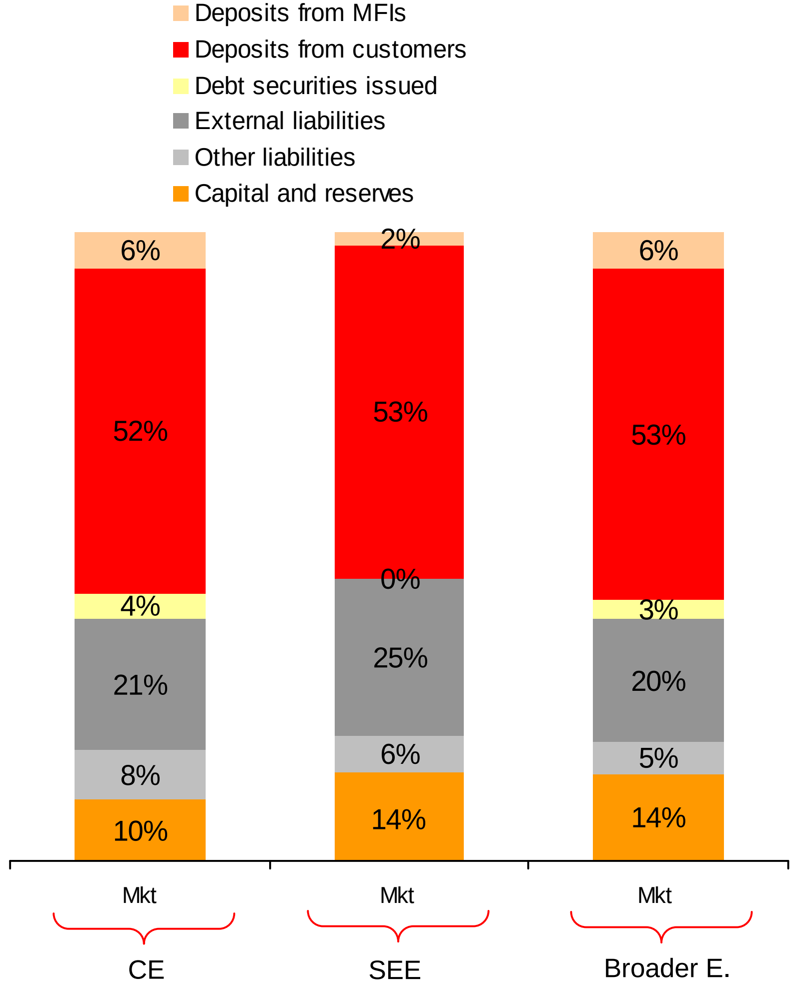
Assets Breakdown

Dec. 2008*



Liabilities Breakdown

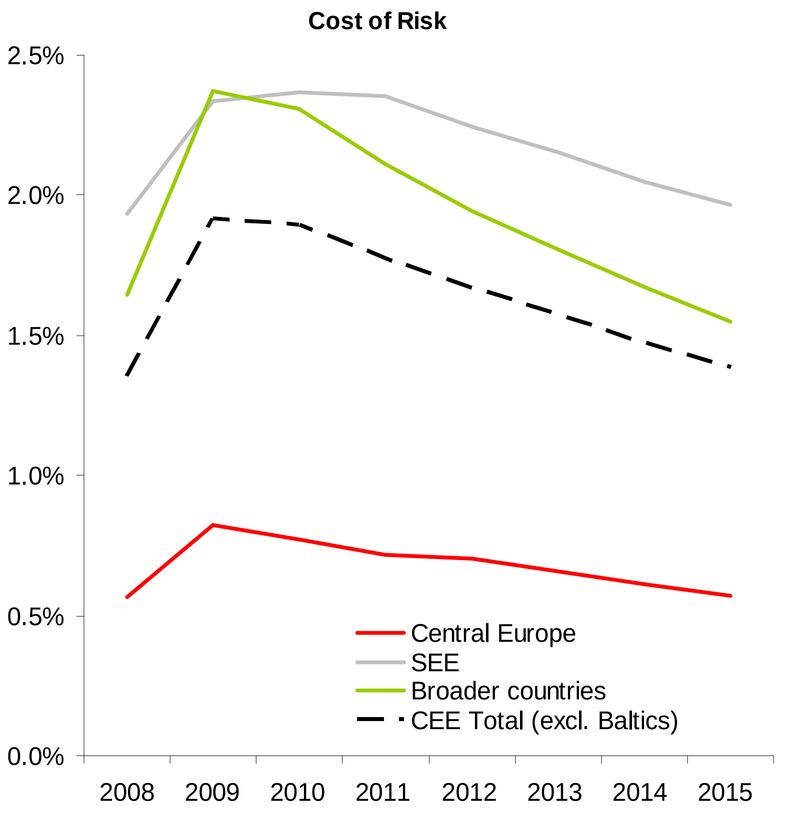
Dec. 2008*



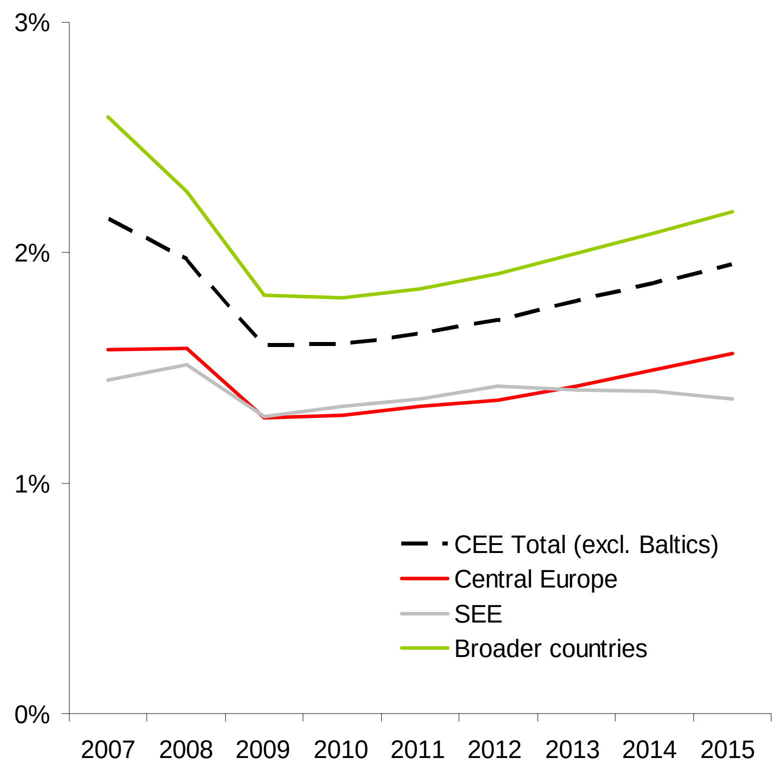
Note: CE includes Poland, Czech R., Slovakia, Hungary, Slovenia; SEE includes Croatia, Bosnia, Serbia, Romania, Bulgaria; Braoder Europe includes Turkey, Russia, Kazakhstan and Ukraine (for UCG, Ukraine is Ukrsotsbank). *For Turkey and Russia, data as of Sept.08, for Romania as of June 08.
Source: UniCredit Group CEE Strategic Analysis

Cost of risk to peak and remaining higher than before the crisis, profitability to recover starting from 2011

Cost of risk (%)



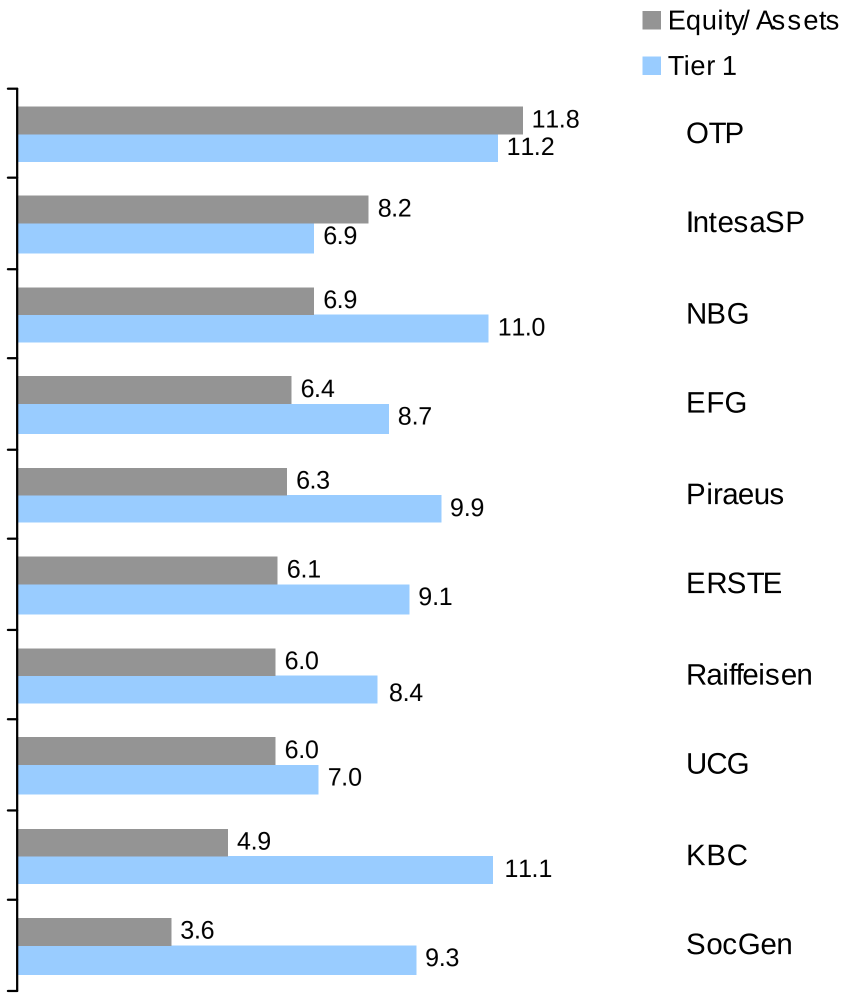
ROA (%)



Sources: National statistical offices, UniCredit Group CEE Strategic Analysis

Regulatory interventions influencing international banks active in CEE might help, but strong home / host debate

Capital ratios, % - Sept. 2008[1/2]



Major CEE banking groups applying for government aid

- ✓ **KBC** issued **€ 3.5 bn** worth of core capital securities to the Belgian state. KBC is further strengthening its capital base by issuing **€ 2 bn** non-dilutive core capital to the Flemish Regional Government. An additional standby core capital facility of **€ 1.5 bn** is also being provided
- ✓ **SocGen** issued **€ 1.7 bn** of deeply subordinated notes to the French government. Further **€ 1.7 bn** of preferred shares or debt is planned to be issued to the government as part of the second round of the banking rescue package
- ✓ **Erste Group** accepted to raise participation capital up to **€ 2.7 bn** - that can be subscribed both by the Republic of Austria and by other shareholders/investors. Erste agreed to issue as well **€ 6 bn** of Austrian government' s guaranteed bonds
- ✓ **Raiffeisen Group** intends to issue participation capital up to **€ 1.75 bn**, in the form of core capital to the Austrian government - € 750 mn of participation capital have been already subscribed by RZB' shareholders, bringing the overall volume of new capital to € 2.5 bn. RZB issued as well **€ 1.5 bn** of Austrian government' s guaranteed bonds
- ✓ **NBG** and **Piraeus Bank** increased capital respectively by **€ 350 mn** and **€ 370 mn**, by issuing preference shares to the Greek state

[1] For, OTP, KBC, SocGen data as of December 2008, Raiffeisen as of June 2008. [2] SocGen: including EUR 1.7bn tier 1 increase and 2nd issue planned (before August 2009) of 1.7bn Tier 1, excluding floor impact; Erste: including EUR 2.7bn tier 1 increase; KBC: including EUR 3.5bn + EUR 2bn of non voting core capital securities; Piraeus Bank: excluding EUR 370mln preferred shares to Greek State, NBG: including EUR 350mln preferred shares; UCG: including EUR 3bn capital increase; Raiffeisen Group: including EUR 1.75bn core capital to Republic of Austria and 750mln equity increase to shareholders

Source: UniCredit Group Strategy and Business Development, CEE Strategic Analysis

Commitment of state and international institutions to the area's stability

EU countries	EMU									
	Slovenia	Slovakia	Poland	Czech Rep.	Hungary	Bulgaria	Romania	Estonia	Lithuania	Latvia
Economic Stimulus										
Support of key industries	■			■			■	■		
Households' protection	■		■		■		■			
Government spending/ Taxes/ Infrastructural Projects	■			■			■			
Banking intervention										
Market confidence	■	■	■	■	■	■	■	■	■	■
Liquidity	■	■	■	■	■	■	■	■	■	■
Guarantees and Capital	■		■		■					
Take-over, Recapitalisation										■

- **Poland €24bn** to support the economy
- **Czech R. €2.5bn** to support the economy
- **Hungary €8.8bn** to government support investment activity and **€2.4bn** available for banks, after a support of **€20bn** from IMF/EU/WB
- **Slovenia €12bn** available for banks **and ~€0.8bn** to support the economy
- **Romania €13bn** in infrastructure, liquidity for banks and support to low income classes, discussion with IMF/EU for more support
- **Latvia** take over of Parex Bank and additional measures, **€7.5bn** IMF and EU members

Non EU countries	Candidate/Potential EU						
	Croatia	Turkey	Serbia	Bosnia	Russia	Ukraine	Kazakhstan
Economic Stimulus							
Support of key industries		■	■		■		■
Households' protection						■	
Government spending/ Taxes/ Infrastructural Projects					■		■
Banking intervention							
Market confidence	■	■	■	■	■	■	■
Liquidity	■	■	■	■	■	■	■
Guarantees and Capital					■		■
Take-over, Recapitalisation					■	■	■

- **Serbia** possible **€1bn** package for the economy and **€0.6bn** of state guarantees on bank loans to local industry, **~€0.4bn** from IMF (discussion about more support by IMF and EU/WB)

- **Russia** anti-crisis package, more than **$200bn** (12% of GDP), (incl. refinancing of banks' foreign debt, support to single banks and acquisition of s/m banks) plus further **$40bn** to specifically support local banks
- **Ukraine** package to reassess banking stability in accordance with IMF(**€11.7bn**) plus ad hoc support to single banks (**$10bn** of NBU support, **$5bn** budgeted by government in 2009 for recapitalization)
- **Kazakhstan** some initiatives (worth as a whole **$15 bn**), including entry in the capital of the 4 major banks, support to banks' liquidity, deposit guarantee, support to the mortgage market and other measures

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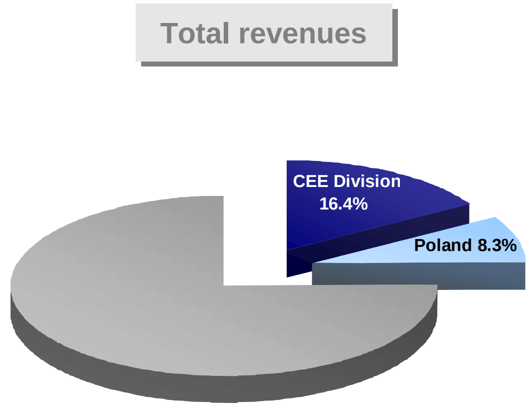
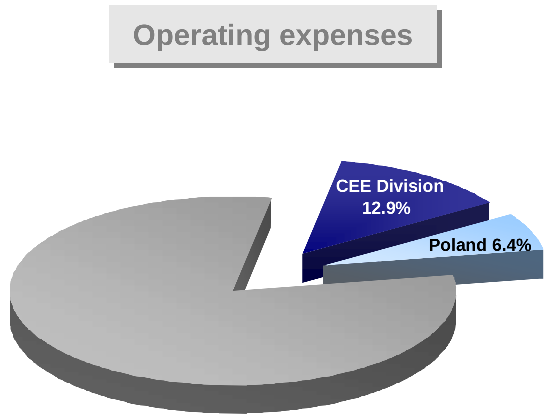
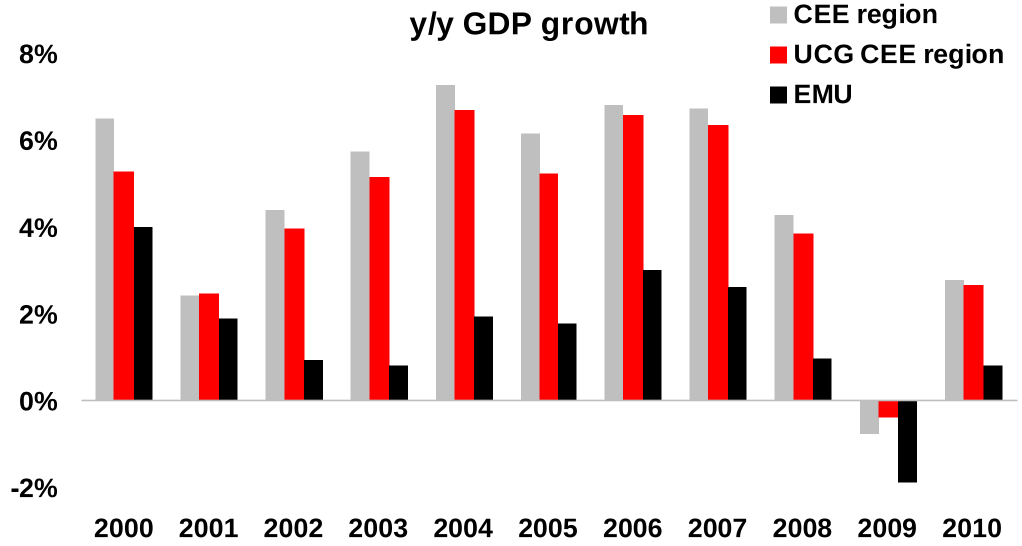
A TRULY EUROPEAN GROUP – FOCUS ON CEE REGION





Note: Weight on Unicredit Group results, as at 9M08

COUNTRY DIVERSIFICATION
A key strength also in a Macro-Economic slowdown



	GDP real				Inflation, avg			
	2007	2008	2009	2010	2007	2008	2009	2010
CEE-17 current	6.7	4.3	-0.8	2.7	7.4	11.3	6.9	6.5
UCG-17 current	6.3	3.8	-0.4	2.6	5.5	8.5	4.9	4.5
West. Europe (AT-GE-IT)	2.2	0.5	-2.4	0.7	2.1	2.9	0.9	1.9

- **CEE growth** will **continue to outperform EMU** in 2009
- In a negative outlook scenario, **the diversification of UCG halves the impact on the group** showing a good positioning in faster growing countries
- **UCG weighted presence: lower negative growth of GDP** in 2009; lower CPI vs CEE region average highlights **considerable rooms of cost saving**
- Proactive policymaker response to the slowdown and solid banking sectors **pave the way for strong 2010 recovery prospects in Czech Republic, Poland and Turkey** (~55% of UCG revenues in CEE region)

Source: UniCredit Research

FROM THEORY TO PRACTICE: DE-RISKING ACTIONS IN PLACE
Some examples: not exhaustive!

- **Real Estate: further reducing risk appetite**
  - ✓ **decrease of LTVs/LTCs** by 10 percentage points
  - ✓ **increase of Debt Service Coverage Ratio (DSCR) by 10 bps**
  - ✓ **no plot** financing
  - ✓ **very selective developer financing**, restricted in some countries (e.g. RU, UA, Baltics) and conditioned to tighter prelease sales conditions

- **Corporate: special liquidity check and very cautious lending**
  - ✓ **Liquidity check of large corporate customers**
  - ✓ **New business** subject to **up-dated review and positive result of liquidity check**
  - ✓ Focus on **lending to operative companies**
  - ✓ **No underwriting commitments**
  - ✓ **No bridge financing unless** we are comfortable/able to keep this risk on a midterm basis
  - ✓ Asset based financing parameters more restrictive (e.g. decrease of LTVs/LTCs by 10 p.p., DSCR increased by 10 bps**)**
  - ✓ Dedicated **Task Force Kazakhstan**

- **FX lending: limited origination, strict monitoring**
  - ✓ **Special Credit policy** with appropriate add-on's and haircuts and Customer Awareness letters
  - ✓ **Close monitoring of portfolio and tightening of retail lending rules**
  - ✓ **Required debt repayment capability is increased by 10-20% depending on currency**

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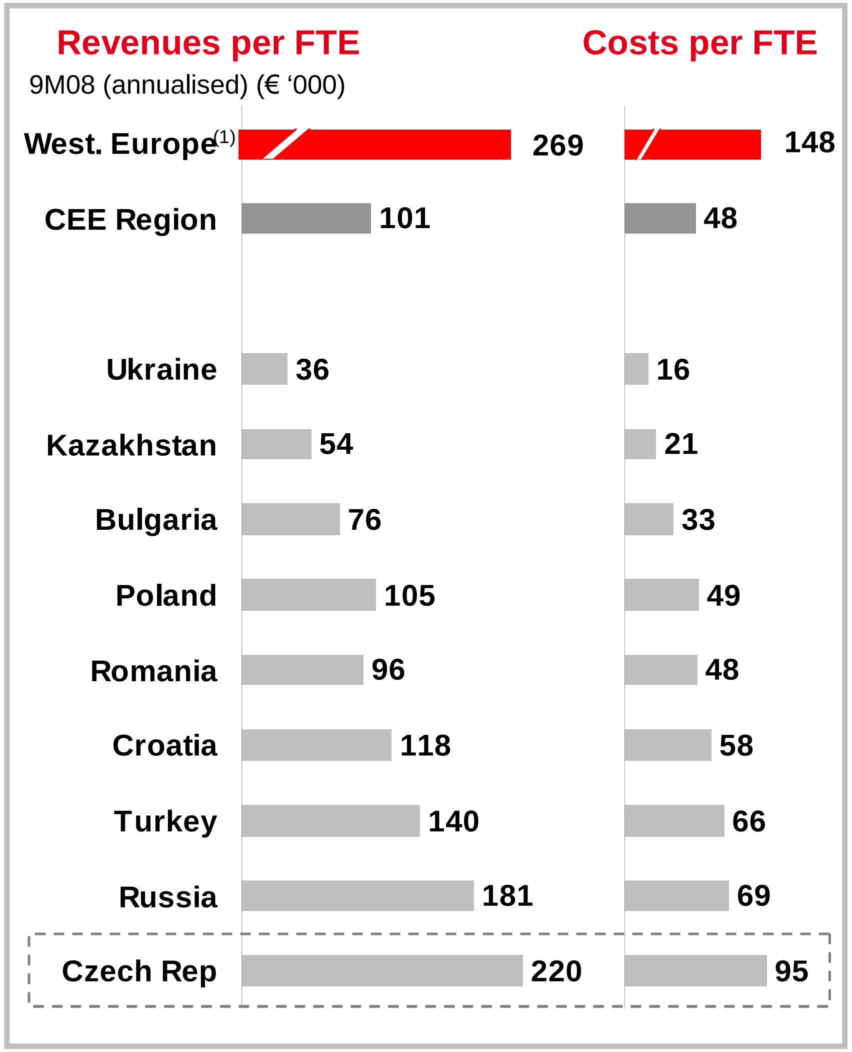
COST CONTROL AS A MAJOR FOCUS IN 2009

17 mergers in 2006-2008: ready to exploit benefits

Efficiency Benchmarking per country



[1] Sum of Group Retail, Corporate (excl. Leasing) and Private banking

Cost Control measures for 2009

HR-Costs:

- **FTE-Reduction** by appr. 2,000 despite limited branch openings (75)
- Strict **control of salary** development and reduction of variable compensation
- GBS **efficiency program**

NON-HR-Costs:

- **IT-Efficiency**
  - Centralisation initiatives
  - Streamlining IT-Expenditures
  - Actions for each country
- **Back-Office**
  - Definition of benchmarks and best practices, measures derived thereon
- **Optimizing Real Estate**
- **Corporate Center Rationalization**
- **Further Initiatives** (travel, consulting, marketing, etc.)

ADDRESSING FEARS ON FUNDING AND FX VOLATILITY

MANAGING FUNDING RISKS

- **Improving loan/deposit ratio**
  - ✓ Key countries already self-funded (e.g. Poland, Croatia, Turkey)
  - ✓ Improvement in other Countries
- Exploiting **guarantee schemes** with Supranational agencies (i.e. MIGA, SACE) and innovative funding programs
- **Selected collateralization** action for new lending

FX

- **Limited correlation** between FX smoothing impact on capital ratios
- Yearly **hedging of expected net profit and dividend** (if feasible at reasonable costs)
- **Proactively approaching customers** with potential FX imbalance, to prevent/limit impacts from FX devaluation

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Executive summary

- A challenging period ahead, but the region continues to show a long term potential

- Thinking through the cycle, the regional banking sector will remain profitable
  - a more balance funding structure will emerge, but banking penetration will continue to increase
  - systemic banks in rich countries will profit from access to retail savings and for scale factor for distribution (crucial, given the new demand for lower VA products)
  - access to international funding will remain key
  - Changes in the competitive landscape

- UniCredit still well positioned, with a long term commitment to the region