

## **CENTRAL AND EASTERN EUROPE BANKING STUDY 2018: RESILIENT GROWTH AND OPPORTUNITIES**

- **The economic environment will remain favorable**

The economic environment in which banks operate in CEE is expected to remain favorable. For most CEE countries 2017 was the best year since 2010 in terms of economic growth. Looking ahead, GDP growth is expected to remain solid in most countries (around 3% per cent or above), although with some moderate deceleration in 2018 and 2019.

- **Improvement in lending growth in most countries**

Although lending growth will likely slow somewhat in the countries that experienced the highest growth rates over the past two years, it is expected to improve in the countries that have been lagging behind. In particular, we expect acceleration in Hungary, Slovenia and Serbia (HR, SI, RS) and some slowdown in lending growth in Czech Republic and Slovakia, Romania and Turkey (CZ, SK, RO, and TR), with the other countries keeping growth close to current rates.

- **NPL: Proactive action and better collection improve asset quality and de-risk balance sheet**

The decline in NPL ratios has been on the most prominent feature in CEE in the past three years and it is expected to continue. Improvement has been driven in good part by NPL sales, better collections and economic recovery, particularly in Romania, Hungary, Serbia and Slovenia. These factors will continue to play an important role, with new inflows limited by improved risk practices.

- **Profitability will stay at current levels, beating Western European banks**

Profitability, measured in terms of profit before tax on total assets, is likely to remain at current levels, which are significantly higher than our Western European sample (1.3 per

cent versus 0.4 per cent). Given the still relatively low interest rate environment, cost control and focus on asset quality will remain central.

- **EU funds will continue to represent an opportunity for banking business**

The flow of EU funds to CEE will remain significant in the coming years (between 1.5 per cent and 3 per cent of GDP per year on average), and this will represent a driver for economic activity. Consequently, it will also represent an opportunity to support companies' access to both grants and financial instruments through dedicated banking products and services.

- **Growing (with) digital**

CEE countries represent an ideal environment to push for digital banking, due to their relatively high degree of overall digitalisation.

A multichannel client approach, leveraging all interaction points, improves productivity and customer service while also lowering the cost base. Digitalisation of processes enhances customer experience, increases the quality of advisory services, and improves remote sales, expanding the number of products available through the digital platforms and the number of contacts with clients.

Furthermore, integrating advanced analytics ensure customers' needs are met and help anticipate changes to the overall industry today and in the future.

- **Wealth management opportunities**

Households' net financial wealth in CEE has roughly doubled since 2006. Private banking products will play an increasingly important role in light of the still significant household wealth gap vs. more advanced economies and the prospects of continued economic recovery. There will be opportunities for advisory, diversified product offerings, increased assets under management as well as scope for greater product sophistication.

- **Areas of consideration**

Any outlook has to take into consideration the low interest rate environment in some CEE countries, that could affect profitability, the impact of regulatory headwinds and legislative measures, the outlook for Turkey and limited growth in Russia.

“For the second year in a row, the banking sector was profitable in all countries in 2017” said **Carlo Vivaldi, Head of CEE Division at UniCredit**. “With GDP growth for 2018/19 expected at above 3 per cent in nearly every country, we foresee good conditions for continued CEE growth<sup>1</sup>”.

“The favorable environment will be good for the banking business in the region” added **Mauro Giorgio Marrano, CEE Strategy and Corporate Foresight**. “CEE also presents unique opportunities, given the growing household wealth, as well the developing needs for advisory and investment and savings products”.

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<sup>1</sup> In 2018/19 the Eurozone is expected to grow 2.1 per cent

## CEE REGION REMAINS AN IMPORTANT GROWTH ENGINE FOR UNICREDIT

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CEE continues to be an important growth engine for the Group, with a further strengthened leadership position and client growth. UniCredit is the leader in term of total assets and geographic diversification and among the top-bank in each respective country.

CEE is delivering continued organic growth and sustainable profitability, with stable revenues supported by high operational efficiency. The banking group operates an extensive network of almost 1000 branches in 11 countries, which generates roughly one quarter of its total revenues.

UniCredit's customer base in CEE is constantly growing towards the target of 2.6 million net new customers by the end of 2019. Meanwhile the quality of the portfolio is improving, with Gross NPEs ratio reduced 9M16/9M17 by 140 basis points (from 10.3 to 8.9).

As a result, return on allocated capital stands at 14.4 per cent in the first nine months of 2017, underlining the strong profitability of CEE division.

“Its broad diversification by customers, products and geographies has made the CEE region a consistently strong contributor to the Group's financial results” said **Carlo Vivaldi, Head of CEE Division at UniCredit**. “And the region's innovative approach, proven by the strong growth of its digital customer base, means it is the perfect testing ground for new digital and IT solutions: a number of important transformation programs have been launched in CEE, in particular related to innovation and digitalisation, which can then be rolled out across the Group”.

Cross-border activity is growing thanks to an increasing number of international customers. As of September 2017, CEE serves 26,000 international clients<sup>2</sup> (+5.7 per cent since last year) through its International Centers. It intends to grow this customer base by another 2,000 by 2019.

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<sup>2</sup> Corporate customers active in more than one country where UniCredit Group is present.

Digital users are projected to increase from currently 44 per cent of all customers to 51 per cent in 2019 and mobile banking users are expected to grow from currently 28 per cent of all customers to 47 per cent over the next two years. “We continuously invest in innovation and digitalisation, further progressing in data management and analytics in order to expand our regional customer business, while continuing our strong focus on cost discipline” concluded **Vivaldi**.

With the CEE lending volume of EUR 59.7 billion as of September 2017, expected to grow to EUR 68 billion in 2019, UniCredit also has long-established expertise in handling state and EU-supported programs in the CEE region. This has resulted in more than EUR 2 billion approved facilities dedicated to EU Funds projects and another EUR 0.8 billion signed agreements for implementing financial instruments.

#### **About UniCredit:**

UniCredit is 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 of 25 million clients.

UniCredit offers local expertise and international reach, supporting its clients globally and providing them with unparalleled access to leading banks in its 14 core markets as well as 18 other countries worldwide. UniCredit European banking network includes Italy, Germany, Austria, Bosnia and Herzegovina, Bulgaria, Croatia, Czech Republic, Hungary, Romania, Russia, Serbia, Slovakia, Slovenia and Turkey.

For more information, please go to [www.unicreditgroup.eu/en](http://www.unicreditgroup.eu/en)

**Enquiries:** UniCredit Media Relations  
[mediarelations@unicredit.eu](mailto:mediarelations@unicredit.eu)