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## **CAPITAL STRENGTHENING**

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Milan, 6<sup>th</sup> October 2008

# NEW SCENARIO CHALLENGES EXISTING STRATEGY

## New scenario

- Last month re-defined the outlook of the banking environment:
  - ✓ Evidence of global macro-economic deceleration
  - ✓ Unprecedented lack of trust among financial operators
  - ✓ Normalization of capital markets likely to take longer than expected
- The outcome is higher capital needs in the banking system

## Impact on UCG

- Despite core commercial banking resiliency...
- ... market-related businesses reflecting market dislocation
- Capital ratios targets challenged by new scenario
- Execution of asset disposals tougher to implement

## Strategy

- No compromise on capital ratios: Core Tier 1 2008 to 6.7%, accelerating on our Core Tier 1 target
- Even higher focus on core strengths
- Re-sizing UCG cost base to cope with pressure on revenues pool
- **MANAGEMENT PRIORITY: IMPROVING VALUE CREATION**

**CONFIRMING UCG STRATEGY, TAILORING IT TO THE NEW SCENARIO**

# UNICREDIT IN THE NEW ENVIRONMENT: KEY ACTIONS

## Capital

## Earnings

### What has happened

- Higher capital ratios suit current scenario
- UCG capital targets challenged as:
  - ✓ Harder to sell assets at adequate pricing
  - ✓ Tough market impact on stated earnings

- Decreasing ABS portfolio still exposed to market volatility
- Weak market-related businesses
- Increasing cost of funding for the banking system
- Increasing cost of risk

### Actions

- Core Capital Strengthening by 6.6 bn:
  - ✓ Scrip Dividend (3.6 bn)
  - ✓ Rights Issue (3.0 bn) at a price already defined – fully committed

- Increasing cost-consciousness:
  - ✓ Stronger actions in central costs
  - ✓ Restructuring actions in MIB
  - ✓ 2009 CEE branch openings on hold

### Impacts

- Core Tier 1 at 6.7% under Basel 2 after capital strengthening

- Cost actions already in 2008: no cost growth in Western Europe
- 2009 Cost base down in absolute terms

**CAPITAL CLOSER TO 2010 TARGET  
EARNINGS SUPPORTED BY LOWER COST BASE**

# CORE TIER 1 TO 6.7%, MUCH STRENGTHENED THANKS TO TWO OPERATIONS

	Actions	Core Tier 1 impact	EPS impact
<div style="border: 1px solid black; padding: 10px; margin-bottom: 20px;"> <div style="background-color: red; color: white; border-radius: 50%; width: 20px; height: 20px; display: flex; align-items: center; justify-content: center; margin-bottom: 5px;">1</div> <div style="background-color: #cccccc; padding: 10px; margin-top: 5px;"> <p style="text-align: center; font-weight: bold; margin: 0;">RIGHTS ISSUE</p> </div> </div>	<ul style="list-style-type: none"> <li>■ Total amount Eur 3.0 bn: 973 mln new ord. shares to be issued at a Eur 3.083 (October 3<sup>rd</sup> closing price)</li> <li>■ New shares first offered through a plain capital increase with pre-emption rights</li> <li>■ Unsubscribed share capital to be used as underlying of an equity mandatory convertible (“CASHES”)</li> <li>■ Full demand already received for “CASHES”, ensuring success of the capital raising<sup>(1)</sup></li> </ul>	<ul style="list-style-type: none"> <li>■ +56 bp under Basel II</li> </ul>	<ul style="list-style-type: none"> <li>■ ~5% dilution on 2009 consensus due to new shares issued</li> </ul>
<div style="border: 1px solid black; padding: 10px;"> <div style="background-color: red; color: white; border-radius: 50%; width: 20px; height: 20px; display: flex; align-items: center; justify-content: center; margin-bottom: 5px;">2</div> <div style="background-color: #cccccc; padding: 10px; margin-top: 5px;"> <p style="text-align: center; font-weight: bold; margin: 0;">SCRIP DIVIDEND</p> </div> </div>	<ul style="list-style-type: none"> <li>■ Scrip dividend paid in 2009</li> </ul>	<ul style="list-style-type: none"> <li>■ +67 bps under Basel II thanks to Eur 3.6 bn higher retained earnings</li> </ul>	<ul style="list-style-type: none"> <li>■ ~6% dilution on 2009 consensus due to new shares issued</li> </ul>

**+123 BPS IN CORE TIER 1: CAPITAL STRENGTHENED AT NO DISCOUNT TO MARKET PRICE**

<sup>(1)</sup> Subject to EGM and regulatory approvals

## INDICATIVE TRANSACTION TIMELINE

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1

5/6  
October  
2008

- Board of Directors proposed issuance of new shares in right issue form at a price of 3.083 (October 3<sup>rd</sup> close price)
  - Commitment of institutional investors to acquire unsubscribed rights via “CASHES” (an equity mandatory convertible)
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2

Mid  
November  
2008

- EGM to approve the Rights Issue
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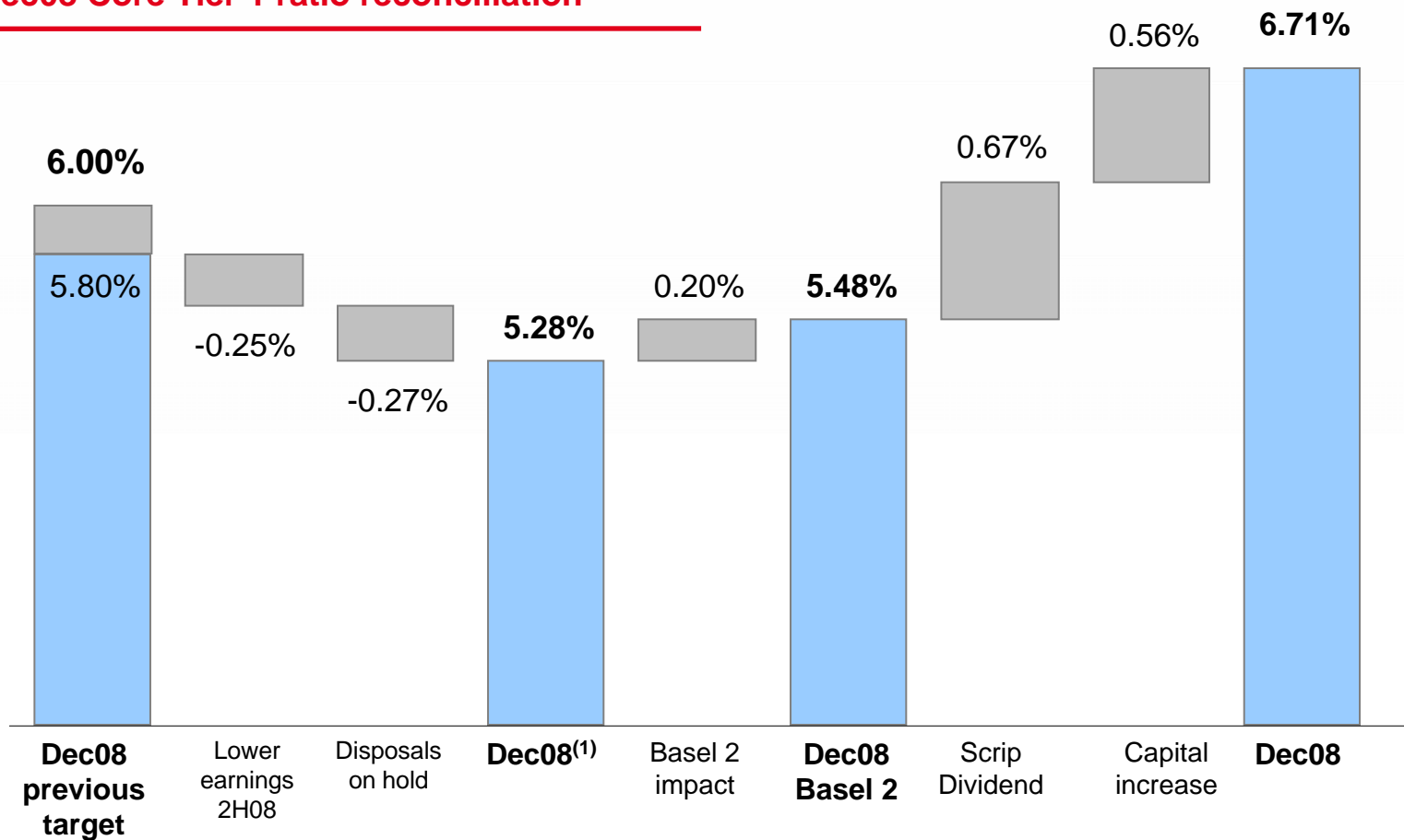
3

December  
2008/  
January  
2009

- Rights Issue’s subscription period and rump of not exercised rights
  - At closing of Rights Issue, rump is used to issue “CASHES” pre-placed in October
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# 2008 CORE TIER 1 OF UCG EXPECTED AT 6.71%, HIGHER THAN TARGET

## Dec08 Core Tier 1 ratio reconciliation

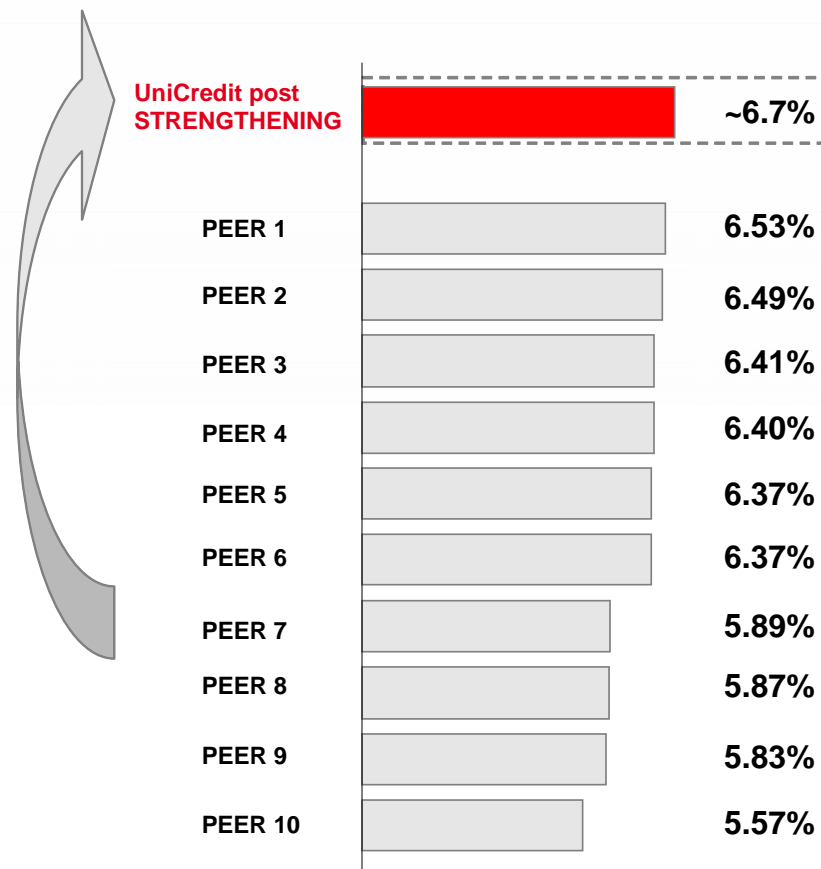


**ACCELERATING CAPITAL BUILD UP IN RESPONSE TO FURTHER DETERIORATED MARKET CONDITIONS**

<sup>(1)</sup> Disposals included in 4Q08: RE fund, Capitalia branches, Generali and Treasury shares

# SIGNIFICANT IMPROVEMENT IN CORE TIER 1 RATIO LEADING UCG ABOVE MOST PEERS

## Core Tier 1 ratio – FY08E Consensus<sup>(1)</sup>, %

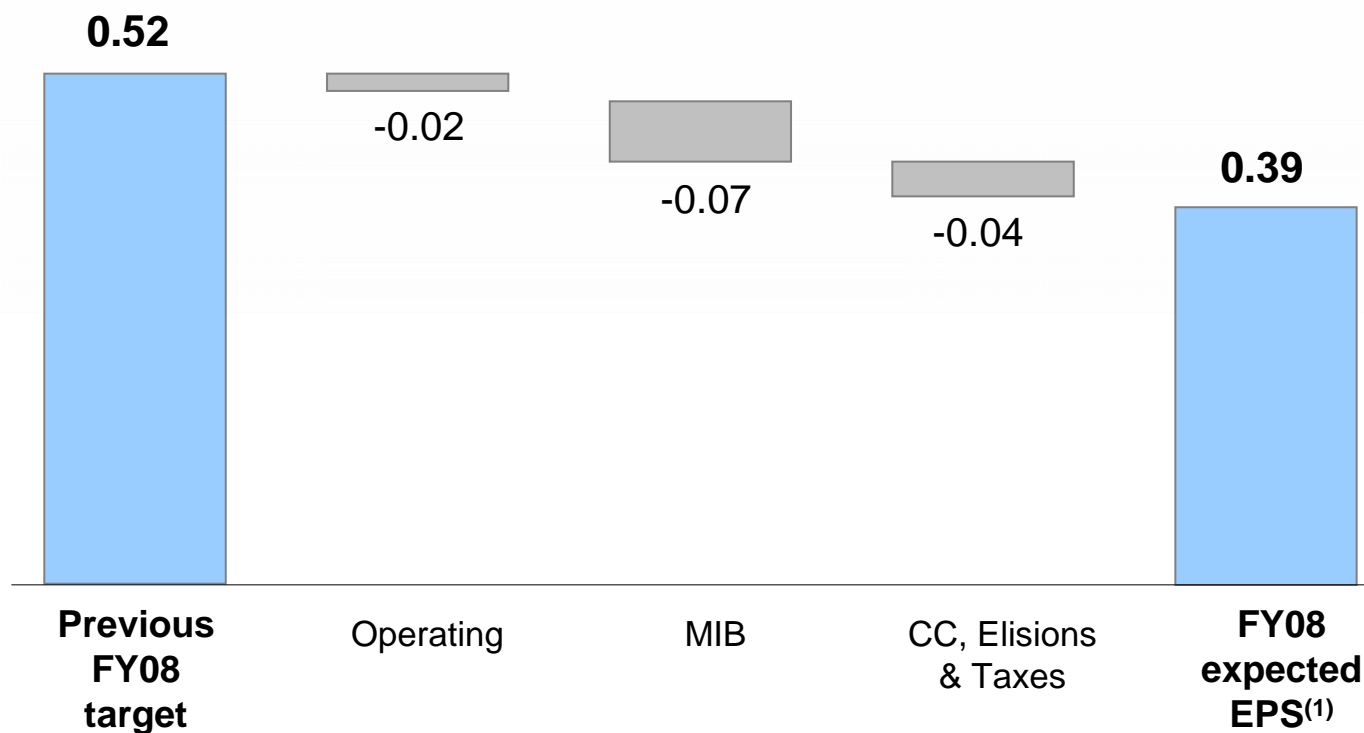


**UCG MOVING TO THE TOP OF THE 2008 EXPECTED CONSENSUS RANKING<sup>(1)</sup>**

<sup>(1)</sup> Consensus based on latest broker research. PEER SAMPLE: BNP, SocGen, CASA, Santander, BBVA, ISP, MPS, RBS, Barclays, Commerzbank. Completion of the deal assumed by December 2008

# PROFITABILITY IMPACTED BY DETERIORATING ENVIRONMENT

## FY08 earnings revision path



**EUR 5.2 BN EXPECTED NET EARNINGS**

<sup>(1)</sup> Disposals included in 4Q08: RE fund, Capitalia branches and Generali

## DISCIPLINE ON COSTS ALREADY ONGOING, WITH MORE TO COME

- Increased focus on cost containment in 2008 to counter slower revenues
- 2Q08 confirms cost discipline: negative normalized y/y cost growth<sup>(1)</sup> in Western Europe more than offset the costs ongoing expansion in CEE
- Strong flexibility (~ 1 bn cost efficiency measures):
  - ✓ Almost 6% reduction vs cost budget reflecting good cost flexibility
  - ✓ Further ~300 mln identified in September on top of the ~700 mln saving project already ongoing
- 2H08 operating costs expected in line with 1H08, despite still ongoing growth projects

**STRICT DISCIPLINE ON COST, WITH MORE TO COME IN 2009:  
COSTS DOWN IN ABSOLUTE TERMS**

<sup>(1)</sup> At constant FX and perimeter; 2007 adjusted for positive one-offs in the staff expense line (TFR in Italy, Pension fund in Austria)

## CONCLUSIONS

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- **Changed scenario: unprecedented turbulence in the last month leads capital strength more than ever to the forefront**
- **In order to keep confidence banks need to accelerate capital build up and quickly achieve stronger ratios**
- **Transactions move UniCredit to a strong Core Tier 1**
- **Further actions to cope with the crisis already underway:**
  - ✓ **Full commitment to keep optimising capital structure and allocation**
  - ✓ **Key priority to cost discipline**

**CAPITAL ISSUE ADDRESSED, NOW FULL FOCUS ON BUSINESS**