Capital Markets Day 2017

CEO Speech

Slide 2 – Transform 2019: key targets confirmed with an improved risk profile (1/2)

Thank you for that introduction, Joerg.

However, you forgot to mention one key member of our successful Transform 2019 team: Elkette!! She is with us and is supporting us, going from strength to strength!

Ladies and gentlemen, good morning and thank you very much for joining us today.

Our strategy is to be One Bank, One UniCredit: a simple, successful, Pan European commercial bank, with a fully plugged in CIB, delivering a unique Western, Central and Eastern European network to our extensive client franchise.

This Group strategy is a long-term one, which goes beyond 2019. As such, our transformation plan will not stop in 2019, because the industry is going through deep changes. What we do today needs to anticipate our clients' medium-term evolution, including their use of multiple channels. The resulting new commercial dynamics drive how we train and develop our employees in this environment and how we constantly optimise our cost base, while maintaining a proper risk profile.

While the teams maintain this long-term view, with a strong alignment between shareholders and managers underpinned by a strict long-term incentives structure based on the plan's key performing indicators, they are also all very focused on the day-to-day execution of Transform 2019. Tangible results show that the transformative actions are paying off. The engine is working well.

Thanks to this, our 2019 key targets are confirmed.

Slide 3 – Transform 2019: key targets confirmed with an improved risk profile (2/2)

We confirm our 2019 RoTE target above 9 per cent with a better risk profile. This is supported by stable revenues and decreasing costs, combined with a positive risk environment.

Thanks to the decisive actions taken in the last twelve months, we have a strong capital position, which means we also confirm our 2019 fully loaded CET1 ratio above 12.5 per cent.

Our strong capital position also allows us to partially anticipate additional regulatory headwinds in 2018 and 2019 whilst increasing the 2019 financial year dividend payout to 30 per cent, to be paid in 2020.

Post 2019, the dividend will increase from 30 per cent up to 50 per cent, once upcoming regulatory impacts are confirmed while keeping a CET1 ratio target above 12.5 per cent. A bit later in this presentation I will give more context on the regulatory environment as we see it.

The Non Core will be fully rundown by 2025. This will be entirely self-funded, as the Non Core capital allocation is enough to absorb any future losses.

Slide 4 – One Bank, One UniCredit / Transform 2019 fully on track

Moving to page 4, Mirko and TJ will give more details on these topics in their presentations later today.

In addition to the takeaways I have already shared on the previous page, I would like to mention a few key Transform 2019 milestones.

First of all, we are further improving the Group's gross NPEs target, reducing it by another €4.0 billion by end 2019. It is important that we keep improving our risk profile in order to reduce our cost of capital, hence our decision to fully rundown our Non Core book by 2025.

We have signed binding agreements to sell down our interests in FINO to below 20 per cent, with closing expected in Q1 2018. We confirm as well that there are no additional provisions to be taken on FINO, as referenced on the wire call earlier today.

Thanks to the decisive actions taken to increase our capital and significantly lower our risk profile, our SREP Pillar 2 requirement has been lowered by the ECB, as announced yesterday, by 50 bps to 200 bps, allowing the CET1 MDA buffer to be above 250 bps from 2019.

Up to 2019 and beyond, our strong capital position gives us the means and resources to focus on growing our business and on the development of additional client activity, with a medium-term view.

Slide 5 – 2019 key targets confirmed / RoTE target >9% and further 4.0bn reduction of NPEs

As I have already said, all our 2019 key targets are confirmed, including our RoTE target above 9 per cent with a better risk profile.

As mentioned previously, our objective is to reduce our NPEs by a further €4.0 billion by end 2019, the new target being €40.3 billion. Mirko and TJ will guide you through the technical aspects of this later today.

Because of a series of accounting changes in Italy, starting from 2018, we have made a number of line adjustments. They will have NO net effect on our net income or RoTE.

These technical accounting changes are required to align Italy with European standards. They include the accounting treatment of cash flows from Non Performing Exposures (NPEs), under the heading of time value release, and the interest on accrued NPEs as well as the reclassification of customer loans under IFRS. As an example, the cost of risk mechanically increases by 6 bps, as there is a reallocation between provisions and revenues, but our risk profile remains absolutely unchanged.

Also these adjustments will be covered in more detail later. You have some more information on pages 19 and 20 of this presentation.

These accounting changes have, I repeat, no impact on our net income or our RoTE.

Slide 6 – One Bank, One UniCredit / The five pillars

As you know, our plan is based on five strategic pillars. Let's briefly go through some of them, to give you an overview of our progress since we met here last year.

Slide 7 – Transform operating model / Overall revenues target confirmed: higher relative contribution of fees and commissions

On slide 7, you can see that our overall revenue target is confirmed. As I said previously, the mix has slightly changed. Fees are increasing by €100 million to €7.1 billion, thanks to higher assets under management and dynamic transaction fees. We expect NII to be down by about €100 million to €11 billion, on a restated basis. This is due to a combination of interest rates staying lower for longer, following a U-curve rather than a V-curve, and a less dynamic loan growth, compensated by a lower cost of funding.

In 2018, we expect NII to stay stable in the first half and slightly increase in the second half, as customer rates bottom out and loan volumes increase.

Slide 8 – Transform operating model / Cost target confirmed, FTE and branch reductions ahead of schedule

As we announced during last year's Capital Markets Day, our transformation plan is front-loaded as far as HR costs and branch closures are concerned. We have made good progress and are ahead of schedule. We confirm our 2019 cost target of €10.6 billion. The mix will be slightly different as we expect lower HR costs than planned, which will allow for additional IT investments of around €100 million to support future process optimisation, post 2019.

We are ahead of the Transform 2019 schedule on net FTE reductions, with over 1,300 exits estimated for the last quarter of 2017, which will allow us to reach 59 per cent of our total target by end 2017, ahead of the original schedule which planned for 48 per cent by end 2017. This whilst also making targeted hirings, in order to ensure we have the right mix of skills and experience throughout the Group.

We are closing branches in Western Europe, with 121 closures already completed in the last quarter of 2017, taking us to 72 per cent of our overall target, ahead of the original schedule which planned for 68 per cent by end 2017. This whilst actively rolling out our network revamp which is yielding early results, particularly in Italy.

Slide 9 – Transform operating model / Digital and IT transformation on track

The aim of our digital transformation is to make us more efficient and, most importantly, to improve the experience of our customers, meeting their changing needs: staying just ahead of what they might want next! We are further improving our integrated distribution offer with new, multi-country online and mobile banking platforms and corporate portals. In Italy, we were the first bank to launch payments via Apple Pay and to introduce Alipay to the local market, with great success.

To support our digital strategy, Transform 2019 includes investments for business projects of €1.7 billion and for regulatory activities of €0.7 billion, for a total of €2.4 billion.

We are also moving ahead at speed in terms of end-to-end simplification and the improvement of key processes such as our current accounts, investment products and non-physical banking channels. Gianni will give you more details on these later.

As regards our legacy IT infrastructure, we have reduced IT complexity through the decommissioning of 830 applications, which is 75 per cent of our 2019 target. The phased-in release of new applications in our core banking system minimises operational risk and our ongoing rationalisation and simplification programme includes the set-up of our first proprietary cloud infrastructure.

Slide 10 – Maximise Commercial Bank Value / Western Europe transformation progress resulting in higher productivity

The transformation of our operating model is primarily about improving our commercial dynamics by motivating our teams and improving and extending our customer service and reach. I will now give you some highlights on our key achievements. Gianni will explain, in his presentation just after me, what has been done to implement change from an organisational point of view.

In Commercial Banking Western Europe, as we reduce costs according to plan, we can see the benefits of the transformation of the networks. This is leading to an increase in fees across the Group of between 4 and 10 per cent in the first nine months of 2017, versus the same period last year. This is driven by our new service model, put in place for retail and SME customers, which includes the launch of our multi-channel approach. Better productivity has led to higher RoAC throughout the commercial banks, with the improvement ranging from 1.3 to 11.3 percentage points over the period, underpinned by an improved cost of risk in Italy and Austria and a very low level in Germany.

Today, a year on from when we last met, we are having a special focus on Italy. Andrea Casini and Giovanni Ronca will share our progress on the network transformation in their division, where the most significant changes have been implemented within the Group.

In Germany, we have launched a new service model for SME customers and enhanced our focus on retail lending which has been positively received and is yielding early results.

In Austria, the new retail service model is producing positive results, as demonstrated by the increase in new household lending volumes. Our customers are giving positive feedback on the digitalisation of our services. At the same time, we maintain our number one position in the Corporates segment.

The cooperation between CIB and Commercial Banking is working very well, with increased cross-selling revenues. The commercial dynamics are very positive, and, for example, capturing higher business volumes in Trade Finance.

Slide 11 – Maximise Commercial Bank Value / CEE and CIB confirming leadership positions

Let me briefly comment on two other core divisions of the Group, CEE and CIB, where we have further strengthened our leadership positions while keeping a strong focus on risk.

The CEE continues to be an important growth engine for the Group, with a further strengthened leadership position and client growth. 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, which can then be rolled out across the Group.

This year CIB has, like all other investment banks, been impacted by sector-wide challenges. However, despite the competitive environment, market leadership is confirmed with resilient commercial activity, with a strict cost discipline and risk management as well as a good ROAC.

Slide 12 – Strengthen and optimise capital / 2019 CET1 ratio target confirmed whilst anticipating additional regulatory headwinds

Since we met here last year, the regulatory environment has further evolved and we have a better visibility on some of the proposed changes. At our previous capital market day, we said we believed the so-called Basel IV will happen and it has just been agreed and released. We also have further clarification on some EBA guidelines which were announced a few weeks ago.

But predicting regulatory evolution for the duration of the plan and beyond is more an art than science.

Nevertheless we are convinced about the importance of sharing with our shareholders our understanding of the future regulatory evolution, correlated effects and its impact on our capital ratios and dividend payout policy.

This is why today we are aiming to give you a clear and transparent view of our managerial estimates, based on our best understanding of such impacts and their transposition into European directives, for the duration of our plan and beyond.

By doing so, we show that our capital position allows us to:

- remove any capital uncertainty about the expected regulatory changes, as they can be absorbed for the duration of the plan and beyond while maintaining a 12.5 per cent CET1 ratio,
- grow our business and client activities,
- increase our dividend payout already from 2019.

We confirm the 1.5 per cent regulatory impact stemming from model changes, procyclicality and IFRS 9 over the plan period, as announced last year.

The strength of our capital ratios and the expected organic capital generation allow us to anticipate some of the additional regulatory headwinds, mostly the new EBA guidelines which were confirmed at the end of November. Doing so will lower the effect of other regulatory changes over the period.

As you can see on slide 12, most of the impact will be in 2018, meaning that our CET1 ratio might temporarily slightly dip below 12.5 per cent.

Our strong capital position allows us to maintain a minimum 250 bps MDA buffer from 2019, and we confirm our fully loaded CET1 ratio target above 12.5 per cent in 2019.

As such, we have decided to increase the 2019 financial year dividend payout to 30 per cent, to be paid in 2020.

Slide 13 – Strengthen and optimise capital / Post 2019 annual CET1 ratio >12.5%, expected regulatory headwinds absorbed by capital generation

Here on page 13, you can see that our cumulative organic capital generation is more than enough to offset the expected annual regulatory impacts post 2019, allowing us to absorb them.

This means that UniCredit can focus, as I just mentioned, on growing the business and on the development of client activity and – importantly – that we have the means and resources to finance future growth, post 2019.

When we have better regulatory visibility and confirmation of any future changes, we will increase the post 2019 dividend payout from 30 per cent up to 50 per cent, whilst keeping a post 2019 CET1 ratio target above 12.5 per cent. I know many of you would like to know when and by how much. We will make a decision based on our 2019 year end CET1 ratio and the final impact of the remaining EBA guidelines, still subject to change. To allow you to make a proper estimate, you should know that every 10 points of payout are roughly equivalent to 10 basis points of CET1 ratio, which we want to continue to keep above 12.5 per cent from 2019 onwards.

Later today you will hear more about these measures which will have an impact beyond Transform 2019, EBA guidelines, calendar provisioning, FRTB and Basel IV.

Slide 14 – Improve asset quality / Gross NPEs down by a further 4.0bn by end 2019, better than initial Transform 2019 target

In terms of improving our asset quality, as previously mentioned, we are further de-risking our balance sheet by cutting an additional €4.0 billion of gross NPEs by end 2019. This is on top of our previous target. Our new target is €40.3 billion, of which €2.0 billion will come from Group excluding Non Core, which from now on we will refer to as Group Core, to adopt a clearer terminology. The Non Core book is €2.0 billion better than the original Transform 2019 target.

Let me reiterate that the Non Core book will be fully rundown by 2025. This is entirely self-funded, meaning that the capital allocation to Non Core covers any potential losses. So the Group Core represents the "normalised" view of our bank in the future and we can focus on two key ratios: the gross NPEs ratio at 4.7 per cent, in line with our European peers, and the 2019 RoTE, which will be above 10 per cent. Again, you will have more details on this later.

Slide 15 – Adopt lean but steering Centre / Strengthened corporate governance

At our EGM on 4 December, our shareholders took a number of decisions. Key amongst those was to empower the Board of Directors to present its own list of candidates for the renewal of the Board for the period 2018-2021.

The Board has also recommended to shareholders the number of Board members be reduced from 17 to 15. The EGM approved to increase the members appointed from the minority list to two.

In addition, we are removing the 5 per cent voting cap and converting the savings shares into ordinary shares, subject to the exercise of shareholders' withdrawal rights. We are also delisting from the trading of ordinary shares on the Warsaw Stock Exchange.

These actions position us as best in class in terms of European corporate governance.

Finally, we are delighted that the Board of Directors unanimously elected to co-opt Mr. Saccomanni as a non-executive director with a mandate until the AGM of 2018 to approve the 2017 financial statements, at which time Mr Saccomanni and the full Board will stand for election. Considering Mr. Saccomanni's professional background and status, the Board of Directors has concluded that he is the best candidate for the position as chairman of UniCredit for the next Board term.

Slide 16 – 2019 key targets confirmed

Once again, here are our 2019 key targets, as an easy pull-out for you to consult.

As I said before, we are making good progress on our plan. This is not a sprint. We are one-third through our marathon and we will continue to energise our teams in order to successfully meet all our stated objectives.

Slide 17 – Closing remarks

In conclusion, Transform 2019, is fully on track, underpinned by a positive Group-wide business momentum.

We confirm our 2019 key targets, including our RoTE above 9 per cent and our fully loaded CET1 ratio above 12.5 per cent with a better risk profile.

We have decided to increase the 2019 financial year dividend payout to 30 per cent, to be paid in 2020.

The Non Core will be fully rundown by 2025 and this will be entirely self-funded.

Finally, post 2019, our organic capital generation guarantees the full absorption of expected regulatory headwinds, allowing us to focus on growing our business and on the development of client activity.

That is it from me, for the time being. Thank you very much for listening. I will now take a limited number of questions for 15 minutes.

After Gianni, Andrea and Giovanni's presentations there will be an opportunity for your questions on operational and transformational actions, as mentioned by Joerg. Asset quality, financial and regulatory issues will be addressed in TJ and Mirko's presentations and after that we will have a final Q&A session with them, as well as with Gianni and myself.