

Capital Markets Day 2017

GM Speech

Slide 2 – One Bank, One UniCredit / The five pillars

Good morning, in the next thirty minutes I will give you an update on how we are implementing Transform 2019.

I will focus on the two pillars, “Transform Operating Model” and “Maximise Commercial Bank Value”, that are at the heart of our commercial banking strategy.

In my presentation I will show you how the network revamp has enabled us to improve commercial activity.

The UniCredit engine is working... and it is working very well.

Slide 3 – One Bank, One UniCredit / A simple successful Pan European Commercial Bank with a fully plugged-in CIB

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.

The implementation of Transform 2019 is fully on track and the engine is working. Thanks to our decisive actions and group-wide business momentum the bank is delivering tangible results.

Our "One Bank, One UniCredit" approach ensures we maximise synergies across the Group.

Thanks to the ongoing operational transformation, we have increased the efficiency of our commercial activities.

Our pragmatic digital strategy is supporting the execution of Transform 2019, ensuring we meet the needs of our customers and anticipate the changes of the overall industry now and in the future.

We are making UniCredit one of the winning Pan European banks.

Slide 4 – One Bank, One UniCredit / Snapshot of our successful business

Our market positioning remains very strong:

81 per cent of our revenues come from commercial banking and 94 per cent derives from the European Union.

We enjoy market, leading positions in our core geographies:

... Ranking number two in Italy, number one in Austria, number three in Germany and number one in the CEE.

We confirm our excellence in several areas: just to give you some examples:

... We are a recognised European powerhouse in GTB, as number one provider in Cash Management and Trade Finance in Western Europe and CEE.

... We are number two in EMEA for corporate bonds and loans,

... As well as number one in syndicated loans in Italy, Germany and Austria and number two in CEE.

We remain the second largest corporate lender in Europe.

... We have 25 million customers and approximately 5000 retail branches.

Slide 5 – Business momentum and dynamic commercial performance

Let's now focus on the progress of our commercial activity.

We confirm our overall revenue target but, as Jean Pierre previously mentioned, the mix has slightly changed.

Fees and commissions play a key role and their improving trend demonstrates the strength of our commercial activity.

... They are increasing by €100 million to €7.1 billion, thanks to higher assets under management sales and dynamic transactional fees.

As Mirko will show you later, after accounting adjustments, we expect NII to decrease by about €100 million to €11 billion.

... This is due to a combination of lower dynamic loan growth and interest rates staying lower for longer.

... Year-on-year, our NII was supported by reduced deposit rates and by lower than expected term funding.

... In addition to this, the contribution of the investment portfolio and treasury was lower as a result of a reduced portfolio duration.

The strategic partnership with Amundi has allowed us to increase the product range offered to our customers.

... This has been an important driver of the growth in investment fees.

... In this context, the important shift from customer liquidity and assets under custody into assets under management has allowed us to reach a higher ratio of assets under management to total financial assets.

Our strong positioning in GTB supported the increase of transactional fees, which grew by 7.4 per cent year-on-year.

Going forward, we expect investment and transactional fees to be important contributors to fee growth.

Now, let's move to the performance in our geographies and divisions.

Slide 6 – Commercial Banking Italy / Transformation of operating model fully on track

First of all, I would like to say that we have designed our transformation programmes to maximise business opportunities for both our customers and the Group.

... We are fully focused on revamping the network and improving our way of doing banking.

Let's start with Italy.

Andrea and Giovanni will provide more details later, but let me give you some examples of our increased customer focus.

In the last twelve months, we have put in place new service models for affluent and small business segments and launched new branch formats to optimise the service from a multichannel perspective.

Our dedicated end-to-end delivery unit which works on redesigning our products and processes has already produced tangible results.

We have increased our profitability, thanks to higher sales of assets under management and consumer finance products.

... And we have improved our risk profile, following our strict risk discipline and innovation in credit processes.

These results have been achieved while carrying out a thorough operational transformation.

... In fact, 57 per cent of planned branch closures have been completed in Q3.

... A further 121 branches have been closed in Q4, meaning we have already achieved 70 per cent of our Transform 2019 target.

The FTEs reduction is also well on track.

... As of September, FTEs have been already reduced by over 2000 year-on-year.

... About 1,000 FTE exits will occur in Q4. This will allow us to reach more than 50 per cent of planned exits.

Let's move to Commercial Banking Germany.

Slide 7 – Commercial Banking Germany / Good results supported by strong growth in all segments

In Germany, we have launched a new service model for SME customers and have enhanced our focus on retail lending.

Given the wide number of German SMEs and large corporates and the relevance of their import and export volumes, Commercial Banking Germany is an important platform for the business development of the Group.

The cooperation between CIB and commercial banking is working well, with increased cross-selling revenues.

Since its start in January 2016, the JV between CIB and Commercial Banking Germany has performed well both in corporate treasury sales and capital markets. ... You will see a clear example of this later on.

... The commercial dynamics are very positive, capturing higher business volumes in Trade Finance.

Slide 8 – Commercial Banking Austria / Organisation streamlined, renewed focus on premium advisory

In Austria, the new service model for retail is producing positive results, as demonstrated by the increased volumes in household lending.

We have received positive feedback from our customers as a result of the digitalisation of our services.

In addition, we maintain number one position in Austria for corporates with increasing revenues.

The operational transformation is fully on track as you can see from the continued improvement in the Cost / Income ratio.

In Q4 we closed four additional branches.
...The branch reduction plan is completed.

Slide 9 – Tangible results in CEE thanks to transformation actions

Now let's move to the CEE division.

The CEE continues to be an important growth engine for the Group.
... The region's innovative mind-set, proven by the strong growth of their digital customer base, means they are the perfect testing ground for new digital and IT solutions.

We have further strengthened our leadership position since last year.
... Our customer base in CEE is constantly growing towards our target of 2.6 million net new customers by the end of 2019

Interest income is stable, sustained by lower cost of funding.

We increased fees by 7 per cent compared to last year with transactional banking services being the main contributor.

Our cost income is low at 35.8 per cent, underpinned by our focus on operational efficiency.

The quality of the portfolio is improving, with NPE ratio reduced by 140 basis points since last year.

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.

Slide 10 – Further strengthened leadership position in CEE

A number of important transformation programmes have been launched in CEE since last year, in particular related to innovation and digitalisation.

Thanks to the growth of the digital customer base, CEE is well placed to test innovative digital and IT solutions.

... For example, mobile users have increased, reaching 28 per cent of all customers in the first nine months of 2017.

We have further developed our data analytics capabilities and our advisory tools to support relationship managers in their day-to-day activity and client targeting.

We also launched a new innovative tool called GTB Spider that processes a large amount of data and provides a deeper understanding of corporate customers' behaviour.

And finally, we remain focused on maximising synergies.

... Cross-border activity is growing thanks to an increasing number of international customers.

... As of September, in CEE we have 26,000 customers active in more than one country where our Group is present, +5.7 per cent since last year.

Slide 11 – Confirmed CIB market leadership

CIB is recognised as a leading debt finance house, ranking among the top three in loans and bonds in EMEA.

Client driven CIB revenues increased to 74 per cent, demonstrating our client focused approach.

On the cross-selling side, CIB is fully at work with dedicated commercial actions in key geographies, leveraging on our internal joint ventures.

CIB cost income is at 40.2 per cent, among the lowest in Europe.

... That said, we continue to streamline and fine-tune our business and operating model to further reduce costs.

Slide 12 – GTB, a strong backbone of the Group as well as a technology innovator

As I mentioned at the beginning of this presentation, we are leaders in Europe in global transaction banking, thanks to increasing volumes in both cash management and trade finance.

... Our estimated trade finance market share in Italy and Germany has increased and is well above our corporate loans market share.

GTB is very advanced in terms of digitalisation and our digital solutions cover the whole value-chain.

GTB contributed approximately 11 per cent of the Group's total revenues in the first nine months of 2017, with €1.7 billion in revenues, mostly fees and commissions.

As you can see, the awards received in 2017 confirm our European GTB leadership position.

Let's now focus on synergies.

Slide 13 – Maximise synergies across the Group

As you know, our CIB Division is fully plugged in to Commercial Banking, with the objective of maximising synergies on a number of fronts.

The first initiative to support greater collaboration is the introduction of dedicated cross-selling country specific committees. These committees involve key representatives of both Commercial Banking and CIB.

... In addition to this, we have introduced cross-selling targets within the KPIs of our managers.

... Since the inception of these initiatives, business performance has increased and we have closed important transactions.

The second opportunity we have identified is the service we offer to international customers, providing cross-border support.

... For example, our newly opened branch in Abu Dhabi will be able to serve more than 1,000 European companies operating in the region.

Third, synergies are developed between Corporate, HNWI / Private and Retail.

... Dedicated initiatives are in place in each country to maximise cooperation and share best practices.

... We are working on the optimisation of our product and investment platform which will allow us to generate more synergies among business segments.

All of this is possible thanks to the best practice sharing programme within the Group, both between divisions and countries.

Slide 14 – Video with Delivery Hero

Now... I would like to show you a video of a concrete example of synergies between CIB and Commercial Banking, proving that:

- we are “One Bank, One UniCredit”
- we are a Pan European commercial bank, with a fully plugged-in CIB providing customers with a 360 degrees service; and

we place the customer at the centre of our focus

Slide 15 – Key indicators proving tangible progress of transformation

... In the video you have seen cross-selling in action.

... We are “One Bank, One UniCredit”.

Now, let’s talk about the execution of Transform 2019 with a brief look at the dynamics of the most relevant Key Performance Indicators.

The figures speak for themselves.

In Western Europe we are making good progress with resilient revenues, cost income ratio continuously improving and with a low cost of risk. As a result, return on allocated capital is increasing.

CEE is delivering sustainable profitability, with stable revenues supported by high operational efficiency.

... Cost of risk benefited from some write-backs during the year and is now normalising towards the 2019 target of 102 basis points.

CIB's profitability is also high as a result of a very cost efficient business model and a low cost of risk.

... Revenues have been affected by a sector-wide slowdown in fixed income currencies and commodities and because of a more conservative approach in some business segments.

Slide 16 – Productivity increase, while significantly reducing costs, branches and FTEs

The reduction of costs, FTEs and branches, which is progressing at full speed, has been achieved thanks to the support and commitment of all our colleagues who are driving the renewed commercial dynamic across the Group.

Overall, our costs are decreasing ahead of schedule, both in HR and Non-HR.

... In the third quarter of 2017, we reached 51 per cent of the planned FTE reductions, and 59 per cent of branch closures included in our Transform 2019 targets.

... Since the start of Q4 we have made even further progress.

The revamped network has demonstrated strong commercial dynamics with the number of customers increasing by 423,000 in 2017.

This increase has been supported by the optimisation of sales channels, applying an even more tailored approach to meeting our customers' needs and improving our day-to-day banking services.

In addition, the ongoing IT simplification, the end-to-end process and product redesign as well as new digital solutions have created a more efficient operating model, that is delivering tangible results.

Slide 17 – Transform 2019 progress monitoring mechanism

We are strongly committed to the successful execution of Transform 2019 and we are closely monitoring our progress.

The following actions are key to support our improvements during this marathon:

Transformation Jour Fixes: monthly meetings involving the CEO, myself, the sponsors of the five pillars and the programme owners to update on the plan developments

Steering Committees, with monthly or weekly meetings focused on the status of specific work streams.

... During these meetings programme owners are invited to present updates and the committee will make key decisions to steer the transformation.

This monitoring framework supports us in the coordination of Transform 2019, while facilitating swift management decisions.

Slide 18 – Improved risk profile thanks to a strong risk discipline

Our commitment to risk discipline relies on two critical levers: a strict underwriting policy and a constant monitoring of our portfolio.

We believe that a strong risk discipline is key to maintaining a good quality of the loan portfolio and, to do this, Business and Risk Management functions are closely cooperating.

In fact, they jointly review the quality of new loan origination and of the existing credit portfolio, in order to steer the new business generation towards high quality exposures and to promptly identify risk mitigation actions.

The new loan origination is strictly controlled, leveraging on the increased centralisation and automation of our credit processes.

... As a result, the expected loss on new business for nine months 2017 is very low, being only 0.34 per cent.

In the same way, business plays a key role in preserving the quality of the existing credit portfolio, being the first line of defence for strict portfolio monitoring.

In addition, thanks to automated early warning signals, we are able to proactively intervene on potential critical positions and catch severe deteriorations early.

This approach has resulted in a decrease of three basis points of the expected loss on performing stock and the improvement in the gross NPE ratio since last year

Slide 19 – Digital to support Transform 2019 implementation

Everyone talks about digital. We don't just talk about digital, we DO digital!

Clearly IT and digital play a key role in supporting our transformation.

... For this reason we will increase the IT investments planned during Transform 2019 by approximately €100 million, to €1.7 billion.

We are taking a tangible and pragmatic approach to digital:

... We are focusing on initiatives that support our operational transformation and improve the customer experience.

... And we invest in high potential opportunities.

We are enhancing our IT architecture to increase efficiency and support the business and become a leaner bank and further improve the quality of our service.

Now, let's look at some of our digital initiatives which are already yielding tangible results.

First, we are working hard to improve and enhance customers' experience.

... We have new dedicated platforms for online and mobile banking for both retail and business customers.

We are working on innovative mobile interfaces, such as wallet apps:
... MonHey and Apple Pay in Italy.

We are promoting digital sales and migrating towards digital channels across the Group.
... Sales via remote channels are steadily growing.

That said, our extensive branch network will remain at the core of our commercial activity.
... And we are working to further improve the quality of our advisory services, providing our network with advanced tools to support their interactions with customers.
... B.Link, our new Group CRM system supporting corporate relationship managers, is a clear example of this.
... Andrea and Giovanni will tell you more later.

Digital will enhance and improve Risk Management by increasing the use of pre-scoring and automation in credit processes which will help ensure more accurate risk assessments and faster responses.

We continue to invest to improve our systems and to also further strengthen our cybersecurity.

Slide 20 – Structural change of cost base driven by evolving customer behaviour and increasing digitalisation

The business and operational transformation is changing the DNA of our cost culture and structure.

COOs services costs will decrease and will shift towards a higher incidence of Information Technology costs.

In fact, these costs will be lower and their mix will be different due to:

- ... The increasing automation and digitalisation of processes
- ... The rationalisation of our physical presence, both the network and headquarters and... the ongoing simplification of our IT application landscape

Let me give you some examples.

Slide 21 – IT simplification, back-office streamlining and real estate optimisation key enablers of productivity increase

The evolution of the IT architecture:

- ... In terms of decommissioning, we have already achieved 75 per cent of our plan, with an overall reduction in IT complexity, moving from local to global applications, wherever possible.

- ... The upgrade of our core banking system and the additional focus on cyber-security will allow us to minimise operational risk, while optimising our IT performance.

Operations efficiency:

- ... We are creating global back-office hubs, while boosting efficiencies through industrial levers.

Real estate optimisation:

... We are optimising our network with a twofold objective: reduce costs and offer the most suitable mix between physical and digital service to fulfil our customers' needs.

Slide 22 – Our Human Capital as fundamental enabler of Transform 2019

Transform 2019 is fully on track thanks to the commitment and hard work of all our colleagues.

The most valuable part of UniCredit is our people.

... So, we put a lot of time and effort in managing, training and retaining our employees.

We invest in our people to build a valuable pipeline of internal candidates for future senior roles.

... Our top performing employees are being prepared to ensure that the next wave of top management will be ready.

... In this context, we appointed 500 transformation agents in Italy chosen from among the top performers.

We are also transforming the way of working. Increased smart working – such as hot-desking and remote working allows the bank to save time and costs.

... Our geographical footprint allows us to give our future leaders significant international opportunities. This means they get a chance to develop their skills in a more global and ever changing business environment.

Committed employees are the backbone of our business

... They provide a better and more satisfactory service to customers.

... Positive customer experience, in turn, increases customer engagement and satisfaction.

All in all, we are all dedicated to making UniCredit a good place to work!

Slide 23 – One Bank, One UniCredit / A simple successful Pan European Commercial Bank with a fully plugged-in CIB

Summing up...

... Since last year, we have become an even stronger Pan European Commercial Bank, with a fully plugged-in CIB.

The implementation of Transform 2019 is fully on track.

We are "One bank, one UniCredit" and we maximise cross-divisional synergies.

We have increased the effectiveness of our commercial activity thanks to our network revamp and commitment to invest in our people.

We have taken a pragmatic approach to the digital transformation of the business, utilising digital solutions effectively to support the execution of our long-term strategy and to make UniCredit a Pan European winner.

Now, I leave the floor to Andrea and Giovanni..