



UNICREDIT GROUP

FOCUS ON CORE BUSINESSES & COSTS STARTING FROM A STRONGER CAPITAL BASE

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Merrill Lynch, Banking & Insurance CEO Conference
London, 8th October 2008

AGENDA

- **A New Scenario**
 - Capital: No Compromise
 - Earnings: re-focus and re-size of cost base
 - Addressing ABS Market Concern

NEW SCENARIO CHALLENGES EXISTING STRATEGY

NEW SCENARIO

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

NEW SCENARIO

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

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

	Actions	Core Tier 1 impact	CAPITAL EPS impact
<div style="border: 1px solid black; padding: 10px; margin-bottom: 10px;"> <p style="text-align: center; font-weight: bold; font-size: 24px; color: white; border-radius: 50%; width: 30px; height: 30px; display: flex; align-items: center; justify-content: center; margin: 0 auto;">1</p> <p style="text-align: center; font-weight: bold; font-size: 18px;">RIGHTS ISSUE</p> </div>	<ul style="list-style-type: none"> ■ Total amount Eur 3.0 bn: 973 mln new ord. shares to be issued at a Eur 3.083 (October 3rd closing price) ■ New shares first offered through a plain capital increase with pre-emption rights ■ Unsubscribed share capital to be used as underlying of an equity mandatory convertible (“CASHES”) ■ Full demand already received for “CASHES”, ensuring success of the capital raising⁽¹⁾ 	<ul style="list-style-type: none"> ■ +56 bp under Basel II 	<ul style="list-style-type: none"> ■ ~5% dilution on 2009 consensus due to new shares issued
<div style="border: 1px solid black; padding: 10px;"> <p style="text-align: center; font-weight: bold; font-size: 24px; color: white; border-radius: 50%; width: 30px; height: 30px; display: flex; align-items: center; justify-content: center; margin: 0 auto;">2</p> <p style="text-align: center; font-weight: bold; font-size: 18px;">SCRIP DIVIDEND</p> </div>	<ul style="list-style-type: none"> ■ Scrip dividend paid in 2009 	<ul style="list-style-type: none"> ■ +67 bps under Basel II thanks to Eur 3.6 bn higher retained earnings 	<ul style="list-style-type: none"> ■ ~6% dilution on 2009 consensus due to new shares issued

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

⁽¹⁾ Subject to EGM and regulatory approvals

INDICATIVE TRANSACTION TIMELINE

CAPITAL

1

5/6
October
2008

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

2

Mid
November
2008

- EGM to approve the Rights Issue

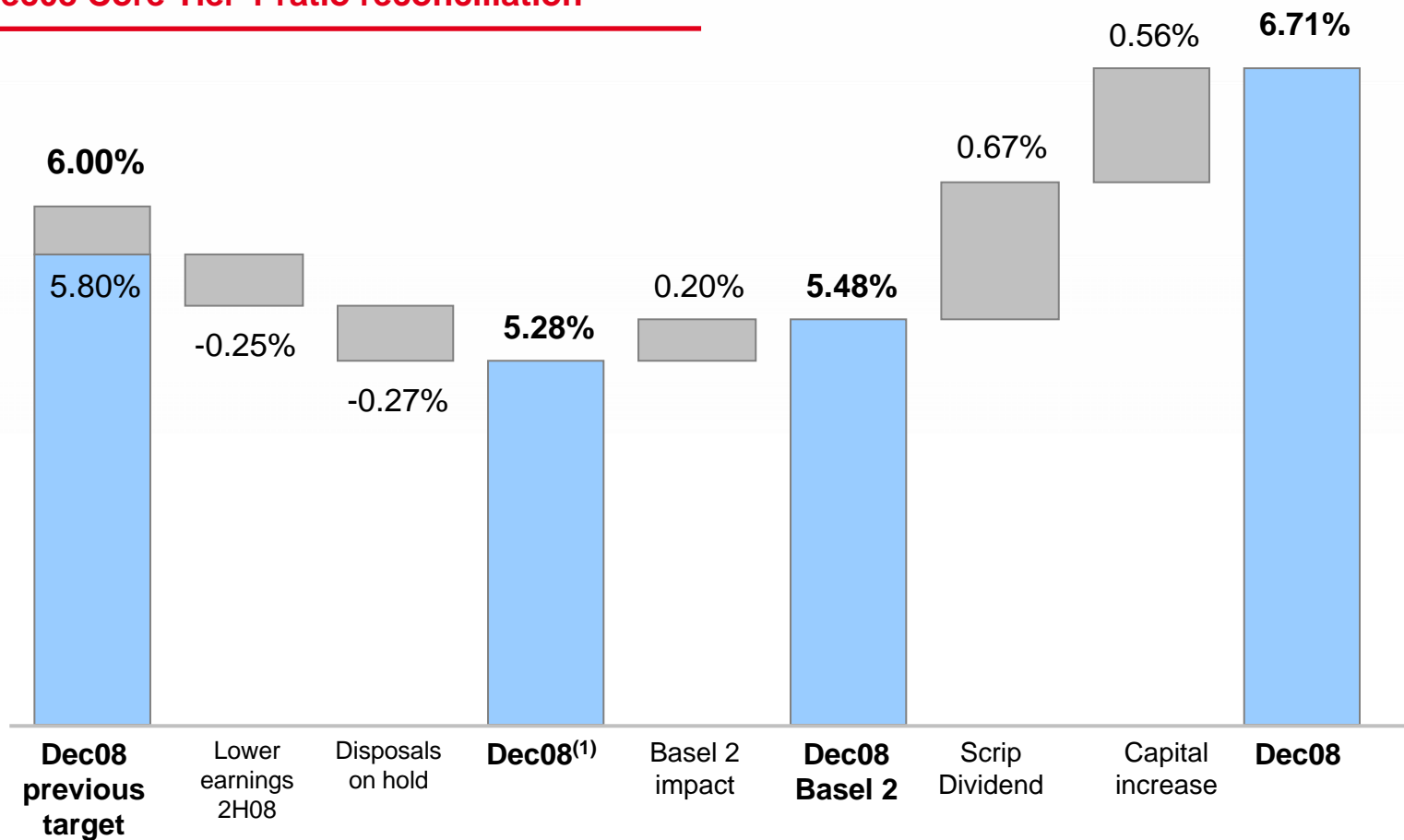
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December
2008/
January
2009

- 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

2008 CORE TIER 1 OF UCG EXPECTED AT 6.71%, HIGHER THAN TARGET

Dec08 Core Tier 1 ratio reconciliation



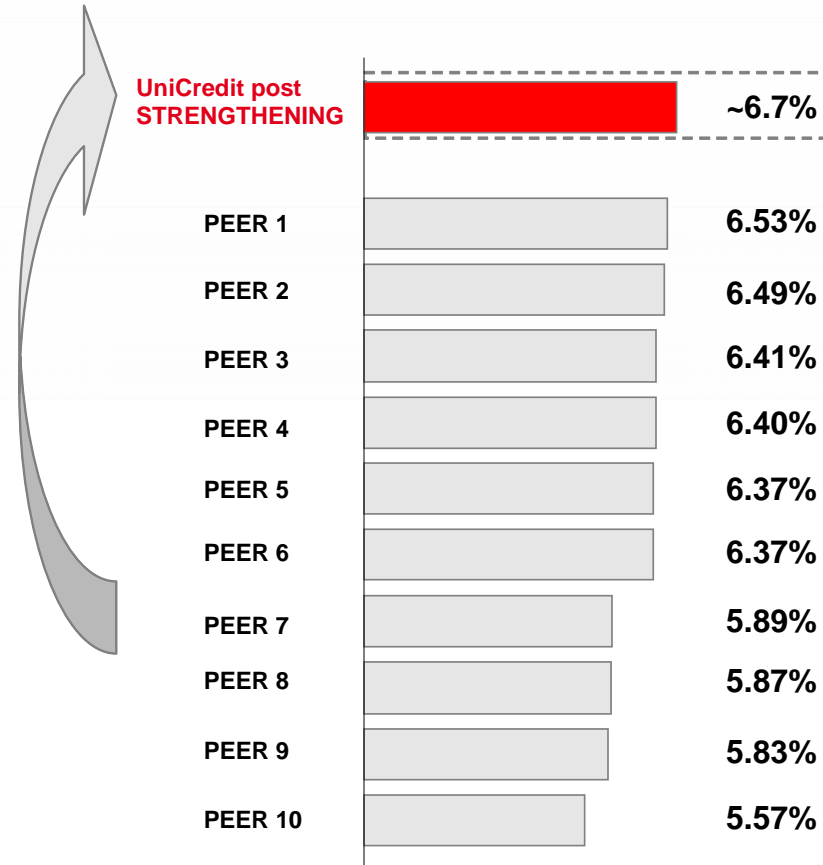
ACCELERATING CAPITAL BUILD UP IN RESPONSE TO FURTHER DETERIORATED MARKET CONDITIONS

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

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

CAPITAL

Core Tier 1 ratio – FY08E Consensus⁽¹⁾, %



UCG MOVING TO THE TOP OF THE 2008 EXPECTED CONSENSUS RANKING⁽¹⁾

⁽¹⁾ 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

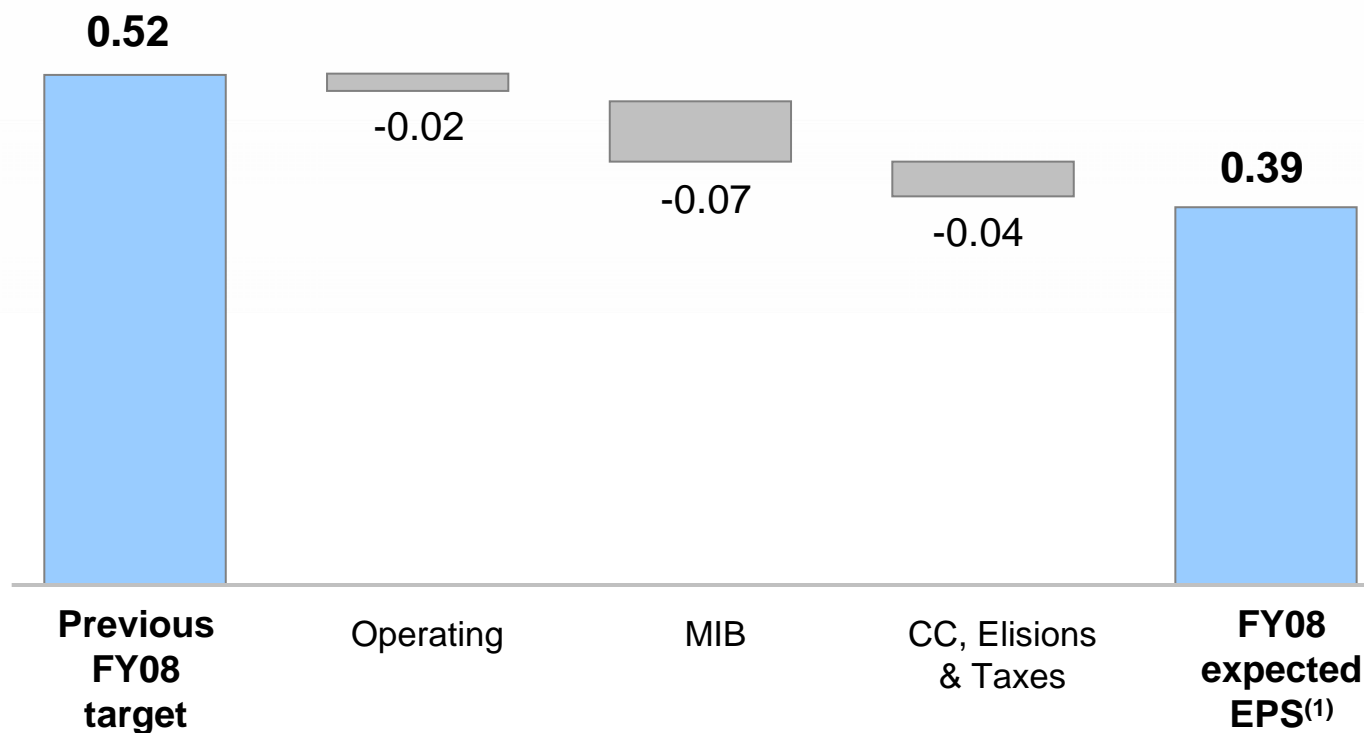
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PROFITABILITY IMPACTED BY DETERIORATING ENVIRONMENT

EARNINGS

FY08 earnings revision path



EUR 5.2 BN EXPECTED NET EARNINGS

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

DISCIPLINE ON COSTS ALREADY ONGOING, WITH MORE TO COME

COSTS

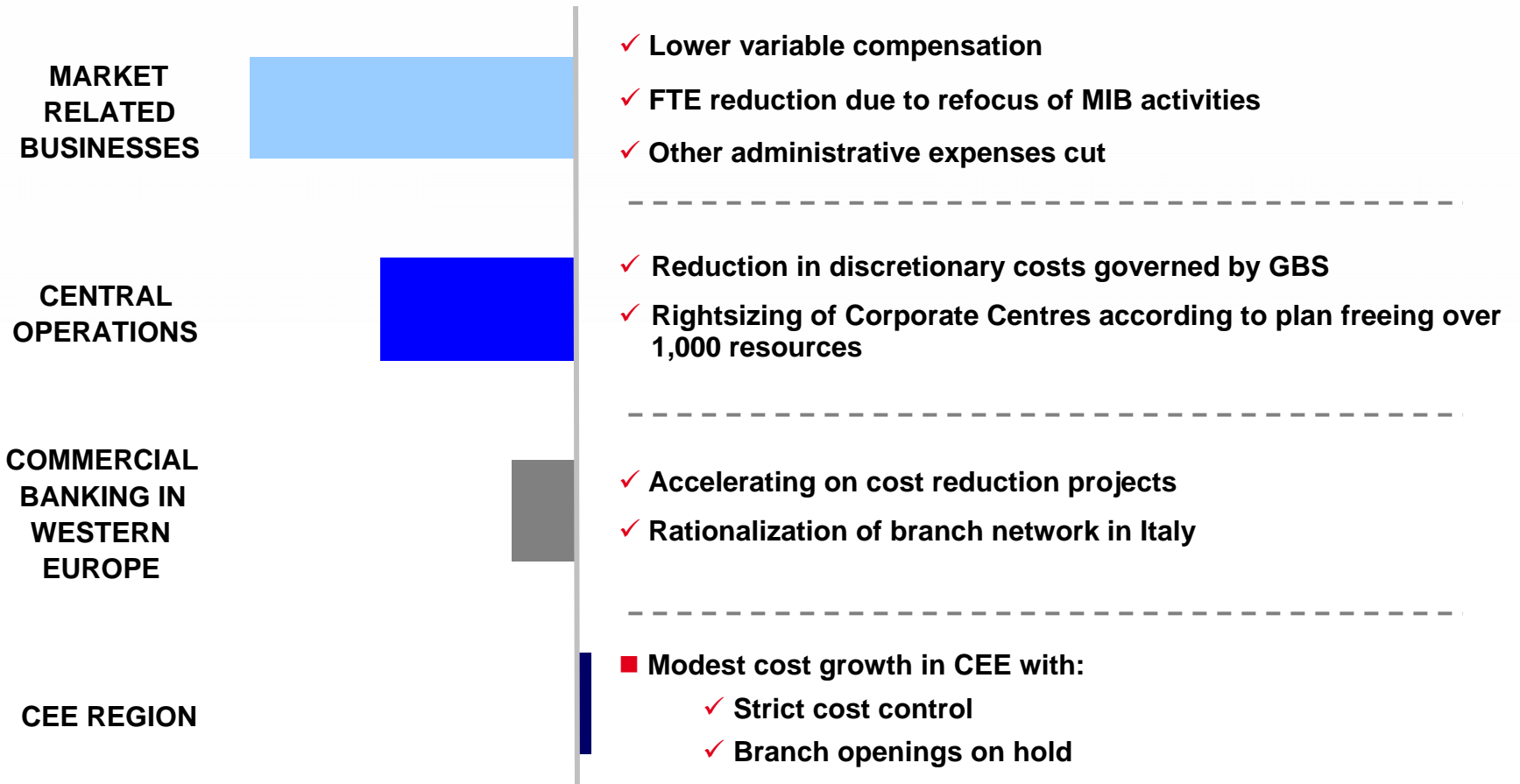
- Increased focus on cost containment in 2008 to counter slower revenues
- 2Q08 confirms cost discipline: negative normalized y/y cost growth⁽¹⁾ in Western Europe more than offset the costs ongoing expansion in CEE
- Strong flexibility (~1 bn cost efficiency measures):
 - ✓ Almost 6% reduction vs cost 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**

COSTS DISCIPLINE: RE-FOCUS AND RE-SIZING OF ACTIVITIES

COSTS

2009 potential cost development: stronger cost reduction opportunities from market related areas

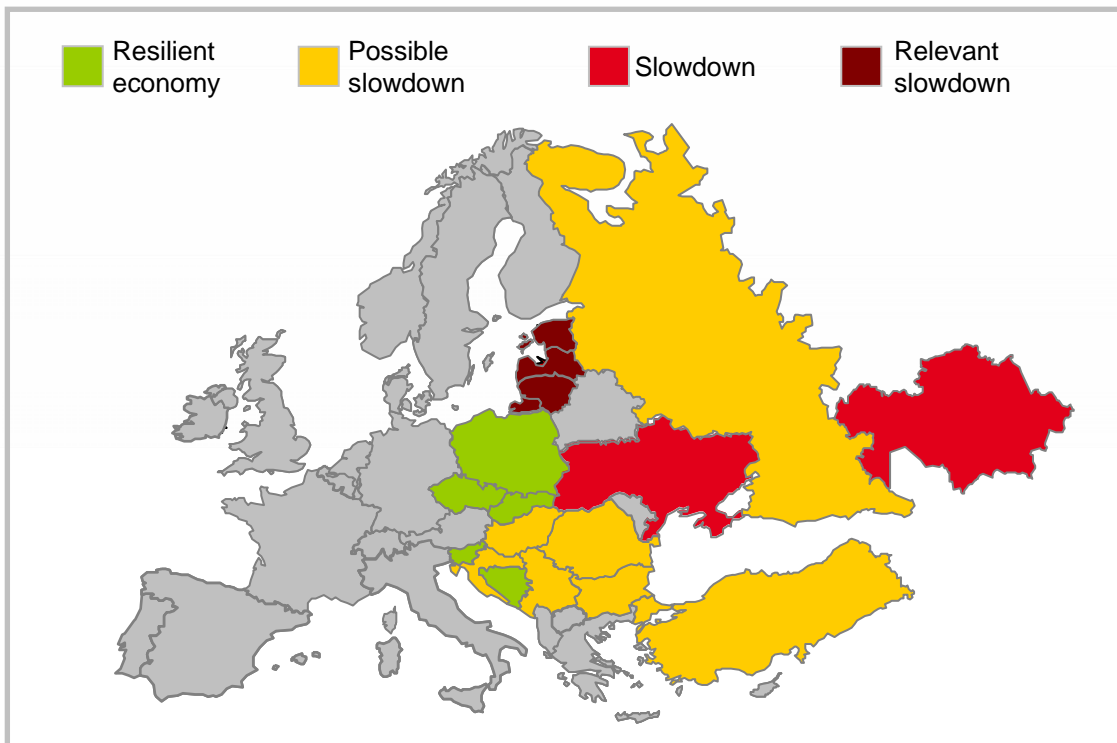


SIGNIFICANT OPPORTUNITIES OF COST SAVINGS

CEE: SOLID POSITIONING AND COST FLEXIBILITY

COSTS

Economic growth in 2008-'09 (1)



Weight on 1H08 revenues	
CEE Region	Total UGC
45.7%	10.5%
45.3%	10.5%
8.7%	2.0%
0.3%	0.1%

Flexible strategy: new openings in '09 on hold

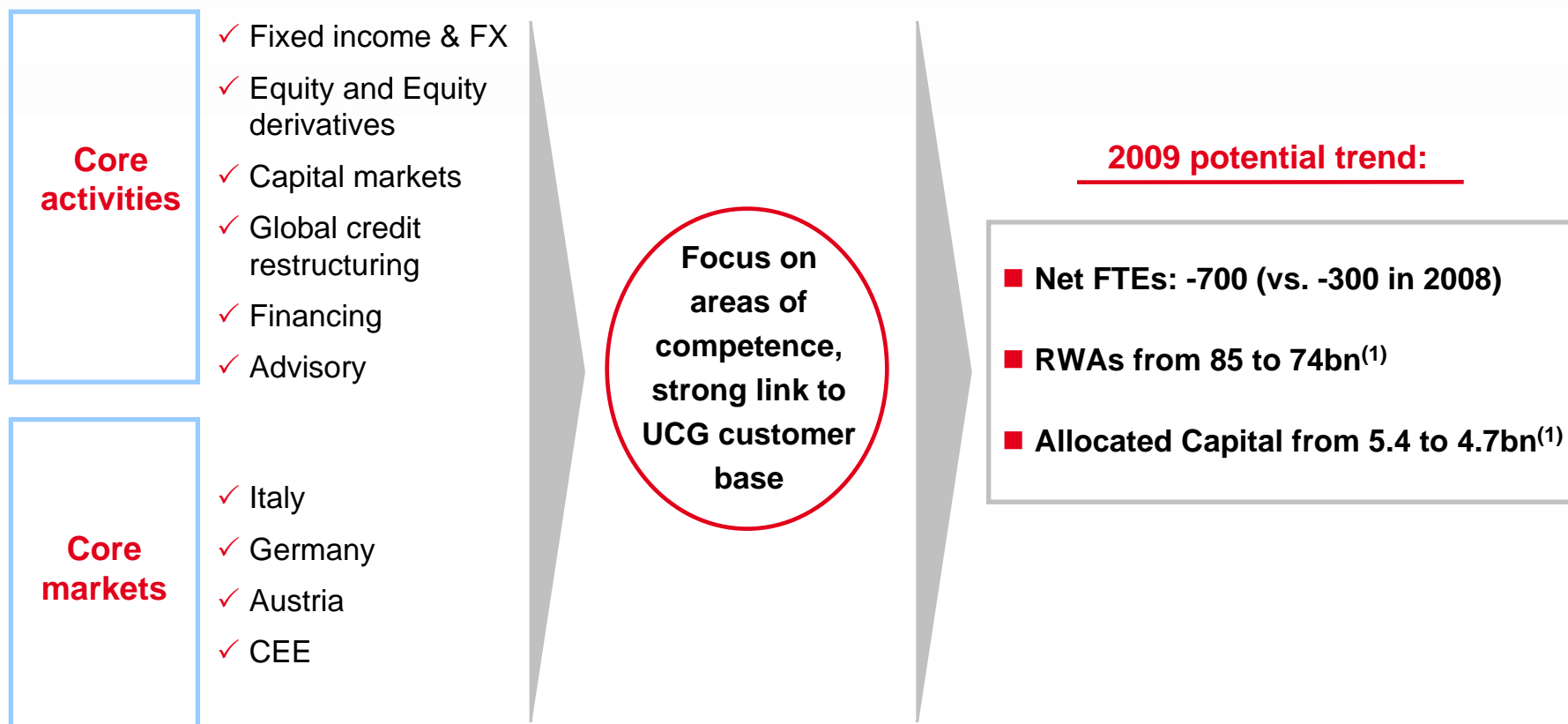
- Macro performances and related risks not homogeneous
- Strategy leveraging on priority countries (RU, TR and RO) due to market size and higher growth rates
- Despite global economic slowdown, the average regional growth expected at 4.6%, still well above WE average

(1)Source: UniCredit CEE Research Network, Eurostat, UniCredit Global Research

COSTS, MIB DIVISION RESTRICTURING GUIDELINES

COSTS

- In a context of **market deterioration**, MIB Management committed to **further accelerate** the business **restructuring process**, with particular focus on:
 - ✓ **Cost management**: re-focus of resources and cost base to core activities in core markets
 - ✓ **No carry trade, lower volatility**



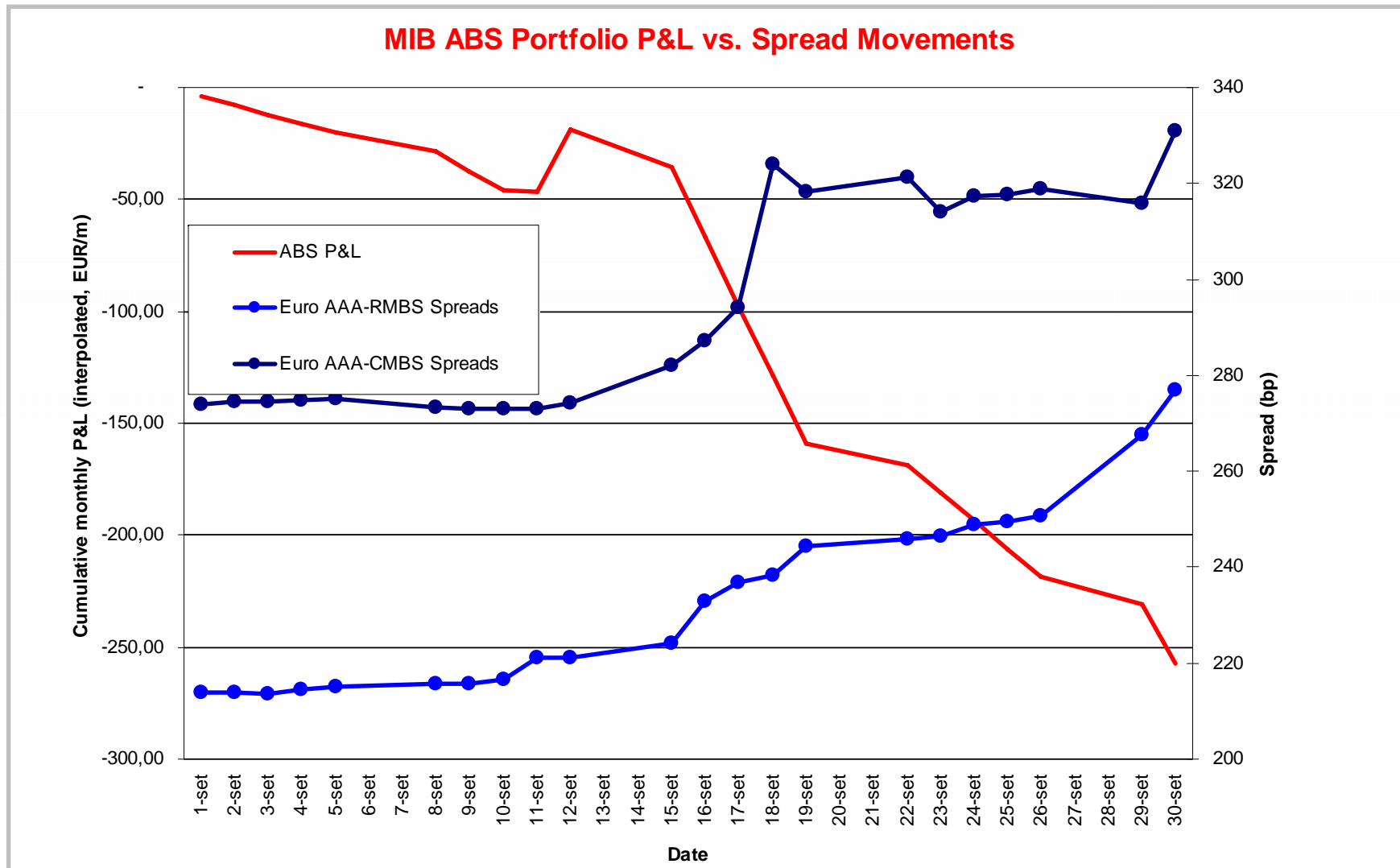
⁽¹⁾Assuming contained market volatility

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- A New Scenario
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- **Addressing ABS Market Concerns**

ABS PORTFOLIO IN 3Q08: KEY TRENDS

ABS PORTFOLIO



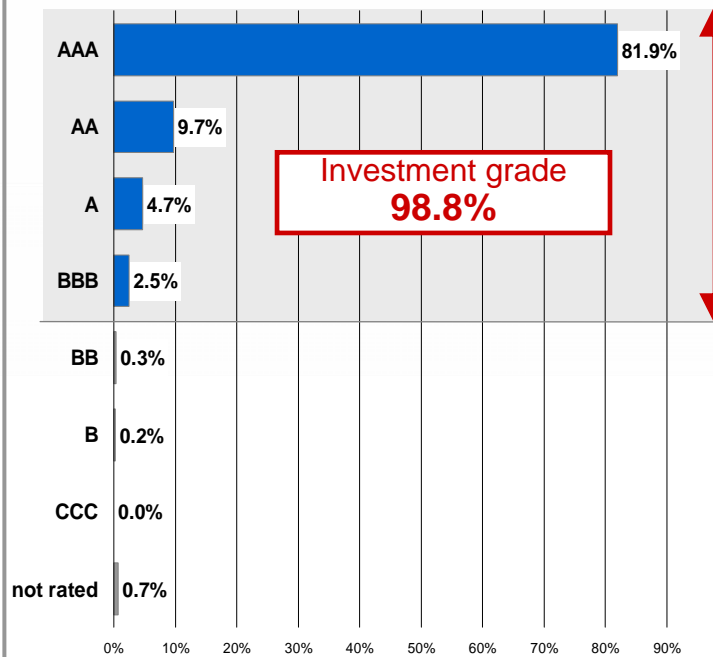
- **Confirmed sensitivity** to main reference spread
- Ring fenced ABS portfolio dropping to 10.5bn from 11.6bn at Jun08

FOCUS ON ABS: HIGH QUALITY, WELL DIVERSIFIED

ABS PORTFOLIO

~EUR 10.5 bn ABS Portfolio:

Market values, as of 30 September 2008⁽²⁾

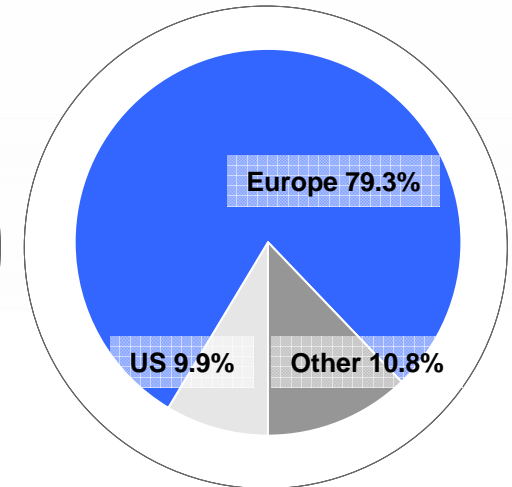
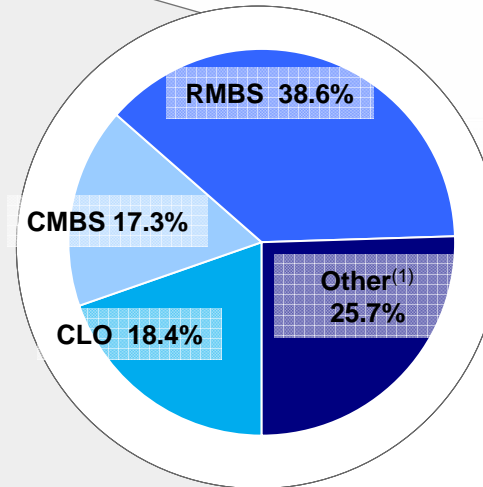


**Investment grade
98.8%**

PORTFOLIO BREAKDOWN

by main product pools

by region (of underlying risk)



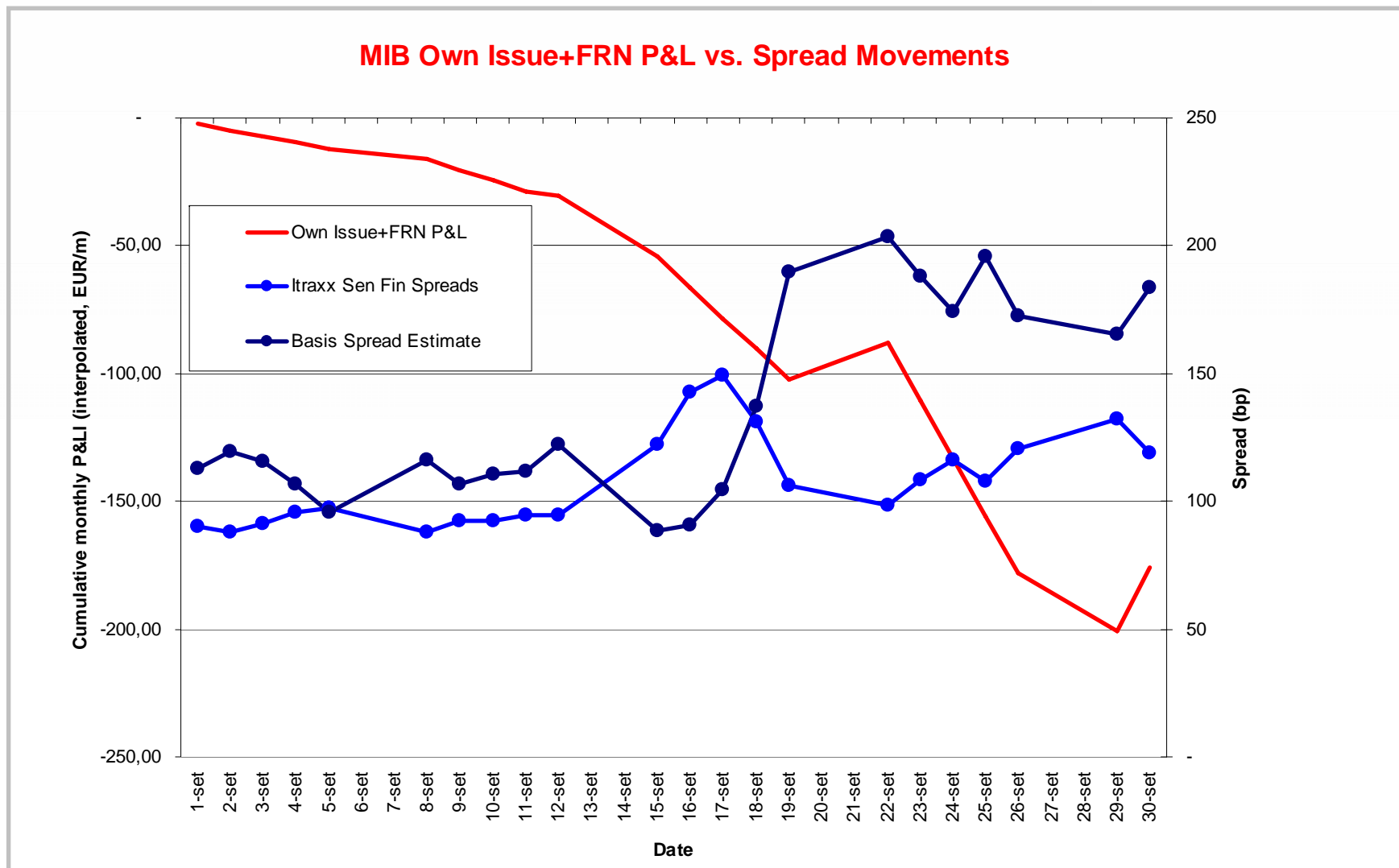
■ High quality ABS portfolio:

- ✓ ~EUR 10.5 bn total market value, EUR -5.3 bn ytd
- ✓ 80% in Europe; only 10% in the US, with negligible US Sub-prime exposure
- ✓ No hedging risk
- ✓ Sensitivity to spread low and decreasing

(1) Mainly Auto, Consumer Loans, Credit Cards, CDO, Lease, NPL, SIV, State-related and Student Loans; Others

(2) Preliminary data

LIQUIDITY PORTFOLIO: 3Q08 FINANCIALS



CONCLUSIONS

- **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