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## **COST MANAGEMENT: A KEY DRIVER OF EARNINGS SUSTAINABILITY**

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London, 25<sup>th</sup> June 2009

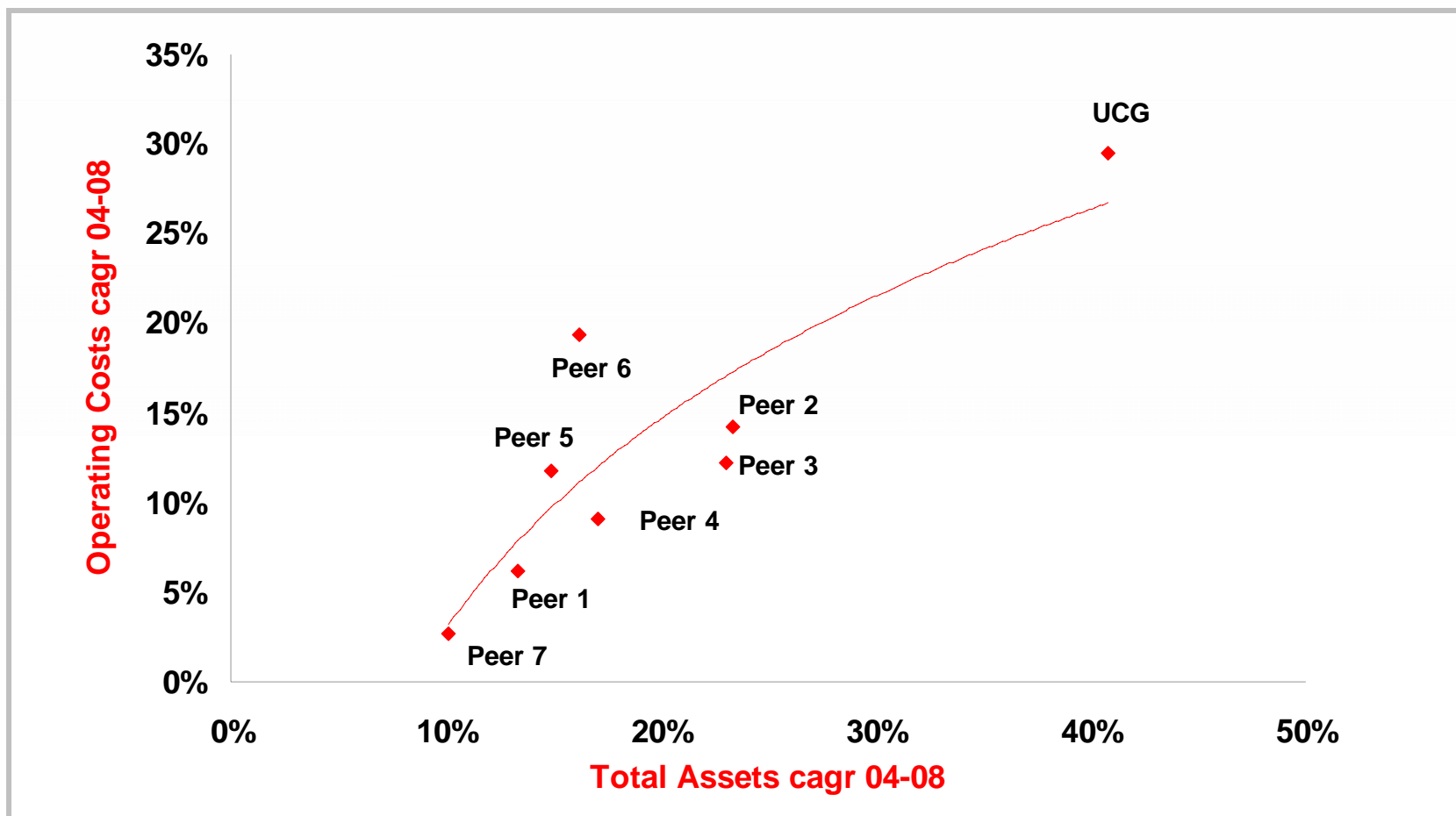
## AGENDA

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- **After Growth Ample Restructuring Potential**
- Re-Focus and Cost Management
- Conclusions

## 2005-2008: FRANCHISE (AND COST) GROWTH

UCG external growth

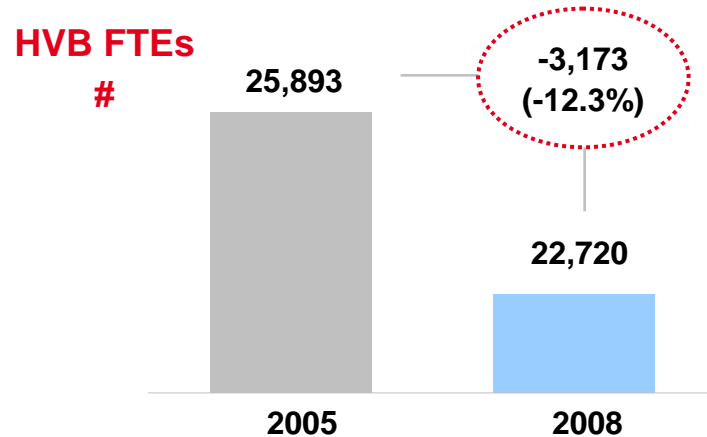
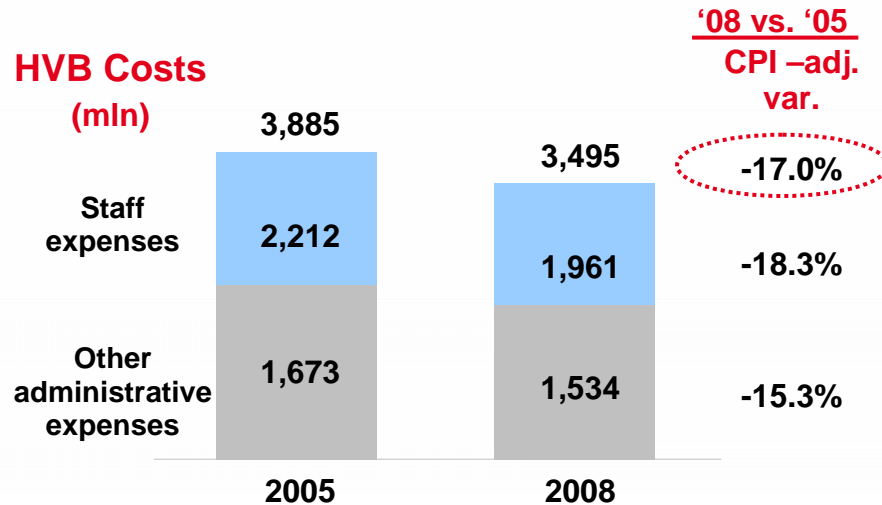


**UCG 2005-2008: ABOVE PEERS GROWTH OF COSTS AND ASSETS**

# RESTRUCTURING - HVB

## A SUCCESSFUL COST REDUCTION STORY

Restructuring - HVB

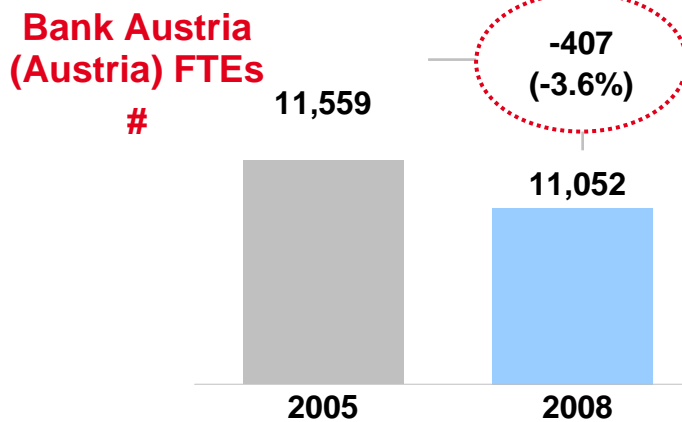
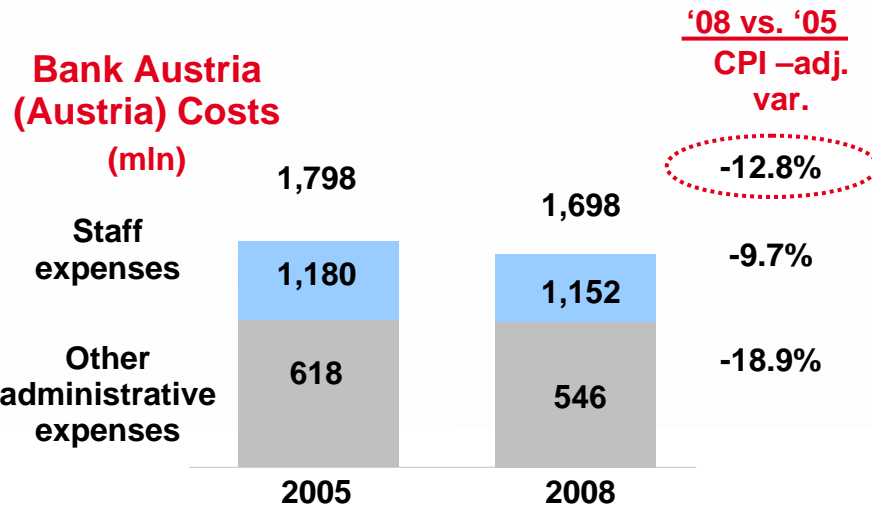


- HVB integration highlights huge synergies both in terms of:
  - ✓ Costs: -17% adjusted for inflation
  - ✓ FTEs: -12.3% in just three years
  
- Structural actions undertaken: many outsourcing initiatives (2S, Postbank and Facility management), which also led to shift from staff to other costs

# RESTRUCTURING – BANK AUSTRIA

## COSTS DOWN DESPITE SUPPORTING CEE EXPANSION

Restructuring – Bank Austria –

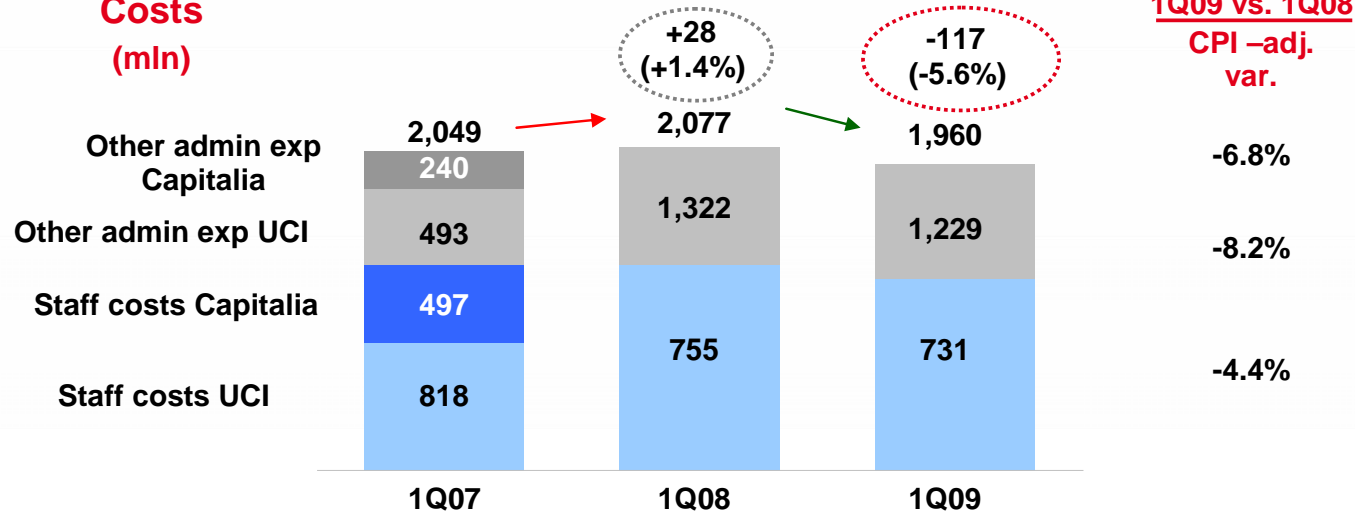


- Despite supporting the growth in CEE, Bank Austria achieve significant rationalization
- FTEs reduction concentrated mainly in GBS, Retail and MIB divisions

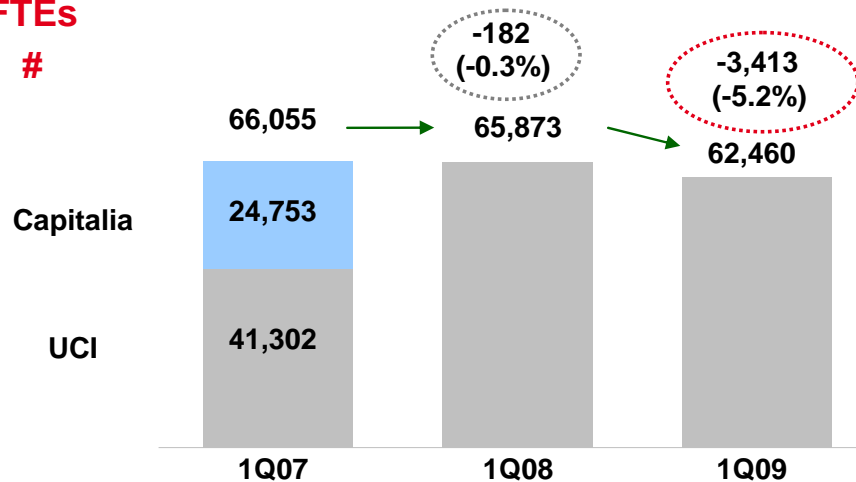
# CAPITALIA INTEGRATION ALREADY GIVING FIRST RESULTS

Restructuring - Capitalia

## UCG ITALY Costs (mln)



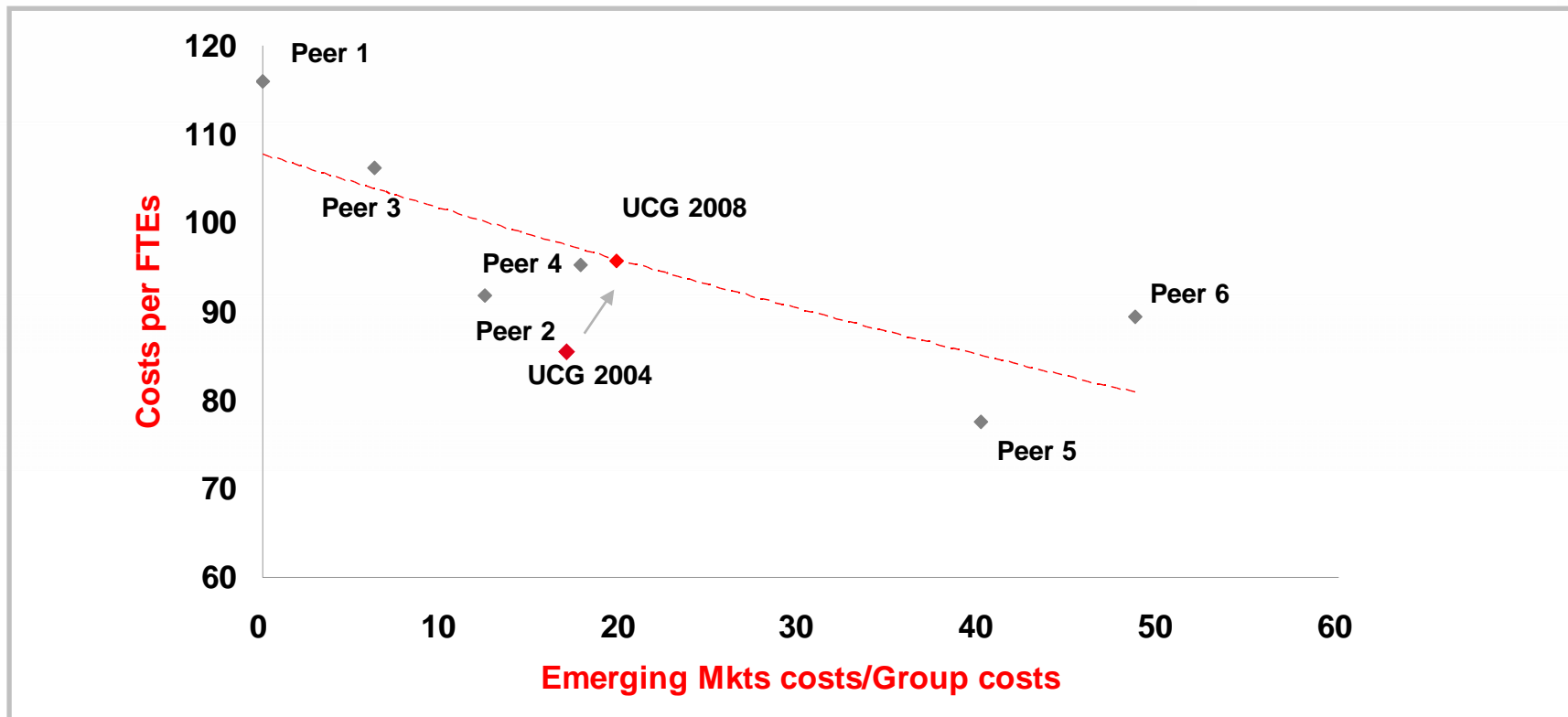
## UCG ITALY FTEs #



- Since Capitalia merger, legally effective from 4Q07, the Group started a cost reduction plan
- Savings achieved in both Staff and Other Administrative costs

# COST STRUCTURE AND GEOGRAPHIC MIX ROOM FOR FURTHER IMPROVEMENT

UCG external growth



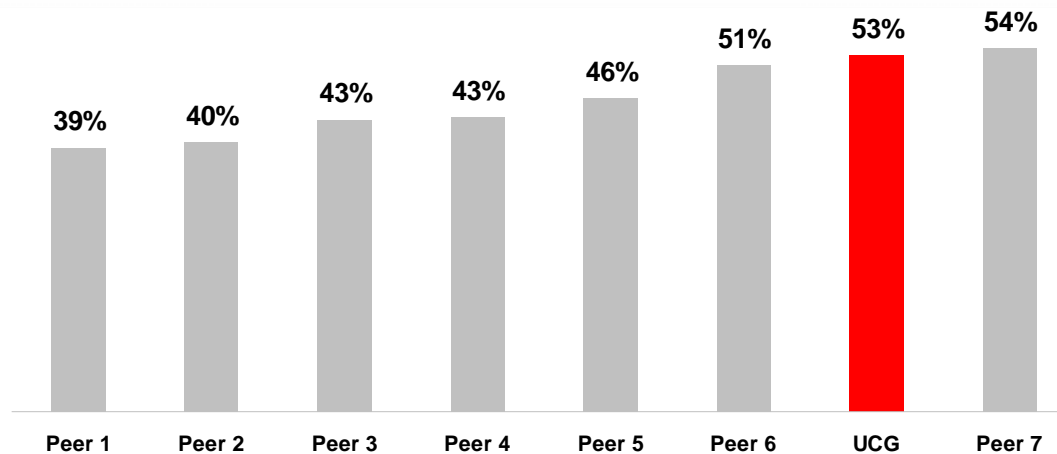
- Weight of emerging markets for UCG increased, but so nevertheless did costs per FTE
- Comparison with peers also underlines room for improvement:
  - ✓ in 2008 the group is in line with the peer trend, which includes companies which underwent external growth more recently
  - ✓ higher FTE/Branch compared to both main peers (UCG 17.0, main peers average 13.5) and CEE franchises (UniCredit CEE Region 19.3, CEE peers average 17.7)

# COST BASE AFFECTING PROFITABILITY ROOM FOR IMPROVEMENT VS PEERS

- Cost impact on UCG profitability is higher than for peers...leading to more significant leverage effect on ROTE

$$\text{ROTE} = \left[ \frac{(\text{Revenues-Provisions})}{\text{Tangible Equity}} - \frac{\text{Costs}}{\text{Tangible Equity}} \right] \times (1-\text{tax rate})$$

**COSTS / TANGIBLE EQUITY VS PEERS (2008)**



**HIGH POTENTIAL EFFECT ON ROTE**

NOTE: Peer sample includes Continental European Commercial banks: Banca MPS, BBVA, BNP Paribas, Credit Agricole, Intesa Sanpaolo, Santander, SocGen



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# FROM RESTRUCTURING TO COST MANAGEMENT SPEED UP OF RATIONALIZATION SUPPORTED BY RE-FOCUS

Cost Management  
Strategy

- The current crisis has **increased uncertainty on future growth and profitability of the banking sector**



**a STRONGER FOCUS ON COST MANAGEMENT** including the introduction of higher flexibility to support profits also in difficult cyclical phases

## ■ UniCredit Group approach includes:

- ✓ **a re-focusing of the activity** (from growth strategy to cost management also in CEE, market based products to support core commercial activities)
- ✓ **a simplification of the organizational structure** (eg. the set up of CIB division, HVB & Bank Austria squeeze out)
- ✓ **the rationalization of Group presence** (rightsizing of branch network in Italy and review of CEE positioning)

**ENHANCED FLEXIBILITY AND SIMPLIFICATION TO SUPPORT MID TERM EARNINGS SUSTAINABILITY**

# ACTIONS TO TACKLE STRUCTURAL AS WELL AS CYCLICAL EXPENSES

Cost Management  
Actions

## Staff Costs

## Other Costs

Cost Actions

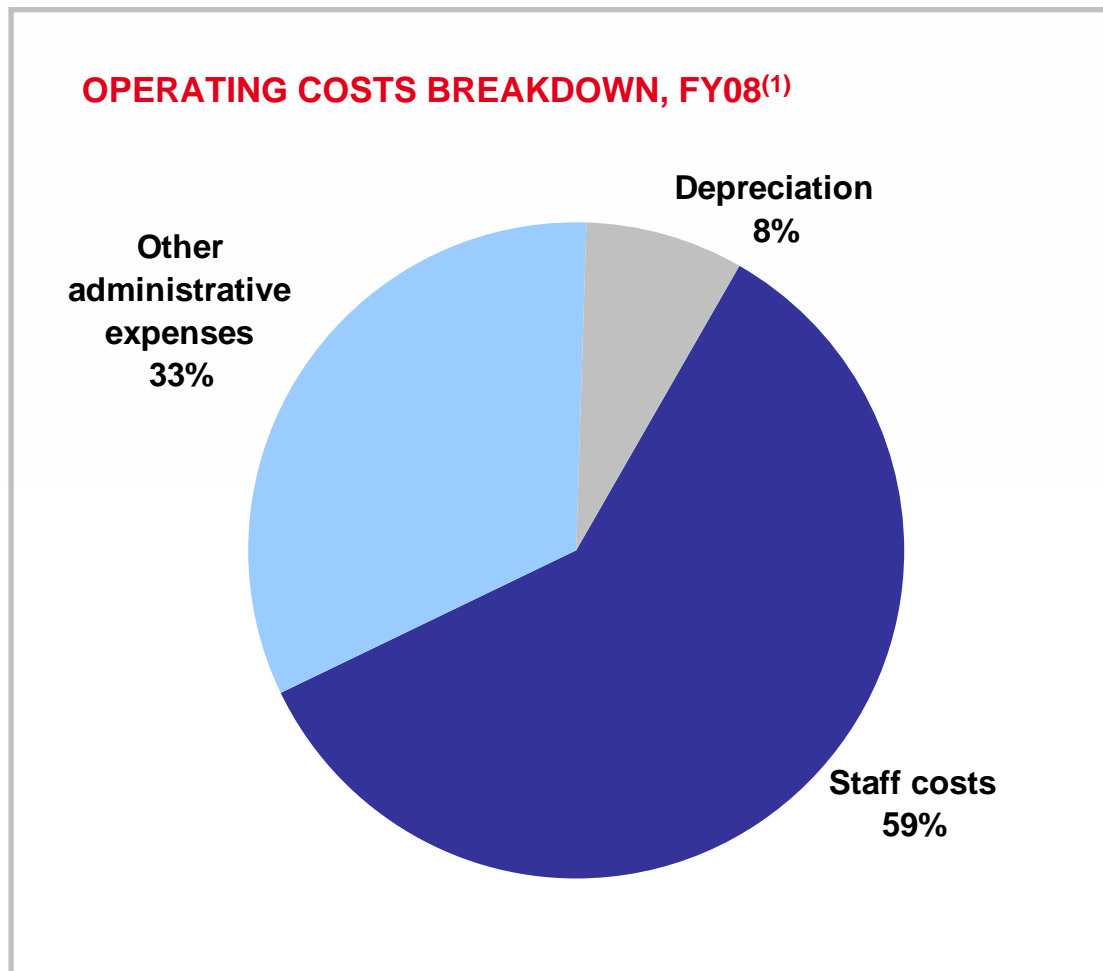
- Staff rightsizing
- Flexibility on:
  - ✓ Group Remuneration (a new policy for performance related compensation)
  - ✓ Management of holidays and overtime

- Flexibility on cyclical expenses
- Real Estate rationalization
- Procurement services centralization

- ICT integration and rationalization: unique commercial IT platform including Germany (2009), Austria (2010) and Poland (2011)
- Back Office & Work-out integration
- Governance and processes simplification

- Suspended branch expansion in CEE and rationalization in Western Europe

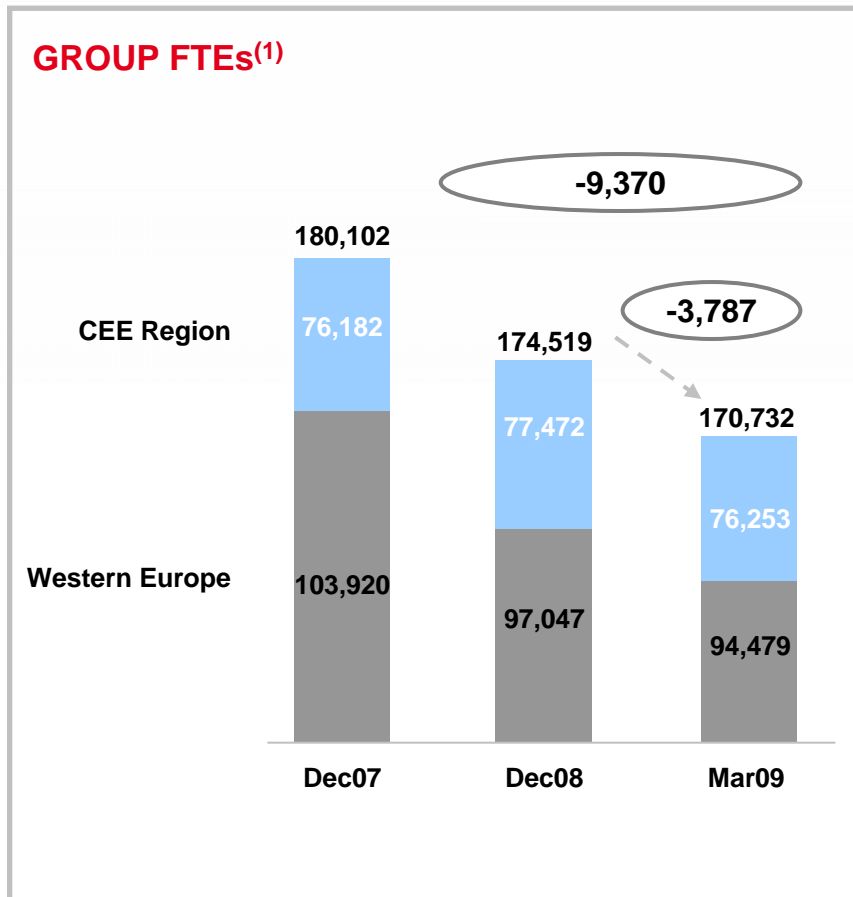
# UCG COST STRUCTURE



<sup>(1)</sup> Weight calculated including expense recovery in the other administrative expenses

# GROUP FTEs, A CLEAR DECREASING TREND

Fixed staff costs



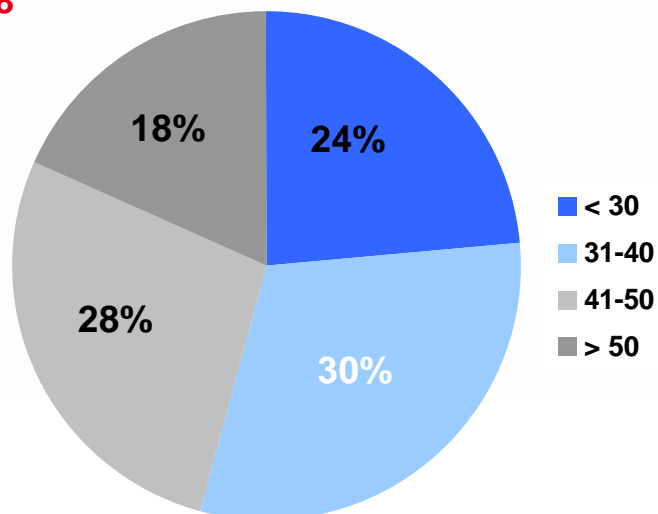
- Staff efficiency on FTEs: -9,370 from Dec07 to Mar09
- Lower staff costs in 2009e linked to structural saving on FTEs rightsizing in 1Q09
- Other benefits expected in 2009 from
  - ✓ Further staff reduction (almost -1,400 employees in April 2009)
  - ✓ No more accruals on annual leave
  - ✓ Lower staff overtime
- Reduction in other administrative expenses thanks to lower FTEs

<sup>(1)</sup> Yapi Group at 100%; Dec07 proforma including Ukrsootsbank

# RETIREMENT PATH STRUCTURAL SAVINGS BEFORE ACTIVE ACTIONS

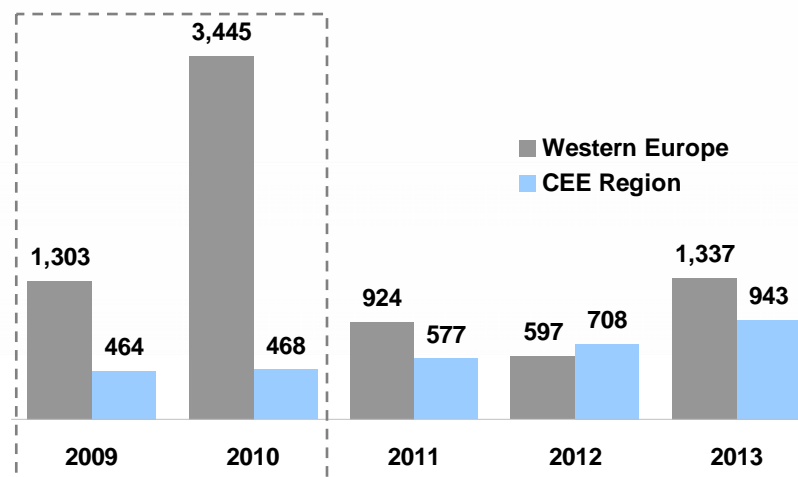
Fixed staff costs

UCG EMPLOYEES DISTRIBUTION BY AGE  
Dec08



- **Young people mainly in CEE Region** (characterized by a more flexible and dynamic labour market): more than 60% of CEE Region employees are less than 30 years
- **Aged people mainly Retail** (27% of total divisional employees with more than 50 years), **Corporate** (24%) and **Corporate Center** (25%), areas characterized by higher costs per employee

RETIREMENT DATE OF MATURITY<sup>(1,2)</sup> - WE & CEE REGION

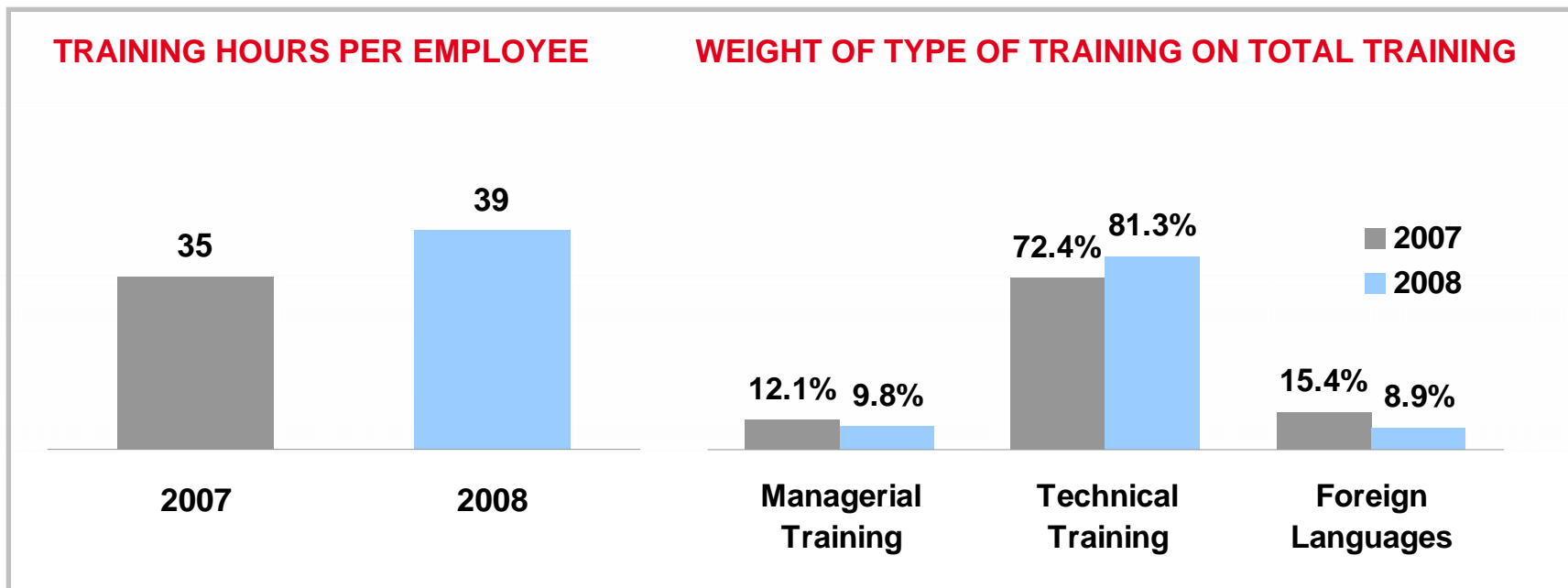


- Based on current law and sector agreements
  - ✓ **almost 5,700 employees will retire by year end 2010**
  - ✓ **~6% of employees will achieve the date of retirement within the next 5 years (11% Italy)**

(1) UCG: WE: Italy, HC-May09; Germany HC-Dec08; Austria HC-Apr09; CEE Region: Poland, HC-Dec08, CEE Division FTEs-Apr09  
 (2) UCG internal analysis and simulation

# ENHANCED STAFF TRAINING SUPPORT TO LONG TERM BUSINESS GROWTH

Fixed staff costs



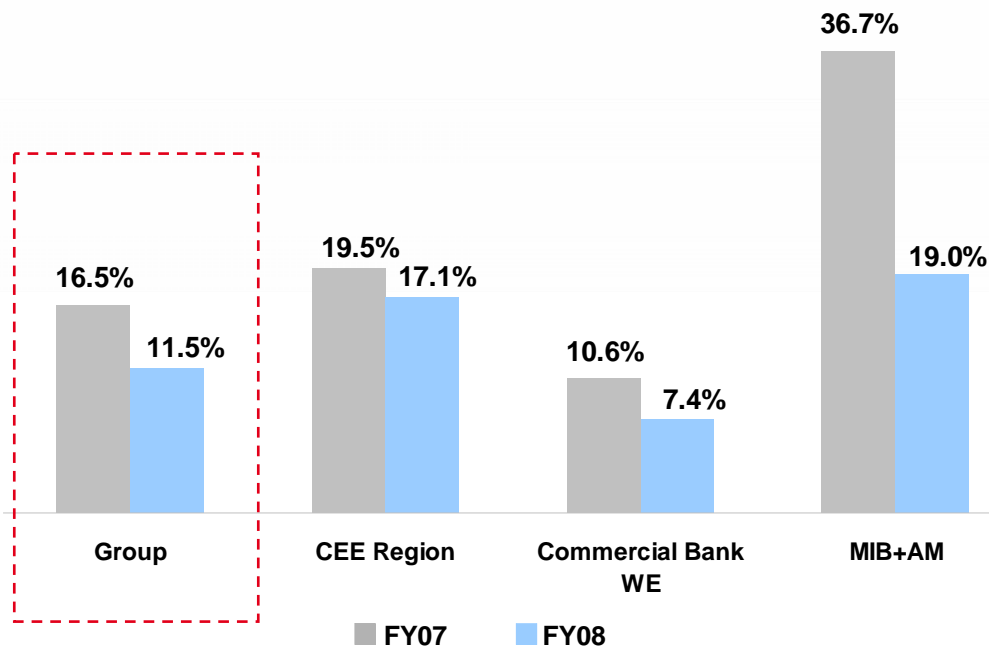
Invest in our people for a sustainable long term business growth

- Training hours per employee increased to 39
- Training hours + 11% y/y
- Increased weight of technical training to improve employee skills and to support redeployment

# STAFF COSTS FLEXIBILITY

Variable staff costs

## VARIABLE COMPENSATION, weight on staff costs by division



### ■ UCG compensation approach:

- ✓ A balanced package of fixed and variable elements
- ✓ Variable part strictly linked to yearly group profitability

### ■ In a tough FY08:

- ✓ Variable compensation decreased to 11.5% of staff costs (16.5% in FY07)
- ✓ No bonus for CEO and Management Committee as part of Group governance
- ✓ Bonus payout -80% y/y for the top 108 Executives of the Group
- ✓ Only mandatory bonus in MIB Division

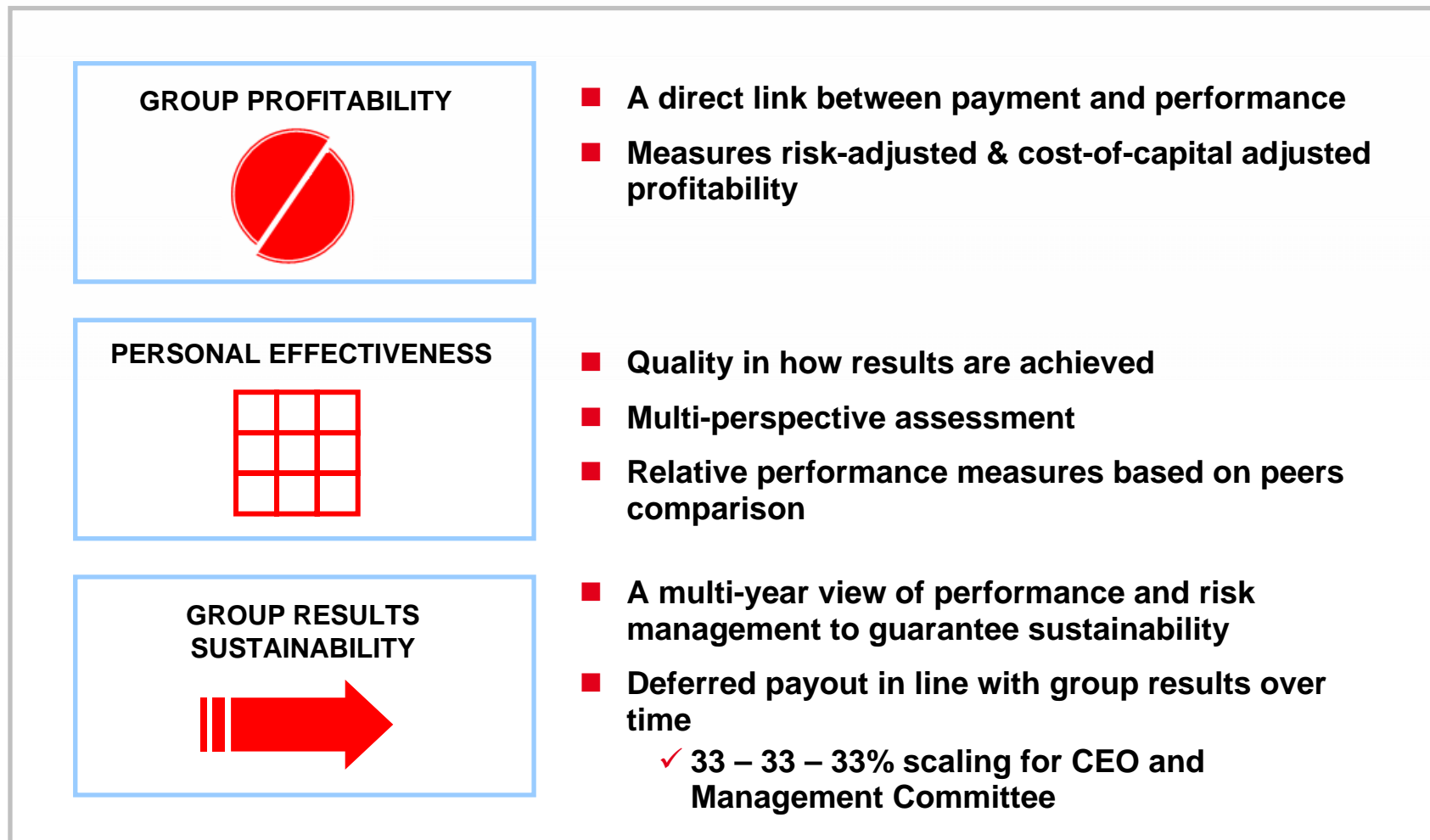
FLEXIBILITY ON REWARD TOWARDS GROUP PERFORMANCE



# EXECUTIVE COMPENSATION PERFORMANCE AND MID/LONG TERM PROFITABILITY

Variable staff costs

## Executive Incentive System

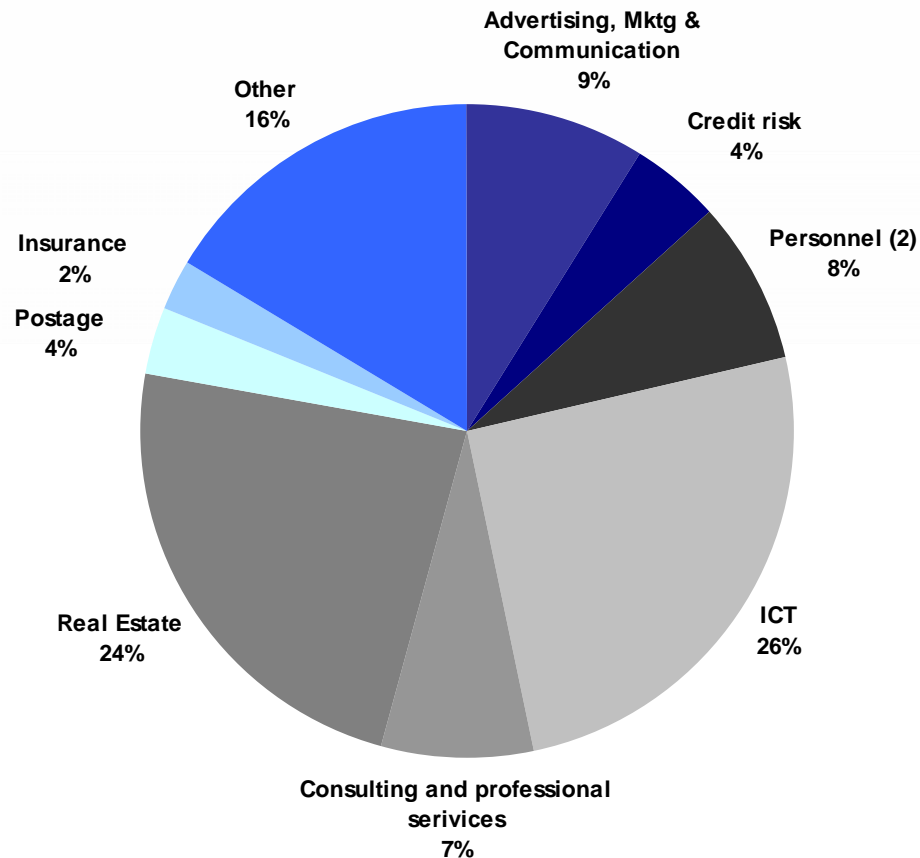


**STRONG REWARD ALIGNMENT TO SUSTAINABLE GROUP  
PERFORMANCE OVER TIME**

# UCG OTHER ADMINISTRATIVE EXPENSES COMPOSITION

Other Administrative Structure

## OTHER ADMINISTRATIVE EXPENSES BREAKDOWN, FY08<sup>(1)</sup>



- ~ 50% of other administrative expenses are related to ICT and RE, areas subjected to structural savings

- ~ 16.3% of other administrative expenses<sup>(3)</sup> are cyclical costs that may be partly delayed to support Group profitability

- Simplification of organizational structure and network could add further structural costs savings

<sup>(1)</sup> Weight calculated excluding indirect taxes and duties

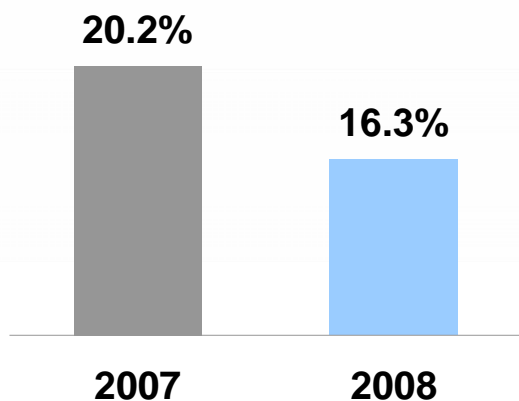
<sup>(2)</sup> Mainly travel expenses and training & recruiting costs

<sup>(3)</sup> Advertising, marketing & communication expenses, Consulting and professional services costs

# ACTIONS ON CYCLICAL ADMINISTRATIVE COSTS

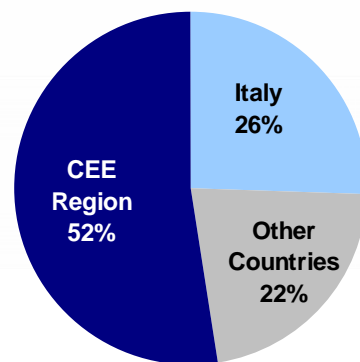
Cyclical savings

**CYCLICAL EXPENSES<sup>(1)</sup>, weight on other administrative expenses**

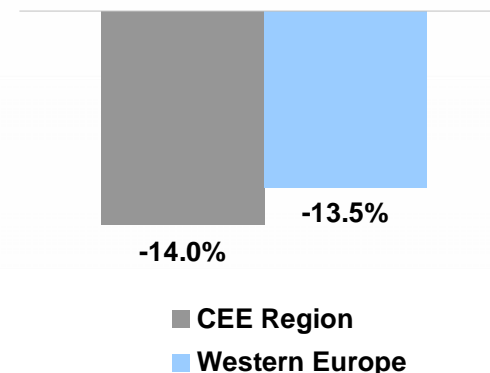


**ADVERTISING INVESTMENTS<sup>(2)</sup>**

**Breakdown by country in FY08**



**Trend 08/07**



■ **Flexibility on cyclical expenses:**

- ✓ -15.0% y/y in 2008
- ✓ decreased weight on other administrative expenses
- ✓ further savings expected in 2009

■ **Advertising investments postponed, as the economic crisis makes customers less receptive, ~-14% y/y in 2008**

(1) Advertising, marketing & communication expenses, Consulting and professional services costs

(2) Advertising investments on radio, television, cinema, press, internet, billboards

# TOWARDS A SINGLE IT PLATFORM

Structural savings

## ■ A SINGLE IT PLATFORM FOR COMMERCIAL BANKING

- ✓ **Capitalia:** former Capitalia banks moved to Group platform (Eurosig);  
ICT Capitalia subsidiaries merged into UGIS 2008
- ✓ **HVB** 2009
- ✓ **Austria** 2010
- ✓ **Poland** 2011

## ■ GLOBAL UNIFIED PLATFORMS started

- ✓ **Household Financing** 2010
- ✓ **MIB** 2011



**LONG-LASTING COST SAVINGS**

## CEE DIVISION

■ **Efficiency improvement programs for CEE countries** launched in 2008

■ **FY09:**

- ✓ **Simplification**
- ✓ **Infrastructures consolidation**
- ✓ **Extension of Group wide solutions**

# REAL ESTATE: MANY ACTIONS TAKEN FURTHER ROOM FOR IMPROVEMENT

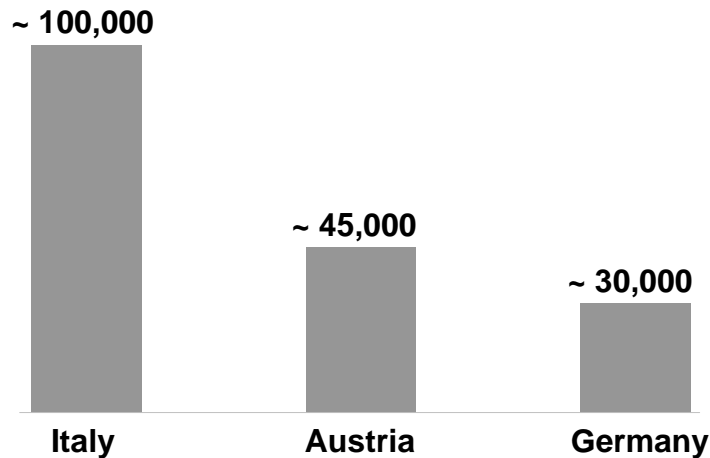
Structural savings

**FY08**

- **Real estate fund (4Q08):**
  - ✓ 72 buildings placed (~290 mln net capital gain)

- **Space optimization plan / asset sales:**

**RELEASE OF SQM<sup>(1)</sup>**



**FY09**

- **Capital Generation**
  - ✓ Disposal of non strategic assets
  - ✓ Sales and lease back
- **Space optimization**
  - ✓ ~ 130,000 sqm to be released
- **Efficiency**
  - ✓ Rent renegotiation
  - ✓ Maintenance contracts renegotiation
  - ✓ Reduction of utility consumption
  - ✓ Outsourcing
- **Service Line rationalization**
  - ✓ ~ 200 FTEs reduction

<sup>(1)</sup> Owned and rented sqm

# CENTRALIZATION AND INSOURCING BACK OFFICE ACTIVITIES

Structural savings

## ■ BACK OFFICE COST SAVINGS ACTIONS

- ✓ **Capitalia back office** integrated in UniCredit Group (~13 mln synergies, ~300 FTEs) in 2008
- ✓ **Near shoring** of operations for German and Austrian banks towards Poland and Romania in 2009
- ✓ **Centralization** of Poland back office in 2009
- ✓ **“One4All” project** ongoing: a global operating company for the Group
- ✓ **Start-up of automation processes** workflow in 2009
- ✓ **Start-up of Italian sites rationalization** in 2009



**EXPECTED COST SAVINGS BENEFITING FROM FTES REDUCTION**

## CEE

- **Efficiency improvement programs for CEE countries** launched in 2008
- **Centralization of selected back office activities** ongoing

# ORGANIZATIONAL STRUCTURE FURTHER STRUCTURAL SAVINGS

Structural savings

## FY08

### ■ WORKOUT

- ✓ Integration of Capitalia NPLs management into UniCredit Group model (~30 mln synergies)
- ✓ Collection of more than 1.8 bn
- ✓ Cost reduction of ~13% y/y
- ✓ Rating UCCMB raised by Fitch and confirmed at the highest level by S&P

### ■ PROCUREMENT

- ✓ Launch of Group wide cost crash program (e.g. Advertisement & Marketing, Travel, Consulting)

### ■ GOVERNANCE

- ✓ Capitalia integration
- ✓ Simplification of the Parent Company's organizational model

## FY09

### ■ WORKOUT

- ✓ Centralization of Group NPLs in a single Company (ASPRA)
- ✓ - 15% of costs thanks to rationalization of network, renegotiation of legal rate and optimization of processes

### ■ PROCUREMENT

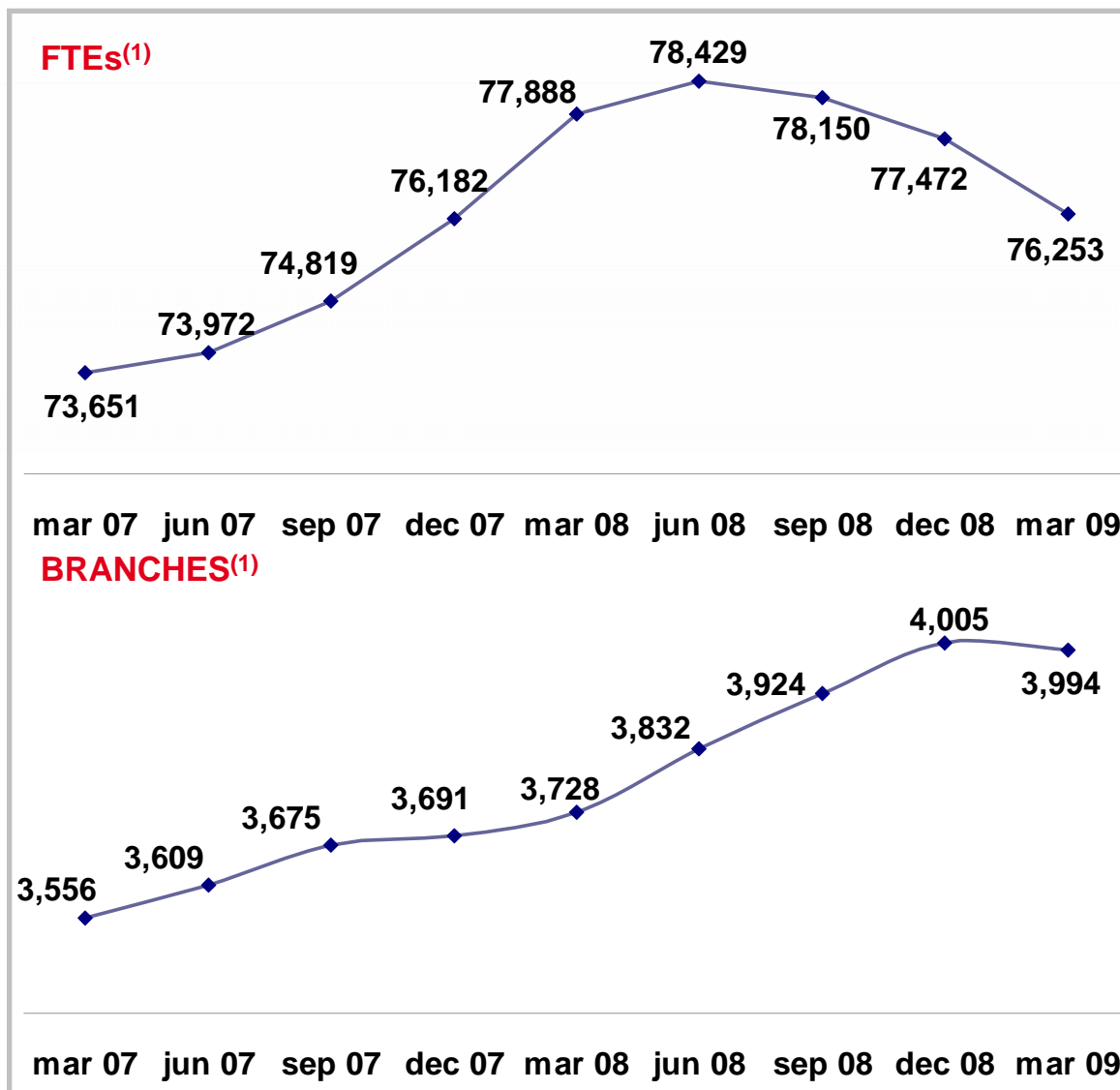
- ✓ Expenses management review involving the main 50 Legal Entities
- ✓ Full launch of new negotiation platform

### ■ GOVERNANCE

- ✓ Simplification of the organizational structure (e.g. the set up of CIB division, branch rationalization in Western Europe)
- ✓ Reengineering of Key processes at Holding Level

# REVIEWED STRATEGY IN CEE IN LINE WITH NEW MACROECONOMIC SCENARIO

Cost Actions – Examples:  
CEE



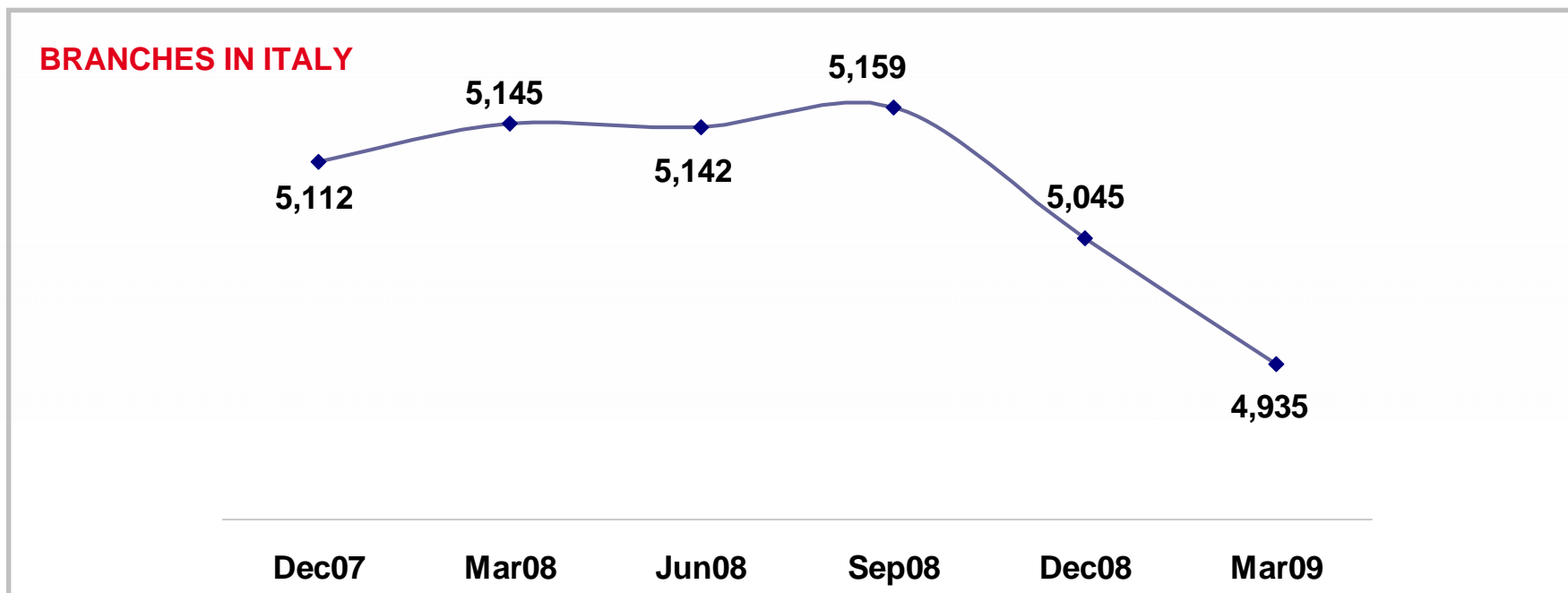
- Strategy in CEE: from growth proposition to cost control
- From hiring to rightsizing: ~-1,200 FTEs from Dec08 to Mar09
  - ✓ -620 in Ukraine
  - ✓ -391 in Kazakhstan
- Stopped modular branch expansion program
  - ✓ no more ~500 planned openings in FY09
  - ✓ only ~90 branches to close FY08 program

<sup>(1)</sup> Figures restated including UkrSotsbank and ATF and excluding BPH 200



## BRANCH NETWORK OPTIMIZATION IN ITALY WITHOUT IMPACT ON REVENUES

Cost Actions – Examples:  
Italian Network



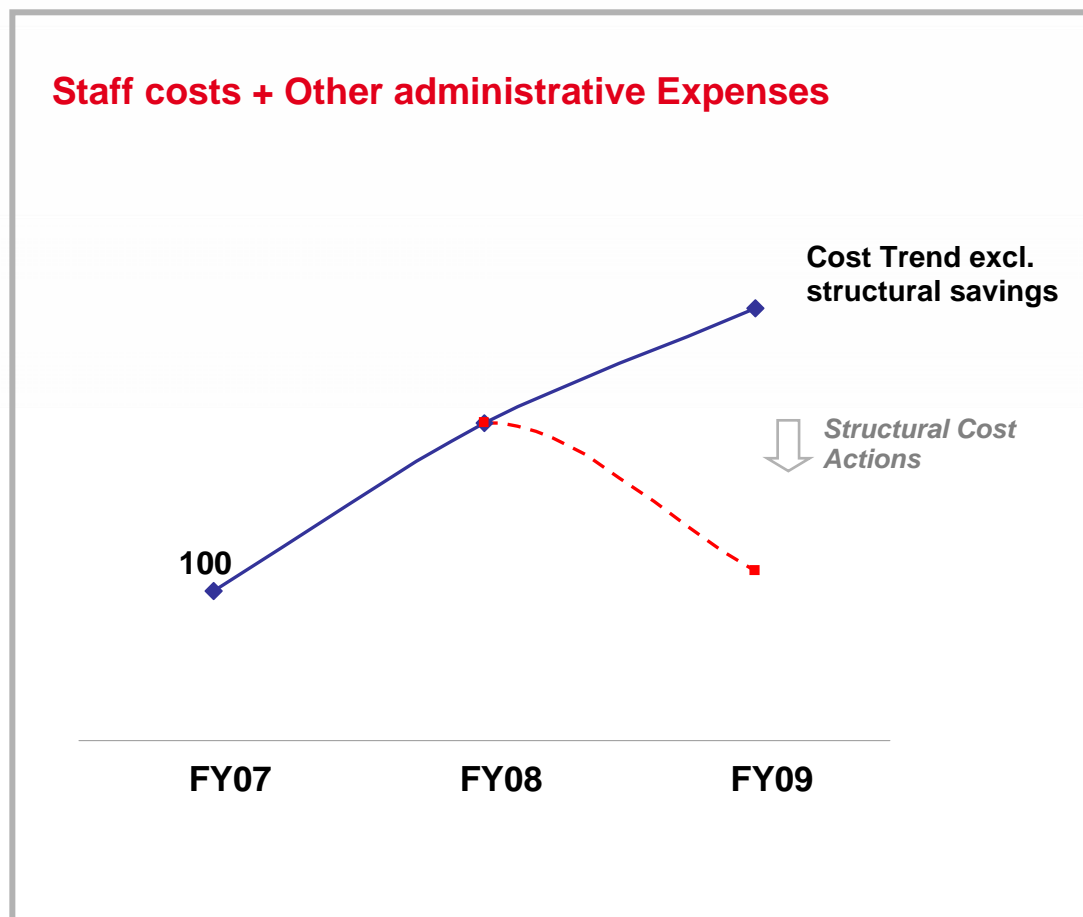
### ■ RETAIL ITALY

- ✓ ~ 50 branches closed in 2008
- ✓ ~ 186 branches sold in 2008 (due to Capitalia integration)
- ✓ ~ 360 overlapping branches to be closed in 2009 o/w more than 100 in 1Q09 (transfer of clients and redeployment of FTEs to the nearest branches)

### ■ A service model with improved network potentials

# MANAGERIAL FOCUS ON COST ACTIONS TO CREATE VALUE ALSO IN DIFFICULT PHASES

Cost Actions – Examples:  
Impact of structural savings



■ Cost growth trend lowered by structural actions undertaken in 1Q09

■ 1Q09 cost trend also partially mitigated by:

- ✓ cyclical savings
- ✓ lower performance related compensation, despite bonus accrual in 1Q09

Simulation (no guidance)

## AGENDA

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- Re-Focus and Cost Management
- **Conclusions**

# STRUCTURAL SAVINGS VS LONG-TERM PROFITABILITY

Structural Cost Actions vs Profitability

## SENSITIVITY TO COST SAVING: IMPACT ON ROTE

Simulation (no guidance)

Cost Base		Impact on ROTE
-1%	⇒	~+35 bp
-3%	⇒	~+110 bp
-5%	⇒	~+180 bp

- Structural savings on costs will positively impact on long term profitability
- Left behind the financial crisis with
  - ✓ Improved cost structure
  - ✓ Stronger operating profit capacity

## CONCLUSIONS

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LOWER EXPECTATIONS OF BANKING  
SECTOR PROFITABILITY



- Tougher action on costs with full management commitment

MANY YEARS OF EXTERNAL  
GROWTH



- Lots of restructuring done, more to come

COST ACTIONS INTENSIFIED ON  
MANY FRONTS



- Staff rationalization
- Variable compensation linked to performance over time
- Delay of cyclical costs
- Strong actions to contain structural costs in IT, Real Estate, Back Office

STRUCTURAL SAVINGS SUPPORT  
LONG TERM SUSTAINABILITY



- ~35 bp increase in MLT profitability each 1 pp structural cut in costs

HIGHER COST-EFFECTIVENESS



- Lower complexity
- Higher earnings sustainability

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