UniCredit Group

# UNICREDIT AND CEE: STRENGTHS TO COPE WITH CYCLICAL HEADWINDS

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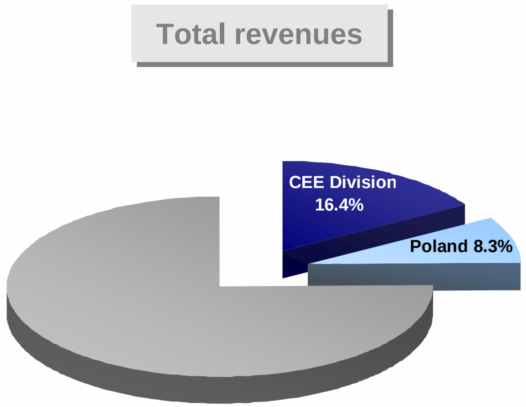
# EXECUTIVE SUMMARY

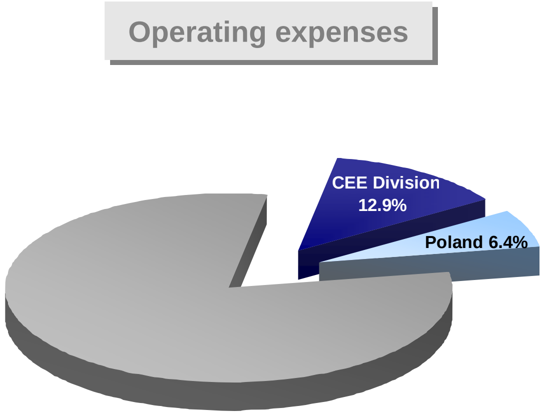
- UNICREDIT PRESENCE IN CEE REGION: A SUPERIOR POSITIONING

- BALANCED RISK PROFILE AND ROOM FOR COST MANAGEMENT TO FACE MACRO IMPACTS

- MARKETS-RELATED FEARS: LIQUIDITY AND FX VOLATILITY

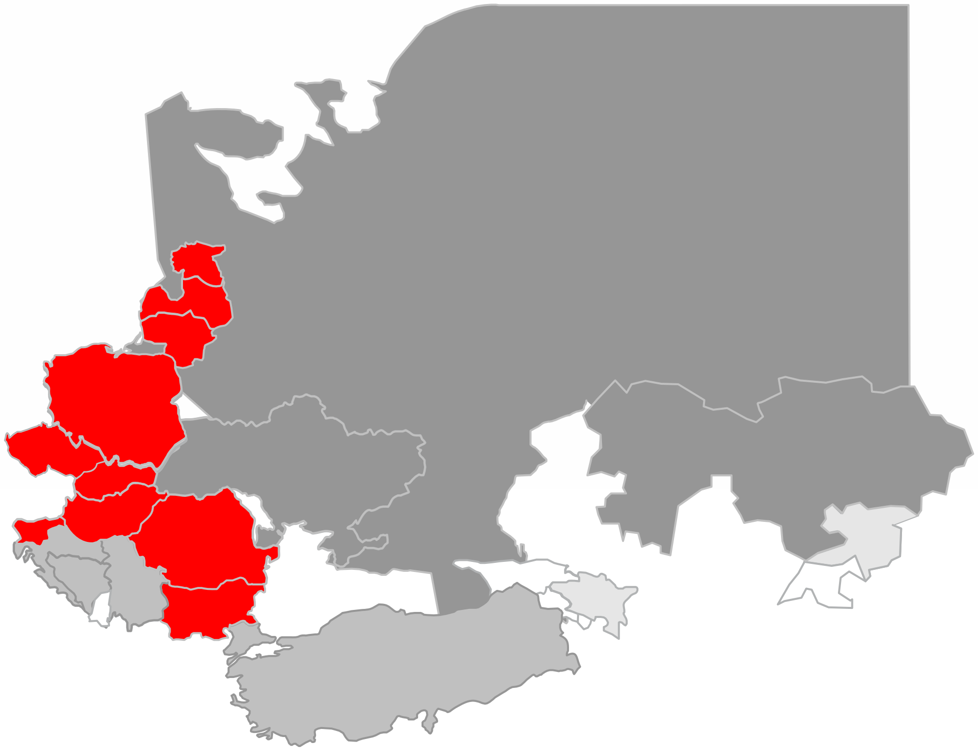
# A TRULY EUROPEAN GROUP – FOCUS ON CEE REGION




Note: Weight on Unicredit Group results, as at 9M08

# BALANCED, DIVERSIFIED GROUP EXPOSURE, TO MINIMIZE THE POSSIBLE IMPACT OF THE MARKET CRISIS



| | % weight on Group Revenues[1] | % weight on Group Tangible book [2] |
|---|---|---|
| **EU members** | **13.7%** | **13.2%** |
| Poland | 8.3% | 5.8% |
| Romania | 1.1% | 0.5% |
| Czech rep. | 1.3% | 2.5% |
| Slovakia | 0.6% | 1.1% |
| Slovenia | 0.2% | 0.4% |
| Hungary | 0.9% | 1.4% |
| Bulgaria | 1.1% | 1.3% |
| Baltics | 0.1% | 0.2% |
| **Candidate/potential EU** | **6.3%** | **8.5%** |
| Turkey | 3.5% | 3.8% |
| Bosnia – H. | 0.4% | 0.4% |
| Croatia | 2.1% | 3.6% |
| Serbia | 0.3% | 0.6% |
| **NON EU** | **4.6%** | **6.0%** |
| Russia | 2.2% | 3.1% |
| Ukraine | 1.3% | 1.3% |
| Kazakhstan | 1.0% | 1.6% |

- **Countries of presence** spanning from **EU members** in **Central Europe** to **Russia** and **Turkey**
- **Group** set to **confirm good performance despite the macro-environment downturn**, based on: **strong deposit base**, **strict cost control, tighter risk regulations** and a **strong focus on liquidity**

[1] Revenues as is 9M08

[2] Data as is 3Q08 pro-forma for the €3bn rights issue, tangible book = equity-goodwill

# UNICREDIT APPROACH TO CEE: A LONG-TERM INVESTOR, TO EXPLOIT STRUCTURAL STRENGTHS

## LONG TERM INVESTOR

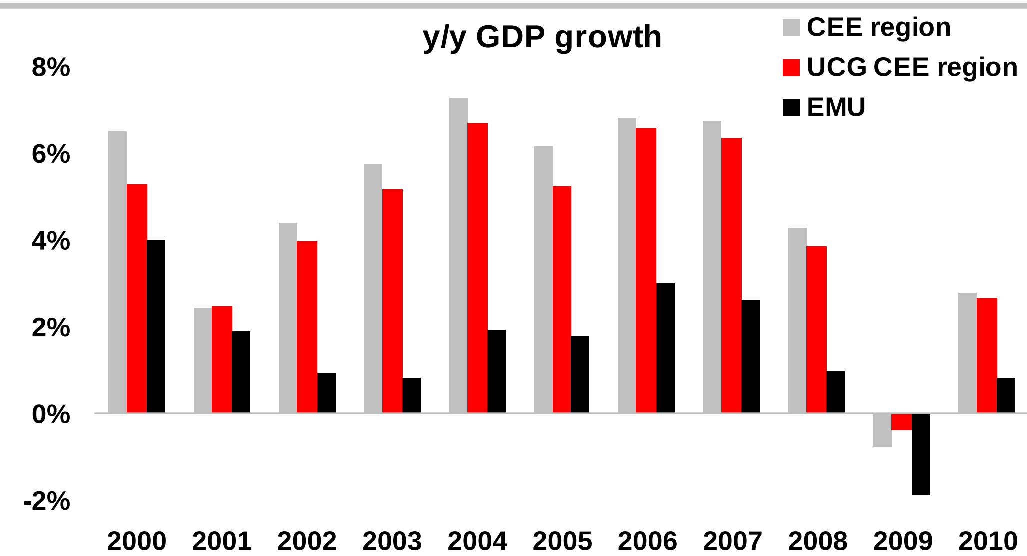
- Since 1999, with Pekao acquisition, UCG has pursued a **long term oriented strategy** - we are here to stay
  - ✓ UCG is part of the Country
  - ✓ Strong enforcement of local Managers
  - ✓ Best practices and know-how transfer
  - ✓ International programs for Talents

## COMPETITIVE HEDGE IN A CRISIS

- Belonging to a big European player, UCG banks in CEE could even enjoy **some competitive advantaged in the crisis**
  - ✓ Well known **brand** as a key to attract customers leaving troubled local banks
  - ✓ Access to international markets through UCG

# COUNTRY DIVERSIFICATION

## A key strength also in a Macro-Economic slowdown




| | GDP real | | | | Inflation, avg | | | |
|---|---|---|---|---|---|---|---|---|
| | 2007 | 2008 | 2009 | 2010 | 2007 | 2008 | 2009 | 2010 |
| CEE-17 current | 6.7 | 4.3 | -0.8 | 2.7 | 7.4 | 11.3 | 6.9 | 6.5 |
| UCG-17 current | 6.3 | 3.8 | -0.4 | 2.6 | 5.5 | 8.5 | 4.9 | 4.5 |
| West. Europe (AT-GE-IT) | 2.2 | 0.5 | -2.4 | 0.7 | 2.1 | 2.9 | 0.9 | 1.9 |

- **CEE growth** will **continue to outperform EMU** in 2009
- In a negative outlook scenario, **the diversification of UCG halves the impact on the group** showing a good positioning in faster growing countries
- **UCG weighted presence: lower negative growth of GDP** in 2009; lower CPI vs CEE region average highlights **considerable rooms of cost saving**
- Proactive policymaker response to the slowdown and solid banking sectors **pave the way for strong 2010 recovery prospects in Czech Republic, Poland and Turkey** (~55% of UCG revenues in CEE region)



Source: UniCredit Research

# MACRO IMPACTS: RISKS, EFFECTS AND GROUP ACTIONS

Lower risk for UniCredit: geographic and loan mix, cost savings ahead

## ASSET QUALITY

- **General deterioration of asset quality**: provisioning level will be increased

### SOLID CLIENT BASE

- **UCG vs system**: usually **lower cost of risk** for **banks belonging to the Group since many years** and **largely lower than the market** for most of countries
- **De-risking actions to mitigate existing and new risks**

### INDIVIDUAL FX LENDING

- Equal to **12% of total customer loans in CEE region**, proportionally split by Euro, USD and CHF. **Pekao**, the oldest CEE bank in UCG, **was not used to grant FX loans to individuals**
- **De-risking actions in place : to grant excellent client profiles**

## COST MANAGEMENT – AS A KEY TO PRESERVE PROFITABILITY

- Negative macro scenario **reduces** the **level of CPI** which drives a **lower level of cost** in the area
  - ✓ **UCG positioned** in countries with lower expected CPI (see pg. 6): **Poland, Croatia**, **Czech Rep**
  - ✓ **Cost synergies:** 17 mergers in 2006/08 produce cost synergies allowing to open more than 400 branches in 2008 with limited FTEs increase (~1,000 vs ~5,000 expected)

# FROM THEORY TO PRACTICE: DE-RISKING ACTIONS IN PLACE

Some examples: not exhaustive!

- **Real Estate: further reducing risk appetite**
  - ✓ **decrease of LTVs/LTCs** by 10 percentage points
  - ✓ **increase of Debt Service Coverage Ratio (DSCR) by 10 bps**
  - ✓ **no plot** financing
  - ✓ **very selective developer financing**, restricted in some countries (e.g. RU, UA, Baltics) and conditioned to tighter prelease sales conditions

- **Corporate: special liquidity check and very cautious lending**
  - ✓ **Liquidity check of large corporate customers**
  - ✓ **New business** subject to **up-dated review and positive result of liquidity check**
  - ✓ Focus on **lending to operative companies**
  - ✓ **No underwriting commitments**
  - ✓ **No bridge financing unless** we are comfortable/able to keep this risk on a midterm basis
  - ✓ Asset based financing parameters more restrictive (e.g. decrease of LTVs/LTCs by 10 p.p., DSCR increased by 10 bps**)**
  - ✓ Dedicated **Task Force Kazakhstan**

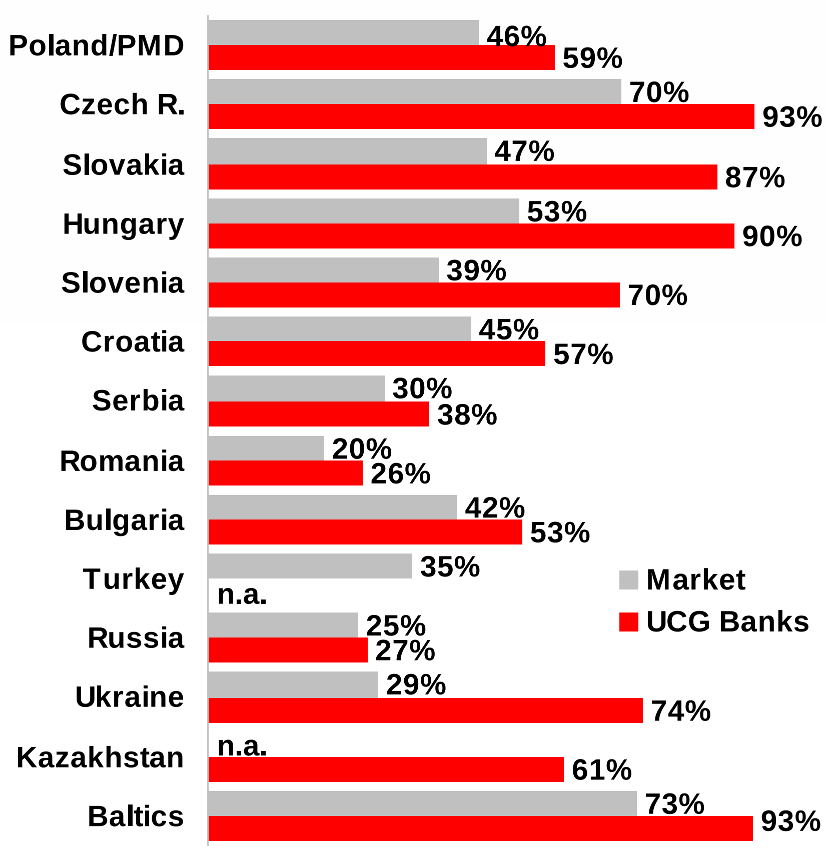
- **FX lending: limited origination, strict monitoring**
  - ✓ **Special Credit policy** with appropriate add-on's and haircuts and Customer Awareness letters
  - ✓ **Close monitoring of portfolio and tightening of retail lending rules**
  - ✓ **Required debt repayment capability is increased by 10-20% depending on currency**

# LESS RISK - RETAIL

## UniCredit vs Peers: More Mortgages, Less Consumer Credit

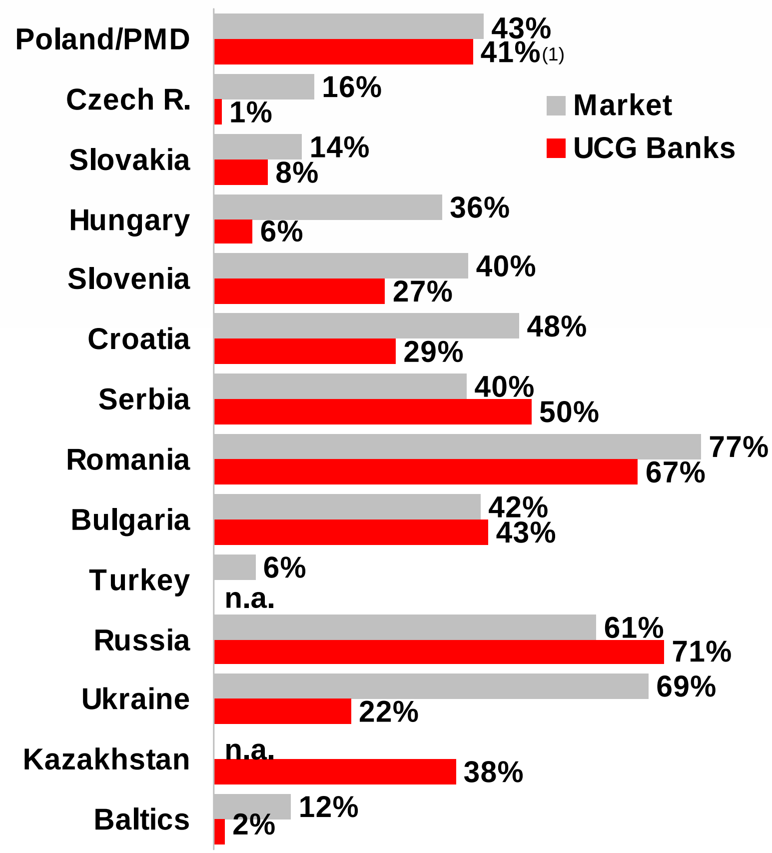
**Household sector: mortgages**

% on total household lending




**Household sector: consumer credit**

% on total household lending




Unicredit: Sept 2008, Poland Dec 2008; Market: Dec 2007

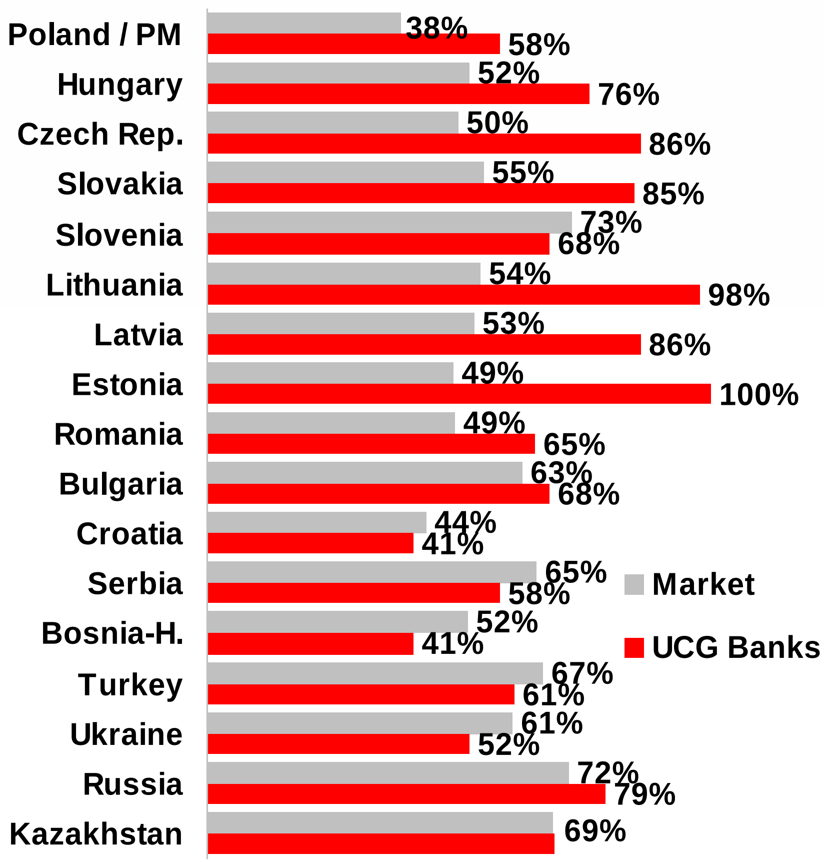
(1) Poland data is all non-mortgage lending, consumer credit represent the main part

Source: UniCredit CEE Strategic Analysis

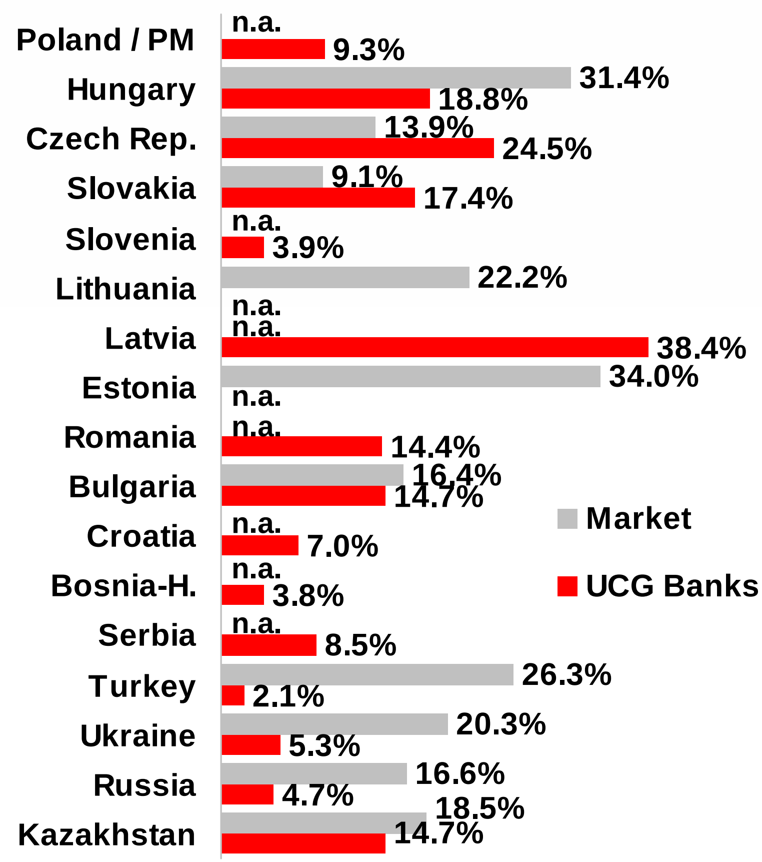
# LESS RISK - CORPORATE

## UniCredit vs Peers: More Corporate and Less Commercial Real Estate

**Corporate loans [1]**
% total loans to clients




**Loans to Real Estate and construction [2]**
% on total corporate lending




[1] Unicredit: Sept 2008; Market: November 2008; [2] Sept 2008

# FX RETAIL LENDING

## Individual CEE FX portfolio: 1.6% of the UniCredit total loan portfolio

### Weight on Group

CEE Individual FX/Group total customer loans


### Weight on CEE Region

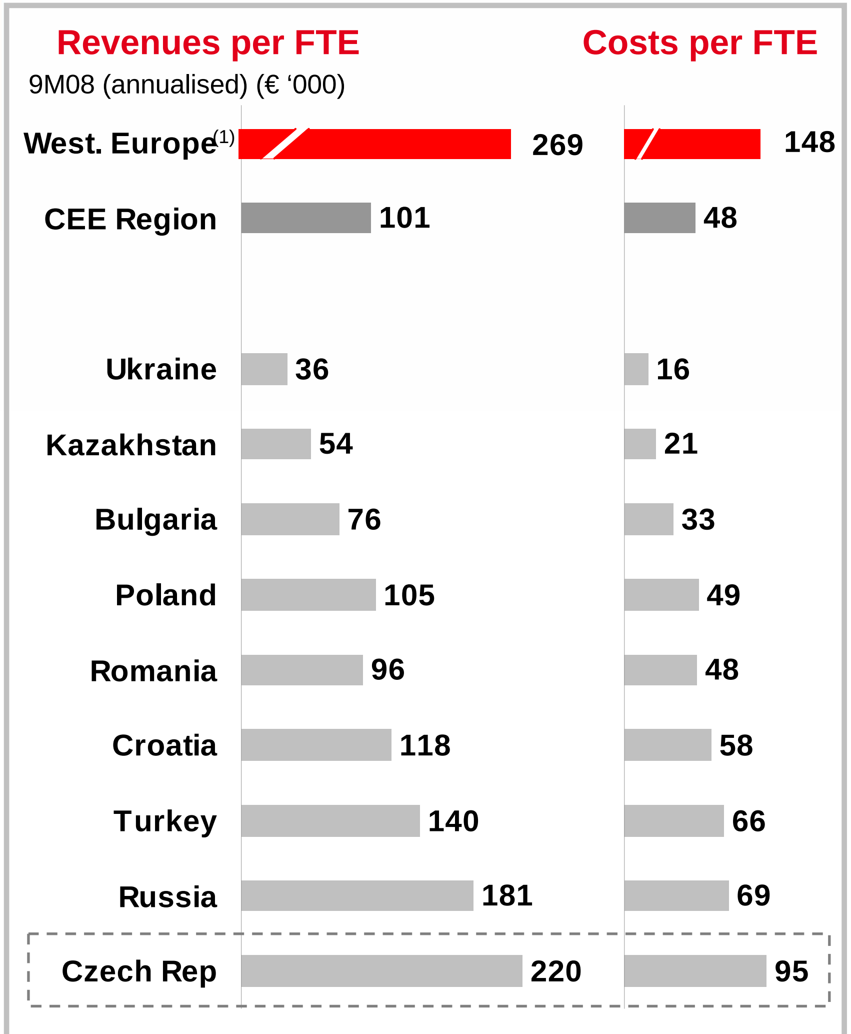
CEE Individual FX/CEE total customer loans


- **FX Retail lending** mainly in EUR in countries with strong EUR-links (currency board in Bulgaria & Bosnia, EUR-savings in Croatia and other SEE countries, transfers from Eurozone, etc.)
- **Russia**, **Ukraine** and **Kazakhstan** with a strong USD-orientation of the economies translates into high USD FX lending to individuals
- **CHF-exposures** only in Croatia, Hungary, Slovenia and Serbia (new business stopped), in Poland CHF-portfolio from former BPH

# COST CONTROL AS A MAJOR FOCUS IN 2009

17 mergers in 2006-2008: ready to exploit benefits

## Efficiency Benchmarking per country




## Cost Control measures for 2009

**HR-Costs:**

- **FTE-Reduction** by appr. 2,000 despite limited branch openings (75)
- Strict **control of salary** development and reduction of variable compensation
- GBS **efficiency program**

**NON-HR-Costs:**

- **IT-Efficiency**
  - Centralisation initiatives
  - Streamlining IT-Expenditures
  - Actions for each country
- **Back-Office**
  - Definition of benchmarks and best practices, measures derived thereon
- **Optimizing Real Estate**
- **Corporate Center Rationalization**
- **Further Initiatives** (travel, consulting, marketing, etc.)

(1) Sum of Group Retail, Corporate (excl. Leasing) and Private banking

# UNICREDIT: ADDRESSING FEARS ON FUNDING AND FX VOLATILITY

## MANAGING FUNDING RISKS

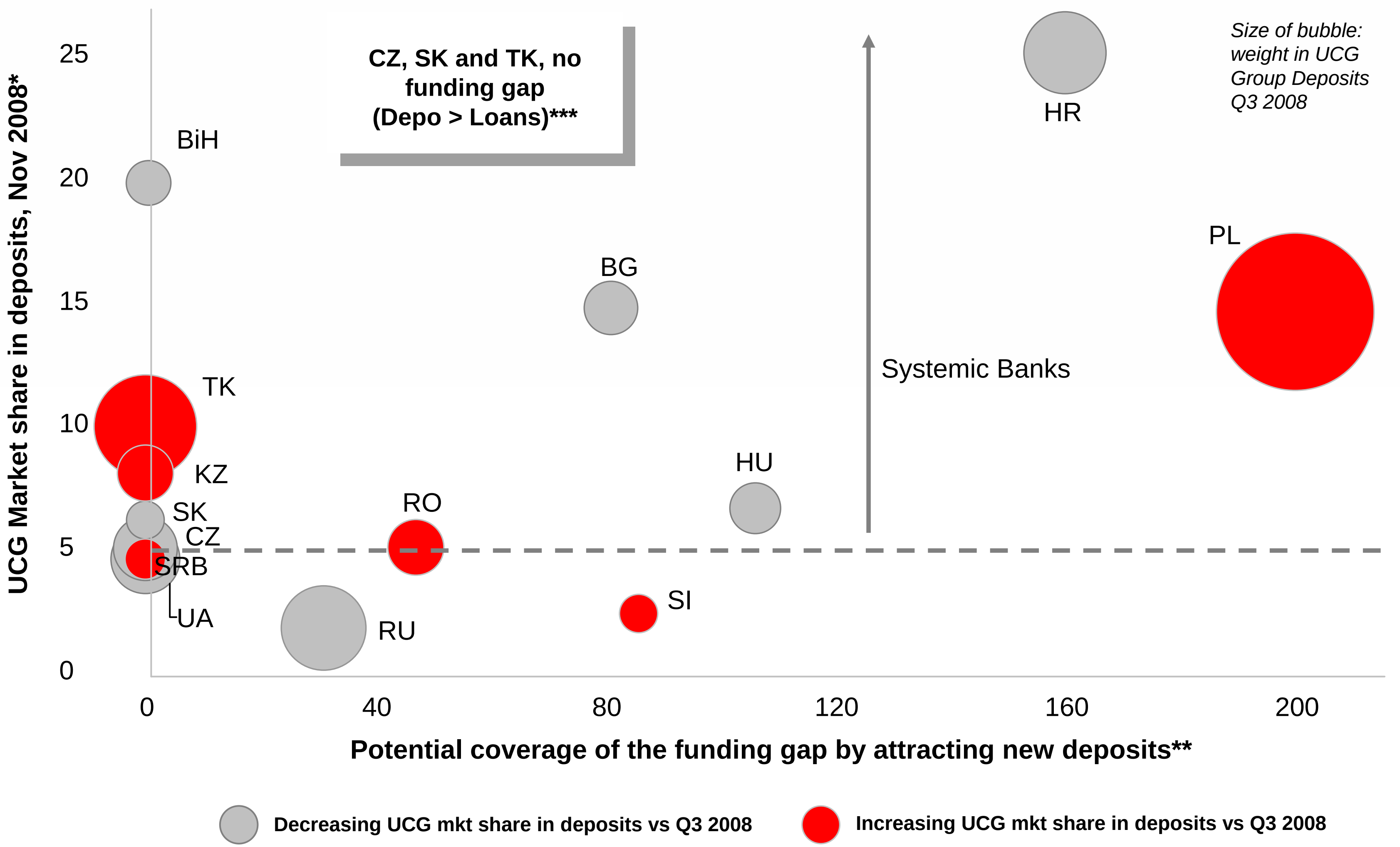
- **Improving loan/deposit ratio**
  - ✓ Key countries already self-funded (e.g. Poland, Croatia, Turkey)
  - ✓ Improvement in other Countries
- Exploiting **guarantee schemes** with Supranational agencies (i.e. MIGA, SACE) and innovative funding programs
- **Selected collateralization** action for new lending

## FX

- **Limited correlation** between FX smoothing impact on capital ratios (see slide 17)
- Yearly **hedging of expected net profit and dividend** (if feasible at reasonable costs)
- **Proactively approaching customers** with potential FX imbalance, to prevent/limit impacts from FX devaluation

# GOOD CAPACITY TO ATTRACT DEPOSITS DURING TURBULENCES

## UniCredit competitive strength where leader confirmed in Oct-Nov




* For PL and BG as of Dec.08, for CZ, HR and TK as of Oct.08

** Potential coverage of the funding gap by attracting new deposits is defined as (Currency+AuM)/(Loans-Deposits) at country level

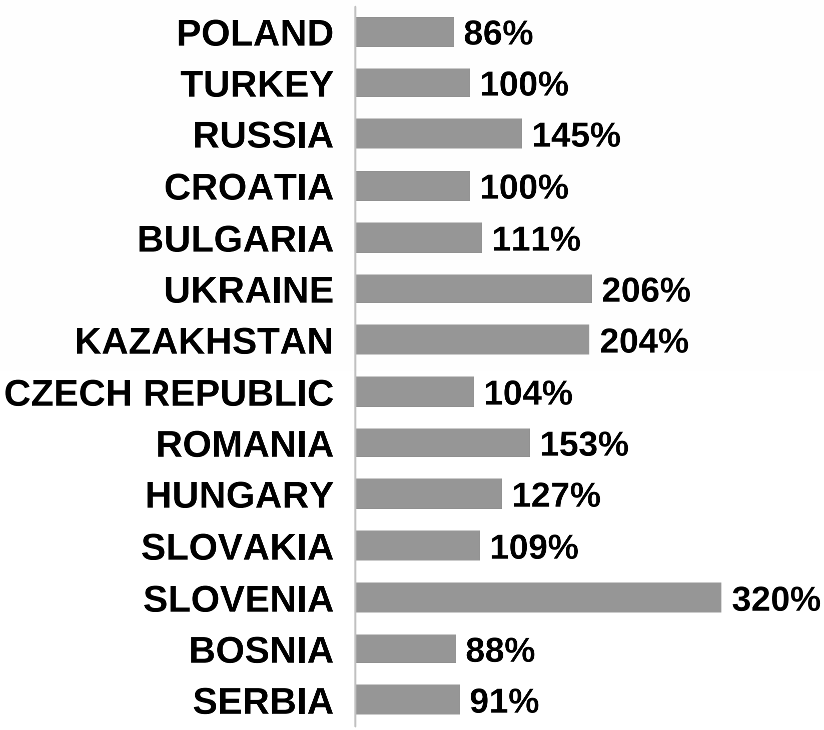
*** In Kazakhstan, Serbia and Bosnia no information available on AuM and currency

Source: UniCredit Group CEE Strategic Analysis

# SATISFACTORY LOAN/DEPOSIT RATIOS

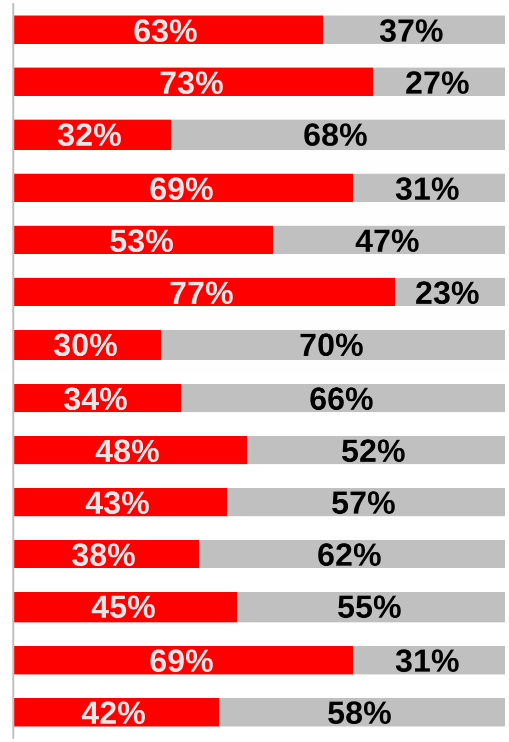
## A good revenue mix of Corporate and Retail

**LOAN/DEPOSIT RATIO** (1)




**REVENUES** (1)

**RETAIL CORPORATE**

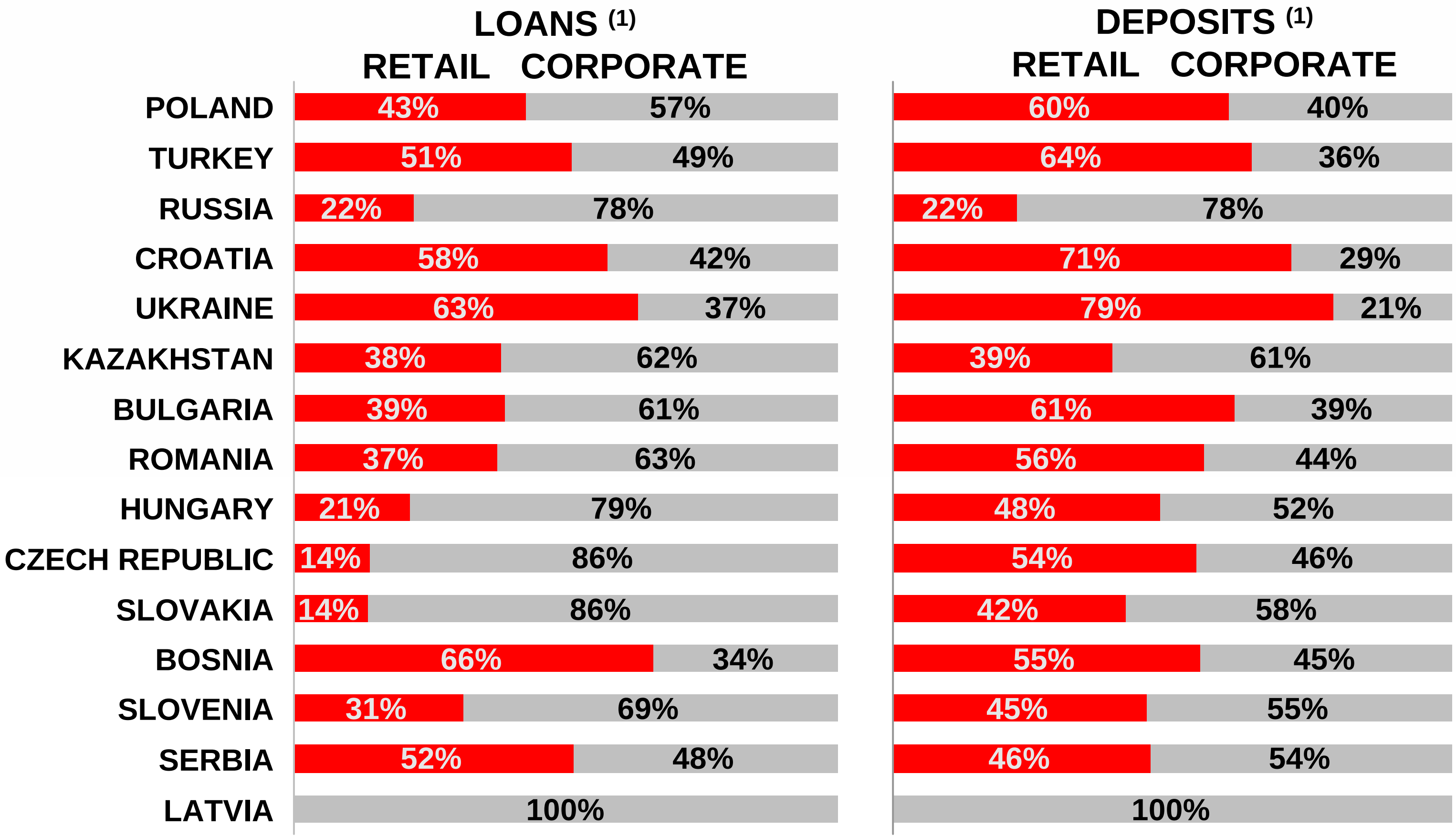



- **Balanced Loan/Deposit-Ratio** in most countries; higher values in countries with strong recent loan growth (Russia, Romania, Ukraine, Kazakhstan)
- Universal bank approach with both retail and corporate as important revenue contributors; **strong retail franchise** in most large banks (Poland, Turkey, Croatia, Bulgaria, Ukraine)

(1) as of September 30, 2008

# GOOD BALANCE OF CORPORATE AND RETAIL DEPOSITS

## Higher share in Corporate loans, but stable deposit base




- **Higher share of corporate loans**, reflecting a still more **limited retail loan market** in many countries resp. stronger position in corporate in some markets (Russia, Czech R., Slovakia)
- **Strong retail focus** in many countries supports a **stable basis of deposits** hence reducing the dependence on external funding

(1) as of September 30, 2008

# UCG'S COUNTRY DIVERSIFICATION MINIMIZING THE IMPACT ON GROUP CORE TIER1 OF FX RATE VOLATILITY

| | First 9M of 2008 | | January 2009 | |
|---|---|---|---|---|
| | Delta FX rate | Delta UCG Core T1 ratio (bp) | Delta FX rate | Delta UCG Core T1 ratio (bp) |
| CEE Region | | 4.9 | | -5.7 |
| Poland | 5.8% | 2.1 | -6.9% | -3.3 |
| Turkey | -5.3% | -0.6 | 1.5% | n.m. |
| Russia | -1.2% | -0.2 | -9.8% | -1.8 |
| Croatia | 3.2% | 0.9 | -0.2% | -0.1 |
| Kazakhstan | 3.0% | 0.3 | 7.6% | 0.6 |
| Ukraine | 6.4% | 0.3 | 7.5% | 0.8 |
| Romania | -3.6% | -0.3 | -6.6% | n.m. |
| Hungary | 4.5% | 0.3 | -10.8% | -0.8 |
| Czech Rep. | 8.0% | 1.2 | -3.6% | -0.4 |
| Slovakia | 10.8% | 0.7 | n.m. | n.m. |
| Serbia | 3.4% | 0.1 | -5.8% | -0.2 |
| Latvia | -1.7% | n.m. | 1.3% | n.m. |

- **Impact on group Core Tier 1 of volatility of CEE FX looks** a positive contribution in the first 9 months (+4.9bp) and a negative impact of devaluation in Russia and Poland in the first month of 2009
- **Low correlation of FX rate in CEE area is confirmed also in high stressed environment**
- **A sensitivity scenario shows a maximum loss** of 17bp **in Group CT1 if all currencies drop by 10%**

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