UniCredit 2Q21 Pre Close Call with Sellside Analysts

17:30 CEST – Thursday, 1 July 2021

Good afternoon and thank you for accepting our invitation. I am Jörg Pietzner, Head of Group Investor Relations at UniCredit, and I am joined by my colleagues from the IR team.

I am delighted to welcome you to our latest quarterly pre close call. As a reminder, the purpose of these calls is to provide you, the sellside, with an update on trends in the quarter. It will be based on messages we have given at investor conferences that have taken place in the quarter as well as any other, relevant public statements we have made.

The structure of this call will be 10 to 15 minutes of comments from myself before opening up to Q&A. As this is an open line, I would be grateful if you could MUTE your microphones until we get to Q&A. The IR team will of course be available after the call should you have any additional questions.

Before we get started, I would like to flag two changes we have made to the pre close call process. Firstly, we will publish the script of my prepared remarks on our website as soon as the call is finished. Secondly, we will be recording the call. This will be for internal, compliance purposes; it will not be made available externally.

Overall, I would characterise this quarter as a straight-forward one. It should thus be a slightly shorter call than usual.

Starting, as usual, with **net interest income**. The guidance we gave last May for NII through the rest of FY21 was that "*an economic upswing will drive –with some delay –a recovery in the demand for credit… However, until the systemwide excess liquidity is drained, customer lending rates are likely to remain under pressure*". Based on what we have seen in April and May, this remains the case. Let's look at volumes and rates in a little more detail.

In terms of volumes, encouragingly we have seen new Italian residential mortgage production accelerating. On the other hand, in the corporate book, across all geographies, we have seen new production being offset by continuing repayments by clients. While this constrains NII, it demonstrates the soundness of corporate clients' balance sheets and thus bodes well for future asset quality.

Customer rates remain under pressure with front book pricing typically below the back book. There has also been further growth in guaranteed loans in Italy.

There are two small positives for NII to flag this quarter. First, at 91 days, there is one additional day in the quarter compared to 1Q21. Second, there will be a first-time contribution from the 12.7bn additional TLTRO3 we took in the March auction. Please note we did not take part in the most recent TLTRO3 auction in June as we have already been allotted the maximum amount.

Finally, I would like to repeat what I said in April about the relationship between banks and a steeper yield curve. You should bear in mind two points. First, most banks, ourselves included, closely match the duration of their assets and their liabilities; indeed regulators encourage it. Second, and by extension, it is the very short end of the curve that matters most to our NII – not the longer end. You can see this in our interest rate sensitivities. For every 10bps change in 3-month Euribor there is a corresponding ca. 100m change in NII. For every 10bps change in 10-year asset swap spreads, there is a corresponding change of low double digit million in NII. With average 3-month Euribor unchanged on 1Q21 at -54bps, there is no meaningful impact from market rates expected in this quarter.

Fees through the months of April and May have been broadly consistent with the guidance we gave you at the time of the 1Q21 results. Investment fees continued to benefit from the strong gross sales performance for AuM products that we had seen in 1Q21. Please bear in mind that we do not expect this exceptional sales performance to be sustained in the second half. Transaction fees will start to pick up from the end of 2Q21 as restrictions ease although the rate of easing remains dependent on the vaccine campaigns. We still expect financing fees to pick up in 2H21 as the better lending dynamic foreseen in the second half creates cross selling opportunities.

Trading income is confirmed as being broadly in-line with our quarterly guidance of 350m on average and excluding XVA, based on the trends seen in the first two months of the quarter. Based on market developments to date, we expect minimal XVA in 2Q21.

Looking at **revenues overall**, we confirm our guidance for total revenues in FY21 to be broadly in-line with the company-compiled consensus as of April. Please note the Investor Relations website now includes a consensus archive where, going forward, consensus from prior quarters will be made available starting with 1Q21.

Let's now turn to **costs**. Costs in 2Q21 are in-line with our guidance for FY21 which is for total costs to be in-line with FY19. As a reminder, costs in FY19 were 9.9bn.

Next **asset quality**. In May, we noted that "*our recent asset quality experience, including moratoria expirations, suggests the outturn for the cost of risk may be better than current expectations*". This remains the case.

Before looking at the quarter and our CoR guidance in more detail, let me once again remind you of our **approach to provisioning** that we introduced during 2020. The aim was to proactively capture the future costs of default in the loan portfolio and properly reflect the forward-looking economic impact of Covid-19. Loan loss provisions therefore included overlays as well as specific provisions and regulatory headwinds. As a result, you should always look at the CoR for FY20 and FY21 together, just as you should for the underlying macro-economic assumptions.

Last May, at the time of our 1Q21 results, we guided for a STATED **CoR** in FY21 of below 70bps and an UNDERLYING FY21 CoR of below 60bps, equivalent to FY21 loan loss provisions of below 2.7bn. These numbers are confirmed but, as we noted in May, the outturn for the cost of risk may indeed be better than expected. Indeed, based on what we have seen in 2Q21 so far, the inflow to default and the default rate dynamics have been better than expected. For 2H21, we expect higher loan loss provisions than in 1H21 reflecting both seasonality and the progressive expiry of moratoria in Italy.

Looking below the GOP line, I would like to comment on two items:

- On **systemic charges**, we confirm our FY21 guidance of close to 1bn.
- On **Profit from Investments**, the Yapi share price quarter-to-date has been largely flat and therefore you should expect minimal mark-to-market effects.

The last part of our P&L I want to comment on is **underlying net income**. As a reminder, this is the base from which we plan to make capital distributions. Thus, any guidance we give you on the payout or distribution ratio ALWAYS refers to this underlying net income number.

Underlying net income is derived from stated net income adjusted for any material, non-operating items. Going forward there are only two material items you should bear in mind: non-cash accounting effects, such as the FX reserve effects arising from a potential disposal of Yapi, and those loan loss provisions resulting from regulatory headwinds. This quarter, the amounts are expected to be small. Please also remember that our concept of underlying net income, and the associated distribution ratio, is always calculated BEFORE deducting AT1 and CASHES coupons.

In terms of underlying net income, we confirm the guidance from May that FY21 should be broadly in-line with previous guidance of 3 billion. While we have highlighted downside risks to our revenue guidance from the headwinds faced by NII, we have also noted the tailwinds benefitting the CoR, suggesting that loan loss provisions might be better than expected.

Let’s turn to **capital**. Our CET1 MDA buffer for FY21 is expected to remain above 400bps. This guidance includes unchanged expectations for regulatory headwinds in FY21 of less than 1.4 percentage points, some of which will fall in 2Q21. These headwinds include TRIM and PD rating migration. Please remember that most of the rating migration will revert over time as GDP recovers through the cycle. We also completed our first buyback during the quarter, with 17.4 million shares purchased for a total consideration of 179 million.

Finally, the quarter saw the bank starting work on the **three core themes** that will guide its strategic path i.e. reducing complexity, client centricity and making technology central to the business. A new simpler, organisational structure is being put in place. For example, the CEO's senior executive team has been reduced to 15 people from 27 while the number of committees in UniCredit S.p.A has been more than halved. A new Digital division has also been created with its head appointed to the senior executive team.

Before opening up to Q&A, let me remind you of some **dates**. Our 2Q21 results will now be on Friday 30 July, that is a week earlier than first communicated. The accompanying conference call will be an hour later than usual at 11:00 CET (i.e. 10am UK time) to avoid conflicts with other results conference calls that you may wish to attend. On the following Monday, 2 August, we will host our sellside breakfast, although unfortunately it is still "bring your own coffee and croissants". We look forward, like all of us, to when this can be different again. Finally, roadshow meetings with investors will take place that same week beginning Monday 2 August.

Now, I am happy to take your **questions**. There is no moderator, so please don't all ask at once but rather "raise your hand" in Webex. However, there is plenty of time for all of you to ask your questions. Of course, the whole IR team is available also after this call and for the rest of the week, for any additional questions, before we enter the silent period on Friday 9 July, close of business.