UniCredit 3Q21 Pre Close Call with Sell-Side Analysts

17:30 CEST – Monday, 4 October 2021

The following script includes "forward-looking statements" which rely on a number of assumptions, expectations, projections and provisional data concerning future events and are subject to a number of uncertainties and other factors, many of which are outside the control of UniCredit S.p.A. and are therefore inherently uncertain. There are a variety of factors that may cause actual results and performance to be materially different from the explicit or implicit contents or expectations of any forward-looking statements and thus, such forward-looking statements are not a reliable indicator of future performance. Actual results may differ materially from those projected in any forward-looking statement.
Furthermore, the information, statements and opinions contained in this today's comments are for information purposes only and do not constitute a public offer under any applicable legislation or an offer to sell or solicitation of an offer to purchase or subscribe for securities or financial instruments or any advice or recommendation with respect to such securities or other financial instruments. Any recipient is therefore responsible for his own independent investigations and assessments regarding the risks, benefits, adequacy, and suitability of any operation carried out after the date of this script.

Good evening, welcome to our 3Q21 pre close call, 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 Investor Relations team.

As in prior occasions, I'd like to remind you that the purpose of these calls is to provide you, the sell-side, with an update on trends in the quarter. It will be based on the 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.

I will be commenting for 10 to 15 minutes, 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.

Once again, a kind reminder that, after the end of the call, we will publish the script of my prepared remarks on our website. For internal compliance purposes, we will be recording the call, though it will not be made available externally.

One final but important point before getting into the specific comments for the quarter. In our press release dated 12 May 21, we announced a new organisational structure to drive the business effectively, simplify the organisation enabling greater accountability across all businesses and areas, and deliver the upcoming new strategic plan. In particular, these changes put greater emphasis on our business geographies. In line with these organisational changes, we have now changed our primary segment **reporting**, and we will report 3Q21 within this new framework. This will only affect the segment reporting and will have no impact at the Group level.

As a reminder, we used to have five business divisions with a mixed geographic and product view, namely Commercial Banking Italy, Germany and Austria as well as CEE and CIB. These were complemented with the two non-business divisions Group Corporate Centre and Non Core.

With the new approach, we have moved to a fully geographic view, i.e. the four new business divisions will be Italy, Germany, Central Europe and Eastern Europe. Group Corporate Centre and Non Core will remain, the latter only until its full runoff scheduled for 4Q21.

From the perspective of the reconciliation from old to new segment reporting, these changes mainly impact the CIB division and some parts of the Group Corporate Centre, both of which are now re-allocated to the respective geographies in Western Europe. Austria will now be included in Central Europe, whereas Russia is included in Eastern Europe.

Moving on to the ordinary comments on the quarter, let me start as usual with **net interest income**. First, I would remind you that at 92 days, 3Q21 has one more day compared to 2Q21, and two more days compared to 1Q21.

The outlook we gave last July for NII through the rest of FY21 was that "*Net interest income is showing signs of stabilisation…some headwinds can still affect NII until a sustained economic recovery takes hold.*" Based on the July and August trends, that remains the case.

As far as lending volumes are concerned, we've seen a continued positive origination dynamic on individuals, especially in Italy and Central and Eastern Europe. In Italy, our front-book market share in residential mortgages and consumer lending have normalised towards our natural market share. On the corporate loan book, however, in general but especially in Western Europe, dynamics remain impacted by client repayments and prepayments, which are offsetting a better underlying new production. Whilst this demonstrates the healthiness of corporate clients' balance sheets and is encouraging for future cost of risk, it remains a drag on net interest income growth. As we said in the past, we expect the economic upswing to progressively reduce the systemwide excess liquidity and drive better credit demand, albeit with a delay.

On the customer loan rates side, front book pricing continues to typically be below the back book on a like for like basis, especially in Italy. With average 3-month Euribor broadly unchanged on 2Q21 at -54 basis points, there is no meaningful impact from market rates expected in this quarter.

On **fees**, the summer trends have overall remained positive. Last July we said regarding investment fees that, for the remainder of FY21, we expected a normalisation of the exceptional 1H21 gross sales of investment and insurance products. Whilst that has started and remains our expectation, gross sales are continuing to perform well. The positive market trends support our AuM volumes and thus our management fee generation capacity.

On transactional and financing fees, in line with our previous messages, we expect a continued recovery and a positive development throughout 2H21 as restrictions ease, with the dynamic on financing fees more connected to that of lending volumes on both retail and corporates.

Our general quarterly guidance on **trading income** is 350m on average and excluding XVA. Based on the dynamics of the first two months of the quarter, we expect to be broadly consistent with our guidance, and we expect a negligible XVA in 3Q21.

As far as our **overall revenues** are concerned, our existing guidance for FY21 is unchanged at around 17.1 billion. Let me remind you that when we said around 17.1 billion, we meant give or take a few hundred million.

Moving on to **costs**. I will be brief and straight-forward on this line. Whilst I remind you of the typical year-end seasonality, our performance is so far consistent with our FY21 guidance of flat costs relative to FY19, at 9.9 billion.

Next is **asset quality**. As you remember, last July we improved our FY21 guidance, with our underlying cost of risk expected below 40 basis points, equivalent to loan loss provisions of less than 1.8 billion. Stated cost of risk guidance was below 50 basis points. Since then, our asset quality has improved further, also reflecting the better GDP experience across most of our geographies.

Moving below the NOP line, a few comments:

- On **systemic charges**, we confirm our FY21 guidance of close to 1bn.

- On **Profit from Investments**, I would remind you of our stake in Yapi, and that the quarter-to-date share price performance in local terms was up by high single digit percentage points.

Underlying net profit. A usual reminder that this is the base from which we plan to make capital distributions, hence any guidance we give you on the payout or distribution ratio refers to this underlying net profit number.

Our existing FY21 guidance for underlying net profit was improved last quarter to above 3 billion, which we can confirm with high confidence, given our aforementioned messages on the key P&L lines, especially cost of risk.

Turning to **capital**. Our CET1 MDA buffer for FY21 is expected to remain above 400 basis points. This guidance includes unchanged expectations for regulatory headwinds in 2H21 of less than 80 basis points. 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.

Our capital guidance also embeds our previously communicated **extraordinary capital distribution** of 652 million in 2H21 via our second share buyback this year. It has already been approved by our AGM in Apr 21.

Before opening up to Q&A, a kind reminder on the upcoming **dates**. Our 3Q21 results will now be on Thursday, 28 October 21.

The accompanying conference call will return to the usual at 10am CET (i.e. 9am UK time). On the following Friday, 29 October, we will host our customary sell-side breakfast, alas still in a virtual format. Roadshow meetings with investors will take place that same day and continue in the following week.

We can now open up to **questions**. As per last time, please keep in mind that there is no moderator, and that Webex has a neat “raise your hand” function. We have plenty of time to let everyone ask questions, and as ever the IR team will be available also after this call and in the coming days to answer any additional questions, before we enter the silent period on Friday 8 October, close of business.