

One Bank
One
 UniCredit

Goldman Sachs European Financials Conference

Jean Pierre Mustier, CEO of UniCredit Group

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Welcome to
 **UniCredit**

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1 The Italian NPE environment

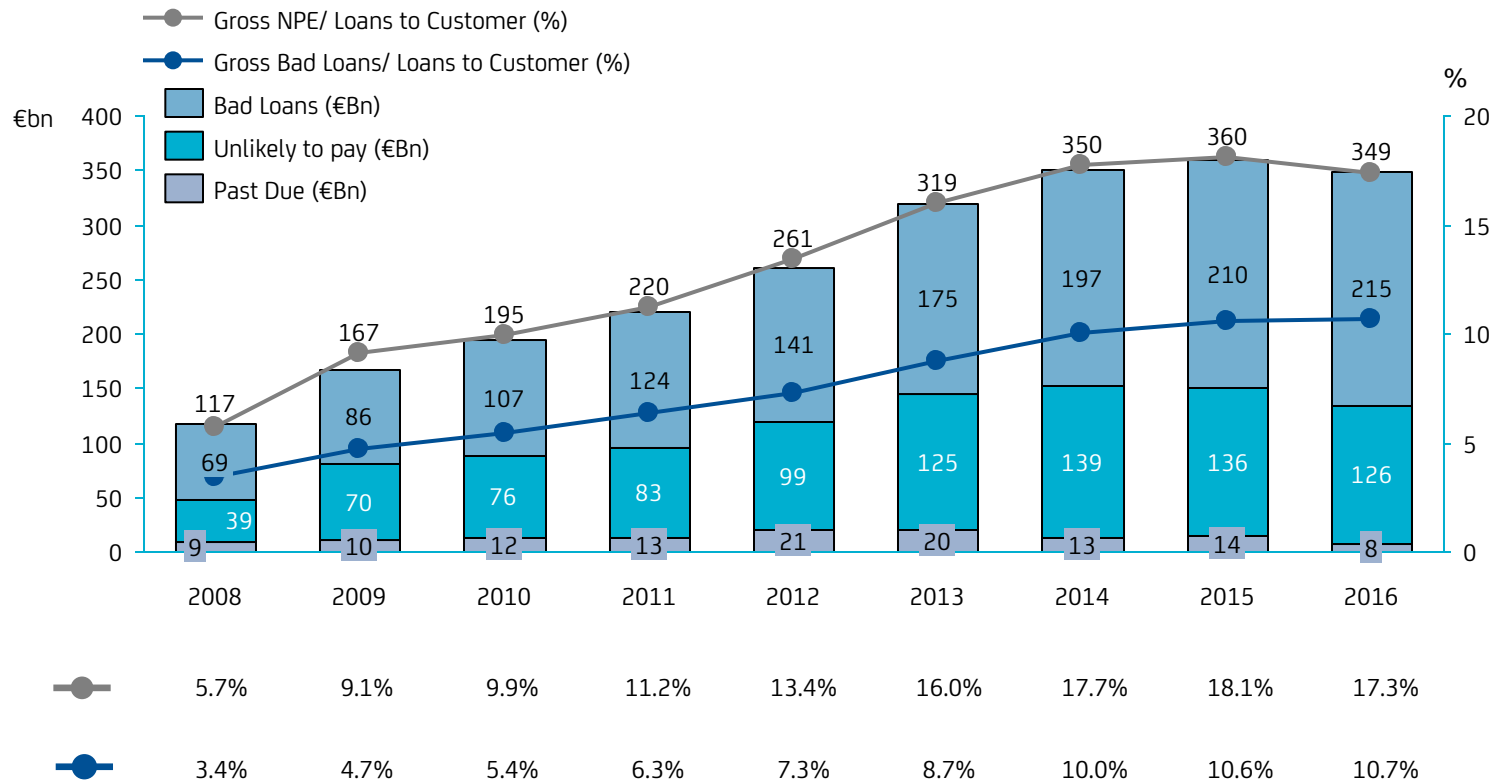
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Italian NPE stock showing first signals of decrease after 2015 peak

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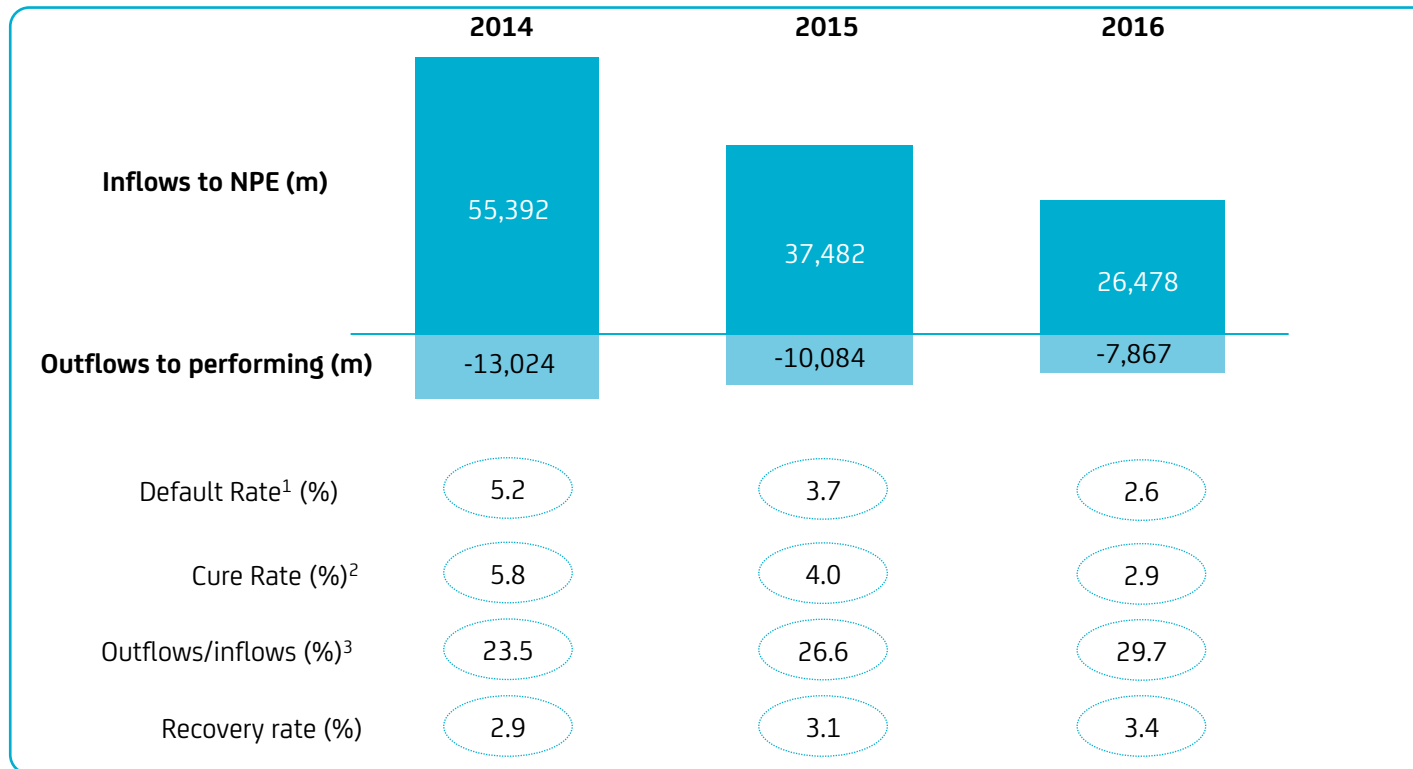
The Italian NPE environment



NPE dynamics show net improvement over the last three years in terms of average default rate and recovery rate

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The Italian NPE environment

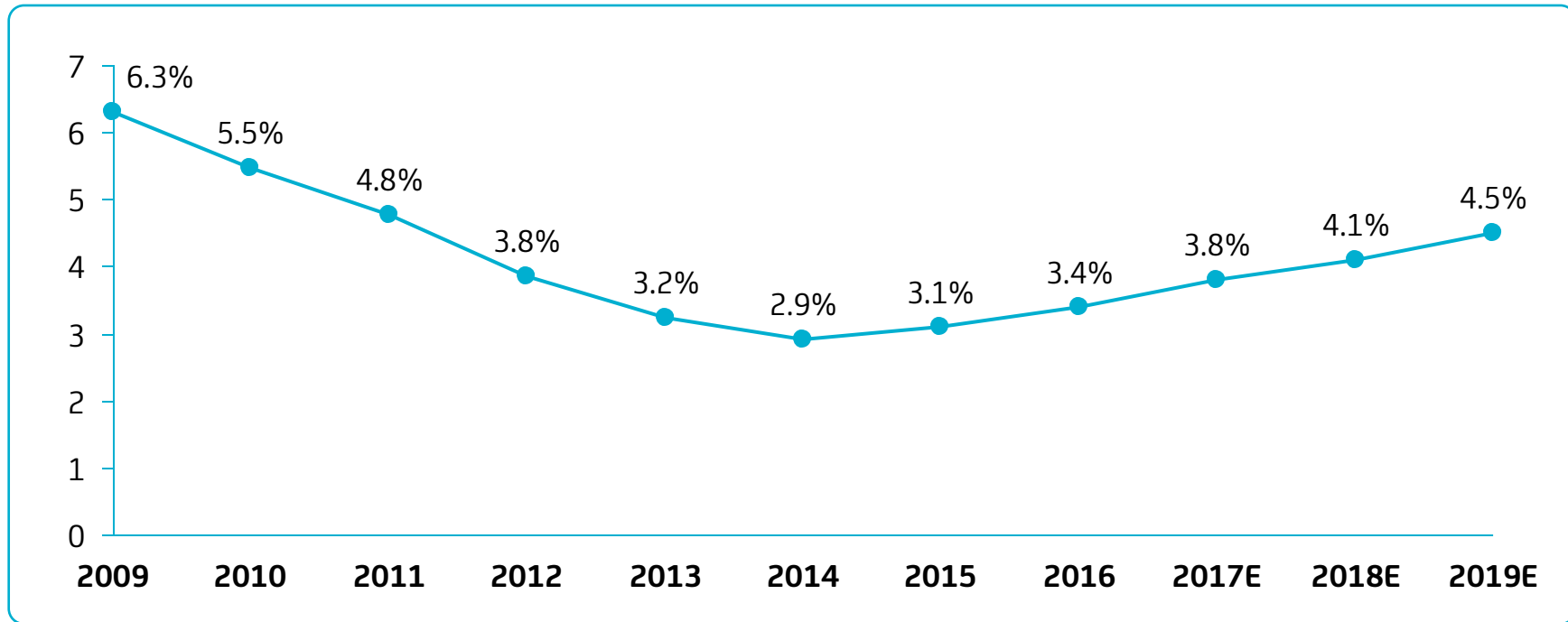


Note: 1. Default rate calculated on outstanding stock and inflows to NPE: ratio of inflows to NPE in year t vs outstanding performing stock at the end of year t-1; 2. Cure rate calculated as ratio of outflows to performing vs NPE stock at t-1; 3. calculated as ratio of outflows to performing vs inflows to NPE;

5 Source: Bain, banks included in the sample: UCI, ISP, UBI, MPS, Banco Popolare, BPM, BPER, Gruppo Cariparma, BNL, Credem, Pop Vicenza, Veneto Banca, Carige, Creval, Sondrio



Recovery rate hit bottom in 2014 and is expected to further improve in coming three years



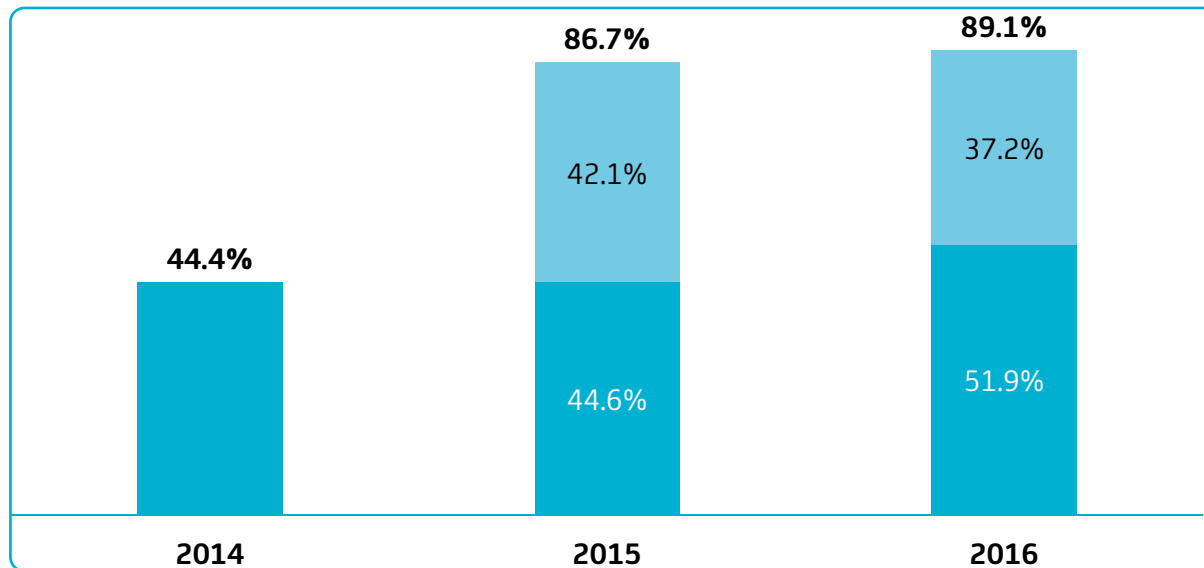
Source: Bain, average of top 15 Italian banks, i.e., ISP, UCG, UBI, MPS, Banco Popolare, BNL, BPER, Popolare Vicenza, Veneto Banca, Carige, BPM, Cariparma CA, Creval, Popolare Sondrio, Credem

Positive coverage trend in Italy

1 2 3 4 5

The Italian NPE environment

Collateral coverage⁽¹⁾
LLP coverage



Bad loans coverage (%)

58.7

58.2

63.4

UTP coverage (%)

27.0

26.7

33.5

Past due coverage (%)

13.9

22.1

24.5

Note : 1. Value of the guarantee, both real and personal, calculated as the minimum between fair value of the guarantee (after haircut) on each single exposure and net book value (EBA methodology) / Gross NPE loans

Sources: Banca d'Italia - "Financial Stability report" December 2014 for 2014 data and internal analysis of top 10 Italian Banks

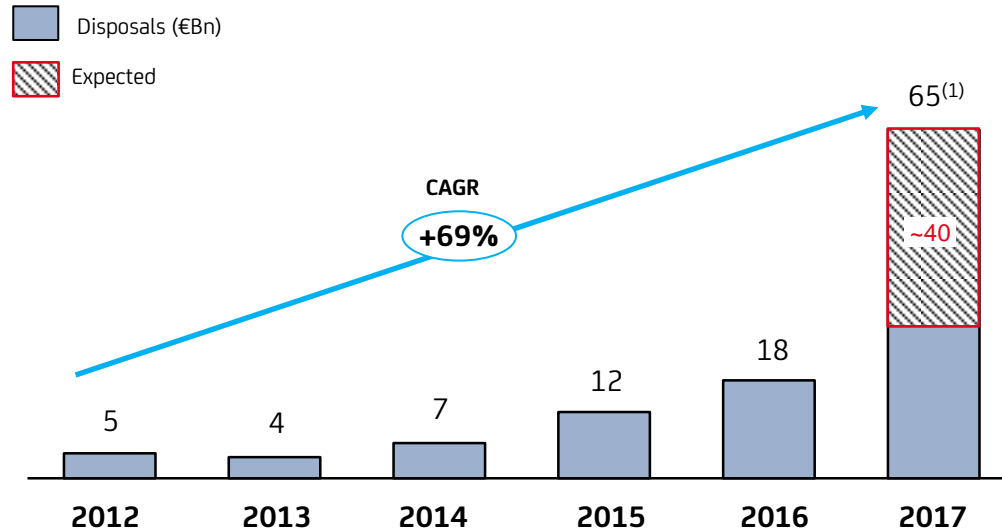


The Italian NPE market: increasing levels of disposals

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The Italian NPE environment

NPE Disposals 2012/17



Key Players in the Italian NPE sector - Equity investors, financing providers and servicing providers

Equity Investors	Investors with servicing platforms / banks in Italy		Investors that participated to NPL projects in Italy and Europe		
	Apollo	Arrow	Algebris	Anacap	Ares Management
	Bain	Banca Ifis	Bayview	Blackstone	CarVal
	Centerbridge	Elliot	Cerberus	CRC	Deutsche Bank
	Fonspa	Fortress	Goldman Sachs	King Street	KKR
	Lonestar	Oaktree	Kruk Group	Macquarie	Marathon
Financing Providers	BAML	Citi	Och-Ziff	PIMCO	TPG
Servicers	J.P. Morgan	Morgan Stanley	Credit Suisse	Deutsche Bank	Goldman Sachs
	CAF	Cerved	Nomura	RBS	
	Guber	Italfondario	FBS	Finanziaria Internazionale	Fire
			NPL SpA	Prelios	Zenith Service
Other players with smaller AuM capacity have not been listed					



① The Italian NPE environment

② UniCredit NPE strategy - Transform 2019

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⑤ Conclusions

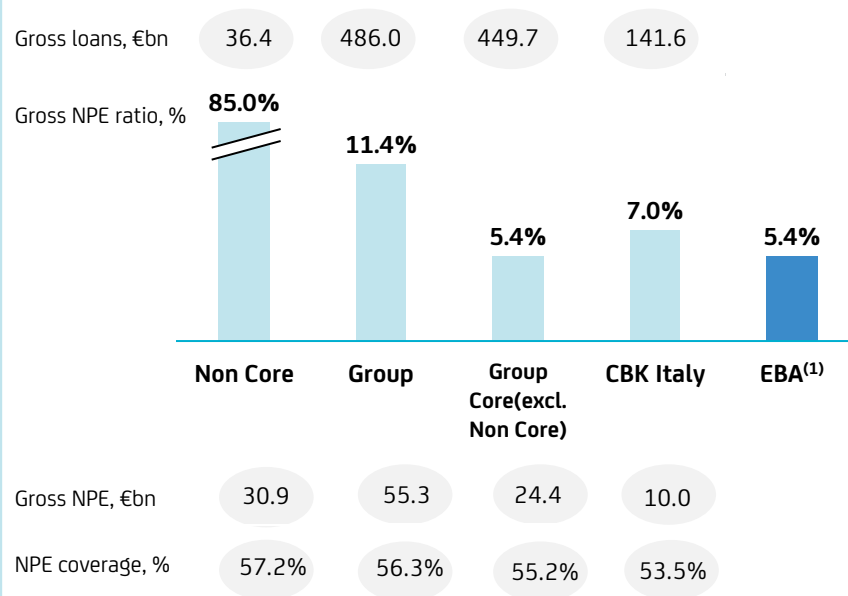


De-risking of the balance sheet key to reduce the cost of capital of the Group

Comments

- At end September 2016, Group NPE Ratio of 15.1%, while the lowest of Italian banks, was well above EBA average of 5.4%
- NPE Portfolios provisioned to sell thanks to Transform 2019 additional 8.1 billion provisions
- FINO, 17.7 bn disposal validated provisioning levels and de-risked the balance sheet by lowering NPE ratio
- A lower risk profile should lead to a lower cost of capital

Group, 1Q17



1. Data as of June 2016

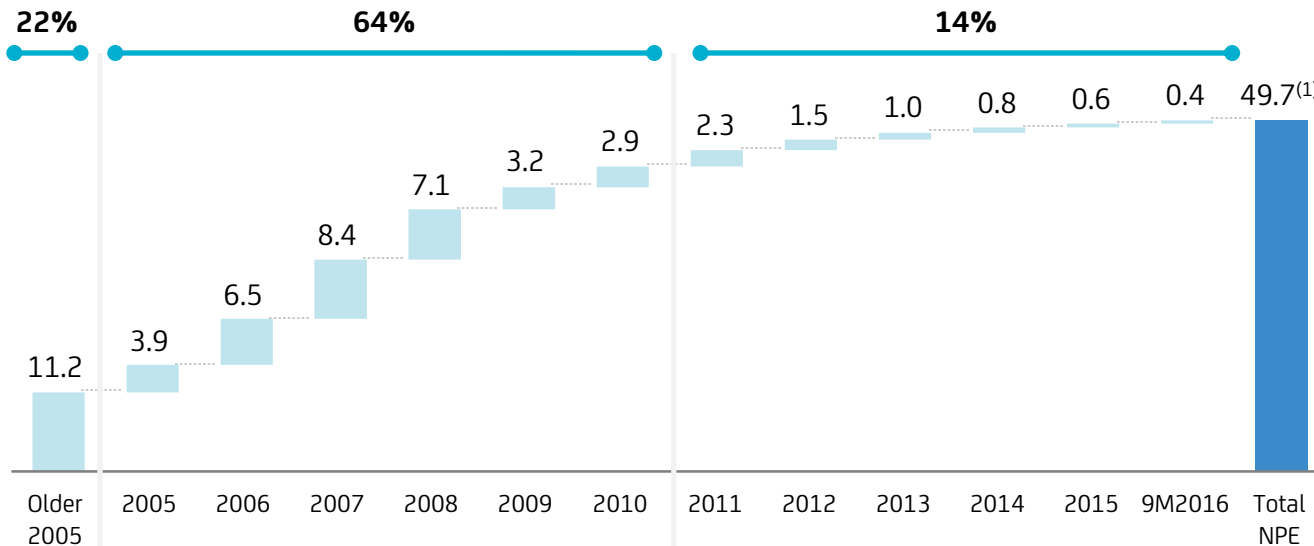
2. Note: FINO, as communicated during the Capital Markets Day, originally amounted to 17.7bn gross loans, which decreased to 17bn as at 31.12.16 thanks to work out activity



UniCredit legacy mainly originated from 2005 to 2010 in Italy and addressed with the setup of the Non Core division

Italy Non Core NPE stock by origination year

Gross NPE stock at 9M2016, €bn



(1) 48.5bn as of Dec. 2016

Note: all 2015 and 9M2016 figures pro-forma assuming new Group perimeter

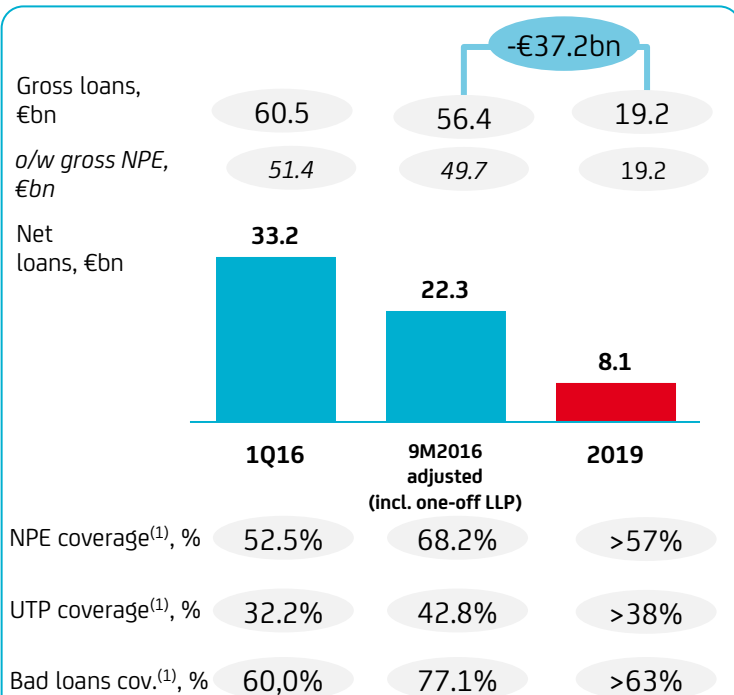


Non Core rundown to reach 8.1bn net exposure by 2019, reducing gross loans by over 37bn

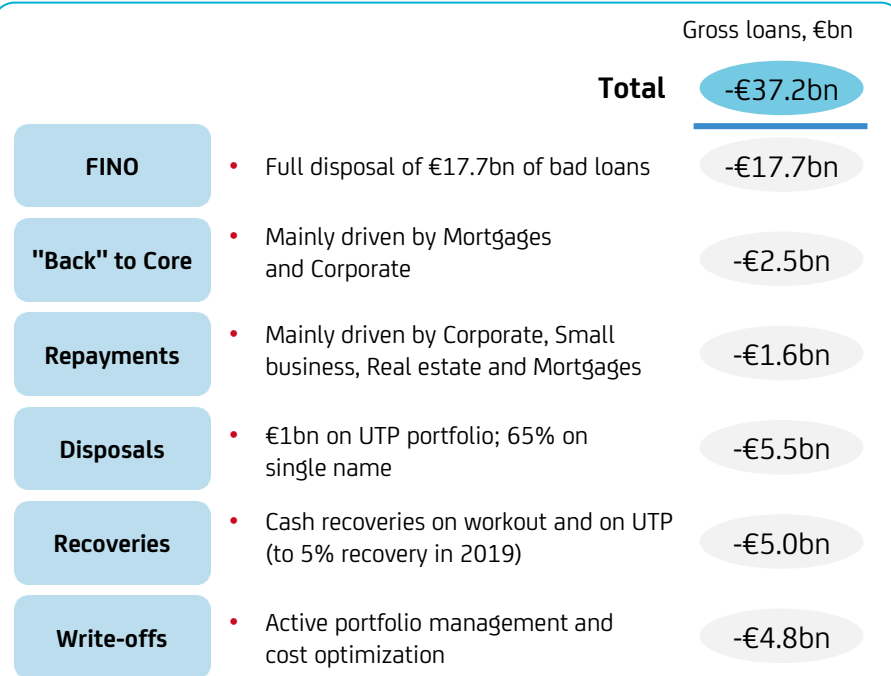
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UniCredit NPE strategy Transform 2019

Non Core evolution



Actions of Non Core run down



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NPE Operational Plan finalised to ensure reduction of NPE stock

Key objectives

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UniCredit NPE operational plan

NPE Stock

- Reduce NPE stock at Group level by 30 bn in 2019 within Transform 2019

Recovery Performance

- Accelerate reduction of NPE stock and improve recovery performance

Recovery framework

- Implement recovery framework and approach

PD/UTP Migration

- Proactively manage PD/UTP in order to reduce migration to bad loans

Reposessed assets

- Optimize management and value of reposessed assets



Key Pillars of NPE Operational Plan

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UniCredit NPE operational plan

Governance

- Guidance and monitoring at Group level
- Organizational framework to be applied in each Legal Entity
- Effective end-to-end process ensuring continuous interaction between Group Risk Management (Holding) and NPE Operational units (Legal entities) for target setting, cascading, monitoring & reporting

Portfolio Management and KPIs

- Portfolio analysis and segmentation (Debtor, Product, Insolvency Status, etc.)
- Portfolio management approach and key workout strategies (sale, insource, outsource)
- Monitoring performance (coverage ratios, recovery rates, % of portfolio being worked-out)

Operational framework

- Identification of key workout strategies per cluster (rescheduling, restructuring, legal action, settlement, etc.) and workloads
- Strategic approach to external servicers' management

Key Enablers

- IT management platform to support workout and monitoring evolution of portfolios, collections, expenses, collateral and recovery performance
- Data model/feeding in line with ECB guidance and portfolio management needs



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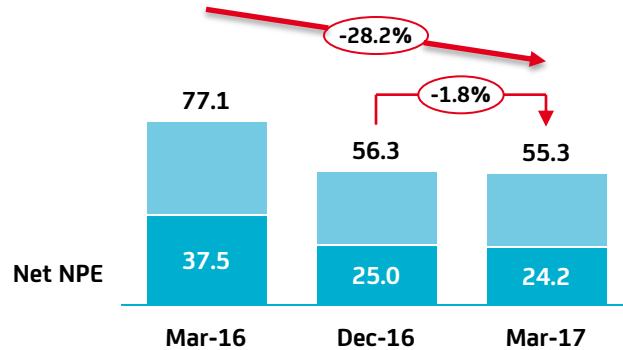


Group – Lower NPE, improved NPE ratios and strengthened coverage ratios

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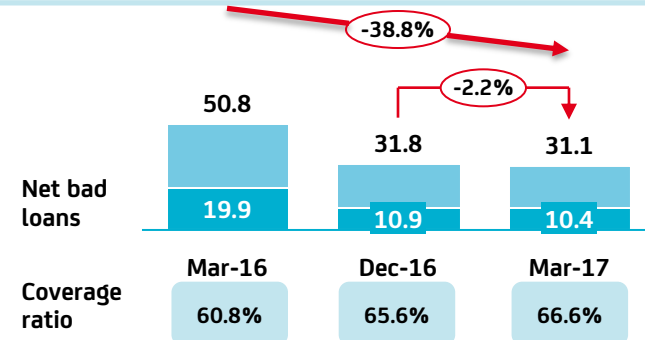
Achievements

Non performing exposures⁽¹⁾, bn



Gross NPE ratio	15.5%	11.8%	11.4%
Net NPE ratio	8.2%	5.6%	5.3%
Coverage ratio	51.4%	55.6%	56.3%

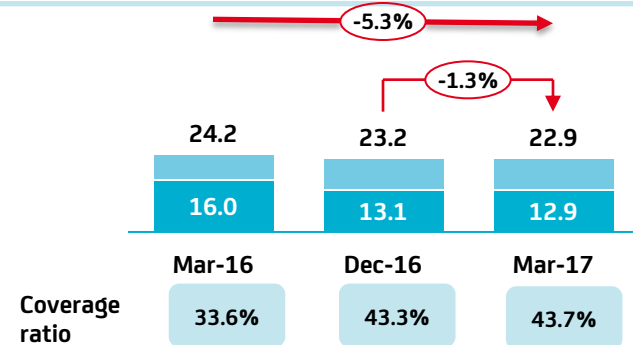
o.w. Gross bad loans, bn



Coverage ratio

Mar-16	Dec-16	Mar-17
60.8%	65.6%	66.6%

o.w. Gross unlikely to pay, bn



Coverage ratio

Mar-16	Dec-16	Mar-17
33.6%	43.3%	43.7%



UniCredit took a decisive step with FINO to accelerate the Non Core run down

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Achievements

FINO Transaction

MAIN FEATURES

- **Two phases approach:**
 - Phase 1: "**Segregation and Market Validation**"
 - Phase 2: "**Optimization and Active Portfolio Management**"
- **Two signed framework agreements** with PIMCO and Fortress underwriting a vertical tranche (50.1%)
- **Settlement date in early July, 2017.** In Phase 2, we are exploring optimization of exit values to include securitisation and the possible use of GACs
- During the **interim period** contracts including new servicing agreements have been refined. **UniCredit is jointly managing** with investors the **portfolio on a going-concern basis**



Non Core – De-risking on track

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Achievements

Actions of Non Core run down

FINO

Disposal of majority stake on track

Repayments

0.1bn in 1Q17

Disposals

0.1bn in 1Q17, additional 0.5bn disposals signed in 2Q17

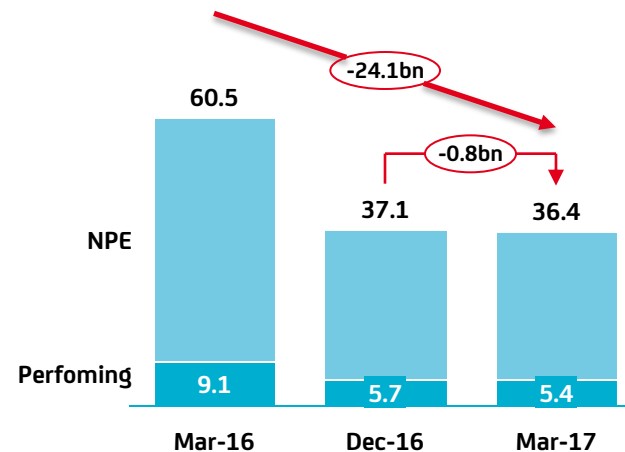
Recoveries

0.3bn in 1Q17 with cash recovery rate continuing to improve in SpA

Write-offs

0.2bn in 1Q17

Gross loans, bn



NPE cov.

52.5%

56.4%

57.2%

UTP COV.

32.2%

44.7%

45.7%

Bad loans cov.

60.0%

64.0%

64.6%



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Ongoing decisive actions to improve Group asset quality and de-risk balance sheet in order to reduce Group Cost of Capital

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Conclusions

Active Balance Sheet De-Risking

- Gross NPE reduced by 28.2% Y/Y 55.3 bn in 1Q17 and NPE ratio improved from 15.5% to 11.4% in 1Q17
- Higher coverage ratio at 56.3% from 51.4%

Further Tightened Risk Discipline

- First 12-months default rate going down meaningfully by various asset classes since 2013
- Improved expect loss from 0.43% to 0.39% in 1Q 2017

Non Core Run Down

- Decisive actions to address Italian legacy issues through the de-risking of a 17 bn portfolio (FINO)
- Non Core gross loans reduced by over 24 bn Y/Y at 36.4bn in 1Q 2017

Italian NPE Market Evolution

- The Italian NPE market shows positive developments in terms of reducing NPEs, lower default rates and higher recovery rates

