



COST MANAGEMENT: A KEY DRIVER OF EARNINGS SUSTAINABILITY

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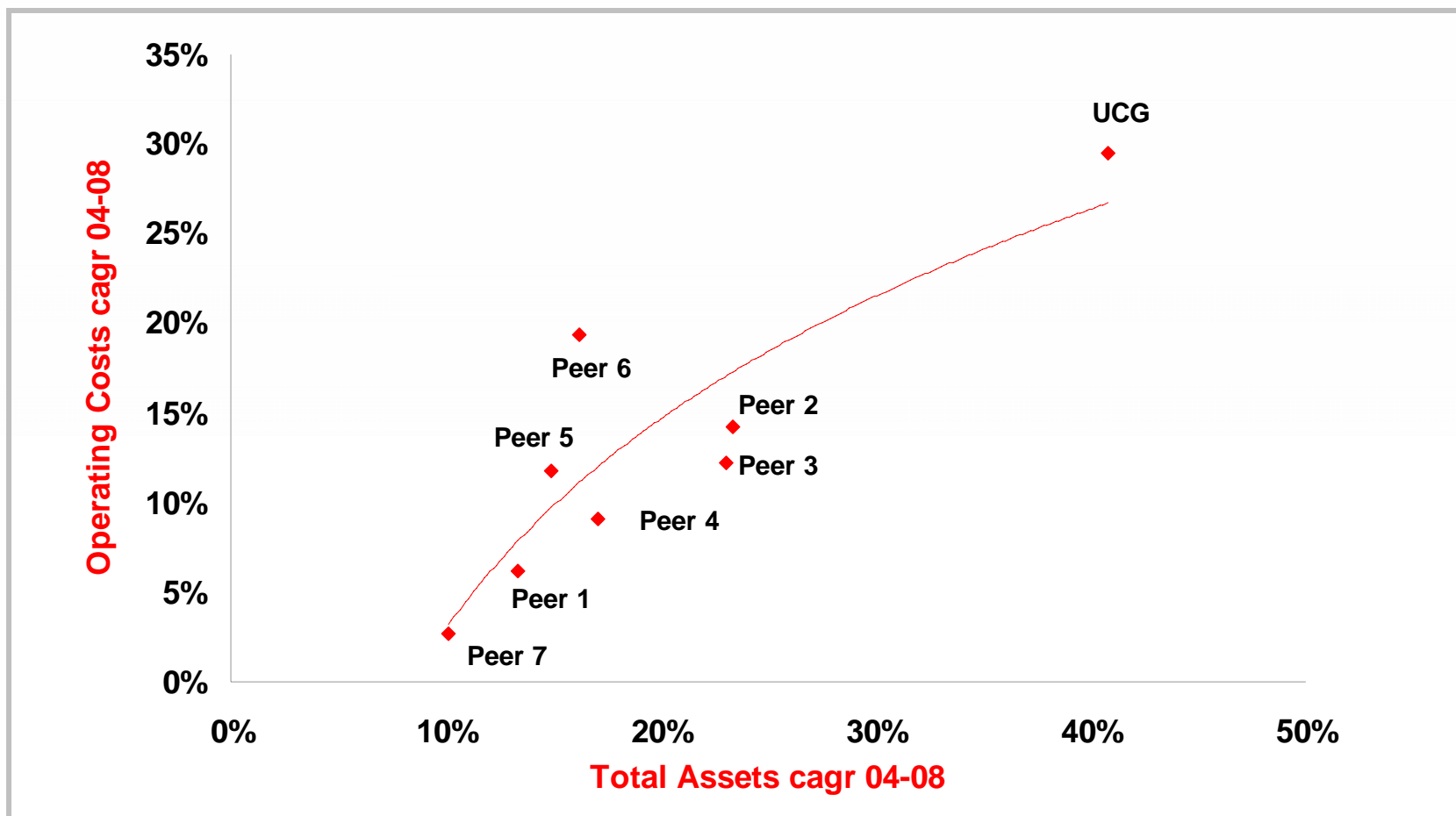
London, 25th June 2009

AGENDA

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

2005-2008: FRANCHISE (AND COST) GROWTH

UCG external growth

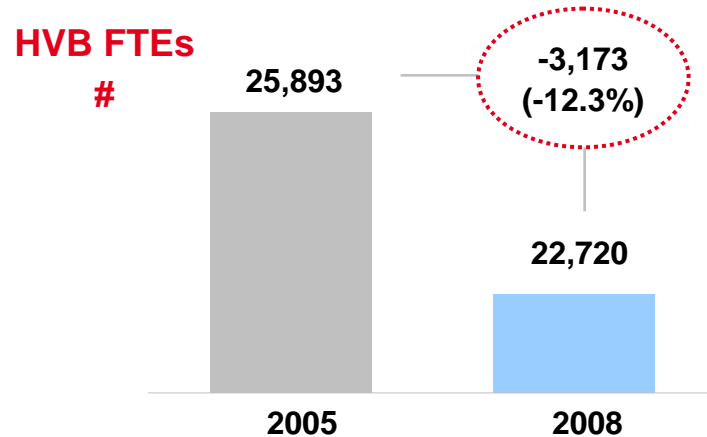
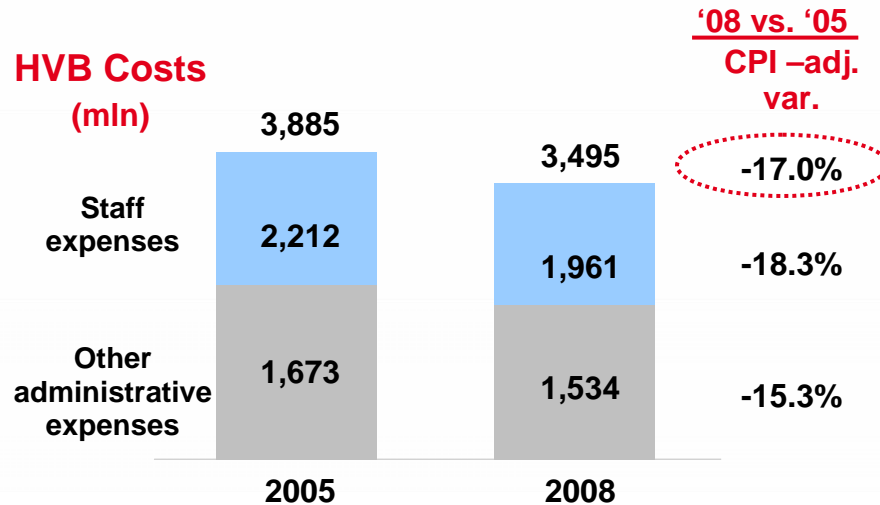


UCG 2005-2008: ABOVE PEERS GROWTH OF COSTS AND ASSETS

RESTRUCTURING - HVB

A SUCCESSFUL COST REDUCTION STORY

Restructuring - HVB



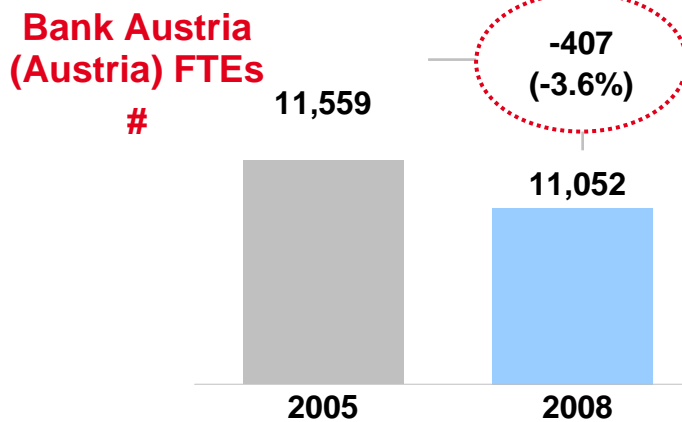
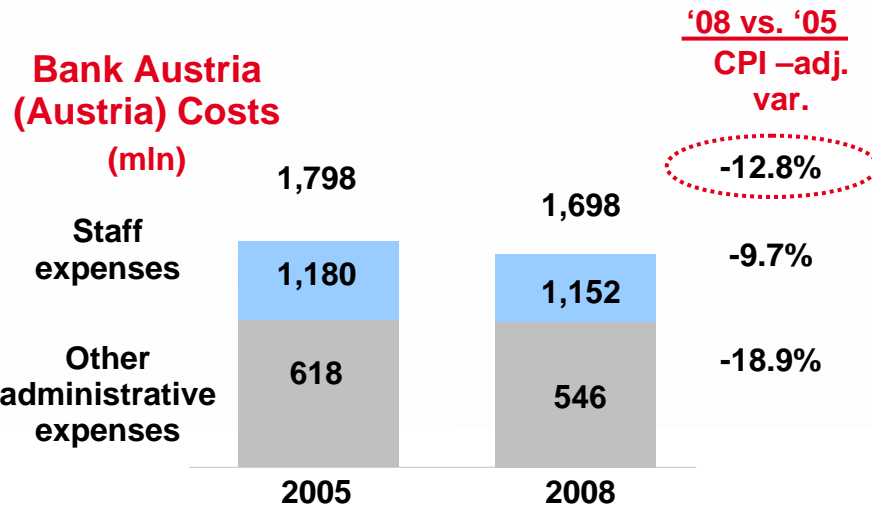
- HVB integration highlights huge synergies both in terms of:
 - ✓ Costs: -17% adjusted for inflation
 - ✓ FTEs: -12.3% in just three years

- 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 –

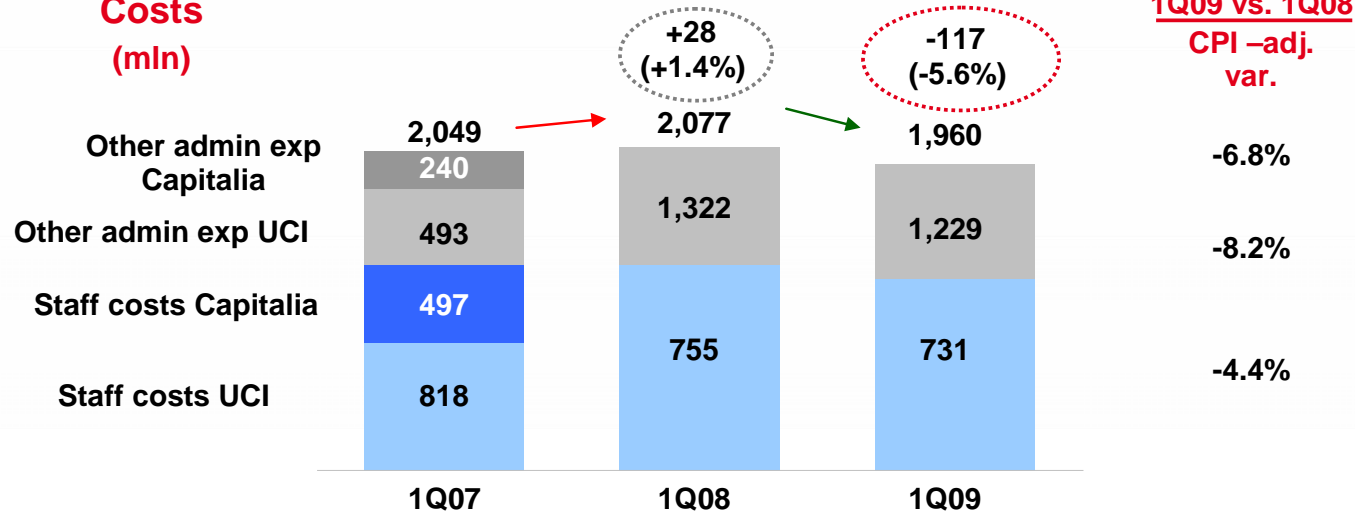


- Despite supporting the growth in CEE, Bank Austria achieve significant rationalization
- FTEs reduction concentrated mainly in GBS, Retail and MIB divisions

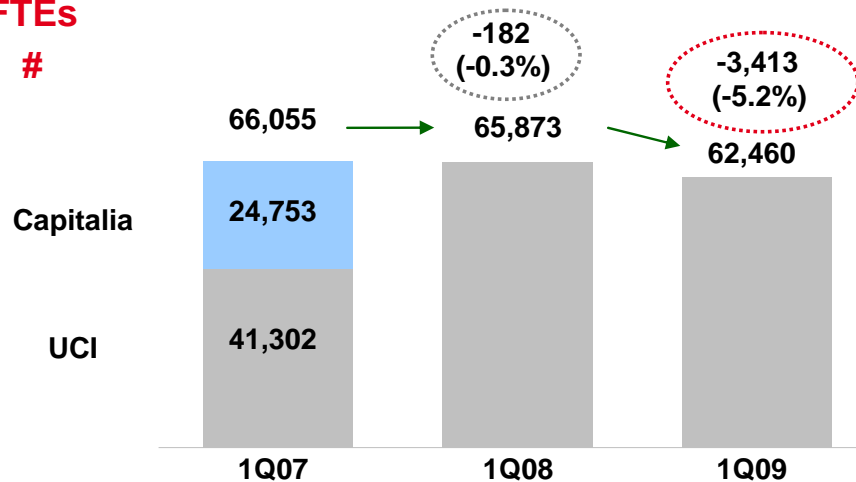
CAPITALIA INTEGRATION ALREADY GIVING FIRST RESULTS

Restructuring - Capitalia

UCG ITALY Costs (mln)



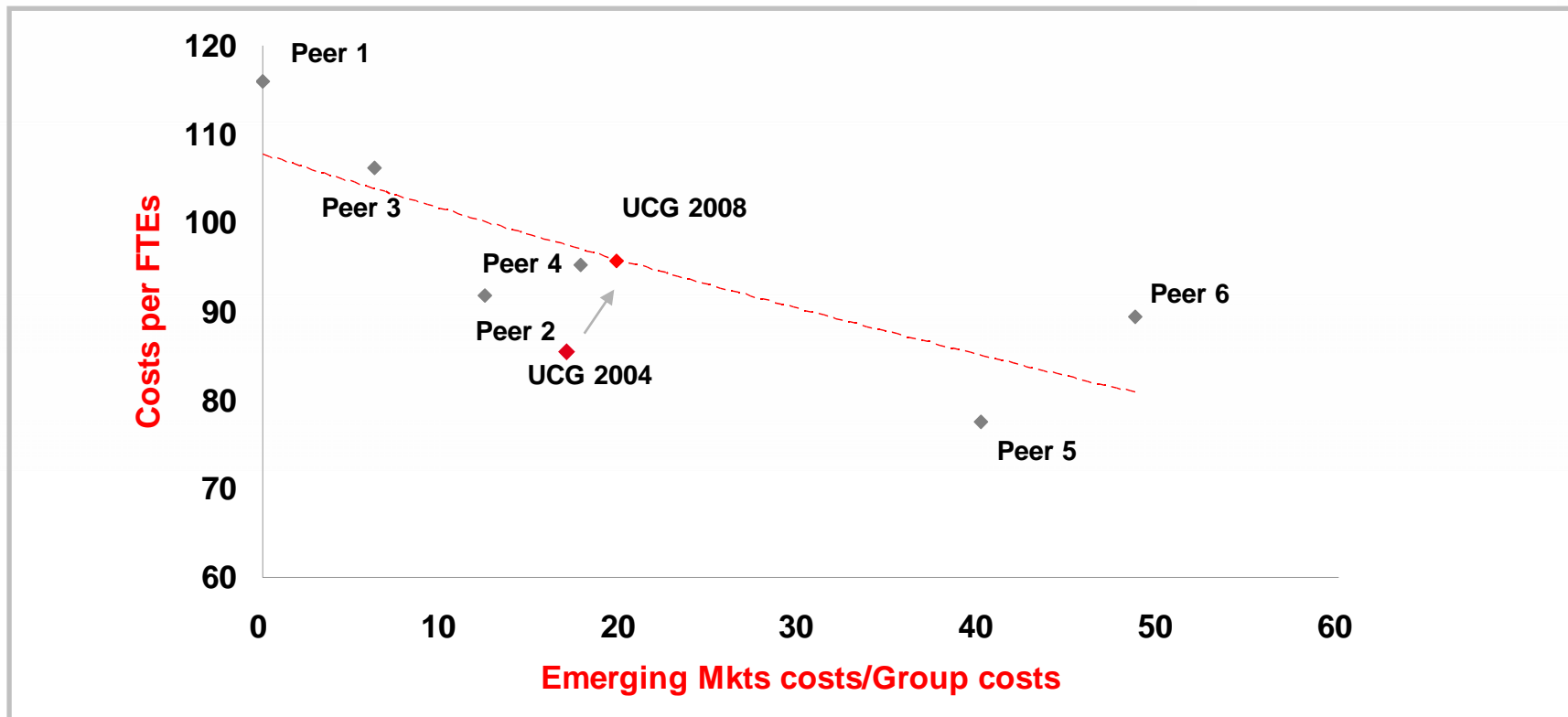
UCG ITALY FTEs



- 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



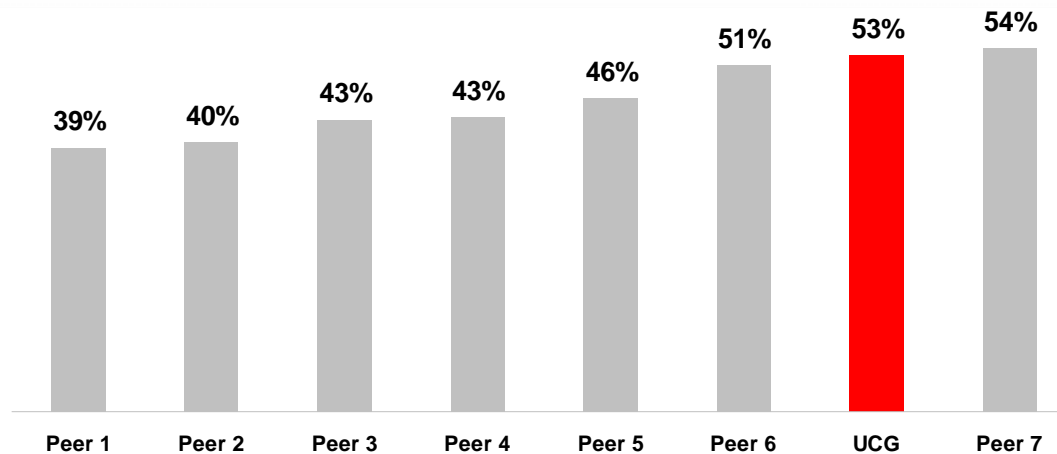
- Weight of emerging markets for UCG increased, but so nevertheless did costs per FTE
- Comparison with peers also underlines room for improvement:
 - ✓ in 2008 the group is in line with the peer trend, which includes companies which underwent external growth more recently
 - ✓ higher FTE/Branch compared 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

AGENDA

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

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

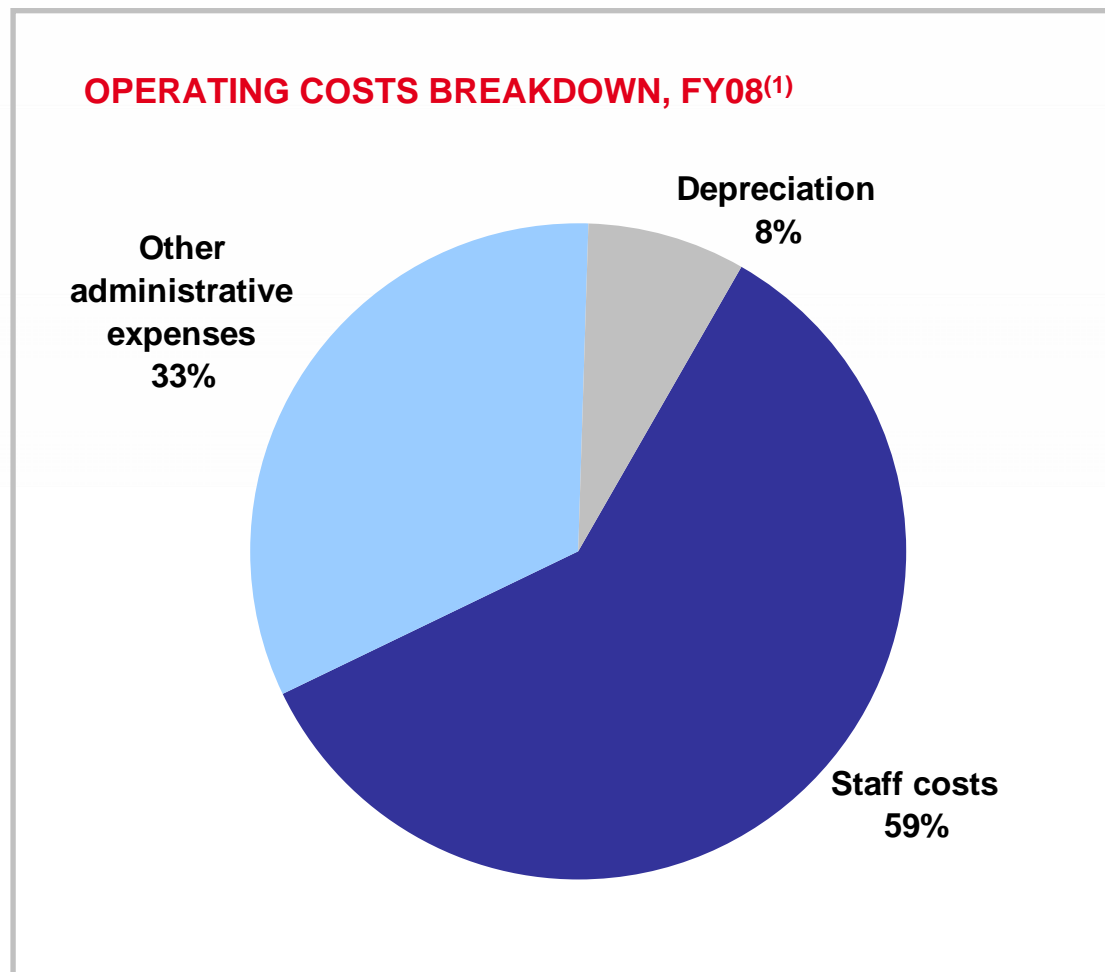
- Flexibility on cyclical expenses
- Real Estate rationalization
- Procurement services centralization

- 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

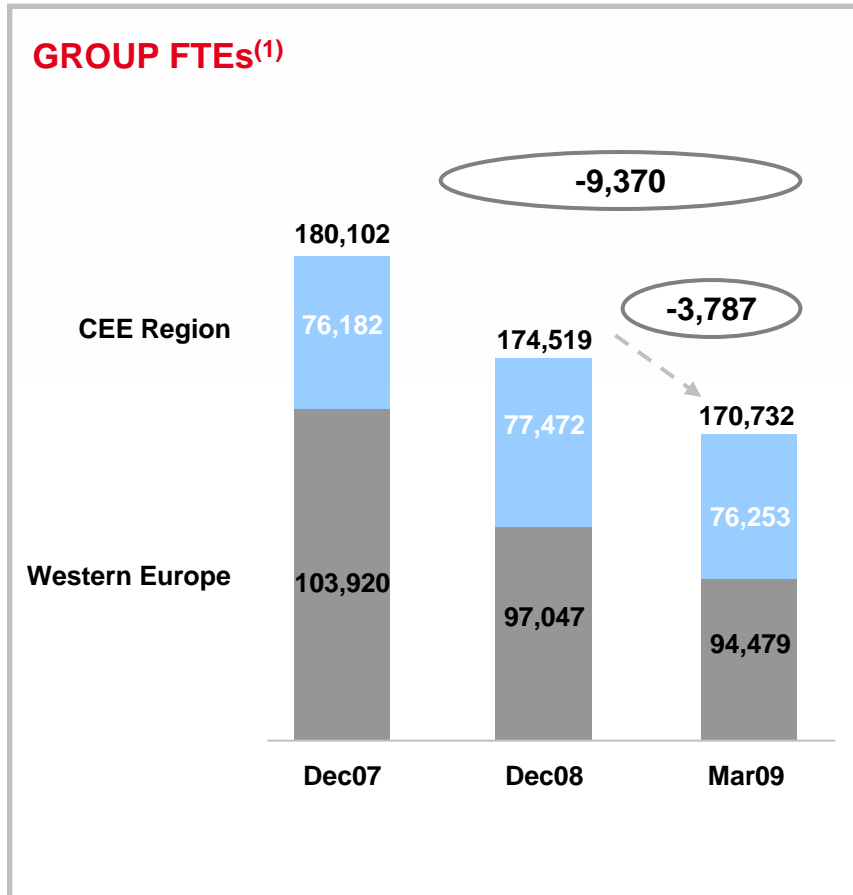
Cost Structure



⁽¹⁾ Weight calculated including expense recovery in the other administrative expenses

GROUP FTEs, A CLEAR DECREASING TREND

Fixed staff costs



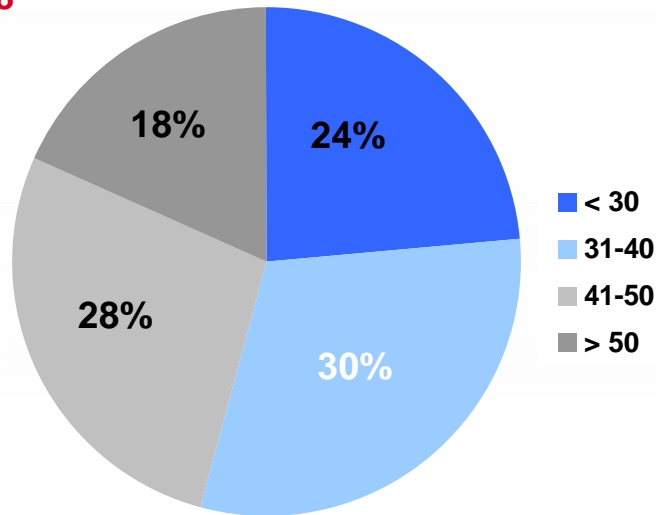
- Staff efficiency on FTEs: -9,370 from Dec07 to Mar09
- Lower staff costs in 2009e linked to structural saving on FTEs rightsizing in 1Q09
- Other benefits expected in 2009 from
 - ✓ Further staff reduction (almost -1,400 employees in April 2009)
 - ✓ No more accruals on annual leave
 - ✓ Lower staff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

⁽¹⁾ Yapi Group at 100%; Dec07 proforma including Ukrsootsbank

RETIREMENT PATH STRUCTURAL SAVINGS BEFORE ACTIVE ACTIONS

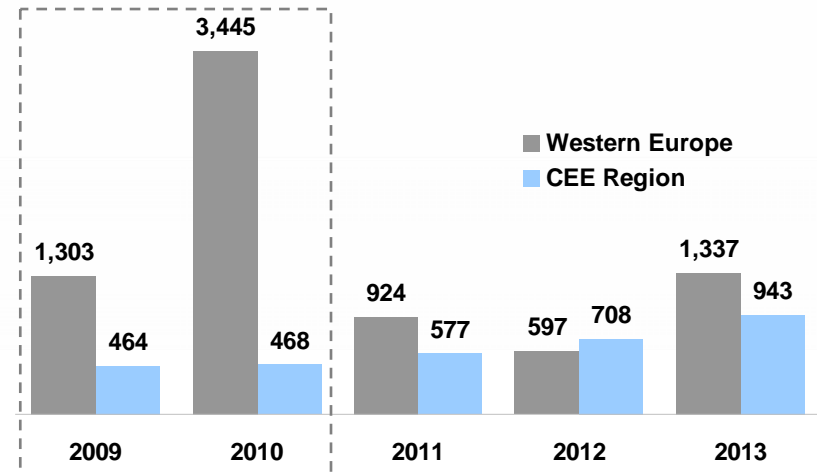
Fixed staff costs

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^(1,2) - WE & CEE REGION

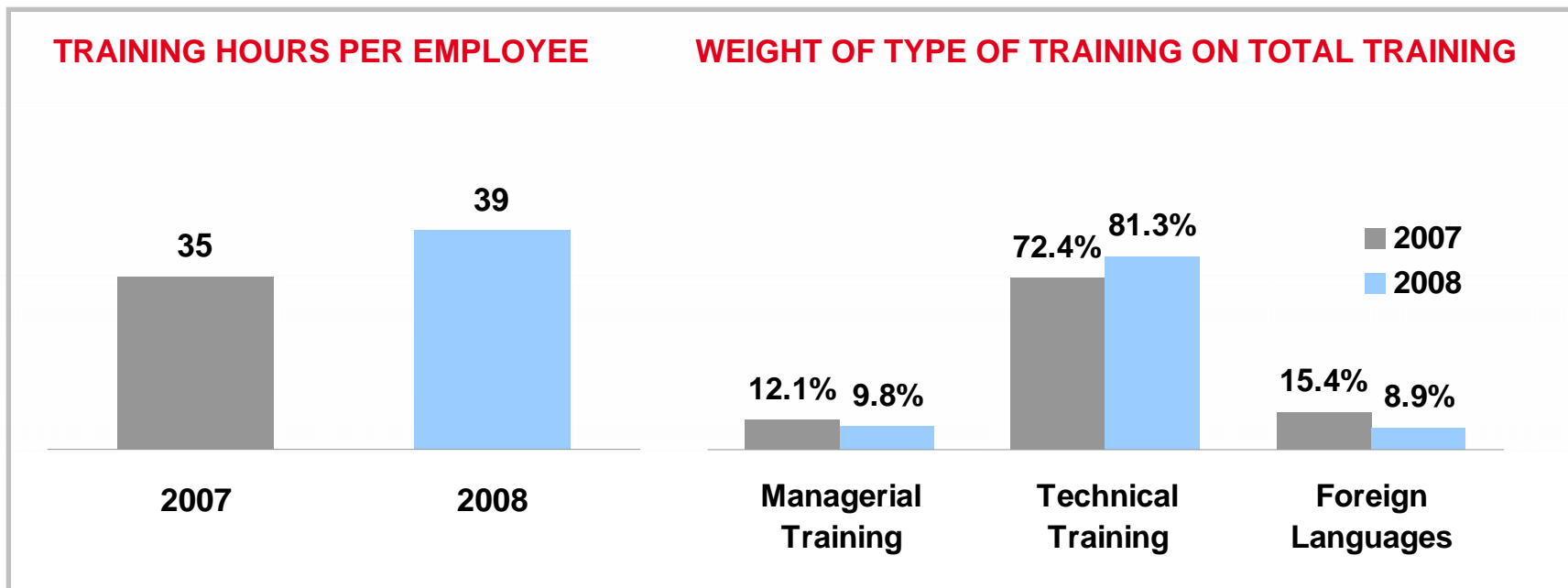


- Based on current law and sector agreements
 - ✓ almost 5,700 employees will retire by year end 2010
 - ✓ ~6% of employees will achieve the date of retirement within the next 5 years (11% Italy)

(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



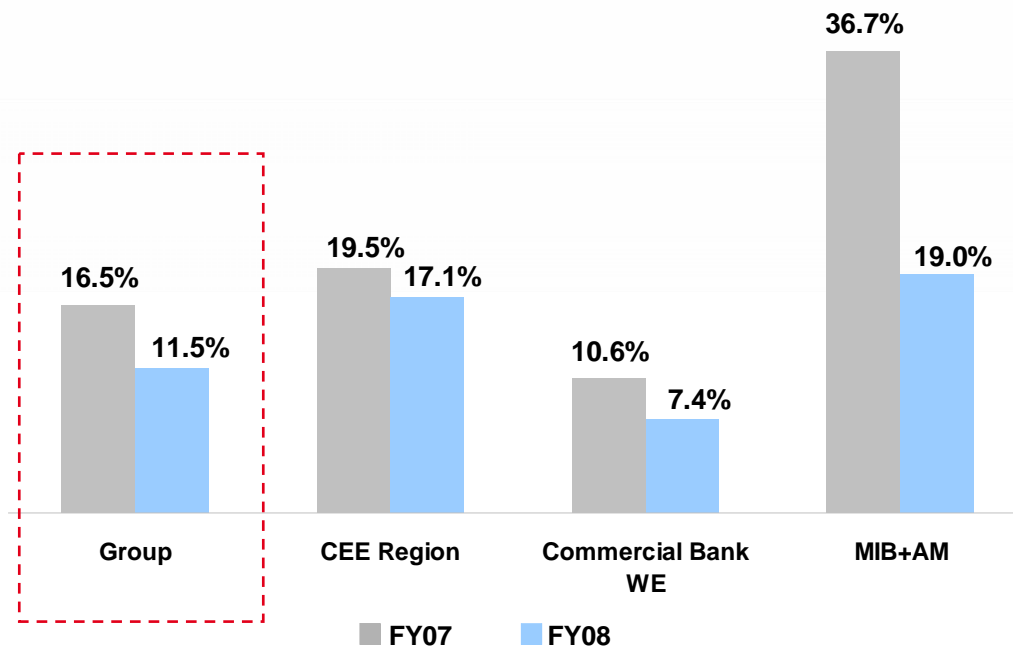
Invest in our people for a sustainable long term business growth

- 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:**

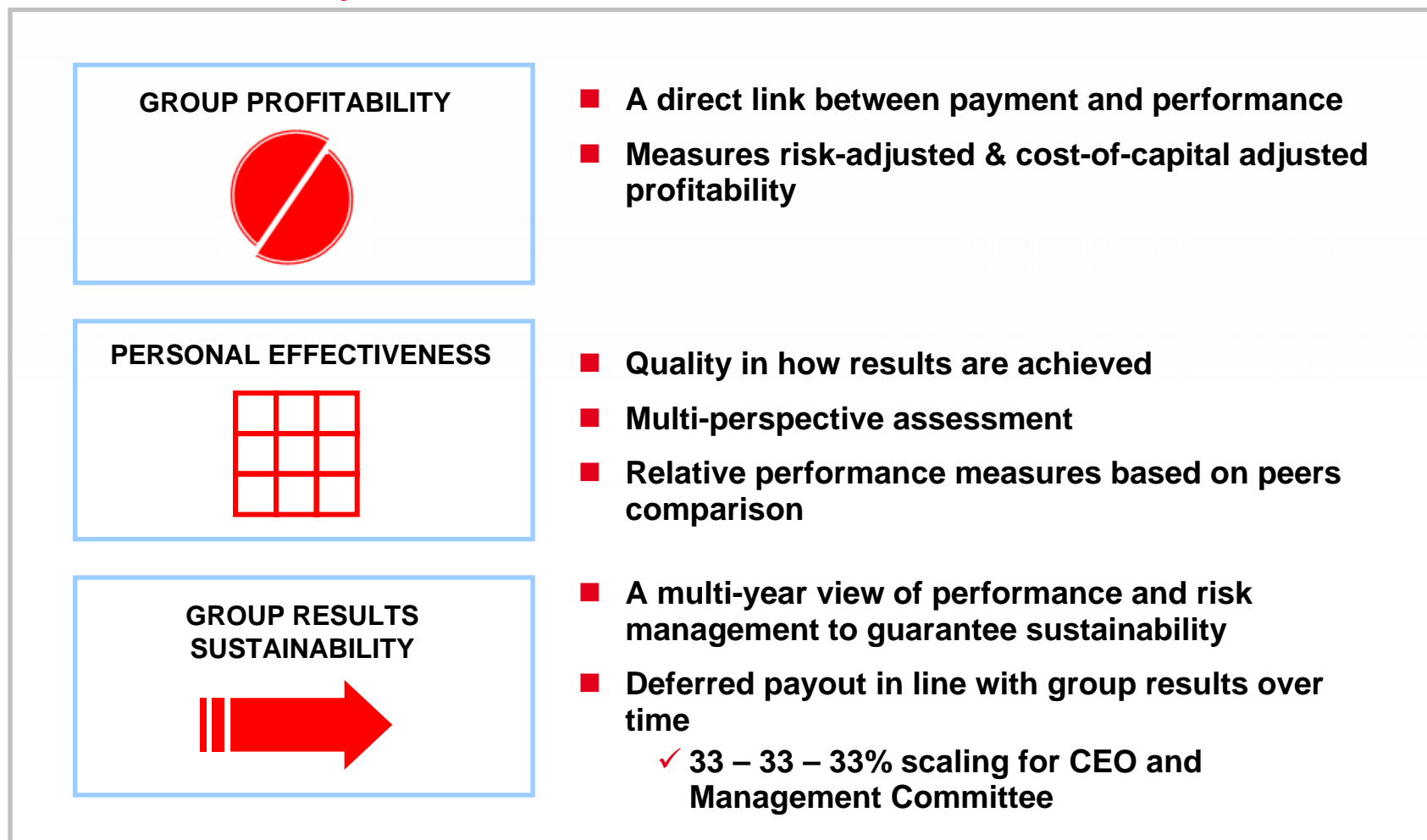
- ✓ Variable compensation decreased to 11.5% of staff costs (16.5% in FY07)
- ✓ No bonus for CEO and Management Committee as part of Group governance
- ✓ Bonus payout -80% y/y for the top 108 Executives of the Group
- ✓ Only mandatory bonus in MIB Division

FLEXIBILITY ON REWARD TOWARDS GROUP PERFORMANCE

EXECUTIVE COMPENSATION PERFORMANCE AND MID/LONG TERM PROFITABILITY

Variable staff costs

Executive Incentive System

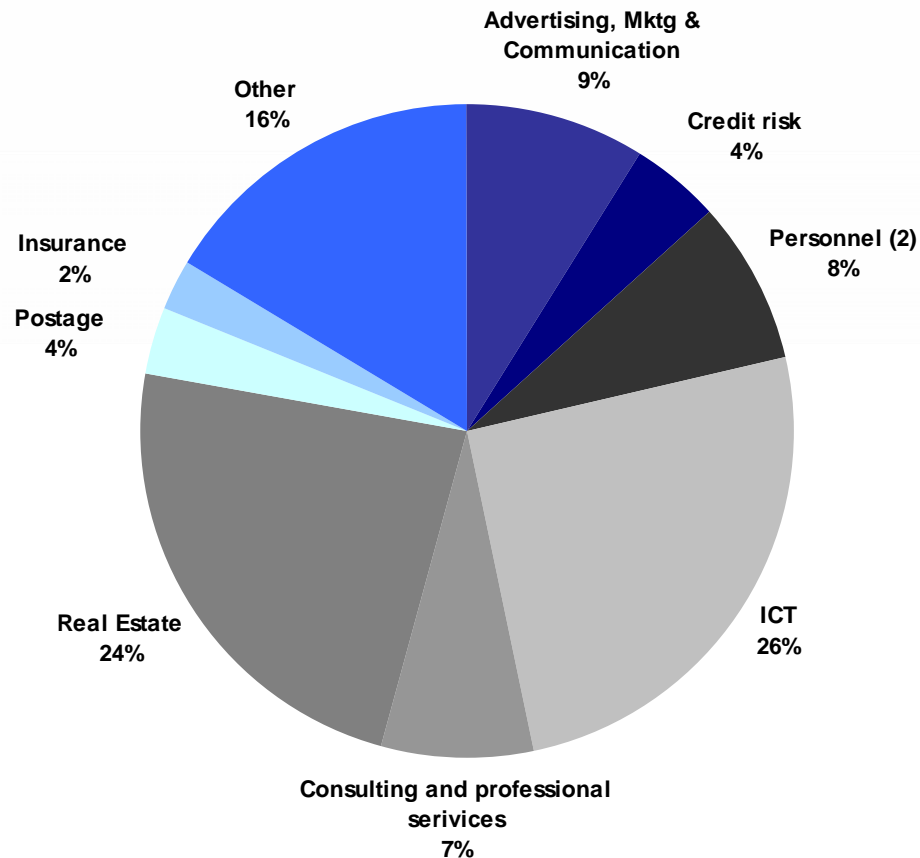


**STRONG REWARD ALIGNMENT TO SUSTAINABLE GROUP
PERFORMANCE OVER TIME**

UCG OTHER ADMINISTRATIVE EXPENSES COMPOSITION

Other Administrative Structure

OTHER ADMINISTRATIVE EXPENSES BREAKDOWN, FY08⁽¹⁾



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

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

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

⁽¹⁾ Weight calculated excluding indirect taxes and duties

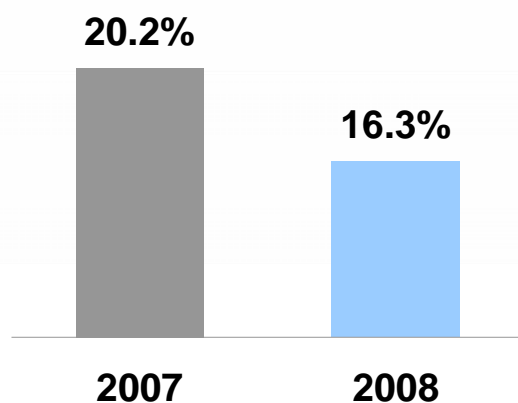
⁽²⁾ Mainly travel expenses and training & recruiting costs

⁽³⁾ Advertising, marketing & communication expenses, Consulting and professional services costs

ACTIONS ON CYCLICAL ADMINISTRATIVE COSTS

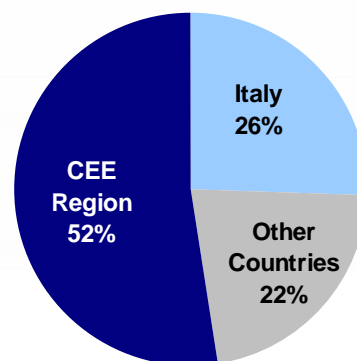
Cyclical savings

CYCLICAL EXPENSES⁽¹⁾, weight on other administrative expenses

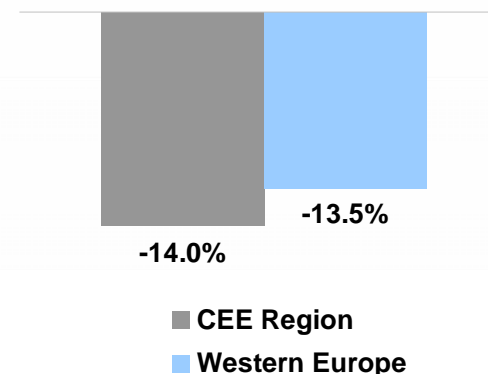


ADVERTISING INVESTMENTS⁽²⁾

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 2008

- ✓ **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

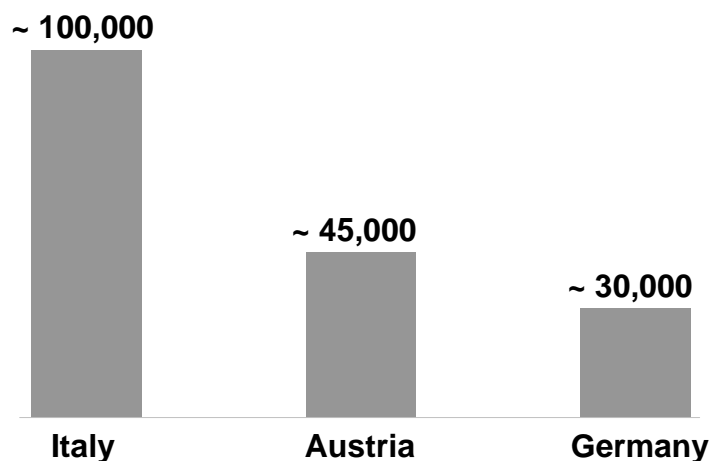
Structural savings

FY08

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

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

RELEASE OF SQM⁽¹⁾



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

⁽¹⁾ 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

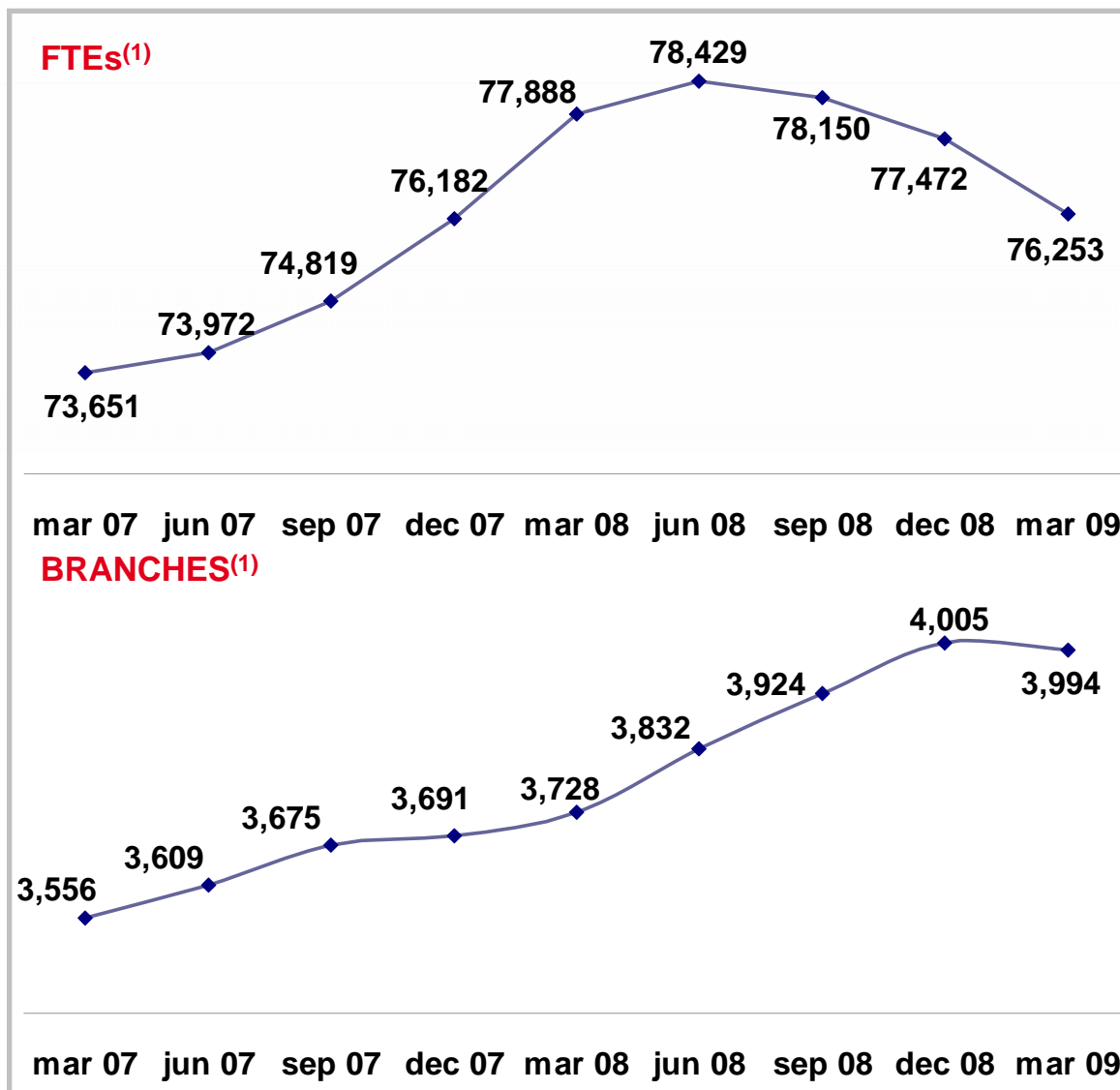
- ✓ Expenses management review involving the main 50 Legal Entities
- ✓ Full launch of new negotiation platform

■ 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

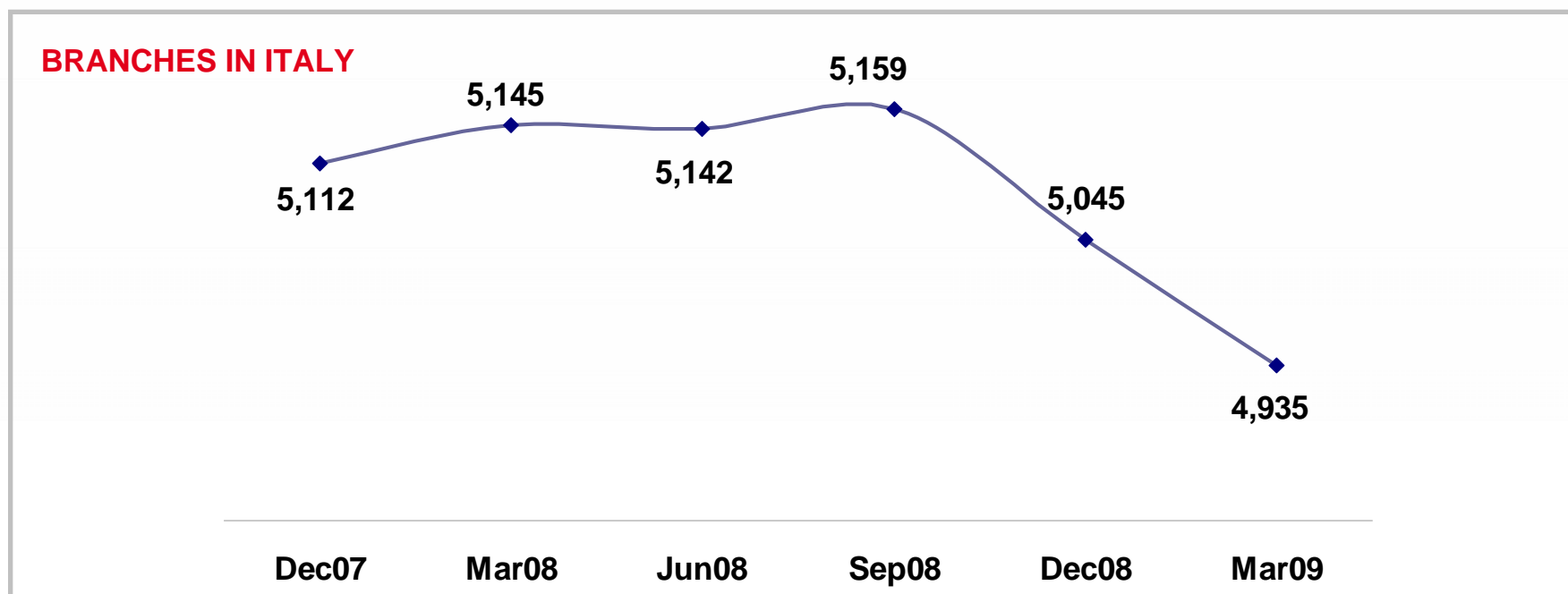


- Strategy in CEE: from growth proposition to cost control
- From hiring to rightsizing: ~-1,200 FTEs from Dec08 to Mar09
 - ✓ -620 in Ukraine
 - ✓ -391 in Kazakhstan
- Stopped modular branch expansion program
 - ✓ no more ~500 planned openings in FY09
 - ✓ only ~90 branches to close FY08 program

(1) Figures restated including UkrSotsbank and ATF and excluding BPH 200

BRANCH NETWORK OPTIMIZATION IN ITALY WITHOUT IMPACT ON REVENUES

Cost Actions – Examples:
Italian Network



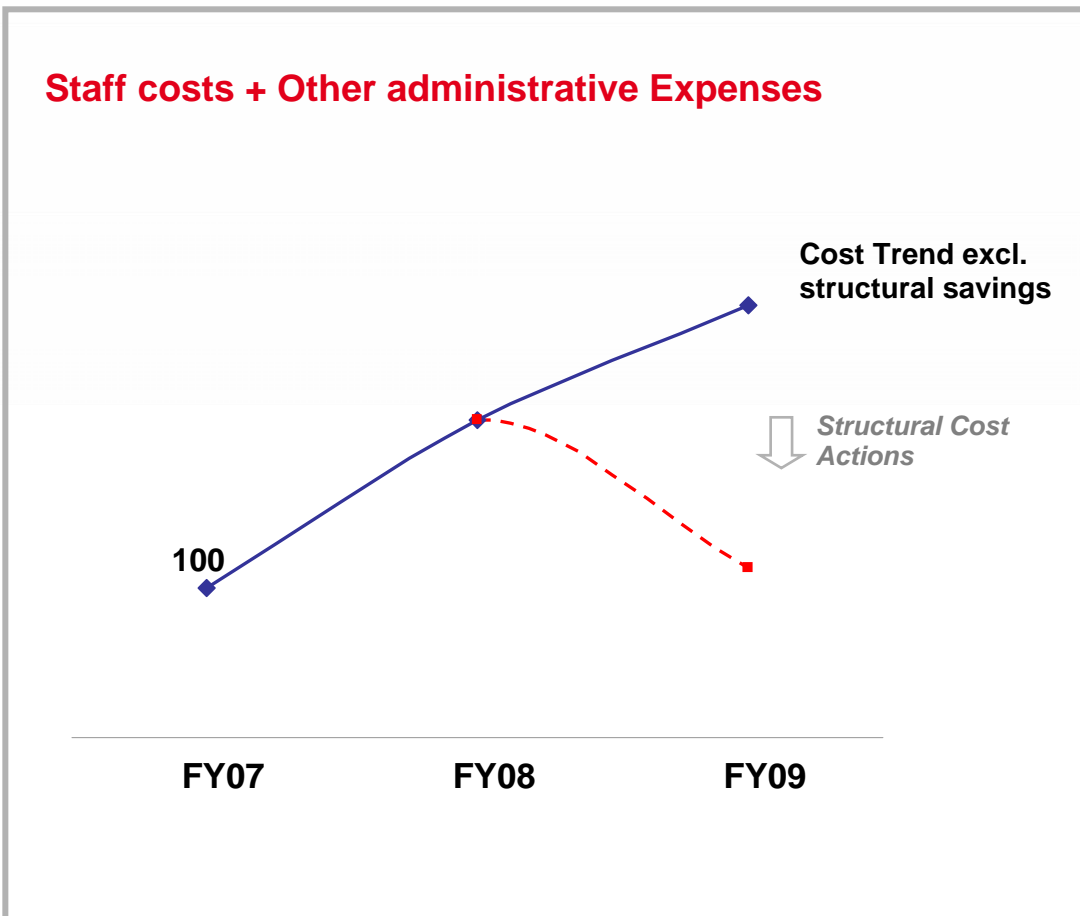
■ RETAIL ITALY

- ✓ ~ 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

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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