

# One Bank, One UniCredit *Improve Group Asset Quality*



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London, 13<sup>th</sup> December 2016

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 **UniCredit**

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# One Bank, One UniCredit

## The five pillars

**ONE BANK**  
**ONE**  
 **UniCredit**

### 5 STRATEGIC PILLARS



**STRENGTHEN AND  
OPTIMIZE CAPITAL**



**IMPROVE  
ASSET  
QUALITY**



**TRANSFORM  
OPERATING MODEL**



**MAXIMIZE  
COMMERCIAL BANK  
VALUE**



**ADOPT LEAN  
BUT STEERING  
CENTER**



# Decisive actions to improve Group asset quality

Italy Non Core<sup>1</sup> legacy driving high Group NPE<sup>2</sup> ratio

Active de-risking resulting in €8.1bn<sup>3</sup> one-off LLP strengthening coverage on entire portfolio

Disposal of €17.7bn bad loans portfolio (FINO transaction)

Strong risk discipline on new origination

CBK Italy, Germany, Austria, CIB continue to deliver solid asset quality and CEE stable

In 2019, Group Core<sup>4</sup> NPE ratio at 5% and CoR at 43bps; Non Core net exposure at €8.1bn

1. In 2013 UniCredit ring fenced the so-called "Non-Core" portfolio with a target to reduce clients' exposure considered as not strategic; selected assets in Italy to be managed with a risk mitigation approach 2. NPE: Non Performing Exposures, classified in the following risk classes: Bad Loans, Unlikely to Pay (UTP) and Past Due (PD) 3. Based on current assessment and subject to final terms of FINO transaction 4. Group excluding Non Core. Note: numbers might not add due to rounding reasons, throughout the whole document, all 2015 and 9M2016 figures restated assuming new Group perimeter; figures adjusted including one-off LLP on restated perimeter



# Centralized risk management in lean but steering Center

**Group risk appetite and strategies  
from Center<sup>1</sup> to countries based on a common framework**

## Credit risk

- One credit model governance across countries
- Centralized credit processes and automation

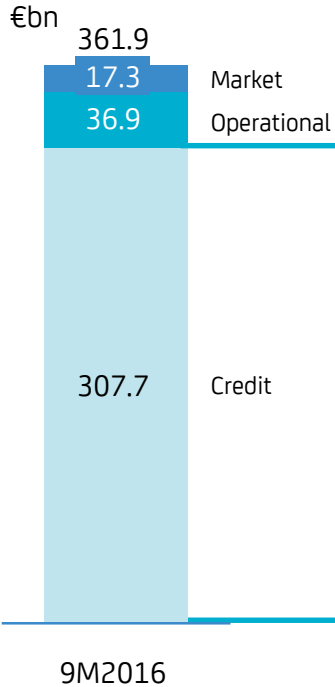
## Market and operational risk

- One Group-wide model and infrastructure for market and operational risk

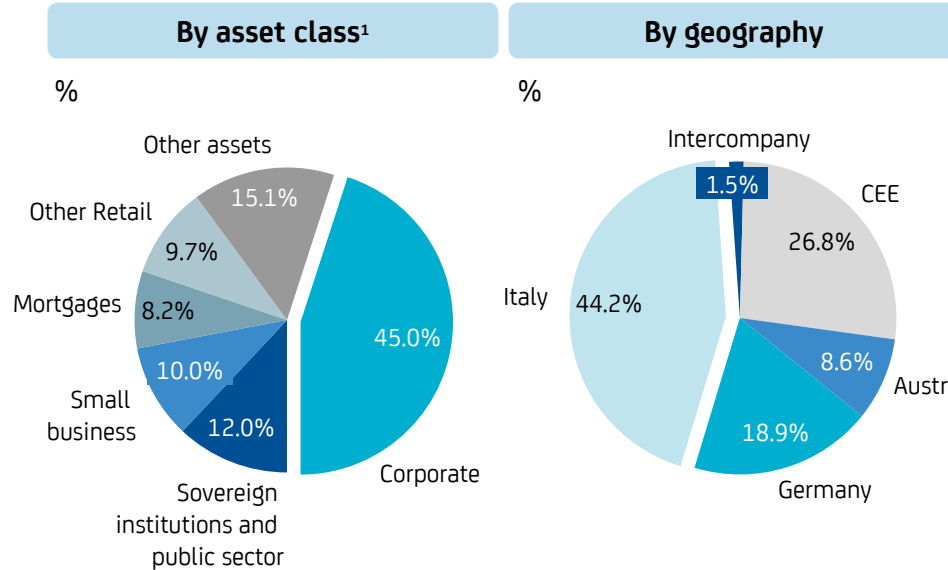


# Simple Pan European Commercial Bank

## RWA by type



## Credit RWA by asset class and by geography

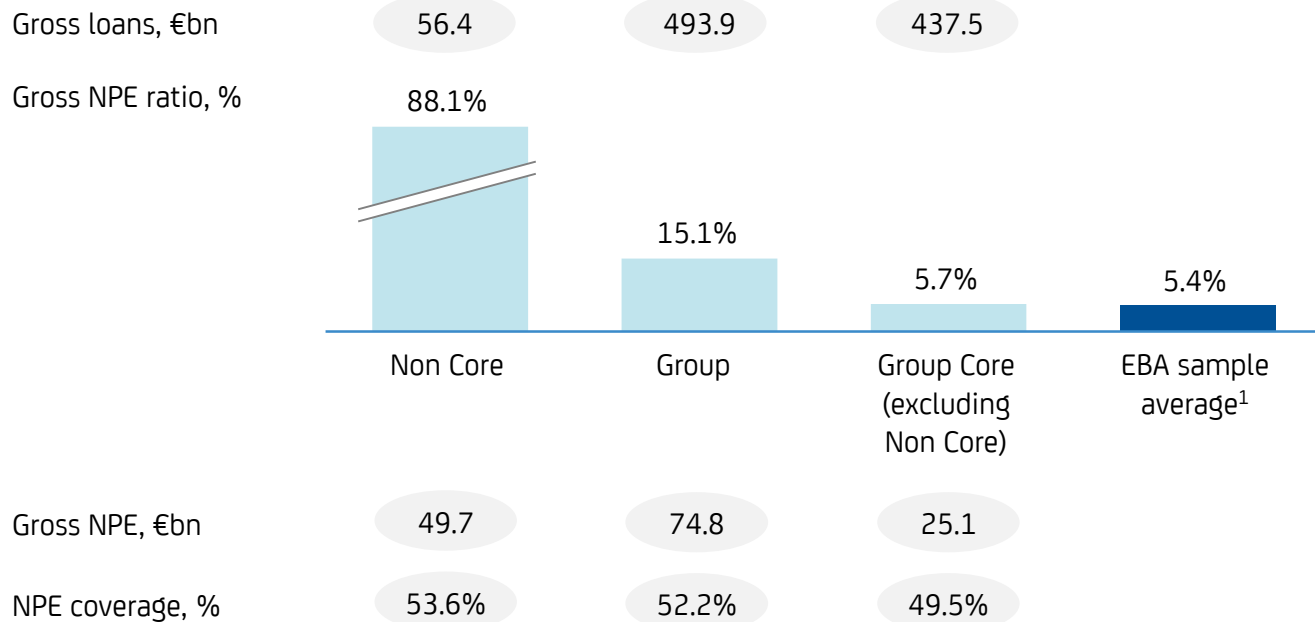


- UniCredit is a simple Commercial Bank with low exposure to market and operational risk
- Credit risk diversified across geographies and asset classes



# Group NPE ratio aligned to European average, excluding Non Core legacy

## Group figures, 9M2016



- Italy legacy ring-fenced in 2013 in Non Core division
- A dedicated strategy has been implemented to accelerate deleveraging

1. Data as of June 2016

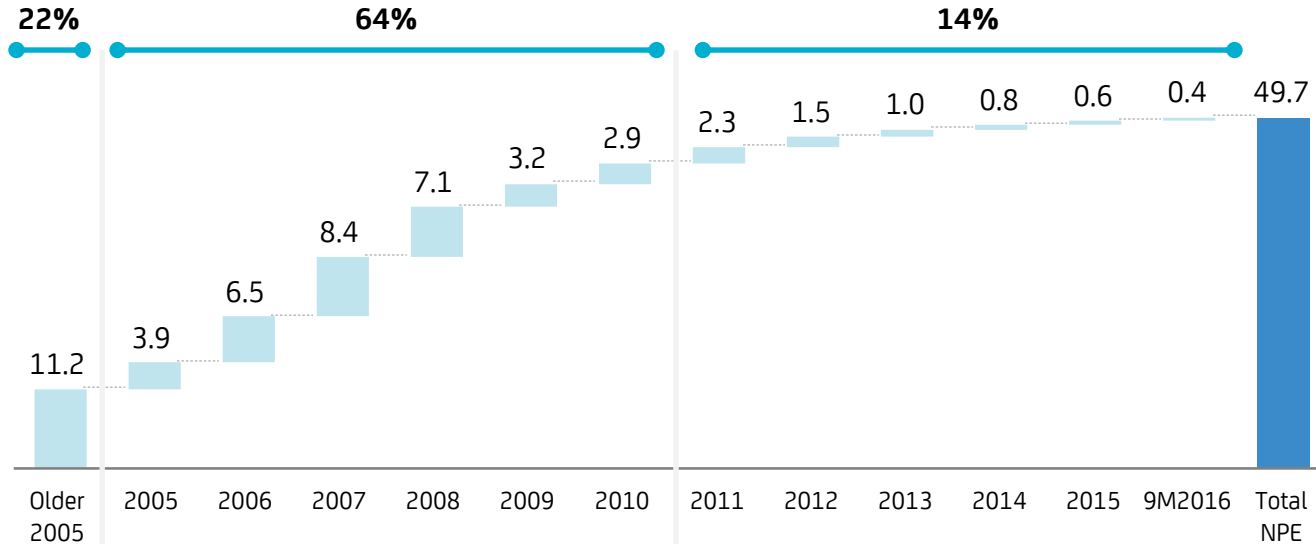
Note: all 9M2016 figures restated assuming new Group perimeter. Figures not including one-off LLP in 9M2016



# Non Core: Legacy issue mainly originated from 2005 to 2010

## Italy Non Core NPE stock by origination year

Gross NPE stock at 9M2016, €bn



64% of total NPE, originated from 2005 to 2010, due to:

- Volume driven underwriting
- Capitalia integration in 2007





# Proactive review of NPE to de-risk Non Core portfolio: €8.1bn one-off LLP to address legacy issue

Non Core

## Proactive review of NPE evaluation

- Alignment of collateral value to latest market transaction and closed workout
- Comprehensive assessment of restructuring and workout portfolio with >€1m exposure
- Active de-risking resulting in one-off LLP<sup>1</sup>, €7.2bn on Non Core and additional €900m on Group Core applying a consistent approach

## Non Core 9M2016 figures

Gross loans, €bn	56.4	56.4
Gross NPE, €bn	49.7	49.7
Net loans, €bn	29.5	22.3
	9M2016	9M2016 adjusted (incl. one-off LLP) <sup>1</sup>
NPE coverage, %	53.6%	68.2%
UTP coverage, %	33.4%	42.8%
Bad loans cov., %	60.6%	77.1%



# FINO transaction: disposal of bad loans portfolio

Non Core

## Rationale

### Significant de-risking

- Magnitude of transaction allows for acceleration Non Core run-down

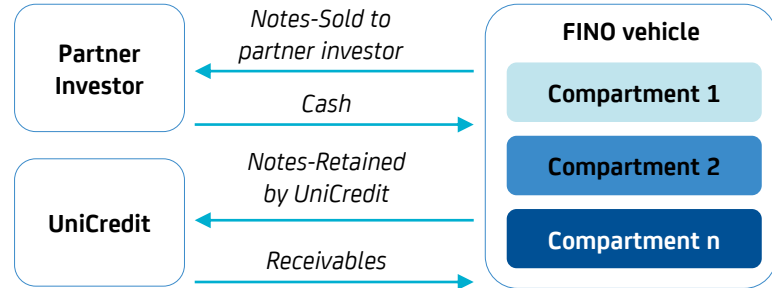
### Speed

- Swift execution with a competitive process
- Portfolio selection calibrate to execute a sizable and faster transaction

### Marked to market

- Market validation of internal coverage by third-party investors

## Deal structure



### Stage 1

- Ring-fenced €17.7bn of bad loans
- Credit portfolio securitized into tranches
- Minimum of 20% notes sold to investor

### Stage 2

- Recovery performance optimization
- Full disposal of €17.7bn of bad loans
- Capital structure/leverage optimization

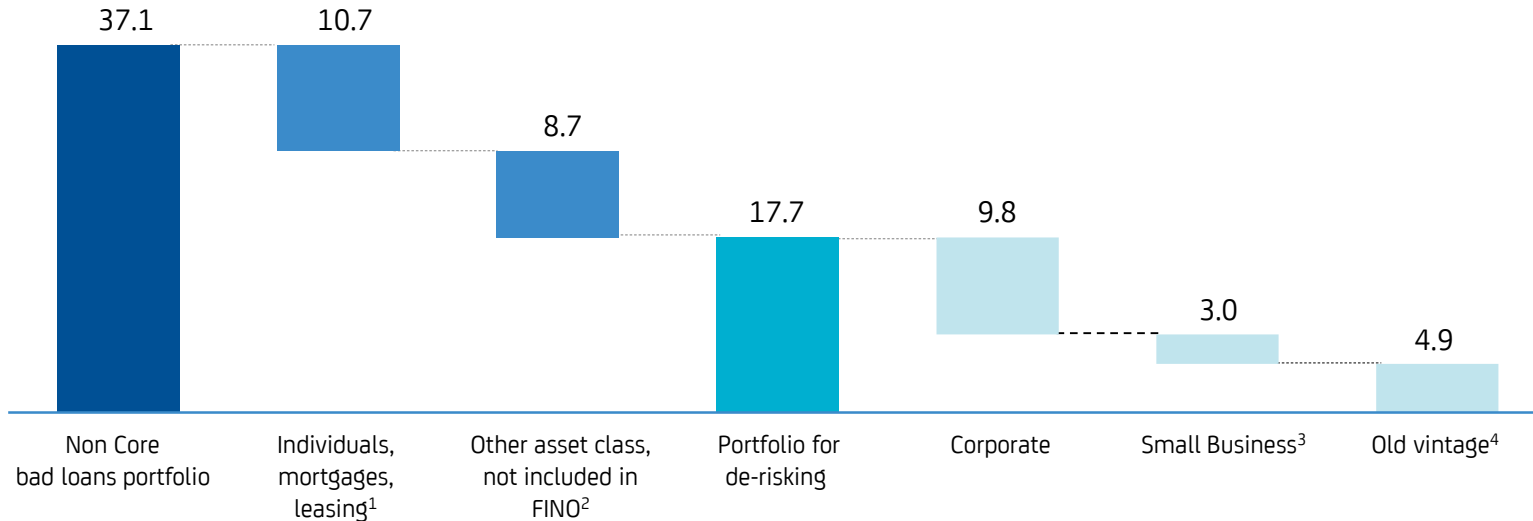


# FINO transaction: one-off LLP resulting in de-risking of a €17.7bn bad loans portfolio

Non Core

## Non Core Bad loans portfolio for FINO transaction by asset class

Gross bad loans 9M2016, €bn



1. Gross bad loans: €700m Individuals, €5.9bn mortgages and €4.1bn leasing 2. €4.6bn Corporate, €3.0bn Small business, €1.1bn Old vintage 3. Retail Small business

4. Portfolio classified to bad loans before 2009 (mainly Corporate and Small business)

Note: all 9M2016 figures restated assuming new Group perimeter



# Non Core: bad loans and UTP coverage increased across all asset classes

Non Core

	Bad Loans				UTP			
	9M2016 adjusted (including one-off LLP) <sup>1</sup>				9M2016 adjusted (including one-off LLP) <sup>1</sup>			
	Gross Bad loans €bn, %		Coverage %	Delta cov. vs. restated	Gross UTP, €bn, %		Coverage, %	Delta coverage vs. restated
<b>Total</b>	€37.1bn	100%	77.1%	+16.5 p.p.	€12.0bn	100%	42.8%	+9.4 p.p.
<b>Corporate</b>	€13.7bn	37%	83.1%	+20.0 p.p.	€8.9bn	73%	45.6%	+10.0 p.p.
<b>Small business<sup>2</sup></b>	€5.8bn	16%	82.8%	+22.1 p.p.	€0.9bn	8%	48.5%	+9.0 p.p.
<b>Old vintage<sup>3</sup></b>	€7.1bn	19%	93.6%	+10.8 p.p.	-	-	-	-
<b>Individuals<sup>4</sup></b>	€0.8bn	2%	88.8%	+32.0 p.p.	€0.2bn	2%	58.9%	+0.6 p.p.
<b>Mortgages</b>	€5.7bn	15%	47.3%	+10.1 p.p.	€1.1bn	9%	24.5%	+6.8 p.p.
<b>Leasing</b>	€4.1bn	11%	58.8%	+13.6 p.p.	€0.9bn	8%	30.2%	+7.8 p.p.

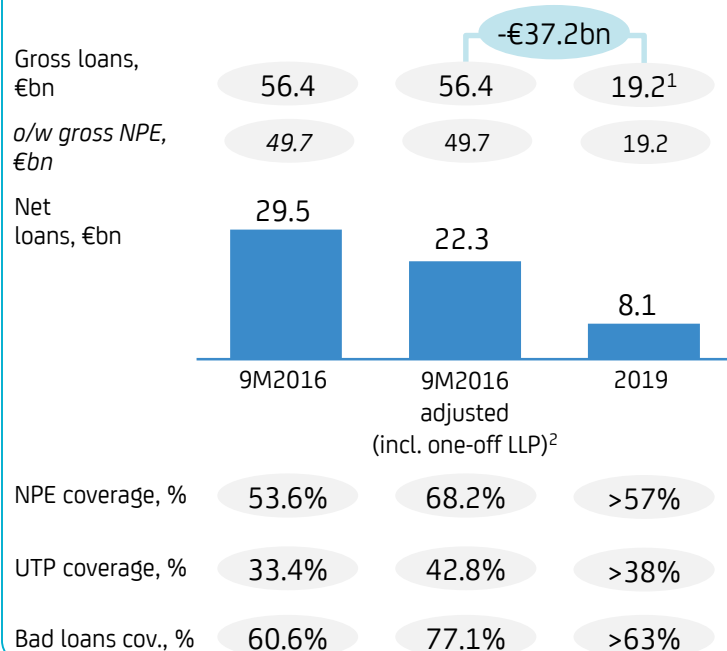
11 1. Based on current assessment and subject to final terms of FINO transaction 2. Retail Small business 3. Portfolio classified to bad loans before 2009 4. Including consumer and current account  
Note: all 9M2016 figures restated assuming new Group perimeter; figures adjusted including one-off LLP on restated perimeter



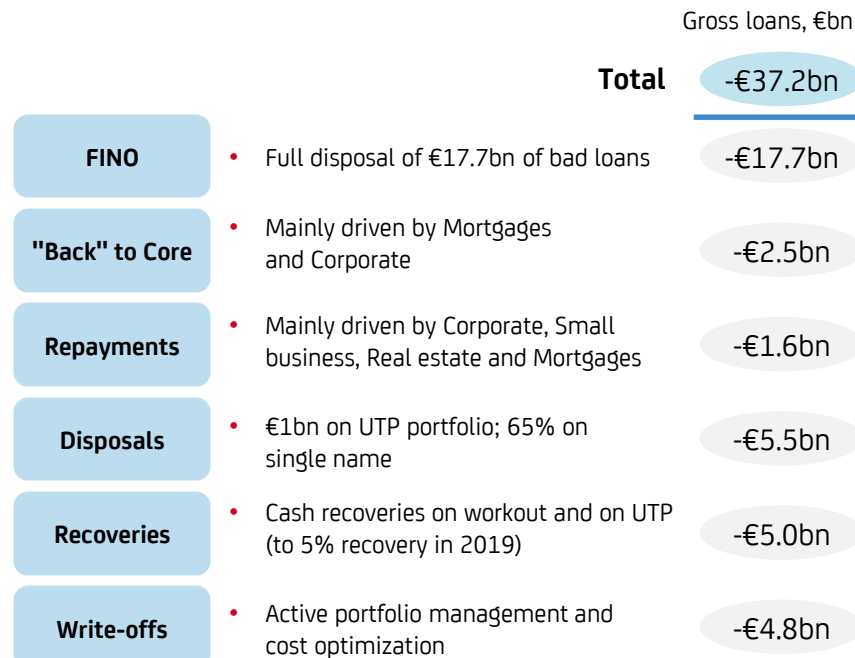
# 2019 Net Non Core exposure at €8.1bn

Non Core

## Non Core evolution



## Actions of Non Core run down



1. €15.0bn Bad Loans (32% Corporate, 10% Small business, 1% Old Vintage, 1% Individuals, 29% Mortgages, 27% Leasing), €4.0bn UTP (72% Corporate, <1% Small business, 0% Old Vintage, <1% Individuals, 7% Mortgages, 20% Leasing), and €0.2bn Past Due 2. Based on current assessment and subject to final terms of FINO transaction

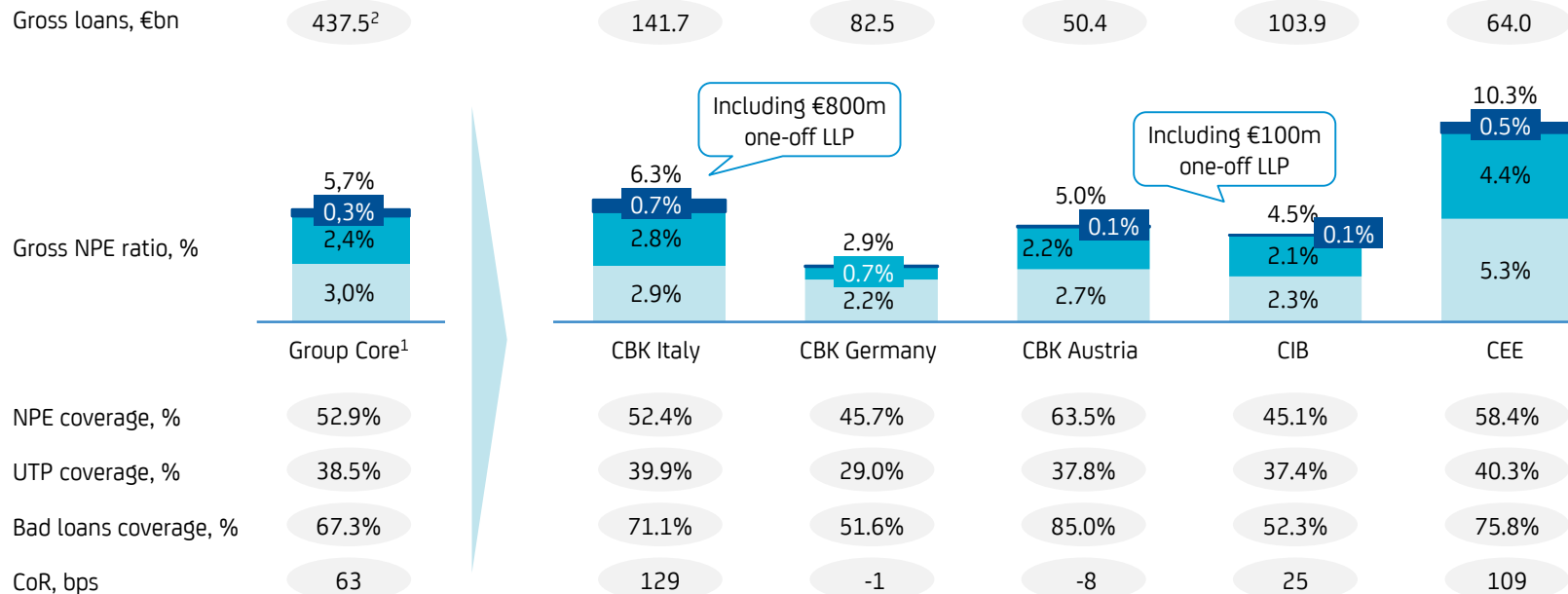
Note: all 9M2016 figures restated assuming new Group perimeter; figures adjusted including one-off LLP on restated perimeter; numbers might not add due to rounding reasons.



# Sound asset quality of Group Core portfolio

Group Core

## Gross NPE ratio 9M2016 adjusted



■ Past due  
 ■ UTP  
 ■ Bad loans

1. Excluding Non Core 2. Including CBK Italy, CBK Germany, CBK Austria, CIB, CEE, Fineco and consolidation adjustments

Note: all 9M2016 figures restated assuming new Group perimeter; figures adjusted including one-off LLP on restated perimeter



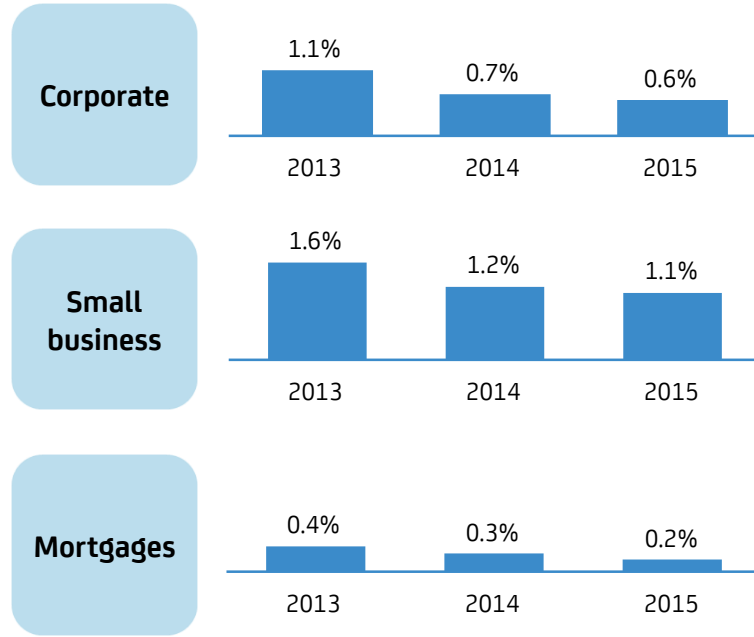
# Commercial Banking Italy: disciplined new origination supported by centralization and automation

Group Core

## Risk discipline underwriting achievements

- Centralization of underwriting for selected portfolios: real estate, project finance
- Focus on investment grade customers: from 59% on stock in 2013 to 71% in 2016<sup>1</sup>
- Increase of share of clients eligible for automatic lending on Small business
- Set up of pre-approved decision process on personal loans: 30% of new loans deriving from pre-approved clients
- Efficiency in decision-making on overdraft: from 0% to 84% automatic decisions<sup>1</sup>
- Managerial KPI to ensure a sound origination: new business expected loss

## First 12 months Default rate on new loans



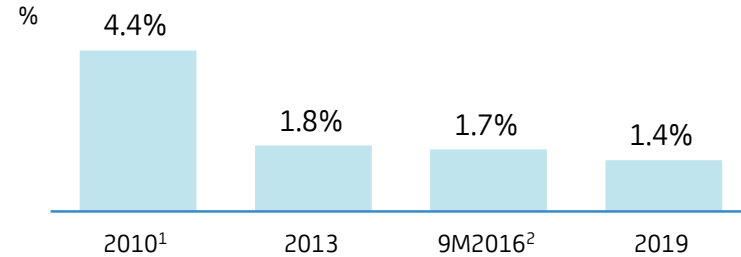
# Commercial Banking Italy: tight monitoring supported by advanced models

Group Core

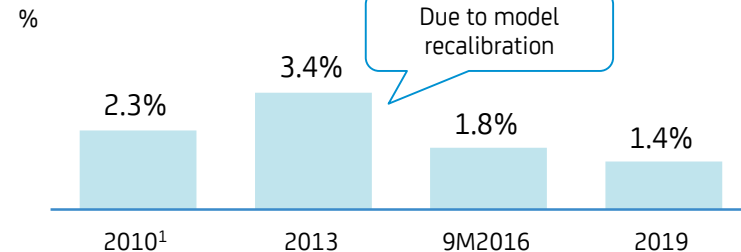
## Risk discipline monitoring

- Advanced early warning signals
  - Improved screening of watchlist portfolio
  - New behavioral algorithm for Corporate
- Automatic triggering of classification to worst status
- Preemptive transfer to restructuring and workout
- Faster deleveraging on riskier customers vs. competitors
- Managerial KPI to monitor risk dynamics of credit portfolio: performing stock expected loss

## Core portfolio default rate on stock



## Probability of default on stock

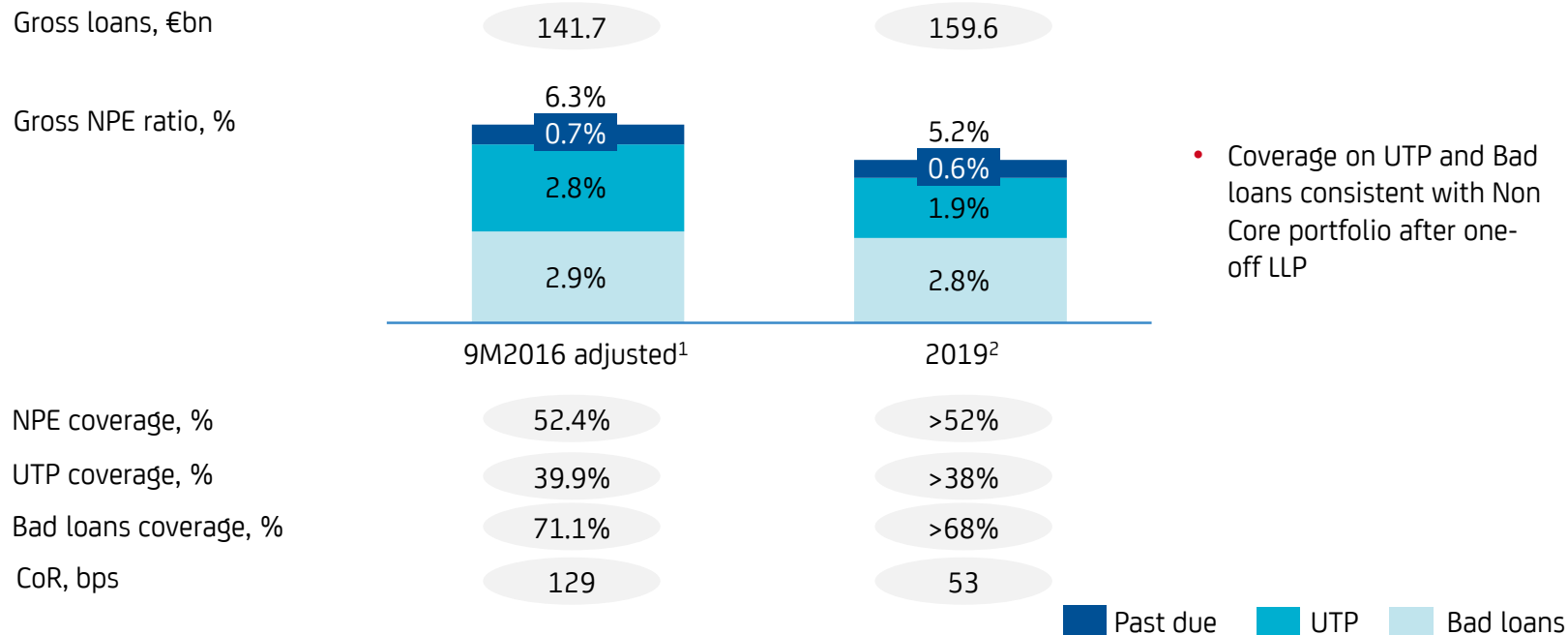




# Commercial Banking Italy: gross NPE ratio at 5.2% and CoR at 53bps in 2019

Group Core

## Commercial Banking Italy Asset quality Evolution



1. €3.9bn Bad Loans (32% Corporate, 37% Small business, 0% Old Vintage, 8% Individuals, 11% Mortgages, 12% Leasing), €3.8bn UTP (47% Corporate, 22% Small business, 0% Old Vintage, 4% Individuals, 18% Mortgages, 9% Leasing) 2. €4.1bn Bad Loans (23% Corporate, 36% Small business, 0% Old Vintage, 8% Individuals, 17% Mortgages, 16% Leasing), €2.9bn UTP (33% Corporate, 29% Small business, 0% Old Vintage, 7% Individuals, 19% Mortgages, 12% Leasing)

Note: all 9M2016 figures restated assuming new Group perimeter; figures adjusted including one-off LLP on restated perimeter



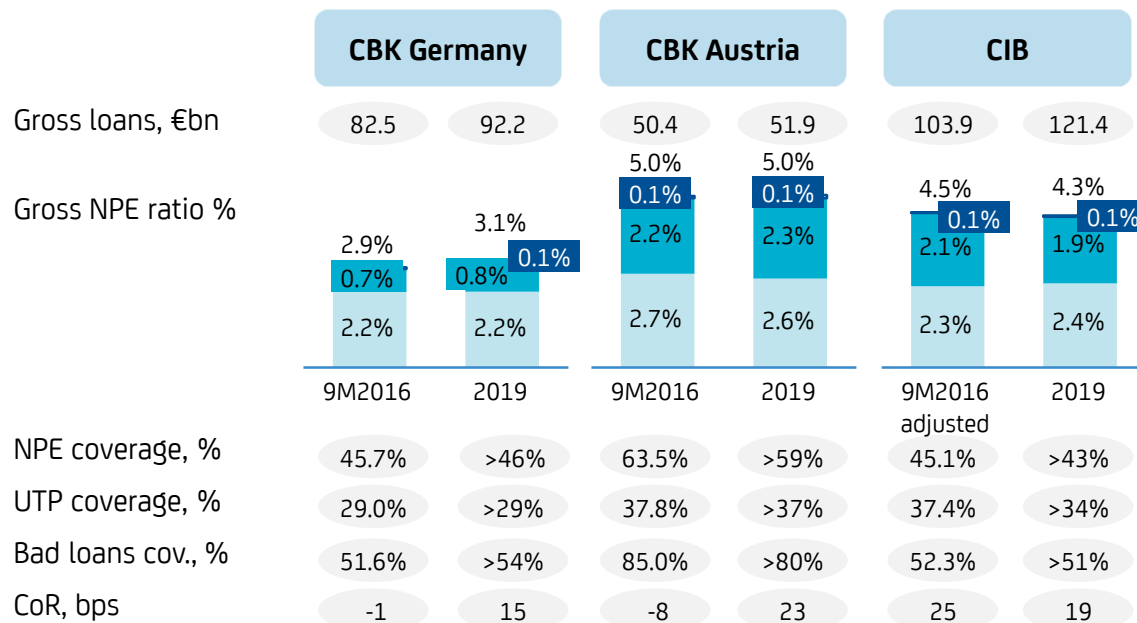
# Commercial Banking Germany, Austria and CIB continue to deliver solid asset quality

Group Core

## Risk discipline initiatives

- Extend to Germany and Austria credit processes automation on Individual and Small business, leveraging on Group practices
- Managerial KPIs to ensure a sound origination and to monitor risk dynamics of credit portfolio

## Asset quality evolution



■ Past due
 ■ UTP
 ■ Bad loans



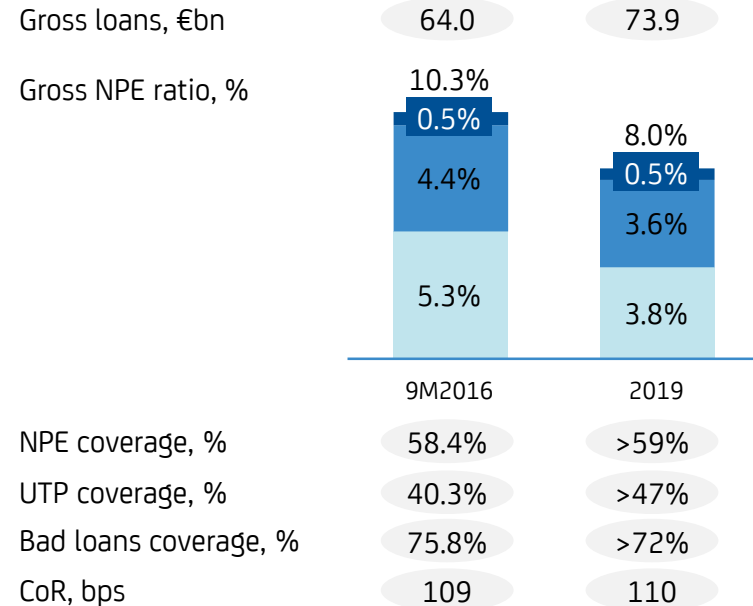
# Commercial Banking CEE stable

Group Core

## Risk discipline initiatives

- Focus on countries with sound macro environment
- Further underwriting process centralization and strict criteria on new origination
- Reinforced collection process on Individual and Small business
- NPE disposal program and enhanced repossession process leveraging on UCTAM<sup>1</sup> experience: to reduce by €1.6bn in 2019
- Managerial KPIs to ensure a sound origination and to monitor risk dynamics of credit portfolio

## Asset quality evolution

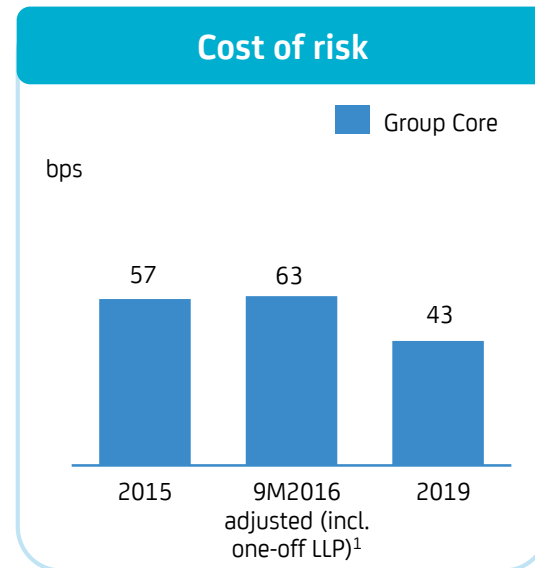
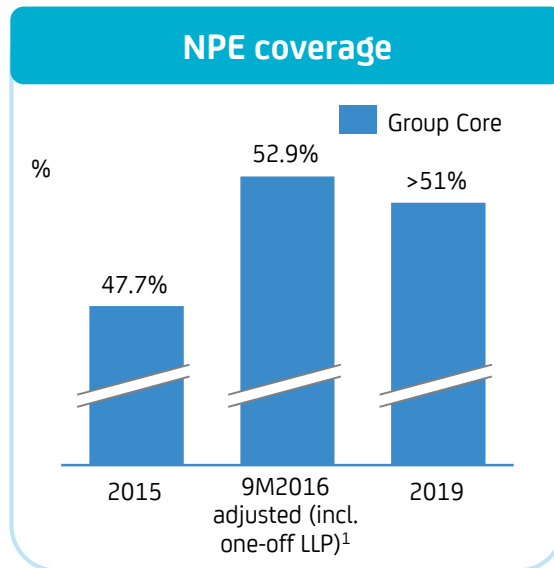
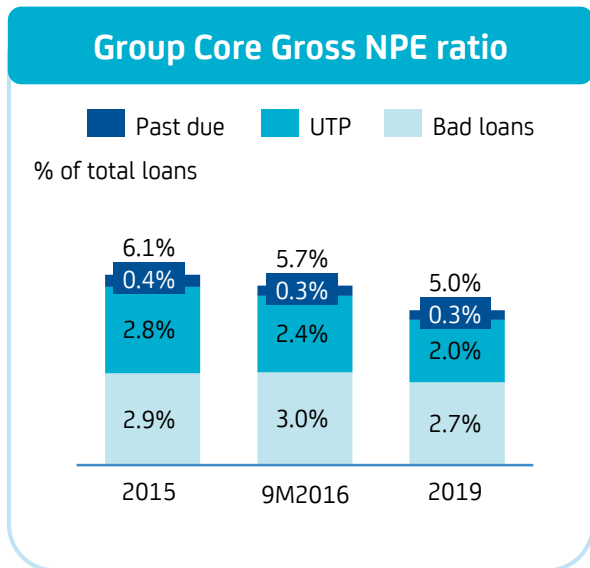


■ Past due
 ■ UTP
 ■ Bad loans



# In 2019, Group Core NPE ratio at 5% and CoR at 43 bps

Group Core



Gross loans, €bn

423.8

437.5

506.7

UTP coverage, %

35.6%

38.5%

>39%

Bad loans coverage, %

62.0%

67.3%

>64%



# Tight monitoring of KPIs – example on Expected Losses

## Group KPIs

### Value creation

ROAC

CET 1 ratio fully loaded

New business EL

Performing stock EL

Δ Gross NPE yoy

Loan and deposit volumes

Δ Opex vs. target

Cross-selling

Net new clients

### Risk & capital governance

### Industrial drivers and clients

## Commercial Banking Italy example

### New business Expected Losses

0.43%

9M2016

*of which*

Corporate 0.42%

Small business<sup>1</sup> 0.51%

Individuals<sup>2</sup> 0.89%

Mortgages 0.11%

### Performing stock Exp. Losses

0.60%

9M2016

*of which*

Corporate 0.86%

Small business<sup>1</sup> 0.88%

Individuals<sup>2</sup> 0.72%

Mortgages 0.28%



# Closing remarks

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**Decisive proactive actions on legacy issue**

**Sound Group Core credit portfolio quality**

**Strong risk discipline on new origination**



# Annex



# Additional disclosure to market

KPIs

	Set of KPIs	Details by	Frequency
Asset quality	<b>BOI classes:</b> Gross loans by UTP, Bad Loans and Past due	Division	Quarterly base (from Q12017)
	<b>Forborne:</b> Gross loans		
Loan dynamics	<b>Loan dynamic evolution:</b> Gross loans by Flow to NPE, Back to bonis, recoveries and write-off	Division	Half-year base (from H12017)
	<b>Quality of new origination:</b> PD, EL		
	<b>Stock risk profile:</b> PD, EL		
Deep dive CBK Italy and Non Core	<b>Workout cash recovery rate</b>	Industry  Type (RE vs. financial), Secured/unsecured <sup>1</sup>  Origination Classification date	Half-year base (from H12017)
	<b>Asset quality breakdown:</b> Gross loans, NPE, NPE coverage		
	<b>Collateral details:</b> Gross loans		
	<b>NPE breakdown:</b> Gross loans		





# Group key risk parameters

	Group			
	2015	9M2016	9M2016 Adjusted	2019
Gross loans, €bn	487.2	493.9	493.9	525.9
Gross NPE, €bn	77.8	74.8	74.8	44.3
Gross NPE ratio, %	16.0%	15.1%	15.1%	8.4%
Net NPE, €bn	38.3	35.8	27.7	20.2
Net NPE ratio, %	8.6%	7.9%	6.2%	4.0%
NPE coverage, %	50.8%	52.2%	63.0%	>54%
Gross past due ratio, %	0.5%	0.4%	0.4%	0.3%
Past due coverage, %	27.0%	28.2%	28.2%	>26%
Gross UTP ratio, %	5.2%	4.6%	4.6%	2.7%
UTP coverage, %	34.2%	34.0%	40.8%	>38%
Gross bad loans ratio, %	10.2%	10.1%	10.1%	5.4%
Bad loans coverage, %	60.6%	61.4%	74.5%	>63%
Cost of Risk, bps	89	77	254	49



# Group key risk parameters – details

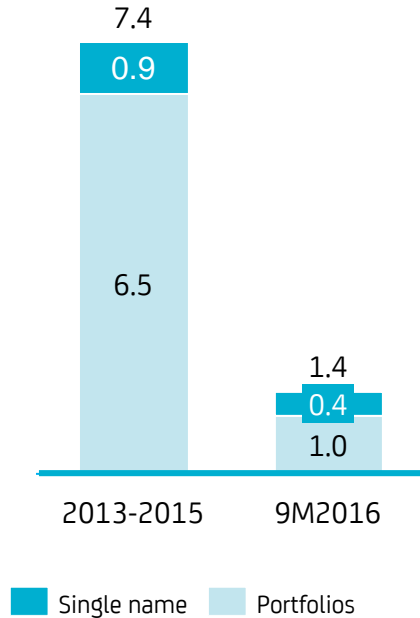
	Group Core				Non Core			
	2015	9M16	9M16 Adj	2019	2015	9M16	9M16 Adj	2019
Gross loans, €bn	423.8	437.5	437.5	506.7	63.4	56.4	56.4	19.2
Gross NPE, €bn	25.8	25.1	25.1	25.1	52.0	49.7	49.7	19.2
Gross NPE ratio, %	6.1%	5.7%	5.7%	5.0%	82.0%	88.1%	88.1%	100.0%
Net NPE, €bn	13.5	12.7	11.9	12.1	24.8	23.1	15.8	8.1
Net NPE ratio, %	3.3%	3.0%	2.8%	2.5%	69.2%	78.2%	71.0%	100.0%
NPE coverage, %	47.7%	49.5%	52.9%	>51%	52.4%	53.6%	68.2%	>57%
Gross past due ratio, %	0.4%	0.3%	0.3%	0.3%	1.5%	1.1%	1.0%	1.0%
Past due coverage, %	25.9%	29.4%	29.8%	>27%	28.9%	25.5%	24.0%	>17%
Gross UTP ratio, %	2.8%	2.4%	2.4%	2.0%	21.6%	21.3%	21.3%	20.8%
UTP coverage, %	35.6%	34.6%	38.5%	>39%	33.0%	33.4%	42.8%	>38%
Gross bad loans ratio, %	2.9%	3.0%	3.0%	2.7%	58.9%	65.8%	65.8%	78.2%
Bad loans coverage, %	62.0%	63.9%	67.3%	>64%	60.1%	60.6%	77.1%	>63%
Cost of Risk, bps	57	43	63	43	412	533	2,775	365



# UniCredit recognized track record in disposals of NPE and in joint ventures

## Italy disposals on Bad loans and UTP

GBV sold (€ bn)



## Joint ventures

Industries	Value extraction tools	Ongoing initiatives
<p><b>Large Industrial</b></p>	<ul style="list-style-type: none"> <li>• <b>Borrower and underlying asset turnaround achieved through a combination of:</b> <ul style="list-style-type: none"> <li>- Upfront investment from the partner via securitisation vehicle</li> <li>- Participation in the new turn-around financing</li> <li>- Operational platform to optimize recovery on single loan/asset</li> <li>- No immediate de-consolidation</li> </ul> </li> </ul>	<p><b>Pillarstone - KKR</b></p>
<p><b>Real Estate</b></p>		<p><b>Sandokan - PIMCO</b></p>
<p><b>Mid Industrial</b></p>	<ul style="list-style-type: none"> <li>• <b>Operational and financial restructuring achieved through a combination of:</b> <ul style="list-style-type: none"> <li>- Contribution by lenders of exposure into SGR for Fund Units</li> <li>- New money injection by external investors</li> <li>- Operational platform to optimize recovery through new management and cost reduction</li> <li>- Immediate de-consolidation</li> </ul> </li> </ul>	<p><b>IDeA Capital</b></p>



# Non Core: Bad loans coverage

Non Core

	Bad Loans 9M2016 adjusted (including one-off LLP) <sup>1</sup>				Bad Loans 2019		
	Gross Bad loans €bn, %		Coverage %	Delta cov. vs. restated	Gross Bad loans €bn, %		Coverage %
<b>Total</b>	€37.1bn	100%	77.1%	+16.5 p.p.	€15.0bn	100%	>63%
<b>Corporate</b>	€13.7bn	37%	83.1%	+20.0 p.p.	€4.7bn	32%	>81%
<b>Small business<sup>2</sup></b>	€5.8bn	16%	82.8%	+22.1 p.p.	€1.5bn	10%	>86%
<b>Old vintage<sup>3</sup></b>	€7.1bn	19%	93.6%	+10.8 p.p.	€0.1bn	1%	>93%
<b>Individuals<sup>4</sup></b>	€0.8bn	2%	88.8%	+32.0 p.p.	€0.2bn	1%	>59%
<b>Mortgages</b>	€5.7bn	15%	47.3%	+10.1 p.p.	€4.4bn	29%	>44%
<b>Leasing</b>	€4.1bn	11%	58.8%	+13.6 p.p.	€4.0bn	27%	>55%



# CBK Italy: Bad loans coverage

	Bad Loans 9M2016 adjusted (including one-off LLP) <sup>1</sup>				Bad Loans 2019		
	Gross Bad loans €bn, %		Coverage %	Delta cov. vs. restated	Gross Bad loans €bn, %		Coverage %
<b>Total</b>	€3.9bn	100%	71.0%	+11.3 p.p.	€4.1bn	100%	>68%
<b>Corporate</b>	€1.2bn	32%	81.7%	+9.7 p.p.	€1.0bn	23%	>81%
<b>Small business<sup>2</sup></b>	€1.4bn	37%	74.5%	+14.7 p.p.	€1.5bn	37%	>73%
<b>Old vintage<sup>3</sup></b>	-	-	-	-	-	-	-
<b>Individuals<sup>4</sup></b>	€0.3bn	8%	87.1%	+0.7 p.p.	€0.3bn	8%	>84%
<b>Mortgages</b>	€0.4bn	11%	46.3%	+11.5 p.p.	€0.7bn	17%	>40%
<b>Leasing</b>	€0.5bn	12%	45.0%	+12.1 p.p.	€0.6bn	16%	>56%

