

## Capital Markets Day 2017

### Commercial Banking Italy

#### **Slide 2 – Transformation of operating model fully on track**

Good morning everybody, it is a pleasure for Giovanni and I to update you on Commercial Banking Italy.

First of all, when it comes to Commercial Banking Italy, Transform 2019 is fully on track. We have made good progress in transforming the operating model, and are delivering solid results.

The investments in our multichannel approach have improved our productivity and customer service while also lowering the cost base.

Operating costs were down 3.2 per cent during the last twelve months, mainly driven by the closure of branches as well as the reduction in the number of FTEs.

We are very focused on risk management, taking an extremely disciplined approach to loan origination and risk monitoring, making sure we are taking the right customers at the right level of risk.

#### **Slide 3 – Economic landscape / Italy open for business**

Italy has a lot of untapped potential and business opportunities.

The macroeconomic environment is steadily improving, with GDP growth expected to reach 1.6 per cent in 2017. This is the country's third consecutive year in the recovery phase and we are seeing the highest growth pace since 2010.

With 5.7 million companies in the country, Italy is the second largest manufacturing economy in Europe, with exports making up 30 per cent of GDP.

High Italian households savings, at around 10 per cent of GDP, and the relatively low domestic credit to the private sector (below euro area average) highlight the interesting growth opportunities for our business.

Moreover, the currently low but rapidly growing internet penetration in Italy provides the perfect conditions for a successful implementation of our remote channel strategy.

#### **Slide 4 – Key business priorities and achievements / retail commercial performance mainly driven by productivity increase**

Over the past twelve months we have made significant progress on the Transform 2019 plan. Let me mention few examples.

We have increased assets under management by €8.8 billion, thanks in part to an expanded product offering following our partnership with Amundi, leading to a ~7 per cent increase in investments fees and commissions year-on-year.

The 36 per cent ratio of assets under management on total financial assets (increased by two percentage points) shows the potential we have in the coming two years.

On retail lending, we experienced significant growth in consumer finance in a market that is below European average level in terms of loan volumes on GDP.

We increased our share of wallet among small business customers, which have a risk adjusted profitability significantly above cost of capital.

We were also able to improve our market share in residential mortgages, whilst preserving profitability.

Our strong commercial performance in retail was fuelled by significant productivity gains of 20 per cent, as a result of a leaner sales force (-7 per cent) and an increase in sales (+12 per cent) over the past two years.

I now leave the floor to Giovanni, who will share more details on the Corporate Banking achievements.

### **Slide 5 – Key business priorities and achievements / The new Corporate model delivering tangible results**

Thank you Andrea and thank you all for participating in this session. Let me give you an overview of the decisive actions we have taken and the results achieved over the last twelve months.

Our corporate network focused on loan volume generation, resulting in new medium-term loans growing by 25 per cent with a sound credit profile.

During 2017, we set up several cross-selling initiatives at Group level which are already showing promising results. CIB is fully plugged into Commercial Banking Italy and our joint venture and structure finance product platforms enabled us to generate revenues of almost €230 million in the first nine months of 2017, up around 10 per cent versus the previous year.

Commercial initiatives were rolled out to target foreign subsidiaries of Italian customers, fully leveraging on our international footprint, with the number of international accounts increasing by 11 per cent.

These results were possible thanks to the simplification of our operating model, with an accelerated decision-making process.

Finally, we have rolled out a new client segmentation model to match different corporate clients' needs, at the same time also maximising cross-selling opportunities.

### **Slide 6 – Key business priorities and achievements / transformation of operating model fully on track**

Thank you Giovanni.

In 2017 we will reduce FTEs by around 2,700, all of these already provisioned. Since the end of 2015, there have been around 4,000 exits, representing more than 50 per cent of the overall Transform 2019 target.

We have invested in retraining our people and in hiring selected profiles to rebalance the competences required by an evolving business environment.

The rationalisation of our commercial network is proceeding at full speed. Since 2015, around 620 branches have been closed, accounting for more than 70 per cent of the Transform 2019 target. Of this total, 391 branches were closed in 2017.

We have also invested in redesigning the format of our branches and in the development of remote channels, enabling us to meet the changing behaviours of our customers.

As a result of this strategy, although we are growing the total number of transactions, the number of in-branch transactions on basic services decreased by 15 per cent year-on-year.

### **Slide 7 – Multichannel strategy / Innovative branch footprint redesign**

Let's look more closely on the redesign of the branches. We have deployed three innovative designs across the revamped network, which can be split into the following categories: full service, smart and cash less branch.

- Full service branches provide a 360 degree service to customers with specialised advisory services and transactional services provided by tellers. Full service branches are equipped with advanced ATMs (so-called "casse veloci");
- Smart branches have a higher degree of automation and, without the presence of tellers, provide simplified advisory services and transactional services through advanced ATM;
- Cash less branches are fully automated and provide basic products, remote advice services and transactional services by ATMs.

As of today we have already about 400 smart and cash less branches. By 2019 we plan to double this figure, to a total of 800.

Since the start of the year we have also developed a new service model dedicated to small business customers through 140 business centres, providing specialised advisory services.

### **Slide 8 – Multichannel strategy / Foster digital adoption**

We are focused on our customer's evolving needs, including their increased use of multichannels.

We have strongly increased internet and mobile users.

This is testament to our new simple, engaging and secure global internet banking platform and to the instant mobile payments experience through our wallet solution.

As of September 2017, we have 3 million online banking users, representing a 6 per cent year-on-year increase, and 1.6 million mobile customers, up 18 per cent in last twelve months.

We have incorporated new digital processes, such as the digital signature and the SMS/token signature. These processes allowed us to digitalise 38 per cent of the contracts, representing 7.5 million of the total contracts signed since their introduction in 2015;

As of today, we have installed more than 900 advanced ATMs, which have doubled the speed of migration towards automated transactions within the branches they are installed in.

Our ambition is to have 1,400 of them across the network in 2019.

### **Slide 9 – Multichannel strategy / Reinforcing leadership in remote sales**

Last but not least, we are reinforcing our leadership in remote sales.

Since 2015, the number of remote sales has doubled and accounts for almost 20 per cent of all sales.

Over the past twelve months, the 40 per cent growth in remote sales has largely been driven by responsible pre-approved lending solutions and bancassurance product sales.

Currently, we are focusing our attention on increasing the number of products available through the digital platform.

Thanks to the joint programme between the risk division and business, so-called credit revolution, we expect to increase the number of pre-approved lending solutions for individuals and small business customers.

At the same time, we are developing a robo-for-advisory process aiming at improving the efficiency and effectiveness of our relationship managers, leveraging on our internal Fineco best practice.

And now, I would like to show you a short video illustrating our seamless multichannel strategy.

### **Slide 10 – Video on Multichannel strategy**

We would like to take this opportunity to show you a brief video, highlighting our multichannel strategy.

### **Slide 11 – End-to-End delivery unit to optimise internal processes and enhance customer satisfaction**

Those are the key pillars of our multichannel strategy, and the clip was realised thanks to the contribution of our managers who are driving the multichannel transformation.

Finally, there is one more key element of the transformation strategy of Commercial Banking Italy I would like to drive you through: the end-to-end delivery unit.

The unit was created at the beginning of 2017 and its purpose is to simplify the operating processes of more than 20 key products. Since its launch in March, the unit has been working at full speed, with 140 colleagues putting in around 13,000 working days to generate innovative product ideas.

The effectiveness of E2E initiatives are measured by four key things: efficiency, customer satisfaction, how they improve colleagues' experiences and their sustainability from a risk management perspective.

The E2E delivery unit is already delivering promising results. As an example, in terms of efficiency improvements, we expect to achieve more than 450 FTE reductions by the end of 2017. On customer satisfaction, the unit has developed our new 100 per cent self-service process of cards management, available 24/7 on internet and mobile banking.

And now I leave the floor to Giovanni, thanks for your attention.

## **Slide 12 – SMEs as backbone of the Italian ecosystem**

Let's talk about the innovative approach we are deploying in our corporate banking business. By "innovative" I refer to how we have successfully leveraged on some of our service models outside their traditional scope, from small enterprises to large caps, with particular focus on digital.

Before talking about HOW, let's focus on WHY.

This is the Italian economy: 97 per cent of companies in Italy are micro enterprises with a turnover below €2 million or fewer than 10 employees. SMEs represent more than half of the Italian GDP and they are the backbone of Italian economy and hopefully the biggest companies of tomorrow.

The macro scenario is positive: as we mentioned earlier, Italian GDP will be growing by 1.6 per cent this year and 2017 will be the third consecutive year of recovery, led by both domestic and external demand.

In this context there are four key things that drive change with our corporate customers :

- First, internationalisation: companies continue to look abroad, internationalising their commercial activities and seeking access to new markets
- Second, digitalisation: companies leverage more on digital innovation, increasing technology investments, initially as a way to optimise the cost base - also supported by public incentive schemes such as Industry 4.0 - but also as an opportunity to transform their business models
- Third, generation handover: family businesses see next generations coming up. This is one of the leading drivers of change, in particular when combined with "managerialisation"
- and, finally, access to capital markets, both debt and equity, as an enabling factor to fuel growth. UniCredit is here to support its customers on this route. We believe that Italian corporates' access to capital markets will progressively increase as the ECB will decrease liquidity flood and international investors will move to smaller targets.

Considering that we are the second largest corporate lender in Europe, these four drivers are a concrete source of cross-selling opportunities for UniCredit. We have the right geographical span, a well-balanced client proximity in Italy and a winning CIB product platform.

## **Slide 13 – Rainbow – an Italian growth story**

Now, we would like to show you a brief video outlining how we are supporting the emerging generation of entrepreneurs.

## **Slide 14 – New segments in place to enhance commercial targeting...**

This is one of the hundreds of Italian companies succeeding to compete on the global arena, starting from a simple entrepreneurial intuition. This is our playing field for corporate banking. Let's elaborate now on HOW we are evolving.

We shaped our business model to serve all types of enterprises with "four plus two" clients' segments with a dedicated service model for each. As I said, we are not "inventing" but rather "innovating": extending and applying models and best practices already existing in the organisation.

Let's have a look at segment by segment:

At the top, you have LARGE corporates (mid caps in Europe, large caps for Italy) served mainly through the CIB/Commercial Banking product platform - focusing on specialisation in a competitive cost-to-serve environment.

At the other end of the scale, we have SMALL BUSINESS: with a return on allocated capital in excess of 15 per cent, served by a progressive extension of the retail model, supported by remote advisory for basic banking needs and dedicated business centres - as you just heard from Andrea.

One step above we have the MID corporates with simple banking needs. We offer them the best practices from small business, leveraging on remote and internet banking.

Additionally we have TOP corporates: this is the most heterogeneous and complex segment. We decided to serve this segment with a more sophisticated and targeted approach, combined with dedicated analysis of specific industry needs across supply chains.

Finally, let me mention the other two verticals on the right: REAL ESTATE and PUBLIC SECTOR, served through dedicated business units.

### **Slide 15 – ... enabled by a new digital infrastructure**

A new digital infrastructure is being developed to support the client segmentation - let me give you some concrete examples.

First, we have developed B.Link, a proprietary CRM tool which leverages on real time access to the bank's massive amount of data - our "Big Data" - to help our relationship managers better address client needs.

B.Link is a digital workbench with, among others, portfolio overviews, risk monitoring tools, action planners and pitch libraries. It provides advanced commercial targeting capabilities to effectively deploy our segment approach, enhancing interactions with product factories and cross-selling. And it's a tool that works in mobility.

A second example is the evolution of our online banking front-end, to be better fitted for each customer segment.

On the one hand, a new integrated portal for larger corporates and CIB customers requesting complex products, specialisation and quick responses and, on the other hand, a simple online banking for SMEs will be introduced in 2018, with a series of value-added services.

As a third example, we are integrating advanced analytics into every function and process. This already allows our customers to enjoy a new multichannel experience with digital documents exchange and mobile signature.

Finally, we are progressing on the industrialisation of the mid- and back-office functions through re-training of staff and further digitalisation. This to make us more productive and ultimately improve the customer experience.

### **Slide 16 – Disciplined risk approach in underwriting and monitoring**

Once again, every day we ensure we have a very disciplined approach to risk.

Since we met last year, we have taken decisive actions to improve the quality of new origination and to effectively monitor our existing stock.

We have focused our new loans origination on investment grade classes (increased by +10 per cent vs December 16), also leveraging on the identification of individual and small business clients eligible for pre-approved loans.

At the same time, our focus on monitoring the loans stock was further strengthened, thanks to specific actions on the portfolio, and through the implementation and cascading of dedicated KPIs to all network levels.

Looking forward, the reduction of the non-performing exposure will not always be linear, also considering the ongoing pro-active management of legacy files.

In this context, we expect our NPE for Q4 2017 to be slightly higher than Q3, due to some of these legacy files and other seasonal effects.

Going forward, we are totally committed to work with our risk colleagues in order to achieve 2019 NPE targets for Commercial Banking Italy, which are fully confirmed.

### **Slide 17 – Closing remarks**

To sum up.

The engine is working very well, benefiting from the strong business momentum. And our strategic actions are yielding tangible results.

The changes we are making to address our customers' ever evolving needs, including the multichannel experience, will further support our commercial performance.

We continue to reduce the cost base according to plan.

Strict risk discipline on loan origination and tight risk monitoring are increasingly embedded in our day-to-day way of working.

Transform 2019 is fully on track.

Thank you for listening and now we are ready to take questions.