

Banking Accounting & Market Analysis

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Close up: NII

+ Relations with customers

+ Securities issued

= Customers Dealing

+ Instruments at AHC other than loans

+ Other FAs and FLs at FV-PL

+ Other FAs and FLs at FV-OCI

= FAs and FLs

+ Interest income on impaired assets

+ Reversal in (unwinding of) the time value in the valuation of impaired assets

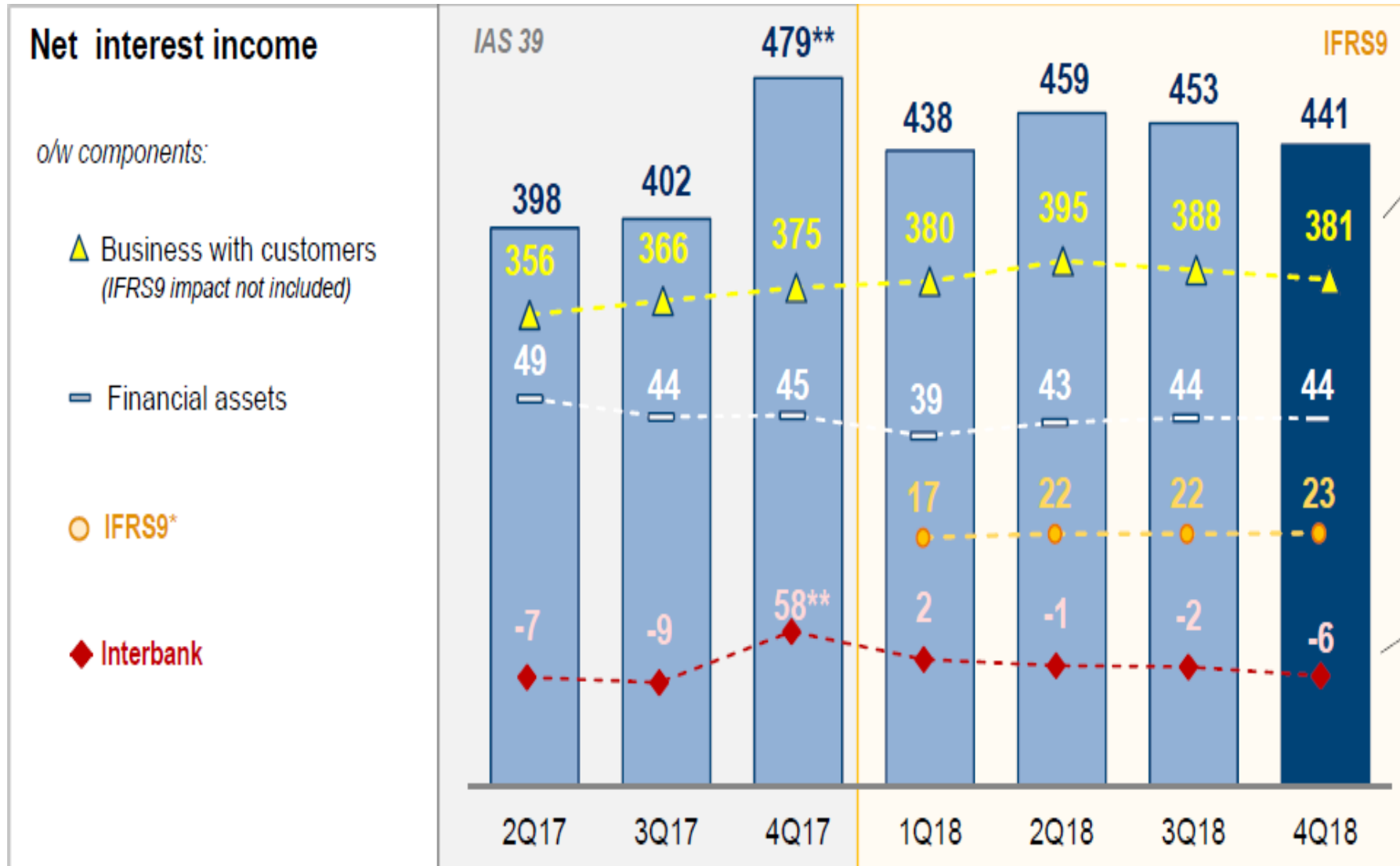
= Non Performing Assets

Relations with banks

Differentials on hedging derivatives

Other

NII: Total and by Component



NI I: another view

NII Drivers

- **Quantity of Interest Yielding Financial Assets and Liabilities**

- Commercial Dynamics (Loans & Deposits to/from clients)
- Proprietary Portfolio and Wholesale Funding
- Interbank Market
- Time value reversal of the recovery value

- **Interest rate spread**

- Loans vs. Investment Portfolios
- Wholesale vs. Retail Funding
- Maturity Transformation
- Credit Risk Appetite

- **Key factors**

- State of the economy
 - Degree of competition
 - Monetary Policies
 - Regulatory constraints (on capital, leverage)
-

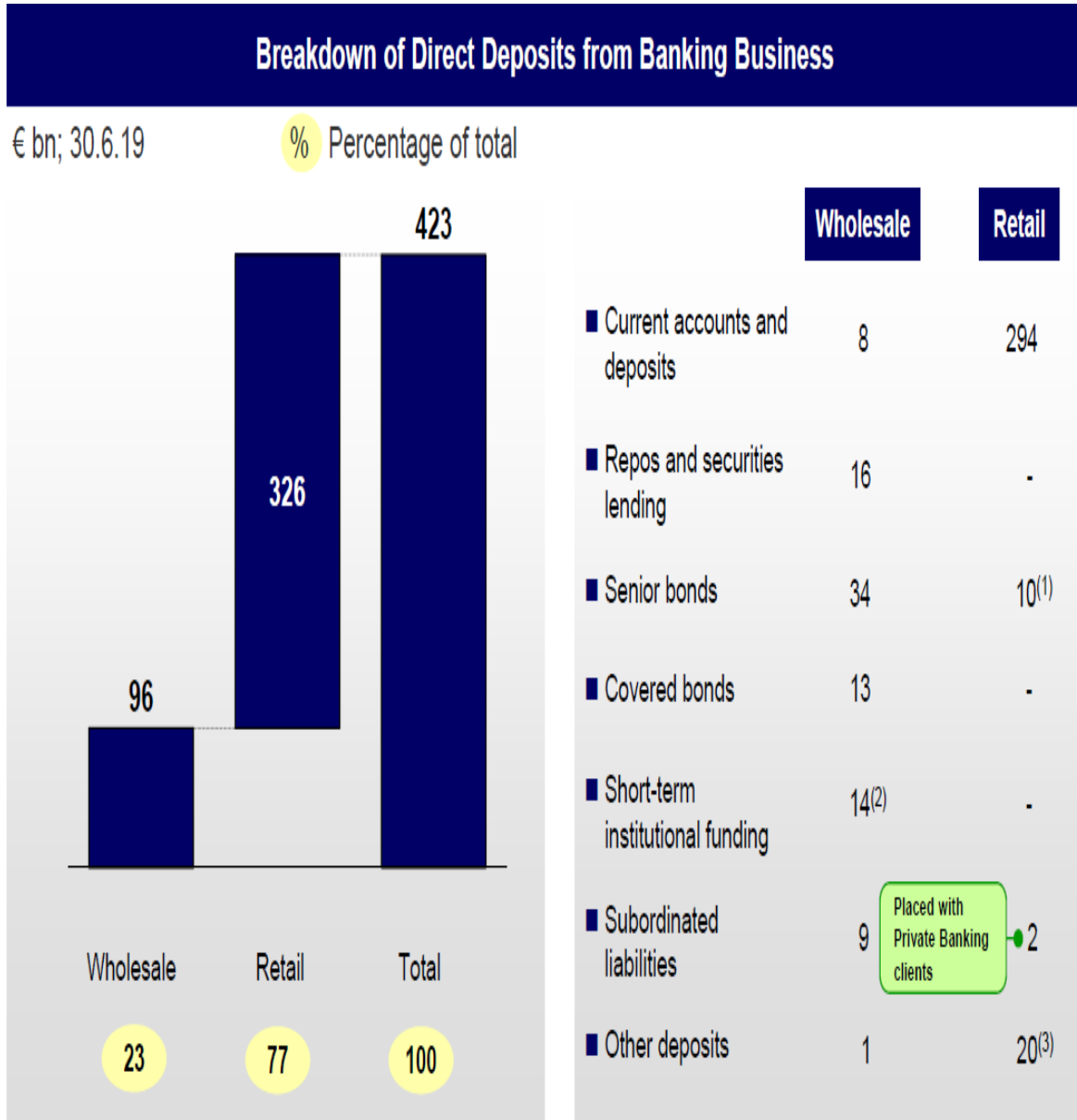
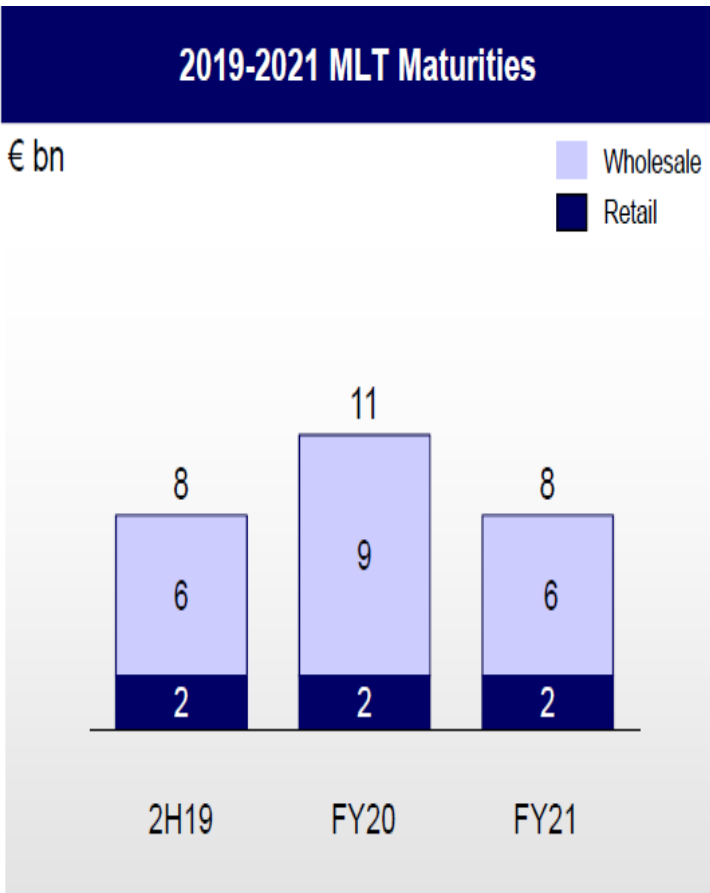
Volume & Spread Effects

Net interest income (€/mln)	2Q18		3Q18		4Q18		1Q19		2Q19	
	average volume	average rate	average volume	average rate	average volume	average rate	average volume	average rate	average volume	average rate
Commercial Loans	78.7	2.42%	77.9	2.33%	77.2	2.32%	74.6	2.31%	74.9	2.25%
Retail (including small businesses)	39.8	2.62%	39.6	2.54%	39.8	2.50%	39.5	2.49%	39.7	2.45%
Corporate	33.0	2.07%	32.7	1.97%	31.9	1.99%	30.3	2.01%	30.7	1.94%
Non-Performing	5.9	3.03%	5.5	2.97%	5.5	2.98%	4.8	2.80%	4.5	2.65%
Commercial Direct funding	73.5	-0.34%	71.8	-0.32%	69.4	-0.31%	67.8	-0.32%	69.0	-0.32%
Retail (including small businesses)	46.9	-0.35%	45.9	-0.32%	45.6	-0.31%	45.6	-0.31%	46.5	-0.31%
Corporate	20.7	-0.21%	19.5	-0.17%	18.9	-0.19%	18.2	-0.27%	18.3	-0.25%
Non-Performing	0.3	-0.09%	0.3	-0.08%	0.3	-0.08%	0.3	-0.07%	0.3	-0.04%
Other Customers	5.6	-0.81%	6.1	-0.81%	4.5	-0.80%	3.7	-0.72%	4.0	-0.75%
Commercial NII	445.3		426.3		430.9		391.0		382.6	
Non-Commercial NII**	3.2		15.8		-0.1		18.0		21.7	
Total Interest Income	448.5		442.1		430.8		409.0		404.3	

NII: More Granularity on stock variables

bln/€	1 Jan '19 (IFRS 16)	31 Mar '19 (IFRS 16)	30 Jun '19 (IFRS 16)
...from ORDINARY CUSTOMERS	76.18	75.75	76.62
<i>of which</i>			
Current accounts and deposits	65.89	65.66	66.93
Term deposits, financing & other payables	2.32	2.32	2.21
Leasing payables	0.39	0.40	0.41
Bonds issued	7.21	7.09	6.87
Certificates of deposit	0.37	0.27	0.20
...from INSTITUTIONAL CUSTOMERS	16.43	17.89	18.16
<i>of which</i>			
Covered Bonds	12.47	13.02	12.27
EMTN	3.75	3.42	4.61
Repos with CCG and other	0.22	1.45	1.29
TOTAL DIRECT FUNDING	92.61	93.63	94.79

NII: Underlying Liabilities



KPYs and Managerial Actions

- **Growth of the loan portfolio**
 - Larger volume to compensate lower spread margin
- **Increase of the interest spread**
 - Improving the mark up
 - Lower vs. higher credit quality
 - Less competitive client niches vs. highly competitive client niches
 - Lower vs. higher collateral
 - Longer vs. shorter maturity
 - Improving the mark down
 - Retail funding vs. wholesale funding
 - Short vs. long maturity
 - Transaction accounts vs. investment deposits

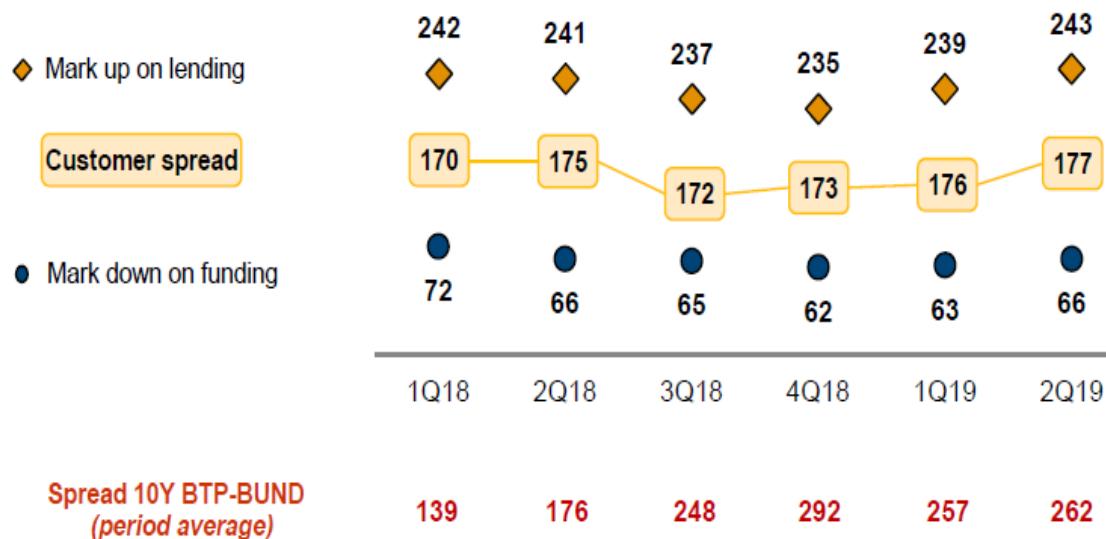
Interest Spread: Mark Up & Mark Down

STOCK

GROUP
CUSTOMER
SPREAD*

(M/L and SHORT
TERM, BANKING
GROUP +
PRODUCT
COMPANIES

In bps against 1M
Euribor, including
hedging derivatives
and excluding
TLTRO2



TREND

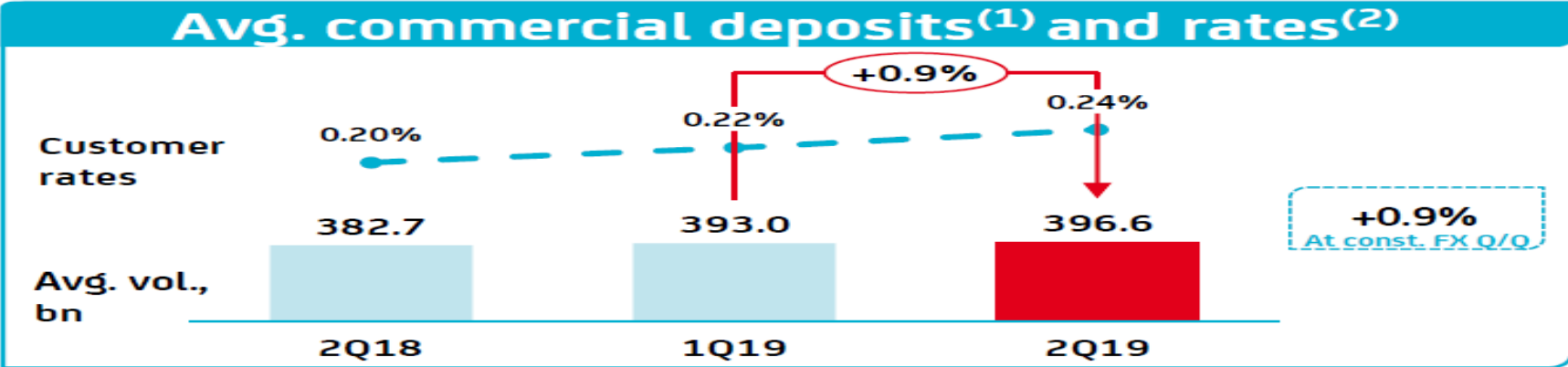
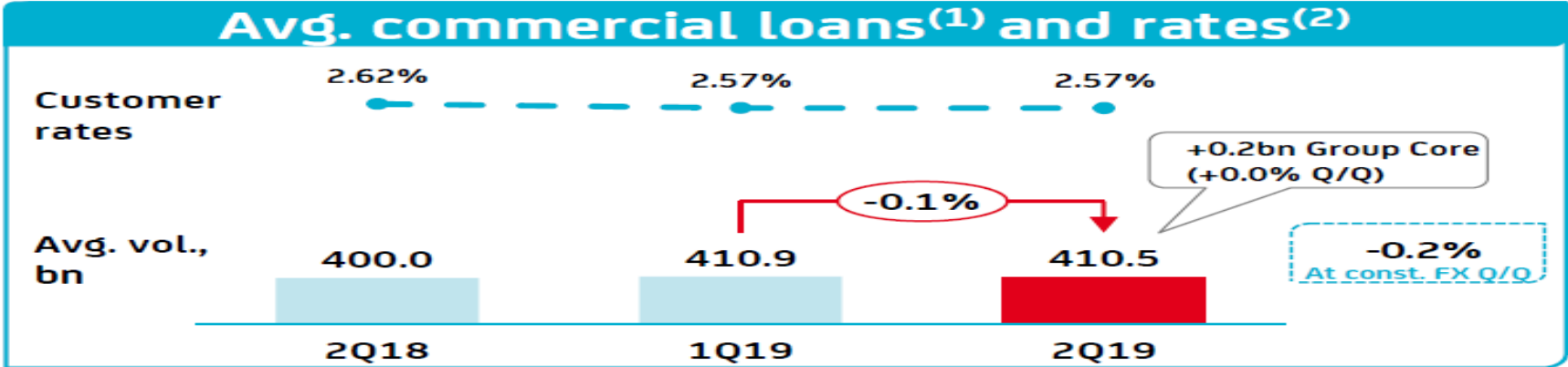
FOCUS ON
MEDIUM/LONG
TERM
VOLUMES &
COMMERCIAL
SPREADS

BANKING
PERIMETER

	1H18	2H18	1H19	1Q19	2Q19
NEW ORIGINATIONS					
Flows	+7.50 bln/€	+6.33 bln/€	+5.56 bln/€	+2.77 bln/€	+2.79 bln/€
Commercial Spreads	178 bps	192 bps	240 bps	243 bps	237 bps
REIMBURSEMENTS					
Flows	-6.77 bln/€	-6.95 bln/€	-6.80 bln/€	-3.35 bln/€	-3.45 bln/€
Commercial Spreads	197 bps	197 bps	193 bps	190 bps	196 bps

In line with data on rates at system level** which lost 6 bps on new originations from March to June 2019

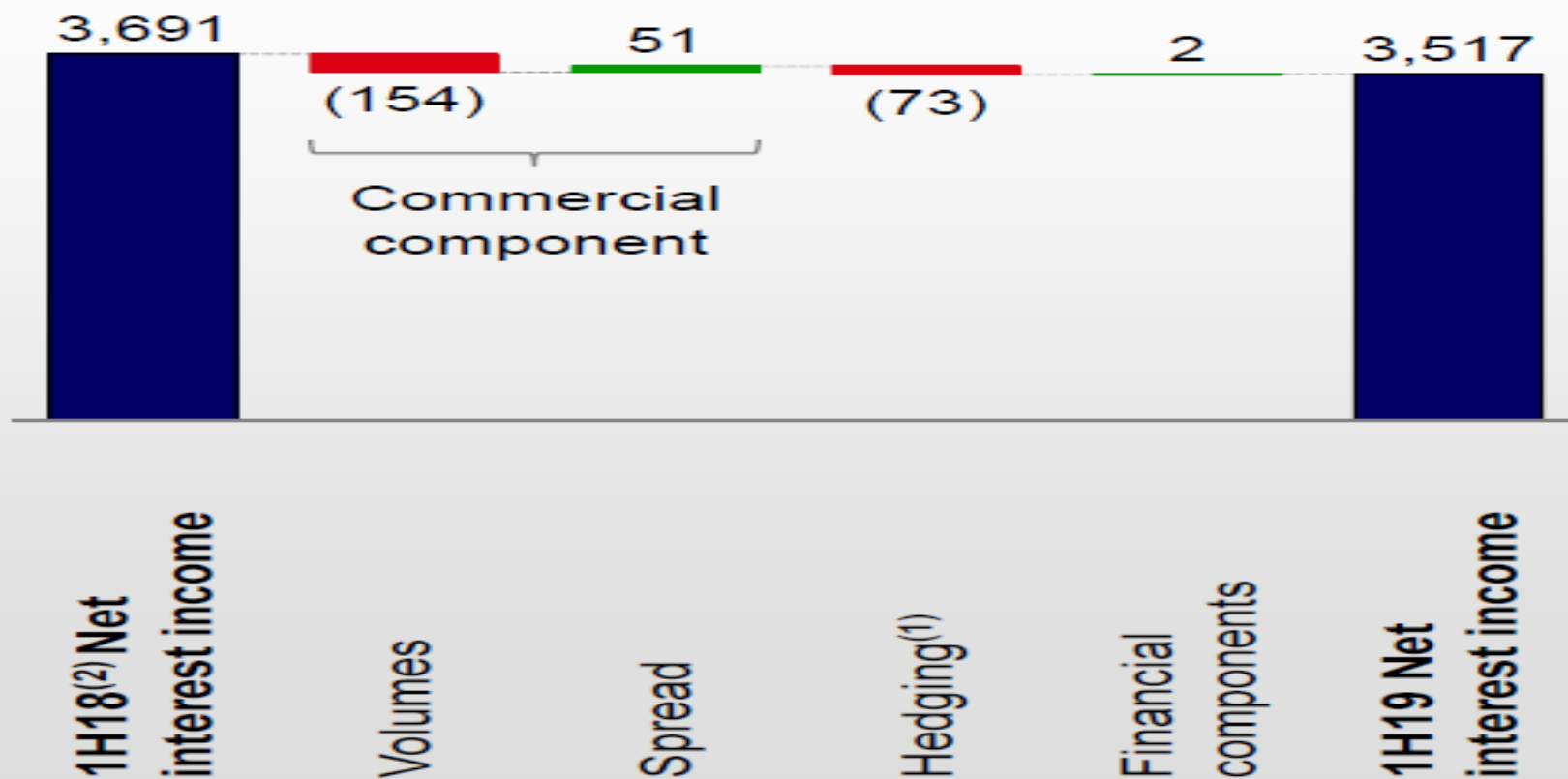
Interest Spread: Rates



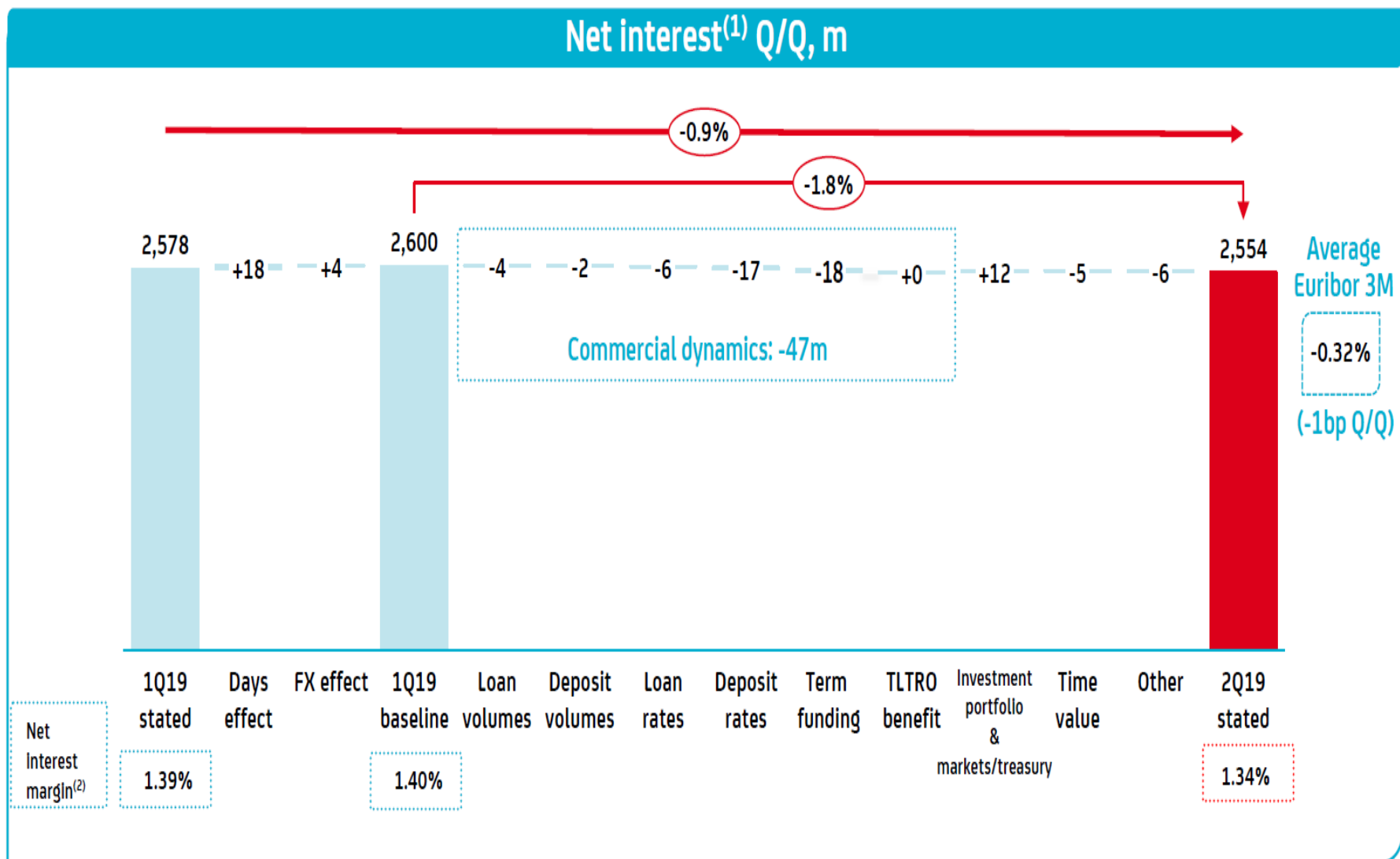
NII Trend: Determinants

Yearly comparison

Net interest income, Δ 1H19 vs 1H18⁽²⁾
€ m



NII Trend: Determinants: a More Granular View



(1) Net contribution from hedging strategy of non-maturity deposits in 2Q19 at 349m, -10.3m Q/Q and -20.1m Y/Y.

(2) Net interest margin calculated as interest income divided by interest earning assets minus interest expenses divided by interest bearing liabilities.



Close up: NFCI

+ Guarantees Granted / Received

+ Collections and Payment Services

+ Credit and Debit Cards

+ Current Accounts

= **Banking Services (Financing services + Transactions Services)**

+ Dealing and Placement of Securities

+ Currency Dealing

+ Portfolio Management

+ Distribution of Insurance Products

+ Other

= **Financial Services**

NFCI: a More Granular View

€/mln	1Q19	2Q19	2Q19 vs. 1Q19	1H18	1H19	1H19 vs. 1H18
Wealth Management fees:	155	156	0.9%	359	311	-13.3%
WM Placement	49	52	5.6%	138	101	-26.5%
Continuing	85	85	0.2%	177	170	-4.0%
Custody	10	9	-17.9%	22	19	-11.6%
Protection	10	10	3.5%	22	20	-7.3%
Traditional Banking fees:	247	252	2.1%	547	498	-8.8%
Credit facilities	119	121	1.0%	282	240	-14.8%
International business	12	13	6.7%	28	26	-8.1%
Payment services and client expense recovery	115	118	2.7%	237	233	-1.8%
Other	-43	-44	4.0%	-96	-87	-9.3%
TOTAL NET FEES	359	364	1.4%	810	723	-10.7%

Drivers of NFCI

- **Banking Services**

- Financing Services

- Loans Volume
 - Net New Clients

- Transaction services

- Loans and Deposit Volumes
 - Net new Clients

- Other banking services

- Deposit Volume
 - Net New Clients

- **Financial Services KPI and Targets**

- Assets Under Custody & Under Management

- Assets Under Custody vs. Asset Under Management

- Recurring Fees vs. Up Front Fees

- Bundling the Value Chain vs. Unbundling the Value Chain

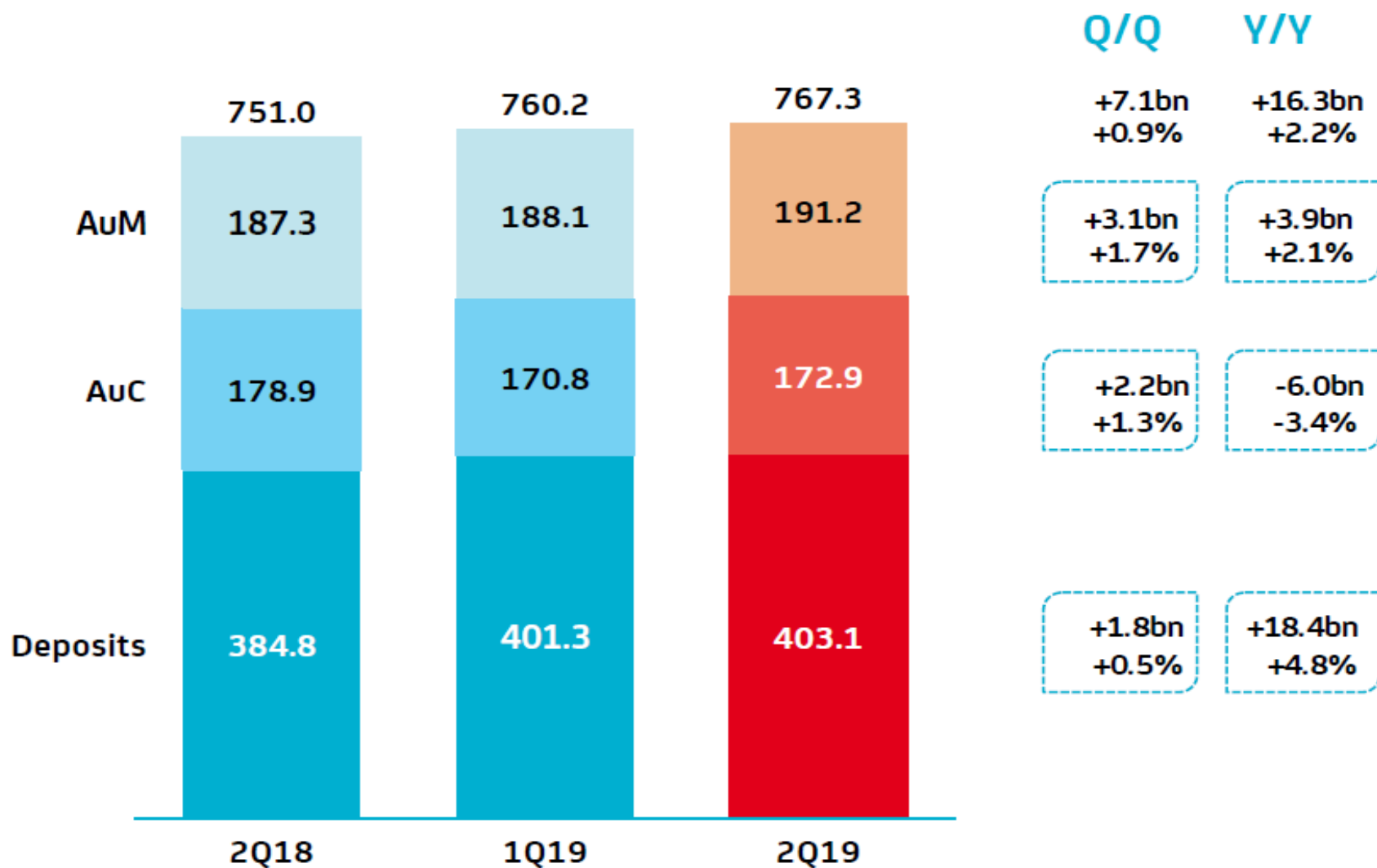
- **Cross Selling Targets**

- Between services and deposit/lending

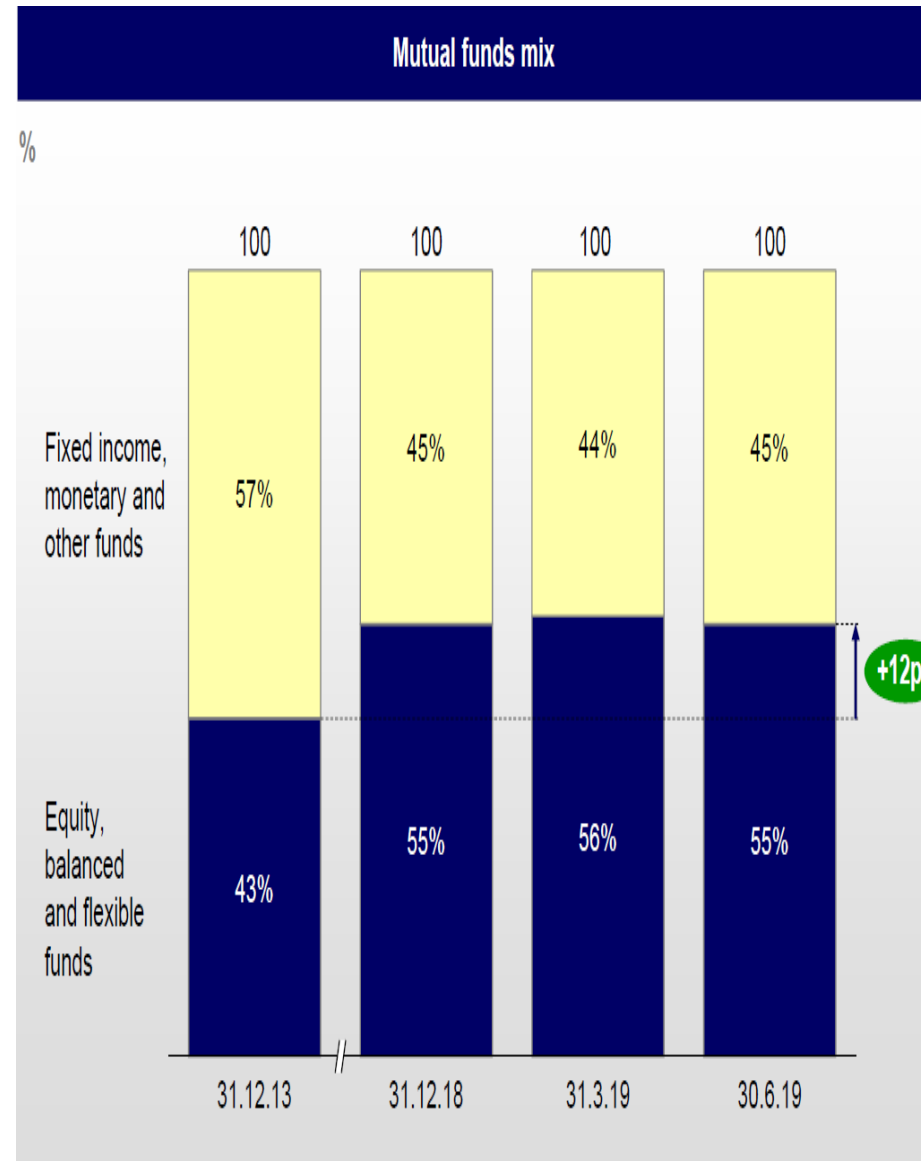
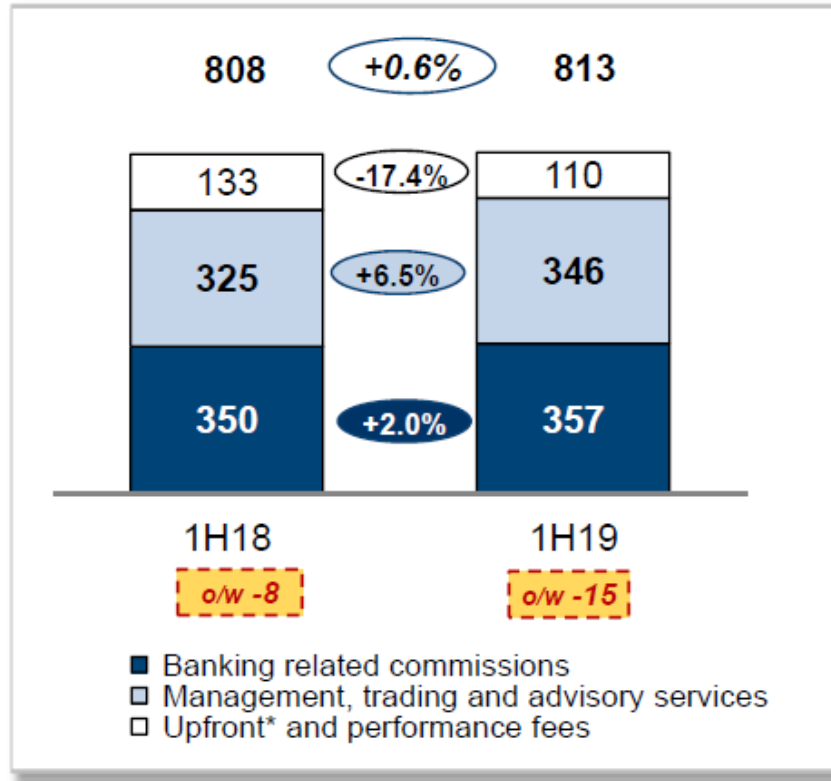
- Among banking and financial services

NFCI: Source of Income

Group TFAs⁽¹⁾ 2Q19, bn



Source of Fee Income: a More Granular View



AuM	41.60	43.50	44.06
Bancassurance	24.69	25.52	26.14
AuC	28.45	29.75	29.25
TOTAL INDIRECT FUNDING	94.74	98.77	99.46
TOTAL FUNDING (DIRECT + INDIRECT)	187.35	192.40	194.25

NFCI: current strategic paths

- **Secure a better client focus**
 - network specialization,...
- **Paramount importance of managing client segmentation / relationship**
- **Match such segmentation with properly designed sale channels**
- **Coordinated commercial activity to boost cross selling**
 - Joint targeting
 - Joint business meetings
 - Increased pitch intensity
- **Flexibility** to address clients' needs efficiently and rapidly...
- ... but also **simplicity** to ensure a sustainable governance of the business model
- ***Business Line less demanding in terms of direct capital requirements but be aware of relevant operational & reputational risks***

P&L on FAs designated at FV

+ Interests Rates

+ Equity Instruments

+ Currencies

+ Structured Credit Products

+ Credit Derivatives

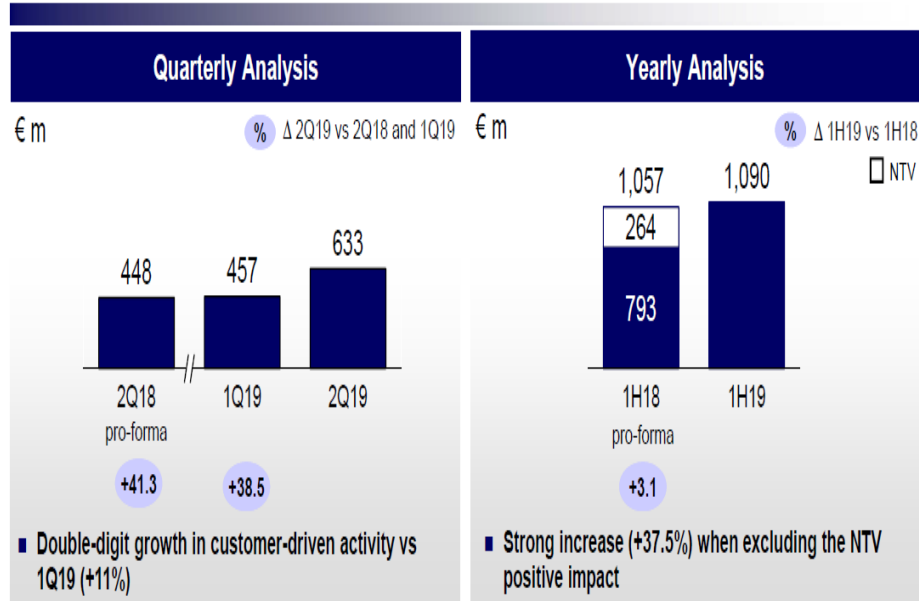
+ Commodity Derivatives

= Income from operations on assets designated at FV-P&L

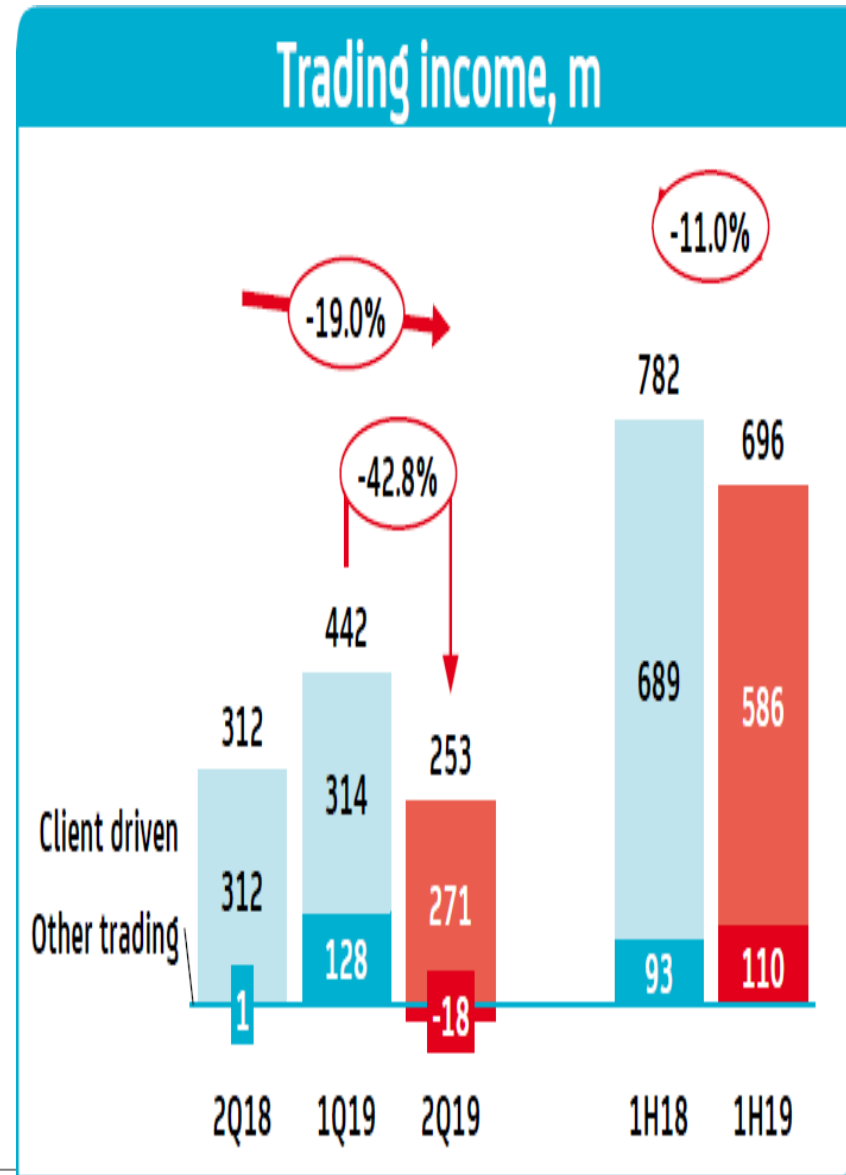
+ Profit/Loss on disposal/repurchase of assets at FV-OCI and FLs

Securities Portfolio at FV: Income Contribution

Profits on Financial Assets and Liabilities at Fair Value: Excellent Performance



	Contributions by Activity					
	2Q18 pro-forma	1Q19	2Q19	1H18 pro-forma	1H19	
Customers	86	142	136	225	278	
Capital markets	98	82	65	382 ⁽¹⁾	147	
Trading and Treasury	261	217	426	444	642	
Structured credit products	3	16	7	5	23	

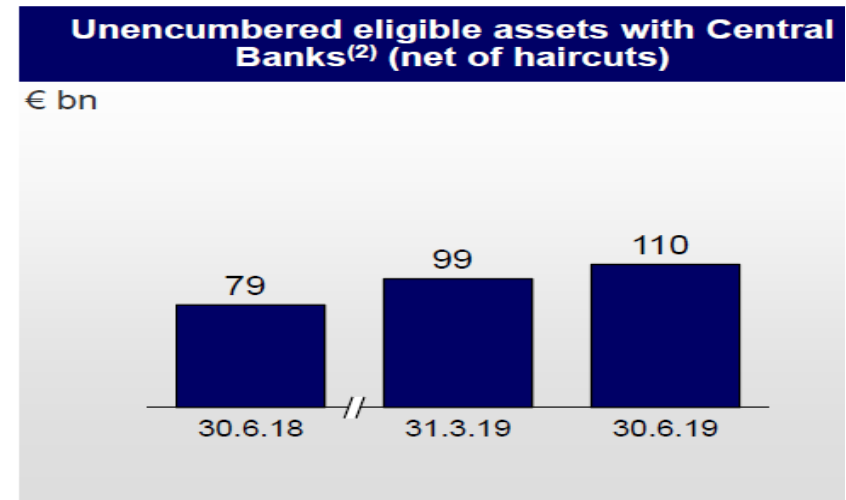
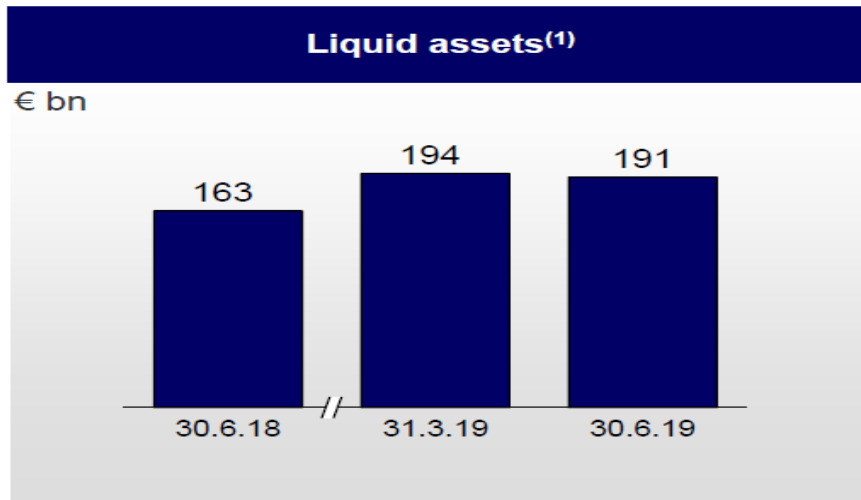
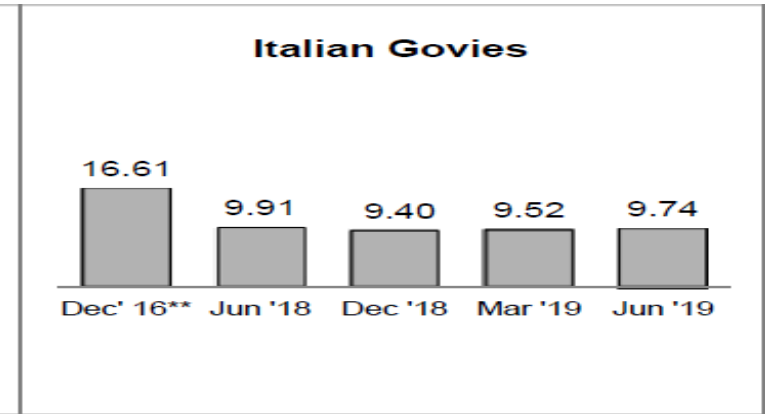
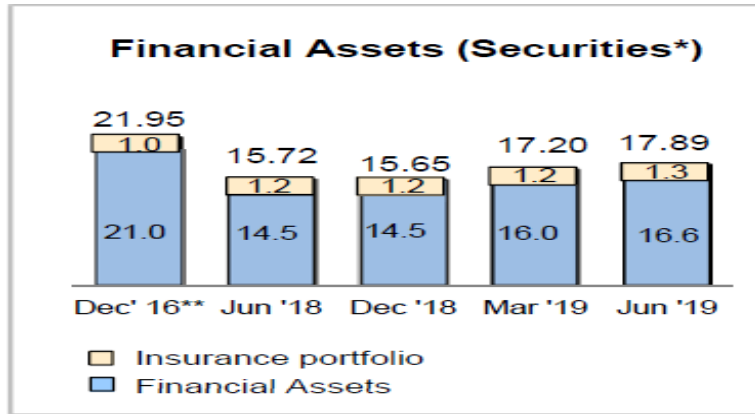


Securities portfolios and trading

Trading/Disposal/Valuation Hedging of Financial Assets (€/mln)

	2Q18	3Q18	4Q18	1Q19	2Q19
Net result from trading/hedging	-11	5	25	36	23
Gains/losses on disposals/repurchases	13	7	-22	12	6
Net result from financial assets/liabilities at FVTPL	-33	-16	-21	-20	-14
Total	-30	-3	-18	27	14

FA at FV: Key Issues



- TLTRO II: €60.5bn⁽³⁾
- Loan to Deposit ratio⁽⁴⁾ at 93%

(1) Stock of own-account eligible assets (including assets used as collateral and excluding eligible assets received as collateral) and cash & deposits with Central Banks

(2) Eligible assets freely available (excluding assets used as collateral and including eligible assets received as collateral) and cash & deposits with Central Banks

Operating Costs

Wages & Salaries

+ Social Security Charges

+ Other

= **Personnel Expenses**

IT Expenses

+ Real Estate Expenses

+ Professional & Legal Expenses

+ Advertising & Promotional Expenses

+ General Structure Costs

+ Indirect Personnel Costs

+ Indirect Taxes and Duties

+ Other Costs

- Recovery of Expenses and Charges

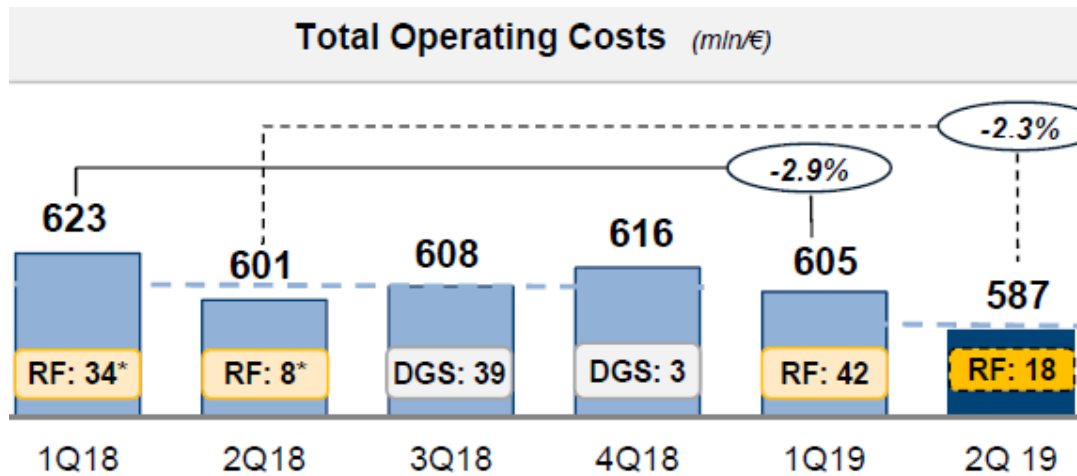
= **Administrative Expenses**

Property & Equipment

+ Intangible Assets

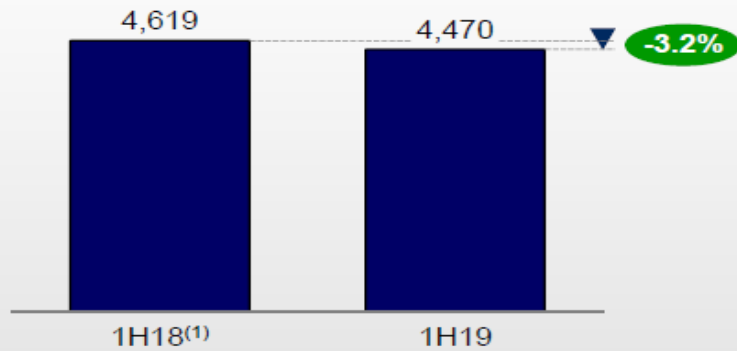
= **D&A (Adjustments)**

Operating Costs: Reporting



€ m

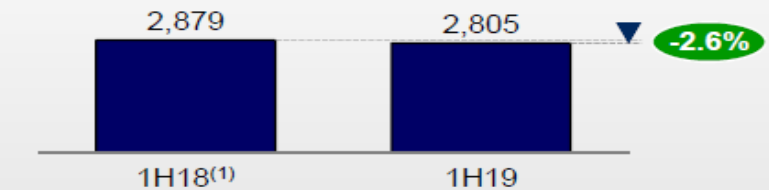
Total Operating costs



Administrative costs



Personnel costs



Depreciation

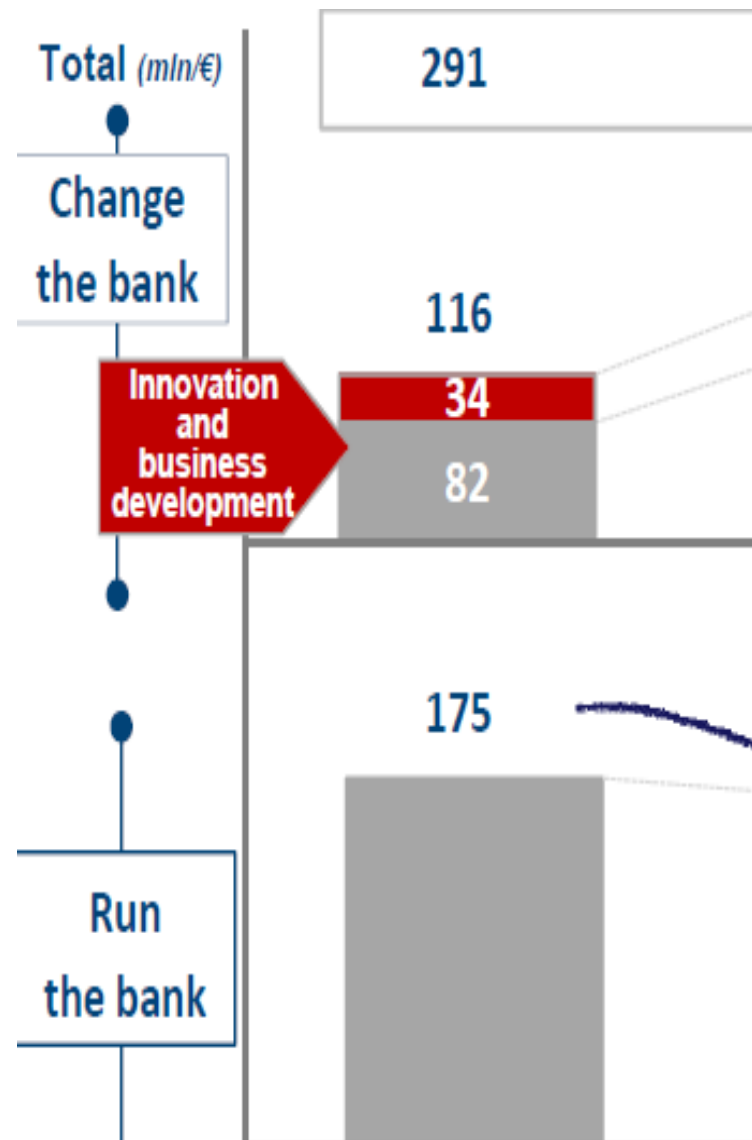
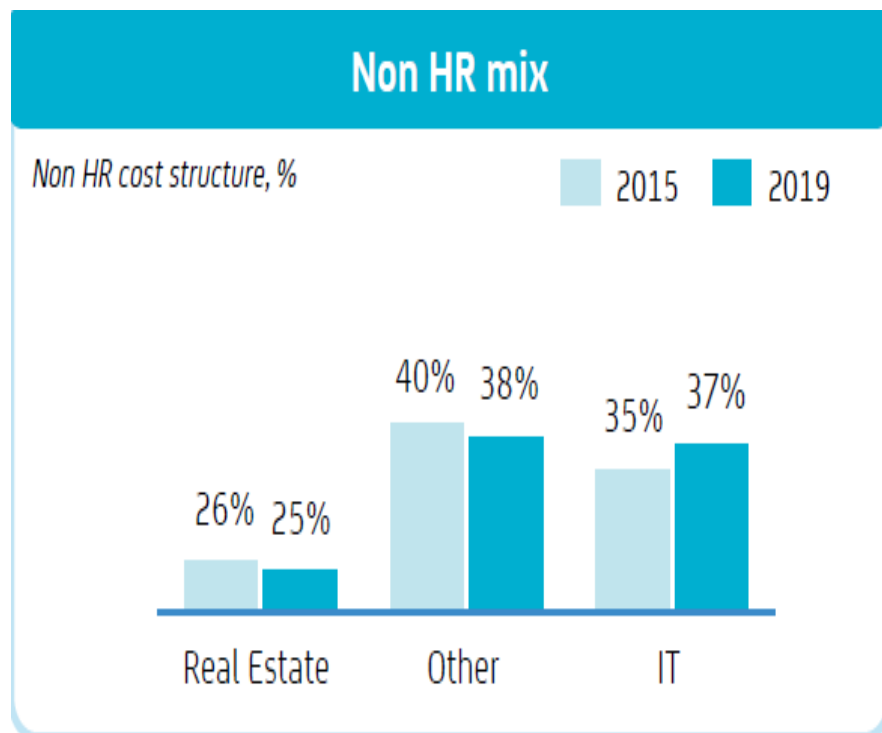
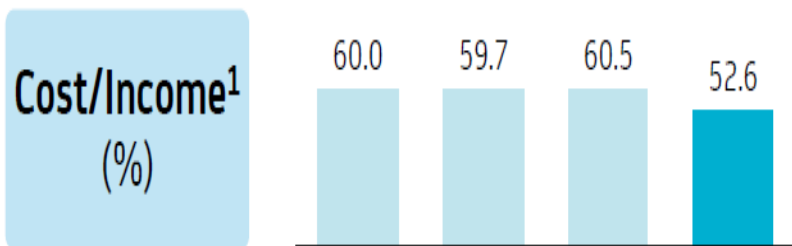


f(x)

KPI & Strategic Actions

- **Transformation of the service model versus a value based approach**
 - driven by technology, client segmentation and regulation
- **Strong implications for decision processes and distribution model**
 - tailoring the client service through renewal and differentiation of the product offer as well as of the delivery channels (personal service vs. remote service)
 - making the decision process more informed, faster and risk sensitive
 - a centralized IT / Data factory \longleftrightarrow a global multichannel distribution network
- **Rightsizing each part of the bank network**
 - Branches
 - Closure, refurbishment, mission redefinition
 - Remote Sale/Service Channels
 - Growth of the percentage of remote transactions for low value added services
 - growth of mobile / online Banking penetration
 - Corporate Center:
 - Strengthened governance

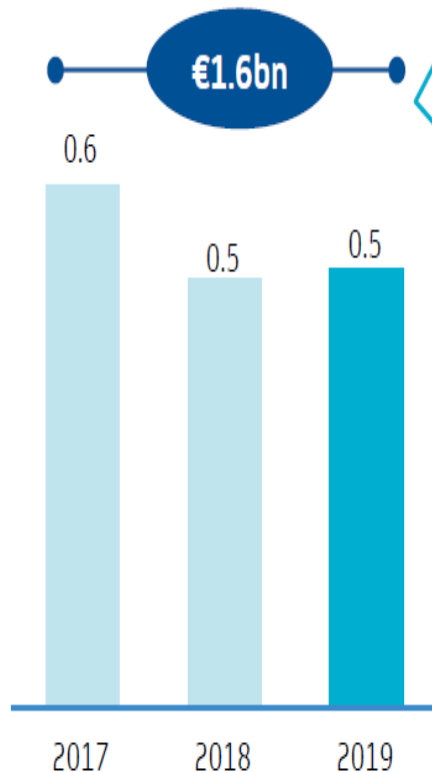
Operating Cost: Level & Composition



Operating Cost: IT Investments

IT investment for Business

Cash out, €bn



Further €700m investment to fulfill regulatory demand, leading to €2.3bn total IT investments 2017-2019

Digital & multichannel experience

- New multi-country online and mobile banking platforms
- Retail payments innovation
- Digital sales enablement and transaction migration

Advisory services

- New advanced digital and analytical tools in support of Advisor
- Increasing use of advanced data analytics

Processes optimisation

- End-to-End processes redesign and digitalisation

Risk Management

- Pre-scored credit lines
- Focus on cyber-security

Net Adjustments to Loans

- Bad Loans Loan Loss Provision [LLP] (or write back)
- + Unlikely to Pay (UTP) LLP (or write back)
- + Past Due Loans LLP (or write back)
- = **Stage 3 Loans LLP** (or write back)
- + **Stage 2 Loans LLP** (or write back)
- + **Stage 1 Loans LLP** (or write back)

- = ***Net Losses / Recoveries on Impairment of Loans***
- + **Profit/losses from changes in contracts w/o derecognition**
- + **Net provisions for credit risk on commitments and guarantees given**

Asset Quality: Stock Metrics for Loan Portfolios

	GROSS*	NET*
STOCK OF LOANS (€)		

* Gross / Net of Loan Loss Provision (LLP)

Non Performing Exposure (NPEs)

	GROSS*	NET*
NPEs RATIO (%)		
- of which BAD LOANS		
- of which UTP		
- of which PAST DUE		

	%
NPEs COVERAGE RATIO §	
- of which BAD LOANS	
- of which UTP	
- of which PAST DUE	

Performing Exposures (PEs)

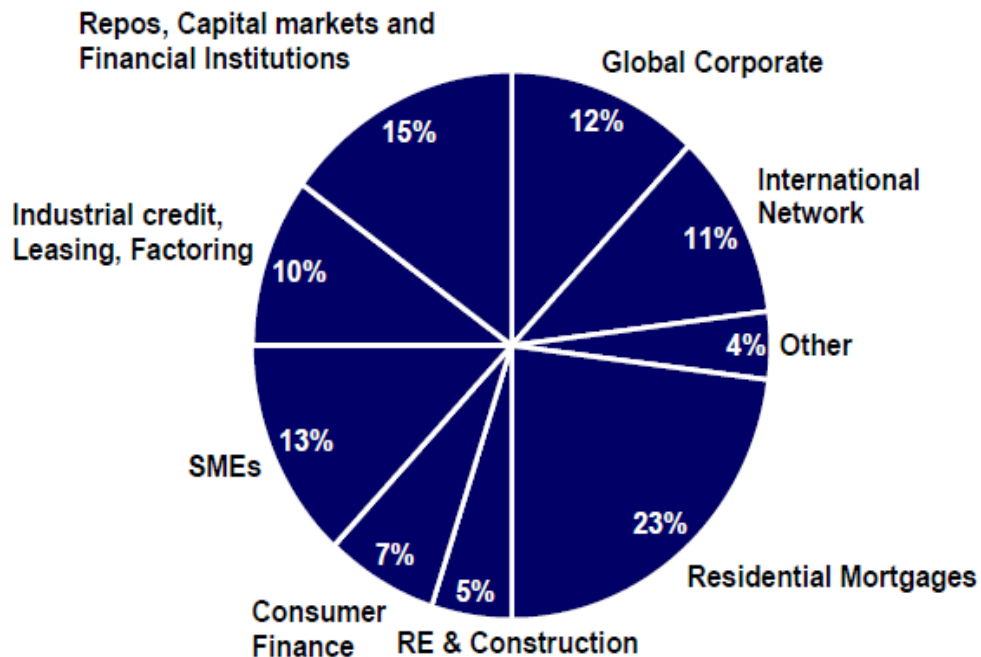
	GROSS*	NET*
PEs RATIO (%)		
- of which STAGE 1		
- of which STAGE 2		

	%
PEs EXPECTED LOSS RATIO	
- of which STAGE 1	
- of which STAGE 2	

§ NPEs Coverage Ratio = 1 - (Net Loans / Gross Loans)

Performing Loan Portfolio: Characteristics

Breakdown by business area (data as at 30.6.19)



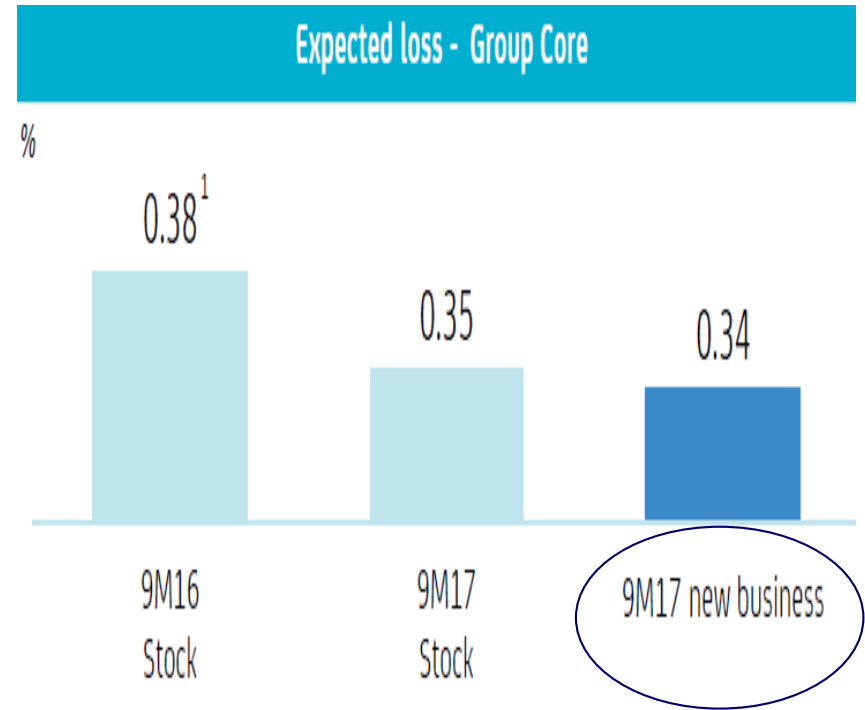
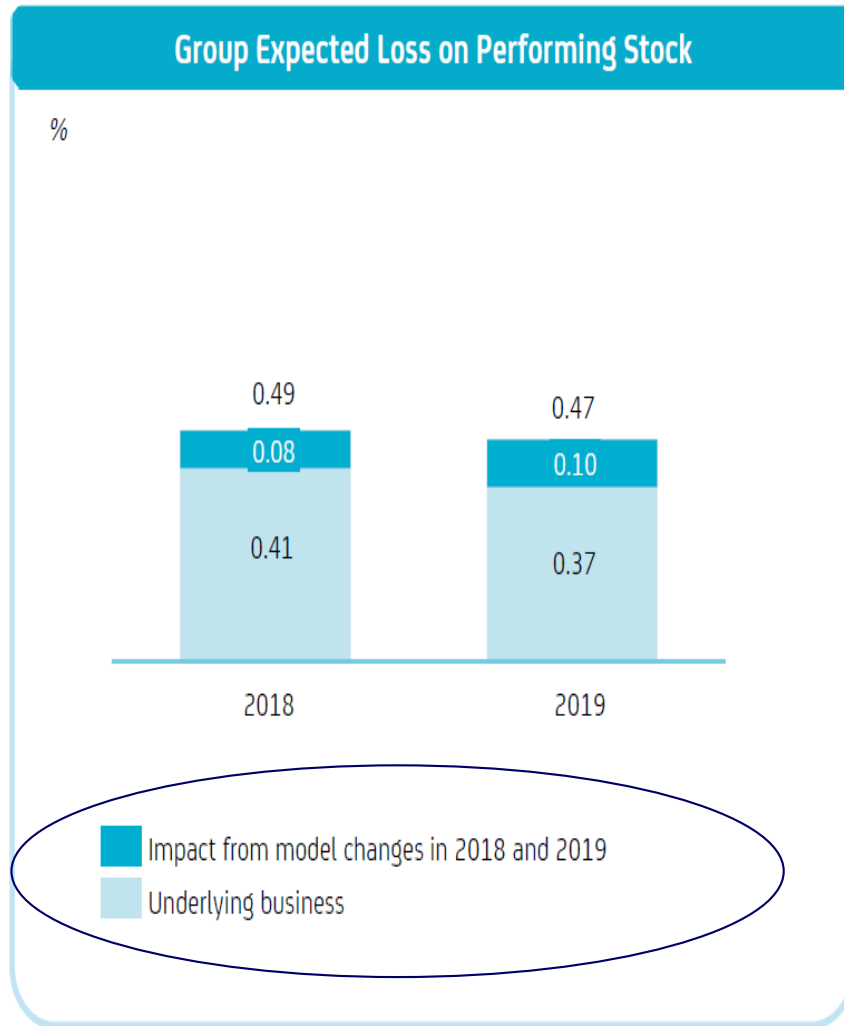
■ Low risk profile of residential mortgage portfolio

- Instalment/available income ratio at 31%
- Average Loan-to-Value equal to 55%
- Original average maturity equal to ~23 years
- Residual average life equal to ~18 years

Breakdown by economic business sector

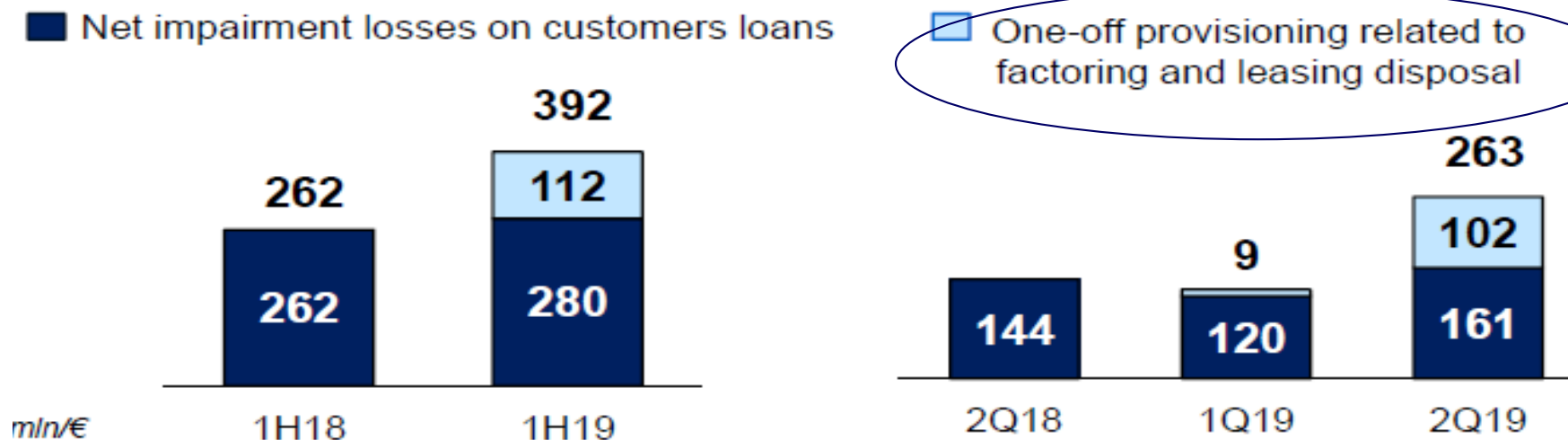
	30.6.19
Loans of the Italian banks and companies of the Group	
Households	28.8%
Public Administration	2.0%
Financial companies	12.3%
Non-financial companies	32.3%
of which:	
SERVICES	6.2%
DISTRIBUTION	5.4%
REAL ESTATE	3.5%
UTILITIES	2.5%
CONSTRUCTION	2.0%
METALS AND METAL PRODUCTS	1.8%
AGRICULTURE	1.5%
TRANSPORT	1.3%
FOOD AND DRINK	1.3%
MECHANICAL	1.0%
INTERMEDIATE INDUSTRIAL PRODUCTS	0.9%
FASHION	0.9%
ELECTROTECHNICAL AND ELECTRONIC	0.6%
TRANSPORTATION MEANS	0.5%
HOLDING AND OTHER	0.5%
ENERGY AND EXTRACTION	0.3%
MATERIALS FOR CONSTRUCTION	0.3%
BASE AND INTERMEDIATE CHEMICALS	0.3%
INFRASTRUCTURE	0.3%
PUBLISHING AND PRINTING	0.3%
NON-CLASSIFIED UNITS	0.3%
FURNITURE	0.2%
PHARMACEUTICAL	0.2%
OTHER CONSUMPTION GOODS	0.2%
MASS CONSUMPTION GOODS	0.1%
WHITE GOODS	0.1%
Rest of the world	9.8%
Loans of international banks and companies of the Group	10.6%
Non-performing loans	4.1%
TOTAL	100.0%

Example: Performing Exposure



Loans Impairment

LLPs at 30th June 2019



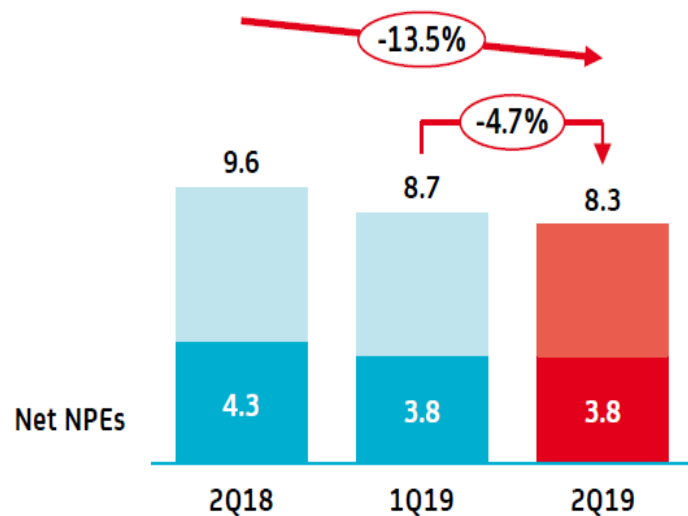
Writedowns (Writebacks)	1H18	1H19
Third stage excl. leasing and factoring disposals	318	262
Third stage leasing and factoring disposals		112
Total Third Stage	318	374
First and Second stages	(56)	18
Net impairment losses on loans	262	392

Sources of Loan Loss Provisions

	1Q19	2Q19	1H19
Full coverage on small-ticket portfolios	-21		-21
Updated macroeconomic scenario	-37		-37
Unwinding of Juliet agreement		457	457
Revised NPE strategy		-248	-248
Specialised lending rating attribution		34	34
Changed threshold for analytical/collective provisioning		19	19
Annual update of LGD models		-106	-106
Coverage increase	-19	-121	-140
Other effects	-87	-122	-209
Total loan loss provisions	-164	-87	-251

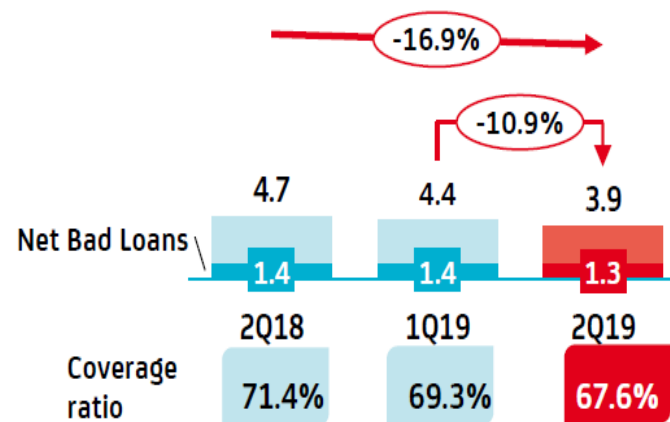
NPLs: Key Ratios

Non performing exposures⁽¹⁾, bn

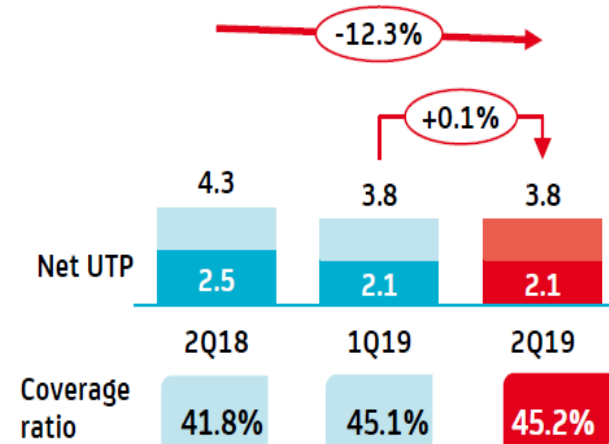


	2018	1Q19	2Q19
Gross NPE ratio	6.5%	5.8%	5.6%
Net NPE ratio	3.0%	2.7%	2.6%
Coverage ratio	55.5%	56.3%	54.6%

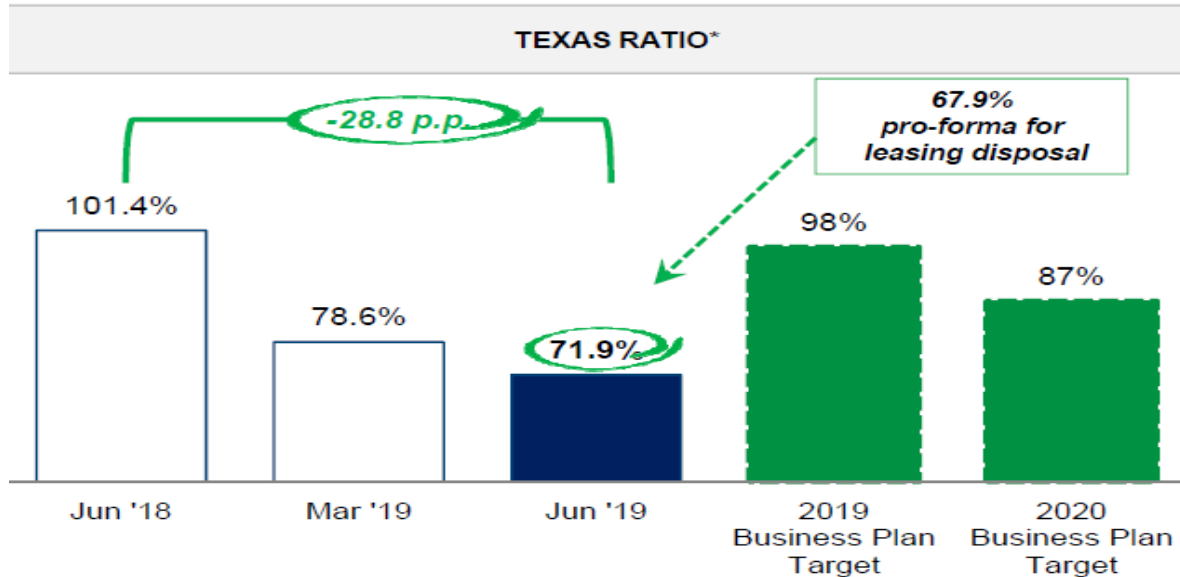
o/w Gross bad loans, bn



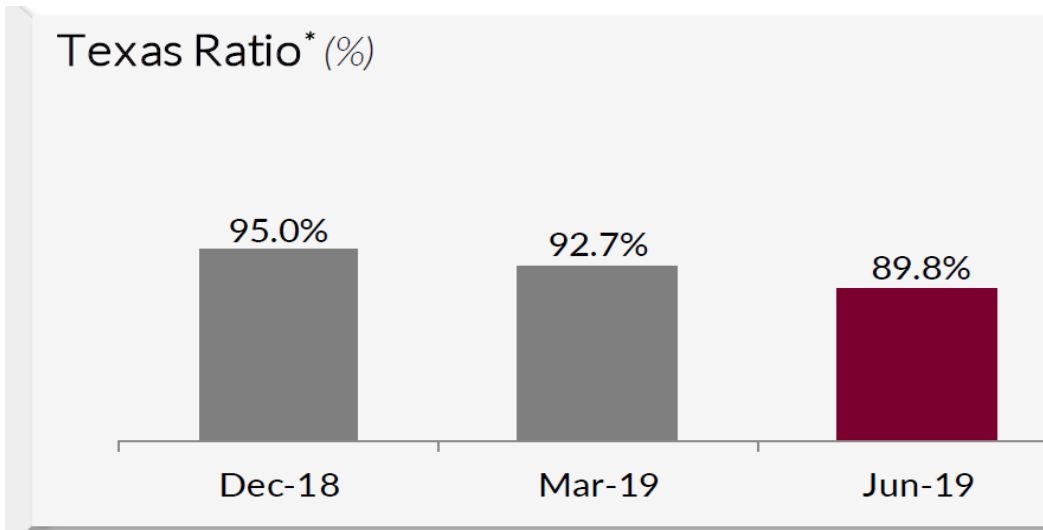
o/w Gross unlikely to pay, bn



Texas Ratio



*Texas Ratio =
Net NPLs /
(Tangible Equity –
Dividends already
approved)*



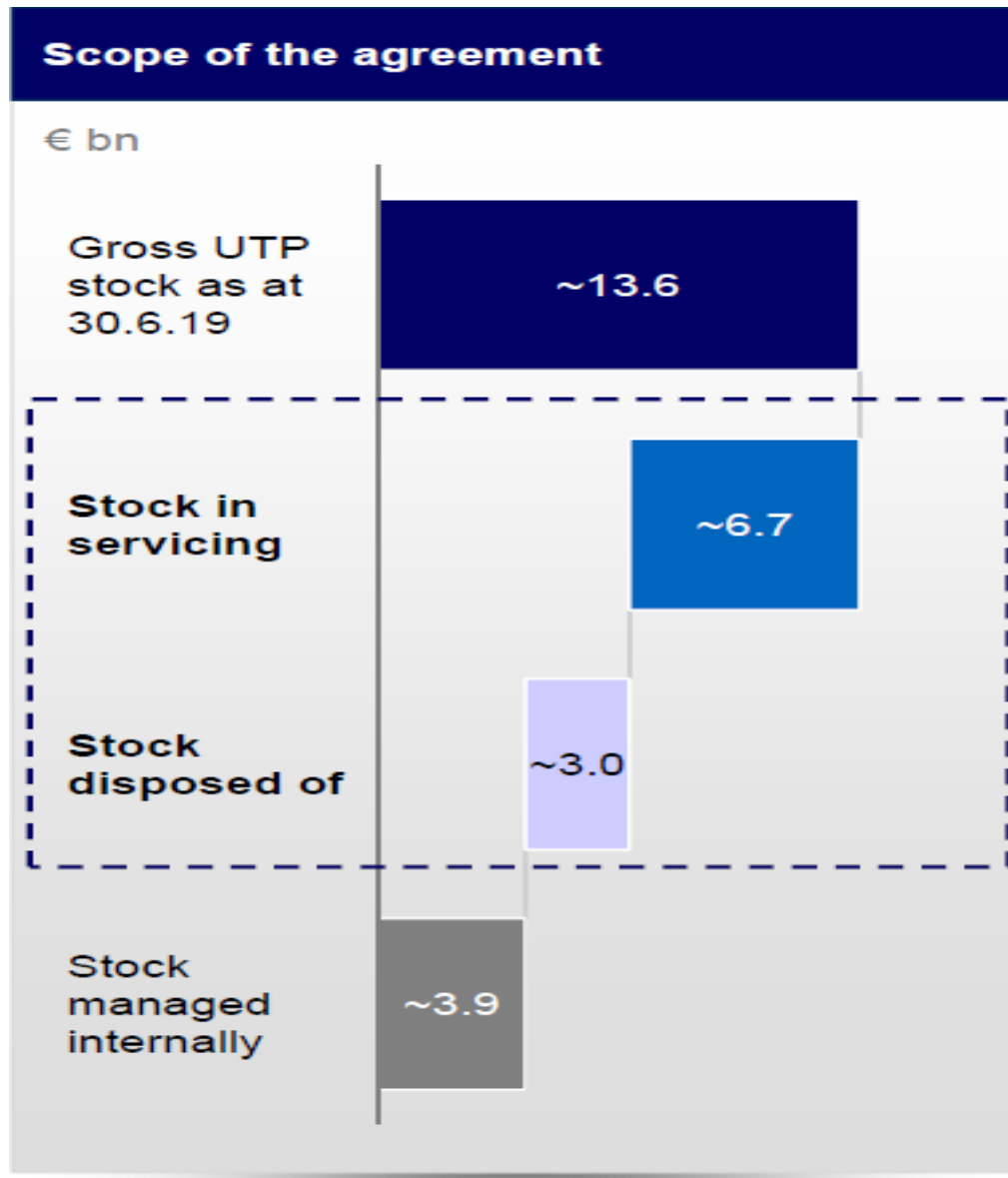
*Texas Ratio =
Gross NPLs /
(Tangible Equity +
Provisions Accrued
on NPLs)*

Example: NPEs

	Group			
	2015	9M16	9M17	2019 ^F
Gross loans ¹ , €bn	487.2	493.7	481.6	515.0
Gross NPEs, €bn	77.8	74.8	51.3	40.3
Gross NPEs ratio, %	16.0	15.2	10.6	7.8
Net NPEs, €bn	38.3	35.8	22.3	17.7
Net NPEs ratio, %	8.6	7.9	5.0	3.6
NPEs coverage, %	50.8	52.2	56.5	> 54
Gross past due ratio, %	0.5	0.4	0.3	0.3
Past due coverage, %	27.0	28.2	34.3	> 24
Gross UTP ratio, %	5.2	4.6	4.3	2.9
UTP coverage, %	34.2	34.0	44.0	> 38
Gross bad loans ratio, %	10.2	10.1	6.1	4.7
Bad loans coverage, %	60.6	61.4	66.2	> 63

Gross of Repos; Net of Intercompany Loans

UTP: the Next Big Thing



Further Breakdowns

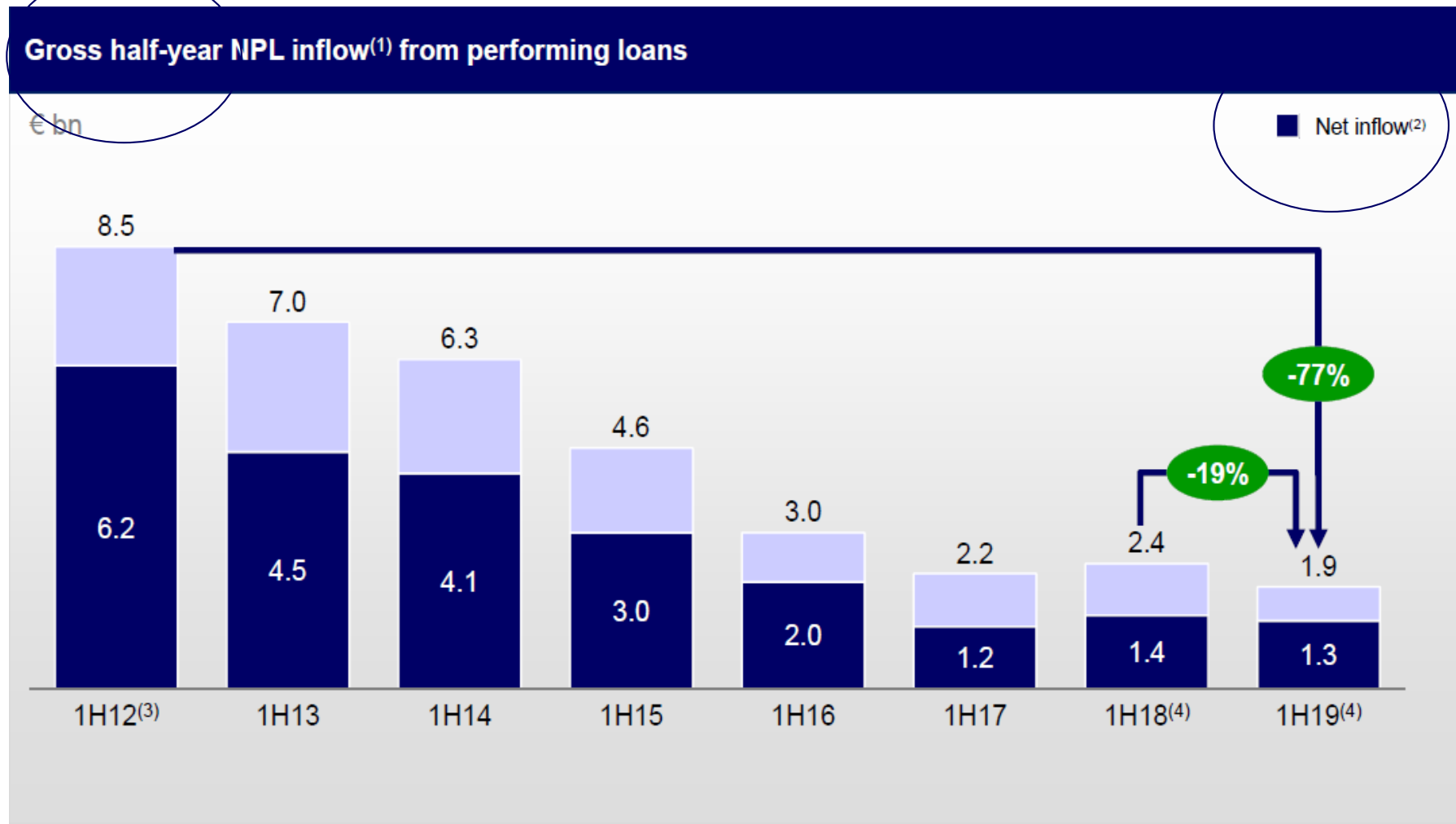
Breakdown by Guarantees (€/bn)

	# Tickets	GBV	Coverage	NBV	% NBV
Secured	8,463	1.9	27.2%	1.4	61.5%
Personal guarantees	9,877	0.7	50.5%	0.3	14.2%
Unsecured	96,771	1.3	57.9%	0.6	24.2%
Total	115,111	3.9	41.5%	2.3	100.0%
<i>of which Pool other banks</i>		2.1		1.2	54.2%

Breakdown by Vintage (€/bn)

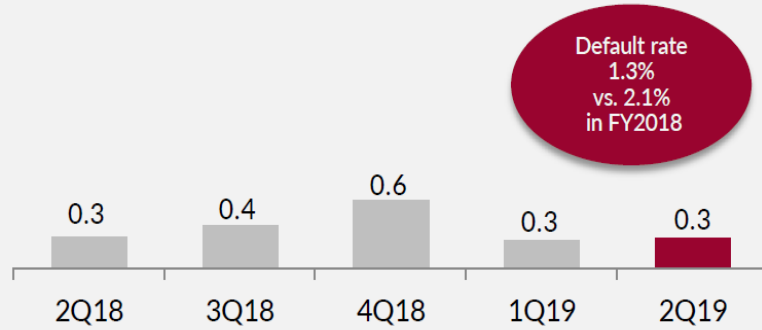
	GBV	< 3Y	> 3Y
Secured	1.9	63.3%	36.7%
Personal guarantees	0.7	69.9%	30.1%
Unsecured	1.3	60.1%	39.9%
Total	3.9	63.3%	36.7%

Changing Credit Status: Recognition of NPLs

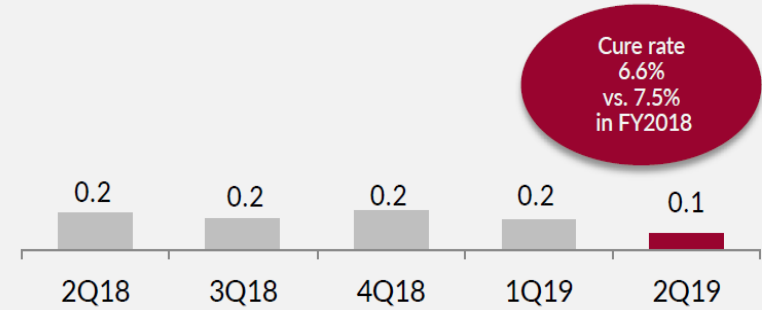


Transition Rates

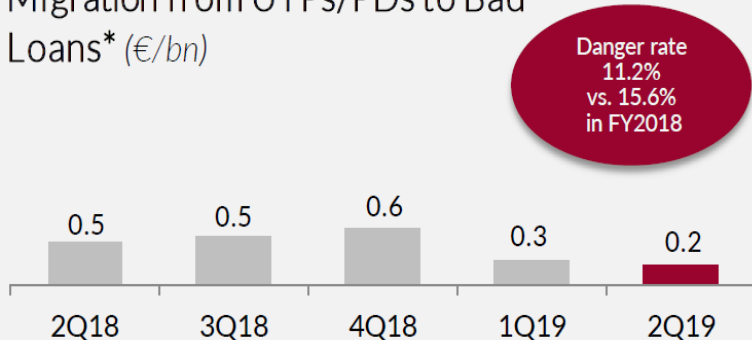
NPE Inflows from Performing* (€/bn)



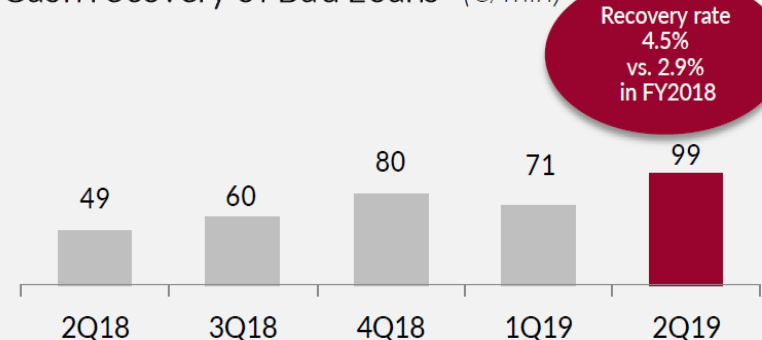
NPE Outflows to Performing* (€/bn)



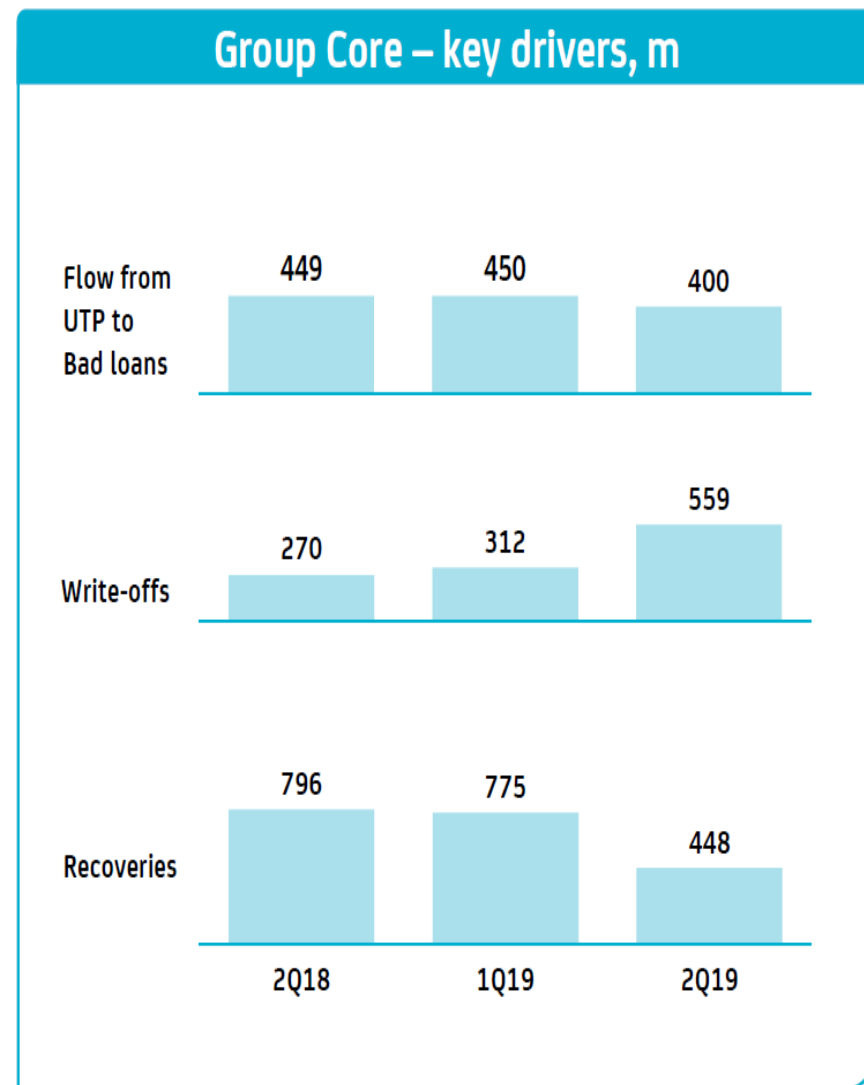
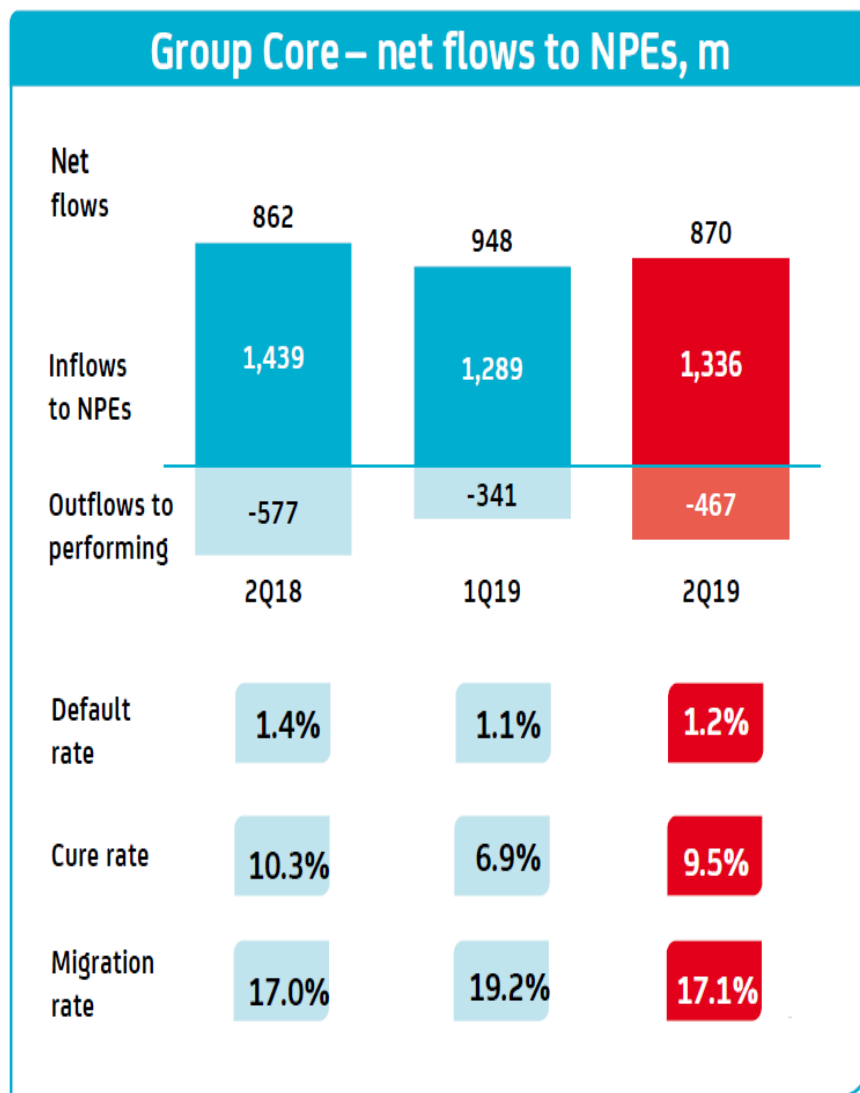
Migration from UTPs/PDs to Bad Loans* (€/bn)



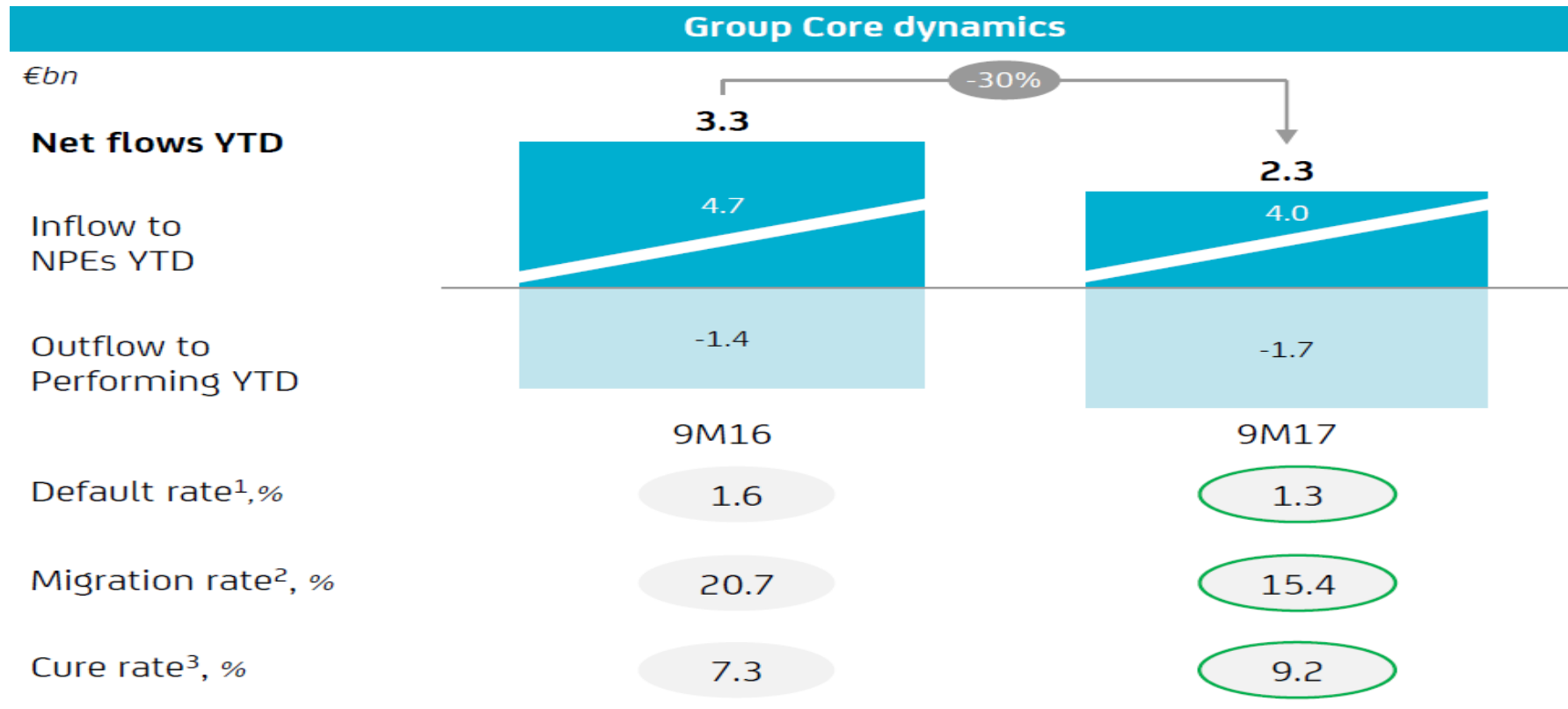
Cash recovery of Bad Loans* (€/mln)



Relevant change in credit status



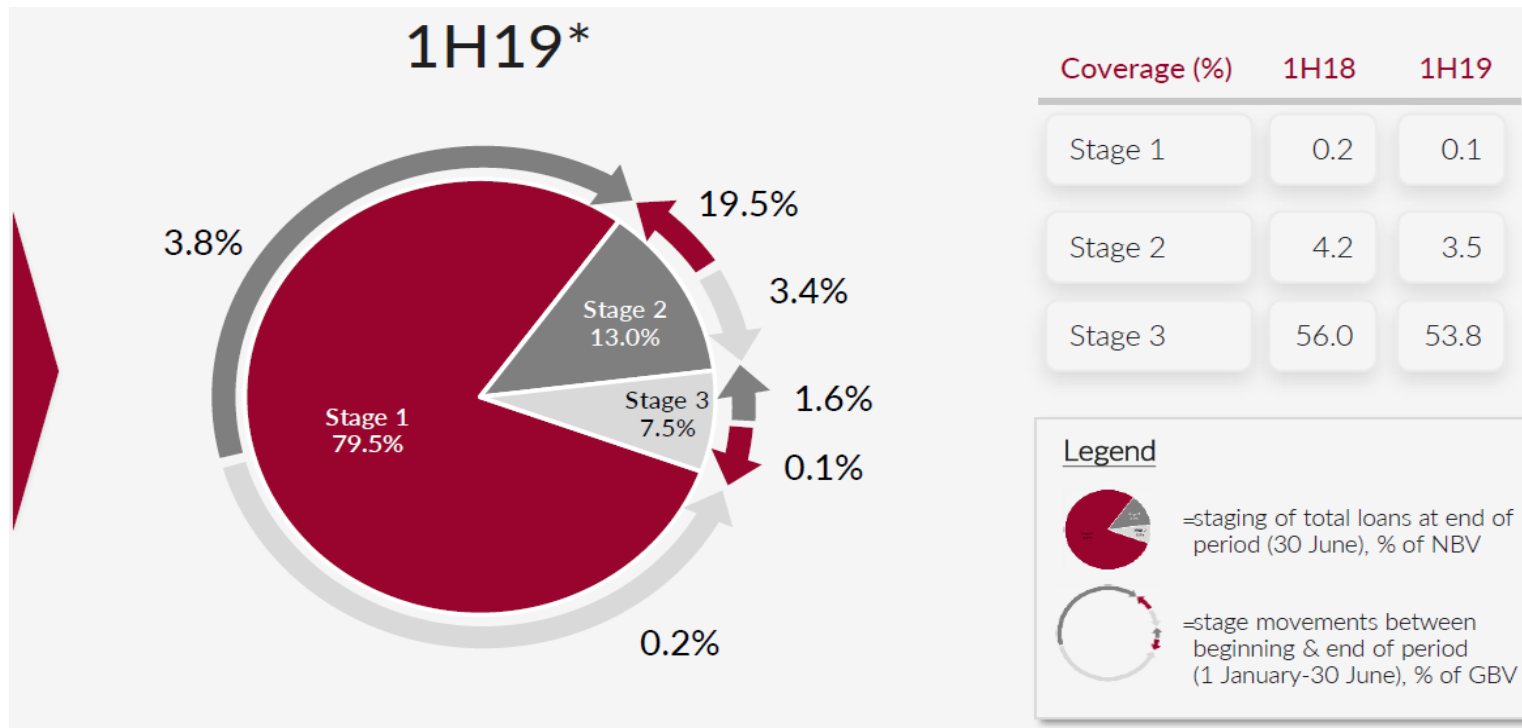
Asset Quality: Flow Metrics for Loans – I/III



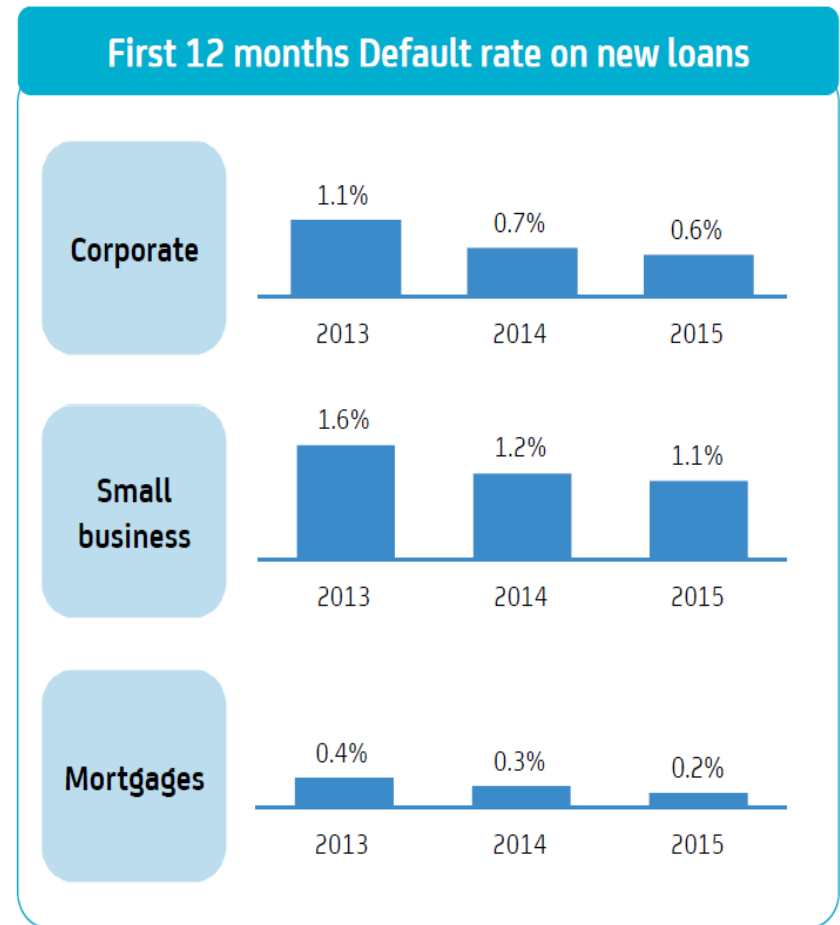
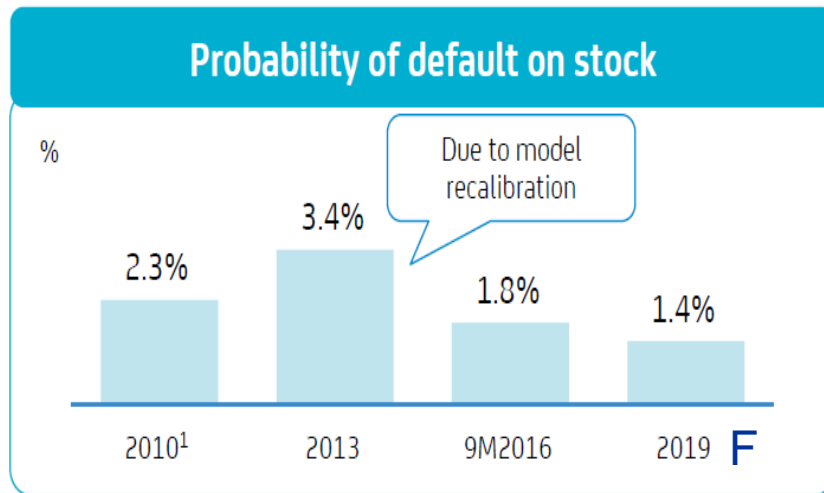
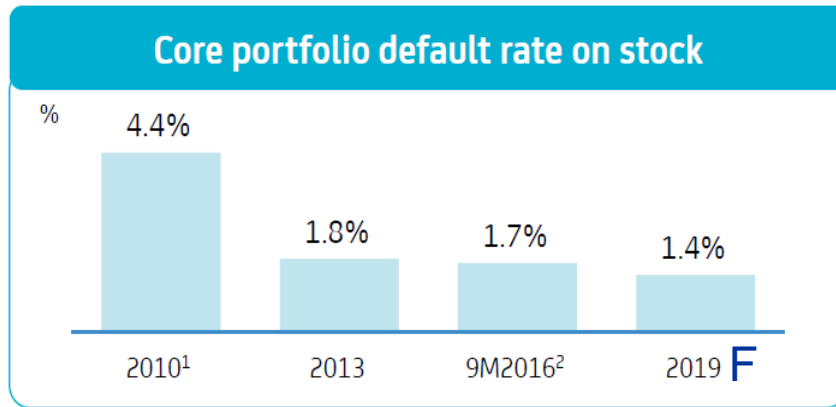
1. Default rate: Inflow to NPEs on Performing stock of previous year
 2. Migration rate: Inflow from UTP to Bad Loans on UTP stock of previous year
 3. Cure rate: Outflow to Performing on NPEs stock of previous year

- Default Rate depends on credit underwriting and monitoring discipline
- Cure rate depends on monitoring discipline and restructuring management effectiveness
- Two additional relevant metrics are:
 - Danger rate: inflow from UTP / Past Due to Bad Loans on (UTP + Past) Due Stock of previous year
 - Stage 1 to Stage 2 rate:

A Comprehensive View



Asset Quality: Flow Metrics for Loans – II/II



Default Rate on Stock

≠ Probability of Default on Stock

≠ First 12m Default Rate on New Loans

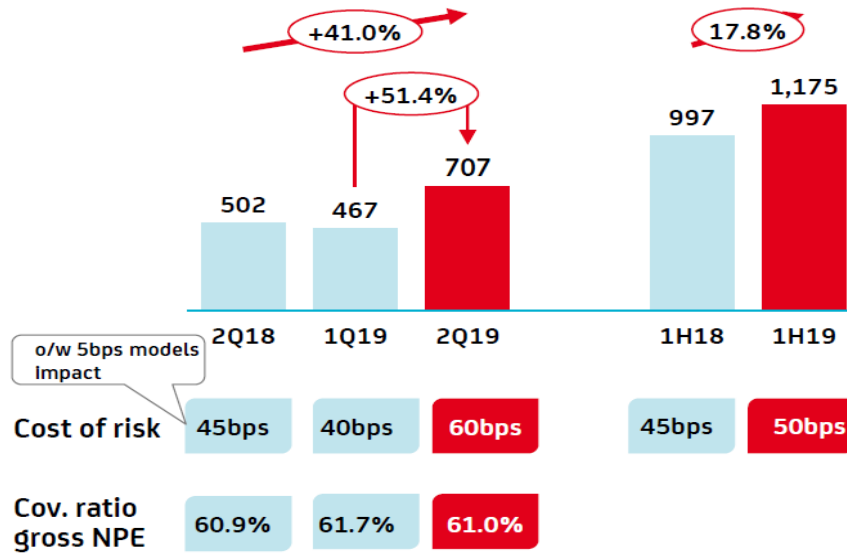
(realized on stock)

(expected on stock)

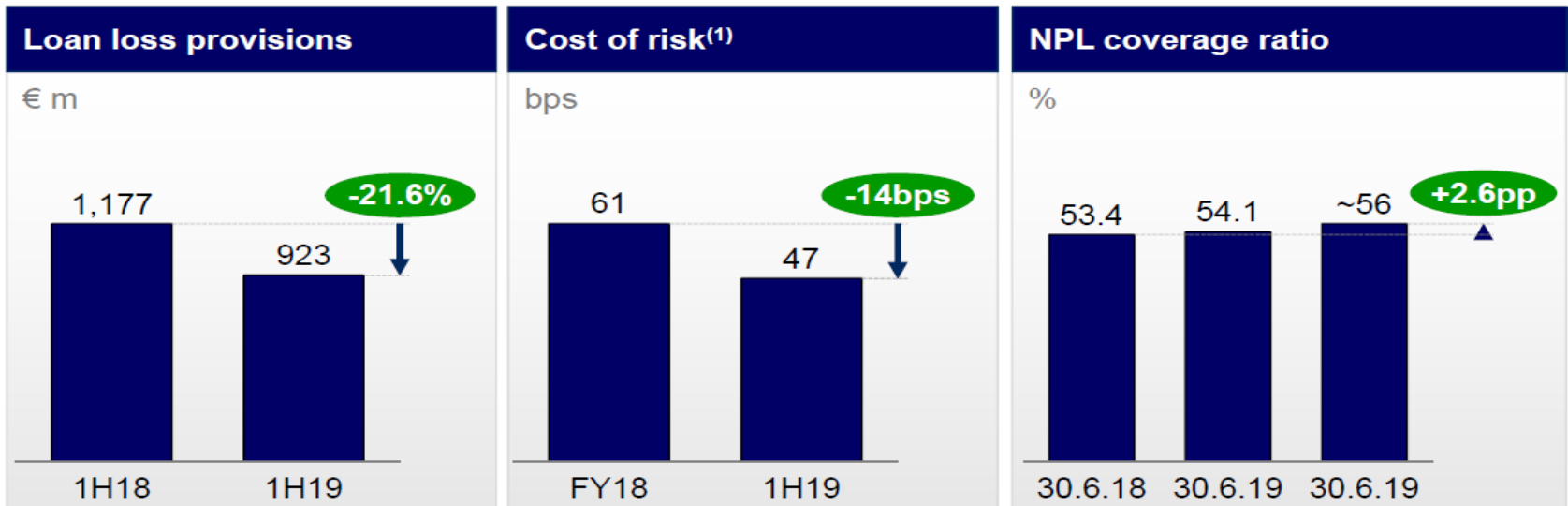
(realized on new loans only)

Asset Quality: Flow Metrics for Loans – II/II

Loan loss provisions, m

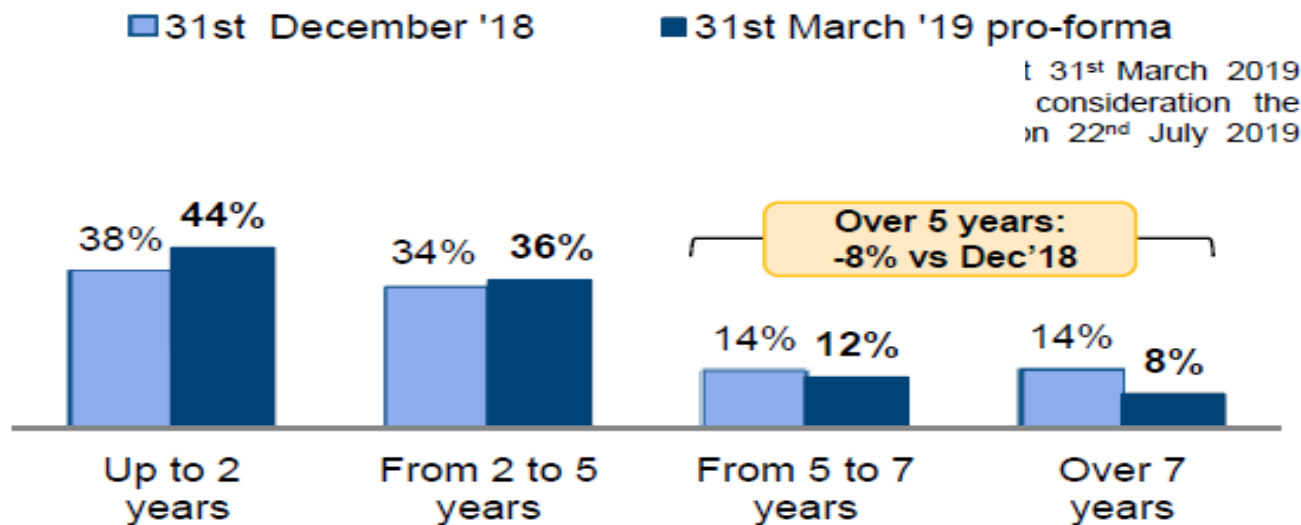


- Cost of risk =
= LLP of the period / Net Loans
- Different from LGD & only somewhat related to Coverage Ratio

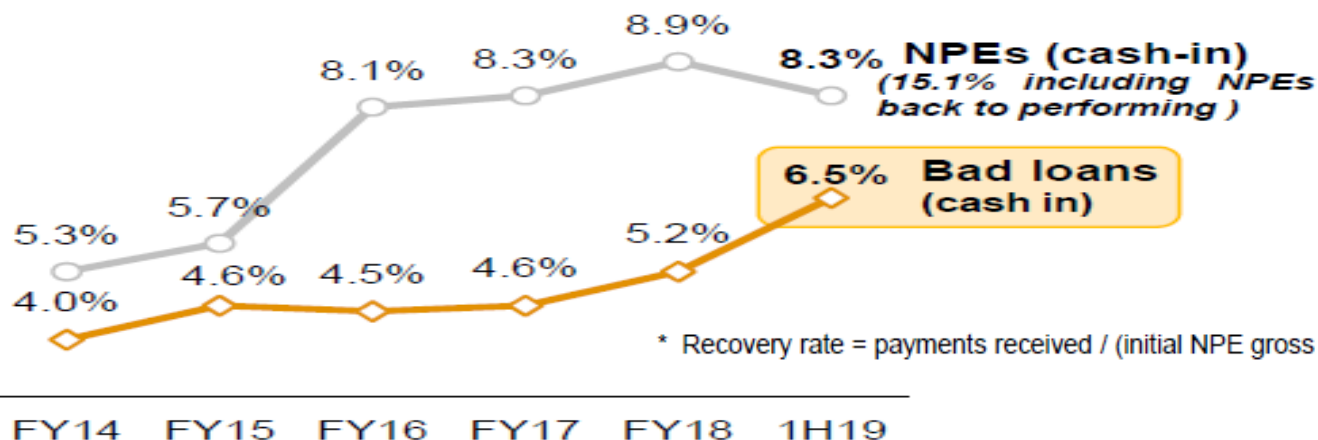


Other Metrics of Loan Portfolio Quality

GROSS NPE VINTAGE: significant clean up in the semester



RECOVERY RATE*



Loan Quality KPIs

- **Performing Side**

- New Business Expected Credit Loss
- Performing Stock Expected Credit Loss
- Probability of Default

- **Non performing side**

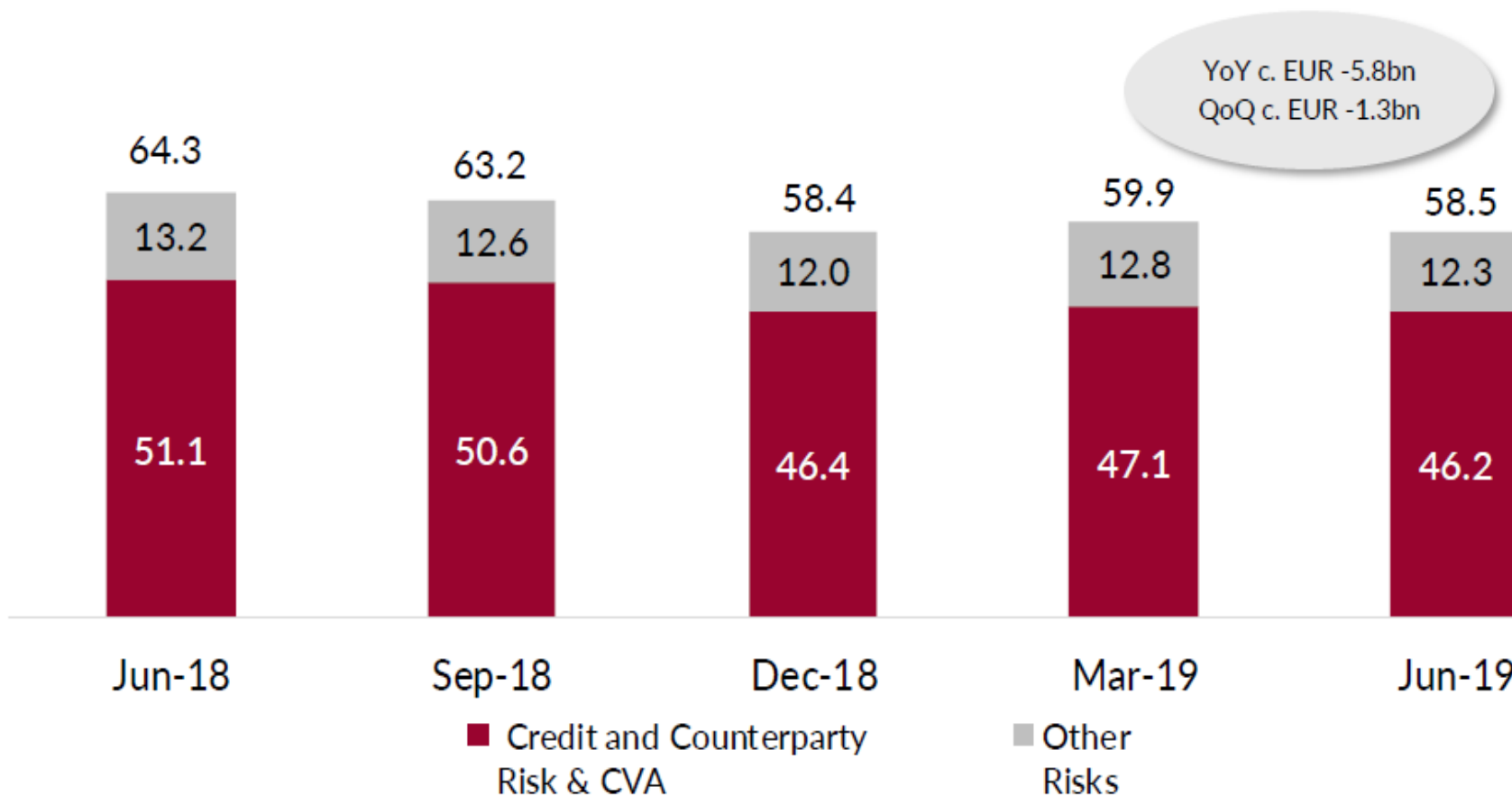
- Reduction of Gross NPE y-o-y
- Danger Rate
- Cure Rate
- Recovery Rate
- Loss Given Default

- **Overall**

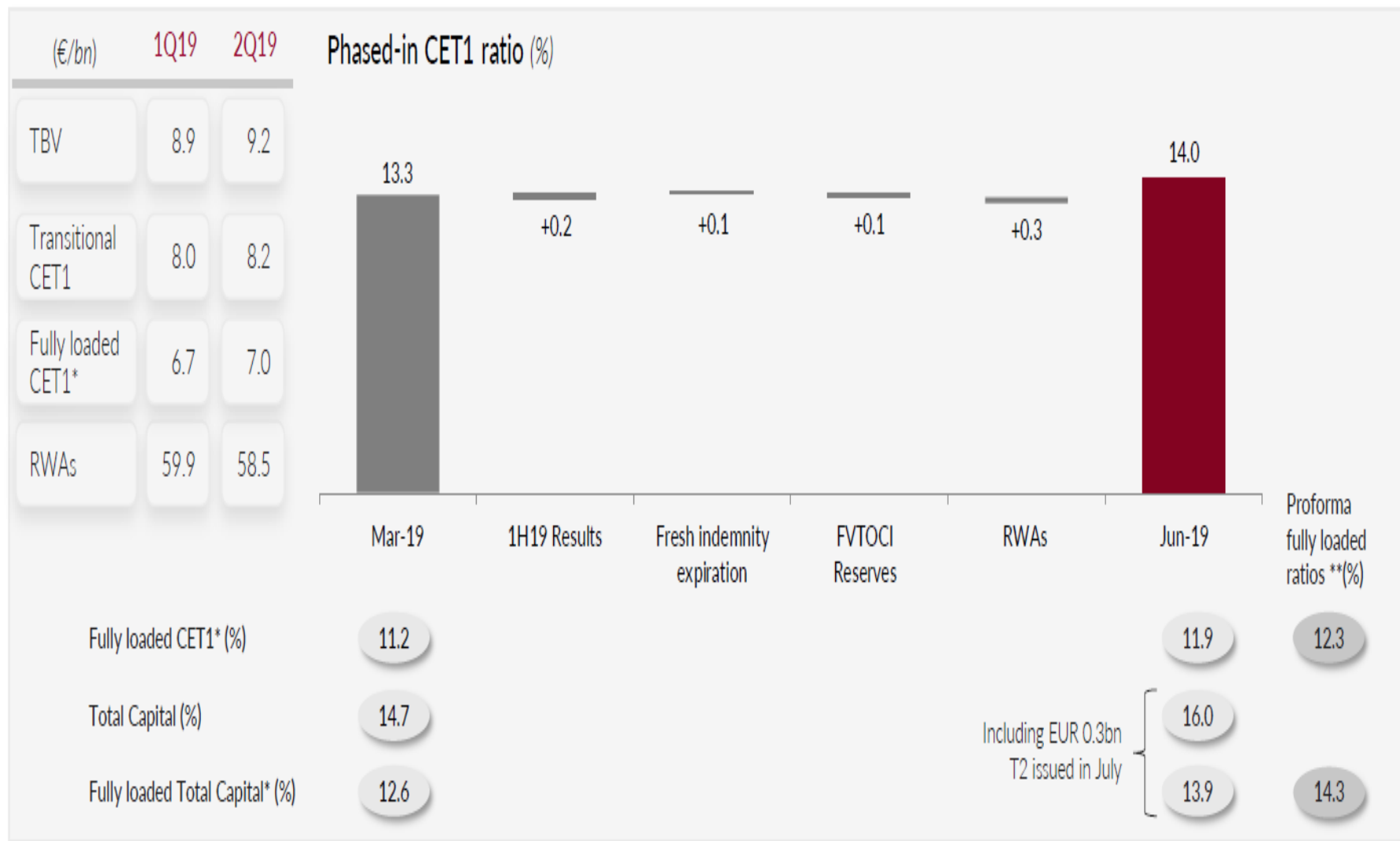
- Cost of risk
 - NPL ratio
 - Credit RWA density (controlling for model / regulatory changes)
-

Overall Asset Quality & More

Total RWAs (€/bn)



Capital Structure: Accounting & Regulatory



Normalizing Profits

1H2019	Stated Net Profit	2017-2020 Business Plan		SRF extraordinary contribution	Disposal of securities/equity investments	Total impact of non-recurring items	Normalised Net Profit
		Staff leaving incentives	Business plan project expenses				
1Q19	82.2	42.6	0.1			42.7	124.9
2Q19	48.7		0.0	12.2	(2.5)	9.8	58.5
1H19	130.9	42.6	0.1	12.2	(2.5)	52.4	183.4

P&L
reference line

(A)

Redundancy
expenses net of taxes
and non-controlling
interests

Business Plan Project
expenses net of taxes
and non-controlling
interests

Other administrative
expenses

Net income from
trading, hedging and
disposal/repurchase
activities and from
assets/liabilities as at
fair value through profit
or loss

(B)

(A+B)