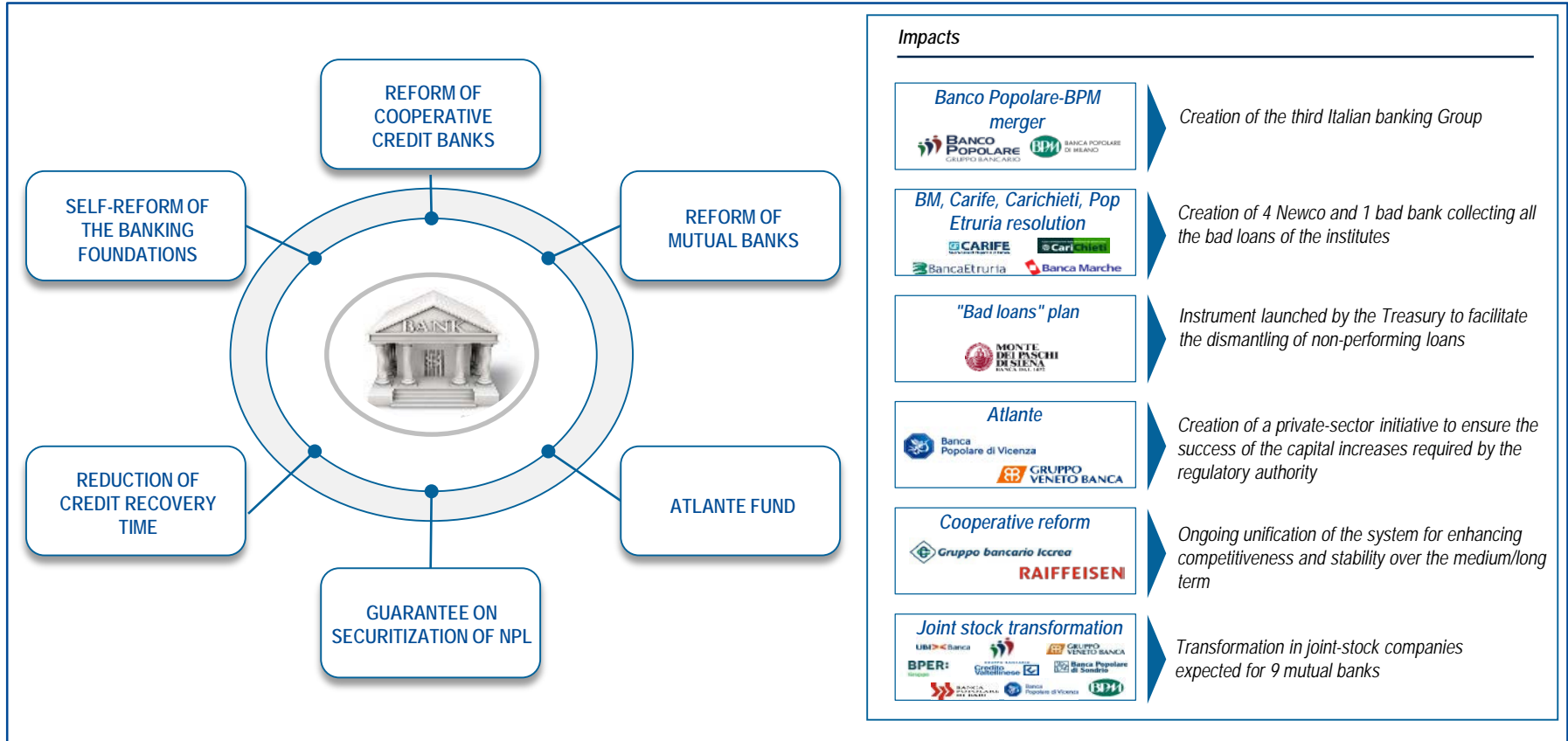


Creval Group Action Plan 2017 - 2018

November 9, 2016

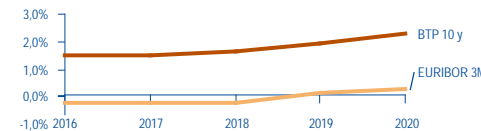
1. Context
2. Description of the action plan
3. Economic and financial projections



Pressure on interest rates

- Expected increase of the Euribor post 2019
- Interest rate of the BTP 10 y expected to increase post 2018

Yield curve



Pressure on revenues and review of the business model

- Focus on fee based revenue generation
- Review of the business and customer engagement model
- Research of new products/services

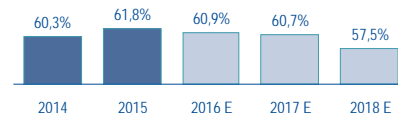
NII spread



Improvement in operating efficiency

- Simplification and automation of processes
- Redesign and efficiency of front-end and back office processes
- "Obsessive" cost management

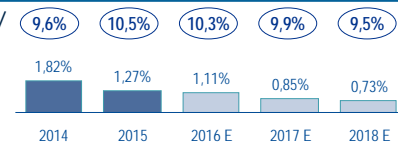
Cost Income



Progressive asset quality improvement

- Non performing stock expected flat over the period 2015 – 2018
- Cost of risk expected under 100 basis point starting from 2017 after 4 years (average CoR equal to 160 bps over the 2012-2015 period)

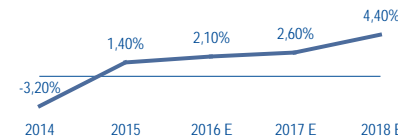
Bad loans/ Tot.loans



Pressure on profitability

- ROE expected equal to approx. 4% in 2018, still with a significant gap with the cost of capital of the Italian banking sector and focusing banks on potential extraordinary operations to boost productivity

ROE



1. Context
2. Description of the action plan
3. Economic and financial projections

KEY OBJECTIVES

1

Asset quality and
"NPL disruptive" intervention

2

Operating efficiency

3

Optimization and service model
innovation

Target for the Group in 2017-2018

Improving of business model and KPIs

Development

Strengthening

Integration

Actions	Description
1 <i>NPL Strategy</i>	<ul style="list-style-type: none">■ Further disruptive actions on non performing loans to boost growth
2 <i>Branches rationalization</i>	<ul style="list-style-type: none">■ Enhancement of the network productivity that is currently underperforming mainly due to its widespread configuration
3 <i>HR optimization</i>	<ul style="list-style-type: none">■ HR optimization / rationalization■ Reshuffling of skills/expertise
4 <i>AIRB rating system</i>	<ul style="list-style-type: none">■ Finalization of the internal rating model validation
5 <i>Other relevant actions</i>	<ul style="list-style-type: none">■ Revamping of the implicit commercial effectiveness through leveraging and launching new and existing "high value" business■ Rebalancing of funding retail and finance portfolio risk mitigation through diversification■ Maximization of the real estate asset value in order to enhance capital ratios

Without considering extraordinary operation on bad loans (Elrond) and UTP disposal

Default rate and migration rate

- Progressive reduction in NPL inflows with a reduction in the default rate ⁽¹⁾ from 3,8% at the end of 2016 to 2,3% in 2018
- NPL inflows estimated according to the Risk Management migration matrix and expected to improve over the years

NPL collection

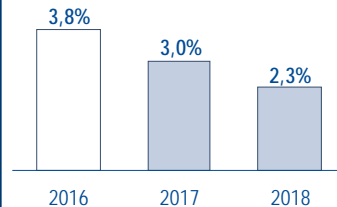
- Progressive improvement in the recovery rates ⁽²⁾ on non performing positions (also through the REOCO management) approximately equal to 6% in 2018

Cost of risk and coverage

- Progressive improvement in the expected loss performing with an expected value at 2018 of ~ 0,62% based on the current average expected loss of new loans production equal to ~ 0,5% (corporate: 0,57%; retail business: 0,64%; private: 0,36%)
- Expected increase in the NPL coverage with an average value of ~ 44,6% at 2018

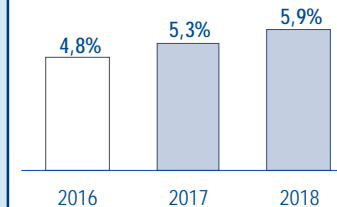
Default rate

Data in %



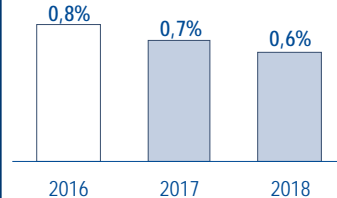
Recovery rate ⁽²⁾

Data in %



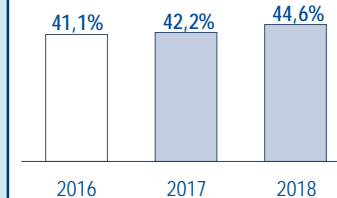
Expected Loss performing

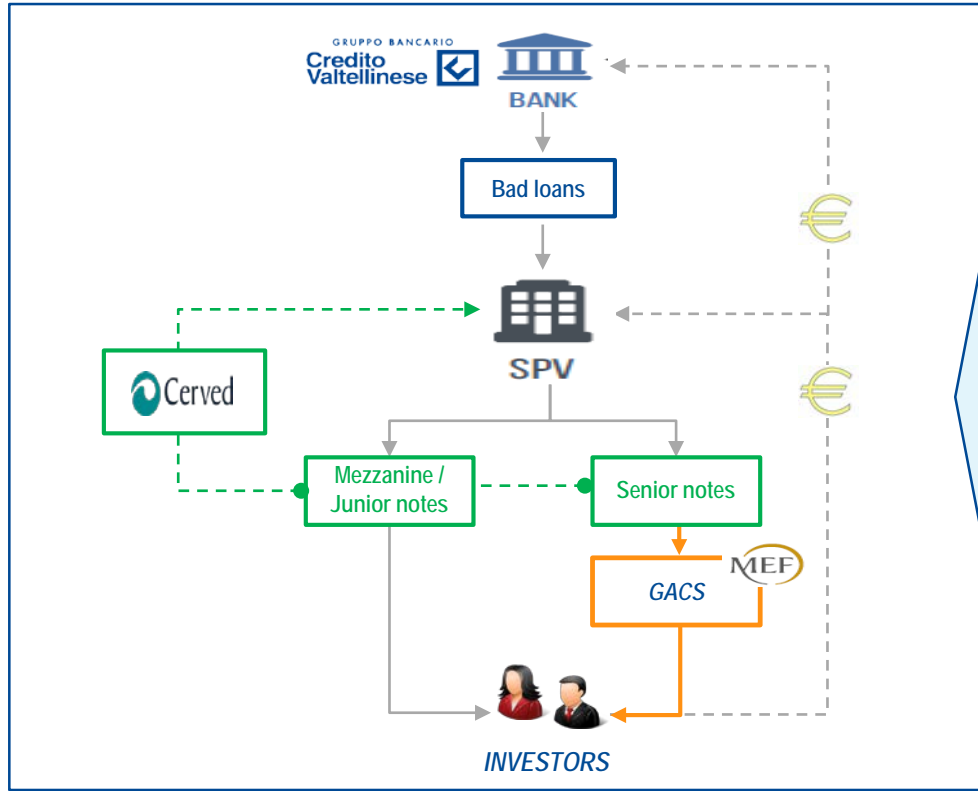
Data in %



Coverage ratio ⁽³⁾

Data in %





- Disposal of bad loans with a GBV up to ~ 1,5 € bn through asset securitization supported by the Italian government guarantee (GACS) on senior notes (subject to authorization)
- Structuring of the non-recurring transaction in charge of J.P. Morgan, Mediobanca, Banca IMI and Bonelli Erede for the legal in-depth analysis. Collection activities in charge of Cerved Credit Management following the strategic partnership in force with the servicer
- Expected reduction of the NPL ratio of ~ 6 p.p.

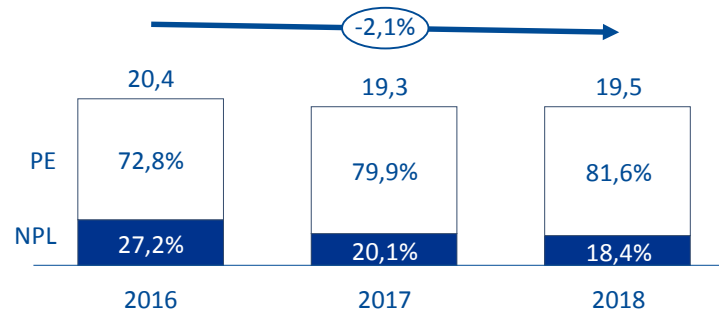
Considering extraordinary operations on bad loans (Elrond) and UTP disposal

- Reduction of the stock of NPL of ~ 2 € bn mainly due to :
 - extraordinary bad loans disposals (Elrond)
 - partial deleveraging of the unlikely to pay exposure with expected disposals of ~ 150 € mln per year
 - improvement in the recovery rates
 - progressive asset quality improvement (reduction in NPL inflows)
- Increased coverage ratio:
 - Past due: from 10,8% (2016) to 14,2% (2018)
 - Unlikely to Pay: from 30,0% (2016) to 32,9% (2018)
 - Bad loans: from 54,6% (2016) to 57,6% (2018)

Weighted average coverage ratio equal to ~ 42% in 2018

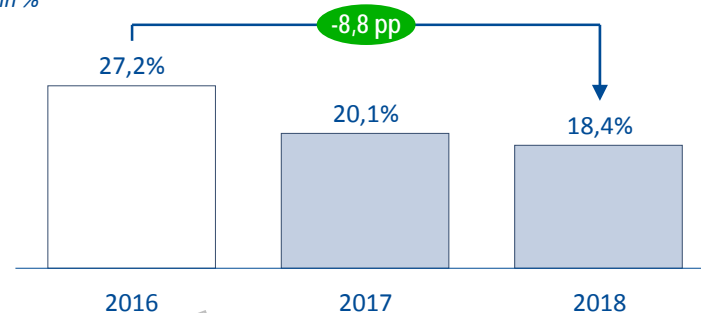
Loans to customers

Data in € bn



NPL ratio

Data in %



Italian banks average NPL Ratio equal to ~ 18%.
Expected alignment for Creval thanks to Elrond operations

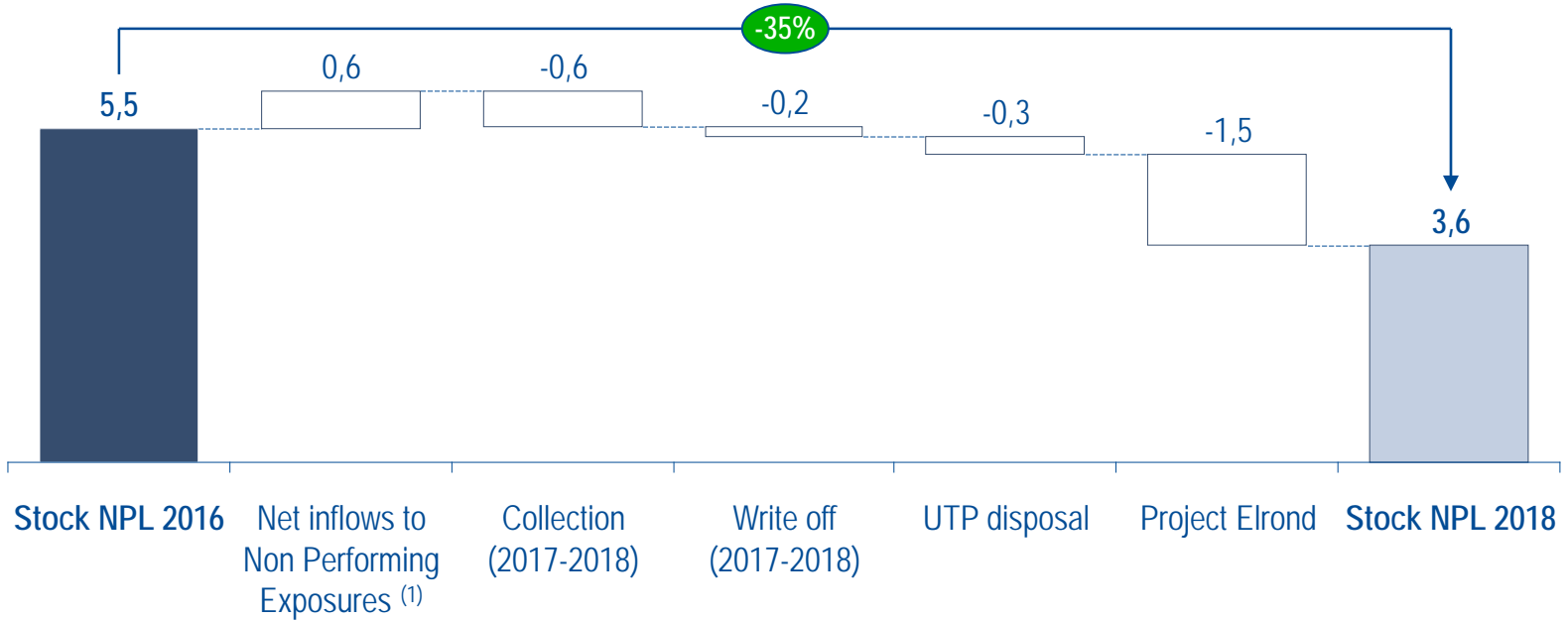
Considering extraordinary operations on bad loans (Elrond) and UTP disposal

	2016E	2017E	2018E
Coverage ratio NPL	41,1%	38,5%	42,5%
Coverage ratio Past Due	10,8%	11,9%	14,2%
Coverage ratio UTP	30,0%	30,7%	32,9%
Coverage ratio Bad Loans	54,6%	53,5%	57,6%

Considering extraordinary operations on bad loans (Elrond) and UTP disposal

NPL stock evolution 2016-2018

Data in € bn



Notes: (1) Difference between NPE inflows and outflow to performing

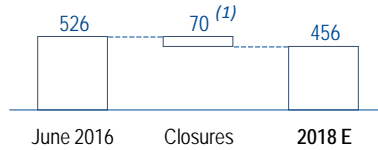
2 Branches rationalization

Investment for business development (CRM, digitalization, "Bancaperta") for ~ 14 € mln

Further enhancement of the distribution model thanks to the closure of **70 branches** that will generate:

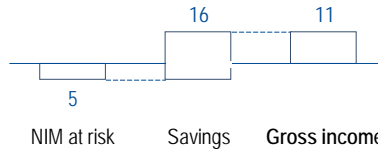
- re-balancing of the branches productivity with the optimization of the geographical coverage
- increasing operating efficiency through the reduction in the operating costs
- strengthening of the business model (corporate, private and retail)

Number of branches



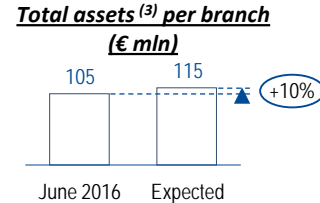
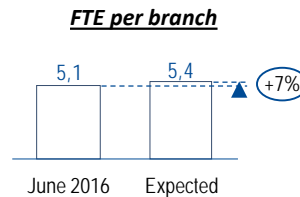
13% reduction of the network

Economic impacts (€ mln)

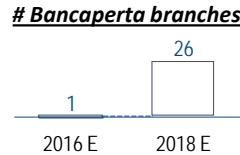


Economic value⁽²⁾ of ~ 52€mln

Productivity per bank branch

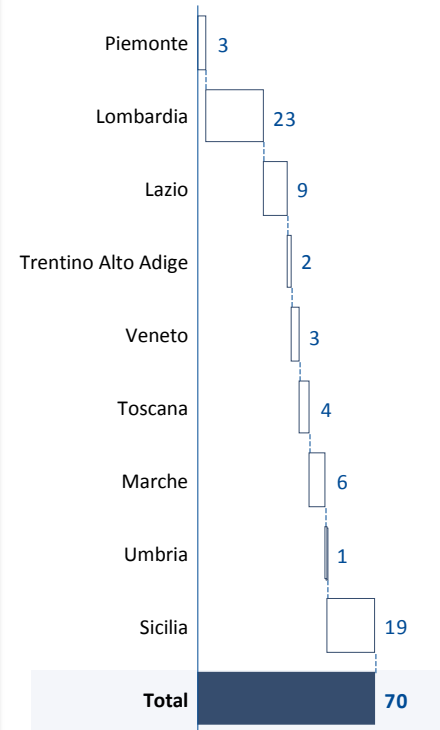


"Bancaperta" branches



Saving on personnel expenses for about 30% - 40%

Bank closures per region

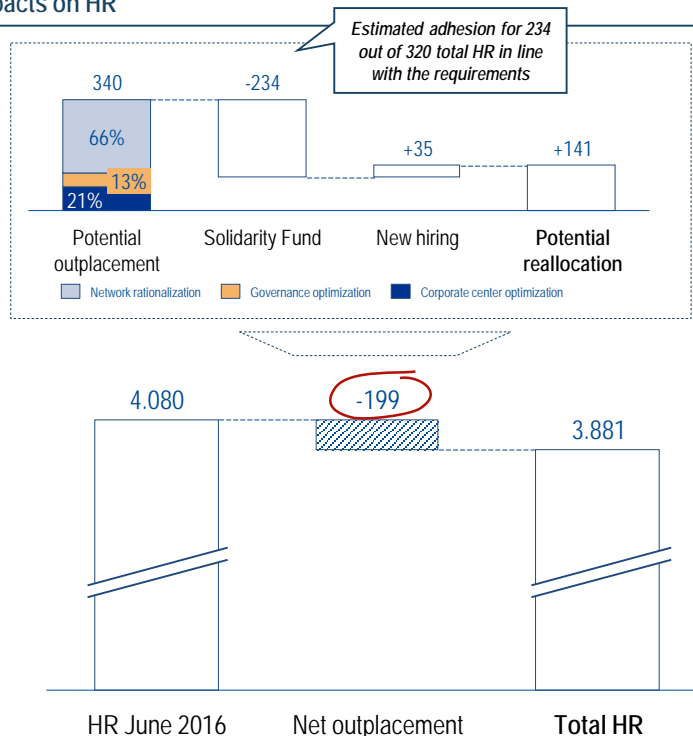


Notes: (1) Considers only commercial branches, excluding independent banking units, treasury and 'light branches'; (2) Discounting future cash flows (net of tax rate), explicit period and terminal value at a rate of 8%; (3) It refers to direct funding, loans to customers and asset under management / administration

■ Optimization and "reshuffling" of skills and expertise due to:

- Potential outplacement of ~ 340 HR from i) rationalization of branches network ii) governance and organizational optimization iii) rationalization of the corporate center structures
- Strengthening of commercial network and business structures in order to increase the actual customer base value and to enhance acquisition rate and cross selling
- Activation of a 5 years solidarity fund (2017 – 2022) to facilitate the exit of the resources in line with the requirements

Impacts on HR



- Estimated adherence for 234 out of 320 total HR in line with the requirements
- One – off cost of ~ 61 € mln for the activation of the solidarity fund
- 18,6 € mln of recurring saving (gross of taxes)
- Impact on CET1 ratio equal to ~ - 26 bps ⁽¹⁾



AIRB project status

- Implementation of an **AIRB** rating system to all the **different exposure segments** (firms, retail exposures, secured exposures, etc.) throughout a project launched in 2012
- **Internal and external investments** for about 15 € mln in the past four years
- **Identification/ adoption** of 5 credit risk segments (Corporate, SME Corporate, Small Retail, Micro Retail and Private Retail)
- **Development** of 3 PD Models (Corporate, Retail and Private), 1 LGD Model and 1 EAD Model



*Expected capital relief
around 100 bps in 2018*

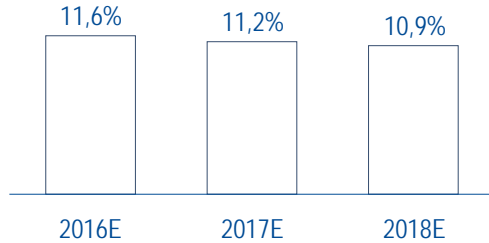


Guidelines of other Creval Group relevant actions

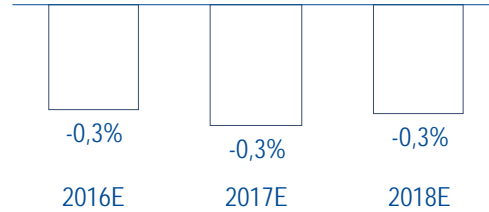
- A** Migration from traditional channel to **digital channels** also through the development of an **advanced online banking and innovative self-branches** concept (i.e. **filiali bancaperta**)
- B** Strengthening of the **business model** adopted for **corporate customers**, activation of a **specific model** for **affluent and private** customers and further **industrialization of the offering** on the retail segment
- C** **Start-up of the factoring business** (also through selective acquisition), **strengthening** of the **trade finance** business through dedicated resources and budget and development of a **dedicated offering** for the **agriculture sector** and for the **loans on pledge** business
- D** Improvement of the **bancassurance** performance also through the enhancement of the current operating model
- E** Introduction of new **rewarding system** to boost employees **productivity**
- F** Lean banking model through further **governance** and organizational **simplification** and a **specific cost optimization program**
- G** Asset allocation rebalancing and **diversification** also with the reduction of the exposure on **Govies ITA**
- H** Retail funding rebalancing through a partial replacement of **direct funding** in **indirect funding** and in other forms of **direct funding** with lower costs and durations

1. Context
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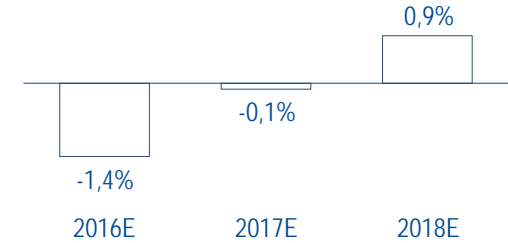
Unemployment rate ⁽¹⁾



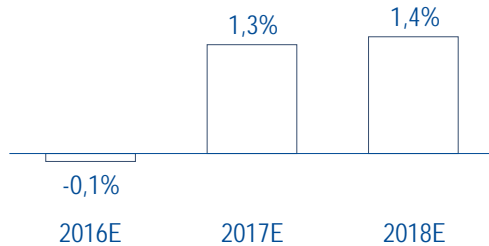
Euribor ⁽¹⁾



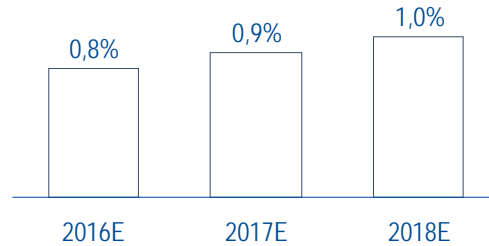
HPI - House price index ⁽²⁾



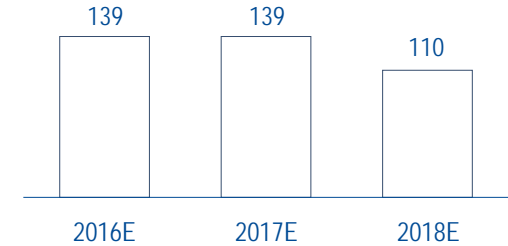
Inflation (consumer price) ⁽¹⁾



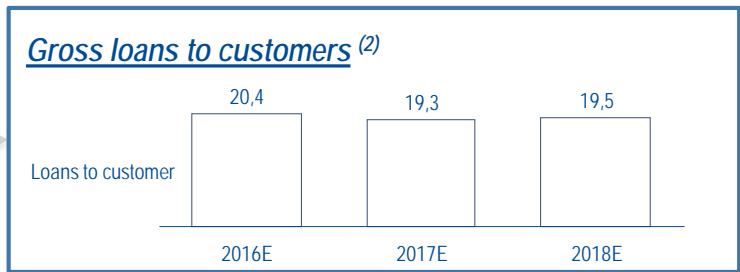
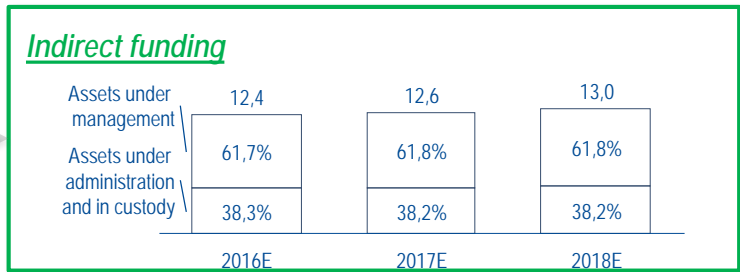
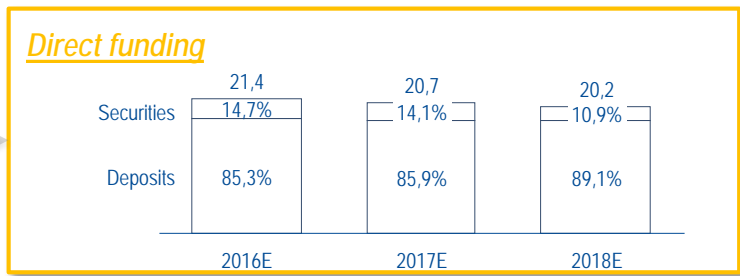
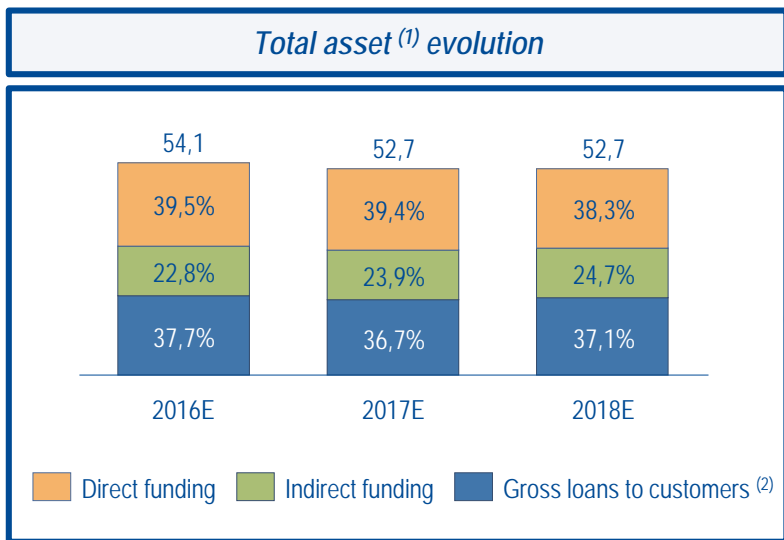
GDP (average date per year) ⁽¹⁾



Spread BTP-BUND (in bps) ⁽¹⁾



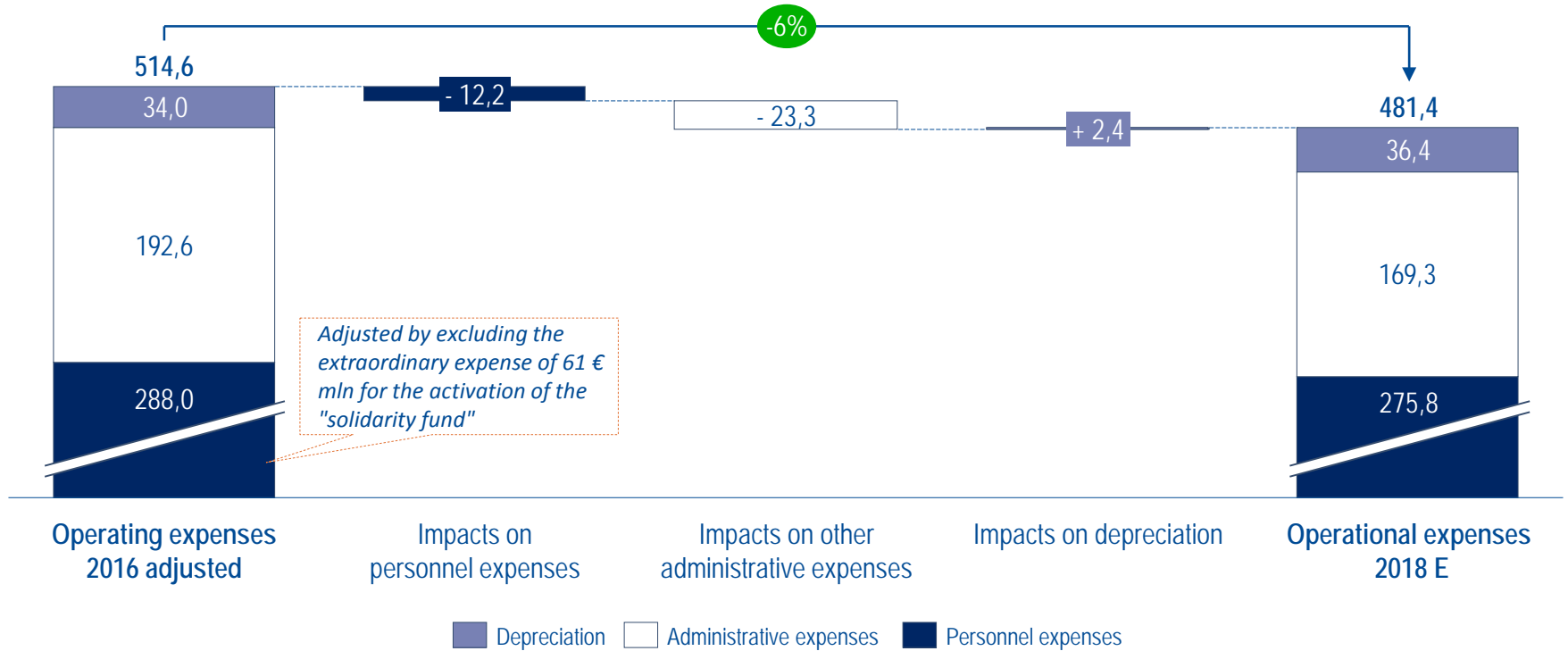
Data in € bn



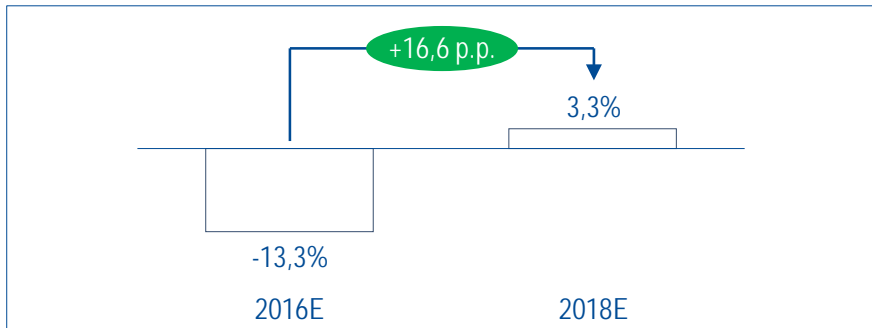
Notes: (1) It refers to direct funding, loans to customers and asset under management / administration; (2) Gross loans performing and non performing

Operating costs evolution

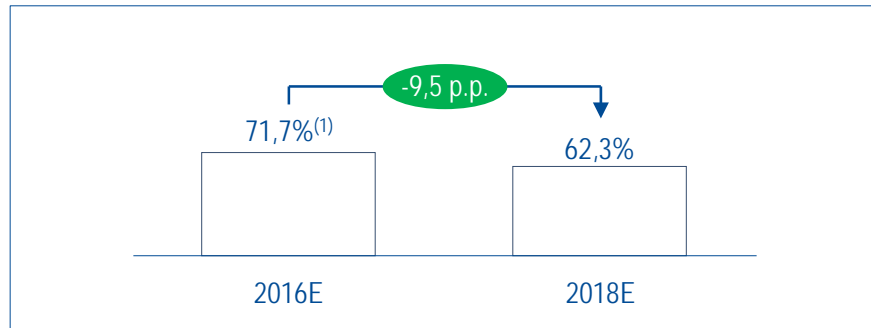
Data in € mln



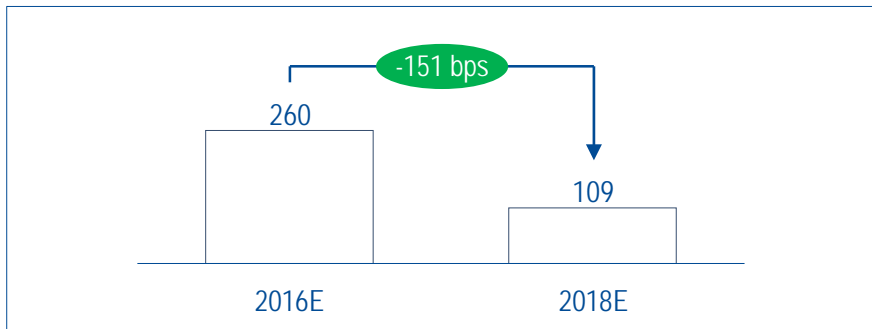
Return on tangible equity (%)



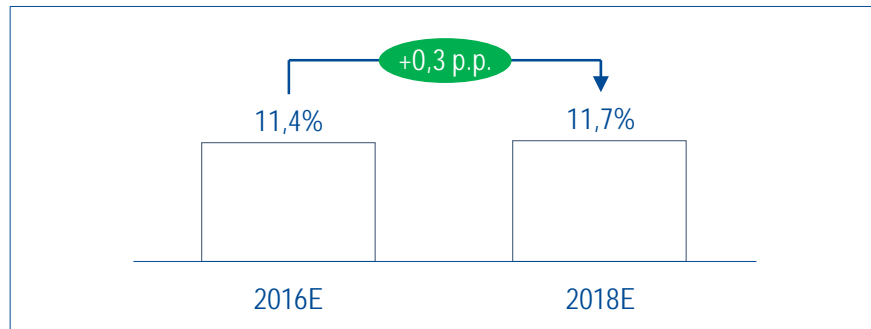
Cost income (%)



Cost of risk (bps)

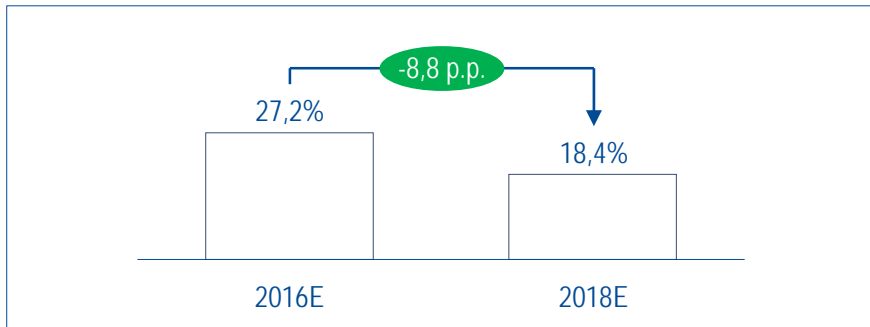


CET 1 Ratio "fully loaded" (%)

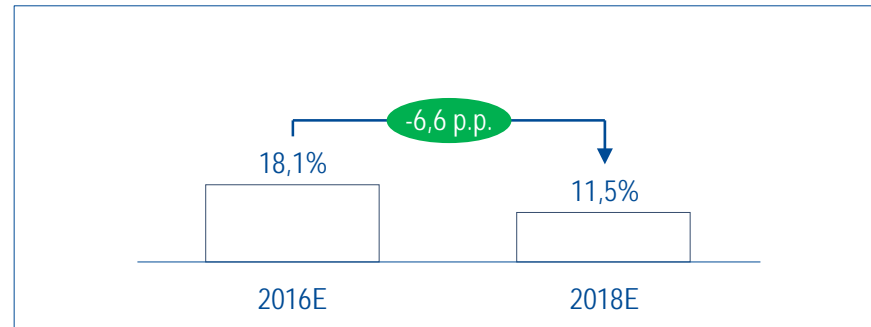


Notes: (1) Adjusted by excluding the one-off cost of 61 € mln for the activation of the solidarity fund

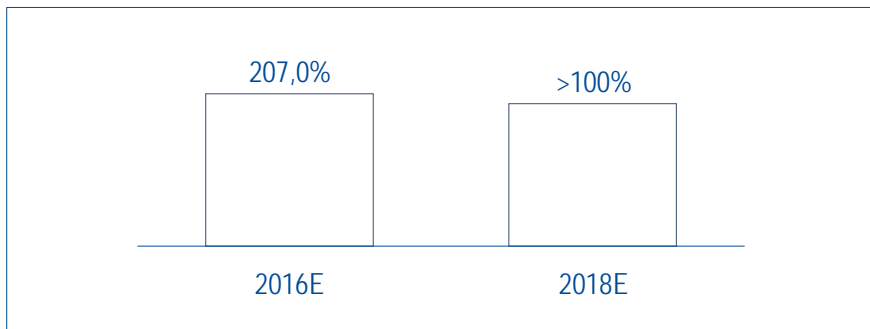
Gross NPL ratio (%)



Net NPL ratio (%)



LCR (%)



NSFR (%)

