

One Bank, One UniCredit *Transform Operating Model*



R. de Marchis / F. Giordano

London, 13th December 2016

Welcome to
 **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**



Key priorities to support the Bank

Enable the Bank's transformation, further improving customer experience

Customer journey digitalization and end-to-end process redesign

Drive optimization of the operating model

IT simplification and evolution, central operations, procurement and real estate optimization

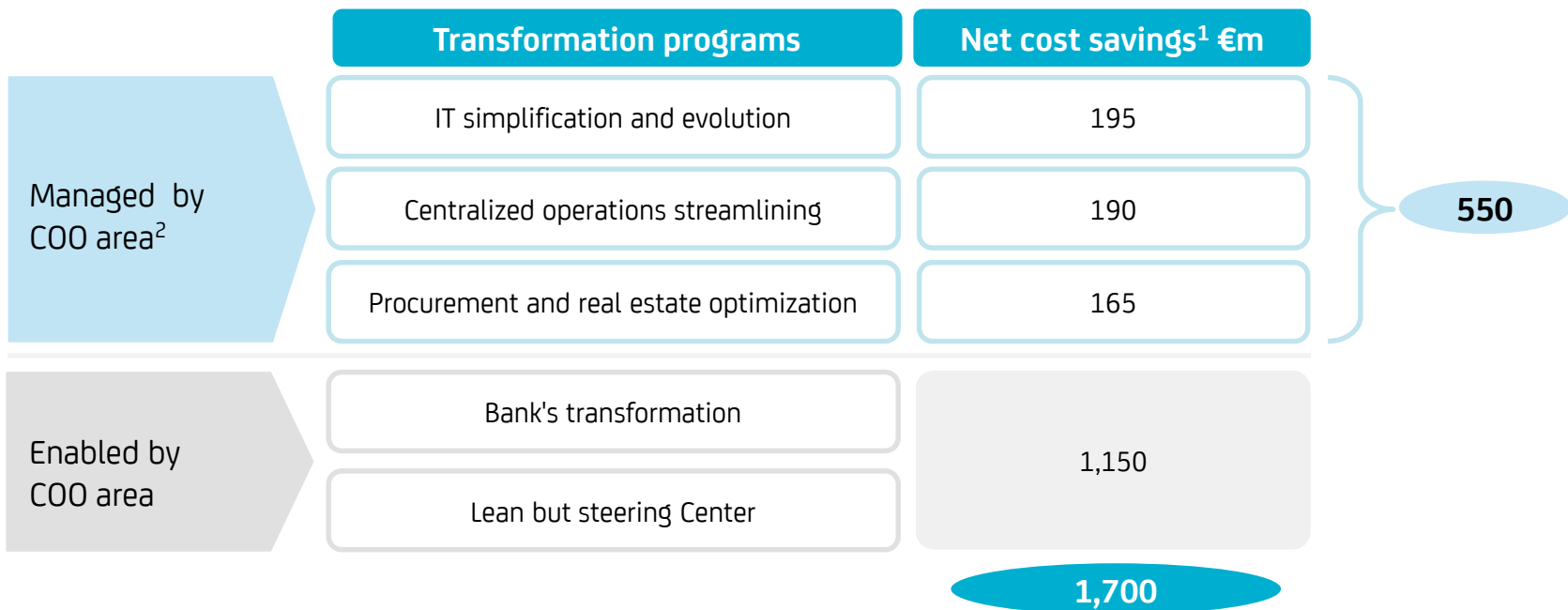
Secure the execution

Centralized demand management, selected KPIs for a rigorous plan implementation

**Deliver €1.7bn net annual recurring cost savings as of 2019,
jointly with the Business**



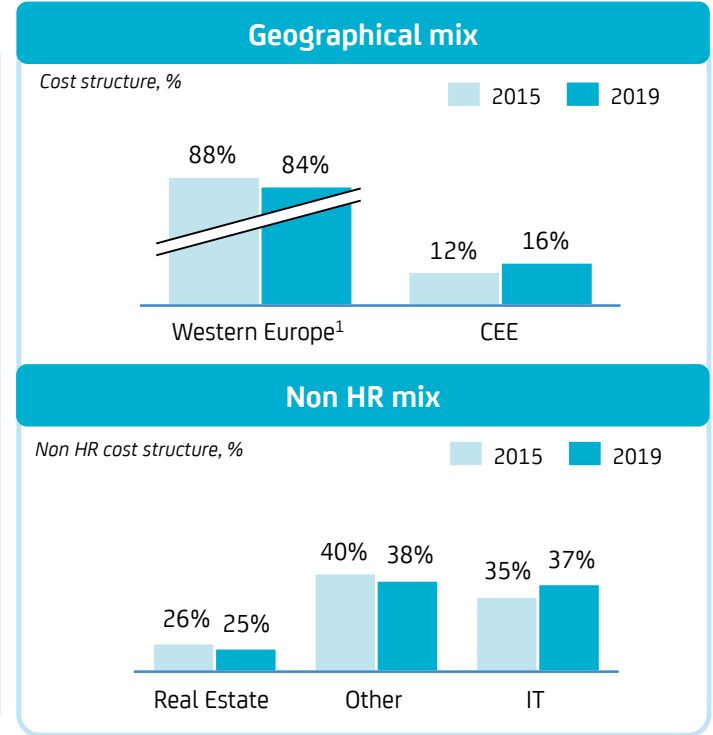
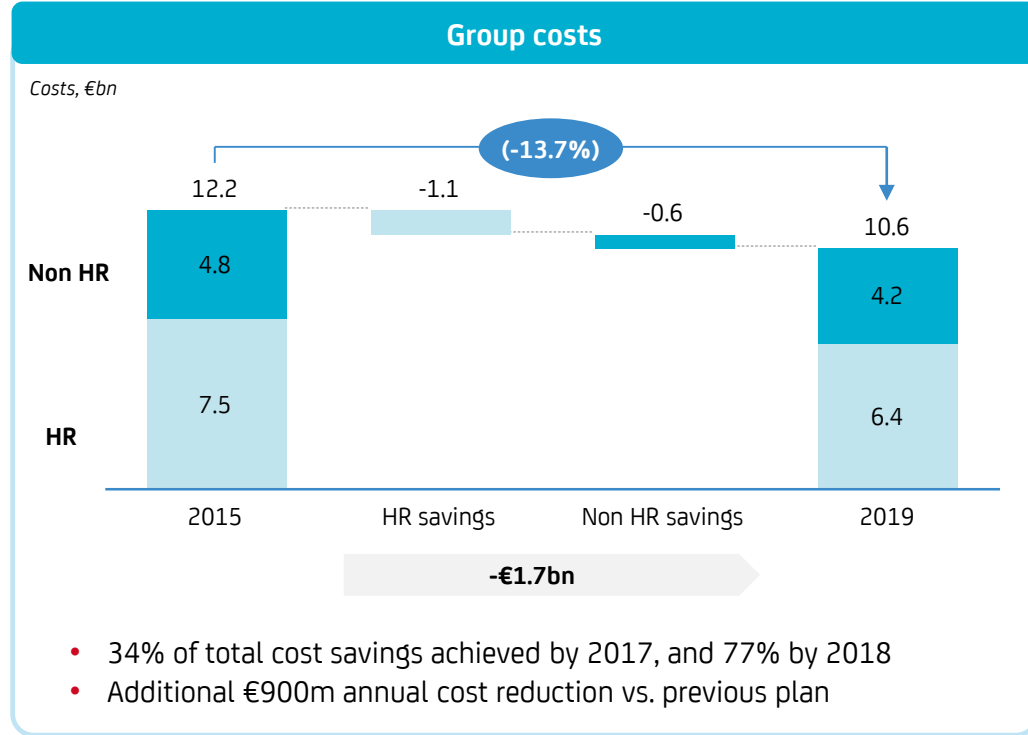
Support business divisions to achieve €1.7bn net annual recurring cost savings



End-to-end process review enabled by digitalization



Bank transformation leading to a major and sustainable cost reduction

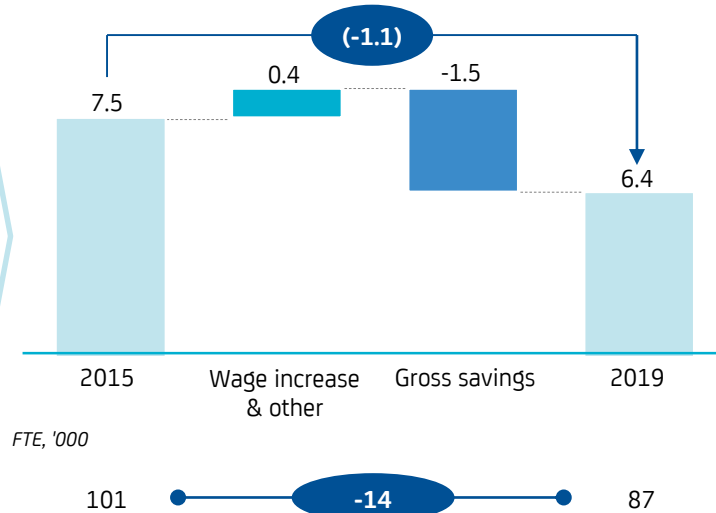


€1.1bn HR net savings mainly in support functions and operations focused on Western Europe

Sizeable reduction in HR costs thanks to FTE reduction and moderate wage increase

- Previous plan 2014-2018 projected 7,700 net redundancies between 2015 and 2018
- New transformation plan adds further 6,500 net redundancies by 2019 with €1.8bn¹ pre-tax integration costs to be booked in 2016

HR costs, €bn



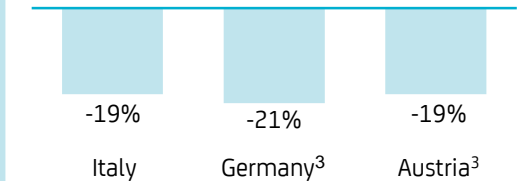
FTE reduction by activity

Delta FTE 2015-2019, %



FTE reduction by geography

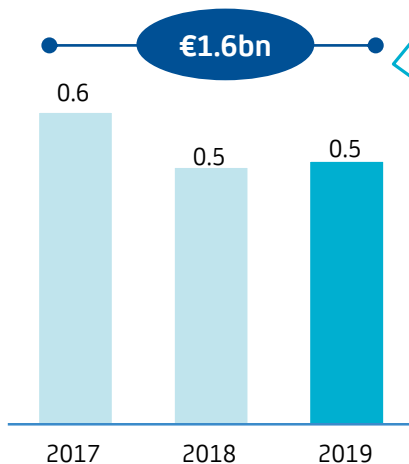
Delta FTE 2015-2019, %



Additional investment for the Business to reach €1.6bn cash out

IT investment for Business

Cash out, €bn



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

Key messages

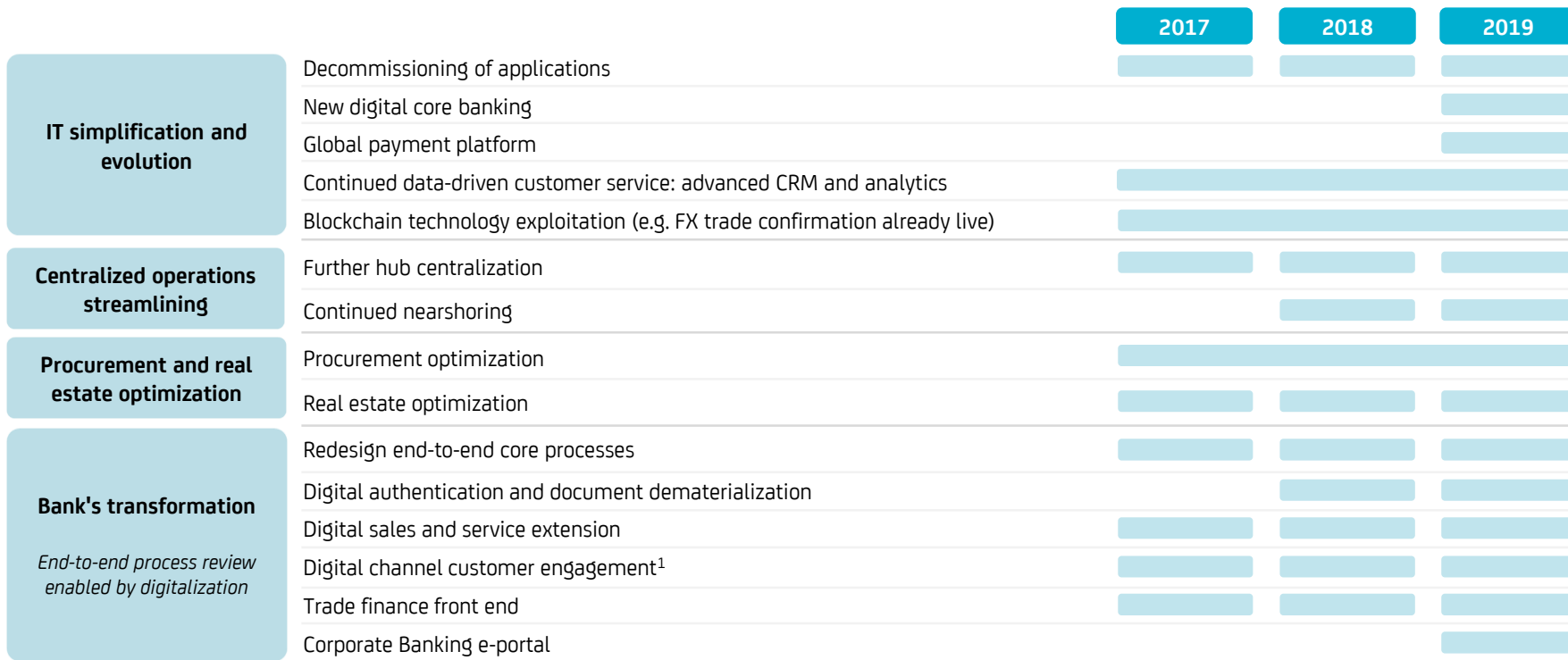
- Sustained level of investment to support the Bank transformation in spite of increased focus on costs
- Stable impact of regulatory component leveraging on investment from previous years
- Rigorous demand management, central steering of IT cash-out allocation
- Overall IT costs down by 5%¹, with reduction of run the Bank costs (-12%¹) more than offsetting P&L impact of investment

Investment plan enabling the execution roadmap



Further transformation of the simple Commercial Banking model through 4 main programs

NOT EXHAUSTIVE



Leverage on the existing "One IT Factory" to accelerate the plan

A centralized IT factory...



- One IT factory serving Western Europe¹ and part of CEE², totaling 70% of IT costs in 2015
- 2 main data centers consolidated in 4 sites
- A strategic partnership with IBM to manage the IT infrastructure
- Multi-country IT competence centers with increased presence in CEE countries

...with Global platforms



- 3 main Commercial Banking IT platforms, covering almost the total of all Commercial Banking activities
- 1 Global platform for Markets product line
- Integrated Data Repository covering – with single deal statistics – liquidity management, risk adjusted profitability and credit risk calculation engines

**Centralization accelerating efficiency and evolution of the IT platform,
allowing common investment and best practice sharing**

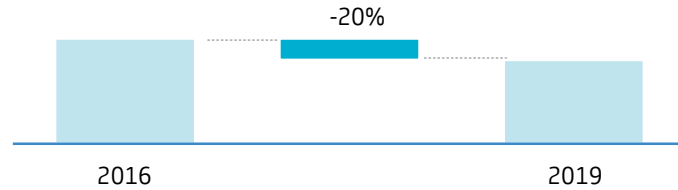


Update technology to enable IT cost reduction and increase agility

IT simplification and evolution

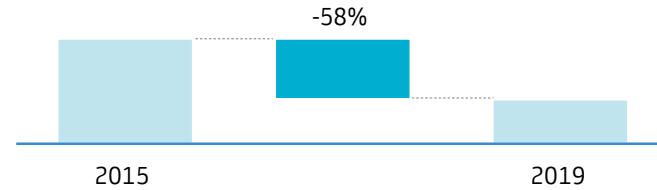
Decommissioning

IT Applications¹, #



Evolution of core banking system

MIPS², #



- Reduction of application and data landscape
- More than 1,100 applications to be decommissioned
- Tackle unnecessary IT complexity

- Moving customers to the new open environment
- Open and cloud-ready infrastructure reducing IT cost-to-serve
- Re-write applications with highest IT resource consumption in legacy infrastructure

IT optimization initiatives leading to overall €195m cost savings

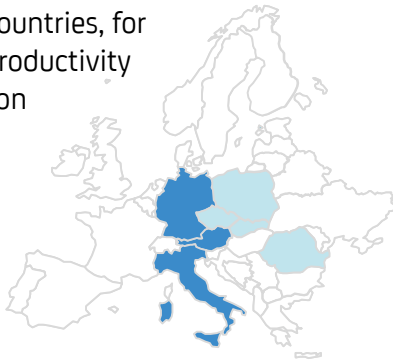


"One Ops Factory" driving efficiencies in central back offices

Centralized operations streamlining

Enablers

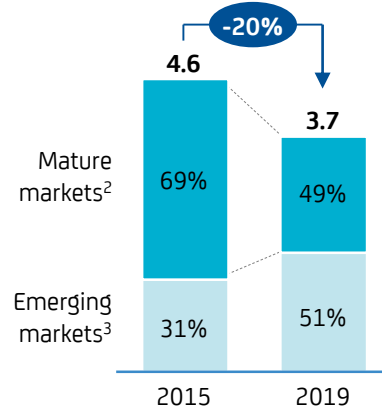
- Global hubs serving Western Europe¹ driving savings through standardization and streamlining
- Operations footprint across different countries, for cost and productivity optimization



Global footprint

- Leverage nearshoring capabilities

FTE, '000



Efficiency initiatives

- Further reduce factory cost-to-serve, also exploring robotic capabilities

Leading to
32% HR cost reduction
in Ops area

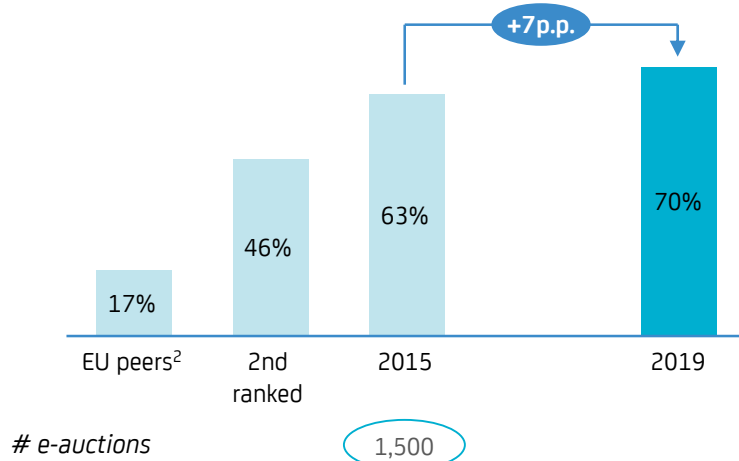
€190m HR and non HR savings in centralized operations as of 2019 in COO area



Strict central purchasing strategy and strong demand discipline

Procurement and real estate optimization

% of negotiated amount¹ through e-tenders



Key enablers

- Centralized Group procurement to exploit volume consolidation
- Aggressive price negotiation through our established e-auction platform
- Strict demand management focused on “One standard/no frills” approach
- Central cost management committee with top management involvement

50% of Group administrative expenses are tendered by central procurement³



Retail footprint optimization and headquarter rationalization

Procurement and real estate optimization

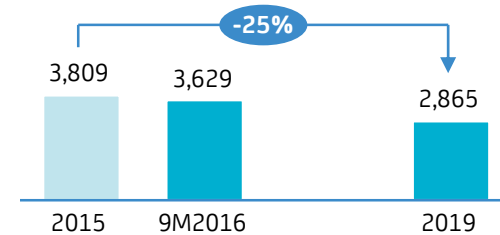
Optimization of Retail network footprint through:

- Further consolidation of branches in high density areas (mid-size and large cities)
- Rationalization of branch presence in lower value areas (small towns and rural areas)
- Increase of branch efficiency with adoption of leaner formats with enhanced automation (smart/cashless branches)

Consolidation and release of headquarters' space enabled by extension of Smart Working implementation perimeter

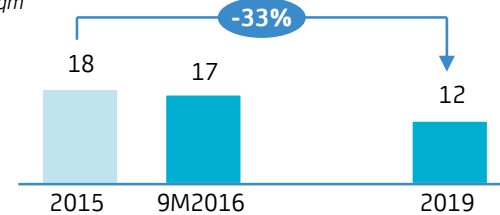
Branches reduction in Western Europe¹

Branches #



Headquarters' optimization²

SQM/Headcount, sqm



€165m savings from real estate and footprint optimization



Recognized track record in end-to-end optimization to be scaled up through a new “end-to-end delivery unit”

Track record of successful pilots...

New approach based on multi-disciplinary teams (joint IT-Business) tested in previous cost optimization programs

3 successful pilots completed

Italian tax payment flows

- Time to process reduced by 30%
- FTE efficiency by 26%

Money transfer

- Time to process reduced by 20%
- FTE efficiency by 19%

Households unsecured lending¹

- >80% of automated credit decisions
- From 6 to 1 simple platform

...scaled up to drive the transformation

Setup of "end-to-end delivery unit" (joint IT-Business leadership) to streamline product and service delivery, enabling substantial impact and savings, in particular in Italy



- Multi-disciplinary teams working in parallel, with objective of end-to-end redesign and digitization of one product
- 15-20 FTE per team from all relevant functions (IT, Business, support), with 150+ resources involved



- Co-location in one “design studio” and continuous interaction



- Agile development with quicker, progressive releases of "modules of change"



- Strong sync with network and IT Factory



- Simplified and more efficient budgeting to drive change



Digital enablers for process automation and effectiveness

Preconditions to allow process innovation

Digital authentication

- Extend digital authentication to provide best customer experience
- Eliminate paper at the source

Document dematerialization

- Leverage advanced scanning technologies (OCR³) to allow innovative workflow and robotization

Concrete ongoing projects

	One Time Password		Biometrics	
	Mobile Token	SMS PIN	Signpad	Mobile ¹
Italy	✓	✓	✓	✓
Germany	✓	✓	✓	✓
Austria	✓	✓		✓
CEE ²	✓	✓	✓	✓

	Optical Character Recognition		CDD ⁴
	Branch	Back Office	
Italy	✓	✓	✓
Germany	✓	✓	✓
Austria		✓	✓
CEE ²	✓	✓	✓

- ✓ Already available
- ✓ Planned deployment



Recognized blueprint of digital innovation across channels

NOT EXHAUSTIVE

Bank's transformation

Mobile and payments



- Banking App with Personal Finance Manager and account opening
- Payments App with Wallet card control, peer-to-peer and contactless payments
- Forex trade confirmation based on blockchain

4.3 stars rating on App stores¹

400+ matched trades per week

Instant lending and installments



- 1-click Mobile personal loan, leveraging on pre-scoring
- Mortgage Refinancing and Cash Loan online offer
- Cards installments in real time and on the move

46 seconds required time for Mobile personal loan

47% cards installments digital

Big Data and robo-advisory



- Marketing intelligence cockpit for Merchants and financial assistant for SME
- Advice engine based on robo-advisory and clients' insights
- Business intelligence engine for a single point of view on multinational Corporate clients

17,000 SME customers subscription

1,800 relationship managers and **125,000** Corporate clients²



Boosting digital offer ensuring Bank's readiness for clients' changing behaviors

Future developments

Retail

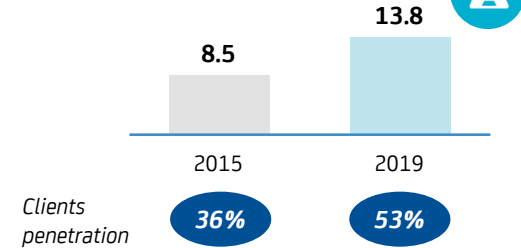
- New internet/mobile platforms fully integrated with CRM allowing real-time customer engagement and interaction
- Remote Advisory for individuals and companies also exploiting robo-advisory engines
- Fast credit on digital channels with advanced pre-scoring techniques

Corporate

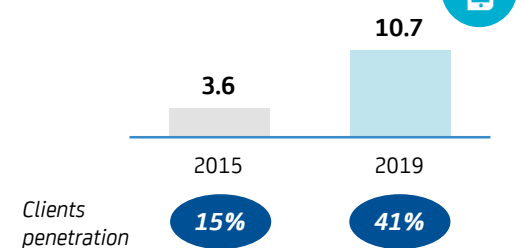
- New e-banking front-end as a single sign-on for integrated functionalities (trade finance, supply chain finance and global cash management)
- New digital solutions to reduce “response time” and to simplify the interaction with customers (e.g. instant payments, cross-border payments – same day use of funds)

Retail key targets

Online: total active users¹, m



Mobile: total active users¹, m



Project management set-up to ensure execution of the plan

Rigorous program management with tight central steering from CEO/Executive Committee

Defined target ensuring specific accountabilities for each transformation project

Transformation platform ensuring coordination between Business, IT, Operations, HR and Risk

Continuous monitoring of managerial KPIs and financial targets driving execution

Quick wins to deliver immediate results and build momentum



Transformation of the operating model at a glance

Main KPIs	2015	2019	Impact
Costs	€12.2bn	€10.6bn	-€1.7bn
IT investment cash out for Business activities			+€1.6bn ¹
FTE ('000)	101	87	-14
Retail branch reduction in Western Europe	3,809	2,865	-944
Online active customers ²	8.5m	13.8m	+13%
Mobile active customers ²	3.6m	10.7m	+32%



Closing remarks

**Leverage on digitalization and process redesign
to transform the Bank and improve customer experience**

**Drive optimization of the operating model, enabled by a joint effort with Business toward a
sustainable lower cost structure**

**Secure the execution with clear program management and accountability culture ensured by
tight central steering, KPIs and common platforms**

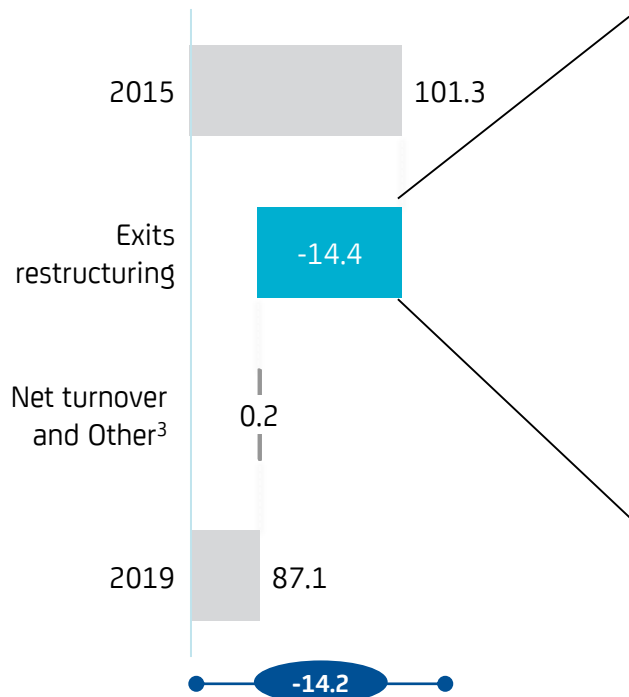


Annex



2015-2019 FTE evolution details

FTE ('000)



	Old plan	New plan	Total	Total net reductions % vs. 2015
Italy ¹	-5.6	-3.9	-9.4	-19%
Germany	-1.1	-1.4	-2.5	-21%
Austria	-1.1	-1.0	-2.1	-19%
Rest of Group ²	-0.3	-0.1	-0.4	
Total restructuring	-8.0	-6.4	-14.4	
Total net impact	-7.7	-6.5	-14.2	-14%

