Bank of Albania Conference
The future of banking in emerging Europe

Session 2: Changing Business Model of Banks
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INTESA SANPAOLO
ISBD is a pillar of Group’s performance…

June 2019

**Total assets (€ bn)**
- **ISBD WEIGHT ON ISP GROUP**
  - ISBD: 6% of 94%
  - ISP: 94%

**Operating income (€ bn)**
- **ISBD WEIGHT ON ISP GROUP**
  - ISBD: 11% of 89%
  - ISP: 89%

**Net income (€ bn)**
- **ISBD WEIGHT ON ISP GROUP**
  - ISBD: 15% of 84%
  - ISP: 84%

**ISP RESULTS**

**Net Income**
- The best H1 since 2008
- H1.18: 2.2
- H1.19: 2.3
- Increase: +4.0%

**Common Equity**(3)
- H1.18: 4.6
- H1.19: 3.6
- Ratio: 13.9%

**NPL deleveraging**
- The lowest NPL stock and NPL ratios since 2009
- H1.18: 2.2
- H1.19: 2.0
- Increase: +4.0%

**Corporate Social Responsibility**
- Strong commitment through a variety of concrete initiatives
  - **REDUCE CHILD POVERTY**
  - **SUPPORT PEOPLE IN NEED**
  - **ACCELERATOR PROGRAMS FOR START-UPS**
  - **ISP "GIOVANI E LAVORO"**
  - **ISP "GALLERIE D’ITALIA" MUSEUMS**

**Net NPL ratio (%)**
- H1.18: 4.6
- H1.19: 3.6

**SOURCE: ISP Investor Relations**
operating in selected foreign markets...

Subsidiaries’ Ranking, volumes and branches by country (as of 31.12.2018)

**SLOVAKIA** #2
- Total assets (€ bn): 16.6
- Customer Loans (€ bn): 13.6
- Income before tax (€ ml): 215.6
- Branches: 207

**HUNGARY** #7
- Total assets (€ bn): 5.9
- Customer Loans (€ bn): 2.7
- Income before tax (€ ml): 69.1
- Branches: 68

**CROATIA** #2
- Total assets (€ bn): 11.9
- Customer Loans (€ bn): 6.7
- Income before tax (€ ml): 248.9
- Branches: 192

**SLOVENIA** #6
- Total assets (€ bn): 2.6
- Customer Loans (€ bn): 1.8
- Income before tax (€ ml): 18.0
- Branches: 49

**BOSNIA** #5
- Total assets (€ bn): 1.1
- Customer Loans (€ bn): 0.7
- Income before tax (€ ml): 20.5
- Branches: 54

**ALBANIA** #4
- Total assets (€ bn): 1.4
- Customer Loans (€ bn): 0.4
- Income before tax (€ ml): 5.2
- Branches: 34

**EGYPT** #8
- Total assets (€ bn): 4.7
- Customer Loans (€ bn): 1.9
- Income before tax (€ ml): 174.4
- Branches: 175

**SERBIA** #1
- Total assets (€ bn): 4.9
- Customer Loans (€ bn): 3.0
- Income before tax (€ ml): 115.0
- Branches: 154

**ROMANIA** #15
- Total assets (€ bn): 1.2
- Customer Loans (€ bn): 0.8
- Income before tax (€ ml): 2.0
- Branches: 34

**MOLDOVA** #5
- Total assets (€ bn): 0.2
- Customer Loans (€ bn): 0.03
- Income before tax (€ ml): -4.5
- Branches: 17

**UKRAINE** #27
- Total assets (€ bn): 0.14
- Customer Loans (€ bn): 0.04
- Income before tax (€ ml): -4.30
- Branches: 50

**OTHER COUNTRIES**
- **Czech Rep.** - VUB Banka Branch Prague
- **China** - Bank of Qingdao (ISP actual ownership 13.9%)
- **China** - Yi Tsai (ISP ownership 100%)
… where ISP Group has a long lasting experience and a long term investment view

**BEFORE 2000**
- Croatia
- Hungary

**2000 - 2010**
- Slovakia
- Czech R.
- Romania
- Slovenia
- Serbia
- Albania
- Bosnia
- Ukraine
- Egypt

**2010-2019**
- Moldova

Overall ISBD footprint in CESEE region
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HIGHLIGHTS ON INTESA SANPAOLO’S INTERNATIONAL SUBSIDIARY BANKS DIVISION (ISBD)

ISBD STRATEGY IN A RAPIDLY CHANGING ENVIRONMENT
Exogeneous macro trends affect the banking business…

Key challenges

- Compliance
- Digitalization
- Competitive landscape
- Low interest rates

- Need to re-think traditional model and distribution strategies
- New requirements affecting a wide range of regulatory rules and policies
- Need to revise the revenues model to sustain the P&L
- Transforming new threats into business opportunities
...forcing the International banking groups active in CESEE to re-think their business models

- Develop a differentiated approach to priority segments («growth engines»). To compete banks are developing more distinctive and specialized service models and offers.

- Innovate to deliver new formats and propositions better tailored to the characteristics of clients needs. In the past decade, regional banks tended to rely mainly on traditional branch-based networks. As consumer preferences are evolving, the banks have been reshuffling their product/services offer, leveraging also on new distribution channels.

- Build stronger regional governance models with more coordinated operations and risk management. A decentralized banking group model, with strong country organizations, limits the pursuit of operating synergies across markets. There is the need to look for convergence opportunities, particularly in some of the smaller geographic markets and for investing in standardized products and processes to create scope for synergies in investments.
The 3 pillars of ISBD strategy 2018-2021

1. Operating platform convergence
   - Further convergence of the IT system and operations of the Banks belonging to the main Hubs into a single platform

2. Service model enhancement
   - Development of an efficient multi-channel model leveraging ISP Group best practices:
     - Branch network redesign by micro-markets
     - New client segmentation and dedicated branch roles
     - Revamp of ATM cash-in functionalities
   - Extension of the Wealth Management Advisory Service model and distribution of Life insurance policies
   - Evolution of corporate coverage through the introduction of Senior Corporate Bankers

3. Digital evolution management
   - Boost of digital customer penetration by offering a new set of state-of-the-art products and services (e.g., multi-channel advisory)
   - Development of new digital processes to push online sales and launch new products
   - Introduction of the “Digital Identity” to enhance sales capabilities through virtual branches
The main organisational benefits stemming from operating platforms convergence

- **Clear interaction lines** between corresponding functions in the Banks and in Parent Company: communication, reporting and functional coordination are made easier.

- “Best of the art” organizational structure design, that includes the best experiences across the Group and it is coherent with Intesa Sanpaolo Organisational Model.

- **Comparability** of the same functions and positions across Banks, that allows easier benchmarking, and facilitates many HR processes.

- Enabler of harmonization of IT platforms and operational processes, thus allowing for an increase in operational efficiency and deployment of synergies.
Service Model enhancement – AGDM

New relationship and sales driven by Adopting Group Distribution Model ("AGDM"), that is based on 4 key pillars

1. ATM channel enhancement and creation of self areas
2. Increase of value added time of branch employees by improvement of processes
3. Network optimization and branch refurbishment according to Group standards
4. Sub-segmentation and proactive sales approach

New Retail commercial approach
The enhancement of service models: necessary, but not an easy job

Meeting the new Service Model goals:

- Sustainable returns for banks
- Maximize customer satisfaction

...by managing segmentation complexity...

- Sector/Industry
- Credit intensity
- Internationalization
- Range of products needs

...and by activating some internal enablers

- Products & customer journeys
- Credit policies & procedures
- Digital & technology applications
- Organization, HR & capabilities
Digital Evolution – Digical
A digital bank model (“DigiCal”) based on an integrated system as enabler to enhance lending volume and reduce costs

- Direct Channels
  - Direct channels create a **seamless experience** in Responsive and Mobile application
  - The content strategy is supported by a **back-office module integrated** with the local CRM solution
  - Digital Branch helps the relationship managers in branch to manage their **daily activities and goals** and pursuing a fully **paperless** model

- Public Portal & Onboarding
  - Public Portal provides to customers a common improved **Customer Experience**
  - This channel is the **entry point of On Boarding process** related to current account opening and other products for prospects
  - Digical for Business will create a seamless experience in all channels also for Legal Entities customers

- Digital for Business

- Direct Channels
  - Daily banking platform
  - Lending and credit cards
  - Current & saving accounts
  - Insurance On-the-go
  - Post-sale services