PRESS RELEASE

2021-2024 BUSINESS PLAN "DELIVERING VALUE IN A NEW GROWTH-ORIENTED ENVIRONMENT":

- **Context of significant economic recovery**
- **Solid track record in revenue generation**
- **Careful control of costs**
- **Contained risk profile**

SIGNIFICANT VALUE CREATION

- **NET PROFIT OF ~€740M IN 2023 AND OVER €1BN IN 2024**
- **ROTE >9% IN 2024**

SIGNIFICANT CAPITALISATION AND SOLID LIQUIDITY LEVELS

- **CET 1 RATIO[1] ~14.4% IN 2024**
- **MDA BUFFER FL AT ~590BP IN 2024**
- **DIVIDEND PAYOUT OVER THE PLAN HORIZON AT 40%**
- **LIQUIDITY COVERAGE RATIO >140%**
- **NET STABLE FUNDING RATIO >100%**

FURTHER IMPETUS TO DE-RISKING AND LOW LEVEL OF NPEs

- **GROSS NPE RATIO AT 4.8[2]% IN 2024**
- **COST OF RISK AT 48 BP IN 2024**
- **FURTHER DE-RISKING OF €650M ALREADY EXPENSED IN THE COST OF CREDIT IN THE FIRST NINE MONTHS OF 2021**

[1] Excludes the new regulatory impacts of Basel IV.

[2] Gross NPE ratio of 4.7% if calculated on the basis of the methodology indicated by the EBA.

<u>CLOSE FOCUS ON IMPROVING OPERATING PROFITABILITY</u>

- **TOTAL REVENUES UP TO ~€4.6BN IN 2024 (CAGR 20-24 +2.4%) OF WHICH CORE INCOME[3] OF €4.4BN IN 2024 (CAGR 20-24 OF +3.8%)**
- **OPERATING EXPENSES DOWN TO ~€2.4BN IN 2024 (CAGR 20-24 -1.1%)[4]**
- **PROFIT FROM OPERATIONS >€2.1BN IN 2024 (CAGR 20-24 +6.0%)**

<u>A PRACTICAL AND STRUCTURED PLAN TO TAKE BEST ADVANTAGE OF ALL THE OPPORTUNITIES OF THE NRRP AND TO SUPPORT THE COUNTRY'S ECONOMIC GROWTH</u>

- **CORE NET LOANS TO CUSTOMERS OF +€109.0BN IN 2024 (CAGR 20-24 OF +2.6%)**
- **NET FLOWS OF MANAGED ASSETS OF +€14.5BN OVER THE PLAN HORIZON**

<u>THREE FUNDAMENTAL PILLARS OF GROWTH</u>

1. **NEW DIGITAL-DRIVEN BUSINESS MODEL:**
    - **Remote transactions >90% in 2024**
    - **Remote and "omni-channel" sales >50% in 2024**

2. **GROWTH IN VOLUMES AND PROFITABILITY OF CORE BUSINESS, LEVERAGING OF DIGITALISATION, DISTINCTIVE SKILLS AND FRANCHISE VALUE, PLUS THE ADDED VALUE OF OUR SPECIALISED BANKS:**
    - **"Core"[5] revenues of the Family Banking segment: CAGR 21E-24 +19.2%[6]**
    - **Net fee and commission income from Asset Management: CAGR 21E-24 +6.3%[6]**
    - **"Core"[5] revenues of the SME segment: CAGR 21E-24 +5.0%[6]**
    - **"Core"[5] revenues of the aggregate Corporate and Investment Banking segment: CAGR 21E-24 +5.6%[6]**
    - **Greater interaction and contribution of Banca Aletti, specialised in Private Banking, with a net fee and commission income target of €123m in 2024 and of Banca Akros with "core"[5] revenues at >€160m in 2024 (CAGR 21E-24 +13%)**

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[3] Net interest income + Net fee and commission income + Profits of equity-accounted interests in associates and joint ventures.

[4] CAGR calculated on the basis of FY 2020 costs, normalised for lower variable remuneration components and one-off Covid-19 related savings, for a total of about €90m with respect to the Adjusted value.

[5] Net interest income + net fee and commission income.

[6] Management data, taking into consideration the macroeconomic assumptions and the growth in the Euribor 3M rate, as indicated on page 5.

3. **FULLY OPERATIONAL PRODUCT FACTORIES, STRENGTHENING THE BUSINESS MODEL CONNECTED WITH BANCASSURANCE AND WITH THE HIGH GROWTH POTENTIAL IN ASSET MANAGEMENT AND CONSUMER CREDIT:**

- **Generation of net commissions of ~€740m in 2024 (CAGR 21E-24 +8%)**
- **A full internalisation of Bancassurance is planned, with a contribution of ~€125m in 2024**
- **Contribution to profit of interests in associates and joint ventures related to Anima, Agos and Bancassurance equal to ~€270m in 2024**

<u>THREE ENABLING FACTORS</u>

1. **CONFIRMATION OF A STRONG "RISK CONTROL CULTURE" APPLIED TO THE MANAGEMENT OF LOANS AND THE SECURITIES PORTFOLIO:**

- **GROSS NPE RATIO 4.8[7]%**
- **FURTHER DE-RISKING OF €650M ALREADY EXPENSED IN THE COST OF CREDIT IN THE FIRST NINE MONTHS OF 2021**
- **REDUCTION IN THE WEIGHT OF ITALIAN GOVERNMENT SECURITIES TO <50% at the end of 2024[8]**

2. **DEVELOPMENT OF THE TALENT AND *DIVERSITY* OF HUMAN RESOURCES AND DIGITAL, ORGANISATIONAL AND PROCESS TRANSFORMATION, CONFIRMING THE CLOSE CONTROL OF COSTS:**

- **Programmes for the strengthening and enhancement of female talent: share of women in managerial positions >30% at the end of 2024**
- **€650m of investments to support the technological evolution over the plan horizon, of which ~€250m focusing on digital innovation and ~€45m on cybersecurity**
- **Personnel costs <€1.6bn in 2024 thanks to savings of €200m due to the managerial initiatives implemented with respect to the expected inertial increases**
- **~1,600 voluntary exits expected by 2023 (already previously announced), leading to increasing generational turnover with 800 new hires**

[7] Gross NPE ratio of 4.7% if calculated on the basis of the methodology indicated by the ECB.
[8] Incidence calculated on total Government securities in the bank-owned portfolio.

3. **FULL INTEGRATION OF THE ESG STRATEGY IN THE GROUP'S BUSINESS MODEL:**

- **Customer support to promote the transition towards a sustainable economy: loans allocated to the *green* or low transition risk sectors >65% at the end of 2024**
- **Integration of ESG requests in credit, risk and investment policies and processes: credit dedicated to transition projects in the fossil fuels sectors >80% at the end of 2024**
- **Continuous evolution of the people strategy and of community support initiatives**
- **Additional measures to tackle climate change: 100% of electricity from renewable sources and carbon neutrality[9] over the Plan horizon**
- **Adherence during the plan horizon to the Net Zero Banking Alliance, TCFD and UN Global Compact**

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Declaration from Giuseppe Castagna, Chief Executive Officer of Banco BPM:

"The 2021-2024 Strategic Plan presented today is based on the presumed balances both in terms of the recovering macroeconomic scenario, stimulated among other things by the launch of the National Recovery and Resilience Plan, and in relation to the Group's solidity and its ability to act in transformation contexts."

"During the health emergency, Banco BPM has firmly demonstrated its organisational capabilities and its ability to react from a commercial perspective, which have enabled it to confront the emergency and rapidly take the necessary steps to support customers, including with the use of technology, which has allowed operations to happen remotely, aided by personnel who remain present in local branches. This has all taken place while keeping asset quality under control and maintaining constant profitability."

"The new Plan, notable for its ambitious but attainable objectives, due in part to the consolidated track record in recent years, is guided by strategic priorities which aim to ensure significant remuneration for shareholders, meet the expectations of the other main stakeholders (customers, staff, Supervisory Authorities), and seize the oppor1tunities offered by the processes underway such as digitalisation and sustainability. This is all with the aim of further bolstering Banco BPM's competitive positioning as a solid bank throughout the country, the benchmark of excellence for families, businesses and communities."

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Milan, 5 November 2021 – At the meeting held yesterday, 4 November 2021, Banco BPM's Board of Directors, chaired by Massimo Tononi, approved the Group's 2021-2024 Business Plan.

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[9] Scope 1 and Scope 2 Net Emissions.

Key assumptions of Banco BPM's 2021-2024 Strategic Plan: encouraging macroeconomic prospects and solid *track record*

As a result of the more extensive visibility of the current and forward-looking macroeconomic scenario, also supported by the improvement in the health scenario at national and global level and based on the proven response and resilience capacity in the face of the unexpected pandemic crisis, Banco BPM today presents a Strategic Plan that sets out new targets for the 2021-2024 time horizon.

Starting from the current recovery scenario, the NRRP, the National Recovery and Resilience Plan, an instrument provided by the EU within the framework of Next Generation EU (NGEU) to respond to the post-Covid economic difficulties, plays a crucial role in restoring sustainable economic growth and injecting significant impetus to national GDP (+6% in 2021).

Banco BPM's 2021-2021 Strategic Plan was also developed by taking account of the consolidated track record (from the merger until today), in relation to which the following should be noted:

- excellent capacity for delivery in the initial post-merger years on integration, operational efficiency and de-risking
- encouraging post-pandemic recovery of the main commercial, economic and equity indicators, improved with respect not only to 2019 (pre-Covid level), but also the targets of the "former" 2020-2023 Plan
- significant impetus injected for digitalisation of the business model (in both the commercial and operational domains)
- effective implementation of measures to support the economy and our customers (moratoria and Government-backed loans)

The Plan was developed on the basis of a *full* set of assumptions, which incorporate the new macroeconomic prospects and the developments in the regulatory context.

	2020	**2021F**	**2022F**	**2023F**	**2024F**
3-month Euribor (basis points)	-0.42	-0.53	-0.49	-0.39	-0.15
Italy real GDP (YoY change) – Reference scenario	-8.9%	6.0%	4.2%	2.4%	1.5%

The development of the Plan is also based on a series of strategic priorities that meet the expectations of the main *stakeholders*, including customers, investors, staff and the Regulator:

- gradual development of the service model from a digitalisation perspective
- opportunities offered by the NRRP
- options for developing Bancassurance in light of the renegotiations of the "Cattolica" and "Covéa" partnerships
- contribution to cutting costs, stemming from the recent agreement on the redundancy fund and rationalisation of the network of branches
- normalisation of the cost of risk, made possible by having achieved improvements on the Asset Quality front, already above the targets which the Group set for 2023 in the former plan

Main targets of the 2021-2024 Strategic Plan

	2020	2023E	2024E	CAGR '20-'24
Operating income	€4.15bn	€4.3bn	€4.6bn	+2.4%
• of which: net interest income + net fee and commission income	€3.65bn	€3.9bn	€4.1bn	+3.0%
• of which: profit of equity-accounted investees	€0.13bn	€0.18bn	€0.28bn	+21.4%
Operating expenses	€(2.46)bn adj.	€(2.4)bn	€(2.4)bn	-1.1%[10]
Profit (loss) from operations	€1.69bn	€1.9bn	>€2.1bn	+6.0%
Net write-downs of loans	€(1.09)bn adj.	€(0.68)bn	€(0.58)bn	-14.6%
Net profit	€330m adj.	€0.74bn	€1.05bn	+33.4%
Net customer loans	€109.33bn	€116.1bn	€121.1bn	+2.6%
Direct funding[11]	€120.14bn	€127.5bn	€132.0bn	+2.4%
Managed assets	€59.6bn	€73.5bn	€78.7bn	+7.2%
				Δ '20-'24
RoTE[12]	3.2% adj.	~7%	>9%	+>6p.p.
Cost/Income ratio	59.2% adj.	<57%	~53%	~(6)p.p.
Cost of risk	122 bps stated	58 bps	48 bps	(74) bps
Gross NPE ratio	7.5%	5.4%	4.8%	(2.7)p.p.
Net NPE ratio	3.9%	~3%	~2.5%	(1.4)p.p.
CET 1 ratio FL	13.3%	~14%	~14.4%	+1.1p.p

2021-2024 STRATEGIC PLAN

The 2021-2024 Strategic Plan is based on 3 key pillars and aims to provide shareholders with significant remuneration and achieve sustainable growth in profitability.

PILLAR 1 – A new *digital-driven* service model

The efforts expended and investments made since the incorporation of Banco BPM, geared towards developing the digital transformation, have laid solid foundations for further evolution of the service model from a digitalisation and omni-channel perspective, over the horizon of the 2021-2024 Plan. Thanks to the strengthening and innovation of digital services and channels, implemented since the merger up until now, the Group has:

[10] CAGR calculated on the basis of FY 2020 costs, normalised for lower variable remuneration components and one-off Covid-19 related savings, for a total of about €90m with respect to the Adjusted value.

[11] Excludes Repurchase Agreements and includes Protected-Capital Certificates.

12 Calculated on tangible Shareholders' Equity, excluding the net income of the period and AT1 instruments.

- cut the number of branches by 36% from 2,246 to 1,429, already surpassing, in 2021, the stated target of 1,530 in the 2020-2023 business plan
- reduced by 50% the number of cash teller positions (from 4,982 to 2,423)
- increased the portion of transactions managed via remote channels from 70% to 83% (with particular growth in the mobile channel, which has seen the number of monthly transactions almost quadruple in comparison with 2017)

In order to seize the main commercial growth opportunities and further optimise operations, a new digital service model will be rolled out over the Plan horizon, which will leverage:

1. the continuous evolution of daily banking from a *mobile first* perspective which will enable:
    - an increase in customers 'enrolled' in digital services, with a share of more than 80%, and with over 90% transactions conducted remotely
    - an improvement in the Customer Experience with the implementation of new smart assistance solutions, with the aim of keeping the level of satisfaction with the banking app at a high level (4.7 out of 5.0 as average score of the reviews reported as at 21 October, both on the Apple Store and on the Google Play Store)
    - adoption of *Digital Identity* by over 90% of customers, enabling the gradual transformation of operations to paperless
2. a further focus and specialisation of the distribution network on the commercial offering through:
    - 34% reduction in cash terminals, which will number approximately 1,600 in 2024
    - evolution of the Customer Centre into a highly proactive "Digital Branch", which will employ more than 200 staff, who will be able to sell products and services 'remotely' over the plan horizon
3. the development of the significant potential of the *Omni-channel* approach through increasing use of Advanced Analytics with the goal of:
    - innovating the sales approach by developing new Customer Journeys that guarantee a more extensive and personalised response to the needs of Retail customers
    - offering a diversified and 'remote-enabled' range of Retail products and services (already in progress as part of the Digital .DOT and Omni-channel Transformation programme) with a view to enabling 'Self-assisted' purchases

Full development of the afore-mentioned lines of action will make it possible to, over the Plan horizon:

- leverage an optimised and more specialised distribution network, with a branch network streamlined to roughly ~1,300 units, which will be supported by Digital Branch activities and approximately 150 new Business Centres
- enhance significantly the contribution of Advanced Analytics[13] and "Remote & Omni-channel Sales"[14], which will support, respectively, more than 60% and over 50% of Retail sales[15]
- increase the 'activation' levels of the customer base and cross-selling through increasingly more extensive commercial proposals to the customer base, by targeting an increase in Retail sales[15] (in terms of index number) from 100 in 2019 to 131 in 2024

[13] Advanced analytics-driven Sales: Models for the analysis of data-based customer behaviour to support the commercial activities of branches and to generate offers under an omnichannel/remote channel logic.

[14] Remote Sales: Digital-based Self or Remotely-assisted sales; Omni-channel sales: branch-based sales with a significant interaction of digital channels (e.g. online compilation of the purchase request and/or of the price definition).

[15] Main Retail product categories, excluding typical 'Onboarding' products (cards and current accounts).

PILLAR 2 – The new *digital-driven* service model enables sustainable growth in the *core business*

Family Banking

The objective is to seize the real growth opportunities in mortgages for families and young people, plus constant growth in the consumer credit sector and strengthening of activities in the Non-Life Bancassurance sector.

Consolidation of the Group's strategies in the Non-Life Bancassurance segments and of the strategic partnership in Consumer Credit, together with innovation of the commercial offering based on analytics and digitalisation, will enable the Bank to achieve ambitious but realistic goals: €1.1bn in gross production of Consumer Credit in 2024, recovering the negative impact of Covid-19 on the segment (+22% compared to the 2021 estimated figure), with a CAGR of 11.3% in 2024. Specifically, to support these objectives, the following will be fully implemented over the Plan horizon:

- development of an omni-channel approach and enhancement of marketing automation
- contribution of the "Digital Branch", both for direct sales and as support for omni-channel sales in branch
- a refocusing of the Webank offering on the millennials target and as a driver for acquisition of digital native customers
- widening of specific customer segments (e.g. Senior banking) with a view to customer value management

Wealth Management

The Plan aims to achieve continuous growth in the Wealth Management segment, focusing on management of customer investments, turning new direct funding acquired in the last few years into asset management, and leveraging both the bank's omni-channel strategy and the implementation of asset management and life bancassurance solutions.

The net fee and commission income in the Wealth Management segment will grow with a CAGR of +6.3% in 2024, mainly due to the growth in Net Funding Managed and, consequently, the trend in running fees, which will reach 64% of the commissions of the Wealth Management segment, with a CAGR of +9% in 2024. In support of these objectives, Wealth Management will be able to benefit, over the plan horizon, from:

- increasingly more advanced "Remote Advisory" solutions, based on web cooperation and digital signature
- further improvement to the Customer Journey and analytical models
- development of both bancassurance and asset management offerings, with a special focus on ESG

Banca Aletti, specialised in private banking, will play an increasingly important role in the segment, continuing on its growth path: having reached €32bn in total assets managed (€25bn in 2018), Banca Aletti aims to achieve a CAGR of +8% of assets managed and +7% of revenues over the plan horizon, with a strategy based on:

- a new service model specialised by customer type (private, UHNWI, businesses, institutional)
- the expansion of the range of products and services geared towards ESG, insurance solutions consistent with the financial and tax context, digital financial advisory services, investments linked to the real economy and family office services
- organic and sustainable growth achieved through:
  - an improvement in the "*share of wallet*" thanks to enhancement of the CRM
  - actions coordinated with the Group and dedicated to developing synergies with business, corporate and institutional customers, advisory services integrated with Investment Banking services and all-round advisory services
  - targeted insertion of new Private Bankers/advisors and talented young people

- improvement to training courses

SME Segment

The SME segment, also based on the growth achieved over the last year, plays an important strategic role for the Group.

Specialisation of the service model and adoption of new distribution formats are the main *drivers* of Banco BPM's strategic ambitions; the growth targets will be pursued through an improvement in cross-selling in commercial and investment banking, with particular focus on the territorial areas in which the presence is lower and where the market share is below the national average.

For the SME segment, the Bank estimates an increase in loans to customers of +2.6% CAGR and core revenues of +5% CAGR in the 2021-2024 period.

The strategic initiatives targeted at SME customers will focus on two areas: evolution of the commercial offering, also based on an omni-channel approach, and adoption of a new service model for businesses.

The development of distinctive integrated solutions, with an optimisation in terms of pricing, width of offer range, increase in cross-selling in "core" commercial activities (e.g. trade finance, subsidised finance) and proposition of wholesale banking products (e.g. hedging, M&A, structured finance), will form the basis of the structured offering of products and services for SMEs.

The new distribution model makes provision for the opening of approximately 150 new "SME business centres", in which around 400 relationship managers will be employed. Roughly half of these new "SME business centres" will be located in high growth potential areas for the Group (e.g. in Turin, Bologna, Padua, Vicenza, Treviso, Florence and Bari).

The new service model will involve differentiation depending on the size and needs of the SME customer, with "transactional" activities included in the Omni-channel offering, while financing and advisory activities will be covered by a team of specialists who will assist the relationship managers.

Higher and strengthened attention to synergies with the Structures of Banca Akros and with the Private Bankers of Banca Aletti.

A strengthening and growth is envisaged in some specific sectors, such as Agrofood, through dedicated Specialists and Relationship Managers, a qualified Credit chain and a well-defined product catalogue.

In addition, various forms of credit, which allow the use of incentives provided by the State and by Supranational organisations, will be made available to SME customers; significant attention also to funding, fiscal bonuses and services related to the NRRP.

Corporate/Institutional Segments and Investment Banking activities

Based on the consolidated and distinctive business model in CIB, the Group's ambition is to further develop support for Corporate customers, as encapsulated by the forecast growth in the Share of Wallet to 12% (10.6% in 2019). This commitment will be accompanied by a further increase in customer loans[16] of roughly +€5 billion from 2021E to 2024 (CAGR +4.1%) and a significant rise in core[17] revenues (+5.6% CAGR in the same period).

These objectives will be achieved by focusing on the specific strategic areas summarised below.

First and foremost, growth will be pursued in high value-added business areas. The Bank will especially hone in on:

- further bolstering its leading position in *Structured Finance*, with a focus on unique structuring and syndication skills
- solid expertise in support of *Foreign* customer activities, aided by the renewed commitment to *Trade & Structured Export Financing*

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[16] Stock of customer loans, excluding NPEs

[17] Net Interest Income + Commissions

The second key element will be represented by the ability to take advantage of the opportunities stemming from implementation of the National Recovery and Resilience Plan, by operating in support of the liquidity of the System (*Supply Chain Finance* & *Tax Credits*), financing customer projects and further improving the specialist coverage of the most involved economic sectors. These actions will be implemented according to a synergy-based approach to the various private, institutional and public administration stakeholders, and will be coordinated by a specific *steering committee* at Group level.

An additional segment of development is the already active presence in the "ecobonus and superbonus" business, with volumes of €650m already reached as at 30 September 2021. This is associated with a total accumulated contribution to net interest income of €58m, which will gradually be recorded based on the time horizon of the loans acquired (variable between 5 and 10 years). The objective is to grow the total volumes to €3.5bn at the end of 2023, by leveraging the natural absorption capacity determined by the Group's tax position.

Full development of the Group's synergies will represent an additional area of strategic action, aimed at achieving an integrated approach, tailor-made to customers' needs, with a specific focus on:

- management of company liquidity and Private Banking services (*Banca Aletti*)
- Investment Banking activities (*Banca Akros*) – which will draw additional benefits from the partnership with the international *Oaklins network, especially in cross-border M&A activities*

Banca Akros will play an increasingly more important role in the Group's growth, thanks to the synergies developed over the years and the consolidated presence in investment banking activities. Banca Akros' "core" revenues are expected to grow to over €160m over the plan horizon (CAGR 21E-24 +13%).

Development will focus in particular on:

- promoting customer access to the financial markets, with special attention to SMEs (IPO, SPAC, DCM, Securitisation and structured finance solutions)
- enhancing leadership in brokerage, placement and equity research activities, through the further development of support for "on-line" customers and for domestic and foreign institutional investors
- promoting the innovation of products and services (investment & leverage certificates via Direct listing, in the ETF best execution platform, private capital, infrastructure funds etc.) with particular attention on digitalisation and ESG issues
- strengthening trading/financial engineering activities and market making on financial cash/derivative markets, equities/fixed income securities and hedging of interest rates, currencies and selected commodities, thanks also to the recognized and consolidated brand in favour of the Group's customers (corporate and SME) and institutional counterparties.

PILLAR 3 – Sustainable growth of the *core business* by leveraging the potential of bank product providers

As already announced to the market on 5 March 2021 and 26 June 2021, Banco BPM redefined the bancassurance partnership agreements with Cattolica Assicurazioni and Covéa, respectively, through which the Group guaranteed a purchase option on the shares in companies held by the respective partners, which will enable it to reach a stake of 100%. More specifically, Banco BPM has the right to exercise: i) a call option on 65% of the capital of Vera Vita and Vera Assicurazioni, which can be exercised from 1 January to 30 June 2023 and ii) an unconditional call option on 81% of the capital of Bipiemme Vita, which in turn holds 100% of Bipiemme Assicurazioni, which can be exercised from 8 September 2021 to 31 December 2023.

Therefore, due to the aforementioned purchase options, Banco BPPM is guaranteed the strategic option, entirely at its discretion, to fully insource the bancassurance business or, alternatively, to enter into new partnerships that guarantee its stakeholders with the same creation of value.
The rationale behind the insourcing of the insurance business within the Banco BPM Group and the associated consolidation of the insurance companies lies in the significant room for growth in terms of the productivity of the Life segment, considering the capacity of the Group's commercial network in the overall placement of investment products, and, in the Non-life segment, by seizing, in particular, the growth opportunities in the Italian market yet to reach maturity, where the level of customer penetration is well below that of other European countries with a stronger tradition in risk coverage. The future growth of volumes associated with potential cost synergies deriving from the insourcing and streamlining of the bancassurance segment will generate significant increases in the net profit of the insurance companies and, therefore, in terms of the contribution to the Group's consolidated net profit.
In addition, the insourcing of bancassurance, in terms of capital absorption, will have a low impact with the recognition of the prudential treatment set forth in the "Danish Compromise".
The opportunity for the Banco BPM Group to develop the insurance business "in-house" is enabled by the current operational and organisational structure of Bipiemme Vita and Bipiemme Assicurazioni which, given they operate fully self-sufficiently with respect to the Parent Company, facilitates the insourcing and the consolidation in the Group, also enabling the scalability of the platform and the integration of the companies Vera Vita and Vera Assicurazioni.
Contributions will continue to be made to the development of asset management and consumer credit activities by the partnership with Anima, the leading independent asset management company in terms of assets managed, and with Agos, the third Italian Group in terms of the share of the consumer credit market.
Thanks to these partnerships, for which growth in synergies and in activities is expected over the horizon of the new Business Plan, the contribution to net fee and commission income of the Group by the three companies will increase from €450 million to roughly €740 million in 2024, while their contribution to the item dividends from investee companies will rise from €124 million in 2019 to approximately €270 million in 2024, with a contribution of €125 million from bancassurance.

ENABLING FACTORS

1. **Confirmation of a strong "risk control culture" applied to the management of loans, funding and the securities portfolio**

   After an impressive track record in de-risking actions in the last few years, characterised by an excellent performance in both assignments of non-performing loans and recovery activities, the Plan makes provision for further improvement in asset quality, with a target gross NPE ratio of 4.8% (from 7.5% at the end of 2020) and a net NPE ratio of 2.6% (down from 3.9% at the end of 2020), to be achieved primarily through organic activities. Adequate levels of coverage of non-performing loans will be maintained over the Plan horizon and the cost of risk is expected to fall to 48 basis points in 2024 (vs. 120 basis points in 2020).
   The improvement in Asset Quality in the 2021-2024 period, by taking advantage of the geographic positioning of the portfolio, 94% of which is concentrated on the regions in Central-Northern Italy (more than 75% in the North), will be supported by a set of 4 organic initiatives, which will also enable the bank to reduce the default rate, increase the NPE recovery rate and reduce the stock of NPEs by €2.6 billion, more than offsetting the forecast impacts linked to the pandemic:

   - **Advanced Credit risk data warehouse**

   Creation of a unique credit risk data warehouse aimed at achieving:
     - greater consistency between management figures and accounting/reporting data

  - strengthening of granularity, allowing full visibility in the analysis of data throughout the organisation in support of the decision-making process
- **Reinforcing of credit policies, also from a ESG perspective**
  - greater sector-based specialisation (e.g. Agrifood, R.E.) and developments dedicated to financial sustainability (according to EBA LOM guidelines)
  - full inclusion of ESG prospects and business projections in light of the 'transition' processes (focus on climate risk and energy efficiency initiatives)
  - closer interaction between the alignment with policies, budget and MBO
- **Evolution of Monitoring & Early Warning systems**
  - new EW developments, exploiting innovative *'machine learning' techniques on current account transactions*
  - improvement in the risk control capacity by using strategies based on analytical '*workflows*'
  - prevention of 'performance driven' default risk, supported by increasingly more extensive monitoring KPIs
- **New approach to managing NPEs:**
  - full development of the JV with Gardant to enhance the workout of bad loans
  - introduction of a standardised management approach for UTPs that will leverage quicker and more effective workout strategies
  - dynamic activation of large-scale transfers supported by accelerated workout based on single-name transfers and full and final settlements

2. **Development of the talent and diversity of human resources and digital, organisational and process transformation, confirming the close control of costs**

Human Resources

The new Plan will be focused on a *people-oriented* approach and aimed at attracting and nurturing talented people, through:

- a comprehensive and well-structured *people strategy* aimed at promoting a common sense of purpose and an attractive *value proposition*
- increased awareness of inclusion and diversity with a special focus on the individual, improvement in the *work-life balance* and flexible work methods
- promotion of an inclusive leadership style based on trust, respect and collaboration to prepare the leaders of tomorrow and support the growth of talented people through personalised growth plans
- generational turnover favoured by new hiring plans
- development of people through programmes for the enhancement and acquisition of skills, *learning on the job*, coaching and mentoring courses to improve soft skills
- empowerment of talented women through dedicated growth processes and commitment to significantly boosting the presence of women in managerial roles
- creation of a new department in Human Resources to support the professional growth and development of *key people* and talented young people
- awareness-raising actions and education and training programmes on ESG matters
- development of expertise and soft skills combined with careful cost management

IT investments and initiatives

Technological evolution will be one of the main enabling factors of the 2021-2024 Strategic Plan. The Group has already allocated a total of €650m for investments over the Plan horizon, with the goal of promoting the digital transformation with an average annual increase of over 60% between 2021 and 2024 with respect to 2020.

The main initiatives will be concentrated on the following development lines:

- implementing "data & analytics tools" to support business growth
- fostering the adoption of "cutting edge" technologies to promote business growth
- establishing partnerships with fintech companies, innovation centres and universities to speed up and facilitate the use of Open Banking solutions
- adopting "first in class" IT methodologies and standards to ensure a solid operating space, reduce complexity and support continuous improvement

Strengthening of IT security

A key aspect of the Strategic Plan is IT security designed to counteract any unexpected cybersecurity threats. To this end, the Bank has allocated more than €45 million to investments over the Plan horizon dedicated to IT security (+50% on average between 2021 and 2024 with respect to 2020).

The main initiatives will be dedicated to:

- bolstering the evolution of the business and solidifying stakeholder confidence through the continuous improvement of IT risk management
- unlocking the adoption of technology and accelerating the transformation process to manage emerging threats to IT security
- applying an in-depth defence approach to reduce the exposure to the threats to IT security
- leveraging Business Continuity solutions to create credible business resilience

3. Full integration of the ESG strategy in the group's business model

The Banco BPM Group plans to further boost its strategic ambition in all areas of Sustainability through growing integration and dissemination of Environmental Social and Governance (ESG) elements in its governance and business models. The activities which will be developed over the Plan horizon are based on already established and consolidated foundations: first and foremost, at governance level, thanks to the creation of controls at board level, with the direct responsibility of the BoD and the central role of the Internal Control, Risk and Sustainability Committee, that can rely on a reference advisor for ESG issues; at managerial level with the ESG Committee chaired by the CEO and the Sustainability Department. The integration of ESG requests in the business model is achieved, in particular, by the activities arranged into 7 project areas: Governance, People, Risk & Credits, Customers-Business, Customers-Wealth Management, Environment, Stakeholder engagement & Measurement. In these areas, a total of 32 projects have been defined which are in the process of being implemented, involving 12 units and more than 50 staff members. In addition, specific targets are defined in the long-term and short-term incentive plans, for the CEO and senior managers.

These targets constitute the foundations of the five ESG macro-objectives of the 2021-2024 Strategic Plan, which are broken down into the following areas:

- ***BUSINESS***

  The objectives set in this macro-area will be achieved through the proposal of solutions, products and advisory services that support customers in the transition towards a sustainable economy. The following is forecast over the Plan horizon: more than 65% of new loans will be disbursed to the green and low transition risk sectors; €4 billion will be provided in the form of new *Green* residential mortgages; more than €3 billion in initiatives connected to tax bonuses deriving from property redevelopment; *green* emissions and *social bonds* will reach €2.5 billion. In addition, it is estimated that, at the end of the Plan, the ESG share of the corporate banking book will exceed 30% (compared to the current 8%).

- **RISK & CREDIT**
  ESG requests will be integrated in the risk, credit and investment policies and processes in three areas: (i) the application of credit exclusion criteria to sectors bearing a very high risk from an environmental impact perspective and simultaneous *run-off* of currently existing exposures; (ii) selective approach to the granting of credit in sectors exposed to high environmental risk: at least 80% of new credit in the fossil fuels sector will be allocated to transition projects; (iii) active initiatives to promote change programmes and projects for customers exposed to climate risk. The Bank also expects to sign up to the Net Zero Banking Alliance during the plan horizon. Lastly, the Risk Management operating framework (RAF) will be fully integrated with ESG factors.
- ***PEOPLE STRATEGY***
  This macro-objective will be pursued through further integration of the ESG risks and objectives in the management incentive policies, identification and training of ESG *ambassadors* as reference points on sustainability issues within all company departments, development of greater awareness of ESG matters and constant training (400,000 hours of training), promotion of a business culture based on diversity and inclusion (more than 30% of women in managerial positions and young people accounting for than 85% of new hires) and individual well-being, the latter pursued through *work-life balance* policies (roughly 6,000 people working remotely from home).
- ***ENVIRONMENT***
  A key element in achieving this macro-objective will involve developing actions to counteract climate change by reducing the direct impacts, thanks to constant use of electricity generated entirely from renewable sources and reduction of consumption and CO_2 emissions, with the goal of achieving *carbon neutrality*[18] during the Plan horizon.
- ***COMMUNITY***
  The signing of important international partnerships/initiatives will fall into this area, such as the United Nations Global Compact. Continuous support for the social fabric in the local area will continue: with support to the Third Sector, to which more than €700m will be allocated in new loans; with the economic support of social and environmental projects (roughly €10 million) intended in particular for schools, universities and the voluntary sector. For the latter, more than 10,000 hours of company voluntary work are envisaged, augmented by financial education activities for customers and students and ESG know-how for companies. Lastly, there will be continued support for scientific research in the oncological domain (AIRC) to finance the activities of more than 5,000 researchers and the implementation of 660 research projects.

FINANCIAL PROJECTIONS

Commercial volumes and credit quality

Over the Plan horizon, the Group will confirm its commitment to supporting the Italian economy, its businesses and households, with net customer loans which are expected to grow to €121 billion at the end of the plan, with a CAGR of +2.6% compared to the end of 2020 and +3.7% compared to 30/09/2021.
Consistently, direct funding is expected to grow to €132 billion at the end of 2024 with a CAGR of 2.4% compared to 31 December 2020, (CAGR +2.8% compared to 30/09/2021). In this domain, the

[18] Scope 1 and Scope 2 Net Emissions

Customer Current Accounts and Deposits component is expected to amount to €99 billion, with a CAGR of -0.4% compared to the end of 2020, and -1.3% compared to the level reached as at 30/09/2021.
This contraction in Customer Deposits and Current Accounts represents one of the drivers of significant expected growth on the managed indirect funding front, which will amount to €79 billion at the end of 2024, with a CAGR of +7.2% compared to the end of 2020 and +7.3% compared to 30/09/2021. These growth rates factor in a volume of net flows in managed assets totalling €14.5 billion over the Plan horizon (2021-2024)
Over the Plan horizon, the actions taken by the Group on the credit quality front will enable it to record a gross non-performing loan ratio of less than 5%, equal to roughly 4.8% (4.7% based on the EBA Transparency Exercise methodology), corresponding to a total stock of non-performing loans of approximately €6 billion (vs. €6.6 billion at 30/09/2021). The net ratio will fall to roughly 2.5% (3.2% at 30/09/2021).

Income Statement targets[19]

The Group's operating income will grow at a CAGR of +2.4% between 2020 and 2024 (from €4.2 billion in 2020 to €4.6 billion in 2024), driven by the growth in:

- Net fee and commission income, which will register a CAGR of +5.9%, deriving primarily from the strengthening of the managed asset segment and the greater focus on value-added services
- Profits of equity-accounted investees which, in particular thanks to the insourcing of 100% of investees in Bancassurance in 2024, will register a CAGR of 21.4%.

Net interest income will remain essentially stable, with a CAGR of +0.4% in the 2020-2024 period, given that the performance of the commercial bank (due to the evolution of volumes, positively influenced by the NRRP, and of rates, driven by the improvement in the Euribor) will make it possible to offset the decline in the net contribution of the TLTRO III and the securities portfolio.
Operating expenses will fall to €2.4 billion (-1.1% CAGR 2020-2024 with respect to the 2020 level, normalized for lower variable remuneration components and one-off Covid-19 related savings), with a rigorous cost control policy and the managerial actions implemented, which over-compensate for the impact of the higher investments and renewal of the CCNL (national collective labour agreement).
The Cost/Income ratio will decrease over the Plan horizon, reaching 53% in 2024 (59.2% 2020 adj.).

Write-downs of loans will amount to ~€0.58 billion in 2024 (CAGR of -18.9% between 2020 Stated and 2024 and -14.6% between 2020 adjusted and 2024), equivalent to a target Cost of Risk of 48 bps, compared to 122 bps in 2020 stated (99 bps adjusted).
The Group net profit will grow to ~€1.05 billion at the end of the Plan (CAGR of +33.4% between 2020 and 2024), corresponding to a RoTE >9% at 2024.

Capital position & funding and liquidity indicators

The bank's strong capital position and the sustained generation of capital over the Plan horizon will allow it to ensure significant remuneration for shareholders, with a dividend payout over the Plan horizon of 40%, and to reach a CET 1 ratio Fully Loaded at the end of 2024 equal to 14.4% (vs. 13.3% at 30/09/2021), a buffer with respect to the CET1 minimum capital requirement and a MDA buffer of + 590bps.
The main drivers of the evolution of the CET 1 FL from 30/09/2021 to the end of 2024 are set out below:

[19] CAGRs calculated on Adjusted 2020 figures. Reference should be made to the press release containing the results as at 31/12/2020 for more details.

- ~ +210 bps from profits generated over the Plan horizon, net of dividends and AT1 coupons
- ~ -100 bps due to the ordinary business development (evolution of volumes and of participations)
- ~ -42 bps as impact of expiry of the Agos put option and insourcing of Bancassurance (factoring in the application of the Danish Compromise, but without considering future tailwinds deriving from the entry into force of Basel IV)
- ~ +62 bps of capital benefit linked to Balance sheet and Capital management measures
- ~ -20 bps as aggregate impact from FVOCI reserves, intangible items, a negligible level of regulatory headwinds and other elements

Following recent guidelines from the European Commission, the application of the new Basel IV provisions do not fall within the time horizon of the plan; however, for maximum transparency, Banco BPM reports that the expected impact of the entry into force of said new regulation is estimated at roughly -80 bps, with a phase-in of 8 years starting in 2025.

The Group will also manage to maintain, over the Plan horizon, an excellent liquidity and funding position, with an expected LCR well above 140%, a NSFR well in excess of 100% and a solid buffer with respect to MREL requirements.

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