NEWS RELEASE

BANCO BPM'S STRATEGIC PLAN 2020-2023:
"UNLOCKING OUR POTENTIAL – BUILDING A COMMON FUTURE INVESTING IN OUR PEOPLE"

MORE THAN €2 BN WEALTH CREATION FOR SHAREHOLDERS OVER PLAN HORIZON

€800+ M DIVIDENDS DISTRIBUTED OVER 2020-2023, WITH AVERAGE PAYOUT ≥ 40%

MINIMUM MDA BUFFER OF ~250 BPS

PLAN TARGETS CONFIRM EVEN UNDER NEGATIVE SCENARIO IN 2020

PROFITABILITY ENHANCEMENT

- **CORE REVENUES[1] OF €4.1 BN IN 2023 (+2.1% CAGR 2019-2023)** **with fee income growth more than compensating the decline in NII resulting from low interest rates**
- **STRONG CONTRIBUTION FROM BANCA ALETTI AND BANCA AKROS,** **the Group's specialized organizations**
- **OPERATING COSTS OF €2.6 BN IN 2023 (stable vs. 2019),** **significant savings offsetting the impact of the labor contract renewal and higher IT investments to support business growth**
- **NET INCOME OF ~€770 MLN IN 2023** **with a RoTE of 7.2%**

TRANSITION TOWARDS A FULLY DIGITAL AND OMNI-CHANNEL MODEL

- **€600+ M INVESTMENTS IN TECHNOLOGICAL EVOLUTION PLANNED FOR 2020-2023,** **of which €250 m in digital innovation**
- **FOCUS ON OFFERING A SEAMLESS AND "PAPERLESS" RELATIONSHIP TO CUSTOMERS**

[1] Net interest income + commissions.

<u>INCLUSIVE PEOPLE STRATEGY AND HOLISTIC ESG APPROACH</u>

- **DIVERSITY, INCLUSION AND PEOPLE ENGAGEMENT SUPPORTING VALUE CREATION**
- **CLEAR ESG STRATEGY AND GOVERNANCE DEFINED**

<u>ASSET QUALITY IMPROVEMENT</u>

- **GROSS NPE RATIO OF 5.9%[2] (3.0%[2] NET NPE RATIO)**

with a COST OF RISK OF 51 bps, maintaining a solid coverage ratio

<u>STRONG CAPITAL AND LIQUIDITY POSITION</u>

- **MDA BUFFER OF ~2.5%[3]**
- **2023 CET1 RATIO > 12%**
- **AVERAGE PAYOUT RATIO ≥ 40%**

<u>MDA and CET1 ratio buffer, well above minimum guidance throughout the Plan, even taking into account conservative headwinds</u>

- **LIQUIDITY COVERAGE RATIO >160%**
- **NET STABLE FUNDING RATIO >100%**
- **MREL: MAINTAINED SIGNIFICANT BUFFER VS. REQUIREMENTS AT ALL TIMES**

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Giuseppe Castagna, Chief Executive Officer of Banco BPM, declared: "Today's announcement of the 2020-2023 Strategic Plan takes place in a challenging context for the country, marked by uncertainty over the 2020 macro-economic.

The decision to stick with the original schedule is consistent with the Group's commitment to play a responsible role for the overall economic system, minimizing impact on colleagues and their families and ensuring continued support to clients' needs.

The Plan is characterized by ambitious yet achievable targets, even under an adverse macro-economic scenario in 2020. The Plan's key strategic guidelines are:

- Attractive shareholders remuneration (€800+ m dividends over the Plan horizon), confirming solid capital position and further improvement of asset quality;
- Improved commercial productivity, building on the trend started in 2019 and taking advantage of the re-organization and synergies achieved over the past three years. Sustainability of revenues will be driven by the specialization of Private and SME service models (in coordination with Banca Aletti and Banca Akros) and by an omni-channel offer to Family and Small Business clients;

[2] Calculated according to ECB methodology.

[3] Minimum buffer to be maintained at all times throughout the Plan.

- Transformation of the business model – with €600+ m investments in technology and digitization over the Plan horizon – to secure future sustainability and profitability;
- Valorization of our colleagues and strong commitment to society.

The Plan will further strengthen Banco BPM's competitive positioning as third Italian bank, creating the right conditions to develop the core business and fully capture all future opportunities."

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Milan, 3 March 2020 – At today's meeting, the Board of Directors of Banco BPM, chaired by Mr. Carlo Fratta Pasini, approved the 2020-2023 Strategic Plan of the Group.

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The foundation of Banco BPM 2020-2023 Strategic Plan: built on a strong track record and based on real delivery

Banco BPM is a leading Italian commercial bank (third largest by Assets, with 4 m clients served) characterized by a low risk profile, a solid capital position and presence at scale in the richest areas of Italy. Over the past 3 years, the bank successfully completed – well ahead of schedule – a complex integration "of equals" (the only merger in the Eurozone since the advent of the SSM), demonstrating its execution capabilities by far exceeding cost, de-risking and capital targets set out in the 2016-2019 Strategic Plan without new capital injections. Over the same period, significant progress in the organization's digital transformation journey was made thanks to the launch of Project "DOT.".

The high levels of capital and profitability achieved – built on well-recognized areas of operational excellence – provide stable foundations for 2020-2023 Strategic Plan, which aims at unlocking the full potential of the Group confirming its deep involvement in the core communities.

Strategic Plan projections have been developed based on comprehensive assumptions, taking into account newly emerged uncertainties and regulatory evolutions.

	2018	2019	2020F	2021F	2022F	2023F
Euribor 3M	-0.33%	-0.36%	-0.40%	-0.40%	-0.38%	-0.38%
Italy Real GDP (y/y chg.) – Reference scenario	1.2%	0.3%	0.3%	0.7%	0.9%	0.9%
Italy Real GDP (y/y chg.) – V-shaped scenario	1.2%	0.3%	-0.1%	0.7%	0.9%	0.9%

A set of strategic priorities directly addressing the expectations of key stakeholders (clients, investors and rating agencies, regulator and employees) guided the Plan development:

- Proactively assist the transition towards a sustainable future
- Customer-centric service model, highly specialized by segment
- Steady growth of recurring earnings
- Sizable dividend stream, growing over the Plan horizon
- Rebalanced funding mix with TLTRO reduction

- Robust capital buffer highly exceeding regulatory requirements
- Continued de-risking through organic NPE stock reduction
- Employee engagement as a competitive advantage and talent attraction

Key targets of 2020-2023 Strategic Plan

	2019[4]	2023E	Δ '19-'23	CAGR '19-'23
Total Revenues	€4.3 bn	€4.4 bn	+€0.1 bn	+0.6%
- o/w: Core Revenues[5]	€3.8 bn	€4.1 bn	+€0.3 bn	+2.1%
Net Income	€649 m	~€770 m	+120 m	+4.3%
RoTE[6]	6.8%	7.2%	+0.4 p.p.	
Cost/ Income	61%	59%	-2.0 p.p.	
Gross NPE ratio	9.1%	5.9%[7]	-3.2 p.p.	
Cost of Risk	73 bps	51 bps	-22 bps	

These targets will allow the Group to create more than €2 bn wealth for shareholders over the Plan horizon[8], while maintaining a minimum MDA buffer of ~250 bps. The cumulative dividend distribution of will exceed €800 m over the 2020-2023 period, with an average dividend payout ratio of ≥40%.

Targets are fully confirmed also under the V-shaped scenario[9].

<u>An ambitious and credible Plan, addressing all stakeholders' expectations</u>

The 2020-2023 **Strategic Plan is anchored on four key pillars** and aims at achieving a sizeable remuneration for shareholders.

1. SUSTAINABLE DEVELOPMENT OF THE CORE BUSINESS

Wealth Management and Family Banking

The Plan is set to unlock the untapped potential in the Wealth Management and Family Banking business by capturing compelling growth opportunities. Net Wealth Management commissions are expected to grow at +6.5% CAGR during the period 2019-2023, mainly thanks to a higher AuM/Direct funding ratio (reaching 69% in 2023 from 54% in 2019) and to a significant boost in investment product placements.

[4] Adjusted data.
[5] Net interest income + commissions.
[6] Excluding AT1 from shareholders' equity.
[7] Calculated according to ECB methodology.
[8] Dividend distribution + Increase in Tangible shareholders' equity.
[9] Economic slowdown in 2020 (GDP growth at -0.1%).

- **Wealth Management:** The initiatives focus on specialization of service models and full valorization of Banca Aletti as Group's Private Bank and investment center, leveraging advisory and technological enhancements to improve client experience and service level. The Bank also plans to strengthen the Private Banking (+20% headcount) and Affluent Relationship (+10% headcount) networks and to convert ~€9 bn from direct to AuM, facilitated by a more tailored product range.
- **Family Banking:** The strengthening of strategic partnerships on Bancassurance and Consumer Finance divisions and the development of a digital-enabled commercial proposition will allow the Bank to achieve ambitious but realistic targets: €1.2 bn consumer finance gross production in 2023 (+25% vs. 2019 level) and €70+ m commissions from Non-life Bancassurance products in 2023 (compared to €44 m in 2019). In addition, the focus on digital/ omni-channel sales growth and the integration of WeBank's digital sales capabilities in the Group commercial strategy are expected to increase the number of annual client interactions from 8 m to an estimated 23 m, making digital channels a major contributor to overall Group sales.

Corporate segment

Leveraging on its key distinctive factors, the Group expects to strengthen its positioning on Corporate clients, targeting a substantial increase in segment customer loans[10] (+3.8% CAGR during the period 2019-2023) and core revenues[11] (+4.9% CAGR during the same period).

Growth in this segment will be driven by margins uplift and the expansion into new profitable business lines. Strategic initiatives will aim at:

- Boosting Structured Export Finance business (€1.8 bn outstanding volumes in 2023)
- Introducing innovative Originate-to-Share solutions in partnership with strategic investors (leading to ~€1.2 bn new origination in 2023)
- Growing Specialty Finance in the Public Administration sector through non-recourse factoring (~€2 bn target turnover in 2023)
- Launching a Supply Chain Finance business in partnership with TeamSystem[12]

In addition, by strengthening the specialist team (+30% headcount) and promoting hedging activities on Corporate and SME lending, the Group plans to exploit Banca Akros' full potential in the FX and derivatives business. Further synergies will be targeted through a closer collaboration between the commercial network and Banca Akros also in Investment Banking activities.

SME segment

Revenue base enhancement in the SME segment will be achieved by leveraging Corporate best practices. Overcoming underperformance in selected geographies and products, the Bank expects to increase segment customer loans[13] at +1.7% CAGR and core revenues[14] at +2.4% CAGR during the period 2020-2023.

Strategic initiatives targeting SME clients will focus on:

- Dedicated service models to further specialized support to Enterprises and Small Business

[10] Excl. Bad Loans.
[11] NII + Net Fees and Commissions.
[12] Market leader in digital business solutions in Italy (€350+ m turnover in 2018, with over 1.4 m client served).
[13] Excl. Bad Loans.
[14] NII + Net Fees and Commissions.

- Expansion in areas with high commercial potential taking advantage of in-house know-how in specialist sectors (e.g. Agri-business)
- Development of distinctive integrated solutions, thanks to a combination of pricing optimization and product range rationalization
- Boost of cross-selling in core commercial activities (e.g. Trade finance, Italian guarantees) and wholesale banking products (e.g. hedging, M&A, structured finance)
- Expansion of offer to SMEs through a new strategic partnership with TeamSystem[12], potentially giving access to over 1.3 m target SME clients

2. DIGITAL-ENABLED OPERATING MODEL

IT Investments

Technological evolution is one of the main enabling factors of the Strategic Plan 2020-2023. The Group has allocated €600+ m cumulative investments to favor the transformation (+40% annual investments vs. 2017-2019), of which ~40% (~€250 m) to favor digital innovation.

The evolution will be centered on:

- Infrastructure upgrade, to enable the adoption of Cloud solutions favoring time-to-market for new business initiatives
- Implementation of "data & analytics tools", to support business expansion
- Extensive use of automation tools (e.g. Robotics and Artificial Intelligence), to improve and simplify processes
- Partnerships with FinTechs, innovation centers and universities to speed up delivery and facilitate an Open Banking approach
- Reinforcement of Cybersecurity, further investing in state-of-the-art solutions
- Enhancement of up-skilling and re-skilling programs for IT employees, to introduce innovative competences (e.g. Digital, Advanced Analytics, Artificial Intelligence, Cybersecurity)
- Diffusion of a new way of collaboration between Business and IT functions
- Adoption of a company-wide digital culture based on collaborative tools, aimed at supporting clients digital adoption

Operating Efficiency

The Group will complete the transition towards a fully digital omni-channel model, offering a seamless and "paperless" relationship to customers.

The omni-channel evolution will be achieved through:

- Implementation of a seamless experience across all channels, boosting digital adoption (transactions on remote channels to increase from 74% to 83%) and favoring the establishment of a full paperless relationship with the client
- Adoption of a “Mobile first” approach, leveraging on Webank experience (transactions on mobile channel to increase by +17 p.p. during Plan horizon)
- New role for the Digital Branch, integrating proactive commercial activities (boosting commercial proposition, advisory and remote sales)

In addition, the omni-channel model will result in:

- Higher proportion of "Relationship branches" (from 72% to 80% of to-be distribution network), offering advisory and fully-fledged product offer
- Network rationalization, mainly targeting transactional branches (reduction of current footprint by 200 branches)
- Further boost of self-service solutions (increase by 30% of highly automated branches)

Human resources

The new Plan focuses on an inclusive people strategy, the acceleration of the Group skill-set evolution, generational change and the transfer of knowledge, based on:

- Inclusive and adaptive leadership style, promoting trust, respect and a culture of collaboration, enabling value generation from diversity and engagement
- Personalized career paths and new training model
- Strategic recruiting program aimed at attracting talents and accelerating the generational change (favored by a voluntary retirement scheme exits involving ~1,100 employees)
- Introduction of selected specialist profiles to support business growth and acquire new capabilities
- A digital, "employee-centric" workplace, facilitating collaboration and contributing to a better work-life integration (e.g. Smart Working time to increase by over 6 times)
- Strengthened Employee Welfare & Wellbeing plan

In this context, personnel expenses are expected to reach ~€1,660 m in 2023 (vs. ~€1,700 m in 2019).

ESG Strategy and Governance

Banco BPM Group will focus on the adoption of an ESG holistic approach, managed and controlled by solid governance. Key areas of development are:

- Environment: development of the Group strategy to support a future sustainable economy (e.g. -27% CO_2 emissions by 2023 vs. 2017)
- Clients: focus on the product range evolution towards ESG solutions, improving client service and relationships (e.g. over €8 bn of ESG lending including Corporate lending, green mortgages, start-ups and non-profit lending)
- People: focus on Banco BPM People through investments in training, well-being and respect (e.g. over 700,000 training days dedicated to up-skilling, engagement and transformation)
- Community: focus on further commitment to the Community (e.g. over €20 m grants to support Social and Environmental Community programs)

The oversight of ESG Strategy is allocated to the "Risk and Control committee" and a dedicated managerial structure is in charge of coordinating and controlling initiatives. Moreover, corporate values and metrics will be integrated into the operating and business model and executives' remuneration will be linked to ESG achievements. Such an approach will spread the sustainability culture and values to customers, colleagues and communities.

3. CONTINUED ASSET QUALITY IMPROVEMENT

After the impressive de-risking track record of the last years, characterized by an exceptional performance both in NPE disposals and workout activity, the Plan envisages a further improvement of asset quality, with a target Gross NPE ratio of 5.9%[15] (from 9.1% at year-end 2019) and a net NPE ratio of 3.0%[15] (from 5.2% at year-end 2019). Strong NPE coverage levels will be maintained throughout the Plan and the Cost of Risk is projected to decrease down to 51 bps in 2023 (vs. 73 bps in 2019).

Asset Quality improvement in the 2020-2023 period will be supported by a set of 4 organic-only initiatives, also contributing to lowering the default rate, increasing the NPE workout rate and reducing the UTP stock by ~€2.9 bn:

Advanced Credit risk data warehouse

- Creation of a single credit risk data warehouse aimed at achieving:
    - Higher consistency of managerial and risk data
    - Better granularity of credit information

Credit policies strengthening

- Higher sector specialization and integration with budgeting and MBO
- Clearer focus on risk-reward perspective and support of ESG initiatives (e.g. carbon reduction and energy savings projects

Monitoring & Early Warning system evolution

- Development of a new early warning model, leveraging on innovative data and machine learning techniques
- Risk control ability improvement through workflow-driven strategies
- Introduction of performance-based risk prevention, also thanks to operational KPI setting and monitoring

New UTP management approach:

- Roll-out of a specialized management approach for UTP exposures
    - Core portfolio: focus on maximization of cure and activation of viable forbearance measures
    - Non-core portfolio: focus on maximization of recovery via early extra-judicial solutions

4. FURTHER STRENGTHENING OF THE BALANCE SHEET

Finally, the 2020-2023 Strategic Plan includes a set of measures aimed at optimizing the Group balance sheet through a more active asset and liability management:

- Enhancement of the securities portfolio structure, with the alignment of the share of the Italian govies portfolio at ~40% of total securities portfolio (in line with peers' average)
- Rationalization of the real estate portfolio through the sale of ~€1 bn of real estate assets (~20 bps CET1 ratio impact):
    - Disposals focused on properties held as investment

[15] Calculated according to ECB methodology.

    - ~€0.5 bn portfolio already identified analytically
- Equity stake portfolio optimization, with the sale of selected equity participations (~40 bps impact) aimed at:
    - Taking advantage of favorable market conditions
    - Removing capital burden stemming from non-strategic stakes
- Dynamic mitigation of credit risk, through significant market transactions, with no impact on client relationships (up to 15-20 bps capital benefit per year expected)

Moreover, the Group will build on credit investors' proven confidence by rebalancing its funding mix consistently with agencies expectations (e.g. reduced reliance on TLTRO financing, down to maximum €14.0 bn from €24.1 bn in June 2019).

Financial forecasts

Capital & Liquidity Position

The CET1 ratio and the MDA buffer will remain well above the minimum guidance throughout the plan horizon. At 2023 year end, the projected CET1 ratio is > 12% after factoring in:

- ~ -200 bps cumulative impact from regulatory headwinds (estimated based on conservative assumptions)
- ~130 bps capital benefit from Balance sheet and Capital management measures
- ~40 bps capital generation from ordinary business (incl. impact of dividends)

Capital buffer and dividend distribution are fully confirmed also under the V-shaped economic scenario[16].

A Pillar 2-related cumulative impact of up to ~ -60 bps in the period 2020-2023 is expected from Calendar provisioning, more than compensated by potential capital efficiency offered by CRD V regime[17] and expected to decline after the end of the Plan horizon.

Total wealth creation for shareholders will exceed €2.0 bn over the Plan horizon, considering a cumulative capital distribution of €800+ m in dividends (average dividend payout ratio ≥40%) and ~€1.2 bn increase in Tangible shareholders' equity.

Profit & Loss Targets

Group total revenues will grow at +0.6% CAGR over the 2019-2023 period (from €4.3 bn in 2019 to €4.4 bn in 2023), sustained by Net Fees and Commissions growth (+5.1% CAGR over the same period) from AuM business strengthening and higher focus on value-added services. Conversely, NII is expected to decline (-0.9% CAGR over the 2019-2023 period) due to the low interest rate scenario, partially compensated by customer loans growth (from €105.8 bn at 2019 year end to €116.3 bn at 2023 year end).

Operating costs are expected to remain stable (€2.6 bn), since the impact from higher investments and from the renewal of labor contract will be offset by cost savings.

The cost income ratio will progressively decrease over Plan horizon, reaching 59% in 2023.

[16] Economic slowdown in 2020 (GDP growth at -0.1%).
[17] 56% of P2R covered with CET1, 19% with AT1 and remaining 25% with T2.

Loan Loss Provisions will amount to ~€590 m in 2023 (-6.7% CAGR during the period 2019-2023), corresponding to a target cost of risk of 51 bps (vs. 73 bps in 2019).

The Group net income is expected to reach ~€770 m at Plan end (+4.3% CAGR during the period 2019-2023), corresponding to a 7.2% RoTE.

Conclusions

Leveraging on its demonstrated track record of delivery in the only sizeable European SSM banking merger, with its 2020-2023 Strategic Plan the Banco BPM Group aims at giving concrete and direct response to internal and external stakeholders, upholding ESG best standards. In particular, main goals of the Plan are to achieve an attractive shareholder remuneration with €800+ m dividends distributed over 4 years and maintain a solid capital position (MDA buffer above 250 bps and CET 1 ratio above 12%), confirmed even in a V-shaped scenario[18]. All this while transforming the "way we do business", securing future sustainability.

Unlocking Our Potential | Building a Common Future | Investing in Our People

[18] Economic slowdown in 2020 (GDP growth at -0.1%).

Attachments

- Key 2023 Financial Targets

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Key 2023 Financial Targets

	€m	2019	2023	Δ '19-'23	CAGR '19-'23 (%)
Profit & Loss	Total revenues	4,288	~4,400	~110	0.6%
	o/w Net interest income	*1,993*	*~1,920*	*~(70)*	*(0.9%)*
	o/w Net fees & commissions	*1,795*	*~2,190*	*~400*	*5.1%*
	Operating costs	(2,599)	~(2,590)	~10	(0.1%)
	Loan loss provisions	(779)	~(590)	~190	(6.7%)
	Net income	649	~770	~120	4.3%
Balance sheet & Capital	Net customer loans	105,844	~116,000	~10,150	2.4%
	Direct funding[1]	108,900	~122,000	~13,100	2.9%
	Indirect funding	89,743	~116,000	~26,250	6.6%
	AuM/ Direct funding[1]	*54%*	*69%*	*15 p.p.*	
	Tangible shareholders' equity	9,486	~10,700	~1,200	
	RWA	65,856	~73,000	~7,150	
Key ratios	Cost / Income ratio (%)	61%	59%	(2pp)	
	Cost of Risk (bps)	73	51	(22)	
	RoTE[2] (%)	6.8%	7.2%	0.4pp	
	Net income/ RWA	1.0%	1.1%	0.1pp	
	CET1 ratio FL (%)	12.8%	12.5%	(0.3pp)	
	Gross NPE ratio (%)	9.1%	5.9%[3]	(3.2pp)	

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1. Excluding REPOs 2. Excluding AT1 from shareholders' equity 3. Calculated according to ECB methodology
Note: 2019 normalized data