



The New Leading Bank  
*Building Our Future*  
**Strategic Plan 2016 – 2019**

*BoA Merrill Lynch "21st Annual Financials CEO Conference"*

*29 September 2016*

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# 2019 Strategic Plan Key Messages

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**Attractive and Sustainable Profitability**

**Solid Balance Sheet and Improved Asset Quality**

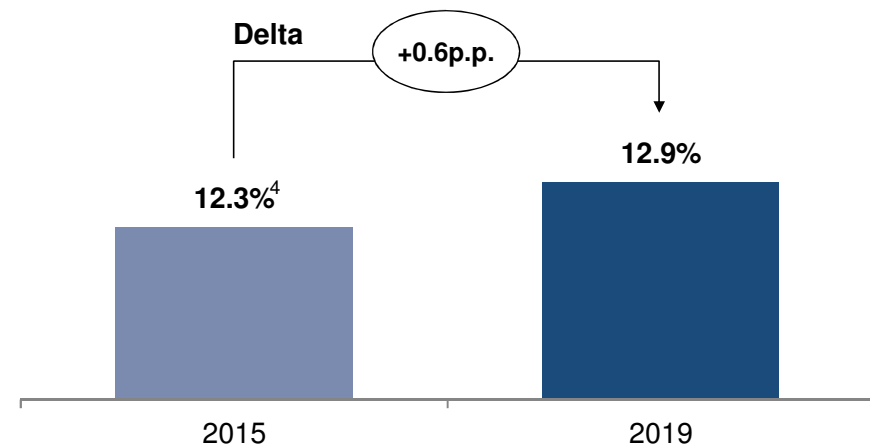
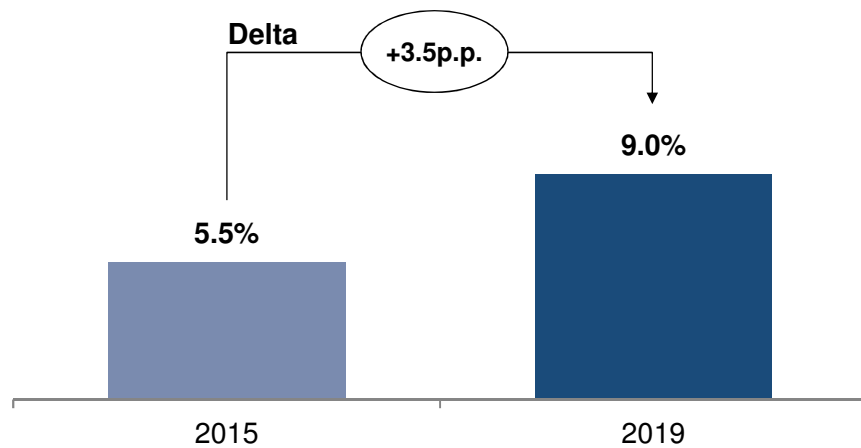
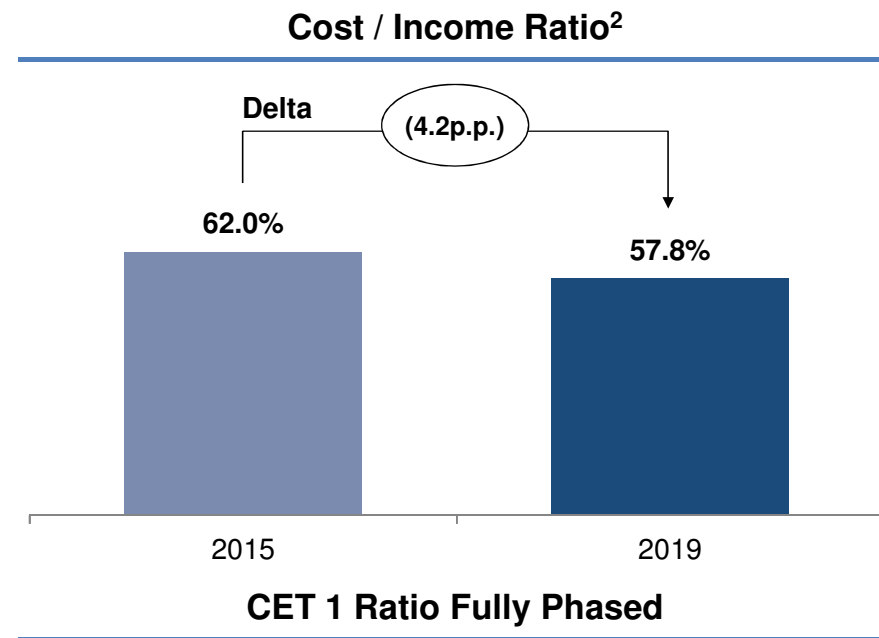
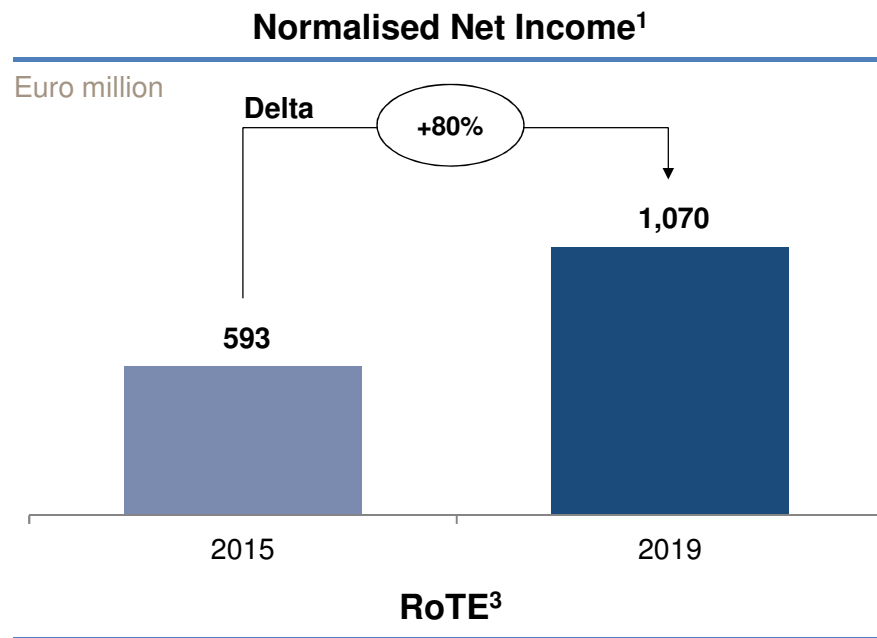
**Significant Value Creation**

**Remunerative Dividend Policy**

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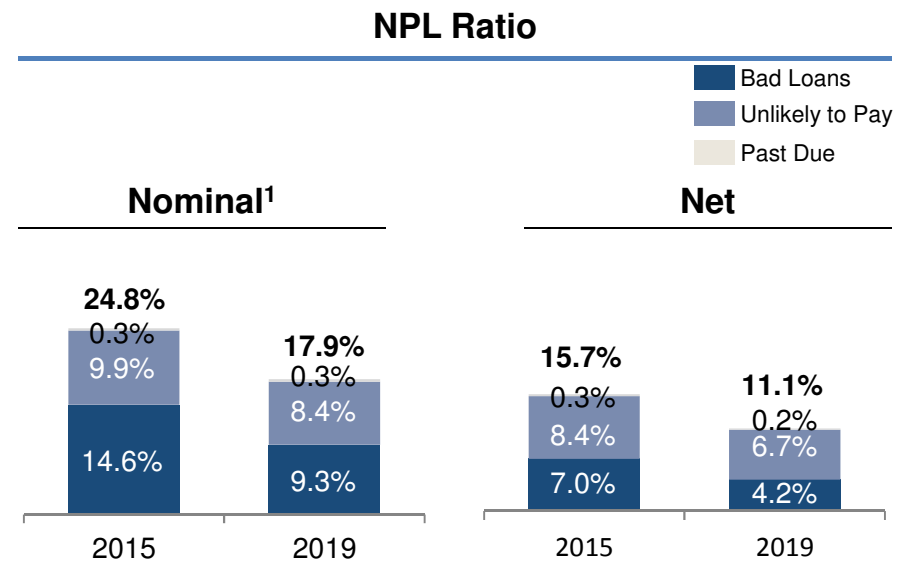
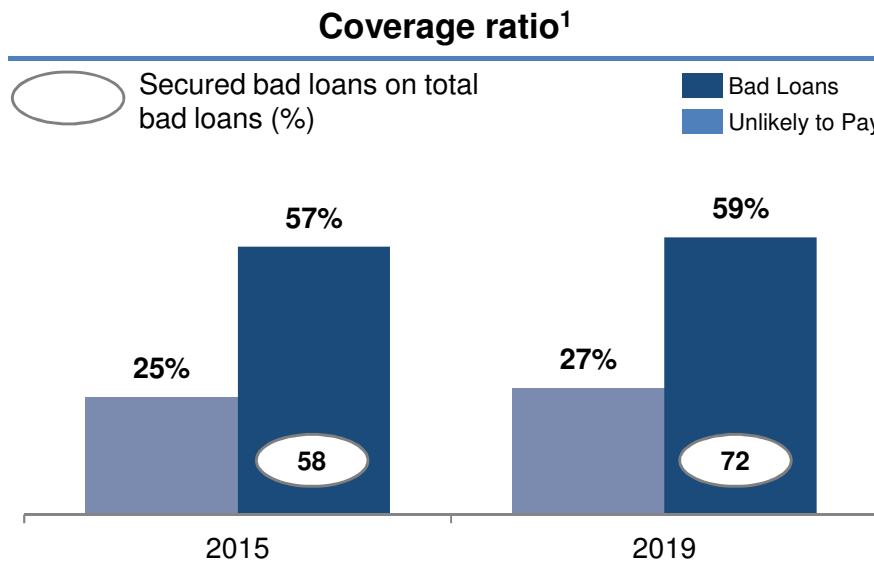
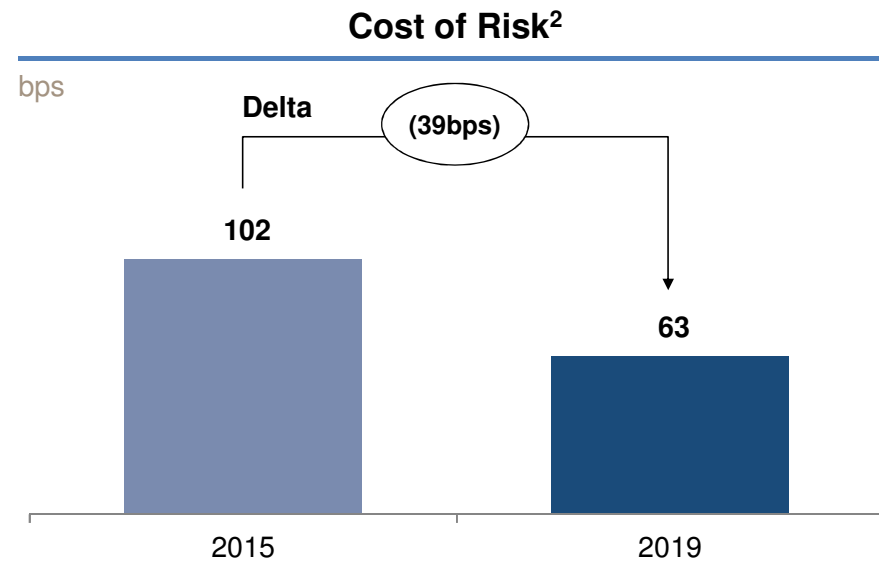
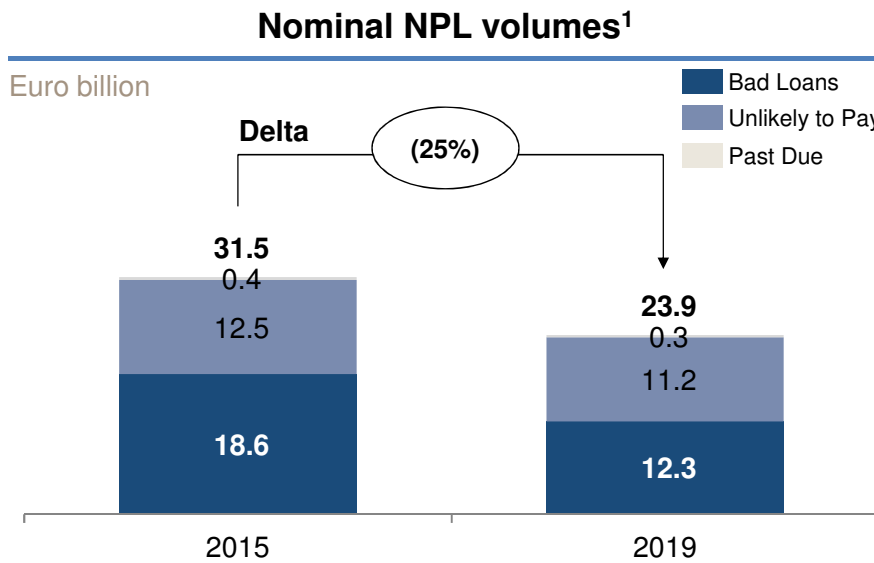
# 1. Summary of Strategic Plan Targets

# Attractive and Sustainable Profitability Supported by a Solid Capital Position...



Notes: 1. 2015 normalized for extraordinary items (i.e. extraordinary contribution to Single Resolution Fund, capital gains in associates and other minor extraordinary items). 2. Including contribution to Single Resolution Fund and Fondo Interbancario di Tutela dei Depositi. 3. Tangible equity net of dividends. 4. Aggregated data as of 2015 including full recognition of negative goodwill.

# ...Coupled with a Strong Asset Quality Improvement



Notes: 1. Gross of write-offs (i.e. "stralci"). 2. Calculated as Loan Loss Provisions (LLP) on year-end Net Customer Loans.

## 2. Strategic Plan Guidelines

# Summary of Key Strategic Guidelines

**A new leading banking group  
in some of the wealthiest  
regions in Europe...**

- **3<sup>rd</sup> largest banking group in Italy with a leading position in the North**
- **4 million customers served through an extensive and fully complementary distribution network**
- **National leading player in a number of high value businesses**
- **Complementary and experienced management team**

**...a winning banking model  
across market cycles...**

- Customized proposition in all market segments
- Effective organizational structure supported by an enhanced digital platform
- Fully integrated multichannel distribution
- Talent retention through new professional roles and human capital enhancement

**...solid balance sheet since  
inception and improved asset  
quality...**

- CET 1 fully phased ratio at ~13%
- Liquidity ratios comfortably above regulatory requirements
- New dedicated NPL unit to maximize recoveries and deliver a strong disposal plan
- Efficient funding mix and prudential management of securities portfolio

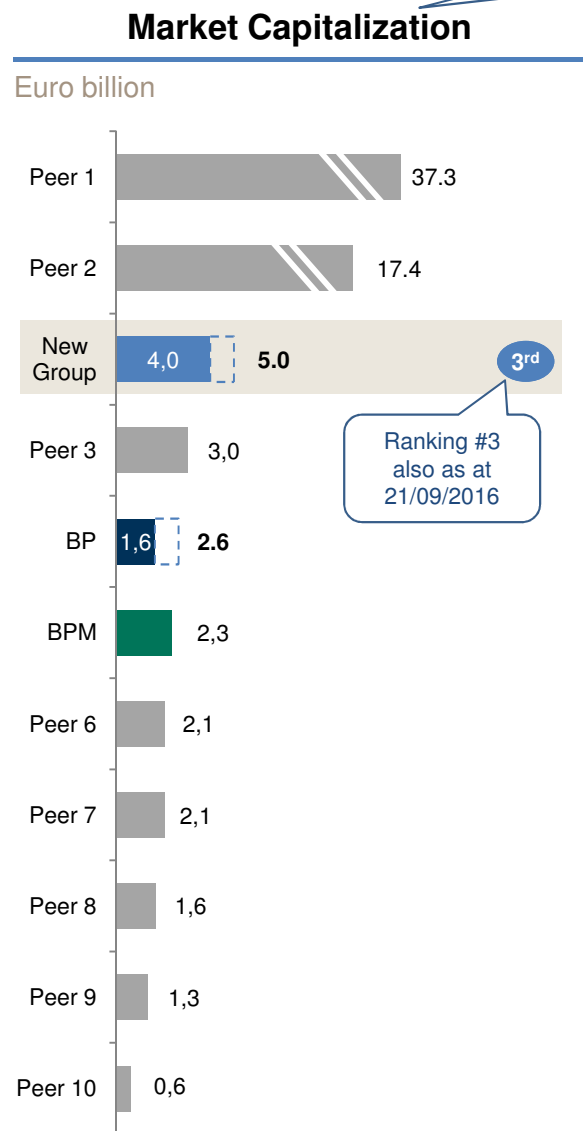
**...and significant value  
creation**

- Fully phased synergies of ~€460m (pre-tax)
- Focus on efficiency
- Enhanced RoTE and dividend payment capacity



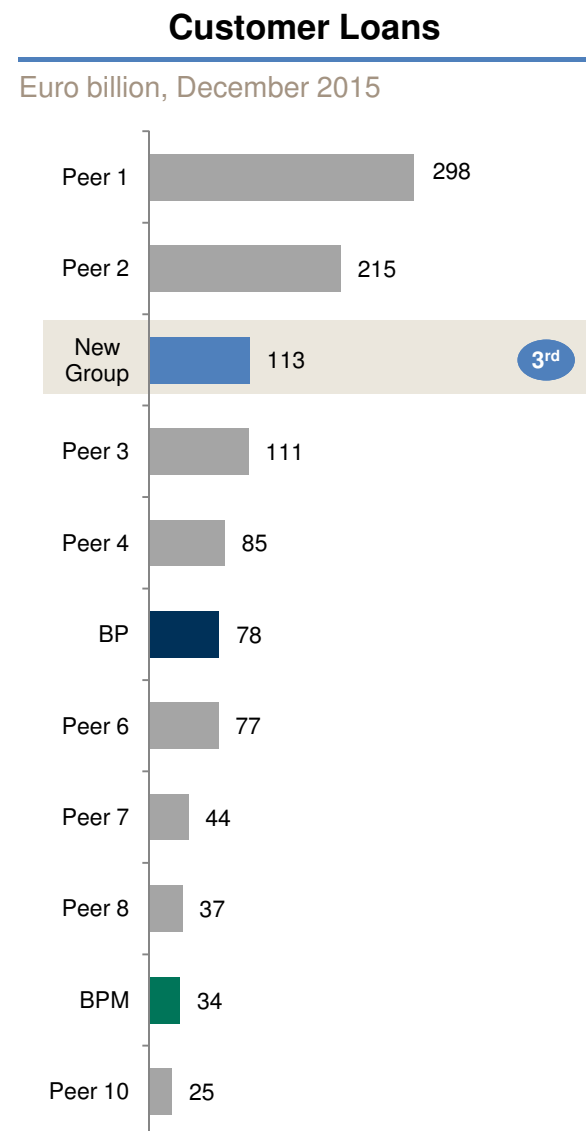
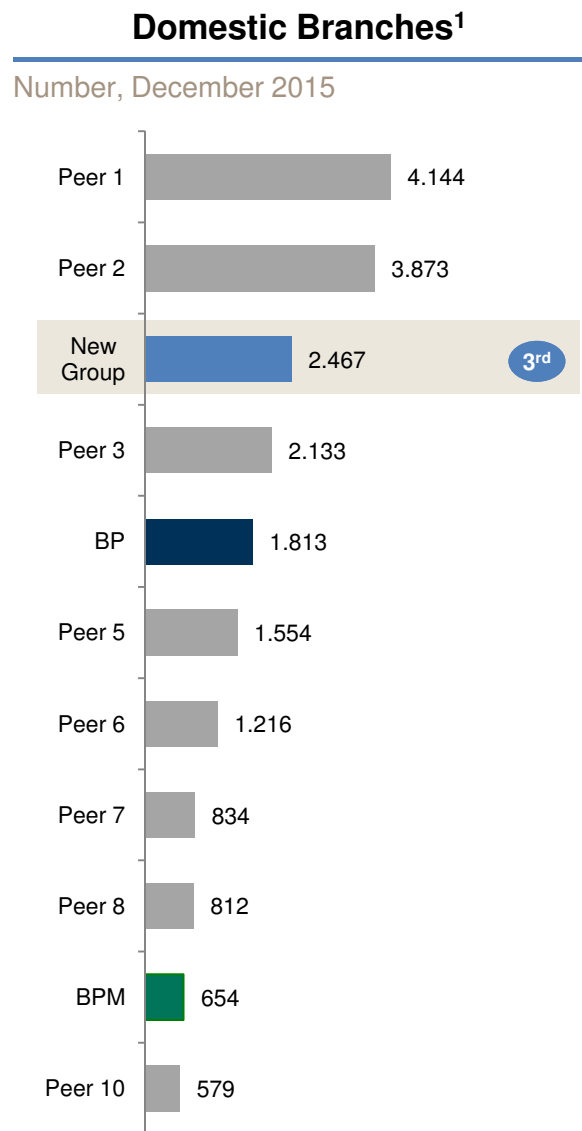
# The 3<sup>rd</sup> Largest Italian Banking Group...

Market capitalization as at 13/05/2016  
(shortly before the presentation of the Business Plan)



Ranking #3 also as at 21/09/2016

= €1bn Capital Increase of Banco Popolare



3<sup>rd</sup> also by direct and indirect deposits

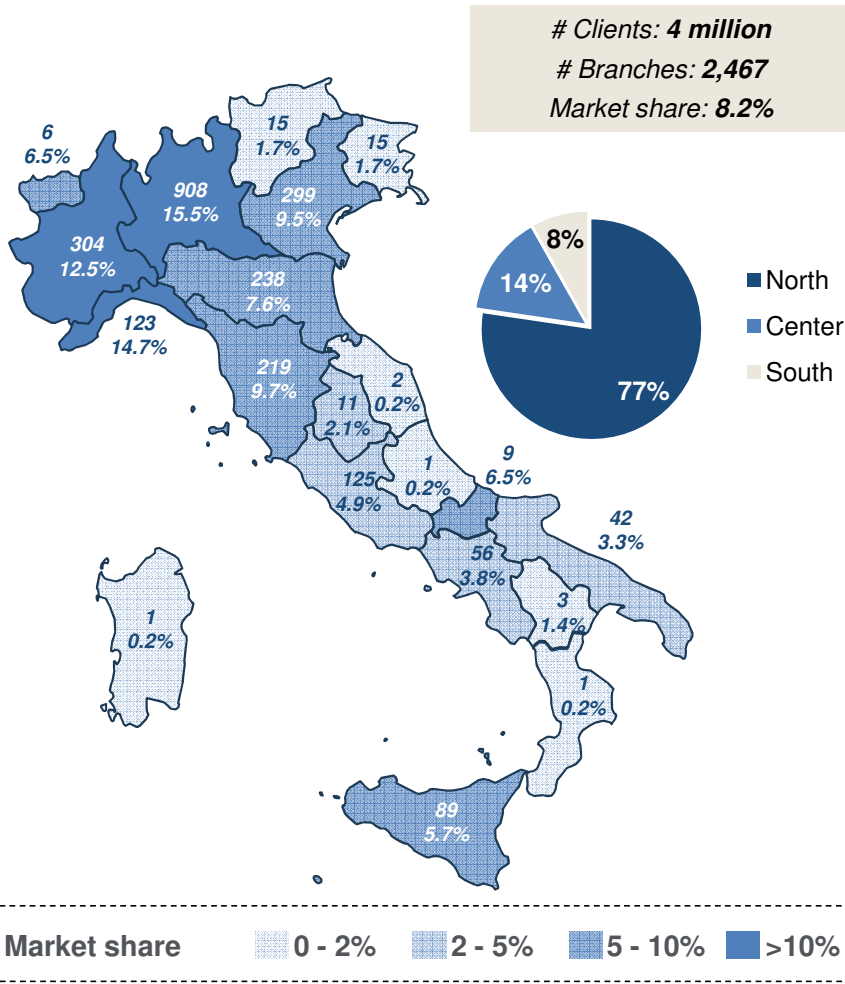
Source: Company data, annual reports, investor presentations and FactSet. Market capitalisation computed as number of shares (net of treasury shares) times last price as of 13 May 2016.

Notes: 1. Banco Popolare branches include #33 Banca Aletti branches. BPM branches exclude #1 Banca Akros branch.

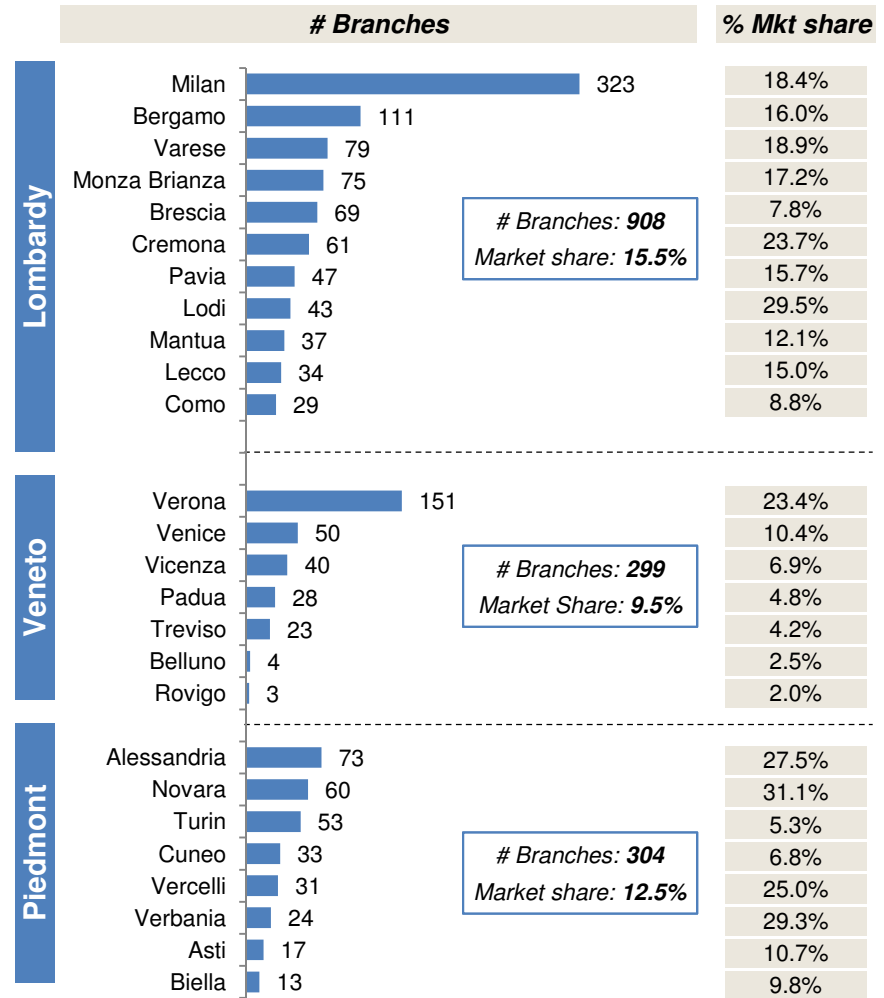
# ...Leader in the Wealthiest Areas of Italy with an Extensive and Fully Complementary Distribution Network

## Market Share of the New Group Pro-Forma

**Market Share in Italy**  
(before rationalization)



**Market Share in Lombardy, Veneto and Piedmont**  
(before rationalization)

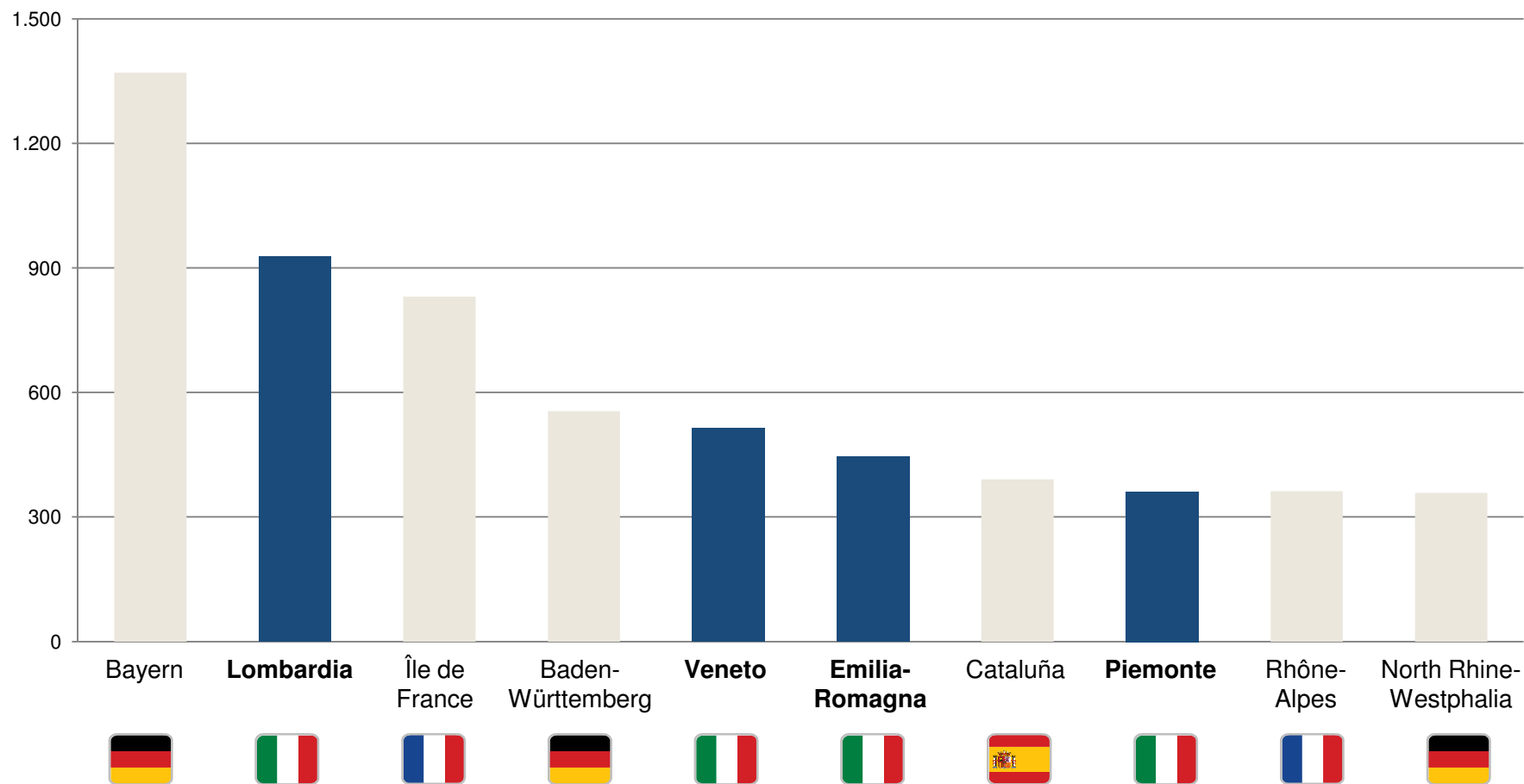


Source: Public Information, Bank of Italy.

# 4 out of the Top 10 Manufacturing Regions in Europe are Core for the New Group

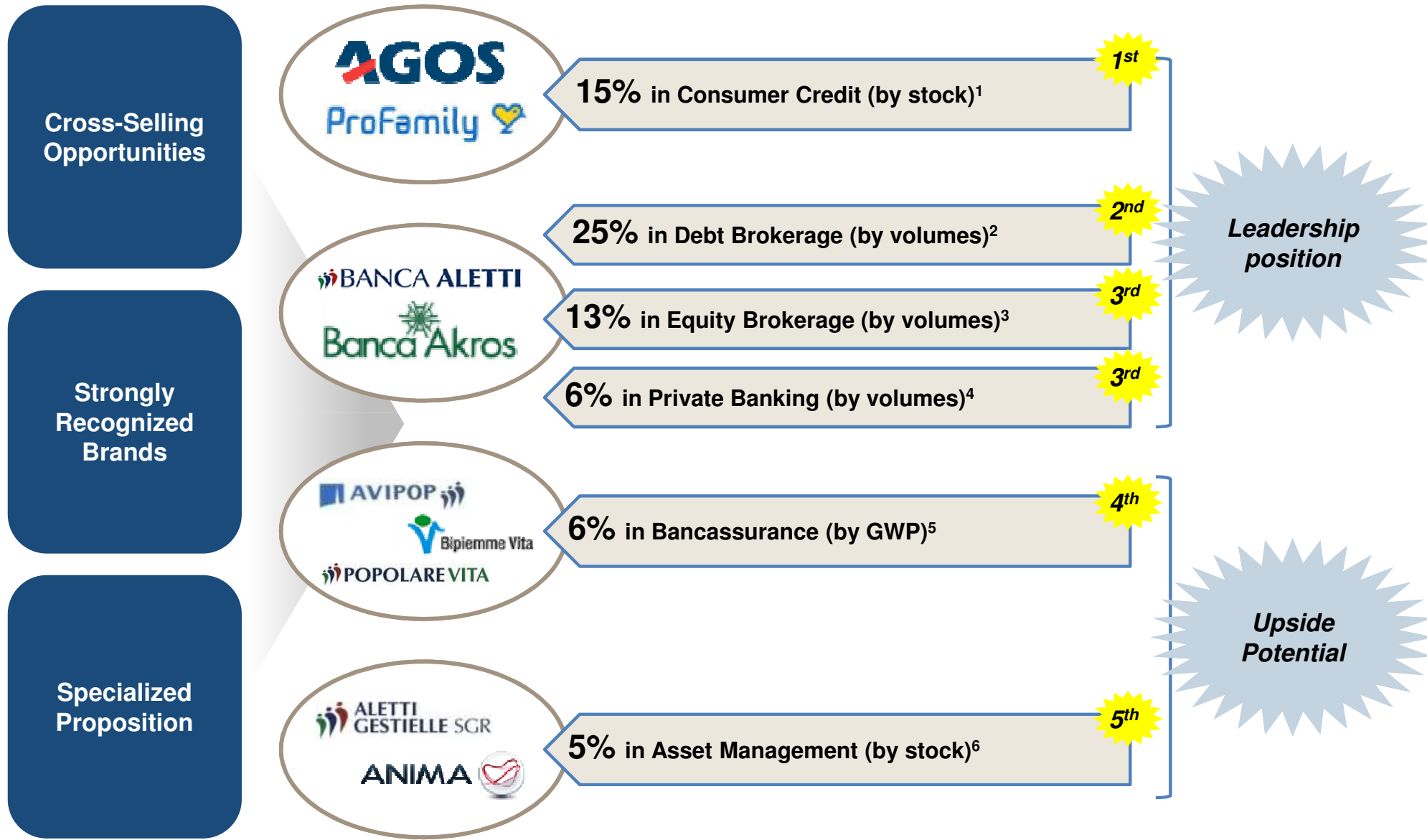
## Number of Employees in Manufacturing Activities

Thousands, 2013



Source: Eurostat, 2013.

# Leading Position in a Number of High Value Products



Notes: 1. Assofin Report on consumer credit 2015, including credit and securitisations. Data of the New Group including AGOS total assets . 2. Assosim report 2015. "Controvalori Bonds c/terzi". 3. Assosim 2015 "Controvalori Equity c/terzi". 4. AUM of Private Banking & Wealth Management clients 2015, AIPB website. Banca Aletti data include AUM of Institutional Bancassurance clients . 5. ANIA Trends 2015, new production bancassurance life, banking channel only. Position calculated excluding Aviva, Axa Italia, Ergo, Generali, Allianz, Sara, Unipol, Zurich, Old Mutual, Reale Assicura. 6. Assogestioni, total AUM including Anima.

# Complementary and Experienced Top Management Team

**Giuseppe Castagna**  
*Chief Executive Officer*



- Currently CEO of BPM
- More than 35 years in corporate, investment and retail banking
- Former General Manager of Intesa Sanpaolo

**Maurizio Faroni**  
*General Manager*



- Currently General Manager of Banco Popolare
- Broad experience in finance, corporate investment banking, private banking, asset management
- Former CEO of Banca Aletti

**Salvatore Poloni**  
*Co-General Manager*



- Currently Chief Human Resource & Organizational Officer at BPM
- Long standing experience in HR management, development and trade union relations
- Expert in process innovation and digital transformation
- Strong post merger integration (PMI) expertise gained at Intesa Sanpaolo

**Domenico de Angelis**  
*Co-General Manager*



- Currently Co-General Manager at Banco Popolare
- Extensive experience in Commercial Banking
- Responsible for providing a full range of financial products and services to customers
- Former CEO of BP Novara

# Summary of Key Strategic Guidelines

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**...solid balance sheet since  
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**...and significant value  
creation**

- Fully phased synergies of ~€460m (pre-tax)
- Focus on efficiency
- Enhanced RoTE and dividend payment capacity

# The New Group Will Serve 4 million Customers with a Tailored Proposition

## Number of Customers

Thousands, 2015 (as is)

	Size		 <b>BANCA POPOLARE DI MILANO</b>	Total		
Retail and Small Business clients	Corporate <sup>1,2</sup>	>€5m	23		10	33
	Private <sup>3,4</sup>	>€1m	22		8	30
	Small business <sup>2</sup>	<€5m	286		125	411
	Affluent <sup>3</sup>	€50k–€1m	478		254	732
	Mass <sup>3</sup>	<€50k	1,958		867	2,825
	Institutions, public sector and others <sup>5</sup>		26		8	34
	<b>Total</b>		<b>2,793</b>		<b>1,272</b>	<b>4,065</b>

Notes: 1. Equivalent to 11 thousands groups for Banco Popolare and 6 thousands groups for BPM. 2. Turnover; including POE. 3. Total wealth. 4. Includes around 4 thousands customers currently in BP Affluent segments with more than €1m in total wealth. 5. Religious entities, non-profit organizations, public sector, etc.

# Become the Italian Mid Caps' Preferred Corporate and Investment Bank with the Brand

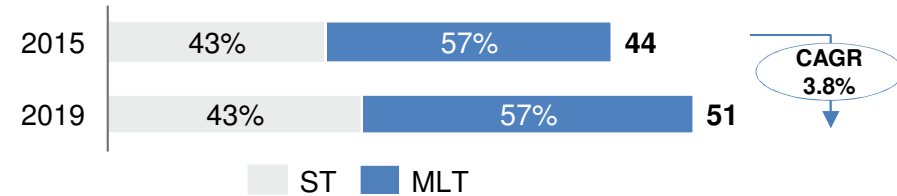
Pro-forma segments

## Key Strategic Guidelines

- Dedicated division for Mid Caps
- Excellent credit underwriting process
- Full leverage on Investment Banking capabilities of Banca Akros and Banca Aletti
- Increase share of wallet in value added services
- Enhance Corporate Hedging & Advisory capabilities
- Leverage synergies with Private Banking

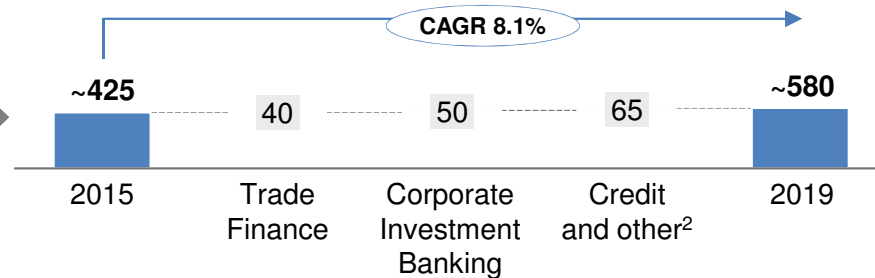
## Gross Loans

Euro billion



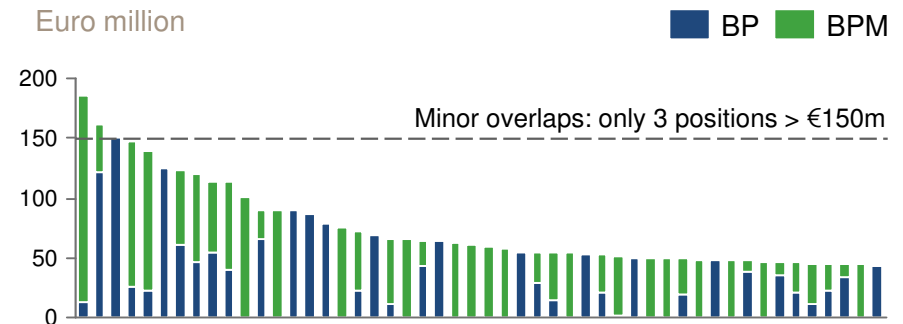
## Fees

Euro million



## Top 50 Combined Gross Loans<sup>1</sup>

Euro million



Notes: 1. Loans volumes ranked by Volumes "Utilizzato Cassa e Firma", exposure by legal entity (not group). 2. Other includes: Issuing and acquiring and current accounts.



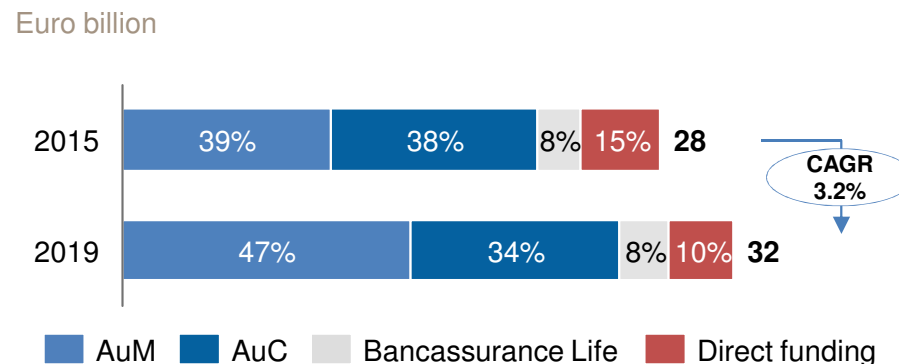
# A Dedicated Top Tier Private Bank with an Established Brand

Pro-forma segments

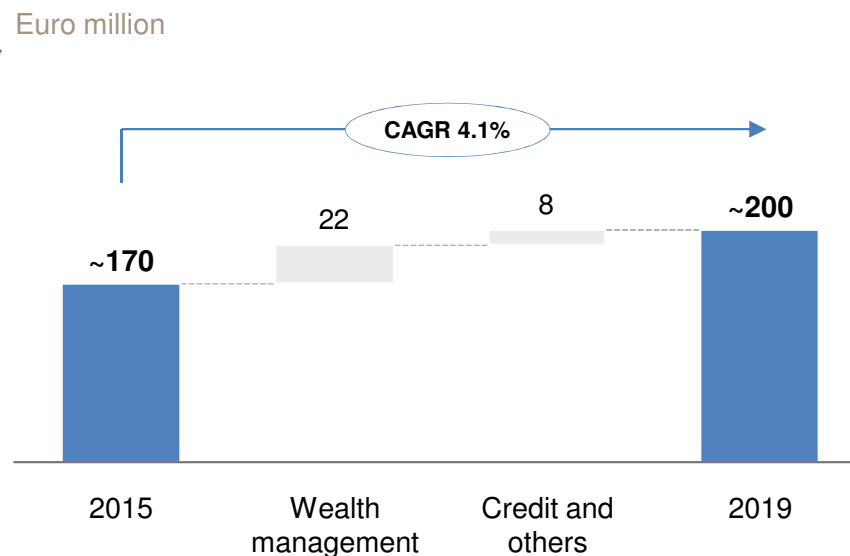
## Key Strategic Guidelines

- Coherent brand strategy, evolving the vision from investment to wealth advisory
- Attract talents from the market
- Compelling customer proposition through unified and extensive product/service catalogue
- Referral and cross-selling with corporates / entrepreneurs

## Total Client Assets<sup>1</sup>



## Fees



Notes: 1. Includes all New Group Private customers plus around 4 thousand customers currently in BP Affluent segments with more than €1m assets.

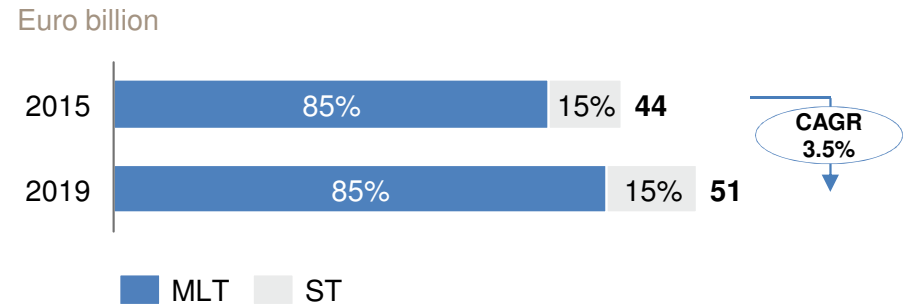
# A Fully Integrated Multichannel Bank Serving Retail and Small Business Clients

Pro-forma segments

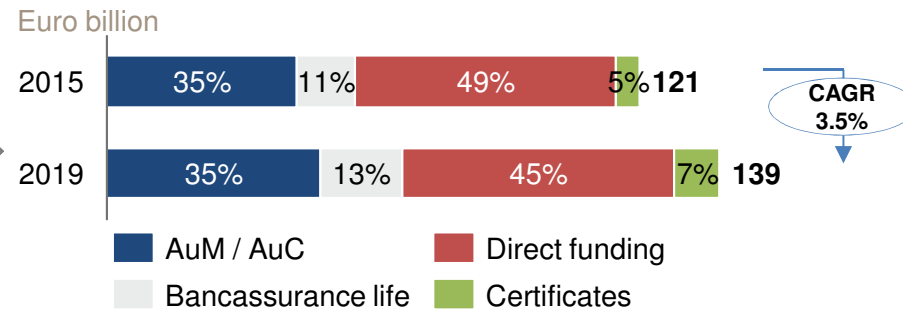
## Key Strategic Guidelines

- Focus on client development and cross selling
- Differentiate by customer sub segment
- Process and product simplification
- Big Data development to support CRM
- 24/7 Accessibility

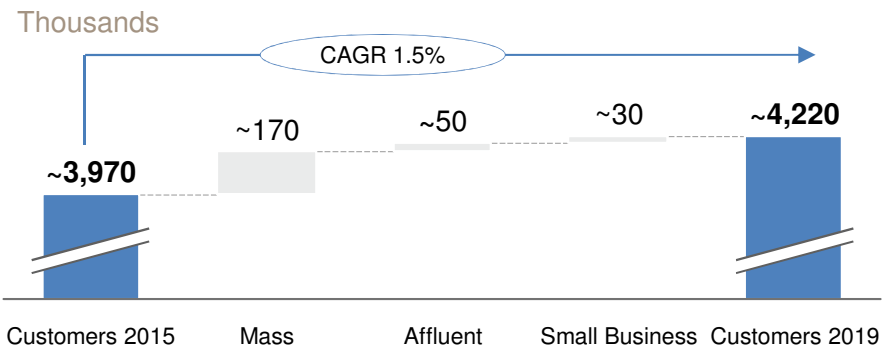
## Gross Loans



## Total Client Assets<sup>1</sup>



## Number of Customers

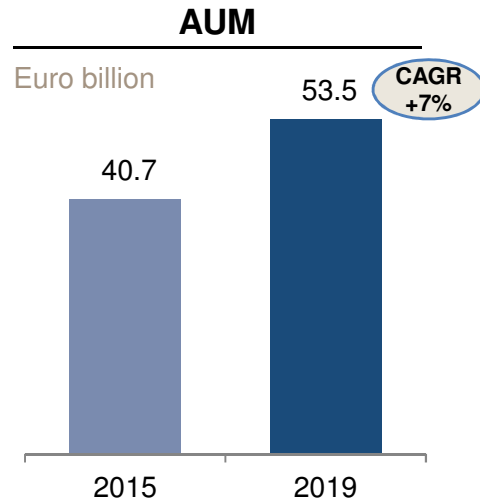


Notes: 1. Excluding around 4 thousands customers currently in BP Affluent segments with more than €1m assets.

# Full-Scope Product Offering Sustained by Strongly Recognized Brands

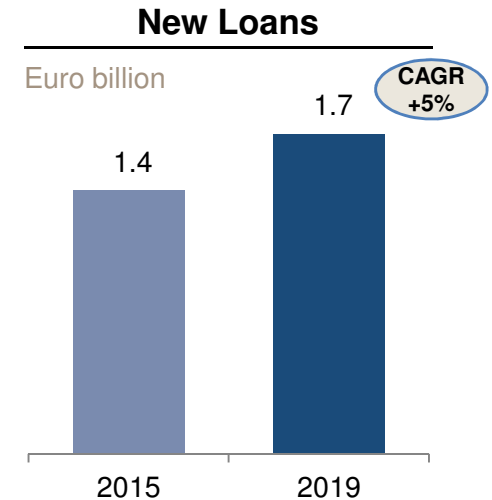
## Asset Management

- Increased commercial focus on core segment (Private and Affluent)
- Strong combined product capabilities



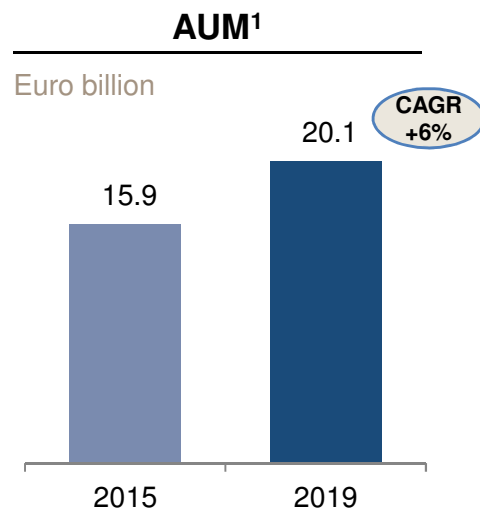
## Consumer Credit

- Improved productivity via commercial best practice sharing



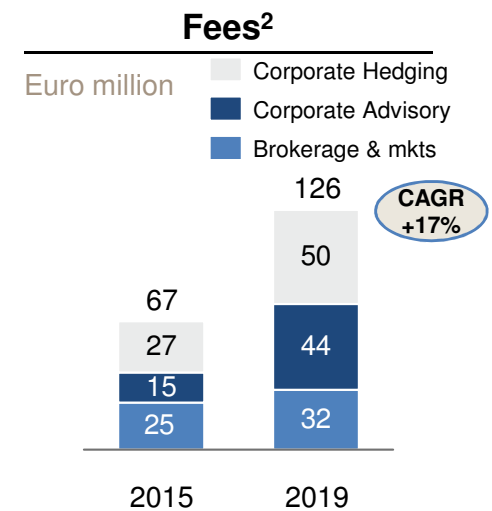
## Bancassurance

- Leverage on combined commercial partnerships with external product factories



## Investment Banking

- Benefit from new critical mass to develop specialized Investment Banking proposition for Corporate customers

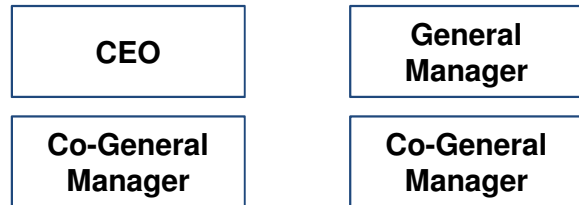


Notes: **Financial data and KPIs referred to the New Group's network.** 1. Average of December. 2. Corporate Advisory includes only upfront fees in M&A, ECM and DCM.

# Effective Organizational Structure

## New Group – Macro Building Blocks

### Executive Management Team



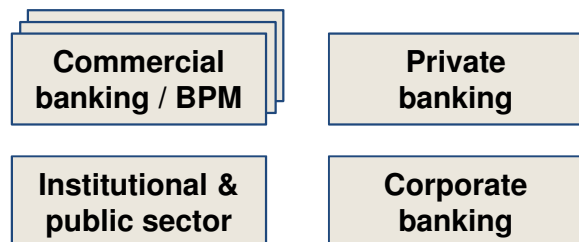
### New Strategic Unit



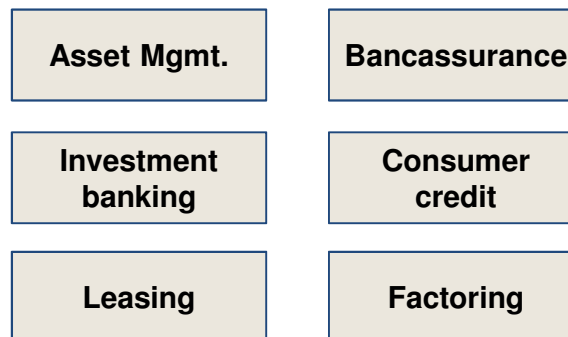
### Corporate Centre



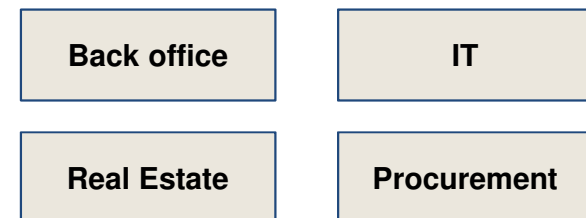
### Customer Business Units



### Product Units



### Service Units

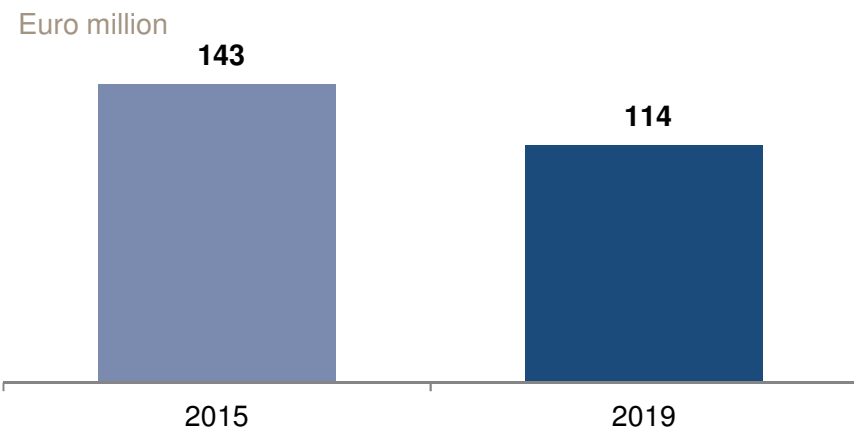


# Enhanced IT Platform Sustained by Investments in Digitalization

## IT Integration

- State-of-the-art IT architecture integrating existing areas of excellence resulting in higher efficiency
- Quick migration process (by 2017) enhancing digital platform evolution
- Scalable and flexible infrastructure supporting future customer and employee experience

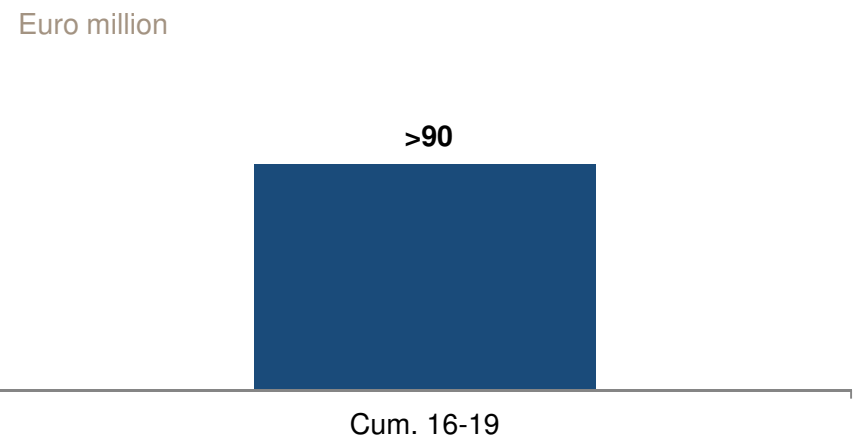
### ICT Operating Expenses



## Digital Platform

- “High digitalized” target model to minimize operating activities

### Digital Investments



# Fully Integrated Multichannel Distribution

## Key Strategic Guidelines

### Sustained digital evolution

- Extend fully digital model
- Evolve and strengthen SME/SB digital offer
- Enhance Retail and Corporate payments
- Increase cost and processing time efficiency

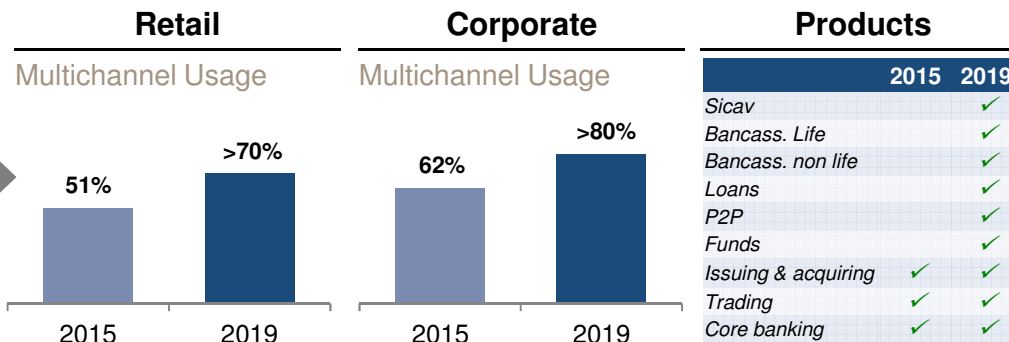
### Innovative and optimized branch network

- Lighter territorial footprint
- Larger and modern branches
- Evolved roles in branches towards advisory
- Full multichannel integration
- More efficient service
- Improved customer experience

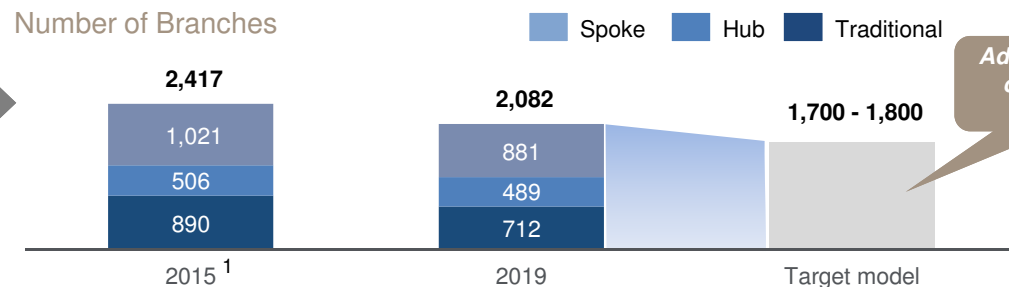
### Highly evolved distribution models

- Closer to clients
- Equipped with fully integrated tools
- Certified and licensed personnel
- Scalable platform
- Strong governance and control model

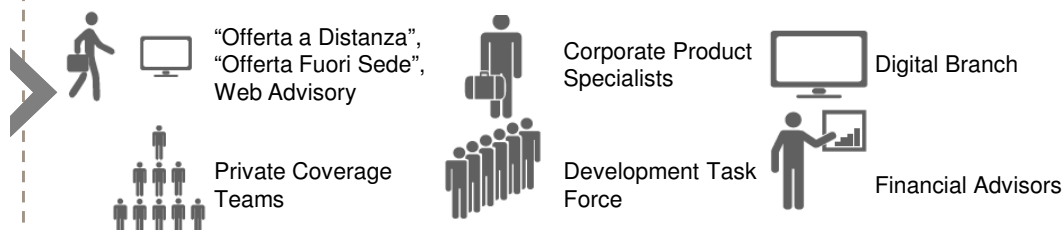
## Success Factors



## Branch Network



## New Distribution Models



Notes: 1. Not including digital branches and other branches not relevant to the analysis.

# Engaged and Customer-Focused Human Resources

## Key Strategic Guidelines

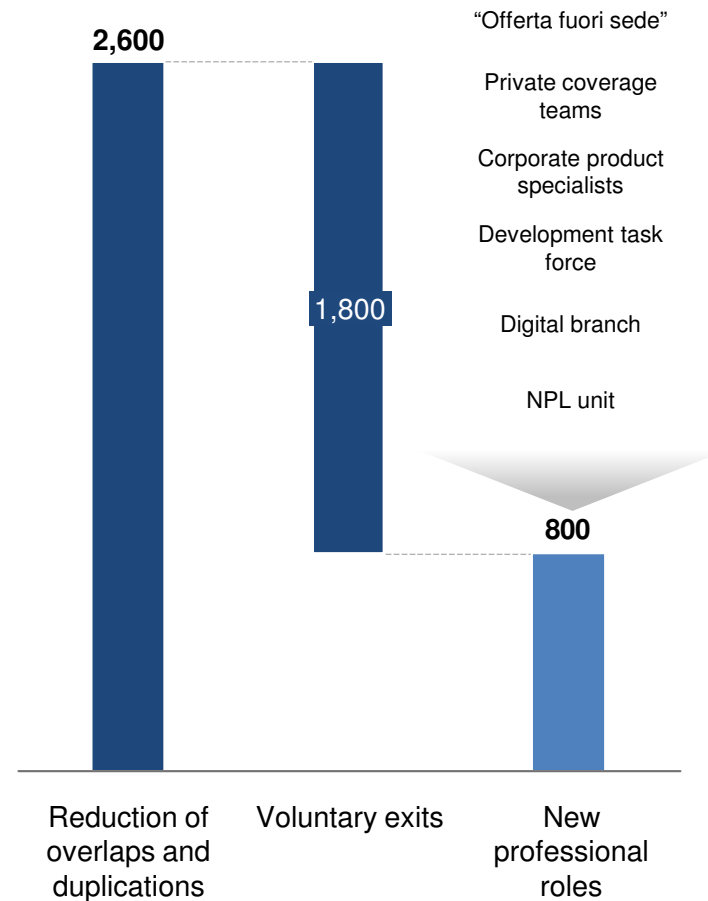
### HR management and development

- Introduction of new career development programs and commercial role opportunities
- Adoption of performance management and incentive schemes linked to customer satisfaction in line with a sustainable growth
- Hiring of young resources
- Active commitment towards gender rebalancing and increasing presence of women in key roles
- Introduction of a new voluntary exit scheme
- Reduction of personnel costs by at least 0.5% CAGR 2015-2019

### Training and requalification

- Investment in training programs and development of new commercial competences
- Talent management
- Enhanced flexibility and company welfare
- Over 100,000 training days per year

## Resources Allocation<sup>1</sup>



Notes: 1. Total headcount as of 2015 equal to 25,080.

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# Evolution of the New Group's Capital and Asset Quality KPIs

## Key Strategic Guidelines

### Asset Quality

- New dedicated unit to ensure effective management of NPL
- Increase coverage of bad loans together with a rebalanced secured/unsecured mix
- Strong NPL reduction plan (at least €8bn disposals)

### Capital Adequacy

- €1bn capital strengthening executed by BP
- Benefit from extension of BP AIRB system to the New Group
- Organic capital generation off-setting conservative assumptions on regulation evolution

### Liquidity

- Liquidity ratios above regulatory guidelines

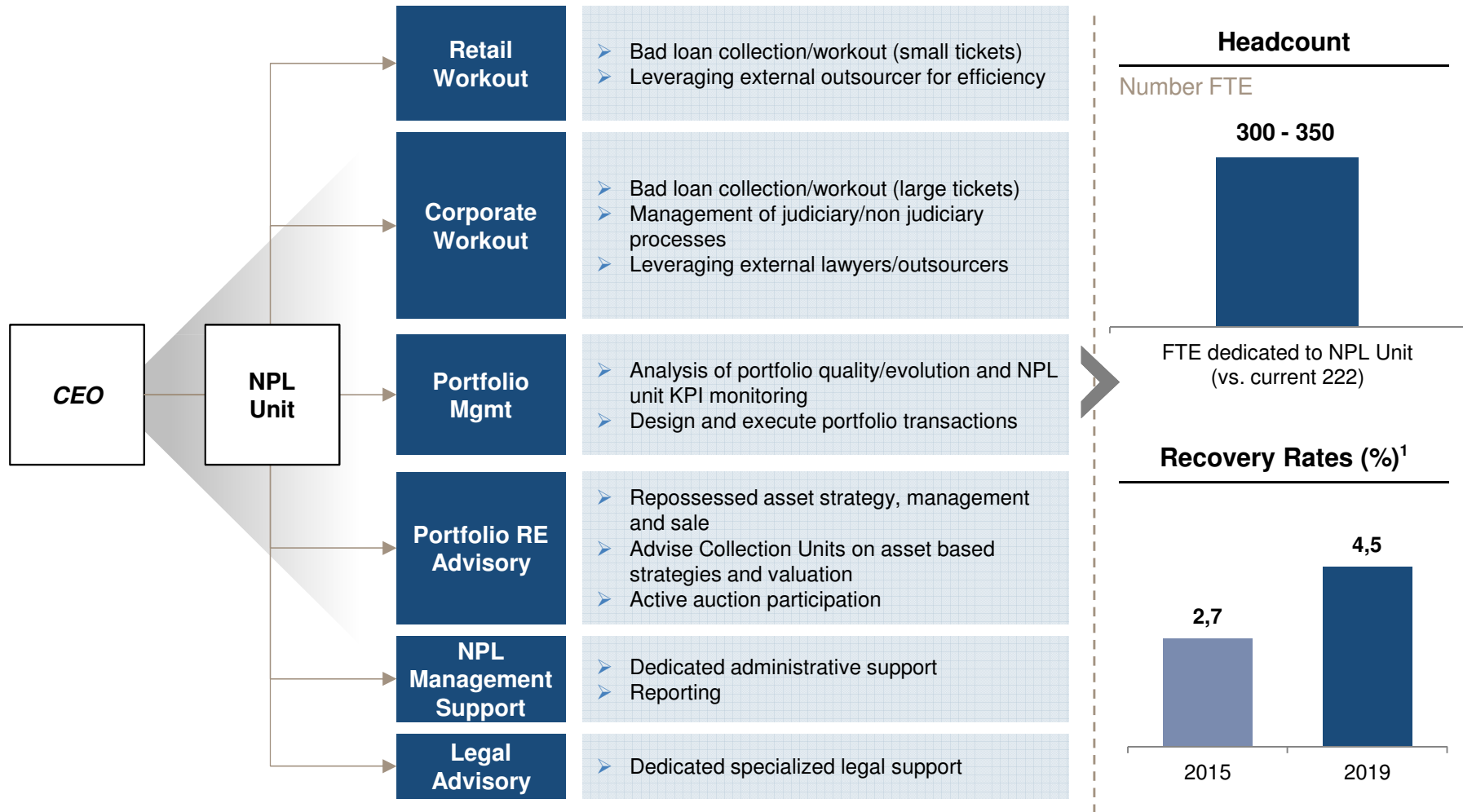
## KPIs Evolution

	2015	2019
NPL Ratio – Nominal	24.8%	17.9%
NPL Ratio – Net	15.7%	11.1%
Bad Loans Ratio – Net	7.0%	4.2%
Coverage on Bad Loans <sup>2</sup>	57% <sup>1</sup>	59%
Cost of Risk <sup>3</sup> (bps)	102	63
CET 1 ratio (Fully phased)	12.3% <sup>4</sup>	12.9%
LCR	>100%	>100%
NSFR	98%	>100%

Notes: 1. Does not include extra provisions to be completed in 2016. 2. Calculated including write-offs. 3. Calculated on year-end net customer loans. 4. Aggregated data as of 31 December 2015 including full recognition of negative goodwill.

# Top Management Fully Committed on the New Dedicated NPL Unit

*A new NPL unit focused on bad loans management and workout will increase recovery performance and could create further opportunities for maximizing value. Performance and results will be adequately disclosed over the strategic plan horizon*



Notes: 1. Calculated on nominal value and considering only cash recoveries (no effects from disposals considered).

# Nominal NPL Ratio Below 18% and Net NPL Ratio at 11%

## Key Strategic Guidelines and Initiatives

### Organizational Structure

- Dedicated business unit for the management of Bad Loans directly reporting to CEO
- Loan portfolio diversification and adoption of best practices for risk management

### Coverage Ratios

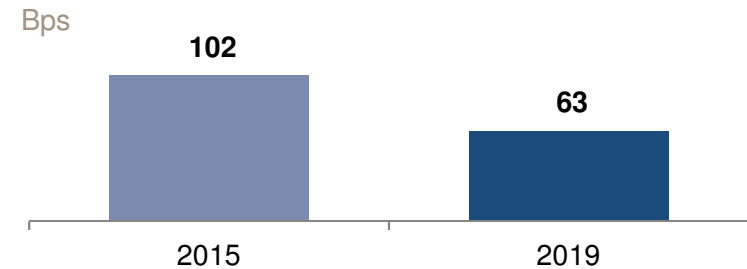
- Immediate increase in coverage ratios within the main NPLs categories (i.e. Secured Bad Loans, Unsecured Bad Loans and other NPLs)
- Overall coverage ratio influenced by “mix effect”, due to declining weight of highly provisioned categories

### NPL Stock Reduction

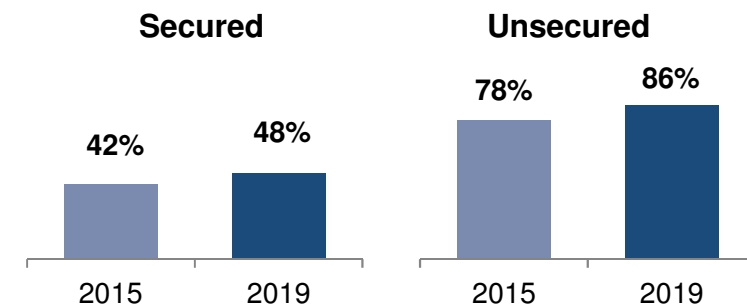
- NPL reduction plan for €8bn of nominal book value leading to a nominal NPL ratio below 18%
  - Further €2bn may be added to reduction plan in the event of significantly adverse asset quality trends

## KPIs Evolution

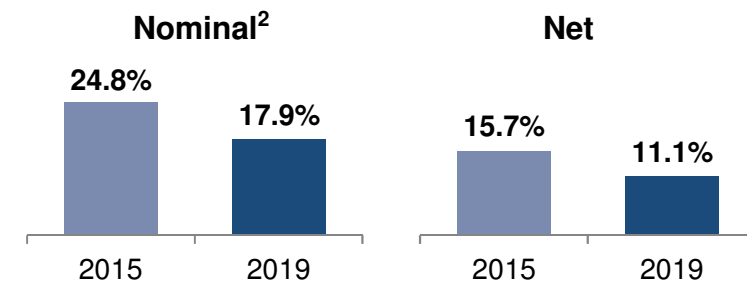
### Cost of Risk<sup>1</sup>



### Bad Loans Coverage<sup>2</sup>



### NPL Ratio



Notes: 1. Calculated on year-end net customer loans. 2. Ratios calculated on nominal book value including write-offs (gross + write-offs).

# Solid Capital Position with CET1 Ratio at 12.9%

## Key CET1 Evolution Items

### Pillar I Capital Requirements

- Extension of BP AIRB system to the New Group
- Conservative assumptions on market risk and operational risk capital requirements evolution

### Organic Capital Generation

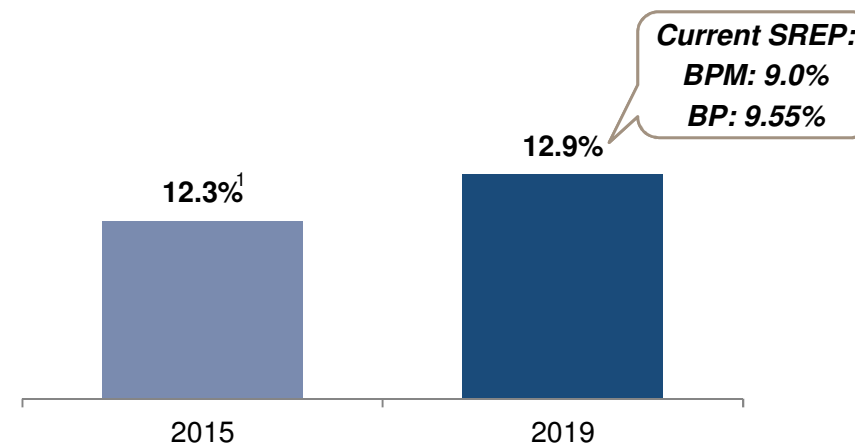
- Increase of capital mainly due to the profit retained in the plan horizon, partially offset by credit portfolio growth
- 40% dividend payout

### NPL Stock Reduction

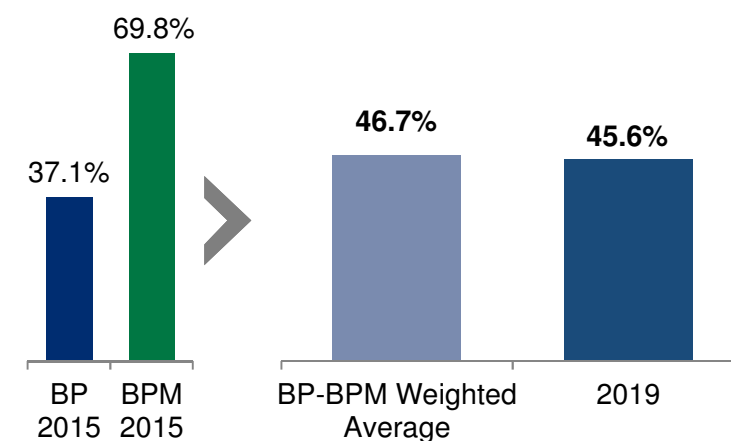
- Effect of NPL disposal and provisioning strategy

## KPIs Evolution

### CET 1 Ratio Fully Phased



### RWA Density<sup>2</sup>



Notes: 1. Aggregated data as of 2015 including full recognition of negative goodwill. CET1 Ratio phased in at 12.5% in 2015. 2. RWA density calculated on total assets.

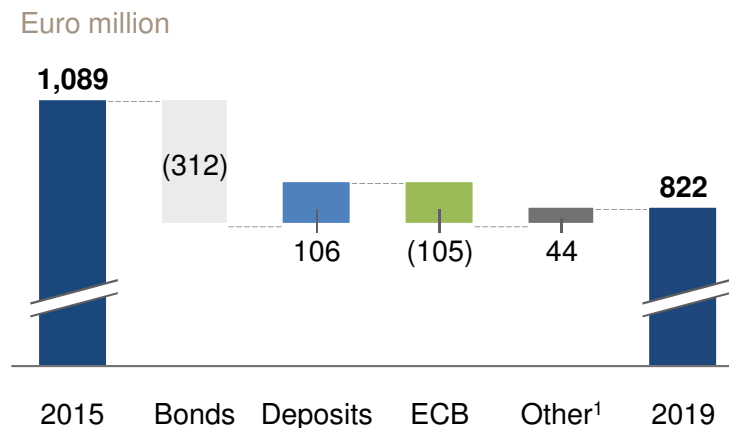
# ALM Strategy Focused on Reducing Cost of Funding

## Funding Mix Evolution

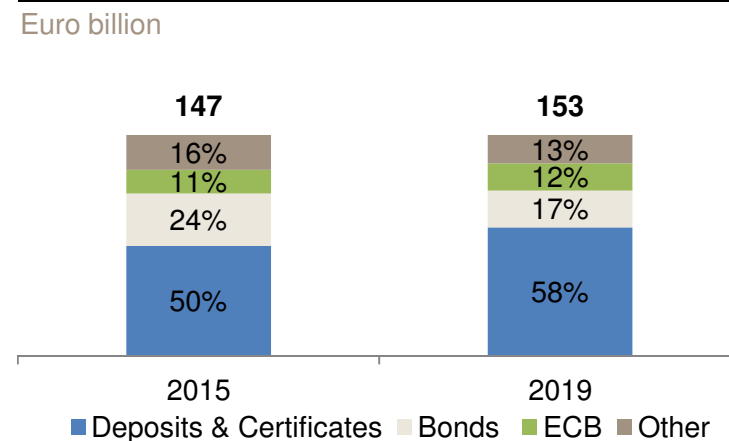
- Funding mix rebalancing and an improved credit standing will lead to a reduction of cost of funding driven by:
  - Reduction of Retail Bonds (~€5bn) and Wholesale bonds (~€4bn-€5bn), balanced by increase of deposits and certificates (~€16bn)
  
- Issue of €1.5bn of subordinated bonds will partially offset existing bond maturities

## KPIs Evolution

### Cost of Funding Evolution



### Funding Mix



Notes: 1. Other includes "certificati di deposito", REPO/PCT, other securities issued and other deposits.

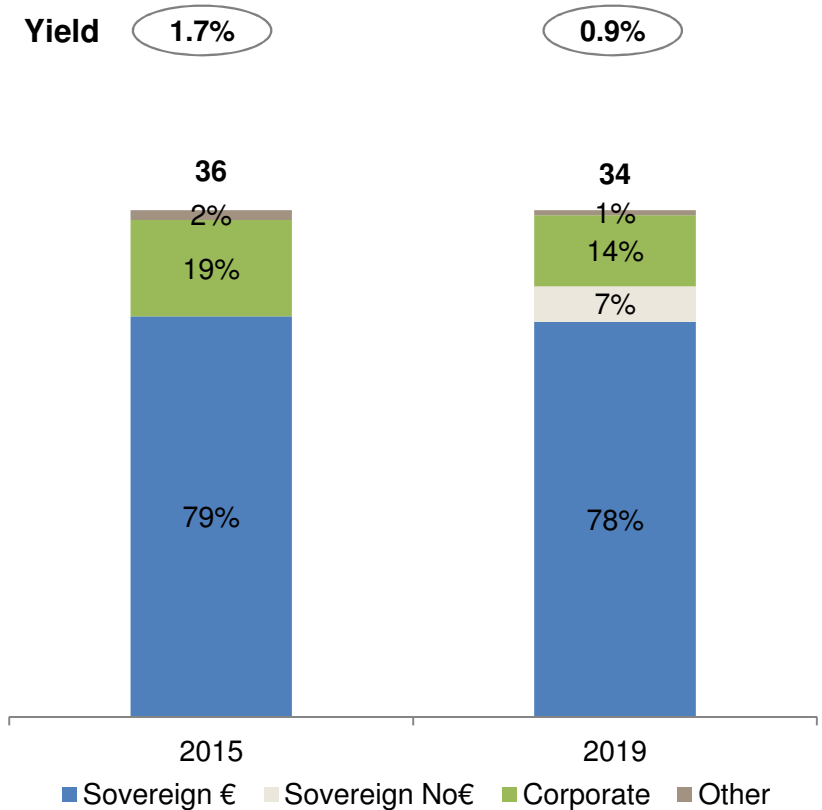
# Prudential Management of the Securities Portfolio

## Securities Portfolio Evolution

- Low interest rate scenario will reduce the returns of securities portfolio
- IFRS3 fair value impact on BPM portfolio would also reduce the inertial returns
- After reallocation, the 2019 portfolio will include an increase of non-euro sovereign (~€2bn), with stable duration (avg. duration <4y)

## Securities Portfolio

Euro billion



# Summary of Key Strategic Guidelines

## A new leading banking group in some of the wealthiest regions in Europe...

- 3<sup>rd</sup> largest banking group in Italy with a leading position in the North
- 4 million customers served through an extensive and fully complementary distribution network
- National leading player in a number of high value businesses
- Complementary and experienced management team

## ...a winning banking model across market cycles...

- Customized proposition in all market segments
- Effective organizational structure supported by an enhanced digital platform
- Fully integrated multichannel distribution
- Talent retention through new professional roles and human capital enhancement

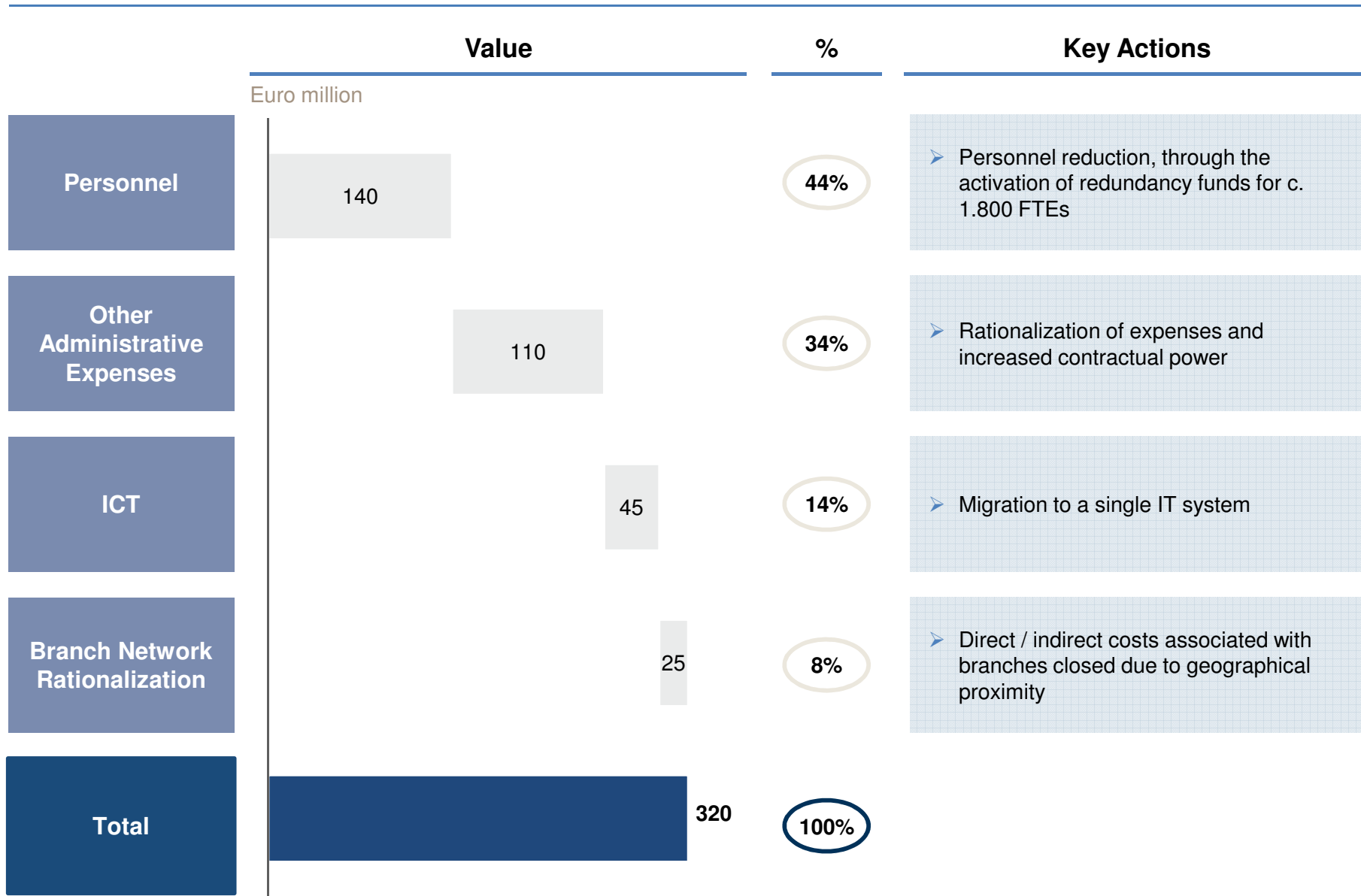
## ...solid balance sheet since inception and improved asset quality...

- CET 1 fully phased ratio at ~13%
- Liquidity ratios comfortably above regulatory requirements
- New dedicated NPL unit to maximize recoveries and deliver a strong disposal plan
- Efficient funding mix and prudential management of securities portfolio

## ...and significant value creation

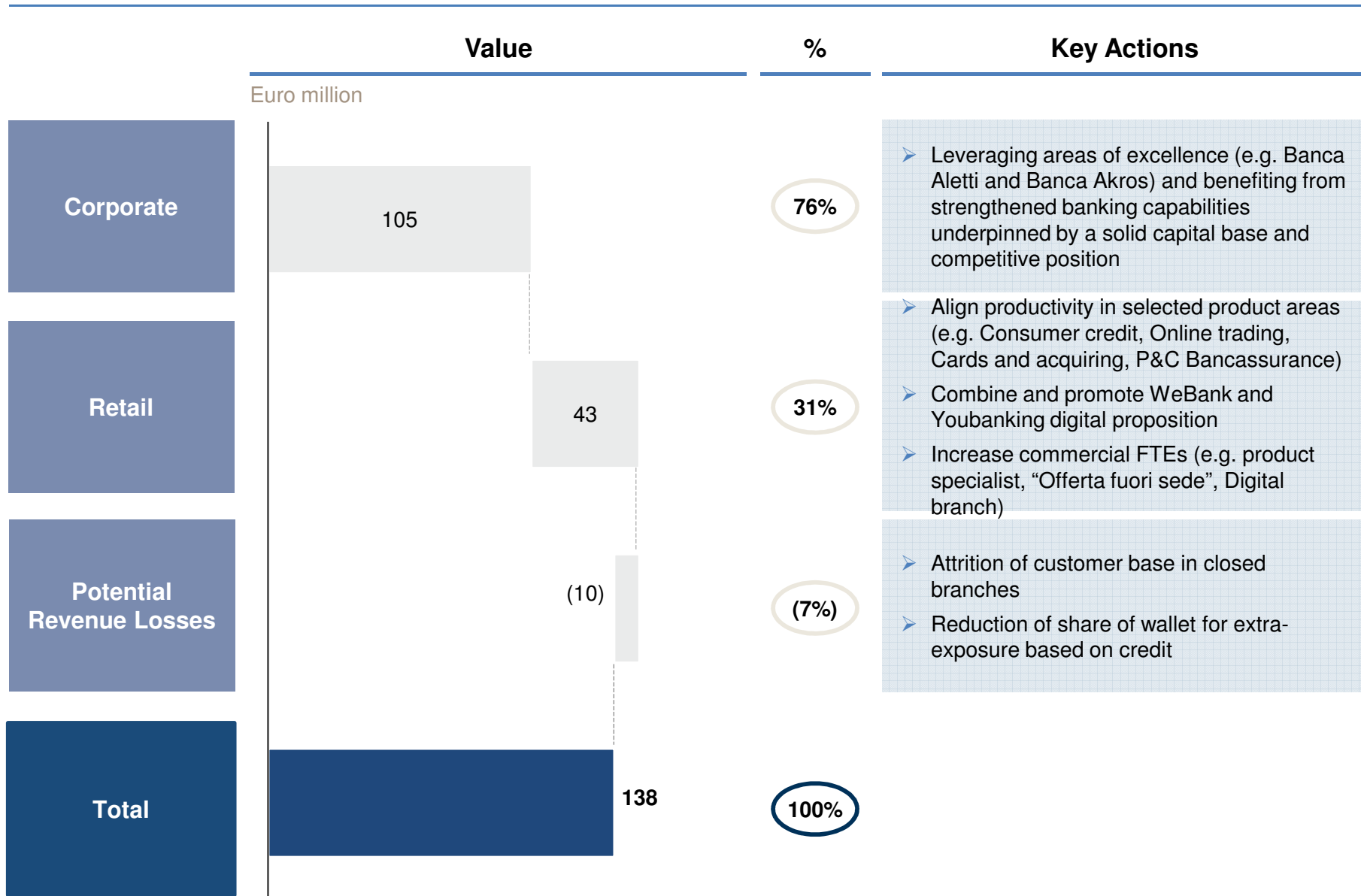
- **Fully phased synergies of ~€460m (pre-tax)**
- **Focus on efficiency**
- **Enhanced RoTE and dividend payment capacity**

# Cost Base Optimization with Substantial Savings





# Revenues Boost from New Banking Model

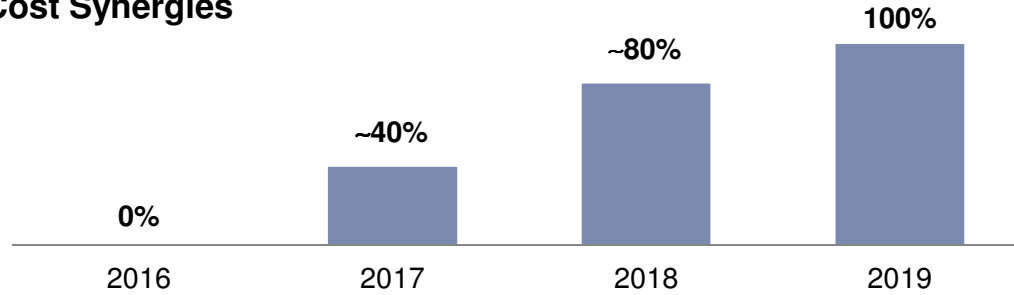


# Synergies Fully Achieved by 2019 with Integration Costs Expensed by 2018

## Phasing Effect

## Full Amount (pre-tax)

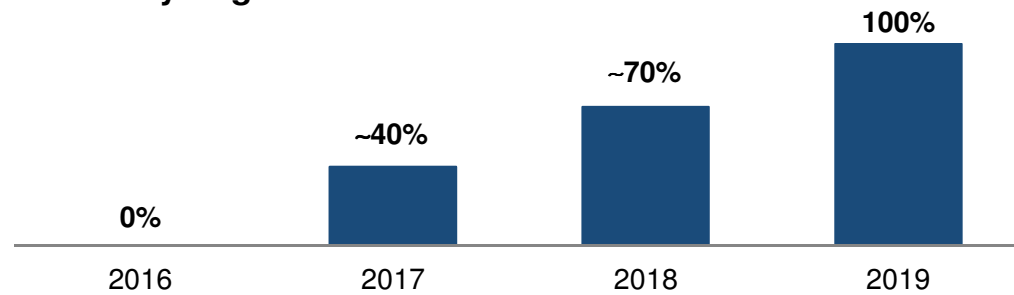
### Cost Synergies



€320m

10.1%  
on combined operating costs 2015

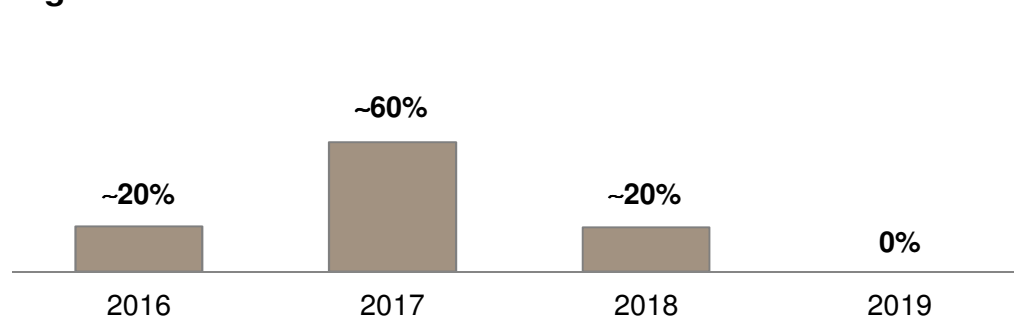
### Revenue Synergies



€138m

2.7%  
on combined revenues 2015

### Integration Costs



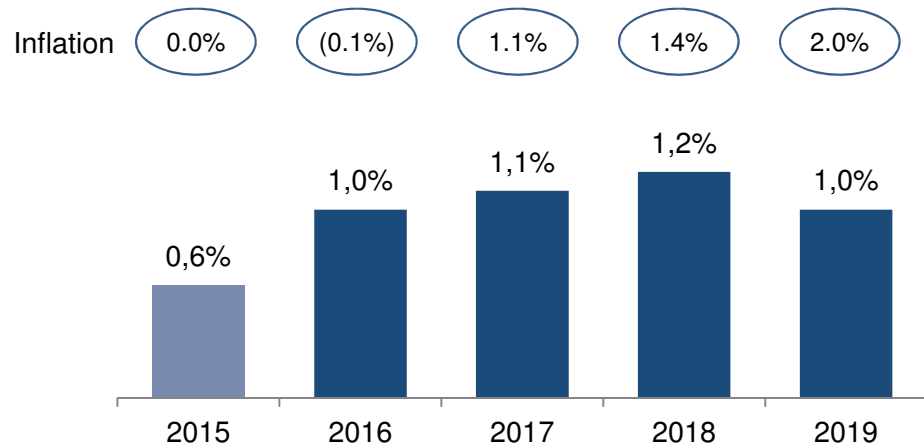
€483m

~150%  
on cost synergies

# 3. Financial Projections

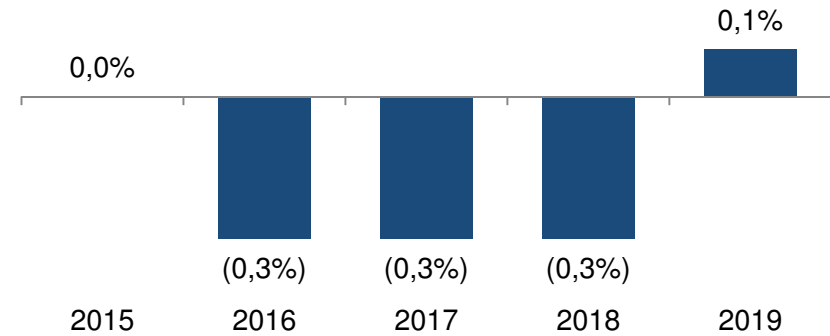
# Macroeconomic and Banking Scenario

### Italy GDP and Inflation (y/y, % change)

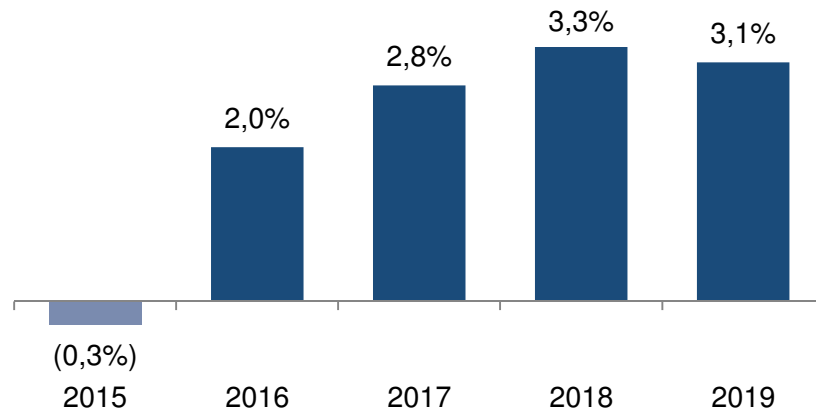


### Euribor 3m (%)

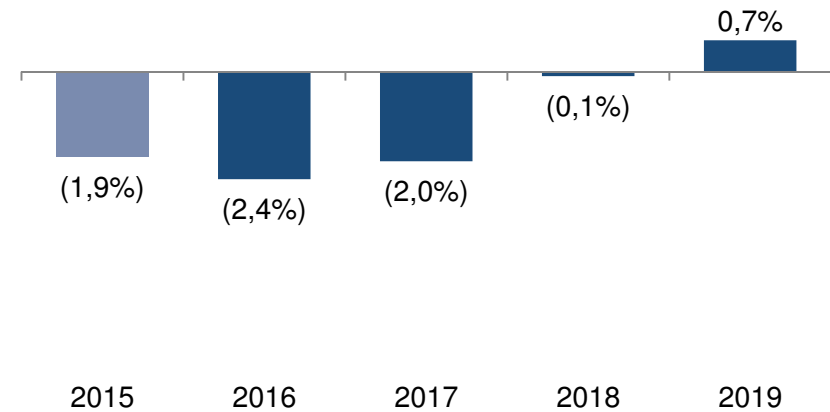
Annual Mean



### Gross Loans to Customer (y/y, % change)



### Direct Funding (y/y, % change)



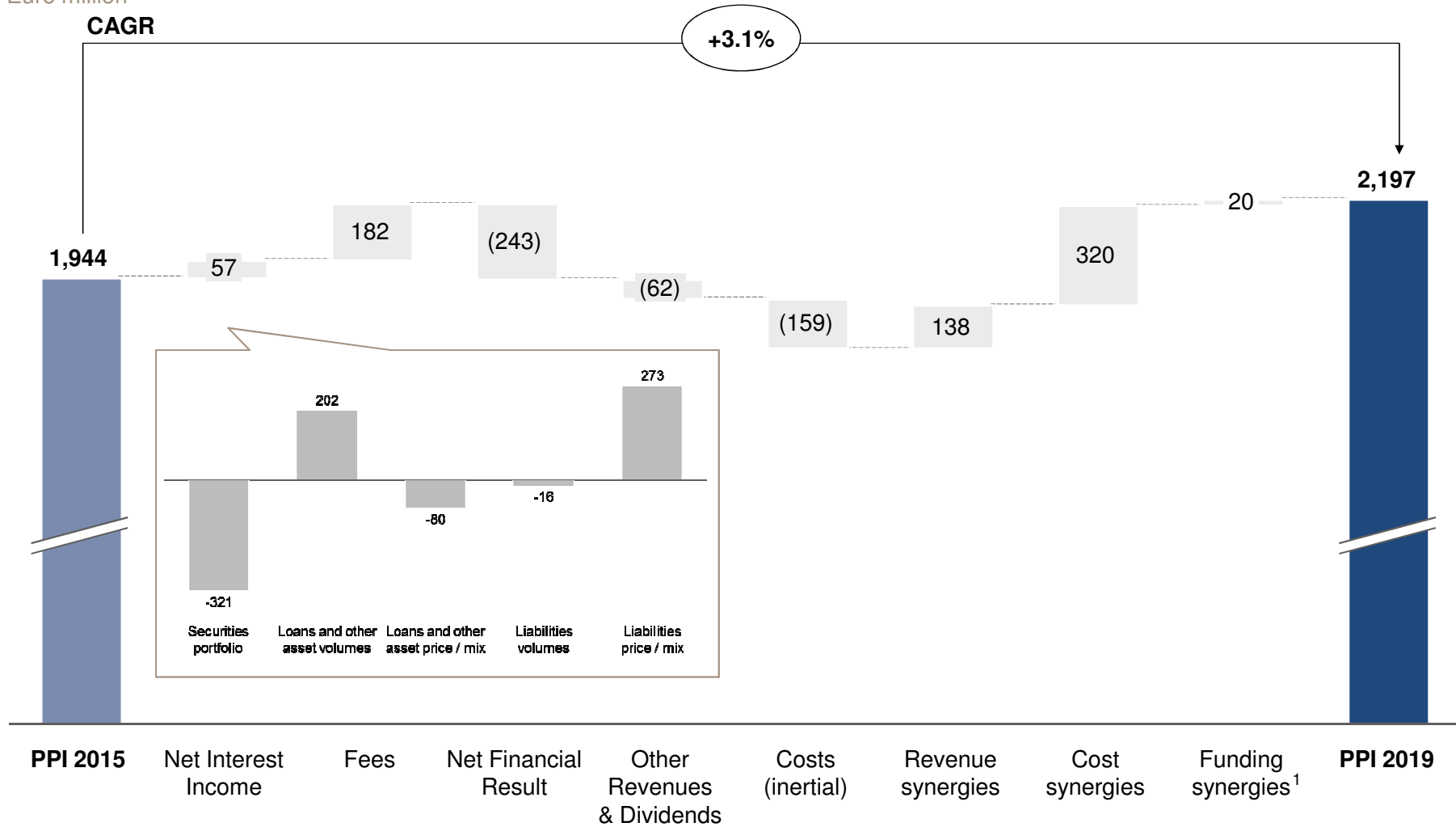
■ Actual ■ Projections

Source: Prometeia (March 2016).

# Pre-Provision Income Reaching €2.2bn by 2019

## Components of Δ PPI

Euro million



Notes: 1. Funding synergies attributable to spreads reduction thanks to potential rating improvement for the New Group.

# Key P&L and Balance Sheet Targets

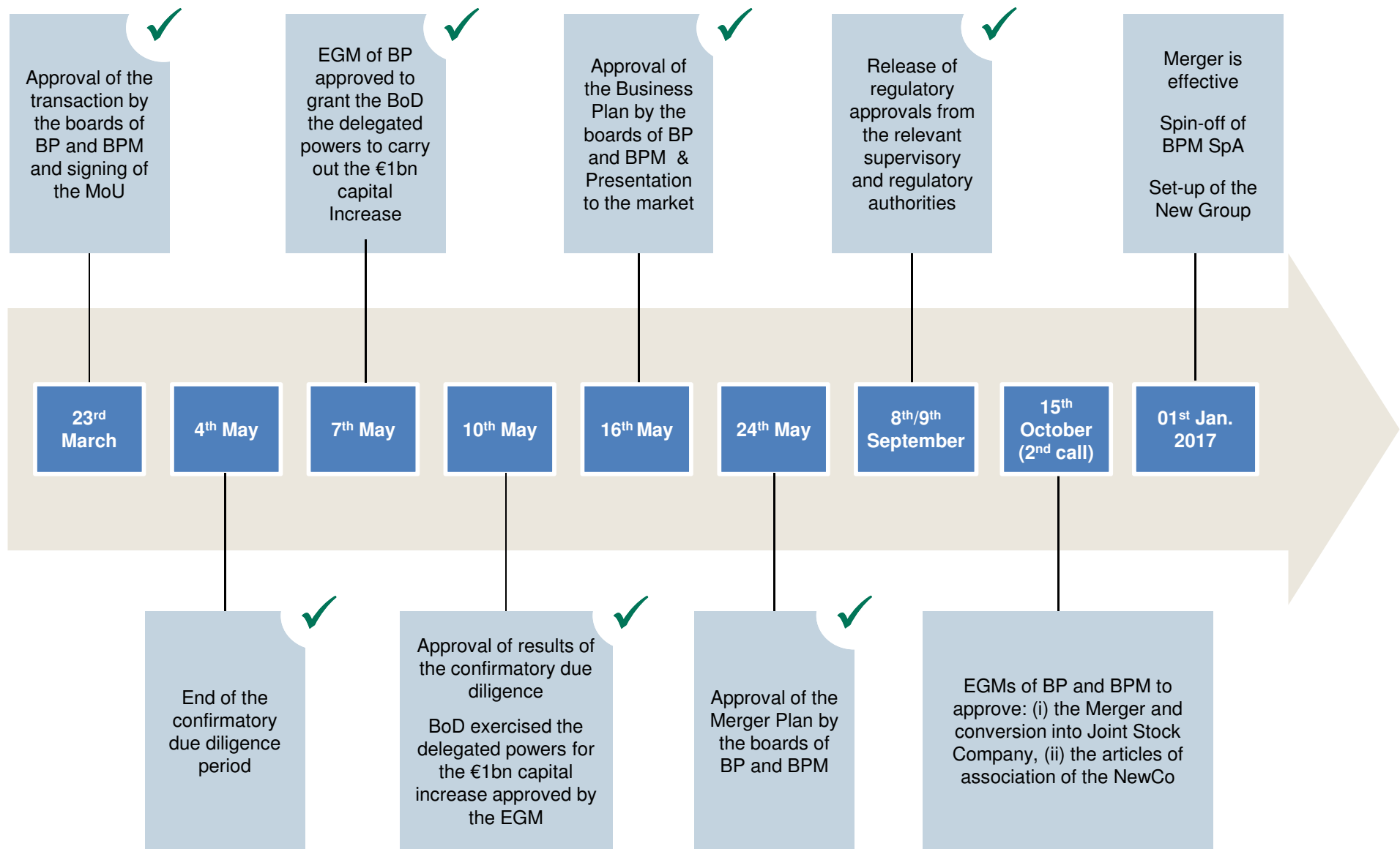
		2015	2019	CAGR / Delta 2015-2019
<b>Key P&amp;L Items</b>	Normalised Operating Income <sup>1</sup>	€5.1bn	€5.2bn	+0.4%
	Operating Expenses	(€3.2bn)	(€3.0bn)	(1.3%)
	Pre Provision Income	€1.9bn	€2.2bn	+3.1%
	Normalised Net Income <sup>1</sup>	€0.6bn	€1.1bn	+16.1%
<b>Key Balance Sheet Items</b>	Gross Performing Loans	€95bn	€109bn	+3.1%
	Gross Performing Loans Net Of Non Core and Run-off Assets	€84bn	€98bn	+4.1%
	Deposits <sup>2</sup>	€67bn	€79bn	+4.1%
	Indirect Funding	€100bn	€116bn	+3.7%
<b>Key Ratios</b>	Cost/Income <sup>3</sup>	62.0%	57.8%	(4.2 p.p.)
	Cost of Risk <sup>4</sup>	102bps	63bps	(39bps)
	RoTE <sup>5</sup>	5.5%	9.0%	+3.5p.p.
	CET1 Ratio Fully Phased	12.3% <sup>6</sup>	12.9%	+0.6p.p.
	Dividend Payout Ratio	n.m.	40%	n.m.
	Texas Ratio <sup>7</sup>	162%	114%	(48 p.p.)

Notes: 1. 2015 normalized for extraordinary items (i.e. extraordinary contribution to Single Resolution Fund, capital gains in associates and other minor extraordinary items). 2. Calculated as Sight Deposits plus Term Deposits. 3. Including contribution to Single Resolution Fund and Fondo Interbancario di Tutela dei Depositi. 4. Calculated on year-end net customer loans. 5. Tangible equity net of dividends. 6. Aggregated data as of 31 December 2015 including full recognition of negative goodwill. 7. Calculated as Total Net NPL on Tangible Equity.

## 4. Integration Timeline and Guidelines

# Timetable Overview

Timetable updated as at  
12 September 2016





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