BPER:
Banca

PRESS RELEASE

BPER Group
New Industrial Plan 2019-21 approved
"*BPER 2021 Strategic Plan*"

BPER Group presents its business plan for the next three years ("BPER 2021 Strategic Plan" or the "Plan") structured on three pillars:

1. **Growth and development of the business, with a strong focus on fee-based services such as bancassurance, wealth management and global advisory for corporate clients and on high margin business such as consumer credit;**
2. **Operating efficiency increase and simplification;**
3. **De-risking acceleration and further capital strengthening.**

The Plan has a solid starting point thanks to the significant benefits coming from the strategic transactions announced in February 2019[1]: the acquisition of Unipol Banca and the Minorities interests of Banco di Sardegna, the disposal of ca. €1 billion bad loans and the acquisition of the control of Arca Holding.

The Group aims at confirming itself as a reference point for families and companies, supporting the economic growth of the local communities, which will be served with an increasing focus on digital transformation, process and product innovation, new internationalization strategies and a further commitment to Social Responsibility.

The Industrial Plan 2019-21 main goal is to create sustainable medium-long term value for all Group stakeholders, through a structured plan of actions which will make it possible to reach the following financial targets:

- **Profitability increase: 2021 net income equal to €450 million and RoTE equal to ~10%**
- **Further capital strengthening: 2021 CET1 ratio fully phased close to 12.5%[2]**
- **Average dividend payout during the three years of ~25%**

These goals will be reached through its implementation along the 3 pillars of the Plan, being:

1. **Growth and development of the business[3]:**
   - **AuM CAGR 18-21: +5.0%**
   - **Net customer loans CAGR 18-21: +1.6%**
   - **Net commissions CAGR 18-21: +3.6%**
   - **Net interest income CAGR 18-21: +0.7%**
2. **Efficiency increase and simplification**
   - **Operating costs CAGR 18-21: -2.6%**
   - **2021 Cost / Income ratio: lower than 59%**
3. **De-risking acceleration:**
   - **2021 Gross NPE ratio: lower than 9%**
   - **2021 cost of risk: 60 bps**

This is a translation into English of the original in Italian. The Italian text shall prevail over the English version.

Modena, 28th February 2019. The Board of Directors of BPER Banca examined and approved, last night, the Industrial Plan 2019-2021 “BPER 2021 Strategic Plan”.

Alessandro Vandelli, Chief Executive Officer of BPER Banca, comments as follows: “The Board of Directors has approved the Group’s Industrial Plan 2019-2021. This moment comes at the end of an intense month characterized by many successful events, which build up for a solid starting point to face the next three years. I am referring, first, to BPER 2018 annual results, which registered an important progress in all operating areas and scored a net income of the Parent Company of €402 million, the highest in the Group’s history. Secondly, we were busy with the acquisition of Unipol Banca and the minority interests of Banco di Sardegna, together with the disposal of ~€1 billion bad loans and, thirdly, the agreement for the acquisition of the control of Arca Holding. This Plan comes at the most appropriate time to exploit all we have done during this month and to set a growth and profitability perspective for the Group, supported by further progress on capital strength and de-risking. I would like to remind that the 2021 net income target of €450 million will be reached thanks to an important transformation of our business model, focused on the capability to meet the more and more advanced and integrated client needs and thanks to the increase of operating efficiency and simplification. Within the perimeter of the Plan, we will develop several initiatives focused on the promotion of our employees - that have always been our most important assets – in order to further develop their technical skills and improve their working conditions. Therefore, the new Plan, deep rooted with the remarkable results recently achieved in terms of profitability, capital solidity and asset quality, aims at consolidating the sustainable growth of the Group, in order for all stakeholders to benefit from it, allowing us to look with hope at the next challenges to tackle for an even further evolution of our Group”.

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2021 key targets

The macroeconomic scenario of the Plan

The Plan projections are based on the latest developments of the macroeconomic and interest rate scenario.
Specifically, the assumptions depict a conservative increase of the interest rates and a moderate growth of the Italian GDP, due to the slowdown of the international economy and the uncertainties coming from the political landscape.
Moreover, we took into account the increasingly complex and evolving regulatory context, which asks for a specific focus on capital and liquidity position and on the investments in IT and resources.
The Plan follows the following macroeconomic and interest rates dynamics:

	2019	2020	2021
Interest rates Euribor 3M	-0.2%	+0.3%	+0.4%
Italian GDP (real)	+0.5%	+0.7%	+0.8%
Italian inflation	+0.9%	+1.1%	+1.4%
BTP 10Y	+3.1%	+3.0%	+2.8%

Profit & Loss

- **Operating income** equal to € 2,540 million (CAGR 18-21: +0.4%) due to the increase of fees and commissions and the reduction of trading component:
  - Net interest income: € 1,327 million (CAGR: +0.7%)
  - Net fees and commissions: € 1,043 million (CAGR: +3.6%)
  - Other income: € 170 million (CAGR: -14.0%, which assumes the normalization of the income from trading activities following a particularly positive result registered in 2018)

- **Operating cost** equal to € 1,494 million (CAGR 18-21: -2.6%), in particular thanks to the significant reduction of HR costs and other administrative expenses:
  - HR costs: € 927 million (CAGR: -2.0%)
  - Other administrative expenses: € 409 million (CAGR: -8.5%)
  - D&A: € 158 million (CAGR: +17.7%)

- **Pre-provision operating income:** € 1,045 million (CAGR 18-21: +5.5%)

- **Total provisions:** € 362 million (CAGR 18-21: +5.0%) and a cost of risk substantially aligned with 2018 level

- **Post-provision operating income:** € 683 million (CAGR 18-21: +5.7%)

- **Net income:** € 450 million (CAGR 18-21: +7.1%)

Balance sheet

- **Net customer loans:** € 56 billion (CAGR 18-21: +1.6%)

- **Direct funding:** € 65 billion (CAGR 18-21: +3.7%), driven by the increase in institutional funding to balance the potential end of the TLTRO 2:
  - Institutional funding: € 12 billion (CAGR: +31.4%)
  - Commercial funding: € 54 billion (CAGR: +0.1%)

- **LCR** and **NSFR** largely compliant with regulatory requirements

- **Indirect funding:** € 97 billion (CAGR 18-21: +2.5%), driven, in particular, by the increase of the assets under management:
  - AuM and life insurance: € 32 billion (CAGR: +5.0%)
  - AuC: € 65 billion (CAGR: +1.3%)

Asset quality

- **Stock of non-performing loans:** ~€ 5.0 billion (-23% vs. 2018), reduction driven, in particular, by stronger lending, monitoring and disposal activities

- **NPE coverage ratio:** ~54% (greater than 4.7 p.p. vs. 2018)
- **Cost of risk:** 60 bps (substantially aligned with 2018)
- **Gross NPE ratio:** lower than 9% (reduction of more than 3 p.p. vs. 2018)
- **Texas ratio:** ~65% (reduction of approximately 25 p.p. vs. 2018)

Regulatory capital

- **CET 1 ratio fully phased:** further strengthening of the Group capital position, reaching ca. 12.5%[4]

- **RWA:** ~€ 35.7 billion (CAGR 18-21: ~+5.4%) influenced by the growth of customer loans, Unipol Banca consolidation, whose risk weighted assets are currently calculated according to the "standard" models, and the adoption of the AIRB models by other Group companies and client segments

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The pillars and the levers of 2019-2021 Industrial Plan

Pillar 1. Growth and development of the business

Due to the extraordinary transactions, during the course of 2019 the growth path undertaken by the Group will consistently accelerate. This will be accompanied by the continuation of the organic growth, which will be characterized by a strong focus on the sophisticated needs of our customers, mainly related to high value-add and commission-based products and services. In details:

- **Growth acceleration and customer base development, also thanks to the extraordinary transactions**
  - Organic growth of the customer base thanks to an increase of the acquisition rate and to a churn reduction, also by means of business intelligence
  - Development of existing customer base, due to the increase of up-selling and cross-selling
  - Inorganic growth, with the acquisition of 500,000 new customers and with the expansion in high potential areas, currently not well served by BPER

- **Focus on customers' sophisticated needs: high value-added products / services**
  - Strengthening of the *Bancassurance* agreement with Arca Vita and Arca Assicurazioni:
    - Strengthening of the supply and distribution model, with the extension of the *Bancassurance* activity to all channels and maximum integration with the Bank offer;
    - Creation of dedicated structures for the supervision and management of the *Bancassurance* activity, with dedicated competences and with the launch of a thorough change management plan
    - Integration between Arca Vita and Arca Assicurazioni and BPER IT systems
  - Further Wealth management development:
    - Strengthening of the product factories, by centralizing the Group investment services and leveraging on the Luxembourg SICAV as a multimanager for private and personal clients

- Development and specialization of the distribution model, with dedicated centers for private clients, a dedicated taskforce for the key clients and the development of Unipol Banca network of financial advisors
- Offer innovation, with a product catalogue rationalization and the development of alternative investments products for high potential clients

  - Full development of Banca di Sassari as a consumer credit and payments company
    - Consolidation and development of consumer credit, with optimization of internal processes, extension to the non-captive market of personal loans and salary-back loans by Banca di Sassari and development of credit pre-acceptance processes
    - Development of payment services thanks to the redesign of Banca di Sassari's processes and organizational structure, in addition to the definition of a growth strategy on payments, even towards non-captive customers

  - Strengthening of global advisory services for corporate and SME clients:
    - Strengthening of multi-service specialist teams focused on clients financial and consulting needs
    - Creation of a highly specialized team of professionals dedicated to the development of companies in sectors of excellence
    - Support to high-potential clients in the management of extraordinary events such as access to the capital market and finance for growth

Pillar 2. Efficiency increase and simplification

The Plan is characterized by a strong attention to cost control. Key drivers of the cost efficiency will be the rationalization and simplification of the distribution model, of the Group structure and of internal processes, as well as staffing optimization and the streamlining of the whole organization. Furthermore, further cost synergies will be linked to the creation of a specialized Real Estate unit, whose work will be focused on the optimization of Group's propriety management. In particular:

- **Evolution of the distribution model, with footprint reorganization and new branch formats**
  - Footprint rationalization, with closure of 230 branches, of which about 50% by the end of 2019
  - Streamlining of network governance, with reorganization and efficiency increase of the central structures managing the network
  - New branches formats and innovative models for managing transactional activities:
    - Introduction of cashless and cashlight branches (over 500 by 2021) and installation of advanced self-service machines (CSAs, advanced ATMs and Remote Tellers)
    - Set-up of lean branches
  - Branch processes optimization:
    - Simplification of administrative and cash management processes
    - Centralization of non-commercial activities to middle and back office (e.g. payments, credit transfers) with increased focus on front-end and high-value-added activities

- **Rationalization and simplification of Group structure**
    - Legal entities reduction:
        - Incorporation in BPER Banca of Unipol Banca, Cassa di Risparmio di BRA, Cassa di Risparmio di Saluzzo and BPER Services
        - Creation of a full range of product factories with the reinforcement of consumer credit company
        - Potential further integration of smaller companies

- **Valorization of the Real Estate portfolio**
    - Creation of an active Real Estate management unit:
        - Centralization of Group Real Estate governance in a highly specialized unit of portfolio management (for business and non-business proprieties)
        - Real Estate competences enrichment thanks to the recruitment of specialists
        - Potential strategic partnership with specialized consultants and/or servicing/advisory companies
        - Proactive management of assets used as collateral for NPEs, integrated with the lending unit
    - Space optimization:
        - Space optimization of business properties through space management, footprint rationalization and smart working
        - Valorization and remarketing of secondary HQ structures and business properties
        - Reorganization of Modena, Bologna and Ferrara hubs after the integration of Unipol Banca

- **Optimization of Operations processes and IT systems evolution**
    - End-to-End review of Operations processes:
        - Simplification and lean innovation of operating processes
        - Performance and capacity management models to manage and plan the workforce
        - Operational productivity increase through dematerialization and extensive use of monitoring tools for end-to-end processes control, as well as setting up robots and Artificial Intelligence applications
    - IT systems evolution, with € 27 M investments in 2019-2021 (not including Unipol Banca and Finitalia integration costs):
        - Insourcing of Unipol Banca IT systems on BPER's, generating scale benefits
        - Adoption of cloud technologies to reduce time to market and increase operational efficiency
        - Design and adoption of organizational and governance models to enable strong automation and other security functionalities

- **Workforce reduction by 1,300 headcount within 2021**
  - About 1,700 headcount exits, linked to:
    - Adhesion to a Solidarity Fund (-1.500 HCs)
    - Maturity of temporally-hiring contracts (~230 HCs)
  - Partial personnel redeployment:
    - Relocation of part of the staff to activities with greater added value
    - Increase of the ratio between “center” and “network” staff
  - Recruitment of ~400 HCs, in order to acquire new competences and support the “generational” turnover
  - Running benefits of over € 80 M per year, given one-off costs of € 180-200 M

Pillar 3. De-risking acceleration while confirming a strong capital position

The de-risking process already undertaken by the Bank in recent years will be further strengthened thanks to the introduction of new credit management processes both in the underwriting phase, and in the subsequent stages of loans life cycle. There will be a focus on the continuation of the activities aimed at reducing impaired loans. A strong attention will also be placed on improving the already strong capital position. In particular:

- **Evolution of the credit management process**
  - Further strengthening of the underwriting
    - Enhancement of the investigation process during underwriting, especially in the Corporate segment
    - Tighter control on new production thanks to a commercial performance evaluation system linked to the asset quality
    - Extension to Unipol Banca of the internal credit management models
  - New credit management organization with proactive credit management
    - Definition of an organizational model focused on the proactive management of credits from the very early signs of anomaly
    - Proactive use of forbearance, with targeted actions on specific asset classes and industrialization of the forbearance measurement sustainability tool
    - Set- up of a dedicated unit for performing loans management
- **New model for NPE management**
  - Evolution of the NPE management
    - Implementation of a new organizational set-up envisaging an increasing specialization by client segments (Corporate, Retail and Real Estate)
    - Improvement of the work-out process

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    - Increase in the number of NPE positions outsourced, with higher recovery rate expected
    - Improvement and reorganization of the management and recovery processes of BPER Credit Management by client segment
  - NPE disposals
    - Active management of the NPL portfolio, with a significant reduction of the NPL stock, also thanks to further disposals in addition to the ~€1 billion bad loans portfolio sold to UnipolRec
    - Migration to the new platform of NPL management and recovery (Laweb 4)

Levers

The pillars illustrated above will be supported by three levers. First of all, digital transformation, which will play a key role as an enabling factor for the initiatives described above. Then, there are the people, the engine of our Group development since 150 years. In this context, a strong investment is planned on employee training and development, as well as on the activation of flexible working models. Finally, the attention to the community, and ever-lasting characteristic of BPER Group. In particular:

- **Lever A. Digital transformation of the relationship with customers and of internal processes**
  - Strengthening of digital channels and of the contact center
    - Evolution of ICT systems to allow for the full development of a omnichannel model
    - Channels integration into the new CRM
    - Introduction of real time marketing tools
    - Optimization of client channeling towards different channels (right channeling)
    - Renewal of the corporate banking platform
  - Digitalization of the sales process
    - Evolution of the range of products available and capable of being activated online, even leveraging on Unipol Banca solutions
    - Digital lending extension to prospects
  - Innovation leveraging on open banking
    - Development of a light banking solution on the open banking platform of Fabrick
    - ICT effort reduction thanks to the increasing reliance on open banking and/or white label solutions
- **Lever B. People at the heart of future development**
  - Enhanced involvement of employees
    - Organization of initiatives for the acknowledgment and valorization of diversity and inclusion of the whole staff (e.g. gender, age, nationality)
    - Increase of the percentage of female managers

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    - Introduction of an incentive system (LTI) linked to the achievement of the Industrial Plan targets
    - Strong industrial relations with trade unions

  - Employees training and professional development
    - Design of ad hoc development and coaching plans for employees, with a particular focus on digital and leadership competences and definition of specific training programs for key profiles (e.g. Private banker and Corporate RM)
    - Valorization of the competences of employees coming from Unipol Banca

  - Flexibility programs based on hub working and smart working principles
    - Decentralization of some activities in territorial hubs for greater closeness to the community (hub working)
    - Evolution of smart working model

- **Lever C. BPER as a reference model for the community**

  - Reduction of energy consumptions and optimization of employees mobility
    - Reduction of BPER Banca energy consumptions (-10% vs. 2016) through efficiency increases and the use of renewable energy
    - Implementation of an environmental management system compliant with the UNI EN ISO regulation
    - Incentives for employees sustainable mobility, including the installation of a number of charging stations for electric cars and the launch of a car pooling app for employees

  - Commitment for the financial education of new generations
    - 66,000 students involved
    - Initiatives to support reading, with over 10,000 volumes distributed

  - Measurement of BPER and main suppliers' performances by means of sustainability ratings
    - Set-up of a suppliers' sustainability rating system for about 200 suppliers
    - Management of ESG unsolicited rating for BPER Banca and request of a solicited rating

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2019-2021 projections: main financial targets of the Industrial Plan

P&L (€M)	***2018-PF***	***2021***	***CAGR '18-'21***
Net interest income	1,301	1,327	+0.7%
Net fees and commissions	939	1,043	+3.6%
Other income[5]	266	170	-14.0%
Operating income	**2,506**	**2,540**	**+0.4%**
Operating costs	**-1,615**	**-1,494**	**-2.6%**
Pre-provision operating income	**891**	**1,045**	**+5.5%**
Total provisions	-313	-362	+5.0%
Post-provision operating income	**578**	**683**	**+5.7%**
Pre-tax income	**510**	**627**	**+7.1%**
Net income[6]	**366**	**450**	**+7.1%**

Balance sheet (€B)	***2018-PF***	***2021***	***CAGR '18-'21***
Net customer loans	**54**	**56**	**+1.6%**
Direct funding (commercial + institutional)	**59**	**65**	**+3.7%**

Ratios (%)	***2018-PF***	***2021***	***∆pp '18-'21***
RoTE	8.9	~10.0	~+1.1
C/I ratio	64.4	<59	>-5.4
Cost of risk	0.6	0.6	-
Tax rate	28	28	-
Gross NPE ratio	11.6	<9	~-3
NPE coverage ratio	49.3	~54	>+4.7
CET 1 ratio fully phased	11.4	~12.5	~+1.1

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A conference call will be held today, **28 February 2019 at 9.30 (CET)**, to illustrate the targets and main contents of BPER Group Industrial Plan 2019-21.
The conference call will be held in English and will be chaired by **Alessandro Vandelli, the Chief Executive Officer.**

The event can be followed through:

- Video/audio webcasting
- Conference call

To join the conference call, dial one of the following telephone numbers:

ITALY: +39 02 8020911
UK: +44 1212 818004
USA: +1 718 7058796

A set of slides to support the presentation will be available the same day, before the start of the presentation and the conference call, in the Investor Relations area of the Bank's websites www.bper.it and https://istituzionale.bper.it/.

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Contacts:

Investor Relations
Gilberto Borghi
Ph: 059/202 2194
gilberto.borghi@bper.it

External Relations
Eugenio Tangerini
Ph: 059/202 1330
eugenio.tangerini@bper.it

www.bper.it – https://istituzionale.bper.it/en

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Footnotes

[1] Acquisition of the minority interests in Banco di Sardegna and transactions with Unipol Group; for further details please refer to the press release and presentation published on 8 February 2019.

[2] The target excludes the potential benefits arising from: (i) extension to Unipol Banca of the AIRB models; (ii) potential conversion of the €150 million AT1 instrument by Fondazione Sardegna.

[3] In the press release the CAGR (Compound Annual Growth Rate) is calculated at the end of the Plan using consolidated figures of BPER Group normalized for non-recurring items, assuming a 2018 tax rate aligned with the one applied in 2021 and pro-forma for the impacts of the extraordinary transactions with Fondazione di Sardegna and Unipol Group announced in February 2019.

[4] See footnote 2.

[5] Dividends, income from trading financial assets and other operating costs/incomes.

[6] Normalized and pro-forma net profit; it includes the contribution of minorities.

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