

JOINT PRESS RELEASE

BANCO POPOLARE AND BPM APPROVE THE 2016-2019 STRATEGIC PLAN

Attractive and sustainable profitability

- Pre-Provision Income of €2.2bn in 2019 (CAGR '15-'19: +3.1%)
- Net Income normalised of €1.1bn in 2019
- Cost Income ratio at 57.8% in 2019
- RoTE of 9.0% in 2019

Solid balance sheet and improved asset quality

- Fully Phased Common Equity Tier 1 ratio of 12.9% by 2019, including the €1.0bn capital increase of Banco Popolare
- LCR and NFSR above 100% in 2019
- Nominal NPL ratio of 17.9% (Net NPL ratio of 11.1%), Coverage of Bad Loans of 59% and Cost of Risk of 63bps in 2019, to be achieved through a new dedicated business unit for the management of NPL and a clear reduction plan

Significant value creation

- c. €460m of synergy potential to be achieved by 2019, of which c. €320m of cost synergies and c. €140m of revenue synergies

Remunerative dividend policy

- Target dividend pay-out of 40%

Verona – Milano, May 16th, 2016 – Today, following approval by the respective boards, Banco Popolare – Società Cooperativa (“**Banco Popolare**”) and Banca Popolare di Milano S.c a r.l. (“**BPM**”, and together with Banco Popolare, the “**Parties**”) have approved the 2016-2019 Strategic Plan (the “**Strategic Plan**”) of the new banking group (the “**New Group**”) - to be established following the merger (the “**Merger**”) through incorporation of the Parties, as envisaged in the memorandum of understanding signed by the Parties on March 23rd, 2016.

The Strategic Plan aims to leverage the distinctive features of the New Group, including its unique positioning in the banking sector, and unlock profitability thanks to an optimized business model to better serve the customer base with a complete range of high value products.

The underlying macroeconomic assumptions of the Strategic Plan reflect the consensus published by primary and authoritative external source¹. The scenario entails a gradual normalization of the main macroeconomic indicators, in particular:

- Italian real GDP growth at 1.0% in 2016, 1.1% in 2017, 1.2% in 2018 and 1.0% in 2019
- Italian inflation at -0.1% in 2016, 1.1% in 2017, 1.4% in 2018 and 2.0% in 2019
- Average 3-month Euribor expected to increase from -0.3% in 2016 to +0.1% in 2019
- Gross loans to customers growth from 2.0% in 2016 to 3.3% in the 2018 and 3.1% in 2019
- Direct funding growth from -2.4% in 2016 to +0.7% in 2019

The Strategic Plan is built on the following key guidelines:

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

The New Group will represent the 3rd largest banking group in Italy (by branches, loans and direct & indirect funds), serving 4 million customers through an extensive and fully complementary network and multi channel distribution model, and will enjoy a leading position in Northern Italy and specifically in the productive regions of Lombardy, Veneto and Piedmont (branch market share of c. 16%, 10% and 13% respectively).

The Merger will lead to the creation of a national leading player in a number of high value businesses (top 3 in Debt & Equity Brokerage, Consumer Credit and Private Banking and top 5 in Bancassurance and Asset Management²), uniquely positioned to leverage an extensive network of c.2,467 branches, a portfolio of highly recognised brands and cross-selling opportunities across product factories.

The Strategic Plan will be delivered by a complementary and experienced management team with a unique industry track-record.

- **A winning banking model across market cycles**

The New Group will offer a customized proposition in all market segments with renewed focus on:

¹ Source: Prometeia (March 2016)

² Sources: For Consumer Credit: Assofin Report on consumer credit 2015, including credit and securitisations. Data of the New Group including AGOS total assets. For Debt Brokerage: Assosim report 1Q2015. “Controvalori Bonds c/terzi”. For Debt Brokerage: Assosim 1Q2015 “Controvalori Equity c/terzi”. For Private Banking: AUM of Private Banking & Wealth Management clients 2015, AIPB website. Banca Aletti data include AUM of Institutional Bancassurance clients . For Bancassurance: 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. For Asset Management: Assogestioni, total Asset under Management, including Anima.

- **Corporate customers:** dedicated division, increasing share of wallet in value added services penetration, to reach a c. 3.8% Gross Loans CAGR by 2019, while preserving margin profitability
- **Private customers:** compelling customer proposition through unified and extensive product/service catalogue, evolving from investment to wealth advisory and leveraging referral and cross-selling with corporate and entrepreneurs segments, to deliver a c. 3.2% total assets CAGR increase by 2019, mainly driven by AUM growth
- **Retail and Small Business Clients:** focus on development and cross selling through differentiated product offering by sub-segment and simplified processes, to reach a c. 3.5% CAGR in both Gross Loans and Total Client Assets by 2019, while preserving margin profitability

The full-scope offering will benefit from strong combined product capabilities and improved productivity via commercial best practice sharing, leveraging a portfolio of highly recognised brands to deliver:

- **Assets under Management** CAGR of c.7%, from €40.7bn in 2015 to €53.5bn in 2019
- **Consumer credit turnover** CAGR of c.5%, from €1.4bn in 2015 to €1.7bn in 2019
- **Bancassurance AUM** CAGR of c.6%, from €15.9bn in 2015 to €20.1bn in 2019
- **Investment banking fees** CAGR of c.17%, from €67m in 2015 to €126m in 2019

In order to achieve these targets, the New Group will leverage on an effective organizational structure, supported by an advanced operating model thanks to a state-of-the-art IT architecture integrating existing areas of excellence and significant digital investments across the Strategic Plan period (more than €90m cumulated over the period 2016-2019).

The New Group will maximise customer reach thanks to a fully integrated multichannel distribution model, combining:

- An optimised branch network of 2,082 branches in 2019 with a lighter territorial footprint and improved in-branch customer experience
- A significant development effort of additional distribution channels, including specialists, financial advisors and fully digital channel

In this renewed business model, human resources will represent the key enablers of the change, enhanced by a clear program of HR management & development and by significant investments in training and requalification (c. 800 FTEs to be reallocated to new professional roles).

- **Solid balance sheet since inception and improved asset quality**

The New Group will have a solid capital position since inception with a CET1 Ratio fully phased of c.12.3%¹ in 2015, to increase to c.12.9% in 2019, assuming a target dividend payout of c.40%. The organic capital generation will thus off-set conservative assumptions on market risk and operational risk capital requirements evolution and the New Group capital position will also benefit by the extension of AIRB credit risk model to the total perimeter of the New Group.

¹ Aggregated data as of 31 December 2015 including full recognition of negative goodwill

The set up of a newly dedicated unit focused on bad loans management and workout together with the definition of a clear bad loans reduction plan, executing at least €8bn disposals, will ensure a strong focus of the asset quality profile of the New Group to achieve:

- Cost of risk of c. 63bps in 2019, significantly down from >100bps in 2015
- Improved bad loan coverage, from 57% in 2015 to 59% in 2019, with increase of share of secured loans on total bad loans from 58% in 2015 to 72% in 2019
- Nominal NPL ratio in line with best-in-class industry players, down from 24.8% in 2015 to 17.9% in 2019
- Net NPL ratio down from 15.7% in 2015 to 11.1% in 2019
- Improved recovery rates from 2.7% in 2015 to 4.5% in 2019

Finally, ALM strategy will guarantee since inception the reduction of the cost of funding across the Strategic Plan horizon, mainly through the following actions:

- Funding mix rebalancing with a reduction of Retail (c. -€5bn) and Wholesale bonds (c. -€4/5bn), balanced by growing deposits and certificates (c. +16bn)
- Prudential management of the securities portfolio, whose returns will be affected by the low interest rate scenario and IFRS3 fair value impact on the BPM portfolio

- **Significant value creation**

The New Group will benefit from c. €460m fully phased synergies to be achieved by 2019, arising from:

- Cost synergies of c. €320m (phasing 40% in 2017, 80% in 2018 and 100% in 2019), of which
 - c.€140m from personnel reduction, through the activation of redundancy funds for c. 1,800 FTEs
 - c.€110m of operating costs savings, from the rationalization of expenses, increased contractual power and a streamlining of the branch franchise
 - c.€45m from migration to a single IT system benefitting from increased scale
 - c.€25m of direct costs associated with branches closed
- Revenue synergies of c. €138m (phasing 40% in 2017, 70% in 2018 and 100% in 2019), of which
 - c. €105m of Corporate revenue synergies, leveraging areas of excellence (e.g. Banca Aletti and Banca Akros) and benefiting from strengthened banking capabilities underpinned by a solid capital base and competitive position
 - c. €43m of Retail revenue synergies, aligning best practices and productivity margins and increasing commercial FTEs, including product specialist, “offerta fuori sede” and digital value proposition
 - c. €10m potential revenue losses, from customer base attrition in rationalized branches and reduction of share of wallet

Integration costs of c. €480m, representing c. 150% of cost synergies, to be fully expensed by 2018.

The following tables summarise the main assumptions and targets of the Strategic Plan

Main Items of the Balance Sheet (€bn)			
	2015	2019	CAGR '15-'19
Gross Performing Loans	95	109	+3.1%
Gross Performing Loans Net Of Non Core and Run-off Assets	84	98	+4.1%
Deposits ¹	67	79	+4.1%
Indirect Funding	100	116	+3.7%

Main Items of the Income Statement (€bn)			
	2015	2019	CAGR '15-'19
Normalised Operating Income ²	5.1	5.2	+0.4%
Operating Expenses	(3.2)	(3.0)	(1.3%)
Pre-Provision Income	1.9	2.2	+3.1%
Normalised Net Income ²	0.6	1.1	+16.1%

Main Performance Metrics (% ,bps)			
	2015	2019	Delta '15-'19
Cost Income ³	62.0%	57.8%	(4.2p.p.)
Cost of Risk ⁴	102bps	63bps	(39bps)
RoTE ⁵	5.5%	9.0%	+3.5p.p.
CET1 Ratio Fully Phased	12.3% ⁶	12.9%	+0.6p.p.
Dividend Payout Ratio	n.m.	40%	n.m.

Main Asset Quality Indicators (%)			
	2015	2019	Delta '15-'19
NPL Ratio - Nominal	24.8%	17.9%	(6.9p.p.)
NPL Ratio - Net	15.7%	11.1%	(4.6p.p.)
Bad Loans Ratio - Net	7.0%	4.2%	(2.8p.p.)
Coverage on Bad Loans ⁸	57% ⁷	59%	+2p.p.
Texas Ratio ⁹	162%	114%	(48p.p.)

Macroeconomic and Banking Scenario (%)				
	2016	2017	2018	2019
Italy real GDP (YoY change)	1.0%	1.1%	1.2%	1.0%
Inflation (YoY change)	(0.1%)	1.1%	1.4%	2.0%
Euribor 3m (annual mean)	(0.3%)	(0.3%)	(0.3%)	0.1%
Gross Loans to Customers (YoY change)	2.0%	2.8%	3.3%	3.1%
Direct Funding (YoY change)	(2.4%)	(2.0%)	(0.1%)	0.7%

¹ Calculated as Sight Deposits plus Term Deposits

² 2015 normalized for extraordinary items (i.e. extraordinary contribution to single resolution fund, capital gains in associates and other minor extraordinary items)

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 Does not include extra provisions to be completed in 2016

⁸ Calculated including write-offs

⁹ Calculated as Total Net NPL on Tangible Equity

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The Strategic Plan will be presented to the financial community on May, 16th 2016 at 2.30 PM (CET); the presentation material will also be available on the Banco Popolare and BPM websites.

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Please note that the original version of this press release is in Italian. In case of misunderstandings the Italian version shall prevail.