PRESS RELEASE BUSINESS PLAN 2022

Expected results for 2022

ROTE of 8.3%

CET1 ratio of 12.5% inclusive of new regulatory impacts (13.5% net of those impacts)
The CET1 ratio includes positive impacts from the valuation of Group real estate (+32 bps in 2020) in addition to further positive impacts over the three-year period

**Net profit in 2022 of €665 million due to resilient operating revenues (CAGR +0.3%) in a conservative scenario of negative interest rates and low growth,
to control over operating expenses (CAGR -1.9% inclusive, amongst other things, of the impacts of the new National Labour Contract and substantial investments in technology) and to a loan loss rate of 46 bps, achieved with a gross NPE ratio of 5.2%**

In a scenario of market interest rates of 0% (and therefore not positive), additional net profit of over €100 million in 2022, with ROTE of 9.5%

Average pay-out of 40% over the course of the Plan, consistent with maintaining a CET1 ratio of 12.5% at year-end. A possible further increase in the dividend in 2022 if the CET1 ratio is above 12.5%

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Victor Massiah, the Chief Executive Officer of the Group declared: "The Business Plan 2022 starts from a solid basis achieved thanks to the participation and commitment of all the People at UBI. The 2019 results were in fact decidedly positive. The measures taken during the year made it possible to achieve a gross non-performing exposure ratio of 7.8% (6.9% pro forma), close to the best in the sector. At the end of 2019 the Bank has a sound balance sheet, strong liquidity and growing levels of capital.
The Plan we have drawn up is based on the transformation of the Bank from the point of view of a Group that is able to ride the wave of new digital technologies thanks to substantial investments without, however, ignoring the human factor, whose high value will be enhanced through a strong commitment to training. Customer service models will improve, and in some cases be transformed, in an omnichannel environment which gives customers total flexibility in the use of all the physical and remote channels available.
We will continue to maintain control over costs, notwithstanding the substantial investments planned, to monitor risk, with a further reduction in non-performing exposures thanks to the strength of our internal credit recovery platform, and to strengthen controls.
The Bank will be able to maintain capital and structural ratios such as to guarantee its usual solidity, but at the same time it will be able to leverage on significant flexibility factors.
Sustainability topics, already widely present in the core DNA of the Bank, will be followed by a new dedicated 1st level structure which will act organically across the Group involving all areas of its activities.

Finally, thanks to an increase in overall profitability, the Plan forecasts constant growth in the dividend, consistent with maintaining the CET 1 ratio at extremely solid levels.
Symbolically this three-year Business Plan puts a decade of crisis, which the Bank has nevertheless faced with resilience, behind us. Based on a conservative approach to future scenarios, the Bank is convinced that it has all the capabilities required to evolve its business model at the service of shareholders, clients, personnel, and of the environment in which it operates."

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Milan, 17th February 2020 – In a meeting held today the Board of Directors of UBI Banca approved the guidelines and targets of the Group's Business Plan for the three-year period 2020-2022.

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The plan has been formulated on the assumption of a conservative economic scenario and it is based on **three pillars of development** to generate higher profitability:

a) rigorous attention to credit selection and asset quality
b) the transformation of retail business, thanks to the large reduction in the cost-to-serve, enabled by digitisation and a further improvement in service (an omnichannel approach), accompanied by a personnel up- and re-skilling project
c) the further strengthening of high-end customer service (premium, private banking, corporate, CIB), achieved by evolving existing platforms and making a substantial investment in team training and specialisation.

This is supported by across-the-board **enabling factors** needed to achieve these goals:

1. increased data analytics capacities
2. revision of the organisational structure in order to support innovation
3. the availability of a flexible framework to manage possible needs to adjust strategy during the course of the Plan deriving from significant changes in the external context
4. the creation of a structure dedicated to sustainability.

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<u>The premises:</u>
The plan has been developed on the assumption of a conservative economic scenario, both in terms of growth in GDP and in terms of market interest rates.

	2017	**2018**	**2019**	**2020**	**2021**	**2022**
Average annual Euribor 1-month	-0.37	-0.37	-0.41	-0.44	-0.44	-0.44
Year-on-year growth in GDP	1.7%	0.7%	0.1%	0.3%	0.6%	0.7%

<u>Growth in profitability is based on **three pillars:**</u>

a) <u>rigorous attention to credit selection and asset quality:</u>
The Group is starting out at the end of 2019 with gross non-performing exposures that are among the best in the sector, due to the attention paid when granting loans, to the consolidated organisation and efficiency of its credit recovery units and the careful selection of non-performing exposures when making wholesale disposals. At the end of 2019, the ratio of gross non-performing exposures was 7.8% and a wholesale disposal of SMEs bad loans amounting to

€800 million gross, is currently being examined. It should be completed during the course of 2020 and the relevant cost has already been partly recognised in the 2019 accounts.
Subsequent wholesale disposals are not necessary over the course of the plan because it is considered that once the wholesale disposal mentioned above is completed, internal credit recovery based on the excellence of the Banks' high-performance NPE platform (€2 billion internal workout in 2019 compared with new gross inflows of €930 million) will lead to a ratio of gross non-performing exposures in 2022 of 5.2% (down from 7.8% in 2019) and bring total gross exposures down to €4.5 billion from €6.8 billion in 2019.

Rigorous attention to credit selection and asset quality remain one of the key features of the Business Plan 2022.
The main guidelines are as follows:

- the Group will continue to focus on low-risk customers, in line with the current strategies. Credit selection and management will be supported, amongst other things, by the use of technologies for process digitisation and automation, data acquisition and controls. Investments are planned to improve monitoring systems and procedures on early delinquency positions with a view to preventing and solving possible risk situations in the shortest time possible, in order to reduce migrations to default status;
- in light of the success of the centralisation of bad loan management (2008) and that of unlikely-to-pay positions (2017) it was decided, in organisational terms, to also centralise management of past-due exposures and of high-risk performing exposures, with the creation of a credit recovery platform in which a total of approximately 490 staff are involved.

As a result of the measures planned, in 2022 the default rate is expected to remain stable at 1%, recovery rates are forecast to improve (in terms of payments received and returns to performing status) to 11.9% and the cost of risk should fall to 46 basis points compared with 87 basis points in 2019 (which included higher impairment losses in relation to the wholesale disposals of bad loans).

b) the transformation of retail business, thanks to the large reduction in the cost-to-serve, enabled by digitisation and a further improvement in service (an omnichannel approach), accompanied by a personnel up- and re-skilling project

The development of the Retail service model focuses strongly on the digitisation of commercial processes (e.g. instant lending) and non-commercial processes (e.g. controls) and therefore on reducing the "cost to serve", providing at the same time a more agile and accessible service for customers.
The service will be developed with new "customer journeys" on the omnichannel platform, already operational, which allows ease of interaction and closeness to customers thanks to the use of all available communication channels.
Greater use of advanced analytics will allow improved customer understanding and insight and commercial targeting. The range of online products available will be enhanced (including the introduction of a digital channel for Prestitalia's range of salary- and pension-backed loans). A further migration of transactions to digital channels is planned (from 80% in 2019 to 87% in 2022).
On the Small Business front, a further improvement in customer coverage is planned by making relationship managers also available remotely together with development of the segment through increased numbers of developers and by using "digital onboarding" techniques.
High usage of digital interaction will free up commercial time and staff within the Group, some of whom will gain access to re-skilling programmes, aimed also at branch managers, to upgrade their expertise in an enhanced omnichannel environment.
The distribution model, based on interaction between physical and digital components, will lead to the rationalisation of the distribution network: 175 branches will be closed over the course of the plan; full-cash branches will be reduced by 35% (cash-less branches and cash-light branches

will account for 40% of the distribution network from the current 18%). By the end of 2022, 40% of branches will be refurbished (inclusive of technology upgrades).

c) the further strengthening of high-end customer service (premium[1], private banking, corporate, CIB), achieved by evolving existing platforms and making a substantial investment in team training and specialisation.
The Group will invest in quality services for “high-end” customers.
The increase in total funding from the two segments (premium and private banking) is forecast to reach approximately €108 billion in 2022 (compared with €101 billion at the end of 2019). It will be enabled by specially designed initiatives: investments will be made to digitise and support relationship managers in the Premium segment (for example, a new Wealth Advisory service will be launched for Premium relationship managers leveraging on the consolidated experience in the Private Banking segment); new “fee only” and “fee-on-top” advisory services will be introduced in 2020; IW Bank’s network of financial advisors will be strengthened and is expected to grow to approximately 830 advisors in 2022 from approximately 690 advisors in 2019. Advanced analytics and account aggregation systems will be used for SOW development.
For Corporate clients, service improvement will take place above all through better coverage of the client by specialist teams (strengthening of the Investment Banking business within the Corporate & Investment Banking unit) and through a new range of the commission based services.

The Plan involves a series of **enabling factors** which act across the board to support the pillars of development:

1. increased data analytics capacities, through the creation of new specialist digital and advanced analytics teams (the Group’s digital “factory” currently counts approximately 325 staff, which will rise to 610 in 2022) and through the further development of partnerships with fintechs and universities.
Advanced analytics will be integrated in both commercial processes (customer targeting through behavioural analytics, instant lending, customer acquisition and retention, implementation of Robo4Advisory services, data-driven pricing models, etc.) and non-commercial processes (automation of compliance and audit controls, digitisation of finance processes, anti-money laundering monitoring, advanced early warning credit processes, etc.).
Activities of the Group’s “Innovation Hub” will also continue. It already has the capacity now to analyse approximately 250 fintech’s each year in search of innovative projects and it works in partnership with accelerators, incubators and start-ups as well as with selected universities.
It is planned to adopt an “agile” approach for core digital and analytics projects with interfunctional teams and dedicated spaces (projects developed using an agile approach will rise from 5% in 2019 to 30% in 2022).

2. revision of the organisational structure in order to support innovation (“organise-to-innovate”) which is based on four lines of action:
   - the development of IT capacities through investments in the cloud, cyber security and next generation IT processes;
   - substantial up- and re-skilling activities for personnel freed up by the digitisation of processes;
   Over the course of the Plan, approximately 4,390 staff will be freed up, of which approx. 75% due to the transformation of the service model in the branch network (automation, digitization and rationalisation of the branch network). Approximately 2,360 of these staff will be involved in re-skilling activities, to strengthen teams in the contact centre (which will increase from 400 to 600 staff in 2022), in remote advisory services, in specialist business lines, in control functions and so on. Others will also be trained for new roles such as digital specialists and applications developers.

[1] Premium customers are defined as customers with total financial assets between €100,000 and €500,000

The Plan also involves personnel reduction of approximately 2,030 staff - including 300 staff under the December 2019 trade union agreement, the cost of which had already been recognised in the end of 2019 results - but nevertheless ensuring partial generation turnover;

- enhancement of human capital with a focus on training (both e-learning and partnerships with universities; the creation of "mentor schools" for the development of junior staff and mid-management, etc.), on the creation of career paths for future leaders, and also on job families and gender diversity, work flexibility (30,000 days of smart working expected in 2022 compared with 10,000 now), welfare and life-work balance. Over the course of the Plan, training days per FTE will rise from approximately eight in 2019 to around ten in 2022, equivalent to a total of 178,000 training days.

Operating figures for the Plan

In the conservative scenario underlying the Plan, the Group is expected to achieve moderate growth in **operating revenues** to €3.7 billion (CAGR +0.3%) with a mix evolution similar to that started in 2019, a limited decrease in net interest income (CAGR -0.9%) more than offset by the increase in net fees and commissions income (CAGR +1.7%).

Operating expenses are expected to come to €2.2 billion in 2022, with CAGR of -1.9% from 2019 to 2022.
Control over costs, a strong point in the results achieved by the Group, which has succeeded in establishing a solid track record of excellence in cost control over the years, will in fact be accompanied by significant investments in IT needed for the "Change the Bank" project to transform the Group and by cuts to ordinary "Run the Bank" technology expenses at the same time.
Significant savings will also be achieved through the following:
(i) an additional reduction in "other administrative expenses", which will be further optimised and for which "zero-based budgeting" has been implemented;
(ii) the implementation of real estate initiatives, which will include the rationalisation and consolidation of central headquarters (the rationalisation of the Group's presence in Milan forms part of those initiatives), the closure of 175 branches consistent with the implementation of the new customer (retail above all) service model, the sale of non-business properties and energy management;
(iii) the departure of approximately 2,030 staff over the course of the Plan (including approx. 300 staff part of the trade union agreement signed in January 2020, the cost of which, amounting to €46.8 million net, has already been recognised in the results for 2019[2]).

As a result of initiatives implemented to consolidate revenues and to continuously optimise costs, the Bank estimates that it will reduce its cost/income ratio (excluding systemic charges[3]) from 62.1% in 2019 to 58.1% in 2022.

Thanks to the actions taken, reported above, **impairment losses on loans** are expected to fall to €387 million in 2022 from €738 million in 2019 (which included higher impairment losses in relation to wholesale disposals).

Finally, **net profit** is expected to rise in 2022 to €665 million (no non-recurring items are forecasted) compared with €251 million (€353 million net of non-recurring items) in 2019, to give an ROTE of 8.3%[4] at the end of 2022.
In a scenario of market interest rates of 0% (and therefore not positive), net profit would increase by over €100 million in 2022, with a ROTE of 9.5%.

[2] See the press release dated 14th January 2020
[3] Resolution Fund and Deposit Protection Fund
[4] ROTE [net profit/tangible equity (equity excluding net profit - intangible assets)]

3. <u>the availability of a flexible framework to manage possible needs to adjust strategy during the course of the Plan deriving from significant changes in the external context:</u>

Business flexibility:

- the bank will benefit from scalable processes and solutions (cloud, digital, omnichannel service model, etc.), capable to adapt to possible changes in customer behaviour;
- the Plan will create a pool of flexible personnel generated by excellent training efforts;
- distribution of investments in the Group's financial portfolio: the percentage of BTPs is expected to fall from 51% at present to approximately 37% in 2022, thereby creating opportunities for diversified investments (e.g. in corporate bonds);
- capital allocation: investments in corporate bonds may switch to loans to customers, in full respect of the risk-reward profile set by the Bank
- presence of all product companies in the Group.

Capital and liquidity flexibility

- in terms of **capital:**
  a) The **Group's CET1 ratio is expected to be 12.5% in 2022, having absorbed the impact of regulatory headwinds[5] in the period (totalling approximately 1 percentage point)**

  b) <u>Defined positive impacts on capital, included in the Plan:</u>

  <u>Revaluation of Group real estate (+32 bps on the CET1 ratio in 2020)</u>
  The Business Plan includes a series of rationalisation actions on the Group's operating, management and investment properties, in order to allow a more effective management.

  The following actions have been identified: 1) refurbishment of 40% of the Group's physical distribution network (already completed and over the course of the Plan), which includes investments in technology enabling to free up commercial time, with the identification of productivity KPIs to be monitored over time; 2) right-sizing of management headquarters and offices to reduce operational costs; 3) the closure of 175 strategic branches; 4) divestment of some of the assets classified as non-business.

  Because the carrying amount of real estate assets has been formed over time and the values are not homogenous, it was decided to proceed as of 31st March 2020 to the revaluation of the carrying amounts for real estate assets. That decision provides better information by ensuring a unified and present valuation of the Group's real estate assets, regardless of the historical time or reason for the recognition of individual properties.

  Reorganisation of the Group's presence in Milan (2020)

  Renegotiation of the securities services agreement (2020)
  In view of the expiry of existing securities services agreements, set for next May, a process has been started in recent months to select a provider of the services in question to Group companies. It is considered that the process could be concluded by the end of the first half of 2020.

[5] Regulatory and internal model developments

c) **<u>Possible capital buffers not included in the Plan:</u>**

Banc assurance
The bancassurance agreements currently in force expire in June 2020 and consequently the Group has time to find the best solution. Prudentially the Plan has included projections in line with the situation in 2019. The Group's decision will be disclosed by the end of June 2020.

Zhong Ou stake (currently recognised at an equity value of 40.5 million), **etc.**

d) **<u>Structural soundness</u>**
The Group is expected to maintain solid LCR and NSFR levels (even net of TLTROs). The Group already amply complies with the expected MREL requirements since 2019.

4. <u>the creation of a structure dedicated to sustainability</u>

The implementation of the Business Plan 2022 involves actions to rationalise and develop sustainability themes implicit in the concept of "*Fare Banca per Bene*", which has always been a key value in all the Group's activities.
The main development actions in the Plan include the following:
- creation of a structure dedicated to sustainability. There will be a specialist working Group and sustainability factors will be inserted in KPI's for management incentive schemes (already partially present in terms of corrective action in 2019)
- development of internal evaluation metrics on sustainability (where not yet present), developments in internal policies and regulations
- development of the proprietary portfolio in the direction of ESG approaches and maintenance of leadership on green and social bond issuances
- development of the range of products and services centred on sustainability, starting with investment products and advisory services (e.g. green products)
- start of the inclusion of sustainability assessment approaches in the lending and risk management process (e.g. developments in the RAF, lending policies, etc)
- a further focus in the Bank's management on sustainability themes (e.g. employee management policies, supplier selection criteria and management, "green" real estate, etc).

Conclusions:
The Business Plan allows the Bank to reposition itself to improve its competitiveness, by laying seven core foundations for "after 2022":
- a customer-centric omnichannel service model
- integration of advanced analytics and big data in processes
- enhancement of human capital, a highly-trained workforce and widespread "agile" teams
- highly efficient risk and credit management processes
- a scalable IT platform with migration in cloud
- confirmation of structural soundness
- sustainability across the group's activities.

As has already been said, symbolically this three-year Business Plan puts a decade of crisis, which the Bank has nevertheless faced with resilience, behind us. Based on a conservative approach to future scenarios, the Bank is convinced that it has all the capabilities required to evolve towards to evolve its business model at the service of shareholders, clients, personnel, and of the environment in which it operates.

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Significant value creation to shareholders over the next three years

			2019	2022	3-years CAGR, %
Balanced revenue mix	**Operating income**	€ mln	3,638	3,675	+0.3%
	o/w net commissions	%	*45.7*	*47.6*	
	o/w net interest income	%	*47.4*	*45.7*	
	Total financial assets (TFA[1])	€ bln	196	209	+2.2%
	o/w direct banking funding	€ bln	95	93	
	o/w Institutional funding	€ bln	*18*	*20*	
	o/w AUM + bancassurance	€ bln	73	88	
	Net loans to customers[2]	€ bln	83.7	83.7	
	o/w net performing loans	€ bln	*79.5*	*81.0*	
Continued cost reduction	**Operating costs**	€ mln	-2,368	-2,235	-1.9%
	o/w staff costs	€ mln	*-1,428*	*-1,361*	
	o/w other administrative expenses[3]	€ mln	*-603*	*-517*	
	Operating costs (net of systemic contributions)	€ mln	-2,261	-2,136	-1.9%
	Cost/income (net of systemic contributions)	%	62.1	58.1	
Lower cost of credit	**Cost of risk**	bps	87	46	
	LLPs	€ mln	738	387	-19.3%
	NPE ratio (gross) [4]	%	7.8	5.2	
	NPE coverage incl. write offs	%	50.9	51.5	
Significant value creation for shareholders	**Stated net income** (normalised in brackets)	€ mln	251 (353)	665 (665)	
	ROTE normalised	%	4.7	8.3	
Stronger capital and structural position	**CET1 ratio**	%	12.3	12.5	
	Texas ratio	%	55.6	32.6	
	RWA (fully loaded)	€ bln	58,053	61,527	
	Tangible equity[5]	€ bln	7,498	8,056	

- Average pay out ratio over the 3 year plan of 40% of net profit well balanced with the maintenance of a year-end CET1 ratio of 12.5%
- In 2022 possible additional dividend increase if CET1 ratio >12.5%

1 Includes direct and indirect funding, excludes repos with CCG
2 Excludes repos with CCG
3 Excluding systemic contributions
4 Net NPE ratio: 5% in 2019 and 3.1% in 2022
5. Net equity excluding profit – intangible assets