PRESS RELEASE

UPDATE OF THE BUSINESS PLAN 2022
RESILIENCE AND VALUE

The update of the Business Plan 2022 originally presented in February 2020 involves first of all confirmation of all the main guidelines already set out
In addition, the strategic decision to acquire 100% of Aviva Vita was taken, which will lead, over the time horizon of the plan, to an expected return on the investment of over 10%

The impact of the Covid-19 pandemic on the loan loss rate is estimated at an additional cumulative 85 basis points over the 2020-2022 period

Expected net profit is €562 million in 2022 compared with €665 million in the original Plan, a reduction of approx. one percentage point of ROTE
This strong demonstration of resilience is achieved in a particularly complex context, as a result of:

- **resilience by operating income (CAGR[1] +0.7% inclusive of 100% of Aviva Vita) in a conservative scenario for GDP evolution over the three-year period and of negative interest rates**
- **control over operating expenses (CAGR -0.6% inclusive, amongst other things, of the impacts of the new national labour contract, increased investments in new technology and internalisation of Aviva Vita)**
- **and a loan loss rate of 62 bps in 2022**

In addition to the above, the positive contribution in terms of capital consumption resulting from government measures and revisions of the regulatory framework, together with the use of some value reserves, will allow a significant increase in the CET1 ratio.
Consequently, the excess capital distributable compared to a floor CET1 ratio of 12.5%, amounts to approximately €840 million for the 2020-2022 time horizon, equivalent to a cumulative amount of over 73 euro cents per share for the three-year period.

The outcome of the Update to the Plan demonstrates the Group's capacity and promptness of reaction and flexibility and the importance of having maintained value reserves generated under better times, which today are a key factor in confirming profitability and shareholder remuneration in contexts of great complexity such as the current one.

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Milan, 3rd July 2020 – In a meeting held today the Board of Directors of UBI Banca approved an Update to the Business Plan 2022, as detailed below.

[1] Referred to the 2019-2022 time horizon

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Covid-19 emergency

The Business Plan 2022 was presented on 17th February 2020. In March, the Covid-19 crisis was fully under way in Italy, bringing the country into full lockdown until mid-May 2020 and subsequently to a gradual and regulated resumption of all activities, including economic activities.

The Bank's reaction to the Covid-19 crisis was one of speed and resilience, enabled by the immediate activation of **operational and capital flexibility** measures already underlined when the new Business Plan was presented in February 2020.

The rapid redesign of operating procedures led, amongst other things, to the following:

- the immediate introduction of protection procedures for personnel;
- the progressive installation of 20,000 remote workstations, used by 85% of the Group's central organisational units and by approximately 50% of all staff at the peak of the crisis;
- flexible branch opening hours. Even at the height of the crisis, which hit those areas in particular, Bergamo and Brescia, in which the Group has its historical roots, 80% of branches remained open with the health precautions required by the pandemic, even if with reduced opening hours and access upon appointment. At present all Group branches are open;
- the development of new modalities for interaction with customers, which included fully remote operation of contact centres and the introduction of the ability to make remote sales for 4,700 relationship managers, etc..

The flexibility and scalability of UBI's systems ensured that all activities continued to be carried out, which included intensified use of digital channels by customers, with no deterioration in service levels.

The Bank took action to provide adequate support to the economy, with the prompt introduction at the beginning of April of a detailed programme "Rilancio Italia" worth €10 billion, created to finance households, firms and third sector organisations hit by the crisis and to support their stability and recovery in the months to come.

Action taken to progressively upgrade lending processes was subsequently carried out to provide a **rapid response to government measures** aimed at supporting households, businesses and the national economy also by means of different forms of payment moratoriums and the availability of state guarantees. As a reminder, UBI Banca was particularly effective in the disbursement of loans lower than €25,000, with a 50% market share in the first week after they were launched and total loans granted of over €1 billion in just two months of activity.

Monitoring the situation

As a result of work carried out above all in 2019, in preparation for the publication of the Business Plan 2022, the Bank was able to address **the unexpected crisis with a solid balance sheet position:**

- a CET1 ratio well above 12.5% (17/02 BP target for 2022)
- a greater deployment of funds to support the economy is enabled by: (i) **record high** liquidity ratios; (ii) the availability of significant reserves of medium to long-term funding generated by a substantial programme of issuances successfully carried out in 2019, sufficient, if necessary, to provide **independence from markets for at least a further 12 months;** (iii) a relaxation of monetary policy by the ECB, which expanded its structural liquidity programmes to support the economy and promoted regulatory interventions to support capital available to Banks;

- a portfolio of performing loan positions with **a low level of high-risk loans** (2.7% of the total) and good coverage (55 bps at the end of March 2020); a **significantly reduced level of gross non-performing exposures**, accounting for 7.5% of the total, or 6.7% on a pro forma basis considering the wholesale disposal announced which is confirmed as currently in progress; an **excellent high-performance credit recovery platform**; and **organisational solutions** planned (e.g. a **centralised task force for the management of moratoriums** and centralised management of high-risk loans) designed to monitor situations where there is a higher potential for deterioration.

During the emergency, UBI Banca continuously monitored the background situation, verifying the absence of risk factors such as to significantly impact the capital and financial position of the Group and at the same time it commenced a thorough re-examination of the contents of the Business Plan to take account of: (i) the changed macroeconomic scenario; (ii) the benefits of measures introduced by the government and the authorities to support households, businesses and the economy as a whole; and (iii) the effects of the Public Exchange Offer launched by Intesa Sanpaolo.

Update of the Business Plan 2022

Introduction

(i) the macroeconomic scenario

The Business Plan was updated on the basis of assumptions that include the expected impact of the Covid-19 crisis on economic variables, above all in terms of the performance of GDP.[2]

	2017	**2018**	**2019**	**2020**	**2021**	**2022**
Year-on-year changes in real GDP[3]	+1.7%	+0.7%	+0.3%	-8.8%	+4.5%	+1.5%
3-month Euribor, annual average	-0.31%	-0.32%	-0.36%	-0.42%	-0.42%	-0.42%

For greater caution, measurement of the impact of Covid-19 on **credit parameters** - and therefore for an estimate of the adequacy of UBI Banca's regulatory capital - was carried out in a scenario which includes **changes in real GDP of -10.3% in 2020, +2.8% in 2021 and -0.2% in 2022.**

The perception of "country risk", summarised by the **performance of the BTP-Bund** spread, was prudently **estimated as worsening[4] over the three-year forecast period** compared with the estimate given in the Business Plan presented on 17th February, with an impact mainly on the UBI Banca Group's cost of funding and on valuation reserves for the securities portfolio.

(ii) Actions planned under the Business Plan 2022: actions completed and actions postponed

Following the presentation of the Business Plan 2022 last February, the Group has effectively **completed the following operations announced and forecast for 2020**:

- 31st March 2020: change in the valuation criteria for Group real estate property (the fair value takes account of the present unfavourable market), with a positive impact of 38 bps on the CET1 ratio, compared with 32 bps estimated under the plan;

[2] The macroeconomic scenario does not forecast any second wave in the pandemic.
[3] In the Business Plan 2022 presented on 17th April, changes in real GDP were +0.3% in 2020, +0.6% in 2021 and +0.7% in 2022.
[4] Average spread: 223 bps in 2020, 175 in 2021 and 150 in 2022.

- 11th June 2020: completion of the operation announced on 31st January 2020, with the reorganisation of the Group's presence in Milan:
  a) the sale of seven properties in Milan and the realisation of a final gain of approximately €40 million net (€54 million gross), which will be recognised during the course of 2020;
  b) the purchase of all the shares in a fund that owns the land and the development project for a property currently being completed, a benchmark sustainable building at 22, Via Melchiorre Gioia in Milan. This last operation is also expected to produce future benefits in relation to the higher value of the completed property.

Furthermore, the following actions originally planned for 2020 have been postponed due to uncertainties connected with the Intesa Public Exchange Offer**:**

- the strategic definition of *bancassurance* agreements (consequently, on 5th June 2020 UBI Banca agreed, amongst other things, with both its insurance partners, the Cattolica Assicurazioni Group and the Aviva Italia Group, to postpone the expiry of existing distribution agreements until 30th June 2021);
- trade union agreements for departures and recruitment of staff.
- the renegotiation of security services agreements.

<u>The guidelines for the Update of the Business Plan</u>

UBI has updated its Business Plan 2022, **confirming all the strategic lines of action of the Business Plan presented last February**[5] and also by taking the following actions described below.

1. The introduction of strategic measures and operations already mentioned in the Business Plan presented in February 2020, **but the effects of which were not factored into the plan itself**, as follows:

   - the decision to internalise the insurance business relating to Aviva Vita S.p.A. **as of 30th June 2021**, through the purchase of 100% of the joint venture's capital, 20% of which is currently held (subject to acquiring authorisations from the competent authorities). This decision is expected to have an impact on the 2021 CET1 ratio of approximately -50 basis points, more than offset by the operations mentioned in the point that follows. The operation will have a positive impact on profits as early as 2021 and it is estimated that at full regime in 2022 it will result in an **annual increase** in the Group's net profit of €40 million, with a **return on capital invested higher than 10%**. The internalisation of Aviva Vita Spa's insurance business will be accompanied by its integration with the insurance company owned by the Group, BAP Vita, and will furnish the Group with an additional important asset to strengthen the protection and management of Italian households' wealth, by creating a top-of-the-market centre for the production of asset management solutions with Pramerica.

   - the deployment of value reserves, by means of strategic transactions and/or initiatives (equity stakes and "merchant acquiring" activities), with an expected positive impact of approx. €350 million on net profit;

2. Confirmation of the rationalisation of securities services agreements, postponed until 2021 due to the consequences of the Public Exchange Offer.

3. The activation of management levers aimed at containing the negative impact resulting from Covid-19 on the quality of the loan portfolio. In detail:

[5] Reference is made to the press release and the presentation relating to the Business Plan 2022 published on 17th April 2020 for a detailed description, amongst other things, of: commercial action to support profitability and improve customer services; investment plans; cost management; organisational measures and increased IT automation of credit management; and action to increase the Group's organisational and capital flexibility.

- the further strengthening of preventative actions, monitoring, management and recovery of non-performing exposures by leveraging on “best-in-class” capabilities on the Italian market of the UBI Banca Group’s internal credit management platform, with its capacity to implement strategies and contain credit recovery costs;

- the implementation of actions provided for by measures introduced to support the solvency of firms and households in the medium-term, by introducing risk mitigation for loan portfolios and lessening the impact on capital ratios. It is estimated that approximately €6 billion of loans will be disbursed with state guarantees (Law No. 662 and SACE) in 2020.

  In terms of credit quality performance, simulated as already mentioned in a macroeconomic scenario of changes in real GDP of -10.3% in 2020, +2.8% in 2021 and -0.2% in 2022, the deterioration of default rates and of return to performing status of non-performing exposures is forecast to result in a percentage of gross non-performing exposures of 7.2% in 2022 (estimated in the absence of further wholesale disposals) and a worsening of the loan loss rate by 85 bps (over €700 million) over the course of the Updated Business Plan.

4. Confirmation of investments in technology and of the plan to reorganise real estate assets.

The strategy pursued to date to invest in technology is confirmed as was its usefulness shown by its performance in the “stress test” consisting of the Covid-19 crisis. Cumulative investments in IT are expected to reach €645 million[6] over the three-year period, up by €30 million in relation to the *bancassurance* project and by a further €5 million compared with the plan presented February 2020 (with an overall increase of 24% compared with the previous three years).

Reference is made with regard to the plan to reorganise real estate assets to the previous point as far as the Group’s reorganisation of its presence in Milan is concerned, and to initiatives described in full in the presentation of the Business Plan in February (rationalisation of centralised offices and of the branch network, the sale of non-business properties, energy management, etc).

5. The recruitment and incentivised redundancy plan, postponed due to uncertainties connected with the Public Exchange Offer, is confirmed. Net of approximately 1,000 new recruits, the departure of approximately 2,000 staff is forecast, expected mostly in 2021, consistent with the conclusion of trade union agreements that will be progressively negotiated. In operating terms, it is considered that the reorganisation plan will result in an improvement, when fully phased in, in net profit of over €100 million as of (and inclusive of) 2022, as well as permitting a substantial generation turnover designed also to move in the direction of new professional skills required by the digital migration of banking services and by changes in customer requirements.

6. Finally, the Group’s product companies (asset management, leasing, salary and pension-backed lending, IW Bank, *bancassurance*, the credit recovery platform, etc.) will be maintained or strengthened to enhance service to customers and as a further reserve of value.

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To summarise, it is forecast that the whole set of capabilities demonstrated in terms of resilience and promptness of reaction during the crisis as well as the consequent strategic and management actions undertaken in presence of measures introduced by authorities to support the economy, will allow the Bank to absorb the impacts of the Covid-19 pandemic:

[6] In terms of other administrative expenses and investments.

- leading to the generation of profit estimated at €562 million in 2022, compared with €665 million originally forecast in the Business Plan presented last February;

- generating a ROTE of 7.1% in 2022 (compared with 8.3% previously)

- confirming a strong capital position, with a CET1 ratio estimated at 13.9% in 2022 (net of 2019 dividends but before those for 2020, 2021 and 2022). With respect to a floor CET1 ratio of 12.5%, excess capital of approximately €840 million is evidenced which may be distributed, corresponding cumulatively to over 73 cents per share over the three-year period.

All the interventions for the update to the Plan confirm and reinforce the reasons why the market had reacted positively to the presentation of last February.

The growth in the amount of available dividends also makes clear to shareholders the importance of the intrinsic value of their Bank.

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Significant value creation to shareholders over the next three years

			2019 Restated IAS 40	2022	2022 Revised	3-years CAGR, %	3-years CAGR, *Revised* %
Balanced revenue mix	**Operating income**	€ mln	3,638	3,675	3,716	+0.3%	+0.7%
	o/w net commissions	%	*45.7*	*47.6*	*46.3*		
	o/w net interest income	%	*47.4*	*45.7*	*44.4*		
	Total financial assets (TFA[1])	€ bln	196	209	205	+2.2%	+1.3%
	o/w direct banking funding	€ bln	95	93	91		
	o/w Institutional funding	€ bln	*18*	*20*	*19*		
	o/w AUM + bancassurance	€ bln	73	88	85		
	Net loans to customers[2]	€ bln	83.7	83.7	82.7		
	o/w net performing loans	€ bln	*79.5*	*81.0*	*79.2*		
Continued cost reduction	**Operating costs**	€ mln	-2,341[6]	-2,235	-2,300	-1.5%	-0.6%
	o/w staff costs	€ mln	*-1,428*	*-1,361*	*-1,374*		
	o/w other administrative expenses[3]	€ mln	*-603*	*-517*	*-576*		
	Operating costs (net of systemic contributions)	€ mln	-2,252	-2,136	-2,185	-1.7%	-1.0%
	Cost/income (net of systemic contributions)	%	61.9	58.1	58.8		
Lower cost of credit	**Cost of risk**	bps	87	46	62		
	LLPs	€ mln	738	387	509	-19.3%	-11.7%
	NPE ratio (gross)[4]	%	7.8	5.2	7.2		
	NPE coverage incl. write offs	%	50.9	51.5	51.2		
Significant value creation for shareholders	**Stated net income** (normalised in brackets)	€ mln	233 (331)	665 (665)	562 (562)		
	ROTE normalised	%	4.4	8.3	7.1		
Stronger capital and structural position	**CET1 ratio**	%	12.3	12.5	13.9[7]		
	Texas ratio	%	55.1	32.6	43,7		
	RWA (fully loaded)	€ bln	58.1	61.5	58.9		
	Tangible equity[5]	€ bln	7.5	8.0	7.9		

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, 4.25% in 2022 Revised
5. Net equity excluding profit and AT1– intangible assets
6. net of non-recurring items
7. Net of 2019 dividend but before 2020-2021-2022 dividends