

**2019 – 2023 BUSINESS PLAN
“SUSTAINABLE GROWTH”**

**APPROVED NEW PLAN WITH FOCUS ON SUSTAINABLE GROWTH AND
PROFITABILITY**

ROE OF ~6% IN 2021 AND OF >8% IN 2023

NET INCOME OF EURO 93MLN IN 2021 AND 138MLN IN 2023

COST/INCOME AT 65% IN 2021 AND 59% IN 2023

ATTRACTIVE DIVIDEND POLICY, WITH INCREASING PAY-OUT:

PAY OUT RATIO¹ >50% FROM 2021 AND 75% FROM 2023

BEST IN CLASS CAPITAL POSITION:

FULLY LOADED CET1 RATIO >14% IN BOTH 2021 AND 2023

LIMITED RISK PROFILE:

NET NPE RATIO AT 3.5% IN 2021 AND <3% IN 2023

COST OF RISK AT ~60BP IN 2021 AND ~50BP IN 2023

- **Through this Business Plan, Creval intends to strengthen its role as a solid commercial bank, with a low risk profile, focused on the relationship with households and small and medium enterprises, to sustain the growth of the served territories**
- **Plan’s strategic objectives and priorities:**
 - 1. Revamp of the commercial bank platform**
 - 2. Decisive actions on legacy issues**
- **Separation between commercial bank core assets and non-core assets, i.e., NPE management and run-off (Euro 1.9 billion), to be reduced by 80% over the Plan**

¹ Based on 2020 and 2022 net income

Sondrio, 18 June 2018 – Yesterday late at night the Board of Directors of Credito Valtellinese (“**Creval**” or the “**Group**”) approved the new 2019 – 2023 Business Plan: “Sustainable Growth” (“**Business Plan**” or the “**Plan**”).

Through this Plan, Creval intends to strengthen its role as a solid Commercial Bank, with a low risk profile, set on sustaining the growth of our target territories by focusing on households and small and medium enterprises. The Plan, aimed at creating value for the Bank’s stakeholders, has the key goal to generate an attractive sustainable growth and profitability for the Bank’s stakeholders.

“The Business Plan lays the foundations for Creval’s sustainable growth, by centering on households and small and medium enterprises located in our served territories. Indeed, together with our Employees, they are the Bank’s true asset. The new Plan is based on the revamp of commercial activities, on process optimization and streamlining, and on important actions to deal once and for all with legacy issues, with a clear-cut separation between core and non-core assets. Our bank is very well positioned to achieve the objectives we have set for ourselves and to generate value for our shareholders, and for all the stakeholders, also thanks to an attractive dividend policy”, stated **Luigi Lovaglio, Creval’s CEO**.

The Group’s new strategy is based on two clear pillars:

1. **Revamp of the commercial platform**, aiming at strengthening Creval’s role as the reference point in our target territory, through a business model and a product offering centered on Retail and SME clients, a nimble and efficient organizational structure and a proactive (active and preventive) risk management.
2. **Decisive actions on legacy issues**, through actions aimed at significantly reducing the NPL stock and the weight of the securities portfolio.

The Plan strategy calls for a new organizational structure:

- Separation of the commercial platform assets (“**Commercial Bank**”) from the Group’s NPL portfolio legacy (about Euro 1.9 billion at 31 March 2019), segregated in a newly created non-core unit (“**Non-Core Unit**”) that will count on a dedicated structure of 50 employees with clear and measurable targets.
- Reallocation of about 240 resources to roles with a greater added value and training programs aimed at further developing their skills, together with a significant retraining of employees towards commercial activities.
- Unlocking the value of our people through a greater engagement of our resources in all the initiatives set out by the Plan with clear activity scopes and allocation of responsibilities linked to specific targets.

Main Pillars of the 2019–2023 Business Plan

As an instrumental step in the implementation of the new Plan's guidelines and in keeping with the identified pillars, a Retail Department and a Small Business Department are to be set up as part of the "core" assets, reporting directly to the CEO, Luigi Lovaglio, in view of the revamp of the commercial platform.

The organizational structure is then complemented by a Cost Management Department and a "Financial Stakes and Non Core Assets" Department, again reporting directly to the CEO.

This reorganization is aimed at better focusing on the achievement of the Plan targets and at accelerating decision-making processes, by investing on the Bank's internal talents with a clear allocation of objectives to the management team, poised to support the CEO across all key actions that must be pursued, and sharing a customer-focused company culture.

As previously pointed out, the Plan rests on two main pillars:

1. Revamp of the commercial platform
2. Decisive actions on legacy issues

Revamp of the commercial platform

As to the Commercial Bank, important actions are in the pipeline to allow Creval to reach a sustainable profitability, thanks to our renewed focus on customer service, on a more efficient operational platform and on a proactive risk management.

Inter alia, these initiatives aim at attaining a:

1. **Stronger customer-centered business model**, through dedicated resources to acquire new retail/household and SME clients and the development of a new product proposition, in line with customer needs in terms of financing and wealth management. The aim is to increase revenues by over Euro 100 million by 2023.
- **Broader customer base** focused on household and SME segments through targeted win-back initiatives, referral programs, development of a value proposition geared to specific customer targets and stronger organizational units dedicated to the acquisition of clients, at both central and peripheral level. New tools will be introduced to support the identification of prospective clients, and to develop effective internal reporting systems.

- **Further development of household financing products**, in particular consumer credit and mortgage loans. Specific actions have been planned to support these objectives, such as a stronger customer knowledge thanks to the introduction of new advanced CRM tools, and more activities devoted to consumer credit and mortgage loans, that at present see a lower exposure from the Group existing customers.
 - **Step-up of the “advisor” role to manage household assets**. Considering its positioning in wealthy regions of the Country and underpenetration in the asset management, Creval may enjoy high growth potential in wealth management. The Plan targets to increase the penetration of indirect funding on total funding from 40% in 2018 to 44% in 2023. In order to achieve these targets, a number of dedicated actions have been envisaged, including a broader product offering and a stronger cross-selling action, competence building through dedicated structures (in particular within the private banking segment) and training programs.
 - **New commercial proposition for small and medium-sized enterprises** focused on local customers with a low risk profile in the territories served by the Group. In this context, actions will be implemented to develop the offer of dedicated products and initiatives, to strengthen the branch service model by increasing their proximity to the territory, and to broaden the loan offering dedicated to SMEs engaging in import/export businesses.
- 2. Optimization of the operational structure, to make it agile and efficient, and process streamlining**, by rationalizing the cost base, with the aim of reducing operating costs by roughly Euro 50 million by 2023 through the following actions:
- **Disciplined and rigorous control on administrative costs** by optimizing the demand through the centralization of the various cost centers (now 15) in in one single unit, renegotiation of existing contracts and redefinition of cost processes and policies along a "zero-based" logic.
 - **Process streamlining to improve service quality and efficiency** through a reallocation of talents and resources to maximize the time devoted to commercial activities and to customer relations, also thanks to the centralization of back-office procedures and the transfer of basic products and processes onto the digital channel.

- **Optimization of the real estate stock** with an additional rationalization of the geographical distribution of branches to reduce overlaps, together with the development of a format reflecting the new commercial focus. The spaces used as Head office or Offices will be optimized, concentrating central functions in own properties and reducing lease contracts.
 - **Stronger digital strategy** by further developing our Internet and Mobile banking products and offering, as well as automatic tools to support transactions (e.g. advanced ATMs). Moreover, the Open Bank format is expected to be fully leveraged as a digital and innovative means to serve the territory.
- 3. Review of the underwriting and risk monitoring policies**, by redesigning the lending process and the monitoring and recovery system.

To relaunch the commercial platform additional investments will be undertaken to sustain growth totaling roughly 20 million euro over the Plan horizon. They will be devoted to the implementation of the actions envisaged under the Plan, focusing in particular on the digital offering, the customer acquisition plan, wealth management, and on lending and loan monitoring processes.

Decisive actions on legacy issues

The Plan provides for effective actions to deal with certain legacy issues, aimed at improving the Group's risk profile.

- 1. Run-down of Non-Core assets**, through the creation of a segregated portfolio of Euro 1.9 billion, made up of Bad loans and Unlikely-to-pay loans. The aim is to reduce it by about 80% by 2023. The portfolio will be managed by a dedicated structure, manned by about 50 highly qualified resources, with the aim of maximizing its value. Over the Plan horizon, Euro 0.8bn of loans are expected to be disposed, and the sales will be managed by optimizing the trade-off between the stock reduction and the P&L impact.

The implemented disposals and management actions will drive the net NPE ratio down to 3.5% in 2021 (<7% gross) and to <3% by 2023 (<6.5% gross).

- 2. Reduction of the securities portfolio**, with a progressive stock decline exceeding 50% over the Plan horizon. At the end of 2018 the securities portfolio amounted to c. Euro 8 billion. The aim is for the Bank to go for a progressive

run-off over the plan horizon so as to reduce it to about Euro 4 billion by 2023.

The Plan also sets out a new funding plan, based on more diversified funding sources to further strengthening the Group funding position. To this regard, over the plan horizon we expect to issue a total of Euro 2 billion of covered bonds and Euro 600 million of senior bonds.

Main Financial Targets

1. Commercial Bank

The implementation of the actions under the Plan is expected to generate an incremental contribution to the Net Operating Result of about Euro 105 million by 2021 and about Euro 160 million by 2023. This impact breaks down into two components:

- Incremental revenues of the Commercial Bank of about Euro 65 million by 2021 and about Euro 105 million by 2023;
- Cost reduction driven by the implemented actions of about Euro 40 million by 2021 and about Euro 55 million by 2023.

Under the Plan, the cost of risk should decline to roughly 55b.p. by 2021 and to c. 50b.p. by 2023 thanks to the focus on the reduction of Non-Core assets and the review of lending and loan monitoring policies.

2. Non-Core Unit

- Proactive management of the NPL portfolio also through loan disposals
- Expected gross NPL stock reduction of about 80% over the Plan, from Euro 1.9 billion by 2018 to Euro 0.4 billion by 2023.
- The NPL stock reduction includes disposals totaling a GBV of about Euro 0.8 billion by 2020, and the work-out of the remaining loans, and the target is to reach a Group gross NPE Ratio <6.5% in 2023.

3. Group

- **Back to sustainable profitability**
 - Net income of Euro 93 million by 2021 and Euro 138 million by 2023, generating a RoE ~6% by 2021 and >8% by 2023

- **Attractive dividend policy**
 - Starting once again to distribute dividends to shareholders, with a payout ratio >50% from 2021²
- **Assets cleared of legacy issues**
 - NPL stock reduction to about Euro 1.1 billion by 2023 (-45% over 2018), driven by disposals, work-out activities and stronger underwriting processes
 - Net NPE ratio equal to 3.5% as of 2021 and <3% in 2023
 - Gross NPE ratio <7% in 2021 and <6.5% in 2023
 - NPL coverage of 54% by 2021 and 59% by 2023, and the cost of risk down to ~60 b.p. by 2021 and ~50 b.p. by 2023.
- **Solid capital position**
 - Strong capital position preserved, with a fully-loaded CET 1 ratio: >14.0% both in 2021 and 2023, taking planned NPE disposals into account.

LCR and NSFR well above regulatory requirements.

A presentation will be delivered today, 18 June 2019, at 11.00 a.m. (CET), with the possibility to join it via a conference call, to disclose the new 2019-2023 Business Plan to the financial community. The conference call will be chaired by Luigi Lovaglio, the CEO, and may be followed also via video webcasting. Please find the details to connect to the event on the Bank's website (www.gruppocreval.com), Investor Relations section.

² Based on 2020 net income

Selected Financial Targets

€m, unless otherwise stated	2021	2023
<i>Selected P&L Items</i>		
Net Interest Income	357	361
Net Commissions	284	308
Operating Profit	650	678
Operating Costs	424	400
Net Operating Profit	226	278
Loan Loss Provisions	94	81
Net Income	93	138
<i>Selected KPIs</i>		
Cost / Income Ratio	65%	59%
Cost of Risk (bps)	~60	~50
RoE	~6%	>8%
<i>Asset Quality and Capital</i>		
Gross NPE Ratio	<7%	<6.5%
Net NPE Ratio	3.5%	<3%
CET1 Ratio Fully Loaded	14.1%	14.5%

Contacts

Investor relations
+39 02 80637127

investorrelations@creval.it

Media relations
+39 02 80637403

mediarelations@creval.it

Image Building
Cristina Fossati,
Anna Pirtali
+39 02 89011300
creval@imagebuilding.it

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