



Banca Popolare di Sondrio

PRESS RELEASE

APPROVAL OF THE 2022 – 2025 BUSINESS PLAN



THE BUSINESS PLAN CONFIRMS BANCA POPOLARE DI SONDRIO'S NATURE: AS A "BANK ACTING AS A BANK", DETERMINED TO BE CLOSE TO ITS CUSTOMERS AND TO GROW IN ASSET MANAGEMENT AND IN BANCASSURANCE, WITH A COMMITMENT TO INNOVATE IN THE DIGITAL SPACE. OVER 550 €MM IN DIVIDENDS OVER THE NEXT FOUR YEARS, WITH ANNUAL PAYOUT RATIO AT 50%.

SIGNIFICANT AND SUSTAINABLE VALUE CREATION

- Net profit growing to 323 €MM in 2025
- ROE increasing to 9.2% in 2025

INCREASING SHAREHOLDER DISTRIBUTIONS

- Over 550 €MM in expected dividends over the course of the business plan
- 50% payout ratio every year

SUSTAINED CORE PROFITABILITY

- Core revenues increasing to 1.1 €BN in 2025
- Interest margin growing to 667 €MM in 2025, with a 6% 2021-2025 CAGR
- Net commissions growing to 443 €MM, with a 5.5% 2021-2025 CAGR

CREDIT AS THE HEART OF BPS'S VALUE PROPOSITION;

A NEW PUSH IN WEALTH MANAGEMENT AND BANCASSURANCE

- Customer loans increasing to 35.9 €BN in 2025
- Assets under management and insurance assets at 13.8 €BN in 2025 with a +12% 2021-2025 CAGR
- Insurance premiums increasing at +11% 2021-2025 CAGR

SOLID CAPITAL BASE AND ROBUST LIQUIDITY POSITION

- 15.6% CET 1 ratio at the end of 2025 and above 15% in each business plan year
- Liquidity Coverage Ratio above 140% in each business plan year
- Net Stable Funding Ratio above 125% in each business plan year

CONTINUOUS DERISKING ACTIVITY

- NPL ratio decreasing to 3.8% in 2025
- Cost of risk at 47 bps in 2025

SIGNIFICANT INVESTMENTS IN IT DEVELOPMENT

- Investments in employees and digitalization, while containing overall costs at 619 €MM in 2025
- Cost/income ratio decreasing to 51.8% in 2025

FOCUS ON ESG

- Integration of ESG factors in credit processes and approval of a responsible credit policy
- Identification of the path to carbon neutrality and portfolio alignment
- Development of ESG products and services

"I am proud to present our first Business Plan after transforming into a S.p.A. at the end of 2021. Since our foundation in Sondrio in 1871, we have been one of the first cooperative banks in Italy. Our mission is to grow with our customers and our employees, beyond the limits of a traditional Local Bank, with accuracy, availability for our customers, and closeness to our communities, preserving our identity while always changing and innovating", said dott. Mario Alberto Pedranzini, Banca Popolare di Sondrio's CEO.

“Over the last ten years, characterized by the well-known contextual complexities, contrary to the market average, our operating margin has largely covered and exceeded our credit losses, and our capitalization is market-leading. We are the Italian Bank with the most organic growth, investing in our people and in our network.

The “Next Step” 2022-2025 Business Plan highlights the prospects of a bank acting as a bank, focussed on our distinctive areas, and committed to growing in key segments including Wealth Management and Bancassurance, where we deem to have further potential for growth, and evolving our relationships with consumers digitally. Our Bank foresees the distribution of over half a billion in dividends, with a 50% payout every year.”

Today, at Palazzo Mezzanotte in Milan, a presentation will be held at 11:00 AM to showcase the Plan’s contents.

The event can be streamed via video/audio at the following link:
https://channel.royalcast.com/popsoit/#!/popsoit/20220629_1

The supporting documentation will be available before the presentation starts in the Investor Relations page on the Bank’s website:
<https://istituzionale.popso.it/it/investor-relations/presentazioni-finanziarie>

NEXT STEP

2022 – 2025 strategic guidelines

FOCUS ON DISTINCTIVE AREAS

- Consolidation of customer loans: +16% from 2021 to 2025
- Unique positioning in international operations and services, revenue diversification thanks to BPS Suisse (ca. 9% of the Group's net profit), important contribution of treasury services offered to Institutional Entities (1,800 customers in 2025)
- Stronger synergies between product factories for a 360 degree customer development: Factorit turnover expected at 19.2 €BN in 2025 (+6% 2021-2025 CAGR)
- Quick set up of new operations and development of the ability to intercept new current and prospective demand flows (e.g. tax credits)

QUALIFIED GROWTH IN KEY AREAS

- Wealth management for high potential customers: +12% 2021-2025 CAGR for wealth management/insurance volumes
- Strengthening of the current Bancassurance model, with customer premiums increasing by over 50%
- Reference partner for customers to capitalise on PNRR-related opportunities
- Contribution of payments business to revenue diversification: ca. +10% 2021-2025 CAGR in transaction volumes

DIGITAL EVOLUTION OF CUSTOMER RELATIONS

- Enhancement of digital service access points, centrality of the «universal» branch strengthened by specialized skills
- Process digitalization and robotization, freeing up time for higher value-added commercial activities
- Growth of the fully digital “Virtual Unit” channel (+36,000 customers)
- Strengthened multi-channel and «phygital» model: Digital Hub for the setup of fully digital sales processes, commercial action and remote assistance, new products and services from the «open» ecosystem
- Upgrade of the tech infrastructure and digital reskilling of employees

TRANSVERSAL ELEMENTS

- Corporate identity and skills strengthening through training and incentives (130,000 annual training hours and improvement of performance management systems, review of compensation policies)

- Sustainability is at the heart of the Group's operations: Integration of ESG factors into business and operations, through the definition of quantitative targets by the end of 2022 and their monitoring via selected performance indicators selected among international best practices.

BUSINESS PLAN'S MAIN FINANCIAL TARGETS

Income statement results [€MM]	2021	2023 E	2025 E
Interest margin	529	610	667
Net fees and commissions	358	390	443
Result of financial activity	145	88	87
Operating income	1,032	1,088	1,196
Net adjustments to loans and fin. assets	(134)	(171)	(170)
Operating costs	(558)	(592)	(619)
Profit before tax	375	364	450
Net profit	269	263	323

Balance sheet results [€MM]	2021	2023 E	2025 E
Direct funding from customers	39,304	39,693	41,971
Indirect funding from customers	42,891	43,850	48,192
o/w assets under custody	34,186	33,122	34,434
o/w assets under management	6,796	8,457	10,875
o/w insurance deposits	1,909	2,271	2,883
Net loans to customers	31,059	33,027	35,879

Key performance indicators [%]	2021	2023 E	2025 E
ROE	8.9	8.1	9.2
Cost-income ratio	54.1	54.4	51.8
Cost of risk	0.43	0.52	0.47
Gross NPE ratio	5.8	4.3	3.8
NPE Coverage	55.4	48.0	45.8
CET 1 ratio – <i>phased in</i>	15.8	15.9	15.6
Dividend payout	34	50	50

Sondrio, June 29th, 2022. Banca Popolare di Sondrio's Board of Directors, during yesterday's late night meeting, examined and approved the Group's 2022-2025 Business Plan.

The Business Plan defines the strategy and new targets for the years 2022-2025. The plan involves significant and sustainable value generation, solid capitalization, reduced exposure to inflation, and focused investments in the digital space.

Banca Popolare di Sondrio's Business Plan has its roots in a solid track record of profitability and resilience to crises. In particular, the Bank:

- has a leading role in key areas of the Italian economy and its industrial sector, with a highly loyal customer base; at the same time, it has a distinctive presence in Switzerland and abroad;
- has a network of branches with best-in-class productivity, thanks to competent, motivated, and credible staff;
- Is highly competitive and "multifunctional", thanks to internal and external product factories and a broad international network.

These factors are at the heart of Popolare di Sondrio's "unique way of doing business":

- sustained value generation over time, with credit losses over operating margin and shareholder dilution below market average;
- market leading capital strength and asset quality obtained without impairing capital;
- constant, organic growth, through gradual and continuous investments our people and infrastructure;
- lean operating model.

This plan takes place in a historical period characterized by a complex and unique macroeconomic scenario. On the one hand, Next Generation EU plan and Italy's PNRR offer opportunities for growth. On the other hand, there is persistent instability linked to the Russian-Ukrainian conflict, emergency costs, increasing inflation, slowdowns in international trade, and more cautious consumption.

Business plan projections are based on a set of hypotheses accounting for the following macroeconomic scenario:

- Italian GDP at 2.2% in 2022, at 2.5% in 2023, at 1.9% in 2024 and finally at 1.7% in 2025;
- Increasing inflation in 2022 (equal to 5.0%), then decreasing to an average level of 1.8% in 2023-2025;
- Average ECB yearly reference rate increasing from 0.0% in 2022 to 0.6% in 2023, 1.1% in 2024 and 1.4% in 2025.

2022-2025 STRATEGIC PLAN

The “Next Step” business plan foresees:

- Significant and sustainable value generation with increasing shareholder compensation:
 - ROE increasing to 9.2% in 2025, never falling below 8% during the whole business plan time period;
 - Net profit at 323 €MM in 2025, increasing by 20% compared to 2021;
 - Overall distributions for over 550 €MM in dividends with a 50% payout ratio, stable over the business plan;
 - Gross profit growth from 375 €MM in 2021 to 450 €MM in 2025.
- Sustained operating profitability:
 - Core revenues increasing to 1,109 €MM in 2025 from 887 €MM in 2021, supported by an increase in both interest margin (667 €MM in 2025, with a +6% 2021-2025 CAGR) and commissions (443 €MM in 2025 with +5.5% 2021-2025 CAGR);
 - Within direct deposits, important growth in debt securities (+13.6% 2021-2025 CAGR), with overall stable deposits;
 - significant increase in wealth management and insurance assets, with 2021-2025 CAGR equal to, respectively, +12.5% and +10.9%;
 - Customer loans increasing to 35.9 €BN in 2025 from 31.1 €BN in 2021 (ca. +4% 2021-2025 CAGR);
 - Financial assets decreasing from ca. 13.7 €BN to 11.7 €BN, mainly as a result of the programmed TLTROIII funding expiry.
- Solid capital base, with a cautious liquidity profile:
 - 15.6% CET 1 ratio at the end of the plan;
 - 350 €MM in free CET 1 capital with respect to a 14% threshold, to be used during the plan to accelerate the realization of identified development initiatives, also through inorganic operations, or to face an eventual sudden worsening in the macroeconomic scenario;
 - full compliance with MREL requirements from 2022;
 - Liquidity Coverage Ratio always above 140% during the entire plan;
 - Net Stable Funding Ratio always above 125% during the entire plan.
- Continuous risk profile reduction activity:
 - reduction in NPL stock (ca. -7% 2021-2025 CAGR) thanks to both the strengthening of the internal operating model and further non-performing loans disposals for a total of ca. 580 €MM during the plan;
 - NPL ratio reducing and below 4% from 2024, equal to 3.8% in 2025 compared to 5.8% in 2021;
 - cost of risk at 47 bps in 2025 from 43 bps in 2021 (record year for asset quality).

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- Tech development sustained by large investments to digitalise customer relations:
 - Investments in commercial and technological development: IT expenses growing to 120 €MM in 2025 (from 86 €MM in 2021); operating costs equal to 619 €MM in 2025 (from 558 €MM in 2021);
 - Cost/Income ratio decreasing to 51.8% in 2025 (from 54.1% in 2021).

The 2022-2025 Business Plan is based on three strategic guidelines, aiming to sustain shareholder value generation, strengthen the Bank's commercial focus on customers, and core products, with some progressive innovation of the business model in high potential areas.

Strategic guideline I – Focus on distinctive areas

Credit is the bank's main product, thanks to the long-standing relationships established with households, institutions, and companies in the regions where the bank has a significant market position, high portfolio quality, and good levels of profitability. Proposed initiatives aim at consolidating the market position on corporate customers (especially SMEs), boosting cross-selling of the Group's overall commercial offering, and increasing penetration along supply chains.

- The corporate segment is today particularly relevant for Banca Popolare di Sondrio, with an above-average percentage incidence on total loans¹. Bearing in mind the high portfolio quality, where more than half of the customers have a good or excellent rating, proposed initiatives aim to consolidate market position through:
 - 360 degree commercial development plan for Large Corporate customers, integrating the core credit offering with the Bank's top-quality services, such as international, structured finance, business advisory and the product factories offering;
 - Development campaigns for profitable SMEs with a contained Share of Wallet or with currently underutilized loans; initiatives aiming at increasing profitability of SMEs with below-average EVA and an already significant level of credit utilization;
 - structured initiatives aimed at commercially developing prospects and expanding the loan portfolio with new SMEs, mainly belonging to the same supply chain as the bank's current customers, intercepted thanks to the "Client Ecosystem" proprietary platform which maps customer-supplier relationships;
 - introduction of 15 dedicated corporate specialists supporting branch managers in the development of key accounts.

¹ Gross loans to non-financial firms and families

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- The business plan also includes measures to increase the relevance of Banca Popolare di Sondrio's centres of excellence, such as the International, BPS Suisse, Treasuries/Institutions, including product Factories:
 - International operations significantly increased since their launch in 1990. The International Service aims to develop new value propositions to capture future trends and a Unique Internationalization Desk that acts as bridge for businesses, with the Bank's distinctive products and services;
 - BPS Suisse's activities currently contribute 9% of the Group's income and, not being tied to the Italian economy, allows for revenue diversification. Proposed industrial levers range from residential loans, with specialization in mortgage loans based on the deep knowledge of the local real estate market, to an ESG investment offering up to digital products and services;
 - the Treasuries/Institutions service has made the bank become a reference point in the market, offering a stable contribution to the Group's revenues, as well as a potential pool of end users to cross-selling banking services to. The strong market position makes the bank an ideal candidate for the role of "leading subject" in many system projects;
 - the recent full acquisition of Factorit will let the Group fully capture the commercial boost offered by factoring, expand international activities, and strengthen synergies between corporate customers and the Bank. Business plan initiatives include the development of reverse factoring offerings for supply chains specifically favoured by PNRR, the evolution of the distribution model, and digital factoring.
 - Regarding consumer credit, BNT, the product factory specialized in salary and pension backed loans ("Cessione del Quinto dello Stipendio" and "Cessione del Quinto della Pensione", CQS and CQP), is expected to strengthen commercial synergies with the Bank, the online channel and to develop third-party agents' networks.
 - Proposed initiatives aim at expanding the ability to intercept new demand flows and quickly set up new activities, as happened with tax credit acquisitions – ca. 16,000 customers served with pending procedures and/or procedures already in the BPS tax folder, of which 8,000 new customers.

Strategic guideline II – Qualified growth in key areas

Proposed initiatives for this guideline aim to intensify our presence in high value areas and in those yet to reach their full potential, capitalise on new opportunities offered by the market and by the PNRR, also in fields adjacent to the banking business.

- Wealth management currently represents a significant pool of value, with ca. 9 €BN of assets under management and ca. 68 €MM in revenues generated in 2021. Even considering the solid growth trajectory of the recent years (+8% CAGR for AUM during the past 5 years), planned initiatives suggest further customer base development, acting unexploited potential. The aim is thus to

update the Wealth Management model to favour the progressive conversion of direct deposits and deposits under custody into managed assets/insurance, through the following practical initiatives:

- expansion of the network of Wealth Management specialists, to reach 300 Wealth Management dedicated specialists in 2025;
 - development of a dedicated “Private” offer, with more sophisticated products and dedicated areas in branches;
 - development of digital tools for remote sales and adoption of a multi-channel approach.
- The Bancassurance offer is also a value area, with a 34% increase in premium income between 2017 and 2021. The development initiative aims at enhancing the current Bancassurance model to increase premium income from customers by over 50% through:
 - appointment of area specialists for assistance towards customers with particularly sophisticated needs and to revive the commercial offering;
 - focus of commercial efforts towards higher value-added policies (health retail, SME solutions);
 - completion of the existing instant assurance and telemedicine.
 - The PNRR represents a development accelerator for the bank’s core customer base, with the Bank positioned as a partner of choice. Some specific areas of intervention include:
 - agri-business supply chains with co-financing of initiatives in the agro-energetic sector;
 - tourism with co-financing from CDP to support companies in the sector and with the creation of specific credit products;
 - superbonus with the development of a best-in-class platform to support customers in energy upgrading interventions.
 - The bank internally manages part of the E-Money value chain (client acquisition and management); the business contributes to revenue growth and diversification, with possible future increases in value.
 - Rent2Go, recently fully acquired, enriches the Bank’s offer with long term rental services to self-employed professionals and small businesses. Potential initiatives aim to strengthen the combined commercial offer by BPS and Rent2Go, including multi-channel views, also revamping Rent2Go as an “Innovation lab”.

Strategic guideline III - Digital evolution of customer relations

The Bank’s service model is based on a direct relationship with branch customers, alongside an increasingly significant use of digital channels. Initiatives in this guideline aim at further evolving the traditional branch model, towards a multi-channel interaction in a physical/digital fashion (phygital), also thanks to process robotization and automation to enhance customer experience and free up commercial capacity.

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- The “universal” branch remains the cornerstone for customer relations, strengthened via specialist support.
 - Initiatives aim, on the one hand, to free up branch employees’ time so it can be dedicated to sales activities and, on the other, at integrating traditional channels with “remote” alternative channels that are being gradually more appreciated. Specifically, actions will be based on two pillars:
 - Evolving the “inbound” customer base model at the physical branch, strengthening some virtuous practices such as
 - closure of cash services in the afternoon, freeing up commercial time to be dedicated to advisory activities;
 - re-routing customers to “self-service” channels and locations for lower value-added transaction activities, with cost savings for the customer too;
 - evolution of booking systems;
 - process automation and digitalization.
 - Multi-channel initiatives can leverage the Virtual Unit, a channel currently dedicated to specific customer categories:
 - enhancing the unit to fully manage 9% of the Bank’s customers and digital natives remotely:
 - expanding the offer and increasing per-customer profitability;
 - revamping current remote sales processes;
 - increasing dedicated resources;
 - evolving towards a “phygital” multi-channel model to meet traditional customers’ changed needs:
 - expanding the Virtual Unit’s mandate towards the creation of a “digital hub”, to sell and manage all of the Bank’s products remotely;
 - promoting commercial development activities and digital campaigns, enhancing call centres’ activities;
 - improving remote assistance and self-banking channels, strengthening the already available Scigno solution and developing a Unique Virtual Portal.
 - One initiative is dedicated to expanding the “instant” and “ecosystem” digital products, enabled by Artificial Intelligence, Open Banking and PSD2:
 - “instant” offer for retail customers on personal loans, CQS/CQP and credit card lines and instant credit offers to SMEs;
 - completion of the current instant insurance and telemedicine offering.
 - The Plan includes important investments in technology and human capital to:
 - strengthen the technological infrastructure and data management;
 - appoint additional resources in more utilised areas and promote an extraordinary campaign for digital education and upskilling aimed at employees with high innovative potential.

Some enabling factors have been identified, together with “transversal” elements, necessary for the realization of the business plan’s initiatives.

Enabling factor I - Corporate identity, competencies and incentives

The Bank has a distinctive culture of collaboration, transparency, and practicality. Proposed initiatives aim at preserving a distinctive corporate identity and at the same time evolving its skillset in a “new ways of working” fashion, with new customer service approaches.

The Plan aims to strengthen competences through:

- strong focus towards managerial training directed at Top and Middle Managers;
- initiatives supporting professional growth paths and the creation of middle management figures;
- development paths on soft skills for younger employees with potential, focusing in particular on the evolution of customer relations in “digital terms”;
- new specialized hires to strengthen specialist skills.

A new compensation system will be introduced, with a new policy including:

- larger variable components;
- expansion of the quantitative KPI set and performance metrics.

The Plan then plans to strengthen performance management systems for top management, central structures, and the local sales network, giving more weight to the individual component.

Enabling factor II - Sustainability at the heart of operations

Particular attention is dedicated to the integration of ESG factors into the business and operations. The Bank bases its entire activity on harmonious management of the relationship with its community, which acts as a starting point for the development of a solid sustainability strategy, coherent with its values.

Initiatives aim to strengthen the efforts and the approach to sustainability and inclusion, combining the innate closeness to the customer base with the best international standards and practices. Such improvement calls for activating numerous initiatives, among which:

- the definition of ESG performance targets, an operating plan to reach them, and the relative monitoring KPIs;
- the integration of sustainability in the main processes for the Bank, aligning internal policies and norms, particularly in the fields of credit, investments and risk management;
- the development of new sustainable credit products and services, also thanks to the integration of ESG scores into the credit scoring process;
- the definition of responsible investment guidelines and the expansion of ESG Wealth Management products;
- the issue of new ESG Bonds, expanding the Green Bond Framework;

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- the adherence to relevant ESG initiatives in the banking sector (e.g. by 2023: Principles for Responsible Banking; Net-Zero Banking Alliance);
 - further governance strengthening interventions, for an ever-increasing involvement of the Board of Directors and an integration of the monitoring system overseeing the actual implementation of the ESG strategy;
 - a continuous monitoring of our emissions and energy performance with the aim of significantly reducing our impacts, by making our systems and buildings more efficient;
 - the definition of a broader ESG communication strategy, making Banca Popolare di Sondrio's brand more valuable, specifically under the sustainability aspect.

Disclaimer

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