

The background of the slide is a photograph of a grand, classical building with a light-colored facade, ornate windows, and a balcony with a white balustrade. The image is split vertically: the left side is faded and serves as a background for the text, while the right side shows a more detailed view of the building's corner, featuring a dark roof with a dormer window and a brick wall with a decorative golden scrollwork element.

Considerations on Credito Valtellinese

*Crédit Agricole's €10.50 p.s.
Offer Is Inadequate*

February 2021

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I

Executive Summary

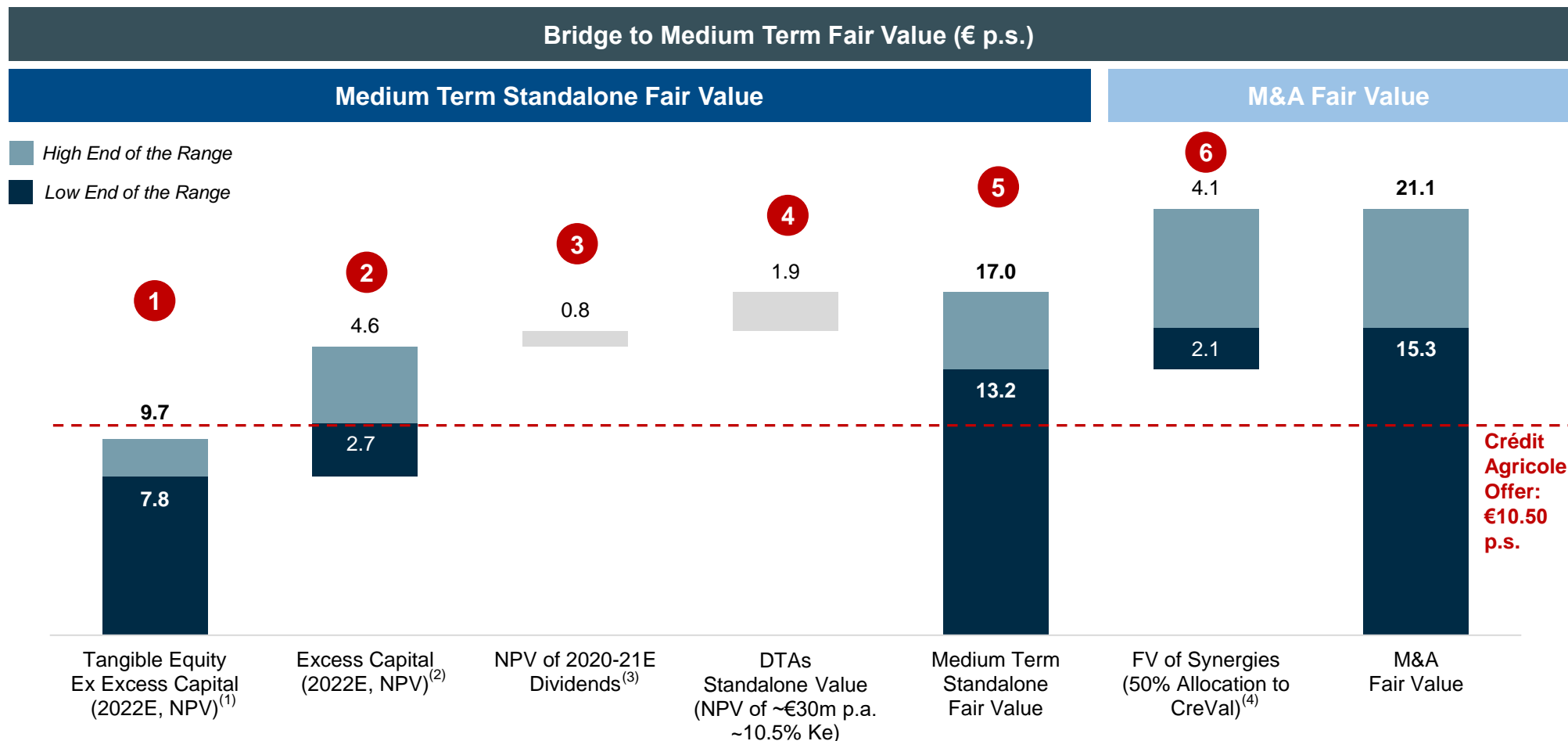
Executive Summary

- Petrus Advisers have been shareholders of Credito Valtellinese for a long period, having recently crossed the 3% threshold. We are attracted by its quality leadership and are interested in the bank beyond the current Crédit Agricole bid, as CreVal has one of the most attractive investment propositions among Italian peers
- The current management team has done a tremendous job and today Credito Valtellinese's asset quality and capital ratios are best-in-class, while the bank is well on track to achieve the strategic targets set out in its 2019-2023 business plan, despite the Covid-19 pandemic
 - Credito Valtellinese has a clear and realistic business plan with ambitious targets to achieve an RoE of ~6% in 2021 and >8% in 2023, while the bank has already met – 3 years ahead of schedule – its CET1 ratio, gross NPE exposure and cost saving targets
- We believe that the €10.50 p.s. unsolicited offer announced by Crédit Agricole is a clear sign of appreciation for the bank and its management team. However, we continue to believe that the offer terms are inadequate and fall short of recognizing the fair value of the bank to shareholders
- Petrus Advisers see a medium-term fair value of Credito Valtellinese on a standalone basis of ~€13.2-17.0 p.s. and a fair M&A value of ~€15.3-21.1 p.s.
- In particular, Crédit Agricole's offer does not take into account the incremental value unlocked by the deferred tax assets (DTAs) conversion scheme recently approved by the Italian government. Credito Valtellinese's off-balance sheet DTAs are worth ~€2.1 p.s. or ~20% of the offer price alone in an M&A scenario. More importantly, the DTAs could also be gradually released by the bank on a standalone basis at a rate of ~€30m p.a., resulting in ~€1.9 p.s. of incremental value on a standalone basis
- Additionally, research analysts estimate run-rate synergies from a potential combination with Crédit Agricole Italia of ~€100m pre-tax on average, while Crédit Agricole themselves even communicated ~€150m of synergies potential. We believe that synergies are worth ~€2.1-4.1 p.s. based on a ~€75-150m range of pre-tax synergies p.a. and assuming a 50% allocation of the post-tax NPV to Credito Valtellinese's shareholders
- Since the offer was announced, the recent compression in Italian government bond yields has also been benefitting the entire banking sector and contributed to a rally of most Italian banks. Credito Valtellinese would trade ~13% above the undisturbed price and close to ~€10 p.s., assuming a share price performance in line with peers
- We believe that consolidation among banks can create significant value for shareholders as well as for the Italian banking system at large. However, we are disinterested in Crédit Agricole's attempt to gain control of Credito Valtellinese without paying a control premium and recognizing a fair share of the M&A value creation to Credito Valtellinese's shareholders

Credito Valtellinese is an extremely solid bank with a bright future ahead. Petrus Advisers will not tender their shares at €10.50 p.s. and recommend that other shareholders not tender either

A Deal Too Good to Be True for Crédit Agricole

Petrus Advisers see a medium-term standalone fair value at ~€13.2-17.0 p.s. and an M&A value of ~€15.3-21.1 p.s. – both significantly above the Crédit Agricole offer of €10.50 p.s.



Notes: (1) NPV of tangible equity ex excess capital based on ~€1.6-1.7bn tangible equity 2022E post a conservative extra provisioning buffer and 0.45x-0.60x P/TBV; (2) NPV of excess capital 2022E based on ~€8.8bn RWAs 2022E, ~19% CET1 ratio FL 2022E, 13.5-14.5% target CET1 ratio FL, 10.5% Ke and net of a conservative extra provisioning buffer; (3) Assumes €0.23 DPS 2020E, €0.60 DPS 2021E and 10.5% Ke; (4) Assumes €75-150m pre-tax synergies range, 8x multiple and 2.5x costs to achieve.

Sources: Factset (as of 16-Feb-2021), company filings, Petrus Advisers estimates

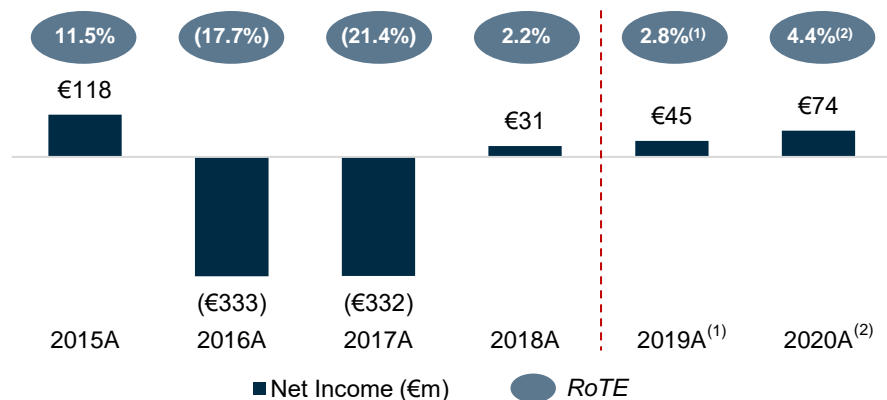


Credito Valtellinese: A Strong Bank On Its Own

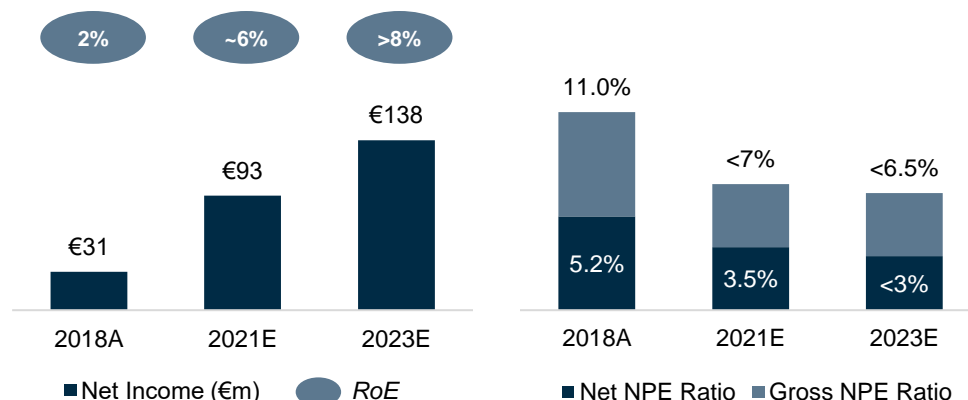
A New Course Under the Current Management Team...

Management has sold NPLs, increased provisioning and cut costs, resulting in a CET1 FL ratio of 19.6%, while setting a clear ~6% RoE target in 2021 and >8% by 2023...

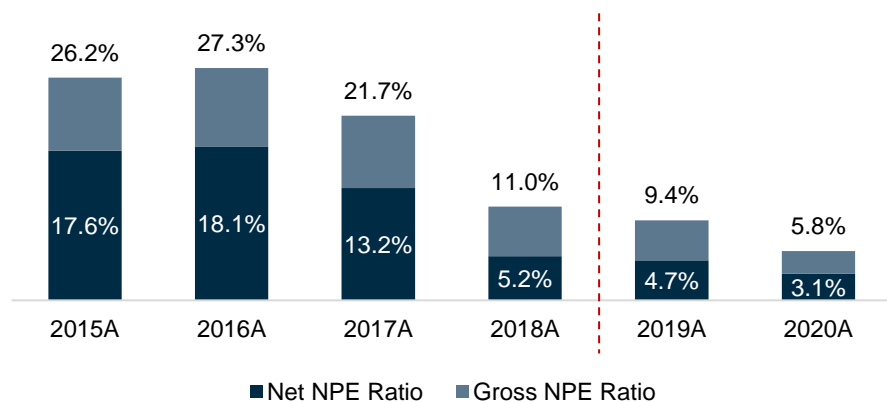
Net Income (€m) / RoTE (%)



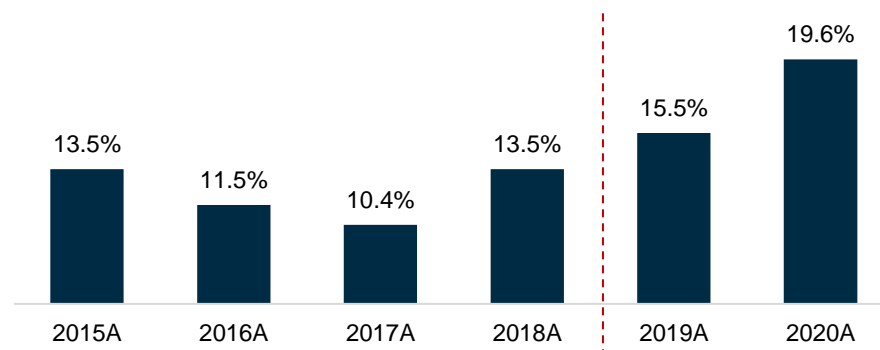
2019-2023 Business Plan Targets



Gross & Net NPE Ratios (%)



CET1 Ratio (FL, %)



Sources: Company filings, Factset

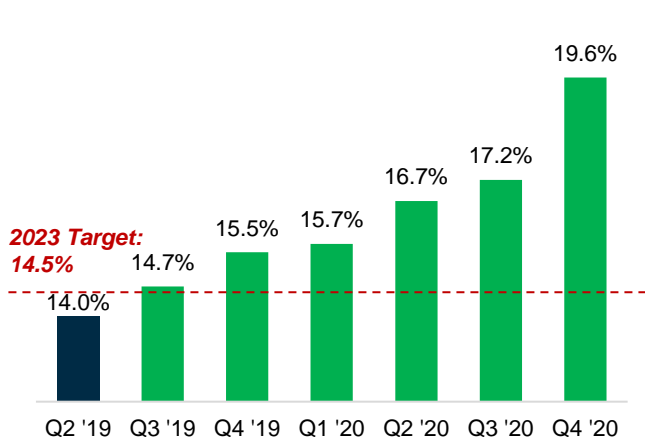
Notes: (1) Adjusted Net Income / RoTE 2019, as per Factset; (2) Adjusted Net Income / RoTE excluding: (i) net gains on sales of investments and impairment losses on PPE and intangibles, and (ii) net profit on derecognition of assets at amortised cost / other assets at FVTPL.

... With Some Targets Already Achieved Well Ahead of Expectations ...

Management has already achieved capital ratios, asset quality and cost targets ahead of the 2019-2023 business plan, responding swiftly to the challenges of the Covid-19 crisis

Key Financial Metrics

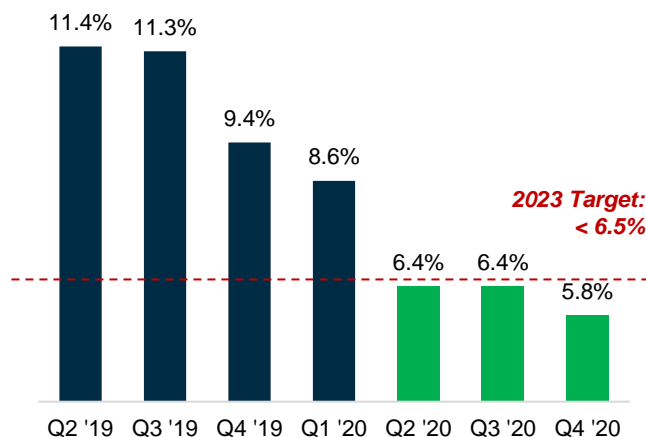
CET1 Ratio (FL, %)



- 2023 CET1 ratio target: 14.5%

- ✓ Achieved in Q3 2019
- ✓ 510bps headroom vs. 2023 target as at Dec-2020

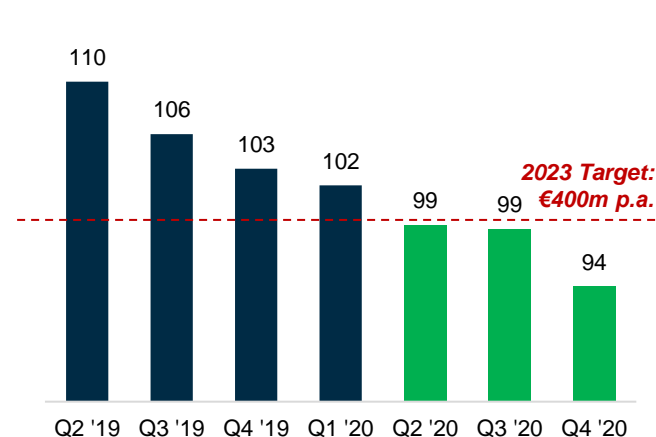
Gross NPE Ratio (%)



- 2023 Gross NPE ratio target: <6.5%

- ✓ Achieved in Q2 2020

Operating Costs (€m)



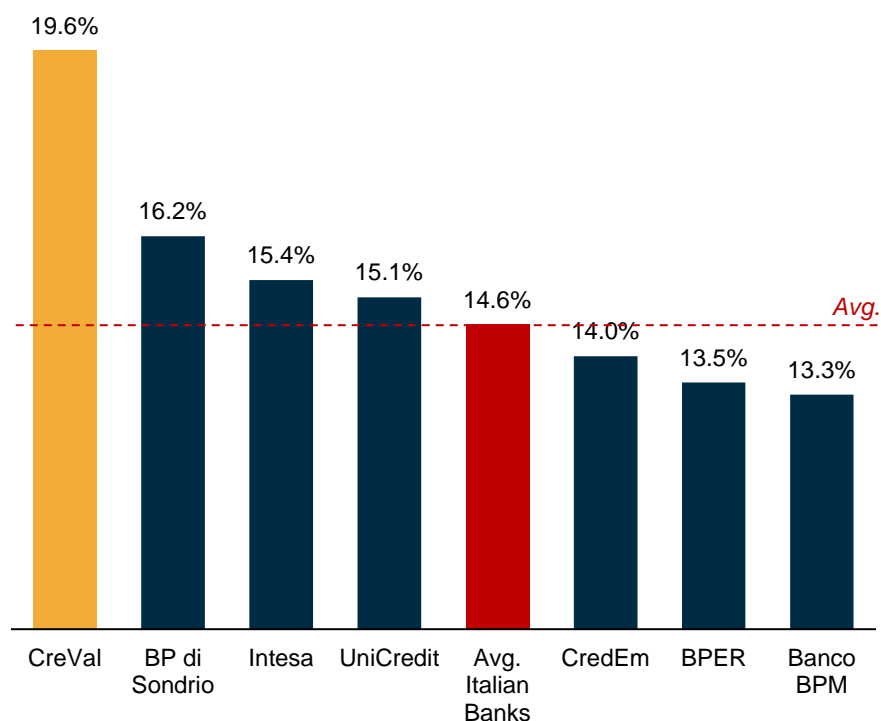
- 2023 operating costs target: €400m p.a.

- ✓ Achieved in FY 2020

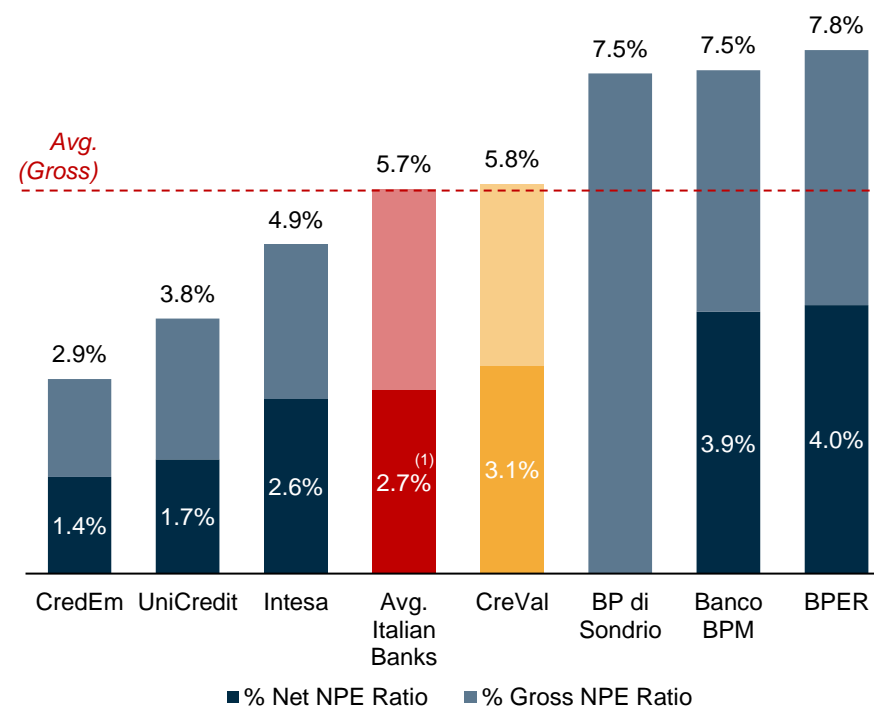
... And Outstanding Relative Performance

- The current management team has turned CreVal into a solid bank, now showing the best CET1 ratio by far among Italian banks and a low NPE exposure
- Its strong capital position and clean balance sheet make CreVal an attractive bank on its own

CET1 Ratio (FL)



% NPE Exposure



Notes: (1) Excl. Banca Popolare di Sondrio, as FY 2020 data was not available.
Sources: Factset (as of 16-Feb-2021)



Value Components of Credito Valtellinese

1 Tangible Equity Excluding Excess Capital

Credito Valtellinese's tangible equity excluding the bank's excess capital is worth ~€7.8-9.7 p.s., conservatively assuming a RoTE 2022E between ~5.0-6.0%, slightly below the Business Plan trajectory

Tangible Equity Excl. Excess Capital (€m)

(EUR m)	Bear Case	Base Case	Bull Case
Tangible Equity 2022E (Adj. for Extra Provisioning)	1,624	1,659	1,694
Implied Tangible Equity 2022E Ex Excess Capital	1,407	1,363	1,319
Target RoTE 2022E	5.0%	5.5%	6.0%
Growth	0%	0%	0%
Ke Estimate	11.0%	10.5%	10.0%
Justified P/TB	0.45x	0.52x	0.60x
Fair Value of Tangible Equity 2022E Ex Excess Capital	640	714	792
Fair Value of Tangible Equity 2022E Ex Excess Capital p.s. (EUR)	9.1	10.2	11.3
NPV of Tangible Equity Ex Excess Capital	551	615	681
NPV of Tangible Equity Ex Excess Capital p.s. (EUR)	7.8	8.8	9.7

Key Assumptions

- Tangible equity 2022E of ~€1.8bn, before: (i) adjustment for conservative extra provisioning buffer of €150-250m pre-tax and (ii) implied excess capital of €217-374m
- RoTE 2022E range of 5.0-6.0%, conservatively assumed slightly below the 2019-2023 business plan trajectory
- Justified P/TB based on 10.0-11.0% cost of equity and 0% growth
- NPV based on 10.0-11.0% cost of equity

2 Excess Capital

Credito Valtellinese's best-in-class 19.6% CET1 Ratio FL as at Dec-2020 implies significant excess capital. Very conservative assumptions point to at least ~€2.7-4.6 p.s. of value for the excess capital alone, or ~25%-44% of Crédit Agricole's offer

Excess Capital (€m)

(EUR m)	Bear Case	Base Case	Bull Case
Target CET1 Ratio 2022E (FL, %)	14.50%	14.00%	13.50%
RWAs 2022E - Petrus Estimate	8,791	8,791	8,791
CET1 Ratio 2022E (FL, %) - Petrus Estimate	19.0%	19.0%	19.0%
Implied Excess Capital 2022E	392	435	479
Implied Excess Capital 2022E p.s. (EUR)	5.6	6.2	6.8
Extra Provisioning Buffer 2021-22E - Pre-Tax	(250)	(200)	(150)
Adj. Excess Capital 2022E Post Extra Provisioning (Post-Tax)	217	295	374
Adj. Excess Capital 2022E Post Extra Provisioning p.s. (EUR)	3.1	4.2	5.3
NPV of Adj. Excess Capital @ 10.5% Ke	186	254	322
NPV of Adj. Excess Capital p.s. (EUR)	2.7	3.6	4.6

Key Assumptions

- Target CET1 Ratio FL of 13.5-14.5%, conservatively assumed in line with business plan targets and Crédit Agricole Italia's ratio, and above the targets of other regional banks
- CET1 Ratio FL 2022E of ~19.0% and RWAs 2022E of ~€8.8bn, as per Petrus Advisers estimates
- Conservative extra provisioning buffer in addition to business plan and consensus expectations of €150-250m pre-tax
- NPV of excess capital based on 10.5% cost of equity

3 + 4 2020-21E Dividends and DTAs

Incremental value of ~€0.8 p.s. from the NPV of the 2020-21E dividends and ~€1.9 p.s. from ~€180m of off-balance sheet DTAs to be transferred on-balance sheet at a rate of ~€30m p.a. on a standalone basis

3 2020-21E Dividends (€m)

(EUR m)	2020E	2021E
DPS (EUR)	0.23	0.60
NPV of 2020-21E Dividends @ 10.5% Ke		54
NPV of 2020-21E Dividends p.s. (EUR)		0.77

Key Assumptions

- 2020E: €0.23 DPS, as per company-proposed dividend within limits set by regulators
- 2021E: €0.60 DPS, assuming ~60% payout ratio on net income 2021E of ~€70m

4 DTAs – Standalone Value (€m)

Off Balance Sheet DTAs	180					
Ke	10.5%					
DTAs Transferred On Balance Sheet p.a.	30					
(EURm)	2021E	2022E	2023E	2024E	2025E	2026E
DTAs Transferred On Balance Sheet	30	30	30	30	30	30
NPV of DTAs p.a. / 10.5% Ke	135					
NPV of DTAs p.s. (EUR)	1.9					

Key Assumptions

- €180m of off-balance sheet DTAs as at Dec-2020, to be reversed onto balance sheet as increased profitability will allow the bank to gradually recognize them at a rate of ~€30m p.a., in line with Credito Valtellinese's latest disclosures

5 Petrus Advisers' View: Mid-Term Standalone Value of ~€13.2-17.0 p.s



CreVal standalone is worth between ~€13.2-17.0 p.s. with a mid-point at ~€15.1 p.s., well above the €10.50 p.s. offer from Crédit Agricole

Mid-Term Standalone Value⁽¹⁾ – Summary Valuation

	(€m)			(€ p.s.)		
	Bear Case	Base Case	Bull Case	Bear Case	Base Case	Bull Case
1 Tangible Equity Ex Excess Capital (NPV)	551	615	681	7.8	8.8	9.7
2 Excess Capital (NPV)	186	254	322	2.7	3.6	4.6
3 2020-21E Dividends (NPV)	54	54	54	0.8	0.8	0.8
4 DTAs Standalone Value (NPV)	135	135	135	1.9	1.9	1.9
5 Medium Term Standalone Fair Value	927	1,059	1,193	13.2	15.1	17.0

Notes: (1) Defined as 2022E.

Source: Factset (as of 16-Feb-2021), broker research, Petrus Advisers estimates, company filings

6 Synergies: Worth ~€2-4 p.s. and Up to ~40% of the Offer Price

- Crédit Agricole Italia's CEO initially suggested around ~€150m of synergies⁽¹⁾, while brokers estimate approximately ~€100m on average
- Our Base Case is conservatively aligned to broker estimates and points to an NPV of ~€190m or ~€2.7 p.s., assuming a 50% allocation to Credito Valtellinese's shareholders

Illustrative Synergies Valuation (€m)

(€m)	A Bear Case	B Base Case	C Bull Case
Estimated Run-Rate Synergies	75	100	150
% of CreVal Opex 2020A	19%	25%	38%
Run-Rate Synergies Post Tax	53	70	105
x Multiple	8.0x	8.0x	8.0x
1. FV of RR Synergies Post Tax	420	560	840
1. FV of RR Synergies Post Tax p.s. (EUR)	6.0	8.0	12.0
Costs to Achieve vs. Pre-Tax Synergies	2.5x	2.5x	2.5x
Costs to Achieve Pre-Tax	(188)	(250)	(375)
2. Costs to Achieve Post-Tax	(131)	(175)	(263)
2. Costs to Achieve Post Tax p.s. (EUR)	(1.9)	(2.5)	(3.7)
1 + 2 = FV of Net Synergies	289	385	578
1 + 2 = FV of Net Synergies p.s. (EUR)	4.1	5.5	8.2
% Allocation to CreVal Shareholders	50%	50%	50%
FV of Net Synergies to CreVal Shareholders	144	193	289
FV of Net Synergies to CreVal Shareholders p.s. (EUR)	2.1	2.7	4.1

A Bear Case

- Low-end assumed 25% below the average of synergies estimated by brokers, resulting in ~€75m of synergies p.a. pre tax / ~19% of OpEx 2020A

B Mid Point / Base Case

- Mid-point in line with the average of broker estimates, resulting in ~€100m of synergies p.a. pre tax / ~25% of OpEx 2020A

C Bull Case

- In line with synergies initially indicated by Crédit Agricole Italia's CEO at ~€150m p.a. pre-tax, as per Reuters article⁽¹⁾

Negative Goodwill: A “Magic Shield” Against Weak Macro and Covid-19

The acquisition of CreVal would generate close to ~€1bn in badwill⁽¹⁾, allowing Crédit Agricole to mitigate the execution risks in an M&A scenario by covering integration costs, accelerating de-risking and contributing to offset the end of the *moratoria*

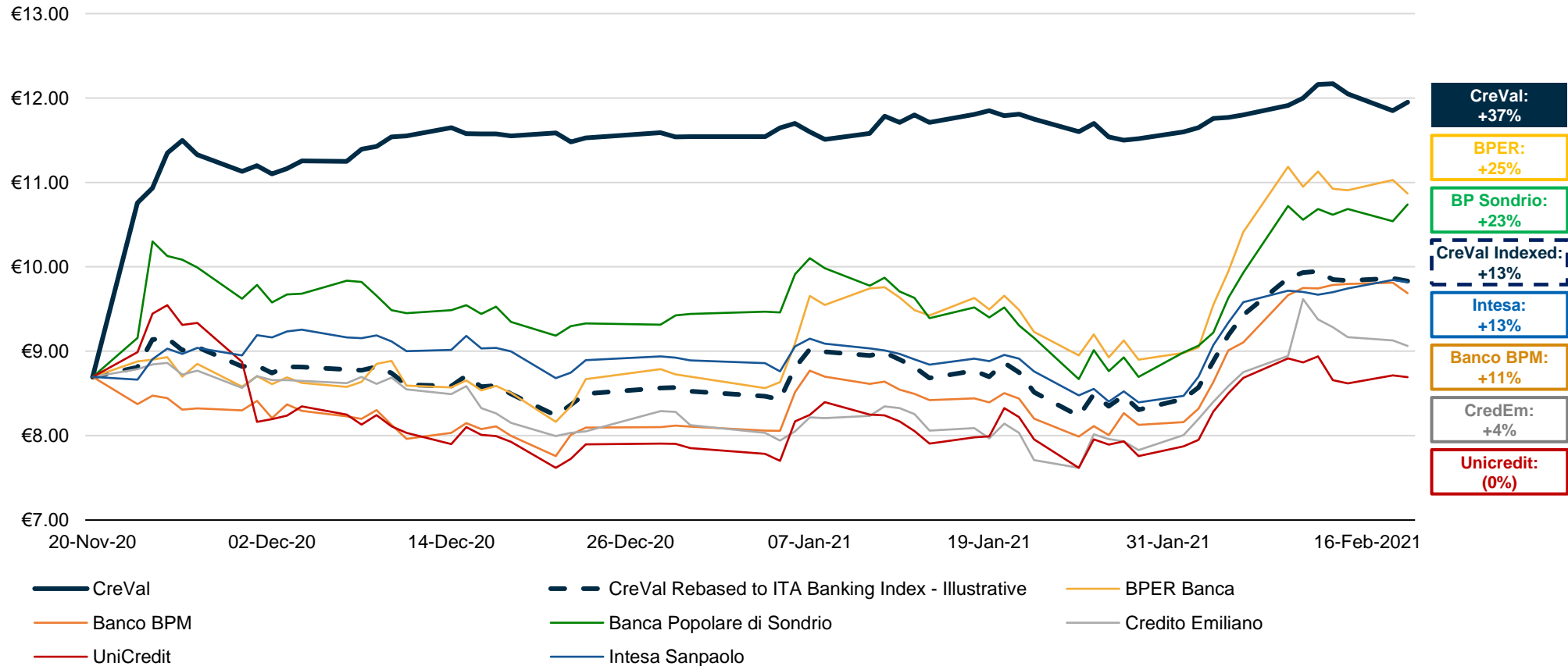
Background on Negative Goodwill

- In 2020, the ECB published draft guidance clarifying the takeover rules within the current regulatory framework to boost M&A among banks, including:
 - Recognition of the accounting value of badwill generated by the transaction
 - Recognition subject to the priority use of badwill to increase the sustainability of the new business model (e.g. provisioning for NPLs, covering of integration costs or other investments)
 - No distribution of profits from badwill to the shareholders until the sustainability of business model is reached
- **Crédit Agricole’s CFO on the acquisition of Credito Valtellinese⁽²⁾:** “We are going to use part of this badwill to cover even more some risks that are in the balance sheet of Credito Valtellinese. We are going to use also part of the badwill to finance the cost of integration, of course, as is normally the case. And the remaining part can be used in terms of solvency”
- **Intesa Sanpaolo’s CEO on negative goodwill⁽³⁾:** “We can call [it a] magic shield in order to be sure to avoid any kind of negative deriving from macroeconomic conditions”

Italian Banks Have Rallied Since the Offer Announcement

The recent compression of government bond yields and a more favourable macro backdrop are pushing Italian banks higher: CreVal would trade ~13% above the undisturbed share price and close to ~€10 p.s., assuming a share price performance in line with peers

CreVal vs. Peers – Illustrative Share Price Evolution Since Offer Announcement (Rebased)



Notes: ITA Banking Index includes BPER Banca, Banco BPM, Banca Popolare di Sondrio, Credito Emiliano, UniCredit, Intesa Sanpaolo.
Source: Factset (as of 16-Feb-2021)

Appendix

DTAs: Worth ~€1.9 p.s. Standalone or a ~€2.1 p.s. in an M&A Scenario – A Late Christmas Present to Crédit Agricole

- Off-balance sheet DTAs could be gradually released by CreVal on a standalone basis at a rate of ~€30m p.a., resulting in ~€1.9 p.s. of incremental standalone value (NPV)
- While the value of CreVal's off-balance sheet DTAs was not included in Crédit Agricole's offer, Italy's 2021 budget law allows their conversion into tax credits in an M&A scenario: worth ~€2.10 p.s. or ~20% of the offer price, excluding any benefits from Crédit Agricole Italia's DTAs

Off-Balance Sheet DTAs – Standalone Value (€m)

Off Balance Sheet DTAs	180
Ke	10.5%
DTAs Transferred On Balance Sheet p.a.	30
NPV of DTAs @ 10.5% Ke	135
NPV of DTAs p.s. (EUR)	1.9

Off-Balance Sheet DTAs – M&A Value (€m)

	Q4 2020
Total Gross Off Balance Sheet DTAs	180
Net Commission (Post-Tax)	17.5%
Net DTAs Post Commission	149
Net DTAs Post Commission p.s. (EUR)	2.1
As % of Offer Price	20%

Background on New DTAs Conversion Scheme

- A new tax scheme included in Italy's 2021 budget law allows two companies merging in 2021 to convert deferred tax assets (DTAs) into ready-to-use tax credits
 - In an M&A scenario, banks can transform tax losses carried forward (on-and-off balance sheet) into fiscal credits that would be accounted for as capital
 - Mediobanca defined the DTA scheme as a "game changer" for domestic consolidation⁽¹⁾
- Crédit Agricole's offer was announced before the 2021 budget law approval
- CreVal had ~€180m of off-balance sheet DTAs as at Dec-2020
- Our analysis ignores the value of Crédit Agricole Italia's DTAs: these would bring the combined DTAs value to ~€350m, with a fair share to be allocated to Credito Valtellinese's shareholders
- **More importantly, Credito Valtellinese's off-balance sheet DTAs are also valuable on a standalone basis, as increased profitability would allow the bank to gradually recognize them on-balance sheet at a rate of ~€30m p.a.**

Notes: (1) Mediobanca Securities as referred to in Reuters article 'Tax breaks to spur bank mergers open rift in Italy's coalition' published on 1-Dec-2020.

Sources: S&P, Mediobanca, Reuters, Factset, company filings, Petrus Advisers estimates, press

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