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*Testo del comunicato*

Vedi allegato.

BANCO BPM

**NEWS RELEASE**

**RESULTS AS AT 30 SEPTEMBER 2017[1]**

**NET INCOME OF €53 MILLION, RISING TO € 143.5 MILLION "*ADJUSTED*"[2]**

**SUSTAINED GROWTH OF "CORE" TOTAL INCOME[3] (+5.3% Y/Y)**

**PROFIT FROM OPERATIONS OF € 1,156 MILLION (+20.1% Y/Y)**

**OPERATING COSTS OF € 2,316 MILION, ON A DOWNTREND (-9.9% Y/Y)**

**INCREASE IN GROSS NPL COVERAGE[4] FROM 36.2% ON 30 SEPTEMBER 2016 TO 49.1% (FROM 46.7% TO 50.7% INCLUDING WRITE-OFFS)**

**NET NPLs DOWN BY € 3.0 BILLION Y/Y AND BY € 2.2 BILLION COMPARED TO YEAR-END, NPL TO TOTAL LOAN RATIO DOWN Y/Y FROM 15.1% TO 13.0% (-212 BP)**

**COMPLETION OF THE NPL DISPOSALS AGREED WITH ECB (€ 8 BILLION) EXPECTED BY JUNE 2018, I.E. 18 MONTHS AHEAD OF THE PLAN TARGET**

**EXCELLENT LIQUIDITY POSITION WITH UNENCUMBERED ELIGIBLE ASSETS EXCEEDING € 20 BILLION[5]**

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[1] The operating figures commented in this News Release are derived from the reclassified income statement, where revenues and costs contributed by the subsidiary Aletti Gestielle SGR have been consolidated on a line by line basis. Attached is also the reclassified income statement where the contribution of the SGR, classified as non-current asset held for sale and discontinued operations under the accounting standard IFRS 5, is reported under the line-item "Gain (Loss) of disposal groups net of tax", and the comparative data have been restated, in compliance with the requirements of the above standard. For further details, please refer to the Explanatory Notes (item 1) of this News Release.

[2] "Adjusted net income" refers to the income for the period net of effects attributable to non-recurring items and the related taxation, illustrated in the Explanatory Notes (item 11) of this News Release. The aggregate does not include the badwill, amounting to € 3,076.1 million, credited to income upon completing the *Purchase Price Allocation* (PPA) of the business combination between former Gruppo Banco Popolare and former Gruppo BPM, which took place on 1 January 2017. Including the non-recurring items and the badwill, the 9M 2017 net income added up to € 3,128.9 million.

[3] "Core total income" combines the P&L items "net interest income" and "net fees and commissions".

[4] For greater details on the accounting treatment of write-offs please refer to the Explanatory Notes, item 6, of this News Release.

[5] Management data as at 7 November 2017.

**Key balance sheet items**[6]

- Customer loans of € 107.9 billion, of which performing -0.5% and non-performing -13.7% compared to 31 December 2016;
- Direct customer funds of € 107.4 billion[7] (€ 110 billion at the end of December 2016), where the decline has been driven by the reduction of more expensive funding sources (term deposits and bonds), while "core" funding through checking accounts and demand deposits is surging (+€ 7.2 billion y/y);
- Indirect customer funds[8] of € 100.3 billion (compared to € 97.2 billion at 31 December 2016), up by 3.2%, of which:
  - Assets under management € 62.4 billion
  - Assets under administration € 37.9 billion.

**Key P&L items**

- "Core" total income of € 3,162 million (€ 3,135 million net of non-recurring items of € 27 million[9]), up by 5.3% (+4.4% "adjusted") compared to the 9M 2016 aggregate;
- Net fees and commissions of € 1,577 million (+13.3% y/y);
- Operating costs € 2,316 million (€ 2,290 million net of non-recurring items), down by 9.9% (-2.5% "adjusted") compared to the 9M 2016 aggregate of € 2,570 million;
- Gross operating income of € 1,156 million, up by 20.1% from € 963 million in the same period of 2016;
- Loan loss provisions of € 988 million, well below € 1,929 million in 9M 2016;
- Net income of € 3,129 million, which, net of a "badwill" of € 3,076 million, comes in at € 53 million, as compared to a loss of € 633 million reported in the same period of 2016.

**Capital position:**

- Pro-forma phase-in CET 1 ratio of 12.82%
- Pro-forma fully-loaded CET 1 ratio of 12.49%
- Phase-in CET 1 ratio of 11.01% (11.65% net of the impact from the put option exercise by Unipol Sai on Popolare Vita and Aviva on Avipop)
- Fully-loaded CET 1 ratio of 10.32% (11.22% net of the impact from the above-mentioned put options exercise);

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[6] Comparative data at 30 September 2016 and 31 December 2016 reflect the sum of the data resulting from the financial statements of former Gruppo Banco Popolare and former Gruppo BPM, net of intercompany relationships and write-downs illustrated in the Explanatory Notes (item 2) of this News Release.
[7] Direct Customer Funds include certificates with unconditional capital protection (€4.2 billion at 30 September 2017 compared to € 4.6 billion at year-end 2016), but are net of repos.
[8] Net of certificates with unconditional capital protection included in "direct customer funds".
[9] For more details on non-recurring items, please refer to the Explanatory Notes (item 11) of this News Release. P&L aggregates net of these items are defined as "*adjusted*".

- Additional benefits expected from the rollout of AIRB model to former Gruppo BPM and from the completion of the bancassurance reorganization project.

**Credit quality**
- Net NPL stock of € 14.0 billion, down by € 3.0 billion y/y and by € 2.2 billion over year-end 2016 (-13.7%).
- Coverage[10]:
    - NPLs: 49.1% vs 37.5% in 2016 (50.7% and 47.9%, respectively, including write-offs);
    - Bad loans: 60.0% vs 45.7% in 2016 (62.0% and 60.0%, respectively, including write-offs).

**Liquidity profile**
- Unencumbered eligible assets of € 18.2 billion at 30 September 2017 (11% of total assets), of which 89% are Italian Government bonds, guaranteeing an ample flexibility when managing funding sources.
- LCR >150% and NSFR >100%[11].

*Milan, 9 November 2017* – In today's meeting, the Board of Directors of Banco BPM, chaired by Mr. Carlo Fratta Pasini, has approved the financial and operating situation of Gruppo Banco BPM at 30 September 2017.

The first nine months of the year have been characterized by a progressively improving macroeconomic scenario, yet interest rates have remained at their lowest levels in several years (3-month Euribor at -0.33%), weighed down by the persistent low inflation. Against this backdrop, Gruppo Banco BPM was still able to perform well in terms of "core" revenues (Net interest income + Net fees and commissions), which went up by 5.3% over the same period last year, and achieved a significant operating cost containment (-9.9% on an annual basis; -2.5% net of non-recurring items). These factors contributed to building up a net income as at 30 September 2017 of € 53 million, which rises to € 143 million net of the non-recurring items reported in the period.
Thanks to the improved macroeconomic environment and the constant de-risking activities through material bad loan disposals (secured and unsecured), as well as to the strong momentum of recovery activities (known as workout), to the lower NPL inflows and the increase in total coverage (49.1% and 50.7% including write-offs), the Group is ahead of schedule with respect to the Plan targets, also given the reduction of total net NPLs by roughly € 3 billion on an annual basis.
On the balance-sheet side, demand deposits also kept on growing (checking accounts and on-call deposits increased by € 7.2 billion on an annual basis), as did assets under management (€ 5.0 billion increase y/y), with material effects in terms of commission streams.
In 9M 2017, the Group launched and completed the activities aimed at achieving the operational integration, through a capital contribution, that gave rise to the new BPM Spa, and a merger, which

[10] For more details on the accounting treatment of write-offs see the Explanatory notes, item 6, of this News Release.
[11] NSFR as at 30 June 2017, latest available data.

gave rise to the Parent company Banco BPM Spa, together with the various steps along the IT migration process of BPM Spa onto the target operating system as of 24 July.
In 9M 2017, actions aimed at reorganizing the Group in keeping with the strategic plan have progressed, and have led to the signing of an agreement with Anima Holding to sell the entire stake in the share capital of Aletti Gestielle SGR. To this regard, we announce that today the final agreements have been signed regarding the sale of 100% of Aletti Gestielle SGR S.p.A.'s capital to Anima Holding, along terms and conditions that follow those communicated on 4 August 2017.
Over the period, also the Bancassurance reorganization process forged ahead, leading to the termination of the partnerships with Gruppo Unipol and Gruppo Aviva, and the attendant exercise by Unipolsai of its put option on the shareholding in Popolare Vita and by Aviva of its put option on the shareholding in Avipop Assicurazioni.
After Q3 closing, Banco BPM and Cattolica Assicurazioni announced their agreement covering the sale of a 65% stake in Popolare Vita and in Avipop Assicurazioni for a total price of € 853.4 million; the agreement also sets out a 15-year strategic partnership between Banco BPM and Cattolica.
Following the news releases dated 17, 31 October and 3 November 2017, it is communicated that today the agreement between Banco BPM and Cattolica Assicurazioni has been perfected through the signing of the legal documentation.
The asset management and bancassurance reorganization actions, on the one hand, bring about an important business value, by strengthening our presence in sectors that are considered strategic, and, on the other hand, they generated positive capital effects, bolstering our capital ratios, in line with the Strategic Plan targets.

**<u>Operating performance</u>**

**Net interest income** came in at € 1,585.1 million, compared to the aggregate figure of € 1,611.5 million at 30 September 2016, down by 1.6%. The annual drop was mainly driven by the lower contribution from the securities portfolio generated by the fair value measurement (under the PPA) of the debt securities held by former Banca Popolare di Milano in its AfS portfolio, and by the decline in the average customer spread. On a like-for-like basis, net of non-recurring items, also in Q3 net interest income reported an increase (+1.1%), driven by the decline in the cost of funding against a basically stable customer spread compared to Q2. The **gain on investments in associates carried under the equity method** came in at € 120.9 million, up from € 111.2 million in the same period last year (which included the € 12.7 million contribution of Anima Holding, which is no longer accounted for under the equity method after the partial sale of the share held in the company and the subsequent reclassification as available for sale), with a Q3 contribution of € 38.9 million, slightly below the Q1 and Q2 contributions of € 41.6 million and € 40.4 million respectively, due to the lower contribution from consumer credit over the quarter caused by the seasonality of revenues. The main contribution to this aggregate was anyhow made by consumer credit through the shareholding in Agos Ducato (€ 86.4 million, compared to € 68.0 million in 9M 2016), followed by the insurance business with a total of € 31.7 million (€ 25.6 million at 30 September 2016).
**Net fees and commissions** added up to € 1,577.0 million, up by 13.3% from € 1,391.9 million in the same period last year. The growth was driven by the excellent performance of brokerage, management and advisory services, which increased by € 200.5 million in absolute terms compared to the 9M 2016 aggregate figure (+30.7%), essentially driven by the growth in asset management and portfolio management products. The Q3 contribution of € 486.3 million is lower compared to the first two quarters of 2017, basically due to a "seasonality" effect, but it is still reporting an 8.2% increase over Q3 2016 (€ 449.3 million).

**Other net operating income** totaled € 74.7 million compared to € 98.5 million in 9M 2016. The lower contribution was mainly due to a greater impairment of "client relationships", totaling roughly € 18.3 million, tied to the recognition on 1 January 2017 of new intangible assets associated with the PPA of the merger of the former Gruppo BPM.

**Net financial income** totaled € 114.8 million compared to € 320.3 million in the same period of 2016. The lower contribution is fully ascribable to the reduced disposal of available-for-sale assets, in particular debt securities, generating a total income of € 29 million (€ 198 million at 30 September 2016). Trading income contributed as well to the period result with € 45.5 million. The Q3 contribution came in at € 13.3 million, down compared to € 63.8 million reported in Q2, due to a lower dividend stream from non-strategic equity investments (distributed mainly in Q2), and to lower gains on the disposal of assets available for sale and a lower trading income. As a result, **total income** added up to € 3,472.4 million compared to € 3,533.5 million aggregate in 9M 2016 (-1.7%). "Core" total income added up to € 3,162.1 million, up by 5.3% compared to € 3,003.5 million in the same period of 2016.

**Personnel expenses,** totaling € 1,369.4 million, went down by 13.6% compared to € 1,584.1 million aggregate in the same period last year, driven by the headcount reduction (-705 resources compared to 31 December 2016). Net of the charge for allowances to the redundancy fund (disbursed in Q2 for FY 2017 and referring to 71 resources), personnel expenses came in at € 1,368.1 million compared to the like-for-like 2016 data of € 1,418.4 million, reporting a 3.5% decline. The total headcount at 30 September 2017 added up to 23,975 employees, compared to 24,318 and 24,680 resources at 30 June 2017 and at the end of 2016 respectively.

**Other administrative expenses** amounted to € 775.1 million, down by 5.3% compared to € 818.1 in the same period last year. A positive impact of € 27.2 million has been factored in and thus deducted from the line-item, tied to the recovery of a charge paid out in 2016 to be able to convert DTAs in FY 2015; while "systemic charges" (ordinary contributions to the Single Resolution Fund (SRF) of € 62.4 million - € 58.8 million in FY 2016, a fee of € 20.0 million - € 20.2 million in FY 2016 - to retain the right to deduct DTAs for the year, and the projected contributions of € 36.9 million - 35.6 million in FY 2016 - to the Fondo Interbancario di Tutela dei Depositi) totaled € 119.3 million (€ 114.6 million at 30 September 2016). Finally, the line-item includes merger and integration costs of € 38.2 million. Net of these components highlighted in the comparison with 9M 2016, this line-item declined by 3.7% driven by efficiency gain actions. **Net write-downs of tangible and intangible assets** for the period stood at € 171.7 million, up by 2.1% compared to € 168.3 million at 30 September 2016. The item includes an impairment of € 9.0 million (€ 17.9 million at 30 September 2016). Net of these non-recurring items, it increased by 8.2%, mainly driven by a higher amortization, amounting to approx. € 6.6 million, tied to the recognition at fair value of the property of Gruppo BPM during the PPA process.

Total **operating costs** added up to € 2,316.2 million compared to € 2,570.4 million in 9M 2016, down by 9.9%. Net of the above non-recurring items, the decline drops to 2.5%.

**Net write-downs on impairment of customer loans** stood at € 987.8 million compared to € 1,928.6 million in 9M 2016. The cost of credit, measured as the net loan loss provision to net loan ratio, came in at 122 bps, reporting a steep decline from 268 bps last year, when it had been affected by the decision to increase the average NPL coverage. Net NPL inflows from performing loans have also plummeted (-66.0%, approx. € 0.6 billion, against approx. € 1.9 billion in 9M last year).

**Net write-downs on impairment of bank receivables and other assets** of € 127.5 million were charged to income (€ 23.8 million at 30 September 2016), which include the impairment of € 82.1 million of assets available for sale, of which € 61.0 for the shares held in the Atlante Fund, and € 15.3 for the other exposures to the Venetian banks, as well as the € 45.5 million write-down of the commitments towards the voluntary scheme of the Fondo Interbancario di Tutela dei Depositi.

**Net provisions for risks and charges** reported a charge of € 4.5 million compared to € 13.6 million in the same period last year.

In 9M 2017, **gains on disposal of equity and other investments** of € 13.6 million were reported, of which € 11.7 million for the measurement at fair value of the stake in Energreen, and € 2.0 million for the disposal of property (at 30 September 2016 the reported gain had been of € 35.1 million).
**Income tax on continuing operations** at 30 September 2017 came in at minus € 6.3 million (+ € 319.6 million at 30 September 2016), and it includes the negative impact of € 13.7 million tied to the closing of a tax dispute.

Considering the net income attributable to non-controlling interest (+€ 8.8 million), the first nine months of 2017 closed with a **net income for the period ex "badwill"** of € 52.7 million, compared to a net loss of € 632.7 million reported in the same period last year.
The "badwill" that came out once the PPA process was completed and that was posted to income amounted to € 3,076.1 million, bringing the net income for the 9M at € 3,128.9 million.
Net of non-recurring items, which includes badwill, the "adjusted" Net income comes in at € 143.5 million.

## Key balance sheet items

**Direct funding**[12] at 30 September 2017 totaled € 107.4 billion, down by 2.4% compared to € 110.0 billion at 31 December 2016 and by 3.2% compared to 30 September 2016. The y/y comparison shows a very strong growth of checking accounts and demand deposits held with the branch network (+10.7% y/y, from € 67.5 to € 74.7 billion), more than offset by the decline in bond issues (-28.0%), which dropped to € 20.9 billion from € 29,0 at 30 September 2016) and in term deposits, which declined to € 3.9 billion compared to € 5.6 billion at 30 September 2016 (-30.1%). In Q3 an increase of € 0.6 billion in direct funds was reported (+0.6%), driven by the further growth of checking accounts and demand deposits with the branch network (+€ 2.5 billion, +3.5%), only partly offset by the € 1.0 billion decline in bonds issued (-4.4%), and of term deposits (-12.6%), in line with the policy aiming at progressively reducing the cost of funding by cutting back on the more expensive funding sources. The funding guaranteed by the stock of certificates issued by the Group, which at 30 September 2017 was € 4.2 billion, reported a decline both compared to € 4.6 billion at year-end 2016, and to H1 2017, with € 4.3 billion.

**Indirect funding,** net of capital protected certificates, amounted to € 100.3 billion, up by 3.2% compared to € 97.2 billion at 31 December 2016 and by 4.0% compared to € 96.5 billion at 30 September 2016. The growth compared to 31 December 2016 (+3.2%) was driven by assets under management (+7.4%), totaling € 62.4 billion, supported by the good performance of funds and SICAVs, which over the period grew by 13.1% and reached a total amount of approx. € 4.5 billion, and by the increase in portfolio management (+6.1%). Assets under administration, net of capital protected certificates, came in at € 37.9 billion, down by 3.0%. Also on a y/y comparison, assets under management reported a strong growth (+8.7%, € 5.0 billion), always and almost exclusively driven by Funds and SICAVs. This growth has been only partly offset by the € -1.1 billion decline (-3.0%) in assets under administration, net of capital protected certificates.

**Financial assets** represented by securities totaled € 36.1 billion, up by 6.7% compared to € 33.8 billion at 31 December 2016, while they remained practically stable compared to € 36.2 billion at 30 September 2016. The increase over the end of 2016 was driven by the growth in assets held to maturity, which went from € 8.4 billion in December to € 11.7 billion at the end of September. At 30 September 2017, the portfolio composition was: € 33.7 billion of debt securities, € 1.8 billion of equity

[12] Includes checking accounts and demand and term deposits, issued bonds, certificates of deposit and other securities, facilities and other debts, capital protected certificates. Repos are not included.

securities and finally units in collective investment undertakings of € 0.6 billion. The Sovereign debt securities exposure was € 28.6 billion (as on 30 June 2017), of which € 24.6 billion (€ 26.0 billion at 30 June 2017) represented by Italian government bonds. Diversification is still under way, and indeed the non-Italian government bond exposure accounts for approx. 14%, compared to 9% in June 2017.

At 30 September 2017, **net customer loans** came in at € 107.9 billion, down by 4.0% compared to € 110.6 billion at the beginning of the year. The decline was mainly driven by the strong drop in net non-performing loans, that over the nine months decreased by approx. € 2.2 billion, while performing loans, which overall reported a slight decline of approx. 0.4 billion, rose by approx. € 0.5 billion when excluding repos and the Leasing division component. Even the comparison with data at 30 June 2017 shows that the NPL trend has been declining by more than € 0.2 billion.

**Net non-performing exposures** (bad loans, unlikely-to-pay and past dues) at 30 September 2017 totaled € 14.0 billion, down by € 3.0 billion (-17.5%) compared to 30 September 2016 and by € 2.2 billion (-13.7%) compared to € 16.2 billion at 31 December 2016 and by 1.7% compared to € 14.2 billion at 30 June last. The decline was driven by the drop in net NPL flows (€ 0.6 billion in 9M 2017, down by 66.2% compared to € 1.9 billion in 9M last year, by the internal workout, by the disposals carried out over the period and by loan write-downs applied upon measuring the fair value of the NPLs of the former Gruppo BPM under the PPA.
The analysis of the single loan categories shows the following 9M dynamic:

- Net bad loans of € 6.9 billion, down by 14.4% y/y (-0.6% over 30 June 2017);
- Net Unlikely-to-pay loans of € 6.9 billion, down by 19.9% y/y (-3.5% over the prior quarter);
- Net past-due loans of € 149.8 million, down by 37.5% y/y (+45.1% compared to 30 June 2017).

The aggregate NPL coverage ratio stood at 49.1% (50.7% when including write-offs), up compared to 37.5% (47.9% including write-offs) at 31 December 2016 and 49.0% at 30 June 2017.
In In greater detail, at 30 September 2017 the coverage ratios were:

- Bad loans 60.0%, up to 62.0% including write-offs (60.0% at 31 December 2016);
- Unlikely-to-pay loans 31.0% (27.2% at 31 December 2016);
- Past-due exposures 22.1% (18.2% at 31 December 2016).

The coverage ratio of performing loans came in at 0.41%, compared to 0.43% at 31 December 2016. Net of repo transactions, which are practically risk-free, the performing loans coverage ratio goes up to 0.44% (0.46% at 31 December 2016).

## Group capital ratios[13]

At 30 September 2017, Group Own Funds reached €10,649 million, up compared to € 10,422 million at 30 June as a result of the issuance of the 500 million 10-year subordinated note completed on 14 September 2017.
The Common Equity Tier 1 ratio (CET1 ratio) came in at 11.00% compared to 11.07% at 30 June 2017 (11.94% pro-forma at 1 January 2017). The decline reported in the quarter was mainly due to the further temporary increase in capital deductions following the update of the valuation of the put

[13] Based on art. 26 paragraph 2 of EU Regulation no. 575/2013 of 26 June 2013 (CRR), the inclusion of interim net income in the Common Equity Tier 1 Capital (CET1) is subject to the prior authorization of the competent authority (ECB), for which it is required that they are audited by the auditing company.
The financial and operating situation of the Group at 30 June 2017 has underwent a limited audit. The auditing company issued their report on 7 August 2017 and the ECB authorized the inclusion of the H1 2017 interim net income in the calculation of CET1 Capital with decision of 10 August 2017. Since the Q3 result is a net loss, it must necessarily be deducted from CET1 Capital as at 30 September 2017.

option exercised by Aviva on the shareholding held in the associate Avipop[14]. The valuation of the commitment associated with the exercise of the option, together with the valuation of the put option exercised by UnipolSai on the stake held in the associate Popolare Vita[15], generated a temporary negative impact on the CET1 capital at 30 September 2017 totaling 63 bps. The impact is bound to be more than absorbed as a result of the agreement entered on 3 November 2017 to sell 65% of the capital of Avipop and Popolare Vita to Cattolica Assicurazioni for a total price of 853.4 million. Note that right from the first quarter the CET1 ratio has been negatively affected by the approx. 3 billion increase in RWA, as a result of the adoption by the Regulator of a temporary buffer, based on the fact that the current AIRB models used to measure credit risks have not been validated yet to calculate RWAs on defaulted assets and retail EAD. Once we receive the authorization to rollout the AIRB models to include the risk assets of former BPM, this buffer will be reabsorbed.
The Tier 1 ratio came in at 11.24% compared to 11.31% at 30 June 2017, while the Total Capital ratio was 13.86% compared to 13.43% at 30 June 2017.
The estimated fully-loaded CET1 ratio is 10.32% compared to 10.40% at 30 June 2017 (11.42% pro-forma at 1 January 2017).
Considering the expected impacts from the sale of the entire stake held in the subsidiary Aletti Gestielle SGR16 to Anima Holding, and the effect from the sale of 65% of the capital of Avipop and Popolare Vita to Cattolica Assicurazioni, the pro-forma fully-phased CET 1 ratio comes in at 12.49%17.

**OPERATIONAL OUTLOOK**

In Q4, with the NPL unit fully on-stream, having completed the IT integration and defined the asset management and bancassurance partnerships, the Group will continue to focus on the implementation of the actions set out in the 2016-2019 Strategic Plan, giving priority to the completion of the bad loan disposals planned for 2017, to the activities aimed at implementing the new distribution network organizational model and to the rationalization of the private and investment banking businesses.
As to the ordinary course of business, the focus will be on recovering profitability, that will benefit from the synergies generated by the merger, which in any case will become more evident in 2018.
Although income margins will still be under competitive pressure, the income dynamic may benefit from an additional reduction in funding costs, thanks to the actions put in place to cut back on the more expensive funding sources, as well as from rising loans and from the trends that are characterizing fees and commissions, in particular from management, brokerage and advisory services.
The containment of operating costs through efficiency gains, specific actions to optimize expenses and the rationalization of organizational functions will continue to represent a main focus area.
NPL coverage levels will remain high, and the NPL stock will keep on decreasing thanks to internal work-out activities and, as already mentioned, through the implementation of the bad loan disposal plan.

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[14] On 28 September 2017, Banco BPM and Aviva reached an agreement under which the sale price of the shareholding under examination has been fixed at 252.5 million.
[15] Banco BPM S.p.A. and UnipolSAI have not reached an agreement on the sale price of the shareholding under examination. To date, an arbitrator is valuing the price. Pending the conclusions of the arbitrator, the put option value has remained unchanged as compared to the one used to calculate the capital ratios as at 30 June 2017 based on the latest internal valuations conducted by Banco BPM (357 million).
[16] On 4 August 2017, Banco BPM signed a binding agreement for the sale of 100% of Aletti Gestielle SGR at a cash price of 700 million, plus the excess net equity and the net income for the period at the closing date.
[17] In the absence of precise indications on the actual sale price, the pro-forma ratio was calculated on the assumption that the sale price corresponds to the value assigned to the shareholding when calculating the capital ratios as at 30 June 2017.

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The financial reporting officer, Mr. Gianpietro Val, in compliance with art. 154, paragraph 2 of the Consolidated act for financial intermediation, hereby states that the accounting information illustrated in this press release is consistent with documental evidence, accounting books and book-keeping entries.

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The results as at 30 September 2017 of Gruppo Banco BPM will be presented to the financial community during a conference call to be held today, 9 November 2017 at 06.30p.m. (C.E.T.). The documentation supporting the conference call is available on the website of the authorized central storage mechanism (www.emarketstorage.com), as well as on the Bank's website (www.bancobpm.it), where all the instructions to connect to the event are also available.

**Explanatory Notes**

This News Release represents the document through which Banco BPM decided to disclose to the public and to the market, on a voluntary basis, supplementary periodic information in addition to the half-year and annual reports ("quarterly reports"), in compliance with the disclosure policy communicated to the market in the press release "2017 Corporate Calendar" released on 30 January 2017, pursuant to art. 82-ter of the Issuers Regulation effective on 2 January 2017. For the sake of completeness, please note that the quarterly reports include also the result presentation handout prepared as a support for the conference call with the financial community to be held after this News Release has been released.
This quarterly report includes a comment on the quarterly operating performance that focuses on the dynamic of the key P&L, balance sheet and financial items, and is based on the reclassified balance-sheet and income statements at 30 September 2017, prepared based on the criteria and standards illustrated in item 1 below.

**1. Accounting policies and reference accounting standards**

The reclassified balance sheet and income statement have been prepared based on the financial statements layout indicated in the Bank of Italy's Circular no. 262/2005, following the combination and classification criteria illustrated in the condensed consolidated half-yearly report as at 30 June 2017 of Banco BPM, which are in line with the criteria applied for the preparation of the Annual Report as at 31 December 2016 of former Gruppo Banco Popolare, which, under IFRS3 and for accounting purposes only, is considered the acquiring company. Please note that, in order to provide a direct representation of the effect of the business combination, an ad hoc line-item has been added to the reclassified income statement called "Merger difference (*Badwill*)", as will be better explained in item 4 below.
Finally, it should be pointed out that as a result of the agreement to sell the subsidiary Aletti Gestielle SGR to Anima Holding, signed on 4 August 2017, in the accounting situation as at 30 September 2017 the assets and liabilities of the SGR have been classified and measured as assets and liabilities under disposal, pursuant to IFRS 5. In particular, in the balance sheet as at 30 September 2017 said assets and related liabilities are posted under the consolidated balance sheet line-items "Non-current assets held for sale and discontinued operations" and "Liabilities associated with non-current assets held for sale and discontinued operations", with no restatement of the comparative balances. As to the income statement, the contribution of the subsidiary has been posted under the reclassified P&L line-item "Gain (Loss) from disposal groups after tax", both for the first nine months of 2017, and for the prior period under comparison, which have therefore been restated compared to what had been published originally. From a measurement perspective, the adoption of the measurement criteria under IFRS 5 did not give rise to any impact on the operating result and on the stated net equity as at 30 September 2017, considering that the selling price, net of the related costs, is well above the consolidated book value of the assets and liabilities under disposal.

Based on the reclassified income statement described above, another income statement has been prepared, where the costs and revenues related to the consolidated contribution of the subsidiary Aletti Gestielle SGR are reported on a line-by-line basis. In order to guarantee the continuity with the published comments relating to H1 and Q1 2017 results, the aggregates resulting from this latter statement have been taken as a reference for the economic trend comments illustrated in this News Release.

Two versions of the reclassified income statement are attached to this document, one with the aggregate contribution from Aletti Gestielle SGR, and the second with the line-by-line classification. Similarly, also a double version of the income statement quarterly evolution in the nine-months is provided.

The accounting criteria followed to prepare the consolidated financial statements as at 30 September 2017, as pertains the classification, recognition, measurement and cancellation of assets and liabilities, as well as the recognition of costs and revenues, comply with the IAS/IFRS issued by the *International Accounting Standard Board (IASB)* and the related

interpretations of the *International Financial Reporting Interpretations Committee (IFRIC),* as adopted by the European Commission and effective on 30 September 2017, pursuant to the EC Regulation no. 1606 of 19 July 2002.
The adoption of certain accounting standards necessarily calls for the use of estimates and assumptions that have an impact on the value of assets and liabilities recognized in the balance sheet. The assumptions used to calculate estimates take into account all available information upon preparing the quarterly report as at 30 September 2017.
Considering the uncertainty characterizing the reference environment, it cannot be ruled out that the estimates and assumptions, albeit reasonable, may fail to be confirmed in the future scenarios in which the Group may be operating. Therefore, future actual results may differ from the estimates generated to prepare the balance-sheet and income statement as at 30 September 2017 and adjustments may be necessary that cannot be predicted or estimated today against the carrying amount of assets and liabilities recognized in the balance sheet.
The information provided in this document has not been prepared on the basis of the IAS 34 accounting principle regarding interim financial reporting and is not are not subject to any external audit. A description of the accounting policies of Gruppo BPM and of the main uncertainties with regard to the use of estimates to prepare the financial statements is provided in the Half-yearly financial report as at 30 June 2017.

## 2. Formation of key comparative combined balance sheet and P&L items

On 1 January 2017, the consolidation between Banco Popolare Soc. Coop. and Banca Popolare di Milano S.c. a r.l., came into effect, to form a new bank named Banco BPM S.p.A.
For the purpose of this News Release, in order to provide an adequate disclosure on the evolution of the Group's capital, financial and operating situation, we have prepared comparative reclassified financial statements, on a combined basis, namely the balance sheet as at 31 December 2016 and the income statement as at 30 September 2016, following the same criteria used to prepare the financial and operating situation as at 30 September 2017. More precisely, the financial statements have been prepared by combining the data taken from the consolidated financial statements as at 31 December 2016 and 30 September 2016 of former Gruppo Banco Popolare and former Gruppo BPM, and introducing the following adjustments:

- elimination of main inter-company balance sheet and P&L relationships;
- value-adjustment based on the equity method of the investments held in the associates Alba Leasing and Factorit, for the corresponding share which before the merger was classified in the "AFS financial assets" portfolios of former Gruppo BPM for Alba Leasing and former Gruppo Banco Popolare for Factorit;
- elimination of the investment held by former Gruppo BPM in Release S.p.A. under "AFS financial assets", against the reduction in "Minority interest", as it was a fully consolidated subsidiary of former Gruppo Banco Popolare;
- restatement of the effects linked to changes in own credit risk for liabilities designated at fair value (FVO) under a specific equity reserve, instead of through profit and loss. In the reclassified income statement of FY 2016 these effects had already been posted in a specific line-item, as they were deemed irrelevant to the correct understanding of the operating performance. For additional details please refer to the following item 3.

## 3. New presentation of effects tied to the changes in own credit risk of liabilities designated at fair value (FVO) – Early adoption of the rules under the new IFRS 9

With Regulation EU no. 2067 of 22 November 2016, the accounting standard IFRS 9 was ratified, to come mandatorily into effect on 1 January 2018. Under this standard, it is permitted to make an early adoption limited to the provisions covering the presentation of changes in own credit risk for financial liabilities designated at fair value (known as "Fair Value Option - FVO") before 1 January 2018, without extending it to the other provisions of the standard. To this regard, please note that when preparing the condensed half-yearly report as at 30 June 2017, Gruppo Banco BPM decided to make use of this option. More precisely, based on the new standard provisions, the effects of own credit risk changes are recognized under a specific equity reserve, and not through profit and loss, even if the liability is expired or has been paid off.
At 30 September 2017, changes in own credit risk of liabilities under fair value option, net of the associated taxes, generated a negative effect of € 15.1 million. To provide a like-for-like comparison, the comparative balances of the reclassified accounting statements have been restated; namely, the positive effects from the changes in own credit risk referring to 9M 2016 and to full-year 2016, amounting to€ 5.9 million and € 4.2 million respectively, have been posted as an off-set entry to the line-item "Capital and reserves" of the reclassified balance sheet.

## 4. PPA (Purchase Price Allocation) effects for the business combination with former Gruppo Banca Popolare di Milano

Based on a number of size and qualitative parameters under IFRS 3 on business combinations, the merger under consideration for purely accounting purposes is considered as an acquisition of Banca Popolare di Milano S.c. a r.l. by Banco Popolare Soc. Coop., to be accounted for using the acquisition method.
Based on this method, at the date of acquisition (1 January 2017), the acquirer must allocate the purchase price (known as PPA "*Purchase Price Allocation*") to the identifiable assets acquired and liabilities assumed at their fair value, recognizing also the non-controlling interest value of the acquiree. In case the purchase price exceeds the fair value of these assets and liabilities, this unallocated surplus must be recognized as goodwill; if otherwise there is a shortfall, generated by a purchasing price allocation at a bargain price, then this shortfall is recorded to income as badwill.

With respect to the merger under consideration, the purchase price was € 1,548.2 million, resulting from the valuation of the shares issued by Banco BPM S.p,A, assigned in exchange for the shares of former BPM (no. 687,482,024), based on the fair value set as the opening price on 2 January 2017 (Euro 2,252 per share), this being the first available share price since the coming into legal effect of the merger.

Based on the allocation process described above, the measurement at fair value of net assets acquired produced a surplus amounting to € 259.9 million, net of associated tax effect (€ 405.5 million, gross of tax effect) over the book equity of former

Gruppo BPM, which amounted to € 4,364.4 million. The fair value of former Gruppo BPM's acquired net assets totaled € 4,624.3 million. Illustrated below are the value adjustments of acquired net assets compared to the corresponding book values reported by the former Gruppo BPM:

- lower loan value of € 482.5 million due to the joint effect of the higher value of performing exposures (€ 363.0 million) and the lower fair value assigned to non-performing exposures (€ 364.3 million for unlikely-to-pay loans and € 481.2 million for bad loans);
- write-up of tangible assets represented by property, of € 311.1 million;
- recognition of new intangible assets, represented by trademarks (€ 282.1 million) and client relationship *(*€ 299.3 million);
- fair value adjustment to equity shareholdings, with fair value lower compared to the book value, as measured along the equity-based method € 31.8 million;
- fair value adjustment to certain financial assets and liabilities, resulting in a net total amount of € 31.2 million;
- increase of € 4.0 million in provisions for risks and charges;
- net liabilities tied to the tax effects of the items listed above, amounting to € 145.6 million.

As a result of the above process, the negative difference between the purchase price (€ 1.548,2 million) and the fair value of net assets acquired (€ 4,624.3 million), equal to minus € 3,076.1 million, was posted to income as gain from "*bargain purchase*" and is listed as a separate line-item of the reclassified income statement as at 30 September 2017. The PPA process has been definitively approved by the Board of Directors of the Parent company in the meeting held on 8 June 2017.
Following the fair value adjustments of net identifiable assets recognized in the consolidated financial statements of Gruppo Banco BPM at 1 January 2017, described above, the total effect on the consolidated net income of 9M 2017, as a result of the reversal of the above-mentioned value adjustments, came in at plus € 92.4 million, as itemized below by single reclassified income statement line-item:

- net interest income: overall € 30.1 million positive impact for the period, as a combined effect of performing loans (negative impact of € 76.2 million) and unlikely-to-pay loans (positive impact of € 106.3 million), as a result of the higher and lower values recognized under the PPA;
- other operating income: negative impact for the period of € 19.8, driven by the amortization of finite-lived intangible assets (client relationships);
- Write-down of tangible assets: 9M negative impact of € 6.8 million, referring to the depreciation of the higher values recognized on property;
- loan write-downs: lower net write-downs in 9M, amounting to €+134.5 million, as a result of the reversal of lower values recognized under the PPA;
- Income tax for the year: total tax payable with respect to the above adjustments comes in at € -45.6 million.

Compared to the results of the above process temporarily recognized in the financial statements as at 31 March 2017, note that the bargain purchase has come down by euro 47.7 million, following the re-measurement of the fair value of assets tied to performing loans and real estate.

The new measurements of BPM's assets and liabilities pursuant to IFRS 3 and the new basis of presentation of the fair value option required that the Q1 2017 result be recalculated. As a result, the restated net income for Q1 2017 is 3,191.3 million, instead of 3,240.7 million, as originally reported.

For a better understanding of the contribution of PPA effects to the net income of the period, please find attached the PPA quarterly evolution for FY 2017 (inclusive of the residual effect of the business combinations illustrated in item 5 below.)

### 5. *P&L effects caused by the Purchase Price Allocation of the business combinations of former Gruppo Banca Popolare Italiana and former Gruppo Banca Italease*

In compliance with IFRS 3, the income statement of Gruppo Banco BPM includes the P&L effects caused by the allocation of the merger difference in the business combination, which took place in 2007, with Gruppo Banca Popolare Italiana and of the price paid in 2009 to acquire Banca Italease under the above standard. To this respect please note that the P&L effects under examination have gradually tapered off and some of them are no longer significant. The only worth mentioning residual effects come from the amortization of intangible assets having a finite useful life recognized after the acquisition of Gruppo Banca Popolare Italiana, amounting to € 14.9 million at 30 September 2017 (€ 9.9 million at 30 June 2017), and posted under the line-item "Other operating income". Taking into account the additional reversals of adjustments under the PPA of the business combination under consideration, the overall negative effect on the net consolidated income as at 30 September 2017 came in at € 12.6 million (€ 8.6 million at 30 June 2017).

### 6. Presentation of loan loss provisions on exposures under insolvency procedure

With regard to the recognition of loan loss provisions, in the accounting policies at 31 December 2016, former Gruppo Banco Popolare had illustrated the accounting treatment followed for bad loans to borrowers under insolvency procedures (bankruptcy, compulsory receivership, agreements with creditors, extraordinary administration for large companies in distress). The bad debt expense method followed for this type of exposures was the direct write-off method, based on which the loan amount considered uncollectible is written off. Moreover, it had been clarified that the loan write-off method was an equal alternative to the allowance method, whereby loans remain on-balance sheet through their recognition in a loan loss provision; in other words, the direct write-off procedure had by no means been construed to reflect the loan's different probability of recovery compared to that of a loan written-down against a loan loss provision.
The practice of writing off bad loans stemmed from the need to guarantee an immediate accounting recognition of losses from loans under insolvency procedures, due to the different tax treatment of loan losses compared to loan impairments under the regulations in force before the coming into effect of Law no. 132 of 6 August 2015.

To this respect, former BPM applied a different accounting practice.
When it came to harmonizing the accounting policies of the two merging groups, the basis of presentation of gross bad loans adopted by Banco BPM included the write-offs posted in the past by Banco Popolare, with loan loss provisions increased by an equal amount to ensure consistency. This decision did not give rise to any balance sheet and P&I effect for Banco BPM, since the choice between cancelling the amount of the loan that is deemed unlikely to be recovered and keeping the same loan on the books, against a loan loss provision equal to the amount deemed unlikely to be recovered is totally neutral.

At 30 September 2017, outstanding bad loans to borrowers under insolvency procedures not included in the stated gross bad loans and associated loan loss provisions came to € 896.1 million (€ 999.1 million at 30 June 2017). This information is provided exclusively to calculate the coverage level of bad loans and impaired loans in a consistent manner, so that it can be compared with past reports of the merging banks,

**7. New DTA regulations under Law Decree no. 59/2016**

Article 11 of L.D. no. 59 of 3 May 2016, transposed into law by amending Law no. 119 of 30 June 2016, introduced a new optional regime, whereby the guarantee to transform into tax credits those deferred tax assets (DTAs) complying with the requirements set forth by Law no. 214 of 22 December 2011 is subordinated to the payment of a fee, due for financial years from 31 December 2015 to 31 December 2029, whose amount is to be calculated every year. The election into the optional regime is irrevocable.
More specifically, the annual fee to be paid to be authorized to convert the eligible DTAs into tax credits must be calculated every year by applying a 1.5% charge to a "base" obtained by adding together the difference between convertible DTAs recognized in the reference annual report and the corresponding DTAs recognized in the 2007 annual report, the amount of DTAs converted into tax assets from 2008 up until the reference financial year, and by subtracting the taxes specified in the Decree and paid over the same period. Fees are deductible for both IRES and IRAP purposes in the financial year they have been paid out.
For FY 2016, the two merging groups had elected into the optional regime by paying the fee for FY 2015 by 31 July 2016. The total fee amount came in at € 27.2 million, and was fully charged in Q2 2016,
On 21 February 2017, the law transposing the Decree Law no. 237/2016 (known as Salva Risparmio) was published in the Official Gazette (L. no. 15 of 17 February 2017,); more specifically, art. 26 bis, paragraph 4, amended article 11 of D. L. 59/2016, postponing the period over which the annual fee is due, now from 31 December 2016 to 31 December 2030. Because of the new regulations, in the first quarter the line-item "Other administrative expenses" includes the non-recurring gain produced by the reversal of the 2015 "extraordinary" fee, recognized in the 2016 financial statements (€ 27.2 million).
The line-item "Other administrative expenses" includes also the estimated fee accrued in 9M 2017, amounting to € 20.0 million.

**8. TLTRO II – "Targeted Longer Term Refinancing Operations"**

At 30 September 2017, funding operations with the ECB, entirely made up of TLTRO II facilities, came to a principal of € 21.4 billion, of which € 15 billion pertaining to the Parent company Banco BPM and € 6,4 billion to the subsidiary BPM.
For each TLTRO II operation, having a fixed maturity of four years after the disbursement (which occurred based on four quarterly auctions as of June 2016), the reference rate is the one applied to main refinancing operations at the date of each award, that is, zero. However, there is the possibility of benefitting from a more favorable interest rate on deposits with the ECB, up to max. 0.4%, if between 1 February 2016 and 31 January 2018, net eligible loans should exceed by at least 2.5% a given benchmark.
Atl 30 September 2017, since both Banco BPM and BPM have reached the target set for 31 January 2018, and since a plan is in place to maintain this result, the interest on the financing has been assessed taking the negative interest rate of 0.4% as reference, based on the amortized cost method under IAS 39, deemed applicable for this type of operation. Please note, that the interest thus calculated over the 9M 2017 totaled € 93.6 million (€ 21.9 million in Q3), of which € 31.7 million refer to non-recurring accruals as they refer to the second half of 2016, that were not recognized in the 2016 financial statements because at the date of preparation of the annual report there were no clear and sustainable elements to support the probability of attaining the potential benefit.

**9. Charges generated by the contribution to resolution mechanisms, to the deposit guarantee scheme and by joining the FITD Voluntary Scheme**

In April 2017, the Bank of Italy communicated to the banks of the Group the contribution amount to be paid to the Single Resolution Fund for FY 2017, totaling € 62.4 million (€ 58.7 million being the ordinary contributions for FY 2016). The contribution was fully charged to income in Q1 under the line-item "other administrative expenses". Please note that in 2017, as in the prior year, the Group did not exercise the option of paying up to 15% of the total contributions due with irrevocable payment commitments (IPC).

With regard to the deposit guarantee scheme, considering that the Fondo Interbancario di Tutela dei Depositi (FITD) has not communicated yet the contribution due in FY 2017, when preparing the accounting report as at 30 September 2017 the contribution under examination was estimated by taking into account the accumulation plan notified by FITD the prior year. The estimated contribution thus came to € 36.9 million (€ 34.6 million in FY 2016), and it was fully charged under the line-item "other administrative expenses" in Q3, which is considered the period during which the contribution is to be paid. In light of what explained above, it is therefore impossible to rule out that the 2017 contribution that will be due to the FITD may differ from the contribution estimated for the purposes of this News Release.

Finally, it should be pointed out that the banks of Gruppo Banco BPM joined the FITD Voluntary Scheme, set up in November 2015 to implement actions to support its member banks under extraordinary administration or failing or likely to fail. At 30 September 2017, the total commitment by the member banks came in at € 795 million (of which € 280 million already used in

2016 for an action in favor of Caricesena and € 5 million as a residual endowment to cover the operational needs of the Voluntary Scheme to manage the action).
On 29 September 2017, the Voluntary Scheme entered a Framework Agreement with Crédit Agricole Cariparma for the three banks Caricesena, Carim and Carismi. Based on the communication received from the Voluntary Scheme on 31 October 2017, the action in favor of the three banks covers:

- the spin-off of a loan portfolio comprised of bad loans and unlikely-to-pay loans, to allow the three banks to reach an aggregate gross NPL ratio not exceeding 9%. This will be achieved, inter alia, through a securitization whereby the Voluntary Scheme will subscribe tranches adding up to € 170 million (more precisely, a mezzanine tranche of € 12 million and a junior tranche of € 158 million);
- the recapitalization of the three banks for a total of € 470 million, in addition to the payment of € 280 million in 2016 in favor of Caricesena;
- the sale of the three banks to Crédit Agricole Cariparma for € 130 million, to be carried out in concomitance with the recapitalization.

The entire operation is expected to be closed between the 18 and 22 December 2017, subject to the occurrence of certain conditions, such as the authorization by the competent authorities for Crédit Agricole Cariparma to acquire a controlling stake in the three banks.
Considering the shareholding held by Gruppo Banco BPM in the Voluntary Scheme (8.1998% based on the latest data as at 31 March 2017), the total contribution due by the Group comes in at € 64.7 million, of which € 22 million already paid in 2016 for the action in favor of Caricesena.
Although the transaction is subject to a number of conditions, we deem that the agreements entered in September 2017, which in practice cause the failure to recover the cost of the recapitalizations that have been carried out, give rise to the need to recognize already as at 30 September 2017 a € 45.5 million impairment of the related commitment (under the line-item "Net impairment of due from banks and other transactions"), corresponding to the Group's share in the total payments made to recapitalize the three banks, net of the sale price and of the impairment of the investment in Caricesena (€ 5.3 million) that had already been recognized in 2016.
As to the action to be implemented through the subscription by the Voluntary Scheme of the securitization tranches, a commitment of € 13.9 million was recognized to disburse the funds attributable to the Group; a more thorough assessment of this commitment will be possible by the end of the year when a business plan will be made available, based on the forward-looking estimate of the securitization loan recovery.

**10. Changes in consolidation scope**

At 1 January 2017, the consolidation scope of Gruppo Banco BPM, represented by subsidiaries and companies under significant influence, corresponded to the sum of equity investments in subsidiaries and associates of the two merging groups. More specifically, with regard to controlling stakes, the controlling shareholding in the company Release S.p.a. has increased: the investment held by former Gruppo BPM, equal to 2.92% and classified in the "AFS financial assets" portfolio, has been added to the 80% interest held by former Gruppo Banco Popolare.
With regard to investments in associates, certain shareholdings increased as a result of the reclassification of the following investment which was previously classified in the "AFS financial assets" portfolio:

- Alba Leasing (39.189% interest held by Gruppo Banco BPM): the stake held by former Gruppo BPM (9.039%) was added to the interest held by former Gruppo Banco (30.15%), classified under equity investments;
- Factorit (39.5% interest held by Gruppo Banco BPM): the share classified by former Gruppo Banco Popolare (9.5% of share capital) has been classified under equity investments under significant control, and it incremented the stake already held by former Gruppo BPM and classified as equity investment (30% of share capital).

The only noteworthy change in Q1 2017 was the exit of Energreen S.A. from the scope of consolidation of associates; once we analyzed the events occurred over the period, we deemed we could rule out the possibility of classifying the investment as being under significant influence. Therefore, the equity investment was reclassified in the "AFS financial assets" portfolio; the positive difference between the newly recognized fair value and the previous book value, coming in at plus € 11.7 million, was posted in the consolidated income statement of Q1 2017, under line-item "gain or loss on the disposal of equity and other investments".

In Q2, following the completion of the liquidation procedures and the cancellation from the Companies Register, the subsidiaries Bipitalia Residential and BPV Mortgages were no longer within the full consolidation scope, effective in Q1.

Moreover, upon completion of two mergers, the subsidiaries Italease Gestione Beni, Sviluppo Comparto 2, TT Toscana Tissue, Essegibi Promozioni Immobiliari (merged into Bipielle Real Estate) and HCS (merged into Terme Ioniche) were no longer within the full consolidation scope).

It should be pointed out that the events that took place in the first nine months of the year regarding the reorganization of the Bancassurance business, following the non-renewal of the distribution agreements with Gruppo Unipol for life insurance and with Gruppo Aviva for P&C insurance, caused no change in the consolidation scope as at 30 September 2017 with respect to the stakes held in Popolare Vita and in Avipop Assicurazioni, on which the Group is still exercising a significant influence.

**11. Non-recurring items in the combined income statement of Gruppo Banco BPM**

In compliance with the instructions set forth in Consob's Communication no. DEM/6064293 dated 28 July 2006, the effects of the main non-recurring items are illustrated in the operating report, as summarized below:

- the line-item "net interest income" includes interest income on the TLTRO II facility for FY 2016, totaling € 31.7 million, gross of tax effect (for more details please refer to item 8 above); the line-item includes also the negative impact of 4.1 million from interest expense paid on the settlement agreement to close a past tax litigation;

- the line-item “gains or losses on investments in associates carried under the equity method” includes the € 10.5 million share of loss reported by SelmaBipiemme Leasing in Q2 2017, almost entirely linked to non-recurring charges tied to the cancellation of collection notices from tax disputes;
- the line-item “personnel expenses” includes the charge of € 1.3 million related to the recalculation of the Redundancy Fund which among other things takes into account the agreement signed in June 2017 to include 71 additional resources;
- a contingent asset of € 27.2 million, gross of tax effect, was recognized under the line-item “other administrative expenses”, referring to the reversal of the fee paid out for FY 2015 to obtain the guarantee to transform given DTAs, into tax credits, that was charged in FY 2016 but was no longer due for that year pursuant to the regulatory provisions introduced with Law no. 15 of 17 February 2017, as described in item 7 above. The same line-item includes the registration tax on the intergroup transfer of a line of business, amounting to € 4.5 million, as well as merger and integration costs of € 38.2 million;
- the line-item “Impairment of tangible and intangible assets” includes a total impairment of € 9.0 million, mainly related to property investments, to bring their carrying value in line with the lower appraisal value;
- the line-item “Net impairment of bank receivables and other assets” includes the impairment of the investments in the Atlante Fund and in the subordinated note issued by Banca Popolare di Vicenza, classified as available-for-sale assets, of € 61.0 million and € 15.3 million respectively, gross of tax effect. This charge follows the decision made by the Government to wind up the two Veneto banks. The line-item also includes the € 45.5 million write-downs on commitments generated by the Group’s participation in the Voluntary Scheme of the Fondo Interbancario di Tutela dei Depositi (FITD), as illustrated in item 9 above;
- net non-recurring gains of € 13.6, gross of tax effect, were recognized under the line-item “Gain on disposal of equity and other investments”. The main component (€ 11.7 million) refers to the valuation effect generated by the reclassification of the equity investment in Energreen under the “AFS financial assets” portfolio, as explained in item 10 above;
- the line-item “income tax for the period on continuing operations” includes the tax effect of non-recurring items illustrated above, with a total tax benefit of € 31 million, as well as the € 13.7 million cost incurred upon closing a tax dispute and the positive impact of € 8.4 million from the intergroup sale of Private Banking operations.

As a result, the 9M non-recurring items made a negative contribution of € 91.2 million; considering non-controlling interest, the negative impact on the net income for the period of the above items came in at € 90.7 million.
For the purposes of this News Release, the term “adjusted” refers to P&L aggregates net of the non-recurring items illustrated above.

### 12. Capital requirements regulation

On 1 January 2014, the new harmonized prudential rules for banks and investment firms contained in the Capital Requirements Regulation (EU) no. 575/2013 (“CRR”) and in the Capital Requirements Directive 2013/36/EU (CRD IV”) of 26 June 2013 have come into effect, transposing the banking supervisory standards defined by the Basel Committee (Basel 3 framework) in the European Union. The Regulation and its technical rules are directly applicable in national legislations and represent the so called “Single Rulebook”.
Note that the new regulation defined in the “Single Rulebook” provides for a phase-in period for the gradual implementation of certain new rules. The estimated capital ratios the Group is expected to reach at the end of the “phase-in” period are called “Basel 3 Fully-Loaded”.

The 2017 minimum capital requirements are:

- minimum Common Equity Tier 1 ratio (“CET1 ratio”): 4.5% + 2.5% Capital Conservation Buffer (“CCB”);
- minimum Tier 1 ratio: 6.0% + 2.5% CCB;
- minimum Total Capital ratio: 8% + 2.5% CCB.

Please note that on 4 October 2016, the Bank of Italy, with Update no. 18 of Circular no. 285, brought the CCB down to 1.25% for 2017 and to 1.875% for 2018.

With communication dated 23 June 2017 and 23 September 2017, the Bank of Italy confirmed that the countercyclical capital buffer (CCyB) has been kept unchanged at zero percent also for Q3 and for Q4 2017.

On 24 February 2017, the European Central Bank (ECB) communicated to Banco BPM its final decision regarding minimum capital ratios Banco BPM must comply with on an ongoing basis.
The decision rests on the supervisory review and evaluation process (SREP) conducted in compliance with art. 4(1)(f) of Regulation (EU) no. 1024/2013, based on the individual evaluations of the former Groups Banco Popolare and Banca Popolare di Milano.
Therefore, pursuant to art. 16 (2) (a) of EU Regulation no. 1024/2013, which gives the ECB the power to require that supervised banks hold an amount of own funds higher than the minimum capital requirements set by the current regulations, a requirement of 2.40% was introduced, to be added on top of the requirements listed above.
Taking into account the SREP CCB requirements, at consolidated level Gruppo Banco BPM must fulfill the following capital requirements:

- *CET1 ratio*: 8.15%;
- *Tier 1 ratio*: 9.65%;
- *Total Capital ratio*: 11.65%.

Please note that the ECB is currently revising the process for the annual update of the above decision.

**13. Other explanatory notes**

The reclassified balance sheet and income statement reflect on a consolidated basis the financial accounts of Banco BPM and its subsidiaries with respect to 30 September 2017, or, when not available, to the most recently approved financial reports. Similarly, the equity method-based treatment of associates was carried out based on the accounting information submitted to Banco BPM as at 30 September 2017, or, if not available, the most recent financial reports prepared by the associates.

**Attachments referring to Banco BPM Group**

- Reclassified consolidated balance sheet as at 30 September 2017 compared with aggregate data as at 31 December 2016
- Reclassified consolidated income statement as at 30 September 2017 compared with aggregate data as at 30 September 2016
- Reclassified consolidated income statement – 2017 and 2016quarterly evolution
- Reclassified consolidated income statement as at 30 September 2017 compared with aggregate data as at 30 September 2016 – line-by-line reporting of the contribution of Aletti Gestielle SGR
- Reclassified consolidated income statement – 2017 and 2016 quarterly evolution – line-by-line reporting of the contribution of Aletti Gestielle SGR
- P&L effect of the Purchase Price Allocation (PPA) – 2017 quarterly evolution

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# BANCO BPM GROUP

## Reclassified consolidated balance sheet

| **Reclassified assets** *(euro thousand)* | **30/09/2017** | **31/12/2016 Aggregate** | **Changes** | |
|---|---|---|---|---|
| Cash and cash equivalents | 811,894 | 897,704 | (85,810) | (9.6%) |
| Financial assets and hedging derivatives | 38,134,629 | 36,580,435 | 1,554,194 | 4.2% |
| Due from banks | 4,621,535 | 6,678,493 | (2,056,958) | (30.8%) |
| Customer loans | 107,900,007 | 110,550,576 | (2,650,569) | (2.4%) |
| Equity investments | 1,383,550 | 1,594,849 | (211,299) | (13.2%) |
| Property and equipment | 2,893,903 | 2,695,781 | 198,122 | 7.3% |
| Intangible assets | 2,382,970 | 1,833,509 | 549,461 | 30.0% |
| Non-current assets held for sale and discontinued operations | 256,727 | 77,369 | 179,358 | 231.8% |
| Other assets | 7,494,680 | 7,346,204 | 148,476 | 2.0% |
| **Total** | **165,879,895** | **168,254,920** | **(2,375,025)** | **(1.4%)** |

| **Reclassified liabilities** *(euro thousand)* | **30/09/2017** | **31/12/2016 Aggregate** | **Changes** | |
|---|---|---|---|---|
| Due to banks | 27,570,548 | 23,276,415 | 4,294,133 | 18.4% |
| Due to customers, debt securities issued and financial liabilities designated at fair value | 109,900,734 | 116,773,095 | (6,872,361) | (5.9%) |
| Financial liabilities and hedging derivatives | 9,811,031 | 10,682,892 | (871,861) | (8.2%) |
| Liability provisions | 1,530,622 | 1,706,089 | (175,467) | (10.3%) |
| Liabilities associated with assets held for sale | 20,990 | 960 | 20,030 | 2086.5% |
| Other liabilities | 4,577,260 | 3,816,296 | 760,964 | 19.9% |
| Minority interests | 51,740 | 58,238 | (6,498) | (11.2%) |
| Shareholders' equity | 12,416,970 | 11,940,935 | 476,035 | 4.0% |
| **Total** | **165,879,895** | **168,254,920** | **(2,375,025)** | **(1.4%)** |

Comparison data reflect the sum of the data resulting from the consolidated financial statements as at 31/12/2016 of former Gruppo Banco Popolare and former Gruppo BPM net of intercompany relationships and write-downs illustrated in the section "Explanatory notes of Gruppo Banco BPM" of this news release.

# BANCO BPM GROUP

## Reclassified consolidated income statement
(Aletti Gestielle SGR classified according to IFRS 5)

| *(euro thousand)* | **30/09/2017** | **30/09/2016 Aggregate (*)** | **Change** |
|---|---|---|---|
| Net interest income | 1,584,679 | 1,610,750 | (1.6%) |
| Income (loss) from investments in associates carried at equity | 120,870 | 111,220 | 8.7% |
| **Net interest, dividend and similar income** | **1,705,549** | **1,721,970** | **(1.0%)** |
| Net fee and commission income | 1,478,314 | 1,346,724 | 9.8% |
| Other net operating income | 74,079 | 97,242 | (23.8%) |
| Net financial result | 113,134 | 319,527 | (64.6%) |
| **Other operating income** | **1,665,527** | **1,763,493** | **(5.6%)** |
| **Total income** | **3,371,076** | **3,485,463** | **(3.3%)** |
| Personnel expenses | (1,364,058) | (1,577,962) | (13.6%) |
| Other administrative expenses | (766,932) | (810,542) | (5.4%) |
| Amortization and depreciation | (171,449) | (167,999) | 2.1% |
| **Operating costs** | **(2,302,439)** | **(2,556,503)** | **(9.9%)** |
| **Profit (loss) from operations** | **1,068,637** | **928,960** | **15.0%** |
| Net adjustments on loans to customers | (987,836) | (1,928,640) | (48.8%) |
| Net adjustments on other assets | (127,499) | (23,842) | 434.8% |
| Net provisions for risks and charges | (4,522) | (13,573) | (66.7%) |
| Profit (loss) on the disposal of equity and other investments | 13,634 | 35,144 | (61.2%) |
| **Income (loss) before tax from continuing operations** | **(37,586)** | **(1,001,951)** | **(96.2%)** |
| Tax on income from continuing operations | 19,234 | 330,308 | (94.2%) |
| Income (loss) after tax from discontinued operations | 62,291 | 21,944 | 183.9% |
| Income (loss) attributable to minority interests | 8,791 | 17,041 | (48.4%) |
| **Net income (loss) for the period excluding Badwill** | **52,730** | **(632,658)** | |
| **Badwill** | **3,076,137** | | |
| **Net income (loss) for the period** | **3,128,867** | | |

(*) Comparison data reflect the sum of the data resulting from the consolidated financial statements as at 30/09/2016 of former Gruppo Banco Popolare and former Gruppo BPM net of intercompany relationships and write-downs illustrated in the section "Explanatory notes of Gruppo Banco BPM" of this news release, reclassified according to IFRS 5.

# BANCO BPM GROUP

## Reclassified consolidated income statement – Quarterly evolution
(Aletti Gestielle SGR classified according to IFRS 5)

| (euro thousand) | 2017 | | | 2016 (*) (***) | | | |
|---|---|---|---|---|---|---|---|
| | Q3 | Q2 (*) | Q1 (*) (**) | Q4 | Q3 | Q2 | Q1 |
| Net interest income | 524,923 | 511,149 | 548,607 | 496,098 | 517,017 | 535,575 | 558,158 |
| Income (loss) from investments in associates carried at equity | 38,931 | 40,354 | 41,585 | 36,642 | 33,826 | 32,779 | 44,615 |
| **Net interest, dividend and similar income** | **563,854** | **551,503** | **590,192** | **532,740** | **550,843** | **568,354** | **602,773** |
| Net fee and commission income | 458,935 | 503,605 | 515,774 | 477,953 | 431,892 | 460,999 | 453,833 |
| Other net operating income | 29,401 | 14,362 | 30,316 | 41,016 | 31,768 | 32,525 | 32,949 |
| Net financial result | 12,957 | 63,320 | 36,857 | 118,791 | 110,851 | 132,690 | 75,986 |
| **Other operating income** | **501,293** | **581,287** | **582,947** | **637,760** | **574,511** | **626,214** | **562,768** |
| **Total income** | **1,065,147** | **1,132,790** | **1,173,139** | **1,170,500** | **1,125,354** | **1,194,568** | **1,165,541** |
| Personnel expenses | (450,628) | (456,711) | (456,719) | (659,557) | (618,002) | (481,339) | (478,621) |
| Other administrative expenses | (273,178) | (233,055) | (260,699) | (370,399) | (267,103) | (262,424) | (281,015) |
| Amortization and depreciation | (62,160) | (56,406) | (52,883) | (152,569) | (67,190) | (52,079) | (48,730) |
| **Operating costs** | **(785,966)** | **(746,172)** | **(770,301)** | **(1,182,525)** | **(952,295)** | **(795,842)** | **(808,366)** |
| **Profit (loss) from operations** | **279,181** | **386,618** | **402,838** | **(12,025)** | **173,059** | **398,726** | **357,175** |
| Net adjustments on loans to customers | (340,816) | (354,530) | (292,490) | (1,029,512) | (793,128) | (385,944) | (749,568) |
| Net adjustments on other assets | (48,322) | (70,820) | (8,357) | (88,619) | (5,941) | (12,964) | (4,937) |
| Net provisions for risks and charges | 4,615 | (9,641) | 504 | (41,489) | (16,373) | 5,887 | (3,087) |
| Impairment of goodwill | - | - | - | (279,000) | - | - | - |
| Profit (loss) on the disposal of equity and other investments | 333 | (3,765) | 17,066 | 122,846 | 2,688 | 30,894 | 1,562 |
| **Income (loss) before tax from continuing operations** | **(105,009)** | **(52,138)** | **119,561** | **(1,327,799)** | **(639,695)** | **36,599** | **(398,855)** |
| Tax on income from continuing operations | 45,612 | 1,122 | (27,500) | 319,941 | 213,894 | 1,946 | 114,468 |
| Income (loss) after tax from discontinued operations | 16,498 | 25,790 | 20,003 | 24,494 | 10,340 | 6,242 | 5,362 |
| Income (loss) attributable to minority interests | 1,397 | 4,256 | 3,138 | 2,311 | 12,832 | 1,991 | 2,218 |
| **Net income (loss) for the period excluding Badwill** | **(41,502)** | **(20,970)** | **115,202** | **(981,053)** | **(402,629)** | **46,778** | **(276,807)** |
| **Badwill** | | | **3,076,137** | | | | |
| **Net income (loss) for the period** | | | **3,191,339** | | | | |

(*) Data reclassified according to IFRS 5.

(**) Q1 2017 data have been restated following the final approval of the Purchase Price Allocation (PPA) into the identifiable acquired assets and liabilities.

(***) 2016 data reflect the sum of the data resulting from the consolidated financial statements of former Gruppo Banco Popolare and former Gruppo BPM net of intercompany relationships and write-downs illustrated in the section "Explanatory notes of Gruppo Banco BPM" of this news release.

# BANCO BPM GROUP

## Reclassified consolidated income statement
## with Aletti Gestielle SGR not classified according to IFRS 5

| *(euro thousand)* | **30/09/2017** | **30/09/2016 Aggregate (*)** | **Change** |
|---|---|---|---|
| Net interest income | 1,585,073 | 1,611,525 | (1.6%) |
| Income (loss) from investments in associates carried at equity | 120,870 | 111,220 | 8.7% |
| **Net interest, dividend and similar income** | **1,705,943** | **1,722,745** | **(1.0%)** |
| Net fee and commission income | 1,577,020 | 1,391,940 | 13.3% |
| Other net operating income | 74,655 | 98,471 | (24.2%) |
| Net financial result | 114,795 | 320,313 | (64.2%) |
| **Other operating income** | **1,766,470** | **1,810,724** | **(2.4%)** |
| **Total income** | **3,472,413** | **3,533,469** | **(1.7%)** |
| Personnel expenses | (1,369,377) | (1,584,050) | (13.6%) |
| Other administrative expenses | (775,056) | (818,106) | (5.3%) |
| Amortization and depreciation | (171,720) | (168,263) | 2.1% |
| **Operating costs** | **(2,316,153)** | **(2,570,419)** | **(9.9%)** |
| **Profit (loss) from operations** | **1,156,260** | **963,050** | **20.1%** |
| Net adjustments on loans to customers | (987,836) | (1,928,640) | (48.8%) |
| Net adjustments on other assets | (127,499) | (23,842) | 434.8% |
| Net provisions for risks and charges | (4,522) | (13,573) | (66.7%) |
| Profit (loss) on the disposal of equity and other investments | 13,634 | 35,144 | (61.2%) |
| **Income (loss) before tax from continuing operations** | **50,037** | **(967,861)** | |
| Tax on income from continuing operations | (6,298) | 319,647 | |
| Income (loss) after tax from discontinued operations | 200 | (1,485) | |
| Income (loss) attributable to minority interests | 8,791 | 17,041 | (48.4%) |
| **Net income (loss) for the period excluding Badwill** | **52,730** | **(632,658)** | |
| **Badwill** | **3,076,137** | | |
| **Net income (loss) for the period** | **3,128,867** | | |

(*) Comparison data reflect the sum of the data resulting from the consolidated financial statements as at 30/09/2016 of former Gruppo Banco Popolare and former Gruppo BPM net of intercompany relationships and write-downs illustrated in the section "Explanatory notes of Gruppo Banco BPM" of this news release.

## BANCO BPM GROUP

### Reclassified consolidated income statement – Quarterly evolution with Aletti Gestielle SGR not classified according to IFRS 5

| (euro thousand) | 2017 | | | 2016 (**) | | | |
|---|---|---|---|---|---|---|---|
| | Q3 | Q2 | Q1 (*) | Q4 | Q3 | Q2 | Q1 |
| Net interest income | 525,084 | 511,276 | 548,713 | 496,246 | 517,183 | 535,841 | 558,501 |
| Income (loss) from investments in associates carried at equity | 38,931 | 40,354 | 41,585 | 36,642 | 33,826 | 32,779 | 44,615 |
| **Net interest, dividend and similar income** | **564,015** | **551,630** | **590,298** | **532,888** | **551,009** | **568,620** | **603,116** |
| Net fee and commission income | 486,290 | 543,373 | 547,357 | 511,456 | 449,288 | 474,532 | 468,120 |
| Other net operating income | 29,993 | 14,464 | 30,198 | 40,744 | 32,622 | 32,794 | 33,055 |
| Net financial result | 13,255 | 63,841 | 37,699 | 119,770 | 111,967 | 132,722 | 75,624 |
| **Other operating income** | **529,538** | **621,678** | **615,254** | **671,970** | **593,877** | **640,048** | **576,799** |
| **Total income** | **1,093,553** | **1,173,308** | **1,205,552** | **1,204,858** | **1,144,886** | **1,208,668** | **1,179,915** |
| Personnel expenses | (452,270) | (458,386) | (458,721) | (661,419) | (620,291) | (483,205) | (480,554) |
| Other administrative expenses | (276,325) | (235,551) | (263,180) | (372,397) | (269,118) | (265,507) | (283,481) |
| Amortization and depreciation | (62,257) | (56,495) | (52,968) | (152,668) | (67,282) | (52,168) | (48,813) |
| **Operating costs** | **(790,852)** | **(750,432)** | **(774,869)** | **(1,186,484)** | **(956,691)** | **(800,880)** | **(812,848)** |
| **Profit (loss) from operations** | **302,701** | **422,876** | **430,683** | **18,374** | **188,195** | **407,788** | **367,067** |
| Net adjustments on loans to customers | (340,816) | (354,530) | (292,490) | (1,029,512) | (793,128) | (385,944) | (749,568) |
| Net adjustments on other assets | (48,322) | (70,820) | (8,357) | (88,619) | (5,941) | (12,964) | (4,937) |
| Net provisions for risks and charges | 4,615 | (9,641) | 504 | (41,489) | (16,373) | 5,887 | (3,087) |
| Impairment of goodwill | - | - | - | (279,000) | - | - | - |
| Profit (loss) on the disposal of equity and other investments | 333 | (3,765) | 17,066 | 122,846 | 2,688 | 30,894 | 1,562 |
| **Income (loss) before tax from continuing operations** | **(81,489)** | **(15,880)** | **147,406** | **(1,297,400)** | **(624,559)** | **45,661** | **(388,963)** |
| Tax on income from continuing operations | 38,792 | (9,761) | (35,329) | 310,027 | 209,098 | (869) | 111,418 |
| Income (loss) after tax from discontinued operations | (202) | 415 | (13) | 4,009 | - | (5) | (1,480) |
| Income (loss) attributable to minority interests | 1,397 | 4,256 | 3,138 | 2,311 | 12,832 | 1,991 | 2,218 |
| **Net income (loss) for the period excluding Badwill** | **(41,502)** | **(20,970)** | **115,202** | **(981,053)** | **(402,629)** | **46,778** | **(276,807)** |
| **Badwill** | | | **3,076,137** | | | | |
| **Net income (loss) for the period** | | | **3,191,339** | | | | |

(*) Q1 2017 data have been restated following the final approval of the Purchase Price Allocation (PPA) into the identifiable acquired assets and liabilities.

(**) 2016 data reflect the sum of the data resulting from the consolidated financial statements of former Gruppo Banco Popolare and former Gruppo BPM net of intercompany relationships and write-downs illustrated in the section "Explanatory notes of Gruppo Banco BPM" of this news release.

# BANCO BPM GROUP

## Reclassified consolidated income statement
## Purchase Price Allocation impacts

| *(in euro thousand)* | Q3 2017 | Q2 2017 | Q1 2017 | 30/09/2017 |
|---|---|---|---|---|
| Net interest income | 10,020 | 5,949 | 14,099 | 30,068 |
| Income (loss) from investments in associates carried at equity | | | | - |
| **Net interest, dividend and similar income** | **10,020** | **5,949** | **14,099** | **30,068** |
| Net fee and commission income | | | | - |
| Other net operating income | (11,627) | (11,213) | (11,879) | (34,719) |
| Net financial result | | | | - |
| **Other operating income** | **(11,627)** | **(11,213)** | **(11,879)** | **(34,719)** |
| **Total income** | **(1,607)** | **(5,264)** | **2,220** | **(4,651)** |
| Personnel expenses | | | | - |
| Other administrative expenses | | | | - |
| Amortization and depreciation | (3,180) | (3,077) | (3,211) | (9,468) |
| **Operating costs** | **(3,180)** | **(3,077)** | **(3,211)** | **(9,468)** |
| **Profit (loss) from operations** | **(4,787)** | **(8,341)** | **(991)** | **(14,119)** |
| Net adjustments on loans to customers | 41,182 | 49,285 | 44,066 | 134,533 |
| Net adjustments on other assets | | | | - |
| Net provisions for risks and charges | | | | - |
| Impairment of goodwill | | | | - |
| Profit (loss) on the disposal of equity and other investments | 128 | (981) | | (853) |
| **Income (loss) before tax from continuing operations** | **36,523** | **39,963** | **43,075** | **119,561** |
| Tax on income from continuing operations | (12,234) | (13,277) | (14,293) | (39,804) |
| Income (loss) after tax from discontinued operations | | | | - |
| Income (loss) attributable to minority interests | | | | - |
| **Net income (loss) for the period excluding Badwill** | **24,289** | **26,686** | **28,782** | **79,757** |

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| Fine Comunicato n.1928-134 | Numero di Pagine: 23 |