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Testo del comunicato

Vedi allegato.

NEWS RELEASE

RESULTS AS AT 30 JUNE 2018[1]

NET INCOME OF € 353 M (€ 94 M AT 30 JUNE 2017)

TOTAL INCOME OF € 2,447 M (€ 2,306 M AT 30 JUNE 2017 +6.1%)

OPERATING COSTS OF € 1,391 M (€ 1,454 M AT 30 JUNE 2017, DOWN BY 4.4%)

CUSTOMER LOANS AT € 106.7 BN
(PERFORMING +2.7%, NON-PERFORMING -27.1% VS. DECEMBER 2017)

DIRECT CUSTOMER FUNDS AT € 107.7 BN FROM 107.3 BN IN DECEMBER 2017

IN H1 2018 THE GROUP HAS ALREADY CARRIED OUT MOST OF THE 2020 DERISKING PLAN ANNOUNCED IN FEBRUARY THROUGH:

- **THE DISPOSAL OF ABOUT € 5 BN OF GROSS BAD LOANS (EXODUS PROJECT), LEADING THE TOTAL DISPOSALS ALREADY FINALISED TO € 9.5 BN, EQUAL TO 73% OF THE € 13 BN TARGET**

- **THE SIGNIFICANT WORK-OUT AND STOCK REDUCTION ACTIVITIES (ABOUT € 1 BN OF NPL NET REDUCTION ONLY IN H1 2018)**

NET NPLs DOWN BY € 3.5 BN COMPARED TO YEAR-END, WITH AN NPL TO TOTAL LOAN RATIO DOWN FROM 12.1% (END 2017) TO 8.9%

INCREASE IN GROSS NPL COVERAGE, FROM 48.8% AT 31 DECEMBER 2017 TO 51.2%

NET BAD LOANS AT € 3.6 BN (- € 2.9 BN COMPARED TO YEAR-END 2017), WITH A BAD LOAN TO TOTAL LOAN RATIO DOWN TO 3.4% (FROM 6.0% AT YEAR-END 2017)

INCREASED BAD LOAN COVERAGE FROM 58.9% TO 66.2%

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[1] Beginning on 1 January 2018, the new accounting standard IFRS 9 on the classification and measurement, impairment and hedge accounting of financial instruments has come into effect, replacing the accounting standard IAS 39. As specifically permitted by IFRS 9 (par. 7.2.15), Banco BPM elected not to restate the prior year's balances based on the new measurement criteria introduced by IFRS 9. Hence, certain data referred to 30 June 2018 are not comparable with the prior year's data, since they have been calculated based on different measurement criteria. For a more detailed explanation of the impacts from the adoption of the new accounting standard on shareholders' equity and on the accounting presentation of financial instruments please refer to the Explanatory Notes (note 2).

THE IMPORTANT DERISKING ACTION IS FORGING AHEAD:

- **IDENTIFIED A SHORT-LIST FOR THE DISPOSAL OF ADDITIONAL € 3.5 BN OF BAD LOANS**

- **AS THE DEAL UNFOLDS, BANCO BPM WILL ASSESS THE POSSIBILITY OF FURTHER RATCHETING UP THE DISPOSAL PLAN**

"IFRS 9 PHASE-IN" CET 1 RATIO OF 12.9%

EXCELLENT LIQUIDITY POSITION WITH UNENCUMBERED ELIGIBLE ASSETS OF ABOUT 20 BN [2]

Key balance sheet items

- Loans to customers € 106.7 billion, of which performing +2.7% compared to 31 December 2017, with an acceleration in the second quarter and a two-fold increase in new lending in June compared to the previous months average, which confirms the Bank's proximity to its target markets. Non-performing loans declined by - 27.1% over 31 December 2017 mainly driven by the Exodus deal and the IFRS 9 write-downs, as well as the significant work-out activity;
- Direct customer funds € 107.7 billion[3] (€ 107.3 billion at the end of December 2017): the first six months of the year saw again a confirmation of the growth trend of core funding represented by checking accounts and demand deposits (+€ 3.1 billion compared to year-end) and of the reduction in more expensive funding sources (-€ 1.4 billion for bonds).

Key P&L items

- Net interest income at € 1,180.1 million; net of IFRS 9 reclassifications it comes in at € 1,051.2 million compared to € 1,032.2 million in H1 2017 (+1.8% net of the non-recurring effect of interest income on 2016 TLTRO-II loans);
- Operating costs (net of banking industry charges) € 1,390.7 million compared to € 1,454.1 million at 30 June 2017 (-4.4%);
- Gross profit from operations € 1,056.6 compared to € 851.9 million at 30 June 2017;
- Customer loan loss provisions stood at € 686.5 million, and net of IFRS 9 reclassifications they came in at € 557.5 million compared to € 647,0 million in the

[2] Figure updated at 1 August 2018.

[3] Direct customer funds including certificates with unconditional capital protection (€ 3.8 billion at 30 June 2018), not including repurchase agreements.

first six months of 2017; the loan loss provision level reflects a disciplined valuation approach to keep high coverage levels aiming at taking advantage of any additional opportunities to speed up the de-risking process;
- Net income of € 352.6 million, compared to a net income of € 94.2 million in H1 2017 (net of a badwill of € 3,076.1 million credited to income).

Capital position:
- Pro-forma[4] "IFRS 9 phase-in" CET 1 ratio 13.5%;
- Pro-forma[5] "IFRS 9 fully-loaded" CET 1 ratio 11.4%

Credit quality
- Net NPL stock of € 9.5 billion, down by € 3.5 billion compared to year-end 2017 (-27.1%).
  Coverage:
  - Non-performing loans: 51.2% vs 48.8% in 2017;
  - Bad loans: 66.2% vs 58.9% in 2017.

Liquidity profile
- Unencumbered eligible assets at € 18.6 billion at 30 June 2018 (11% of total assets), of which 98% are Italian Government bonds, that guarantee an ample flexibility when managing funding sources.
- LCR >135% and NSFR >100%[5].

First-time adoption of the accounting standard IFRS 9

The first-time adoption of IFRS 9 on 1 January 2018 caused a total decline in the stated shareholders' equity of € 1.0 billion (net of tax effect) mainly driven by the adoption of the new loan impairment model. The outright impact on the Common Equity Tier 1 capital will be diluted over a 5-year period, as the bank elected to apply the transitional provisions[6].

Verona, 3 August 2018 – In today's meeting, the Board of Directors of Gruppo Banco BPM, chaired by Mr. Carlo Fratta Pasini, has approved the Consolidated half-yearly financial report at 30 June 2018 of Gruppo Banco BPM.

In H1 2018, the management focused on keeping up the de-risking activities set out by the business plan, on implementing the capital management actions that had already been announced to the market, and on carrying on with the Group's business activities reorganization projects.

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[4] Accounting also for the expected impacts from the capital management actions that have already been defined and communicated to the market and are expected to be finalized during the current year.
[5] Monthly NSFR based on management data at June 2018.
[6] The transitional provisions on impacts from the first-time adoption of IFRS 9 is illustrated in the Explanatory notes (note 7)

With regard to the de-risking activities, in the first half of the year Banco BPM has already executed a big part of the new non-performing loans reduction plan announced in February, that will be completed, among other things, upon disposing an additional bad loan portfolio valued at € 3.5 billion.
In the de-risking follow-through, further to what has been announced to the market on 19 June 2018, based on the non-binding offers received on 11 July, Banco BPM has selected 3 consortia of investors with whom it wishes to remain in talks to identify the right counterparty for the disposal deal. The potential counterparties identified by the Bank's Board of Directors are the consortium composed of DoBank, Fortress and Spaxs, the one composed of Credito Fondiario and Elliot and the one composed by Christofferson Robb & Company Davidson Kempner and Prelios.
In order to favor a potential speeding up of the de-risking plan, when holding talks with these counterparties the Bank will consider whether to sell a higher amount of loans and possibly, depending on the amount of sold loans, the servicing platform.
The time needed to complete the transaction will be defined once the due diligence is over, which will take indicatively 2 or 3 months.
In H1 2018, again with regard to the de-risking process, the Group continued to develop the internal workout and to deploy the activities aiming at creating all the necessary conditions to finalize the sale on the market of a pool of about 5 billion of bad loans through a securitization. The deal, which requires that a guarantee by issued by the Italian Government on the senior bonds issued by the SPV, has been completed in June. Further to this transaction, the net bad loan stock dropped to € 3.6 billion, with a bad loan to total loan ratio of 3.4%, compared to 6% at 31 December 2017.

In H1 also the reorganization process of the Bancassurance business line has been progressing, that had been initiated the prior year and formalized through the agreements for the sale of a 65% stake in Popolare Vita and in Avipop Assicurazioni and the launch of a 15-year strategic partnership between Banco BPM and Cattolica. On 29 March last, having received the required authorizations by the competent authorities, Banco BPM finalized the purchase of 50% + 1 share of Avipop Assicurazioni S.p.A. and of Popolare Vita S.p.A. for a total amount of € 803.4 million, which brought its shareholding in the two companies to 100%. On the same date, Banco BPM finalized the sale of 65% of the share capital of Avipop Assicurazioni S.p.A. and Popolare Vita S.p.A. to Cattolica Assicurazioni. Because of the above transaction, the income statement posted a capital gain of € 175 million.

With regard to the reorganization of the Group operations, the new Branch Network model came on stream on 1 January 2018. This is an important project that involved more than 10,000 colleagues with more than 3,000 resources who took on new professional roles mainly in the branch network, in the NPL unit and in Wealth Management.
This reorganization process is also underpinning the rationalization of the branch network, which effective 1 July saw the closure of 310 branches, chosen based on the lower performance and/or the territorial overlap.

Over the same period we also finalized the demerger of the Private Banking business line of Banca Akros in favor of Banca Aletti and the transfer from Banca Aletti to Anima SGR of the sub-advisory mandates on insurance assets carried out on behalf of the insurance joint-ventures tied to the bancassurance network of former Banco Popolare, that generated a positive P&L impact in H1 corresponding to the collected consideration of 114 million, gross of tax effect.

The merger of the subsidiaries BPM S.p.A., Società Gestione Servizi BP S.C.p.A. and BP Property Management S.C.a r.l. into Banco BPM fall within the scope of the reorganization of the Group structure and operations.

The merger of BPM S.p.A. is scheduled to take place in the last quarter of 2018, with retroactive accounting and tax effect at 1 January 2018.
The merger of the consortia SGS and BP Property Management will instead indicatively come into effect in January 2019, with accounting and tax effects starting on 1 January 2019, pending the issue of the required authorizations from the competent authorities.

While being fully committed on the front of the above described projects, the Group generated a good commercial and operating performance, with a gross profit from operations of € 1,056.6 million and a net income of € 352,6 million.

Operating performance

Net interest income came in at € 1,180.1 million. This figure is not fully comparable with that of the prior year, as, following the adoption of IFRS 9, net interest income is affected by the positive reclassification of reversals further to the write-backs from discounting bad loans to present value (including the Purchase Price Allocation effect), which were previously reported under write-downs on loan impairments) and by the negative reclassification from the calculation of interest on impaired exposures based on the value net of write-downs and not on the contractual value. Net of these reclassifications, which came in at + € 128.9 million, net interest income stands at € 1,051.2 million as compared with the H1 2017 adjusted[7] net interest income of € 1,032.2 million (+1.8%). The Q2 contribution was € 585.0 million, which net of IFRS 9 effects, grew by 1.9% when compared with Q1 2018.
The **gain on investments in associates carried under the equity method** came in at € 76.0 million, down from € 81.9 million posted in the same period last year, with a Q2 contribution of € 33.4 million, down from € 42.6 million in Q1, due to the lower contribution over the quarter from the insurance companies, also as a result of the reduced shareholding. The main contribution to this line-item was made by consumer credit through the shareholding held in Agos Ducato, amounting to € 62.7 million.
Net fees and commissions added up to € 927.5 million, down by 9.0% compared with H1 2017, when net fees and commissions stood at € 1,019.4 million. This dip was mainly driven by brokerage, management and advisory services, which in absolute terms declined by € 68.0 million compared to H1 2017, primarily due to the negative market trend that has been characterizing May and June in particular, caused by the turbulences tied to Italian government bonds and international stock markets, as well as to the reorganization of the distribution network in combination with the shift from a product-based advisory model to a portfolio-based model, which called for an appropriate training to be provided. The year-on-year comparison is affected by the rather hectic sale of asset and portfolio management products in H1 2017 following the slowdown at the end of 2016 tied to the merger.
Other net operating income totaled € 154.2 million, and it includes the € 113.6 million capital gain on the sale to Anima SGR of the sub-advisory mandates of insurance assets carried out on behalf of the insurance joint-ventures tied to the bancassurance network of former Banco Popolare. Net of this component, the aggregate comes in at € 40.6 million, down compared to € 44.7 million in H1 2017.
Net financial income totaled € 109.5 million, compared to € 100.2 million in the same period last year. This result is affected by higher gains on disposal driven by the Group's strategy aiming at reducing our exposure to Italian govies. Here again, the comparison with last year's data is not fully straightforward following the introduction of IFRS 9; in particular, a positive component of € 28.1 million was posted to income, due to the measurement effect of certain instruments that had been previously carried exclusively through net equity.

[7] In H1 2017, TLTRO-II loans related to FY 2016 had earned an interest of € 31.7 million.

As a result, **total income** added up to € 2,447.3 million. Accounting for the effects from the above-mentioned reclassifications following the introduction of IFRS 9, the adjusted [9] total income came in at € 2,333.7 million. When compared to Q1 2018, the adjusted total income has remained rather unchanged (-0.1%).

Personnel expenses, totaling € 879.1 million, report a 3.8% reduction from € 913.4 million in the same period last year, with a Q2 contribution of € 437.1 million, down by 1.1% from € 442.1 million in Q1. Personnel costs have been trending down as a result of the headcount reduction (- 544 resources compared to 31 December 2017). The total headcount is 22,719 employees at 30 June 2018, compared to 23,263 at the end of 2017 (25,001 at 31 December 2015).

Other administrative expenses amounted to € 414.6 million, down by 3.9% compared to the same period last year. The aggregate does not include the "banking industry charges", represented by the contributions to the resolution funds[8] and to the Deposit Guarantee Scheme (DGS), reported in a separate line-item of the reclassified income statement net of tax effect. The aggregate instead includes the € 12.6 million annual DTA fee paid to guarantee the recoverability of DTAs (€ 13.4 million at 30 June 2017) and the € 5,1 million integration and merger costs (€ 25 million in the same period last year), while H1 2017 benefitted from an amount of € 27.2 million, tied to the recovery of part of the annual DTA fee charged to income in 2016. Net of the above components in the comparison with Q1 2017, this line-item reported a 5.6% driven by efficiency gain actions.

In Q2 2018 administrative expenses added up to € 203.1 million, down by 4.0% compared to Q1.

Net write-downs of tangible and intangible assets for the period stood at € 96.9 million, down by 11.3% from € 109.3 million at 30 June 2017, driven by the rationalization of the Group information system**.**

Total **operating costs** went down by 4.4% over H1 2017 and by 1.8% over Q1 2018.

Net write-downs on impairment of customer loans stood at € 686.5 million. Even this aggregate has been affected by the adoption of IFRS 9 both as a result of the new credit valuation method introduced by the new principle and because of the reclassifications impacting net interest income. Taking into account exclusively these reclassifications, the H1 2018 figure comes in at € 557.5 million compared to € 647.0 million in H1 2017. The cost of credit, measured as the net loan loss provision, net of IFRS 9 reclassifications to net loan ratio, came in at 104 bps, down compared to last year's figure of 154 bps[9] ; the loan loss provision level reflects a disciplined valuation approach to maintain high coverage levels aimed at taking advantage of any additional opportunities to speed up the de-risking process.

In Q2 2018 it came in at € 360.2 million, up by 10.4% from € 326.2 million in Q1, driven by the impact of the Exodus disposal, which slightly exceeded the expectations thanks to the financial market conditions.

Net write-backs of securities and other financial assets of € 0.6 million were credited to income in H1 (compared to net write-downs of 79.2 million at 30 June 2017 mainly related to the impairment of the stake held in the Atlante Fund and other exposures with the Veneto banks).

Net provisions for risks and charges reported a charge of € 45.7 million compared to € 9.1 million in the same period last year.

In H1 2018, **gains on disposal of equity and other investments** of € 178.6 million were reported, almost entirely tied to the impact of the bancassurance business reorganization.

As a result of all the above dynamics, the **income from continuing operations before tax** and before banking industry charges came in at € 503.7 million, as compared to € 129.8 million in H1 last year.

Income tax on continuing operations at 30 June 2018 came in at € 87.3 million (€ 43,8 million at 30 June 2017).

€ 67.4 million of **banking industry charges after tax** were charged to income (€ 45.0 million in the same period last year), which include, net of the related tax effect, the ordinary contributions to the

[8] Single Resolution Fund and National resolution fund.

[9] The figure is not fully comparable as IFRS 9 introduced a new loan impairment model.

Single Resolution Fund SRF amounting to € 68.0 million gross (€ 62.4 million gross in H1 2017), and the additional extraordinary contributions to the Single Resolution Fund amounting to € 25,5 million gross, while no extraordinary contributions had been paid in the previous year.

Considering the net income attributable to non-controlling interest (+ € 3.6 million), the first half of 2018 closed with a **net income for the period** of € 352.6 million, compared to a net income ex badwill of € 94.2 million in the same period last year (the badwil, totaling € 3,076.1 million, came out once the PPA process was completed, and it drove the net income for H1 2017 to € 3,170.4 million).

Key balance sheet items

Direct funding[10] at 30 June 2018 amounted to € 107,7 billion, up by 0.4% compared to € 107.3 billion at 31 December 2017. The comparison shows a € 3.1 billion increase in the checking accounts and demand deposits held with the branch network and a € 1.2 billion decline in certificates of deposit and other funding. Bonds issued keep on along their declining trend (€ -1.4 billion), in line with the policy aiming at progressively cutting back on the cost of funding by reducing the more expensive funding sources. The funding guaranteed by the stock of certificates issued by the Group is also confirming its downward trend, reporting a balance at 30 June 2018 of € 3.8 billion compared to € 4.0 billion at December 2017 (-2.6%).

Indirect funding, net of capital protected certificates, amounted to € 89.8 billion.
Assets under administration came in at € 30.6 billion. With regard to this aggregate, we should point out the outflow of € 4.8 billion administered assets, characterized by very low margins, held by an institutional client, and in Q2 a decline which was mainly driven by the negative market performance which weighed on the value of the assets under administration.
Net of the above effects administered assets are basically in line with the figure reported at the end of December 2017; otherwise, administered assets declined by 17.0% compared to 31 December 2017 and by 4.2 % compared to 31 March 2018.

Assets under management amounted to € 59.2 billion, down by 2.3% compared to € 60.5 billion at 31 December 2017, mainly affecting insurance and portfolio management, also due to the temporary effect caused by the ongoing reorganization of this business line. Funds and Sicav instead reported a positive performance, totaling € 38.3 billion, up by 0.9% qoq and by 5.8% yoy.

Financial assets totaled € 41,0 billion, up by 18.9% compared to € 34.5 billion at 31 December 2017. This aggregate primarily comprises € 36.1 billion of debt securities, € 2.4 billion of equity securities and UCITS units and € 2,2 billion of derivatives measured at fair value. Following the introduction of IFRS9, financial assets include also customer loans and advances mandatorily measured at fair value (amounting to € 0.3 billion).
The overall increase compared to the end of 2017 was driven by the increase in debt securities classified under the "Hold to Collect" (+ € 1.8 billion), "Hold to Collect & Sell" (+ € 2.6 billion) and "Trading" (+ € 1.2 billion) portfolios. Government bonds totaled € 30.4 billion (+ € 5.2 billion compared to 31 December 2017); to this respect, diversification is still under way, and the Italian government bond exposure declined to 62.2% out of total government bonds compared to 82.1% at December 2017, standing at 56% when considering only govies classified as HTCS. The widening of the Italian govies spread caused the reduction in total gross reserves on securities held in the Hold to Collect & Sell portfolio, from + € 165 million reported at 31 December 2017 to about - € 200 at 30 June 2018.

[10] 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.

Al 30 June 2018, **net customer loans**[11] came in at € 106,7 billion, down by € 1.0 billion compared to 31 December 2017, driven by the NPL disposals through the Exodus project and by IFRS 9 write-downs affecting mainly non-performing loans. Taking the figure at 1 January 2018 reclassified on a like-for-like basis, the customer loan aggregate grows by 0.6% vs. January; In the quarter, the growth is +0.5%.
The performing loan stock has increased by € 0.9 billion compared to 31 December 2017 (+0.9%); taking into account also the effect from senior notes subscribed as part of the Exodus loan disposal, performing loans come in at € 97.2 billion, up by 2.7% compared to 31 December 2017.
Net non-performing exposures (bad loans, unlikely-to-pay and past dues) at 30 June 2018 totaled € 9.5 billion, down by € 3.5 billion (-27.1%) compared to 31 December 2017. This decline has been driven by the € 2.1 billion disposal under the Exodus project, by the adoption of IFRS 9 which led to additional bad loan write-downs of € 1.2 billion, and by constant and key work-out activities.
The analysis of the single loan classes shows the following dynamic:

- Net bad loans of € 3.6 billion, down by 44.3% compared to 31 December 2017, driven by the Exodus disposal and by IFRS9 write-downs;
- Net unlikely-to-pay loans of € 5.8 billion, down by 10.1% compared to 31 December 2017;
- Net past due loans of € 72 million, down by 10.8% compared to 31 December 2017.

The aggregate NPL coverage ratio stood at 51.2%, up from 48.8% at 31 December 2017.
More specifically, at 30 June 2018 the coverage ratios were:

- Bad loans 66.2%, (58.9% at 31 December 2017);
- Unlikely-to-pay 32.9% (32.3% at 31 December 2017);
- Past due 19.0% (15.7% at 31 December 2017).

The coverage ratio of performing loans came in at 0.41%, compared to 0.32% at 31 December 2017. Net of repo transactions, which are practically risk-free, the performing loans coverage ratio goes up to 0.44% (0.34% at 31 December 2017). The increase in the coverage ratio was mainly driven by the adoption of the new impairment model under IFRS 9.

Group capital ratios[12]

At 30 June 2018, Group Own Funds, including the interim accruing net income at the same date, totaled 10,611 million, down compared to 11,544 million at 31 December 2017, driven by the negative trend of equity reserves tied to the HTCS portfolio and the early redemption and payment of certain instruments eligible to be included in the additional tier 1 and tier 2 capital on the one side, and on the other by the expiry on 1 January 2018 of the transitory provisions on the phasing in of certain rules introduced on 1 January 2014 with the "Basel 3 Framework".
The Common Equity Tier 1 ratio (phase-in CET1 ratio) came in at 12.9% compared to 12.4% at 31 December 2017. The increase was driven by the decline in risk-weighted assets (-8,542 million) mainly following the authorization issued by the ECB effective on 31 March 2018 to roll out the credit risk

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[11] The aggregate does not include customer loans that, following the adoption of IFRS 9, must mandatorily be measured at fair value. These loans, amounting to € 337 million, are included in financial assets measured at fair value

[12] 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 condensed consolidated half-yearly financial report of the Group at 30 June 2018 has undergone a limited audit and Banco BPM will formally apply for the immediate inclusion of the accruing net income in the calculation of CET1 Capital. The data and capital ratio illustrated in this news release include the interim accruing net income at 30 June 2018 as derived from the Group's condensed consolidated half-yearly financial report that has been approved today by the Board of Directors.

measurement internal models to the subsidiary BPM S.p.A.. This ratio benefits from the election to fully apply the transitional provision introduced by the new article 473 bis of EU Regulation no. 575/2013, which phases in the impact on own funds generated by the adoption of the new impairment model introduced by IFRS9. Accounting for the expected impacts from the capital management actions that have already been defined and announced to the market, and that are expected to be finalized during the current year, the pro-forma fully-loaded CET 1 ratio comes in at 11.4%.

The Tier 1 ratio came in at 13.1% compared to 12.7% at 31 December 2017, while the Total Capital ratio stood at 15.8% compared to 15.2% at 31 December 2017.

OPERATIONAL OUTLOOK

The world macro-economic scenario remains positive, although the risks of an escalating protectionism and of interest rate hikes that could rekindle financial tensions and vulnerability are still lingering on.
Against this backdrop, growth projections for our Country in 2018 have been revised downwards to +1.2%/+1.3%, due to a more muted export contribution and the uncertainty as to how and how soon the economic measures set out in the Government's program are going to be implemented.
In any case, the expected moderate increase in retail and corporate lending, especially to the manufacturing sector, has been confirmed, together with a generalized improvement of the loan quality.
Since the Group has already completed a significant number of projects set out in the 2016-2019 Strategic Plan, in particular the set-up of the organizational unit in charge of managing NPLs, the IT system integration, the definition of the asset management and bancassurance partnerships, and the reorganization of the distribution network, now it can zero in on the rationalization of the private and investment banking activities, on the digital transformation project, on the streamlining of the Group scope and on the optimization of its footprint.
In addition, by leveraging the positive effect generated by the finalized NPL disposals, it will follow through with its de-risking activities, fully in line with its newly announced ambitious targets.
In the coming quarters, ordinary operations will concentrate on recovering profitability, that is going to benefit from the synergies generated by the merger.
Revenues, in spite of the unrelenting competitive pressure on margins, will benefit from the pick-up in loan volumes, from the further decline in the average cost of funding, thanks to residual opportunities to optimize the funding mix, and from the positive contribution of associates, while fees and commissions, in particular fees from management, brokerage and advisory services, are not expected to diverge much from the figures posted in H1, hampered among other things by the uncertainty and volatility that are most likely to ail markets.
The curbing of operating costs through efficiency gains, the implementation of specific cost optimization actions and the rationalization of the organizational functions will remain a key focus of attention.
NPL coverage ratios will remain high, and stock levels will keep on being reduced through internal workout activities and, as mentioned above, through the implementation of the actions set out in the de-risking plan.

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Board Committees – Reshuffle of the Related Parties Committee

Today the Board of Directors resolved to appoint from among its members Mrs. Cristina Galeotti as member and Chairman of the Related Parties Committee, until the approval of the 2019 Annual Report, to replace Mrs. Cristina Zucchetti, who retains her position as Board member as well as member of the Remuneration Committee. The new composition of the Related Parties Committee is therefore: Cristina Galeotti (Chairman), Mario Anolli (Vice Chairman), Marisa Golo and Costanza Torricelli.

Please note that, based on the verification carried out by the Board of Directors during the meeting held on 9 May 2018, the Director Mrs. Cristina Galeotti – who retains her position as a member of the Nomination Committee – acts as a non-executive Director and fulfills the independence requirements pursuant to art. 20.1.6 of the Articles of Association.

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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 Consolidated half-yearly financial report as at 30 June 2018 will be made available to the public, under the law, at the corporate head office and at Borsa Italiana, and will also be published on the corporate website www.bancobpm.it, as well as on the website of the authorized central storage mechanism www.emarketstorage.com.

The financial results at 30 June 2018 of Gruppo Banco BPM will be presented to the financial community during a conference call to be held today 3 August 2018 at 18.30 (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

The comments in this news release on the performance of key balance sheet and income statement items make reference to the reclassified consolidated balance sheet and income statement attached below and annexed to the Consolidated half-yearly report as at 30 June 2018, prepared in compliance with IAS 34, and approved today by the Board of Directors.

The explanatory notes illustrated below are deemed important for a better understanding of the basis of preparation of the financial statements and the first half results information illustrated in this news release.

1. Accounting policies and reference accounting standards

Accounting policies

The balance sheet and income statement layouts contained in this news release have been reclassified along management criteria in order to provide an indication on the Group's overall performance based on easily and rapidly calculable operating and financial data.

The layouts have been prepared based on the financial statements layouts indicated in the Bank of Italy's Circular no. 262/2005, that were updated on 22 December 2017, so as to implement the accounting standards IFRS9 and IFRS 15.

The new financial instruments accounting categories under IFRS 9 called for some changes to the reclassified statements compared to those presented up until 31 December 2017, as illustrated below.

More precisely, the prior aggregates called "Financial assets and hedging derivatives", "Due from banks" and "Loans to customers" have been replaced by the following new aggregates:

- "**Loans and advances measured at amortized cost (AC)**", which include the following line-items:
    - **"Loans and advances to banks"**: due from banks represented by loans and advances and presented in the Bank of Italy's template under the assets line-item "40. Financial assets measured at amortized cost a) Loans and advances to banks). Therefore, exposures represented by debt securities are excluded and are presented under the aggregate "Other financial assets";
    - **"Loans and advances to customers"**: due from clients represented by loans and advances and presented in the Bank of Italy's template under the assets line-item "40. Financial assets measured at amortized cost b) Loans and advances to customers. Hence, the loans represented by securities presented under the line-

item "Other financial assets" are excluded, with the exception of the exposure represented by senior securities subscribed under the securitization of bad loans originated by the Group (Exodus disposal) amounting to € 1,654 million;

- "**Other financial assets**", which comprise the following line-items:
  - **"Financial assets measured at Fair Value through Profit or Loss"** include the financial instruments presented in the portfolios of "Financial assets measured at Fair value through profit or loss" and of "Hedging derivatives", posted under assets line-items 20 and 50 of the Bank of Italy's template;
  - **"Financial assets measured at Fair Value through other comprehensive income (OCI)"** corresponds to the assets line-item 30 of the Bank of Italy's template;
  - **"Financial assets measured at amortized cost (AC)"** are exposures to banks and customers represented by debt securities (included under the assets line-item 40 of the Bank of Italy's template) with the exception of the above-mentioned senior securities from the Exodus disopsal.

No material changes are to be reported about the reclassified liabilities line-items; the previous aggregate "Due to customers, debt securities in issue and financial liabilities designated at fair value" has been renamed as "Direct funding", with breakdown between the line-item "Deposits from customers" (liabilities line-item 10 b) of the Bank of Italy's template) and "Debt securities in issue and financial liabilities designated at fair value" (liabilities line-items 10 c and 30) of the Bank of Italy's template).

For the remaining line-items of the reclassified balance sheet, the aggregation criteria illustrated in the 2017 consolidated financial statements have remained unchanged.

As to the reclassified income statement, the adoption of IFRS 9 required the redefinition of aggregates relating to the net financial result and to impairment losses, based on the new financial instrument categories and the associated measurement criteria. Below a bridge is provided between the new line-items and the income statement prepared in accordance with the Bank of Italy's Circular no. 262:

- the line-item "Net financial result" includes the results generated by the measurement or disposal of all the financial instruments, except for loan loss provisions which are presented separately. In particular, this line-item includes dividends on shares classified in the portfolio of financial assets measured at fair value through profit or loss and through other comprehensive income (line-item 70), the net trading and hedging results (line-items 80 and 90), gains and losses from disposal or repurchase (line-item 100), except for the result from the disposal of financial assets measured at amortized cost represented by loans and advances, net results arising on other financial assets and liabilities measured at fair value through profit or loss (line-item 110);
- the line-item "Net write-downs of loans and advances to customers" includes the line-item 130 a) Net credit risk write-downs/write-backs of a) financial assets measured at amortized costs, exclusively for the component represented by loans and advances to customers and the related operating results generated by their disposal (included in the line-item 100 a) "Gains (losses) on disposal or repurchase of financial assets measured at amortized cost");
- the line-item "Net write-downs of securities and other financial assets" represents expected losses on securities and loans and advances to banks classified in the portfolios of "Financial assets measured at amortized cost" (corresponding to line-item 130 b) Net credit risk write-downs/write-backs of b) financial assets measured at fair value through other comprehensive income, as well as the residual component of the above-mentioned line-item130 a));
- the line-item "Net allowance to provisions for risks and charges" corresponds to the line-item 200 of the income statement face set out in the Bank of Italy's Circular no. 262 and it includes provisions for commitments and guarantees issued.

For the remaining line-items of the reclassified income statement, the aggregation criteria illustrated in the 2017 consolidated financial statements have remained unchanged, except for what illustrated in Note no. 4.

With regard to the accounting statements used in this news release, in order to provide as far as possible a comparison on a like-for-like basis in management terms, it should be pointed out that:

- costs and revenues for the prior periods related to the subsidiary Aletti Gestielle SGR, disposed of in December 2017, have been restated in the separate line-item "Gains (losses) on Discontinued operations", in line with the retrospective representation required by IFRS 5 for discontinued operations already implemented in the 2017 annual report;
- the assets balances of deposits instead include the components of the business line under disposal tied to the depositary bank, scheduled to be sold during the year.

Accounting standards

The accounting standards adopted to prepare the Half-yearly financial report as at 30 June 2018, as pertains the classification, recognition, measurement and derecognition 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 endorsed by the European Commission and effective on 30 June 2018, pursuant to EC Regulation no. 1606 of 19 July 2002. To this respect, please note that on 1 January 2018 the new accounting standards IFRS 9 "Financial instruments" and IFRS 15 "Revenue from contracts with customers" have come into effect. The impacts generated by the first-time adoption of the above standards are explained in note 2 below.
It should be pointed out that 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 half-yearly report as at 30 June 2018.
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 Half-yearly financial report, calling for

adjustments that cannot be predicted or estimated today against the carrying amount of assets and liabilities recognized in the balance sheet.

2. First-time adoption of the accounting standards IFRS 9 and IFRS 15

The new accounting standards IFRS 9 and IFRS 15 have come into effect on 1 January 2018. They regulate the accounting treatment of financial instruments and of revenues from services provided to customers as part of the ordinary business.
The definitive impact from the first-time adoption (hereinafter also FTA) of the above standards has been quantified upon preparing the Half-yearly Financial Report, subject to a limited audit by the auditing firm PricewaterhouseCoopers S.p.A.
Please note that Gruppo Banco BPM elected not to restate the comparatives, but rather to adjust the opening balance of the consolidated shareholders' equity at 1 January 2018, as provided for by the phase-in rules.
The first-time adoption of the accounting standards IFRS 9 and IFRS 15 caused a €1,071.4 million decline in the opening balance of the consolidated shareholders' equity at 1 January 2018, from €11,963.5 million to €10,892.2 million.

Impact of IFRS 9 "Financial instruments"

IFRS 9 generated a negative impact on the stated shareholders' equity of €1,056.6 million (€-1,406.0 million gross of tax effect), attributable to the following effects:

- €-1,245.8 million, due to the increase in loan loss provisions after applying the new impairment model to non-preforming loans, which considers the disposal effect as an alternative scenario to internal work-out. This impact affected only bad exposures;
- €-90,1 million, due to the increase in loan loss provisions after applying the new impairment model to performing loans (Stage 1 and Stage 2 exposures) represented by loans and advances and debt securities;
- €-16.5 million, due to the increase in liability provisions tied to the measurement of guarantees issued and commitments (of which -1.3 million on irrevocable guarantees and commitments and -15.2 million on the stock of revocable commitments that previously were not subject to the impairment model);
- €+38.8 million, after applying the new financial assets and liabilities classification and measurement rules (excluding impacts from the new model to calculate expected credit losses, as explained above);
- €-92.3 million, due to the impairment of investments in associates carried at equity, as a result of the negative impact on their shareholders' equity reported by the associates upon the FTA of IFRS 9;
- €+349.3 million, due to the recognition of higher deferred tax assets arising from accruing tax losses as a result of the above-described decline in stated net equity[13].

With regard to capital ratios as at 1 January 2018 the above described impacts caused the fully-loaded CET1 ratio to decline by 182 bps, from 11.92% - prior to the first-time adoption of the new standard – to 10.10%. These effects do not account for the elected option to fully apply the transitional provisions introduced by the new article 473 bis of EU Regulation no. 575/2013 which phases in over time the impact from the adoption of the new impairment model introduced by the new accounting standard on own funds.
Under said arrangements, part of the increase reported by loan loss provisions may be included in the CET1 capital in the first five financial years (staggering from 95%, to 85%, 70%, 50% and 25% starting from 2018 to 2022). Then as of 1 January 2023 the impact from the first-time adoption of IFRS 9 must be fully reflected in the calculation of own funds.[14]
Taking into account said transitional provision, the positive impact from the first-time adoption of IFRS 9 on CET1 for full-year 2018 is limited to +5 bps; this effect was driven by the inclusion in CET1 of the absolute value of loan loss provisions for guarantees and commitments calculated based on IFRS 9, rather than the simple increase in loan loss provisions compared to those outstanding on 31 December 2017 under IAS 37[15].

Impact from IFRS 15 "Revenue from contracts with customers"

The accounting standard IFRS 15 "Revenue from contracts with customers" introduces a single model to recognize all revenues generated by contracts with customers as part of the company's ordinary operations.
Based on our analyses, the procedure to recognize revenues introduced by the new accounting standard has turned out to be practically in line with the prior accounting treatment, hence no significant impact has come to light,
More specifically, the first-time adoption of IFRS 15 produced a decline in shareholders' equity of 14.8 million (20.4 million gross of tax effect) driven by the recognition of refund liabilities covering the possibility that certain fees received against certain single premium insurance products might be reversed in case of early-termination.
As to capital ratios, the impact on CET1 is limited (-3 bps).

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[13] The Decree issued by the Ministry of Economy and Finance on 10 January 2018 established that the negative equity impact caused by the adoption of the new impairment model introduced by the accounting standard principio IFRS 9 is deductible from the IRES and IRAP taxable income in FY 2018. Therefore, at the date of the first-time adoption an accruing tax loss was generated. Based on current regulations, IRES tax losses can be carried forward and can be recovered through the generation of taxable income in the following financial years with no time limit. IRAP tax losses instead cannot be carried forward. In the light of this regulation, only the IRES tax loss caused by the adoption of the new accounting standard was deemed likely to be recovered, hence new deferred tax assets of 349.3 million were recognized.
[14] The mentioned transitional provisions are illustrated under note 7 of these explanatory notes.
[15] Cf. Q&A EBA no. 2018/3923 of 25 May 2018.

Total impact
Based on what illustrated above, the table below shows the reconciliation between the shareholders' equity at 31 December 2017 and the remeasured shareholders' equity at 1 January 2018 following the adoption of the new standards.

- amounts in thousand euro -			
Consolidated shareholders' equity at 31 December 2017			**11.963.540**
o/w: Group shareholders' equity			*11.900.230*
o/w: minority interest			*63.310*
IFRS 9 impact on consolidated shareholders' equity at 1 January 2018 (gross of tax)			**(1.405.963)**
-	*impact on expected credit losses (ECL) on impaired financial assets (Stage 3)*	*(1.245.844)*	
-	*impact on ECL on performing financial assets (Stage 1 e Stage 2)*	*(90.089)*	
-	*impact on ECL on off-balance-sheet exposures (guarantees and commitments)*	*(16.451)*	
-	*classification & measurement impact (excl. ECL)*	*38.769*	
-	*indirect impact on investments in associates (equity method)*	*(92.348)*	
IFRS 15 impact on consolidated shareholders' equity at 1 January 2018 (gross of tax)			**(20.400)**
Tax impact at 1 January 2018			**354.979**
IFRS 9 and IFRS 15 impact on consolidated shareholders' equity at 1 January 2018 (net of tax)			**(1.071.384)**
Consolidated shareholders' equity at 1 January 2018			**10.892.156**
o/w: Group shareholders' equity			*10.834.589*
o/w: minority interest			*57.567*

Compared to the provisional data disclosed on 9 May 2018 upon publishing the results as at 31 March 2018, the shareholders' equity as at 1 January 2018 reported a reduction of €33.5 million, of which €14.8 million tied to the measurement of the IFRS impact, that became available in the second quarter, and €18.7 million tied to IFRS 9 More specifically, the change in the impact from IFRS 9 first-time adoption ties back to the completion of certain analyses and controls, referred to in the above-mentioned news release, that allowed us to optimize our impact estimates. In particular, in Q2 some in-depth analysis of the methodology and scope of adoption of the impairment model were carried out, some irregularities identified in the ECL calculation were fixed, and available up-to-date information on indirect effects tied to certain investments in associates were taken into account.

3. PPA (Purchase Price Allocation) effects for the business combination with former Gruppo Banca Popolare di Milano and the former Groups Banca Popolare Italiana and Banca Italease

In compliance with IFRS3, the income statement of Gruppo Banco BPM includes the P&L effects from the allocation of the prices paid for the combination with Gruppo Banca Popolare di Milano finalized in financial year 2017 and for the acquisition of the Groups Banca Popolare Italiana and Banca Italease finalized in FY 2007 and 2009, respectively.

The overall effect on the consolidated net income in H1 2018, as a result of the reversal of the value adjustment of acquired net assets, came in at plus € 50.5 million (primarily referred to the former Gruppo Banca Popolare di Milano).

4. Charges generated by the contribution to resolution mechanisms

Starting with this Half-yearly Financial Report, the line-item "After-tax banking industry charges" has been added to the Reclassified Income Statement. This line-item will include ordinary and extraordinary charges due by banks under the European and national resolution funds (SRF and NRF) and of the Deposit Guarantee Scheme (DGS).
As at 30 June 2018, the line-item included:

- the ordinary contribution amount paid to the Single Resolution Fund for FY 2018 and charged to income in Q1, totaled € 68.0 million (€ 62.4 million being the ordinary contribution for FY 2017). The contribution of 2017 was fully charged to income in Q1 under the line-item "other administrative expenses". Please note that in 2018, 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);
- the additional contribution amount due to the National Resolution Fund charged to Q2 2018 income amounts to €25.5m (in 2017 no additional contributions had been called in). Net of tax effect, the charge stood at € 67.4 million (in 2017 it came in at € 45 million).

5. Changes in consolidation scope

In H1 no significant change in the consolidation scope of fully consolidated subsidiaries was registered.

Regarding the scope of associates, it is noted that the reorganization of the Bancassurance business, following the non-renewal of the distribution agreements with Gruppo Unipol for the life-insurance business and with Gruppo Aviva for the P&C insurance business, and the subsequent agreement signed with Cattolica Assicurazioni, did not entail any change in the consolidation scope as at 30 June 2018 for the shareholdings held in Popolare Vita (now Vera Vita S.p.A.) and Avipop Assicurazioni (now Vera Assicurazioni S.p.A.), over which at 30 June 2018 the Group is still exercising a significant influence. The only change regarded the stake held in the two associates, which in both cases went from 50% to 35%.

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

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

First-half 2018:

- the line-item “other net operating income” includes the € 113.6 million gain generated by the sale to Anima SGR of the sub-advisory mandates on insurance assets carried out on behalf of the insurance joint-ventures tied to the bancassurance network of former Banco Popolare;
- the line-item “other administrative expenses” includes r € 5.1 million of integration charges;
- the line-item “Impairment of tangible and intangible assets” includes a property impairment totaling € 1.7 million;
- the line-item “Gains on disposal of equity and other investments” is equal to € 178.,6 million. The main component (equal to € 174.7 million) is represented by the result from the reorganization of the Bancassurance business with the sale to Cattolica of the two stakes in the insurance companies Popolare Vita (now Vera Vita) and Avipop Assicurazioni (now Vera Assicurazioni);
- the line-item “income tax on continuing operations” includes the tax effect of the non-recurring items itemized above, totaling € 28.9 million;
- the line-item “after-tax banking industry charges” includes € 18.4 million of additional contributions paid to the National Resolution Fund (amounting to € 25.5 million) net of the related tax effect of € 7.1 million.

Overall, after accounting for non-controlling interest effects (€ + 0.2 million), non-recurring items accrued in the first six months of FY 2018 made a positive contribution of € 238.3 million.

First-half 2017:

- the line-item “net interest income” included interest income from the TLTRO II loan pertaining to FY 2016 amounting to € 31.7 million, and the interest expense of € 4.1 million, tied to the conclusion of a past tax dispute;
- the line-item “gain or loss on investments in associates carried at equity” included the one-off € -10,5 million loss posted by SelmaBipiemme Leasing in Q2 2017;
- the line-item “personnel expenses” included the € - 1.3 million charges tied to the Redundancy Fund;
- the line-item “other administrative expenses” included the contingent asset of € 27.2 million, gross of tax effect, related to the reversal of the 2015 fee paid to obtain the guarantee to turn certain DTAs into tax credits. This amount had been charged to income in FY 2016 and had been declared no longer due based on the regulatory provisions introduced with law no. 15 of 17 February 2017; the line-item also included integration charges and corporate action costs of € - 25 million; this effect, which has been recognized separately as a non-recurring item since 30 September 2017, has been restated also on data referring to 30 June 2017;
- the line-item “Impairment of tangible and intangible assets” included the impairment of € - 3.5 million tied to the disposed software following the migration of BPM S.p.A. onto the Group’s Target information system;
- the line-item “net write-downs of other assets” included primarily the impairment of the € - 61.0 million and € - 15.3 million investments in the Atlante Fund and in the subordinated notes issued by Banca Popolare di Vicenza;
- the line-item “Gains on disposal of equity and other investments” included non-recurring net proceeds of € 13.3 million.

Overall, net of the related tax effect (amounting to € 2.7 million), non-recurring items accrued in the first six months of 2017 made a negative contribution of €- 51.2 million.

7. 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”.

The minimum capital requirements for 2018 are:

- minimum Common Equity Tier 1 ratio (“CET1 ratio”): 4.5% + 2.5% of Capital Conservation Buffer (“CCB”);
- minimum Tier 1 ratio: 6.0% + 2.5% of CCB;
- minimum total capital ratio: 8% + 2.5% of 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 1.875% for 2018.

With communication of 23 September 2017, the Bank of Italy confirmed the Countercyclical Capital Buffer ratio at zero per cent.

With communication of 30 November 2017, the Bank of Italy identified the banking group Banco BPM as an Other Systemically Important Institution (O-SII). The 2018 O-SII reserve is equal to zero, while Banco BPM is required to gradually build up a reserve equal to 0.25% with linear increments beginning on 1 January 2019 up until 1 January 2022.

On 27 December 2017, the European Central Bank (ECB) notified Banco BPM its final decision on the minimum capital ratios that Banco BPM is required to comply with on an ongoing basis.
The decision is based on the supervisory review and evaluation (SREP) conducted in accordance with art. 4(1)(f) of EU Regulation no. 1024/2013.
Hence, in compliance with art. 16(2)(a) of the same Regulation no. 1024/2013, which gives the ECB the power to require that supervised bank hold an amount of own funds greater than the minimum capital requirements provided for under the current regulations, a 2.50% requirement was added to the above requirements.
Taking into account the SREB CCB requirements, at consolidated level Gruppo Banco BPM must comply with the following capital ratios:

- *CET1 ratio*: 8.875%;
- *Tier 1 ratio*: 10.375%;
- *Total Capital ratio*: 12.375%.

By the expected deadline of 1 February 2018, Banco BPM informed the European Central Bank that it elected to fully apply the transitional provision under the new article 473 bis of EU Regulation no. 575/2013, which phases in the impact on own funds generated by the adoption of the new impairment model introduced by IFRS9. Under the transitional provision, it is possible to include a transitional positive component to the Tier 1 capital by a percentage of the increase in expected loan loss provisions further to the adoption of IFRS 9. The percentage decreases over time over a 5-year period, as described below:

- period between 1 January and 31 December 2018: 95% of the increase in expected loan loss provision further to the adoption of IFRS 9. The negative impact expected to be caused on own funds by the adoption of the new impairment model is thus reduced to 5% of the impact recognized at stated net equity level on 1 January 2018;
- period between 1 January 2019 and 31 December 2019: 85% of the increase in expected loan loss provisions;
- period between 1 January 2020 and 31 December 2020: 70% of the increase in expected loan loss provisions;
- period between 1 January 2021 and 31 December 2021: 50% of the increase in expected loan loss provisions;
- period between 1 January 2022 and 31 December 2022: 25% of the increase in expected loan loss provisions.

Beginning on 1 January 2023 the impact from the first-time adoption of IFRS 9 will be fully recognized in the calculation of own funds.

In addition to the possibility of phasing in the impact from the first-time adoption of the accounting standard on 1 January 2018, the transitional provision gives the possibility to phase in any impacts that the implementation of the new impairment model may cause also in the following few years after the first-time adoption of the new accounting standard, albeit limited to impacts from the measurement of performing financial assets. As at 30 June 2018, this last possibility (indicated as "dynamic approach") has not been applied.

The estimates of the Group's capital ratios, all other things being equal, had it not elected to exercise the above option, are defined in brief "IFRS9 fully-phased". The capital ratios called "IFRS9 phase-in" instead are calculated based on the above-mentioned transitional rules.

8. 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 June 2018, 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 June 2018, or, if not available, on the most recent financial reports prepared by the associates.

Attachments

- Reclassified consolidated balance sheet
- Reclassified consolidated balance sheet – Reconciliation statement between balances at 31.12.2017 and balances at 01.01.2018 restated in compliance with IFRS 9 and IFRS 15
- Reclassified consolidated income statement
- Reclassified consolidated income statement – 2018 and 2017 quarterly evolution
- Reclassified consolidated income statement excluding PPA line-by-line – 2018 and 2017 quarterly evolution

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BANCO BPM GROUP

Reclassified consolidated balance sheet

(in euro thousand)	30/06/2018	01/01/2018 Restated	31/12/2017	Chg. vs. 01/01/2018	Chg. vs. 31/12/2017	% Chg. vs. 01/01/2018	% Chg. vs. 31/12/2017
Cash and cash equivalents	796,466	976,686	976,686	-180,220	-180,220	-18.5%	-18.5%
Financial assets at amortised cost	112,040,842	111,044,748	112,681,902	996,094	-641,060	0.9%	-0.6%
- Due from banks	5,309,940	4,936,507	4,939,223	373,433	370,717	7.6%	7.5%
- Customer loans (*)	106,730,902	106,108,241	107,742,679	622,661	-1,011,777	0.6%	-0.9%
Financial assets and hedging derivatives	41,048,648	34,884,798	34,533,172	6,163,850	6,515,476	17.7%	18.9%
- Financial assets designated at FV through P&L	7,977,461	6,417,083	5,184,586	1,560,378	2,792,875	24.3%	53.9%
- Financial assets designated at FV through other comprehensive income	19,017,645	16,750,072	17,128,622	2,267,573	1,889,023	13.5%	11.0%
- Financial assets at amortised cost	14,053,542	11,717,643	12,219,964	2,335,899	1,833,578	19.9%	15.0%
Equity investments	1,355,065	1,256,843	1,349,191	98,222	5,874	7.8%	0.4%
Property and equipment	2,733,275	2,735,182	2,735,182	-1,907	-1,907	-0.1%	-0.1%
Intangible assets	1,295,196	1,297,160	1,297,160	-1,964	-1,964	-0.2%	-0.2%
Tax assets	4,903,767	4,897,397	4,520,189	6,370	383,578	0.1%	8.5%
Non-current assets held for sale and discontinued operations	44,861	106,121	106,121	-61,260	-61,260	-57.7%	-57.7%
Other assets	2,810,958	3,007,162	3,007,162	-196,204	-196,204	-6.5%	-6.5%
Total ASSETS	**167,029,078**	**160,206,097**	**161,206,765**	**6,822,981**	**5,822,313**	**4.3%**	**3.6%**
Due to banks	31,550,552	27,199,304	27,199,304	4,351,248	4,351,248	16.0%	16.0%
Direct funding	109,718,404	107,525,103	107,509,849	2,193,301	2,208,555	2.0%	2.1%
- Due to customers (**)	91,872,424	87,848,146	87,848,146	4,024,278	4,024,278	4.6%	4.6%
- Debt securities issued and financial liabilities designated at fair value	17,845,980	19,676,957	19,661,703	-1,830,977	-1,815,723	-9.3%	-9.2%
Other financial liabilities designated at fair value	8,964,218	8,704,348	8,707,966	259,870	256,252	3.0%	2.9%
Liability provisions	1,532,028	1,617,312	1,580,461	-85,284	-48,433	-5.3%	-3.1%
Tax liabilities	606,246	691,723	669,494	-85,477	-63,248	-12.4%	-9.4%
Liabilities associated with assets held for sale	-	35	35	-35	-35	N.S.	N.S.
Other liabilities	3,771,085	3,576,116	3,576,116	194,969	194,969	5.5%	5.5%
Total LIABILITIES	**156,142,533**	**149,313,941**	**149,243,225**	**6,828,592**	**6,899,308**	**4.6%**	**4.6%**
Minority interests	52,510	57,567	63,310	-5,057	-10,800	-8.8%	-17.1%
Shareholders' equity	10,834,035	10,834,589	11,900,230	-554	-1,066,195	0.0%	-9.0%
CONSOLIDATED SHAREHOLDERS' EQUITY	**10,886,545**	**10,892,156**	**11,963,540**	**-5,611**	**-1,076,995**	**-0.1%**	**-9.0%**
Total Liabilities and Shareholders' Equity	**167,029,078**	**160,206,097**	**161,206,765**	**6,822,981**	**5,822,313**	**4.3%**	**3.6%**

(*) "Customer loans" include the Senior notes for those Banco BPM has initiated the process to request the issuance by the Italian government of the State guarantee on the securitization of bad loans pursuant to the Decree Law 18/2016 ("GACS")

*(**) "Due to customers" includes **€4,213** million from Custodian Bank actvities, held for sale.*

BANCO BPM GROUP
Reclassified consolidated balance sheet

Reconciliation statement between balances at 31.12.2017 and balances at 01.01.2018 restated in compliance with IFRS 9 and IFRS 15

(in euro thousand)	31/12/2017	FTA IFRS 9 Classification (a)	FTA IFRS 9 Measurement impacts (b)	FTA IFRS 9 ECL impacts (c)	FTA IFRS 9 impacts	FTA IFRS 15 impact	01/01/2018 Restated
Cash and cash equivalents	976,686				-		976,686
Financial assets at amortised cost	112,681,902	-314,696	-	-1,322,458	-1,637,154		111,044,748
- Due from banks	4,939,223			-2,716	-2,716		4,936,507
- Customer loans	107,742,679	-314,696		-1,319,742	-1,634,438		106,108,241
Financial assets and hedging derivatives	34,533,172	314,696	50,405	-13,475	351,626		34,884,798
- Financial assets designated at FV through P&L	5,184,586	1,251,406	-18,909		1,232,497		6,417,083
- Financial assets designated at FV through other comprehensive income	17,128,622	-430,150	51,600		-378,550		16,750,072
- Financial assets at amortised cost	12,219,964	-506,560	17,714	-13,475	-502,321		11,717,643
Equity investments	1,349,191		-92,348		-92,348		1,256,843
Property and equipment	2,735,182				-		2,735,182
Intangible assets	1,297,160				-		1,297,160
Tax assets	4,520,189		923	370,675	371,598	5,610	4,897,397
Non-current assets held for sale and discontinued operations	106,121				-		106,121
Other assets	3,007,162				-		3,007,162
Total ASSETS	**161,206,765**	**-**	**-41,020**	**-965,258**	**-1,006,278**	**5,610**	**160,206,097**
Due to banks	27,199,304				-		27,199,304
Direct funding	107,509,849		15,254		15,254		107,525,103
- Due to customers	87,848,146				-		87,848,146
- Debt securities issued and financial liabilities designated at fair value	19,661,703		15,254		15,254		19,676,957
Other financial liabilities designated at fair value	8,707,966		-3,618		-3,618		8,704,348
Liability provisions	1,580,461			16,451	16,451	20,400	1,617,312
Tax liabilities	669,494		21,037	1,192	22,229		691,723
Liabilities associated with assets held for sale	35				-		35
Other liabilities	3,576,116				-		3,576,116
Total LIABILITIES	**149,243,225**	**-**	**32,673**	**17,643**	**50,316**	**20,400**	**149,313,941**
Minority interests	63,310			-5,743	-5,743		57,567
Shareholders' equity	11,900,230	-	-73,693	-977,158	-1,050,851	-14,790	10,834,589
CONSOLIDATED SHAREHOLDERS' EQUITY	**11,963,540**	**-**	**-73,693**	**-982,901**	**-1,056,594**	**-14,790**	**10,892,156**
Total Liabilities and Shareholders' Equity	**161,206,765**	**-**	**-41,020**	**-965,258**	**-1,006,278**	**5,610**	**160,206,097**

a) Reclassification of the IAS 39 balances according the new items of the financial assets and liabilities.
b) IFRS 9 FTA impacts from the new measurement criteria of the financial assets and liabilities (excluding ECL).
c) IFRS 9 FTA impacts from the new Expected Credit Loss (ECL) model

BANCO BPM GROUP

Reclassified consolidated income statement

(in euro thousand)	IFRS 9 1H 2018	IAS 39 1H 2017	Change	% Change
Net interest income	1,180,109	1,059,756	120,353	11.4%
Income (loss) from investments in associates carried at equity	75,998	81,939	-5,941	-7.3%
Net interest, dividend and similar income	**1,256,107**	**1,141,695**	**114,412**	**10.0%**
Net fee and commission income	927,513	1,019,379	-91,866	-9.0%
Other net operating income	154,179	44,678	109,501	245.1%
Net financial result	109,490	100,177	9,313	9.3%
Other operating income	**1,191,182**	**1,164,234**	**26,948**	**2.3%**
Total income	**2,447,289**	**2,305,929**	**141,360**	**6.1%**
Personnel expenses	-879,149	-913,430	34,281	-3.8%
Other administrative expenses	-414,589	-431,348	16,759	-3.9%
Amortization and depreciation	-96,946	-109,289	12,343	-11.3%
Operating costs	**-1,390,684**	**-1,454,067**	**63,383**	**-4.4%**
Profit (loss) from operations	**1,056,605**	**851,862**	**204,743**	**24.0%**
Net adjustments on loans to customers	-686,451	-647,020	-39,431	6.1%
Net adjustments on other assets	635	-79,177	79,812	
Net provisions for risks and charges	-45,671	-9,137	-36,534	399.8%
Profit (loss) on the disposal of equity and other investments	178,550	13,301	165,249	N.S.
Income (loss) before tax from continuing operations	**503,668**	**129,829**	**373,839**	**287.9%**
Tax on income from continuing operations	-87,257	-43,776	-43,481	99.3%
Systemic charges after tax	-67,428	-45,008	-22,420	49.8%
Income (loss) after tax from discontinued operations	4	45,793	-45,789	-100.0%
Income (loss) attributable to minority interests	3,590	7,394	-3,804	-51.4%
Net income (loss) for the period excluding Badwill	**352,577**	**94,232**	**258,345**	**274.2%**
Badwill	**-**	**3,076,137**	**-3,076,137**	
NET INCOME (LOSS) FOR THE PERIOD	**352,577**	**3,170,369**	**-2,817,792**	

BANCO BPM GROUP

Reclassified consolidated quarterly income statement

(in euro thousand)	IFRS 9 Q2 2018	IFRS 9 Q1 2018	IAS 39 Q4 2017	IAS 39 Q3 2017	IAS 39 Q2 2017	IAS 39 Q1 2017
Net interest income	584,998	595,111	528,768	524,923	511,149	548,607
Income (loss) from investments in associates carried at equity	33,413	42,585	45,166	38,931	40,354	41,585
Net interest, dividend and similar income	**618,411**	**637,696**	**573,934**	**563,854**	**551,503**	**590,192**
Net fee and commission income	450,993	476,520	472,096	458,935	503,605	515,774
Other net operating income	130,029	24,150	24,738	29,401	14,362	30,316
Net financial result	80,182	29,308	41,915	12,957	63,320	36,857
Other operating income	**661,204**	**529,978**	**538,749**	**501,293**	**581,287**	**582,947**
Total income	**1,279,615**	**1,167,674**	**1,112,683**	**1,065,147**	**1,132,790**	**1,173,139**
Personnel expenses	-437,060	-442,089	-420,796	-450,628	-456,711	-456,719
Other administrative expenses	-203,102	-211,487	-204,704	-236,303	-233,055	-198,293
Amortization and depreciation	-49,020	-47,926	-95,466	-62,160	-56,406	-52,883
Operating costs	**-689,182**	**-701,502**	**-720,966**	**-749,091**	**-746,172**	**-707,895**
Profit (loss) from operations	**590,433**	**466,172**	**391,717**	**316,056**	**386,618**	**465,244**
Net adjustments on loans to customers	-360,212	-326,239	-673,127	-340,816	-354,530	-292,490
Net adjustments on other assets	-1,593	2,228	-12,718	-48,322	-70,820	-8,357
Net provisions for risks and charges	-20,707	-24,964	-9,235	4,615	-9,641	504
Profit (loss) on the disposal of equity and other investments	-1,104	179,654	12,064	333	-3,765	17,066
Income (loss) before tax from continuing operations	**206,817**	**296,851**	**-291,299**	**-68,134**	**-52,138**	**181,967**
Tax on income from continuing operations	-61,320	-25,937	101,759	34,806	1,122	-44,898
Systemic charges after tax	-18,391	-49,037	-6,187	-26,069	-	-45,008
Income (loss) after tax from discontinued operations	18	-14	699,971	16,498	25,790	20,003
Income (loss) attributable to minority interests	2,160	1,430	867	1,397	4,256	3,138
Net income (loss) for the period excluding Badwill and Impairment on goodwill and client relationship	**129,284**	**223,293**	**505,111**	**-41,502**	**-20,970**	**115,202**
Impairment on goodwill and client relationship after tax	-	-	**-1,017,616**	-	-	-
Badwill	-	-	-	-	-	**3,076,137**
NET INCOME (LOSS) FOR THE PERIOD	**129,284**	**223,293**	**-512,505**	**-41,502**	**-20,970**	**3,191,339**

BANCO BPM GROUP

Reclassified consolidated quarterly income statement excluding PPA line-by-line

(in euro thousand)	IFRS 9 II Q 2018	IFRS 9 I Q 2018	IAS 39 IV Q 2017	IAS 39 III Q 2017	IAS 39 II Q 2017	IAS 39 I Q 2017
Net interest income	541,685	536,030	527,653	514,903	505,200	534,508
Income (loss) from investments in associates carried at equity	33,413	42,585	45,166	38,931	40,354	41,585
Net interest, dividend and similar income	**575,098**	**578,615**	**572,819**	**553,834**	**545,554**	**576,093**
Net fee and commission income	450,993	476,520	472,096	458,935	503,605	515,774
Other net operating income	140,539	34,604	36,368	41,028	25,575	42,195
Net financial result	80,182	29,308	41,915	12,957	63,320	36,857
Other operating income	**671,714**	**540,432**	**550,379**	**512,920**	**592,500**	**594,826**
Total income	**1,246,812**	**1,119,047**	**1,123,198**	**1,066,754**	**1,138,054**	**1,170,919**
Personnel expenses	-437,060	-442,089	-420,796	-450,628	-456,711	-456,719
Other administrative expenses	-203,102	-211,487	-204,704	-236,303	-233,055	-198,293
Amortization and depreciation	-46,126	-45,056	-91,683	-58,980	-53,329	-49,672
Operating costs	**-686,288**	**-698,632**	**-717,183**	**-745,911**	**-743,095**	**-704,684**
Profit (loss) from operations	**560,524**	**420,415**	**406,015**	**320,843**	**394,959**	**466,235**
Net adjustments on loans to customers	-360,212	-326,239	-735,829	-381,998	-403,815	-336,556
Net adjustments on other assets	-1,593	2,228	-12,718	-48,322	-70,820	-8,357
Net provisions for risks and charges	-20,707	-24,964	-9,235	4,615	-9,641	504
Profit (loss) on the disposal of equity and other investments	-1,104	179,654	12,156	205	-2,784	17,066
Income (loss) before tax from continuing operations	**176,908**	**251,094**	**-339,611**	**-104,657**	**-92,101**	**138,892**
Tax on income from continuing operations	-51,347	-10,742	117,860	47,040	14,399	-30,605
Systemic charges after tax	-18,391	-49,037	-6,187	-26,069	-	-45,008
Income (loss) after tax from discontinued operations	18	-14	699,971	16,498	25,790	20,003
Income (loss) attributable to minority interests	2,160	1,430	867	1,397	4,256	3,138
Net income (loss) for the period excluding PPA, Badwill and Impairment on goodwill and client relationship	**109,348**	**192,731**	**472,900**	**-65,791**	**-47,656**	**86,420**
Purchase Price Allocation (PPA) after tax	**19,936**	**30,562**	**32,211**	**24,289**	**26,686**	**28,782**
Impairment on goodwill and client relationship after tax	**-**	**-**	**-1,017,616**	**-**	**-**	**-**
Badwill	**-**	**-**	**-**	**-**	**-**	**3,076,137**
NET INCOME (LOSS) FOR THE PERIOD	**129,284**	**223,293**	**-512,505**	**-41,502**	**-20,970**	**3,191,339**

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