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Testo del comunicato

Vedi allegato.

NEWS RELEASE

RESULTS AT 31 DECEMBER 2018[1]

IN 2018 A VERY SIGNIFICANT DERISKING ACTION WAS COMPLETED:

IN THE YEAR THE GROUP REDUCED THE GROSS AMOUNT OF NON-PERFORMING LOANS BY € 13.6 BILLION[2], WITH AN OVERALL REDUCTION IN THE EXISTING STOCK OF € 18.2 BILLION SINCE THE DATE OF THE MERGER.
MORE THAN TWICE THAT PROVIDED FOR IN THE STRATEGIC PLAN

THE TWO SALES (EXODUS AND ACE) REDUCED BAD LOANS BY 72.5% AT A TOTAL PRICE OF 28.3%, A FIGURE MUCH HIGHER THAN IN COMPARABLE TRANSACTIONS

NET BAD LOANS AT € 1.6 BILLION (- € 4.9 BILLION COMPARED TO YEAR-END 2017) WITH A BAD LOAN TO TOTAL LOAN RATIO DOWN TO 1.5% (6.0% AT YEAR-END 2017)

SOLID CAPITAL POSITION
PRO-FORMA "IFRS 9 PHASED-IN" CET 1 RATIO AT 13.5% (FULLY PHASED-IN AT 11.5%) DESPITE THE NEGATIVE IMPACT OF THE DERISKING AND OF GOVERNMENT BONDS

EXCELLENT LIQUIDITY POSITION, WITH UNENCUMBERED ELIGIBLE ASSETS OF € 18.7 BILLION

THE GROUP'S VALUE CREATION CAPABILITY AND RESILIENCE HAVE BEEN CONFIRMED ALSO BY THE OUTCOME OF THE EU STRESS-TEST

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[1] On 1 January 2018, the new accounting standard IFRS 9 on the classification and measurement, impairment and hedge accounting of financial instruments came 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. Hence, certain data referred to 31 December 2018 are not comparable with the prior year's data, since they have been calculated with different measurement criteria.

[2] On 10 December 2018 the Parent Company accepted the binding offer received from Elliott International L.P. and Credito Fondiario S.p.A. related to the purchase of a portfolio of bad loans with a total value of € 7.4 billion (the amounts make reference to the nominal exposures existing as of 30 June 2018, portfolio situation subject to analysis by the potential investors). From an accounting point of view the derecognition of the loans being sold, which at 31 December 2018 were presented in the balance sheet item "Non-current assets and asset disposal groups held for sale", will be completed by the end of the first half of 2019. The estimate of the economic impacts of the transaction in terms of an increase in provisions has however already been debited to the income statement of financial year 2018 in accordance with the provisions of the accounting standards of reference. In the context of the present news release the comments on the situation of the Group's loans at 31 December 2018 make reference only to loans presented in the item "loans carried at amortised cost", excluding therefore the bad loans being sold, provisionally still recognised in the item "Non-current assets and disposal groups held for sale".

"NORMALISED" NET PROFIT [3] (NET - AMONG OTHER THINGS – OF THE IMPACTS ASSOCIATED WITH THE "ACE" PROJECT) OF + € 343 MILLION

NET LOSS BEFORE IMPAIRMENT - € 56 MILLION AFFECTED BY THE IMPACT OF DERISKING AND BY THE OTHER NON-RECURRING COMPONENTS (THE FIGURE AT 31 DECEMBER 2017 INCLUDED THE EXTRAORDINARY GAINS ON THE SALE OF ALETTI GESTIELLE SGR)

OPERATING INCOME € 4,773 MILLION (€ 4,484 MILLION AT 31 DECEMBER 2017, +6.4%)

OPERATING COSTS € 2,793 MILLION (€ 2,924 MILLION AT 31 DECEMBER 2017, -4.5%)

OPERATING PROFIT + € 1,980 MILLION (€ 1,560 MILLION AT 31 DECEMBER 2017, +27.0%)

NORMALISED CURRENT OPERATING PROFIT + € 552 MILLION

NET CUSTOMER LOANS AT € 104.0 BILLION:
PERFORMING + 2.7% COMPARED TO DECEMBER 2017
IMPAIRED – 48.4% COMPARED TO DECEMBER 2017 (-53.6% ON THE GROSS VALUE OF ADJUSTMENTS)

CORE[4] DIRECT FUNDING € 78.7 BILLION (+5.8% FROM START OF YEAR)

Key balance sheet items

- Loans to customers at € 104.0 billion, of which performing +2.7% compared to 31 December 2017, with core customer loans (mortgage loans, current accounts and personal loans) reporting a positive trend. Excluding the Exodus senior securities, performing loans recorded an increase of +1.2% compared to the end of 2017. Non-performing loans went down by 48.4% compared to 31 December 2017, mainly driven by sales related to the Exodus and ACE projects and the IFRS 9 write-downs, as well as the significant work-out activity;
- Direct customer funding at € 101.5 billion[5] (€ 103.6 billion at the end of December 2017 calculated on a like-for-like basis to take into account the transfer of deposits tied to the depositary bank business); over the year core funding (current accounts and demand deposits) reported a good performance with a + 5.8% increase over the end of 2017 and an additional reduction of the more expensive funding sources (- € 4.0 billion for bonds).

Key income statement items

[3] By normalised profit/loss is meant the profit/loss net of the economic components illustrated in the Explanatory Notes.
[4] Core funding means the component of current accounts and demand deposits.
[5] Direct funding Includes certificates with unconditional capital protection (€ 3.4 billion at 31 December 2018) and excludes repurchase agreements.

- Net interest income at € 2,292.6 million; net of IFRS 9 reclassifications it came to € 2,078.0 million compared to € 2,054.7 million in 2017 (calculated on a like-for-like basis net of the extraordinary component of interest income recognised on 2016 TLTRO-II loans);
- Operating costs (net of banking industry charges) at € 2,792.8 million compared to € 2,924.1 million in the previous year (-4,5%);
- Gross operating profit at € 1,980.1 compared to € 1,559.6 million in 2017; net of IFRS9 reclassifications and of the capital gains associated with non-recurring items, the gross operating profit at 31 December 2018 came out at € 1,578.8 million compared to € 1,620.0 million at 31 December 2017 (-2.5%);
- Net write-downs on customer loans of € 1,941.1 million which, net of IFRS 9 reclassifications, came out at € 1,750.2 million compared to € 1,661.0 million in 2017; net of the extraordinary component associated with the acceleration of the derisking process, write-downs came out at € 1,227.2 million;
- Net result of - € 59.4 million (- € 56.5 million if not considering the impairment on intangibles);
- "Normalised" profit of + € 342.8 million.

Capital position:
- Pro-forma "IFRS 9 phased-in" CET 1 ratio 13.5% (12.1% at 31 December 2018);
- Pro-forma "IFRS 9 fully phased-in" CET 1 ratio 11.5% (10% at 31 December 2018).

Credit quality
- Net non-performing loan stock of € 6.7 billion excluding loans being sold, down by € 6.3 billion compared to the end of 2017 (-48.4%).
  Coverage:
  - Non-performing loans: 43.1% (55.2% including loans being sold) compared to the 48.8% of 2017
  - Bad loans: 59.6% (71.1% including loans being sold) compared to the 58.9% of 2017. Including write-offs the coverage goes up to 64.0%

Liquidity profile
- Unencumbered eligible assets at € 18.7 billion at 31 December 2018 (11.7% of total assets) which went up to € 19.9 billion at 4 February 2019, of which 95% are Italian Government bonds, which guarantee ample flexibility when managing funding sources. In addition, there is a total of € 3.0 billion of other highly liquid, although not eligible, assets.
- LCR >150% and NSFR >100%[6].

[6] Latest operating figure available referred to the fourth quarter of 2018.

Verona, 6 February 2019 – The Board of Directors of Banco BPM met today chaired by Mr. Carlo Fratta Pasini. The Board approved the draft separate and consolidated financial statements at 31 December 2018 of Banco BPM.

With financial year 2018 a derisking programme was completed which was much more aggressive with respect to the original objectives of the Plan. It was implemented by the new Group to align with and, as regards bad loans, to exceed the targets of the best competitors in the banking market. Together with the robust improvement of the Group's lending profile the ambitious rationalisation process was also completed, recognising in the financial year all the cost items of an extraordinary nature, in order to enable Banco BPM to enter into the new financial year 2019 with no encumbrances deriving from the integration processes and with full capacity to generate income.
The achievement of these more ambitious objectives entailed the assumption of important decisions that led to doubling the volumes of sale of bad loans with respect to those provided for in the context of the strategic plan through completion at the end of the first half of the securitisation transaction entitled "Exodus Project" involving € 5.1 billion of nominal loans and the signing at the end of the financial year of the agreement with Credito Fondiario and Elliott International L.P. which provides for the performance of a new securitisation transaction ("ACE Project") by the end of the first half of 2019 which will make it possible to derecognise a further € 7.4 billion of nominal loans.
This impressive effort entailed significant extraordinary economic impacts on the cost of cost of credit of the financial year which required the implementation at the same time of equally important capital management actions in order to maintain a solid financial position. This need combined very well with the activities of rationalisation and reorganisation of the Group's business already provided for in the strategic plan.
This was the context also of the formalisation, on 20 December 2018, of an agreement between Banco BPM as one party and Crédit Agricole SA, Crédit Agricole Consumer Finance SA and Agos Ducato as the other, which defines the sale to Agos Ducato of the subsidiary ProFamily, after completion of the demerger of all ProFamily's non-captive activities in favour of a newly-incorporated company 100% controlled by Banco BPM. The transaction is expected to be completed by the end of the first half of 2019, in exchange for a price of € 310 million.
The agreement, which reconfirms also the current partnership for the next 15 years, strengthens the leadership and the market shares of the investee Agos Ducato.
In the first half of the year the restructuring of the Bancassurance segment had besides already been completed (both with the partial sales of the stakes held in the insurance joint ventures and the launch of a strategic partnership between Banco BPM and Cattolica with a duration of 15 years, and with the sale to Anima SGR of the mandates for delegated management of the insurance assets carried out on behalf of the associated companies that are vehicles of the insurance partnership) and of the Group's Private, Corporate and Investment Banking activities (through distinct demerger operations that led to the centralisation of the Private Banking activities in Banca Aletti and the Corporate & Investment Banking activities in Banca Akros).
The same strand also included the sale to BNP Paribas Securities Services of the depositary bank and fund administration activities, completed in September.

The raising of the level of customer service entailed the definition of a new Branch Network model (on stream from 1 January 2018) which brought the decision-making process closer to local areas and therefore to households and businesses. In this context the need was also identified to rationalise the distribution network eliminating territorially overlapping branches (resulting from the merger). This action entailed the closure of 518 branches during the year.
The merger into the Parent company Banco BPM of the subsidiaries BPM S.p.A., Società Gestione Servizi BP S.C.p.A. and BP Property Management S.C.a r.l. fall within the scope of the reorganisation

of the Group's structure and operations. The incorporation of BPM S.p.A. was completed in November, while the mergers of the two consortia will take legal effect from 11 February 2019.

Despite the financial year being therefore mainly oriented to getting the bank into the best condition for developing its future operations, the economic results confirm the good performance of the fundamentals of the core business.

Operating performance

Net interest income came out at € 2,292.6 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 which, until 31st December 2017, were reported under write-downs on loan impairments and by the negative reclassification from the calculation of interest on impaired exposures (unlikely to pay and past due) based on the recoverable value of these loans and not on their nominal value. Considering these reclassifications and the effects of PPA, net interest income stands at € 2,078.0 million, compared to € 2,054.7 million in 2017(+1.2%)[7]. The contribution for the fourth quarter of 2018 is € 554.7 million, substantially consistent with the third quarter of 2018 (€ 557.8 million), due to the growth in volumes and the lower cost of funding, which compensated for the lower spread on loans.
The gain on **investments in associates carried under the equity method** came to € 159.5 million, down from € 166 million last year, driven by the lower contribution from insurance companies, also as a result of the reduced shareholding. The fourth quarter contribution was € 50.7 million, up compared to the € 32.8 million reported in the third quarter. Within this aggregate, the main contribution was provided by consumer credit of € 126 million conveyed by the shareholding in Agos Ducato (last year's contribution was € 116.2).
Net fees and commissions added up to € 1,848.8 million, down by 5.2% compared to 2017, when net fees and commissions stood at € 1,950.4 million, yet up by 4.1% QoQ, driven by the diversification across the different business areas (for example, lending fees and fees for collection and payment services).
Other net operating income totalled € 389.8 million, and it includes the € 313.6 million in capital gains generated by the sale to BNP Paribas Securities Services of the depositary bank and fund administration business line (€ 200.0 million) and 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 (€ 113.6 million). Net of these components, the aggregate adds up to € 76.1 million (€ 98.8 million at 31 December 2017).
Net financial income totalled € 82.4 million compared to € 155.0 million last year. This includes the write-down of an indirect exposure held through the Interbank Deposit Protection Fund for € 27.9 million. The lower income is a result of greater volatility in some measuring components following the introduction of IFRS 9 (instruments required to be assessed at fair value), as well as of the effects of strategies aimed at hedging the risks associated with the exposures classed among the assets measured at fair value which affect overall profitability. This lower economic result should therefore be considered along with the change in valuation reserves for such financial assets.
As a result, total **operating income** amounted to € 4,772.9 million (+6,4% compared to 2017). Considering the previously mentioned non-recurring items, this figure stands at € 4,487.2 million.
Personnel expenses, at € 1,732.8 million, decreased 2.9% compared to € 1,784.9 million last year, with a fourth quarter contribution of € 422.2 million, continuing the downward trend of the first three quarters of the year (€ 431.5 million for the third quarter). Personnel costs have been trending down as a result of the headcount reduction (- 1,016 resources compared to 31 December 2017). The total

[7]Data compiled on a uniform basis, also excluding the extraordinary component benefiting 2017 wherein the interest income from the TLTRO-II loans was recorded for the 2016 financial year.

headcount was 22,247 employees at 31 December 2018, compared to 23,263 at the end of 2017 (24,608 at 31 December 2016).

Other administrative expenses[8] amounted to € 816.5 million, down 6.4% compared to last year. Excluding non-recurring items, at 31 December 2018, other administrative expenses amounted to € 793.8 million, down by 6.0% compared to December 2017 (€ 844.3 million), thanks to the rigorous cost control. Administrative expenses equalled € 205.7 million in the fourth quarter of 2018 and includes around € 12.2 million of non-recurring expenses associated with integrating and streamlining the distribution network.

Net value adjustments on property and equipment and investment property and intangible assets for the financial year amounted to € 243.5 million, down 8.8% compared to € 266.9 million as at 31 December 2017, as a result of the rationalisation of the Group's IT system. Adjustments in the fourth quarter amounted to € 97.1 million and include € 51.2 million of non-ordinary value adjustments mainly due to the adjustment of the book value of some non-operating properties to the lower value shown by the most recent appraisals acquired.

Total **operating expenses**, amounting to € 2,792.8 million were down by 4.5% compared to 2017; in the fourth quarter this figure amounted to € 725.0 million, up compared to the third quarter for the non-recurring items indicated above.

Net these components, operating expenses were € 2,717.4 million, down 4.5% compared to the previous year. Also on a quarterly basis, the figure net of non-recurring items decreased by 1.6% compared to the previous quarter.

Net adjustments to customer loans amounted to € 1,941.1 million (€ 1,661.0 million as at 31 December 2017). This total was also affected by the application of IFRS 9, both for the new impairment model introduced and for the reclassifications already described with respect to interest margins. Excluding these reclassifications, the figure as at 31 December 2018 stood at € 1,750.2 million (€ 1,661.0 million in 2017). The large-scale disposals of receivables mentioned above relating to the Exodus and ACE projects resulted in the recognition of value adjustments closely linked to the acceleration of the derisking process and which, therefore, are not representative of the ordinary management of impaired loans.

Net of these impacts, which amounted to € 713.9 million, net value adjustments amounted to € 1,227.2 million. In the fourth quarter of 2018, adjustments amounted to € 987.3 million. The normalised figure (net of the impact of the ACE project) was € 327.4 million.

The cost of credit, measured as the ratio between net adjustments to loans (excluding reclassifications introduced by IFRS 9) net of the extraordinary impacts previously indicated and net investments (including loans classified as discontinued operations), was 98 b.p., compared to 154 b.p.[9] in the previous year;

On the balance sheet for the year, the item **Net write-downs of securities and other financial assets** included net recoveries of € 3.3 million (as at 31 December 2017 net adjustments stood at 140.2 million, and included the impairment of the stakes held in the Atlante Fund and other exposures to Venetian banks, as well as the charges relating to the activities of the Voluntary Scheme of the Interbank Deposit Guarantee Fund - Fondo Interbancario di Tutela dei Depositi).

Net provisions for risks and charges amounted to € 345.3 million and include: the provisions aimed at monitoring the charges that could arise from the settlement, with a view to customer care, of disputes and complaints, even prospective ones, including those deriving from the reporting activity carried out in past financial years of customers interested in purchasing diamonds from the company Intermarket Diamond Business S.p.A., a company declared bankrupt by the Court of Milan on January 10, 2019; the estimated charges to be incurred for the closure of the 518 branches during

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[8] The aggregate does not include the "banking industry charges" represented by the contributions to the Resolution Funds and to the Interbank Deposit Protection Fund, reported in a separate line-item of the reclassified income statement, net of tax effect.

[9] This figure is not fully comparable as IFRS 9 introduced a new model of impairment on loans.

the year, based, among other, on the rents due over the lease term deemed to be non-cancellable, the costs to dismantle and restore the premises; non-recurring allowances originating from the re-computation of terms and conditions applied to customers for underwriting and credit lines fees dating back to prior years and recalculated based on parameters recently introduced by more stringent regulations and interpretation notes issued by the supervisory authorities.
In the 2018 financial year, € 173.4 million of **gains on disposal of equity and other investments** were reported, almost entirely related to the impact of the Bancassurance business, with the sale to Cattolica Assicurazioni of the control of the two insurance companies Popolare Vita (now Vera Vita) and Avipop Assicurazioni (now Vera Assicurazioni).
As a result of all the above dynamics, the **income from continuing operations before tax and before banking industry charges** came to € 129.7 million compared to the loss of € 229.6 million recorded in the previous year.
Income taxes for the period on continuing operations as at 31 December 2018 were positive for € 162.8 million (€ 92.8 million at 31 December 2017) and include the impact of the recognition of new deferred tax assets for € 64.0 million as a result of the changes introduced by the Budget Law regarding the rules governing the deductibility of the impacts of the first-time adoption of IFRS 9.
Charges related to the banking system, net of taxes were charged to the balance sheet for the year at € 100.2 million (€ 77.3 million in the same period last year), including the ordinary contributions to the Single Resolution Fund SRF amounting to € 68.1 million gross (€ 62.4 million gross as at 31 December 2017), and to the Interbank Deposit Guarantee Fund of € 45.2 million (€ 44.5 million as at 31 December 2017), plus the additional extraordinary contributions to the Single Resolution Fund amounting to € 25.5 million gross, which had not been incurred in the previous year.

Considering the share of the economic result attributable to minority shareholders (+€ 9.6 million), the **net result before impairment** was equal to € -56.5 million, compared to the net result without Badwill and impairment of € 557.8 million achieved in the previous year, mainly driven by the sale of Aletti Gestielle SGR.

Impairment tests carried out as at 31 December 2018 on goodwill and other intangibles led to the recognition of adjustments to the value of the client relationship of € 2.9 million net of taxes; in the previous year, adjustments to goodwill and the client relationship of € 1,017.6 million net of taxes were recognised.

The 2018 financial year therefore closed with a **net result** of € -59.4 million; in the previous year the Badwill that emerged following the completion of the PPA process, amounting to € 3,076.1 million, brought the net result to € 2,616.4 million.

Excluding the non-recurring items listed in detail in paragraph 5 of the explanatory notes, the "normalised" net result was positive and amounted to € 342.8 million.

<u>Key balance sheet items</u>

Direct funding[10] as at 31 December 2018, recorded on a like-for-like basis (recalculating the data as at 31 December 2017 excluding the funds that guaranteed the custodian bank activities sold in 2018), reported a positive trend in the checking accounts and demand deposits component (+ € 4.3 billion compared to +5,8% as at year-end 2017). As a whole, the aggregate amounted to € 101.5

[10] The aggregate includes checking and savings 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.

billion and registered a decrease of 2.0% compared to the data pro-forma at the start of the year. The decrease was affected by the reduction in other more expensive funding sources.

Indirect funding, net of capital protected certificates, amounted to € 84.8 billion.
Assets under administration came to € 29.0 billion. With regard to this aggregate, the exit of a institutional client with administered assets of € 4.8 billion should be noted, characterised by very low margins and a decline mainly driven by the negative market performance which weighed on the value of the assets under administration.
Net of the above effects, administered assets rose compared to the end of December 2017 (+ € 1.7 billion) and 30 September of last year (+€ 2.1 billion).

The managed assets component amounted to € 55.7 billion, down by 5.8% compared to the € 59.1 billion of 31 December 2017. Excluding the effect from the reduction in market listings of financial assets, which were particularly affected in the fourth quarter, total funds and SICAVs recorded a growth of € 1.9 billion compared to the start of the year.

Financial assets totalled € 36.9 billion, up by 6.7% compared to € 34.5 billion as at 31 December 2017. This aggregate comprises € 32.9 billion of debt securities, € 1.8 billion of equity securities and UCITS units and € 1.9 billion of derivatives measured at fair value. Following the introduction of IFRS9, financial assets include also loans and advances mandatorily measured at fair value (amounting to € 0.3 billion).
The overall increase compared to the end of 2017 is due to the growth in debt securities classified in the "Hold to Collect" portfolio (up € 3.4 billion). Government securities were € 27.5 billion[11] (up € 2.3 billion compared to 31 December 2017); diversification in this context continued: the impact of Italian government securities fell to 64.1% of total government securities compared to 82.1% in December 2017, with a significant reduction in securities classified as HTCS (- €1.2 billion). The widening of the Italian government securities spread caused the reduction in total gross reserves on debt securities held in the Hold to Collect & Sell portfolio from + € 165 million reported as at 31 December 2017 to - € 196 million as at 31 December 2018.

Net loans to customers[12] amounted to € 104,0 billion as at 31 December 2018, a decrease of € 3.7 billion compared to the figure as at 31 December 2017, as a result of the disposals of non-performing loans carried out during the year and the IFRS 9 adjustments mainly to NPLs. The aggregate of performing loans rose by € 1.1 billion (+1,2%) compared to 31 December 2017; considering the effect of senior securities subscribed as part of the disposal of Exodus loans, performing loans increased to € 97.3 billion, up 2.7% compared to 31 December 2017.

The value of net bad loans transferred as part of the ACE project (in relation to which at the closing date of the financial statements the requirements for accounting derecognition do not apply) is recorded under the item "Non-current assets and asset disposal groups held for sale" for a value of € 1,330 million, aligned with the sale price.

Net non-performing loans (bad loans, unlikely to pay and past due and/or non-performing overdue excluding loans being sold) amount to 6.7 billion euro as at 31 December 2018, a decrease of -26.3% compared to 30 September and down -48.4% (6.3 billion) on 31 December 2017. The reduction in the

[11]For more details on the Group's sovereign debt exposure, please refer to the explanatory notes (note 7).
[12]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 € 294 million, are included in financial assets measured at fair value.

aggregate derives from the the disposals carried out in the year, as well as the adoption of IFRS 9 which led to further adjustments to bad loans, and the constant and significant work-out activities.

An analysis of the individual items shows the following changes:

- Net bad loans of € 1.6 billion, down by 75.5% compared to 31 December 2017, and by 54.9% compared to 30 September;
- Net unlikely-to-pay loans of € 5.0 billion, down by 21.8% compared to 31 December 2017, and by 8.3% compared to 30 September 2018;
- Net past due loans of € 88 million, substantially unchanged compared to 31 December 2017 (+ € 7 million) and to 30 September last (- € 6 million).

The coverage rate for the entire impaired loans aggregate was 43.1%, compared to 48.8% as at 31 December 2017 as a result of the disposals made.

More specifically, as at 31 December 2018, the coverage rate was as follows:

- Bad loans 59.6% (58.9% as at 31 December 2017 and 65,0% at 30 September 2018); including loans held for sale as part of the "ACE" project, the coverage ratio further increases to 71.1%;
- Unlikely-to-pay 35.0% (32.3% at 31 December 2017 and 33.6% at 30 September 2018);
- Past due 17.5% (15.7% at 31 December 2017 and 17.7% at 30 September 2018).

The coverage ratio of performing loans was 0.38%, up compared to the 0.32% reported as at 31 December 2017 and stable compared to 30 September of last year (0.39%). Net of repurchase agreements, which are essentially risk free, the coverage level for performing loans rose to 0.41% (0.34% as at 31 December 2017 and 0.41% as at the end of September 2018). The coverage ratio increase is mainly due to the adoption of the new impairment model provided for by IFRS 9.

Group capital ratios

Negative equity impact caused by the important de-risking action on the situation as at 31 December 2018 were offset by the capital management actions launched on the basis of the agreements signed with counterparties which are due to be finalised by 30 June 2019.
Considering the pro-forma impacts anticipated as a result of said actions[13], the predicted pro-forma Common Equity Tier 1 ratio (CETI ratio phased in)[14] is 13.5% (the actual figure stood at 12.1% as at 31 December 2018). The pro-forma CET 1 ratio fully phased was 11.5% (actual figure 10.0% as at 31 December 2018).
The Tier 1 ratio was 12.3% (13.7% pro-forma), while total capital ratio was 14.7% (16.2% pro-forma).

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Following the information disclosed to the market on 10 December 2018, Banco BPM S.p.A. announced that, on today's date, in the context of the "ACE Project", the securitisation process was

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[13] The pro-forma data do not include any estimates of the impacts that may derive from the adoption of IFRS 16 from 1 January 2019.
[14] "Phased in" refers to ratios calculated in consideration of the benefit arising from the option for the full application of the transitional guidelines introduced with Article 473-bis of EU Regulation no. 575/2013, which dilutes over time the impact on own funds deriving from the application of the new impairment model introduced by standard IFRS 9. "Fully phased" refers to ratios calculated excluding the impacts deriving from the application of said option.

completed through the issue by the SPE "Leviticus SPV S.r.l." of the following classes of securities (ABS - Asset-Backed Securities):

- Senior securities for € 1,440.0 million;
- Mezzanine securities for € 221.5 million;
- Junior securities for € 248.8 million;

The senior securities, which will have a coupon of 6M Euribor + 0.6%, were given a rating of BBB (SF) by the ratings agencies DBRS and Scope Ratings. In relation to these senior securities, the procedure for the issue by the Italian State of the guarantee on senior securities pursuant to Italian Legislative Decree no. 18/2016 ("GACS") is currently being activated.

The initiative forms an integral part of the total transaction envisaged by the agreement signed on 10 December 2018 with Credito Fondiario and funds managed by Elliott Management ("Elliott"), which considers the launch of a dedicated debt recovery partnership, 30% owned by Banco BPM and the remaining 70% by Credito Fondiario. By executing this agreement, Elliot undertakes to acquire 95% of the junior and mezzanine shares issued by the SPE "Leviticus"; the finalisation of the disposal of securities and the consequent de-recognition of the debts are envisaged to coincide with the conclusion of the transaction (currently scheduled for 31 May and in any case no later than 30 June), without prejudice to the right of the parties to advance the execution date for the disposal of the securities, which will enable the Banco BPM Group to collect an amount equal to 23.6% of the disposed loans.

Once the derecognition of the loans is complete, the nominal value of the disposal of non-performing loans carried out by Banco BPM from the date of publication of the industrial plan prepared in the context of the merger will have reached a value of over 17 million, more than twice the original target; the combination of the two most recent transactions (the Ace and Exodus projects) will enable a reduction in stock of 72.5% compared to year-end 2017, at a total cost of 28.3%, a very high figure when compared to those disclosed by other brokers for transactions of a similar scale.

The transaction was structured by the team of Deutsche Bank and Banca Akros as Arrangers; Deloitte assisted Banco BPM as Industrial Advisor while Chiomenti and Riolo Calderaro Crisostomo provided legal support to Banco BPM and the Arrangers respectively.

OPERATIONAL OUTLOOK

The global macro-economic scenario shows increasing signs of a slowdown, particularly in the Eurozone, due in particular to trade wars and the consequent increase in protectionist measures.
The deceleration of global GDP towards +3% will negatively impact investments but will also affect consumer trust and willingness to spend, contributing to the possible emergence of financial tensions and weaknesses in more fragile economies.
In this context, growth forecasts for Italy in 2019 have recently been downgraded to +0.5%, considering the entry into a phase of technical recession characterised by reductions in investments, family consumption and the contribution of the international component.
At present, the anticipated modest expansion of private sector, business and particularly manufacturing loans is on track, with a simultaneous improvement in debt quality, also as a result of the progressive de-risking actions currently being implemented across the entire banking sector.
Under this profile, the Group has achieved much higher results than anticipated.
Consequently, considering the completion of the actions aimed at the reorganisation of the commercial network, the rationalisation of its presence in the corporate and investment banking sector and the restructuring of the partnerships in the asset management, bancassurance and

consumer credit sectors, which led to the evolution of business scope, the Group will approve a new strategic plan by the end of the year.
In the year 2019 the operational focus will concentrate on ordinary management, aiming mainly at a return to profitability through the benefits deriving from the synergic effects of the merger and the aforementioned de-risking and restructuring activities.
Net of the reduction in positive items on the interest margin related to the PPA and the adoption of IFRS 9 following the reduction in volumes of non-performing loans, revenue performance should benefit from the likely reduction in competitive pressures on margins, the positive trend of lending volumes, the low average cost of funds operated through commercial networks, and the positive contribution of investees, while commissions, particularly those relating to management, brokering and consultancy services, and the net financial result could be partially affected by the uncertainty and volatility of the markets, particularly should tensions re-emerge with regard to domestic securities.
The curbing of operating costs through efficiency gains will remain a key focus of attention.
Following the significant reduction in non-performing exposures and the decline in non-performing loans received, the cost of credit is expected to fall significantly against a high level of coverage.
The decline in stock will continue through internal work-out activities which, as predicted, will form the platform for the recovery of NPLs in partnership with Credito Fondiario.

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The financial reporting officer, Mr. Gianpietro Val, in compliance with Article 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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"In compliance with Italian law, the Annual Financial Report at 31st December 2018 will be available to the public at the company's registered offices and at the Borsa Italiana (Italian stock exchange), as well as at www.bancobpm.it and on the authorised storage facility's website, www.emarkstorage.com."

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The Banco BPM Group results at 31st December 2018 will be presented to the financial community on the conference call scheduled for today, 6th February 2019 at 18.30 (CET). The supporting documentation for the conference call is available on the authorised storage system's website (www.emarketstorage.com) and on the Bank's website (www.bancobpm.it), where you can also find the details for connecting to the call.

Explanatory notes

The comments on the performance of the key balance sheet and P&L items illustrated in this press release refer to the reclassified consolidated balance sheet and income statement attached below and included in the consolidated Annual Report as at 31 December 2018, which has been approved today by the Board of Directors.
Please find below some explanatory notes that are deemed useful to better understand the approach followed in preparing the aforesaid accounting statements, as well as the evolution of the FY results contained in this press release.

1. Accounting policies and reference accounting standards

<u>Accounting policies</u>

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 measurable operating and financial data.
The layouts have been prepared based on the financial statement layouts indicated in the Bank of Italy's Circular no. 262/2005, that were updated on 22 December 2017, 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 a book value of € 1,428.6 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 disposal.

No material changes are to be reported with respect to 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", and broken down into "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 aforementioned 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 the sub-items: commitments and guarantees given, b) other net provisions.

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. 3.

Accounting standards

The consolidated financial statements as at 31 December 2018 have been prepared in compliance 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 September 2018, pursuant to EC Regulation no. 1606 of 19 July 2002.
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. Gruppo Banco BPM elected not to restate the comparatives, but rather to adjust the opening balance of the consolidated shareholders' equity. Hence, 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, which came to € 10,892.2 million; this reduction was mainly driven by the new financial asset impairment model based on expected losses.
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 annual report as at 31 December 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 annual report as at 31 December 2018, calling for adjustments that cannot be predicted or estimated today against the carrying amount of assets and liabilities recognized in the balance sheet.

2. P&L effects caused by the Purchase Price Allocation of the business combinations of the former Gruppo Banca Popolare di Milano and of the former Groups Banca Popolare Italiana and 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 prices paid for the business combination with Gruppo Banca Popolare di Milano completed in FY 2017 and for the acquisitions of Gruppo Banca Popolare Italiana and Gruppo Banca Italease, completed in FY 2007 and 2009, respectively.

The overall positive effect on the 2018 consolidated net income, generated by the reversal of the value adjustments of acquired net assets, came to € 60.1 million (primarily referred to the former Gruppo Banca Popolare di Milano).

3. Charges generated by the contribution to resolution mechanisms

Starting with the Half-yearly Financial Report as at 30 June 2018, 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 single and national resolution funds (SRF and NRF) and of the Deposit Guarantee Scheme (DGS).
As at 31 December 2018, the line-item included:

- the ordinary contribution amount of € 68.1 million paid to the Single Resolution Fund for FY 2018 (€ 62.4 million being the ordinary contribution paid for FY 2017). 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 ordinary contribution amount of € 45.2 million paid to the Interbank Deposit Guarantee Fund (*Fondo Interbancario Tutela Depositi*) for FY 2018 (€ 44.5 million being the contribution reported at 31 December 2017);
- the additional contribution amounts totaling € 25.5 million paid to the National Resolution Fund (no additional contributions had been called in in 2017).

Net of tax effect, the above charges totaled € 100.2 million (€ 77.3 million at 31 December 2017).

4. Changes in consolidation scope

No significant changes in the consolidation scope of fully owned subsidiaries were reported over the year.
As to associates, following the reorganization of the Bancassurance business line, completed in Q1 2018 with the agreements entered with Cattolica Assicurazioni, the Group reduced its shareholdings in the two insurance companies by 15%. At 31 December 2018, the Group held a 35% stake in Vera Vita S.p.A (previously called Popolare Vita, in which the Group held a 50% share) and in Vera Assicurazioni S.p.A (previously called Avipop Assicurazioni, in which the Group held a 50% stake).

5. Non-recurring items in the income statement of Gruppo Banco BPM and elements for the calculation of the "normalized" income statement

2018 results have been affected by several significant and to a reasonable extent one-off events, mostly tied to the implementation of the Business Plan, in particular in terms of de-risking. More specifically, in 2018 the Group completed the reorganization of the bancassurance activities, the sale of the depositary bank business line, it capped off the reorganization of its asset management arm through the sale of the sub-advisory contracts for insurance assets, and it streamlined the branch network, closing a staggering number of branches. As regards the de-risking strategy, the Group took major actions to reduce the NPL stock, with a first sale closed at the end of the first half (the "Exodus" deal, which saw the disposal of a nominal amount of roughly € 5.1 billion of bad loans), and a second deal which is being finalized at the date of this news release (the "ACE" deal, whereby in the coming months roughly an additional nominal amount of € 7.4 billion of bad loans will be sold).

To evaluate the operating results generated by the Group's business-as-usual operations, a "normalized" income statement has been prepared, to exclude the impacts from the above-described reorganization/streamlining/de-risking processes, in addition to the ordinary items usually classified as extraordinary or non-recurring, and this also with respect to valuation-based income statement items, such as “net write-downs of loans and advances to customers” and “net allowances to provisions for risks and charges”.

Illustrated below are the line-by-line income components of the reclassified income statement that have been excluded when preparing the “normalized” 2018 income statement:

- the line-item “other net operating income” does not include the positive result generated by the sale to Anima SGR of the sub-advisory mandates on insurance assets carried out on behalf of the insurance partnerships, for € 113.6 million, and the capital gain generated by the sale of the depositary bank and fund administration business line to BNP Paribas Securities Services, for € 200.0 million;
- the line-item “net financial result” does not include the € 27.9 million impairment of the investment in FITD’s Voluntary Scheme (Interbank Deposit Guarantee Fund) to support the measure in favor of Carige, with the subscription of the subordinated bond issued by the latter bank at the end of November 2018;
- the line-item “other administrative expenses” did not include non-recurring items for a total of € 22.6 million, mainly related to integration charges incurred to upgrade the information systems (€ 15.5 million), and expenses incurred for the branch closures (branch restoration, moving costs, etc.) amounting to € 5,1 million;
- the line-item “impairment of tangible and intangible assets” does not include (i) impairment of real estate investments, for € 44.1 million, to bring their carrying amount into line with the lower recoverable amount based on recent reappraisals (ii) impairment of intangible assets represented by software, following the integration of the Group information systems, for € 3.8 million (iii) impairment of capitalized costs for leasehold improvements to leased branches, for € 4.8 million, that could no longer be recovered as the branches were closed;
- “net write-downs of loans and advances to customer” does not include the € 713.9 million effect of the de-risking action on exposures classified as bad loans, mainly attributable to the “ACE” deal, which, although still under finalization, called for the carrying amount to be brought into line with the estimated amount to be recovered from the securitization currently underway;
- the line-item “net allowance to provisions for risks and charges” does not include allowances totaling € 351.6 million tied to: prudential allowances to guarantee a full coverage of charges tied to outstanding or future litigations or complaints (including past referrals of clients, who were interested in buying diamonds, from the specialized company Intermarket Diamond Business S.p.A., which was declared bankrupt at the beginning of 2019), and that may give rise to claims by customers who are worth to be dealt with from a customer care perspective; costs to be incurred for the closure of 518 branches over the year (based on the rents due over the lease term deemed to be non-cancellable, the costs to dismantle and restore the premises, etc.); non-recurring allowances originating from the re-computation of terms and conditions applied to customers for underwriting and credit lines fees dating back to prior years and recalculated based on parameters recently introduced by more stringent regulations and interpretation notes issued by the supervisory authorities;
- the entire amount of the line-item “Gains from disposal of equity and other investments", equal to € 173.4 million, whose main component of € 170.7 million is represented by the positive result generated by 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 for the year on continuing operations” does not include the benefit from the recognition of € 64.0 million of IRAP deferred tax assets, tied to the loan impairment upon the first-time adoption of IFRS 9, which were booked only in Q4 following the regulatory changes introduced by the 2019 budget law, under which they can be deducted over a 10 year period (rather than their full deduction in FY 2018), and the positive tax effect of the above non-recurring items, totaling € 233.6 million;
- the line-item “after-tax banking industry charges” does not include € 18.4 million of additional contributions called in by the National Resolution Fund for the resolution measures started in 2015 (€ 25.5 million net of their tax effect of € 7.1 million).

Overall, taking into account the negative minority interest effects (€ - 2.3 million) and the result tied to disposed assets (€ + 0,9 million), the mathematical balance of the income components accrued in 2018 that were not included in the “normalized” income statement works out to - € 399.3 million. The resulting “normalized” net income comes to € 342.8 million.

6. 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, transposing the banking supervisory standards defined by the Basel Committee (Basel 3 framework) in the European Union, have come into effect. 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 21 September 2018, the Bank of Italy confirmed the Countercyclical Capital Buffer ratio at zero per cent for Q4 2018. The zero percent ratio has been confirmed also for Q1 2019 (see Bank of Italy Communication dated 21 December 2018).

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 banks hold an amount of own funds greater than the minimum capital requirements provided for under the current regulations, a 2.50% top-up 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 required deadline (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. At 31 December 2018, the latter option (called "dynamic approach") has not been adopted.

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 estimated capital ratios.

7. Sovereign risk exposure represented by debt securities

The table below provides an illustration of the Group's sovereign risk exposure at 31 December 2018, represented by debt securities, broken down by single Country and by category of the classification accounting portfolio:

31 December 2018 *(million euro)* **Countries/Accounting portfolios**	**Fin. ass. measured at amortized cost**	**Fin. ass. measured at fair value through other comprehensive income**	**Fin. ass. measured at fair value through profit or loss**	**Total**
Italy	10.337	6.563	752	17.652
USA	2.352	1.504	-	3.856
France	1.083	2.097	-	3.180
Germany	379	576	-	955
Spain	643	910	-	1553
Other Countries	288	50	-	338
Total	**15.082**	**11.700**	**752**	**27.534**

At 31 December 2018, the Group's sovereign debt exposure totaled € 27.5 billion (€ 25.2 billion at 31 December 2017), of which 54.8% classified in the portfolio of financial assets measured at amortized cost, 42.5% under financial assets measured at fair value through other comprehensive income, and 2.7% in the portfolio of financial assets measured at fair value through profit or loss as they were held for trading.
Out of this exposure, about 86% refers to securities issued by members of the European Union; more specifically about 64% by Italy.
With regard to financial assets measured at fair value through other comprehensive income, at 31 December 2018 the reserves generated by the fair value measurement totaled - € 0.14 billion, gross of tax effect, and refer almost exclusively to Italian Government bonds.
As to financial assets measured at amortized cost, the book value came out at € 15.1 billion, of which € 10.3 represented by Italian government bonds. For information purposes only, note that the fair value of the government bonds classified in this accounting category, measured based on the market prices at 31 December 2018, (level 1 in the fair value classification) totaled € 14.9 billion (€ 10.2 billion being the fair value of the Italian government bonds alone).
Finally, note that in FY 2018, Gruppo Banco BPM did not change its business model, hence no financial assets reclassification has been reported across the different accounting categories.

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 31 December 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 31 December 2018, or, if not available, on the most recent financial reports prepared by the associates.

Attachments

- Reclassified consolidated balance sheet
- Reclassified consolidated income statement
- Reclassified consolidated income statement – 2018 and 2017 quarterly evolution
- Reclassified consolidated income statement excluding PPA – 2018 and 2017 quarterly evolution

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BANCO BPM GROUP

Reclassified consolidated balance sheet

(in euro thousand)	31/12/2018	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	922,017	976,686	976,686	-54,669	-54,669	-5.6%	-5.6%
Financial assets at amortised cost	108,207,732	111,044,748	112,681,902	-2,837,016	-4,474,170	-2.6%	-4.0%
- Due from banks	4,193,119	4,936,507	4,939,223	-743,388	-746,104	-15.1%	-15.1%
- Customer loans (*)	104,014,613	106,108,241	107,742,679	-2,093,628	-3,728,066	-2.0%	-3.5%
Other financial assets	36,852,942	34,884,798	34,533,172	1,968,144	2,319,770	5.6%	6.7%
- Financial assets designated at FV through P&L	5,869,106	6,417,083	5,184,586	-547,977	684,520	-8.5%	13.2%
- Financial assets designated at FV through OCI	15,351,561	16,750,072	17,128,622	-1,398,511	-1,777,061	-8.3%	-10.4%
- Financial assets at amortised cost	15,632,275	11,717,643	12,219,964	3,914,632	3,412,311	33.4%	27.9%
Equity investments	1,434,163	1,256,843	1,349,191	177,320	84,972	14.1%	6.3%
Property and equipment	2,775,885	2,735,182	2,735,182	40,703	40,703	1.5%	1.5%
Intangible assets	1,277,941	1,297,160	1,297,160	-19,219	-19,219	-1.5%	-1.5%
Tax assets	5,012,477	4,897,397	4,520,189	115,080	492,288	2.3%	10.9%
Non-current assets held for sale and discontinued operations	1,592,782	106,121	106,121	1,486,661	1,486,661	N.S.	N.S.
Other assets	2,388,852	3,007,162	3,007,162	-618,310	-618,310	-20.6%	-20.6%
Total Assets	**160,464,791**	**160,206,097**	**161,206,765**	**258,694**	**-741,974**	**0.2%**	**-0.5%**
Due to banks	31,633,541	27,199,304	27,199,304	4,434,237	4,434,237	16.3%	16.3%
Direct funding	105,219,691	107,525,103	107,509,849	-2,305,412	-2,290,158	-2.1%	-2.1%
- Due to customers	90,197,859	87,848,146	87,848,146	2,349,713	2,349,713	2.7%	2.7%
- Debt securities issued and financial liabilities designated at FV	15,021,832	19,676,957	19,661,703	-4,655,125	-4,639,871	-23.7%	-23.6%
Other financial liabilities designated at fair value	7,228,829	8,704,348	8,707,966	-1,475,519	-1,479,137	-17.0%	-17.0%
Liability provisions	1,704,866	1,617,312	1,580,461	87,554	124,405	5.4%	7.9%
Tax liabilities	505,402	691,723	669,494	-186,321	-164,092	-26.9%	-24.5%
Liabilities associated with assets held for sale	3,043	35	35	3,008	3,008	N.S.	N.S.
Other liabilities	3,864,345	3,576,116	3,576,116	288,229	288,229	8.1%	8.1%
Total Liabilities	**150,159,717**	**149,313,941**	**149,243,225**	**845,776**	**916,492**	**0.6%**	**0.6%**
Minority interests	45,599	57,567	63,310	-11,968	-17,711	-20.8%	-28.0%
Shareholders' equity	10,259,475	10,834,589	11,900,230	-575,114	-1,640,755	-5.3%	-13.8%
CONSOLIDATED SHAREHOLDERS' EQUITY	**10,305,074**	**10,892,156**	**11,963,540**	**-587,082**	**-1,658,466**	**-5.4%**	**-13.9%**
Total Liabilities and Shareholders' Equity	**160,464,791**	**160,206,097**	**161,206,765**	**258,694**	**-741,974**	**0.2%**	**-0.5%**

(*) Include the Senior notes for those the Italian government has issued the State guarantee on the securitization of bad loans, pursuant to the Decree Law 18/2016 ("GACS")

BANCO BPM GROUP

Reclassified consolidated income statement

(in euro thousand)	IFRS 9 2018	IAS 39 2017	Changes	Changes %
Net interest income	2,292,562	2,113,447	179,115	8.5%
Income (loss) from investments in associates carried at equity	159,457	166,036	-6,579	-4.0%
Net interest, dividend and similar income	**2,452,019**	**2,279,483**	**172,536**	**7.6%**
Net fee and commission income	1,848,760	1,950,410	-101,650	-5.2%
Other net operating income	389,771	98,817	290,954	294.4%
Net financial result	82,360	155,049	-72,689	-46.9%
Other operating income	**2,320,891**	**2,204,276**	**116,615**	**5.3%**
Total income	**4,772,910**	**4,483,759**	**289,151**	**6.4%**
Personnel expenses	-1,732,805	-1,784,854	52,049	-2.9%
Other administrative expenses	-816,478	-872,355	55,877	-6.4%
Amortization and depreciation	-243,498	-266,915	23,417	-8.8%
Operating costs	**-2,792,781**	**-2,924,124**	**131,343**	**-4.5%**
Profit (loss) from operations	**1,980,129**	**1,559,635**	**420,494**	**27.0%**
Net adjustments on loans to customers	-1,941,116	-1,660,963	-280,153	16.9%
Net adjustments on other assets	3,291	-140,217	143,508	
Net provisions for risks and charges	-345,341	-13,757	-331,584	N.S.
Profit (loss) on the disposal of equity and other ivestments	173,358	25,698	147,660	574.6%
Income (loss) before tax from continuing operations	**-129,679**	**-229,604**	**99,925**	**-43.5%**
Tax on income from continuing operations	162,835	92,789	70,046	75.5%
Systemic charges after tax	-100,218	-77,264	-22,954	29.7%
Income (loss) after tax from discontinued operations	936	762,262	-761,326	-99.9%
Income (loss) attributable to minority interests	9,623	9,658	-35	-0.4%
Net income (loss) for the period excluding Badwill and Impairment on goodwill and client relationship after tax	**-56,503**	**557,841**	**-614,344**	
Impairment on goodwill and client relationship after tax	**-2,929**	**-1,017,616**	**1,014,687**	**-99.7%**
Badwill	**-**	**3,076,137**	**-3,076,137**	
NET INCOME (LOSS) FOR THE PERIOD	**-59,432**	**2,616,362**	**-2,675,794**	

BANCO BPM GROUP

Reclassified consolidated income statement

(in euro thousand)	IFRS 9 IV Q 2018	IFRS 9 III Q 2018	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	554,694	557,759	584,998	595,111	528,768	524,923	511,149	548,607
Income (loss) from investments in associates carried at equity	50,668	32,791	33,413	42,585	45,166	38,931	40,354	41,585
Net interest, dividend and similar income	**605,362**	**590,550**	**618,411**	**637,696**	**573,934**	**563,854**	**551,503**	**590,192**
Net fee and commission income	469,875	451,372	450,993	476,520	472,096	458,935	503,605	515,774
Other net operating income	21,061	214,531	130,029	24,150	24,738	29,401	14,362	30,316
Net financial result	-73,898	46,768	80,182	29,308	41,915	12,957	63,320	36,857
Other operating income	**417,038**	**712,671**	**661,204**	**529,978**	**538,749**	**501,293**	**581,287**	**582,947**
Total income	**1,022,400**	**1,303,221**	**1,279,615**	**1,167,674**	**1,112,683**	**1,065,147**	**1,132,790**	**1,173,139**
Personnel expenses	-422,177	-431,479	-437,060	-442,089	-420,796	-450,628	-456,711	-456,719
Other administrative expenses	-205,705	-196,184	-203,102	-211,487	-204,704	-236,303	-233,055	-198,293
Amortization and depreciation	-97,096	-49,456	-49,020	-47,926	-95,466	-62,160	-56,406	-52,883
Operating costs	**-724,978**	**-677,119**	**-689,182**	**-701,502**	**-720,966**	**-749,091**	**-746,172**	**-707,895**
Profit (loss) from operations	**297,422**	**626,102**	**590,433**	**466,172**	**391,717**	**316,056**	**386,618**	**465,244**
Net adjustments on loans to customers	-987,260	-267,405	-360,212	-326,239	-673,127	-340,816	-354,530	-292,490
Net adjustments on other assets	3,968	-1,312	-1,593	2,228	-12,718	-48,322	-70,820	-8,357
Net provisions for risks and charges	-227,805	-71,865	-20,707	-24,964	-9,235	4,615	-9,641	504
Profit (loss) on the disposal of equity and other ivestments	5,109	-10,301	-1,104	179,654	12,064	333	-3,765	17,066
Income (loss) before tax from continuing operations	**-908,566**	**275,219**	**206,817**	**296,851**	**-291,299**	**-68,134**	**-52,138**	**181,967**
Tax on income from continuing operations	322,430	-72,338	-61,320	-25,937	101,759	34,806	1,122	-44,898
Systemic charges after tax	-668	-32,122	-18,391	-49,037	-6,187	-26,069	-	-45,008
Income (loss) after tax from discontinued operations	-	932	18	-14	699,971	16,498	25,790	20,003
Income (loss) attributable to minority interests	5,777	256	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	**-581,027**	**171,947**	**129,284**	**223,293**	**505,111**	**-41,502**	**-20,970**	**115,202**
Impairment on goodwill and client relationship after tax	**-2,929**	**-**	**-**	**-**	**-1,017,616**	**-**	**-**	**-**
Badwill	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**3,076,137**
NET INCOME (LOSS) FOR THE PERIOD	**-583,956**	**171,947**	**129,284**	**223,293**	**-512,505**	**-41,502**	**-20,970**	**3,191,339**

BANCO BPM GROUP

Reclassified consolidated income statement without PPA line-by-line

	IFRS 9	IFRS 9	IFRS 9	IFRS 9	IAS 39	IAS 39	IAS 39	IAS 39
(in euro thousand)	IV Q 2018	III Q 2018	II Q 2018	I Q 2018	IV Q 2017	III Q 2017	II Q 2017	I Q 2017
Net interest income	534,304	537,227	541,685	536,030	527,653	514,903	505,200	534,508
Income (loss) from investments in associates carried at equity	50,668	32,791	33,413	42,585	45,166	38,931	40,354	41,585
Net interest, dividend and similar income	**584,972**	**570,018**	**575,098**	**578,615**	**572,819**	**553,834**	**545,554**	**576,093**
Net fee and commission income	469,875	451,372	450,993	476,520	472,096	458,935	503,605	515,774
Other net operating income	31,635	225,104	140,539	34,604	36,368	41,028	25,575	42,195
Net financial result	-73,898	46,768	80,182	29,308	41,915	12,957	63,320	36,857
Other operating income	**427,612**	**723,244**	**671,714**	**540,432**	**550,379**	**512,920**	**592,500**	**594,826**
Total income	**1,012,584**	**1,293,262**	**1,246,812**	**1,119,047**	**1,123,198**	**1,066,754**	**1,138,054**	**1,170,919**
Personnel expenses	-422,177	-431,479	-437,060	-442,089	-420,796	-450,628	-456,711	-456,719
Other administrative expenses	-205,705	-196,184	-203,102	-211,487	-204,704	-236,303	-233,055	-198,293
Amortization and depreciation	-94,597	-46,543	-46,126	-45,056	-91,683	-58,980	-53,329	-49,672
Operating costs	**-722,479**	**-674,206**	**-686,288**	**-698,632**	**-717,183**	**-745,911**	**-743,095**	**-704,684**
Profit (loss) from operations	**290,105**	**619,056**	**560,524**	**420,415**	**406,015**	**320,843**	**394,959**	**466,235**
Net adjustments on loans to customers	-987,260	-267,405	-360,212	-326,239	-735,829	-381,998	-403,815	-336,556
Net adjustments on other assets	3,968	-1,312	-1,593	2,228	-12,718	-48,322	-70,820	-8,357
Net provisions for risks and charges	-227,805	-71,865	-20,707	-24,964	-9,235	4,615	-9,641	504
Profit (loss) on the disposal of equity and other ivestments	5,109	-10,301	-1,104	179,654	12,156	205	-2,784	17,066
Income (loss) before tax from continuing operations	**-915,883**	**268,173**	**176,908**	**251,094**	**-339,611**	**-104,657**	**-92,101**	**138,892**
Tax on income from continuing operations	324,810	-69,946	-51,347	-10,742	117,860	47,040	14,399	-30,605
Systemic charges after tax	-668	-32,122	-18,391	-49,037	-6,187	-26,069	-	-45,008
Income (loss) after tax from discontinued operations	-	932	18	-14	699,971	16,498	25,790	20,003
Income (loss) attributable to minority interests	5,777	256	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	**-585,964**	**167,293**	**109,348**	**192,731**	**472,900**	**-65,791**	**-47,656**	**86,420**
Purchase Price Allocation (PPA) after tax	**4,937**	**4,654**	**19,936**	**30,562**	**32,211**	**24,289**	**26,686**	**28,782**
Impairment on goodwill and client relationship after tax	**-2,929**	**-**	**-**	**-**	**-1,017,616**	**-**	**-**	**-**
Badwill	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**3,076,137**
NET INCOME (LOSS) FOR THE PERIOD	**-583,956**	**171,947**	**129,284**	**223,293**	**-512,505**	**-41,502**	**-20,970**	**3,191,339**

Fine Comunicato n.1928-10	Numero di Pagine: 22