Informazione Regolamentata n. 1928-80-2019	Data/Ora Ricezione 06 Agosto 2019 18:00:54	MTA

Societa'	:	Banco BPM S.p.A.
Identificativo Informazione Regolamentata	:	121690
Nome utilizzatore	:	BANCOBPMN08 - Marconi
Tipologia	:	1.2
Data/Ora Ricezione	:	06 Agosto 2019 18:00:54
Data/Ora Inizio Diffusione presunta	:	06 Agosto 2019 18:00:55
Oggetto	:	PR_Banco BPM results at 30 June 2019

Testo del comunicato

Vedi allegato.

BANCO BPM

PRESS RELEASE

RESULTS AT 30 JUNE 2019

The first half of 2019 ends with net profits of € 593 million, with 68% growth with respect to 30/6/18

The results for Q2 2019 are positive, showing a decided recovery in:

•core revenues[1] (+3.1% over Q1 2019)

•net interest income (an increase of 1.9%)

•fee and commission income (+ 4.4%)

Operating expenses continued to decrease, falling by 3.3% with respect to the first half of the previous year

Core performing loans to[2] customers increased (+3.0%) as did core direct funding[3] (+5.6%) with respect to December 2018

The derisking project continues (Net NPE ratio down to 5.9%)

The solid equity position is confirmed:

CET1 ratio pro-forma[4]: phased in of 13.8%; IFRS9 fully phased of 12%

Texas Ratio[5] significantly improved at 61.8% (99.5% in June 2018)

The cost of risk has fallen significantly (65 bps vs 184 in 2018)[6]

More specifically:

NET PROFIT FOR Q2 2019 OF € 443 MILLION (+ 194% COMPARED TO € 150 MILLION RECORDED IN Q1)

---

[1] Core operating revenues refer to the sum of net interest income and net fee and commission income.
[2] Mortgages, loans, current accounts and personal loans.
[3] Current accounts and deposits.
[4] Also considering the expected impacts of disposal of the portfolio of bad leasing loans for a nominal amount of around € 600 million.
[5] The Texas Ratio measures the ratio between the net value of impaired loans and the Group's tangible equity.
[6] Cost of risk calculated as relation between net adjustments on loans to customers and net loans to customers including those classified under IFRS 5.

NET PROFIT FOR H1 2019 OF € 593 MILLION (+ 68% COMPARED TO € 353 MILLION RECORDED AT 30 JUNE 2018)
"ADJUSTED" NET PROFIT[7] FOR H1 2019 AT € 291 MILLION (+45% COMPARED TO € 200 MILLION RECORDED AT 30 JUNE 2018)

"CORE" OPERATING INCOME FOR Q2 2019 AT € 969 MILLION (+3.1% COMPARED TO Q1 2019 WITH AN INCREASE OF +1.9% IN NET INTEREST INCOME AND OF 4.4% IN FEES AND COMMISSION)

OPERATING EXPENSES FOR H1 2019 AT € 1,345 MILLION (€ 1,391 AND -3.3% COMPARED TO 30 JUNE 2018); IN Q2 2019 THE TOTAL IS € 675 MILLION (-1.2% ADJUSTED)

NET WRITEDOWNS ON LOANS IN H1 2019 € 350 MILLION (-49.1% COMPARED TO € 686 MILLION AT 30 JUNE 2018); THE TOTAL IS € 198 MILLION FOR Q2 2019

COST OF RISK AT 65 BPS IN H1 2019 (184 BPS WAS THE FIGURE FOR FINANCIAL YEAR 2018)

LOANS TO CUSTOMERS € 105.1 BILLION (OF WHICH PERFORMING LOANS REPRESENTED € 98.9 BILLION + 3,0% COMPARED TO DECEMBER 2018[8], IMPAIRED LOANS REPRESENTED € 6.2 BILLION, -7.9% COMPARED TO DECEMBER 2018)

DIRECT CUSTOMER FUNDING[9] € 105.2 BILLION OF WHICH CORE DIRECT FUNDING REPRESENTED € 85.6 BILLION (+5.6% COMPARED TO DECEMBER 2018, +2.7% COMPARED TO MARCH 2019)

THE SIGNIFICANT DERISKING PROJECT AND REORGANISATION OF THE GROUP CONTINUE, WITH THE COMPLETION OF SEVERAL IMPORTANT CAPITAL MANAGEMENT TRANSACTIONS DURING THE HALF:

- **COMPLETION OF ACE SALE, OBTAINING GACS GUARANTEE ON SENIOR SECURITIES AND DERECOGNITION OF BAD LOANS**
- **AGREEMENT SIGNED FOR SALE OF LEASING BAD LOANS FOR AROUND € 600 MILLION NOMINAL VALUE, FOR A GROSS NPE RATIO OF 9.7% (10.9% AT THE END OF 2018)[10] AND A NET NPE RATIO OF 5.9% (6.5% AT THE END OF 2018)[11]**
- **AGREEMENT SIGNED TO CREATE A PARTNERSHIP WITH CREDITO FONDIARIO TO MANAGE COLLECTION OF NPL WITH A € 141 MILLION NET POSITIVE EFFECT ON PROFITS FOR THE HALF**
- **RESTRUCTURING OF THE CONSUMER LOAN SEGMENT COMPLETED THROUGH DISPOSAL OF THE "CAPTIVE" PROFAMILY ASSETS WITH A NET POSITIVE EFFECT ON THE RESULTS FOR THE HALF OF € 186 MILLION**

THE ACTIONS COMPLETED DURING THE HALF MADE IT POSSIBLE TO ACHIEVE A SOLID EQUITY POSITION:

- **CET 1 RATIO "IFRS9 PHASED IN" PRO-FORMA OF 13.8% AND "IFRS9 FULLY PHASED" PRO-FORMA OF 12.0%**
- **EXCELLENT LIQUIDITY POSITION WITH UNENCUMBERED ELIGIBLE ASSETS EXCEEDING € 22 BILLION[12]**
- **TEXAS RATIO AT 61.8%, SHOWING CONTINUOUS IMPROVEMENT WITH RESPECT TO 74.9% IN DECEMBER 2018 AND 99.5% IN JUNE 2018)**

---

[7] "Adjusted" figures are shown net of non-recurring components detailed in the Notes.
[8] Recalculated data excluding loans to customers reclassified in June 2019 as discontinued operations under IFRS 5
[9] The aggregate includes deposits and current accounts and demand and term deposits, issued bonds, certificates of deposit and other securities, loans and other debts, and capital protected certificates. Repos are not included.
[10] Figure recalculated on a homogeneous basis with respect to information at 30 June 2019.
[11] The loans involved in this disposal agreement were classified among "assets held for sale". The ratios indicated were calculated excluding receivables held for sale.
[12] Data updated at 31 July 2019.

Key balance sheet items

- Loans to customers € 105.1 billion, of which "core" performing loans up +3.0% on a homogeneous basis[13] and impaired loans down by -8.0% with respect to 31 December 2018;
- Direct customer funding of € 105.2 billion [14] (€ 101.5 billion at the end of December 2018): during the first six months of the year, the growth trend in the core funding from current accounts and deposits was confirmed (+€ 4.5 billion compared to the end of the previous year) along with a decrease in more expensive funding sources (- € 0.5 billion for bonds);
- Indirect customer funding [15] € 89.1 billion (compared to € 86.6 billion at 31 December 2018), up 2.8%, of which:
    - asset management € 56.7 billion;
    - asset administration € 32.4 billion.

Key income statement items

- Interest margin
    - € 514.8 million in Q2 2019 (€ 505.2 million in Q1 2019; + 1.9%)
    - € 1,020.0 million in H1 2019 (€ 1,180.1 million in H1 2018; -13.6%)
    - € 1,012.7 million is the figure for "core" components in H1 2019 (€ 1,026.8 million in H1 2018; -1.4%)[16]
- Net fee and commission income
    - €453.7 million in Q2 2019 (€ 434.5 million in Q1 2019; + 4.4%)
    - € 888.2 million in H1 2019 (€ 935.2 million in H1 2018; -5.0%)
- Operating expenses
    - € 675.0 million in Q2 2019 (€ 670.5 million in Q1 2019; + 0.7%)
    - € 1,345.5 million in H1 2019 (€ 1,390.7 million in H1 2018; -3.3%)
- Net profit
    - € 442.6 million in Q2 2019 (€ 150.5 million in Q1 2019; + 194.1%)
    - € 593.1 million in H1 2019 (€ 352.6 million in H1 2018; +68.2%)

Capital position:

- CET 1 ratio "IFRS9 fully phased" pro-forma[17] 12.0%;

[13] Figure calculated taking into account the effects of the reclassification of ProFamily loans among assets held for sale.
[14] Direct funding includes certificates with unconditional capital protection (€ 3.3 billion at 30 June 2019 compared at € 3.4 billion at the end of 2018), but excludes repurchase agreements.
[15] Net of certificates with unconditional capital protection included under "direct funding".
[16] For more details, see the comment in the section "Economic performance of operations in H1 2019 compared to H1 2018".
[17] The "pro-forma" ratio also includes expected effects with regards to reduction of risk weighted assets due to the completion of the disposal of the portfolio of bad leasing loans for a nominal amount of around € 600 million.

- CET 1 ratio "IFRS9 phased-in" pro-forma 13.8%.

Credit quality

- Net non-performing loan stock of € 6.2 billion with decrease of € 537 million compared to the end of 2018 (-8.0%) and € 3.3 billion compared to 30 June 2018 (-34.8%)
  Coverage:
  - Non-performing loans: 41.9% (43.1% at the end of 2018);
  - Bad loans: 56.8% (59.6% at the end of 2018);
  - Taking into account the loans involved in the disposal agreement for leasing contracts, coverage is in any case up with respect to March 2019 (which was equal to 41.6% on a homogeneous basis for total impaired loans and 56.4% for bad loans).

Liquidity profile

- Unencumbered eligible assets of € 20.8 billion at 30 June 2019 rising to over € 22 billion at 31 July 2019.
- LCR >150% and NSFR >100%[18].

Milan, 6 August 2019 – 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 2019 of Gruppo Banco BPM.

Operations in the first half of 2019, while still involving continuation of derisking and reorganisation of Group assets in line with the business plan, as well as the execution of capital management transactions already announced, saw a greater focus on developing commercial activity after the significant restructuring of the network and the closure of branches which occurred the previous year.

More specifically, in the first quarter the "ACE" sale was completed (launched during the previous financial year) obtaining "GACS" guarantee on Senior Notes and placing 95% of the Mezzanine and Junior Notes. This allowed accounting derecognition of loans sold that were booked under "assets held for sale" at the end of the year.
Again relative to the "ACE" project, Banco BPM transferred to First Servicing S.p.A., a company that operates as a servicer for non-performing loans, the business unit consisting of a combination of assets, legal relationships and employees organised to carry out loan collection activities relative to

[18] Figure for Q2 2019.

the said loans. In June, the partnership with Credito Fondiario was established to manage collections of impaired loans. Credito Fondiario became part of the shareholding structure of First Servicing (which changed its name to CF Liberty Servicing S.p.A.), with a stake equal to 70% of equity.

The Group's derisking activities continued with the signing of an agreement to dispose of a portfolio of bad leasing loans. After due diligence was complete, in April Banco BPM identified Illimity Bank as the counterparty for the sale of a portfolio of a nominal 650 million on the cut-off date (the nominal value at 30 June 2019 was around € 600 million), mainly consisting of loans deriving from legal relationships receivable and payable associated with bad leasing contracts. The operation will involve various phases and is expected to be completed by mid-2020.

As part of the reorganisation of the Group's activities, in June the restructuring of the consumer loan segment was completed through the sale to Agos Ducato of the business unit regarding activities carried out through the network of branches for the former Banca Popolare di Milano, for € 310 million.
With reference to transactions on the wholesale market, in April Banco BPM completed the first issue of Additional Tier 1 instruments for a value of € 300 million, destined for institutional investors. This represented an important operation for increasing the efficiency of the Group's capital structure. The securities issued are perpetual and may be recalled by the issuer from 18 June 2024.

Additionally, during the half the placements of two senior preferred unsecured bond loans reserved for institutional investors were completed successfully. The first occurred at the beginning of March, with 3-year maturity and an amount of 750 million with 2% fixed coupon, while the second was in June with 5-year maturity for a total of 500 million and a 2.50% fixed coupon.

In this context, characterised by significant efforts to achieve the objective presented, the Group has provided goof operational and economic performance, recording gross profit before tax of € 719.6 million and net profit of € 593.1 million.

Economic performance of operations in H1 2019 compared to H1 2018

Net interest income amounted to € 1,020.0 million and compares with the figure of € 1,180.1 million for the corresponding period of the previous year. This income performance is negatively impacted by both the lower "reversals" due to write-backs from discounting bad loans and the lower impact of the resulting PPA, in large part from the transfer transactions of non-performing loans (€ -140.9 million yoy). Also in the first half of 2019, following the introduction of IFRS 16, interest expenses were recorded on leasing contract payables for € 5.0 million. Net of these effects, net interest income would be € 1,012.7 million, compared to a figure calculated on a homogeneous basis of € 1,026.8 million for H1 2018 (-1.4%). The reduction is due to the lower commercial spread for retail, partially compensated for by higher average volumes.

The **result for investees measured with the equity method** shows a profit of € 69.4 million, down with respect to the figure of € 76.0 million recorded in H1 2018. Within this aggregate, the main contribution was provided by consumer credit of € 56.9 million conveyed by the shareholding in Agos Ducato.

Net fee and commission income[19] totalled € 888.2 million, with a decline of 5.0% compared to the € 935.2 million in the corresponding period of last year, mainly due to the lower contribution of upfront fees that had provided a significant contribution in the first part of 2018 as a result of the higher placements carried out at that time and the lack of commissions relative to custodian bank activities, sold in the second half of 2018.

Other net operating income comes to € 22.9 million compared to the figure of € 154.2 million in H1 2018, which included capital gains of € 113.6 million deriving from the sale to Anima SGR of sub-advisory mandates carried out on behalf of insurance assets. Excluding this component from the figure the previous year, the aggregate shows a decrease mainly due to the progressive decline in fast enquiry fees (-51.9% with respect to 30 June 2018).

The **net financial result** was € 83.0 million, compared to € 101.8 million in the same period of last year. This result was helped by the impact of the securities included in the portfolio of financial assets required to be designated at *fair value* for a total of € 70.7 million, a result that includes capital gains of € 59.8 million, resulting from the valuation of Nexi S.p.A ordinary shares most of which disposed of as part of the operation that led to the listing of the company. Net of this effect, net financial profit for the half is € 23.3 million, down by € 78.5 million with respect to H1 2018 mainly following a prudential hedging strategy which resulted in an increase in equity reserves for debt securities in the portfolio of FVOCI financial assets[20] (+ € 233 million gross in H1 2019).

Due to the dynamics described, total **operating income** therefore came to € 2,083.5 million, down by 14.9% with respect to H1 2019. Excluding the capital gains recognised during H1 2018 from the sale of sub-advisory insurance mandates, the reduction would come to -10.7%, mainly as an effect of the trend noted above for net interest income and fees and commissions.

Personnel expenses, of € 843.9 million showed a decrease of 4.0% compared to the € 879.1 million in the same period of last year. The total number of employees was 21,964 at 30 June 2019, compared to 22,247 at the end of 2018 (23,263 at 31 December 2017).

Other administrative expenses[21] amounted to € 330.2 million translating into a 20.4% drop compared to H1 2018. This reduction is in part attributable to the application of the IFRS 16 standard which, for contracts under this standard, provides for the inclusion of the amortisation of the right of use under "Write-downs of tangible and intangible assets" in place of registration of rents and rents payable under "Other administrative expenses"; even when taking this effect into account, other administrative expenses still saw a significant reduction (around 7.8% with respect to H1 2018).

Write-downs of tangible and intangible assets amounted to € 171.4 million, compared to € 96.9 million at 30 June 2018, and include depreciation of property assets of € 26.8 million. This item was also influenced by the introduction of IFRS 16 mentioned above. Excluding this effect and the depreciation, the aggregate is substantially in line with the figure recorded in H1 2018.

---

[19] As of 30 June 2019, upfront commissions relative to certificates placement were also reclassified into this aggregate (previously classified in the net financial result). The figures for the previous periods have been redetermined in a consistent manner.

20 Financial assets designated at fair value through other comprehensive income

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

Total **operating costs** therefore amounted to € 1,345.5 million, falling by 3.3% with respect to H1 2018. Net of non-recurring components, mainly relative to the aforementioned write-downs on properties, the aggregate fell even further (-4.8%), testifying to the constant efforts made to contain costs since the creation of Banco BPM.

Net adjustments on loans to customers amounted to € 349,6 million, a marked decline compared with the figure of € 686,5 million for the first six months of 2018 (-49.1%), due to the substantial contraction of the non-performing loans brought on by the *derisking* actions completed in the previous year. The cost of credit, measured by the ratio of net value adjustments on loans and net loans, was 65 b.p., sharply down from 184 b.p. last year.

In the income statement for the first half, as in the same period the previous year, no **net adjustments on securities and other financial assets** of a significant amount were recorded.

Net provisions for risks and charges amounted to € 5.7 million, compared to € 45.7 million in H1 2018.

H1 2019 saw the recording of **gains on disposal of equity investments and other investments** totalling € 336.8 million, including gross capital gains achieved through reorganisation of the consumer loan segment (€ 189.5 million) and establishment of the partnership with Credito Fondiario to manage collection activities for impaired loans (€ 142.7 million). The first half of 2018 included profits of € 178.6 million deriving almost entirely from the disposal of equity investments carried out as part of reorganisation of the bankassurance segment.

As a result of the dynamics described above, the **income from current operations before taxes and before banking industry charges** came to € 719.6 million compared to the € 503.7 million recorded in the corresponding period of the previous year.

Income tax on continuing operations for the period as of 30 June 2019 total € -74.1 million (€ - 87.3 million at 30 June 2018) benefiting from a lower tax load with regards to capital gains realised through the sale of equity investments and other non-recurring events such as the possibility to recognise new deferred tax assets.

The income statement for the period included the **Systemic charges after tax** of € 56.9 million (€ 67.4 million in H1 2018) relating to the ordinary and additional contributions to the Single Resolution Fund (SRF) (€ 84.2 million before tax with respect to € 93.5 million at 30 June 2018).

Given the share of the profit or loss attributable to minority interests (+ € 4.5 million), the first half of 2019 closes with a **net profit for the period** of € 593.1 million, compared to net result of € 352.6 million realised in the same period the previous year.

Economic performance of operations in Q2 2019 compared to Q1 2019

Net interest income totalled € 514.8 million, up by 1.9% over the figure in Q1 2019 (€ 505.2 million). Net of non core components attributable to PPA and the accounting effects of IFRS 9, net interest income comes to € 513.7 million which, compared to the homogeneous figure from the first quarter of € 499.0 million, brings the qoq increase to +3.0%.

The **result for investees measured with the equity method** shows a profit of € 32.6 million, down with respect to the figure of € 36.8 million recorded in Q1 2019. Within this aggregate, the main contribution was provided by consumer credit of € 24.4 million conveyed by the shareholding in Agos Ducato.

Net fee and commission income[22] showed a positive trend during the quarter, increasing from € 434.5 million in Q1 to € 453.7, with growth of 4.4%, above all thanks to increased placement of financial and insurance products.

Other net operating income totalled € 8.3 million, compared to the figure of € 14.6 million for Q1 2019.

The **net financial result** was € 10.7 million, compared to € 72.3 million in the first quarter. Net of capital gains relative to the sale of the Nexi shares, the result for the first quarter would have been € 12.6 million, substantially in line with the figure for the second quarter.

Based on the dynamics described, total **operating income** hence comes to € 1,020.1 million, down by 4.1% with respect to the € 1,063.4 million recorded in the first quarter; excluding from the comparison the Nexi capital gains recorded in Q1, income in Q2 shows growth of 1.6%.

Personnel expenses of € 418.0 million showed a decrease of 1.9% compared to the € 425.9 million in the first quarter.

Other administrative expense[23] fell by 2.3%, going from € 167.0 million in Q1 2019 to € 163.1 million in Q2 2019.

Write-downs on tangible and intangible assets totalled € 93.8 million, compared to € 77.6 million in the first half, with an increase of 20.9% exclusively due to write-downs on certain non-instrumental properties. At the adjusted level, the increase falls to 5.3%.

Total **operating costs** therefore amounted to € 675.0 million, an increase of 0.7% with respect to the € 670.5 million in the first quarter. At the adjusted level, taking into account the stated write-downs on properties, the aggregate fell by 1.2%.

Net adjustments on loans to customers came to € 197.7 million, increasing by 30.1% with respect to the first quarter, which benefited from the effects of derisking operations carried out at the end of 2018.

The second quarter saw the completion of consumer loan segment reorganisation projects and the sale to Credito Fondiario of 70% of CF Liberty Servicing S.p.A., which made it possible to recognise **gains on disposal of equity investments and other investments** of € 336.6 million (€ +0.2 million in the first quarter)

As a result of the dynamics described above, the **income from current operations before taxes and before banking industry charges** came to € 478.0 million compared to the € 241.6 million recorded in first quarter (+97.9%).

[22] As of 30 June 2019, upfront commissions relative to certificates placement were also reclassified into this aggregate (previously classified in the net financial result). The figures for the previous periods have been redetermined in a consistent manner.

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

Income tax on continuing operations for the period totalled € -23.4 million (€ - 50.7 million in the first quarter).

The income statement for the quarter included **systemic charges after tax** of € 15.2 million, relative to additional contributions to the National Resolution Fund; the first quarter saw charges relative to the ordinary contribution of € 41.6 million to the Single Resolution Fund (SRF).

Given the share of the profit or loss attributable to minority interests (+ € 3.2 million), the second quarter of 2019 closes with a **net profit for the period** of € 442.6 million, compared to net result of € 150.5 million realised in the first quarter.

Key balance sheet items

As at 30 June 2019, **direct funding**[24] totalled € 105.2 billion, showing a decrease of 3.7% compared to the € 101.5 billion as at 31 December 2018. In comparison with the figures at the end of 2018 there has been a growth of € 4.5 billion of the segment represented by the current accounts and deposits on demand by the commercial network (+5.6%), while the decreasing trend of bonds issued (- € 0.5 billion) has continued. This trend is more evident in a yoy comparison against the figures from H1 2018, which show an increase of current and deposit accounts on demand for € 5.7 billion (7.1%) and a decrease of the bonds issued for € 3.1 billion (or -17,7%), in line with the policy aimed at the progressive reduction of the cost of funding due to the reduction in the number of the more costly forms of collection. With regards to funding guaranteed by stock of certificates, the balance at 30 June 2019 was € 3.3 billion, substantially stable with respect to € 3.4 billion at December 2018, but down compared to the € 3.8 billion in June 2018 (-15.2%).

Indirect deposits net of capital protected certificates total € 89.1 billion, up 2.8% compared to 31 December 2018.
The component of managed funding amounts to € 56.7 billion, with an increase of 1.8% compared with the figure of € 55.7 billion from 31 December 2018, seen mainly in the sector of funds and SICAVs which shows growth of € 1.7 billion in the half. Administered assets, reaching € 32.4 billion, an increase of € 1.4 billion (+4.6%) compared to the end of 2018 also performed well.

Financial assets totalled € 39.2 billion, up by 6.3% compared to € 36.9 billion at 31 December 2018. The composition at 30 June 2019 is represented by debt securities at € 34.5 billion and equity securities and stakes in UCITS units at € 2.3 billion. Exposure for debt securities issued by Sovereign States are equal to € 29.9 billion, of which € 19.4 billion related to Italian government bonds; the incidence of the latter on the compartment of government securities is equal to 64.9% at 30 June 2019 compared to 64.1% at December 2018, due to an increase mainly associated with short-term positions encompassed in the trading portfolio. As a result of the introduction of IFRS 9, the financial assets (equalling € 0.4 billion) also include loans to customers which must be measured at *fair value*.

Net loans to customers[25] totalled € 105.1 billion at 30 June 2019, up by € 1.1 billion with respect to the figure of 31 December 2018.

---

[24] The aggregate includes deposits and current accounts and demand and term deposits, issued bonds, certificates of deposit and other securities, loans and other debts, and capital protected certificates. Repos are not included.
[25] 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 € 0.4 million in financial as

Performing loans came to € 98.9 billion, compared to € 97.3 billion at 31 December 2018.sets measured at fair value., are included The aggregate at 30 June 2019 includes the senior securities for the Exodus (subscribed in H1 2018) and ACE securitisations (subscribed in Q1 2019) and excludes the loans recognised under IFRS 5. Excluding senior securities and loans held for sale from the figures relative to the comparison periods for the sake of homogeneity, performing loans total € 96.1 billion at 30 June 2019, compared to € 94.6 billion at 31 December 2018, an increase of 1.6%. Taking "core" loans into consideration (mortgages, loans, current accounts and personal loans), the aggregate comes to € 89.9 billion, with a 3.0% on a homogeneous basis with respect to the end of 2018.

Net non-performing loans (bad loans, unlikely to pay and past due and/or non-performing overdue) amount to € 6.2 billion as at 30 June 2019, a decrease of € 537 million (-8.0%) compared to 31 December 2018. The comparison with 30 June 2018 highlights show the solid derisking action accomplished in 2018: the year-on-year reduction of net non-performing loans is € 3.3 billion, equal to 34.8%.
An analysis of the individual items shows the following changes:

- Net bad loans of € 1.4 billion fell compared with the € 1.6 billion figure at 31 December 2018 (€ 3.6 billion at 30 June 2018);
- Net unlikely-to-pay loans of € 4.7 billion, down by 7.3% compared to 31 December 2018 ((€ 5.8 billion compared to 30 June 2018);
- Net past due loans amounting to € 82 million, down by 5.9% compared to 31 December 2018 (€ 72 million at 30 June 2018).

The coverage rate for the entire impaired loans aggregate was 41.9%, compared to 43.1% at 31 December 2018 (51.2% at 30 June 2018).
More specifically, as at 30 June 2019, the coverage rate was as follows:

- Bad loans 56.8% (59.6% at 31 December 2018 and 66.2% at 30 June 2018);
- Unlikely-to-pay 35.5% (35.0% at 31 December 2018 and 32.9% at 30 June 2018);
- Past due 17.8% (17.5% at 31 December 2018 and 19.0% at 30 June 2018).

The drop in coverage for impaired and bad loans seen during the half is associated with the further derisking action involving bad loans associated with leasing contracts (L ACE).
Taking into account the loans involved in the disposal agreement for leasing contracts, coverage is in any case up with respect to March 2019 (which was equal to 41.6% on a homogeneous basis for total impaired loans and 56.4% for bad loans).
The coverage rate of performing loans was 0.37%, substantially in line with 0.38% at 31 December 2018.

Group capital ratios[26]

On 30 June 2019 the Common Equity Tier 1 ratio (CET1 ratio) amounts to 13.7% compared to 12.7% at 31 March 2019. The improvement in the ratio can be attributed to the increase in CET1, due to the economic result for the quarter (which included benefits from capital gains associated with capital management operations completed during the half), positive developments in valuation reserves for financial assets at fair value through other comprehensive income and the decrease in deductible elements, despite the increase in risk weighted assets of around 1.0 billion. This ratio benefits from the

[26] Based on the provisions of Art. 26, paragraph 2 of EU Regulation no. 575/2013 of 26 June 2013 (CRR), the inclusion of interim profits in Common Equity Tier 1 Capital (CET1) is subject to the prior permission of the competent authorities (the ECB), which requires these profits to be verified by the auditing firm.
The condensed consolidated half-yearly financial report of the Group at 30 June 2019 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 2019 as derived from the Group's condensed consolidated half-yearly financial report that has been approved today by the Board of Directors.

year 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. Excluding the impacts of the transitional regime cited and also considering expected impacts from the conclusion of the sale of bad loans associated with leasing contracts indicated above, the IFRS 9 fully phased pro-forma CET 1 ratio is 12.0%.

The Tier 1 ratio came in at 14.4% compared to 12.9% at 31 March 2019, while the Total Capital ratio stood at 16.5% compared to 15.1% at 31 March 2019. The increase seen in both ratios is also attributable, beyond the impacts indicated above, to the Group's initial issue of an instrument which can be calculated in Additional Tier 1 Capital, in the nominal amount of € 300 million.

Merger by incorporation of the financial holding company Banco Popolare S.p.A. in Banco BPM S.p.A.: the Board of Directors approves the merger project pursuant to article 2505 of the Civil Code

Following the press release of 1 July of this year, we note that today the Board of Directors of Banco BPM S.p.A. ("Banco BPM") approved, pursuant to article 2505, paragraph two of the Civil Code, and as permitted under article 24.2.3 of the By-laws, the merger by incorporation of the financial holding company Banco Popolare S.p.A. ("HPF") in Banco BPM.
This was also approved by the Shareholders' Meeting of the company incorporating HPF today.
The merger will be carried out in the simplified format envisaged for companies entirely held by the incorporating entity, pursuant to article 2505 of the Civil Code, given that Banco BPM holds 100% of the equity of the company to be incorporated.
With regards to related party transactions, pursuant to CONSOB regulation 17221 of 12 March 2010, as amended, and the current Banco BPM Regulation and Procedure to govern related party transaction (CONSOB Procedure), the merger is classified as "of minor significance" and, given that it is an infragroup transaction, benefited from the exemptions established in the cited Regulation, as it was determined that there were no significant interests associated with other related parties based on which the transactions would not be finalised or finalised under different conditions.
With regards to associated entities, pursuant to Bank of Italy Circular 263/2006, Title V, Chapter 5 and the "Regulation, procedures and policies to manage at-risk activities and conflicts of interest in relation to associated entities", the operation is excluded from application of the "Regulation, procedures and policies to manage at-risk activities and conflicts of interest in relation to associated entities", pursuant to Annex 2, paragraph 1.4 (Exclusions, exemptions and derogations - Exclusions - letter a), given that between Banco BPM and the company to be incorporated there is a relationship of full control.

OPERATIONAL OUTLOOK

The global macroeconomic outlook continues to suffer from trade wars, and the consequent increase in protectionist measures, presenting signs of a slowdown of the expansive cycle that also is affecting the major economies of the euro area. The deceleration of global GDP toward levels just above +3% and the resurgence of some geopolitical tensions are impacting the investment dynamics and are having repercussions on confidence levels and on the propensity to consumer spending, helping to keep the non-negligible risks of the emerging of the financial turmoil matrix, especially in the more fragile economies. In this context, the stagnation that characterises our country appears destined to continue throughout the second part of the year as well. Looking forward, the definition of the next budget law will prove crucial, which should identify the coverage for the expansive measures introduced this year in alternative to the increase of indirect taxation provided by the safeguard clauses. Given this scenario, in the next few quarters the operating focus of the Group will be concentrated on the ordinary management, with particular focus on the core business, continuing to benefit from the effects deriving from its derisking action. Overall trends in revenues should not see significant changes, unless special tensions arise which impact the primary trend for the markets. 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 current trend for new non-performing loans, the cost of credit is expected to remain significantly lower than it had been in past years, against a high level of coverage. Adjusted earnings per share (EPS) for the year, that is net of non-recurring income components, are expected to exceed € 0.30, already factoring in the above described economic situation. This amount is substantially in line with current market projections.

***

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.

***

Gruppo Banco BPM results at 30 June 2019 will be presented to the financial community on the conference call scheduled for today, 06 August 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.

The Consolidated half-yearly financial report as at 30 June 2019 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 and the authorised storage system's website www.emarketstorage.com.

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 Half-yearly Report as at 30 June 2019, 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 of the first-half results information illustrated in this news release.

1. Accounting policies and reference accounting standards

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. These layouts have been prepared based on the financial statement layouts indicated in the Bank of Italy's Circular no. 262/2005 (hereinafter "Circular no. 262), applying the same aggregation and classification criteria presented in the consolidated financial statements as at 31 December 2018, except for what specified below:

- a new line-item - "Lease debts" - was added to the reclassified financial statements, and it includes all liabilities recognized following the first-time adoption of the new standard "IFRS 16 – Leases", as described under note 2 below. In the financial statements prepared under Circular no. 262 these liabilities are posted under the liabilities line-item "10. Financial liabilities measured at amortized cost";
- the income tied to the issue of financial liabilities held for trading represented by Group certificates, which in the income statement prepared based on Circular no. 262 is posted under the line-item "80. Profit (loss) on trading", has been partly transferred under the reclassified P&L line-item "Net fee and commission income". In detail, net commissions include, under a management viewpoint, the share of the product's profitability rebated to the Group for the distribution activity. For a like-for-like comparison against the above-mentioned classification criterion, that was introduced on 30 June 2019, the data of the two periods under comparison have been restated.

The accounting standards adopted to prepare the accounting position as at 30 June 2019 – with regard to the classification, recognition, measurement and derecognition of assets and liabilities, and for the recognition of costs and revenues - are the ones set forth in the international accounting standards IAS/IFRS issued by the International Accounting Standards Board (IASB)

and the related interpretations by the International Financial Reporting Interpretations Committee (IFRIC), endorsed by the European Commission and in force as at 30 June 2019, pursuant to EC Regulation no. 1606 of 19 July 2002. To this respect, please note that the new accounting standard IFRS 16 "Leases" came into effect on 1 January 2019; the impacts of the new standard are described in note 2 below.
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 2019, together with any scenarios considered reasonable based on past experience and the probable evolution of future reference scenarios. However, 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 report as at 30 June 2019, 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 IFRS 16 "Leases"

Regulation no. 1986 of 31 October 2017 adopted the new international accounting standard IFRS 16 "Leases", which defines the principles governing recognition, measurement, presentation and disclosure of lease contracts for both lessors and lessees, replacing the previous standards/interpretations (IAS 17, IFRIC 4, SIC 15 and SIC 27). The adoption of the new standard is mandatory for all annual reporting periods on or after 1 January 2019.
When preparing the Half-yearly Financial Report as at 30 June 2019 - i.e., the Group's first interim report prepared in compliance with IAS 34, following the first-time adoption of the new standard - the final impacts of IFRS 16 were recognized.
Please note that Gruppo Banco BPM has availed itself of the option provided by the IFRS 16 transition provisions not to restate comparatives, recognizing impacts as an adjustment to 1H 2019 balances.

As already explained in the news release published on 8 May 2019 when presenting the results as at 31 March 2019, the main impact for the Group is tied to operating property rent contracts, in reference to which IFRS 16 requires that the rights of use acquired through these lease contracts be recognized under assets, as an offset to the recognition of a liability equal to the present value of future rents. The impact tied to company car lease contracts is negligible, and the same is for rights of use of identified electronic equipment.
Specifically, under the transition options provided for by IFRS 16, in particular the "Modified Retrospective approach" followed by the Group, the first-time adoption led to the recognition of greater tangible assets tied to rights of use acquired through leases of € 835.6 million, and the corresponding liabilities mainly towards non-banking counterparts. In order to measure the impairment of the rights of use, the Group relied on the measurements carried out for the 2018 financial statements referring to outstanding onerous contracts as a result of lease contracts of closed branches; the € 34.4 million provision for risks and charges outstanding as at 31 December 2018 was deducted from the right of use, which thus came to € 801.2 million.
Leasehold improvement expenses were accounted for when measuring the initial recognition value of the right of use. Up until the 2018 financial statements they were recognized under "Other assets", while as of 1 January 2019 they have been reclassified as rights of use recognized under "Tangible assets". Indeed, they are expenses incurred to carry out extraordinary alterations on rented third-party property which gave rise to the right of use recognized under "Tangible assets". As at 31 December 2018 said improvements added up to € 72.7 million. As a result, the recognition value of the rights of use at 1 January 2019 came to € 873.9 million.

The final quantification of the above impacts proved to be fairly in line with the provisional figures published in the above-mentioned news release issued on 8 May 2019; as compared to provisional data, rights of use show a reduction of € 1.7 million attributable to a more precise scoping and to the calculation method, once the IFRS 16 calculation engine was fully operational.

Moreover:

- at the date of transition, no impacts were recorded on the shareholders' equity of Gruppo Banco BPM;
- the balance sheet and P&L balances for 1H 2019 are not fully comparable with 2018 balances, that were prepared in compliance with the prior accounting standard IAS 17, as regards the measurement of rights of use, lease debt and the related P&L effects.

From a P&L viewpoint, as of 1 January 2019, lease payments are no longer recorded on an accrual basis under administrative expenses as required by the previous accounting standard IAS 17. This entry has been replaced by the recognition of the amortization of the right of use on the one side, and the recognition of the interest accrued on the lease debt on the other. Although at the expiry of the lease contract the overall booked P&L effect will be equal to the total lease payments paid to the lessor, this new accounting method calls for a different allocation of the overall P&L impact throughout the term of the contract.
More specifically, the negative P&L impact charged to income is reasonably higher at the start of the contract and then it gradually declines year after year as a result of the progressive reduction of the lease debt as lease payments are made.

In view of what illustrated above, in 1H 2019 the adoption of IFRS 16 generated the charging of:

- amortization of the right of use of € 52.1 million (posted under "Write-downs of tangible and intangible assets");
- interest expense on lease debts of € 5 million (posted under "Net Interest Income").

Had the old accounting standard IAS 17 been effective, based on the above expenses € 54.2 million of lease payments tied to IFRS 16 in-scope contracts would have been booked under "Other administrative expenses".

Taking into account the above P&L items, and the contract changes that have occurred in the first six months of the year in terms of new executed contracts and lease payments, at 30 June 2019:

- tangible assets represented by rights of use deriving from lease contracts totaled € 814.4 million, including € 65.1 million of capitalized leasehold improvements;
- lease debts stood at € 781.6 million.

Finally, as regards the impact on own funds, the adoption of IFRS 16 led to a reduction of approx. 15 pbs on 1 January 2019 compared to the phase-in IFRS 9 CET1 ratio, having included the right of use in the calculation of risk-weighted assets (RWA), subject to a 100% weighting. The impact on the IFRS 9 fully-loaded CET1 ratio at 1 January 2019 came to 12 bps.

3. Disclosure on the application of the accounting standard IFRS 5 to data at 30 June 2019

Pursuant to IFRS 5, at 30 June 2019 the following items were entered under "Non-current assets held for sale and discontinued operations" and "Liabilities associated with discontinued operations":

- a portfolio of bad exposures, mainly represented by lease contracts, against which on 28 June 2019 the sale agreement was signed. At 30 June 2019 the net book value was € 156 million (GBV of € 607 million);
- the assets and liabilities related to the subsidiary ProFamily, mainly represented by customer loans (€ 1,352 million);
- other assets totaling 6.5 million, mainly represented by property under disposal.

With respect to the income statement, please note that ProFamily's contribution continues to be fully consolidated on a line-by-line basis, as it is considered a marginal line of business compared to the Group's overall activities.

4. Impact of the PPA (*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 impact from the reversal of value adjustments to net acquired assets (mainly tied to the former Gruppo Banca Popolare di Milano) on the consolidated income statement of 1H 2019 was + € 8.7 million on NII, - € 19.2 million on other net operating income as a result of the amortization of intangible assets recognized under the PPA, and - € 5.9 million on provisions reflecting the higher real estate values.

5. Charges generated by the contribution to resolution mechanisms

In FY 2018 the line-item "After-tax banking industry charges" has been added to the Reclassified Income Statement. It includes ordinary and extraordinary charges due by banks under the European and national resolution funds (SRF and NRF) and the Deposit Guarantee Scheme (DGS).
In 1H 2019, the ordinary contributions to be paid to the Resolution Funds for FY 2019 were charged to income. Net of the related tax effect, they came to € 56.9 million (the ordinary and additional contribution in 1H 2018 had added up to € 67.4 million). Gross of tax effect, the charge came to € 84.2 million (€ 93.5 million in 1H 2018). Please note that, as in the prior financial year, also in 2019 the Group did not exercise the option to avoid paying the contributions by subscribing irrevocable payment commitments (IPC).

6. Changes in consolidation scope

In H1 2019 the following changes in consolidation scope were reported: exit of the subsidiaries CF Liberty Servicing S.p.A., BPM Securitisation 3 S.r.l. and Beta S.r.l., and of the associate Motia Compagnia di Navigazione S.p.A., following their cancellation from the competent Companies Registrars after the liquidation procedures had been completed.

The following SPV companies accounted for under the full-consolidation method also exited the consolidation scope: Erice Finance S.r.l., once the securitization was completed, and Leviticus SPV S.r.l., after the finalization of the loan disposal under the "ACE" project and the resulting derecognition of the loans from the accounts.

The SPV CF Liberty Servicing S.p.A., previously fully owned by the Parent company and set up with the purpose of acting as servicer for the "ACE" project, now falls within the scope of associates carried at equity as a result of the sale of a stake of 70% to Credito Fondiario S.p.A. finalized in May.

As part of the consumer credit reorganization process, in June Banco BPM finalized a spin-off, and as a result:

- the "new" ProFamily S.p.A., a newly incorporated company fully owned by Banco BPM, transferee of the business unit in charge of consumer credit activities carried out through the "Non-captive Network", now falls under the scope of the fully-consolidated companies
- the "old" ProFamily S.p.A, sold to Agos Ducato and renamed ProAgos, has exited the consolidation scope.

Moreover, over the period under examination there was the finalization of the mergers of the subsidiaries BP Property Management S.c.a r.l. and Società Gestione Servizi BP S.c.p.a. into the Parent company Banco BPM, as well as of the mergers of the subsidiaries Sviluppo Comparto 6 S.r.l., Sviluppo Comparto 8 S.r.l. and Manzoni 65 S.r.l. into Bipielle Real Estate. These transactions, whose accounting and tax effects started on 1 January 2019, were carried out under the simple-merger procedure for fully-owned subsidiaries.

The above changes had no material impact on the consolidated financial results.

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

Illustrated below is a line-by-line illustration of the non-recurring income components of the reclassified income statement in H1 2019:

- the line-item "gains on disposal of equity and other investments", amounting to € 336.8 million, includes the € 189.5 million capital gain generated by the reorganization of the consumer credit business, and the € 142.7 million capital gain from the sale to Credito Fondiario of a 70% stake in CF Liberty Servicing S.p.A.;
- the line-item "impairment of tangible and intangible assets" includes write-offs as a result of the impairment of fixed assets of € 27.5 million;
- the line-item "net allowance to provisions for risks and charges" includes non-recurring allowances totaling € 15.3 million, of which € 9.1 million tied to the re-computation of terms and conditions applied to customers in prior years and recalculated based on parameters recently introduced by more stringent regulations and interpretation notes issued by the supervisory authorities, and € 6.2 million tied to the estimated charge associated with the price-adjustment provided for under the agreement to sell to Anima SGR the sub-advisory mandates on insurance assets related to the insurance partnerships finalized by Banca Aletti in FY 2018;
- the line-item "income tax for the period on continuing operations" includes the € 4.7 million tax effect of the above listed non-recurring items, as well as that of other non-recurring items for a grand total of € 18.1 million;
- the line-item "after-tax banking industry charges" includes € 15.2 million represented by additional contributions paid to the National Resolution Fund (€ 22.6 million), net of the associated tax effect of € 7.4 million.

Overall, taking into account the negative minority interest effects (€ + 0.,6 million), the non-recurring items accrued in the first six months of 2019 added up to + € 302.2 million.

8. 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 2019 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.

With communications sent on 21 December 2018, 22 March 2019 and 21 June 2019, the Bank of Italy confirmed the Countercyclical Capital buffer ratio at zero per cent for the first, second and third quarter of 2019, respectively.

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 2019 O-SII reserve is equal to 0.06%, and it will have to be gradually built up through annual linear increments until it reaches 0.25% on 1 January 2022.

On 8 February 2019, 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 as of FY 2019.
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, the top-up to be added to the above requirements was reduced to 2.25% (from 2.50% in 2018).
Taking into account the SREB CCB requirements, at consolidated level Gruppo Banco BPM must comply with the following capital ratios:

- *CET1 ratio*: 9.31%;
- *Tier 1 ratio*: 10.81%;
- *Total Capital ratio*: 12.81%.

Banco BPM 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.

From 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.

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

9. Sovereign risk exposure represented by debt securities

The table below provides an illustration of the Group's sovereign risk exposure at 30 June 2019, represented by debt securities, broken down by single Country and by category of the classification accounting portfolio:

30 June 2019 *(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	11.037	6.150	2.218	19.405
USA	2.392	1.589	-	3.981
France	1.222	1.320	184	2.726
Germany	393	-	-	393
Spain	1.108	1.543	402	3.053
Other countries	298	53	-	351
Total	**16.450**	**10.655**	**2.804**	**29.909**

At 30 June 2019, the Group's sovereign debt exposure totaled € 29.9 billion (€ 27.5 billion at 31 December 2018), of which 55.0% classified in the portfolio of financial assets measured at amortized cost, 35.6% under financial assets measured at fair value through other comprehensive income, and 9.4% 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 87% refers to securities issued by members of the European Union; notably about 65% by Italy.
With regard to financial assets measured at fair value through other comprehensive income, at 30 June 2019 the reserves generated by the fair value measurement totaled + € 22.0 million, gross of tax effect; Italian Government bonds posted a negative effect of € - 31.4 million, while the reserves for the other government bonds came in at + € 53.4 million.
As to financial assets measured at amortized cost, the book value came out at € 16.4 billion, of which € 11.0 billion 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 30 June 2019 (level 1 in the fair value classification) totaled € 16.8 billion (€ 11.2 billion being the fair value of the Italian government bonds alone).
Finally, note that in FY 2019, Gruppo Banco BPM did not change its business model, hence no financial assets reclassification has been reported across the different accounting categories.

10. 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 2019, 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 2019, or, if not available, on the most recent financial reports prepared by the associates.

Attachments

- Reclassified consolidated balance sheet at 30 June 2019 compared with the data as at 31 December 2018
- Reclassified consolidated income statement for H1 2019 compared with the data for H1 2018
- Reclassified consolidated income statement – 2019 and 2018 quarterly evolution
- Reclassified consolidated income statement without PPA line by-line – 2019 and 2018 quarterly evolution

Contacts:

Investor Relations
Roberto Peronaglio
+39 02.94.77.2108
investor.relations@bancobpm.it

Communications
Matteo Cidda
+39 02.77.00.7438
matteo.cidda@bancobpm.it

Press Office
Monica Provini
+39 02.77.00.3515
monica.provini@bancobpm.it

BANCO BPM GROUP

Reclassified consolidated balance sheet

(in euro thousand)	30/06/2019	31/12/2018	Chg. vs 31/12/2018	Chg. % vs 31/12/2018
Cash and cash equivalents	794,628	922,017	-127,389	-13.8%
Financial assets at amortised cost	112,408,292	108,207,732	4,200,560	3.9%
- Due from banks	7,308,355	4,193,119	3,115,236	74.3%
- Customer loans (*)	105,099,937	104,014,613	1,085,324	1.0%
Other financial assets	39,184,391	36,852,942	2,331,449	6.3%
- Financial assets designated at FV through P&L	7,495,892	5,869,106	1,626,786	27.7%
- Financial assets designated at FV through OCI	13,763,946	15,351,561	-1,587,615	-10.3%
- Financial assets at amortised cost	17,924,553	15,632,275	2,292,278	14.7%
Equity investments	1,320,167	1,434,163	-113,996	-7.9%
Property and equipment	3,525,869	2,775,885	749,984	27.0%
Intangible assets	1,261,284	1,277,941	-16,657	-1.3%
Tax assets	4,859,255	5,012,477	-153,222	-3.1%
Non-current assets held for sale and discontinued operatior	1,544,823	1,592,782	-47,959	-3.0%
- Customer loans	1,509,199	1,576,159	-66,960	-4.2%
- Other assets and group of assets	35,624	16,623	19,001	114.3%
Other assets	2,920,070	2,388,852	531,218	22.2%
Total Assets	**167,818,779**	**160,464,791**	**7,353,988**	**4.6%**
Direct funding	110,185,188	105,219,691	4,965,497	4.7%
- Due to customers	95,697,884	90,197,859	5,500,025	6.1%
- Debt securities issued and financial liabilities designate	14,487,304	15,021,832	-534,528	-3.6%
Due to banks	31,188,721	31,633,541	-444,820	-1.4%
Leasing debts	781,538		781,538	
Other financial liabilities designated at fair value	8,103,618	7,228,829	874,789	12.1%
Liability provisions	1,552,146	1,704,866	-152,720	-9.0%
Tax liabilities	483,024	505,402	-22,378	-4.4%
Liabilities associated with assets held for sale	39,941	3,043	36,898	N.S.
Other liabilities	4,173,685	3,864,345	309,340	8.0%
Total Liabilities	**156,507,861**	**150,159,717**	**6,348,144**	**4.2%**
Minority interests	41,026	45,599	-4,573	-10.0%
Shareholders' equity	11,269,892	10,259,475	1,010,417	9.8%
Consolidated Shareholders' Equity	**11,310,918**	**10,305,074**	**1,005,844**	**9.8%**
Total Liabilities and Shareholders' Equity	**167,818,779**	**160,464,791**	**7,353,988**	**4.6%**

2019 figures are not fully comparable to 2018 figures as a result of IFRS16 first adoption, as illustrated in the Explanatory notes, paragraph 2.

(*) 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

(migliaia di euro)	30/06/2019	30/06/2018	Change	Chg. %
Net interest income	1,019,998	1,180,109	-160,111	-13.6%
Income (loss) from investments in associates carried at equity	69,386	75,998	-6,612	-8.7%
Net interest, dividend and similar income	**1,089,384**	**1,256,107**	**-166,723**	**-13.3%**
Net fee and commission income	888,191	935,195	-47,004	-5.0%
Other net operating income	22,912	154,179	-131,267	-85.1%
Net financial result	83,042	101,808	-18,766	-18.4%
Other operating income	**994,145**	**1,191,182**	**-197,037**	**-16.5%**
Total income	**2,083,529**	**2,447,289**	**-363,760**	**-14.9%**
Personnel expenses	-843,857	-879,149	35,292	-4.0%
Other administrative expenses	-330,154	-414,589	84,435	-20.4%
Amortization and depreciation	-171,444	-96,946	-74,498	76.8%
Operating costs	**-1,345,455**	**-1,390,684**	**45,229**	**-3.3%**
Profit (loss) from operations	**738,074**	**1,056,605**	**-318,531**	**-30.1%**
Net adjustments on loans to customers	-349,644	-686,451	336,807	-49.1%
Net adjustments on other assets	25	635	-610	-96.1%
Net provisions for risks and charges	-5,680	-45,671	39,991	-87.6%
Profit (loss) on the disposal of equity and other investments	336,813	178,550	158,263	88.6%
Income (loss) before tax from continuing operations	**719,588**	**503,668**	**215,920**	**42.9%**
Tax on income from continuing operations	-74,065	-87,257	13,192	-15.1%
Systemic charges after tax	-56,861	-67,428	10,567	-15.7%
Income (loss) after tax from discontinued operations	-	4	-4	
Income (loss) attributable to minority interests	4,471	3,590	881	24.5%
NET INCOME (LOSS) FOR THE PERIOD	**593,133**	**352,577**	**240,556**	**68.2%**

2019 figures are not fully comparable to 2018 figures as a result of IFRS16 first adoption, as illustrated in the Explanatory notes, paragraph 2.

As a result of the new accounting criteria of Certificates upfront fees, Q1 2019 and 2018 figures have been restated in order to allow a comparison on a like for like basis, as illustrated in the Explanatory notes, paragraph 1.

BANCO BPM GROUP

Reclassified consolidated income statement - Quarterly evolution

(migliaia di euro)	Q2 2019	Q1 2019	Q4 2018	Q3 2018	Q2 2018	Q1 2018
Net interest income	514,846	505,152	554,694	557,759	584,998	595,111
Income (loss) from investments in associates carried at eq	32,628	36,758	50,668	32,791	33,413	42,585
Net interest, dividend and similar income	**547,474**	**541,910**	**605,362**	**590,550**	**618,411**	**637,696**
Net fee and commission income	453,673	434,518	474,374	451,372	457,274	477,921
Other net operating income	8,292	14,620	21,061	214,531	130,029	24,150
Net financial result	10,697	72,345	-78,397	46,768	73,901	27,907
Other operating income	**472,662**	**521,483**	**417,038**	**712,671**	**661,204**	**529,978**
Total income	**1,020,136**	**1,063,393**	**1,022,400**	**1,303,221**	**1,279,615**	**1,167,674**
Personnel expenses	-417,984	-425,873	-422,177	-431,479	-437,060	-442,089
Other administrative expenses	-163,135	-167,019	-205,705	-196,184	-203,102	-211,487
Amortization and depreciation	-93,845	-77,599	-97,096	-49,456	-49,020	-47,926
Operating costs	**-674,964**	**-670,491**	**-724,978**	**-677,119**	**-689,182**	**-701,502**
Profit (loss) from operations	**345,172**	**392,902**	**297,422**	**626,102**	**590,433**	**466,172**
Net adjustments on loans to customers	-197,692	-151,952	-987,260	-267,405	-360,212	-326,239
Net adjustments on other assets	3,996	-3,971	3,968	-1,312	-1,593	2,228
Net provisions for risks and charges	-10,102	4,422	-227,805	-71,865	-20,707	-24,964
Profit (loss) on the disposal of equity and other investments	336,646	167	5,109	-10,301	-1,104	179,654
Income (loss) before tax from continuing operations	**478,020**	**241,568**	**-908,566**	**275,219**	**206,817**	**296,851**
Tax on income from continuing operations	-23,360	-50,705	322,430	-72,338	-61,320	-25,937
Systemic charges after tax	-15,240	-41,621	-668	-32,122	-18,391	-49,037
Income (loss) after tax from discontinued operations	-	-	-	932	18	-14
Income (loss) attributable to minority interests	3,225	1,246	5,777	256	2,160	1,430
NET INCOME (LOSS) for the period excluding PPA and Impairment on goodwill and client relationship	**442,645**	**150,488**	**-581,027**	**171,947**	**129,284**	**223,293**
Impairment on goodwill and client relationship after tax	**-**	**-**	**-2,929**	**-**	**-**	**-**
NET INCOME (LOSS) FOR THE PERIOD	**442,645**	**150,488**	**-583,956**	**171,947**	**129,284**	**223,293**

2019 figures are not fully comparable to 2018 figures as a result of IFRS16 first adoption, as illustrated in the Explanatory notes, paragraph 2.

As a result of the new accounting criteria of Certificates upfront fees, Q1 2019 and 2018 figures have been restated in order to allow a comparison on a like for like basis, as illustrated in the Explanatory notes, paragraph 1.

BANCO BPM GROUP

Reclassified consolidated income statement without PPA line-by-line - Quarterly evolution

(migliaia di euro)	Q2 2019	Q1 2019	Q4 2018	Q3 2018	Q2 2018	Q1 2018
Net interest income	512,117	499,188	534,304	537,227	541,685	536,030
Income (loss) from investments in associates carried at equity	32,628	36,758	50,668	32,791	33,413	42,585
Net interest, dividend and similar income	**544,745**	**535,946**	**584,972**	**570,018**	**575,098**	**578,615**
Net fee and commission income	453,673	434,518	474,374	451,372	457,274	477,921
Other net operating income	17,928	24,182	31,635	225,104	140,539	34,604
Net financial result	10,697	72,345	-78,397	46,768	73,901	27,907
Other operating income	**482,298**	**531,045**	**427,612**	**723,244**	**671,714**	**540,432**
Total income	**1,027,043**	**1,066,991**	**1,012,584**	**1,293,262**	**1,246,812**	**1,119,047**
Personnel expenses	-417,984	-425,873	-422,177	-431,479	-437,060	-442,089
Other administrative expenses	-163,135	-167,019	-205,705	-196,184	-203,102	-211,487
Amortization and depreciation	-90,654	-74,849	-94,597	-46,543	-46,126	-45,056
Operating costs	**-671,773**	**-667,741**	**-722,479**	**-674,206**	**-686,288**	**-698,632**
Profit (loss) from operations	**355,270**	**399,250**	**290,105**	**619,056**	**560,524**	**420,415**
Net adjustments on loans to customers	-197,692	-151,952	-987,260	-267,405	-360,212	-326,239
Net adjustments on other assets	3,996	-3,971	3,968	-1,312	-1,593	2,228
Net provisions for risks and charges	-10,102	4,422	-227,805	-71,865	-20,707	-24,964
Profit (loss) on the disposal of equity and other investments	336,646	167	5,109	-10,301	-1,104	179,654
Income (loss) before tax from continuing operations	**488,118**	**247,916**	**-915,883**	**268,173**	**176,908**	**251,094**
Tax on income from continuing operations	-26,623	-52,750	324,810	-69,946	-51,347	-10,742
Systemic charges after tax	-15,240	-41,621	-668	-32,122	-18,391	-49,037
Income (loss) after tax from discontinued operations	-	-	-	932	18	-14
Income (loss) attributable to minority interests	3,225	1,246	5,777	256	2,160	1,430
NET INCOME (LOSS) for the period excluding PPA and Impairment on goodwill and client relationship	**449,480**	**154,791**	**-585,964**	**167,293**	**109,348**	**192,731**
Purchase Price Allocation (PPA) after tax	**-6,835**	**-4,303**	**4,937**	**4,654**	**19,936**	**30,562**
Impairment on goodwill and client relationship after tax	**-**	**-**	**-2,929**	**-**	**-**	**-**
NET INCOME (LOSS) FOR THE PERIOD	**442,645**	**150,488**	**-583,956**	**171,947**	**129,284**	**223,293**

2019 figures are not fully comparable to 2018 figures as a result of IFRS16 first adoption, as illustrated in the Explanatory notes, paragraph 2.

As a result of the new accounting criteria of Certificates upfront fees, Q1 2019 and 2018 figures have been restated in order to allow a comparison on a like for like basis, as illustrated in the Explanatory notes, paragraph 1.

Fine Comunicato n.1928-80	Numero di Pagine: 22