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Testo del comunicato

Vedi allegato.

PRESS RELEASE

RESULTS AT 30 SEPTEMBER 2019

Banco BPM ended the first nine months of the year with a consolidated net profit of € 686 million, up by 30.9% compared to 30 September 2018. The result, which arrived at the end of a positive third quarter 2019 and in line with the targets, was achieved in parallel with the continuation of the derisking activity, shown by the drop in the net NPE ratio to 5.6% (it was 6.5% at the end of 2018), by the decrease in the cost of credit (69 bps compared to the 184 bps of December 2018) and against a strengthened capitalisation, with phased-in CET1 Ratio at 13.8% and fully-loaded CET1 rising to 12.1%.
The Group's good performance is confirmed by the development of the commercial business, as shown by the trend in lending and direct funding and by the pre-tax profit, up by 13.5% compared to 30 September 2018 coming in at € 884 million. This result, boosted by the bank's commercial efforts, was achieved in a negative macroeconomic and interest rate scenario which continues to be strongly penalising for banks, together with the constant decrease in operating expenses (-3.5% YOY) and the decline in write-downs on loans (-41.5% compared to 30 September 2018).

Net income € 686 million (+30.9% compared to € 525 million at 30 September 2018)

The results of the third quarter of 2019 were positive:

- **growth in operating profit (+ 7.6% compared to the 2nd quarter of 2019)**
- **growth in operating revenues (+0.2% compared to the 2nd quarter of 2019)**
- **decrease in operating costs (-3.6% compared to the 2nd quarter of 2019)**

Core[1] performing loans to customers[2] increased (+3.9%) as did core direct funding[3] (+7.3%) with respect to December 2018:

- **loans to customers € 105.7 billion (+2.9% compared to December 2018)**
- **performing loans € 97.1 billion (+2.7% compared to December 2018)**

[1] Mortgages, loans, current accounts and personal loans.
[2] Figure calculated excluding from all the period in the comparison receivables related to ProFamily, classified as held for sale starting from 30 June 2019.
[3] Current accounts and deposits.

- **NPE € 6.0 billion (- 11.3% compared to December 2018)**
- **direct funding[4] from customers € 106.5 billion (+4.9% compared to December 2018)**
- **"core" direct funding € 87.0 billion (+7.3% compared to December 2018)**

The derisking actions are continuing: net NPE ratio down to 5.6% from 6.5% at the end of 2018

The solid capital position is confirmed:

CET1 ratio[5]: phased in at 13.8%; IFRS9 fully phased at 12.1%

Texas Ratio[6] significantly improved at 58.1% (95.0% in September 2018)

The cost of risk has fallen significantly (69 bps vs 184 bps in 2018)[7]

Excellent liquidity position with unencumbered eligible assets exceeding € 21 billion[8]

Key balance sheet items

- Loans to customers € 105.7 billion, of which "core" performing loans up +3.9% on a homogeneous basis[9] and impaired loans down by -11.3% compared to 31 December 2018;
- Direct customer funding of € 106.5 billion [10] (€ 101.5 billion at the end of December 2018): during the period, the growth trend in the core funding from current accounts and deposits was confirmed (+€ 5.9 billion compared to the end of 2018) along with a decrease in more expensive funding sources (- € 0.5 billion for bonds);
- Indirect customer funding [11] € 89.2 billion (compared to € 87.0 billion at 31 December 2018), up 2.6%, of which:
  - assets under management € 57.6 billion;
  - assets under administration € 31.5 billion.

[4] 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.
[5] Ratios calculated including also the profits of 3rd quarter 2019 being formed.
[6] The Texas Ratio measures the ratio between the net value of impaired loans and the Group's tangible equity.
[7] Cost of risk calculated as ratio between net adjustments on loans to customers and net receivables from customers including those classified in IFRS 5.
[8]Data updated at 30 September 2019.
[9] Figure calculated taking into account the effects of the reclassification of ProFamily loans among assets held for sale.
[10] Direct Funding includes certificates with unconditional capital protection (€ 3.1 billion at 30 September 2019 compared to € 3.4 billion at the end of 2018), but excludes repurchase agreements.
[11] Operating figure net of certificates with unconditional capital protection included under "direct funding".

Key income statement items

- Net interest income
  - € 500.0 million in Q3 2019 (€ 514.8 million in Q2 2019; - 2.9%)
  - € 1,511.9 million was the figure related to "core" components at 30 September 2019 (€ 1,552.5 million in the first nine months of 2018; - 2.6%)[12]
  - € 1,520.0 million in the first nine months of 2019 (€ 1,737.9 million at 30 September 2018; -12.5%)
- Net fee and commission income
  - € 444.1 million in Q3 2019 (€ 453.7 million in Q2 2019; - 2.1%)
  - € 1,332.3 million at 30 September 2019 (€ 1,386.6 million in the corresponding period of 2018; -3.9%)
- Operating income
  - € 1,021.7 million in Q3 2019 (€ 1,020.1 million in Q2 2019; + 0.2%)
  - € 3,105.2 million at 30 September 2019 (€ 3.750,5 million in the corresponding period of 2018; -17.2%, which however included non-recurring elements of € 313.6 million)
- Operating costs
  - € 650.4 million in Q3 2019 (€ 675.0 million in Q2 2019; - 3.6%)
  - € 1,995.8 million in the first nine months of 2019 (€ 2,067.8 million at 30 September 2018; -3.5%)
- Net income
  - € 93.3 million in Q3 2019 (€ 442.6 million in Q2 2019, -78.9%, which however included elements of an extraordinary nature of € 307.1 million)
  - € 686.5 million at 30 September 2019 (€ 524.5 million in the first nine months of 2018; +30.9%)

- Adjusted net income[13]
  - € 387.2 million at 30 September 2019 (€ 305.2 million in the first nine months of 2018; +26.9%)

Capital position[14]**:**

- CET 1 ratio "IFRS9 fully phased" 12.1%;
- CET 1 ratio "IFRS9 phased-in" 13.8%.

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[12] For more details, see the comment in the section "Economic performance of operations in the first nine months of 2019 compared to 30 September 2018".
[13] "Adjusted" figures are shown net of components detailed in the Notes.
[14] The ratios include also the profits being formed in the 3rd quarter of 2019.

Credit quality

- Net non-performing exposures at € 6.0 billion with a decrease of € 0.8 billion compared to the end of 2018 (-11.3%) and of € 0.2 billion compared to 30 June 2019 (-3.7%)

  Coverage:
  - Unlikely to pay: 37.0% (35.5% at 30 June 2019)
  - Bad loans: 55.8% (56.8% at 30 June 2019); considering also write-offs the coverage was 62.1% (62.6% at 30 June 2019)
  - Non-performing exposures: 42.8% (41.9% at 30 June 2019); considering also write-offs the coverage was 45.8% (44.6% at 30 June 2019)

Liquidity profile

- Unencumbered eligible assets of € 21.1 billion at 30 September 2019.
- LCR >170% and NSFR >100%[15].

Milan, 6 November 2019 – The Board of Directors of Banco BPM met today chaired by Mr. Carlo Fratta Pasini. The Board approved the Banco BPM Group quarterly balance sheet and income statement at 30 September 2019.

Operations in the first nine months 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 to the market, saw a greater focus on developing commercial activity, as is shown both by the growth in performing loans, and in "core" funding, as well as the good operating performance of indirect funding, after the significant restructuring of the network and the closure of branches which occurred the previous year.
In this context, again characterised by significant efforts on reorganisation and derisking activities, the Group recorded gross profit before tax of € 883.9 million and net profit of € 686.5 million (+30.9% YOY). Also the "adjusted" net profit grew by € 82.0 million, compared to 30 September 2018, coming out at € 387.2 million.

As regards the reorganisation and derisking operations, 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 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.

[15] Monthly LCR at September 2019; NSFR related to the third quarter 2019.

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 completed, 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. At 30 September 2019, following the sales made in the third quarter, the receivables still recognised in the accounts among "assets held for sale" were € 388 million gross (€ 108 million net of value adjustments).

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 period 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 addition, at the beginning of October, a new subordinated Tier 2 issue was completed for € 350 million, maturity ten years, also destined for institutional investors.
Considering also the placement, in October, of a senior preferred unsecured issue for € 500 million, the total amount of Banco BPM's public issues in 2019 reached € 2.4 billion (+141% compared to all the "wholesale" maturities of 2019).

The economic performance of operations in the first nine months in 2019 compared to 30 September 2018

Net interest income amounted to € 1,520.0 million and compares with the figure of € 1,737.9 million for the corresponding period of the previous year. This income performance is negatively impacted by recoveries on receivables deriving from the passing of time (including those connected with impacts deriving from PPA[16]), in large part from the transfer transactions of non-performing loans (€ -169.9 million yoy). Also at 30 September 2019, following the first time adoption of the recognition rules provided for by IFRS 16, interest expenses were recorded on leasing contract payables for € 7.4 million. Net of these effects, net interest income would be € 1,511.9 million, compared to a figure calculated on a homogeneous basis of € 1,552.5 million for the first nine months of 2018 (-2.6%). The contraction is due to the lower commercial spread for retail, partially compensated for by higher average volumes.

The **Income from investments in associates carried at equity** shows a profit of € 97.3 million, down with respect to the figure of € 108.8 million recorded in the same period of 2018. Within this aggregate, the main contribution was provided by consumer credit of € 77.0 million conveyed by the shareholding in Agos Ducato.

[16] Reference here is made to the impacts of the "Purchase Price Allocation" which were recognised following the business combination between Banco Popolare and Banca Popolare di Milano.

Net fee and commission income[17] totalled € 1,332.3 million, with a decline of 3.9% compared to the € 1,386.6 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 (€ 14 million).

Other net operating income comes to € 30.9 million compared to the figure of € 368.7 million in the first nine months of 2018, which included capital gains, of € 313.6 million, made following the sale of the depositary bank and fund administration activities and 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 (-45.7% with respect to 30 September 2018).

The **net financial result** was € 124.7 million, compared to € 148.6 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 € 75.4 million. The net financial result has to be considered together with the strategies for hedging the risks connected to the exposures classified among assets measured at fair value through other comprehensive income (FVOCI), not managed according to the hedge accounting rules. In relation to this last aspect, the economic results must therefore be considered together with the change in valuation reserves recorded for the aforesaid financial assets (at 30 September 2019 the balance of reserves of FVOCI debt securities, gross of taxes, was a positive € 225 million gross compared to + € 36 million at 30 June 2019 and - € 197 million at 31 December 2018).

Due to the dynamics described, total **operating income** therefore came to € 3,105.2 million, down by 17.2% compared to the first nine months of 2018. Excluding the capital gains recognised at 30 September 2018 from the sale of sub-advisory insurance mandates, the reduction would come to -9.6%, mainly as an effect of the trend noted above for net interest income and fees and commissions.

Personnel expenses, of € 1,259.5 million showed a decrease of 3.9% compared to the € 1,310.6 million in the same period of last year. The total number of employees was 21,877 at 30 September 2019, compared to 22,247 at the end of 2018 (23,263 at 31 December 2017).

Other administrative expenses[18] amounted to € 488.8 million translating into a 20.0% drop compared to the first nine months of 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 7.2% with respect to the first nine months of 2018).

Net value adjustments on property and equipment and intangible assets amounted to € 247.6 million, compared to € 146.4 million at 30 September 2018, and include depreciation of property assets of €

[17] 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.

[18] 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.

27.5 million. This item was also influenced by the introduction of IFRS 16 mentioned above. Excluding this effect and the depreciation, the aggregate showed a contraction of 4.0% compared to 30 September 2018.

Total **operating costs** therefore amounted to € 1,995.8 million, falling by 3.5% compared to the first nine months of 2018. Net of non-recurring components, mainly relative to the aforementioned write-downs on properties, the aggregate fell even further (-4.4%), testifying to the constant efforts made to contain costs since the creation of Banco BPM.

Net adjustments on loans to customers amounted to € 558.0 million, a marked decline compared with the figure of € 953.9 million for the first nine months of 2018 (-41.5%), 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 adjustments on loans and net loans (including loans classified as held for sale), was 69 b.p., sharply down from 184 b.p. last year.

In the income statement of the first nine months **net adjustments on securities and other financial assets** for € 4,2 million were recognised (net adjustments of € 0.7 million at 30 September 2018).

Net provisions for risks and charges amounted to € 8.4 million compared to € 117.5 million of the first nine months of 2018 which included provisions set aside in order to take in due consideration the most severe regulations regarding the conditions applied to customers and to increase the oversight in regard to expenses from disputes and claims.

At 30 September 2019 **gains on disposal of equity and other investments** were recorded 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 recovery activities for impaired loans (€ 142.7 million). The first nine months of 2018 included profits of € 168.2 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 € 883.9 million compared to the € 778.9 million recorded in the corresponding period of the previous year.

Income tax on continuing operations for the period as of 30 September 2019 total € -115.4 million (€ -159.6 million at 30 September 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.

€ 88.4 million of **charges related to the banking system, net of taxes** were recognised in the income statement for the year (€ 99.6 million in the first nine months of 2018), which include ordinary contributions to the Single Resolution Fund (SRF) amounting to € 61.7 million gross (€ 68.1 million at 30 September 2018), and to the Interbank Deposit Guarantee Fund for € 46.7 million (€ 44.3 million at 30 September 2018), plus the additional extraordinary contributions to the Single Resolution Fund amounting to € 22.6 million (25.5 million at 30 September 2018).

Given the share of the profit or loss attributable to minority interests (+ € 6.3 million), the first nine months of 2019 close with a **net profit for the period** of € 686.5 million, compared to net result of € 524.5 million realised in the same period the previous year.

At the adjusted level the profit for the period amounted to € 387.2 million compared with the result of € 305.2 million of the first nine months of 2018 (+26.9%).

We can note also that the Group generated income not directly recognised in the income statement, but with direct impact on equity, mainly attributable to reserves on securities classified in FVOCI, of € 283.2 million. Considering also this component the Group's comprehensive income, in the first 9 months of 2019, was € 969.7 million.

Economic performance of operations in Q3 2019 compared to Q2 2019

Net interest income totalled € 500.0 million, down by 2.9% over the figure in Q2 2019 (€ 514.8 million). Net of the "non-core" components attributable to PPA and to the accounting effects of IFRS 9, the margin was € 499.3 million and compares with uniform figure on the second quarter of € 513.7 million, showing a drop of 2.8% mainly as a result of the trend in the commercial spread and the lack of the contribution of the captive branch related to ProFamily transferred in June.

The **income from investments in associates carried at equity** shows a profit of € 28.0 million, down with respect to the figure of € 32.6 million recorded in Q2 2019. Within this aggregate, the main contribution was provided by consumer credit of € 20.1 million conveyed by the shareholding in Agos Ducato.

Net fee and commission income[19] of the third quarter amounted to € 444.1 million, with a reduction of 2.1% compared to the second quarter due also to the effect of *"seasonality"*, in particular in the component of commissions referred to traditional banking services. It is worth noting the excellent performance of commissions on placing of investment products which in the third quarter grew by € 183.1 million compared to € 181.3 million in the second quarter[20].

Other net operating income totalled € 8.0 million, in line with the figure of the second quarter of 2019.

The **net financial result** was € 41.7 million, compared to € 10.7 million in the second quarter. Trading activity made a positive contribution to this trend.

In virtue of the trends described, the total of **operating income** amounted therefore to € 1,021.7 million slightly up compared to the figure of € 1,020.1 million recorded in the second quarter (+0.2%).

Personnel expenses amounted to € 415.6 million, down by € 2.4 million compared to the second quarter.

Other administrative expense[21] fell by 2.8%, going from € 163.1 million in Q2 2019 to € 158.6 million in Q3 2019.

Net value adjustments on property and equipment and intangible assets totalled € 76.1 million, compared to € 93.8 million in the second quarter, which included write-downs due to impairment of

[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] Operating data.
[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.

certain non-instrumental properties. At the adjusted level the aggregate is substantially in line with the second quarter.

Total **operating costs** therefore amounted to € 650.4 million, down by 3.6% compared to € 675.0 million in the second quarter. At the adjusted level, taking into account the aforesaid write-downs on properties, the aggregate fell by 1.1% compared to the previous quarter.

Net adjustments on loans to customers amounted to € 208,4 million, up by 5.4% compared to the second quarter and reflect the intention to guarantee a rigorous approach in the measurement of receivables, which is shown in the increase in the coverage of watchlist and unlikely-to-pay (UTP) positions, which was 37% at the end of September compared to 35.5% at 30 June 2019.

In the third quarter **gains on the sale of disposal of equity and other investments** of a considerable amount were not recognised. The figure for the second quarter, of € 336.6 million, included on the contrary the effects of the operations to reorganise the consumer credit segment and the sale to Credito Fondiario of 70% of the company CF Liberty Servicing S.p.A..

As a result of the dynamics described above, the **income from current operations before taxes and before banking industry charges** came to € 164.3 million compared to the € 478.0 million recorded in the second quarter.

Income tax on continuing operations for the period totalled € -41.4 million (€ - 23.4 million in the second quarter).

The income statement for the quarter included **systemic charges after tax** of € 31.5 million, related to the ordinary contribution to the Interbank Deposit Guarantee Fund (of € 46.7 million before taxes); the second quarter saw charges related to the additional contribution to the Single Resolution Fund (SRF) of € 15.2 million (€ 22.6 million before the tax effect).

Given the share of the profit or loss attributable to minority interests (+ € 1.8 million), the third quarter of 2019 closes with a **net profit for the period** of € 93.3 million, compared to net result of € 442.6 million realised in the second quarter.
At the adjusted level the net profit of the third quarter amounted to € 96.2 million compared to € 135.6 million made in the second quarter (-29.0%), which however did not include the aforementioned expenses related to the ordinary contribution to the Interbank Deposit Guarantee Fund of -€ 31.5 million.

<u>Key balance sheet items</u>

As at 30 September 2019, **direct funding**[22] totalled € 106.5 billion, showing a decrease of 4.9% 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 € 5.9 billion of the segment represented by the current accounts and deposits on demand by the commercial network (+7.3%), while the decreasing trend of bonds issued (- € 0.5 billion) has continued. This trend is more evident in a yoy comparison against the figures as of 30 September 2018, which show an increase of current and deposit accounts on demand for € 6.6 billion (8.2%) and a decrease of the bonds issued for € 2.0 billion (or -12,4%), 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 regard to funding guaranteed by the stock of

[22] 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.

certificates, the balance at 30 September 2019 was € 3.1 billion, down both compared to the € 3.4 billion at 31 December 2018, but and to the € 3.6 billion of September 2018 (-12.5%).

Indirect customer funding[23] net of capital protected certificates total € 89.2 billion, up 2.6% compared to 31 December 2018.
The component of assets under management amounts to € 57.6 billion, with an increase of 3.5% 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 € 2.5 billion in the period. Assets under administration reached € 31.5 billion, up slightly compared to the end of 2018 (+ 0.9%) but down by 3,4% when compared with the figure of 30 June, restated for uniformity of comparison, of € 32.7 billion owing mainly to the lack of a tranche of approximately € 2 billion of Italian government securities, some which reached maturity and others sold by customers in August.

Financial assets totalled € 39.5 billion, up by 7.3% compared to € 36.9 billion at 31 December 2018. The item at 30 September 2019 is made up of debt securities of € 34.2 billion (which as of 30 September 2019 show positive reserves of € 225 million, on the part classified as FVOCI, and "unrealized gains" of approximately € 860 million, on the part classified at amortised cost) and equity securities and UCITS units of € 2.2 billion. Exposures in debt securities issued by Sovereign States amounted to € 29.7 billion of which € 19.3 billion referred to Italian government securities; the proportion of the latter in the segment of debt securities was 56.5% at 30 September 2019, substantially stable compared to 30 June 2019. Following the introduction of IFRS 9 financial assets (for an amount of € 0.4 billion) also include loans to customers that must obligatorily be measured at fair value.

Net loans to customers[24] totalled € 105.7 billion at 30 September 2019, up by € 2.9 billion with respect to the figure of 31 December 2018.

Performing loans came to € 97.1 billion, compared to € 94.6 billion at 31 December 2018, an increase of 2.7%. The aggregate at 30 September 2019 did not include the "senior" securities of the Exodus (subscribed in the first half of 2018) and ACE (subscribed in the first quarter of 2019) securitisations and excluded receivables classified under IFRS 5. Taking "core" loans into consideration (mortgages, loans, current accounts and personal loans), the aggregate comes to € 90.6 billion, with a 3.9% on a homogeneous basis with respect to the end of 2018.

Net non-performing exposures (bad loans, unlikely to pay and past due and/or non-performing overdue) amount to € 6.0 billion as at 30 September 2019, a decrease of € 763 million (-11.3%) compared to 31 December 2018. The comparison with 30 September 2018 highlights show the solid derisking action accomplished in 2018: the year-on-year reduction of net non-performing loans is € 3.2 billion, equal to 34.6%.
An analysis of the individual items shows the following changes:

- Net bad loans of € 1.5 billion fell by 6.5% compared with the € 1.6 billion figure at 31 December 2018 (€ 3.5 billion at 30 September 2018);
- Net unlikely-to-pay loans of € 4.4 billion, down by 13.4% compared to € 5.0 billion as of 31 December 2018 (€ 5.5 billion compared to 30 September 2018);
- Net past due loans amounting to € 104 million, up by 19.0% compared to € 88 million at 31 December 2018 (€ 93 million at 30 September 2018).

[23] Operating data.
[24] 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, are included in financial assets measured at fair value.

The coverage rate for the entire impaired loans aggregate was 42,8% (45.8% including write-offs), slightly down compared to 43.1% at 31 December 2018 but up compared to 41.9% at 30 June 2019 (50.6% at 30 September 2018).
More specifically, at 30 September 2019, the coverage rate was as follows:

- Bad loans 55.8% (56.8% at 30 June 2019, 59.6% at 31 December 2018); including write-offs the coverage reaches 62.1%;
- Unlikely to pay 37.0% (35.0% at 31 December 2018);
- Past due 17.3% (17.5% at 31 December 2018).

The drop in coverage of bad loans seen during the period is associated with the further derisking action involving loans associated with leasing contracts (L ACE).
Taking into account the receivables covered by the agreement for the sale of leasing contracts the total coverage of impaired loans was 44.1% (46.8% including write-offs).
The coverage rate of performing loans was 0.36%, substantially in line with 0.38% at 31 December 2018.

Group capital ratios[25]

On 30 September 2019 the Common Equity Tier 1 ratio (CET1 ratio) amounts to 13.8% substantially unchanged compared to the figure at 30 June 2019. The lack of change in the ratio in question is attributable, on the one hand, to an increase in Common Equity Tier 1 Capital owing to the economic result of the quarter and the positive evolution of the valuation reserves of financial assets measured at fair value through other comprehensive income and, on the other, to the offsetting effect due to the increase in risk-weighted assets of approximately € 2.0 billion, which include the estimate, determined in a conservative manner, of the impact of the update of the historical series on the AIRB models. This ratio benefits from the 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 aforementioned transitional rules, the CET 1 ratio IFRS 9 fully phased was 12.1%.

The Tier 1 ratio came in at 14.4%, unchanged compared to the figure of 30 June 2019, while the Total Capital ratio stood at 16.3% compared to 16.5% in June 2019. We can note that with value date 1 October 2019 a new Tier 2 equity instrument was issued for a nominal amount of € 350 million, which generates a benefit at level of Total Capital Ratio of approximately 53 b.p..

OPERATIONAL OUTLOOK

The global macroeconomic outlook continues to suffer from trade wars, and the consequent increase in protectionist measures, presenting signs of a gradual slowdown of the expansive cycle that in all the major economies affect in particular the industrial and manufacturing sector. The deceleration of global GDP toward levels just above +3%, the lowest of the last ten years, 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

[25] 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 Group's financial and economic situation at 30 September 2019 has not been the subject of limited independent auditing activity.
Please recall that Banco BPM was authorised to include the profits of the half-year period ended 30 June 2019 following the limited independent auditing activity of the condensed consolidated half-year financial statements at 30 June 2019.
With reference to the figures and capital ratios shown in the context of the present press release, as well as the profit at 30 June 2019, the profit being generated in relation to the third quarter of 2019 has also been included, as it results from the consolidated financial and economic situation of the Group at 30 September 2019 approved by the Board of Directors today.

the non-negligible risks of the emerging of the financial turmoil matrix, especially in the more fragile economies. In this context, the phase of stagnation that characterises our country seems destined to continue also in the last part of the year, while next year should see a modest recovery (GDP +0.5%) thanks to the expansive effect generated by the maintenance of an accommodating monetary policy and a more favourable assessment of country risk. Given this scenario, the operating attention of the Group in the last quarter will remain concentrated on the ordinary management, with particular focus on the core business, trying to take advantage of the effects deriving from its derisking action. The overall figure for operating income, unless there are particular that have an impact on market performance, should not differ significantly from the figure recorded in the most recent quarters. 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.

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

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Gruppo Banco BPM results at 30 September 2019 will be presented to the financial community on the conference call scheduled for today, 6 November 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.

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Further to the press releases of 23 July and 24 September, it should be noted that the Board of Directors, after consulting the Appointments Committee for the aspects it is responsible for, acknowledged, at its meeting today, that, following the enquiry carried out, it was not possible to complete fully the process aimed at identifying suitable candidates to hold the position of Director by co-option under the terms of art. 2386 of the Italian Civil Code, conducted with the aid of the company Egon Zehnder, taking into account (i) the short duration of the residual mandate of the current board, the total renewal of which is imminent as it is planned for the coming shareholders' meeting for approval of the financial statements; (ii) that at the same time a selection process has begun with the aim of making use of the possibility of presenting the Board's List under the terms of art. 20.4.2. of the Articles of Association; (iii) the planned imminent reduction, at the time of the aforementioned shareholders' meeting, from 19 to 15 of the members of the administrative body.
This said, the Board of Directors resolved to stay judgement on the co-option to replace the Directors who have resigned and precisely Ms Marisa Golo and Mr Pier Francesco Saviotti, taking in any case into consideration the profiles of the candidates already examined for their possible inclusion in the Board of Directors' List.

Explanatory notes

This News Release represents the document through which Banco BPM decided to disclose - on a voluntary basis - supplementary periodic information in addition to the half-year and annual reports ("quarterly reports") to the public and to the market, in compliance with the disclosure policy communicated to the market in the press release "2019 Corporate Calendar" released on 22 January 2019, pursuant to art. 82-ter of the Issuers Regulation effective on 2 January 2017[26]. For the sake of completeness, please note that the quarterly reports include also the result presentation handout prepared as a support for the conference call with the financial community to be held after this News Release has been released.
This quarterly report includes a comment on the quarterly operating performance that focuses on the dynamics of the key P&L, balance sheet and financial items, and is based on the reclassified balance-sheet and income statements.
Please find below some explanatory notes that are deemed useful to better understand the approach followed in preparing the above-mentioned accounting statements as at 30 September 2019 and those referring to the prior FY, as well as the dynamics of the quarterly results commented 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 Half-yearly Financial Report as at 30 June 2019, which are basically in line with those adopted 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". 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 September 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 September 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; for a description of the effects ensuing from the introduction of said standard, please see the Consolidated Half-yearly Report as at 30 June 2019 and the News Release on Financial Results as at 30 June 2019.
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 information available when preparing the quarterly report as at 30 September 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 financial and operating situation as at 30 September 2019, calling for adjustments that cannot be predicted or estimated today against the carrying amount of assets and liabilities recognized in the balance sheet.
For a description of Gruppo BPM's accounting policies and of the main uncertainties associated with the use of estimates to prepare the current quarterly report, please refer to the Consolidated Annual report as at 31 December 2018 and the Half-yearly report as at 30 June 2019 ("Part A – Accounting policies").

Finally, the information disclosed in this document has not been prepared in compliance with IAS 34 on interim financial reporting and has not been audited.

2. Disclosure on the application of the accounting standard IFRS 5 to data at 30 September 2019

Pursuant to IFRS 5, at 30 September 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 a framework sale agreement was signed, that is expected to be finalized by June 2020 (L-ACE). At 30 September 2019 the net book value was € 108 million (GBV of € 388 million);
- the net assets related to the subsidiary ProFamily, that incorporated the consumer credit business of the non-captive network (tied agents and own branches), mainly represented by customer loans (€ 1,361 million);
- tangible assets totaling € 62 million, mainly represented by property under disposal;
- other net assets tied to operations under disposal, representing a marginal amount, which include among others the contribution of the subsidiary Arena Broker S.r.l., classified as under disposal as of the current accounting period, in view of the implementation of an action plan that makes a disposal of the subsidiary by the end of the year likely.

[26] Note that the contents of the quarterly reporting, the timing of approval and the communication method have been communicated to the public with the news release "2017 Corporate Calendar" published by Banco BPM on 30 January 2017.

With respect to the above operations, since they are not discontinued operations under IFRS 5, the reclassification under non-current assets held for sale impacted only the balance sheet as at 30 September 2019 and not the income statement. The P&L contributions of the above assets continue to be represented in the consolidated income statement on a line-by-line basis.

3. 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 9M 2019 was + € 12.9 million on NII, - € 29.0 million on other net operating income as a result of the amortization of intangible assets recognized under the PPA, and - € 8.3 million on provisions reflecting the higher real estate values.

4. 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).

The banking industry charges charged to income in 9M 2019, gross of tax effect, added up to € 130.9 million (€ 137.8 million in 9M 2018). More specifically they break down as follows:

- ordinary contribution of € 61.7 million charged to income in Q1 and paid to the Single Resolution Fund for FY 2019 (€ 68.1 million had accrued in FY 2018). Please note that for 2019, as well as for the prior financial year, the Group did not exercise the option of fulfilling the contribution request through an irrevocable payment commitment ("IPC");
- estimated ordinary contribution of € 46.7 million to the Interbank Deposit Protection Fund – FITD, charged to income in Q3, (the estimated contribution recognized at 30 September 2018 came in at € 44.3 million, and in Q4 it was increased by € 0.9 million after receiving the notice of the payable contribution sent by the FITD);
- additional contributions to the National Resolution Fund, charged to income in Q2 2019, added up to € 22.6 million (€ 25.5 million in additional contributions had been called at 30 September 2018).

Net of the tax effect, the above charges came to € 88.4 million (€ 99.6 million in 9M 2018).

5. Changes in consolidation scope

In 9M 2019 the following changes in consolidation scope were reported: exit of the subsidiaries Liberty S.r.l., BPM Securitisation 3 S.r.l. and Beta S.r.l., Tiepolo Finance 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, as well as of the associate Immobiliare Centro Milano S.p.A., sold in the first half of the year
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 Fist 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, whose purpose is to take in 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 Holding di Partecipazioni Finanziarie Banco Popolare S.p.A., 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.

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

In compliance with the guidelines set forth in Consob's Communication no. DEM/6064293 of 28 July 2006, please note that the income statement as at 30 September 2019 includes the following non-recurring items:

- the line-item "net value adjustments on property and equipment and intangible assets" includes write-offs as a result of the impairment of € 30.2 million of fixed assets;

- the line-item "net provisions for risks and charges" includes non-recurring allowances totaling € 6.2 million relative to the estimate of charges tied to contract obligations;
- the line-item "gains on disposal of equity and other investments", amounting to € 336.8 million, mainly 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 "income tax for the period on continuing operations" includes the € 2.8 million positive 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.

The minority interest effect amounts to € + 0.6 million.

At 30 September 2018 the posted non-recurring items were:

- the line-item "other net operating income" included the € 113.6 million gain generated by the sale to Anima SGR of the sub-advisory mandates on insurance assets carried out on behalf of the insurance joint-ventures tied to the bancassurance network of former Banco Popolare, and the € 200.0 million capital gain generated by the sale of the depositary bank and fund administration business line to BNP Paribas Securities Services;
- the line-item "other administrative expenses" included € 10.4 million of integration charges;
- the line-item "net value adjustments on property and equipment and intangible assets" included a property impairment totaling € 1.5 million;
- the line-item "Gains on disposal of equity and other investments" was equal to € 168.3 million. The main component (equal to € 174.7 million) was represented by the result from the reorganization of the Bancassurance business with the sale to Cattolica of the two stakes in the insurance companies Popolare Vita (now Vera Vita) and Avipop Assicurazioni (now Vera Assicurazioni);
- the line-item "income tax on continuing operations" included the tax effect of the non-recurring items itemized above, totaling € -82.8 million;
- the line-item "after-tax banking industry charges" included € 18.4 million of additional contributions paid to the National Resolution Fund (amounting to € 25.5 million net of the related tax effect of € 7.1 million);
- the line-item "gain from disposed assets" included € 0.9 million associated with residual assets under disposal that were sold during the period.

The minority interest effect amounted to € 0.1 million.

7. Other components accounted for to determine the adjusted net result

The 2019 and 2018 net results have been impacted by several significant events, unlikely to reoccur, mostly connected with the implementation of the Business Plan objectives, in particular with respect to derisking activities.
Therefore, in order to make it possible to assess the Group's business-as-usual operating results, the adjusted result was determined, which includes - in addition to the usual items generally classified as non-recurring listed above - also the impact from the reorganization/efficiency-enhancement/derisking processes, also with regard to valuation-based P&L itmes, such as "net write-downs of customer loans" and "net provisions for risks and charges".

At 30 September 2019, in addition to the items listed under the above note 6 "Non-recurring items in the consolidated income statement of Gruppo Banco BPM", € 10.2 million of non-recurring allocations were taken into account, tied to the recalculation of terms applied to customers in prior years along new metrics based on more stringent regulations and interpretations issued by the Regulator.

As at 30 September 2018, the following additional elements were taken into account:

- the line-item "Net write-downs of customer loans" included the effects reported over the period tied to the Exodus deal, totaling € 54.0 million;
- the line-item "Net provisions to risks and charges" included € 153.7 million referring to: (i) prudential allowances aimed at guaranteeing a complete coverage against disputes and complaints – even forward-looking (including those associated with past referrals of customers interested in purchasing diamonds to the specialized company Intermarket Diamond Business S.p.A., that gave rise to customer claims for compensation that are deemed worth being addressed from a customer care perspective); (ii) non-recurring allocations generated by the recalculation of terms applied to customers in prior years along new metrics based on more stringent regulations and interpretations issued by the Regulator.

For the sake of a like-for-like comparison, this Report provides also the adjusted result as at 30 September 2018, inclusive of the above items.

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, 21 June 2019 and 20 September 2019, the Bank of Italy confirmed the Countercyclical Capital buffer ratio at zero per cent for the first, second third and fourth 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 above-mentioned transitional provisions.

9. Sovereign risk exposure represented by debt securities

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

30 September 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	10,933	5,887	2,525	19,345
USA	2,518	1,166	-	3,684
France	1,241	910	49	2,200
Germany	397	79	-	476
Spain	1,123	1,907	565	3,595
Other countries	300	56	1	357
Totale	**16,512**	**10,005**	**3,140**	**29,657**

At 30 September 2019, the Group's sovereign debt exposure totaled € 29.7 billion (€ 27.5 billion at 31 December 2018), of which 55.7% classified in the portfolio of financial assets measured at amortized cost, 33.7% under financial assets measured at fair value through other comprehensive income, and 10.6% 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 88% 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 September 2019 the reserves generated by the fair value measurement totaled + € 188.0 million, gross of tax effect; of which € 124.7 million were related to Italian Government bonds.

As to financial assets measured at amortized cost, the book value came out at € 16.5 billion, of which € 10.9 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 September 2019 (level 1 in the fair value classification) totaled € 17.3 billion (€ 11.6 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 September 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 September 2019, or, if not available, on the most recent financial reports prepared by the associates.

Attachments

- Reclassified consolidated balance sheet at 30 September 2019 compared with 31 December 2018
- Reclassified consolidated income statement for the first 9M 2019 compared with the same period of 2018
- Reclassified consolidated income statement – 2019 and 2018 quarterly evolution
- Reclassified consolidated income statement ex-PPA – 2019 and 2018 quarterly evolution
- 2019 statement of consolidated comprehensive income

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BANCO BPM GROUP

Reclassified consolidated balance sheet

(in euro thousand)	30/09/2019	31/12/2018	Chg. vs 31/12/2018	Chg. % vs 31/12/2018
Cash and cash equivalents	808,118	922,017	-113,899	-12.4%
Financial assets at amortised cost	114,967,348	108,207,732	6,759,616	6.2%
- Due from banks	9,304,882	4,193,119	5,111,763	121.9%
- Customer loans (*)	105,662,466	104,014,613	1,647,853	1.6%
Other financial assets	39,547,940	36,852,942	2,694,998	7.3%
- Financial assets designated at FV through P&L	8,428,111	5,869,106	2,559,005	43.6%
- Financial assets designated at FV through OCI	13,111,957	15,351,561	-2,239,604	-14.6%
- Financial assets at amortised cost	18,007,872	15,632,275	2,375,597	15.2%
Equity investments	1,354,313	1,434,163	-79,850	-5.6%
Property and equipment	3,442,475	2,775,885	666,590	24.0%
Intangible assets	1,261,844	1,277,941	-16,097	-1.3%
Tax assets	4,809,966	5,012,477	-202,511	-4.0%
Non-current assets held for sale and discontinued operations	1,562,021	1,592,782	-30,761	-1.9%
- Customer loans	1,469,045	1,576,159	-107,114	-6.8%
- Other assets and group of assets	92,976	16,623	76,353	459.3%
Other assets	2,616,067	2,388,852	227,215	9.5%
Total Assets	**170,370,092**	**160,464,791**	**9,905,301**	**6.2%**
Direct funding	111,311,666	105,219,691	6,091,975	5.8%
- Due to customers	96,879,557	90,197,859	6,681,698	7.4%
- Debt securities issued and financial liabilities designated	14,432,109	15,021,832	-589,723	-3.9%
Due to banks	29,613,382	31,633,541	-2,020,159	-6.4%
Leasing debts	753,098		753,098	
Other financial liabilities designated at fair value	8,086,986	7,228,829	858,157	11.9%
Liability provisions	1,474,766	1,704,866	-230,100	-13.5%
Tax liabilities	521,410	505,402	16,008	3.2%
Liabilities associated with assets held for sale	49,759	3,043	46,716	N.S.
Other liabilities	6,997,385	3,864,345	3,133,040	81.1%
Total Liabilities	**158,808,452**	**150,159,717**	**8,648,735**	**5.8%**
Minority interests	39,181	45,599	-6,418	-14.1%
Shareholders' equity	11,522,459	10,259,475	1,262,984	12.3%
Consolidated Shareholders' Equity	**11,561,640**	**10,305,074**	**1,256,566**	**12.2%**
Total Liabilities and Shareholders' Equity	**170,370,092**	**160,464,791**	**9,905,301**	**6.2%**

2019 figures are not fully comparable to 2018 figures as a result of IFRS16 first adoption.

(*) 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)	30/09/2019	30/09/2018	Change	Chg. %
Net interest income	1,520,022	1,737,868	-217,846	-12.5%
Income (loss) from investments in associates carried at equity	97,338	108,789	-11,451	-10.5%
Net interest, dividend and similar income	**1,617,360**	**1,846,657**	**-229,297**	**-12.4%**
Net fee and commission income	1,332,256	1,386,567	-54,311	-3.9%
Other net operating income	30,906	368,710	-337,804	-91.6%
Net financial result	124,710	148,576	-23,866	-16.1%
Other operating income	**1,487,872**	**1,903,853**	**-415,981**	**-21.8%**
Total income	**3,105,232**	**3,750,510**	**-645,278**	**-17.2%**
Personnel expenses	-1,259,479	-1,310,628	51,149	-3.9%
Other administrative expenses	-488,786	-610,773	121,987	-20.0%
Net value adjustments on property and equipment and intangible assets	-247,563	-146,402	-101,161	69.1%
Operating costs	**-1,995,828**	**-2,067,803**	**71,975**	**-3.5%**
Profit (loss) from operations	**1,109,404**	**1,682,707**	**-573,303**	**-34.1%**
Net adjustments on loans to customers	-558,031	-953,856	395,825	-41.5%
Net adjustments on other assets	4,163	-677	4,840	
Net provisions for risks and charges	-8,392	-117,536	109,144	-92.9%
Profit (loss) on the disposal of equity and other investments	336,789	168,249	168,540	100.2%
Income (loss) before tax from continuing operations	**883,933**	**778,887**	**105,046**	**13.5%**
Tax on income from continuing operations	-115,416	-159,595	44,179	-27.7%
Systemic charges after tax	-88,382	-99,550	11,168	-11.2%
Income (loss) after tax from discontinued operations	-	936	-936	
Income (loss) attributable to minority interests	6,317	3,846	2,471	64.2%
NET INCOME (LOSS) FOR THE PERIOD	**686,452**	**524,524**	**161,928**	**30.9%**

2019 figures are not fully comparable to 2018 figures as a result of IFRS16 first adoption.

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

(in euro thousand)	Q3 2019	Q2 2019	Q1 2019	Q4 2018	Q3 2018	Q2 2018	Q1 2018
Net interest income	500,024	514,846	505,152	554,694	557,759	584,998	595,111
Income (loss) from investments in associates carried at equity	27,952	32,628	36,758	50,668	32,791	33,413	42,585
Net interest, dividend and similar income	**527,976**	**547,474**	**541,910**	**605,362**	**590,550**	**618,411**	**637,696**
Net fee and commission income	444,065	453,673	434,518	474,374	451,372	457,274	477,921
Other net operating income	7,994	8,292	14,620	21,061	214,531	130,029	24,150
Net financial result	41,668	10,697	72,345	-78,397	46,768	73,901	27,907
Other operating income	**493,727**	**472,662**	**521,483**	**417,038**	**712,671**	**661,204**	**529,978**
Total income	**1,021,703**	**1,020,136**	**1,063,393**	**1,022,400**	**1,303,221**	**1,279,615**	**1,167,674**
Personnel expenses	-415,622	-417,984	-425,873	-422,177	-431,479	-437,060	-442,089
Other administrative expenses	-158,632	-163,135	-167,019	-205,705	-196,184	-203,102	-211,487
Net value adjustments on property and equipment and intangible assets	-76,119	-93,845	-77,599	-97,096	-49,456	-49,020	-47,926
Operating costs	**-650,373**	**-674,964**	**-670,491**	**-724,978**	**-677,119**	**-689,182**	**-701,502**
Profit (loss) from operations	**371,330**	**345,172**	**392,902**	**297,422**	**626,102**	**590,433**	**466,172**
Net adjustments on loans to customers	-208,387	-197,692	-151,952	-987,260	-267,405	-360,212	-326,239
Net adjustments on other assets	4,138	3,996	-3,971	3,968	-1,312	-1,593	2,228
Net provisions for risks and charges	-2,712	-10,102	4,422	-227,805	-71,865	-20,707	-24,964
Profit (loss) on the disposal of equity and other investments	-24	336,646	167	5,109	-10,301	-1,104	179,654
Income (loss) before tax from continuing operations	**164,345**	**478,020**	**241,568**	**-908,566**	**275,219**	**206,817**	**296,851**
Tax on income from continuing operations	-41,351	-23,360	-50,705	322,430	-72,338	-61,320	-25,937
Systemic charges after tax	-31,521	-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	1,846	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	**93,319**	**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	**93,319**	**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 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

(in euro thousand)	Q3 2019	Q2 2019	Q1 2019	Q4 2018	Q3 2018	Q2 2018	Q1 2018
Net interest income	495,805	512,117	499,188	534,304	537,227	541,685	536,030
Income (loss) from investments in associates carried at equity	27,952	32,628	36,758	50,668	32,791	33,413	42,585
Net interest, dividend and similar income	**523,757**	**544,745**	**535,946**	**584,972**	**570,018**	**575,098**	**578,615**
Net fee and commission income	444,065	453,673	434,518	474,374	451,372	457,274	477,921
Other net operating income	17,785	17,928	24,182	31,635	225,104	140,539	34,604
Net financial result	41,668	10,697	72,345	-78,397	46,768	73,901	27,907
Other operating income	**503,518**	**482,298**	**531,045**	**427,612**	**723,244**	**671,714**	**540,432**
Total income	**1,027,275**	**1,027,043**	**1,066,991**	**1,012,584**	**1,293,262**	**1,246,812**	**1,119,047**
Personnel expenses	-415,622	-417,984	-425,873	-422,177	-431,479	-437,060	-442,089
Other administrative expenses	-158,632	-163,135	-167,019	-205,705	-196,184	-203,102	-211,487
Net value adjustments on property and equipment and intangible assets	-73,776	-90,654	-74,849	-94,597	-46,543	-46,126	-45,056
Operating costs	**-648,030**	**-671,773**	**-667,741**	**-722,479**	**-674,206**	**-686,288**	**-698,632**
Profit (loss) from operations	**379,245**	**355,270**	**399,250**	**290,105**	**619,056**	**560,524**	**420,415**
Net adjustments on loans to customers	-208,387	-197,692	-151,952	-987,260	-267,405	-360,212	-326,239
Net adjustments on other assets	4,138	3,996	-3,971	3,968	-1,312	-1,593	2,228
Net provisions for risks and charges	-2,712	-10,102	4,422	-227,805	-71,865	-20,707	-24,964
Profit (loss) on the disposal of equity and other investments	-24	336,646	167	5,109	-10,301	-1,104	179,654
Income (loss) before tax from continuing operations	**172,260**	**488,118**	**247,916**	**-915,883**	**268,173**	**176,908**	**251,094**
Tax on income from continuing operations	-43,856	-26,623	-52,750	324,810	-69,946	-51,347	-10,742
Systemic charges after tax	-31,521	-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	1,846	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	**98,729**	**449,480**	**154,791**	**-585,964**	**167,293**	**109,348**	**192,731**
Purchase Price Allocation (PPA) after tax	**-5,410**	**-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	**93,319**	**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

Statement of consolidated Comprehensive Income (*)

(in euro thousand)	30/09/2019	Q3 2019	Q2 2019	Q1 2019
Income for the period	**686,452**	**93,319**	**442,645**	**150,488**
Other comprehensive income items	**283,224**	**159,193**	**13,519**	**110,512**
Income items not recognized through P&L	**-16,583**	**23,921**	**-56,073**	**15,569**
- Equity securities designated at fair value through other comprehensive income	13,962	26,309	-31,877	19,530
- Other items	-30,545	-2,388	-24,196	-3,961
Income items recognzied through P&L	**299,807**	**135,272**	**69,592**	**94,943**
- Debt securities measured at fair value through other comprehensive income	281,784	126,009	64,314	91,461
- Other items	18,023	9,263	5,278	3,482
TOTAL COMPREHENSIVE INCOME	**969,676**	**252,512**	**456,164**	**261,000**

(*) not inclusive of minority interest

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