SPAFID CONNECT

Informazione Regolamentata n. 1928-32-2021	Data/Ora Ricezione 06 Maggio 2021 17:42:25	MTA

Societa'	:	Banco BPM S.p.A.
Identificativo Informazione Regolamentata	:	146660
Nome utilizzatore	:	BANCOBPMN04 - Marconi
Tipologia	:	2.2
Data/Ora Ricezione	:	06 Maggio 2021 17:42:25
Data/Ora Inizio Diffusione presunta	:	06 Maggio 2021 17:42:27
Oggetto	:	RESULTS AS AT 31 MARCH 2021

Testo del comunicato

Vedi allegato.

BANCO BPM

PRESS RELEASE

RESULTS AS AT 31 MARCH 2021

- **"CORE" REVENUES[1] AT € 968 MILLION, +5.9% ON 2020 Q1, ALSO UP ON THE PRE-COVID PERIOD**
- **OPERATING INCOME AT € 1,128 MILLION, +18.1% ON 2020 Q1**
- **PROFIT FROM OPERATIONS[2] AT € 484 MILLION, +51.4% ON 2020 Q1**
- **COST/INCOME RATIO[3] AT 57.1% COMPARED TO 66.5% AT THE END OF MARCH 2020**
- **COST OF RISK AT 79 BASIS POINTS, INCLUDING ROUGHLY 40 BASIS POINTS OF "NON-CORE" COMPONENTS[4]**
- **PRE-TAX PROFIT € 259 MILLION, +150.3% ON 2020 Q1**
- **NET INCOME € 100 MILLION, WHICH INCREASES TO € 151 MILLION NET OF NON-RECURRING COMPONENTS[5] LINKED TO DERISKING**

NEW ACCELERATION IN DERISKING STRATEGY:

- **OVERALL TARGET OF NPE DISPOSALS AT € 1.65 BILLION, OF WHICH € 1.5 BILLION BAD LOANS ALREADY BEING FINALISED ("PROJECT ROCKETS"[6]) WHICH WILL ALLOW:**
  - **A 42% REDUCTION IN GROSS BAD LOANS (FROM € 3.6 BILLION AT 31 MARCH 2021 TO € 2.1 BILLION), WITH A DECREASE IN THE SHARE ON GROSS CUSTOMER LOANS FROM 3.1% TO 1.8% ADJUSTED[7]**

---

[1] Aggregate consisting of net interest income and net fee and commission income.
[2] This interim result does not include banking industry charges, equal to € -59.2 million, the accounting effects of the Purchase Price Allocations (PPA) carried out in previous years, equal to € -10.3 million, and the effects of the change in the credit rating of the Group on its certificate issues, equal to € -6.8 million. Effective from the closing date of the financial year at 31 December 2020, these components are stated, net of taxes, in separate items of the reclassified income statement. The data from previous periods used for comparison have been re-stated accordingly.
[3] Calculated as the ratio between operating expenses and operating income resulting from the reclassified Income Statement.
[4] Effects of the increase in the target for the assignment of impaired loans and the increase in loans classified in Stage 2 following the adoption of more stringent classification criteria.
[5] Amount net of non-recurring components as indicated in section 5 of the Explanatory Notes of this press release.
[6] The project will be concluded in the second quarter of 2021, but the estimated economic impacts have already been recognised in the income statement, in compliance with the provisions of IFRS 9.
[7] The adjusted figure is calculated by considering the impact on the data at 31 March 2021, of the assignments scheduled by 30 June 2021 as part of the "Rockets Project".

- A 27% YoY REDUCTION IN GROSS NON-PERFORMING EXPOSURES (FROM € 8.7 BILLION AT 31 MARCH 2021 TO € 7.2 BILLION), WITH A DECREASE IN THE GROSS NPE RATIO[8] FROM 7.5% TO 6.3% ADJUSTED[9] (DOWN TO 5.3% USING THE EBA METHODOLOGY)[10]

FURTHER IMPROVEMENT IN THE TEXAS RATIO[11] TO 37.1% AGAINST 38.6% AT THE END OF 2020 AND 48.8% AS AT 31 MARCH 2020

CORE NET PERFORMING LOANS[12] TO CUSTOMERS EQUAL TO € 99.2 BILLION (+5.6% YOY)

NEW DISBURSEMENTS TO CUSTOMERS EQUAL TO € 5.8[13] BILLION, UP BY 7.0% COMPARED TO THE END OF 2020, OF WHICH € 2.7 BILLION SECURED BY STATE GUARANTEES

COVID-19 MORATORIA EQUAL TO € 11.3 BILLION, DOWN BY APPROXIMATELY € 5 BILLION FROM THE ORIGINAL € 16.2 BILLION, WITH AN EXTREMELY LOW DEFAULT RATE ON EXPIRED MORATORIA[14], EQUAL TO 0.9%

CORE DIRECT FUNDING[15] EQUAL TO € 101.7 BILLION (+12.8% YOY)

MANAGED ASSETS EQUAL TO € 61.3 BILLION (+13.3% YOY)

EQUITY POSITION REMAINS SOLID WITH A FULLY PHASED CET 1 RATIO AT 12.7% AND A FULLY PHASED MDA BUFFER AT 377 BASIS POINTS, INCLUDING HEADWINDS (-85 BASIS POINTS) FROM THE UPDATE OF INTERNAL MODELS FOR MEASURING CREDIT RISK

SOLID LIQUIDITY POSITION, WITH LCR AT 209%, NSFR >100% AND UNENCUMBERED ELIGIBLE ASSETS FOR APPROXIMATELY € 16 BILLION[16]

FURTHER ACCELERATION IN ONLINE CUSTOMER ACTIVITY AND RANGE OF SERVICES AND PRODUCTS OFFERED:

---

[8] Ratio of gross non-performing exposures and total exposures relating to the balance sheet item "Loans to customers measured at amortised cost".
[9] See note 7.
[10] Methodology used by EBA for the presentation of data in the context of the EU Transparency Exercise.
[11] The Texas Ratio is the ratio of the net value of non-performing loans to the Group's tangible equity (net of the related tax effects).
[12] Mortgages, loans, current accounts and personal loans.
[13] Management accounting data.
[14] Expired moratoria include positions for which payments have resumed, fully repaid and extinguished positions and positions replaced by other loan categories.
[15] Current accounts and deposits.
[16] Monthly Liquidity Coverage Ratio in March 2021 and management Net Stable Funding Ratio referred to the first quarter of 2021.

- **SHARE OF DIGITAL USERS EQUAL TO 49% (+5 P.P. YOY)**
- **SHARE OF REMOTE TRANSACTIONS EQUAL TO 85% (+5 P.P. YOY)**
- **5 MILLION TRANSACTIONS FROM MOBILE DEVICES (+51.0% YOY)**

STRONG PUSH TO THE ESG STRATEGY THANKS TO THE ACTIVE ROLE OF THE BOD:

- **STRENGTHENING OF THE ROLE OF THE INTERNAL CONTROL AND RISK COMMITTEE, WHICH BECOMES "INTERNAL CONTROL, RISK AND SUSTAINABILITY COMMITTEE"**
- **SEVEN PROJECTS LAUNCHED TO INTEGRATE THE 32 SUSTAINABILITY PROJECTS IN THE GROUP BUSINESS MODEL**
- **ACHIEVEMENT OF CARBON NEUTRALITY BY 2023**
- **INCREASED NUMBER OF WOMEN IN MANAGERIAL POSITIONS: +33% BY 2023**

During the quarter, despite the difficult macroeconomic framework, still impacted by the Covid-19 health crisis, the Group's sales and organisational efforts allowed a notable recovery in operating results. In particular, core operating income (net interest income and commissions) recorded an excellent performance, amounting to € 968 million, up by 5.9% on the same period of the previous year. This figure represents the best result since the fourth quarter of 2018 and brings operating income back to the levels of the period before the crisis triggered by the pandemic.

The operating income performance allowed the Group to record profit from operations equal to € 484 million, with a 51.4% increase compared to the first quarter of 2020.

Pre-tax profits reached € 259 million, against € 104 million in the previous year, with a 150.3% increase. On an adjusted[17] basis, this result increases to € 335 million, with a 218.1% increase.

The balance sheet items also posted significant results:

- ***net "core" performing loans (which includes mortgages, loans, current accounts and personal loans) equal to € 99.2 billion, with a 5.6% increase YoY;***
- ***core "direct deposits" equal to € 101.7 billion, with a 12.8% increase YoY;***
- ***indirect deposits equal to € 94.2 billion, with a 14.6% increase YoY.***

As regards non-performing loans, the decision was taken to further accelerate the derisking process with the assignment of € 1.5 billion in bad loans by June ("Rockets Project"), setting an overall NPE disposal target of € 1.65 billion.

[17] Amount net of non-recurring components as indicated in section 5 of the Explanatory Notes of this press release.

The "Rockets Project", with the disposal of € 1.5 billion, will enable a significant reduction in bad loans, bringing their share on total gross loans from 3.1% as at March 2021 to 1.8% adjusted: total gross non-performing loans are expected to fall from € 8.7 billion to € 7.2 billion adjusted, with a gross NPE ratio down from 7.5% to 6.3% adjusted.

The strength of the balance sheet is confirmed, despite the expected regulatory headwind deriving from the update of the internal credit risk models (-85 basis points):

- ***phased-in CET1 Ratio and fully phased CET1 Ratio equal to 13.7% and 12.7% respectively;***
- ***MDA buffer on TCR phased-in and fully phased equal to 501 and 377 basis points respectively.***

Close monitoring of the loan portfolio continues, with a constant review of customers' credit profiles: special attention was given to positions for which Covid-19 moratoria have been granted, which decreased to € 11.3 billion (against € 16.2 billion granted originally) and which, in regard to expired positions[18], recorded a 0.9% default rate.

Disbursements secured by State guarantees were equal to € 2.7 billion over the quarter (out of a total disbursed amount of medium/long-term loans of € 5.8 billion), bringing the total disbursed amount of said guaranteed loans to € 12.9 billion.

Key balance sheet items

- Net loans to customers equal to € 110.1 billion: +2.0% YoY (of which performing loans +3.2% and non-performing loans -21.2% compared to 31 March 2020) and +0.7% compared to 31 December 2020 (of which performing loans +0.8% and non-performing loans -0.3%);
- Direct funding from customers equal to € 120.3 billion[19]: +7.9% YoY and +0.1% compared to the end of December 2020): the growth trend in the "core" funding was confirmed (€ +11.5 billion YoY and € +1.8 billion compared to the end of 2020);
- Indirect funding[20] from customers equal to € 94.2 billion: +14.6% YoY and +2.8% compared to 31 December 2020, of which:
    - asset management € 61.3 billion;
    - asset administration € 32.9 billion.

[18] Expired moratoria include positions for which payments have resumed, fully repaid and extinguished positions and positions replaced by other loan categories.
[19] Direct funding includes certificates with unconditional capital protection (€ 3.7 billion at 31 March 2021 and at the end of 2020), and excludes repurchase agreements.
[20] Management data net of certificates with unconditional capital protection included under "direct funding".

Key income statement items

- Net interest income € 496.8 million against € 474.1 million in 2020 Q1 and € 509.0 million in 2020 Q4;
- Net fee and commission income € 471.4 million against € 440.6 million in 2020 Q1 and € 429.2 million in 2020 Q4;
- Operating expenses € 643.9 million against € 635.0 million in 2020 Q1 and € 599.8 million in 2020 Q4;
- Profit from operations € 483.8 million against € 319.5 million in 2020 Q1 and € 452.8 million in 2020 Q4;
- Net adjustments to customer loans € 217.1 million against € 213.2 million in 2020 Q1 and € 536.2 million in 2020 Q4;
- Income (loss) before tax from continuing operations[21] equal to € 259.1 million against € 103.5 million in 2020 Q1 and € -143.1 million in 2020 Q4;
- Income (loss) before tax from continuing operations net of non-recurring items[22] equal to € 334.9 million, against € 105.3 million in 2020 Q1 and € 165.4 million in 2020 Q4;
- Net income (loss) equal to € 100.1 million against € 151.6 million in 2020 Q1 and € -241.7 million in 2020 Q4;
- Figure net of non-recurring items equal to € 150.8 million.

Capital position[23]:

- CET1 ratio "fully-phased IFRS 9" 12.7% (13.3% as at 31 December 2020);
- CET 1 ratio "phased-in IFRS 9" 13.7% (14.6% as at 31 December 2020);
- MDA buffer on TCR "fully phased IFRS 9" 377 basis points
- MDA buffer on TCR "phased-in IFRS 9" 501 basis points

Credit quality

- Stock of net non-performing loans equal to € 4.3 billion: -0.3% compared to the end of 2020 and -21.2% YoY
- *Coverage:*
  - Bad loans: 62.7% (59.1% as at 31 December 2020 and 55.3% as at 31 March 2020); also considering *write-offs*, the coverage stands at 68.2%;
  - Unlikely-to-pay loans: 43.1% (43.7% at 31 December 2020 and 39.6% at 31 March 2020);

[21] See note 2.
[22] Amount net of non-recurring components as indicated in section 5 of the Explanatory Notes of this press release.
[23] Ratios calculated by including the 2021 Q1 profit and deducting the expected dividend pay-out on said profit.

- Total non-performing loans: 50.7% (50.0% as at 31 December 2020 and 45.0% as at 31 March 2020); also considering write-offs, the coverage stands at 54.0%.

Liquidity profile

- *Unencumbered eligible assets equal to approximately € 16 billion as at 31 March 2021;*
- LCR 209% and NSFR >100%[24].

Milan, 6 May 2021 - At today's meeting, the Board of Directors of Banco BPM, chaired by Mr. Massimo Tononi, approved the balance sheet and income statement as at 31 March 2021 of the Banco BPM Group.

The first part of 2021 continues to be strongly affected by the international emergency triggered by the Coronavirus epidemic. In this context, characterised by heavy repercussions on the global economy as well as on business operations, the Group continued to implement the measures put in place during the previous year in order to protect customers and its employees, as well as provide concrete support to businesses, households and the communities in which the Group operates, in observance of regulations in force.

As part of the economic support measures, the total amount of moratoria granted by the Decreto Cura Italia (Heal Italy Decree) and by the Protocollo ABI (Italian Banking Association protocol) in place at 31 March 2021 came to € 11.3 billion, down by roughly € 5 billion compared to an original € 16.2 billion, with a default rate on expired moratoria limited to 0.9%. Disbursements secured by State guarantees over the quarter were equal to € 2.7 billion (out of a total disbursed amount of medium/long-term loans of € 5.8 billion), bringing the total disbursed amount of said guaranteed loans to € 12.9 billion.

The Group has continued to strengthen customer digital operations as part of the Digital and Omnichannel Transformation ".DOT" programme. In particular, in the first quarter of 2021, the following should be noted: the full deployment of the new mobile apps/solutions for private customers, which were warmly received based on customer feedback/reviews and increased levels of use; new releases/functionalities of on-line services for Business customers; authorisation of all branches to activate the "Digital Identity" for the Individuals customer category, enabling a gradually paperless relationship with the Bank; the provision to all Personal customers of remote advisory and financial solutions, capitalising on the simplification of the rules introduced; the continuation of the development of "Omnichannel Sales", both in terms of functionality/ product availability and in terms of support/development through new touch point Omnichannel Customer Journey, based on advanced analytics.

In terms of Digital Adoption, the share of private customers active online in terms of devices in the first quarter of 2021 rose from 44% to 49% compared to the same quarter of the previous year, while the overall share of remote transactions (ATM, internet and mobile banking) on the same customer segment stood at 85% in the quarter (from 80% in the first quarter of 2020). Thanks to the positive

[24] Monthly LCR in March 2021 and management NSFR relating to 2021 Q1.

contribution of the Group's new app, the number of mobile transactions in the quarter reached 5 million, registering a 51% increase compared to 3.3 million in the first quarter of the previous year.

In the ESG domain, in February 2021, seven business initiatives were launched, which aim at consolidating the integration of sustainability within company activities and the business.
Within the seven areas of focus – Governance, People, Risk & Credits, Customers Business, Customers Wealth Management, Stakeholder engagement & Measurement, Environment – 32 projects were specified, to be implemented with the involvement of 15 different Bank units and more than 50 staff.
Within the Governance framework, the BoD continued to carry out ESG activities which, in the first three months of 2021, addressed issues strictly related to sustainability at almost all meetings. The role of the Internal Control and Risk Committee was also strengthened: this will provide increasingly greater strategic support on ESG activities, therefore taking the name "Internal Control, Risk and Sustainability Committee". The Committee will also be able to count on a director, Luigia Tauro, who will be the contact person for ESG issues.

With reference to environmental issues, it should be noted that the Group aims to reach *carbon neutrality* by 2023. With regard to its indirect impacts, especially those related to its customers, the Bank's commitment has resulted in the offer of energy efficiency products connected with the 110% Superbonus; the allocation of a 2020-2023 Sustainable Investment Plafond equal to € 5 billion; the launch, in March, of the Green Loans sales offer to increase the energy efficiency of private properties and, lastly, preliminary activities for the issue of green and social bonds by Banco BPM.
Other important initiatives within the Group concern: a career path designed to empower talented women, the commitment to increase the number of women in managerial positions by one-third by 2023, an environmental education plan for all personnel and another for unit managers, to strengthen an inclusive business culture ("Respect Project").
A project was launched in 2020 aimed at reviewing all communication with customers, to make it simpler and easy to understand.
The increasing commitment of Banco BPM, since its formation, to sustainability issues was recognised with the Bank's inclusion in the list of the top 150 leading Italian companies in terms of sustainability (out of 1,200 considered) drawn up by the international analysis company Statista.

During the quarter, the Group further accelerated the derisking process through a plan for the assignment of non-performing exposures for a total gross amount of € 1.65 billion (including some "small tickets").

As part of this derisking, the "Rockets Project" provides for the assignment of a gross amount of € 1.5 billion of bad loans: the portfolio has already been selected, the due diligence conducted, and the servicer of the transaction has been identified.

This transaction will take place in the form of a securitisation with the assignment of loans to a SPV that will issue the Notes (Senior, Mezzanine and Junior); the Bank is evaluating the opportunity to request a State guarantee ("GACS") on the Senior Notes issued. In any case, simulations were already carried out in relation to the tranching of the transaction and its pricing. The expected effects are included in the loan valuations at 31 March.

The transaction is expected to be completed by 30 June, with the assignment of the loans to the SPV, the issue of the Notes and the placement of the Mezzanine and Junior Note with third parties.

The completion of this transaction will have a significant positive effect for the Group in terms of the reduction in the stock of gross non-performing exposures, which are expected to fall from € 8.7 billion in March 2021 to € 7.2 billion, with a reduction of the gross NPE ratio from 7.5% to 6.3%. With regard solely to gross bad loans, these are expected to fall from € 3.6 billion to € 2.1 billion (-42%), with a share on total gross loans down from 3.1% to 1.8%.

In March, the Group also signed an important agreement with Cattolica Assicurazioni, which regulates the terms and methods of continuation of the partnership in the bancassurance sector.
More specifically, the agreement provides, in exchange for Banco BPM's waiving of the call already exercised[25], for the recognition to Banco BPM of a right of early exit from the partnership, originally due to end in 2033, which can be exercised in the period between 1 January and 30 June 2023. In particular, the parties agreed to grant Banco BPM an unconditional purchase option on the 65% stake held by the company in the Vera Vita and Vera Assicurazioni joint ventures.
The agreement provides for protection mechanisms for both parties linked to the exercise price of the call and to the price adjustments for any retained profits, distributions of reserves or extraordinary dividends or share capital increases or capital payments in regard to the joint ventures.

In the first quarter, the Group also carried out an important capital management transaction: in fact, January saw the completion of the third issue of Additional Tier 1 instruments for € 400 million, intended for institutional investors, bringing the total amount of equity instruments issued to € 1.1 billion.

It should also be noted that, after the end of the quarter, in agreement with the Trade Union Organisations, the agreed number of employees that will be encouraged to retire on a voluntary basis was increased from 1,500 to 1,607 (without additional expenses) while the number of new hires to be carried out was increased from 750 to around 800. More than half of agreed retirements are expected to take place by June 2021.

In this context, which continues to be characterised by significant uncertainty at the global and Italian level, directly or indirectly related to the Coronavirus epidemic, the Group reported an operating profit[26] of € 483.8 million and a net profit of € 100.1 million. Excluding non-recurring components represented essentially by higher adjustments connected to the increase in the NPE disposal target, net income was equal to € 150.8 million.

Economic performance of operations

Net interest income was equal to € 496.8 million, a 4.8% increase on the first quarter of 2020 (€ 474.1 million): this was partly due to the greater contribution made by TLTRO III financing operations which, in view of the net lending objectives reached by the Group, starting from 24 June 2020, provide for the payment of a special interest rate, equal to 0.5%, in addition to the rate applied for the entire duration of the loan[27].

[25] On 15 December 2020, Banco BPM informed Cattolica of its intention to exercise the call option on the controlling stakes held by Cattolica in the capital of the Vera Vita and Vera Assicurazioni joint ventures.
[26] See note 2.
[27] As of 31 March 2021, the amount of eligible loans was significantly higher than as at 1 March 2020. This result guarantees the bank the application to the amount of TLTRO III refinancing operations for the period from 24 June 2020 to 23 June 2021 ("special interest period") of a special interest rate equal to 0.50% in addition to the average rate applicable to deposit facilities (currently 0.50%). The afore-mentioned 0.50% special interest rate will also be applied to the 24 June 2021-23 June 2022 period, provided that the amount of eligible loans as at 31 December 2021 is at least equal to their amount as at 1 October 2020. As at 31 March 2021, the amount of eligible loans was well above this threshold.

With respect to the fourth quarter of 2020, NII decreased by 2.4%, as a result of the lower number of calendar days in the first quarter of 2021.

The **profit from equity investments measured with the equity method** was equal to € 41.5 million, with significant increases both compared to the corresponding period of last year (€ 22.3 million), and compared to the fourth quarter of 2020 (€ 23.7 million). The amount of the first quarter of 2021 includes the contribution of the associate Anima Holding[28] (equal to € 9.8 million), measured at equity since the second quarter of 2020.
The main contribution to the item in question is provided by consumer credit channelled from the equity interest held in Agos Ducato, equal to € 23.2 million, up compared to € 17.3 million in the first quarter of 2020 and € 14.4 million in the fourth quarter of 2020.

Net fee and commission income in the first quarter was equal to € 471.4 million, with a 7.0% increase on the corresponding period of the previous year and a 9.8% increase on the fourth quarter of 2020. The result in the quarter represents the best performance recorded since the fourth quarter of 2018.
This performance is due to the contribution of both management, brokerage and advisory services (+8.6% compared to 31 March 2020 and +19.2% compared to the fourth quarter of 2020), and the commercial bank services sector (+10.1% compared to 31 March 2020 and +2.0% with respect to the fourth quarter of 2020).

Other net operating income amounted to € 18.2 million compared to € 16.7 million in the first quarter of 2020 and € 12.7 million in the fourth quarter of the previous year.

Net income from financial activities[29] in the first quarter was positive and equal to € 99.7 million, against just € 0.8 million recorded at 31 March 2020, heavily impacted by the effect of the onset of the pandemic on the markets.
The result realised derives from the capital gains resulting from the completion of the assignment of securities for € 60.2 million and trading activities for € 36.4 million.
The positive performance of financial activities is also confirmed in comparison with the fourth quarter of 2020: the increase, equal to 28.1%, is mainly due to an increase in trading activity

Due to the trends described, total **operating income** was equal to € 1,127.7 million, up both compared to the € 954.4 million reported in the corresponding period of the previous year (+ 18.1%), and to the € 1,052.5 million reported in the fourth quarter of 2020 (+ 7.1%).

Personnel expenses, equal to € 426.9 million, increased by 1.9% compared to € 419.0 million in the first quarter of 2020 and 4.8% compared to € 407.2 million in fourth quarter of 2020, also due to the increases envisaged by the national collective agreement. The total number of employees stood at 21,598 as at 31 March 2021, compared to 21,663 at the end of 2020.

Other administrative expenses[30], equal to € 154.1 million, are substantially in line with the figure for the first quarter of 2020, equal to € 154.6 million.

Value adjustments on tangible and intangible assets were equal to € 62.8 million, compared with the

[28] For an illustration of the methods used to recognise the contribution of Anima Holding, please refer to Explanatory Note no. 8. The item does not include the accounting effect, shown in a separate item of the reclassified income statement, of the change in the credit rating of the Group in regard to the fair value measurement of its own certificate issues, which led to the recognition of a €-10.2 million charge in the quarter, compared to the positive impact of € +206.0 million recorded at 31 March 2020 and the negative impact of € 61.4 million in the fourth quarter of 2020.[29]

[30] 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 item of the reclassified income statement, net of tax effect.

figure of € 61.4 million in the first quarter of 2020 and € 67.2 million in the fourth quarter of 2020.

Total operating costs therefore were equal to € 643.9 million, up by 1.4% compared to € 635.0 million in the first quarter of 2020 (+7.4% compared to the fourth quarter of 2020).

The **operating profit** for the first quarter was € 483.8 million, up 51.4% compared to € 319.5 million in the corresponding period of the previous year and 6.9% compared to the figure of € 452.8 million in the fourth quarter of 2020.

Net adjustments on loans to customers in the first quarter were equal to € 217.1 million, a 1.8% increase on the corresponding period of the previous year. These adjustments also include provisions for € 73.9 million due to the increase in the target for the disposal of non-performing exposures, from approximately € 0.9 billion originally planned to € 1.65 billion, as part of the new derisking strategy.
As of 31 March 2021, the cost of credit, measured by the ratio of net impairment losses on loans to net loans to customers, was equal to 79 basis points: of this, approximately half[31] consisted of the higher adjustments related to the increase in the target for the disposal of non-performing exposures and the effects of the increase in performing loans recognised in Stage 2, following the adoption of more stringent classification criteria.

The **Fair value gains (losses) on property, plant and equipment** at 31 March 2021 were not material, as also in the first quarter of last year.

The item **gains (losses) on securities and other financial assets** includes net losses of € 0.4 million (€ 4.7 million net losses at 31 March 2020); in the fourth quarter of 2020, there were net gains of € 7.2 million.

Net provisions for risks and charges in the first quarter were equal to € 7.2 million, while the income statement for the corresponding period of the previous year showed net releases equal to € 2.2 million.

As of 31 March 2021, no significant **gains (losses) on disposal of interests in associates and joint ventures and other investments** were recognised, as also in the first quarter of last year.

Due to the trends described, the **income (loss) before tax from continuing operations** was equal to € 259.1 million compared to € 103.5 million in the first quarter of 2020.

Taxation charges on profit or loss from continuing operations were equal to €-82.7 million (€ -25.7 million in the first quarter of 2020).

Income (loss) after tax from continuing operations therefore was equal to € 176.4 million, a 126.7% increase compared to € 77.8 million in the first quarter of the previous year.

The income statement for the period also included **charges related to the banking system, net of taxes** equal to € 59.2 million (€ 57.5 million in the first quarter of 2020), consisting of the ordinary contribution to the Single Resolution Fund (SRF) (€ 87.8 million before tax, against € 85.2 million as at 31 March 2020).

In the quarter, the **change in the credit rating on Certificates issued by the Group, net of taxes**, has a negative impact equal to € 6.8 million (€ 10.2 million including taxes), with respect to the income

[31] Management analysis.

recognised in the first quarter of 2020 equal to € 137.9 million (€ 206.0 million pre-tax), which felt the effects of the onset of the pandemic on the financial markets.

As of March 31, 2021, the impact of the **Purchase Price Allocation net of taxes** was equal to € -10.3 million, against € -6.6 million in the first quarter of 2020.

Considering the share of income due to non-controlling interests, the first quarter of 2021 closed with a **net income for the period** equal to €100.1 million (€ 151.6 million as of March 31, 2020).

The figure, net of non-recurring items was equal to € 150.8 million in the first quarter.

Changes in key balance sheet items

Direct deposits[32] as at 31 March 2021 were equal to € 120.3 billion, stable compared to 31 December 2020 (+ 0.1%), but up by 7.9% compared to 31 March 2020.
More specifically, over the quarter, there was an increase of € 1.9 billion in the [33]segment represented by the current accounts and demand deposits of the commercial network (+1.9%). As regards bonds issued, the stock as at 31 December were equal to € 13.3 billion, down by € 1.4 billion compared to last 31 December, due to the reimbursements of securities that had matured.
On an annual basis, demand deposits increased by € 11.8 billion (+ 13.3%), while the decrease in securities issued was equal to € 3.3 billion (-19.9%).[34]
The funding guaranteed by the stock of certificates with unconditionally protected capital as at 31 March 2021 was equal to € 3.7 billion, in line with 31 December 2020 (€ 3.0 billion as at 31 March 2020).

Indirect funding, net of protected capital certificates, was equal to € 94.2 billion, up 2.9% compared to 31 December 2020 and 14.6% on an annual basis.
The component of managed funding was equal to € 61.3 billion, an increase compared to the figure of € 59.6 billion as at 31 December 2020 (+ 2.9%), thanks to the contribution of funds and SICAVs and asset management; deposits relating to the bancassurance sector are stable.
Administered assets reached € 32.9 billion, an increase of € 0.9 billion (2.9%) compared to the end of 2020.
On an annual basis, managed assets increased by 13.3%, mainly due to the contribution of funds and SICAVs (+ € 7.4 billion), while the administered asset component increased by 17.0%.

Financial assets were equal to € 45.7 billion, up by 11.0% compared to € 41.2 billion as of December 31, 2020; the increase was mainly concentrated in debt securities (+ € 4.9 billion) and, in particular, in the portfolio of securities measured at fair value through other comprehensive income. The aggregate in question as at 31 March 2021 consisted of debt securities for € 38.7 billion, equities and UCITS units for € 2.7 billion, derivative instruments for € 2.1 billion and other financial assets, mainly repurchase agreements, for € 2.2 billion. Holdings of debt securities issued by sovereign States were equal to € 34.0 billion, of which € 21.5 billion represented by Italian government securities. Investments in Italian government securities are classified under financial assets at amortised cost for € 13.7 billion, in the portfolio of financial assets measured at fair value through other comprehensive income for € 6.4 billion and in the portfolio of financial assets at fair value through profit and loss for € 1.4 billion, being held for trading.

[32]The aggregate includes deposits and current accounts and demand and term deposits, bonds issued, certificates of deposit and other securities, loans and other debts, and capital-protected certificates and excludes repurchase agreements.
[33] Management accounting data.
[34] Management accounting data.

Net loans to customers [35]amounted to € 110.1 billion at 31 March 2021, an increase of € 0.8 billion compared to the figure at 31 December 2020; the increase is entirely due to performing exposures (+ 0.8%), with a volume of new loans to households and businesses equal to € 5.8[36] billion in the quarter, while non-performing exposures are substantially stable compared to the end of 2020 (-0.3%). On an annual basis, loans recorded an increase of € 2.1 billion (+ 2.0%), deriving from a € 3.3 billion increase in performing exposures (+ 3.2%) and a € 1.2 billion decrease in non-performing loans (-21.2%).

Net non-performing loans (bad loans, unlikely to pay and past due and/or overdue exposures) amounted to € 4.3 billion as at 31 March 2021.
An analysis of the individual items shows the following changes:

- net bad loans of € 1.3 billion, down by 8.8% compared to 31 December 2020 and 15.1% compared to 31 March 2020;
- net unlikely to pay loans equal to € 2.8 billion, stable compared to 31 December 2020 but down by 25.4% compared to 31 March 2020;
- net past due exposures equal to € 124 million (€ 46 million at 31 December 2020 and € 81 million at 31 March 2020). This increase is due to the introduction, from 1 January 2021, of the new definition of default.

The coverage rate for the entire non-performing loans aggregate rose to 50.7% (50.0% as at December 31, 2020).
More specifically, at 31 March 2021, the coverage ratio was as follows:

- Bad loans 62.7% (59.1% as at 31 December 2020);
- Unlikely to pay loans 43.1% (43.7% as at 31 December 2020);
- Past due loans 15.0% (26.4% as at 31 December 2020).

The coverage ratio of performing loans was equal to 0.45%, against 0.44% as at 31 December 2020.

Group capital ratios[37]

As at 31 March 2021, the phased-in Common Equity Tier 1 ratio stood at 13.7%, against 14.6% as at 31 December 2020. The decrease in the ratio during the quarter is mainly due to the increase in risk-weighted assets (RWA) resulting from the acknowledgement of the regulatory headwinds referring to the update of the internal models for measuring credit risk (which overall led to approximately € 2.7 billion of higher RWAs), and, to a lesser extent, from the decrease in CET1 capital, due to the reduction from 70% to 50% of the temporary benefit linked to the *phasing-in* of the impacts recorded in 2018 following the initial application of IFRS 9.
The phased-in ratio benefits from the exercise of the option for the full application of the transitional rules introduced with the new Art. 473-bis of Regulation (EU) no. 575/2013, which dilutes over time the impact on own funds deriving from the application of the new impairment model introduced by the accounting standard IFRS 9. Excluding the impacts of the afore-mentioned transitional provisions, the fully phased IFRS 9 CET 1 ratio was 12.7%, down compared to the figure of 31 December 2020, equal to 13.3%, due to the afore-mentioned increase in RWAs.

---

[35] The aggregate does not include loans to customers which, following the application of IFRS 9, must be measured at fair value. These loans, amounting to € 0.3 billion, are included in financial assets measured at fair value.
[36] Management data.
[37]Ratios calculated by including the profit of the first quarter of 2021 and deducting the amount of the expected dividend pay-out for the year compared to the profit for the period under way.

The Tier 1 ratio phased-in was equal to 15.5% against 15.9% as at 31 December 2020, while the Total Capital ratio was equal to 18.0% against 18.8% as at 31 December 2020.

The buffer compared to the limit set for the possibility of distributing dividends (*Maximum Distributable* Amount or MDA buffer) was equal to +501 basis points (against +553 basis points at 31 December 2020)[38].

The fully phased Tier 1 ratio is equal to 14.3%, unchanged compared to the figure as at 31 December 2020, benefiting from the issue of Additional Tier 1 instruments which took place in first quarter of 2021; while the Total Capital ratio was 16.8% against 17.2% as at 31 December 2020.

The buffer compared to the limit set for the possibility of distributing dividends (*Maximum Distributable Amount* or MDA buffer) was equal to +377 basis points on a *fully phased* basis (compared to +388 basis points at 31 December 2020).[39]

BUSINESS OUTLOOK

The ongoing pandemic continues to affect the global economic situation and the business outlook remains strictly dependent on both its evolution and the measures taken to combat it and contain its impacts on economic activity.
In this scenario, the Italian economy, after the decline in GDP recorded in the last quarter of 2020 and in the first quarter of this year, is expected to gradually recover, also due to the use of the first funds of the Next Generation EU and the persistence of favourable monetary conditions.
With regard to the operating performance of the Group in the rest of the year, the external context will inevitably continue to represent an important influence.
At present, core revenues, represented by net interest income and net fee and commission income are expected to increase significantly against the figures recorded in the previous year, due above all to the contribution margin of TLTRO refinancing operations and by the placement of investment products.
Efforts will continue on curbing the trend of operating expenses, with a view to mitigating the negative impacts resulting from the uncertain repeatability of certain recoveries and cost reductions that characterised last year, above all as regards personnel expenses, in addition to the increases relating to the application of the national contract for the industry and the increase in IT investments.
As regards the cost of credit, we believe that we can confirm the level achieved in 2020, net of the effects of the crisis triggered by the health crisis.
On the other hand, at present, giving the continuing uncertainty of the external context and the confirmation of a conservative approach to the forward-looking valuation already adopted last year, the fact that 2021 might also feel the effects of "non-core" components linked to the pandemic cannot be ruled out, although estimated at a lower level than the 50 basis points recorded in 2020.
New support measures for economic operators and an extension of the moratoria, if approved, could have positive repercussions on the overall framework, involving, at least in the current year, lower adjustments to loans than currently estimated.
Unless the scenario worsens again to a significant extent, which, given the exceptional nature and uncertainty of the context, cannot be ruled out, the Group's robust capital position, combined with its ability to generate capital organically, should not preclude shareholder remuneration, except where new guidelines should be provided by the Supervisory Authorities with regard to the distribution of dividends.

---

[38] Data calculated by considering a countercyclical buffer of 0.005%.
[39] See note 38.

With regard to the evolution of operations in the medium-long term, the Group will prepare new three-year forecasts based on new and more updated assumptions, both in macroeconomic and industry terms.

***

Mr Gianpietro Val, as the financial reporting officer, in compliance with Art. 154 bis, Par. 2 of the Consolidated Finance Law, hereby states that the accounting information illustrated in this press release is consistent with documented evidence, accounting books and book- keeping entries.

***

The Banco BPM Group results as at 31 March 2021 will be presented to the financial community in the conference call scheduled for today, 6 May 2021 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 the details for connecting to the call can also be found.

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 pursuant to art. 82-ter of the Issuers Regulation effective on 2 January 2017. For the sake of completeness, please note that the quarterly report also includes 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 31 March 2021 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 standard

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 more easily understandable aggregate 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, applying the same aggregation and classification criteria presented in the Consolidated Financial Statements as at 31 December 2020.
In order to guarantee a like-for-like comparison with the above consolidation and classification criteria, the data published in previous periods under comparison have been restated.
More specifically, the income effect tied to the changes in creditworthiness related to the issuance of certificates classified in the "Trading financial liabilities" portfolio – that up until Q3 2020 was included in the line-item "Net financial result" –- is now posted for all quarters under comparison under the ad hoc line-item "Impact from the change in own credit risk on certificates issued (OCR), after tax". This choice stems from the need to isolate the income effect from the volatility of the above Own Credit Risk, reported in particular in 2020, as from a management viewpoint it is not deemed representative of the Group's actual profitability.

The accounting standards adopted to prepare the accounting position as at 31 March 2021 - 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 31 March 2021, pursuant to EC Regulation no. 1606 of 19 July 2002.
Moreover, the communications of the Regulators (Bank of Italy, Consob, ESMA, EBA, ECB) were taken into consideration, insofar as applicable, which provide a clarification on how to interpret certain accounting standards or on the accounting treatment of specific transactions.

With regard to TLTRO III refinancing transactions, it should be pointed out that in the absence of specific indications in the accounting standards on the treatment of this particular case, the Group defined an internal accounting policy, based on which the financing is equated to a floating rate financial instrument, where the measurement of the interest applicable from time to time is estimated based on the likelihood that certain targets are actually met. As a result, the additional reduction in interest rate, amounting to 0.5% for the period between 24 June 2020 and 23 June 2022 (known as "*Special Interest Period*"), will be recognized through profit and loss over said period, if it is deemed likely that it can be achieved. To this regard, it should be pointed out that with respect to the accounting position as at 31 March 2021, the interest accrued on the above liabilities, totaling € 70.7 million, has been ascertained to the maximum extent, namely on the basis of the negative rate of -0.5% for the period prior to 24 June 2020 and of -1% for the period between 24 June 2020 and 31 March 2021, given that it is by now certain that the target set for 31 March 2021 has been achieved.

The IFRS 9 impairment model was applied also when preparing the accounting position as at 31 March 2021, taking into account the NPL disposal scenarios (so called multi-scenario approach), tied to exposures classified as "bad loans". To this regard, please note that the above scenarios have been updated as compared with those used on 31 December 2020, to take into consideration the upward revision of disposal targets decided in 2021 by the Board of Directors of Banco BPM. More specifically, for these exposures, in addition to considering the recovery estimates based on the ordinary management (known as work-out scenario), the expected loss measurement included also the presence – duly calibrated based on the disposal targets - of the cash flows recoverable through disposals (known as disposal scenario). The estimate of the recoverable cash flow under a disposal scenario took into consideration the parameters considered by perspective buyers when defining the purchase price, duly calibrated considering comparable transactions observed on the market.
The revision of the disposal scenarios as compared to the circumstances applicable to the 2020 financial statements called for the recognition of additional write-downs amounting to € 73.9 million, that, as explained under item 5 below, are considered non-recurring items.

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 on the date of preparation of the quarterly report as at 31 March 2021, together with any assumed scenarios considered reasonable, also based on past experience. Owing to their nature, it is therefore not possible to rule out that the presumed scenarios, as far as reasonable, may not match future scenarios the Group will operate in. Therefore, future actual results may differ from the estimates generated to prepare the financial statements as at 31 March 2021, and may therefore call for adjustments that cannot be predicted or estimated today with respect to the carrying amount of assets and liabilities recognized in the balance sheet. To this regard, please note that the estimates carried out to prepare the accounting position as at 31 March 2021 could be revised should the circumstances they have been based on change, as a result of new information or the longer experience accrued.
The main uncertainty factors that could affect future scenarios in which the Group operates should certainly include the negative effects on the global and Italian economies directly or indirectly connected with the evolution of the Covid-19 pandemic, which shall depend also on the rapidity and effectiveness of the vaccination campaign underway. Up until the context of the healthcare crisis and of the national and European measures put in place to tackle it takes on a more definite outline, the inclusion of the Covid-19 effects in the budget estimates will be a particularly complex exercise, inasmuch as these effects will depend on a series of variables that cannot be predicted at present, if not with a significant level of uncertainty.
The consolidated annual financial report as at 31 December 2020 provided a detailed illustration of the estimate processes calling for significant judgmental elements for the selection of the underlying assumptions and hypotheses, also with respect to the impact of the healthcare crisis. Since this same explanation holds true for the financial report as at 31 March, to which this news release refers, for further information please refer to said report.

2. Impact of the PPA (*Purchase Price Allocation*) of the business combinations of the former Gruppo Banca Popolare di Milano and of the former Group Banca Popolare Italiana

In compliance with IFRS 3, the income statement of Gruppo Banco BPM includes the P&L reversal effects caused by the allocation of the prices paid for the business combination between Gruppo Banco Popolare and Gruppo Banca Popolare di Milano completed in FY 2017 and between the Groups of Banco Popolare di Verona e Novara and Banca Popolare Italiana, completed in FY 2007.

As of the financial report as at 31 March 2020, this impact has been recognized, net of the tax effect, under the separate line-item of the reclassified income statement "Purchase Price Allocation, after tax".

More specifically, the Q1 2021 consolidated P&L impact from the reversal effect of value adjustments of acquired net assets (mainly tied to the former Gruppo Banca Popolare di Milano) came in at € -7.2 million on NII (in connection with the evolution of the various valuations of purchased assets) and at € -8.2 million on other net operating income (due to the depreciation of intangibles recognized under the PPA). Net of the tax effect, the overall impact at 31 March 2021, posted under the reclassified P&L line-item "Purchase Price Allocation, after tax" added up to € -10.3 million (€ -6.6 million in Q1 2020).

3. Charges generated by the contribution to resolution mechanism

In the income statement of Q1 2021, the line-item "After-tax banking industry charges" was charged with the amount of ordinary charges due by banks to the Single Resolution Fund for FY 2021, which, net of the tax effect, totaled € 59.2 million (€ 57.5 million ordinary contributions had been charged to income at 31 March 2020). Gross of the tax effect, the total charge added up to € 87.8 million (€ 85.2 million in the same period of 2020).

4. Changes in consolidation scope

No changes in consolidation scope took place during the quarter.

Note that in January Banco BPM acquired the full ownership of the affiliated company Release, following the purchase from BPER Banca S.p.A. of no. 39,923,532 ordinary shares of the subsidiary.

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

With Communication no. DEM/6064293 dated 28 July 2006, CONSOB invited companies that issue financial instruments listed on Italian regulated markets to provide a disclosure on the impact of non-recurring events and transactions.
Please note that according to the policy adopted by the Group, the following items are classified as non-recurring:

- gains or losses on the sale of all fixed assets (shareholdings, tangible fixed assets except financial assets included in the "Hold to Collect" (HtC) portfolio (that can be sold according to the materiality and frequency thresholds under IFRS9);
- gains and losses on non-current assets held for sale;
- loan write-downs/write-backs (due to valuations or to actual impairment losses) that were caused by a change in the NPE Strategy approved during the year by the Board of Directors entailing a change in targets and/or in the type of loans under disposal compared to what had been previously planned;
- P&L components with a large carrying amount tied to efficiency gain or reorganization actions, etc. (i.e., redundancy fund charges, voluntary redundancy schemes, merger/integration charges);
- P&L components with a large carrying amount that are not likely to occur frequently (e.g., fines, impairment of tangible assets, goodwill and other intangible assets, impact from regulatory changes, exceptional results);
- P&L impact generated by the fair value measurement of property and other tangible assets (works of art);
- tax effect tied to the above P&L impacts.

On the other hand, the following impacts are generally considered recurring:

- P&L impacts from the sale or valuation of all financial assets (other than loans), including those held in the HtC and the financial liabilities portfolios ;
- barring exceptional cases, P&L impacts from valuation aspects (loan loss provisions, write-downs on other financial assets or provisions for risks and charges);
- P&L impacts from changes in reference valuation parameters implemented in valuation models adopted on an ongoing basis;
- P&L impacts whose single amount is not material or not measurable, meeting the definition of contingent assets and/or liabilities (e.g., costs and revenues and/or adjustment of costs and revenues accrued in other financial years);
- tax effect tied to the above P&L impacts.

Whenever deemed significant, disclosure is given of the impact of P&L components which, albeit classified as recurring under the above Group's policy, are nevertheless examined in the comments that describe the evolution of balance sheet and P&L items.

Based on the criteria described above, the following non-recurring items were reported in Q1 2021:
- the line-item "net amortization and depreciation on tangible and intangible assets" includes the amortization due to fixed assets impairment of € 1.9 million;
- the line-item "customer loan loss provisions" includes write-downs of € 73.9 million, caused by a change in the NPE Strategy approved during the year by the Board of Directors entailing a change in targets and/or in the type of loans under disposal compared to what had been previously planned;
- the line-item "gain or loss on the fair value measurement of tangible assets" includes net write-backs totaling € 0.1 million;
- "income tax for the period on continuing operations" includes the tax impact of the above non -recurring items totaling € 25.0 million.

As a whole, non-recurring items in Q1 2021 posted a negative amount of € 50.7 million.

Excluding the above effects, the accruing net (adjusted) result at the endo of Q1 would come to € 150.8 million.

In the income statement of the same period of the prior year, restated for a like-for-like comparison, the following non-recurring items had been recognized:
- the line-item "net amortization and depreciation on tangible and intangible assets" included € 1.5 million of amortization and depreciation;
- the line-item "gain or loss on the fair value measurement of tangible assets" included a capital loss of € 0.3 million;
- "income tax for the period on continuing operations" included the tax impact of the above non-recurring items totaling € 0,6 million.

As a whole, non-recurring items in Q1 2020 posted a negative amount of € 1.2 million.

Taking into account the above effects, the net (adjusted) result came to € 152.8 million.

6. Capital requirements regulation

On 1 January 2014, the new harmonized prudential rules for banks and investment firms contained in the Capital Requirements Regulation (EU) no. 575/2013 ("CRR") and in the Capital Requirements Directive 2013/36/EU (CRD IV") of 26 June 2013 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 "Single Rulebook".

The minimum capital requirements for 2021 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.

The Bank of Italy confirmed the Countercyclical Capital Buffer ratio for exposures to Italian counterparties at zero per cent also for Q1 2021.

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 2021 O-SII buffer is equal to 0.19% and will reach 0.25% on 1 January 2022.

On 11 December 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 2020.
The decision is based on the supervisory review and evaluation (SREP) conducted in accordance with art. 4(1)(f) of EU Regulation no. 1024/2013.
Hence, in compliance with art. 16(2)(a) of the same Regulation no. 1024/2013, which gives the ECB the power to require that supervised banks hold an amount of own funds greater than the minimum capital requirements provided for under the current regulations, the top-up to be added to the above requirements was 2.25%.

Following the Covid-19 health emergency, with letter dated 8 April 2020 the ECB decided to amend the decision made in December 2019 illustrated above, establishing that the 2.25% SREP requirement must be maintained by Banco BPM as follows: 56.25% as Common Equity Tier 1 (CET1) and 75% as Tier 1 Capital (Tier 1).

Therefore, taking also into account the countercyclical capital buffer established by the competent national authorities for exposures towards countries where the Group operates equal to 0.005%, the minimum requirements Banco BPM must comply with in 2021and until a new communication is issued, are[40]:

- *CET1 ratio*: 8.461% at phase-in level and 8.520% fully loaded;
- *Tier 1 ratio*: 10.383% at phase-in level and 10.443% fully loaded;
- *Total Capital ratio*: 12.945% at phase-in level and 13.004% fully loaded.

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;
- 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. Without prejudice to the impacts from the above transitional provision, Banco BPM does not benefit from any Tier 1 capital impact as at 31 December 2020 as a result of the new transitional regime under the changes made to Regulation 873/2020 article 473 bis regarding the higher provisions set aside in the current year for expected losses on performing loans as compared to their amount on 1 January 2020.

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.

7. Sovereign risk exposure represented by debt securities

The table below provides an illustration of the Group's sovereign risk exposure (debt securities included in the financial assets portfolios) at 31 March 2021, broken down by single Country and by category of the classification accounting portfolio:

31 March 2021 *(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	13.728	6.362	1.371	21.461
France	1.797	1.742	50	3.589
USA	2.382	1.188	-	3.570
Spain	1.360	1.238	363	2.961
Germany	615	1.016	11	1.642
Other Countries	526	295	-	821
Total	**20.408**	**11.841**	**1.795**	**34.044**

At 31 March 2021, the Group's sovereign debt exposure totaled € 34.0 billion (€ 29.0 billion at 31 December 2020), of which 59.9% were classified in the portfolio of financial assets measured at amortized cost, 34.8% under financial assets measured at fair value through other comprehensive income, and 5.3% 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 89% refers to securities issued by members of the European Union; notably about 63% by Italy.

[40] These requirements are calculated as follows:

- The pillar I minimum requirement of 8% (of which 4.5% CET1; 1.5% AT1 and 2% AT2)
- the P2R requirement of 2.25% set by the ECB must be met by 56.25% with CET1 and by 75% with TIER1;
- the capital conservation buffer of 2.50% to be fully met with CET1;
- the O-SII buffer of 0.19% for 2021 and of 0.25% as of 1 January 2022 to be fully met with CET1;
- the countercyclical capital buffer of 0,005% to be fully met with CET1 capital.

As regards financial assets measured at fair value through other comprehensive income, at 31 March 2021 the reserves generated by the fair value measurement of debt securities totaled € 88.5 million, gross of tax effect, of which € 28.5 million refer to government bonds (€ + 47.4 million for Italian government bonds and € - 18.8 million for other government bonds).
As to financial assets measured at amortized cost, the book value came out at € 20.4 billion, of which € 13.7 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 31 March 2021 (level 1 in the fair value classification) totaled € 21.1 billion (€ 14.2 billion being the fair value of the Italian government bonds alone).
Finally, note that debt securities management still follows the same choices of the prior financial years; hence no business model change took place during the period calling for a portfolio reclassification.

8. Other explanatory notes

The reclassified balance sheet and income statements reflect on a consolidated basis the financial accounts of Banco BPM and its subsidiaries with respect to 31 March 2021, or, when not available, to the most recently approved financial reports.
Similarly, the equity method-based treatment of associates was carried out based on the accounting information submitted to Banco BPM as at 31 March 2021, or, if not available, on the most recent financial reports prepared by the associates.
It should be pointed out that, for the investment held in Anima Holding, measured under the equity method as of 1 April 2020 following the acquisition of a significant influence, the contribution to the consolidated income statement for Q1 2021 refers to the operating result generated by the associate in the last quarter of 2020, amounting to € 9.8 million. Please note that, when preparing the 2020 annual report, it had not been possible to recognize the Q4 contribution, as Anima Holding approved its draft financial statements on 1 March 2021, hence after Banco BPM.
Similarly, at 31 March 2021 the associate's Q1 result was not recognized, as the results were approved on the same date as Banco BPM (6 May 2021).

Attachments

- Reclassified consolidated statement of financial position at 31 March 2021 compared with data as at 31 December 2020
- Q1 2021 reclassified consolidated income statement compared with data of Q1 2020
- Reclassified consolidated income statement – 2021 and 2020 quarterly evolution
- Q1 2021 reclassified consolidated income statement net of non-recurring items

Contacts:

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

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

Press Office
Stampa@bancobpm.it

BANCO BPM GROUP

Reclassified consolidated balance sheet

(in euro thousand)	31/03/2021	31/12/2020	Chg.	Chg. %
Cash and cash equivalents	10,727,016	8,858,079	1,868,937	21.1%
Financial assets at amortised cost	127,390,413	120,455,666	6,934,747	5.8%
- Due from banks	17,244,515	11,120,681	6,123,834	55.1%
- Customer loans (*)	110,145,898	109,334,985	810,913	0.7%
Other financial assets	45,685,676	41,175,632	4,510,044	11.0%
- Financial assets designated at FV through P&L	8,724,519	9,118,571	-394,052	-4.3%
- Financial assets designated at FV through OCI	14,898,185	10,710,796	4,187,389	39.1%
- Financial assets at amortised cost	22,062,972	21,346,265	716,707	3.4%
Equity investments	1,640,606	1,664,772	-24,166	-1.5%
Property and equipment	3,527,433	3,552,482	-25,049	-0.7%
Intangible assets	1,218,361	1,218,632	-271	0.0%
Tax assets	4,687,875	4,704,196	-16,321	-0.3%
Non-current assets held for sale and discontinued operations	69,986	72,823	-2,837	-3.9%
- Customer loans	11,472	11,374	98	0.9%
- Other assets and group of assets	58,514	61,449	-2,935	-4.8%
Other assets	2,203,347	1,982,900	220,447	11.1%
Total assets	**197,150,713**	**183,685,182**	**13,465,531**	**7.3%**
Direct funding	117,420,579	116,936,669	483,910	0.4%
- Due to customers	104,090,541	102,162,461	1,928,080	1.9%
- Debt securities issued and financial liabilities designated	13,330,038	14,774,208	-1,444,170	-9.8%
Due to banks	46,072,582	33,937,523	12,135,059	35.8%
Leasing debts	740,701	760,280	-19,579	-2.6%
Other financial liabilities designated at fair value	14,100,134	14,015,427	84,707	0.6%
Liability provisions	1,382,688	1,415,473	-32,785	-2.3%
Tax liabilities	446,977	464,570	-17,593	-3.8%
Other liabilities	4,359,961	3,928,139	431,822	11.0%
Total Liabilities	**184,523,622**	**171,458,081**	**13,065,541**	**7.6%**
Minority interests	1,367	1,894	-527	-27.8%
Shareholders' equity	12,625,724	12,225,207	400,517	3.3%
Consolidated Shareholders' Equity	**12,627,091**	**12,227,101**	**399,990**	**3.3%**
Total Liabilities and Shareholders' Equity	**197,150,713**	**183,685,182**	**13,465,531**	**7.3%**

(*) Include the Senior notes coming from the securitizations of Non-performing Loans

BANCO BPM GROUP

Reclassified consolidated income statement

(in euro thousand)	I Q 2021	I Q 2020	Chg.	Chg. %
Net interest income	496,829	474,114	22,715	4.8%
Income (loss) from investments in associates carried at equity	41,544	22,266	19,278	86.6%
Net interest, dividend and similar income	**538,373**	**496,380**	**41,993**	**8.5%**
Net fee and commission income	471,395	440,563	30,832	7.0%
Other net operating income	18,171	16,744	1,427	8.5%
Net financial result	99,727	760	98,967	n.m.
Other operating income	**589,293**	**458,067**	**131,226**	**28.6%**
Total income	**1,127,666**	**954,447**	**173,219**	**18.1%**
Personnel expenses	-426,904	-419,025	-7,879	1.9%
Other administrative expenses	-154,130	-154,580	450	-0.3%
Net value adjustments on property and equipment and intangible assets	-62,850	-61,379	-1,471	2.4%
Operating costs	**-643,884**	**-634,984**	**-8,900**	**1.4%**
Profit (loss) from operations	**483,782**	**319,463**	**164,319**	**51.4%**
Net adjustments on loans to customers	-217,065	-213,243	-3,822	1.8%
Profit (loss) on fair value measurement of tangible assets	75	-322	397	
Net adjustments on other assets	-411	-4,655	4,244	-91.2%
Net provisions for risks and charges	-7,190	2,195	-9,385	
Profit (loss) on the disposal of equity and other investments	-44	91	-135	
Income (loss) before tax from continuing operations	**259,147**	**103,529**	**155,618**	**150.3%**
Tax on income from continuing operations	-82,698	-25,707	-56,991	221.7%
INCOME (LOSS) AFTER TAX FROM CONTINUING OPERATIONS	**176,449**	**77,822**	**98,627**	**126.7%**
Systemic charges after tax	-59,244	-57,515	-1,729	3.0%
Impact from the change in Own Credit Risk on certificates issued, net of tax	-6,815	137,922	-144,737	
Purchase Price Allocation (PPA) net of tax	-10,332	-6,565	-3,767	57.4%
Income (loss) attributable to minority interests	34	-29	63	
NET INCOME (LOSS) FOR THE PERIOD	**100,092**	**151,635**	**-51,543**	**-34.0%**

BANCO BPM GROUP

Reclassified consolidated income statement - Quarterly trend

(in euro thousand)	I Q 2021	IV Q 2020	III Q 2020	II Q 2020	I Q 2020
Net interest income	496,829	509,019	519,921	479,507	474,114
Income (loss) from investments in associates carried at equit	41,544	23,729	36,768	48,036	22,266
Net interest, dividend and similar income	**538,373**	**532,748**	**556,689**	**527,543**	**496,380**
Net fee and commission income	471,395	429,225	417,651	376,371	440,563
Other net operating income	18,171	12,731	11,675	14,855	16,744
Net financial result	99,727	77,845	157,325	82,712	760
Other operating income	**589,293**	**519,801**	**586,651**	**473,938**	**458,067**
Total income	**1,127,666**	**1,052,549**	**1,143,340**	**1,001,481**	**954,447**
Personnel expenses	-426,904	-407,212	-356,950	-397,954	-419,025
Other administrative expenses	-154,130	-125,341	-159,797	-154,094	-154,580
Net value adjustments on property and equipment and intang	-62,850	-67,229	-64,796	-61,710	-61,379
Operating costs	**-643,884**	**-599,782**	**-581,543**	**-613,758**	**-634,984**
Profit (loss) from operations	**483,782**	**452,767**	**561,797**	**387,723**	**319,463**
Net adjustments on loans to customers	-217,065	-536,225	-324,340	-262,999	-213,243
Profit (loss) on fair value measurement of tangible assets	75	-30,989	-316	-5,094	-322
Net adjustments on other assets	-411	7,249	104	-3,728	-4,655
Net provisions for risks and charges	-7,190	-35,587	907	-9,809	2,195
Profit (loss) on the disposal of equity and other investments	-44	-354	1,324	129	91
Income (loss) before tax from continuing operations	**259,147**	**-143,139**	**239,476**	**106,222**	**103,529**
Tax on income from continuing operations	-82,698	47,946	-22,464	-13,293	-25,707
INCOME (LOSS) AFTER TAX FROM CONTINUING OPER	**176,449**	**-95,193**	**217,012**	**92,929**	**77,822**
Restructuring costs	-	-187,030	-	-	-
Systemic charges after tax	-59,244	-10,216	-53,001	-18,169	-57,515
Realignment of fiscal values to accounting values	-	128,324	-	-	-
Godwill impairment	-	-25,100	-	-	-
Impact from the change in Own Credit Risk on certificates issued, net of tax	-6,815	-41,116	2,194	-110,739	137,922
Purchase Price Allocation (PPA) net of tax	-10,332	-11,543	-11,422	-11,962	-6,565
Income (loss) attributable to minority interests	34	220	2,520	1,537	-29
NET INCOME (LOSS) FOR THE PERIOD	**100,092**	**-241,654**	**157,303**	**-46,404**	**151,635**

BANCO BPM GROUP

Reclassified consolidated income statement net of Non-Recurring items

(in euro thousand)	I Q 2021	I Q 2020	Chg.	Chg. %
Net interest income	496,829	474,114	22,715	4.8%
Income (loss) from investments in associates carried at equit	41,544	22,266	19,278	86.6%
Net interest, dividend and similar income	**538,373**	**496,380**	**41,993**	**8.5%**
Net fee and commission income	471,395	440,563	30,832	7.0%
Other net operating income	18,171	16,744	1,427	8.5%
Net financial result	99,727	760	98,967	n.m
Other operating income	**589,293**	**458,067**	**131,226**	**28.6%**
Total income	**1,127,666**	**954,447**	**173,219**	**18.1%**
Personnel expenses	-426,904	-419,025	-7,879	1.9%
Other administrative expenses	-154,130	-154,580	450	-0.3%
Net value adjustments on property and equipment and intang	-60,980	-59,840	-1,140	1.9%
Operating costs	**-642,014**	**-633,445**	**-8,569**	**1.4%**
Profit (loss) from operations	**485,652**	**321,002**	**164,650**	**51.3%**
Net adjustments on loans to customers	-143,138	-213,243	70,105	-32.9%
Net adjustments on other assets	-411	-4,655	4,244	-91.2%
Net provisions for risks and charges	-7,190	2,195	-9,385	
Income (loss) before tax from continuing operations	**334,913**	**105,299**	**229,614**	**218.1%**
Tax on income from continuing operations	-107,734	-26,289	-81,445	309.8%
INCOME (LOSS) AFTER TAX FROM CONTINUING OPEF	**227,179**	**79,010**	**148,169**	**187.5%**
Systemic charges after tax	-59,244	-57,515	-1,729	3.0%
Impact from the change in Own Credit Risk on certificates issued, net of tax	-6,815	137,922	-144,737	
Purchase Price Allocation (PPA) net of tax	-10,332	-6,565	-3,767	57.4%
Income (loss) attributable to minority interests	34	-29	63	
NET INCOME (LOSS) FOR THE PERIOD	**150,822**	**152,823**	**-2,001**	**-1.3%**

Fine Comunicato n.1928-32	Numero di Pagine: 24