Disclosure to the Public by Entities
Pillar III

Data as at 30 June 2019

This document is an accurate translation into English of the document in Italian approved by the Board of Directors. In case of any discrepancies or doubts between the English and the Italian versions of the Report, the Italian version prevails.

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Introduction

Periodic disclosure provided to the market regarding the Group's capital adequacy (Pillar 3 Disclosure)

Supervisory regulations require that banks fulfil specific obligations to publish information regarding their capital adequacy, exposure to risks and the general characteristics of the systems for identifying, measuring and managing these risks, and to supply information on remuneration practices and policies in order to strengthen the role of market discipline.

Since 1 January 2014, the prudential supervisory provisions applicable to banks have been contained in Circular 285 of 17 December 2013, the publication of which was functional to the start of application of the EU legislation (CRR Regulation EU no. 575/2013 and CRD IV Directive 2013/36/EU) containing the reforms of the Basel Committee accords (Basel 3).

The subject, as specifically noted in Part II, Chapter 13 of the Circular, is directly regulated by the CRR (Part Eight and Part Ten, Title I, Chapter 3) and by the European Commission regulations containing the technical rules for regulation or enactment. According to the CRR Regulation, banks must publish the information required at least once a year.

It is up to the same entities to assess, on the basis of the significant aspects of their activities, the need to publish some or all of the information required more frequently, in particular on the composition of Own Funds and capital requirements.

The Banco BPM Group, established 1 January 2017 following the merger of the two former groups, Banco Popolare and Banca Popolare di Milano, authorised by the Supervisory Authority to use internal methods to calculate capital requirements for credit risk, market risk and operational risk, believes it is appropriate to continue drawing up interim reports, also in accordance with the EBA's guidelines ("Guidelines on materiality, proprietary and confidentiality and on disclosure frequency under Articles 432(1), 432(2) and 433 of Regulation (EU) no. 575/2013").

The present document, entitled Disclosure to the Public by Entities, constitutes fulfilment of the aforementioned regulatory obligations and is drawn up on a consolidated basis. Below, qualitative and quantitative information regarding own funds is provided, with regards to capital requirements and financial leverage as of 30 June 2019 and information relative to risks subject to validation by the Supervisory Body.

Information relative to the Banco BPM Group is also structured in the light of the indications and guidelines issued with regards to the Disclosure by the EBA over the last few years. With the 22nd update to Bank of Italy Circular 285/2013, these guidelines became an integral part of supervisory regulations.

In particular, these refer to the following areas:

- EBA/GL/2014/14, on the relevance, exclusivity, confidentiality and frequency of the disclosure, pursuant to articles 432, paragraphs, 1, 2 and 433 of Regulation EU

575/2013 ("CRR");

- EBA/GL/2016/11, on disclosure obligations pursuant to part eight of the CRR;
- EBA/GL/2017/01, on the disclosure of the liquidity coverage ratio, adding to the disclosure on liquidity risk management, pursuant to article 435 of the CRR;
- EBA/GL/2018/01, on uniform disclosures pursuant to article 473-bis of the CRR, with regards to transitional provisions aimed at attenuating the impact of the introduction of IFRS 9 on own funds.

In compliance with the aforementioned disclosure and frequency obligations, the present document is published on the website www.bancobpm.it in the Investor Relations section.

All amounts shown in the tables below are stated in thousands of euro, unless otherwise indicated.

Capital adequacy ratios at 30 June 2019

Own Funds and capital adequacy ratios	**30/06/2019**	**31/12/2018**
A. Capital buffers and requirements		
Own funds		
Common Equity Tier 1 Capital (CET1)	8,971,912	7,754,246
Additional Tier 1 Capital (AT1)	431,929	133,891
Total Tier 1 Capital	9,403,841	7,888,137
Tier 2 Capital (T 2)	1,360,661	1,553,803
TOTAL OWN FUNDS	**10,764,502**	**9,441,940**
Risk-weighted assets		
Credit and counterparty risks	56,782,073	56,177,956
Credit valuation adjustment risk	224,678	180,633
Settlement risk	8,430	64,884
Market risk	2,050,861	1,858,688
Operational risk	5,737,493	5,872,577
Other calculation elements	432,444	169,328
RISK-WEIGHTED ASSETS	**65,235,979**	**64,324,066**
B. Capital adequacy ratios (%)		
B.1 Common Equity Tier 1 Ratio	**13.8%**	**12.1%**
B.2 Tier 1 Ratio	**14.4%**	**12.3%**
B.3 Total Capital Ratio	**16.5%**	**14.7%**

Starting from prudential notifications relative to 30 June 2019, the amount of "other calculation elements" includes exposures relative to securitisation transactions falling under the "revised framework" regime, pursuant to Regulation (EU) 2017/2401 of 12 December 2017, represented as required by Implementing Regulation (EU) 2018/1627 of 9 October 2018.

Own Funds and the capital ratios at 30 June 2019 were calculated applying the provisions of the Bank of Italy and the European Central Bank in effect[1].

At 30 June 2019, Own Funds totalled € 10,765 million against weighted assets of € 65,236 million, mostly arising from credit and counterparty risks and, to a lesser extent, operational and market risks.

The Total Capital Ratio stood at 16.5%; the Group Tier 1 Ratio (Tier 1 Capital to RWAs) stood at 14.4%. The Common Equity Tier 1 Ratio (Common Equity Tier 1 to RWAs) was 13.8%.

Based on the provisions of Art. 26, paragraph 2 of EU Regulation no. 575/2013 of 26 June 2013 (CRR), the inclusion of 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 Banco BPM Group's consolidated equity and economic situation at 30 June 2019 was subject to limited auditing and on 8 August Banco BPM received authorisation from the ECB to include the economic result in course, which is therefore included in the figures and capital ratios presented in this document.

[1] More specifically, the data has been calculated with consideration for the current legislation and the interpretations issued prior to 06 August 2019, the date on which the Board of Directors approved the half-yearly equity and economic statements at 30 June 2019.

Scope of application

Name of the bank to which the disclosure obligations apply

Banco BPM S.p.A., Parent Company of the Banco BPM Banking Group.

Changes in the consolidation scope

Changes in the scope of consolidation with respect to the situation at 31 December 2018 are reported in the following table:

Subsidiaries consolidated on a line-by-line basis	
New company following merger	
"new" ProFamily S.p.A.	100.00%
Company exiting due to disposals	
ProFamily S.p.A.	100.00%
Companies exiting due to merger	
Name of incorporated company	**Name of incorporating company**
BP Property Management S.c.a r.l.	Banco BPM S.p.A.
Società Gestione Servizi BP S.c.p.a.	Banco BPM S.p.A.
Sviluppo Comparto 6 S.r.l.	Bipielle Real Estate S.p.A.
Sviluppo Comparto 8 S.r.l.	Bipielle Real Estate S.p.A.
Manzoni 65 S.r.l.	Bipielle Real Estate S.p.A.
Companies exiting due to liquidation	
Liberty S.r.l. (in liquidation)	100.00%
BPM Securitisation 3 S.r.l. (in liquidation)	100.00%
Beta S.r.l. (in liquidation)	100.00%
Companies exiting due to changes in shareholding structure	%
First Servicing S.p.A.	100.00%
SPVs exiting after completion of securitisation/loan disposal transactions	
Erice Finance S.r.l.	-
Leviticus SPV S.r.l.	-

Companies consolidated with the equity method	
Companies entering due to changes in shareholding structure	%
First Servicing S.p.A.	30.00%
Company exiting due to liquidation	
Motia Compagnia di Navigazione S.p.A. (in liquidation)	
Companies exiting due to disposals	
Immobiliare Centro Milano S.p.A. (in liquidation)	

Note that during the first half of 2019 a change was seen in the scope of consolidation, namely the exiting of the subsidiaries Liberty S.r.l., BPM Securitisation 3 S.r.l., and Beta S.r.l., and the associate Motia Compagnia di Navigazione S.p.A., following their removal from the relevant Business Registries, after completion of the respective liquidation processes, as well as the exiting of the associate Immobiliare Centro Milano S.p.A., which was disposed of during the half.

Additionally, two special purpose vehicles exited from the scope of companies consolidated on a line by line basis, name the special purpose vehicles Erice Finance S.r.l., due to completion of the securitisation transaction and Leviticus SPV S.r.l., following completion of disposal loans as part of the "ACE" project, with consequent derecognition of the same for accounting purposes.

Additionally, First Servicing S.p.A., a company fully held by the parent company which provides servicer functions as part of the "ACE" project, was transferred to the segment of associated companies measured using the equity method due to the disposal of 70% of the capital of the same to Credito Fondiario S.p.A., completed in March.

As part of the restructuring of the consumer loan segment, also note that in June Banco BPM completed a demerger operation which involved:

- the entry of the "new" ProFamily S.p.A. among companies consolidated line by line, a newly established company fully controlled by Banco BPM, which holds the business unit relative to consumer loan activity carried out through the non-captive network';
- the exit of the "old" ProFamily S.p.A. following its disposal to Agos Ducato which, at the same time, changed its name to ProAgos.

Finally, recall that during the period merger by incorporation operations were completed which merged the subsidiaries BP Property Management S.c.a.r.l. and Gestione Servizi BP S.c.p.a. into the parent company Banco BPM and which merged 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 operations took effect for accounting and tax purposes on 1 January 2019.

EU LI3 - Differences in scopes of consolidation (by entity)

Name of the entity:	Method of accounting consolidation:		Method of regulatory consolidation:				Description of the entity:		
	Line-by-Line	Shareholders' equity	Line-by-Line	Proportional	Neither consolidated nor deducted	Deducted	Sector	Registered Offices	Country
Agos-Ducato S.p.A.		X				X	Other financial companies	Milan	ITALY
Agriurbe S.r.l. (in liquidation)	X				X		Production companies	Milan	ITALY
Alba Leasing S.p.A.		X				X	Leasing companies	Milan	ITALY
Aletti & C. Banca di Investimento Mobiliare S.p.A.	X		X				Banking system	Milan	ITALY
Aletti Fiduciaria S.p.A.	X		X				Trust administration companies	Milan	ITALY
Aosta Factor S.p.A.		X				X	Factoring companies	Aosta	ITALY
Arcene Immobili S.r.l. (in liquidation)		X			X		Production companies	Lodi	ITALY
Arcene Infra S.r.l. (in liquidation)		X			X		Production companies	Lodi	ITALY
Arena Broker S.r.l.	X				X		Insurance brokers, agents and consultants	Verona	ITALY
Banca Akros S.p.A.	X		X				Banking system	Milan	ITALY
Banca Aletti & C. (Suisse) S.A.	X		X				Banking system in non-EU countries	Lugano	SWITZERLAND
Banco BPM S.p.A.	X		X				Banking system	Milan	ITALY
Bipielle Bank (Suisse) S.A. in liquidation	X		X				Banking system in non-EU countries	Lugano	SWITZERLAND
Bipielle Real Estate S.p.A.	X		X				Production companies	Lodi	ITALY
Bipiemme Vita S.p.A.		X				X	Insurance companies	Milan	ITALY
BP Covered Bond S.r.l.	X		X				Other financial intermediaries	Milan	ITALY
BP Mortgages S.r.l.	X				X		Other financial intermediaries	Milan	ITALY
BP Trading Immobiliare S.r.l.	X		X				Production companies	Lodi	ITALY
BPL Mortgages S.r.l.	X				X		Other financial intermediaries	Conegliano V. (TV)	ITALY
BPM Covered Bond 2 S.r.l.	X		X				Other financial intermediaries	Rome	ITALY
BPM Covered Bond S.r.l.	X		X				Other financial intermediaries	Rome	ITALY
BPM Securitisation 2 S.r.l.	X				X		Other financial intermediaries	Rome	ITALY
BRF Property S.p.A.	X				X		Production companies	Parma	ITALY
Bussentina S.c.a.r.l. (in liquidation)		X			X		Production companies	Rome	ITALY
Calliope Finance S.r.l. (in liquidation)		X			X		Other financial intermediaries	Conegliano V. (TV)	ITALY
Consorzio AT01	X				X		Production companies	Lodi	ITALY
CF Liberty Servicing S.p.A.		X			X		Production companies	Rome	ITALY
Etica SGR S.p.A.		X				X	Fund management companies	Milan	ITALY
Factorit		X				X	Other financial intermediaries	Milan	ITALY

Name of the entity:	Method of accounting consolidation:		Method of regulatory consolidation:				Description of the entity:		
	Line-by-Line	Shareholders' equity	Line-by-Line	Proportional	Neither consolidated nor deducted	Deducted	Sector	Registered Offices	Country
FIN.E.R.T. S.p.A (in liquidation)	X		X				Other financial companies	Rome	ITALY
GE.SE.SO. S.r.l.	X		X				Production companies	Milan	ITALY
GEMA Magazzini Generali BPV-BSGSP S.p.A.		X			X		Production companies	Castelnovo Sotto (RE)	ITALY
HI-MTF SIM S.p.A.		X				X	Investment companies (SIM)	Milan	ITALY
Holding di Partecipazioni Finanziarie Banco Popolare S.p.A.	X		X				Private financial holdings	Verona	ITALY
Immobiliare Marinai d'Italia S.r.l.	X				X		Production companies	Lodi	ITALY
Italfinance Securitisation VH 1 S.r.l.	X				X		Other financial intermediaries	Conegliano V. (TV)	ITALY
Italfinance Securitisation VH 2 S.r.l.	X				X		Other financial intermediaries	Conegliano V. (TV)	ITALY
Leasimpresa Finance S.r.l.	X					X	Other financial intermediaries	Conegliano V. (TV)	ITALY
Lido dei Coralli S.r.l.	X				X		Production companies	Sassari	ITALY
Meleti S.r.l.	X				X		Production companies	Lodi	ITALY
Milan Leasing S.p.A. (in liquidation)	X					X	Leasing companies	Milan	ITALY
P.M.G. S.r.l. (in liquidation)	X				X		Production companies	Milan	ITALY
Partecipazioni Italiane S.p.A. (in liquidation)	X				X		Other financial companies	Milan	ITALY
Perca S.r.l.	X				X		Production companies	Lodi	ITALY
Profamily S.p.A.	X		X				Financial companies	Milan	ITALY
Profamily Securitisation S.r.l.	X				X		Other financial intermediaries	Conegliano V. (TV)	ITALY
Release S.p.A.	X		X				Financial companies	Milan	ITALY
S.E.T.A. Società Edilizia Tavazzano S.r.l. (in liquidation)		X			X		Production companies	Milan	ITALY
Sagim S.r.l. Società Agricola	X				X		Production companies	Asciano	ITALY
Selma Bipiemme Leasing S.p.A.		X				X	Financial companies	Milan	ITALY
Sirio Immobiliare S.r.l.	X				X		Production companies	Lodi	ITALY
Tecmarket Servizi S.p.A.	X				X		Production companies	Verona	ITALY
Terme Ioniche S.r.l.	X				X		Production companies	Lodi	ITALY
Terme Ioniche Società Agricola S.r.l.	X				X		Production companies	Cosenza	ITALY
Tiepolo Finance S.r.l.	X		X				Other financial intermediaries	Lodi	ITALY
Vera Assicurazioni S.p.A.		X				X	Insurance companies	Verona	ITALY
Vera Vita S.p.A.		X				X	Insurance companies	Verona	ITALY

Current or foreseeable legal or substantive impediments to the prompt transfer of capital or funds within the group

There are no restrictions that impede the rapid transfer of capital or funds within the Group.

Aggregate amount by which actual own funds fail to meet requirements for all affiliates not included in the consolidation scope and names of such affiliates

As at 30 June 2019, none of the affiliates not included in the scope of consolidation are required to meet the own funds requirements set forth in Regulation (EU) 575/2013 or Directive 2013/36/EU.

Name of the subsidiaries not included in the scope

Please see the table EU LI3 in the previous section for the list of companies included in the scope of consolidation for statutory purposes but excluded from the prudential scope.

Reconciliation between the regulatory scope and the financial statement scope as at 30 June 2019

Reclassified asset items (in thousands of euro)	Banking Group	Insurance companies	Other businesses	Adjustments on consolidation	30/06/2019
Cash and cash equivalents	794,625		3	0	794,628
Loans measured at AC (amortised cost)	111,030,083		6,225,359	-7,635,294	109,620,148
- Loans to banks	7,038,893		6,224,790	-5,955,328	7,308,355
- Loans to customers	103,991,190		569	-1,679,966	102,311,793
Other financial assets and hedging derivatives	40,527,021		1,593	1,443,921	41,972,535
- Measured at FVTPL	7,478,992		1,593	15,307	7,495,892
- Measured at FVOCI	13,763,946		0	0	13,763,946
- Measured at AC	19,284,083		0	1,428,614	20,712,697
Equity investments	1,376,689		14,099	-70,621	1,320,167
Property and equipment	3,439,799		67,844	18,226	3,525,869
Intangible assets	1,257,165		4,125	-6	1,261,284
Tax assets	4,860,953		5,441	-7,139	4,859,255
Non-current assets and asset disposal groups held for sale	1,544,786		291,145	-291,108	1,544,823
Other assets	2,903,994		31,176	-15,100	2,920,070
Total assets	**167,735,115**	**-**	**6,640,785**	**-6,557,121**	**167,818,779**

Reclassified liabilities (in thousands of euro)	Banking Group	Insurance companies	Other businesses	Adjustments on consolidation	30/06/2019
Direct deposits	110,166,146		5,229,245	-5,210,203	110,185,188
- Due to customers	95,880,871		468	-183,455	95,697,884
- Securities and financial liabilities designated at fair value	14,285,275		5,228,777	-5,026,748	14,487,304
Due to banks	31,187,346		969,600	-968,225	31,188,721
Leasing payables	781,082		156	300	781,538
- Leasing payables due to banks	8,059		0	0	8,059
- Leasing payables due to customers	773,023		156	300	773,479
Other financial liabilities measured at FV	8,103,465		153	0	8,103,618
Liability provisions	1,560,482		7,667	-16,003	1,552,146
Tax liabilities	470,807		803	11,414	483,024
Liabilities associated with non-current assets held for sale and discontinued operations	39,893		291,135	-291,087	39,941
Other liabilities	4,128,272		121,070	-75,657	4,173,685
Total liabilities	156,437,493		6,619,829	-6,549,461	156,507,861
Minority interests	39,041		0	1,985	41,026
Net Group equity	11,258,581		20,956	-9,645	11,269,892
- of which Capital and reserves	10,662,279		20,956	-6,476	10,676,759
- of which Profit/(loss) for the period	596,302		0	-3,169	593,133
Consolidated shareholders' equity	11,297,622		20,956	-7,660	11,310,918
Total liabilities and shareholders' equity	**167,735,115**	**-**	**6,640,785**	**-6,557,121**	**167,818,779**

Details of the capital assets of other companies included in the scope of consolidation for statutory purposes but excluded from the prudential scope

	Company name (Other businesses)	Total assets 30/06/2019
1	Agriurbe S.r.l. in liquidation	11,706
2	Arena Broker S.r.l.	6,603
3	BRF Property S.p.A.	11,896
4	Consorzio AT01	137
5	Immobiliare Marinai d'Italia S.r.l.	3,406
6	Lido dei Coralli S.r.l.	14,112
7	Meleti S.r.l.	254
8	Milano Leasing S.p.A. in liquidation	363
9	Partecipazioni Italiane S.p.A. in liquidation	4,946
10	Perca S.r.l.	2,349
11	P.M.G. S.r.l. in liquidation	9,240
12	Sagim S.r.l. Società Agricola	9,023
13	Sirio Immobiliare S.r.l.	8,837
14	Tecmarket Servizi S.p.A.	39,559
15	Terme Ioniche S.r.l.	13,993
16	Terme Ioniche Società Agricola S.r.l.	3,158
17	BP Mortgages S.r.l.	45
18	BP Mortgages 2007-1	115,964
19	BP Mortgages 2007-2	209,690
20	BPL Mortgages S.r.l.	112
21	BPL Mortgages 5	2,855,115
22	BPL Mortgages 7	2,067,442
23	BPM Securitisation 2 S.r.l.	52
24	Profamily Securitisation S.r.l.	291,145
25	Erice Finance S.r.l. Italfinance Securitisation VH 2 S.r.l. Leasimpresa Finance S.r.l.	28,852
26	Italfinance Securitisation VH 1 S.r.l.	5,876
		5,713,875

Own Funds

Template on the main features of equity instruments

The following tables are based on the templates from Implementing Regulation (EU) no. 1423 of 20 December 2013, which lays out the implementing technical standards for disclosure of own fund requirements for institutions according to Regulation (EU) no. 575/2013 of the European Parliament and of the Council.

In particular, Annex II of the Regulation contains a specific template for publication of the main features of equity instruments.

The model requires a description of instruments issued by the institution and eligible for calculation within:

- Common Equity Tier 1 Capital;
- Additional Tier 1 Capital;
- Tier 2 Capital.

Amounts are shown in millions of euro.

Template on the main features of equity instruments ([1])			
1	Issuer	BANCO BPM SPA	Banco BPM S.p.A.
2	Unique identifier (e.g., CUSIP, ISIN or Bloomberg identifier for private placement)	**IT0005218380**	**XS0304963373**
3	Governing law(s) of the instrument	Italian law	English law
	Regulatory treatment		
4	Transitional CRR rules	Common Equity Tier 1 Capital	Additional Tier 1 Capital
5	Post-transitional CRR rules	Common Equity Tier 1 Capital	Not eligible
6	Eligible at individual entity/(sub-)consolidation/individual entity & (sub-)consolidation level	Individual entity and consolidation	Individual entity and consolidated
7	Instrument type (types to be specified for each jurisdiction)	Ordinary shares	Additional Tier 1 instrument pursuant to Art. 51, Art. 484 CRR and Art. 20 EU Regulation 2014/241
8	Amount recognised in regulatory capital (currency in millions, at most recent reporting date)	7,088	105
9	Nominal amount of instrument	N/A	105
9a	Issue price	N/A	100.00
9b	Redemption price	N/A	100.00
10	Accounting classification	Shareholders' equity	Liability - amortised cost
11	Original date of issuance	N/A	21/06/2007
12	Perpetual or dated	Perpetual	perpetual
13	Original maturity date	N/A	N/A
14	Issuer call subject to prior supervisory approval	NO	YES
15	Optional call date, contingent call dates and redemption amount	N/A	DATE: 21/06/2017 (reset date) Bullet repayment AMOUNT: Redemption at subsequent reset date and interest payment date: nominal plus accrued interest and additional amount due pursuant to Condition 9(a) (Taxation - Gross up); Regulatory Event or Tax Event: greater of (i) nominal amount and (ii) Make Whole Amount plus, in any event, accrued interest and any additional amount due pursuant to Condition 9(a) (Taxation - Gross up)
16	Subsequent call dates, if applicable	N/A	Each interest payment date (quarterly) subsequent to 21/06/2017
	Coupons/dividends		
17	Fixed or floating dividends/coupons	Floating	Fixed then floating
18	Coupon rate and any related index	N/A	Fixed 6.756% p.a. until June 2017, then 3M Euribor + 188 bps
19	Existence of a dividend stopper mechanism	NO	NO
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Fully discretionary	partially discretionary Reasons: the issuer does not have distributable profits; if the payment results in a Capital Deficiency Event (failure to meet capital requirement); prohibition imposed by the supervisory authority;
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Fully discretionary	partially discretionary
21	Existence of step up or other incentive to redeem	N/A	NO
22	Non-cumulative or cumulative	Non-cumulative	Non-cumulative
23	Convertible or non-convertible	Non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	N/A	N/A
25	If convertible, fully or partially	N/A	N/A
26	If convertible, conversion rate	N/A	N/A
27	If convertible, mandatory or optional conversion	N/A	N/A
28	If convertible, specify instrument type convertible into	N/A	N/A
29	If convertible, specify issuer of instrument it converts into	N/A	N/A
30	Write-down features	NO	NO
31	If write-down, write-down trigger(s)	N/A	N/A
32	If write-down, full or partial	N/A	N/A
33	If write-down, permanent or temporary	N/A	N/A
34	If temporary write-down, description of write-back mechanism	N/A	N/A
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Additional Tier 1	Tier 2
36	Non-compliant transitional features	NO	YES
37	If yes, specify non-compliant features	N/A	payment not fully discretionary, dividend pusher
([1]) N/A if the question is not applicable			

Template on the main features of equity instruments ([1])			
1	Issuer	Banco BPM S.p.A.	Banco BPM S.p.A.
2	Unique identifier (e.g., CUSIP, ISIN or Bloomberg identifier for private placement)	**IT0004596109**	**XS1984319316**
3	Governing law(s) of the instrument	Italian law	Italian law
	Regulatory treatment		
4	Transitional CRR rules	Additional Tier 1 Capital	Additional Tier 1 Capital
5	Post-transitional CRR rules	Not eligible	Additional Tier 1 Capital
6	Eligible at individual entity/(sub-)consolidation/individual entity & (sub-)consolidation level	Individual entity and consolidated	Individual entity and consolidated
7	Instrument type (types to be specified for each jurisdiction)	Additional Tier 1 instrument pursuant to Art. 51 and art. 484 CRR	Additional Tier 1 instrument pursuant to art. 52 CRR
8	Amount recognised in regulatory capital (currency in millions, at most recent reporting date)	25	298
9	Nominal amount of instrument	25	300
9a	Issue price	100.00	100.00
9b	Redemption price	100.00	100.00
10	Accounting classification	Liability - amortised cost	Shareholders' equity - equity instruments
11	Original date of issuance	29/03/2010	18/04/2019
12	Perpetual or dated	perpetual	perpetual
13	Original maturity date	N/A	N/A
14	Issuer call subject to prior supervisory approval	YES	YES
15	Optional call date, contingent call dates and redemption amount	DATE: 29/03/2020 Bullet repayment AMOUNT: Redemption at subsequent reset date and interest payment date: nominal plus accrued interest and any additional amount Regulatory Event or Tax Event: nominal plus accrued interest and any additional amount	If authorised by the relevant authority, the issuer has the option for partial or full redemption at 18/06/2024 and every subsequent five-yearly revision of the rate. "Regulatory call" and "tax call" clauses are envisaged, which can be exercised by the issuer. In these cases, the nominal value is due plus the accrued instalment and the additional amount, if applicable
16	Subsequent call dates, if applicable	Each interest payment date (quarterly) subsequent to 29/03/2020	Every five-yearly rate review after 18/06/2024
	Coupons/dividends		
17	Fixed or floating dividends/coupons	Fixed then floating	Fixed then floating
18	Coupon rate and any related index	fixed 9% p.a. until March 2020, then 3M Euribor + 665 bps	8.750% fixed until 18/06/2024, then 5 years eur mid swap rate + 8.921%, to be reviewed every 5 years
19	Existence of a dividend stopper mechanism	NO	NO
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	partially discretionary Reasons: the issuer does not have distributable profits; if the payment results in a Capital Deficiency Event (failure to meet capital requirement); prohibition imposed by the supervisory authority;	The issuer can decided at their sole discretion to annul any interest payment for any payment date of the same, on a non-cumulative basis.
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	partially discretionary	Fully discretionary
21	Existence of step up or other incentive to redeem	YES	NO
22	Non-cumulative or cumulative	Non-cumulative	Non-cumulative
23	Convertible or non-convertible	Non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	N/A	N/A
25	If convertible, fully or partially	N/A	N/A
26	If convertible, conversion rate	N/A	N/A
27	If convertible, mandatory or optional conversion	N/A	N/A
28	If convertible, specify instrument type convertible into	N/A	N/A
29	If convertible, specify issuer of instrument it converts into	N/A	N/A
30	Write-down features	NO	YES
31	If write-down, write-down trigger(s)	N/A	If, at any time, the Issuer's CET1 ratio on an individual or Group consolidated basis is less than 5.125% (Trigger Event)
32	If write-down, full or partial	N/A	The Issuer must annul interest accrued and reduce the amount of the security by the amount of the partial/full impairment until a CET1 level of 5.125% is restored. The total amount necessary for restoration is calculated pro-rata with other instruments involved in absorbing the loss.
33	If write-down, permanent or temporary	N/A	Temporary
34	If temporary write-down, description of write-back mechanism	N/A	In the case of net positive individual/consolidated income, the issuer may, at its sole discretion and without prejudice to the maximum amount distributable and maximum amount for restoration, restore the nominal amount of securities in issue. This restoration must also be applied proportionally to any other instruments involved in absorbing the loss.
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Tier 2	Tier 2
36	Non-compliant transitional features	YES	NO
37	If yes, specify non-compliant features	Incentive to redeem, subsequent calls, payment not fully discretionary, dividend pusher	N/A
([1]) N/A if the question is not applicable			

Template on the main features of equity instruments ([1])			
1	Issuer	Banco BPM S.p.A.	Banco BPM S.p.A.
2	Unique identifier (e.g., CUSIP, ISIN or Bloomberg identifier for private placement)	**XS0555834984**	**XS0632503412**
3	Governing law(s) of the instrument	Entire instrument English law; Subordination clauses: Italian law	Entire instrument English law; Subordination clauses: Italian law
	Regulatory treatment		
4	Transitional CRR rules	Tier 2 Capital	Tier 2 Capital
5	Post-transitional CRR rules	Tier 2 Capital	Tier 2 Capital
6	Eligible at individual entity/(sub-)consolidation/individual entity & (sub-)consolidation level	Individual entity and consolidated	Individual entity and consolidated
7	Instrument type (types to be specified for each jurisdiction)	Tier 2 instrument pursuant to Art. 63 CRR	Tier 2 instrument pursuant to Art. 63 CRR
8	Amount recognised in regulatory capital (currency in millions, at most recent reporting date)	191	121
9	Nominal amount of instrument	710	318
9a	Issue price	99.27	99.26
9b	Redemption price	100.00	100.00
10	Accounting classification	Liability - amortised cost	Liability - amortised cost
11	Original date of issuance	05/11/2010	31/05/2011
12	Perpetual or dated	on maturity	on maturity
13	Original maturity date	05/11/2020	31/05/2021
14	Issuer call subject to prior supervisory approval	NO	NO
15	Optional call date, contingent call dates and redemption amount	N/A	N/A
16	Subsequent call dates, if applicable	N/A	N/A
	Coupons/dividends		
17	Fixed or floating dividends/coupons	Fixed	Fixed
18	Coupon rate and any related index	6% fixed on a yearly basis	6.375% fixed on a yearly basis
19	Existence of a dividend stopper mechanism	NO	NO
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Mandatory	Mandatory
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Mandatory	Mandatory
21	Existence of step up or other incentive to redeem	NO	NO
22	Non-cumulative or cumulative	Non-cumulative	Non-cumulative
23	Convertible or non-convertible	Non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	N/A	N/A
25	If convertible, fully or partially	N/A	N/A
26	If convertible, conversion rate	N/A	N/A
27	If convertible, mandatory or optional conversion	N/A	N/A
28	If convertible, specify instrument type convertible into	N/A	N/A
29	If convertible, specify issuer of instrument it converts into	N/A	N/A
30	Write-down features	NO	NO
31	If write-down, write-down trigger(s)	N/A	N/A
32	If write-down, full or partial	N/A	N/A
33	If write-down, permanent or temporary	N/A	N/A
34	If temporary write-down, description of write-back mechanism	N/A	N/A
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Senior	Senior
36	Non-compliant transitional features	NO	NO
37	If yes, specify non-compliant features	N/A	N/A
([1]) N/A if the question is not applicable			

Template on the main features of equity instruments ([1])			
1	Issuer	Banco BPM S.p.A.	Banco BPM S.p.A.
2	Unique identifier (e.g., CUSIP, ISIN or Bloomberg identifier for private placement)	**IT0005120313**	**IT0004966823**
3	Governing law(s) of the instrument	Italian law	Italian law
	Regulatory treatment		
4	Transitional CRR rules	Tier 2 Capital	not eligible
5	Post-transitional CRR rules	Tier 2 Capital	not eligible
6	Eligible at individual entity/(sub-)consolidation/individual entity & (sub-)consolidation level	Individual entity and consolidated	N/A
7	Instrument type (types to be specified for each jurisdiction)	Tier 2 instrument pursuant to Art. 63 CRR	not eligible pursuant to Art. 65 CRR
8	Amount recognised in regulatory capital (currency in millions, at most recent reporting date)	308	-
9	Nominal amount of instrument	500	650
9a	Issue price	100.00	100.00
9b	Redemption price	100.00	100.00
10	Accounting classification	Liability - amortised cost	Liability - amortised cost
11	Original date of issuance	30/07/2015	18/11/2013
12	Perpetual or dated	on maturity	on maturity
13	Original maturity date	30/07/2022	18/11/2020
14	Issuer call subject to prior supervisory approval	NO	NO
15	Optional call date, contingent call dates and redemption amount	Early redemption option linked to regulatory events	N/A
16	Subsequent call dates, if applicable	N/A	N/A
	Coupons/dividends		
17	Fixed or floating dividends/coupons	Floating	Fixed
18	Coupon rate and any related index	3M Euribor + 4.375%	5.5% fixed on a yearly basis
19	Existence of a dividend stopper mechanism	NO	NO
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Mandatory	Mandatory
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Mandatory	Mandatory
21	Existence of step up or other incentive to redeem	NO	NO
22	Non-cumulative or cumulative	Non-cumulative	Non-cumulative
23	Convertible or non-convertible	Non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	N/A	N/A
25	If convertible, fully or partially	N/A	N/A
26	If convertible, conversion rate	N/A	N/A
27	If convertible, mandatory or optional conversion	N/A	N/A
28	If convertible, specify instrument type convertible into	N/A	N/A
29	If convertible, specify issuer of instrument it converts into	N/A	N/A
30	Write-down features	NO	NO
31	If write-down, write-down trigger(s)	NO	N/A
32	If write-down, full or partial	N/A	N/A
33	If write-down, permanent or temporary	N/A	N/A
34	If temporary write-down, description of write-back mechanism	N/A	N/A
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Senior	Senior
36	Non-compliant transitional features	NO	NO
37	If yes, specify non-compliant features	N/A	N/A
([1]) N/A if the question is not applicable			

Template on the main features of equity instruments ([1])			
1	Issuer	Banco BPM S.p.A.	Banco BPM S.p.A.
2	Unique identifier (e.g., CUSIP, ISIN or Bloomberg identifier for private placement)	**XS0597182665**	**XS1686880599**
3	Governing law(s) of the instrument	Italian law	English law, except for subordination and Loss Absorption Requirements which are regulated by Italian law.
	Regulatory treatment		
4	Transitional CRR rules	Tier 2 Capital	Tier 2 Capital
5	Post-transitional CRR rules	Tier 2 Capital	Tier 2 Capital
6	Eligible at individual entity/(sub-)consolidation/individual entity & (sub-)consolidation level	Individual entity and consolidated	Individual entity and consolidated
7	Instrument type (types to be specified for each jurisdiction)	Tier 2 instrument pursuant to Art. 63 CRR	Tier 2 instrument pursuant to Art. 63 CRR
8	Amount recognised in regulatory capital (currency in millions, at most recent reporting date)	149	500
9	Nominal amount of instrument	448	500
9a	Issue price	99.60	100.00
9b	Redemption price	100.00	100.00
10	Accounting classification	Liability - amortised cost	Liability - amortised cost
11	Original date of issuance	01/03/2011	21/09/2017
12	Perpetual or dated	on maturity	on maturity
13	Original maturity date	01/03/2021	21/09/2027
14	Issuer call subject to prior supervisory approval	NO	YES
15	Optional call date, contingent call dates and redemption amount	N/A	In a lump sum on maturity except for regulatory events. The only option for the issuer is to repay the loan, totally but not partially, on 21/09/2022 with the authorisation of the competent authority
16	Subsequent call dates, if applicable	N/A	N/A
	Coupons/dividends		
17	Fixed or floating dividends/coupons	Fixed	Fixed with the parameter revision after 5 years
18	Coupon rate and any related index	7.125% annually	4.375% until 21/09/2022, then 5 years eur mid swap rate + 4.179%
19	Existence of a dividend stopper mechanism	NO	NO
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Mandatory	Mandatory
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Mandatory. The subordinated bonds constitute BPM 2nd level subordinated liabilities, so classified according to the supervisory legislation at the time of issue. Therefore, in case of liquidation of the Bank, bondholders will only be reimbursed after all the other creditors of the Bank not equally subordinate have been satisfied, except for those with a degree of subordination equal to or more than that of the Subordinated Bonds.	Mandatory. The subordinated bonds constitute "BANCO BPM 2nd level subordinated liabilities, so classified according to the supervisory legislation at the time of issue. Therefore, in case of liquidation of the Bank, bondholders will only be reimbursed after all the other creditors of the Bank not equally subordinate have been satisfied, except for those with a degree of subordination equal to or more than that of the Subordinated Bonds.
21	Existence of step up or other incentive to redeem	NO	NO
22	Non-cumulative or cumulative	Non-cumulative	Non-cumulative
23	Convertible or non-convertible	Non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	N/A	N/A
25	If convertible, fully or partially	N/A	N/A
26	If convertible, conversion rate	N/A	N/A
27	If convertible, mandatory or optional conversion	N/A	N/A
28	If convertible, specify instrument type convertible into	N/A	N/A
29	If convertible, specify issuer of instrument it converts into	N/A	N/A
30	Write-down features	NO	NO
31	If write-down, write-down trigger(s)	N/A	N/A
32	If write-down, full or partial	N/A	N/A
33	If write-down, permanent or temporary	N/A	N/A
34	If temporary write-down, description of write-back mechanism	N/A	N/A
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Senior	Senior
36	Non-compliant transitional features	NO	NO
37	If yes, specify non-compliant features	Payment not fully discretionary	N/A
([1]) N/A if the question is not applicable			

Breakdown of Own Funds

The tables of Own Funds (Regulatory Capital) and risk assets are presented below. They are calculated according to the rules mentioned in the introduction.

The breakdown of Own Funds at 30 June 2019 is also presented. This uses the template for the publication of information on own funds, in accordance with Annex IV of Implementing Regulation (EU) no. 1423 of 20 December 2013; compiled according to the pertinent instructions in Annex V.

BREAKDOWN OF OWN FUNDS		30/06/2019	31/12/2018
A.	**Common Equity Tier 1 Capital (CET1) before the application of prudential filters**	**10,941,174**	**10,222,102**
	of which CET1 instruments subject to transitional provisions	0	0
B.	**CET1 prudential filters (+/-)**	**-36,048**	**-35,515**
C.	**CET1 before items to be deducted and before the effects of the transitional regime (A +/- B)**	**10,905,126**	**10,186,587**
D.	**Items to be deducted from CET1**	**-3,163,467**	**-3,780,568**
E.	**Transitional regime - Impact on CET1 (+/-), including minority interest subject to transitional provisions**	**1,230,253**	**1,348,227**
F.	**Total Common Equity Tier 1 Capital (CET1) (C - D +/- E)**	**8,971,912**	**7,754,246**
G.	**Additional Tier 1 Capital (AT1) before items to be deducted and before the effects of the transitional regime**	**431,929**	**133,891**
	of which AT1 instruments subject to transitional provisions	129,900	129,900
H.	**Items to be deducted from AT1**	**0**	**0**
I.	**Transitional regime - Impact on AT1 (+/-), including instruments issued by subsidiaries and included in AT1 by virtue of transitional provisions**	**0**	**0**
L.	**Total Additional Tier 1 Capital (AT1) (G - H +/- I)**	**431,929**	**133,891**
M.	**Tier 2 Capital (T2) before items to be deducted and before the effects of the transitional regime**	**1,435,267**	**1,636,006**
	of which T2 instruments subject to transitional provisions	0	0
N.	**Items to be deducted from T2**	**-74,606**	**-82,203**
O.	**Transitional regime - Impact on T2 (+/-), including instruments issued by subsidiaries and included in T2 by virtue of transitional provisions**	**0**	**0**
P.	**Total Tier 2 Capital (T2) (M - N +/- O)**	**1,360,661**	**1,553,803**
Q.	**Total own funds (F + L + P)**	**10,764,502**	**9,441,940**

Disclosure on the nature and amounts of specific items regarding own funds

	Own funds disclosure template	AMOUNT AT THE DISCLOSURE DATE
Common Equity Tier 1 (CET1) Capital: instruments and reserves		
1	Equity instruments and related share premium reserves	7,100,000
	Of which ordinary shares	7,100,000
3	Profit reserves and other reserves (*)	4,469,228
5	Minority interests (portion calculated in Common Equity Tier 1)	18,282
5a	Profit for the period	596,302
6	**Common Equity Tier 1 (CET1) Capital before regulatory adjustments**	**12,183,812**
Common Equity Tier 1 (CET1) Capital: regulatory adjustments		
7	Additional writedowns	-36,048
8	Intangible assets (net of the related tax liabilities)	-1,029,275
10	Deferred tax assets depending on future profits other than that deriving from temporary differences	-1,044,462
12	Negative amounts resulting from the calculation of expected loss amounts (shortfall)	-150,477
16	Own Common Equity Tier 1 instruments held by the entity directly or indirectly	-12,385
19	Common Equity Tier 1 instruments in the financial sector in which the entity has a significant investment, either directly, indirectly or synthetically (net of allowable short positions)	-502,322
22	Amount which exceeds the threshold of 17.65%	-436,931
23	of which: Common Equity Tier 1 instruments of subjects in the financial sector in which the entity has a significant investment, either directly, indirectly or synthetically	-237,330
25	of which deferred tax assets that derive from temporary differences	-199,601
28	**Total regulatory adjustments to Common Equity Tier 1 (CET1) Capital**	**-3,211,900**
29	**Common Equity Tier 1 Capital (CET1)**	**8,971,912**
Additional Tier 1 (AT1) Capital: instruments		
30	Equity instruments and related share premium reserves	298,112
33	Equity instruments and related share premium reserves, temporarily calculable	129,900
34	Calculable equity instruments issued by affiliates and held by third parties (including minority interests calculable in additional Tier 1 capital)	3,917
36	**Additional Tier 1 (AT1) Capital before regulatory adjustments**	**431,929**

(*) The item includes the transitional positive component, pursuant to paragraph 8 of Art. 473a CRR, aimed at mitigating the negative impact on own funds deriving from the introduction of the accounting standard IFRS 9.

Additional Tier 1 (AT1) Capital: regulatory adjustments		
43	**Total regulatory adjustments to Additional Tier 1 (AT1) Capital**	**0**
44	**Additional Tier 1 (AT1) Capital**	**431,929**
45	**Tier 1 Capital (T1= CET1 + AT1)**	**9,403,841**
Tier 2 (T2) Capital: instruments and provisions		
46	Equity instruments and subordinate loans	1,269,681
48	Calculable equity instruments and subordinate loans issued by affiliates and held by third parties (including minority interests calculable on Tier 2 capital)	5,222
50	Positive amounts resulting from the calculation of expected losses (excess)	160,364
51	**Tier 2 (T2) Capital before regulatory adjustments**	**1,435,267**
Tier 2 (T2) Capital: regulatory adjustments		
52	Own Tier 2 equity instruments and subordinate loans directly or indirectly held by the entity	-353
55	Tier 2 equity instruments and subordinate loans of entities in the financial sector in which the entity has a significant investment, either directly, indirectly or synthetically	-74,253
57	**Total regulatory adjustments to Tier 2 (T2) Capital**	**-74,606**
58	**Tier 2 (T2) Capital**	**1,360,661**
59	**Total Capital (TC = T1 + T2)**	**10,764,502**
60	**Total risk-weighted assets**	**65,235,979**
Capital ratios and buffers		
61	**Common Equity Tier 1 ratio (CET1/total risk weighted assets)**	**13.8%**
62	**Tier 1 capital ratio (Tier 1 equity/total risk weighted assets)**	**14.4%**
63	**Total capital ratio (total equity/total risk weighted assets)**	**16.5%**
64	**CET1 minimum requirement**	**9.3%**
65	**of which: capital conservation buffer**	**2.5%**
66	**of which: countercyclical capital buffer**	**0.005%**
67a	**of which: reserve for other systemically important institutions (O-SII)**	**0.06%**
68	**Common Equity Tier 1 available for equity reserves (**)**	**3.6%**
Amounts less than the deduction thresholds (before risk weighting)		
72	Common Equity Tier 1 instruments from subjects in the financial sector in which the entity has a not significant investment, either directly, indirectly or synthetically (amount below a threshold of 10%)	270,723
73	Common Equity Tier 1 instruments from subjects in the financial sector in which the entity has a significant investment, either directly, indirectly or synthetically (amount exceeding a threshold of 10%)	868,091
75	Deferred tax assets deriving from temporary differences net of deferred tax liabilities available for offsetting (amount less than the threshold of 10%)	730,088
Maximums applicable for inclusion of value adjustments on receivables in excess with respect to expected losses in Tier 2 Equity		
78	Value adjustments on receivables in excess with respect to expected losses calculated on exposures for which credit risk is calculated using internal models (excess prior to application of maximums)	327,715
79	Maximum amount for excess of value adjustments on receivables with respect to expected losses calculable in Tier 2 Equity (excess calculable)	160,364
Capital instruments temporarily calculable between 1 January 2014 and 1 January 2022		
82	Maximum amount of Additional Tier 1 Capital instruments temporarily calculable	250,512
84	Maximum amount of capital instruments and subordinate liabilities temporarily calculable in Tier 2 Equity	-

(**) The Common Equity Tier 1 Capital available for the buffers is expressed as a percentage of total risk-weighted assets, placing as numerator the Entity's Common Equity Tier 1 Capital, from which the following elements have been subtracted:

a) capital requirements to be satisfied with CET1;

b) capital requirements relative to Tier 1 capital exceeding available capital covered with CET1;

b) capital requirements relative to Total Capital exceeding available capital covered with CET1.

Transitional arrangements aimed at mitigating the negative impact of the introduction of IFRS 9 on own funds

Within the deadline provided for (1 February 2018), Banco BPM informed the European Central Bank that it had exercised the option to fully apply the transitional rules provided for in the new Article 473-bis of Regulation (EU) no. 575/2013, which extend over time the impact on own funds deriving from application of the new impairment model introduced by the accounting standard IFRS 9. 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. This percentage will decrease over five years, as shown below:

- period from 1 January to 31 December 2018: 95% of the increase made in provisions for expected losses on loans as a result of applying the accounting standard IFRS 9;
- period from 1 January 2019 to 31 December 2019: 85% of the increase in provisions for expected credit losses;
- period from 1 January 2020 to 31 December 2020: 70% of the increase in provisions for expected credit losses;
- period from 1 January 2021 to 31 December 2021: 50% of the increase in provisions for expected credit losses;
- period from 1 January 2022 to 31 December 2022: 25% of the increase in provisions for expected credit losses.

The negative impact expected to derive from applying the new impairment model on own funds is consequently reduced to the complementary temporary percentage applied to the impact recognised on the book value of shareholders' equity as of 1 January 2018;

From 1 January 2023, the impact deriving from first adoption of the accounting standard IFRS 9 will be fully reflected in the calculation of own funds.

Besides the option to make gradual the impact deriving from first adoption of the accounting standard as of 1 January 2018, the transitional rules provide for the option to make gradual any impacts that applying the new impairment model will produce also in the first financial years after first adoption of the new accounting standard, although limited to those deriving from measurement of non-impaired financial assets.

The consequent disclosure obligations are complied with through the publication of Table IFRS9-FL below.

For the purposes of the calculation and representation of the aggregates in question, specific clarifications issued by the competent authorities are also applied.

IFRS 9-FL template - Comparison of own funds and of the capital leverage ratios of entities, with or without application of the transitional arrangements on the subject of IFRS 9 or analogous losses expected on loans

		30/06/2019		31/03/2019	
	Capital available (amounts)	**Phase in**	**Fully Ph.**	**Phase in**	**Fully Ph.**
1	Common Equity Tier 1 (CET1) Capital	8,971,912	7,741,659	7,963,256	6,711,590
2	Tier 1 Capital	9,403,841	8,043,688	8,097,137	6,715,570
3	Total capital	10,764,502	9,404,349	9,548,370	8,166,803
	Risk-weighted assets (amounts)				
4	Total risk-weighted assets	65,235,979	64,967,623	64,322,618	64,046,236
	Capital ratios				
5	CET 1 capital ratio	13.8%	11.9%	12.4%	10.5%
6	Tier 1 capital ratio	14.4%	12.4%	12.6%	10.5%
7	Total capital ratio	16.5%	14.5%	14.8%	12.8%
	Leverage ratio				
8	Measurement of total exposure of the leverage ratio	189,311,055	188,080,802	176,724,455	175,472,788
9	Leverage ratio	5.0%	4.3%	4.6%	3.8%

		31/12/2018		30/09/2018	
	Capital available (amounts)	**Phase in**	**Fully Ph.**	**Phase in**	**Fully Ph.**
1	Common Equity Tier 1 (CET1) Capital	7,754,246	6,406,018	8,448,331	7,100,104
2	Tier 1 Capital	7,888,137	6,410,010	8,582,527	7,104,399
3	Total capital	9,441,940	7,963,813	10,241,942	8,758,931
	Risk-weighted assets (amounts)				
4	Total risk-weighted assets	64,324,066	64,034,184	65,431,190	65,141,304
	Capital ratios				
5	CET 1 capital ratio	12.1%	10.0%	12.9%	10.9%
6	Tier 1 capital ratio	12.3%	10.0%	13.1%	10.9%
7	Total capital ratio	14.7%	12.4%	15.7%	13.4%
	Leverage ratio				
8	Measurement of total exposure of the leverage ratio	172,519,634	171,171,407	177,471,721	176,123,494
9	Leverage ratio	4.6%	3.7%	4.8%	4.0%

Note that the figure for risk weighted assets for 31 March 2019 is slightly different from that indicated in the quarterly disclosure previously published, following the "restatement" agreed upon with the supervisory authority.

Reconciliation between Book value of equity and Own Funds

		30/06/2019	31/12/2018
	Consolidated shareholders' equity	11,269,892	10,259,475
	Adjustments for companies that do not belong to the Banking Group	-11,311	-14,480
	Book value of equity (Banking Group)	11,258,581	10,244,995
	Minority interests calculable in CET 1	18,282	18,628
	Profit/(loss) for the period provisionally not calculable	0	0
	Non-calculable valuation reserves	-505	-4,449
	Capital instruments calculable in Additional Tier 1 Capital	-298,112	0
	Prudential filter on sale of property	-37,072	-37,072
A.	**Common Equity Tier 1 Capital (CET1) before the application of prudential filters**	**10,941,174**	**10,222,102**
	of which CET1 instruments subject to transitional provisions	0	0
B.	**CET1 prudential filters (+/-)**	**-36,048**	**-35,515**
C.	**CET1 before items to be deducted and before the effects of the transitional regime (A +/- B)**	**10,905,126**	**10,186,587**
D.	**Items to be deducted from CET1**	**-3,163,467**	**-3,780,568**
E.	**Transitional regime for impacts of application of IFRS 9- Impact on CET1 (+/-), including minority interests subject to transitional provisions**	**1,230,253**	**1,348,227**
F.	**Total Common Equity Tier 1 Capital (CET1) (C - D +/- E)**	**8,971,912**	**7,754,246**
G.	**Additional Tier 1 Capital (AT1) before items to be deducted and before the effects of the transitional regime**	**431,929**	**133,891**
	of which AT1 instruments subject to transitional provisions	129,900	129,900
H.	**Items to be deducted from AT1**	**0**	**0**
I.	**Transitional regime - Impact on AT1 (+/-), including instruments issued by subsidiaries and included in AT1 by virtue of transitional provisions**	**0**	**0**
L.	**Total Additional Tier 1 Capital (AT1) (G - H +/- I)**	**431,929**	**133,891**
M.	**Tier 2 Capital (T2) before items to be deducted and before the effects of the transitional regime**	**1,435,267**	**1,636,006**
	of which T2 instruments subject to transitional provisions	0	0
N.	**Items to be deducted from T2**	**-74,606**	**-82,203**
O.	**Transitional regime - Impact on T2 (+/-), including instruments issued by subsidiaries and included in T2 by virtue of transitional provisions**	**0**	**0**
P.	**Total Tier 2 Capital (T2) (M - N +/- O)**	**1,360,661**	**1,553,803**
Q.	**Total own funds (F + L + P)**	**10,764,502**	**9,441,940**

Reconciliation of the Book Value of and Regulatory Shareholders' Equity with the elements of Common Equity Tier 1 Capital, Additional Tier 1 Capital and Tier 2 Capital, with an indication of the filters and deductions applied to Own Funds and of the impacts of the Transitional Arrangements

ASSET ITEMS	Accounting figures		Relevant amount for purposes of own funds	Ref. "Own Funds disclosure template" table
	Statutory scope	Prudential scope		
030. Financial assets measured at FV through Other Comprehensive Income	-13,763,946	-13,763,946	138,532	23
040. Financial assets designated at amortised cost	-130,332,845	-130,314,166	-74,253	55
070. Equity investments	-1,320,167	-1,376,689	-932,778	8, 19, 23
100. Intangible assets	-1,261,284	-1,257,165	-1,257,165	8
110. Tax assets	-4,859,255	-4,860,953	-1,244,063	10, 25
120. Assets associated with CGUs held for sale	-1,544,823	-1,544,786	-1,527	8
Grand total			**-3,371,254**	

LIABILITY ITEMS	Accounting figures		Relevant amount for purposes of own funds	Ref. "Own Funds disclosure template" table
	Statutory scope	Prudential scope		
010.c. Debt securities in issue	13,905,622	13,703,593	1,269,328	46, 52
060. Tax liabilities	483,024	470,807	284,011	8
120. Valuation reserves	-224,295	-224,512	-225,017	3
140. Equity instruments	298,112	298,112	298,112	30
150. Reserves	3,515,327	3,501,064	3,501,064	3
170. Share capital	7,100,000	7,100,000	7,100,000	1
180. Treasury shares	-12,385	-12,385	-12,385	16
190. Non-controlling interests (+/-)	41,026	39,041	27,421	5, 34, 48
200. Profit (Loss) for the period	593,133	596,302	596,302	5a
Grand total			**12,838,836**	

OTHER ELEMENTS FOR THE RECONCILIATION OF OWN FUNDS	**-63,233**	**3, 7, 12, 50**
Negative amounts resulting from the calculation of expected losses (shortfall)	-150,477	12
Write-downs of loans A-IRB	160,364	50
Additional write-downs (negative amount)	-36,048	7
Prudential filters generated by sale of property	-37,072	3
TRANSITIONAL ARRANGEMENTS - IMPACT ON CET1 (+/-)	**1,230,253**	**3**
Impacts on Common Equity Tier 1 deriving from application of IFRS9 temporarily non-calculable	859,404	3
Tax assets from temporary differences exceeding the threshold deriving from application of IFRS9	176,838	3
Common Equity Tier 1 instruments from subjects in the financial sector in which the entity has investments, either directly, indirectly or synthetically, exceeding the threshold deriving from application of IFRS9	194,011	3
TRANSITIONAL ARRANGEMENTS - IMPACT ON AT1 (+/-)	**129,900**	**33**
Equity instruments and related share premium reserves, temporarily calculable	129,900	33
TRANSITIONAL ARRANGEMENTS - IMPACT ON T2 (+/-)	**0**	**0**
TOTAL OWN FUNDS AT 30 June 2019	**10,764,502**	

Analysis of changes in own funds in the first six months of 2019

	30/06/2019
Common Equity Tier 1 Capital (CET1)	
Initial balance	**7,754,246**
CET1 instruments	**601,099**
Increase/Decrease in valuation reserves of financial assets measured through other comprehensive income	126,088
Distribution of dividends	0
Net income for the period	596,302
Increase/decrease in equity	225
Portion of increase calculated from impact deriving from application of accounting standard IFRS9 (annual decrease in temporarily calculable positive component)	-117,974
Increase/decrease in other reserves	-3,196
Increase/decrease in minority interests calculable in CET1	-346
Prudential filters	**-533**
Increase/decrease in regulatory value adjustments (prudential valuation)	-533
Deductions	**617,100**
Increase/Decrease in intangible fixed assets (net of relative tax liabilities)	-32,775
Increase/Decrease in significant investments in CET1 instruments of entities in the financial sector and tax assets from temporary differences exceeding the threshold	652,618
Increase/Decrease in tax assets deriving from carrying tax losses forward	-1,566
Increase/Decrease in excess of expected losses with respect to writedowns (shortfall)	-1,177
Final balance	**8,971,912**
Additional Tier 1 (AT1) Capital	
Initial balance	**133,891**
AT1 instruments	**298,038**
Increase/Decrease in AT1 instruments	298,111
Increase/Decrease in minority interests calculable in AT1	-73
Deductions	**0**
Increase/Decrease in elements to be deducted from AT1	0
Final balance	**431,929**
Tier 2 (T2) Capital	
Initial balance	**1,553,803**
T2 instruments	**-200,738**
Increase/Decrease in T2 subordinated instruments and liabilities	-194,956
Increase/Decrease in minority interests calculable in T2	-99
Increase/Decrease in excess of value adjustments with respect to expected losses	-5,683
Deductions	**7,596**
Increase/Decrease in elements to be deducted from T2	7,596
Final balance	**1,360,661**
Total Own Funds	**10,764,502**

Common Equity Tier 1 (CET1) saw an increase of 1,218 million during the first half. This change was made up of the inclusion of profit in course of 596 million, the positive change seen in the fair value valuation reserves through other comprehensive income (+126 million) and the decrease in the amount of components to be detracted from CET1 for 617 million. These positive contributions more than compensated for the negative change following the annual increase in the amount calculated for the impact of applying IFRS9 (-118 million).

More specifically, the significant decrease in the aggregate of total deductions against in increase in deductions for intangible assets of 33 million, is attributable for 323 million to the portion for investments in CET1 instruments of financial entities in which the Group holds a significant equity investment exceeding thresholds, for 129 million to the portion for tax assets for temporary differences exceeding thresholds and for 200 million to the "lever" effect generated by an increase in the same thresholds due to growth of CET1.

Specifically with reference to the decrease in the deduction for investments in CET1 instruments of financial entities in which the Group holds a significant investment exceeding the thresholds, note that this derives for 313 million from the project to restructure the consumer loan segment. In fact, the agreements made with the Credit Agricole Group, the parent company of Agos-Ducato S.p.A., made it possible to reduce exposure relative to the same company, both through higher distribution of dividends and through the acquisition of a put option which guarantees Banco BPM the possibility to dispose of a portion of its investment in the company equal to 10% of its equity. The strike price for the option is 150 million. The put option can be exercised from 1 July 2021 to 31 July 2021.

Additional Tier 1 Capital (AT1) saw an increase of 298 during the half, following the issue of new calculable equity instrument during the quarter. The details are provided in the previous section dedicated to the topic.

Tier 2 capital (T2) saw a net decrease of 193 million during the half, mainly due to the progressively lower calculable amount of subordinate liabilities in issue deriving from the application of prudential rules governing these instruments.

Capital Requirements

Disclosure with respect to Pillar 1 capital adequacy pursuant to Article 92 of the CRR Regulation

On the basis of current prudential supervisory provisions ("Regulations for the supervision of banks" - Bank of Italy Circular no. 285 of 17 December 2013), the minimum Total Capital Ratio is set at 10.5% (including the capital conservation buffer, which is set at 2.5% as of 2019).

In February 2019, Banco BPM received a notification from the European Central Bank of the SREP decision containing the outcomes of the annual Supervisory Review and Evaluation Process (SREP). The capital requirements laid down by the ECB for the year 2019, in terms of Common Equity Tier 1 ratio[2], are presented below.

Banco BPM Group's Capital Requirements - in terms of CET1 ratio	2019
Pillar 1 Regulatory minimum	4.500 %
Pillar 2 Requirement(P2R)	2.250 %
Total SREP Capital Requirement (TSCR)	**6.750 %**
Capital Conservation Buffer (CCB)	2.500 %
Buffer for other systemically important institutions (O-SII)	0.060 %
Counter-cyclical capital buffer (CCyB)	0.005 %
Overall Capital Requirement (OCR)	**9.315 %**

The minimum capital requirement is equal to the sum of the capital requirement prescribed against credit, counterparty, market and operational risks. These requirements, in turn, arise from the sum of the individual requirements of the companies in the Group's prudential consolidation scope, after removing the effects of intra-group relations.

As of 1 January 2017, with the establishment of the Banco BPM Group, the Supervisory Authority has agreed to the use of internal models employed by the former Banco Popolare Group and by Banca Akros to calculate the capital requirements of the new Group on their respective pre-existing validation perimeters.

As of 30 June 2019, the Banco BPM Group is authorised to use its own internal models to calculate regulatory capital absorption with reference to the following Pillar 1 risks:

- credit risk (starting with the measurement at 30 June 2012) € the scope concerns the advanced internal rating-based approaches relating to retail and business loans made by Banco BPM spa. For loan portfolios not falling within the scope of initial AIRB validation, the standard regulatory approach continues to be applied for prudential purposes. On 16 February 2018 Banco BPM S.p.A. received authorisation to use internal models to calculate capital requirements for the post-merger Banco BPM portfolio. This authorisation includes, in addition to the updated PD model, a new

[2] For the purposes of determining prudential supervisory thresholds on a consolidated basis (SREP decision), as indicated in the press release issued for the market, the minimum CET1 ratio requirement established by the ECB for 2019 is 9.25%, to which is added the O-SII buffer, for a total of 9.31%.

EAD retail model, and the ELBE and LGD Defaulted Asset model. Following the authorisation, Banco BPM must use the add-ons (LGD parameter multipliers), until all the findings outlined by ECB in the authorisation letter have been resolved. These models have been used to calculate capital requirements starting from the reports issued on 31 March 2018. Starting from reporting month June 2019, capital requirements are subject to the application of two additional prudential add-ons for LGD Businesses and PD Mid Corporate, imposed by the Regulatory following the TRIM inspection on the Corporate-SME regulatory segment, which led to the identification of certain areas of IRB models requiring improvement, giving rise to specific obligations;

- market risk (starting from the report of 30 June 2007 for Banca Akros and that of 30 June 2012 for Banco BPM spa and Banca Aletti): during 2018, the parent company's internal model was extended to Banca Akros[3]. At present, the validated perimeter includes generic and specific risk for equity securities and generic risk for debt securities in the trading book. In 2019, projects were continued to extend the internal model for specific risk of debt securities and exchange risk for the Banking Book;
- operational risk: advanced method (AMA) for ex-Banco Popolare segments already validated for use of these methods (ex-Banco Popolare segments of the parent company and Banca Aletti); standardised method (TSA) for ex-BPM segments already validated for use of these methods (ex-BPM Scarl and SpA segments merged into the new parent company, Banca Akros, ProFamily); basic method (BIA) For the other minor companies in the Group;

The capital requirements and capital ratios of the Banco BPM Group as at 30 June 2019 are presented as follows.

[3] As of 1 October 2018, the Corporate Investment Banking business unit of Banca Aletti was transferred to Banca Akros.

Capital requirements and capital ratios of Banco BPM Group

Information	30/06/2019		31/12/2018	
	Weighted amounts	Requirements	Weighted amounts	Requirements
B. Regulatory Capital Requirements				
B.1 Credit and Counterparty Risk	**56,782,073**	**4,542,566**	**56,177,956**	**4,494,236**
1. Standard Approach	30,017,737	2,401,418	28,466,159	2,277,293
2. Internal models - Basic	-	-	-	-
3. Internal models - Advanced	26,764,336	2,141,148	27,711,797	2,216,943
B.2 Credit valuation adjustment – CVA - risk	**224,678**	**17,974**	**180,633**	**14,451**
B.3 Regulatory risk	**8,430**	**674**	**64,884**	**5,191**
B.4 Market risk	**2,050,861**	**164,069**	**1,858,688**	**148,696**
1. Standard Approach	184,946	14,796	429,250	34,341
2. Internal models	1,865,915	149,273	1,429,438	114,355
3. Concentration risk	-	-	-	-
B.5 Operational Risk	**5,737,493**	**459,000**	**5,872,577**	**469,806**
1. Basic Approach	136,123	10,890	136,123	10,890
2. Standardised Approach	2,779,114	222,329	2,670,128	213,610
3. Advanced Approach	2,822,256	225,781	3,066,326	245,306
B.6 Other calculation elements	**432,444**	**34,595**	**169,328**	**13,546**
B.7 Total Capital Requirements	**65,235,979**	**5,218,878**	**64,324,066**	**5,145,926**
C. Capital adequacy ratios (%)				
C.1 Common Equity Tier 1 Ratio	**13.8%**		**12.1%**	
C.2 Tier 1 Ratio	**14.4%**		**12.3%**	
C.3 Total Capital Ratio	**16.5%**		**14.7%**	

Starting from prudential notifications relative to 30 June 2019, the amount of "other calculation elements" includes exposures relative to securitisation transactions falling under the "revised framework" regime, pursuant to Regulation (EU) 2017/2401 of 12 December 2017, represented as required by Implementing Regulation (EU) 2018/1627 of 9 October 2018.

Qualitative disclosure on countercyclical capital buffer

The imposition of additional capital buffers with respect to the regulatory minima has the objective of giving banks high-quality capital resources to be used in moments of market tension to prevent dysfunctions of the banking system and avoid breakdowns in the loan disbursement process and to cope with the risks deriving from the systemic importance at the global or domestic level of certain banks. In this context, the counter-cyclical capital buffer has the aim of protecting the banking sector in the stages of excessive growth of credit. In fact, its imposition makes it possible to accumulate, during phases of credit cycle overheating, Common Equity Tier 1 Capital, which will then be destined to absorb losses in the descending phases of the cycle (from Circular 285 - Part One – Transposition in Italy of the CRD IV directive Section III – Counter-cyclical capital buffer).

Entities have an obligation to hold a countercyclical capital buffer equal to their total exposure to risk multiplied by the bank's specific countercyclical ratio. The Bank of Italy, like the other authorities designated by the individual Member States, has an obligation to determine quarterly the countercyclical ratio of our country and to monitor the congruity of the ratios applied by other countries, both EU and non-EU. Directive 2013/36/EU specifies that the specific countercyclical ratio of an entity is equal to the weighted average of the countercyclical ratios applied in the countries in which the significant exposures of the entity are situated.

It should be noted that Bank of Italy set the countercyclical ratio, to be applied to exposures held with Italian counterparties, at 0% for the first half of 2019.

The 0.005% requirement applicable to the Group is associated with limited existing exposures relative to counterparties residing in foreign countries for which the relevant regulatory body has established a positive anti-cyclical ratio.

The detailed information in the following tables is published in accordance with Commission Delegated Regulation (EU) 2015/1555 dated 28 May 2015.

Amount of institution-specific countercyclical capital buffer

Line		Column
		010
010	Total risk exposure amount	65,235,979
020	Institution specific countercyclical ratio	0.005%
030	Institution specific countercyclical capital buffer requirement	3,262

Geographical distribution of loan exposures relevant for the calculation of the countercyclical capital buffer

Line					General credit exposures		Trading book exposure		Securitisation exposure	
					Exposure value for SA (000)	Exposure value for IRB approach (000)	Sum of long and short position of trading book (000)	Value of trading book exposure for internal models (000)	Exposure value for SA (000)	Exposure value for IRB approach (000)
					10	20	30	40	50	60
010	Breakdown by country									
	Country	275	CZ	CZECH REPUBLIC	296	1,346	-	-	-	-
		21	DK	DENMARK	91	149	-	-	-	-
		31	GB	UNITED KINGDOM	251,857	12,354	102,539	-	-	-
		103	HK	HONG KONG	2	995	-	-	-	-
		41	IS	ICELAND	90	-	-	-	-	-
		259	LT	LITHUANIA	-	-	-	-	-	-
		48	NO	NORWAY	10,285	-	-	-	-	-
		68	SE	SWEDEN	1	5	-	-	-	-
		276	SK	SLOVAKIA	1	-	-	-	-	-
		OTHER COUNTRIES WITH RATIO OF ZERO			21,337,375	91,039,753	772,103	0	49,296	4,498
020					21,599,998	91,054,602	874,642	0	49,296	4,498

Line					Own fund requirements				Own fund requirement weights	Countercyclical ratio
					Of which: general loan exposures (000)	Of which: trading book exposures (000)	Of which: securitisation exposures (000)	Total (000)		
					70	80	90	100	110	120
010	Breakdown by country									
	Country	275	CZ	CZECH REPUBLIC	50	0	0	50	0.001	1.250
		21	DK	DENMARK	5	0	0	5	-	0.500
		31	GB	UNITED KINGDOM	15124	0	0	15124	0.406	1.000
		103	HK	HONG KONG	7	0	0	7	-	2.500
		41	IS	ICELAND	7	0	0	7	-	1.750
		259	LT	LITHUANIA	0	0	0	0	-	1.000
		48	NO	NORWAY	808	0	0	808	0.022	2.000
		68	SE	SWEDEN	0	0	0	0	-	2.000
		276	SK	SLOVAKIA	0	0	0	0	-	1.250
		OTHER COUNTRIES WITH RATIO OF ZERO			3,702,520	2,803	7,276	3,712,599	99.571	
020					3,718,521	2,803	7,276	3,728,600	100.000	

Capital requirement for Credit and Counterparty Risk (Standard Approach)

REGULATORY PORTFOLIO	CAPITAL REQUIREMENT	
	30/06/2019	31/12/2018
Exposures to or guaranteed by central administrations and central banks	292,157	293,113
Exposures to or guaranteed by regional administrations or local authorities	4,178	5,401
Exposures to or guaranteed by non-profit entities and public sector entities	-	-
Exposures to or guaranteed by public sector organisations	31,298	29,257
Exposures to or guaranteed by multilateral development banks	-	-
Exposures to or guaranteed by international organisations	-	-
Exposures to or guaranteed by intermediaries subject to supervision	415,053	379,050
Exposures to or guaranteed by enterprises	585,082	546,018
Retail exposures	105,487	118,954
Exposures guaranteed by property	23,200	23,952
Exposures in default status	140,870	166,915
High risk exposures	104,456	93,948
Exposures in the form of covered bank bonds	1,623	1,558
Short-term exposures to enterprises or supervised intermediaries	-	-
Exposures to undertakings for collective investment in transferable securities (UCITS)	88,833	92,757
Equity exposures	231,220	191,847
Other exposures	372,997	329,009
Securitisations: Total Exposure	4,325	4,595
Pre-funded contributions to the Guarantee Fund: Total Exposure	639	919
TOTAL CREDIT AND COUNTERPARTY RISK	**2,401,418**	**2,277,293**

Capital requirement for Counterparty Risk

REGULATORY PORTFOLIO	CAPITAL REQUIREMENT	
	30/06/2019	31/12/2018
Counterparty Risk	**91,129**	**69,937**

The requirement is already included in the capital requirement for credit and counterparty risk, as set out in the respective tables for the Standard and IRB Methods.

Capital requirement for Credit Valuation Adjustment (CVA) Risk

REGULATORY PORTFOLIO	CAPITAL REQUIREMENT	
	30/06/2019	31/12/2018
Credit Value Adjustment - CVA - risk	**17,974**	**14,451**

The requirement is determined through the standard approach and applied to exposures in OTC derivatives traded with financial counterparties, excluding intra-group exposures and those to Central Counterparties.

Capital requirement for Credit and Counterparty Risk (IRB Approach)

REGULATORY PORTFOLIO	CAPITAL REQUIREMENT	
	30/06/2019	31/12/2018
Exposures to or guaranteed by enterprises		
Specialised loans	0	0
SMEs	742,332	824,051
Other businesses	830,009	789,710
Retail exposures		
Exposures guaranteed by residential property: SMEs	101,298	106,252
Exposures guaranteed by residential property: natural persons	174,988	185,864
Qualified retail revolving exposures	10,922	12,620
Other retail exposures: SMEs	259,139	270,888
Other retail exposures: natural persons	19,494	24,574
Securitisation exposures		
Internal ratings-based approach - Total exposure	2,966	2,984
TOTAL	**2,141,148**	**2,216,943**

Capital requirement for Market Risk

REGULATORY PORTFOLIO	CAPITAL REQUIREMENT	
	30/06/2019	31/12/2018
Market risks (Position, exchange-rate and commodity)		
- Standardised approach	**14,796**	**34,341**
Position risk on debt instruments	10,623	27,147
Position risk on equity instruments	-	-
Exchange rate risk	3,971	6,194
Commodity risk	202	1,000
- Internal models	**149,273**	**114,355**
Internal models: total	149,273	114,355
TOTAL MARKET RISKS	**164,069**	**148,696**

REGULATORY PORTFOLIO	CAPITAL REQUIREMENT	
	30/06/2019	31/12/2018
Settlement risk	**674**	**5,191**
Positions included in regulatory trading book	674	5,191
Positions included in banking book	-	-

EU MR1 - Market risk on the basis of the standardised approach

		RWAs	Capital Requirements
	Products other than options		
1	Interest rate risk (generic and specific)	132,789	10,623
2	Equity risk (generic and specific)	-	-
3	Exchange rate risk	49,639	3,971
4	Risk associated with raw materials	2,515	201
	Options		
5	Simplified approach	-	-
6	Delta-plus approach	4	0
7	Scenario approach	-	-
8	Securitisation (specific risk)	-	-
9	**Total**	**184,947**	**14,796**

Capital requirement for Operational Risk

REGULATORY PORTFOLIO	CAPITAL REQUIREMENT	
	30/06/2019	**31/12/2018**
Basic Indicator Approach	10,890	10,890
Standardised Approach	222,329	213,610
Advanced Approaches	225,781	245,306
TOTAL OPERATIONAL RISK	**459,000**	**469,806**

EU OV1 – Overview of risk-weighted asset (RWA) exposures

			RWAs		Min. req.
			30/06/2019	31/03/19(***)	30/06/2019
	1	**Credit risk (excluding CCR) (*)**	**55,543,841**	**54,299,777**	**4,443,507**
Article 438, letters c) and d)	2	Of which with standardised approach	29,007,601	28,541,305	2,320,608
Article 438, letters c) and d)	3	Of which with basic IRB approach (IRB Foundation)	-	-	-
Article 438, letters c) and d)	4	Of which with advanced IRB approach (IRB Advanced	26,536,240	25,758,472	2,122,899
Article 438, letter d)	5	Of which equity instruments with IRB on the basis of the simple weighting approach or with the Internal Model Approach (IMA)	-	-	-
Article 107 **Article 438, letters c) and d)**	**6**	**CCR**	**1,371,775**	**1,281,974**	**109,741**
Article 438, letters c) and d)	7	Of which market value approach	533,165	489,690	42,653
Article 438, letters c) and d)	8	Of which original exposure			-
	9	Of which with standardised approach (**)	605,948	572,593	48,475
	10	Of which with internal model method (IMM)	-	-	-
Article 438, letters c) and d)	11	Of which the amount of exposure to risk for contributions to the guarantee fund of a central counterparty (CCP)	7,984	7,801	639
Article 438, letters c) and d)	12	Of which CVA	224,678	211,890	17,974
Article 438, letter e)	**13**	**Settlement risk**	**8,430**	**11,122**	**674**
Article 449, letters o) and i)	**14**	**Securitisation exposures included in the banking book (taking into account the maximum)**	**91,134**	**148,664**	**7,291**
	15	Of which with IRB approach	37,070	93,867	2,966
	16	Of which with IRB Supervisory Formula Approach (SFA)	-	-	-
	17	Of which with Internal Assessment Approach (IAA)	-	-	-
	18	Of which with standardised approach	54,064	54,797	4,325
Article 438, letter e)	**19**	**Market risk**	**2,050,862**	**2,294,027**	**164,069**
	20	Of which with standardised approach	184,947	400,269	14,796
	21	Of which with IMA	1,865,915	1,893,758	149,273
Article 438, letter e)	**22**	**Large exposures**	**0**	**0**	**0**
Article 438, letter f)	**23**	**Operational risk**	**5,737,493**	**5,981,563**	**458,999**
	24	Of which with basic indicator approach	136,123	136,123	10,890
	25	Of which with standardised approach	2,779,114	2,779,114	222,329
	26	Of which with advanced approach	2,822,256	3,066,326	225,780
Article 437, paragraph 2, Article 48 and Article 60	27	Amounts below the deduction thresholds (subject to risk weighting of 250 %)	3,053,555	2,678,434	244,284
	28	**Other risk exposure amounts**	**432,444**	**305,491**	**34,595**
Article 458		Additional more rigorous prudential requirements based on article 458	-		-
Article 459		Additional more rigorous prudential requirements based on article 459	-		-
Article 3	29	Additional amount for exposure to risk due to Article 3, CRR	-	305,491	-
Article 449	30	Amounts of credit risk weighted positions, positions relative to securitisations (securitisation framework revised)	432,444	-	34,595
Article 449	31	of which: Method based on internal ratings (SEC-IRBA)	376,719		30,138
Article 449	32	of which: Method based on external ratings (SEC-ERBA)	55,725		4,458
	34	**Total**	**65,235,979**	**64,322,618**	**5,218,876**

(*) The figure relates only to credit risk. The associated components referred to counterparty risk (CCR), contributions to the guarantee fund of a central counterparty (CCP) and securitisation transactions are, therefore, excluded. They are shown separately in the same statement.

The amounts in line 27 fulfil the obligation to publish pursuant to paragraph 1) letter d) detail iii) and paragraph 2) of Article 437 of Regulation 575/2013 (CRR). They are already included in the amounts in line 1 calculated according to Article 92, paragraph 4 of the same regulation and therefore not included in the grand total.

(**) Includes CCR risk not subject to IMM models whose RWAs, for credit risk purposes, are reported with the IRB approach.

(***) Note that the figure for risk weighted assets for 31 March 2019 is slightly different from that indicated in the quarterly disclosure previously published, following the "restatement" agreed upon with the regulatory authority.

EU CR8 - Statement of changes in RWAs of exposures subject to credit risk on the basis of the IRB approach

		Amounts of RWAs	Capital Requirements
1	**RWAs at the end of the previous reporting period**	**25,758,472**	**2,060,678**
2	Amount of the assets	927,109	74,169
3	Quality of the assets	-652,133	-52,171
4	Updates to the model	1,174,168	93,933
5	Approach and policy	0	0
6	Acquisitions and disposals	-673,128	-53,850
7	Changes in exchange rates		0
8	Other	1,754	140
9	**RWAs at the end of the reporting period**	**26,536,240**	**2,122,899**

On 25 April, Banco BPM received the final letter, ECB-SSM-2019-ITBPM-6, relative to the TRIM inspection. The document communicated the ECB's decisions regarding the possibility of continuing to use the PD model for the Mid Corporate segment and the LGD businesses model for the purposes of calculating pillar 1 capital requirements and included a series of findings regarding calculation of risk parameters. Until these findings have been resolved, the Banco BPM Group must apply the add-ons indicated in the document, specifically:

- 15% increase to PD for the Mid Corporate segment
- additional 5% increase to the regulatory add-on already present for LGD performing on the companies model

The increase in terms of RWA determined by application of these add-ons is reported in the above table under the item "Updates to the model".

On 24 June, Banco BPM signed an agreement with the European Investment Fund which establishes the issuing of a guarantee for the Mezzanine tranche of a synthetic securitisation operation.

Consistent with the different representation required for COREP purposes for this type of operation, the relative RWAs are included under the item "acquisitions and disposals" in the previous table.

EU MR2-B - Statement of changes in RWAs of exposures subject to market risk on the basis of the IMA approach

		VaR	SVaR	Total RWA	Total capital requirements
1	**RWAs at the end of previous quarter**	**282,789**	**1,610,969**	**1,893,758**	**151,501**
1a	Regulatory adjustment	- 82,361	- 155,869	- 238,230	- 19,058
1b	RWAs at the end of previous quarter (end of day)	365,149	1,766,838	2,131,987	170,559
2	Changes in risk levels	25,540	-58,407	-32,867	-2,629
3	Updates/changes to the model				
4	Approach and policy				
5	Acquisitions and disposals				
6	Changes in exchange rates	- 38,146	- 224,879	- 263,025	- 21,042
7	Other				
8a	RWAs at end of reporting period (end of day)	352,543	1,483,552	1,836,096	146,888
8b	Regulatory adjustment	- 56,435	86,254	29,819	2,386
8	**RWAs at the end of the reporting period**	**296,108**	**1,569,807**	**1,865,915**	**149,273**

Disclosure with respect to Pillar 2 capital adequacy pursuant to Article 73 of CRD IV Directive

The process of assessing capital adequacy supports and supplements the consistency check conducted under Pillar 1, which requires the verification of the adequacy of Own Funds in terms of the minimum prudential requirements for credit risk (including counterparty risk), market risk and operational risk.

Significant risks (credit, counterparty, market, interest rate, operational and other measured risks) are measured using statistic and quantitative methods generally relating to the VaR technique.

Banco BPM Group has opted for a level of probability (or confidence interval) of 99.90%, in line with the confidence level of minimum capital requirements established by supervisory regulations, in order to make the reconciliation with estimates resulting from the application of regulatory approaches easier.

The risks are estimated with reference to a one-year horizon, with the exception of market risks, for which a 10-day holding period is used for market risk on the trading book (the default risk component is estimated with a 3-months holding period).

For Banking Book market risk, a ten-day holding period is used for the stock and exchange component. Risk on the HTC portfolio is estimated with a 6-month holding period. For the HTCS portfolio, the VaR Spread method includes a 3-week holding period (the risk default component - IDR is estimated with a 3-month horizon).

For the banking book equity instrument risk, the holding period is 6 months.

The assessment of capital adequacy carried out in the ICAAP context and included in the Group's Risk Appetite framework entails, besides the quantification of all the significant risks, the definition of the measure of total capital used as capital amount to cover the same business risks.

The Group's Risk Appetite Framework includes indicators that make it possible to monitor and assess the Group's Pillar Two capital adequacy with the related fixing of the Trigger, Tolerance and Capacity thresholds.

Among the Strategic indicators there is, for example, the capital buffer indicator in the Pillar II context defined as the difference between the amount of own Available Financial Resources (AFRs) and total diversified economic capital.

In addition, in the same context of Pillar II capital adequacy, the Group has decided to adopt a definition of its Available Financial Resources (AFRs) broader than Own Funds, considering also some components that have the immediate availability feature, despite the fact that current legislation does not allow full computability or imposes the deduction from Own Funds.

This amount must not be limited merely to covering total risk capital, but must also be able to:

- expand for growth beyond what is defined in the strategic plan, ensuring potential flexible operational margins;
- manage business continuity should cumulative losses recorded over the twelve months exceed those estimated according to the assumed confidence level;
- handle situations where market developments could be substantially worse than forecast and incorporated in the risk estimate models;
- maintain an additional capital buffer, for the purpose of maintaining/improving the level of capitalization, with a view to improving rating agency judgements;
- pursue the target ratio objectives established by the Top Management.

Internal capital adequacy of Pillar 2 is also assessed (ordinary and stressed conditions) in order to identify any imbalance between the evolution of risk which may be prudently forecast based on the objectives defined during strategic and budget planning, and the internal generation of capital through self-financing and the specific management of this process.

To guarantee this continuous monitoring, Banco BPM Group has adopted an advanced system for risk integration and quantification of available capital resources, with advanced functions of management, control, reporting and simulation of capital adequacy conditions.

The economic capital or total internal capital (total risks) thus determined is also assessed including the outcome of stress tests. Specifically, the combined impacts on various risk factors of macroeconomic scenarios, characterised by stress conditions, are considered.

In line with the external reference regulations (EBA guidelines for SREP and ECB guidelines for ICAAP), the Group updates its internal capital adequacy assessment process (ICAAP) on a quarterly basis, providing top management and company bodies with an aggregate overview and analysis of both capital requirements and second pillar risks.

Credit Risk - General information regarding all banks

EU CR1-A – Credit quality of exposures by class of exposure and type of instrument

		Gross amounts of		Specific write-downs of loans	Generic write-downs of loans	Write-offs	Expenses for write-downs of loans in the period	Net amounts
		Exposures in default status	Exposures not in default status					(a+b-c-d-e)
1	Central administrations or central banks	-	-	-	-	-	-	-
2	Institutions	-	-	-	-	-	-	-
3	Businesses:	7,258,606	68,040,350	2,613,291	201,785	124,488	324,461	72,359,391
4	Of which: Specialised loans	-	-	-	-	-	-	-
5	Of which: SMEs	4,740,817	25,582,700	1,914,886	131,463	108,557	238,504	28,168,611
6	Retail:	2,161,107	54,684,006	686,165	152,810	4,804	77,703	56,001,335
7	Secured by real estate assets:	1,185,251	28,656,762	253,038	86,975	672	18,106	29,501,328
8	Of which: SMEs	514,231	4,624,870	99,341	40,386	557	9,052	4,998,816
9	Of which: Non-SME	671,020	24,031,892	153,697	46,589	114	9,054	24,502,511
10	Qualified revolving	6,293	999,497	1,772	2,639	-	414	1,001,379
11	Other retail:	969,564	25,027,747	431,354	63,196	4,132	59,183	25,498,628
12	Of which: SMEs	872,945	22,649,841	376,428	58,529	4,126	46,001	23,083,702
13	Of which: Non-SME	96,619	2,377,906	54,926	4,667	6	13,182	2,414,926
14	Equity instruments	-	-	-	-			-
15	Securitisation positions	-	1,353,268	-	-			1,353,268
16	**Total with IRB approach**	**9,419,713**	**124,077,625**	**3,299,456**	**354,596**	**129,292**	**402,164**	**129,713,994**
17	Central administrations or central banks	-	38,887,522	-	8,602			38,878,919
18	Regional administrations or local authorities	-	618,187	-	160			618,026
19	Public bodies	-	977,447	-	16,342			961,105
20	Multilateral development banks	-	-	-	-			-
21	International organisations	-	214,110	-	1			214,109
22	Institutions	-	51,343,957	-	10,356			51,333,601
23	Businesses:	-	10,466,961	-	40,937			10,426,024
24	Of which: SMEs		7,177,205		26,535			7,150,670
25	Retail:	-	4,556,435	-	12,138			4,544,297
26	Of which: SMEs		1,112,238		2,498			1,109,740
27	Secured by mortgages on properties:	-	673,368	-	10			673,358
28	Of which: SMEs		420,953	-	1			420,953
29	Exposures in default status	2,986,091	0	1,339,521	-	66,518	11,349	1,580,052
30	Positions associated with a particularly high risk	400,987	727,056	161,319	1,434		15,186	965,291
31	Covered bonds	-	118,738	-	47			118,691
32	Loans to institutions and businesses with a short-term assessment of creditworthiness	-	-	-	-			-
33	Undertakings for collective investment	-	1,206,871	-	1,741			1,205,130
34	Equity instruments	6,883	1,648,569	-	491		-	1,654,961
35	Other exposures	-	5,462,497	-	-			5,462,497
36	Securitisation positions	-	64,867	-	270			64,597
37	**Total with standardised approach**	**3,393,962**	**116,966,583**	**1,500,840**	**92,529**	**66,518**	**26,536**	**118,700,658**
38	**Total**	**12,813,675**	**241,044,208**	**4,800,296**	**447,125**	**195,810**	**428,700**	**248,414,652**
39	Of which: Loans	10,874,773	104,079,409	4,608,438	364,681	195,810	372,208	109,785,253
40	Of which: Debt securities	125,784	34,179,655	88,862	15,793	-	1,464	34,200,784
41	Of which: Off-balance-sheet exposures	1,374,371	63,975,020	80,402	39,685	-	4,439	65,229,304

EU CR1-B – Credit quality of exposures by segment or type of counterparty

		Gross amounts of		Specific write-downs of loans	Generic write-downs of loans	Write-offs	Expenses for write-downs of loans in the period	Net amounts
		Exposures in default status	Exposures not in default status					(a+b-c-d)
1	Agriculture, silviculture and fishing	100,173	1,443,433	-32,045	-5,803			1,505,758
2	Mining	26,948	374,013	-6,159	-1,197			393,605
3	Manufacturing	1,761,250	18,305,905	-898,540	-41,192			19,127,423
4	Supply of electricity, gas, steam and air conditioning	54,047	1,070,495	-23,031	-4,550			1,096,961
5	Supply of water	47,713	622,698	-26,431	-6,013			637,967
6	Building	2,814,461	4,891,349	-1,129,374	-58,212			6,518,224
7	Wholesale and retail trading	609,032	8,736,565	-299,995	-24,263			9,021,339
8	Transport and storage	197,559	1,953,146	-61,417	-6,254			2,083,034
9	Hospitality and catering services	211,859	1,710,642	-86,965	-13,448			1,822,088
10	Information and communication	96,720	1,293,709	-26,595	-3,885			1,359,949
11	Financial and insurance businesses	43,016	235,562	-22,017	-1,328			255,233
12	Property	2,751,488	4,892,130	-1,131,050	-70,532			6,442,036
13	Professional, scientific and technical businesses	294,108	2,198,304	-134,645	-6,052			2,351,715
14	Administrative activities and support services	97,865	1,045,809	-57,184	-3,113			1,083,377
15	Public administration and defence, obligatory social insurance	0	7,077	0	-4			7,073
16	Education	2,588	39,210	-1,645	-185			39,968
17	Health service and social assistance activities	22,299	693,235	-6,297	-2,760			706,477
18	Art, events and leisure	28,555	252,980	-9,935	-1,784			269,816
19	Other services	96,595	761,626	-44,051	-1,345			812,825
20	**Total Exposures NON FINANCIAL Companies (Sum of Lines 1 to 19)**	**9,256,276**	**50,527,888**	**-3,997,376**	**-251,920**	**-384,333**	**-290,586**	**55,534,868**
21	**Total Exposures Companies OTHER THAN NON-FINANCIAL**	**1,633,168**	**53,536,851**	**-611,062**	**-112,761**	**-57,398**	**-11,281**	**54,446,196**
22	**Total Exposures BALANCE-SHEET**	**10,889,444**	**104,064,739**	**-4,608,438**	**-364,681**	**-441,731**	**-301,867**	**109,981,064**
23	**Total exposures OFF-BALANCE-SHEET**	**1,374,371**	**63,975,020**	**-80,402**	**-39,685**	**0**	**4,346**	**65,229,304**

EU CR1-C – Credit quality of exposures by geographic area

		a	b	c	d	e	f	g
		Gross amounts of		Specific write-downs of loans	Generic write-downs of loans	Write-offs	Expenses for write-downs of loans in the period	Net amounts
		Exposures in default status	Exposures not in default status					(a+b-c-d-e)
1	Europe	12,774,863	232,431,445	5,229,419	0	195,811	428,696	239,781,079
2	of which: Italy	12,711,177	204,575,226	5,187,359	0	195,811	422,819	211,903,234
5	of which: France	5,296	10,245,474	3,976	0	0	1	10,246,794
9	of which: Switzerland	3,027	313,345	16,763	0	0	532	299,609
10	of which: Other	55,363	17,297,399	21,320	0	0	5,343	17,331,442
14	Other geographic areas	38,812	7,194,627	17,731	0	0	4	7,215,707
15	**Total**	**12,813,675**	**239,626,072**	**5,247,150**	**0**	**195,811**	**428,700**	**246,996,786**

EU CR1-D – Distribution of exposures of past-due bands *

	Gross amounts:					
	≤ 30 days	> 30 days ≤ 90 days	> 90 days ≤ 180 days	> 180 days ≤ 1 year	> 1 year ≤ 5 years	> 5 years
Debt instruments at cost or amortised cost	123,776,843	3,531,850	633,555	1,051,416	4,414,771	1,781,922
Debt instruments at fair value subject to value reductions	13,287,151	0	0	0	0	0
Debt instruments at LOCOM or fair value not subject to writedowns	460,302	251,882	372	24,898	44,376	283
Total exposures	**137,524,296**	**3,783,732**	**633,927**	**1,076,314**	**4,459,147**	**1,782,205**

* The structure of the table has been adjusted in order to incorporate the changes introduced by the new accounting standard IFRS 9.

EU CR1-E – Impaired and forborne exposures *

	Gross amount of non-impaired and impaired exposures						
		Of which non-impaired but past-due > 30 days and ≤ 90 days	Of which forborne non-impaired	Of which impaired			
					Of which in default status	Of which written down (impaired)	Of which forborne
Debt instruments at cost or amortised cost	135,190,357	715,068	2,006,025	10,698,446	10,683,775	10,698,446	4,703,568
Debt instruments at fair value subject to value reductions	13,287,151	0	0	0	0	0	0
Debt instruments at LOCOM or fair value not subject to writedowns	782,113	5,029	106,640	316,782	316,782		183,957
Off-balance-sheet exposures	65,349,391		76,846	1,374,371	1,374,371		92,705

	Accumulated impairment losses or accumulated fair value changes due to credit risk and provisions				Real and financial guarantees received	
	On non-impaired exposures		On impaired exposures		On impaired exposures	Of which forborne exposures
		Of which forborne		Of which forborne		
Debt instruments at cost or amortised cost	-375,044	-89,175	-4,501,148	-1,705,775	4,625,378	4,065,583
Debt instruments at fair value subject to value reductions	-5,430	0	0	0	0	0
Debt instruments at LOCOM or fair value not subject to writedowns			-196,152	-104,815	50,752	107,894
Off-balance-sheet exposures	-39,685	-372	-80,402	0	252,260	58,685

* The structure of the table has been adjusted in order to incorporate the changes introduced by the new accounting standard IFRS 9.

*EU CR2-A - Changes in generic and specific write-downs of loans **

	Write-downs without increase in credit risk after initial recognition (Stage 1)	Write-downs with increase in credit risk after initial recognition, but not impaired (Stage 2)	Write-downs for impaired debt instruments (Stage 3)
Initial balance	**134,863**	**258,697**	**5,111,195**
Changes due to variations in credit risk (net)	3,778	-5,115	321,116
Changes due to updating the estimation method (net)	0	0	0
Increases due to adjustments at the disbursement/issue/acquisition stage	0	0	0
Decreases due to repayment or redemption	0	0	-79,122
Decreases due to write-offs	0	0	-319,912
Impact of exchange rate differences	0	0	0
Business combinations, including acquisitions and disposals of affiliates	-125	-2,980	0
Other adjustments	-4,909	-4,530	-533,373
Final balance	**133,607**	**246,072**	**4,500,905**
Recoveries from collection on assets previously written off	0	0	5,959
Write-offs recognised directly through profit or loss	0	0	-25,135

* The structure of the table has been adjusted in order to incorporate the changes introduced by the new accounting standard IFRS 9.

EU CR2-B – Changes in loans and debt securities impaired and in default status

	Gross amount of exposures in default status
Initial balance	**18,316,713**
Loans and debt securities in default status or impaired since last reporting period	669,828
Returned to current status	-200,997
Amounts written off	-356,737
Other changes	-6,785,002
Final balance	**11,643,805**

Credit Risk - standard approach

Process of assessing creditworthiness

Credit risk – standardised approach

List of ECAIs (External Credit Assessment Institutions) and ECAs (Export Credit Agencies) used in the standardised approach and of the portfolios in which their ratings are applied.

Portfolios	ECA/ECAI	Characteristics of the Ratings (solicited/unsolicited)
Exposures to Central Administrations and Central Banks	Moody's	Solicited
	Standard & Poor's	
	Fitch	
Exposures to International Organisations	Moody's	Solicited
	Standard & Poor's	
	Fitch	
Exposures to multilateral development banks	Moody's	Solicited
	Standard & Poor's	
	Fitch	
Exposures to businesses and other Subjects	Moody's	Solicited
	Standard & Poor's	
	Fitch	
	Cerved	Unsolicited
Exposures to undertakings for collective investment in transferable securities (UCITS)	Moody's	Solicited
	Standard & Poor's	
	Fitch	

Securitisations

Portfolios	ECA/ECAI
Securitisation positions	Moody's
	Standard & Poor's
	Fitch
	Scope
	DBRS

The process for assessing the issuer's creditworthiness requires linking the identification information provided by external providers to all counterparties for which it is available, irrespective of the presence and type of business present in the banking book (for example exposures in banking book securities, mortgage loans, etc.).

The process for assessing the creditworthiness of an issue provided by external providers requires that it be historicised in specific systems, irrespective of the nature of the security. This information is subsequently used for reports by linking the information using an internal identification code.

With reference to the association of the external rating of each ECAI or export credit agency chosen to the creditworthiness classes, the mapping used is provided by Implementing Regulation (EU) 2016/1799 of the European Commission.

EU CR4 – Standardised approach – Exposure to credit risk and effects of the CRM

	Exposures before CCF and CRM		Exposures after CCF and CRM		RWAs and RWA densities	
Exposure classes	**On-balance-sheet amount**	**Off-balance-sheet amount**	**On-balance-sheet amount**	**Off-balance-sheet amount**	**RWAs**	**RWA densities**
Central administrations or central banks	33,910,138	4,963,060	38,516,615	4,951,689	3,646,242	8.39%
Regional administrations or local authorities	191,074	423,256	254,412	4,528	51,481	19.88%
Public bodies	495,308	465,794	494,023	98,358	391,221	66.04%
Multilateral development banks	0	0	162,127	3,244	0	0.00%
International organisations	3,499	210,610	3,499	0	0	0.00%
Institutions	10,346,103	9,254,469	10,271,926	429,620	4,396,521	41.08%
Businesses	6,422,725	3,711,871	6,362,374	1,139,253	7,201,069	95.99%
Retail	1,801,378	2,742,120	1,773,703	43,166	1,318,497	72.57%
Secured by mortgages on properties	648,624	24,733	648,194	12,367	289,999	43.90%
Exposures in default status	1,557,249	22,146	1,546,025	4,321	1,760,179	113.53%
Positions associated with a particularly high risk	787,487	177,804	784,937	85,529	1,305,699	150.00%
Covered bonds	118,691	0	118,691	0	20,289	17.09%
Loans to institutions and businesses with a short-term assessment of creditworthiness	0	0	0	0	0	0.00%
Undertakings for collective investment	1,048,141	152,810	1,044,979	62,049	1,107,029	100.00%
Equity instruments	1,621,628	0	1,621,628	0	2,856,911	176.18%
Other positions	5,462,497	0	5,462,497	0	4,662,463	85.35%
Securitisation positions	64,597	0	49,296	0	54,064	109.67%
Total	**64,479,139**	**22,148,674**	**69,114,925**	**6,834,126**	**29,061,665**	**38.26%**

EU CR5 – Standardised approach

Exposure classes	Risk weighting factors															Total
	0%	2%	4%	10%	20%	35%	50%	70%	75%	100%	150%	250%	370%	1250%	Other	Deducted	
Central administrations or central banks	40,349,463	0	0	0	10	0	138,763	0	0	2,582,168	0	397,900	0	0	0	199,601	43,468,304
Regional administrations or local authorities	0	0	0	0	258,940	0	0	0	0	0	0	0	0	0	0		258,940
Public bodies	0	0	0	0	223,015	0	45,428	0	0	323,938	0	0	0	0	0		592,381
Multilateral development banks	165,371	0	0	0	0	0	0	0	0	0	0	0	0	0	0		165,371
International organisations	3,499	0	0	0	0	0	0	0	0	0	0	0	0	0	0		3,499
Institutions	14,623	706,677	278,953	0	3,748,057	0	4,656,209	0	0	1,297,023	3	0	0	0	0		10,701,546
Businesses	0	0	0	0	16,501	0	806,948	0	0	6,419,698	258,481	0	0	0	0		7,501,628
Retail	0	0	0	0	0	0	0	0	1,816,870	0	0	0	0	0	0		1,816,870
Secured by mortgages on properties	0	0	0	0	0	140,653	519,907	0	0	0	0	0	0	0	0		660,560
Exposures in default status	0	0	0	0	0	0	0	0	0	1,130,680	419,666	0	0	0	0		1,550,346
Positions associated with a particularly high risk	0	0	0	0	0	0	0	0	0	0	870,466	0	0	0	0		870,466
Covered bonds	0	0	0	34,490	84,200	0	0	0	0	0	0	0	0	0	0		118,691
Loans to institutions and businesses with a short-term assessment of creditworthiness																	0
Undertakings for collective investment	0	0	0	0	0	0	0	0	0	1,107,029	0	0	0	0	0		1,107,029
Equity instruments	0	0	0	0	0	0	0	0	0	798,106	0	823,522	0	0	0	739,652	1,621,628
Other positions	796,292	0	0	0	4,678	0	0	0	0	4,661,528	0	0	0	0	0		5,462,497
Securitisation positions					15,623		0			0				33,673	0		49,296
Total	**41,329,248**	**706,677**	**278,953**	**34,490**	**4,351,025**	**140,653**	**6,167,256**	**0**	**1,816,870**	**18,320,169**	**1,548,615**	**1,221,422**	**0**	**33,673**	**0**	**939,253**	**75,949,051**

The exposures detailed in the "Deducted" column do not contribute to the total of risk-weighted assets as with the presentation of the Corep schemes for credit risk.

Additionally, we must specify that the estimate of risk-weighted assets inferable from an analysis of the data shown in the present table is different from the actual final amount of RWAs published in Table CR4 because it does not consider the SME supporting factor provided for in Art. 501 of the CRR Regulation in the cases and with the limits applicable.

Credit Risk - IRB approach

Authorisation by the Supervisory Authority and scope of application

The former Banco Popolare Group obtained the original validation of its internal models based on A-IRB (Advanced Internal Rating Based model) from the Bank of Italy for use in calculating the capital requirement on credit risk, on 18 May 2012. Following the merger operation between the former Banco Popolare Group and the former BPM Group, the European Supervisory Authority agreed to the use of internal models at the time validated on the former Banco Popolare perimeter on the same basis of the new Banco BPM Group for the purpose of calculating the capital requirements until 31/12/2017.

Following the acceptance of the model change application made by the former Banco Popolare in May 2015, the ECB authorised the Group to make the model changes requested incorporating a series of temporary prudential measures into the calculation of non-performing RWAs, of non-performing expected losses and on the retail EAD. These measures would have expired after authorisation to use the new A-IRB models for retail EAD, LGD defaulted assets and ELBE. Starting from the reporting of 31-03-2017, and for the whole of 2017, the following prudential measures (add-ons) were therefore made operational:

- application of a credit conversion factor of 100% for IRB Retail exposures
- calculation of non-performing IRB RWA through application of a regulatory formula
- obligation of a floor for non-performing expected loss corresponding to 45% of gross exposures.

In this context, it must be specified that, in May 2017, an application for model change and authorisation to extend the A-IRB models to the combined Banco BPM portfolio was sent to the ECB, which included the new EAD retail, LGD defaulted assets and ELBE models.

Following the ECB inspection process, on 16-02-2018, the Group received authorisation to adopt its internal risk management systems with extension to BPM S.p.A. The authorisation is effective starting from the reporting of 31 March 2018.

The validation perimeter at 30/06/2019 consists of the assets attributable to the regulatory classes "loan exposures to businesses" and "loan exposures to retail" (acceptance and monitoring models) of the parent company Banco BPM.

More specifically, on 30/06/2019, authorisation was requested and obtained for the use of:

- five rating models, used to estimate the Probability of Default (PD), respectively for the counterparties segmented using the ratings models for Large Corporate, Mid Corporate Plus, Mid Corporate, Small Business and Private
- two Loss Given Default (LGD) models (Loss Given Default performing, ELBE and Defaulted Asset), for estimating the loss rate in the event of default of the Corporate and Private Individual counterparties, respectively
- an EAD model relative only to the Retail portfolio.

During the first half of 2019, the Group developed a number of significant changes to the PD, LGD and EAD risk parameters, aimed above all at resolving IMI and TRIM obligations deriving from the last two inspections of its ratings models, which led to the application of specific add-ons when calculating capital requirements. The change made fall within the Model Change regulatory context, consequently they will be assessed by the Regulator and will begin use only after the necessary approval is obtained from the ECB.

In addition to resolving the IMI and TRIM findings (respectively deriving from the authorisation letter of 16/02/2018 and of 25/04/2019), these Model Changes will allow for the removal of the corresponding add-ons after approval, as well as (i) addressing certain significant regulatory dictates regarding new EBA guidelines for estimating PD, LGD and Downturn, (ii) making it possible to extend the IRB approach to segments with structured finance operations (real estate, project finance and leveraged and acquisition finance) as planned in the Group's roll-out plan (iii) making it possible to calculate EAD through internal CCF for the corporate area, also envisaged in the Group's roll-out plan.

Illustration of the structure, use, management processes and control mechanisms of the internal rating systems

Structure of the internal rating systems (PD)

The rating models involved in the validation are intended to respond to a precise rationale, that of obtaining, for both reporting and management purposes, risk measures:

- capable of incorporating the fundamental drivers underlying creditworthiness of parties in relation to which the Group has or intends to assume loan exposures;
- relatively stable over time, so as to reflect, in each customer segment, the long-term expected riskiness of the Group's current and potential loan exposures;
- capable of preventing phenomena of uncontrolled growth of risk in positive cycle periods and, on the contrary, of indiscriminate restriction of loans in those of negative cycle (counter-cyclicity).

In light of these objectives, advanced statistical techniques were used in the various stages of the estimation process (e.g. Identification of the explanatory/predictive variables of default, integration of the scores, etc.) as well as calibration of the internal ratings.

The rating models were developed internally under the responsibility of the Risk Models structure.

The various stages of development of the models were structured to provide for the active involvement—in order to facilitate consistency of the models with management practices—of all internal stakeholders, namely the Group's Loans Unit, the Organisation Unit, the Retail and Corporate Commercial Units, the Administration and Financial Statements Unit and the Information Technology (IT) Unit.

In the process of developing the models, statistical techniques were used to support the methodological choices with solid empirical evidence. In particular, the interpretability and economic-financial value of the indicators used in the context of the rating models were the subject of verification by the Risks Unit during the estimation activity (i.e. economic as well as statistical significance of the indicators) and discussions in the context of the planning Workgroup (i.e. Loans, Internal Validation, Internal Audit Units).

The statistical significance of the information was ascertained through appropriate analyses, which led to successive selections of the most significant indicators. This approach enabled the identification of the most significant information, avoiding the inclusion of redundant or superfluous information which would have increased its complexity, with no effective added value in terms of accuracy of the estimates produced.

The set of information used to estimate the rating models was defined with the objective of making the best use of the whole available database and was developed on the basis of the experience gained on the rating models previously estimated and of consistency with loan management practices, verified through the active collaboration of the competent corporate units.

In particular, the historical series used in the estimation stage feature the greatest time depth available, and the development samples were selected to ensure the highest representativeness with respect to the Group's loan portfolio.

Structure of the internal rating systems (LGD)

The internal models for calculating Loss Given Default (LGD) were developed with the objective of prioritising—in identifying the explanatory drivers of the estimates—consistency with the Group's lending processes.

The existing models at 30-06-2019 are differentiated by exposure bands, type of technical macro-form, presence/absence of guarantee, administrative status of the counterparty (performing, past due, probable defaults and bad) and vintage for defaults.

These were estimated by analysing the losses suffered by the Group on historic defaults (LGD workout), with a definition of default consistent with that applied to PD estimation models.

In order to include the impacts deriving from recessive short-term periods in the LGD calculation structure, the downturn component is estimated on the basis of the type of portfolio being analysed.

Additionally, the model includes the estimate of indirect costs, that is administrative costs which are not directly attributable to the single procedure.

The new LGD defaulted asset models also make it possible, through a bootstrapping approach with opportune identification of an extreme percentile of the distribution of the LGD averages, to identify unexpected values of losses (or LGD DA), the difference of which from the best estimate of LGD (or LGD ELBE) makes it possible to calculate (by using a specific regulatory formula) the Risk Weighted Assets on defaults.

The Banco BPM Group updated the historical series underlying the estimate of the risk parameter in question in order to incorporate the most recent evolutions of the economic cycle.

Use of the rating system for management purposes

The main characteristics of the rating system used in the process of granting, monitoring and managing loans, in pricing, in corporate governance and in reporting are described briefly below.

Granting Loans

The rating plays a central role in assessing creditworthiness at the time of granting and revising/modifying credit.

The rating is used:

- for the purpose of identifying the decision-making powers, for which:
    - the assessment of creditworthiness—expressed by the rating determined by the models developed for the various regulatory segments of customers—is attributed operationally to "Classes of decision-making competence";
    - the riskiness of the operations is measured using mitigation classes defined based on the LGD associated with each credit line;
- at the moment of closing the proposal and the related decision, when the proponent and the decision maker must express an opinion on the overall consistency between the fiduciary arrangement being proposed/decided on (type of credit lines and ancillary guarantees) and the assessment of creditworthiness expressed by the rating.

The Parent Company's Credit Unit defines the credit policy guidelines, taking into account the economic and geo-sectoral information acquired from external sources in relation to the default probability and the expected losses of the various economic sectors.

The distribution of the growth of lending volumes is divided into the various sectors based on the values of the above metrics, providing for power reservations for counterparties with higher rating levels.

Loan Monitoring and Management

Positions that show the first symptoms of negativity are automatically placed in a monitoring and management process. These positions are identified automatically once a month based on a series of indicators, including the rating.

The positions of each segment that present the worst ratings classes are intercepted and placed into the process. In addition, for each position included in the process, the Manager must analyse the consistency of the rating with the management class proposed and assess, case by case, any need to activate the process to change (override) the rating.

Pricing

The Group has a pricing determination corrected for credit risk; this tool is capable of quantifying the minimum spread with respect to the internal rate of transfer of the funds which the company must carry out to ensure coverage of the expected loss, of the cost of capital and of all the components which enable value generation.

Corporate governance

The system of internal models is used as input to the portfolio model for the estimate of economic capital against the credit risk of performing exposures, in the context of updating the risk propensity and of monitoring the risk limits (using Second Pillar economic capital metrics), both on a final-figure basis and on a prospective basis.

Reporting

The rating and the LGD are the foundation of the management and operational reporting on the risks of the loan portfolio. As regards the management reporting, the Risks Unit periodically prepares the Tableau de Board of the Risks, which provides an overview of the Group's risk position with reference to the set of all risk factors, according to an arrangement compliant with Basel 3 (Pillar I and Pillar II).

Calculation of collective impairment losses on performing positions

For calculating the collective impairment losses, the Banco BPM Group, starting from 01-01-2018, adopts, , the new accounting standard IFRS 9[4]. The main innovation introduced consists of calculating lifetime expected losses for all positions which, with respect to the origination date (that is the date on which the account was opened), have presented a SICR—significant increase in credit risk. The assessment of the SICR of a position is based on quantitative criteria which use the lifetime default probabilities. To detect any worsening of creditworthiness which is not detected by the application of a statistical model, the assessment is then supplemented by qualitative risk indicators. This means that, for these positions, it is necessary to estimate the expected losses which can occur for the duration of the relationship until expiry (and not only for the first year of life, as required by the previous accounting standard IAS 39). In turn, this need requires the development of new models which, starting from the internal models already implemented by the Bank (in accordance with Basel 3), make it possible to estimate in a forward-looking manner all the credit risk parameters which combine in the measurement of the expected losses.

In particular, Banco BPM estimates the lifetime expected losses using a combination of the following parameters:

- Default Probability (PD);
- Loss Given Default (LGD);
- Exposure at Default (EAD).

In order to observe the new accounting standard for calculation of expected losses, the parameters of PD, LGD and EAD must be:

- Point in Time: the models used must reflect the macroeconomic conditions in being

[4] In July 2014, the International Accounting Standard Board (IASB) issued the final version of IFRS 9 Financial Instruments, the new accounting standard that deals with the stages of recognition and measurement of financial assets and calculation of provisions.

at the reporting date;

- Forward-looking: the risk parameters must, where possible, incorporate the available future macroeconomic information;
- Lifetime: to be able to measure the expected losses of positions which have suffered a significant increase in credit risk with respect to origination, it is necessary estimate the parameters for the entire life of an instrument.

In general, the estimate of the lifetime expected losses can be summarised by the following formula:

$$ECL = \sum_{t=0}^{T} \delta_0^t LGD_t EAD_t PD_t$$

where:

- T represents the expiry date of the operation;
- δ_0^t represents the discount factor (e.g. effective interest rate [EIR]);
- EAD_t represents the effective exposure at time t, calculated as the sum of the future cash flows discounted at the interest rate;
- PD_t represents the marginal default probability between tempo t e t+1 calculated as the difference between the accumulated PD at time t+1 and the accumulated PD at time t;
- LGD_t represents the loss given default to be applied at the instant t.

Calculation of the impairment loss with statistical procedure on positions in default (ELBE)

For the purpose of accounting measurement of impaired loan portfolios, the Banco BPM Group decided to adopt a statistical assessment procedure based on the ELBE parameter—appropriately modified with respect to its prudential version—for the accounting measurement of the following area of loan exposures:

- In Default and Unlikely to Pay (UtP) of a nominal amount, at the measurement date, of less than € 300 k;
- Defaulted past due exposures irrespective of the nominal amount.

With reference to non-performing positions not including in the perimeters described above, analytical measurement was maintained.

Following application of accounting standard IFRS 9, as of 1 January 2018, solely for Group exposures classified as default, calculation of expected losses includes forward-looking elements. This is done through the introduction of specific sales scenarios in which the Group's NPL strategy foresees recovery of the cited exposures may occur through disposal, with the aim of pursuing a derisking strategy to decrease the NPL ratio, that is the percentage impact of defaulted exposures with respect to total exposures.

In line with the disposal objectives established by the Board of Directors, the Group's exposures classified as in default are measured through the configuration of two different estimates of expected cash flows:

- the first is determined by assuming a reference scenario in which debt is collected on the basis of internal activities, based on the ordinary measurement guidelines followed by the Group (work out scenario);
- the second is determined by assuming a reference collection scenario involving disposal of the loan (sales scenario).

Estimates of recoverable amounts are therefore equal to the weighted average based on the probabilities assigned to the two scenarios used to estimate cash flows the Group expected to receive relative to the same.

Process of management and recognition of the techniques for attenuating credit risks

The Banco BPM Group pays attention to the acquisition of loan collaterals and securities, i.e. the use of tools and techniques that facilitate the mitigation of credit risk. On this point, in the performance of lending activities by the Group Banks, the acquisition of the guarantees typical of the banking business is widespread; these are, mainly, real guarantees on properties or financial instruments and personal sureties given by private individuals, businesses, financial institutions, etc.

Within the Basel Project, and in particular in the CRM project area—which saw the transversal contribution of resources of the Risks, Organisation and Information Systems units—all the actions of a methodological, organisational and procedural kind were carried out in order to enable the use of risk mitigation techniques based on internal default probability (PD) and loss given default (LGD) models, in line with the legislative requirements.

With particular reference to management of the various types of real and personal guarantees, there are:

- IT procedures that cover all the aspects related to management of the aforementioned guarantees;
- Internal rules (Circulars, Instructions, Regulations, Process Standards) for the use of all the Organisational Structures involved (Network and Central Structures), which provide indications of both a normative and a technical-operational nature.

The compliance of these actions with the legislative requirements was subjected to verification by the internal validation and audit units.

Control and revision of the rating systems

A prerequisite for the adoption of internal risk measurement systems for calculating the capital requirement is the presence of a process of validation and internal auditing of the rating systems, both at the stage of setting up these systems, aimed at obtaining authorisation from the Supervisory Authorities, and at the stage of continual management/maintenance of the same once authorisation has been obtained.

The Banco BPM Group has an internal Validation unit (part of the staff of the Risks unit) responsible for the validation processes of the Banco BPM Group's risk measurement and management systems. These activities are carried out independently by the Units tasked with risk measurement and management and by the Unit responsible for Internal Auditing. The structure is responsible for continual and iterative validation activity related to the risk measurement and management systems, in order to assess their adequacy with respect to the legislative requirements, the corporate operating needs and those of the market of reference.

The Internal Audit activity provided for in the Supervisory Regulations is carried out by Banco BPM's Audit unit. With specific regard to credit risks, the structure audits the entire process of adoption and management of the internal measurement systems according to methods and areas of responsibility defined by the corporate regulations and on the basis of a specific work plan. The structure is tasked with assessing the functionality of the overall arrangement of the process of measuring, managing and controlling the Group's exposure to credit risks, also through periodic audits of the process of internal validation of the related models prepared under the terms of the Prudential Supervisory regulations.

Description of the internal rating models for the regulatory Corporate and Private segments (valid at 30/06/2019)

Aspects common to the various models

Calibration of the model is based on a long-term central tendency. The calibration function was created to define a correspondence between integrated scores and the long-term default probabilities (PDs).

The calibration philosophy adopted by the former Banco is based on a logic of a through-the-cycle (TTC) type, which neutralises the possible impacts deriving from the presence of an economic cycle in the stage of expansion or recession.

The PD models return valuations divided into 11 performing rating classes, with average class PDs differentiated for each rating model.

Additionally, the Group has defined a methodological approach, on the basis of which the counterparty's rating undergoes notching to consider whether the counterparty belongs to an Economic Group (only legal links between parent company and subsidiary are considered).

Large Corporate model

The Large Corporate rating model was defined taking into account the classification of customers provided by the Credit Department experts (expert rank ordering). The objective of this decision was to obtain an assessment of the counterparty, which on the one hand would be based on statistical principles, and on the other would incorporate the specialist experience of the Credit Unit on this customer segment.

This model is made up of two modules: economic-financial and qualitative.

The score obtained from the qualitative module intervenes by notching (positive, negative or neutral) the rating class deriving from the economic-financial score.

The counterparty's rating can subsequently be changed for companies belonging to an economic group.

Finally, the Rating Desk and Performance structure attributes the final rating through a review of the rating assigned by the model based on warning signals or other information related to performance, available but not captured directly by the model.

Business Models

The models related to Small Business, Mid Corporate and Mid Corporate Plus segmented counterparties are developed starting from four information sources processed in specific modules that contribute, through statistical scores, to determining the final Default Probability(PD) for each individual counterparty, through the adoption of integration functions differentiated by segment and by seniority of customers (acceptance portfolio and monitoring portfolio).

The elementary modules on which these models are based, corresponding to the four information sources, are the following:

- **Internal Performance module**: the purpose of this is to detect the trend of creditworthiness of trusted counterparties over time, and it is based on data concerning relations of the said counterparties with the banks in the Group;
- **Central Credit Register** module: the purpose of this is to detect the evolution over time of the counterparty's relationship (if reported) with the other banks of the system, based on the reporting data of the Central Credit Register;
- **Economic-Financial module**: the purpose of this is to assess the creditworthiness of customers based on economic-financial information, with particular reference to counterparties that prepare financial statements according to the provisions of the Civil Code (or ordinary accounting);
- **Qualitative module**: this is based on information coming from qualitative questionnaires, divided into the counterparties' business activity segments.

Starting from the single scores of the modules, an integrated score is statistically calculated(integration function) to summarise in a single risk indicator the results coming from the elementary modules (Internal Performance, Central Credit Register and Economic-Financial for the monitoring model; Central Credit Register, Economic-Financial and Qualitative for the acceptance model).

The score produced by the integration function is subsequently associated with a default probability (PD) through the definition and application of a specific calibration function; this probability of default is, finally, mapped on the rating classes. The calibration functions, differentiated for each rating segment, have the objective of anchoring the Default Probabilities to the long-term Central Tendency.

In addition, after the calibration stage, the qualitative questionnaire on the monitoring model intervenes to notch the rating class, starting from specific intervals (cut-offs) of the qualitative scores (more specifically, each interval corresponds to a certain number of plus or minus notches on the rating class).

Finally, in the case of a Large Corporate, Mid Corporate Plus, Mid Corporate or Small Business segmented counterparty belonging to a Group or with a consolidating Parent Company which is Large Corporate or Mid Corporate Plus (with consolidated financial statements), the rules on notching (upgrading/downgrading of the counterparty's rating) defined by the Group are applied.

Private Customer Model

The default probability is calculated and attributed by counterparty. For customers shared with several banks in the Group, the principle of data accumulation is adopted in order to calculate a single rating for these counterparties.

The development sample is made up of all Private counterparties, that is counterparties whose legal nature is "Natural Persons or Joint Accounts of natural persons", with an exposure recorded in relation to the Group banks, with no connection to a sole trader, or joint accounts of natural persons.

Each module is based on a different information source and provides an intermediate score, which contributes to the various integration functions that assign the final PD to the counterparty. The model is made up of four elementary modules which contribute to determining the final counterparty PD through four integration functions, divided by seniority of relationship between customer and bank and by presence/absence of a new product.

Description of the Business and Private LGD models

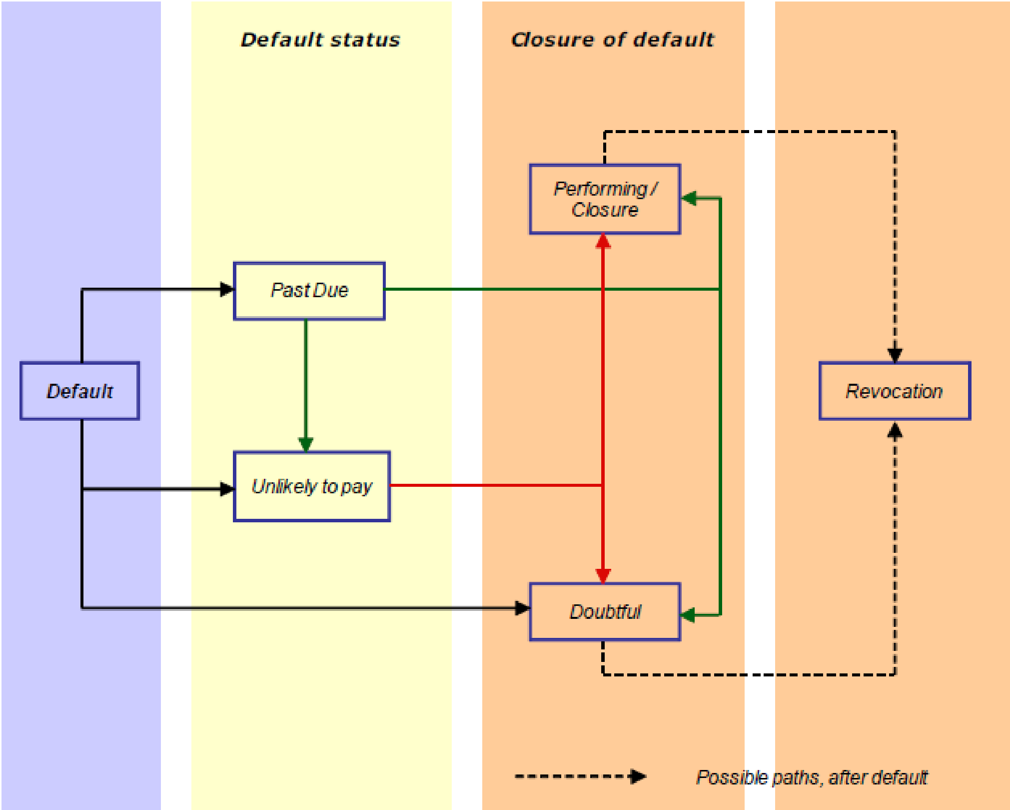
These models are differentiated by exposure bands, type of technical macro-form, presence/absence of guarantee and status of the counterparty (performing, past due, probable defaults and bad). These were estimated by analysing the losses suffered by the Group on historic defaults (LGD workout), with a definition of default consistent with that applied to PD estimation models.

Conditionally upon entry into default status, some cases of resolution of their cycle may be associated with each counterparty, irrespective of the progress made in the intermediate stages of default. These cases may be:

- **return to performing**: or the case of a counterparty in default that returns to being part of the performing portfolio. This can happen both if the bank suffers no loss and if it does;
- **closure of the position**: when a counterparty in default does not become Bad and closes the commercial relationships with the bank during the status of Past Due or Probable Default. This can happen both if the bank suffers no loss and if it does;
- **transfer to bad**: the most serious status of default, from which it is not possible to return neither to a previous default status nor to performing. When a counterparty is

transferred to Bad, all relationships with the Bank are closed, and the process begins of recovering the amount for which the counterparty is exposed.

All the possible routes that a counterparty in default may follow, and which were considered in the LGD models, are shown in the figure below:



The default statuses related to Past Due and Probable Default can occur as initial entry statuses or, only in cases of Probable Default, also later. A further possibility for resolution of the default is finally activation of the Revocatory procedure (or action), which can occur after transfer to Default status following a Closure or Return to Performing.

The LGD models consist of five versions, according to the administrative status of the counterparty.

In order to include the impacts deriving from recessive short-term periods in the LGD calculation structure, the downturn component is estimated on the basis of the type of portfolio being analysed. The addition of this effect to the LGD estimate is determined through the application of a specific correction factor (add-on). This approach consists of estimating the main components of the model in downturn periods identified along the historical series taken as a reference and verifying the impact with respect to the result obtained from the LGD estimate performed on the entire observation period.

The models also include the estimate of the indirect costs (administrative costs that are not directly attributable to the individual file), which is accessed through the following steps: identification of the average cost per year for a bad file, allocation—on the basis and duration of the file in default—of the annual average cost and, finally, prudential allocation of the same amount also for pre-bad statuses.

In addition, to comply with the legislative requirements on the subject the new LGD defaulted asset models it possible, through a bootstrapping approach with opportune identification of an extreme percentile of the distribution of the LGD averages, to identify unexpected values of losses (so-called LGD DA) the difference of which from the best estimate of LGD (the LGD ELBE) makes it possible to calculate (through the use of a specific regulatory formula) the Risk Weighted Assets on defaults.

Relation between internal and external ratings

The attribution of internal and external models is presented below, with specific reference to the Standard & Poor's rating.

S&P Rating	Large Corporate model	Mid Corporate Plus model	Mid Corporate model	Small Business model	Private Customer model
AAA	1-2	1	-	-	-
AA	3	-	-	-	-
A	-	2	1	-	1
BBB	4	3	2-3	-	2-3
BB	5-6	4-6	4-5	1-3	4-6
B	7-9	7-9	6-8	4-8	7-9
CCC - C	10-11	10-11	9-11	9-11	10-11

Value of exposures by regulatory asset class

Regulatory asset class	EAD		EAD	
	30/06/2019	Period average (Mar-19/Jun-19)	31/12/2018	Period average (Mar-18/Dec-18)
Loan exposures to businesses				
- SMEs	22,141,474	22,646,678	27,111,106	28,204,212
- Other businesses	25,384,577	25,107,101	23,980,969	23,483,104
Total	**47,526,051**	**47,753,779**	**51,092,074**	**51,687,316**
Retail loan exposures				
- Exposures guaranteed by residential property: SMEs	4,801,826	4,825,154	5,125,394	5,327,954
- Exposures guaranteed by residential property: Natural Persons	24,574,077	24,468,489	24,738,206	25,097,005
- Qualified retail revolving exposures	754,804	858,610	970,509	979,924
- Retail exposures: Others: SMEs	11,984,843	12,135,926	12,857,436	12,807,062
- Retail exposures: Others: Natural Persons	1,413,001	1,425,846	1,606,388	1,644,375
Total	**43,528,551**	**43,714,025**	**45,297,933**	**45,856,321**

Regulatory asset class	EAD		EAD	
	30/06/2019	Period average (Mar-19/Jun-19)	31/12/2018	Period average (Mar-18/Dec-18)
Exposures to securitisations (IRB - RBA approach)*	4,498	6,091	7,632	421,455
TOTAL CREDIT RISK (IRB - RBA APPROACH)	**4,498**	**6,091**	**7,632**	**421,455**

* Amounts shown net of securitisations relative to the ACE and Leviticus project.

Risk factors PD and LGD (average figures, reference period)

PERFORMING A-IRB	30/06/2019		31/12/2018	
Performing portfolio	**PD**	**LGD**	**PD**	**LGD**
Loan exposures to businesses	**2.93%**	**26.62%**	**3.14%**	**25.53%**
- SMEs	4.72%	23.56%	4.29%	22.93%
- Other businesses	1.57%	28.94%	2.18%	27.69%
Retail loan exposures	**2.50%**	**17.29%**	**2.57%**	**17.33%**
- Exposures guaranteed by residential property: SMEs	5.79%	15.39%	6.05%	15.01%
- Exposures guaranteed by residential property: Natural Persons	1.43%	10.35%	1.47%	10.35%
- Qualified retail revolving exposures	2.59%	30.14%	2.28%	29.61%
- Retail exposures: Others: SMEs	3.43%	31.92%	3.37%	30.93%
- Retail exposures: Others: Natural Persons	3.05%	16.55%	3.34%	16.70%
Total	**2.71%**	**21.94%**	**2.85%**	**21.35%**

EU CR6 - IRB Approach - Exposures to credit risk by exposure class and PD

Regulatory Portfolio	Scale PD	Gross original on-balance-sheet exp.	Off-balance-sheet exp. pre-CCF	Average CCF	EAD post CRM and post CCF	PD weighted average	Number of debtors	Weighted average LGD	Weighted average maturity	RWAs	RWA densities	EL	Provisions
Exposures to or guaranteed by businesses - SMEs	0.00 to <0.15	691,612	1,238,980	6.59%	752,580	0.07%	916	28.92%	2.14	91,558	12.17%	152	92
	0.15 to <0.25	1,721,720	1,110,932	8.12%	1,734,441	0.17%	1,788	23.93%	2.60	296,170	17.08%	698	645
	0.25 to <0.50	1,935,708	1,267,805	10.02%	1,954,488	0.31%	2,010	25.24%	2.24	463,765	23.73%	1,478	416
	0.50 to <0.75	2,493,922	1,270,432	11.20%	2,482,595	0.55%	2,437	24.51%	2.45	788,589	31.76%	3,314	1,449
	0.75 to <2.50	5,215,356	2,223,162	21.37%	5,459,794	1.55%	5,486	22.72%	2.86	2,442,150	44.73%	19,379	10,991
	2.50 to <10.00	3,245,453	900,631	28.56%	3,416,583	5.96%	2,977	22.51%	3.22	2,294,691	67.16%	46,267	28,107
	10.00 to <100.00	1,774,085	369,434	38.61%	1,880,895	27.80%	2,038	22.02%	3.44	1,823,328	96.94%	115,607	83,185
	100.00 (Default)	4,272,423	447,393	27.15%	4,315,628	100.00%	4,658	38.04%	-	979,687	22.70%	1,563,147	1,901,764
	Past due	13,931	1,049	9.65%	13,765	100.00%	275	19.43%	-	1,518	11.03%	2,553	2,184
	UtP	2,898,917	394,642	17.68%	2,924,747	100.00%	1,439	27.13%	-	587,950	20.10%	746,352	1,098,978
	Default	1,359,575	51,702	99.81%	1,377,115	100.00%	2,944	61.39%	-	390,219	28.34%	814,242	800,603
	Subtotal	21,350,278	8,828,769	16.28%	21,997,004	23.41%	22,310	26.37%	2.81	9,179,937	41.73%	1,750,041	2,026,649
Total (all portfolios)		84,720,386	47,133,101	17.02%	90,764,020	11.52%	832,957	23.35%	2.54	26,536,240	29.24%	3,464,710	3,628,908

Regulatory Portfolio	Scale PD	Gross original on-balance-sheet exp.	Off-balance-sheet exp. pre-CCF	Average CCF	EAD post CRM and post CCF	PD weighted average	Number of debtors	Weighted average LGD	Weighted average maturity	RWAs	RWA densities	EL	Provisions
Exposures to or guaranteed by businesses - Other businesses	0.00 to <0.15	6,283,916	11,987,953	16.03%	8,180,082	0.07%	1,390	29.58%	2.36	1,218,433	14.90%	1,595	2,435
	0.15 to <0.25	1,818,649	1,594,834	14.37%	2,022,146	0.18%	513	29.15%	1.88	485,602	24.01%	1,061	402
	0.25 to <0.50	3,899,321	3,947,778	21.16%	4,716,202	0.38%	604	29.56%	2.32	1,942,245	41.18%	5,255	3,522
	0.50 to <0.75	24,849	23,435	5.84%	26,217	0.54%	31	29.53%	2.01	11,927	45.49%	42	18
	0.75 to <2.50	4,785,996	4,558,860	23.81%	5,831,783	1.22%	806	28.68%	2.41	3,680,708	63.11%	20,285	19,826
	2.50 to <10.00	1,777,918	969,740	21.22%	1,966,908	4.88%	379	26.85%	2.40	1,796,568	91.34%	25,930	14,036
	10.00 to <100.00	559,728	107,003	18.99%	579,997	29.42%	118	23.22%	2.95	707,327	121.95%	39,025	26,157
	100.00 (Default)	1,741,776	774,854	26.06%	1,942,412	100.00%	196	35.80%	-	446,884	23.01%	659,540	698,259
	Past due	4	0	0.00%	4	100.00%	9	120.00%	-	0	0.00%	4	2
	UtP	1,626,383	759,766	24.59%	1,811,930	100.00%	164	33.03%	-	400,854	22.12%	566,416	614,513
	Default	115,390	15,088	100.00%	130,478	100.00%	23	74.19%	-	46,029	35.28%	93,119	83,743
	Subtotal	20,892,152	23,964,457	18.78%	25,265,748	9.13%	4,037	29.45%	2.34	10,289,693	40.73%	752,733	764,655
Total (all portfolios)		84,720,386	47,133,101	17.02%	90,764,020	11.52%	832,957	23.35%	2.54	26,536,240	29.24%	3,464,710	3,628,908

Regulatory Portfolio	Scale PD	Gross original on-balance-sheet exp.	Off-balance-sheet exp. pre-CCF	Average CCF	EAD post CRM and post CCF	Weighted average PD	Number of debtors	Weighted average LGD	Weighted average maturity	RWAs	RWA densities	EL	Provisions
Retail exposures - Exposures guaranteed by property: natural persons	0.00 to <0.15	7,280,970	27,955	4.73%	7,282,292	0.11%	72,253	10.30%	-	195,352	2.68%	793	1,707
	0.15 to <0.25	3,530,220	19,996.14	4.43%	3,531,106	0.20%	40,584	10.36%	-	155,767	4.41%	733	1,086
	0.25 to <0.50	6,438,077	27,451	4.58%	6,439,333	0.33%	69,458	10.34%	-	408,198	6.34%	2,192	2,416
	0.50 to <0.75	2,964,561	23,511	3.68%	2,965,425	0.56%	35,563	10.40%	-	277,654	9.36%	1,743	1,713
	0.75 to <2.50	2,426,826	25,736	5.20%	2,428,165	1.41%	26,028	10.41%	-	411,699	16.96%	3,555	3,568
	2.50 to <10.00	431,002	5,946	5.34%	431,319	4.90%	4,265	10.42%	-	155,270	36.00%	2,202	4,823
	10.00 to <100.00	825,628	4,013	3.25%	825,721	28.42%	8,422	10.44%	-	498,456	60.37%	24,506	31,277
	100.00 (Default)	670,761	259	0.00%	670,716	100.00%	6,324	25.81%	-	84,953	12.67%	166,315	153,697
	Past due	10,112	0	0.00%	10,112	100.00%	208	10.71%	-	29	0.29%	1,081	633
	UtP	473,985	259.40	0.00%	473,952	100.00%	4,189	16.66%	-	37,129	7.83%	75,970	70,622
	Default	186,663	0	0.00%	186,652	100.00%	1,927	49.87%	-	47,794	25.61%	89,263	82,442
	Subtotal	24,568,044	134,868	4.53%	24,574,077	4.12%	262,897	10.77%	-	2,187,349	8.90%	202,037	200,287
Total (all portfolios)		84,720,386	47,133,101	17.02%	90,764,020	11.52%	832,957	23.35%	2.54	26,536,240	29.24%	3,464,710	3,628,908

Regulatory Portfolio	Scale PD	Gross original on-balance-sheet exp.	Off-balance-sheet exp. pre-CCF	Average CCF	EAD post CRM and post CCF	Weighted average PD	Number of debtors	Weighted average LGD	Weighted average maturity	RWAs	RWA densities	EL	Provisions
Retail exposures - Qualified retail revolving exposures	0.00 to <0.15	13,862	184,613	65.38%	134,601	0.09%	28,832	26.11%	-	2,129	1.58%	34	72
	0.15 to <0.25	15,571	76,554	67.36%	67,187	0.20%	14,896	26.60%	-	2,024	3.01%	36	42
	0.25 to <0.50	25,298	93,892	63.79%	85,316	0.33%	18,878	27.98%	-	4,046	4.74%	79	60
	0.50 to <0.75	30,898	85,792	59.41%	82,020	0.56%	17,906	29.33%	-	6,265	7.64%	136	63
	0.75 to <2.50	125,263	190,673	61.34%	243,400	1.47%	58,642	33.76%	-	43,825	18.01%	1,204	527
	2.50 to <10.00	53,449	37,560	54.18%	74,663	4.90%	14,200	31.59%	-	30,012	40.20%	1,156	534
	10.00 to <100.00	53,179	12,896	56.52%	61,776	18.00%	12,052	30.82%	-	47,295	76.56%	3,546	1,342
	100.00 (Default)	5,841	452	0.00%	5,841	100.00%	1,333	45.69%	-	932	15.95%	2,594	1,772
	Past due	1,790	47	0.00%	1,790	100.00%	514	36.26%	-	224	12.51%	631	385
	UtP	4,046	405	0.00%	4,046	100.00%	815	49.79%	-	705	17.43%	1,958	1,387
	Default	5	0	0.00%	5	1	4	107.24%	-	2	47.11%	5	0
	Subtotal	323,360	682,430	62.68%	754,804	3.34%	166,739	30.26%	-	136,528	18.09%	8,783	4,411
Total (all portfolios)		84,720,386	47,133,101	17.02%	90,764,020	11.52%	832,957	23.35%	2.54	26,536,240	29.24%	3,464,710	3,628,908

Regulatory Portfolio	Scale PD	Gross original on-balance-sheet exp.	Off-balance-sheet exp. pre-CCF	Average CCF	EAD post CRM and post CCF	Weighted average PD	Number of debtors	Weighted average LGD	Weighted average maturity	RWAs	RWA densities	EL	Provisions
Retail exposures - Other retail exposures: natural persons	0.00 to <0.15	195,363	131,955	7.74%	205,588	0.09%	10,554	14.97%	-	7,715	3.75%	29	63
	0.15 to <0.25	128,750	109,205	7.76%	137,208	0.20%	7,813	15.44%	-	9,103	6.63%	42	54
	0.25 to <0.50	165,733	321,840	6.84%	187,784	0.33%	13,188	16.72%	-	18,661	9.94%	103	201
	0.50 to <0.75	131,491	224,057	8.57%	150,766	0.56%	11,178	16.70%	-	20,531	13.62%	142	96
	0.75 to <2.50	347,689	275,024	12.21%	381,423	1.45%	33,117	17.33%	-	78,999	20.71%	935	513
	2.50 to <10.00	95,380	74,732	16.77%	108,184	4.90%	9,301	15.97%	-	26,976	24.94%	847	613
	10.00 to <100.00	138,237	37,209	18.08%	145,452	18.87%	22,449	17.96%	-	57,181	39.31%	5,130	3,123
	100.00 (Default)	94,408	2,159	49.85%	95,302	100.00%	23,571	59.53%	-	24,438	25.64%	54,778	54,924
	Past due	6,672	273	9.51%	6,689	100.00%	9,313	40.25%	-	606	9.07%	2,644	1,595
	UtP	44,887	1,037	19.36%	44,962	100.00%	8,464	33.70%	-	6,664	14.82%	14,620	20,851
	Default	42,849	850	100.00%	43,651	100.00%	5,794	89.09%	-	17,168	39.33%	37,514	32,479
	Subtotal	1,297,051	1,176,182	9.68%	1,411,708	9.60%	131,171	19.46%	-	243,605	17.26%	62,007	59,587
Total (all portfolios)		84,720,386	47,133,101	17.02%	90,764,020	11.52%	832,957	23.35%	2.54	26,536,240	29.24%	3,464,710	3,628,908

Regulatory Portfolio	Scale PD	Gross original on-balance-sheet exp.	Off-balance-sheet exp. pre-CCF	Average CCF	EAD post CRM and post CCF	Weighted average PD	Number of debtors	Weighted average LGD	Weighted average maturity	RWAs	RWA densities	EL	Provisions
Retail exposures - Exposures guaranteed by property: SMEs	0.00 to <0.15	186,518	12,019	13.82%	188,180	0.11%	1,798	11.20%	-	4,190	2.23%	22	46
	0.15 to <0.25	395,079	35,241	10.23%	398,685	0.20%	2,827	15.10%	-	19,340	4.85%	119	67
	0.25 to <0.50	492,805	30,338	8.88%	495,498	0.35%	4,201	13.77%	-	33,871	6.84%	244	172
	0.50 to <0.75	391,749	29,257	6.40%	393,621	0.60%	2,976	15.04%	-	42,678	10.84%	358	310
	0.75 to <2.50	1,321,396	169,262	6.30%	1,331,188	1.51%	8,594	15.91%	-	277,291	20.83%	3,208	2,239
	2.50 to <10.00	755,998	52,770	5.95%	758,508	5.02%	4,920	16.24%	-	322,290	42.49%	6,174	6,504
	10.00 to <100.00	728,280	24,157	5.63%	727,696	25.49%	5,922	16.09%	-	503,181	69.15%	29,693	31,047
	100.00 (Default)	511,526	2,705	0.65%	508,451	100.00%	3,100	23.93%	-	63,382	12.47%	116,622	99,341
	Past due	14,225	8	0.00%	14,135	100.00%	142	14.22%	-	244	1.73%	1,991	1,384
	UtP	379,174	2,697	0.65%	377,878	100.00%	2,147	18.49%	-	39,347	10.41%	66,720	56,395
	Default	118,127	0	0.00%	116,439	100.00%	811	42.78%	-	23,791	20.43%	47,912	41,563
	Subtotal	4,783,351	355,750	7.03%	4,801,826	15.77%	34,338	16.30%	-	1,266,224	26.37%	156,442	139,727
Total (all portfolios)		84,720,386	47,133,101	17.02%	90,764,020	11.52%	832,957	23.35%	2.54	26,536,240	29.24%	3,464,710	3,628,908

Regulatory Portfolio	Scale PD	Gross original on-balance-sheet exp.	Off-balance-sheet exp. pre-CCF	Average CCF	EAD post CRM and post CCF	Weighted average PD	Number of debtors	Weighted average LGD	Weighted average maturity	RWAs	RWA densities	EL	Provisions
Retail exposures - Other retail exposures: SMEs	0.00 to <0.15	252,460	1,965,835	8.59%	409,964	0.07%	3,473	32.17%	-	18,732	4.57%	85	52
	0.15 to <0.25	1,650,745	2,677,643	9.97%	1,772,217	0.19%	17,401	30.68%	-	171,257	9.66%	1,028	210
	0.25 to <0.50	1,378,971	1,744,795	11.02%	1,452,225	0.35%	15,610	30.72%	-	209,869	14.45%	1,570	348
	0.50 to <0.75	1,465,516	1,595,342	11.96%	1,511,084	0.59%	17,516	30.95%	-	296,927	19.65%	2,745	706
	0.75 to <2.50	3,303,317	2,579,056	15.67%	3,403,972	1.50%	58,709	31.81%	-	1,015,308	29.83%	16,325	4,829
	2.50 to <10.00	1,679,145	929,206	20.18%	1,714,158	5.11%	37,942	33.38%	-	685,427	39.99%	29,202	11,737
	10.00 to <100.00	1,024,308	378,428	20.24%	1,013,050	22.75%	37,792	35.14%	-	625,345	61.73%	81,846	39,646
	100.00 (Default)	751,687	120,341	20.58%	682,181	100.00%	23,022	61.08%	-	210,038	30.79%	399,865	376,065
	Past due	49,283	15,305	4.36%	45,348	100.00%	5,281	32.63%	-	7,533	16.61%	14,196	10,643
	UtP	376,041	89,382	9.46%	355,348	100.00%	9,907	44.45%	-	90,495	25.47%	150,704	155,782
	Default	326,363	15,654	99.93%	281,485	100.00%	7,834	86.66%	-	112,010	39.79%	234,966	209,640
	Subtotal	11,506,150	11,990,646	12.61%	11,958,853	8.94%	211,465	33.59%	-	3,232,904	27.03%	532,667	433,593
Total (all portfolios)		84,720,386	47,133,101	17.02%	90,764,020	11.52%	832,957	23.35%	2.54	26,536,240	29.24%	3,464,710	3,628,908

Effective write-downs

Regulatory asset class	Amount 30/06/2019	Amount 31/12/2018
Net write-downs		
BUSINESSES-Exposures to SMEs	2,046,348	5,305,245
BUSINESSES-Exposures to Other businesses	768,728	787,196
RETAIL-Exposures guaranteed by residential property: SMEs	139,727	333,017
RETAIL-Exposures guaranteed by residential property: natural persons	200,287	750,571
RETAIL-Qualified retail revolving exposures	4,411	5,059
RETAIL-Other retail exposures: SMEs	434,958	635,545
RETAIL-Other retail exposures: natural persons	59,593	179,757
Total	**3,654,052**	**7,996,390**

Effective writedowns (trend - performing/default)

		Regulatory asset class	Total write-downs 30/06/2019	Total write-downs 31/12/2018
PERFORMING	BUSINESSES	Exposures to SMEs	131,463	128,601
PERFORMING	BUSINESSES	Exposures to Other businesses	70,323	71,247
PERFORMING	RETAIL	Exposures guaranteed by residential property: SMEs	40,386	38,682
PERFORMING	RETAIL	Exposures guaranteed by residential property: natural persons	46,589	53,613
PERFORMING	RETAIL	Qualified retail revolving exposures	2,639	3,381
PERFORMING	RETAIL	Other retail exposures: SMEs	58,529	67,675
PERFORMING	RETAIL	Other retail exposures: natural persons	4,667	6,201
Total PERFORMING			**354,596**	**369,400**
DEFAULT	BUSINESSES	Exposures to SMEs	1,914,886	5,176,644
DEFAULT	BUSINESSES	Exposures to Other businesses	698,405	715,949
DEFAULT	RETAIL	Exposures guaranteed by residential property: SMEs	99,341	294,335
DEFAULT	RETAIL	Exposures guaranteed by residential property: natural persons	153,697	696,958
DEFAULT	RETAIL	Qualified retail revolving exposures	1,772	1,677
DEFAULT	RETAIL	Other retail exposures: SMEs	376,428	567,870
DEFAULT	RETAIL	Other retail exposures: natural persons	54,926	173,556
Total DEFAULT			**3,299,456**	**7,626,989**
Total			**3,654,052**	**7,996,390**

Note that changes in adjustments with respect to the December 2018 figure was particularly affected by completion of the ACE project, which disposed of a portfolio of loans in default.

EU CR7 - IRB Approach - Effect on RWAs of credit derivatives used in the context of CRM techniques

	RWAs before the effect of credit derivatives	Effective RWAs
Exposures based on FIRB		
Central administrations and central banks	n/a	n/a
Institutions	n/a	n/a
Businesses – SMEs	n/a	n/a
Businesses – Specialised loans	n/a	n/a
Businesses – Other	n/a	n/a
Exposures based on AIRB		
Central administrations and central banks	n/a	0
Institutions	n/a	0
Businesses – SMEs	n/a	9,279,147
Businesses – Specialised loans	n/a	0
Businesses – Other	n/a	10,375,110
Retail – SMEs guaranteed by property	n/a	1,266,224
Retail – Non-SMEs guaranteed by property	n/a	2,187,349
Retail – Qualified revolving	n/a	136,528
Retail – Other SMEs	n/a	3,239,239
Retail – Other non-SMEs	n/a	243,671
Equity instruments with IRB	n/a	
Other assets different from loans	n/a	
Total	**n/a**	**26,727,266**

Comparison between estimates and effective results

The Banco BPM Group uses internal PD, LGD and EAD estimates for the purposes of calculating capital requirements relative to credit risk.

The comparison between estimates and empirical data is done for all risk parameters through backtesting performed by the Internal Validation function.

With reference to the PD models, the Banco BPM Group adopts performance measurements to check the accuracy ratio (AR) of the estimates and calibration tests ("classical" binomial test over an annual and multi-annual period) to compare the decay rates (DRs) recorded over an annual time horizon with the estimated PD values.

As regards the Business segments, from the latest backtesting there emerges a good accuracy ratio of the models at the level both of single modules and of final integrated score, which comes out at values comparable to those obtained in the development stage. In terms of calibration, note the prudential nature of the PDs used in quantifying capital requirements.

In relation to the Private Customer segment, overall the model performed well. As regards calibration, the results of the binomial tests were satisfactory.

In relation to LGD models, analysis was done to verify accuracy of representation, discriminating ability and calibration of the Business and Private Customer LGD models, considering their component elements. With reference to discriminating ability and calibration of the LGS component, the tests had positive results.

In terms of the ELBE component, certain areas for improvement were identified, which will be considered when the risk parameters are updated and the model is revised.

The most recent investigations done on the Probability of Default parameter were, for both the Business and Private segments, in line with expectations if compared with the results obtained in the estimate.

Relative to the EAD Retail model, analysis of representation ability did not indicate any areas requiring particular attention. The results of the tests to assess calibration and discriminating ability declined for the most recent cohorts, despite indicating good performance overall. More prudential and conservative values were seen for more recent cohorts in comparison to observed values.

Comparison between PD and default (DR) data by exposure class

In this paragraph Internal Validation puts default rates into relation with estimated PDs, dividing the IRB regulatory portfolio at the reference date of 30 June 2018. The exposure classes are further divided by PD scale, as defined in table EU CR6[5]. The reference database is the reporting environment, defining regulatory default.

The IRB internal models, included in the IRB regulatory exposure classes, are:

- Large Corporate, turnover/assets ≥ 500 mln
- Mid Corporate Plus, turnover/assets between 50 and 500 mln
- Mid Corporate, turnover/assets between 5 and 50 mln
- Small Business, turnover/assets < 5 mln
- Private Customers

Unlike the Private Customer segment, the first four models come within the Business macro-category.

With reference to the reporting of 30 June 2019, the division in terms of RWAs of the internal models for IRB regulatory exposure classes is as follows:

Internal Models	%RWAs
Large Corporate	15.46%
Mid Corporate Plus	22.78%
Mid Corporate	27.17%
Small Business	24.25%
Private Customers	10.34%

[5] Reference EBA Guidelines (EBA-GL-2016-11).

For the figures contained in the table below, note that:

- starting from 31 March 2018, the Banco BPM Group obtained authorisation to put the new A-IRB models into production, with extension to the former BPM perimeter. The new models also incorporate the new definition of default at 90 days, with absolute materiality threshold of Past Due loans differentiated between Business and Private Customers. The DRs shown were instead calculated applying the regulatory default, obtaining in this way more conservative results;
- starting from the monthly model for 30 November 2018, BPM s.p.a. was incorporated into Banco BPM s.p.a.;
- the equivalent external rating is not shown because shadow rating models are not used in determining the PD estimate;
- the annual historic average default rate is calculated over 5 years: 2018-2014, with the PD threshold relative to the models in effect each year.

EU CR9 - IRB Approach – Backtesting of the DP by exposure class

Exposure class	PD scale	Equivalent external rating	Weighted average of the PD	Arithmetic average of the PD by debtors	Number of debtors		Debtors in default status during the year	Of which new debtors	Average historical annual default rate
					End of previous year	End of the year			
Exposures to or guaranteed by businesses - SMEs	0.00 to <0.15		0.07%	0.07%	1,725	916	0	0	0.15%
	0.15 to <0.25		0.17%	0.18%	2,299	1,788	6	1	0.42%
	0.25 to <0.50		0.31%	0.32%	2,526	2,010	11	1	0.75%
	0.50 to <0.75		0.55%	0.56%	1,081	2,437	4	0	1.34%
	0.75 to <2.50		1.55%	1.54%	6,211	5,486	64	4	3.27%
	2.50 to <10.00		5.96%	5.49%	3,632	2,977	174	23	9.99%
	10.00 to <100.00		27.80%	24.85%	2,539	2,038	901	415	31.50%

Exposure class	PD scale	Equivalent external rating	Weighted average of the PD	Arithmetic average of the PD by debtors	Number of debtors		Debtors in default status during the year	Of which new debtors	Average historical annual default rate
					End of previous year	End of the year			
Exposures to or guaranteed by businesses - Other businesses	0.00 to <0.15		0.07%	0.06%	1,507	1,390	0	0	0.16%
	0.15 to <0.25		0.18%	0.18%	567	513	2	0	0.35%
	0.25 to <0.50		0.38%	0.38%	765	604	3	0	0.46%
	0.50 to <0.75		0.54%	0.54%	10	31	0	0	0.38%
	0.75 to <2.50		1.22%	1.29%	1,022	806	21	3	2.68%
	2.50 to <10.00		4.88%	4.89%	532	379	44	9	9.73%
	10.00 to <100.00		29.42%	29.56%	218	118	53	2	27.18%

Exposure class	PD scale	Equivalent external rating	Weighted average of the PD	Arithmetic average of the PD by debtors	Number of debtors		Debtors in default status during the year	Of which new debtors	Average historical annual default rate
					End of previous year	End of the year			
Retail exposures - Exposures guaranteed by property: natural persons	0.00 to <0.15		0.11%	0.11%	70,587	72,253	30	0	0.10%
	0.15 to <0.25		0.20%	0.20%	42,280	40,584	52	0	0.15%
	0.25 to <0.50		0.33%	0.33%	63,884	69,458	87	0	0.16%
	0.50 to <0.75		0.56%	0.56%	38,556	35,563	115	0	0.43%
	0.75 to <2.50		1.41%	1.39%	25,672	26,028	160	2	1.55%
	2.50 to <10.00		4.90%	4.90%	4,175	4,265	124	1	5.87%
	10.00 to <100.00		28.42%	28.38%	9,373	8,422	1,085	1	21.86%

Exposure class	PD scale	Equivalent external rating	Weighted average of the PD	Arithmetic average of the PD by debtors	Number of debtors		Debtors in default status during the year	Of which new debtors	Average historical annual default rate
					End of previous year	End of the year			
Retail exposures - Qualified retail revolving exposures	0.00 to <0.15		0.09%	0.10%	29,621	28,832	12	0	0.06%
	0.15 to <0.25		0.20%	0.20%	15,405	14,896	14	0	0.09%
	0.25 to <0.50		0.33%	0.33%	19,207	18,878	11	0	0.08%
	0.50 to <0.75		0.56%	0.56%	17,052	17,906	24	1	0.31%
	0.75 to <2.50		1.47%	1.43%	62,316	58,642	371	17	0.88%
	2.50 to <10.00		4.90%	4.90%	15,237	14,200	414	6	3.34%
	10.00 to <100.00		18.00%	19.50%	12,867	12,052	1,360	17	23.75%

Exposure class	PD scale	Equivalent external rating	Weighted average of the PD	Arithmetic average of the PD by debtors	Number of debtors		Debtors in default status during the year	Of which new debtors	Average historical annual default rate
					End of previous year	End of the year			
Retail exposures - Other retail exposures: natural persons	0.00 to <0.15		0.09%	0.10%	11,193	10,554	7	2	0.35%
	0.15 to <0.25		0.20%	0.20%	8,133	7,813	44	29	0.47%
	0.25 to <0.50		0.33%	0.33%	13,113	13,188	92	47	0.44%
	0.50 to <0.75		0.56%	0.56%	11,208	11,178	183	123	1.28%
	0.75 to <2.50		1.45%	1.39%	39,252	33,117	2,242	1,615	3.15%
	2.50 to <10.00		4.90%	4.90%	11,693	9,301	3,124	2,355	9.71%
	10.00 to <100.00		18.87%	23.18%	26,599	22,449	15,557	8,773	38.14%

Exposure class	PD scale	Equivalent external rating	Weighted average of the PD	Arithmetic average of the PD by debtors	Number of debtors		Debtors in default status during the year	Of which new debtors	Average historical annual default rate
					End of previous year	End of the year			
Retail exposures - Exposures guaranteed by property: SMEs	0.00 to <0.15		0.11%	0.11%	1,897	1,798	0	0	0.13%
	0.15 to <0.25		0.20%	0.20%	2,955	2,827	7	0	0.20%
	0.25 to <0.50		0.35%	0.35%	4,143	4,201	5	0	0.33%
	0.50 to <0.75		0.60%	0.59%	3,301	2,976	12	0	0.74%
	0.75 to <2.50		1.51%	1.51%	8,727	8,594	65	0	1.53%
	2.50 to <10.00		5.02%	4.98%	5,174	4,920	88	2	4.68%
	10.00 to <100.00		25.49%	26.37%	6,199	5,922	685	2	16.26%

Exposure class	PD scale	Equivalent external rating	Weighted average of the PD	Arithmetic average of the PD by debtors	Number of debtors		Debtors in default status during the year	Of which new debtors	Average historical annual default rate
					End of previous year	End of the year			
Retail exposures - Other retail exposures: SMEs	0.00 to <0.15		0.07%	0.07%	5,016	3,473	0	0	0.09%
	0.15 to <0.25		0.19%	0.20%	18,688	17,401	19	0	0.20%
	0.25 to <0.50		0.35%	0.37%	16,900	15,610	42	3	0.40%
	0.50 to <0.75		0.59%	0.61%	17,116	17,516	61	9	0.80%
	0.75 to <2.50		1.50%	1.53%	62,207	58,709	706	174	1.85%
	2.50 to <10.00		5.11%	4.92%	40,944	37,942	1,695	421	6.77%
	10.00 to <100.00		22.75%	23.14%	40,144	37,792	14,360	5,893	27.94%

Risk Mitigation Techniques

EU CR3 – CRM Techniques – Overview

	Unsecured exposures – Book value	Unsecured exposures – Book value	Exposures secured by collateral guarantees	Exposures secured by collateral guarantees	Exposures secured by credit derivatives
Total loans	41,586,314	66,469,399	53,967,335	12,502,064	0
Total debt securities	37,315,885	0	0	0	0
Total exposures	148,110,146	100,433,798	82,467,230	17,966,568	0
Of which in default status	3,915,589	4,031,272	3,827,419	203,853	0

Counterparty Risk

EU CCR1 – Analysis of exposure to CCR by approaches applied

	Notional	Replacement cost / Current market value	Future potential loan exposure	Effective EPE	Multiplier	EAD after CRM	RWAs
Market value approach		575,051	576,284			979,488	529,116
Original exposure	-					-	-
Standardised approach						-	-
IMM (for derivatives and securities financing transactions [SFTs])				-		-	-
- Of which securities financing transactions				-		-	-
- Of which DERIVATIVES and transactions with long-term settlement				-		-	-
- Of which from agreements for netting between different products				-		-	-
Simplified approach for treatment of financial collateral guarantees (for SFTs)						-	-
Integral approach for treatment of financial collateral guarantees (for SFTs)			-			2,301,522	594,267
VaR for SFTs							
Total							**1,123,384**

EU CCR2 – Capital requirement for CVA risk

		Value of the exposure	RWAs
1	Total portfolios subject to the advanced approach	0	0
2	VaR component (including the multiplier 3×)		0
3	SVaR component (including the multiplier 3×)		0
4	Total portfolios subject to the standardised approach	563,505	224,678
EU4	Based on the approach of the original exposure	0	0
5	**Total subject to capital requirement for CVA risk**	**563,505**	**224,678**

EU CCR3 – Standardised approach – Exposures to CCR by type of regulatory portfolio and risk weighting

Exposure classes	Risk weighting factor											Total
	0%	2%	4%	10%	20%	50%	70%	75%	100%	150%	Other	
Central administrations or central banks	0	0	0	0	0	0	0	0	5,721	0	0	5,721
Regional administrations or local authorities	0	0	0	0	3,697	0	0	0	0	0	0	3,697
Public bodies	0	0	0	0	0	0	0	0	2	0	0	2
Multilateral development banks	0	0							0		0	
International organisations	0	0							0		0	0
Institutions	0	703,676	41,413	0	2,146,704	668,373	0	0	12,396	0	0	3,572,563
Businesses	0	0	0	0	0	8,802	0	0	105,498	1,736	0	116,037
Retail	0	0	0	0	0	0	0	120	0	0	0	120
Loans to institutions and businesses with a short-term assessment of creditworthiness	0	0	0	0	0	0	0	0	0	0	0	0
Other positions	0	0	0	0	0	0	0	0	37,304	74	0	37,378
Total	**0**	**703,676**	**41,413**	**0**	**2,150,401**	**677,175**	**0**	**120**	**160,921**	**1,810**	**0**	**3,735,517**

EU CCR4 – IRB approach – Exposures to CCR by type of portfolio and PD scale

	PD scale	EAD after CRM	Average PD	Number of debtors	Average LGD	Average maturity (years)	RWAs	RWA densities
Businesses: SMEs	from 0.00 to < 0.15	3,195	0.06%	68	32.77%	3.60	581	18.19%
	from 0.15 to < 0.25	9,108	0.18%	181	29.21%	4.09	2,734	30.01%
	from 0.25 to < 0.50	10,738	0.32%	223	30.41%	4.07	4,452	41.46%
	from 0.50 to < 0.75	18,913	0.56%	284	29.78%	4.24	10,090	53.35%
	from 0.75 to < 2.50	39,680	1.50%	493	29.58%	4.38	28,054	70.70%
	from 2.50 to < 10.00	32,895	6.03%	290	29.68%	4.39	32,715	99.45%
	from 10.00 to < 100.00	8,939	30.25%	108	29.28%	4.07	12,086	135.20%
	100.00 (default)	21,001	100.00%	34	41.92%	-	8,498	40.46%
	Past due	19	100.00%	2	28.46%	-	3	14.56%
	UtP	20,978	100.00%	30	41.93%	-	8,494	40.49%
	Default	5	100.00%	2	77.80%	-	2	38.16%
	Subtotal	144,470	18.30%	1,681	31.51%	4.27	99,210	68.67%

	PD scale	EAD after CRM	Average PD	Number of debtors	Average LGD	Average maturity (years)	RWAs	RWA densities
Businesses: Other	from 0.00 to < 0.15	26,155	0.07%	146	32.07%	3.55	5,921	22.64%
	from 0.15 to < 0.25	7,106	0.18%	80	31.33%	3.47	2,617	36.83%
	from 0.25 to < 0.50	24,751	0.38%	90	32.24%	3.53	13,744	55.53%
	from 0.50 to < 0.75	139	0.52%	2	28.27%	3.03	71	51.36%
	from 0.75 to < 2.50	29,121	1.30%	117	31.70%	3.70	25,050	86.02%
	from 2.50 to < 10.00	21,637	3.80%	41	28.97%	4.52	23,871	110.33%
	from 10.00 to < 100.00	8,762	38.94%	18	28.94%	4.01	13,955	159.27%
	100.00 (default)	1,159	100.00%	7	36.10%	-	187	16.09%
	Past due	-	0.00%	-	0.00%	-	-	0.00%
	UtP	1,159	100.00%	7	36.10%	-	187	16.09%
	Default	-	0.00%	-	0.00%	-	-	0.00%
	Subtotal	118,830	4.96%	501	31.21%	3.79	85,416	71.88%
Retail: Other SMEs	from 0.00 to < 0.15	509	0.05%	48	33.09%	-	20	3.94%
	from 0.15 to < 0.25	3,939	0.19%	237	30.10%	-	374	9.51%
	from 0.25 to < 0.50	2,587	0.34%	163	30.72%	-	367	14.18%
	from 0.50 to < 0.75	2,548	0.59%	187	29.82%	-	488	19.15%
	from 0.75 to < 2.50	10,008	1.47%	477	28.88%	-	2,689	26.87%
	from 2.50 to < 10.00	3,493	4.97%	201	28.98%	-	1,210	34.65%
	from 10.00 to < 100.00	1,990	22.44%	116	29.08%	-	1,005	50.49%
	100.00 (default)	917	100.00%	33	38.61%	-	181	19.78%
	Past due	43	100.00%	1	22.89%	-	6	13.42%
	UtP	853	100.00%	29	38.17%	-	168	19.66%
	Default	21	100.00%	3	89.74%	-	8	37.90%
	Subtotal	25,990	6.60%	1,462	29.79%	-	6,335	24.37%
Retail: Other non-SMEs	from 0.00 to < 0.15	87	0.12%	5	13.29%	-	4	4.02%
	from 0.15 to < 0.25	-	0.00%	-	0.00%	-	-	0.00%
	from 0.25 to < 0.50	5	0.33%	2	17.34%	-	1	10.31%
	from 0.50 to < 0.75	12	0.56%	2	14.00%	-	1	11.42%
	from 0.75 to < 2.50	1,104	1.09%	3	3.51%	-	46	4.12%
	from 2.50 to < 10.00	-	0.00%	-	0.00%	-	-	0.00%
	from 10.00 to < 100.00	32	15.51%	5	11.70%	-	8	24.14%
	100.00 (default)	52	100.00%	5	23.61%	-	7	13.02%
	Past due	8	100.00%	2	19.07%	-	1	7.33%
	UtP	44	100.00%	3	24.39%	-	6	14.00%
	Default	-	0.00%	-	0.00%	-	-	0.00%
	Subtotal	1,293	5.32%	22	5.33%	-	65	5.07%
Total (all portfolios)		290,582	11.74%	3,666	31.12%	4.04	191,026	65.74%

EU CCR5-A – Impact of netting agreements and of collateral guarantees held on the amount of exposures

	Positive gross fair value or net book value	Benefits of offsetting	Offset current loan exposure	Collateral guarantee held	Net loan exposure
Derivatives	2,134,392	1,896,782	237,610	200,758	36,852
SFTs	0	0	0	0	0
Netting between different products	0	0	0	0	0
Total	**2,134,392**	**1,896,782**	**237,610**	**200,758**	**36,852**

EU CCR5-B – Composition of collateral guarantees for CCR exposures

	Collateral guarantee used in derivative transactions				Collateral guarantee used in SFTs	
	Fair value of the collateral guarantee received		Fair value of the collateral guarantee provided		Fair value of the collateral guarantee received	Fair value of the collateral guarantee provided
	Segregated	Not segregated	Segregated	Not segregated		
Derivatives	189,994	10,764	1,065,465	166,266	0	0
SFTs	0	0	0	0	8,065,208	20,803,634
Total	**189,994**	**10,764**	**1,065,465**	**166,266**	**8,065,208**	**20,803,634**

EU CCR6 – Exposures in credit derivatives

	Credit derivatives for hedging		Other credit derivatives
	Protection bought	Protection sold	
Notional			
Single-name credit default swaps			69,200
Index credit default swaps			0
Total return swaps			0
Credit options			
Other credit derivatives			0
Total notional			0
Fair value			-852
Positive fair value (asset)			324
Negative fair value (liability)			-1,176

EU CCR8 – Exposures to CCPs

		EAD after CRM	RWAs
1	**Exposures to QCCPs (total)**		**27,984**
2	Exposures from trading with QCCPs (excluding the initial margin and contributions to the guarantee fund); of which:	745,090	15,730
3	i) derivatives traded over the counter (OTC)	118,318	3,195
4	ii) derivatives traded in markets	42,725	854
5	iii) SFTs	584,047	11,681
6	iv) agreements for netting between different products approved	0	0
7	Segregated initial margin	391,000	
8	Non-segregated initial margin	106,746	4,270
9	Pre-funded contributions to the guarantee fund	270,762	7,984
10	Alternative system for calculating the requirement on the subject of own funds		0
11	**Exposures to unqualified CCPs (total)**	**-**	**-**
12	Exposures from trading with unqualified CCPs (excluding the initial margin and contributions to the guarantee fund); of which:	0	0
13	i) derivatives traded over the counter (OTC)	0	0
14	ii) derivatives traded in markets	0	0
15	iii) SFTs	0	0
16	iv) agreements for netting between different products approved	0	0
17	Segregated initial margin	0	
18	Non-segregated initial margin	0	0
19	Pre-funded contributions to the guarantee fund	0	0
20	Non-funded contributions to the guarantee fund	0	0

Market risk - IMA approach

Characteristics of the internal models and description of the stress tests applied

Internal model Banco BPM, Banca Akros

At the beginning of 2012, the Banco BPM Group obtained validation of the internal model for market risks, with effect from 30.06.2012. The internal model is used in association with management risk measures that differ from regulatory measures by virtue of the risk factors considered and some technical elements.

The main characteristics of the VaR internal model used to value market risk from a regulatory and management perspective are set forth below:

- Method: historical simulation
- Time horizon: 1 day (re-parameterised to 10 days for regulatory purposes)
- Depth of historical series: 1 year
- Confidence level: 99%
- Decay factor: 0.99 for management purposes and 1 for regulatory purposes (or equal weighting of the historical scenarios of reference)
- Non-linearity of pay-outs: managed through an assessment of the portfolio in full evaluation

The risk factors considered by the VaR model for regulatory purposes are:

- share prices;
- volatility of share prices;
- interest rates;
- volatility of interest rates;
- exchange rates;
- volatility of exchange rates.

For management purposes, the internal model also estimates the specific risk factor.

The regulations provide for a prudential requirement additional to the VaR, calculated using market inputs related to periods of financial stress ("Stressed VaR"). The scope of application of the stressed VaR includes all the risk factors in the VaR model for regulatory use.

All positions in the Banca Akros and Banco BPM Trading Book are subjected to measurement of market risk. The Trading Book is identified as all positions present in the portfolios to which was assigned the attribute of portfolio containing transactions for trading purposes. This attribute is assigned when a new portfolio is entered into the Front Office applications by the applicant operator. To this end, there is a specific process rule "Opening new position keeping portfolios" which defines the players involved and the activities that each of them must perform for the portfolio to be entered. At the same time, this process guarantees a precise distinction between the Trading Book portfolios and those of the Banking Book.

In order to estimate the capital requirement using the internal model, the capital requirement is therefore calculated using the following formula:

$$C_t = \max[VaR_{t-1}; \beta_c \overline{VaR}] + \max[sVaR_{\tau}; \beta_s \overline{sVaR}] + [ST\ par.ill.]$$

- C_t : is the capital requirement at day t;
- VaR_{t-1} : is the value at risk calculated according to the internal model for the book held at day t-1, while $\overline{VaR}$ represents the average of the VaR measures calculated in the last 60 business days;
- $sVaR_{\tau}$: is the last available value for the Stressed VaR while $\overline{sVaR}$ represents the average of the Stressed VaR measures calculated in the last 60 business days;
- β_c and β_s : represent the multiplication factors for the VaR and the Stressed VaR respectively;
- $\boldsymbol{ST \quad par.ill}$: is the component of the capital requirement estimated for illiquid parameters and conducted with stress test methods. These parameters are represented by dividends and correlation.

The multiplication factor established by Banco BPM is 5.4 for both VaR and Stressed VaR (in the beta add-ons relative to the backtesting process are included, as in the specific section); for Banca Akros, the multiplication factor for VaR and Stressed VaR is 4.4.

Market risk stress test

Stress Tests are tests carried out on a portfolio to identify the scenarios, i.e. the changes in a series of risk factors, the occurrence of which would incur a significant loss.

These tests allow identification of the risk factors that contribute more than others to this negative result and consequently allow implementation of loss-limiting strategies when these scenarios occur.

Stress testing is mandatory for the purposes of validating Internal Models for quantifying minimum capital requirements for the market risk, as it provides banks with indication of the level of capital required to deal with any loss arising from long-lasting deterioration of the economic-financial conditions.

It is also a supporting tool for other risk management and measurement techniques, in that it:

- provides a prospective view of risks and their economic impact;
- exceeds the limits arising from risk management models based on historical data (HVaR with reading of the last 250 observations);

- integrates managerial reporting and public disclosure;
- provides input data for capital and liquidity planning processes;
- provides indication of a bank's level of risk tolerance;
- guarantees development of risk mitigation and recovery plans in certain stress situations.

For the Banco BPM Group, stress tests are carried out regularly for the entire trading book. In order to establish the value of the book in stress scenarios, the full revaluation approach has been chosen to ensure that all irregularities in pay-offs of instruments are fully noted.

Two types of scenario are applied: historical scenarios (in which the changes in each risk parameter are consistent with the worst historical observations) and hypothetical scenarios in which the changes in the risk parameters are defined through expert valuation.

In order to represent the overall risk associated with a trading book, the link between the market risk and the liquidity risk—specifically in terms of market liquidity risk, that is, the risk which, due to a sudden shortage in market liquidity, a bank is unable to close some positions promptly (at a price approaching the theoretical price)—is of particular importance. The time required to allow timely closing of the risk positions of a trading book is considered to be 10 business days. This horizon is consistent with supervisory recommendations, traders´ opinions and historical quantitative data.

Hence, in Stress Test evaluation, when possible scenarios are identified based on 10- day time ranges or, for data concerning daily oscillations in parameters, the VaR data is re-parameterised on a 10-day time horizon.

Backtesting

The most important aspect of back testing is the comparison between the values of expected losses (VaR) and the portfolio's actual or theoretical losses.

Once these two comparable figures have been obtained, it is possible to statistically analyse the frequency of exceptions, i.e. of those cases in which the VaR measure estimated by the model proves less serious than the actual loss recorded.

The prudential supervisory regulations establish that the change in value of the book (or individual position) must be as significant as possible for comparison with the VaR (not only is a direct comparison between the VaR calculated on a portfolio and its Profit and Loss result of little real value, but it may also lead to incorrect conclusions).

The best measure is the actual net change, that is, the measure obtained by excluding commissions and the contribution for accrued interest from the operating results.

The back tests are also conducted on the basis of the hypothetical change in the portfolio, obtained by revaluing the quantities present in the portfolio on day t-1 with the day t (test date) prices.

Each day, the VaR result is compared with the P&L result, both Actual and Theoretical, as described above, and a report is provided on how the ratio between the two measures has evolved on a historical basis, that is, over the last 250 observations.

The Group chose to carry out back testing not only on the banks' entire portfolio, but also to compare at portfolio sub-aggregates level, the P&L back testing result and the VaR result.

This decision was dictated by the intention to check and monitor the performance and reliability of the VaR model results on various levels of the company´s organisational structure, where the result is less influenced by the effects of netting.

The decision is also consistent, in management terms, with the attribution of VaR limits on various levels.

From an operational point of view, this decision means that it is possible to check the extent to which the model in use is valid for the various portfolios, highlighting those areas in which modelling of the changes in P&L on the basis of historical simulation is more efficient and where it is less.

Furthermore, if exceptions should arise, it is possible to precisely identify the individual component that produced the event and therefore to take appropriate action.

Scope of authorisation to use the internal models approach issued by the Bank of Italy

At present, the following risk profiles are included in the internal model: generic risk for debt securities, equity securities and UCITS units; specific risk for equity instruments and UCITS units and for foreign exchange risk for the trading book.

At this stage of the validation process, the internal approach is also adopted for quantifying the risk arising from change in the price of instruments with irregular pay-off (options risk).

The table below provides a graphic illustration of the risk profiles that are measured using proprietary models as at the reference date:

	Position risk						Options	Risk of commodity	Risk of settlement	Risk of concentration	Risk of exchange
	Equity		Rate		UCITS						
	Gen.	Spec.	Gen.	Spec.	Gen.	Spec.					
Banco BPM											
Banca Akros											

Key

	Standardised reporting
	Internal model reporting

During 2019, projects continued to extend the internal model for banking book exchange risk and debt security specific risk.

Fair value policy

To ensure increasing clarity, transparency and comparability of data relating to the fair value measurement of financial instruments, for the benefit not only of shareholders but also of all the bank’s stakeholders, the Banco BPM Group has set in place internal rules and an internal policy that provide transparent and comprehensive governance of the methodological approach and operating model adopted by the Bank for the fair value measurement of financial instruments, in compliance with regulations in force (accounting standards, financial statement regulations).

The fair value policy is applied to all valuations made in the Annual Report (Balance Sheet, Income Statement and Explanatory Notes) of financial instruments represented by debt securities, equity instruments and derivatives and concerns the positions of the books owned by Group Banks, excepting third party trading books.

Fair value measurement of financial instruments may occur:

- through use of market prices or values that meet certain requirements ('mark to market');
- through use of market prices or values of similar instruments or transactions that meet certain requirements ('mark to matrix');
- through use of measurement techniques and models based on market parameters ('mark to model'), whether entirely observable or in part deriving from hypotheses and assumptions.

The best evidence of the fair value of a financial instrument is a price listed on an active market.

If the market is not active and the listed price does not provide a correct representation of the instrument´s fair value, the Bank determines the fair value by adopting a valuation technique.

The valuation technique aims to establish the price at which the transaction would have occurred at the valuation date in normal business conditions.

Valuation techniques take the following into consideration:

- if available, the prices of recent transactions on similar instruments suitably corrected to reflect changes in market conditions and technical differences between the instrument to be valued and the instrument selected as similar ('comparable approach' or 'mark to matrix');
- valuation models commonly used by the financial community that have proven over time to produce reliable estimates of prices with regard to current market conditions.

With regard to the latter type (valuation models), the Bank makes maximum use of observable market parameters reducing as far as possible the input from internal assumptions and/or estimates.

In conducting its assessments with a pricing model, the Bank takes into account all the relevant factors for the purpose of determining a price that may be considered representative of a hypothetical market transaction.

The Bank also periodically conducts a calibration exercise on the valuation techniques to test, on an ongoing basis, their validity with regard to actual market transactions or to any other observable value that is representative of fair value.

Fair value measurement also involves the application of valuation adjustments to take into account the risk premiums considered by the operators when pricing the instruments. If not explicitly considered in the valuation model, the valuation adjustments include:

- model adjustments: to consider the weaknesses of the models highlighted during the calibration phases;
- liquidity adjustments: if the model estimates a mid-price, it must be adjusted to take the bid/ask spread into account;
- credit risk adjustments: if the model does not take the counterparty risk or own risk into account, it must be adjusted accordingly;

- other risk adjustments: if the model does not take a risk premium priced on the market into account (for example, concerning the complexity of valuation or hedging of the instrument), it must be appropriately corrected.

These corrections are permitted only to the extent to which they help to obtain a better estimate. Accordingly, valuation adjustments are not adopted if they distance the valuation from the fair value, for example, merely for prudential purposes.

The Fair Value Policy consists of two main documents: a first document describing the procedures and the source of valuation of the Securities and a second document that applies to Derivatives.

The aim of the first document concerning Securities is to define and formalise the Bank´s operating choices for fair value measurement of non-derivative financial instruments.

Specifically, within the Mark-to-Market Policy, the document defines:

- the procedures for choosing the markets from which the prices are taken;
- the configurations of the price adopted;
- the information sources;
- the types of operating controls on availability and quality of prices.

As provided for in the Mark-to-Model Policy, the document describes:

- the criteria for finding market parameters using the comparable approach;
- the market parameters to be used in the technical valuations;
- the operating controls on availability and quality of market data.

The aim of the second document concerning Derivatives is to define and formalise the Bank's operating choices for fair value measurement of derivative financial instruments. Specifically, within the Mark-to-Market Policy, the document defines:

- the procedures for choosing the markets from which the prices are taken;
- the configurations of the price adopted;
- the information sources.

As provided for in the Mark-to-Model Policy, which includes OTC derivative instruments, the document describes:

- the market parameters to be used in the technical valuations;
- the criteria for finding market parameters using the comparable approach.

Fair Value Policy - Compliance with regulations

Compliance with regulations of the Fair Value Policy—validated by the Internal Validation function at the time of application for the validation of the internal model for market risk—is constantly guaranteed by organisational safeguards in place for its process of maintenance and change.

More specifically, proposals to change the technical annexes of this document are submitted for the approval of the Parent Company Risk Committee on the proposal of/following an investigation by the Risk Unit, which also considers aspects of prudence and reliability (established by the regulatory legislation) of the assessment approaches proposed.

Pricing models

OTC derivative instruments are managed on a specific position keeping application (namely the Risque application of the company Finastra) which allows calculation of the fair value, management of positions and risk (calculation of risk Greeks, calculation of VaR, management of cash flows, management and accounting profit and loss account) and preparation of all input to the summary systems (accounting, reporting and credit line used).

The fair value is calculated by associating each product with a pricing model which considers the characteristics of the product and specifically the dynamics of the underlying market variables.

For particularly complex products or if the default valuation model of the Risque system is considered insufficient or not appropriate, the pricing models may be integrated with valuation models drawn up by the Financial Engineering Unit of Banca Akros.

In both cases, the models are validated and regularly reviewed by the Market Risks Unit, which is responsible for certifying the correctness of the pricing models for the positions managed within the Risque position keeping system.

Validation of Models

The activity of validation arises from the need to use a new pricing model dictated by two different types of needs:

- to make existing product pricing models more market compliant;
- to measure new payouts by Traders.

This activity consists of the following points:

- theoretical analysis of the model
- deterministic payout testing
- payout stress testing
- parameter stress testing
- *repricing*
- consistency of Greeks
- comparative testing with counterparties' prices
- drawing up Product/Model Validation report.

If the outcome of all the tests is positive, the Validation report is submitted to the Product Innovation Committee.

Review of the Models

Models are reviewed in order to check that previously validated models still reflect the changed market conditions and the review is carried out by repeating the validation tests and adding some consistency tests:

- price repeating test using Greeks;
- ongoing comparison with the market.

EU MR2-A - Market risk under the IMA

		30/06/2019	30/06/2019	31/12/2018	31/12/2018
		BANCO BPM		BANCO BPM	
		RWAs	Capital requirements	RWAs	Capital requirements
1	**VaR (the greater between a and b)**	**133,563**	**10,685**	**144,246**	**11,540**
a)	VaR previous day (Article 365(1) of CRR (VaRt-1))	25,440	2,035	22,353	1,788
b)	Average of daily VaR (Article 365(1) of CRR) for the previous 60 working days (VaRavg) x multiplication factor (mc), pursuant to article 366 of CRR	133,563	10,685	144,246	11,540
2	**SVaR (the greater between a and b)**	**895,340**	**71,627**	**841,221**	**67,298**
a)	Last SVaR (Article 365(2) of CRR (SVaRt-1))	140,188	11,215	154,251	12,340
b)	Average of daily SVaR (Article 365(2) of CRR) for the previous 60 working days (SVaRavg) x multiplication factor (ms) (Article 366 of CRR)	895,340	71,627	841,221	67,298
6	**Total**	**1,028,903**	**82,312**	**985,467**	**78,837**

		30/06/2019	30/06/2019	31/12/2018	31/12/2018
		BANCA AKROS		BANCA AKROS	
		RWAs	Capital requirements	RWAs	Capital requirements
1	**VaR (the greater between a and b)**	**162,545**	**13,004**	**141,565**	**11,325**
a)	VaR previous day (Article 365(1) of CRR (VaRt-1))	44,656	3,573	42,757	3,421
b)	Average of daily VaR (Article 365(1) of CRR) for the previous 60 working days (VaRavg) x multiplication factor (mc), pursuant to article 366 of CRR	162,545	13,004	141,565	11,325
2	**SVaR (the greater between a and b)**	**674,467**	**53,957**	**302,403**	**24,192**
a)	Last SVaR (Article 365(2) of CRR (SVaRt-1))	165,123	13,210	74,641	5,971
b)	Average of daily SVaR (Article 365(2) of CRR) for the previous 60 working days (SVaRavg) x multiplication factor (ms) (Article 366 of CRR)	674,467	53,957	302,403	24,192
6	**Total**	**837,012**	**66,961**	**443,968**	**35,517**

		30/06/2019	30/06/2019	31/12/2018	31/12/2018
		TOTAL		TOTAL	
		RWAs	Capital requirements	RWAs	Capital requirements
1	**VaR (the greater between a and b)**	**296,108**	**23,689**	**285,810**	**22,865**
a)	VaR previous day (Article 365(1) of CRR (VaRt-1))	70,096	5,608	65,110	5,209
b)	Average of daily VaR (Article 365(1) of CRR) for the previous 60 working days (VaRavg) x multiplication factor (mc), pursuant to article 366 of CRR	296,108	23,689	285,810	22,865
2	**SVaR (the greater between a and b)**	**1,569,807**	**125,585**	**1,143,625**	**91,490**
a)	Last SVaR (Article 365(2) of CRR (SVaRt-1))	305,310	24,425	228,892	18,311
b)	Average of daily SVaR (Article 365(2) of CRR) for the previous 60 working days (SVaRavg) x multiplication factor (ms) (Article 366 of CRR)	1,569,807	125,585	1,143,625	91,490
6	**Total**	**1,865,915**	**149,273**	**1,429,435**	**114,355**

EU MR3 - IMA values for trading books

	30/06/2019	31/12/2018	30/06/2019	31/12/2018
amounts in millions of euro	BANCO BPM	BANCO BPM	BANCA AKROS	BANCA AKROS
VaR (10 days, 99%)				
Maximum value	7,431	5,679	7,854	5,339
Average value	2,485	2,834	4,382	3,083
Minimum value	618	1,707	2,377	1,613
Value at period-end	2,775	1,909	2,840	5,261
SVaR (10 days, 99%)				
Maximum value	45,131	28,029	28,487	7,332
Average value	13,724	15,754	12,326	5,520
Minimum value	4,164	12,118	6,123	4,011
Value at period-end	11,379	12,340	8,050	5,971

EU MR4 - Comparison of VaR estimates with gains/losses

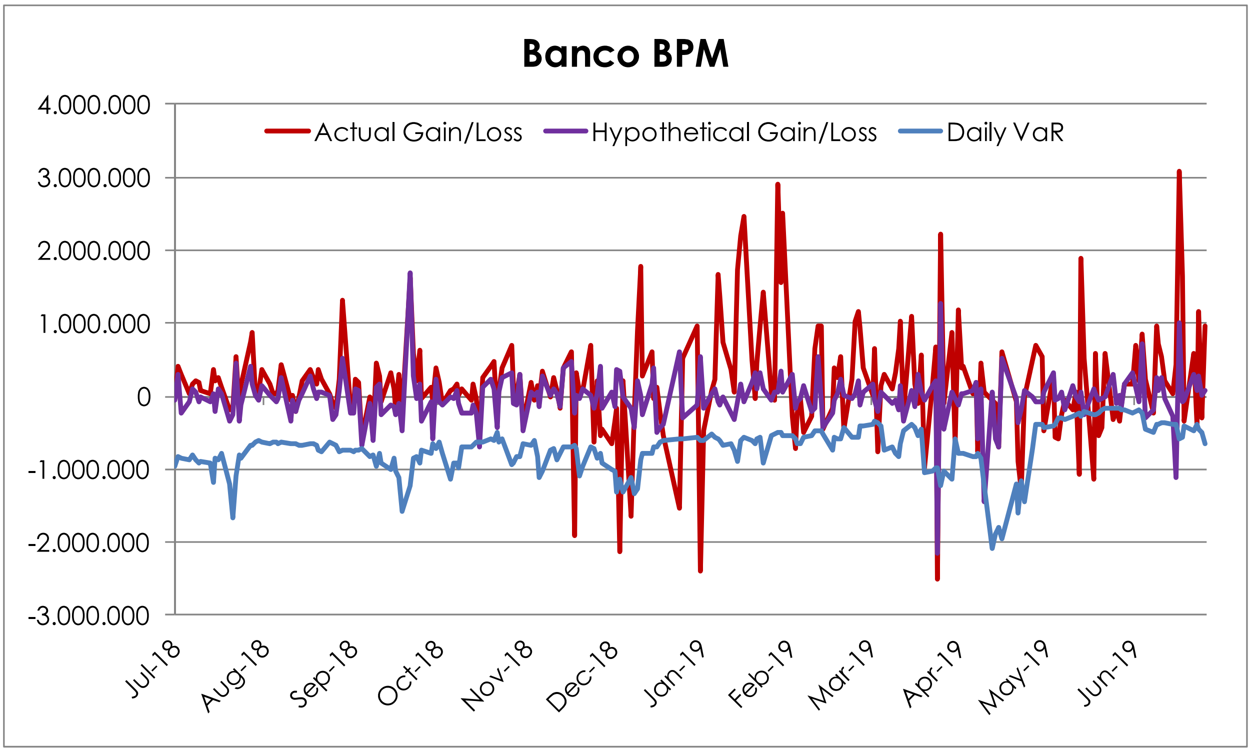
The outcome of backtesting of the VaR estimates, that is, comparison of the expected loss estimated ex-ante through VaR with the corresponding actual profit and loss figures regarding performance of the regulatory trading book of Banco BPM, and of Banca Akros in the period July 2018 - June 2019.

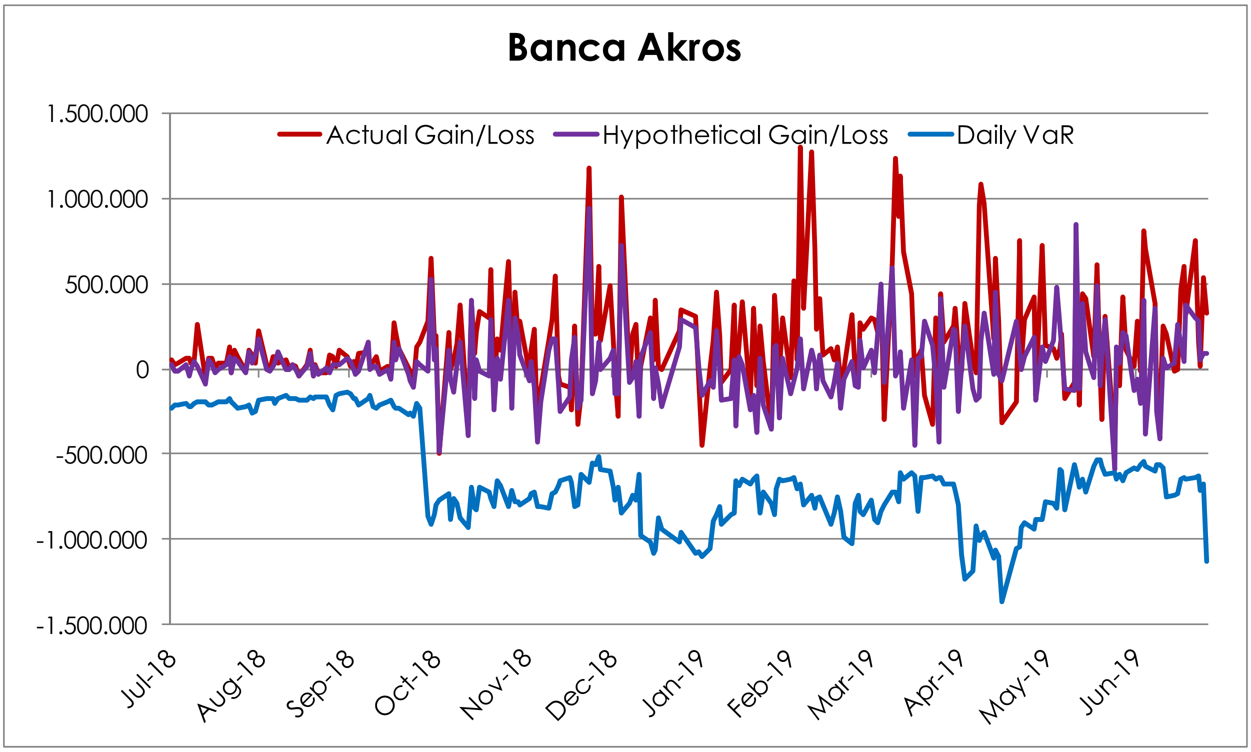
The components that are not pertinent to the back test, such as commissions and intraday activity, have not been included in the daily profit and loss readings.

Effective backtesting P&L includes the specific risk component as of 20 November 2018, in accordance with ECB indications.

In the period examined, with regards to Banca Akros, the number of exceptions (higher losses than the VaR estimate) is consistent with the level of confidence used (an estimate with 99% confidence level means that an exception occurs in 1% of the residual cases: in 250 business days this result is therefore expected in 2-3 business days).

For Banco BPM, the inclusion of specific risk in effective P&L is the main determinant of the excesses detailed below.





** Official regulatory reporting figures relative to the development of Banca Akros during 2018*

As of 30/06/2019, the following limits were exceeded:

Banco BPM:

- Effective Backtesting: no. 21
- Hypothetical Backtesting: no. 5

Banca AKROS:

- Effective Backtesting : no.0
- Hypothetical Backtesting: no.0

As the number of variances is greater between those obtained using backtesting based on effective portfolio variations and those based on hypothetical portfolio variations, 21 over runs were seen for Banco BPM and 0 for Banca AKROS.

Operational risk

Approach used to calculate capital requirements

For the purposes of determining capital relative to operational risk, the Banco BPM Group has been authorised by the ECB to use the following regulatory approaches:

a) advanced approach (AMA) for the former Banco Popolare segments already validated for the use of these approaches (former Banco Popolare segments of the Parent Company and Banca Aletti);

b) standardised approach (TSA) for the former BPM segments already validated for the use of these approaches (former BPM Scarl and SpA segments transferred to the new parent company, Banca Akros, ProFamily),

c) basic indicator approach (BIA) for the Group's other minor companies.

The AMA model has been developed in such a way as to use all four types of input envisaged by supervisory regulations.

The previous losses recognised internally are gathered by means of a rigorous Loss Data Collection process.

External loss data is provided by the DIPO consortium.

Scenario analyses are gathered during the Risk Self-Assessment (RSA) process, during which various business experts are asked to give their opinions on the exposure of all company processes to operational risk, also with a view to the future. Aspects of the operating context and of the system of internal control are continually monitored in order to promptly recognise changes in the internal and external scenario.

Lastly, note that, from a prudential perspective, the Group does not use mechanisms to reduce pillar I capital, as envisaged in the Regulations, in relation to risk outsourcing/transfer mechanisms such as for example insurance covers or other similar techniques.

The Group's total Capital at Risk (CaR) is calculated by combining the measurement of risk obtained from the model based on previous operating losses, both internal and external, with that obtained on the basis of the model that uses evidence from scenario analyses.

Both models adopt the modelling approach known as the Loss Distribution Approach, which is based on modelling annual aggregated loss, defined as the sum of the loss amounts (severity) associated with each of the loss events that occur in one year (frequency).

The risk estimate is conducted by means of a Value at Risk measurement, with a confidence interval of 99.9% and over a time horizon of one year on risk classes that demonstrate similar operating losses.

The total capital requirement is obtained by aggregating the risk estimates measured for the various classes of risk, taking into account any benefits of diversifying exposure to the different types of operational risk, and envisages the deduction of the provisions transferred to the income statement, to the extent of the expected loss calculated by the internal model.

Under the Traditional Standardised Approach (TSA) capital requirements are calculated by applying ratios differentiated by business line (which varies between 12% and 18%) to the average of the relevant indicator defined by the CRR 2013/575 for the last three years, broken down by business line.

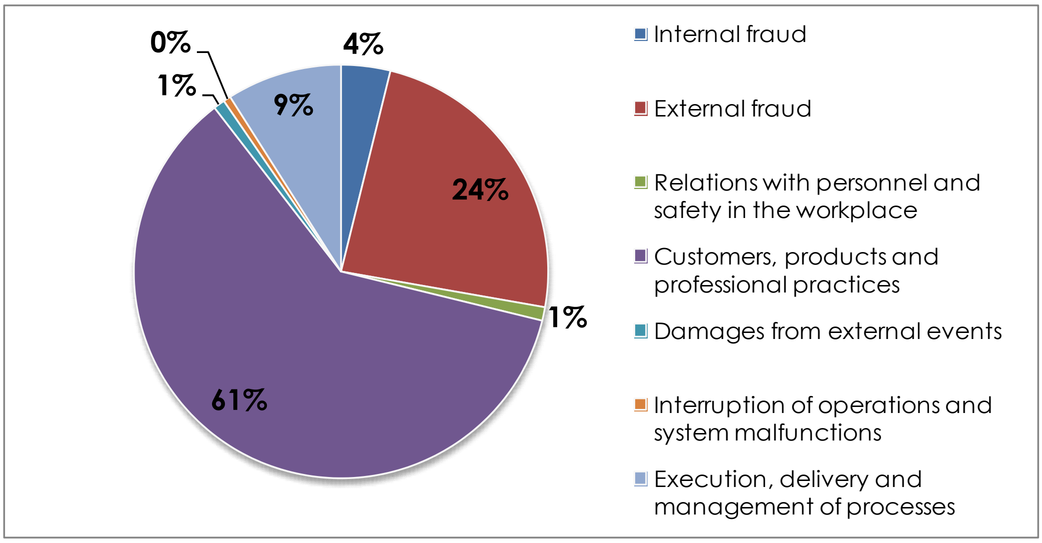
Under the Basic Indicator Approach (BIA), capital requirements are calculated by applying an alpha coefficient (15%) to the average of the relevant indicator defined by the CRR 2013/575 for the last three years.

The portion of regulatory capital requirements determined using the AMA approach represents 49.2% (equal to around € 226 mln out of a total of around € 459 mln) of total requirements for operational risk.

Below is a detailed analysis of the AMA, TSA and BIA capital requirement as at 30 June 2019.

No.	Event type	VaR AMA	
		30/06/2019	31/12/2018
		(mln €)	*(mln €)*
1	Internal fraud	9.6	9.5
2	External fraud	55.3	63.4
3	Relations with personnel and safety in the workplace	3.9	4.4
4	Customers, products and professional practices	196.3	196.3
5	Damages from external events	2.0	2.1
6	Interruption of operations and system malfunctions	1.3	1.9
7	Execution, delivery and management of processes	33.2	35.6
Total Requirement of Risk Categories (A1)		**301.7**	**313.0**
Expected loss deduction (A2)		**75.9**	**67.7**
AMA capital requirement (A = A1 - A2)		**225.8**	**245.3**
TSA requirement (B)		**222.3**	**213.6**
BIA requirement (C)		**10.9**	**10.9**
Total capital requirement (A+B+C)		**459.0**	**469.8**

Breakdown of the capital requirement relating to the AMA approach by event type



Financial Leverage

Definition and regulatory framework

Part Two, chapter 12, of Circular no. 285 of 17 December 2013 "Regulations for the supervision of banks" requires Banks to calculate the leverage ratio as established in Part Seven of Regulation (EU) no. 575/2013 of the European Parliament and of the Council of 26 June 2013, on prudential requirements for credit institutions and investment firms.

This indicator must be measured and monitored over time in order to:

- limit the accumulation of financial leverage and therefore attenuate the brusque deleveraging processes that took place during the crisis;
- limit possible measurement errors associated with the current system for calculating weighted assets.

In fact, the definition of excessive financial leverage risk set forth in the aforementioned Circular (derived from the definitions of art. 4(93) and 4(94) of the CRR Regulation) reads:

> *"this is the risk that a particularly high level of debt with respect to own funds could make the bank vulnerable, requiring it to take corrective measures in its business plan, including selling assets at a loss, which could require recognizing value adjustments on other assets as well."*

The leverage ratio is calculated as the intermediary´s capital (numerator) divided by the amount of the bank´s overall exposure (denominator), and is expressed as a percentage.

$$\text{Leverage ratio} = \frac{\text{Tier 1 Capital}}{\text{Amount of overall exposure}}$$

The Risk Unit is responsible for monitoring the actual leverage ratio compared to the proposed minimum threshold of 3%. It should be noted in particular that this indicator is included among the Strategic indicators in the Group's Risk Appetite Framework; hence it is subject to a continuous control and verification of compliance with the defined thresholds (Trigger, Tolerance, Capacity, as well as the Target threshold, which corresponds to the level set in the Business Plan).

The Group currently calculates the leverage ratio based on procedures set forth in Annex XI of Execution Regulation (EU) 680/2014 of 16 April 2014 which, starting from the reporting date 30 September 2016, implements the following regulatory changes:

1) Commission Delegated Regulation (EU) 2015/62 dated 10 October 2014, which amends Art. 429 of Regulation (EU) No 575/2013.

2) Commission Implementing Regulation (EU) 2016/428 dated 23 March 2016, which amends Implementing Regulation (EU) No 680/2014, updating the technical rules regarding reporting of the leverage ratio.

Details of the individual elements included in the leverage ratio calculation at 30 June 2019 are provided below.

The Leverage Ratio indicator was 4.97% in June 2019, with the transitional definition of Tier 1 capital, or at 4.28% with fully-adopted definition of the said capital.

The quantitative disclosure at 30 June 2019 is presented below in accordance with the templates provided for in Implementing Regulation (EU) 2016/200 of 15 February 2016.

LRSum table: Reconciliation of accounting assets and exposure for calculating the Leverage Ratio

	Reference Date	30/06/2019	31/12/2018
	Entity name	Banco BPM	
	Level of application	consolidated	
LRSum Template: Summary reconciliation of accounting assets and leverage ratio exposures			
		Applicable amount	
1	Total assets as per published financial statements	167,818,779	160,464,791
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	-83,664	-125,320
4	Adjustment for derivative financial instruments	726,505	627,455
5	Adjustment for securities financing transactions (SFT)	2,011,410	1,419,503
6	Adjustment for off-balance sheet elements	24,752,934	15,862,714
7	Other adjustments	-5,914,909	-5,729,509
8	**Leverage ratio total exposure measure**	**189,311,055**	**172,519,634**

For the purposes of uniform comparison, note that the data from the LRSum table for the previous year were restated with greater details, to better highlight the contribution of off-balance sheet elements.

LRCom table: Leverage ratio disclosure

	Reference Date	30/06/2019	31/12/2018
LRCom Template: Harmonised disclosure on leverage ratio			
		CRR leverage ratio exposure	
On-balance sheet exposures (excluding derivatives and SFTs)			
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	156,601,920	150,462,117
2	(Asset amounts deducted in determining Tier 1 capital)	-1,945,599	-2,444,951
3	**Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) (sum of lines 1 and 2)**	**154,656,321**	**148,017,166**
Derivative exposures			
4	Replacement cost associated with all derivative transactions (i.e. net of eligible cash variation margin)	175,819	470,256
5	Add-on amount for potential future exposures associated with all derivative transactions (mark-to-market method)	726,505	627,455
EU-5a	Exposure determined with Original Exposure Method	0	0
6	Gross-up for derivative collaterals provided where deducted from the balance sheet assets pursuant to the applicable accounting framework	0	0
7	(Deductions of receivables for cash variation margin provided in derivative transactions)	-1,033,146	-878,365
8	(Exempted CCP leg of client-cleared SFT exposure)	0	0
9	Adjusted effective notional amount of credit derivatives sold	0	0
10	(Adjusted effective notional offsets and add-on deductions for credit derivatives sold)	0	0
11	**Total derivative exposures (sum of lines 4 to 10)**	**-130,823**	**219,346**
SFT exposures			
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	8,262,539	7,000,904
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	0	
14	Counterparty credit risk exposure for SFT assets	2,011,410	1,419,503
EU-14a	Derogation for SFTs: counterparty credit risk exposure in accordance with Articles 429-*ter*(4) and 222 of Regulation (EU) No 575/2013	0	0
15	Agent transaction exposures	0	0
EU-15a	(Exempted CCP leg of client-cleared SFT exposure)	0	0
16	**Total SFT exposures (sum of lines 12 to 15a)**	**10,273,950**	**8,420,407**
Other off-balance sheet exposures			
17	Off-balance sheet exposures at gross notional amount	69,288,921	59,561,570
18	(Adjustments for conversion to credit equivalent amounts)	-44,535,988	-43,698,856
19	**Other off-balance sheet exposures (sum of lines 17 and 18)**	**24,752,934**	**15,862,714**
(Exempted exposures in accordance with Article 429(7) and (14) of Regulation (EU) No 575/2013 (on and off-balance sheet))			
EU-19a	(Intra-group exposures (individual basis) exempted in accordance with Article 429(7) of Regulation (EU) No 575/2013 (on and off-balance sheet))	0	0
EU-19b	Exempted exposures in accordance with Article 429(14) of Regulation (EU) No 575/2013 (on and off-balance sheet)	0	0
Capital and total exposure measure			
20	**Tier 1 Capital**	**9,403,841**	**7,888,137**
21	**Leverage ratio total exposure measure (sum of lines 3, 11, 16, 19, EU-19a and EU-19b)**	**189,311,055**	**172,519,634**
Leverage ratio			
22	**Leverage ratio**	**4.97%**	**4.57%**
Choice on transitional arrangements and amount of derecognised fiduciary items			
UE-23	Choice on transitional arrangements for the definition of the capital measure	"transitional arrangements"	"transitional arrangements"
UE-24	Amount of derecognised fiduciary items in accordance with Article 429(11) of Regulation (EU) No 575/2013		

For the purposes of uniform comparison, note that the data from the LRSum table for the previous year were restated with greater details, to better highlight the contribution of off-balance sheet elements.

LRSpl table: Division of the exposure

Reference Date		30/06/2019	31/12/2018
LRSpl Table: Split-up of on balance sheet exposures (excluding derivatives, SFTs and exempted exposures)			
		CRR leverage ratio exposure	
UE-1	Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:	155,568,775	149,583,753
UE-2	- trading book exposures	4,280,936	3,296,241
UE-3	- banking book exposures, of which:	151,287,839	146,287,512
UE-4	- covered bonds	118,691	101,819
UE-5	- exposures treated as sovereign issuers	35,378,307	34,405,491
UE-6	- exposures to regional governments, MDBs, international organisations and PSEs not treated as sovereign issuers	663,363	653,381
UE-7	- entities	9,616,957	8,927,323
UE-8	- secured by mortgages on real estate properties	36,911,784	36,503,088
UE-9	- retail exposures	14,010,658	14,537,010
UE-10	- businesses	34,136,233	33,564,068
UE-11	- exposures in default status	6,326,390	7,961,925
UE-12	- other exposures (e.g. equity instruments, securitisations, and other non-loan assets)	14,125,457	9,633,407

First half 2019 - Comment on the exposures considered in the leverage calculation

At 30 June 2019, the Group's operations confirmed an increase of around 10% in exposures computed for the leverage ratio, compared to the situation presented at the end of the previous year, showing a rise in line with the increase of capital assets on the balance sheet.

SFT contracts show exposures up by 18.0% (credit risk) and up by 41.7% (counterparty risk), the latter especially influenced by securities lending transactions. They mainly consist of contracts entered into with qualified central counterparties and/or leading Italian/foreign banking counterparties.

Financial derivative contracts show exposures up by 20.6% for replacement cost and by 15.8% for future credit exposure. They are, for the most part, represented by interest rate swap contracts with diversified clients, or contracts settled in the context of netting agreements stipulated with large national corporate counterparties and/or primary national or foreign banking counterparties.

At the end of June 2019 there were deductions for cash variation margins received in relation to derivative transactions.

Deductions for receivables resulting from change margins in cash provided in transactions on derivatives increased by 17.6%, almost entirely represented by daily change margins.

Off-balance-sheet items with 20% FCC rose by 6.5% and are mainly represented by margins available on credit lines for loans with M/L-term repayment schedules (see Medium/low risk items pursuant to Annex 1 Reg. CRR).

Off-balance-sheet items with 50% FCC rose by 8.9% and are mainly represented by margins available on endorsement loans of a commercial nature and margins available on credit lines with original durations exceeding 1 year (see medium risk elements pursuant to Annex 1 Reg. CRR).

Off-balance-sheet items with 100% FCC increased significantly (195.5%), as a temporary consequence of exposures for repurchase agreements receivable to be settled.

The other components are for the most part represented by commitments for put option contracts sold to leading Italian/foreign banking counterparties with underlying international government securities; and, as second component, by financial sureties, whether issued directly or requested from foreign correspondent banks in the interest of third parties.

The other off-balance sheet items showed negligible changes.

Similarly to what was presented in the previous disclosure to the public, in the second quarter of 2019 no credit derivative contracts on loans were recognised among the gross exposures used in calculating financial leverage.

Other assets show an increase of 4.1%.

As regards the differences in Tier 1 Capital, as well as for the related deducted assets, please refer to the explanations in the previous section “Own Funds”.

Declaration of the Risk Unit Manager

The undersigned Carlo Palego, in his capacity as Manager of the Parent Company Banco BPM SpA's Risk Unit, attests that the interim Public Disclosure Document (Pillar 3) at 30/06/2019 was prepared in accordance with the reference legislation (Bank of Italy Circular no. 285/2013 and the CRR Regulation, EU no. 575/2013), taking into account the business model and the Bank's organisational structure, also with reference to other national and international banking groups with comparable dimensions and complexity. He also notes that the whole Document was prepared in accordance with the Public Disclosure Template defined by the Group for financial year 2019.

Milan, Italy, 10 September 2019

Risk Unit Manager

Carlo Palego

(signed)

Declaration of the Financial Reporting Manager

The undersigned, Gianpietro Val, in his capacity as Financial Reporting Manager of Banco BPM S.p.A, hereby declares, in compliance with the provisions of article 154-bis, paragraph 2 of Italian Legislative Decree no. 58 of 24 February 1998, that the accounting information contained in this document is consistent with the records contained in the corporate documents, books and accounting records.

Milan, Italy, 10 September 2019

Financial Reporting Manager

Gianpietro Val

(signed)