BANCO BPM

PRESS RELEASE

RESULTS AS AT 31 MARCH 2022

BANCO BPM CLOSED 2022 Q1 WITH RECORD PROFITABILITY: BEST PROFIT BEFORE TAX EVER RECORDED AT € 399 MILLION[1]

- **OPERATING INCOME AT € 1,186 MILLION (OF WHICH CORE REVENUES[2] AT € 1,041 MILLION), +5.2% AGAINST 2021 Q1 AND +9.1% AGAINST 2021 Q4**
- **PROFIT FROM OPERATIONS[3] AT € 561 MILLION, +16.0% AGAINST 2021 Q1 AND +21.5% AGAINST 2021 Q4**
- **COST/INCOME RATIO[4] AT 52.7% AGAINST 57.1% AT THE END OF MARCH 2021 AND 57.5% IN THE FOURTH QUARTER OF 2021**
- **COST OF RISK[5] AT 54 BASIS POINTS. THIS IS THE LOWEST LEVEL EVER RECORDED**
- **PRE-TAX PROFIT AT € 399 MILLION, +54.0% AGAINST 2021 Q1 AND +199.2% AGAINST 2021 Q4**
- **NET PROFIT AT € 178 MILLION, RISING TO € 199 MILLION NET OF NON-RECURRING ITEMS[6]**

SENSITIVITY OF NET INTEREST INCOME TO A RISE IN INTEREST RATES EQUAL TO AROUND € 415 MILLION[7] (+100 BASIS POINTS PARALLEL SHIFT)

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[1] Profit (loss) before tax from continuing operations, excluding the extraordinary impacts deriving from the disposal of investments.
[2] Aggregate consisting of net interest income, gains (losses) on interests in associates and joint ventures carried at equity and net fee and commission income.
[3] This interim result does not include banking industry charges of -€ 74.6 million, the accounting effects of Purchase Price Allocations (PPA) carried out in previous years of -€ 8.5 million, or effects of the change in the Group credit risk on its certificate issues, equal to +€ 0.2 million. These components are stated, net of taxes, in separate items of the reclassified income statement.
[4] Calculated as the ratio of operating expenses to operating income resulting from the Reclassified Income Statement.
[5] Calculated as the ratio of net value adjustments on loans (annualised figure) to total on-balance sheet exposures to customers net of value adjustments.
[6] Amount net of non-recurring items as indicated in section 5 of the Explanatory Notes to this press release.
[7] Expresses the impact in terms of the increase in the net interest income in the event of a parallel shift in the interest rate curve of +100 basis points, with all other conditions being equal.

BANCASSURANCE: EXERCISE OF THE CALL OPTION ON BIPIEMME VITA MOVED UP, STRENGTHENING THE BUSINESS MODEL AND PRESERVING STRATEGIC OPTIONS

THE STRATEGY OF REDUCING THE NON-PERFORMING PORTFOLIO CONTINUES, CONFIRMING TOTAL DERISKING OF OVER € 1 BILLION BY THE TIME OF PRESENTATION OF THE RESULTS OF 2022 H1.

AS PART OF THAT STRATEGY, AT THE END OF APRIL, THE DISPOSAL OF A PORTFOLIO OF UNLIKELY TO PAY ("UTP") AND BAD LOANS WITH A TOTAL GROSS BOOK VALUE OF APPROXIMATELY € 700 MILLION ("ARGO PROJECT")[8] WAS APPROVED:

REDUCTION IN GROSS NON-PERFORMING EXPOSURES FROM € 8.7 BILLION AS AT 31 MARCH 2021 TO € 5.6 BILLION (AFTER THE ARGO PROJECT)[9], WITH A DECREASE IN THE GROSS NPE RATIO[10] FROM 7.5% TO 4.9%[11], WHICH DROPS TO 3.8% USING THE EBA METHODOLOGY[12]

CORE NET PERFORMING LOANS[13] TO CUSTOMERS EQUAL TO € 101.3 BILLION (+2.1% YOY)

NEW DISBURSEMENTS TO CUSTOMERS AMOUNTED TO € 6.7[14] BILLION, UP BY 14.9% COMPARED TO 2021 Q4

CORE DIRECT FUNDING[15] EQUAL TO € 106.9 BILLION (+5.0% YOY)

MANAGED ASSETS AT € 63.3 BILLION (+3.2% YOY)

CONFIRMATION OF THE SOLID EQUITY POSITION WITH A FULLY-PHASED CET 1 RATIO AT 13.1%[16] AND A FULLY-PHASED MDA BUFFER AT 462 BASIS POINTS[17]

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[8] The project will be concluded by the date of presentation of the results of the first half of 2022, however, the planned assignments have been considered in valuing the exposures as at 31 March 2022 and, thus in the cost of credit charged to the income statement in the first quarter, in compliance with the provisions of IFRS 9.

[9] The adjusted figure is calculated by considering the impact on the accounting balances as at 31 March 2022, of the assignments that will be finalised as part of the "Argo Project".

[10] Ratio of gross non-performing exposures to total exposures relating to the balance sheet item "Loans to customers at amortised cost".

[11] See note no. 9.

[12] Methodology used by EBA for the presentation of data in the context of the EU Transparency Exercise.

[13] Mortgages, loans, current accounts and personal loans.

[14] Management data.

[15] Current accounts and deposits.

[16] For more details on the calculation methods for capital ratios, please refer to paragraph no. 6 of the Explanatory Notes of this press release.

[17] Difference between the Total capital ratio (ratio of own funds to risk-weighted assets) measured as at 31 March 2022 (including the profit under way net of the expected dividend pay-out) and the corresponding level of the minimum regulatory requirement for 2022, including the Pillar 2 Requirement (P2R). The figure includes the AT 1 security of € 300 million issued in April 2022 to streamline the capital structure and achieve the target for Additional Tier 1 capital.

SOLID LIQUIDITY POSITION: LCR AT 206%, NSFR> 100% AND CASH AND UNENCUMBERED ASSETS AT € 44.0 BILLION

FURTHER ACCELERATION OF CUSTOMERS' DIGITAL OPERATIONS: DURING THE QUARTER, FOR THE FIRST TIME, THE NUMBER OF OPERATIONS EXECUTED VIA APP EXCEEDED THOSE CARRIED OUT AT BRANCHES

- **TRANSACTIONS FROM MOBILE DEVICES AT 6.65 MILLION (+27% YOY)**
- **SHARE OF REMOTE TRANSACTIONS EQUAL TO 84% (+2 P.P. YOY)**
- **MORE THAN 500,000 CUSTOMERS WITH DIGITAL IDENTITIES**
- **CONTINUING INNOVATION OF DIGITAL SERVICES (NEW SMART LENDING SERVICES AND ENRICHMENT OF THE BANKING APP FOR SME CUSTOMERS)**

ESG PROCESS CONTINUING:

- **A COVERED GREEN BOND OF € 750 MILLION ISSUED (PART OF THE € 2.5 BILLION TARGET IN GREEN AND SOCIAL BONDS IN THE PERIOD 2021-2024)**
- **CARBON DISCLOSURE PROJECT (CDP) RATING INCREASED FROM B TO A-**
- **NON-FINANCIAL STATEMENT: FIRST NSF IN LINE WITH THE TCFD STANDARDS**
- **FUND RAISING FOR THE UKRAINE POPULATION FOR REFUGEE HOSTING PROJECTS: MORE THAN € 1 MILLION**

During the quarter, despite the difficult macroeconomic framework, the Group's sales and organisational efforts allowed a notable recovery in operating results, with profitability at record levels, which made it possible to achieve the best pre-tax profit. In particular, operating income recorded an excellent performance, amounting to € 1,186 million, marking growth of 9.1% against 2021 Q4.

The trend in operating income allowed the Group to record profit from operations equal to € 561 million, with a 21.5% increase compared to 2021 Q4.

Profit (loss) before tax from continuing operations rose to € 399 million against € 133 million in 2021 Q4, with growth of 199.2%. Net profit for the quarter came to € 178 million, with growth of 83.2% on 2021 Q4.

The balance sheet items also showed significant results:

- ***net core performing loans (comprised of mortgages, loans, current accounts and personal loans) amounted to € 101.3 billion, marking an increase of 1.9% compared to 31 December 2021 and 2.1% YoY;***

- ***core direct funding amounted to € 106.9 billion, marking an increase of 1.7% compared to the end of 2021 and 5.0% YoY;***
- ***indirect funding amounted to € 95.6 billion, marking a decrease of 3.5% at the end of 2021 (exclusively due to the decrease in market prices) and growth of 1.4% YoY.***

As regards non-performing exposures, the Group's derisking process continued, which entails the assignment of € 0.7 billion in non-performing exposures by the date of approval of the results for the first half ("Argo Project").
In particular, the "Argo Project" will enable a further reduction in non-performing exposures, bringing their incidence on total gross loans from 7.5% as at 31 March 2021 to 4.9% adjusted, bringing the total gross non-performing exposures from € 8.7 billion in March 2021 to € 5.6 billion.

An extremely healthy equity position confirmed:

- ***Phased-in CET1 Ratio and fully-phased CET1 Ratio at 14.0% and 13.1% respectively;***
- ***Fully-phased MDA buffer at 462 basis points, including the AT 1 security issued in April 2022.***

Key balance sheet items

- Net loans to customers equal to € 110.9 billion: +0.7% YoY (of which performing loans +1.8% and non-performing exposures -27.6% compared to 31 March 2021) and +1.4% compared to 31 December 2021 (of which performing loans +1.6% and non-performing exposures -5.0%);
- Direct funding from customers equal to € 126.1 billion[18]: +4.8% YoY and +2.4% compared to the end of December 2021. The growth trend in the core funding was confirmed (+€ 5.1 billion YoY and +€ 1.8 billion compared to the end of 2021);
- Indirect funding[19] from customers € 95.6 billion: +1.4% YoY and -3.5% compared to 31 December 2021 (due to the decrease in prices of financial assets), of which:
    - asset management € 63.3 billion;
    - asset administration € 32.3 billion.

Key income statement items

[18] Direct funding includes certificates with unconditional capital protection (€ 3.6 billion as at 31 March 2022 and at the end of 2021), and excludes repurchase agreements.
[19] Management data net of certificates with unconditional capital protection included under "direct funding".

- Net interest income € 511.5 million against € 496.8 million in 2021 Q1 and € 506.0 million in 2021 Q4;
- Net fee and commission income € 480.1 million against € 471.4 million in 2021 Q1 and € 485.8 million in 2021 Q4;
- Operating expenses € 624.7 million against € 643.9 million as at 31 March 2021, and unchanged on 2021 Q4;
- Profit from operations € 561.2 million against € 483.8 million as at 31 March 2021 and € 461.9 million in 2021 Q4;
- Net adjustments to customer loans € 151.1 million against € 217.1 million in 2021 Q1 and € 214.0 million in 2021 Q4;
- Profit (loss) before tax from continuing operations[20] equal to € 399.1 million against € 259.1 million in 2021 Q1 and € 133.4 million in 2021 Q4;
- Profit (loss) before tax from continuing operations net of non-recurring items[21] equal to € 431.1 million, against € 334.9 million in 2021 Q1 and € 207.7 million in 2021 Q4;
- Net profit (loss) equal to € 177.8 million compared to € 100.1 million in the 2021 Q1 and € 97.1 million in 2021 Q4;
- Net profit (loss) net of non-recurring items € 199.2 million, against € 150.8 million in 2021 Q1 and € 145.3 million in 2021 Q4.

Equity position[22]**:**

- IFRS 9 fully-phased CET1 ratio 13.1% (13.4% as at 31 December 2021);
- IFRS 9 phased-in CET 1 ratio 14.0% (14.7% as at 31 December 2021);
- IFRS 9 fully-phased MDA buffer on TCR 462 basis points considering the AT1 security issued in April.

Credit quality

- Stock of net non-performing exposures equal to € 3.1 billion: -5.0% compared to the end of 2021 and -27.6% YoY
- Coverage:
    - Bad loans: 61.9% (58.6% as at 31 December 2021 and 62.7% as at 31 March 2021); also considering write-offs, the coverage stands at 70.2%;
    - Unlikely to pay loans: 44.4% (44.0% as at 31 December 2021 and 43.1% as at 31 March 2021);

[20] See note 3.
[21] Amount net of non-recurring items as indicated in section 5 of the Explanatory Notes to this press release.
[22] For more details on the calculation methods for capital ratios, please refer to paragraph no. 6 of the Explanatory Notes of this press release.

- Total non-performing exposures: 50.4% (48.9% as at 31 December 2021 and 50.7% as at 31 March 2021); also considering write-offs, the coverage stands at 54.9%;

- Further improvement in the Texas Ratio[23] to 26.1% against 27.2% at the end of 2021 and 37.1% as at 31 March 2021.

Liquidity profile

- Liquidity at € 44.0 billion (cash + unencumbered assets);
- TLTRO III at € 39.2 billion
- LCR 206% and NSFR >100%.

Milan, 5 May 2022 - At today's meeting, the Board of Directors of Banco BPM, chaired by Mr. Massimo Tononi, approved the balance sheet and income statement as at 31 March 2022 of the Banco BPM Group.

In the first quarter of 2022, the fragile recovery from the international emergency due to the Coronavirus epidemic was strongly impacted by the conflict in Ukraine which, since the end of February, has generated harsh repercussions on the international economic system and on companies' operations.
The conflict has not had and is not expected to have significant impacts on Banco BPM related to the Group's direct exposure to Russia and Ukraine. This is because said exposure is extremely limited, equal to less than 0.1% of total on-balance sheet assets and unsecured loans.
In that context, which continues to be characterised by significant uncertainty at the global and Italian level, the Group reported profit before tax from continuing operations of € 399.1 million, which is the best quarterly result ever, and a net profit of € 177.8 million. Excluding non-recurring items, net profit amounts to € 199.2 million.

During the quarter, the Group continued the derisking process, laying the foundation to conclude a significant operation of mass assignment of non-performing positions (the "Argo Operation") regarding a portfolio of bad loans and unlikely to pay loans for total gross exposure of around € 700 million. This operation was approved in April.
During the first quarter, the Group also carried out important capital management operations: in January 2022, an issue of Subordinated Tier 2 instruments was launched for an amount of € 400 million, with 10-year maturity, targeted to institutional investors, which is part of the Group's Euro Medium Term Notes Programme. In addition, the Group's first issue of Green Covered Bonds was carried out, targeted to institutional investors, for an amount of € 750 million and 5-year maturity.
The bond, issued under the Green, Social and Sustainability Bonds Framework, based on the Group's Covered Bond Programme, aims to refinance a selected portfolio of green residential mortgages to private customers for the purchase of homes with high energy efficiency.
Lastly, in April, the issue of a perpetual Additional Tier 1 instrument was concluded for an amount of € 300 million, reserved to institutional investors, which makes it possible to achieve the Group's Additional Tier 1 capital target, further strengthening its capital position.

[23] The Texas Ratio is the ratio of the net value of non-performing exposures to the Group's tangible equity (net of the related tax effects).

The process of rationalising the portfolio of investments undertaken by the Group in the last few years includes the assignment to Banca Popolare di Sondrio S.p.A., concluded in March, of the 39.5% interest in the share capital of Factorit S.p.A., for a consideration of € 75 million, in line with the book value in the consolidated financial statements.

Moreover, during the quarter the mergers by incorporation into the Parent Company of Bipielle Real Estate and Release (already wholly-owned by Banco BPM) were finalised.

During the first quarter, Banco BPM also concluded an own share purchase programme to serve the employee incentive plan for a total of 4,582,640 own shares (equal to 0.30% of the ordinary shares outstanding) and a total value of € 16 million. Following the conclusion of that programme, Banco BPM held 8,152,151 own shares, equal to 0.54% of the share capital.

On 2 February 2022, the European Central Bank (ECB) notified Banco BPM of the SREP decision containing the outcomes of the annual Supervisory Review and Evaluation Process (SREP), keeping the Pillar 2 Requirement unchanged at 2.25%. As a result of that decision, the minimum requirements that Banco BPM is required to meet for 2022, both at the phased-in and fully-phased levels, are as follows:

- CET1 ratio: 8.519%;
- Tier 1 ratio: 10.441%;
- Total Capital ratio: 13.003%[24].

Therefore, Banco BPM Group's capital solidity is fully confirmed and, as at 31 March 2022 far exceeds said prudential requirements, both with reference to the effective ratios calculated in accordance with the phased-in criteria in force for 2022, as well as considering the capital ratios calculated on the basis of the criteria in place when fully-phased.

It is also worth noting that, after the end of the quarter, Banco BPM's Board of Directors resolved to exercise the option for the purchase from the partner Covéa Coopération SA of 81% of the share capital of Bipiemme Vita S.p.A., an insurance company operating in the life sector, in which Banco BPM already holds a 19% interest. In turn, Bipiemme Vita holds the entire share capital of Bipiemme Assicurazioni S.p.A., operating in the non-life sector.
The price of the call exercise referred to 81% of the share capital of Bipiemme Vita, based on the corresponding level of Unrestricted Tier 1 at 30 June 2021, is estimated at approximately € 310 million. The finalisation of the operation, which is subject to obtaining the legal authorisations from the competent authorities, is expected by July 2022, in advance of the date of 31 December 2023 set out in the Strategic Plan.

Lastly, note that, on 26 April 2022, Fitch Ratings assigned new ratings to Banco BPM, all in the investment grade category, with a stable outlook.
The rating reflects a positive valuation based on various factors, including: revenues, risk profile, funding, capitalisation and management quality.
The new ratings assigned are a significant improvement on the previous ratings from the agency, which date back to the period prior to the merger (December 2016), both for the former Banco Popolare and for the former Banca Popolare di Milano.

[24] For more details on the calculation methods for capital ratios and minimum requirements, please refer to paragraph no. 6 of the Explanatory Notes of this press release.

<u>Economic performance of operations</u>

Net interest income was equal to € 511.5 million, a 3.0% increase on 2021 Q1 (€ 496.8 million), due to the greater contribution made by TLTRO III financing operations which, in view of the net lending objectives reached by the Group, provide for the payment of a special interest rate, equal to -0.50%, in addition to the rate applied for the entire duration of the loan[25].
Compared to the fourth quarter of 2021, the margin grew by 1.1%, despite the lower number of calendar days in the quarter.

The **result of investee companies carried at equity** came to € 49.6 million, compared to the figure of € 41.5 million in the same period of the previous year, and € 87.1 million in the fourth quarter of 2021, which also included the positive impact of € 42.1 million, resulting from the realignment of the tax value of goodwill made by Agos Ducato.
The main contribution to the item in question is provided by consumer credit channelled from the equity interest held in Agos Ducato, equal to € 24.4 million, up compared to € 23.2 million in the first quarter of 2021, as well as the contribution of the associated company Anima Holding[26], equal to € 17.3 million.

Net fee and commission income in the first quarter was equal to € 480.1 million, with a 1.8% increase on the corresponding period of the previous year. This trend is attributable to the contribution from the commercial banking services segment (+3.8% compared to 31 March 2021). The contribution from the management, brokerage and advisory services segment was stable (-0.1% compared to the first quarter of 2021).
The comparison with the fourth quarter of 2021 shows a drop of 1.2%, with good performance of brokerage and advisory services (+6.0%), against a drop in the contribution of commercial banking services (-7.4%), mainly due to seasonal effects.

Other net operating income amounted to € 16.7 million compared to € 18.2 million in the first quarter and € 9.1 million in the fourth quarter of 2021.

The **net financial result**[27] in the first quarter was positive and equal to € 127.9 million, up on the figure of € 99.7 million recorded as at 31 March 2021.

The result in 2022 comprises +€ 85.3 million from trading activities (+ € 47.1 million in the first quarter of 2021), -€ 21.6 million from changes recorded in the measurement of assets and liabilities at fair value (-€ 13.0 million as at 31 March 2021) and +€ 59.4 million from assignments of financial assets (+€ 60.2 million in the first quarter of 2021). Both of the periods compared were impacted by the losses as a result of the valuation of the equity interest in Nexi.

The positive performance of the net financial result is particularly significant, also in comparison with

[25] The amount of eligible loans was significantly higher than the target levels set out in the regulations. This result guarantees the application to the TLTRO III refinancing operations for the period from 24 June 2020 to 23 June 2022 ("special interest period") of a special interest rate equal to -0.50% in addition to the average rate applicable to deposit facilities (currently -0.50%).
[26] For an illustration of the methods used to recognise the contribution of Anima Holding, please refer to paragraph no. 9 of the Explanatory Notes of this press release.
[27] The item does not include the accounting effect of the change in the credit risk of the Group in regard to the fair value measurement of its own certificate issues, which led to the recognition of a positive impact of € 0.3 million, compared to the charge of € 10.2 million recorded as at 31 March 2021 and the positive impact of € 18.4 million in 2021 Q4. This effect is shown in a separate item of the reclassified income statement.

the fourth quarter of 2021, which showed a negative result of € 1.4 million.

Due to the trends described, total **operating income** was equal to € 1,185.9 million, up both compared to the € 1,127.7 million reported in the corresponding period of the previous year (+5.2%), and to the € 1,086.5 million reported in the fourth quarter of 2021 (+9.1%).

Personnel expenses, equal to € 407.9 million, decreased by 4.5% compared to € 426.9 million in the first quarter of 2021 and by 1.5% compared to € 413.9 million in fourth quarter of 2021. That performance reflects the savings deriving from the reduction in the workforce implemented in the previous year, as part of the programme involving the use of the Solidarity Fund for the industry. The total number of employees was 20,360 as at 31 March 2022, compared to 21,663 at the start of 2021.[28]

Other administrative expenses[29], equal to € 155.6 million, are substantially in line with the figure for the first quarter of 2021, equal to € 154.1 million. The increase on the figure for the fourth quarter of 2021, equal to € 149.1 million (+4.3%), is not indicative, as it is mainly due to seasonal phenomena correlated to the cost recognition process.

Net value adjustments to property, plant and equipment and intangible assets were equal to € 61.2 million, compared with the figure of € 62.8 million in the first quarter of 2021 and € 61.6 million in the fourth quarter of 2021.

Total **operating expenses** therefore amounted to € 624.7 million, down by 3.0% compared to € 643.9 million in the first quarter of 2021 and in line with the figure for the fourth quarter of 2021.

The **cost income ratio** in the quarter came to 52.7%, lower compared to both 57.1% in the first quarter of 2021 and the figure relating to the full year 2021 (55.8%).

The **profit from operations** for the first quarter was € 561.2 million, up 16.0% compared to € 483.8 million in the corresponding period of the previous year and 21.5% compared to the figure of € 461.9 million in the fourth quarter of 2021.

Net adjustments to loans to customers in the first quarter, equal to € 151.1 million, showed a 30.4% decrease on the figure as at 31 March 2021 (-29.4% on the fourth quarter of 2021). Net adjustments in the first quarter of 2022 included the impact deriving from the increase in the targets for the assignment of non-performing exposures following the change in the bad loan management strategy, for a total of € 32.3 million. In the first quarter of 2021, the equivalent impact came to € 73.9 million.
As at 31 March 2022, the cost of credit, measured by the ratio of net value adjustments on loans to net loans, was 54 basis points. The cost of risk as at 31 March 2022 represents the lowest level recorded by Banco BPM since 2017 (creation of the new Group following the merger between the former Banco Popolare and the former Banca Popolare di Milano).

The **fair value gains (losses) on property, plant and equipment** as at 31 March 2022 came to -€ 1.2

[28] As at 31 December 2021 the number of employees was 20,437.
[29] The aggregate does not include the "banking industry charges", represented by the contributions to the Resolution Funds and to the Interbank Deposit Guarantee Fund, reported in a separate item of the reclassified income statement, net of tax effect.

million (+€ 0.1 million in the first quarter and -€ 96.9 million in the fourth quarter of 2021).

The item **net adjustments to securities and other financial assets** includes net losses of -€ 3.2 million (-€ 0.4 million as at 31 March and -€ 1.1 million in the fourth quarter of 2021).

Net provisions for risks and charges in the first quarter amounted to -€ 8.1 million (-€ 7.2 million as at 31 March and +€ 2.3 million in the fourth quarter of 2021).

As at 31 March 2022, **gains on disposal of interests in associates and joint ventures and other investments** amounted to € 1.5 million, referring to sales of properties. As at 31 March 2021, the item in question presented an immaterial amount, while in the fourth quarter of 2021 it came to -€ 18.7 million, mainly attributable to the impairment of the equity interest held in Factorit.

Due to the trends described, the **profit before tax from continuing operations** was equal to € 399.1 million compared to € 259.1 million in the first quarter of 2021.

The **taxation charge related to profit or loss from continuing operations** was equal to -€ 138.4 million (-€ 82.7 million in the first quarter of 2021).

Profit (loss) after tax from continuing operations therefore was equal to € 260.6 million, a 47.7% increase compared to € 176.4 million in the first quarter of the previous year.

The income statement for the period also included **charges related to the banking system, net of taxes** equal to € 74.6 million (€ 59.2 million in the first quarter of 2021), consisting of the ordinary contribution to the Single Resolution Fund (SRF) (€ 110.5 million before tax, against € 87.8 million as at 31 March 2021).

In the quarter, the **change in own credit risk on Certificates issued by the Group, net of taxes**, generated a positive impact of € 0.2 million (€ 0.3 million before taxes), compared to the charge of -€ 6.8 million in the first quarter of 2021 (-€ 10.2 million before taxes).

As at 31 March 2022, the impact of the **Purchase Price Allocation net of taxes** was equal to -€ 8.5 million, against -€ 10.3 million in the first quarter of 2021.

Considering the share of profit attributable to non-controlling interests, the first quarter of 2022 closed with a **net profit for the period** equal to € 177.8 million (€ 100.1 million as at 31 March 2021).

The **figure net of non-recurring items** for the first quarter was equal to € 199.2 million.

Changes in key balance sheet items

Direct funding[30] as at 31 March 2022 amounted to € 126.1 billion, up by 2.4% compared to 31 December 2021 and by 4.8% compared to 31 March 2021.

[30] The aggregate includes demand and term deposits and current accounts, bonds issued, certificates of deposit and other securities, loans and other debts, and protected capital certificates and excludes repurchase agreements.

More specifically, over the quarter, there was an increase of € 1.9 billion in the segment represented by the current accounts and demand deposits of the commercial network (+1.8%)[31]. As regards bonds issued, the stock as at 31 March came to € 13.8 billion, with an increase of € 0.7 billion compared to 31 December 2021, due to new issues during the quarter, which exceeded the redemptions of securities that had matured.
In comparison on an annual basis, demand deposits increased by € 5.6 billion (+5.5%)[32], while securities issued grew by € 0.5 billion (+3.6%).
The funding guaranteed by the stock of certificates with unconditionally protected capital as at 31 March 2022 was equal to € 3.6 billion, in line with 31 December 2021 (€ 3.7 billion as at 31 March 2021).

Indirect funding, net of protected capital certificates, was equal to € 95.6 billion, up 1.4% on an annual basis. The comparison with 31 December 2021 shows a decrease of 3.5%, due to the decline in prices of financial assets.
The component of managed funding was equal to € 63.3 billion, a decrease compared to the figure of € 65.3 billion as at 31 December 2021 (-3.2%), due to the lower contribution of funds and SICAVs and asset management; deposits relating to the bancassurance sector were stable.
Administered assets stood at € 32.3 billion, with a decrease of € 1.4 billion (-4.2%) compared to the end of 2021.
On an annual basis, managed assets increased by 3.2%, due to the contribution of funds and SICAVs (+€ 1.4 billion) and the bancassurance segment (+€ 0.6 billion), while the administered asset component decreased by 1.9%.

Financial assets were equal to € 40.7 billion, up by 12.0% compared to € 36.3 billion as at 31 December 2021; the increase was mainly concentrated in debt securities (+€ 3.8 billion) and, in particular, in the segments of securities at amortised cost and securities measured at fair value through other comprehensive income. As at 31 March 2022, the aggregate in question consisted of debt securities for € 34.5 billion, equity instruments and UCITS units for € 3.0 billion, derivative instruments for € 2.9 billion and loans measured at fair value for € 0.3 billion. Holdings of debt securities issued by sovereign states were equal to € 29.6 billion, of which € 14.4 billion represented by Italian government securities. Investments in Italian government securities are classified under financial assets at amortised cost for € 11.4 billion, in the portfolio of financial assets measured at fair value through other comprehensive income for € 2.3 billion and in the portfolio of financial assets at fair value through profit and loss for € 0.8 billion, being held for trading.

Net loans to customers[33] amounted to € 110.9 billion as at 31 March 2022, an increase of € 1.5 billion compared to the figure at 31 December 2021; the increase is entirely attributable to performing exposures (+1.6%), with a volume of new loans to households and businesses equal to € 6.7 billion[34] in the quarter, while non-performing exposures decreased by 5.0% on the end of 2021. On an annual basis, loans recorded an increase of € 0.7 billion (+0.7%), deriving from a € 1.9 billion increase in performing exposures (+1.8%) and a € 1.2 billion decrease in non-performing exposures (-27.6%).

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[31] Management data.
[32] Management data.
[33] The aggregate does not include loans to customers which, following the application of IFRS 9, are compulsorily measured at fair value. These loans, amounting to € 0.3 billion, are included among the financial assets measured at fair value.
[34] Management data.

Net non-performing exposures (bad loans, unlikely to pay and past due and/or overdue exposures) amounted to € 3.1 billion as at 31 March 2022.
An analysis of the individual items shows the following dynamics:

- net bad loans of € 0.8 billion, down by 6.4% compared to 31 December 2021 and 36.4% compared to 31 March 2021;
- unlikely to pay loans of € 2.2 billion, down by 4.3% compared the start of the year and 21.6% compared to 31 March 2021;
- net past due exposures equal to € 39 million (€ 45 million as at 31 December 2021 and € 124 million as at 31 March 2021).

The percentage of non-performing exposures out of total loans, gross of value adjustments came to 5.5% compared to 5.6% at the start of the year.

The coverage rate for the entire non-performing exposures aggregate rose to 50.4% (48.9% as at 31 December 2021).
More specifically, as at 31 March 2022, the coverage ratio was as follows:

- Bad loans 61.9% (58.6% as at 31 December 2021);
- Unlikely to pay loans 44.4% (44.0% as at 31 December 2021);
- Past due exposures 26.3% (25.3% as at 31 December 2021).

The coverage ratio of performing loans came out at 0.42%, compared to 0.43% as at 31 December 2021.

Group capital ratios[35]

As at 31 March 2022, the phased-in Common Equity Tier 1 ratio stood at 14.0%, against 14.7% as at 31 December 2021. The decrease in the ratio during the quarter was mainly attributable to the decrease in own funds as a result of the reduction in valuation reserves of securities measured at fair value through other comprehensive income and the benefit linked to the partial neutralisation (phasing) of the negative capital impacts recorded in 2018 following the first-time adoption of IFRS 9[36].
The phased-in ratio benefits from the exercise of the option for the full application of the transitional rules introduced with the new Art. 473-bis of Regulation (EU) no. 575/2013, which dilutes over time the impact on own funds deriving from the application of the new impairment model introduced by the accounting standard IFRS 9. Excluding the impacts of the afore-mentioned transitional provisions, the IFRS 9 fully-phased CET 1 ratio was 13.1%, down compared to the figure of 31 December 2021, equal to 13.4%, mainly due to the decrease in valuation reserves of the above securities.

The phased-in Tier 1 ratio was equal to 15.7%, compared to 16.5% as at 31 December 2021, while the Total Capital ratio was equal to 19.5%, compared to 19.6% as at 31 December 2021.

The fully-phased Tier 1 ratio was 14.8%, compared to 15.1% as at 31 December 2021. The Total Capital ratio came to 18.6%, compared to 18.2% as at 31 December 2021.

[35] For more details on the calculation methods for capital ratios, please refer to paragraph no. 6 of the Explanatory Notes of this press release.
[36] The percentage of neutralisation of negative impacts decreased from 50% in 2021 to 25% in 2022.

The buffer compared to the limit set for the possibility of distributing dividends (Maximum Distributable Amount or MDA buffer) was equal to +440 basis points on a fully-phased basis (compared to +471 basis points as at 31 December 2021), increasing to +462 basis points including the AT 1 security issued in April 2022[37].

BUSINESS OUTLOOK

The general framework, already impacted by the continuing pandemic, was made even more complicated by the tensions generated by the Russian invasion of Ukraine, with inevitable effects on the outlook for growth and expectations of inflation, driven by the increase in the cost of raw materials.
In that scenario, following the sharp growth recorded in 2021, the Italian economy is expected to slow its pace, which, however, will continue to benefit from the use of the Next Generation EU funds and continuing monetary conditions which, despite a less accommodating policy and rates gradually increasing, will remain favourable on the whole.
As a result, the Group's operating performance during the year will inevitably continue to be influenced by the external environment.
Net interest income, which will be impacted in the second half by the lower contribution deriving from the end of the extra remuneration period on ECB funding in the form of TLTRO, will benefit from the increase in interest rates both in the commercial component and that deriving from the portfolio of financial assets. The Group presents significant sensitivity, equal to € 415 million in a scenario of a parallel shift of 100 basis points in interest rates[38].
Fee and commission income, though impacted by the overall slowdown in economic growth and tensions on the markets, will still be supported by the trend in the asset management and bancassurance segments, while strong governance of operating expenses will remain one of the key areas of focus of managerial action, with a view to limiting the impacts from the unlikely repeatability of certain cost recoveries that characterised last year (above all relating to personnel expenses), and the increases relating to application of the national labour contract for the industry, the increase in IT investments and inflation.
As regards adjustments to loans, the conservative approach to their measurement adopted in 2021 on performing and non-performing exposures, even faced with a default flow trend which, though still very low, could grow during the year in the event that the macroeconomic scenario worsens further, should allow further progress in the reduction of the cost of credit launched in recent years, without harming the derisking trend or the maintenance of a solid coverage level.
Unless the scenario worsens further, the Group's net profit in 2022 is expected to improve on that of 2021, in line with the trend outlined in the Strategic Plan and with the relative medium-term targets.

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Mr. Gianpietro Val, as the Financial Reporting Officer, in compliance with Art. 154 bis, Par. 2 of the Consolidated Finance Law, hereby states that the accounting information illustrated in this press release is consistent with the corporate documents, books and accounting records.

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[37] Data calculated by considering a countercyclical buffer of 0.003%.
[38] See note 7.

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The Banco BPM Group results as at 31 March 2022 will be presented to the financial community in the conference call scheduled for today, 5 May 2022 at 6:00 p.m. (CET). The supporting documentation for the conference call is available on the authorised storage system's website (www.emarketstorage.com) and on the Bank's website (www.gruppo.bancobpm.it), where the details for connecting to the call can also be found.

Explanatory notes

This News Release represents the document through which Banco BPM decided to disclose - on a voluntary basis - supplementary periodic information in addition to the half-year and annual reports ("quarterly reports") to the public and to the market, in compliance with the disclosure policy communicated to the market pursuant to art. 82-ter of the Issuers Regulation effective on 2 January 2017. For the sake of completeness, please note that the quarterly report also includes the result presentation handout prepared as a support for the conference call with the financial community to be held after this News Release has been released.
This quarterly report includes a comment on the quarterly operating performance that focuses on the dynamics of the key P&L, balance sheet and financial items, and is based on the reclassified balance-sheet and income statements.
Please find below some explanatory notes that are deemed useful to better understand the approach followed in preparing the above-mentioned accounting statements as at 31 March 2021 and those referring to the prior FY, as well as the dynamics of the quarterly results commented in this news release.

1. Accounting policies and reference accounting standard

The balance sheet and income statement layouts contained in this news release have been reclassified along management criteria in order to provide an indication on the Group's overall performance based on more easily understandable aggregate operating and financial data. These layouts have been prepared based on the financial statement layouts indicated in the Bank of Italy's Circular no. 262/2005 and following updates, applying the same aggregation and classification criteria presented in the Consolidated Financial Statements as at 31 December 2021.

The accounting standards adopted to prepare the accounting position as at 31 March 2022 - with regard to the classification, recognition, measurement and derecognition of assets and liabilities, and for the recognition of costs and revenues - are the ones set forth in the international accounting standards IAS/IFRS issued by the International Accounting Standards Board (IASB) and in the related interpretations by the International Financial Reporting Interpretations Committee (IFRIC), endorsed by the European Commission and in force as at 31 March 2022, pursuant to EC Regulation no. 1606 of 19 July 2002.
Moreover, the communications of the Regulators (Bank of Italy, Consob, ESMA, EBA, ECB) that clarify how to interpret certain accounting standards or on the accounting treatment of specific transactions have been taken into consideration, insofar as applicable.

With regard to TLTRO III refinancing transactions, it should be pointed out that, since the accounting standards do not provide any specific indications regarding the treatment of this particular case, the Group defined an internal accounting policy, based on which the financing is equated to a floating rate financial instrument, where the measurement of the interest applicable from time to time is estimated based on the likelihood that certain net lending targets are actually met. To this regard, note that, since all the net lending targets have been achieved, the interest accrued on the above liabilities recognized through profit and loss in Q1 2022 (€ 98.0 million) and in FY 2021 (€ 70.7 million in Q1 2021) correspond to the maximum limit, i.e., namely the negative rate of -1%, i.e., the Deposit Facility rate (-0.5%), plus the additional reduction (-0.5%) over the special interest period (from 24 June 2020 to 23 June 2022).

In Q1 2022, the Board of Directors approved a change in the NPL management strategy, revising the overall derisking disposal target upwards as compared to the target that had been previously approved in 2021.
Based on this management strategy, the usual "multi-scenario" approach was adopted to quantify expected losses, taking into consideration the expected recovery flows under the ordinary management scenario, and the flows recoverable under a disposal scenario, and assigning appropriate weightings. The revision of these scenarios as compared to those envisaged in the 2021 annual report, as a function of the historical transaction market prices, entailed the need to recognize € 32.3 million worth of write-downs which, as explained under note 5 below, are to be considered "non-recurring".

In order to calculate (on- and off-balance sheet) performing exposures, taking into consideration the time constraints tied to the processes to prepare the accounting report as at 31 March 2022 and pending the update of the reference macroeconomic scenario, the worsening of the macroeconomic scenario as compared to the estimates produced to prepare the annual report as at 31 December 2021 has been incorporated by changing the probabilities assigned to the actual occurrence of the various scenarios. More specifically, the probability assigned to the best-case scenario has been brought down to zero (from 20% on 31 December 2021), while a greater weight has been assigned to the worst-case scenario as compared to the base case, by assigning a 60% probability to the former (30% on 31 December 2021) and 40% to the latter (50% on 31 December 2021).

In line with the procedure followed for the 2021 annual report, even when preparing the accounting report as at 31 March 2022 it was considered appropriate to apply certain "post model adjustment/management overlays" whenever it was deemed that the estimate models could not fully capture some risk factors that were considered significant to calculate the expected losses on certain selected exposures on an individual basis or by homogeneous risk classes. These "management overlays", which basically sterilizes any positive P&L impact that would otherwise have been recognized in the quarter, is manly justified by the fact that the applied estimate models may fail to fully capture the expected losses tied to exposures that benefitted from the Covid-19 State moratorium that was lifted at the end of 2021, and by the foreseeable change in risk parameters of the new models under development, considering as well that the outcomes of the expected losses calculation models are affected by particularly positive macroeconomic scenarios, and depend to a greater extent on events that are still evolving and in any case are still exposed to a great variability and uncertainty depending on the evolution of the new Covid-19 variants spread, the actual implementation of the Recovery and Resilience National Plan and the vagaries of the world political and economic situation.

The adoption of certain accounting standards necessarily calls for the use of estimates and assumptions that have an impact on the value of assets and liabilities recognized in the balance sheet. The assumptions used to calculate estimates take into account all information available on the date of preparation of the quarterly report as at 31 March 2022, together with the assumed scenarios considered reasonable, also based on past experience. It is not possible to rule out that the presumed scenarios, albeit reasonable, may not reflect future scenarios the Group will operate in. Therefore, future actual results may differ from the estimates generated to prepare the financial statements as at 31March 2022, and may therefore call for adjustments that cannot be predicted or estimated today with respect to the carrying amount of assets and liabilities recognized in the balance sheet. To this regard, please note that the estimates carried out to prepare the accounting position as at 31 March 2022 could be revised should the circumstances they have been based on change, as a result of new information or the longer experience accrued.
Among the main uncertainty factors that could affect future scenarios in which the Group operates, we should not underestimate the negative effects on the global and Italian economies, directly or indirectly connected with the evolution of the Russia-Ukraine conflict and with the Covid-19 pandemic. Until the possible outcome of the conflict in terms of geographical extension and time horizon remains uncertain, the inclusion of its indirect impact in the balance sheet estimates will be a particularly complex exercise, and the results of these estimate processes will be subject to a significant level of uncertainty.
The Annual consolidated financial report as at 31 December 2021 provides a detailed description of the estimation processes that call for the use of a significant amount of discretion in the selection of underlying assumptions and hypotheses. The uncertainties tied to the Russia-Ukraine conflict and to the evolution of the pandemic necessarily heighten the amount of discretion used in the indicated estimation processes. Please refer to the above-mentioned description, that fully applies also to the financial and operating situation as at 31 March covered by this news release.

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

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

This impact has been recognized, net of the tax effect, under the separate line-item of the reclassified income statement "Purchase Price Allocation, after tax".

More specifically, the Q1 2022 consolidated P&L impact from the reversal effect of value adjustments of purchased net assets came in at € -4.3 million on net interest income (in connection with the evolution of the various valuations of purchased assets) and at -8.4 million on other net operating income (due to the depreciation of intangibles recognized under the PPA). Net of the tax effect, the overall impact at 31 March 2022, posted under the Q1 2022 reclassified P&L line-item "Purchase Price Allocation, after tax", added up to € -8.5 million (€ -10.3 million in Q1 2021).

3. Charges generated by the contribution to the resolution mechanisms

In the Q1 2022 P&L, the line-item "After-tax banking industry charges" was charged with the amount of ordinary contributions due to the Single Resolution Fund for FY 2022, which, net of the tax effect, totaled € 74.6 million (€ 59.2 million of ordinary contributions had been charged to income at 31 March 2021). Gross of tax effect, the total charge added up to € 110.5 million (€ 87.8 million in the same period of 2021).

4. Changes in consolidation scope

During the quarter the main change in consolidation scope was the disposal in March of the 39.5% stake held in Factorit S.p.A., previously carried at equity. The transaction, that was finalized at a price of € 75 million, which corresponds to the carrying amount of the shareholding in the financial statements as at 31 December 2021, did not give rise to any P&L impact in Q1 2022.

The subsidiary BP Trading Immobiliare S.r.l., in liquidation following the removal from the competent Companies Registry in February, is no longer consolidated on a line-by line basis.

Finally, the merger of Bipielle Real Estate S.p.A. into the Parent company became effective on 1st January 2022, while the legal effect of the merger of Release S.p.A. into Banco BPM S.p.A. came into force on 21 February, with the accounting and fiscal effects starting on 1st January 2022.

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

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

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

Conversely, the following impacts are generally considered recurring:

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

Whenever deemed significant, the information on the effect of P&L items that have been classified as recurring based on the above-described policy is provided in the comments on the evolution of balance sheet and P&L items.

Based on the criteria described above, the following non-recurring items were reported in Q1 2022:

- the line-item "Net write-downs on customer loans" includes the impact from the increase in NPL disposal targets approved by the Parent company's Board of Directors on 29 March 2022, totaling € -32.3 million;
- the line-item "Gain/loss on the fair value measurement of tangible assets" posts a net write-down of € -1.2 million;
- the line-item "Gain/loss on equity and other investments" includes the positive impact of € +1.5 million from the disposal of tangible assets;
- "Income tax for the period on continuing operations" includes the tax impact of the above non-recurring items totaling € +10.7 million.

Overall, non-recurring items gave rise to a negative impact of € -21.4 million on the net income of Q1 2022.

Excluding the above effects, the (adjusted) net income accruing at the end of the first quarter would come to € 199.2 million.

In the income statement of the same period last year, the following non-recurring items had been recognized:

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

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

Considering the above-described effects, the net (adjusted) result came to € 150.8 million.

6. Capital requirements regulation

Clarifications on the calculation procedure for capital ratios

Although no specific request of inclusion in the own funds calculation has been issued pursuant to art. 26 paragraph 2 of Regulation (EU) no. 575/2013, capital ratios as at 31 March 2022 presented in this news release have been calculated including the interim net income accruing at the end of the first quarter of 2022, net of the dividend pay-out. Pending a formal decision by the Board of Directors as to the allocation of the 2022 net income, the dividend pay-out has been calculated based on the conditions provided for by art. 5.3 of the Decision (EU) 2015/656 of the European Central Bank. Said decision lays down the conditions under which credit institutions are granted permission to include interim or year-end profits in CET1 capital, pursuant to the above-mentioned article 26, paragraph 2, of Regulation (EU) no. 575/2013, clarifying in particular that the amount proposed to be paid out as dividend shall be deducted from profits. More specifically, the dividend to be deducted shall be the highest of: a) the maximum dividend calculated in accordance with the internal dividend policy; b) the dividend calculated on the basis of the average pay-out ratio over the last three years; c) the dividend calculated on the basis of the previous year's pay-out ratio. Based on these conditions, the dividend deducted from the interim Q1 net income included in own funds accounts for 50% of the accrued net income.

Minimum requirements

With communication of 18 November 2021, the Bank of Italy identified the Banco BPM banking group as an 'Other Systemically Important Institution' (O-SII) for FY 2022. On 1st January 2022, the O-SII buffer, that in 2021 was equal to 0.19%, reaches 0.25%.

With communication of 17 December 2021, the Bank of Italy confirmed the Countercyclical Capital Buffer ratio for exposures to Italian counterparties at zero percent also for Q1 2022.

On 2 February 2022, the European Central Bank (ECB) notified Banco BPM its SREP decision for FY 2022, keeping the Pillar 2 capital requirement (P2R) unchanged at 2.25%.

Therefore, taking also into account the countercyclical capital buffer established by the competent national authorities for exposures towards countries where the Group operates, equal to 0.003%, the minimum requirements Banco BPM must comply with in 2022, both on a phase-in and on a fully loaded basis, until a new communication is issued, are[39]:
- CET1 ratio: 8.519%;
- Tier 1 ratio: 10.441%;
- Total Capital ratio: 13.003%.

Transitional provisions

Banco BPM elected to fully apply the transitional provision under article 473 bis of EU Regulation no. 575/2013, which phases in the impact on own funds generated by the adoption of the new impairment model introduced by IFRS9. Under the transitional provision, it is possible to include a transitional positive component to the Tier 1 capital by a percentage of the increase in expected loan loss provisions further to the adoption of IFRS 9. The percentage decreases over time over a 5-year period, from 2018 to 2022. The percentage amount applicable in the period from 1 January 2022 to 31 December 2022 is 25% and on 1 January 2023 it is going to turn to zero.

From 1 January 2023 the impact from the first-time adoption of IFRS 9 will therefore be fully recognized in the calculation of own funds. Without prejudice to the impacts from the above transitional provision, Banco BPM does not benefit from any Tier 1 capital impact as a result of the new transitional regime under the changes made to Regulation 873/2020 article 473 bis regarding the higher provisions set aside in the current year for expected losses on performing loans as compared to their amount on 1 January 2020.

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

7. Sovereign risk exposure represented by debt securities

The table below provides an illustration of the Group's sovereign risk exposure (debt securities included in the financial assets portfolios) at 31 March 2022, broken down by single Country and by category of the classification accounting portfolio:

31 March 2022 *(in million euro)* **Countries/Accounting portfolios**	**Fin. ass. measured at amortized cost**	**Fin. ass. measured at fair value through other comprehensive income**	**Fin. ass. measured at fair value through profit or loss**	**Total**
Italy	11.361	2.295	793	14.449
France	2.158	2.423	-	4.581
USA	2.195	1.620	1	3.816

[39] These requirements are calculated as follows:
- The pillar I minimum requirement of 8% (of which 4.5% CET1; 1.5% AT1 and 2% AT2)
- the P2R requirement of 2.25% set by the ECB must be met by 56.25% with CET1 and by 75% with TIER1;
- the capital conservation buffer of 2.50% to be fully met with CET1;
- the O-SII buffer of 0.25% to be fully met with CET1;
- the countercyclical capital buffer of 0,003% to be fully met with CET1 capital CET1.

Spain	2.029	1.675	7	3.711
Germany	1.222	893	5	2.120
Other Countries	607	280	-	887
Total	**19.572**	**9.186**	**806**	**29.564**

At 31 March 2022, the Group's sovereign debt exposure totaled € 29.6 billion (€ 25.6 billion at 31 December 2021), of which 66.2% were classified in the portfolio of financial assets measured at amortized cost, 31.1% under financial assets measured at fair value through other comprehensive income, and 2.7% in the portfolio of financial assets measured at fair value through profit or loss, as they were held for trading.
Out of this exposure, about 86% refers to securities issued by members of the European Union; notably 48.9% by Italy.
As regards financial assets measured at fair value through other comprehensive income, at 31 March 2022 the reserves generated by the fair value measurement of debt securities posted a negative amount equal to € 235.8 million, gross of tax effect, of which € 238.1 million refer to government bonds (€ -4.1 million for Italian government bonds and € - 234.0 million for other government bonds).
As to financial assets measured at amortized cost, the book value came out at € 19.6 billion, of which € 11.4 billion represented by Italian government bonds. For information purposes only, note that the fair value of the government bonds classified in this accounting category, measured based on the market prices at 31 March 2022 (level 1 in the fair value classification) totaled € 19.8 billion (€ 11.5 billion being the fair value of the Italian government bonds alone).
The debt securities management still follows the same decisions made in the prior financial years; no business model change calling for a portfolio reclassification took place during the quarter.

8. Events after the end of the quarter

In keeping with the update of the NPL management strategy approved in March and having received a binding offer by Orado Investment S.a r.l., in April the Board of Directors approved the disposal of an NPL portfolio, consisting of about 50% bad loans and 50% unlikely-to-pay loans, with a gross book value of about € 700 million ("Project Argo").

9. Other explanatory notes

The reclassified balance sheet and income statements reflect on a consolidated basis the financial accounts of Banco BPM and its subsidiaries with respect to 31 March 2022, or, when not available, to the most recently approved financial reports.
Similarly, the equity method-based treatment of associates was carried out based on the accounting information as at 31 March 2022 submitted to Banco BPM, or, if not available, on the most recent financial reports prepared by the associates.
It should be pointed out that, for the investment held in Anima Holding, measured under the equity method, the contribution to the consolidated income statement for Q1 2022 includes also the operating result generated by the associate in the last quarter of 2021, amounting to € 11.8 million, as, when preparing the 2021 annual report, it had not been possible to recognize the Q4 result, since Anima Holding approved its draft financial statements after Banco BPM.
Again for reasons tied to the date of approval of financial statements, the Q1 2021contribution of Anima Holding covers only the share of profit for Q4 2020.

Attachments

- Reclassified consolidated statement of financial position as at 31 March 2022 compared with data as at 31 December 2021
- Q1 2022 reclassified consolidated income statement compared with data as at Q1 2021
- Reclassified consolidated income statement – 2022 and 2021 quarterly evolution
- Q1 2022 reclassified consolidated income statement net of non-recurring items

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BANCO BPM Group

Reclassified consolidated balance sheet

(in euro thousand)	31/03/2022	31/12/2021	Chg.	Chg. %
Cash and cash equivalents	32,076,675	29,153,316	2,923,359	10.0%
Financial assets at amortised cost	119,217,922	121,261,260	-2,043,338	-1.7%
- Due from banks	8,329,061	11,877,878	-3,548,817	-29.9%
- Customer loans	110,888,861	109,383,382	1,505,479	1.4%
Other financial assets	40,679,448	36,326,393	4,353,055	12.0%
- Financial assets designated at FV through P&L	7,016,841	6,464,186	552,655	8.5%
- Financial assets designated at FV through OCI	12,142,742	10,675,079	1,467,663	13.7%
- Financial assets at amortised cost	21,519,865	19,187,128	2,332,737	12.2%
Equity investments	1,642,275	1,794,116	-151,841	-8.5%
Property and equipment	3,289,516	3,278,245	11,271	0.3%
Intangible assets	1,214,470	1,213,722	748	0.1%
Tax assets	4,531,796	4,540,229	-8,433	-0.2%
Non-current assets held for sale and discontinued operations	204,472	229,971	-25,499	-11.1%
Other assets	2,935,093	2,691,964	243,129	9.0%
Total assets	**205,791,667**	**200,489,216**	**5,302,451**	**2.6%**
Direct funding	123,355,576	120,213,016	3,142,560	2.6%
- Due to customers	109,584,428	107,120,893	2,463,535	2.3%
- Debt securities issued and financial liabilities designated	13,771,148	13,092,123	679,025	5.2%
Due to banks	46,788,316	45,685,032	1,103,284	2.4%
Leasing debts	712,211	673,872	38,339	5.7%
Other financial liabilities designated at fair value	15,757,354	15,755,319	2,035	0.0%
Liability provisions	1,163,422	1,196,946	-33,524	-2.8%
Tax liabilities	282,016	302,816	-20,800	-6.9%
Other liabilities	4,750,898	3,566,156	1,184,742	33.2%
Total Liabilities	**192,809,793**	**187,393,157**	**5,416,636**	**2.9%**
Minority interests	1,468	1,108	360	32.5%
Shareholders' equity	12,980,406	13,094,951	-114,545	-0.9%
Consolidated Shareholders' Equity	**12,981,874**	**13,096,059**	**-114,185**	**-0.9%**
Total Liabilities and Shareholders' Equity	**205,791,667**	**200,489,216**	**5,302,451**	**2.6%**

The item "Customer Loans" includes the Senior notes coming from the securitizations of Non-performing Loans

BANCO BPM Group

Reclassified consolidated income statement

(in euro thousand)	1Q 2022	1Q 2021	Chg.	Chg. %
Net interest income	511,542	496,829	14,713	3.0%
Income (loss) from investments in associates carried at equity	49,642	41,544	8,098	19.5%
Net interest, dividend and similar income	**561,184**	**538,373**	**22,811**	**4.2%**
Net fee and commission income	480,092	471,395	8,697	1.8%
Other net operating income	16,665	18,171	-1,506	-8.3%
Net financial result	127,933	99,727	28,206	28.3%
Other operating income	**624,690**	**589,293**	**35,397**	**6.0%**
Total income	**1,185,874**	**1,127,666**	**58,208**	**5.2%**
Personnel expenses	-407,862	-426,904	19,042	-4.5%
Other administrative expenses	-155,553	-154,130	-1,423	0.9%
Net value adjustments on property and equipment and intangible assets	-61,238	-62,850	1,612	-2.6%
Operating costs	**-624,653**	**-643,884**	**19,231**	**-3.0%**
Profit (loss) from operations	**561,221**	**483,782**	**77,439**	**16.0%**
Net adjustments on loans to customers	-151,128	-217,065	65,937	-30.4%
Profit (loss) on fair value measurement of tangible assets	-1,236	75	-1,311	
Net adjustments on other assets	-3,194	-411	-2,783	N.S.
Net provisions for risks and charges	-8,126	-7,190	-936	13.0%
Profit (loss) on the disposal of equity and other investments	1,526	-44	1,570	
Income (loss) before tax from continuing operations	**399,063**	**259,147**	**139,916**	**54.0%**
Tax on income from continuing operations	-138,420	-82,698	-55,722	67.4%
INCOME (LOSS) AFTER TAX FROM CONTINUING OPERATIONS	**260,643**	**176,449**	**84,194**	**47.7%**
Systemic charges after tax	-74,567	-59,244	-15,323	25.9%
Impact from the change in Own Credit Risk on certificates issued, after tax	176	-6,815	6,991	
Purchase Price Allocation (PPA) after tax	-8,490	-10,332	1,842	-17.8%
Income (loss) attributable to minority interests	43	34	9	26.5%
NET INCOME (LOSS) FOR THE PERIOD	**177,805**	**100,092**	**77,713**	**77.6%**

BANCO BPM Group

Reclassified consolidated income statement - Quarterly evolution

(in euro thousand)	I Q 2022	IV Q 2021	III Q 2021	II Q 2021	I Q 2021
Net interest income	511,542	506,005	516,427	522,367	496,829
Income (loss) from investments in associates carried at equity	49,642	87,066	46,795	56,535	41,544
Net interest, dividend and similar income	**561,184**	**593,071**	**563,222**	**578,902**	**538,373**
Net fee and commission income	480,092	485,821	475,308	478,679	471,395
Other net operating income	16,665	9,066	26,296	21,747	18,171
Net financial result	127,933	-1,443	35,878	116,533	99,727
Other operating income	**624,690**	**493,444**	**537,482**	**616,959**	**589,293**
Total income	**1,185,874**	**1,086,515**	**1,100,704**	**1,195,861**	**1,127,666**
Personnel expenses	-407,862	-413,937	-409,823	-417,135	-426,904
Other administrative expenses	-155,553	-149,106	-144,012	-153,903	-154,130
Net value adjustments on property and equipment and intangible assets	-61,238	-61,610	-61,762	-60,603	-62,850
Operating costs	**-624,653**	**-624,653**	**-615,597**	**-631,641**	**-643,884**
Profit (loss) from operations	**561,221**	**461,862**	**485,107**	**564,220**	**483,782**
Net adjustments on loans to customers	-151,128	-213,978	-200,643	-255,513	-217,065
Profit (loss) on fair value measurement of tangible assets	-1,236	-96,927	-7,817	-36,964	75
Net adjustments on other assets	-3,194	-1,098	242	939	-411
Net provisions for risks and charges	-8,126	2,255	-15,489	-5,615	-7,190
Profit (loss) on the disposal of equity and other investments	1,526	-18,726	395	-393	-44
Income (loss) before tax from continuing operations	**399,063**	**133,388**	**261,795**	**266,674**	**259,147**
Tax on income from continuing operations	-138,420	-37,228	-83,274	-50,628	-82,698
INCOME (LOSS) AFTER TAX FROM CONTINUING OPERATIONS	**260,643**	**96,160**	**178,521**	**216,046**	**176,449**
Systemic charges after tax	-74,567	-4,792	-61,650	-19,309	-59,244
Realignment of fiscal values to accounting values	-	2,489	-	79,220	-
Impact from the change in Own Credit Risk on certificates issued, after tax	176	12,320	3,954	-5,105	-6,815
Purchase Price Allocation (PPA) after tax	-8,490	-9,251	-10,172	-9,705	-10,332
Income (loss) attributable to minority interests	43	144	28	78	34
NET INCOME (LOSS) FOR THE PERIOD	**177,805**	**97,070**	**110,681**	**261,225**	**100,092**

BANCO BPM Group

Reclassified consolidated income statement, excluding non-recurring items

(in euro thousand)	IQ 2022	IQ 2021	Chg.	Chg. %
Net interest income	511,542	496,829	14,713	3.0%
Income (loss) from investments in associates carried at equity	49,642	41,544	8,098	19.5%
Net interest, dividend and similar income	**561,184**	**538,373**	**22,811**	**4.2%**
Net fee and commission income	480,092	471,395	8,697	1.8%
Other net operating income	16,665	18,171	-1,506	-8.3%
Net financial result	127,933	99,727	28,206	28.3%
Other operating income	**624,690**	**589,293**	**35,397**	**6.0%**
Total income	**1,185,874**	**1,127,666**	**58,208**	**5.2%**
Personnel expenses	-407,862	-426,904	19,042	-4.5%
Other administrative expenses	-155,553	-154,130	-1,423	0.9%
Net value adjustments on property and equipment and intangible assets	-61,238	-60,980	-258	0.4%
Operating costs	**-624,653**	**-642,014**	**17,361**	**-2.7%**
Profit (loss) from operations	**561,221**	**485,652**	**75,569**	**15.6%**
Net adjustments on loans to customers	-118,802	-143,138	24,336	-17.0%
Net adjustments on other assets	-3,194	-411	-2,783	N.S.
Net provisions for risks and charges	-8,126	-7,190	-936	13.0%
Income (loss) before tax from continuing operations	**431,099**	**334,913**	**96,186**	**28.7%**
Tax on income from continuing operations	-149,096	-107,734	-41,362	38.4%
INCOME (LOSS) AFTER TAX FROM CONTINUING OPERATIONS	**282,003**	**227,179**	**54,824**	**24.1%**
Systemic charges after tax	-74,567	-59,244	-15,323	25.9%
Impact from the change in Own Credit Risk on certificates issued, after tax	176	-6,815	6,991	
Purchase Price Allocation (PPA) after tax	-8,490	-10,332	1,842	-17.8%
Income (loss) attributable to minority interests	43	34	9	26.5%
NET INCOME (LOSS) FOR THE PERIOD (EXCLUDING NON-RECURRING ITEMS)	**199,165**	**150,822**	**48,343**	**32.1%**
IMPACTS EXCLUDED FROM "ADJUSTED" RESULT	**-21,360**	**-50,730**	**29,370**	**-57.9%**
NET RESULT	**177,805**	**100,092**	**77,713**	**77.6%**